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Strictly Confidential (FR) Class II FOMC

September 21, 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

Growth in economic activity probably is in the process of slowing from the 3-1/2 percent annual pace of the first two quarters of 1994. However, the signals in the incoming data have been far from uniform on this score, and the odds currently seem to favor an expansion of real GDP over the second half of the year somewhat in excess of what was projected in the last Greenbook--perhaps averaging only a little less than 3 percent, at an annual rate. The upside surprise in output of late has been centered in the manufacturing sector, where upward revisions to IP estimates for May through July and information on August point to persistently brisk expansion. As a consequence, levels of capacity utilization have surpassed expectations.

The largest effects of the interest rate increases to date may yet lie ahead, but whether they will prove sufficient to prevent a build-up of inflationary pressures is unclear at this juncture. Certainly, the damping effects of higher rates on domestic demand appear to have been modest to this point, in part because the overall degree of financial restraint in the system has been muted by more aggressive bank lending and by the general resilience of the stock market. Moreover, the depreciation of the dollar this year and the sharper-than-expected pickup in activity in the other industrial countries have enhanced prospects for near-term gains in exports. With the margin of resource slack in the economy eliminated, aggregate demand must moderate promptly if inflation is to be held in check. Against this backdrop, we have assumed a considerable further tightening of money market conditions over coming months.

Under this policy assumption, we anticipate that output growth will slow appreciably in early 1995 and remain moderate thereafter. Nevertheless, we do not foresee the emergence of much slack in labor markets or in industrial capacity. Moreover, inflation measures are expected to reflect in the near term the ongoing runup in materials prices and higher import prices; in addition, in a few months, energy prices also are likely to turn up again. Thus, consumer price inflation is expected to average near 3-1/2 percent over the next couple of quarters before tailing off toward 3 percent in the latter part of 1995.

Key Assumptions

As suggested above, we have assumed that System actions aimed at curbing inflation will result in an extension of the uptrend of short-term interest rates into early 1995. However, if the economy evolves as we expect, a firming of the money markets need not result in a sustained increase in bond yields and mortgage rates. Indeed, we are projecting that the rise in short rates will only continue to hold long rates around their recent highs, and that the bond markets will rally noticeably later next year as investors realize that aggregate demand has slowed sufficiently to avert a resurgence in inflation.

Retail deposit rates are likely to continue lagging the increase in market rates, giving impetus to the growth of M2 velocity over the next several quarters. If bond yields do not rise further, reported returns on bond mutual funds may begin to look attractive again, while flows into stock mutual funds are expected to remain strong. Meanwhile, banks may continue to rely on large CDs to provide some of the funding of what is likely to be a considerable expansion of bank loans, though increases in retail deposit rates will bolster M2 a bit over 1995. All told, we expect that both M2 and M3 will finish 1994 in the lower parts of their target ranges and then accelerate slightly in 1995.

Fiscal policy is expected to remain restrictive; but the degree of restraint over the forecast period is less than it has been during the past year. The crime bill signed last week is designed to be deficit neutral, and we assume that it will have little net effect on aggregate demand.[1] We have built no health care or welfare reform packages into the forecast; although some legislation may be passed in the coming year or two, the constraints imposed by OBRA-93 seem to dictate that the immediate fiscal effects of any such measures would be small in the aggregate. The unified budget deficit is expected to be $199 billion in FY1994 and $188 billion in FY1995--$7 billion and $9 billion, respectively, below the levels cited in the August Greenbook. The revisions in FY1994 reflect actual outcomes reported in the July Monthly Treasury Statement, whereas those in FY1995 reflect changes in technical assumptions regarding deposit insurance outlays and effective tax rates.

The trade-weighted foreign exchange value of the dollar has been little changed, on balance, since the last FOMC meeting, and we do not anticipate any sustained large deviations in the dollar from its recent average levels through the end of 1995. Incoming data indicate that the export-weighted growth of foreign GDP in the first half of 1994 was about 4 percent at an annual rate, a good deal stronger than we had previously estimated. We do not believe that such robust rates will continue, but growth abroad is still

1. To keep within the OBRA-93 caps on discretionary spending, the crime bill is projected to reallocate outlays from federal purchases to grants-in-aid to state and local governments. Specifically, the bill's budget authorization lowers federal purchases and raises grants to state and local governments about $2 billion in FY1995 and $4-1/2 billion in FY1996. We are assuming that half of the grants will show up as higher purchases by the state and local sector and that half will be used to pay for purchases that would have occurred in the absence of the grants.

projected to run at a healthy 3-1/2 percent annual rate in the second half of this year and 3-3/4 percent in 1995--marginally higher than in the last forecast. As concerns about potential supply disruptions in Nigeria have eased, oil markets have softened somewhat more than we had expected, and we are assuming that the spot price of West Texas intermediate during the second half of this year will average about $1 per barrel less than in the last projection. In light of broader trends in supply and demand, however, we expect the spot price of WTI to firm from around its recent level of about $17.20 to $18.50 by early next year, the same level as in the August Greenbook.

The Outlook for the Third Quarter

Our current point-estimate for real GDP growth in the third quarter is 3 percent at an annual rate. Looking to the labor market data as a clue to the change in this quarter's output, average aggregate hours of private production and nonsupervisory workers in July and August were up nearly 2 percent (annual rate) from their second-quarter level; in addition, the current low levels of initial claims for unemployment compensation suggest that payroll growth will be substantial in September. The increase in labor input is assumed to be supplemented by an upturn in labor productivity following the decline in the second quarter.

Gains in manufacturing activity have been impressive of late, with factory output rising 1 percent in August. Large increases in motor vehicles and related industries and in business equipment led the advance. Motor vehicle assemblies are scheduled to drop back somewhat in September from the strong pace in August, but trends in orders argue for a moderate gain in other manufacturing output.[2]

2. After reducing real GDP growth by 3/4 percentage point in the second quarter, the motor vehicle sector is expected to provide a small boost to growth in the third quarter.

We are predicting that total factory production will register an increase around 6-3/4 percent (annual rate) this quarter.

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

	1994			
	Q1	Q2	Q3	Q4
Real GDP	3.3	3.8	3.0	2.8
Previous	3.3	3.7	2.8	2.3
CPI	1.9	2.8	3.8	3.3
Previous	1.9	2.8	4.0	3.5
Civilian unemployment rate[1]	6.6	6.2	6.1	6.0
Previous	6.6	6.2	6.2	6.2
Manufacturing capacity utilization[1]	82.5	83.3	84.0	84.3
Previous	82.5	82.9	83.0	82.9

1. Level, percent.

Real consumer spending is projected to grow at nearly a 3 percent rate in the third quarter. Retail sales (excluding motor vehicles) recorded solid gains in July and August, leading us to project that outlays for goods other than motor vehicles will rise almost 5 percent (annual rate) this quarter. Sales of cars and light trucks have, on average, been running a bit short of their second-quarter pace, as demand has been constrained by shortages of popular models. Higher production--some of it in Canada and Mexico--already may be starting to relieve the shortfalls.[3]

Single-family home building has been more buoyant over the past couple of months than we had anticipated, and starts have remained close to their second-quarter pace. Other indicators suggest some

3. Some of the resulting increase in sales, however, likely will be to rental car companies, where fleet turnover appears to have been delayed in order to minimize the effect of shortages on retail sales. We are assuming that the additional fleet sales eventually will show up in PDE, although we are not sure that BEA's initial estimates will show the appropriate allocation of sales between PCE and PDE.

drop off is in train, however, and we expect that starts will decline in September. Nonetheless, at an annual rate of 1.17 million units, our projection for single-family starts in the third quarter is well above our August Greenbook forecast of a 1.08 million unit annual rate. Multifamily starts have been erratic from month to month, but they seem to be on a gradual upward trend as lower vacancy rates in some markets and improved credit availability provide an offset to the higher cost of borrowing.

Real business fixed investment is projected to rise at a 7-3/4 percent annual rate this quarter. Although shipments and orders of nondefense capital goods were weak in July, we suspect that the readings were largely noise in these volatile series and that they will be reversed in the near term; certainly anecdotal and survey evidence points to ongoing strength in equipment demand. Data on equipment production are still strong, and enlarged order backlogs bode well for further growth in shipments. Nonresidential construction expenditures appear to be continuing on the trend of mild growth established last year; the most recent gains in activity have been relatively broad-based by type of structure.

The rate of accumulation of business stocks in the spring was plainly unsustainable. A lower pace of nonfarm inventory investment is projected to reduce real GDP growth by nearly 1 percentage point this quarter, with sectors other than motor vehicles more than accounting for the decline.[4] In July, non-auto retail inventories--which accounted for around half of the second-quarter bulge--posted a sizable liquidation, but inventories in

4. In book value terms, inventories held by motor vehicle dealers declined sharply in July. These Census figures, however, are at odds with the accumulation of stocks implied by the data on unit production and sales that BEA uses to construct its estimates of motor vehicle inventory investment in the NIPA.

manufacturing and wholesale trade accumulated at a relatively hefty pace.

Real government purchases are projected to rise this quarter. July data point to a step-up in growth of state and local construction outlays following relatively weak growth early in the year, and federal purchases seem unlikely to maintain the rapid rate of descent recorded in the first half.

Net exports of goods and services fell in July, as exports dropped back a bit after increasing substantially in June. Much of the decline in July, however, reflected a sharp drop in aircraft deliveries. We expect net exports will firm, on balance, this quarter, given the favorable trends in export volumes and the likelihood of some moderation in imports in the wake of the second-quarter surge.

The CPI rose 0.3 percent in August and is projected to increase at a 3-3/4 percent annual rate in the third quarter. The 1 percentage point acceleration in prices from the second quarter largely reflects the pass-through of earlier increases in crude oil prices. Excluding food and energy, the CPI rose 0.3 percent in August and is projected to rise a similar amount in September. Costs of materials continue to rise rapidly, with the PPI for intermediate materials excluding food and energy jumping 0.5 percent last month. In contrast, labor costs--which are much more important than materials prices in the overall inflation picture--remain under control, with average hourly earnings rising only 0.2 percent last month.

The Outlook for the Economy

Real GDP growth is expected to remain near a 3 percent annual rate in the fourth quarter of 1994 but then to average a little less than 2 percent over the course of 1995. The unemployment rate is expected to average 6 percent in the next few months and then to edge up to 6-1/4 percent. The ongoing runup in materials prices and higher import prices are expected to boost core inflation--as measured by the CPI excluding food and energy--to about a 3-1/2 percent annual rate in late 1994 and early 1995. As growth slows in 1995, increases in the core CPI are expected to move back down to a 3-1/4 percent pace.

STAFF REAL GDP PROJECTION--SELECTED COMPONENTS
(Percent change, Q4 to Q4, except as noted)

	1993	1994	1995
Real GDP	3.1	3.3	1.8
Previous	3.1	3.0	2.1
Real PCE	3.0	2.9	2.0
Previous	3.0	2.7	2.0
Real BFI	16.0	9.9	6.3
Previous	16.0	11.1	7.6
Net Exports[1]	-43.7	-20.5	-2.8
Previous	-43.7	-24.8	-2.9

1. Change in billions of $1987, Q4 to Q4.

Consumer spending. Real personal consumption expenditures are projected to increase again at just less than 3 percent at an annual rate in the fourth quarter of 1994 and then to rise 2 percent in 1995. Much of the strength in consumer spending in the past two years has reflected a surge in outlays for durable goods that is typical once a business cycle recovery gains momentum and households become more confident about job prospects. We are projecting that durables outlays will continue to post sizable gains in the near term. However, consumers presumably will have satisfied many of their pent-up demands, and with borrowing costs rising and gains in labor income smaller, growth in spending on durable goods is expected to slow considerably in 1995. Outlays for furniture and appliances, which have been exhibiting robust growth recently, also are likely to rise more slowly next year as housing activity moves down.

Some pickup in motor vehicle sales is expected as supply constraints ease further. Sales of cars and light trucks are projected to move up from an annual rate of 14-1/2 million units in the current quarter to a rate a bit above 15 million units by the end of the year--and to average around a 15 million unit rate in 1995. Growth in consumer spending on services and nondurable goods, which generally has followed the trend in income growth over the past couple of years, is projected to slow from about 2-1/2 percent in 1994 to a bit below 2 percent in 1995.

Residential investment. Although we are not anticipating any appreciable further increase in rates on fixed-rate mortgage loans, builders' surveys and other evidence suggest that we have yet to see the full effects of the substantial increase in rates that has occurred since last fall. Moreover, given our assumptions concerning further tightening in money market conditions, rates on adjustable rate mortgages will rise appreciably. Accordingly, single-family starts are forecast to decline further in coming months, bottoming out in the first half of 1995 at around a 1.07 million unit annual rate. Mortgage rates are expected to begin to edge down next year, and a pickup in single-family construction is projected, with starts rising to a 1.12 million unit pace by the end of 1995. Although down substantially from the recent peak in late 1993, the projected pace of starts over the next year and a half is substantially higher than the depressed levels recorded earlier in the 1990s, reflecting the still relatively favorable readings for cash-flow affordability and continued pent-up demand for home ownership.

In the multifamily sector, market conditions appear to have firmed in some locales, and financing is available to qualified developers. These factors have led us to forecast a small updrift in multifamily starts over the course of the projection period. However, given the high vacancy rates and soft rents in most markets, the level of activity in the multifamily sector is projected to remain quite low by historical standards.

Business fixed investment. Real business fixed investment is projected to accelerate in the fourth quarter, reflecting stronger growth in outlays for computers and motor vehicles. In 1995, BFI growth is projected to slow to 6-1/4 percent from the 10 percent pace expected this year. This deceleration in BFI reflects slower growth in PDE, where higher interest rates, slower output growth, and a projected deterioration in cash flow should damp demand. Nonetheless, at 6-1/2 percent, the projected growth rate for PDE in 1995 is hardly weak. The sustained growth in spending largely reflects expected increases in real purchases of computing and communications equipment, where technological advances and declining prices should continue to stimulate investment.

We expect that the nonresidential construction sector will continue to improve, with expenditures projected to rise at an annual rate of 5-3/4 percent over the next year and a half. The largest gains are expected to occur in the "other commercial" category--which includes retail outlets and warehouses--and in industrial structures, in which the need to stretch capacity likely is boosting demand. A modest pickup is expected from office building construction, as rents appear to have firmed and vacancy rates have moved down appreciably over the past two years.

Business inventories. Although most of the heavy stockbuilding in recent months likely was intended, the pace of accumulation exceeded 5 percent, at an annual rate, and thus could not be sustained for long without the emergence of serious imbalances. As a result, we expect sizable reductions in inventory investment (excluding motor vehicles) this quarter and next, although some businesses may wish to carry higher stocks to avoid supply disruptions associated with an economy running near capacity. In 1995, we expect inventory investment to remain modest, in line with the subdued pace of sales growth projected for next year as well as the underlying trends toward just-in-time production and distribution systems. Reflecting these factors, aggregate inventory-to-sales ratios change little over the projection period.

Government purchases. Real federal purchases fell at a 9-1/2 percent annual rate in the first half of 1994. This large decline reflected a bunching of planned reductions in both defense and nondefense spending; a substantial portion of the nondefense cuts took the form of employee buyouts during the second quarter. With most of the cutbacks required this year by OBRA-93 already completed, only a 1-1/2 percent (annual rate) reduction in real federal purchases is anticipated for the second half of the year. Federal purchases are projected to drop another 4-3/4 percent in 1995, with the bulk of the decline reflecting further cuts in defense spending.

Over the ensuing six quarters, real state and local purchases are projected to increase somewhat less than 3 percent at an annual rate, on average. Despite strong demand for public services from the growing school age population and infrastructure decay, purchases are assumed to be held back somewhat by the efforts of many states to take advantage of recent gains in revenues to lower taxes and, in a few other states, by continued large fiscal deficits.

Net exports. Our forecast is that real net exports, which declined sharply over the past two and a half years, will change little on balance during the projection period. With the recent depreciation of the dollar and more moderate pace of income growth in the United States, growth of real imports of goods and services is expected to slow appreciably. At the same time, the lower dollar and strength in foreign economic activity are projected to boost real exports. (A discussion of these developments is contained in the International Developments section.)

Labor markets. Payroll employment growth is projected to remain relatively brisk over the next few months but is expected to moderate in 1995 with the slower growth in economic activity. Although growth in output per hour is likely to be stronger in the second half of this year than it was in the first, at this stage of the expansion businesses likely have already exploited most of the opportunities for outsized gains in productivity. Furthermore, the pool of highly skilled workers available for hire is shrinking.

STAFF LABOR MARKET PROJECTIONS[1]
(Percent change, at annual rates, except as noted)

	1993	1994		1995
		H1	H2	
Nonfarm payroll employment	2.0	3.0	2.6	1.1
Previous	2.0	3.0	2.4	1.3
Output per hour, nonfarm business	1.9	.0	.9	1.1
Previous	1.9	.7	.8	1.3
Civilian unemployment rate[2]	6.5	6.2	6.0	6.3
Previous	6.5	6.2	6.2	6.3

1. Percent changes are from final quarter of previous period to final quarter of period indicated.
2. Average for the final quarter of the period. The value for 1993 is from the old CPS.

Thus, productivity is projected to grow at about a 1 percent annual rate in the second half of 1994 and in 1995, a little below our estimate of trend productivity growth (that is, close to 1-1/2 percent per year).

After falling 1/2 percentage point over the first half of this year (our estimate on the new CPS basis), the unemployment rate is projected to edge down to 6 percent by the fourth quarter of this year. The unemployment rate is projected to turn up next year as output growth runs below potential, and we anticipate that it will average 6.3 percent by the end of 1995.

Wages and prices. CPI inflation is expected to average about 3-1/2 percent over the fourth and first quarters, not much different from the accelerated pace we are anticipating for the current quarter. Food prices, which were up only slightly earlier in the year, have registered larger gains in the past few months. These

STAFF INFLATION PROJECTIONS
(Percent change, annual rate)

	1994			1995		
	H1	Q3	Q4	Q1	Q2	H2
Consumer price index	2.4	3.8	3.3	3.7	3.2	3.0
Previous	2.4	4.0	3.5	3.3	2.9	2.9
Food	1.0	4.8	3.0	2.8	2.7	2.5
Previous	1.0	4.5	2.8	2.7	2.6	2.3
Energy	-1.2	10.2	.7	7.5	3.5	2.5
Previous	-1.2	14.2	7.6	5.4	2.3	1.8
Excluding food and energy	3.0	3.0	3.6	3.5	3.2	3.2
Previous	3.0	3.1	3.3	3.3	3.1	3.1
ECI for compensation of private industry workers	3.2	4.5	2.7	3.6	3.6	3.6
Previous	3.2	4.5	2.7	3.5	3.5	3.5

increases largely reflect the surge in coffee prices, which is expected to quickly run its course. Consumer energy price inflation is projected to move up temporarily around the turn of the year, although the pickup is expected to be much less than the one experienced this past summer.[5]

Outside of food and energy, the rapid pace of expansion and elevated capacity utilization rates in the industrial sector have put pressure on prices at early stages of processing, whereas the depreciation of the dollar has raised prices of imported goods. These factors are expected to boost prices for consumer goods in the near term, and the increase in the CPI excluding food and energy is expected to move up to a 3-1/2 percent annual rate in late 1994 and early 1995.

With labor markets fairly tight, we think the uptick in inflation will feed through to somewhat higher wage increases. Accordingly, the ECI for hourly compensation is projected to accelerate a bit over the forecast period, to an increase of 3.6 percent in 1995.[6] As in previous projections, increases in benefit costs are expected to continue to outpace growth in wages. Although businesses will continue trying to rein in health care costs, the need to deal with underfunded pensions is likely to boost benefit costs substantially.

As growth slows in 1995 and capacity utilization rates ease a little, pressures on materials prices are expected to diminish. However, with labor costs increasing at a slightly faster pace, the increases in the core CPI are projected to remain somewhat above

5. Our forecast of a pickup in energy price inflation in late 1994 and early 1995 reflects three factors. The first is the projected rise in crude oil prices mentioned earlier. Second, the decline in natural gas prices in 1994--which has been attributed both to lower wellhead prices and to the deregulation of distribution systems--is not likely to be repeated in 1995. Third, environmental regulations mandating reformulated gasoline are expected to boost gasoline prices around the turn of the year.

6. The fluctuations in compensation growth in the third and fourth quarter this year reflect the timing of GM's special contributions to its pension fund.

3 percent--and a shade above the most recent readings for core inflation.

A First Look at 1996

For this Greenbook, the projection has been extended to include 1996. By design, the path for economic activity portrayed here restores a slight disinflationary tilt to prices. Output is projected to grow at about its long-run potential and the unemployment rate remains just above our working assumption for the NAIRU (namely, 6.1 percent). In this scenario, nominal interest rates might be somewhat lower in 1996 than in 1995.

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

September 21, 1994

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index[1]		Unemployment rate (level except as noted)	
	08/12/94	09/21/94	08/12/94	09/21/94	08/12/94	09/21/94	08/12/94	09/21/94	08/12/94	09/21/94
ANNUAL										
1992[2]	5.2	5.2	2.3	2.3	3.2	3.2	3.0	3.0	7.4	7.4
1993[2]	5.4	5.4	3.1	3.1	3.0	3.0	3.0	3.0	6.8	6.8
1994	5.8	5.9	3.7	3.8	2.7	2.7	2.7	2.7	6.3	6.2
1995	4.6	4.9	2.3	2.3	2.9	3.1	3.2	3.4	6.3	6.2
1996		4.5		2.1		2.9		3.0		6.3
QUARTERLY										
1993 Q1[2]	4.4	4.4	1.2	1.2	4.2	4.2	2.8	2.8	7.0	7.0
Q2[2]	4.2	4.2	2.4	2.4	2.4	2.4	3.1	3.1	7.0	7.0
Q3[2]	3.8	3.8	2.7	2.7	2.0	2.0	2.0	2.0	6.7	6.7
Q4[2]	7.7	7.7	6.3	6.3	2.4	2.4	3.1	3.1	6.5	6.5
1994 Q1[2]	6.1	6.1	3.3	3.3	3.1	3.1	1.9	1.9	6.6	6.6
Q2[2]	6.8	6.9	3.7	3.8	2.9	2.9	2.8	2.8	6.2	6.2
Q3	4.4	4.8	2.8	3.0	2.6	2.6	4.0	3.8	6.2	6.1
Q4	4.9	5.6	2.3	2.8	3.1	3.2	3.5	3.3	6.2	6.0
1995 Q1	4.6	4.9	1.9	1.9	3.2	3.5	3.3	3.7	6.2	6.1
Q2	4.3	4.0	2.1	1.7	2.7	2.8	2.9	3.2	6.2	6.2
Q3	4.3	4.3	2.2	1.8	2.7	2.8	2.9	3.1	6.3	6.2
Q4	4.4	4.4	2.3	2.0	2.7	2.8	2.9	3.0	6.3	6.3
1996 Q1		4.8		2.2		3.2		3.0		6.3
Q2		4.7		2.3		2.8		3.0		6.3
Q3		4.6		2.3		2.8		3.0		6.3
Q4		4.6		2.3		2.8		3.0		6.3
TWO-QUARTER[3]										
1993 Q2[2]	4.3	4.3	1.8	1.8	3.3	3.3	3.1	3.1	-.3	-.3
Q4[2]	5.7	5.7	4.5	4.5	2.2	2.2	2.4	2.4	-.5	-.5
1994 Q2[2]	6.4	6.5	3.5	3.6	3.0	3.0	2.4	2.4	-.3	-.3
Q4	4.6	5.2	2.6	2.9	2.8	2.9	3.8	3.6	.0	-.2
1995 Q2	4.4	4.4	2.0	1.8	3.0	3.2	3.1	3.4	.0	.2
Q4	4.4	4.3	2.3	1.9	2.7	2.8	2.9	3.0	.1	.1
1996 Q2		4.7		2.3		3.0		3.0		.0
Q4		4.6		2.3		2.8		3.0		.0
FOUR-QUARTER[4]										
1992 Q4[2]	6.4	6.4	3.7	3.7	3.2	3.2	3.1	3.1	.3	.3
1993 Q4[2]	5.0	5.0	3.1	3.1	2.8	2.8	2.7	2.7	-.8	-.8
1994 Q4	5.5	5.9	3.0	3.3	2.9	3.0	3.1	3.0	-.3	-.5
1995 Q4	4.4	4.4	2.1	1.8	2.9	3.0	3.0	3.2	.1	.3
1996 Q4		4.7		2.3		2.9		3.0		.0

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)

September 21, 1994

Item	Unit[1]	1988	1989	1990	1991	1992	1993	Projected 1994	Projected 1995	Projected 1996
EXPENDITURES										
Nominal GDP	Bill. $	4900.4	5250.8	5546.1	5724.8	6020.2	6343.3	6720.7	7047.4	7366.8
Real GDP	Bill. 87$	4718.6	4838.0	4897.3	4867.6	4979.3	5134.5	5327.3	5448.9	5565.3
Real GDP	% change	3.3	1.6	.2	.3	3.7	3.1	3.3	1.8	2.3
Gross domestic purchases		2.5	.9	-.4	-.1	4.1	3.9	3.6	1.9	2.2
Final sales		4.2	1.5	1.2	-.4	3.8	3.0	2.8	2.1	2.3
Private dom. final purch.		4.2	.5	-.1	-.8	5.1	5.0	4.0	2.5	2.6
Personal cons. expend.		4.2	1.2	.7	.0	4.2	3.0	2.9	2.0	2.1
Durables		8.5	-.5	.8	-1.3	9.6	9.0	4.9	2.8	3.1
Nondurables		3.2	1.2	-.1	1.6	3.2	1.3	2.8	1.5	1.4
Services		3.7	1.7	1.7	1.2	3.5	2.5	2.5	2.1	2.2
Business fixed invest.		5.5	-.4	.7	-6.2	6.7	16.0	9.9	6.3	4.9
Producers' dur. equip.		9.1	-1.7	2.9	3.2	11.0	21.3	11.8	6.4	5.2
Nonres. structures		1.2	2.3	-3.9	12.4	-3.4	1.6	3.9	6.0	3.9
Res. structures		.9	-7.7	-15.2	.7	17.0	8.1	3.0	-.8	3.1
Exports		13.5	11.3	6.7	8.1	5.0	5.8	6.8	7.7	9.1
Imports		3.6	2.6	.4	4.0	8.6	12.4	8.9	7.0	7.5
Government purchases		.2	2.0	3.3	-.8	.7	-1.0	.8	-.1	.5
Federal		-3.4	-.6	2.8	-3.2	.8	6.9	-5.6	-4.8	-3.3
Defense		3.2	-1.5	1.5	-7.0	1.3	-9.0	-6.8	-6.6	4.5
State and local		2.9	4.0	3.6	.8	.6	3.0	2.0	2.5	2.5
Change in bus. invent.	Bill. 87$	19.9	29.8	5.7	-1.1	2.5	15.3	41.3	29.2	23.7
Nonfarm		26.9	29.9	3.2	-1.3	-2.0	18.5	35.8	25.4	21.3
Net exports		-104.0	-73.7	-54.7	-19.5	-32.3	-73.9	-106.8	-105.2	-102.9
Nominal GDP	% change	7.7	6.0	4.7	3.5	6.4	5.0	5.9	4.4	4.7
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	105.2	107.9	109.4	108.3	108.6	110.5	113.3	115.2	116.6
Unemployment rate	%	5.5	5.3	5.5	6.7	7.4	6.8	6.2	6.2	6.3
Industrial prod. index	% change	3.2	-.1	.2	-.3	3.2	4.2	5.7	2.6	3.1
Capacity util. rate-mfg.	%	83.6	83.1	81.1	77.8	78.6	80.6	83.5	83.6	83.4
Housing starts	Millions	1.49	1.38	1.19	1.01	1.20	1.29	1.40	1.37	1.46
Light Motor Vehicle Sales		15.43	14.53	13.85	12.31	12.80	13.89	14.96	15.13	15.28
Auto sales in U.S.		10.63	9.91	9.50	8.39	8.35	8.72	9.22	9.16	9.20
North American prod.		7.54	7.08	6.90	6.14	6.26	6.75	7.27	7.59	7.64
Other		3.10	2.83	2.60	2.25	2.10	1.97	1.95	1.57	1.56
INCOME AND SAVING										
Nominal GNP	Bill. $	4908.2	5266.8	5567.8	5740.8	6025.8	6347.8	6715.8	7031.9	7345.6
Nominal GNP	% change	7.8	6.1	4.9	3.2	6.1	5.0	5.7	4.2	4.6
Nominal personal income		7.1	6.5	6.5	3.7	8.1	2.8	6.1	5.6	5.2
Real disposable income		3.2	1.1	1.1	.9	5.0	.5	3.0	2.3	2.3
Personal saving rate	%	4.4	4.0	4.2	5.0	5.5	4.1	3.8	4.0	4.4
Corp. profits, IVA&CCAdj	% change	10.2	-6.3	2.3	8.8	9.6	23.4	3.5	-2.4	5.6
Profit share of GNP	%	7.4	6.9	6.8	6.8	6.7	7.7	8.0	7.7	7.6
Federal surpl./def.	Bill. $	-136.6	-122.3	-163.5	-202.9	-282.7	-241.4	-158.8	-166.4	-191.0
State/local surpl./def.		38.4	44.8	25.1	17.0	24.8	26.3	28.2	36.1	47.0
Ex. social ins. funds		-18.4	-17.5	-35.6	-46.5	-41.6	-40.0	-37.4	-28.4	-17.1
PRICES AND COSTS										
GDP implicit deflator	% change	4.2	4.3	4.5	3.3	2.6	1.8	2.5	2.5	2.3
GDP fixed-wt. price index		4.2	4.4	4.6	3.6	3.2	2.8	3.0	3.0	2.9
Gross domestic purchases fixed-wt. price index		4.1	4.4	5.2	2.9	3.2	2.5	3.0	3.0	2.8
CPI		4.3	4.6	6.3	3.0	3.1	2.7	3.0	3.2	3.0
Ex. food and energy		4.5	4.4	5.3	4.4	3.5	3.1	3.1	3.3	3.1
ECI, hourly compensation[2]		4.8	4.8	4.6	4.4	3.5	3.6	3.4	3.6	3.5
Nonfarm business sector										
Output per hour		.5	-1.4	.4	2.3	3.2	1.9	.6	1.1	1.4
Compensation per hour		3.8	3.1	6.2	4.7	5.2	2.5	3.5	3.7	3.6
Unit labor cost		3.3	4.6	5.7	2.3	1.9	.6	3.0	2.6	2.2

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)

Item	Unit	1992 Q1	1992 Q2	1992 Q3	1992 Q4	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2
EXPENDITURES											
Nominal GDP	Bill $	5896.8	5971.3	6043.6	6169.3	6235.9	6299.9	6359.2	6478.1	6574.7	6685.5
Real GDP	Bill 87$	4918.5	4947.5	4990.5	5060.7	5075.3	5105.4	5139.4	5218.0	5261.1	5310.2
Real GDP	% change	3.1	2.4	3.5	5.7	1.2	2.4	2.7	6.3	3.3	3.8
Gross domestic purchases		3.2	3.7	3.9	5.7	2.7	3.3	4.0	5.8	5.0	4.4
Final sales		4.8	1.5	3.5	5.6	.2	2.4	3.2	6.4	2.2	1.4
Private dom. final purch.		5.7	4.2	3.9	6.7	3.5	3.7	5.3	7.4	5.8	2.8
Personal cons. expend.		5.8	1.7	3.9	5.6	1.6	2.6	3.9	4.0	4.7	1.4
Durables		15.5	.4	10.0	13.2	3.2	9.8	7.7	15.5	8.8	1.2
Nondurables		4.2	.7	2.7	6.9	1.6	1.6	2.8	2.4	3.8	2.1
Services		4.5	3.4	3.2	3.0	3.1	1.4	3.6	2.0	4.0	1.0
Business fixed invest.		-.1	15.0	5.0	7.5	15.1	15.6	12.2	21.1	10.9	9.2
Producers' dur. equip.		-1.3	22.7	11.0	12.9	20.0	21.6	16.2	27.5	18.6	6.5
Nonres. structures		2.9	1.6	8.9	-5.5	2.5	.3	.5	3.3	-11.8	19.6
Res. structures		22.4	22.7	.8	23.8	5.3	-7.6	9.4	28.2	10.0	7.3
Exports		6.1	1.5	5.3	7.2	-1.0	7.7	-3.2	21.7	-3.5	15.8
Imports		6.6	13.0	8.4	6.5	11.6	14.9	7.4	16.0	9.5	18.9
Government purchases		1.5	-3.0	3.4	.9	-5.9	1.2	1.1	-.1	-4.9	1.6
Federal		-1.3	4.8	8.6	1.1	15.4	-3.6	-3.0	-5.0	-10.3	-8.8
Defense		7.2	-5.1	11.5	-3.3	-20.0	-2.2	-9.2	-3.6	-16.0	-6.2
State and local		3.3	-1.8	.1	.8	.9	4.4	3.7	2.9	-1.4	2.9
Change in bus. invent.	Bill 87$	-6.3	4.2	5.2	6.6	18.5	18.9	13.0	10.8	25.4	56.3
Nonfarm		14.3	-1.9	1.8	6.3	19.7	22.8	20.9	10.7	22.1	51.8
Net exports		-17.9	34.1	38.9	38.5	57.6	-69.3	-86.3	-82.2	104.0	112.9
Nominal GDP	% change	7.1	5.2	4.9	8.6	4.4	4.2	3.8	7.7	6.1	6.9
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.1	108.4	108.7	109.1	109.7	110.3	110.8	111.4	112.0	113.0
Unemployment rate[1]	%	7.3	7.5	7.5	7.3	7.0	7.0	6.7	6.5	6.6	6.2
Industrial prod. index	% change	.3	5.6	.6	6.4	5.2	2.3	2.8	6.7	8.3	5.2
Capacity util. rate-mfg.[1]	%	77.9	78.7	78.5	79.4	80.1	80.3	80.3	81.5	82.5	83.3
Housing starts	Millions	1.24	1.15	1.19	1.24	1.15	1.24	1.31	1.48	1.37	1.44
Light Motor Vehicle Sales		12.46	12.81	12.71	13.22	13.23	14.11	13.69	14.53	15.45	14.75
Auto sales in U.S.		8.33	8.41	8.24	8.43	8.32	8.93	8.65	8.97	9.45	9.15
North American prod.		6.12	6.25	6.25	6.40	6.36	6.87	6.68	7.08	7.44	7.16
Other		2.21	2.16	1.99	2.03	1.96	2.07	1.97	1.89	2.00	1.99
INCOME AND SAVING											
Nominal GNP	Bill $	5907.7	5979.1	6049.4	6167.0	6243.9	6303.3	6367.8	6476.2	6574.0	6680.3
Nominal GNP	% change	6.8	4.9	4.8	8.0	5.1	3.9	4.2	7.0	6.2	6.6
Nominal personal income		8.2	5.6	3.7	15.3	-5.8	8.6	2.4	6.7	5.3	7.0
Real disposable income		5.9	2.1	1.7	10.6	-7.4	4.7	.8	4.3	3.4	2.7
Personal saving rate[1]	%	5.3	5.5	5.0	6.2	4.0	4.6	3.9	4.0	3.6	3.9
Corp. profits, IVA&CCAdj	% change	18.8	.5	-40.0	101.1	9.6	30.7	18.4	37.0	-17.9	34.5
Profit share of GNP[1]	%	7.0	6.9	6.0	7.0	7.1	7.5	7.7	8.2	7.7	8.2
Federal govt. surpl./def.	Bill $	-279.9	-284.8	-293.9	-272.1	-283.5	-237.0	-224.9	-220.1	-176.2	-145.0
State/local surpl./def.		19.9	25.9	20.4	33.1	21.6	25.3	23.9	34.5	25.2	25.7
Ex. social ins. funds		-45.7	-40.5	-46.3	-33.8	-44.7	-41.1	-42.4	-31.7	-40.7	-40.1
PRICES AND COSTS											
GDP implicit deflator	% change	3.8	2.7	1.4	2.7	3.2	1.7	1.1	1.3	2.7	3.0
GDP fixed-wt. price index		3.9	3.3	2.7	2.8	4.2	2.4	2.0	2.4	3.1	2.9
Gross domestic purchases fixed-wt. price index		3.6	3.4	3.2	2.5	3.3	2.6	1.6	2.4	2.5	3.3
CPI		2.6	3.5	2.9	3.5	2.8	3.1	2.0	3.1	1.9	2.8
Ex. food and energy		3.7	3.6	3.0	3.6	3.5	3.5	2.4	2.9	2.6	3.4
ECI, hourly compensation[2]		3.6	3.2	3.2	3.5	3.9	3.8	3.4	3.4	2.7	3.7
Nonfarm business sector											
Output per hour		4.2	1.9	2.8	3.9	-1.8	.5	4.1	4.9	2.9	-2.5
Compensation per hour		5.7	4.6	5.8	4.6	2.2	2.5	2.8	2.4	6.1	.8
Unit labor cost		1.4	2.6	3.0	.6	4.2	2.0	-1.2	-2.4	3.1	3.4

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

Strictly Confidential (FR) Class II FOMC

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

September 21 1994

Item	Units	1994 Q3	1994 Q4	Projected 1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4
EXPENDITURES											
Nominal GDP	Bill $	6764.4	6858.0	6940.7	7008.8	7082.1	7158.0	7242.6	7325.7	7407.9	7491.0
Real GDP	Bill 87$	5350.1	5387.7	5413.0	5435.2	5460.1	5487.2	5517.4	5549.4	5581.0	5613.5
Real GDP	% change	3.0	2.8	1.9	1.7	1.8	2.0	2.2	2.3	2.3	2.3
Gross domestic purchases		2.6	2.4	2.0	1.6	1.8	2.0	2.1	2.2	2.2	2.3
Final sales		3.8	3.7	2.1	2.0	2.1	2.3	2.2	2.4	2.3	2.4
Private dom final purch		3.5	3.7	2.7	2.4	2.5	2.6	2.5	2.6	2.6	2.6
Personal cons expend		2.8	2.9	2.5	1.8	1.9	1.9	2.0	2.1	2.1	2.1
Durables		5.1	4.8	3.8	2.3	2.6	2.7	2.8	3.1	3.2	3.2
Nondurables		2.8	2.6	2.1	1.2	1.4	1.4	1.4	1.4	1.4	1.4
Services		2.3	2.6	2.4	2.0	2.0	2.0	2.1	2.2	2.2	2.2
Business fixed invest		7.8	11.9	7.1	7.1	5.6	5.5	4.9	4.9	4.9	5.0
Producers' dur equip		8.5	14.0	7.5	7.2	5.4	5.4	5.1	5.2	5.2	5.3
Nonres structures		5.3	5.0	5.7	6.4	6.3	5.7	4.0	4.0	3.9	3.9
Res structures		2.3	-6.9	7.2	2.6	2.1	5.0	3.1	3.3	2.7	3.2
Exports		7.5	8.4	7.3	7.4	7.8	8.2	8.8	9.2	9.2	9.4
Imports		3.5	4.4	7.5	6.6	6.9	7.1	7.3	7.1	7.8	8.0
Government purchases		2.2	1.0	-.3	-.1	-.1	.2	.4	.3	.5	.9
Federal		-1.0	1.9	-5.2	4.8	-4.9	-4.2	3.6	3.9	-3.2	-2.3
Defense		-2.6	-1.6	-7.0	-6.8	-6.7	-5.7	-4.7	-5.3	-4.3	3.7
State and local		4.0	2.7	2.5	2.5	2.5	2.6	2.5	2.4	2.4	2.5
Change in bus invent	Bill 87$	47.1	36.4	34.5	30.4	27.6	24.3	24.1	23.8	23.6	23.4
Nonfarm		40.5	28.7	28.8	25.9	25.1	21.8	21.6	21.4	21.2	21.0
Net exports		-107.7	-102.7	-104.9	-105.2	-105.4	-105.4	104.6	-102.9	-102.3	-101.9
Nominal GDP	% change	4.8	5.6	4.9	4.0	4.3	4.4	4.8	4.7	4.6	4.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ	Millions	113.8	114.4	114.8	115.0	115.4	115.7	116.1	116.4	116.8	117.2
Unemployment rate[1]	%	6.1	6.0	6.1	6.2	6.2	6.3	6.3	6.3	6.3	6.3
Industrial prod index	% change	5.5	3.9	2.4	2.2	2.9	2.8	3.0	3.1	3.1	3.1
Capacity util rate-mfg[1]	%	84.0	84.3	84.0	83.6	83.5	83.5	83.4	83.4	83.4	83.4
Housing starts	Millions	1.41	1.36	1.34	1.34	1.38	1.40	1.43	1.44	1.47	1.48
Light Motor Vehicle Sales		14.57	15.08	15.09	15.10	15.14	15.18	15.22	15.26	15.30	15.34
Auto sales in U.S.		9.03	9.25	9.16	9.15	9.16	9.17	9.18	9.19	9.20	9.21
North American prod		7.05	7.42	7.56	7.58	7.60	7.61	7.62	7.63	7.64	7.65
Other		1.98	1.84	1.60	1.57	1.56	1.56	1.56	1.56	1.56	1.56
INCOME AND SAVING											
Nominal GNP	Bill $	6761.0	6847.8	6930.5	6991.5	7067.8	7137.9	7222.3	7302.7	7389.8	7467.6
Nominal GNP	% change	4.9	5.2	4.9	3.6	4.4	4.0	4.8	4.5	4.9	4.3
Nominal personal income		4.7	7.3	6.9	5.0	4.5	6.0	6.2	4.8	4.4	5.6
Real disposable income		2.0	4.0	2.9	1.0	2.2	3.1	3.8	.9	2.0	2.7
Personal saving rate[1]	%	3.7	3.9	4.0	3.8	3.9	4.2	4.6	4.3	4.3	4.4
Corp profits, IVA&CCAdj	% change	4.0	-.2	-3.8	-5.5	2.9	-2.9	4.6	5.8	9.1	3.1
Profit share of GNP[1]	%	8.2	8.1	7.9	7.7	7.7	7.6	7.6	7.6	7.6	7.6
Federal govt. surpl./def	Bill $	-144.2	-169.9	-167.0	-158.6	-158.4	181.7	-195.7	-181.5	-182.6	-204.4
State/local surpl./def		28.4	33.5	35.2	35.2	36.4	37.8	40.9	44.0	50.2	52.7
Ex social ins funds		-37.1	-31.7	-29.7	-29.4	-27.9	-26.4	23.2	-20.0	-13.8	-11.3
PRICES AND COSTS											
GDP implicit deflator	% change	1.7	2.7	3.0	2.3	2.4	2.3	2.5	2.3	2.2	2.2
GDP fixed-wt price index		2.6	3.2	3.5	2.8	2.8	2.8	3.2	2.8	2.8	2.8
Gross domestic purchases fixed-wt price index		3.0	3.1	3.6	2.8	2.8	2.8	3.1	2.8	2.7	2.7
CPI		3.8	3.3	3.7	3.2	3.1	3.0	3.0	3.0	3.0	3.0
Ex food and energy		3.0	3.6	3.5	3.2	3.2	3.2	3.2	3.2	3.1	3.1
ECI, hourly compensation[2]		4.5	2.7	3.6	3.6	4.2	3.1	3.6	3.6	3.5	3.5
Nonfarm business sector											
Output per hour		1.2	.7	1.0	1.2	1.0	1.1	1.3	1.4	1.3	1.4
Compensation per hour		3.7	3.7	3.9	3.6	3.6	3.6	3.9	3.6	3.5	3.5
Unit labor cost		2.5	3.0	2.9	2.4	2.6	2.5	2.6	2.1	2.1	2.0

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)

September 21, 1994

Item	1992 Q1	1992 Q2	1992 Q3	1992 Q4	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1991	1992	1993	Projected 1994
Real GDP	37.7	29.0	43.0	70.2	14.6	30.1	34.0	78.6	43.1	49.1	13.6	179.9	157.3	169.7
Gross domestic purchases	38.8	45.1	47.9	69.8	33.7	41.8	51.1	74.4	64.9	58.0	-6.4	201.6	201.0	190.2
Final sales	57.5	18.4	42.1	68.8	2.7	29.7	40.0	80.7	28.5	18.2	-20.7	186.8	153.1	144.1
Private dom. final purch.	55.1	41.7	39.1	66.3	35.9	38.6	54.5	76.9	61.9	30.7	-32.6	202.2	205.9	172.4
Personal cons. expend.	46.1	14.0	32.2	45.8	13.8	22.0	33.0	34.0	40.1	12.3	-.6	138.1	102.8	103.4
Durables	15.7	.4	10.7	14.3	3.7	11.2	9.0	18.1	10.9	1.6	-5.5	41.1	42.0	25.3
Nondurables	10.7	-1.8	7.1	17.8	4.2	4.3	7.4	6.3	10.3	5.6	-17.1	33.8	13.8	30.8
Services	19.7	15.3	14.4	13.7	14.4	6.4	16.6	9.6	18.9	5.0	22.1	63.1	47.0	47.3
Business fixed invest.	-.1	18.0	6.4	9.7	19.4	20.7	16.9	29.3	16.4	14.3	33.3	34.0	86.3	62.3
Producers' dur. equip.	-1.2	18.6	9.9	11.8	18.4	20.7	16.6	28.2	20.9	7.9	11.9	39.1	83.9	56.5
Nonres. structures	1.1	-.6	-3.5	-2.1	.9	.1	.2	1.2	4.6	6.6	-21.4	-5.1	2.4	5.8
Res. structures	9.2	9.8	.4	10.8	2.7	-4.1	4.7	13.5	5.4	4.1	1.2	30.2	16.8	6.7
Change in bus. invent.	-19.8	10.5	1.0	1.4	11.9	.4	-5.9	-2.2	14.6	30.9	34.4	-6.9	4.2	25.6
Nonfarm	-28.9	12.4	3.7	4.5	13.4	3.1	-1.9	-10.2	11.4	29.7	33.3	8.3	4.4	18.0
Farm	9.1	-1.8	-2.8	3.1	-1.5	-2.7	-4.0	8.0	3.2	1.3	1.0	1.4	.2	7.6
Net exports	-1.0	-16.2	-4.8	.4	19.1	11.7	17.0	4.1	-21.8	-8.9	19.9	21.6	-43.7	-20.5
Exports	8.4	2.1	7.4	10.2	1.5	11.0	-4.9	29.9	-5.6	23.1	42.2	28.1	34.5	42.5
Imports	9.4	18.3	12.3	9.9	17.5	22.8	12.0	25.8	16.2	32.0	22.2	49.9	78.1	63.0
Government purchases	3.4	-7.1	7.8	2.1	-14.1	2.8	2.5	-.3	11.6	-3.6	8.0	6.2	9.1	-7.9
Federal	-1.2	-4.6	7.7	1.0	-15.4	-3.3	-2.7	-4.5	-9.4	7.8	-12.4	2.9	25.9	19.6
Defense	-4.9	-3.4	7.1	-2.2	14.2	-1.4	-5.9	-2.2	10.2	-3.6	-19.9	-3.4	-23.7	-16.2
Nondefense	3.8	-1.2	.6	3.2	-1.3	1.8	3.2	-2.3	.8	4.2	7.4	6.4	2.2	-3.4
State and local	4.5	-2.5	.1	1.1	1.3	6.1	5.2	4.2	-2.1	4.1	4.6	3.2	16.8	11.7

1. Annual changes are from Q4 to Q4

Strictly Confidential (FR)
Class II FOMC

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

September 21 1994

Item	1994		Projected									Projected		
			1995				1996							
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1993	1994	1995	1996
Real GDP	39.9	37.6	25.3	22.2	24.9	27.1	30.2	32.1	31.6	32.4	157.3	169.7	99.5	126.3
Gross domestic purchases	34.7	32.6	27.5	22.5	25.1	27.1	29.4	30.3	31.0	32.0	201.0	190.2	102.2	122.8
Final sales	49.1	48.3	27.2	26.3	27.7	30.3	30.4	32.4	31.8	32.7	153.1	144.1	111.6	127.3
Private dom. final purch.	38.9	41.0	30.1	26.9	28.2	29.9	28.7	30.0	30.0	30.3	205.9	172.4	115.1	119.0
Personal cons. expend	25.0	26.0	22.5	16.3	17.2	17.5	18.1	19.2	19.4	19.2	102.8	103.4	73.5	75.9
Durables	6.6	6.2	5.0	3.1	3.5	3.7	3.8	4.3	4.4	4.4	42.0	25.3	15.3	16.9
Nondurables	7.7	7.3	5.8	3.5	3.9	3.9	4.0	4.0	4.0	3.9	13.8	30.8	17.2	15.8
Services	10.8	12.6	11.6	9.8	9.8	9.9	10.4	10.9	11.0	10.9	47.0	47.3	41.0	43.2
Business fixed invest	12.5	19.1	12.0	12.1	9.8	9.7	8.8	8.9	9.1	9.3	86.3	62.3	43.5	36.1
Producers' dur. equip.	10.5	17.2	9.8	9.6	7.3	7.4	7.2	7.3	7.5	7.6	83.9	56.5	34.2	29.6
Nonres. structures	2.0	1.9	2.2	2.5	2.4	2.2	1.6	1.6	1.6	1.6	2.4	5.8	9.3	6.5
Res. structures	1.4	-4.1	-4.3	-1.5	1.2	2.8	1.8	1.9	1.6	1.8	16.8	6.7	-1.8	7.0
Change in bus. invent.	-9.2	-10.7	-1.9	-4.1	-2.8	-3.3	-.2	-.3	.2	-.2	4.2	25.6	-12.1	1.0
Nonfarm	-11.3	-11.8	.1	-2.9	.8	-3.3	-.2	-.2	-.2	.2	4.4	18.0	-6.9	.9
Farm	2.0	1.1	-2.0	-1.2	-2.0	.0	.0	-.1	.0	.0	.2	7.6	-5.2	.1
Net exports	5.2	5.0	-2.2	-.3	-.2	.0	.8	1.8	.5	.4	-43.7	20.5	-2.8	3.5
Exports	11.7	13.3	11.8	12.3	13.1	14.0	15.4	16.3	16.7	17.4	34.5	42.5	51.2	65.7
Imports	6.5	8.3	14.0	12.6	13.4	14.0	14.6	14.5	16.1	17.0	78.1	63.0	54.0	62.2
Government purchases	5.0	2.3	-.7	-.3	-.3	.5	.9	.6	1.2	2.0	-9.1	-7.9	.8	4.7
Federal	-.8	-1.6	-4.4	-4.0	-4.0	-3.4	-2.9	-3.1	-2.5	-1.8	-25.9	19.6	15.8	10.3
Defense	-1.5	-.9	-4.0	-3.8	3.7	3.1	-2.5	-2.8	2.2	-1.9	-23.7	16.2	14.6	-9.4
Nondefense	.7	-.7	-.4	.2	-.3	-.3	.4	-.3	.3	.1	-2.2	-3.4	1.2	.9
State and local	5.8	3.9	3.7	3.7	3.7	3.9	3.8	3.7	3.7	3.8	16.8	11.7	15.0	15.0

1 Annual changes are from Q4 to Q4

Strictly Confidential (FR)
Class II FOMC

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

September 21, 1994

Item	Fiscal year				1994				1995				1996			
	1993[a]	1994	1995	1996	Q1[a]	Q2[a]	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1153	1261	1338	1405	289	363	322	303	294	410	332	316	303	436	350	321
Outlays[1]	1408	1460	1527	1608	348	362	371	379	390	375	383	401	406	402	400	424
Surplus/deficit[1]	-255	-199	-188	-203	-59	1	-49	-76	-97	35	-51	-85	-102	34	-50	-103
On-budget	-301	-239	-250	-262	-66	-15	-52	-83	-105	-4	-57	-90	-110	-4	-57	-104
Off-budget	46	39	62	59	8	16	3	7	9	39	7	5	8	38	7	2
Surplus excluding deposit insurance[2]	-283	-205	-205	-215	-65	4	-51	-79	-102	32	-57	-87	-107	33	-54	-102
Means of financing																
Borrowing	249	179	216	213	51	8	31	82	71	17	46	69	85	13	45	73
Cash decrease	6	14	-21	0	5	-6	12	-5	29	-45	0	25	20	-45	0	25
Other[3]	0	7	-7	-9	2	-2	6	-1	-4	-7	5	-9	-3	-3	5	5
Cash operating balance, end of period	53	39	60	60	45	51	39	44	15	60	60	35	15	60	60	35
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1242	1356	1442	1507	1338	1381	1391	1410	1435	1458	1465	1479	1493	1524	1533	1551
Expenditures	1497	1527	1606	1693	1514	1526	1535	1580	1602	1617	1624	1661	1689	1705	1716	1755
Purchases	447	436	433	427	438	435	432	434	436	432	429	426	429	427	425	425
Defense	307	293	288	280	292	291	290	290	290	287	284	281	282	279	278	277
Nondefense	140	143	145	147	146	144	142	144	146	145	145	145	147	147	147	148
Other expenditures	1049	1091	1173	1266	1076	1091	1103	1146	1166	1185	1195	1235	1260	1279	1290	1331
Surplus/deficit	-254	-171	-164	-186	-176	-145	-144	-170	-167	-159	-159	-182	-196	-182	-183	-205
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-210	-159	-165	-177	-158	-140	-145	-174	-171	-158	-155	-176	-186	-172	-173	-194
Change in HEB, percent of potential GDP	-.1	-.8	.1	.2	-.6	-.3	.1	.4	-.1	-.2	0	.3	.1	-.2	0	.3
Fiscal impetus (FI), percent, cal. year	-4.1	-8.2	-5.5	-4.9	-4.2	-4.6	.5	-.5	-2.3	-2	-.5	-.8	-2.3	-1.7	.1	-.4

1. Excluding health reform, OMB's July 1994 deficit estimates are $220 billion in FY94, $167 billion in FY95, and $179 billion in FY96. CBO's August 1994 deficit estimates of the budget are $202 billion in FY94, $162 billion in FY95, and $176 billion in FY96. 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 July 1994 deficit estimates, excluding deposit insurance spending, are $224 billion in FY94, $185 billion in FY95, and $187 billion in FY96 CBO's August 1994 deficit estimates, excluding deposit insurance spending, are $207 billion in FY94, $180 billion in FY95, and $188 billion in FY96.

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 2.3 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

Interest rates have moved up across the maturity spectrum during the intermeeting period. Although the policy action taken at the August FOMC meeting was larger than expected, the press release was viewed as suggesting that policy was on hold for a while, and longer-term yields fell even as rates on very short maturities were rising. Later in the period, however, intermediate and long rates rose in light of data hinting at inflation pressures. Major stock price indexes rose 1 to 5 percent during the period, reaching their highest levels in seven months early this week, before backing off.

The monetary aggregates weakened in August and are flat so far in September; both M2 and M3 remain in the lower portions of their annual ranges. M2 declined at a 2 percent annual rate in August, after gaining in July on the strength of a transitory increase in transaction accounts. Outside of M1, savings deposits declined appreciably as rates on these instruments lagged further behind changes in market rates. Investors substituting out of M2 assets because of low yields apparently shied away from bond mutual funds in favor of direct bond holdings, judging from the recent strength in noncompetitive tenders at Treasury auctions. M3 declined at a 2 percent rate in August.

Bank credit grew at a 5 percent pace last month, down considerably from July, to a rate close to the second quarter average. While security holdings contracted in August, growth in most lending categories remained substantial. Consumer loan growth in particular was strong. Surveys suggest that the expansion was boosted in recent months by both increased consumer demand and banks' greater willingness to make loans. Real estate loan growth at banks was spurred by a gradual return to commercial mortgage lending, by the acquisition of thrift assets, and by the increased prevalence of adjustable-rate home mortgages, which banks are more likely to hold in portfolio. Business lending by banks slowed somewhat in August but remained vigorous at a 10 percent rate. Banks have been offering more attractive terms on their business loans in recent months, making it more inviting for firms to borrow from banks than to tap the capital markets.

Overall net borrowing by nonfinancial businesses appears to have remained moderate in the third quarter. While bank lending and commercial paper issuance has been brisk, public bond issuance has been sluggish, especially in the below-investment-grade sector. Net equity issuance has been negative of late. Mergers and acquisitions continue at a rate well above that of recent years, some of them involving purchases of shares with cash rather than exchanges of stock; share retirements also have been increased by the proliferation of sizable repurchase programs this year.

In the household sector, total consumer credit growth slowed in July, and bank lending to consumers moderated in August. Nonetheless, consumer borrowing remains at or near a double-digit pace, pushed by both auto lending and revolving credit. Transactions use of credit cards continues to grow in response to the widening range of businesses accepting credit cards and the spread of rebates and other incentives. The gaps between interest rates on consumer loans and those on Treasuries of comparable maturity widened slightly over the summer, halting the downtrend of the previous several quarters. Home mortgage lending appears to be slowing in response to a softening in home sales and a dearth of refinancings (which often involve the cashing out of some equity). Adjustable-rate mortgages continue to be relatively popular, supported by aggressive pricing and by expansion of secondary market programs. Credit quality in the household sector remained high in the second quarter. Delinquencies on consumer loans edged down and are near historic lows; mortgage delinquencies, while up slightly in the second quarter, are also quite low.

Gross issuance of long-term municipal securities has remained sluggish. For the first eight months of this year, long-term issuance was down more than 40 percent from the same period in 1993. Combined with this year's heavy retirements, the limited issuance suggests that the outstanding volume of long-term tax-exempts, and total state and local government debt, may have declined thus far in 1994--the most prolonged decline in more than forty years. The reduced supply has helped to drive down the ratio of yields on tax exempts to those on Treasury securities. Although the credit ratings of a few smaller jurisdictions have been damaged by ill-fated investments in derivative securities, two states were upgraded owing to improvements in their economies and budget positions.

Treasury borrowing slowed slightly on a seasonally adjusted basis in the third quarter. In recent weeks, bill auctions were scaled back as the Treasury drew down its surplus cash in anticipation of large inflows on the September 15 tax date. The paring of the bill auctions surprised the market somewhat, in light of the Treasury's announced intention to shorten the maturity of the public debt. However, the Treasury has been reducing average maturities primarily by relying more heavily on one- and two-year securities as opposed to longer-term issues.

Outlook

The staff economic forecast is predicated on the assumption that short-term interest rates will increase further over the next couple of quarters as the System takes additional steps to restrain inflation. Futures rates suggest that the market shares this expectation, and this should mute the effect of the rise in short rates on longer-term yields. As the rise in short rates terminates in an environment of more subdued expansion of aggregate demand, both real long rates and inflation premiums are expected to diminish, producing a more moderately sloped yield curve. Meanwhile, credit supply conditions--particularly at banks--probably will tend to stabilize rather than to continue the decided swing toward ease witnessed over the past year or so.

Debt of the domestic nonfinancial sectors is projected to grow at about a rate of 5 percent during 1995, up a bit from this year. The pickup in the federal sector reflects in part a slightly larger calendar-year deficit. Federal borrowing is expected to be unusually heavy in the first quarter of next year owing in part to a loss in revenues resulting from this year's expansion of the earned income tax credit. Total nonfederal borrowing in 1995 is expected to be little changed from 1994.

In the near term, household borrowing probably will continue to be spurred by hefty consumer credit growth. In addition to the broadening use of credit cards, auto sales are expected to boost financing demands. Although consumer credit demands will remain significant next year, some moderation in net growth is likely as new extensions of credit increase less rapidly than do repayments of existing loans. Growth in home mortgage loans should generally track the path of housing activity and continue at a rate close to the average of the past two years. The debt-to-income ratio and debt servicing burden of the household sector are anticipated to rise a bit further in coming quarters; sustained employment growth should prevent a serious deterioration in credit quality, but some increase in delinquency rates is a distinct possibility.

Total business borrowing next year is projected to remain near its recent moderate pace. While continuing to rely on short-term funding, businesses are expected to return to the bond market next year as long-term rates move back down. Much of the borrowing will be needed to finance a growing gap between corporate capital expenditures and internally generated funds. An additional boost will come from the anticipated continuation of mergers and acquisitions; equity retirements resulting from this restructuring likely will more than offset new issuance throughout the projection period.

In the state and local sector, borrowing is expected to remain subdued next year with retirements of existing debt continuing near their recent high level. But net funds raised in tax-exempt markets likely will turn positive, following this year's apparent runoff, as new issuance picks up in response to the anticipated decline in long-term rates.

Confidential FR Class II
September 21, 1994

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

			Nonfederal						MEMO	
				Households						
	Total[2]	Federal govt.	Total	Total	Home mtg.	Cons. credit	Business	State and local govt.	Private financial assets	Nominal GDP
Year										
1981	9.8	11.6	9.3	7.5	7.0	4.8	11.9	5.2	10.4	9.3
1982	9.8	19.7	7.4	5.5	4.7	4.4	8.8	9.3	10.1	3.2
1983	11.9	18.9	10.1	11.8	10.8	12.6	8.7	9.7	12.5	11.0
1984	14.6	16.9	13.9	13.0	11.7	18.7	15.6	9.1	12.8	9.1
1985	15.5	16.5	15.2	15.3	13.2	15.8	12.1	31.6	12.4	7.0
1986	12.3	13.6	11.9	12.0	14.3	9.6	12.2	9.8	7.3	4.7
1987	9.4	8.0	9.8	11.4	14.9	5.0	7.9	12.1	8.1	8.0
1988	8.9	8.0	9.2	10.5	12.7	7.2	8.7	6.0	8.6	7.7
1989	7.8	7.0	8.1	9.2	10.8	6.2	6.9	9.3	5.8	6.0
1990	6.3	11.0	5.0	6.5	7.9	2.0	3.4	5.7	4.7	4.7
1991	4.4	11.1	2.4	4.7	6.5	-1.8	-1.0	7.4	-1.0	3.5
1992	4.8	10.9	2.8	5.8	6.7	0.7	-0.1	1.8	0.7	6.4
1993	5.4	8.3	4.3	7.3	6.4	8.0	0.6	6.4	-0.7	5.0
1994	4.9	5.2	4.7	7.0	5.6	11.2	4.1	-2.8	4.4	5.9
1995	5.2	5.8	5.0	6.3	6.0	8.6	4.1	2.2	1.0	4.4
Quarter (seasonally adjusted annual rates)										
1993:1	4.2	7.8	2.9	4.4	4.2	2.7	-0.3	8.7	-3.1	4.4
2	6.4	10.7	4.8	6.8	6.7	6.0	1.0	11.3	1.4	4.2
3	5.0	5.4	4.9	9.1	8.1	9.3	0.3	4.5	-2.3	3.8
4	5.5	8.4	4.5	8.3	6.2	13.2	1.2	0.6	1.4	7.7
1994:1	5.3	6.3	5.0	7.3	6.2	8.6	3.9	-1.1	9.2	6.1
2	3.9	3.6	4.0	6.2	3.6	13.4	4.0	-5.5	4.5	6.9
3	4.3	3.2	4.7	6.9	6.2	10.9	4.0	-2.8	1.9	4.8
4	5.5	7.1	4.9	6.9	6.0	10.1	4.1	-1.8	1.7	5.6
1995:1	5.9	8.4	5.0	6.2	5.8	9.3	4.4	2.3	1.5	4.9
2	4.8	4.5	4.9	6.1	5.8	8.6	4.1	2.5	0.6	4.0
3	4.8	4.6	4.9	6.2	5.9	7.9	3.9	2.0	0.7	4.3
4	4.9	5.3	4.8	6.1	6.1	7.3	3.9	2.0	1.0	4.4

1. Data after 1994:2 are staff projections. Year-to-year changes in nominal GDP are measured from the fourth quarter of the preceding year to the fourth quarter of the year indicated; other changes are measured from end of preceding period to end of period indicated.
2. On a quarterly average basis, total debt growth was 5.2 percent in 1993, and it is projected to be 4.9 in 1994 and 5.3 in 1995.

2.6.3 FOF

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

		Calendar year			1994				1995			
		1993	1994	1995	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Seasonally Adjusted Annual Rates							
	Net funds raised by domestic nonfinancial sectors											
1	Total	651.4	577.4	662.2	657.2	501.7	503.3	647.4	746.8	619.7	627.6	654.7
2	Net equity issuance	20.9	-21.9	-11.8	-2.8	10.4	-42.0	-53.0	-23.0	-8.0	-8.0	-8.0
3	Net debt issuance	630.5	599.2	673.9	660.0	491.3	545.3	700.4	769.8	627.7	635.6	662.7
	Borrowing sectors											
	Nonfinancial business											
4	Financing gap[2]	28.8	63.5	100.8	22.1	71.9	78.0	82.0	92.0	101.3	102.3	107.6
5	Net equity issuance	20.9	-21.9	-11.8	-2.8	10.4	-42.0	-53.0	-23.0	-8.0	-8.0	-8.0
6	Credit market borrowing	21.1	152.8	160.2	145.1	152.5	154.0	159.5	169.4	159.4	155.5	156.6
	Households											
7	Net borrowing, of which:	293.8	301.7	289.2	315.7	269.7	308.7	312.8	284.0	284.3	294.7	293.6
8	Home mortgages	179.7	166.9	188.4	182.8	109.7	190.0	185.0	181.1	183.1	191.1	198.2
9	Consumer credit	64.4	97.0	82.5	74.4	118.7	100.0	95.0	90.0	85.0	80.0	75.0
10	Debt/DPI (percent)[3]	88.5	90.0	90.7	90.5	90.6	90.9	90.9	90.9	91.4	91.6	91.7
	State and local governments											
11	Net borrowing	59.5	-27.4	21.5	-11.3	-53.8	-27.2	-17.2	22.3	24.3	19.8	19.8
12	Current surplus[4]	-45.5	-31.0	-22.9	-29.1	-37.6	-31.0	-26.0	-23.1	-23.6	-22.9	-22.0
	U.S.government											
13	Net borrowing	256.1	172.1	203.0	210.5	122.9	109.8	245.3	294.0	159.6	165.6	192.7
14	Net borrowing;quarterly, nsa	256.1	172.1	203.0	51.2	7.7	30.9	82.2	71.2	17.1	45.7	69.1
15	Unified deficit;quarterly, nsa	226.3	183.8	197.5	58.6	-0.3	49.3	76.0	96.5	-35.0	50.8	85.2
	Funds supplied by											
16	depository institutions	140.4	204.6	187.9	203.4	155.0	239.0	220.9	196.7	186.3	188.9	179.6
	MEMO: (percent of GDP)											
17	Dom. nonfinancial debt[3]	189.7	188.2	188.6	190.4	189.1	188.9	188.8	189.4	189.8	190.0	190.3
18	Dom. nonfinancial borrowing	9.9	8.9	9.6	10.0	7.3	8.1	10.2	11.1	9.0	9.0	9.3
19	U.S. government[5]	4.0	2.6	2.9	3.2	1.8	1.6	3.6	4.2	2.3	2.3	2.7
20	Private	5.9	6.4	6.7	6.8	5.5	6.4	6.6	6.9	6.7	6.6	6.6

1. Data after 1994:2 are staff projections.
2. For corporations: Excess of capital expenditures over U.S. internal funds.
3. Annuals are average debt levels in the year (computed as the average of year-end debt positions) divided by nominal GDP.
4. NIPA surplus, net of retirement funds.
5. Excludes government-insured mortgage pool securities.

Recent Developments

Since the August FOMC meeting, the weighted-average foreign exchange value of the dollar in terms of the other G-10 currencies has declined 1-1/2 percent on balance. The dollar firmed after the Federal Reserve's action on August 16, but subsequently eased back in response to economic data that increased concerns about prospective U.S. inflation. Over the intermeeting period, the dollar was unchanged on balance in terms of the mark but declined about 2-1/2 percent in terms of the yen. It also declined 2-1/2 percent against the Canadian dollar as the election results in Quebec reassured markets that secession by that province was not likely. The dollar declined 2-1/2 percent against the British pound, in part following the surprise move by the Bank of England on September 12 to raise its minimum lending rate 1/2 percentage point.

Long-term interest rates in most large European countries rose about 40 basis points over the intermeeting period. U.S. long-term rates rose about 35 basis points. Changes in three-month market interest rates in Europe were mixed: German rates were up about 10 basis points; U.K. rates rose about 40 basis points; Italian rates fell more than 100, reversing much of the increase that occurred in August after the Bank of Italy had hiked its official lending rate. Short-term rates in the United States were up 20 basis points, while Japanese short- and long-term rates were little changed.

. The Desk did not intervene.

Economic activity in each of the foreign G-7 industrial countries except Japan expanded strongly in the second quarter;

available indicators suggest that strong growth on average has continued in the current quarter. German real GDP grew an estimated 5 percent, annual rate, during the second quarter. In western Germany, real GDP expanded 4 percent at an annual rate, with inventory accumulation particularly strong. In July, industrial production and orders rose further in western Germany, although retail sales again declined. Second-quarter GDP also grew 4 percent, annual rate, in France and in the United Kingdom. U.K. manufacturing production expanded further in July. Canadian second-quarter growth was extremely rapid, 6.4 percent at an annual rate, as machinery and equipment spending boomed and construction rebounded from a weak first quarter. In Japan, real GDP fell 1.6 percent, annual rate, in the second quarter after rising strongly in the first quarter. Industrial production and housing starts edged down in July after rising moderately in the second quarter. Machinery orders rose strongly in June and July after falling sharply on average in the second quarter.

Consumer price inflation remains low in the major foreign industrial countries, but input prices and producer prices have risen somewhat in several countries. In part, the input price increases reflect the extremely rapid increase in global commodity prices that has been occurring since early this year.

In the second quarter, the U.S. nominal trade deficit for goods and services exceeded that for the first quarter and was significantly larger than at any other time since 1988. Exports of goods and services rose 4 percent from the first quarter, with the sharpest rises recorded for machinery, industrial supplies, and travel and transportation receipts from foreigners. Imports were up 5 percent, with the increase about evenly spread over most categories of non-oil merchandise. Oil imports rose sharply. In

July, the nominal trade deficit widened further as exports fell and imports increased. Part of the decline in exports is likely to be transitory; lower aircraft exports and automotive exports to Canada are expected to be reversed in subsequent months. The U.S current account deficit was about $148 billion, annual rate, in the second quarter, nearly $19 billion larger than in the first quarter. An increase in net service receipts was more than offset by an increase in the deficit on merchandise trade. Net investment income declined further as well.

Prices of U.S. non-oil imports and nonagricultural exports rose moderately in July, continuing trends begun earlier in the year. Prices of agricultural exports declined in July, after falling sharply in the second quarter. The price of imported oil rose $1.00 per barrel in both June and July. OPEC production remained roughly unchanged in the face of increasing global oil demand and the onset of the Nigerian oil workers' strike. The price of imported oil likely remained above $16 per barrel in August. After peaking at $20.55 on August 1, the closing spot oil price (West Texas Intermediate (WTI)) fell as low as $16.70 per barrel, the lowest level since April, as concern over disruption of Nigerian production abated, and the unions suspended their strike. On September 21, spot WTI is trading at $17.17 per barrel.

Outlook

The staff projects that real GDP in foreign industrial and developing countries will continue to expand at roughly the same rate that we have seen over the first half of 1994. Total foreign GDP is expected to increase 3-1/2 percent, annual rate, over the second half of 1994 and 3-3/4 percent in 1995, slightly faster than projected in the previous Greenbook. In 1996, we project that real GDP growth will continue near the 1995 rate. We project that the dollar will remain on average at about its recent level. With U.S. real GDP growth projected to slow from its pace during the first half of the year, real exports of goods and services should grow somewhat faster than real imports. With imports currently exceeding exports, the projected growth rates imply that real net exports of goods and services will be little changed at the end of the forecast period from the 1994 second-quarter rate. As a consequence, real net exports will have a negligible arithmetic influence on real GDP growth through the end of the forecast period, in contrast to the sizeable negative impact real net exports have exerted over the past 2-1/2 years.

The dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies will move up, in association with the assumed rise in U.S. interest rates, to the path projected in the August Greenbook. Our projection is that the CPI-adjusted value of the dollar in terms of the currencies of key developing countries will show a moderate depreciation on average through the end of the forecast period, little changed from the August Greenbook.

Foreign G-7 countries. Real GDP growth in the foreign G-7 countries (weighted by U.S. exports) is projected to average 3 percent during the second half of 1994 and then to rise to 3-1/4 percent in 1995 and 1996. For all these countries except Japan, the level of GDP has been revised up in response to the strong figures for the second quarter.

In Germany, recovery has become established; real output growth is expected to average about 3 percent, annual rate, through the end of 1995, led by strong domestic fixed investment and continued growth of exports. In the United Kingdom, output growth is expected to average 3-1/4 percent through 1995 as domestic demand remains strong. Output growth in Canada is projected to slow a bit from the extremely rapid pace of the second quarter but still to average more than 3-1/2 percent, at an annual rate, through the end of 1995. In contrast, the strength of the recovery of real GDP growth in Japan is still uncertain. We expect growth to resume over the forecast period, rising to 2-3/4 percent in 1995.

Consumer price inflation in the foreign G-7 countries is again projected to remain quite low over the forecast period. With the pace of activity abroad a bit stronger than indicated in the August Greenbook, the inflation forecast for several countries has been raised very slightly. For the foreign G-7 (weighted by U.S. imports), inflation is expected to average about 1 percent this year, reduced by the influence of special factors, and to remain below 2 percent in 1995.

The staff forecast incorporates the assumption that foreign short-term interest rates on average have reached their trough; short-term rates are expected to move up over the forecast period about 50 basis points as economic activity abroad continues to expand. This assumed path for short-term interest rates is somewhat above that in the August Greenbook.

Foreign long-term rates, on average, are expected to decline somewhat by the end of the year, particularly in those countries where political factors have been boosting rates, and subsequently to change little over the rest of the forecast period.

Other countries. The real GDP of developing countries that are major U.S. trading partners (weighted by bilateral nonagricultural export shares) is forecast to increase about 5-1/2 percent, annual rate, throughout the forecast period. Asian growth is expected to be particularly robust, with real GDP expected to increase 7-1/2 percent in 1994 and 7 percent per year in 1995. The growth forecast for Asia has been revised upward 1/2 percentage point in 1994, reflecting stronger-than-expected growth in the first half of the year in the Asian NIEs and stronger expected external demand because of recent improvements in foreign G-7 growth. The forecast decline in Asian growth in 1995 mainly reflects an anticipated slowdown in growth in China, as the authorities make a more serious effort to control inflation, and a return of the NIEs to more sustainable growth rates.

The growth forecast for Latin America has been revised upward slightly in 1994 and 1995, mainly reflecting improved prospects for Mexico. The Mexican revision reflects stronger-than-expected growth during the first half of the year and the emergence of a more stable political situation, which has allowed a partial reversal of the upswing in interest rates that had occurred earlier this year.

U.S. real net exports. Real net exports of goods and services are expected to be little changed at the end of 1996 from the rate recorded for the second quarter of 1994.

The projected growth of real merchandise exports will be boosted by the strong pace of foreign output growth and the decline in the dollar since the beginning of the year. Growth of computer exports (in constant dollars) is expected to pick up from its pace in the first half of this year and to continue at a rapid rate through the end of the forecast period. Growth of other nonagricultural exports is projected to average about 5 percent, annual rate, through the end of 1995 and to strengthen a bit further in 1996. Agricultural exports are projected to rebound at the end of the year in line with the improved harvest and to expand slowly over the remainder of the forecast period.

Growth of non-oil imports other than computers is expected to slow significantly to an average of less than 4 percent through the end of 1995 and to strengthen some in 1996. This deceleration reflects the projected slower U.S. GDP growth, the lower dollar, and the unwinding of a number of special factors that boosted imports in the second quarter. We expect that the quantity of oil imports will fall in the current quarter from the recent record highs. We anticipate a more rapid decline in the fourth quarter as increased winter consumption is met by slightly higher domestic production and stock drawdowns. In 1995, imports should remain on an upward trend as U.S. oil consumption continues to increase in line with economic activity.

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

	1993	1994			1995	1996
			---------Projection---------			
		H1	Q3	Q4		
Merchandise exports						
Total	6.1	6.7	8.1	9.4	8.5	10.3
Agricultural	-5.3	-8.0	2.5	15.8	1.3	1.5
Computers	23.1	14.8	21.7	21.6	28.7	28.7
Other nonag.	4.5	6.6	5.9	6.2	4.6	5.9
Merchandise imports						
Total	13.1	16.5	4.3	4.8	7.7	8.3
Oil	10.0	8.1	-5.0	-16.8	9.2	1.3
Computers	38.3	27.9	12.1	21.5	24.3	22.5
Other non-oil	9.3	15.2	3.8	4.2	3.6	5.1

* NIPA basis, 1987 dollars.

Oil prices. During August and September, oil prices on balance fell from the levels anticipated at the time of the August Greenbook as the market disruptions abated. Accordingly, the third and fourth quarter assumptions for the oil import unit value have been revised down by 75 cents to $1. We expect the near term spot WTI to average $17.25 per barrel, returning to $18.50 per barrel in the first quarter of 1995, consistent with global economic expansion, the onset of winter and little change in OPEC production through early

1995. By the second quarter 1995, the oil import unit value will have returned to our long-run view of $16.00 per barrel.

Over the longer term, increasing world economic activity should continue to raise world oil consumption. We continue to assume no significant Iraqi exports during 1995; therefore, higher consumption should be offset by an increase in production by Saudi Arabia or a combination of other OPEC producers with excess capacity. Assuming a return of Iraq to the world oil market in 1996, we anticipate a downward adjustment in Saudi Arabian production in that year. Accordingly, beyond the first quarter 1995, we assume WTI and the oil import price will remain at $18.50 and $16.00 per barrel, respectively.

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

			---------Projection---------			
	1993		1994		1995	1996
		H1	Q3	Q4		
PPI (export. wts.)	0.9	2.8	5.8	3.6	2.9	2.3
Nonag. exports*	0.7	3.2	4.0	2.6	2.4	1.8
Non-oil imports*	1.3	2.1	6.2	4.1	2.4	1.6
Oil imports (Q4 level, $/bl.)	14.09	14.66	16.02	15.04	16.00	16.00

* Excluding computers.

Prices of non-oil imports and exports. The prices of non-oil imports excluding computers are expected to accelerate markedly during the second half of this year in response to the recent substantial rise of non-oil commodity prices and the lagged effect of the decline in the dollar since early this year. Next year, the increase in these prices will fall back to about 2-1/2 percent as the effects of these factors wane. 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 trade deficit on goods and services is projected to change little on balance through the end of 1995 as the widening of the deficit on merchandise trade is offset by an increase in net service receipts. The deficit on net investment income is projected to widen, reflecting higher interest rates and rising net indebtedness. We expect that, as a result of these developments, the current account deficit will average about $165 billion in 1995, 2.3 percent of GDP. The current account deficit is projected to remain essentially unchanged in 1996.

September 21, 1994

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REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1992-96
(Percent change from fourth quarter to fourth quarter)

			Projection		
Measure and country	1992	1993	1994	1995	1996
REAL GDP					
Canada	0.5	3.2	4.5	3.6	3.5
France	0.6	-0.5	3.0	2.9	3.1
Germany	1.0	0.0	3.0	3.1	3.6
W. Germany	0.3	-0.5	2.5	2.8	2.9
Italy	-0.6	0.3	2.0	2.5	2.8
Japan	-0.3	-0.1	1.5	2.8	3.3
United Kingdom	0.3	2.6	3.6	3.1	2.7
Average, weighted by 1987-89 GDP	0.1	0.6	2.6	2.9	3.2
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	1.6	2.8	3.8	3.7	3.8
Foreign G-7	0.3	1.8	3.4	3.2	3.3
Developing countries	3.9	4.7	5.2	5.0	5.2
CONSUMER PRICES					
Canada	1.8	1.8	-0.2	1.9	2.1
France	1.8	2.1	1.7	1.5	1.5
Western Germany	3.7	3.7	2.8	2.1	2.2
Italy	4.8	4.1	3.5	3.7	3.6
Japan	0.9	1.2	0.7	1.1	0.8
United Kingdom	3.1	1.6	3.0	3.8	3.9
Average, weighted by 1987-89 GDP	2.4	2.2	1.8	2.1	2.1
Average, weighted by share of U.S. non-oil imports	1.9	1.9	1.0	1.8	1.8

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

(Billions of dollars, seasonally adjusted annual rates)

	1992				1993				1994		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1991	1992	1993
NIPA Real Net Exports of Goods & Services (87$)	-17.9	-34.1	-38.9	-38.5	-57.6	-69.3	-86.3	-82.2	-104.0	-112.9	-19.5	-32.3	-73.9
Exports of G&S	571.0	573.1	580.5	590.7	589.2	600.2	595.3	625.2	619.6	642.7	542.6	578.8	602.5
Goods	416.0	421.5	427.4	441.1	433.9	443.3	438.5	468.1	464.4	483.5	397.1	426.5	445.9
Agricultural	38.9	38.4	40.5	41.3	39.1	39.3	36.9	39.1	36.6	37.5	35.5	39.8	38.6
Computers	47.1	52.3	56.2	60.1	60.9	62.9	68.5	74.0	76.9	79.3	41.4	53.9	66.6
Other Goods	330.0	330.8	330.7	339.8	333.9	341.1	333.1	355.1	350.9	366.7	320.2	332.8	340.8
Services	154.9	151.6	153.1	149.6	155.3	156.9	156.7	157.1	155.2	159.2	145.5	152.3	156.5
Imports of G&S	588.8	607.1	619.4	629.3	646.8	669.6	681.6	707.4	723.6	755.6	562.1	611.1	676.3
Goods	489.5	509.7	521.7	530.2	546.6	567.4	577.1	599.9	615.2	647.4	464.4	512.8	572.8
Oil	47.2	51.6	53.1	52.8	53.4	57.7	56.7	58.1	56.5	60.4	49.2	51.2	56.5
Computers	51.2	57.5	64.7	68.4	73.3	80.0	87.8	94.6	99.7	107.0	41.6	60.5	83.9
Other Goods	391.1	400.6	403.9	409.0	419.9	429.7	432.6	447.2	458.9	480.0	373.7	401.2	432.4
Services	99.3	97.4	97.7	99.0	100.1	102.2	104.5	107.6	108.5	108.1	97.7	98.3	103.6
Memo:(Percent change 1/)													
Exports of G&S	6.1	1.5	5.3	7.2	-1.0	7.7	-3.2	21.7	-3.5	15.8	8.1	5.0	5.8
Agricultural	13.4	-5.0	23.7	8.1	-19.7	2.1	-22.3	26.1	-23.2	10.2	10.9	9.5	-5.3
Computers	24.4	52.0	33.3	30.8	5.4	13.8	40.7	36.2	16.6	13.1	26.7	34.8	23.1
Other Goods	3.1	1.0	-0.1	11.5	-6.8	8.9	-9.1	29.2	-4.6	19.3	7.2	3.8	4.5
Services	5.9	-8.3	4.0	-8.8	16.1	4.2	-0.5	1.0	-4.8	10.7	4.7	-2.0	5.0
Imports of G&S	6.6	13.0	8.4	6.5	11.6	14.9	7.4	16.0	9.5	18.9	4.0	8.6	12.4
Oil	0.9	42.8	12.1	-2.2	4.6	36.3	-6.8	10.2	-10.6	30.6	8.3	12.1	10.0
Computers	53.5	59.1	60.3	24.9	31.9	41.9	45.1	34.8	23.4	32.7	45.6	48.7	38.3
Other Goods	2.4	10.1	3.3	5.1	11.1	9.7	2.7	14.2	10.9	19.7	2.9	5.2	9.3
Services	7.2	-7.4	1.2	5.4	4.5	8.7	9.3	12.4	3.4	-1.5	-6.2	1.4	8.7
Current Account Balance	-33.4	-66.1	-74.4	-97.5	-79.4	-102.4	-111.4	-122.3	-129.3	-147.9	-6.9	-67.9	-103.9
Goods & Serv (BOP), net	-15.5	-41.5	-51.1	-53.4	-57.7	-76.3	-89.0	-79.9	-97.3	-108.0	-28.5	-40.4	-75.7
Goods (BOP), net	-72.3	-97.3	-109.4	-105.3	-116.8	-134.9	-145.9	-132.7	-147.8	-167.1	-74.1	-96.1	-132.6
Services (BOP), net	56.7	55.8	58.3	52.0	59.1	58.6	56.9	52.8	50.5	59.0	45.6	55.7	56.8
Investment Income, net	9.7	6.5	4.9	-2.9	7.4	2.7	8.1	-2.4	-3.2	-10.0	14.8	4.5	4.0
Direct, net	50.8	51.0	47.1	42.0	54.6	50.8	55.9	48.4	45.9	43.0	55.4	47.7	52.4
Portfolio, net	-41.1	-44.5	-42.2	-44.9	-47.2	-48.1	-47.8	-50.8	-49.1	-53.0	-40.5	-43.2	-48.5
Unilateral Transfers, net	-27.7	-31.1	-28.2	-41.2	-29.1	-28.8	-30.5	-40.1	-28.7	-29.9	6.7	-32.0	-32.1

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

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

(Billions of dollars, seasonally adjusted annual rates)

	1994		Projection 1995				1996				Projection ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1994	1995	1996
NIPA Real Net Exports of Goods & Services (87$)	-107.7	-102.7	-104.9	-105.2	-105.4	-105.4	-104.6	-102.9	-102.3	-101.9	-106.8	-105.2	-102.9
Exports of G&S	654.4	667.7	679.5	691.8	705.0	718.9	734.3	750.6	767.3	784.7	646.1	698.8	759.2
Goods	493.0	504.2	514.0	524.3	535.3	547.0	560.1	574.0	588.2	603.2	486.3	530.2	581.4
Agricultural	37.7	39.1	39.3	39.4	39.4	39.6	39.8	39.9	40.1	40.3	37.7	39.4	40.0
Computers	83.3	87.5	93.1	99.2	105.6	112.5	119.8	127.6	135.9	144.8	81.7	102.6	132.0
Other Goods	372.0	377.6	381.6	385.8	390.2	394.8	400.5	406.4	412.2	418.1	366.8	388.1	409.3
Services	161.4	163.6	165.5	167.5	169.7	171.9	174.2	176.7	179.1	181.5	159.8	168.7	177.9
Imports of G&S	762.1	770.4	784.4	797.0	810.4	824.4	838.9	853.5	869.6	886.6	752.9	804.0	862.2
Goods	654.2	662.0	675.3	687.2	699.9	713.2	727.0	740.8	756.1	772.2	644.7	693.9	749.0
Oil	59.6	56.9	58.8	60.0	61.3	62.2	62.8	62.3	62.5	63.0	58.4	60.6	62.7
Computers	110.1	115.6	122.5	129.5	136.5	143.8	151.2	159.1	167.4	176.1	108.1	133.1	163.4
Other Goods	484.5	489.5	493.9	497.7	502.1	507.2	513.0	519.4	526.2	533.1	478.2	500.2	522.9
Services	107.8	108.3	109.0	109.7	110.4	111.1	111.9	112.6	113.4	114.3	108.2	110.0	113.0
Memo:(Percent change 1/)													
Exports of G&S	7.5	8.4	7.3	7.4	7.8	8.2	8.8	9.2	9.2	9.4	6.8	7.7	9.1
Agricultural	2.5	15.8	1.6	0.6	0.6	2.3	1.5	1.5	1.5	1.5	0.1	1.3	1.5
Computers	21.7	21.6	28.7	28.7	28.7	28.7	28.7	28.7	28.7	28.7	18.2	28.7	28.7
Other Goods	5.9	6.2	4.3	4.4	4.7	4.8	5.8	6.0	5.8	5.9	6.3	4.6	5.9
Services	5.7	5.4	4.8	5.0	5.3	5.4	5.5	5.7	5.5	5.5	4.1	5.1	5.6
Imports of G&S	3.5	4.4	7.5	6.6	6.9	7.1	7.3	7.1	7.8	8.0	8.9	7.0	7.5
Oil	-5.0	-16.8	13.9	8.2	8.9	6.0	3.6	-2.7	1.3	3.3	-2.0	9.2	1.3
Computers	12.1	21.5	26.2	24.8	23.4	22.9	22.5	22.5	22.5	22.5	22.2	24.3	22.5
Other Goods	3.8	4.2	3.7	3.1	3.6	4.2	4.6	5.1	5.4	5.4	9.4	3.6	5.1
Services	-1.1	1.8	2.9	2.3	2.6	2.7	2.9	2.6	2.9	3.0	0.6	2.6	2.9
Current Account Balance	-152.9	-161.8	-156.5	-163.5	-159.4	-173.0	-162.2	-162.0	-155.2	-168.7	-147.9	-163.1	-162.0
Goods & Serv (BOP), net	-113.7	-106.3	-109.5	-109.4	-108.3	-107.1	-104.6	-101.7	-99.9	-99.0	-106.3	-108.6	-101.3
Goods (BOP), net	-175.2	-170.4	-175.7	-177.9	-179.2	-180.5	-180.6	-180.4	-181.2	-183.1	-165.1	-178.3	-181.3
Services (BOP), net	61.6	64.1	66.2	68.5	70.9	73.4	76.0	78.7	81.3	84.1	58.8	69.8	80.0
Investment Income, net	-8.2	-14.9	-15.0	-22.1	-19.1	-24.9	-25.1	-27.8	-22.8	-28.2	-9.1	-20.3	-26.0
Direct, net	44.2	46.0	47.3	47.3	48.1	49.6	50.7	52.5	54.5	56.3	44.8	48.1	53.5
Portfolio, net	-52.4	-60.9	-62.2	-69.4	-67.2	-74.5	-75.7	-80.3	-77.3	-84.5	-53.9	-68.3	-79.5
Unilateral Transfers, net	-31.0	-40.5	-32.0	-32.0	-32.0	-41.0	-32.5	-32.5	-32.5	-41.5	-32.5	-34.2	-34.8

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