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Strictly Confidential (FR) Class II FOMC

June 29, 1994

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

Overview

Pooling divergent labor market and expenditure indicators, we are estimating that real GDP has risen somewhere around 3-1/2 percent, at an annual rate, in the quarter now ending. This would put the first-half increase in activity in line with our projection in the last Greenbook, and our forecast for coming quarters has not changed materially, either: real GDP growth is projected to slow in the second half of this year and to average 2-1/3 percent (annual rate) over the next six quarters. Underlying this forecast is an assumption that monetary policy will be tightened further, preventing any substantial rise in stock and bond prices before 1995.

A key factor in the development of the forecast was our judgment that the economy is operating essentially at capacity. We have revised downward our point estimate of the "non-accelerating inflation rate of unemployment" (NAIRU) from 6-1/2 percent to 6-1/4 percent. This change follows a thorough review of econometric estimates of the NAIRU and reflects updated analysis of the difference between the old and new versions of the Current Population Survey. The published unemployment rate fell to 6 percent in May, and, even allowing for some seasonal adjustment problems that may have overstated the decline, these data and other evidence suggest that the labor market now has tightened to the point where further significant declines in joblessness likely would tend to produce more inflationary pressure. Similarly, the rate of capacity utilization in manufacturing is considerably above its long-run average, and producers increasingly report a sense that a measure of pricing leverage has been restored. Rising commodity prices, including that for crude oil, and the recent depreciation of the dollar also suggest a near-term inflationary risk. However, with the projected moderation in aggregate demand growth, core inflation--as measured by the CPI excluding food and energy--is forecast to run just a shade over 3 percent through next year, a little above the pace of the past twelve months.

<u>Key Assumptions</u>

We are now assuming a larger increase in the federal funds rate over the coming months than we anticipated in our last projection. In part, this reflects our assessment of the inflationary implications of recent exchange market developments; in addition, though, we have interpreted the bond rally that followed the System's May tightening actions as confirming our prior judgment that there is room for a substantial diminution of "liquidity premia" in the term structure. Maintenance of adequate overall financial restraint thus seems likely to require at least some further tightening of money market conditions. As short rates stabilize, and as growth in economic activity moderates and inflation remains subdued, we do anticipate some decline in bond yields and rise in stock prices during 1995.

Given a more realistic view by investors of the risk-return characteristics of mutual funds, shifts into those funds are expected to remain considerably below the pace of 1993. However, slowing nominal income growth and further increases in short-term interest rates should restrain growth of the broad monetary aggregates in the second half of 1994 and in 1995. The velocities of M2 and M3 are projected to continue rising, though at somewhat reduced rates. M2 and M3 are expected to come in around the lower ends of their current 1994 target ranges and to accelerate slightly next year.

The staff's fiscal policy assumptions are unchanged from the May Greenbook. Discretionary spending is expected to hold at, or a bit below, the OBRA-93 caps in both FY1994 and FY1995, and we do not anticipate enactment of any major new initiatives. It is possible that some health-care legislation will be passed this year or next, but its fiscal effects are likely to be negligible for some time (especially given PAYGO constraints). As a result, fiscal policy continues to exert a moderate degree of restraint on economic activity over the forecast period. The unified budget deficit is projected to fall to $205 billion in FY1994 and $199 billion in FY1995; both figures are lower than in the May Greenbook, reflecting the influence of the higher level of nominal income on tax receipts and mounting evidence that outlays for health, Medicaid, and several discretionary accounts will come in below earlier projections.

Since the last meeting of the FOMC, the trade-weighted foreign exchange value of the dollar in terms of other G-10 currencies has fallen 4 percent. We are anticipating no major changes from the current level through the end of 1995. Meanwhile, the latest data suggest a strengthening of economic activity abroad, and we have raised our projection of growth in foreign real GDP this year somewhat, to 3-1/4 percent on an export-weighted basis. We still expect foreign economies to grow 3-1/2 percent in 1995. Crude oil prices have risen since the time of the last Greenbook, reflecting a strengthening in world oil demand and some OPEC production restraint. We now project the spot price of West Texas intermediate (WTI) to average $18.60 per barrel in the third quarter--$1.35 higher than in the May Greenbook. The price is expected to ease slightly to $18.50 in the fourth quarter and to remain at that level in 1995--an upward revision of $1 per barrel from the last forecast.

The Outlook for the Second Quarter

As noted above, the signals about economic growth in the second quarter are quite mixed. In the labor market, although the gain in payrolls (on a strike-adjusted basis) was modest in May, it came on the heels of sizable advances earlier; the recent behavior of initial claims for unemployment insurance suggests that healthy growth in employment has continued in June. Importantly, average workweeks were exceptionally long in April and May, so that aggregate hours of private production workers could well increase 6 percent or more, at an annual rate, in the second quarter. Obviously, this would imply another very large increase in GDP, unless there has been a decline in productivity. Such a decline, however, would not be surprising in the wake of the surge late last year.

SUMMARY OF THE NEAR-TERM OUTLOOK
(Percent change, at annual rates, except as noted)

	1993	1994		
	Q4	Q1	Q2	Q3
Real GDP	7.0	3.4	3.5	2.9
Previous	7.0	2.6	4.2	2.7
Civilian unemployment rate[1]	6.5	6.6	6.3	6.3
Previous	6.5	6.6	6.5	6.8
CPI inflation	3.1	1.9	2.7	3.7
Previous	3.1	1.9	2.7	3.5

1. Values for 1993 are from the old CPS.

Based on the currently available indicators on the spending side, real GDP would appear to be rising only moderately in the second quarter. Sales of light vehicles in April and May averaged about 1/2 million units at an annual rate below the first-quarter pace, and real consumer spending on goods other than motor vehicles flattened out in April and May, after posting large gains in the preceding two quarters. Our forecast allows for a jump in non-auto retail sales in June or upward revisions to prior months--to help narrow the apparent gap between the labor market and expenditure data. As a result, we are projecting that real PCE will grow at around a 1-3/4 percent annual rate in the second quarter, versus 4-1/2 percent in the first quarter. In broad terms, this pattern is consistent with our expectation that spending would not continue to outstrip income growth as it had been doing since 1992.

Residential investment is expected to record a moderate increase in the current quarter. Single-family housing starts moved lower in April and May, after a weather-related rebound in March. This slowdown likely extended into June: Consumer perceptions of homebuying conditions have deteriorated further, builders report a tailing off in new home sales, and mortgage loan applications have drifted lower. In contrast, multifamily starts strengthened considerably in April and May, evidently boosted by a tightening in some local markets and improved availability of financing. Overall, housing starts are projected to rise to 1.47 million units in the second quarter--close to the pace in the final quarter of 1993.

Real business fixed investment is projected to rise at a 15-1/4 percent annual rate this quarter, as equipment spending posts another double-digit advance and nonresidential construction rebounds from the weather-depressed level of the first quarter. On the equipment side, shipments of nondefense capital goods excluding aircraft posted solid gains in April and May, paced by further increases in computer shipments and healthy gains for other types of capital goods. Nonresidential construction in April moved above its fourth-quarter level.

Nonfarm inventory investment is expected to contribute appreciably to GDP growth in the second quarter. In the motor vehicle sector, the pace of inventory investment likely has slowed, reflecting the pressure of demand on constrained production. Outside of motor vehicles, however, the increase in stocks in April was considerable, and we have assumed still larger increases for May and June--again with an eye to narrowing the input-expenditure data gap.

With regard to inflation, we are anticipating a CPI increase of about 0.3 percent in June, bringing the second-quarter average to 2-3/4 percent (annual rate). Food prices ticked up a bit in May and are expected to register increases in the near term that are close to general inflation trends. Energy prices declined in May, but we expect increases in the coming months as the result of the recent rise in crude oil prices. Excluding food and energy, the CPI was up 0.3 percent in May and is projected to rise by a similar amount in June. To date, the subdued trend in unit labor costs has overridden any pressure on finished goods prices from rising materials costs. Although reports of labor shortages are becoming more frequent, they are not widespread and wage trends remain stable. Average hourly earnings rose 1/2 percent in May, but the twelve-month change was 2.7 percent--little different from the pace of the past couple of years.

The Longer-Run Outlook for the Economy

Growth in real GDP is projected to slow from an estimated average pace of about 3-1/4 percent over the past six quarters to 2-1/3 percent over the next six. The deceleration in domestic demand is still sharper, under the assumed monetary restraint, while the depreciation of the dollar and pickup in foreign growth bring a halt to the decline of real net exports by late 1995. The path of the unemployment rate jumps off from a lower level this quarter than in the May forecast, but with growth averaging a touch below the potential pace, we anticipate a small uptick in the unemployment rate in 1995. We have raised our forecast of core inflation slightly--to 3.1 percent in both 1994 and 1995--owing to the near exhaustion of slack and the passthrough of larger projected increases in oil and other import prices.[1]

SUMMARY OF STAFF REAL GDP PROJECTION FOR 1994-1995
(Percent change, at annual rates, except as noted)

	1993	1994 H1	1994 H2	1995
Real GDP	3.1	3.5	2.7	2.2
Previous	3.1	3.4	2.4	2.3
Gross domestic purchases	4.0	4.4	2.6	2.3
Previous	4.0	4.4	2.7	2.5

Consumer spending. We expect the growth of consumer spending to be fairly strong this summer but to slow thereafter as gains in real income moderate and higher interest rates damp demand in the household sector. Real PCE is projected to increase at a 3 percent annual rate in the third quarter, before decelerating to 2-1/4 percent in the fourth quarter and 2 percent in 1995. Given recent growth in employment and income and the relatively high levels of consumer confidence, we believe the leveling in non-auto retail sales during the spring will prove transitory. Before long, however, higher interest rates--working through higher consumer loan rates, a reduced pace of mortgage refinancing, and reductions in the value of household financial assets--should cause consumption to

1. We have simulated the staff's macroeconomic models of the U.S. and global economies to estimate what would happen if the dollar were to depreciate 10 percent further (relative to the Greenbook forecast) during the second half of 1994. If the path of the federal funds rate were held unchanged, the net stimulus to real net exports would result in an increase in the level of real GDP of about 3/4 percent by the fourth quarter of 1995. The depreciation would also raise import prices, which, along with the stimulus to domestic demand, would increase the level of the CPI by 1 percent by the fourth quarter of next year. The effects of a 10 percent dollar appreciation would be of the same magnitude in the opposite direction.

slow. In such an environment, we expect the personal saving rate to tilt upward, as greater uncertainty about the economic environment and the desire to rebuild weakened financial positions cause households to hold the growth of spending below gains in incomes.

"Discretionary" expenditures will bear the brunt of the projected slowdown in consumer spending. But we are projecting only a flattening of durables goods purchases, not a recessionary decline. Pent-up demand for motor vehicles probably will buoy sales, though higher finance charges are expected to help hold volumes well below some of the rosier industry forecasts. Sales of furniture and appliances and some other household goods are likely to suffer with the projected slackening in housing transactions.

Residential investment. The outlook for residential construction activity is little changed from the May Greenbook. Housing starts slow to an annual rate of 1.38 million units in the third quarter and edge lower through early 1995 before turning upward as mortgage rates ease. Despite the sizable increases in interest rates on longer-term fixed-rate loans since last fall, single-family homes remain highly affordable by the standards of the past twenty years; moreover, an increasing proportion of borrowers have opted for ARMS, to take advantage of the relatively low initial rates. Consequently, single-family starts in 1994 and 1995 are projected to remain close to the 1993 level.

In the multifamily sector, we expect starts to fall off a bit from their strong second-quarter pace and then to trend gradually upward over the remainder of the projection period. Although the projected higher level of activity would be the best in several years, it would still be low by historical standards; thus vacancy rates should fall, bolstering returns on income properties and sustaining investor interest.

<u>Business fixed investment</u>. After increasing 15 percent in 1993, real BFI is projected to grow 10 percent this year and another 7-1/4 percent in 1995. Investment growth will be damped by the projected deceleration in economic activity, higher financing costs, and a growing shortfall of internal funds relative to capital outlays. The slowing is projected to be concentrated in the equipment category, where spending has been soaring. Indeed, the projected slackening in demand for PDE might have been greater were it not for our assumption that prices will continue to fall rapidly for computers and communications equipment upon which businesses are relying to achieve operational efficiencies and improvements in product/service quality.

Following the weather-related rebound in the second quarter, real investment in nonresidential structures is forecast to increase at about a 6 percent annual rate through next year. Construction permits are trending upward, and the fundamentals in this sector generally seem to be improving--with the notable exception of electric utilities. The need to eliminate capacity bottlenecks is stimulating some industrial construction, while investment in commercial facilities, such as warehouses and shopping centers, appears to be quite strong. As in the residential sector, credit is readily available from depository institutions, and REIT investment also is helping to support activity. The construction of office buildings is expected to drift lower this year, but with vacancy rates moving downward, an upturn is expected to commence in 1995.

<u>Business inventories</u>. Despite the strength in economic activity over the past couple of years, businesses have shown no desire to raise their stocks relative to sales. Inventory-shipments ratios in manufacturing have moved lower despite the fact that more inputs are reported to be in short supply and order lead times have

lengthened. Companies continue to seek just-in-time production and distribution to reduce working capital tied up in stocks--and we foresee no change in these patterns over the projection period. Indeed, higher real carrying costs and greater concerns about future sales in an environment of a tightening of monetary conditions will further encourage firms to keep their stocks lean. As a result, nonfarm inventory investment has an essentially neutral influence on real GDP in our projection for coming quarters.

Government purchases. Real federal purchases are projected to decline 3-1/4 percent in 1994 and 1995. Defense spending fell almost 10 percent (annual rate) in the first quarter, to a level below that implied by the trend in appropriations; not surprisingly, recent monthly Treasury statements indicate that the decline has slowed, and we are looking for an overall decline of 6 percent this year and 5 percent in 1995. Real nondefense spending surged in the first quarter and is projected to retrace only a small part of that increase in the second quarter. Thereafter, caps on discretionary spending, reflected mainly in reductions in federal employment, prevent further growth in this category.

Real state and local purchases are expected to increase 3 percent at an annual rate in the second quarter, owing, in part, to a pickup in construction after weather-related disruptions in the first quarter. Over the remainder of the forecast period, state and local purchases are projected to grow at about a 2-1/2 percent annual pace. The sector's deficit on operating and capital accounts, is expected to narrow but still is projected to amount to $44 billion in 1995.

Net exports. The deficit on real net exports is projected to increase at a slower pace than in the May Greenbook, reflecting the lower value of the dollar in this forecast and the somewhat faster recovery in economic activity abroad. Real merchandise exports are project to grow 4-3/4 percent this year and 8-1/2 percent in 1995. In contrast, the higher cost of imported goods and the slowdown in U.S. economic activity are projected to cause the growth of real merchandise imports to slow from the double-digit pace of the past two years to 9-1/4 percent in 1994 and 8 percent in 1995. (A complete discussion of these developments is contained in the International Developments section.)

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

	1993	1994	1995
Output per hour, nonfarm business	1.7	.9	1.1
Previous	2.0	.9	1.2
Nonfarm payroll employment	2.0	2.2	1.4
Previous	1.8	2.3	1.3
Civilian unemployment rate[1]	6.5	6.3	6.4
Previous	6.5	6.6	6.6

1. Average for the fourth quarter. Values for 1993 are from the old CPS.

Labor markets. Employment growth is projected to remain fairly brisk in the very near term, but to slow appreciably over the forecast period, in line with economic activity. Businesses are expected to remain focused on boosting efficiency. However, the easiest gains presumably have been made after several years of downsizing and "re-engineering," and the pool of well-qualified workers is shrinking; thus, it likely will be more difficult to match the productivity gains achieved in earlier phases of the expansion. As a result, we are projecting that labor productivity will rise about 1 percent per year in 1994 and 1995, somewhat less than the staff's estimate of the current trend in productivity growth (roughly 1-1/2 percent). We expect the average workweek to fall back in June from its extraordinary May level, but to remain on the high side of recent norms--reflecting continued efforts to minimize hiring and benefit costs. On balance, we are projecting gains in payroll employment of 2-1/2 million in 1994 and 1-1/2 million in 1995.

The unemployment rate is expected to rebound in June, leaving the average for the second quarter at 6-1/4 percent; we are projecting the unemployment rate to remain at about that level through 1994 but to edge up in 1995. The sharp decline in the unemployment rate over the first half of this year raises a number of difficult questions that have important implications for our inflation forecast. Our current projection of 3-1/2 percent real GDP growth in the first half of 1994 is the same as in the January Greenbook, yet the unemployment rate, with adjustments for our past and present assumptions regarding the distortions from the new CPS, is roughly 1/2 percentage point lower than we projected at that time. There are a number of possible explanations for this. Obviously, as discussed above, we may be greatly underestimating growth in the second quarter, which would help to put our output-unemployment (Okun's law) relationship back on track. The increase in real GDP in 1993 also could have been stronger than BEA currently is estimating, and the lagged effects of this additional output growth may have pulled the unemployment rate down this year.

Putting aside questions about the growth in output, the surprisingly large decline in the unemployment rate in the first six months of 1994 also suggests the possibility of an offsetting upward movement in the period ahead. By our reckoning, labor productivity has been flat, on net, thus far in 1994, and were it to pick up sharply, there would be less hiring and probably higher unemployment, given our GDP path. Growth in the labor force also has been surprisingly slow this year. The labor force participation rate inched down between January and May, extending a pattern of several years duration now of surprising sluggishness. On the continuing assumption that this is largely a cyclical phenomenon, our forecast assumes that the participation rate will begin to increase again in the second half of this year and continue moving back toward the longer-term trend during 1995.[2] If, instead, the weakness really is evidence of a new flatter trend, our forecast of higher participation rates poses a potentially serious downside risk to our projection of the unemployment rate--and to our assumed pace of potential output growth. At this juncture, it is our assessment that the risk of a shortfall in labor force participation may be greater than that of a sudden re-acceleration of labor productivity. However, both possibilities loom as significant risks in the outlook for labor market pressures.

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

	1993	1994	1995
Consumer price index	2.7	3.0	3.1
Previous	2.7	2.9	2.9
Excluding food and energy	3.1	3.1	3.1
Previous	3.1	2.9	2.8
ECI for compensation of private industry workers[1]	3.6	3.4	3.5
Previous	3.6	3.3	3.4

1. December to December.

Wages and prices. As noted above, the staff has recently conducted a review of our econometric estimates of the NAIRU. We have examined a wide range of specifications of wage and price equations as well as a number of different measures of economic slack. Our results center on a point estimate of 5.9 percent, using

2. The failure of popular perceptions of job availability to improve in step with measured employment growth may explain the shortfall in participation relative to cyclical norms.

data prior to the CPS revision; taking into account the statistical uncertainty associated with this estimate, a reasonable range for the NAIRU would run from 5-1/2 percent to 6-1/2 percent. We also have reviewed the adjustment needed to bridge the gap between the old and new labor market surveys. Based on our own work and on consultations with the BLS, we have lowered our working assumptions of the adjustment factor from 1/2 percentage point to 1/3 percentage point.[3] As a result of this revision to the adjustment factor, we have lowered our NAIRU estimate to 6-1/4 percent.

With unemployment projected to remain close to the NAIRU, growth in ECI hourly compensation is projected at about 3-1/2 percent in both 1994 and 1995. Increases in the cost of employer-provided benefits are expected to continue outstripping the growth of wages and salaries, reflecting premium increases for health insurance that exceed general inflation and stepped-up contributions by companies to underfunded pension plans. Indeed, two large cash payments by General Motors to its pension plan show up as temporary boosts to the growth of hourly compensation in the third quarters of 1994 and 1995.

Turning to the price projection, consumer food prices are projected to rise at a 3-3/4 percent annual rate in the second half of this year, before moderating to a 2-3/4 percent pace in 1995. The temporary pickup reflects expected increases in the prices of fresh vegetables over the near term as well as the runup in coffee prices on world markets. Meat prices are expected to fall sharply in the next couple of months, but to recover a little towards year-end. Consumer energy prices are projected to be up sharply for the next three quarters, reflecting the path of crude oil prices.

3. This includes the effect of the introduction of new CPS and population "controls" derived from the 1990 census.

Higher energy costs have a direct effect on the CPI through higher prices of refined petroleum products and competing energy products. They also have an indirect effect on the CPI as higher production and transportation costs are reflected in the prices of non-energy goods and services. The indirect effect occurs with a lag and in the staff projection has its greatest effect on the CPI later this year and in early 1995.

Were it not for the energy and exchange rate "shocks" in this forecast, our projection of resource utilization rates would have been consistent with core inflation continuing in 1994 and 1995 at a pace slightly below 3 percent. However, in the absence of meaningful slack in the economy, the depreciation of the dollar and the passthrough of higher energy costs to the prices of other goods and services likely will put some modest upward pressure on core inflation. We expect year-to-year increases in the CPI excluding food and energy to move up from the 2-3/4 percent rate in May to 3.1 percent by the end of 1994; core inflation remains at that pace in 1995. Factoring in the influence of food and energy prices, we are projecting the CPI to rise 3 percent this year and 3.1 percent in 1995, after increasing 2.7 percent in 1993.

Note: It has not been possible to incorporate revised GDP data for the first quarter in the detailed tables that follow. No changes are anticipated in growth rates for the forecasted period, but incorporation of the revised first-quarter figures will affect various entries for levels and annual growth.

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

June 29, 1994

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index[1]		Unemployment rate (level except as noted)	
	5/11/94	6/29/94	5/11/94	6/29/94	5/11/94	6/29/94	5/11/94	6/29/94	5/11/94	6/29/94
ANNUAL										
1991[2]	3.2	3.2	-.7	-.7	4.1	4.1	4.3	4.3	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[2]	5.6	5.6	3.0	3.0	3.1	3.1	3.0	3.0	6.8	6.8
1994	5.7	5.9	3.7	3.7	2.6	2.7	2.6	2.7	6.6	6.4
1995	4.6	4.8	2.4	2.4	2.8	2.9	3.1	3.3	6.6	6.4
QUARTERLY										
1992 Q1[2]	7.4	7.4	3.5	3.5	4.2	4.2	2.6	2.6	7.3	7.3
Q2[2]	5.7	5.7	2.8	2.8	3.4	3.4	3.5	3.5	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	3.5	3.5	7.3	7.3
1993 Q1[2]	4.4	4.4	.8	.8	4.3	4.3	2.8	2.8	7.0	7.0
Q2[2]	4.3	4.3	1.9	1.9	2.8	2.8	3.1	3.1	7.0	7.0
Q3[2]	4.4	4.4	2.9	2.9	2.1	2.1	2.0	2.0	6.7	6.7
Q4[2]	8.4	8.4	7.0	7.0	2.3	2.3	3.1	3.1	6.5	6.5
1994 Q1[2]	5.2	5.7	2.6	3.0	2.9	3.1	1.9	1.9	6.6	6.6
Q2	6.2	5.9	4.2	3.5	2.6	2.5	2.7	2.7	6.5	6.3
Q3	5.1	5.2	2.7	2.9	2.8	2.7	3.5	3.7	6.8	6.3
Q4	4.4	4.8	2.1	2.4	2.8	3.0	3.3	3.6	6.6	6.3
1995 Q1	4.8	4.8	2.2	2.0	3.2	3.4	3.1	3.4	6.6	6.3
Q2	4.3	4.5	2.2	2.2	2.7	2.8	2.9	3.1	6.6	6.4
Q3	4.3	4.5	2.3	2.3	2.6	2.7	2.8	3.0	6.6	6.4
Q4	4.3	4.5	2.4	2.4	2.6	2.7	2.7	2.9	6.6	6.4
TWO-QUARTER[3]										
1992 Q2[2]	6.6	6.6	3.2	3.2	3.9	3.9	3.0	3.0	.5	.5
Q4[2]	6.9	6.9	4.6	4.6	2.8	2.8	3.2	3.2	-.2	-.2
1993 Q2[2]	4.3	4.3	1.3	1.3	3.4	3.4	3.1	3.1	-.3	-.3
Q4[2]	6.4	6.4	4.9	4.9	2.2	2.2	2.4	2.4	-.5	-.5
1994 Q2	5.7	5.8	3.4	3.2	2.7	2.8	2.4	2.4	.0	-.2
Q4	4.7	5.0	2.4	2.6	2.8	2.8	3.4	3.6	.1	.0
1995 Q2	4.5	4.7	2.2	2.1	3.0	3.1	3.0	3.3	.0	.1
Q4	4.3	4.5	2.4	2.3	2.6	2.7	2.7	3.0	.0	.0
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[2]	5.4	5.4	3.1	3.1	2.8	2.8	2.7	2.7	-.8	-.8
1994 Q4	5.2	5.4	2.9	2.9	2.8	2.8	2.9	3.0	.1	-.2
1995 Q4	4.4	4.6	2.3	2.2	2.8	2.9	2.9	3.1	.0	.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 29, 1994

Item	Unit[1]	1987	1988	1989	1990	1991	1992	1993	Projected 1994	Projected 1995
EXPENDITURES										
Nominal GDP	Bill. $	4539.9	4900.4	5250.8	5546.1	5722.9	6038.5	6377.9	6752.2	7077.0
Real GDP	Bill. 87$	4540.0	4718.6	4838.0	4897.3	4861.4	4986.3	5136.0	5324.9	5451.4
Real GDP	% change	4.5	3.3	1.6	.2	.3	3.9	3.1	2.9	2.2
Gross domestic purchases		3.9	2.5	.9	-.4	-.2	4.3	4.0	3.4	2.3
Final sales		2.7	4.2	1.5	1.2	-.3	3.8	3.1	2.6	2.2
Private dom. final purch.		1.9	4.2	.5	-.1	-.7	5.0	5.0	3.8	2.7
Personal cons. expend.		2.1	4.2	1.2	.7	.0	4.0	3.2	2.9	2.0
Durables		-2.6	8.5	-.5	-.8	-.4	9.7	7.9	2.9	.9
Nondurables		1.4	3.2	1.2	-.1	-1.3	3.6	1.7	3.1	1.8
Services		3.7	3.7	1.7	1.7	.9	2.8	2.9	2.8	2.4
Business fixed invest.		3.0	5.5	-.4	.7	-6.3	7.4	15.1	10.1	7.3
Producers' dur. equip.		2.4	9.1	-1.7	2.9	-3.3	11.4	18.8	12.0	7.7
Nonres. structures		4.4	-1.2	2.3	-3.9	-12.6	-2.0	5.1	4.6	5.9
Res. structures		-3.1	.9	-7.7	-15.2	1.6	17.6	7.9	.4	.6
Exports		12.6	13.5	11.3	6.7	8.4	4.9	4.8	5.3	7.4
Imports		4.7	3.6	2.6	.4	4.2	8.5	11.8	8.2	7.2
Government purchases		3.3	.2	2.0	3.3	-.7	1.1	-.5	-.4	.4
Federal		3.7	-3.4	-.6	2.8	-3.7	.4	-6.6	-3.3	-3.2
Defense		4.5	-3.2	-1.5	1.5	-7.3	-1.4	-9.3	-6.1	-5.0
State and local		2.9	2.9	4.0	3.6	1.5	1.6	3.4	1.2	2.4
Change in bus. invent.	Bill. 87$	26.3	19.9	29.8	5.7	-8.4	6.5	14.3	25.5	25.0
Nonfarm		32.7	26.9	29.9	3.2	-8.6	2.7	19.7	25.2	22.6
Net exports		-143.0	-104.0	-73.7	-54.7	-19.1	-33.6	-76.5	-107.0	-113.8
Nominal GDP	% change	8.0	7.7	6.0	4.7	3.7	6.7	5.4	5.4	4.6
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	102.0	105.2	107.9	109.4	108.3	108.6	110.5	113.0	114.8
Unemployment rate	%	6.2	5.5	5.3	5.5	6.7	7.4	6.8	6.4	6.4
Industrial prod. index	% change	6.3	3.2	-.1	-.2	-.3	3.2	4.2	4.5	2.7
Capacity util. rate-mfg.	%	81.6	83.6	83.1	81.1	77.8	78.6	80.6	82.7	82.4
Housing starts	Millions	1.62	1.49	1.38	1.19	1.01	1.20	1.29	1.40	1.38
Light Motor Vehicle Sales		14.84	15.43	14.53	13.85	12.30	12.83	13.89	15.08	15.17
Auto sales in U.S.		10.24	10.63	9.91	9.50	8.39	8.38	8.71	9.26	9.20
North American prod.		7.07	7.54	7.08	6.90	6.14	6.28	6.74	7.33	7.39
Other		3.18	3.10	2.83	2.60	2.25	2.11	1.97	1.93	1.81
INCOME AND SAVING										
Nominal GNP	Bill. $	4544.5	4908.2	5266.8	5567.8	5737.1	6045.8	6378.1	6746.9	7064.1
Nominal GNP	% change	8.1	7.8	6.1	4.9	3.3	6.5	5.3	5.4	4.5
Nominal personal income		7.4	7.1	6.5	6.5	3.5	8.1	3.5	5.7	5.6
Real disposable income		2.1	3.2	1.1	1.1	.7	4.9	1.1	2.6	2.6
Personal saving rate	%	4.3	4.4	4.0	4.2	4.8	5.3	4.0	3.6	4.0
Corp. profits, IVA&CCAdj	% change	29.7	10.2	-6.3	2.3	4.4	16.0	15.6	5.0	.1
Profit share of GNP	%	7.0	7.4	6.9	6.8	6.4	6.7	7.3	7.6	7.6
Federal surpl./def.	Bill. $	-151.8	-136.6	-122.3	-163.5	-203.4	-276.3	-226.4	-143.8	-151.8
State/local surpl./def.		40.1	38.4	44.8	25.1	7.3	7.2	1.8	5.5	11.7
Ex. social ins. funds		-14.7	-18.4	-17.5	-35.6	-51.2	-52.2	-56.7	-51.1	-43.8
PRICES AND COSTS										
GDP implicit deflator	% change	3.4	4.2	4.3	4.5	3.4	2.8	2.2	2.4	2.3
GDP fixed-wt. price index		3.4	4.2	4.4	4.6	3.6	3.3	2.8	2.8	2.9
Gross domestic purchases fixed-wt. price index		3.9	4.1	4.4	5.2	3.1	3.3	2.6	2.9	2.9
CPI		4.5	4.3	4.6	6.3	3.0	3.1	2.7	3.0	3.1
Ex. food and energy		4.3	4.5	4.4	5.3	4.4	3.5	3.1	3.1	3.1
ECI, hourly compensation[2]		3.3	4.8	4.8	4.6	4.4	3.5	3.6	3.4	3.5
Nonfarm business sector										
Output per hour		1.9	.5	-1.4	.4	2.2	3.3	1.7	.9	1.1
Compensation per hour		3.9	3.8	3.1	6.2	4.7	4.8	2.5	3.5	3.6
Unit labor cost		1.9	3.3	4.6	5.7	2.5	1.5	.8	2.6	2.5

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

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

June 29, 1994

Item	Units	1993 Q3	1993 Q4	1994 Q1	Projected 1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2	1995 Q3	1995 Q4
EXPENDITURES											
Nominal GDP	Bill. $	6395.9	6526.5	6617.6	6713.8	6798.8	6878.6	6959.9	7037.5	7115.7	7194.9
Real GDP	Bill. 87$	5138.3	5225.6	5264.1	5309.3	5347.4	5378.9	5405.5	5435.2	5466.3	5498.6
Real GDP	% change	2.9	7.0	3.0	3.5	2.9	2.4	2.0	2.2	2.3	2.4
Gross domestic purchases		3.7	6.7	4.2	3.9	3.1	2.2	2.2	2.2	2.4	2.4
Final sales		3.4	6.8	2.2	2.6	3.1	2.5	2.0	2.3	2.3	2.4
Private dom. final purch.		5.1	8.0	4.9	3.7	3.7	2.8	2.5	2.7	2.8	2.8
Personal cons. expend.		4.4	4.4	4.6	1.7	2.9	2.3	1.9	1.9	2.1	2.1
Durables		7.6	15.2	10.2	-.8	1.3	1.3	.4	.7	1.1	1.4
Nondurables		3.7	2.7	4.2	2.5	3.2	2.3	1.6	1.6	1.9	1.9
Services		3.9	2.6	3.3	1.9	3.2	2.6	2.4	2.4	2.4	2.4
Business fixed invest.		7.4	22.5	6.1	15.3	10.3	9.0	7.9	7.7	7.1	6.6
Producers' dur. equip.		10.0	26.0	16.1	10.6	11.6	9.7	8.5	8.1	7.5	6.8
Nonres. structures		.3	12.2	-20.1	32.2	6.2	6.7	5.8	6.3	5.8	5.7
Res. structures		11.9	31.7	7.6	3.7	-2.6	-6.5	-2.3	.4	1.5	2.7
Exports		-.9	20.4	-1.0	7.6	6.7	8.3	6.9	7.1	7.5	7.9
Imports		6.0	16.4	8.6	10.4	7.6	6.2	7.5	6.5	7.5	7.1
Government purchases		.3	.0	-3.6	.3	1.5	.1	.4	.4	.3	.4
Federal		-6.2	-5.2	-4.9	-3.9	-.2	-3.9	-3.3	-3.2	-3.3	-3.1
Defense		-9.8	-4.9	-14.5	-3.3	-.5	-5.4	-5.3	-5.0	-5.1	-4.8
State and local		4.5	3.3	-2.9	3.0	2.5	2.5	2.6	2.5	2.4	2.4
Change in bus. invent.	Bill. 87$	6.5	8.5	19.1	30.0	27.3	25.6	25.6	24.6	25.0	24.9
Nonfarm		19.4	12.9	21.1	29.9	26.1	23.7	23.5	22.2	22.4	22.2
Net exports		-86.3	-84.5	-100.8	-107.5	-110.7	-109.2	-112.0	-112.8	-114.8	-115.7
Nominal GDP	% change	4.4	8.4	5.7	5.9	5.2	4.8	4.8	4.5	4.5	4.5
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	110.8	111.4	112.0	112.9	113.5	113.8	114.2	114.6	115.0	115.4
Unemployment rate[1]	%	6.7	6.5	6.6	6.3	6.3	6.3	6.3	6.4	6.4	6.4
Industrial prod. index	% change	2.8	6.7	8.1	3.9	3.2	3.0	2.7	2.7	2.7	2.7
Capacity util. rate-mfg[1]	%	80.3	81.5	82.5	82.8	82.8	82.8	82.7	82.5	82.4	82.2
Housing starts	Millions	1.31	1.48	1.37	1.47	1.38	1.36	1.36	1.37	1.39	1.40
Light Motor Vehicle Sales		13.56	14.55	15.54	14.79	14.95	15.07	15.09	15.14	15.19	15.26
Auto sales in U.S.		8.60	8.95	9.49	9.17	9.20	9.19	9.19	9.19	9.19	9.21
North American prod.		6.63	7.08	7.46	7.23	7.28	7.34	7.36	7.38	7.40	7.42
Other		1.97	1.87	2.03	1.94	1.92	1.85	1.83	1.81	1.79	1.79
INCOME AND SAVING											
Nominal GNP	Bill. $	6402.3	6520.9	6614.6	6708.7	6794.4	6869.9	6951.2	7022.9	7103.7	7178.6
Nominal GNP	% change	4.8	7.6	5.9	5.8	5.2	4.5	4.8	4.2	4.7	4.3
Nominal personal income		3.0	7.6	4.7	8.1	4.2	5.7	6.5	5.2	4.7	6.0
Real disposable income		1.6	5.4	2.6	2.7	2.6	2.4	3.4	.4	3.5	3.1
Personal saving rate[1]	%	3.8	4.0	3.5	3.7	3.7	3.7	4.0	3.7	4.0	4.2
Corp. profits, IVA&CCAdj	% change	9.4	38.1	-23.9	32.5	14.7	4.9	.3	-.7	1.6	-.6
Profit share of GNP[1]	%	7.3	7.8	7.2	7.6	7.8	7.8	7.7	7.6	7.5	7.4
Federal govt. surpl./def.	Bill. $	-212.7	-207.0	-164.7	-123.3	-135.1	-152.1	-157.2	-134.3	-147.7	-168.1
State/local surpl./def.		-1.7	7.2	-1.8	6.6	7.8	9.6	10.0	9.2	13.3	14.2
Ex. social ins. funds		-60.2	-50.7	-59.0	-50.2	-48.7	-46.6	-45.9	-46.4	-42.0	-41.0
PRICES AND COSTS											
GDP implicit deflator	% change	1.5	1.4	2.6	2.4	2.2	2.3	2.8	2.3	2.2	2.1
GDP fixed-wt. price index		2.1	2.3	3.1	2.5	2.7	3.0	3.4	2.8	2.7	2.7
Gross domestic purchases fixed-wt. price index		1.8	2.3	2.6	2.9	3.1	3.0	3.4	2.8	2.7	2.7
CPI		2.0	3.1	1.9	2.7	3.7	3.6	3.4	3.1	3.0	2.9
Ex. food and energy		2.4	2.9	2.6	3.1	3.3	3.2	3.2	3.1	3.1	3.1
ECI, hourly compensation[2]		3.4	3.4	2.7	4.0	4.2	2.7	3.5	3.5	4.2	2.7
Nonfarm business sector											
Output per hour		3.5	6.1	1.3	-1.1	2.0	1.3	.9	1.1	1.1	1.1
Compensation per hour		3.1	2.5	5.3	1.8	3.5	3.5	3.9	3.5	3.5	3.5
Unit labor cost		-.4	-3.4	3.9	2.9	1.5	2.1	3.0	2.4	2.4	2.4

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 29, 1994

Item	1993 Q3	1993 Q4	1994 Q1	1994 Q2 (Projected)	1994 Q3 (Projected)	1994 Q4 (Projected)	1995 Q1 (Projected)	1995 Q2 (Projected)	1995 Q3 (Projected)	1995 Q4 (Projected)	1992	1993	1994 (Projected)	1995 (Projected)
Real GDP	36.2	87.3	38.5	45.2	38.1	31.5	26.6	29.8	31.0	32.3	188.7	157.3	153.3	119.7
Gross domestic purchases	47.2	85.4	54.9	51.9	41.3	30.0	29.4	30.6	33.0	33.1	211.1	202.9	178.1	126.2
Final sales	42.7	85.3	27.9	34.3	40.7	33.2	26.6	30.7	30.7	32.4	187.1	157.5	136.2	120.4
Private dom. final purch.	53.2	83.5	52.8	40.2	40.5	31.4	28.5	30.5	31.9	32.3	198.8	208.4	165.0	123.1
Personal cons. expend.	36.9	37.3	39.4	15.0	25.7	20.6	16.6	17.1	18.6	19.1	129.7	109.7	100.7	71.5
Durables	8.9	17.8	12.5	-1.0	1.7	1.7	.5	1.0	1.5	1.8	41.9	37.5	14.8	4.7
Nondurables	9.9	7.2	11.3	7.0	9.0	6.4	4.5	4.5	5.5	5.5	37.8	18.4	33.7	20.0
Services	18.1	12.3	15.6	9.1	15.0	12.5	11.6	11.7	11.7	11.8	50.0	53.8	52.2	46.8
Business fixed invest.	10.5	30.9	9.3	23.1	16.3	14.7	13.2	13.1	12.4	11.7	37.6	82.0	63.4	50.3
Producers' dur. equip.	10.4	26.4	17.9	12.4	13.9	12.1	10.9	10.6	10.0	9.3	40.5	74.3	56.4	40.7
Nonres. structures	.1	4.4	-8.5	10.6	2.4	2.6	2.3	2.6	2.4	2.4	-3.0	7.6	7.2	9.6
Res. structures	5.9	15.1	4.2	2.1	-1.5	-3.9	-1.3	.2	.9	1.5	31.5	16.6	.9	1.3
Change in bus. invent.	-6.5	2.0	10.6	10.9	-2.6	-1.7	-.1	-.9	.4	-.1	1.6	-.2	17.1	-.7
Nonfarm	2.3	-6.5	8.2	8.8	-3.7	-2.4	-.3	-1.2	.2	-.2	-2.8	5.4	10.8	-1.5
Farm	-8.8	8.5	2.5	2.0	1.1	.7	.2	.3	.2	.1	4.4	-5.6	6.3	.8
Net exports	-11.1	1.8	-16.3	-6.7	-3.2	1.5	-2.8	-.8	-2.0	-.8	-22.4	-45.7	-24.7	-6.5
Exports	-1.3	28.1	-1.6	11.4	10.3	12.9	11.1	11.5	12.4	13.1	27.4	28.4	33.0	48.1
Imports	9.8	26.3	14.7	18.0	13.5	11.4	13.9	12.3	14.4	14.0	49.6	74.2	57.7	54.6
Government purchases	.6	.0	-8.6	.8	3.4	.3	1.0	1.0	.8	1.0	10.7	-5.2	-4.1	3.8
Federal	-5.7	-4.7	-4.4	-3.4	-.2	-3.4	-2.8	-2.7	-2.8	-2.6	1.6	-24.7	-11.4	-10.9
Defense	-6.3	-3.0	-9.1	-1.9	-.3	-3.1	-3.0	-2.8	-2.8	-2.6	-3.6	-24.2	-14.4	-11.2
Nondefense	.7	-1.9	4.8	-1.5	.1	-.3	.2	.1	.0	.0	5.2	-.6	3.1	.3
State and local	6.4	4.8	-4.4	4.3	3.6	3.7	3.8	3.7	3.6	3.6	9.1	19.6	7.2	14.7

1. Annual changes are from Q4 to Q4.

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

Item	Fiscal year				1993				1994				1995			
	1992[a]	1993[a]	1994	1995	Q1[a]	Q2[a]	Q3[a]	Q4[a]	Q1[a]	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1090	1153	1262	1328	262	331	295	287	289	368	318	301	292	407	328	311
Outlays[1]	1381	1408	1467	1526	325	349	349	379	348	365	375	378	387	379	383	398
Surplus/deficit[1]	-290	-255	-205	-199	-63	-18	-54	-92	-59	3	-57	-77	-95	28	-55	-86
On-budget	-340	-301	-260	-261	-90	-49	-54	-105	-66	-30	-59	-85	-106	-10	-60	-92
Off-budget	50	46	55	62	27	31	0	13	8	33	2	8	11	38	6	6
Surplus excluding deposit insurance[2]	-287	-283	-210	-208	-68	-25	-61	-92	-65	6	-58	-78	-99	28	-58	-88
Means of financing																
Borrowing	311	249	201	221	60	61	46	89	51	10	51	78	74	19	50	75
Cash decrease	-17	6	6	-14	8	-39	8	3	5	-8	6	2	24	-40	0	20
Other[3]	-4	0	-3	-8	-6	-4	0	0	2	-5	0	-3	-3	-7	5	-9
Cash operating balance, end of period	59	53	46	60	22	61	53	50	45	52	46	44	20	60	60	40
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1163	1246	1362	1444	1218	1268	1276	1316	1340	1399	1394	1412	1431	1469	1463	1480
Expenditures	1435	1487	1520	1592	1482	1491	1489	1523	1505	1522	1530	1564	1588	1604	1611	1648
Purchases	445	447	441	441	443	448	444	440	442	440	441	439	443	442	440	439
Defense	313	308	294	290	305	308	302	299	293	292	293	290	291	289	287	286
Nondefense	132	139	147	152	138	140	142	141	149	148	149	149	152	152	153	153
Other expenditures	990	1040	1079	1150	1039	1043	1045	1083	1063	1082	1089	1124	1145	1162	1171	1209
Surplus/deficit	-271	-241	-157	-148	-264	-223	-213	-207	-165	-123	-135	-152	-157	-134	-148	-168
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-212	-193	-138	-136	-215	-173	-165	-177	-142	-109	-125	-142	-146	-121	-134	-154
Change in HEB, percent of potential GDP	.9	-.3	-.8	0	0	-.7	-.1	.2	-.5	-.5	.2	.3	.1	-.4	.2	.3
Fiscal impetus (FI), percent, cal. year	-4.5	-4.5	-6.6	-4.8	-4.9	1.3	-.8	-1.1	-3.2	-3.2	.1	-1	-1.9	-1.6	-.2	-.7

1. OMB's February 1994 deficit estimates are $235 billion in FY94 and $176 billion in FY95(excluding health reform). CBO's April 1994 deficit estimates of the budget are $227 billion in FY94 and $182 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 February 1994 deficit estimates, excluding deposit insurance spending, are $238 billion in FY94 and $187 billion in FY95. CBO's April 1994 deficit estimates, excluding deposit insurance spending, are $230 billion in FY94, and $194 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.

Recent Developments

Intermediate- and long-term interest rates moved lower right after the System announced increases in the discount and federal funds rates on May 17; traders responded favorably to the indication that money market conditions might be held stable for a while. However, the rally was short-lived. In subsequent weeks, increases in commodity prices and a depreciation of the dollar intensified concerns about inflationary pressures and possible Fed tightening actions--despite some signs of moderating aggregate demand. Fed funds futures quotations now indicate that the market anticipates a further tightening of 75 basis points by early in the fourth quarter. On net, interest rates have recorded small mixed changes over the intermeeting period, with the yield on the thirty-year Treasury bond moving slightly higher, to just over 7-1/2 percent. Major equity market indexes are about unchanged or down slightly.

The opportunity costs of holding liquid deposits have increased, as deposit rates have lagged the upward movement in market yields, and this has restrained the growth of the monetary aggregates. M2 was about flat in May and appears to have declined at a 3 percent pace in June. The slower growth also reflects the damping effect on demand deposits of the sharp slowing in prepayments on mortgage-backed securities, along with the effect of higher short-term interest rates on compensating balances. In addition, there are signs of a renewed appetite among households for mutual fund investments in lieu of deposits; preliminary data for June suggest a pickup in net sales of long-term funds, with bond funds posting inflows for the first time since February. Direct purchases of government securities also have increased, as evidenced by a significant pickup in noncompetitive tenders at Treasury auctions.

M3 declined at a 2-3/4 percent rate in May and appears flat in June. Institutional money market mutual funds ran off sharply in May, as investors turned to open market instruments because of the lags in the adjustment of money fund yields to prevailing market rates. In addition, bank funding needs were limited. Total bank credit growth slowed to a rate of 2 percent in May, but appears to have picked up somewhat in June. The slowdown in May largely reflected a decline in holdings of government securities; however, total loan growth also slowed, to an annual rate of around 4 percent in May and June. Business loans expanded at a rate of 8 percent in May but appear to have slowed sharply in June. Banks raised the prime rate to 7-1/4 percent, preserving its wide spread over the federal funds rate, but anecdotal evidence suggests that firms are enjoying much more aggressive bank competition for their loan business. Total real estate lending slowed in May to a rate of 1-3/4 percent but appears to have picked up appreciably in June. Now that opportunities for cashing out home equity through refinancing of first trust mortgages have ended, growth of home equity loans in both months has accelerated to a rate of 5 percent, the fastest pace since April of last year. Adjusted for securitization, consumer loan growth at banks remained strong in May and June, although slightly below April's rapid pace.

Overall, the pace of total household borrowing appears to have slowed only slightly from that of recent quarters. Growth of total consumer credit remained in double-digit territory in the first quarter but was more moderate in April, perhaps reflecting the somewhat slower growth of nominal expenditures, especially for motor vehicles. Mortgage borrowing also appears to have slackened a bit in the second quarter, although only limited data are available at this point. Since late last year, rates on fixed-rate mortgages have moved sharply higher. However, rates on adjustable-rate mortgages have lagged the upward movement in market yields. The combination of higher fixed mortgage rates, plus the wider initial rate advantage of ARMs, has prompted a shift to ARM financing.

With capital market financing made more costly by higher rates, nonfinancial firms have increased their shorter-term borrowing at banks and finance companies; net issuance of nonfinancial commercial paper also appears to have picked up somewhat in June. At the same time, long-term funding in bond and equity markets remains restrained. Gross public offerings of bonds by nonfinancial firms picked up a bit in May and June, but still appear to have run about $4 billion below the average monthly pace of the first quarter, and less than half the average monthly issuance for all of last year. Gross public equity offerings by nonfinancial corporations plunged in May to about half the average monthly pace of the first four months of the year; issuance appears to have picked up slightly in June.

In the municipal bond market, yields on tax-exempt securities declined in June relative to yields on comparable Treasury securities, perhaps resulting, in part, from renewed net inflows to tax-exempt bond funds. In addition, market participants have focused on the reduction of supply in prospect for early July when nearly $30 billion of outstanding pre-refunded bonds are slated to be redeemed. Gross issuance of tax-exempt bonds picked up a bit in May and June, but it remained below the pace in the first-quarter and at about half the pace for all of last year. While advance refundings declined sharply in the second quarter, the volume of offerings to raise new capital appears to be little changed from the pace of 1993.

The federal budget is expected to run a small surplus, not seasonally adjusted, in the second quarter; the Treasury, however, added to its cash balance, borrowing about $7-1/2 billion in markets--raising $31 billion in coupon auctions while paying down $23 billion in outstanding bills. On a seasonally adjusted basis, U.S. government debt growth slowed to a 4-1/4 percent annual rate in the second quarter.

Outlook

The backup in long-term bond yields since late last year is beginning to impose a substantial degree of restraint on aggregate demand. However, the staff projection anticipates significant further increases in short-term rates by early 1995, as the System seeks to hold down inflation. We believe the term structure of interest rates currently includes both an allowance for a sizable rise in short rates over the next couple of years, and also an ample "liquidity premium" that reflects uncertainties about economic and policy prospects as well as a measure of sheer trepidation in the wake of recent large trading losses. We project that the yield curve will flatten considerably over the projection period, as market participants are persuaded that the Fed's tightening actions will be sufficient to head off any buildup of inflationary pressures.

In this context, total debt growth of the domestic nonfinancial sectors is expected to average about 5 percent in both 1994 and 1995. An increase in borrowing by the nonfederal sectors in 1994 is expected to be offset by a slowing this year in the demands by the federal sector, reflecting continued fiscal restraint and cyclical improvements in the budget. In 1995, debt growth of the nonfederal sectors should slow somewhat as a result of a small decline in the rate of household borrowing and a decrease in debt growth in the state and local government sector, whereas the pace of federal government borrowing should increase.

Capital expenditures by nonfinancial businesses are expected to continue moving higher over the projection period, although the rate of increase is expected to slow from the pace of the first half of 1994. Higher interest costs, coupled with the effects of decelerating activity on profit margins, will slow the growth of internally generated funds and contribute to a widening financing gap in 1994 and 1995. Even so, business debt should grow at a very modest pace compared with previous expansions. Firms are likely to continue their higher level of short- and intermediate-term borrowing, including at banks and finance companies, until bond markets firm, as projected, in 1995. Net equity issuance in both 1994 and 1995 is expected to remain at less than half last year's pace, with mergers and repurchases leading to the retirement of a sizable volume of shares.

Total household sector borrowing should ease slightly in the second half of the year and slow somewhat further in 1995. Household debt is expected to grow about 6-1/2 percent in 1994 and near 6 percent in 1995. In response to higher mortgage interest rates, construction and sales of homes, while continuing at a healthy rate, are projected to fall off a bit over the next few quarters. Aggregate mortgage borrowing, however, may be buoyed to a degree by renewed growth of home equity loans. Total consumer credit growth is expected to moderate, a change consistent with a somewhat slower rate of growth of nominal expenditures on durable goods but also reflecting higher levels of repayments on the debt assumed in recent quarters. With household debt growing a bit faster than nominal income, but with average interest rates on the total stock of debt probably declining slightly as higher cost debt is paid off, scheduled household debt service payments are projected to rise only a little relative to disposable income through 1995.

The growth of state and local government debt is expected to slow to just under 5 percent in 1994 and to continue declining to about 4 percent in 1995. The slower growth of debt reflects narrowing budget deficits at the state and local levels and continued paydowns of pre-refunded obligations.

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

			Nonfederal						MEMO	
				Households						
	Total[2]	Federal govt.	Total	Total	Home mtg.	Cons. credit[3]	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	0.9	6.7
1993	5.0	8.3	3.9	6.2	6.6	6.1	0.6	6.6	-1.1	5.4
1994	4.9	5.7	4.6	6.6	6.7	8.1	2.2	4.8	2.6	5.4
1995	4.8	6.2	4.4	6.1	6.2	7.2	2.3	4.0	1.0	4.6
Quarter (seasonally adjusted annual rates)										
1993:1	3.3	7.5	1.8	2.7	3.4	2.4	-0.8	7.2	-5.1	4.4
2	6.1	11.1	4.3	6.3	7.4	2.8	1.4	6.8	1.0	4.3
3	4.9	5.5	4.6	8.0	7.9	7.4	0.8	5.1	-1.9	4.4
4	5.6	8.2	4.6	7.4	7.0	11.2	1.0	6.6	1.6	8.4
1994:1	5.0	5.9	4.7	6.0	6.8	5.8	2.6	6.8	5.5	5.7
2	4.5	4.3	4.5	6.7	6.6	8.8	2.0	4.7	1.2	5.9
3	4.8	5.7	4.4	6.5	6.5	8.7	2.2	3.8	1.9	5.2
4	4.9	6.4	4.3	6.3	6.2	8.2	2.2	3.6	1.8	4.8
1995:1	5.4	8.1	4.3	6.2	6.0	7.4	2.2	4.1	1.5	4.8
2	4.6	5.2	4.3	6.0	5.9	7.2	2.3	4.2	0.6	4.5
3	4.5	5.1	4.2	6.0	6.1	6.9	2.3	3.8	0.8	4.5
4	4.6	5.7	4.2	5.9	6.2	6.6	2.4	3.7	1.1	4.5

1. Data after 1994:1 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 5.1 in 1994 and 4.9 in 1995.
3. Upcoming revisions will raise consumer credit growth appreciably in 1993 and 1994:1. In the aggregate, household debt growth for 1993 will increase by 1/2 percentage point and total debt growth by 1/4 percentage point; annual growth rates for 1994 will be little changed by the revisions.

2.6.3 FOF

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

	Calendar year			1993-	----------1994----------				----------1995----------			
	1993	1994	1995	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
				----------Seasonally Adjusted Annual Rates----------								
Net funds raised by domestic nonfinancial sectors												
1 Total	615.2	612.3	635.7	712.7	622.0	572.5	619.6	635.2	703.6	605.3	602.7	631.3
2 Net equity issuance	22.9	10.3	8.0	29.5	2.0	12.0	17.0	10.0	8.0	8.0	8.0	8.0
3 Net debt issuance	592.3	602.1	627.7	683.2	620.0	560.5	602.6	625.2	695.6	597.3	594.7	623.3
Borrowing sectors												
Nonfinancial business												
4 Financing gap[2]	18.2	61.9	95.0	9.9	16.9	77.1	76.1	77.5	85.5	93.0	98.0	103.4
5 Net equity issuance	22.9	10.3	8.0	29.5	2.0	12.0	17.0	10.0	8.0	8.0	8.0	8.0
6 Credit market borrowing	23.0	83.7	89.0	38.3	96.7	74.5	81.0	82.5	85.4	87.4	88.5	94.6
Households												
7 Net borrowing, of which:	247.8	277.5	276.7	306.5	255.2	289.3	285.7	279.8	278.5	274.8	277.2	276.1
8 Home mortgages	181.4	196.5	194.4	200.9	200.8	198.0	196.0	191.0	187.1	189.1	197.1	204.2
9 Consumer credit	49.0	69.6	67.0	93.3	49.5	77.0	77.0	75.0	69.0	68.0	66.0	65.0
10 Debt/DPI (percent)[3]	87.2	88.0	88.6	87.9	88.4	88.5	88.7	88.9	88.8	89.4	89.4	89.4
State and local governments												
11 Net borrowing	65.4	51.1	44.2	68.8	72.2	50.6	41.8	39.8	45.0	47.0	42.5	42.5
12 Current surplus[4]	-57.4	-51.3	-47.4	-58.0	-51.9	-51.8	-51.7	-49.9	-48.3	-49.6	-46.0	-45.6
U.S.government												
13 Net borrowing	256.1	189.8	217.8	269.6	195.9	146.1	194.1	223.1	286.6	188.1	186.5	210.2
14 Net borrowing;quarterly, nsa	256.1	189.8	217.8	89.2	51.2	9.8	50.8	78.0	73.8	19.1	49.8	75.1
15 Unified deficit;quarterly, nsa	226.3	190.1	207.6	92.1	58.6	-3.1	57.4	77.2	95.1	-28.3	54.6	86.2
Funds supplied by												
16 depository institutions	129.9	180.3	164.1	176.2	179.7	187.6	169.0	184.9	174.7	163.2	159.8	158.6
MEMO: (percent of GDP)												
17 Dom. nonfinancial debt[3]	188.9	187.3	187.4	189.2	188.9	188.3	188.2	188.2	188.6	188.6	188.6	188.7
18 Dom. nonfinancial borrowing	9.3	8.9	8.9	10.5	9.4	8.3	8.9	9.1	10.0	8.5	8.4	8.7
19 U.S. government[5]	4.0	2.8	3.1	4.1	3.0	2.2	2.9	3.2	4.1	2.7	2.6	2.9
20 Private	5.3	6.1	5.8	6.3	6.4	6.2	6.0	5.8	5.9	5.8	5.7	5.7

1. Data after 1994:1 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 17 FOMC meeting, the weighted-average foreign exchange value of the dollar in terms of the other G-10 currencies has declined 4 percent on balance. Over the intermeeting period, the dollar's weighted-average value showed little net change until mid-June but has declined sharply since then. Downward pressure on the dollar appears to be largely a response to evidence of an improved economic outlook in Continental Europe and Japan, with an associated adjustment in expectations about policy-related interest rates and actual long-term rates. In addition, there have been heightened concerns about possible future increases in U.S. inflation, sparked by tightening U.S. labor market conditions.

Over the intermeeting period, the dollar declined 5-1/4 percent against the yen, on balance. Early in the period, favorable developments in U.S.-Japanese trade negotiations provided some support for the dollar, but by early June, negotiations again seemed to be stalled. Political instability in Japan also contributed to the dollar's weakness against the yen as the Japanese government appeared unable to take measures to counter the yen's rise. Against the mark, the dollar has also declined about 5 percent since the May FOMC. The mark's strength appears largely to reflect the perception that the Bundesbank is unlikely to make further reductions in official interest rates.

Long-term interest rates in all major foreign industrial countries have continued to move higher since the May FOMC meeting, as economic indicators have supported the view that recovery abroad is taking hold. Long-term (ten-year) rates have risen about 40 basis points in Japan and Germany, and about 125 basis points in

Italy, where a recent court ruling threatens to increase the government budget deficit even more. By comparison, ten-year rates in the United States have risen only 25 basis points. Foreign short-term interest rates have changed little over the period, except in Italy and Canada. Italian rates have risen 75 basis points as the lira has weakened relative to the other EMS currencies. The Bank of Canada's actions have raised the three-month rate 30 basis points, on balance, in response to the depreciation of about 1/2 percent in the Canadian dollar in terms of the U.S. dollar; market concerns about the upcoming Quebec election and about large government deficits have fueled the downward pressure on the Canadian dollar.

On June 24, when the dollar began to fall further against the mark, the Desk joined numerous other central banks in concerted intervention . In his public statement, Secretary Bentsen described the concerted intervention as reflecting a "shared concern about recent developments in financial markets." The dollar did not respond positively to the intervention operation, actually declining a bit further against the mark over the course of the day. On balance, the dollar has fallen slightly more since the intervention.

. The Desk purchased $1,560 million, $610 million against yen and $950 million against marks, all on June 24, split evenly between the System and the Treasury.

During the first quarter, economic activity expanded in all the major foreign industrial countries, in many cases at an unexpectedly strong rate; indicators suggest that growth is continuing in the second quarter, although at a slower pace in some countries. In Japan, industrial production fell in April and May but has remained above its first-quarter average rate. The Bank of Japan's May survey of business sentiment registered its first increase since 1989. In western Germany, industrial production and manufacturing orders rose in April whereas retail sales slumped. In the United Kingdom, activity appears to be holding up. Industrial production surged in April. Retail sales through May slowed less than expected, despite the large tax increases, including a broadening of the VAT, that took effect at the beginning of April. In Canada, where first-quarter GDP growth was particularly vigorous, retail sales edged off in April. Employment grew further, on balance, in April and May, and the unemployment rate improved slightly in May.

Although the pace of activity is strengthening in the major foreign industrial countries, considerable slack remains. As a result, inflation rates continue to be low and, in most cases, have fallen from rates earlier in the year.

In April, the U.S. nominal trade deficit for goods and services was $8.4 billion, seasonally adjusted, larger than it was in March but about equal to the first-quarter average. For the first four months of 1994, the deficit was $98 billion at an annual rate, significantly larger than it had been in the fourth quarter of last year. Exports of goods and services in April were 3 percent less than they had been in March, when they had surged. Imports of goods and services were about the same in April as in March. So far this year, capital goods and non-oil industrial supplies have been the most rapidly growing categories of imports. In the first quarter, the U.S. current account deficit widened $5 billion (SAAR), to $128 billion.

In May, prices of U.S. non-oil imports rose slightly for the third consecutive month; for April-May combined, prices increased at a 2.2 percent annual rate. Prices of nonagricultural exports also increased slightly in May; and for April-May combined, prices also rose 2.2 percent at an annual rate, the same as in the first quarter. Prices of imported oil rose almost $1 per barrel in April and rose further in May, consistent with the pickup in spot and futures prices that began in late March. Currently, the spot price for West Texas Intermediate (WTI) is $19.15 per barrel, about $1.25 higher than at the time of the May Greenbook. The increase in oil prices appears to have resulted from stronger economic activity abroad, some production disruptions in the North Sea and Yemen, and relatively flat OPEC production.

Outlook

The staff projects that the growth rate of real GDP in foreign industrial and developing countries will rise to 3-1/4 percent during the second half of this year and then to 3-1/2 percent next year, well above the projected rate of U.S. growth. We project that the dollar will remain about unchanged from recent levels. As a consequence, and against the background of the greater responsiveness of U.S. imports to domestic income expansion than is the case for the responsiveness of U.S. exports to foreign income, we expect real exports of goods and services to grow only slightly faster than real imports over the forecast period. With imports currently substantially exceeding exports, the projected growth rates imply that real net exports of goods and services will decline somewhat further, subtracting less than 1/4 percentage point from the annual rate of growth of real GDP during the second half of this year and in 1995.

The dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies will remain near its current level throughout the forecast period. This level is down about 3 percent from that in the May Greenbook. We assume that foreign long-term interest rates will decline roughly the same amount as U.S. long-term interest rates, as some of the uncertainty in financial markets dissipates. We recognize that there is some upside risk to our outlook for the dollar if recent increases in foreign long-term interest rates unwind to a greater extent. However, in light of recent exchange market trends, a significant downside risk exits as well. Against the currencies of key developing countries, we expect the CPI-adjusted value of the dollar to show a further moderate depreciation on average through the end of the forecast period.

Foreign industrial countries. Real GDP growth in the G-6 countries (weighted by U.S. exports) is projected to strengthen over the forecast period and to average about 3 percent during the next six quarters. For 1994, the growth outlook for Japan, Germany, France, and Canada has been raised since the May Greenbook.

Real GDP growth in Japan is expected to slow somewhat in the near term from the very rapid first-quarter pace and then to rise over the forecast period to 2-3/4 percent next year. German output growth, stimulated by rising exports, is projected to rise a bit from the recent rate during the second half of this year and to average about 2-1/2 percent, annual rate, during the remaining six quarters of the forecast period. In the United Kingdom, with investment growth remaining strong, output is expected to expand at nearly 2-3/4 percent in 1994 and to increase slightly faster in 1995. Output growth in Canada is projected to slow a bit from the recent high rate of over 4 percent, but still to average more than 3-1/2 percent, annual rate, through the end of 1995.

Consumer price inflation in the G-6 countries is projected to to remain quite low over the forecast period.[1] Canadian inflation has been revised down since the May Greenbook and is projected to be near zero during 1994. Average inflation for the G-6 countries is forecast to be about 1 percent (weighted by U.S. imports) in 1994 and to rise slightly to 1-1/2 percent in 1995.

Through the middle of next year, the forecast incorporates the assumption of essentially no change on average in short-term interest rates in the foreign industrial countries; short-term rates are expected to move up slightly at the end of the forecast period in response to the higher projected pace of economic activity abroad by then. Some additional small declines assumed in the near term for the Continental European economies are offset by small increases expected in Japan and the United Kingdom. The assumed path for foreign short-term rates is little changed from that in the May Greenbook except for rates near the end of the forecast period, which are now assumed to be somewhat higher than had been the case because of the higher projected pace of foreign economic activity.

The path for foreign long-term rates has been moved up in response to recent increases in rates, but on average, long-term rates are still expected to decline moderately over the forecast period.

Developing countries. Real GDP in the developing countries that are major U.S. trading partners is forecast (using bilateral nonagricultural-export weights) to grow around 4-1/2 percent in 1994 and to increase to 4-3/4 percent in 1995.

1. G-6 consumer price inflation continues to be forecast using west German prices.

Since the last Greenbook, the forecast for developing country GDP growth has been revised upward in 1994 by almost 1/2 percentage point. The growth forecasts for 1994 for Korea and Singapore have been increased about 1-1/4 and 1 percentage point, respectively. These changes reflect stronger-than-anticipated growth during the first quarter of 1994 for these countries and an upward revision to our forecast of their external demand associated with a stronger forecast of industrial country growth. The forecast for growth in Brazil has also been raised 2 percentage points in 1994 and 1 percentage point in 1995. These revisions reflect stronger-than-anticipated first-quarter growth and the implementation of a currency reform plan that is expected to induce a temporary spurt in growth in 1994-95.

U.S. real net exports. Real net exports of goods and services are expected to decline, but at a slower pace than has been the case, under the influence of stronger foreign growth, a lower dollar, and slower growth of U.S. real GDP. Real net exports are projected to weaken about $8 billion over the final three quarters of this year but only $6 billion over the four quarters of next year.

The quantity of merchandise exports is projected to strengthen at the end of 1994 and into 1995 in response to the faster pace of activity abroad and the lower dollar. Exports of computers are expected to have risen a bit less strongly this quarter, but to return to rapid growth in the second half of this year and in 1995. Other nonagricultural exports are projected to have rebounded in this quarter from the first-quarter drop and then to grow at an average rate of almost 4-1/2 percent over the remaining six quarters of the forecast period. Agricultural exports are projected to fall somewhat further in the near term, but to bounce back at the end of the year and then to expand slowly in 1995.

TRADE QUANTITIES*
(percent change from end of previous period, saar)

		----Projection------			
	1993	1994			1995
		Q1	Q2	H2	
Merchandise exports					
Total	5.9	-3.4	6.7	8.2	8.4
Agricultural	-4.9	-24.1	-4.1	8.5	2.0
Computers	19.9	18.3	12.5	28.5	28.5
Other nonag.	4.9	-4.7	6.8	4.2	4.5
Merchandise imports					
Total	12.9	9.8	11.1	8.0	8.0
Oil	10.0	-9.3	21.4	-2.0	8.3
Computers	34.9	18.1	24.0	28.7	24.8
Other non-oil	9.6	10.7	7.3	5.1	4.0

* GDP basis, 1987 dollars.

Growth of non-oil imports other than computers is expected to slow some during the rest of this year and to level off at about 4 percent in 1995, as the rate of GDP growth in the United States diminishes and as the effects of the lower dollar are felt. The growth of computer imports slows a bit in 1995, in line with growth of the computer component of U.S. PDE.

We expect that the quantity of oil imports has increased sharply in the current quarter as domestic stocks have been rebuilt after large drawdowns in the first quarter. Over the remainder of the forecast period, imports are projected to increase further, on balance, as U.S. oil consumption continues to increase in line with economic activity and as U.S. oil production continues to decline.

Oil prices. Since the May Greenbook, WTI oil prices have increased \$1.25 per barrel, resulting in roughly a \$5 per barrel increase since late March. .OPEC's cancellation of its September meeting (seen as a reaffirmation of its commitment to current production quotas through the end of 1994), coupled with North Sea maintenance and the fighting in Yemen, has forced prices up in light of strengthening economies in Europe. The run-up in prices over the past two months was not anticipated in the May Greenbook; accordingly, our assumption for the oil import unit value has been increased an average of $1.30 per barrel for the second and third quarters. We expect the spot price for WTI to fall to $18.50 per barrel by August, from current levels of $19.15 per barrel, as maintenance in the North Sea is completed.

For the longer term, Iraq appears increasingly unlikely to export in 1995, especially given U.S. resistance to the proposed pipeline flushing in Turkey. We now expect Iraq to remain off the world oil market through 1995, perhaps resuming its exports in 1996. Increased Saudi Arabian production should replace most of the shortfall from Iraq, leaving a $1 per barrel increase in oil prices, relative to the May Greenbook, to balance the market. Thus, from the fourth quarter of 1994 through 1995 we anticipate a WTI price of $18.50 per barrel, consistent with an import unit value of $16.00 per barrel.

SELECTED PRICE INDICATORS
(percent change from end of previous period except as noted, ar)

		----Projection-----			
	1993	1994			1995
		Q1	Q2	H2	
PPI (export. wts.)	0.8	1.3	3.7	2.7	2.4
Nonag. exports*	0.7	2.9	3.1	3.0	2.4
Non-oil imports*	1.2	1.2	3.3	4.6	2.0
Oil imports (Q4 level, $/bl)	14.09	12.66	14.81	16.00	16.00

* Excluding computers.

Prices of non-oil imports and exports. We expect that the prices of non-oil imports excluding computers will accelerate somewhat during the second half of this year in response to the recent rise of non-oil commodity prices and the lower path for the dollar. Next year, the rise in these prices will fall back to about 2 percent. Prices of U.S. nonagricultural exports are expected to move with U.S. producer prices, increasing about 2-1/2 percent on average over the forecast period.

Nominal trade and current account balances. The merchandise trade deficit is projected to increase from $164 billion (AR) in the current quarter to $178 billion by the end of 1994 and to edge up further in 1995. Net service receipts will continue to expand, from an annual rate of about $55 billion this quarter to almost $70 billion by the end of 1995. Investment income payments are expected to exceed investment income receipts by an increasing margin over the forecast period, with the deficit on net investment income reaching $15 billion by the end of 1995, reflecting higher interest rates and rising net indebtedness. As a result of these developments, we expect that the current account deficit will rise to about $170 billion by the end of 1995, 2.4 percent of GDP.

June 29, 1994

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

Measure and country	1991	1992	1993	Projection 1994	Projection 1995
REAL GDP					
Canada	-0.2	0.5	3.2	3.9	3.6
France	1.3	0.6	-0.5	1.9	2.7
Germany	2.2	0.7	-0.2	2.3	2.5
W. Germany	2.8	0.1	-0.8	1.6	2.3
Italy	1.7	-0.4	0.3	1.7	2.3
Japan	3.6	-0.3	-0.1	2.1	2.8
United Kingdom	-1.6	0.3	2.6	2.7	3.0
Average, weighted by 1987-89 GDP	1.7	0.1	0.5	2.3	2.8
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	1.7	1.2	2.2	3.2	3.5
G-6	0.8	0.3	1.7	3.0	3.2
Developing countries	4.9	3.9	4.5	4.6	4.8
CONSUMER PRICES					
Canada	4.1	1.8	1.8	-0.2	1.8
France	2.9	1.8	2.1	1.7	1.5
Western Germany	3.9	3.7	3.7	2.8	2.1
Italy	6.1	4.8	4.1	3.4	3.0
Japan	3.2	0.9	1.2	1.0	0.8
United Kingdom	4.2	3.1	1.6	3.1	4.0
Average, weighted by 1987-89 GDP	3.9	2.4	2.2	1.9	2.0
Average, weighted by share of U.S. non-oil imports	3.8	1.9	1.9	1.1	1.6

U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT

(Billions of dollars, seasonally adjusted annual rates)

	1991				1992				1993		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1990	1991	1992
NIPA Real Net Exports of Goods & 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
Goods	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
Agricultural	34.8	33.8	35.5	37.8	38.8	38.2	40.8	41.1	38.7	38.8	35.1	35.5	39.7
Computers	38.7	40.3	42.9	44.5	45.5	49.4	52.5	56.4	55.9	57.0	33.7	41.6	51.0
Other Goods	308.1	322.0	319.7	328.4	330.2	328.3	329.7	339.7	335.6	338.7	300.1	319.6	332.0
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
Goods	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
Computers	36.3	39.5	44.5	46.5	50.0	56.6	64.2	68.2	73.1	79.0	29.8	41.7	59.8
Other Goods	361.2	365.7	377.2	388.2	389.6	400.8	404.3	409.4	419.4	428.9	379.5	373.1	401.0
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	6.7	8.4	4.9
Agricultural	9.7	-11.0	21.7	28.5	11.0	-6.0	30.1	3.0	-21.4	1.0	-6.3	11.2	8.7
Computers	46.1	17.6	28.4	15.8	9.3	39.0	27.6	33.2	-3.5	8.1	16.2	26.4	26.7
Other Goods	3.6	19.3	-2.8	11.3	2.2	-2.3	1.7	12.7	-4.7	3.7	6.0	7.5	3.4
Services	-20.2	28.8	5.3	13.6	8.3	-6.0	5.6	-5.0	9.4	2.0	9.7	5.3	0.5
Imports of G&S	-11.1	11.7	11.8	6.3	3.8	15.9	9.2	5.6	11.6	13.3	0.4	4.2	8.5
Oil	11.5	83.1	7.1	-37.2	1.7	41.6	12.1	-2.2	4.6	37.3	-15.7	8.3	12.1
Computers	74.1	40.2	61.1	19.2	33.7	64.2	65.5	27.3	32.0	36.4	9.3	47.2	46.7
Other Goods	-16.6	5.1	13.2	12.2	1.5	12.0	3.5	5.1	10.1	9.4	-0.0	2.7	5.5
Services	-18.5	0.8	-7.1	6.7	1.6	-0.4	3.7	-0.4	8.2	2.8	7.9	-5.0	1.1
Current Account Balance	40.1	7.0	-46.3	-28.6	-33.4	-66.2	-74.4	-97.5	-79.4	-102.4	-91.7	-6.9	-67.9
Goods & Serv (BOP), net	-42.6	-20.7	-28.5	-22.1	-15.5	-41.5	-51.1	-53.4	-57.7	-76.3	-78.8	-28.5	-40.4
Goods (BOP), net	-75.2	-64.7	-79.0	-77.4	-72.3	-97.3	-109.4	-105.3	-116.8	-134.9	-109.0	-74.1	-96.1
Services (BOP), net	32.6	44.0	50.5	55.3	56.8	55.8	58.3	52.0	59.1	58.6	30.2	45.6	55.7
Investment Income, net	26.1	11.9	8.3	13.1	9.7	6.5	4.9	-2.9	7.4	2.7	20.7	14.8	4.5
Direct, net	63.2	53.9	48.0	56.4	50.8	51.0	47.1	42.0	54.6	50.8	55.9	55.4	47.7
Portfolio, net	-37.1	-42.0	-39.8	-43.3	-41.1	-44.5	-42.2	-44.9	-47.2	-48.1	-35.1	-40.5	-43.2
Unilateral Transfers, net	56.6	15.8	-26.1	-19.6	-27.7	-31.1	-28.2	-41.2	-29.1	-28.8	-33.7	6.7	-32.0

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

Strictly Confidential (FR) Class II-FOMC

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT

(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
NIPA Real Net Exports of Goods & Services (87$)	-86.3	-84.5	-100.8	-107.5	-110.7	-109.2	-112.0	-112.8	-114.8	-115.7	-76.5	-107.0	-113.8
Exports of G&S	591.9	620.0	618.4	629.8	640.1	653.0	664.1	675.6	688.0	701.2	598.3	635.3	682.2
Goods	434.1	463.0	459.0	466.5	474.5	485.2	494.5	504.3	514.7	525.9	440.4	471.3	509.8
Agricultural	37.3	39.1	36.5	36.1	35.5	37.6	37.8	37.9	38.2	38.4	38.5	36.4	38.1
Computers	62.5	67.6	70.5	72.6	77.3	82.3	87.6	93.3	99.4	105.8	60.8	75.7	96.5
Other Goods	334.3	356.3	352.0	357.8	361.7	365.3	369.1	373.0	377.2	381.7	341.2	359.2	375.2
Services	157.8	157.0	159.4	163.2	165.6	167.8	169.6	171.4	173.3	175.3	157.8	164.0	172.4
Imports of G&S	678.2	704.5	719.2	737.2	750.8	762.2	776.1	788.5	802.8	816.8	674.7	742.4	796.1
Goods	574.9	598.9	613.0	629.3	642.8	654.1	667.6	679.5	693.3	706.6	571.3	634.8	686.8
Oil	56.7	58.1	56.7	59.5	59.9	58.9	61.3	61.8	63.3	63.8	56.5	58.8	62.5
Computers	85.8	92.0	95.9	101.2	107.8	114.8	121.8	128.8	136.0	143.2	82.5	104.9	132.5
Other Goods	432.4	448.7	460.3	468.5	475.0	480.2	484.4	488.8	493.9	499.5	432.3	471.0	491.6
Services	103.3	105.6	106.2	108.0	108.0	108.1	108.5	108.9	109.6	110.2	103.4	107.6	109.3
Memo: (Percent change 1/)													
Exports of G&S	-0.9	20.4	-1.0	7.6	6.7	8.3	6.9	7.1	7.5	7.9	4.8	5.3	7.4
Agricultural	-14.6	20.7	-24.1	-4.1	-6.4	25.7	1.7	1.7	2.3	2.4	-4.9	-3.8	2.0
Computers	44.6	36.9	18.3	12.5	28.5	28.5	28.5	28.5	28.5	28.5	19.9	21.8	28.5
Other Goods	-5.1	29.0	-4.7	6.8	4.4	4.0	4.2	4.3	4.6	4.9	4.9	2.5	4.5
Services	-2.0	-2.0	6.3	10.0	5.9	5.6	4.2	4.3	4.6	4.6	1.7	6.9	4.4
Imports of G&S	6.0	16.4	8.6	10.4	7.6	6.2	7.5	6.5	7.5	7.1	11.8	8.2	7.2
Oil	-7.4	10.2	-9.3	21.4	2.8	-6.6	16.9	3.5	10.0	3.3	10.0	1.4	8.3
Computers	39.1	32.2	18.1	24.0	28.7	28.7	26.8	24.9	24.4	23.0	34.9	24.8	24.8
Other Goods	3.3	16.0	10.7	7.3	5.7	4.5	3.5	3.7	4.2	4.6	9.6	7.0	4.0
Services	2.4	9.2	2.3	6.8	0.2	0.5	1.4	1.7	2.3	2.3	5.6	2.4	1.9
Current Account Balance	-111.4	-122.3	-127.6	-142.8	-153.3	-164.7	-157.7	-161.9	-159.1	-171.4	-103.9	-147.1	-162.5
Goods & Serv (BOP), net	-89.0	-79.9	-97.1	-108.1	-119.2	-117.4	-118.5	-116.8	-116.5	-115.5	-75.7	-110.4	-116.8
Goods (BOP), net	-145.9	-132.7	-147.9	-163.5	-177.0	-177.8	-181.2	-181.6	-183.7	-185.0	-132.6	-166.5	-182.9
Services (BOP), net	56.9	52.8	50.8	55.4	57.8	60.5	62.7	64.8	67.1	69.5	56.8	56.1	66.0
Investment Income, net	8.1	-2.4	-1.5	-3.7	-3.0	-7.3	-7.2	-13.1	-10.5	-14.9	4.0	-3.9	-11.5
Direct, net	55.9	48.4	47.7	49.6	50.3	52.4	52.6	51.9	52.0	53.5	52.4	50.0	52.5
Portfolio, net	-47.8	-50.8	-49.2	-53.2	-53.4	-59.8	-59.8	-65.0	-62.6	-68.4	-48.5	-53.9	-63.9
Unilateral Transfers, net	-30.5	-40.1	-29.1	-31.0	-31.0	-40.0	-32.0	-32.0	-32.0	-41.0	-32.1	-32.8	-34.2

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

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DIVISION OF RESEARCH AND STATISTICS

June 30, 1994

STRICTLY CONFIDENTIAL (FR)
CLASS II - FOMC

TO: Federal Open Market Committee

FROM: Michael J. Prell

Attached are updated versions of the detailed tables of Part I of the Greenbook. We have mechanically updated those items that were affected by the revised GDP data for the first quarter of 1994.

Enclosures

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

June 30, 1994

Interval	Nominal GDP 5/11/94	Nominal GDP 6/29/94	Real GDP 5/11/94	Real GDP 6/29/94	GDP fixed-weight price index 5/11/94	GDP fixed-weight price index 6/29/94	Consumer price index[1] 5/11/94	Consumer price index[1] 6/29/94	Unemployment rate (level except as noted) 5/11/94	Unemployment rate (level except as noted) 6/29/94
ANNUAL										
1991[2]	3.2	3.2	-.7	-.7	4.1	4.1	4.3	4.3	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[2]	5.6	5.6	3.0	3.0	3.1	3.1	3.0	3.0	6.8	6.8
1994	5.7	6.0	3.7	3.8	2.6	2.7	2.6	2.7	6.6	6.4
1995	4.6	4.8	2.4	2.4	2.8	2.9	3.1	3.3	6.6	6.4
QUARTERLY										
1992 Q1[2]	7.4	7.4	3.5	3.5	4.2	4.2	2.6	2.6	7.3	7.3
Q2[2]	5.7	5.7	2.8	2.8	3.4	3.4	3.5	3.5	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	3.5	3.5	7.3	7.3
1993 Q1[2]	4.4	4.4	.8	.8	4.3	4.3	2.8	2.8	7.0	7.0
Q2[2]	4.3	4.3	1.9	1.9	2.8	2.8	3.1	3.1	7.0	7.0
Q3[2]	4.4	4.4	2.9	2.9	2.1	2.1	2.0	2.0	6.7	6.7
Q4[2]	8.4	8.4	7.0	7.0	2.3	2.3	3.1	3.1	6.5	6.5
1994 Q1[2]	5.2	6.1	2.6	3.4	2.9	3.2	1.9	1.9	6.6	6.6
Q2	6.2	6.0	4.2	3.5	2.6	2.5	2.7	2.7	6.5	6.3
Q3	5.1	5.2	2.7	2.9	2.8	2.7	3.5	3.7	6.8	6.3
Q4	4.4	4.8	2.1	2.4	2.8	3.0	3.3	3.6	6.6	6.3
1995 Q1	4.8	4.8	2.2	2.0	3.2	3.4	3.1	3.4	6.6	6.3
Q2	4.3	4.5	2.2	2.2	2.7	2.8	2.9	3.1	6.6	6.4
Q3	4.3	4.5	2.3	2.3	2.6	2.7	2.8	3.0	6.6	6.4
Q4	4.3	4.5	2.4	2.4	2.6	2.7	2.7	2.9	6.6	6.4
TWO-QUARTER[3]										
1992 Q2[2]	6.6	6.6	3.2	3.2	3.9	3.9	3.0	3.0	.5	.5
Q4[2]	6.9	6.9	4.6	4.6	2.8	2.8	3.2	3.2	-.2	-.2
1993 Q2[2]	4.3	4.3	1.3	1.3	3.4	3.4	3.1	3.1	-.3	-.3
Q4[2]	6.4	6.4	4.9	4.9	2.2	2.2	2.4	2.4	-.5	-.5
1994 Q2	5.7	6.0	3.4	3.4	2.7	2.9	2.4	2.4	0	-.2
Q4	4.7	5.0	2.4	2.6	2.8	2.8	3.4	3.6	.1	0
1995 Q2	4.5	4.7	2.2	2.1	3.0	3.1	3.0	3.3	0	.1
Q4	4.3	4.5	2.4	2.3	2.6	2.7	2.7	3.0	0	0
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[2]	5.4	5.4	3.1	3.1	2.8	2.8	2.7	2.7	-.8	-.8
1994 Q4	5.2	5.5	2.9	3.0	2.8	2.9	2.9	3.0	.1	-.2
1995 Q4	4.4	4.6	2.3	2.2	2.8	2.9	2.9	3.1	0	.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.

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

June 30, 1994

Item	Unit[1]	1987	1988	1989	1990	1991	1992	1993	Projected 1994	Projected 1995
EXPENDITURES										
Nominal GDP	Bill $	4539.9	4900 4	5250.8	5546 1	5722 9	6038 5	6377 9	6758.3	7083 4
Real GDP	Bill 87$	4540.0	4718 6	4838 0	4897 3	4861 4	4986.3	5136 0	5330 3	5456 8
Real GDP	% change	4 5	3 3	1 6	2	3	3 9	3 1	3 0	2 2
Gross domestic purchases		3 9	2 5	9	4	- 2	4 3	4 0	3 5	2 3
Final sales		2.7	4 2	1 5	1 2	- 3	3 8	3 1	2 7	2 2
Private dom. final purch.		1 9	4 2	5	- 1	- 7	5 0	5 0	4 0	2 7
Personal cons expend		2 1	4 2	1 2	7	0	4 0	3 2	3.0	2 0
Durables		-2 6	8 5	- 5	- 8	- 4	9 7	7 9	2 9	9
Nondurables		1 4	3 2	1 2	- 1	-1 3	3 6	1 7	3 1	1 8
Services		3 7	3 7	1 7	1 7	9	2 8	2 9	3 0	2 4
Business fixed invest		3 0	5 5	- 4	7	-6 3	7 4	15 1	10 4	7 3
Producers dur equip		2 4	9 1	-1 7	2.9	-3.3	11 4	18 8	12 1	7 7
Nonres structures		4 4	-1 2	2 3	-3 9	-12 6	-2 0	5 1	5 3	5.9
Res structures		-3 1	9	-7 7	15.2	1 6	17 6	7 9	6	6
Exports		12 6	13 5	11 3	6.7	8 4	4 9	4 8	4.9	7 4
Imports		4 7	3 6	2.6	4	4.2	8 5	11 8	8.4	7 2
Government purchases		3.3	2	2.0	3.3	-.7	1 1	- 5	.4	.4
Federal		3 7	-3 4	- 6	2 8	-3.7	4	-6 6	-3.4	-3.2
Defense		4 5	3 2	-1 5	1.5	-7 3	-1 4	-9.3	-6 3	-5.0
State and local		2 9	2 9	4 0	3 6	1.5	1 6	3.4	1.3	2.4
Change in bus. invent	Bill 87$	26 3	19 9	29 8	5 7	-8 4	6 5	14 3	27.0	26.5
Nonfarm		32 7	26 9	29 9	3.2	-8 6	2 7	19.7	26.4	23 8
Net exports		-143 0	-104 0	-73 7	-54 7	-19 1	-33 6	76.5	-111.2	-118 1
Nominal GDP	% change	8 0	7 7	6 0	4.7	3.7	6 7	5.4	5.5	4.6
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ	Millions	102.0	105 2	107.9	109.4	108.3	108.6	110.5	113.0	114 8
Unemployment rate	%	6 2	5 5	5.3	5.5	6.7	7 4	6.8	6.4	6 4
Industrial prod. index	% change	6.3	3.2	- 1	-.2	- 3	3.2	4.2	4.5	2 7
Capacity util rate-mfg	%	81.6	83 6	83.1	81.1	77.8	78.6	80.6	82.7	82 4
Housing starts	Millions	1.62	1.49	1 38	1 19	1 01	1 20	1.29	1 40	1.38
Light Motor Vehicle Sales		14.84	15.43	14 53	13 85	12.30	12 83	13.89	15.08	15.17
Auto sales in U.S		10.24	10.63	9 91	9.50	8.39	8.38	8 71	9 26	9.20
North American prod.		7.07	7.54	7.08	6.90	6.14	6.28	6 74	7.33	7 39
Other		3 18	3 10	2.83	2.60	2.25	2.11	1.97	1.93	1.81
INCOME AND SAVING										
Nominal GNP	Bill. $	4544.5	4908.2	5266.8	5567.8	5737.1	6045.8	6378.1	6751.3	7068.8
Nominal GNP	% change	8.1	7.8	6.1	4.9	3.3	6.5	5.3	5.4	4.5
Nominal personal income		7.4	7.1	6.5	6.5	3.5	8.1	3.5	5.8	5.6
Real disposable income		2.1	3.2	1.1	1.1	.7	4.9	1.1	2.7	2 6
Personal saving rate	%	4.3	4.4	4.0	4.2	4.8	5.3	4.0	3.6	4 0
Corp. profits, IVA&CCAdj	% change	29.7	10.2	-6.3	2.3	4.4	16.0	15.6	5.7	2
Profit share of GNP	%	7.0	7.4	6.9	6.8	6.4	6.7	7.3	7.6	7.6
Federal surpl./def.	Bill. $	-151.8	-136.6	-122.3	-163.5	-203.4	-276.3	-226.4	-141.7	-149.3
State/local surpl./def.		40.1	38.4	44.8	25.1	7.3	7.2	1.8	5.0	11.3
Ex. social ins. funds		-14.7	-18.4	-17.5	-35.6	-51.2	-52.2	-56.7	-51.7	-44.2
PRICES AND COSTS										
GDP implicit deflator	% change	3.4	4.2	4.3	4.5	3.4	2.8	2.2	2.4	2.3
GDP fixed-wt. price index		3.4	4.2	4.4	4.6	3.6	3.3	2.8	2.9	2.9
Gross domestic purchases fixed-wt price index		3 9	4.1	4.4	5.2	3.1	3.3	2.6	2.9	2.9
CPI		4.5	4.3	4.6	6.3	3.0	3.1	2.7	3.0	3.1
Ex. food and energy		4.3	4.5	4.4	5.3	4.4	3.5	3.1	3.1	3.1
ECI, hourly compensation[2]		3.3	4.8	4 8	4.6	4.4	3.5	3.6	3.4	3 5
Nonfarm business sector										
Output per hour		1 9	5	-1.4	.4	2.2	3.3	1.7	9	1 1
Compensation per hour		3.9	3 8	3 1	6 2	4 7	4 8	2.5	3 5	3 6
Unit labor cost		1 9	3 3	4.6	5 7	2.5	1 5	8	2 6	2 5

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

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

June 30 1994

Item	Units	1993		1994				1995			
					Projected						
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill $	6395.9	6526.5	6623.1	6720.0	6805.1	6885.0	6966.2	7043.9	7122.1	7201.4
Real GDP	Bill 87$	5138.3	5225.6	5269.5	5314.7	5352.8	5384.3	5410.8	5440.6	5471.7	5504.0
Real GDP	% change	2.9	7.0	3.4	3.5	2.9	2.4	2.0	2.2	2.3	2.4
Gross domestic purchases		3.7	6.7	4.9	3.9	3.1	2.2	2.2	2.2	2.4	2.4
Final sales		3.4	6.8	2.5	2.6	3.1	2.5	2.0	2.3	2.3	2.4
Private dom. final purch		5.1	8.0	5.7	3.7	3.7	2.8	2.5	2.7	2.8	2.8
Personal cons. expend		4.4	4.4	5.2	1.7	2.9	2.3	1.9	1.9	2.1	2.1
Durables		7.6	15.2	10.2	-.8	1.3	1.3	.4	.7	1.1	1.4
Nondurables		3.7	2.7	4.3	2.5	3.2	2.3	1.6	1.6	1.9	1.9
Services		3.9	2.6	4.5	1.9	3.2	2.6	2.4	2.4	2.4	2.4
Business fixed invest		7.4	22.5	7.3	15.3	10.3	9.0	7.9	7.7	7.1	6.5
Producers' dur. equip.		10.0	26.0	16.8	10.6	11.6	9.7	8.5	9.1	7.5	6.8
Nonres. structures		.3	12.2	17.7	32.0	6.1	6.7	5.7	6.3	5.8	5.7
Res. structures		11.9	31.7	8.5	3.8	-2.6	-6.5	-2.3	.4	1.5	2
Exports		-.9	20.4	-2.8	7.6	6.8	8.4	7.0	7.2	7.6	7.9
Imports		6.0	16.4	9.5	10.4	7.6	6.2	7.5	6.5	7.5	7.2
Government purchases		.3	.0	-3.5	.3	1.5	.1	.4	.4	.4	.4
Federal		-6.2	-5.2	-5.3	-4.0	-.2	-3.9	3.2	-3.2	-3.3	-3.1
Defense		-9.8	-4.9	-15.2	3.3	-.5	-5.4	-5.3	-5.0	-5.1	-4.8
State and local		4.5	3.3	-2.5	3.0	2.4	2.5	2.6	2.5	2.4	2.4
Change in bus. invent	Bill 87$	6.5	8.5	20.6	31.5	28.8	27.1	27.0	26.1	26.5	26.4
Nonfarm		19.4	12.9	22.2	31.1	27.3	24.9	24.6	23.4	23.6	23.4
Net exports		-86.3	-84.5	-105.0	-111.6	-114.9	113.4	-116.2	-117.1	-119.1	-120.0
Nominal GDP	% change	4.4	8.4	6.1	6.0	5.2	4.8	4.8	4.5	4.5	4.5
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ	Millions	110.8	111.4	112.0	112.9	113.5	113.8	114.2	114.6	115.0	115.4
Unemployment rate[1]	%	6.7	6.5	6.6	6.3	6.3	6.3	6.3	6.4	6.4	6.4
Industrial prod. index	% change	2.8	6.7	8.1	3.9	3.2	3.0	2.7	2.7	2.7	2.7
Capacity util. rate-mfg[1]	%	80.3	81.5	82.5	82.8	82.8	82.8	82.7	82.5	82.4	82.2
Housing starts	Millions	1.31	1.48	1.37	1.47	1.38	1.36	1.36	1.37	1.39	1.40
Light Motor Vehicle Sales		13.56	14.55	15.54	14.79	14.95	15.07	15.09	15.14	15.19	15.26
Auto sales in U.S.		8.60	8.95	9.49	9.17	9.20	9.19	9.19	9.19	9.19	9.21
North American prod.		6.63	7.08	7.46	7.23	7.28	7.34	7.36	7.38	7.40	7.42
Other		1.97	1.87	2.03	1.94	1.92	1.85	1.83	1.81	1.79	1.79
INCOME AND SAVING											
Nominal GNP	Bill. $	6402.3	6520.9	6618.6	6713.2	6798.9	6874.5	6955.9	7027.6	7108.5	7183.4
Nominal GNP	% change	4.8	7.6	6.1	5.8	5.2	4.5	4.8	4.2	4.7	4.3
Nominal personal income		3.0	7.6	5.2	8.1	4.2	5.7	6.5	5.2	4.7	6.0
Real disposable income		1.6	5.4	3.3	2.6	2.6	2.4	3.4	.4	3.5	3.1
Personal saving rate[1]	%	3.8	4.0	3.5	3.7	3.6	3.7	4.0	3.6	4.0	4.2
Corp. profits, IVA&CCAdj	% change	9.4	38.1	-21.5	32.3	14.6	4.9	.3	-.7	1.6	-.6
Profit share of GNP[1]	%	7.3	7.8	7.2	7.6	7.8	7.8	7.7	7.6	7.6	7.5
Federal govt. surpl./def.	Bill. $	-212.7	-207.0	-163.6	-120.8	-132.7	-149.6	-154.7	-131.8	-145.2	-165.6
State/local surpl./def.		-1.7	7.2	-3.2	6.3	7.5	9.3	9.7	8.9	13.0	13.9
Ex. social ins. funds		-60.2	-50.7	-60.5	-50.5	-49.0	-46.9	-46.2	-46.7	-42.3	-41.3
PRICES AND COSTS											
GDP implicit deflator	% change	1.5	1.4	2.6	2.4	2.2	2.3	2.8	2.3	2.2	2.1
GDP fixed-wt. price index		2.1	2.3	3.2	2.5	2.7	3.0	3.4	2.8	2.7	2.7
Gross domestic purchases fixed-wt. price index		1.8	2.3	2.6	2.9	3.1	3.0	3.4	2.8	2.7	2.7
CPI		2.0	3.1	1.9	2.7	3.7	3.6	3.4	3.1	3.0	2.9
Ex. food and energy		2.4	2.9	2.6	3.1	3.3	3.2	3.2	3.1	3.1	3.1
ECI hourly compensation[2]		3.4	3.4	2.7	4.0	4.2	2.7	3.5	3.5	4.2	2.7
Nonfarm business sector											
Output per hour		3.5	6.1	1.3	-1.1	2.0	1.3	.9	1.1	1.1	1.1
Compensation per hour		3.1	2.5	5.3	1.8	3.5	3.5	3.9	3.5	3.5	3.5
Unit labor cost		-.4	-3.4	3.9	2.9	1.5	2.1	3.0	2.4	2.4	2.4

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

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

	Projected												Projected	
	1993		1994				1995							
Item	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1992	1993	1994	1995
Real GDP	36.2	87.3	43.9	45.2	38.1	31.5	26.6	29.8	31.1	32.3	188.7	157.3	158.7	119.7
Gross domestic purchases	47.2	85.4	64.5	51.8	41.3	30.0	29.4	30.6	33.1	33.2	211.1	202.9	187.6	126.3
Final sales	42.7	85.3	31.8	34.4	40.7	33.2	26.6	30.7	30.7	32.4	187.1	157.5	140.1	120.4
Private dom. final purch.	53.2	83.5	60.7	40.2	40.5	31.4	28.5	30.5	31.9	32.2	198.8	208.4	172.8	123.1
Personal cons. expend.	36.9	37.3	45.0	14.9	25.7	20.6	16.6	17.1	18.6	19.1	129.7	109.7	106.2	71.5
Durables	8.9	17.8	12.5	-1.0	1.7	1.7	.5	1.0	1.5	1.8	41.9	37.5	14.8	4.7
Nondurables	9.9	7.2	11.6	7.0	9.0	6.4	4.5	4.5	5.5	5.5	37.8	18.4	34.0	20.0
Services	18.1	12.3	20.8	9.1	15.0	12.5	11.6	11.7	11.7	11.8	50.0	53.8	57.4	46.8
Business fixed invest.	10.5	30.9	11.1	23.1	16.3	14.7	13.2	13.1	12.4	11.7	37.6	82.0	65.2	50.3
Producers' dur. equip.	10.4	26.4	18.6	12.4	13.9	12.1	10.9	10.6	10.0	9.3	40.5	74.3	57.1	40.7
Nonres. structures	.1	4.4	-7.4	10.6	2.4	2.6	2.3	2.6	2.4	2.4	3.0	7.6	8.3	9.6
Res. structures	5.9	15.1	4.7	2.2	-1.5	-3.9	1.3	.2	.9	1.5	31.5	16.6	1.4	1.3
Change in bus. invent.	-6.5	2.0	12.1	10.9	-2.6	1.7	.1	-.9	.4	.1	1.6	.2	18.6	.7
Nonfarm	2.3	-6.5	9.3	8.9	-3.7	2.4	.3	1.2	.2	-.2	-2.8	5.4	12.0	1.5
Farm	-8.8	8.5	2.8	2.0	1.1	.7	.2	.3	.2	.1	4.4	5.6	6.6	.8
Net exports	-11.1	1.8	-20.5	-6.6	-3.2	1.5	-2.9	-.8	-2.0	.9	-22.4	45.7	28.9	6.6
Exports	-1.3	28.1	-4.4	11.4	10.3	12.9	11.1	11.5	12.4	13.1	27.4	28.4	30.3	48.1
Imports	9.8	26.3	16.1	18.0	13.6	11.4	13.9	12.4	14.4	14.0	49.6	74.2	59.1	54.7
Government purchases	.6	0	-8.4	.8	3.4	.3	1.0	1.0	.8	1.0	10.7	-5.2	3.9	3.9
Federal	-5.7	-4.7	4.7	-3.5	-.2	3.4	2.8	-2.7	2.8	-2.6	1.6	24.7	11.8	10.8
Defense	-6.3	-3.0	-9.6	-1.9	-.3	-3.1	-3.0	-2.8	-2.8	2.6	3.6	24.2	-14.9	11.2
Nondefense	.7	-1.9	4.9	1.5	.1	.3	.2	.1	0	0	5.2	.6	3.2	.4
State and local	6.4	4.8	3.8	4.3	3.6	3.7	3.8	3.7	3.6	3.6	9.1	19.6	7.8	14.7

1 Annual changes are from Q4 to Q4.