

June 27, 1990

## **SUMMARY AND OUTLOOK**

---

Prepared for the Federal Open Market Committee

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

June 27, 1990

CONFIDENTIAL - FR  
CLASS II FOMC

## STAFF GNP PROJECTIONS

Percent changes, annual rate

		Nominal GNP		Real GNP		GNP fixed-weight price index		Consumer Price Index <1>		Unemployment rate (percent)	
		5/9/90	6/27/90	5/9/90	6/27/90	5/9/90	6/27/90	5/9/90	6/27/90	5/9/90	6/27/90
Annual changes:											
1987	<2>	6.9	6.9	3.7	3.7	3.6	3.6	3.7	3.7	6.2	6.2
1988	<2>	7.9	7.9	4.4	4.4	4.2	4.2	4.1	4.1	5.5	5.5
1989	<2>	7.2	7.2	3.0	3.0	4.5	4.5	4.8	4.8	5.3	5.3
1990		6.4	6.0	2.0	1.7	4.5	4.4	4.9	4.8	5.5	5.5
1991		5.9	6.1	1.6	1.9	4.2	4.1	4.3	4.3	6.0	5.9
Quarterly changes:											
1988	Q1 <2>	6.5	6.5	4.0	4.0	3.8	3.8	3.5	3.5	5.7	5.7
	Q2 <2>	8.6	8.6	3.7	3.7	4.8	4.8	4.2	4.2	5.5	5.5
	Q3 <2>	7.5	7.5	3.2	3.2	5.2	5.2	5.2	5.2	5.5	5.5
	Q4 <2>	7.5	7.5	2.7	2.7	4.3	4.3	4.1	4.1	5.3	5.3
	Q1 <2>	7.9	7.9	3.7	3.7	4.8	4.8	5.4	5.4	5.2	5.2
	Q2 <2>	7.1	7.1	2.5	2.5	5.0	5.0	6.0	6.0	5.3	5.3
	Q3 <2>	6.2	6.2	3.0	3.0	2.9	2.9	2.9	2.9	5.3	5.3
	Q4 <2>	4.6	4.6	1.1	1.1	3.6	3.6	3.9	3.9	5.3	5.3
1990	Q1 <2>	7.8	7.1	2.1	1.9	6.5	6.4	8.2	8.2	5.2	5.2
	Q2	6.8	5.8	2.2	1.3	4.3	4.2	3.3	3.3	5.4	5.4
	Q3	6.0	5.7	2.0	1.6	3.7	3.6	3.8	3.7	5.5	5.6
	Q4	6.1	5.3	1.8	1.6	4.1	3.8	4.3	4.1	5.6	5.8
1991	Q1	6.3	6.7	1.5	1.8	4.7	4.7	4.6	4.6	5.7	5.8
	Q2	5.2	6.4	1.1	2.1	4.1	4.2	4.4	4.5	5.9	5.9
	Q3	5.3	6.3	1.4	2.3	3.9	4.1	4.3	4.4	6.1	6.0
	Q4	5.5	6.2	1.7	2.4	3.9	4.0	4.3	4.4	6.2	6.1
Two-quarter changes: <3>											
1988	Q2 <2>	7.5	7.5	3.9	3.9	4.2	4.2	3.9	3.9	-.3	-.3
	Q4 <2>	7.5	7.5	2.9	2.9	4.8	4.8	4.6	4.6	-.2	-.2
1989	Q2 <2>	7.5	7.5	3.1	3.1	5.0	5.0	5.7	5.7	.0	.0
	Q4 <2>	5.4	5.4	2.0	2.0	3.3	3.3	3.4	3.4	.0	.0
1990	Q2	7.3	6.5	2.2	1.6	5.4	5.2	5.7	5.7	.1	.1
	Q4	6.0	5.5	1.9	1.6	3.9	3.7	4.1	3.9	.2	.4
1991	Q2	5.7	6.5	1.3	2.0	4.4	4.4	4.5	4.5	.3	.1
	Q4	5.4	6.2	1.6	2.4	3.9	4.0	4.3	4.4	.3	.2
Four-quarter changes: <4>											
1987	Q4 <2>	8.6	8.6	5.4	5.4	4.0	4.0	4.5	4.5	-1.0	-1.0
1988	Q4 <2>	7.5	7.5	3.4	3.4	4.5	4.5	4.3	4.3	-.5	-.5
	Q4 <2>	6.4	6.4	2.6	2.6	4.1	4.1	4.6	4.6	.0	.0
	Q4	6.7	6.0	2.1	1.6	4.6	4.4	4.9	4.8	.3	.5
	Q4	5.6	6.4	1.5	2.2	4.2	4.2	4.4	4.5	.6	.3

&lt;1&gt; For all urban consumers.

&lt;2&gt; Actual.

&lt;3&gt; Percent change from two quarters earlier.

&lt;4&gt; Percent change from four quarters earlier.

June 27, 1990

CONFIDENTIAL - FR  
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS  
(Seasonally adjusted; annual rate)

		Projection								
	Units	1983	1984	1985	1986	1987	1988	1989	1990	1991
EXPENDITURES										
Nominal GNP	Billions of \$	3405.7	3772.2	4014.9	4231.6	4524.3	4880.6	5234.0	5547.5	5886.8
Real GNP	Billions of 82\$	3279.1	3501.4	3618.7	3717.9	3853.7	4024.4	4144.1	4216.6	4295.8
Real GNP	Percent change*	6.5	5.1	3.6	1.9	5.4	3.4	2.6	1.6	2.2
Gross domestic purchases		8.4	6.4	4.3	2.1	4.6	2.4	1.9	1.0	1.9
Final sales		3.7	4.7	4.6	2.7	3.3	4.4	2.5	1.9	1.9
Private dom. final purchases		7.7	5.6	4.6	2.9	2.7	3.8	2.1	1.2	1.9
Personal consumption expend.		5.4	4.1	4.6	3.8	2.2	3.8	2.5	1.5	1.9
Durables		14.7	10.8	7.0	11.5	-2.0	8.0	.0	2.2	1.6
Nondurables		4.4	2.3	3.3	2.9	1.1	2.1	1.0	-1.0	.6
Services		3.9	3.5	5.0	2.1	4.4	3.6	4.4	2.9	2.9
Business fixed investment		10.8	13.8	3.7	-5.5	8.5	4.2	3.7	2.3	1.8
Producers' durable equipment		20.9	14.9	4.6	.4	11.1	7.0	5.2	3.4	3.8
Nonresidential structures		-4.8	11.8	1.9	-17.7	1.9	-3.4	-.9	-1.4	-5.0
Residential structures		38.1	6.1	5.8	11.6	-4.2	3.2	-7.0	-5.2	2.1
Exports		5.8	5.9	-2.4	10.6	19.1	13.9	10.0	6.4	7.1
Imports		23.8	17.4	4.5	10.0	9.6	5.3	4.6	1.9	5.1
Government purchases		-2.7	7.9	8.6	3.1	2.1	1.8	.5	1.2	.2
Federal		-8.1	13.0	13.3	.5	.7	-.3	-3.1	-.1	-2.2
Defense		5.1	6.5	7.1	6.0	4.3	-1.9	-2.3	-4.0	-4.5
State and local		1.5	4.4	4.9	5.2	3.1	3.4	3.1	2.1	1.8
Change in business inventories	Billions of 82\$	-6.4	62.3	9.1	5.6	23.7	27.9	21.9	6.4	20.7
Nonfarm	Billions of 82\$	-.1	57.8	13.4	8.0	25.8	30.7	17.7	3.7	18.6
Net exports	Billions of 82\$	-19.9	-84.0	-104.3	-129.7	-115.7	-74.9	-52.6	-27.9	-15.3
Nominal GNP	Percent change*	10.4	8.6	6.6	4.6	8.6	7.5	6.4	6.0	6.4
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	90.2	94.5	97.5	99.5	102.2	105.6	108.6	110.5	111.3
Unemployment rate	Percent	9.6	7.5	7.2	7.0	6.2	5.5	5.3	5.5	5.9
Industrial production index	Percent change*	11.3	4.7	1.9	1.4	6.5	4.5	1.1	2.0	2.2
Capacity utilization rate-mfg.	Percent	74.9	80.4	79.5	79.0	81.4	83.9	83.9	82.6	81.6
Housing starts	Millions	1.70	1.75	1.74	1.81	1.62	1.49	1.38	1.26	1.25
Auto sales	Millions	9.19	10.35	11.03	11.45	10.23	10.65	9.89	9.54	9.28
Domestic	Millions	6.82	7.92	8.22	8.22	7.06	7.55	7.06	6.82	6.80
Foreign	Millions	2.37	2.43	2.82	3.23	3.18	3.10	2.83	2.71	2.48
INCOME AND SAVING										
Nominal personal income	Percent change*	7.8	8.4	6.6	5.8	8.6	7.1	8.4	6.7	6.7
Real disposable income	Percent change*	5.1	4.3	2.7	3.3	3.0	4.0	3.6	1.4	1.6
Personal saving rate	Percent	5.4	6.1	4.4	4.1	3.2	4.2	5.4	5.8	5.4
Corp. profits with IVA & CCAdj	Percent change*	70.1	7.4	9.2	-5.6	12.0	10.4	-16.0	3.0	-2.6
Profit share of GNP	Percent	6.3	7.1	7.0	6.7	6.6	6.7	5.8	5.3	5.0
Federal govt. surplus/deficit	Billions of \$	-176.0	-169.6	-196.9	-206.9	-161.4	-145.8	-148.5	-153.0	-109.9
State and local govt. surplus		47.5	64.6	65.1	62.8	51.3	49.7	44.0	40.7	55.9
Exc. social insurance funds		4.4	19.8	13.8	5.6	-12.4	-21.4	-34.1	-43.9	-34.7
PRICES AND COSTS										
GNP implicit deflator	Percent change*	3.6	3.4	2.9	2.6	3.0	4.0	3.7	4.3	4.1
GNP fixed-weight price index		3.9	3.7	3.3	2.6	4.0	4.5	4.1	4.4	4.2
Cons. & fixed invest. prices		3.3	3.3	3.4	2.5	4.7	4.2	4.4	4.5	4.3
CPI		3.2	4.2	3.5	1.3	4.5	4.3	4.6	4.8	4.5
Exc. food and energy		4.2	5.0	4.3	3.9	4.3	4.5	4.3	5.0	4.5
ECI hourly compensation		5.7	4.9	3.9	3.2	3.3	4.8	4.8	5.1	4.7
Nonfarm business sector										
Output per hour		3.4	1.5	1.6	1.3	2.4	1.6	.7	.4	1.5
Compensation per hour		3.1	4.2	4.6	5.0	4.0	4.8	5.5	5.2	4.7
Unit labor costs		-.4	2.6	3.0	3.6	1.5	3.1	4.8	4.9	3.2

\* Percent changes are from fourth quarter to fourth quarter.

June 27, 1990

CONFIDENTIAL - FR  
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS  
(Seasonally adjusted; annual rate)

	Units	Projection									
		1989		1990				1991			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of \$	5281.0	5340.2	5433.1	5510.5	5586.8	5659.7	5751.9	5841.8	5932.0	6021.5
Real GNP	Billions of \$2\$	4162.9	4174.1	4193.4	4207.2	4224.4	4241.4	4260.8	4282.7	4306.9	4332.8
Real GNP	Percent Change	3.0	1.1	1.9	1.3	1.6	1.6	1.8	2.1	2.3	2.4
Gross domestic purchases		3.5	.1	.5	1.0	1.3	1.0	1.7	2.0	1.8	1.9
Final sales		2.7	1.1	4.4	.3	1.2	1.6	1.4	1.5	2.2	2.3
Private dom. final purchases		4.7	-5	2.9	-5	1.2	1.4	1.6	1.8	2.1	2.1
Personal consumption expend.		5.6	.5	1.6	.6	2.0	1.7	1.7	1.9	2.0	2.1
Durables		11.3	-14.0	14.1	-4.6	-3	.5	.0	1.7	2.2	2.3
Nondurables		5.0	.1	-3.4	-2.9	2.0	.6	.6	.6	.6	.6
Services		4.3	5.9	1.3	4.8	2.6	2.9	2.9	2.9	2.8	3.0
Business fixed investment		5.2	-5.4	7.7	-2.1	2.5	1.4	1.5	1.5	2.0	2.0
Producers' durable equipment		4.6	-6.9	7.1	-1.7	5.0	3.5	3.5	3.5	4.0	4.0
Nonresidential structures		8.0	-3	9.6	-3.7	-5.3	-5.3	-5.1	-5.0	-4.9	-4.9
Residential structures		-9.2	-1.1	9.7	-11.7	-13.3	-3.8	1.0	.6	3.5	3.4
Exports		3.9	9.4	12.8	-1.2	6.5	8.1	6.8	6.5	7.5	7.6
Imports		7.4	2.2	3.0	-2.9	3.8	3.8	5.8	5.9	4.4	4.3
Government purchases		-2.4	2.6	3.4	2.2	-4	-6	.1	.1	.3	.2
Federal		-8.4	-3.3	2.3	4.8	-3.2	-4.0	-2.3	-2.5	-1.9	-2.1
Defense		6.9	-6.6	-1.9	-4.8	-4.5	-4.7	-4.3	-4.9	-4.4	-4.5
State and local		2.2	6.8	4.3	.5	1.7	1.8	1.8	1.8	1.8	1.8
Change in business inventories	Billions of \$2\$	21.9	22.2	-3.6	6.9	11.2	11.2	15.5	21.2	22.2	23.9
Nonfarm	Billions of \$2\$	16.2	18.0	-7.8	4.4	8.3	10.0	14.0	19.2	19.9	21.3
Net exports	Billions of \$2\$	-57.1	-47.2	-33.6	-30.6	-26.9	-20.6	-19.4	-18.7	-14.1	-8.8
Nominal GNP	Percent change	6.2	4.6	7.1	5.8	5.7	5.3	6.7	6.4	6.3	6.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	108.9	109.4	110.2	110.5	110.6	110.7	110.9	111.2	111.5	111.8
Unemployment rate	Percent*	5.3	5.3	5.2	5.4	5.6	5.8	5.8	5.9	6.0	6.1
Industrial production index	Percent change	-1.2	.2	.7	4.4	1.8	1.0	1.4	2.2	2.4	2.8
Capacity utilization rate-mfg.	Percent*	83.7	82.9	82.7	82.8	82.6	82.2	81.8	81.7	81.5	81.5
Housing starts	Millions	1.34	1.35	1.45	1.21	1.21	1.23	1.24	1.25	1.26	1.27
Auto sales	Millions	10.18	9.09	10.00	9.40	9.40	9.35	9.25	9.25	9.30	9.30
Domestic	Millions	7.36	6.56	7.11	6.68	6.75	6.75	6.75	6.75	6.85	6.85
Foreign	Millions	2.83	2.53	2.90	2.71	2.65	2.60	2.50	2.50	2.45	2.45
INCOME AND SAVING											
Nominal personal income	Percent change	5.2	7.3	9.4	5.8	5.0	6.5	7.5	6.3	6.0	7.1
Real disposable income	Percent change	4.4	2.4	2.5	1.6	.2	1.5	2.0	1.2	1.0	2.2
Personal saving rate	Percent*	5.1	5.6	5.8	6.0	5.6	5.6	5.7	5.5	5.3	5.3
Corp. profits with IVA & CCAdj	Percent change	-15.4	-12.0	5.4	11.1	5.1	-8.7	-1.6	-3	-1.0	-7.3
Profit share of GNP	Percent*	5.6	5.4	5.3	5.4	5.4	5.2	5.1	5.0	4.9	4.8
Federal govt. surplus/deficit	Billions of \$	-144.7	-156.5	-170.9	-162.6	-142.3	-136.3	-125.2	-114.1	-99.3	-100.9
State and local govt. surplus		44.9	34.7	37.4	39.0	41.7	44.5	47.3	53.1	58.3	64.8
Exc. social insurance funds		-34.3	-45.7	-44.9	-44.8	-43.6	-42.3	-41.0	-36.7	-33.0	-28.0
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.2	3.2	5.4	4.3	3.9	3.6	4.7	4.2	3.9	3.7
GNP fixed-weight price index		2.9	3.6	6.4	4.2	3.6	3.8	4.7	4.2	4.1	4.0
Cons. & fixed invest. prices		2.3	4.4	6.7	3.6	3.5	4.2	4.4	4.3	4.2	4.2
CPI		2.9	3.9	8.2	3.3	3.7	4.1	4.6	4.5	4.4	4.4
Exc. food and energy		3.8	4.4	6.2	4.7	4.7	4.4	4.6	4.6	4.5	4.4
ECI hourly compensation**		4.9	5.0	5.8	5.2	4.7	4.7	4.9	5.1	4.5	4.4
Nonfarm business sector											
Output per hour		2.4	.5	-2.7	1.1	1.4	1.4	1.5	1.5	1.5	1.4
Compensation per hour		5.3	6.0	4.1	5.9	5.2	5.6	3.5	5.6	4.6	5.0
Unit labor costs		2.8	5.5	7.0	4.7	3.7	4.1	2.0	4.0	3.1	3.6

\* Not at an annual rate.

\*\* Private industry workers; seasonally adjusted by Board staff.

CONFIDENTIAL - FR  
CLASS II FOMC

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

June 27, 1990

	Projection										Projection			
	1989		1990				1991				1988	1989	1990	1991
											(fourth quarter to fourth quarter, net change)			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GNP	30.4	11.2	19.3	13.8	17.2	17.0	19.4	22.0	24.2	25.9	133.8	104.7	67.3	91.4
Gross domestic purchases	36.3	1.3	5.7	10.8	13.5	10.7	18.3	21.2	19.5	20.7	97.8	78.1	40.6	79.7
Final sales	27.5	10.9	45.1	3.3	12.9	17.0	15.1	16.3	23.2	24.2	172.0	100.9	78.3	78.7
Private dom. final purchases	38.4	-4.1	24.6	-4.3	10.0	11.9	13.7	15.4	17.9	18.5	121.7	70.3	42.2	65.5
Personal consumption expend.	36.4	3.6	10.6	4.3	13.2	11.8	11.3	13.1	13.8	14.4	95.4	66.0	39.8	52.6
Durables	11.5	-16.1	14.1	-5.1	-.3	.6	.0	1.9	2.3	2.5	31.1	-.2	9.2	6.7
Nondurables	11.1	.3	-7.9	-6.7	4.5	1.4	1.3	1.4	1.5	1.5	19.1	9.1	-8.8	5.6
Services	13.9	19.3	4.5	16.1	9.0	9.8	10.0	9.9	10.0	10.4	45.2	57.0	39.4	40.3
Business fixed investment	6.5	-7.1	9.6	-2.7	3.2	1.8	1.9	2.0	2.6	2.7	20.0	18.1	11.9	9.3
Producers' durable equipment	4.4	-7.0	6.8	-1.7	4.8	3.5	3.5	3.5	4.1	4.1	24.3	19.3	13.4	15.2
Nonresidential structures	2.3	-.1	2.8	-1.2	-1.7	-1.6	-1.5	-1.5	-1.4	-1.4	-4.3	-1.1	-1.6	-5.9
Residential structures	-4.5	-.5	4.3	-5.8	-6.4	-1.7	.4	.3	1.5	1.5	6.2	-13.8	-9.6	3.7
Change in business inventories	2.8	.3	-25.8	10.5	4.3	.0	4.3	5.7	1.0	1.7	-38.3	3.9	-11.0	12.7
Nonfarm	-3.3	1.8	-25.8	12.2	3.9	1.7	4.0	5.2	.7	1.4	-23.7	-13.9	-8.0	11.3
Farm	6.1	-1.4	.0	-1.7	.4	-1.7	.3	.5	.3	.3	-14.6	17.8	-3.0	1.4
Net exports	-5.9	9.9	13.6	3.0	3.7	6.3	1.2	.7	4.6	5.2	36.0	26.6	26.6	11.7
Exports	5.6	13.5	18.5	-1.8	9.8	12.4	10.6	10.5	12.1	12.6	67.3	55.2	38.9	45.8
Imports	11.5	3.6	4.9	-4.8	6.1	6.1	9.5	9.7	7.5	7.4	31.3	28.6	12.3	34.1
Government purchases	-5.0	5.1	6.9	4.5	-.8	-1.2	.2	.1	.7	.5	14.3	4.0	9.4	1.5
Federal	-7.5	-2.8	1.9	3.9	-2.8	-3.4	-2.0	-2.1	-1.5	-1.8	-1.0	-10.6	-.4	-7.3
Defense	4.3	-4.4	-1.2	-3.1	-2.9	-3.0	-2.7	-3.0	-2.7	-2.7	-5.1	-5.9	-10.2	-11.1
Nondefense	-11.8	1.7	3.0	7.0	.1	-.4	.7	.9	1.2	.9	4.1	-4.6	9.7	3.8
State and local	2.5	7.8	5.1	.6	2.0	2.2	2.2	2.2	2.2	2.2	15.3	14.5	9.9	8.8

FEDERAL OR ACCOUNTS<sup>1</sup>  
(Billions of dollars)

	Fiscal years				1989				1990				1991			
	1988a	1989a	1990	1991	Ia	IIa	IIIa	IVa	Ia	II	III	IV	I	II	III	IV
BUDGET					Not seasonally adjusted											
Budget receipts <sup>2</sup>	908	991	1043	1132	219	308	242	229	230	322	263	246	258	345	282	264
Budget outlays <sup>2</sup>	1063	1143	1260	1318	280	285	288	299	310	339	312	346	329	324	320	344
Surplus/deficit (-) <sup>2</sup>	-155	-152	-217	-186	-61	23	-46	-71	-80	-17	-49	-99	-71	22	-37	-80
(On-budget)	-194	-204	-275	-259	-77	0	-54	-77	-94	-41	-63	-108	-92	-5	-55	-90
(Off-budget)	39	53	58	74	16	23	7	6	14	24	14	8	22	26	17	9
Surplus excluding RTC spending <sup>3</sup>	-155	-143	-157	-116	-61	23	-37	-65	-77	14	-29	-79	-52	38	-23	-68
Means of financing:																
Borrowing	166	140	243	175	38	10	39	63	90	40	49	81	52	13	29	73
Cash decrease	-8	3	-5	11	19	-29	3	14	8	-14	-14	26	5	-30	10	10
Other <sup>4</sup>	-3	8	-20	-1	4	-4	5	-7	-18	-10	14	-8	13	-4	-2	-2
Cash operating balance, end of period	44	41	46	35	15	44	41	27	19	32	46	20	15	45	35	25
NIPA FEDERAL SECTOR					Seasonally adjusted annual rates											
Receipts	958	1032	1093	1183	1036	1053	1043	1056	1085	1104	1126	1145	1178	1197	1213	1231
Expenditures	1103	1183	1251	1302	1184	1199	1188	1213	1256	1266	1268	1282	1303	1311	1313	1332
Purchases	377	404	415	423	399	406	403	405	414	421	419	418	424	424	425	425
Defense	297	302	305	303	299	301	308	301	309	307	305	303	306	303	302	300
Nondefense	80	101	109	119	100	105	95	104	105	114	115	115	119	121	123	125
Other expend.	726	780	836	879	785	793	785	808	842	846	849	864	879	886	888	908
Surplus/deficit	-145	-151	-158	-119	-148	-145	-145	-157	-171	-163	-142	-136	-125	-114	-99	-101
FISCAL INDICATORS <sup>5</sup>																
High-employment (HEB) surplus/deficit (-)	-150	-167	-163	-103	-165	-162	-162	-168	-180	-165	-139	-127	-111	-96	-77	-76
Change in HEB, percent of potential GNP	.3	.4	-.1	-1.1	-.3	-.1	.0	.1	.2	-.3	-.5	-.2	-.3	-.3	-.3	.0
Fiscal impetus measure (FI), percent	.2 *	-3.4 *	-5.6 *	-5.2 *	-2.7	-.2	.5	-2.3	-2.3	-.7	-.9	-2.2	-2.1	-.5	-.5	-1.3

a--actual

\*--calendar year

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

- Staff projections. The FY1990 and FY1991 deficits in OMB's FY1991 Budget (January 1990) are \$124 billion and \$63 billion, respectively. These estimates incorporate approximately \$39 billion of cuts from the adjusted Gramm-Rudman-Hollings baseline in FY1991. CBO's FY1990 and FY1991 baseline deficits (June 1990) are \$195 billion and \$232 billion, respectively.
- Budget receipts, outlays, and surplus/deficit include social security (OASDI) receipts, outlays and surplus, respectively. The OASDI surplus is excluded from the "on-budget" deficit and shown separately as "off-budget", as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY1990.
- The Administration's deficit projections, excluding RTC spending, were \$121 billion and \$56 billion for FY1990 and FY1991, respectively. CBO's June deficit estimates, excluding RTC spending, were \$159 billion and \$162 billion in FY1990 and FY1991, respectively.
- Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.
- HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate and 2.7% potential output growth. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.

growth and next year because of the projected lower level of the dollar. Oil imports are expected to decline in the current quarter from the unusually high rate in the first quarter, and to remain little changed for the balance of 1991 as stocks are reduced to more normal levels. Next year, oil imports are projected to expand considerably faster as domestic production of crude oil continues to decline.

---

<u>Trade Quantities</u>	<u>1989</u>	<u>1990<sup>P</sup></u> (Q4/Q4 percent change)	<u>1991<sup>P</sup></u>
Nonagricultural Exports	10.1	9.2	10.7
Agricultural Exports	11.9	5.0	2.0
Non-Oil Imports	5.8	2.0	5.3
Oil Imports	1.7	-1.8	10.9

---

On balance, total real net exports of goods are expected to improve significantly in the current quarter, and then to increase moderately through the end of 1991. Compared with the May forecast, the path of real net exports of goods rises somewhat faster in the second half of 1990, and is roughly \$10 billion higher on average during 1991 (annual rate). Most of this revision can be accounted for by the somewhat weaker outlook for the dollar. Slower U.S. growth in 1990 also is a factor, although much of its influence is reversed in 1991 as growth picks up again.

Merchandise Trade Prices. Fixed-weight prices of nonagricultural exports are expected to rise moderately this year and next, at about the projected rate of increase in domestic producer prices, shown in the table below. Non-oil import prices are projected to rise about in line with prices abroad. The revision in the outlook for the dollar has pushed up the projected rate of increase in the price of non-oil imports slightly.

The average price of oil imports is expected to fall to about \$16.50 per barrel in the second quarter and to about \$15.50 in the third quarter,

in line with recent declines in spot prices. Thereafter, the import price is projected to rise steadily to about \$18.25 per barrel in the fourth quarter of 1991, \$1.25 below the level in the May forecast. This forecast assumes that OPEC production will level off at about its current rate and that the recent bulge in world oil stocks will subside in the coming months.

---

<u>Prices</u>	<u>1989</u>	<u>1990<sup>P</sup></u>	<u>1991<sup>P</sup></u>
	(Q4/Q4 percent change)		
PPI (export-share weighted)	3.0	2.1	2.3
Non-Oil Imports	-0.6	4.6	3.7
Oil Imports	36.8	-4.9	8.5

---

Net Services and Nominal Balances. The merchandise trade balance is expected to decline significantly in the second quarter this year, and is then projected to fluctuate fairly narrowly around an annual rate of \$95 billion through the end of 1991. Net portfolio payments to foreigners are expected to grow significantly over the forecast period because of rising U.S. international indebtedness. This deterioration is somewhat less than that projected in the May forecast because lower expectations for dollar interest rates have reduced the projected rise in net portfolio payments. These rising net payments are now expected to be more than fully offset by increases in net services and transfers and net direct investment income receipts. As a result, the current account balance is projected to improve somewhat more than the trade balance over the forecast period, and to be less than \$80 billion in 1991.



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

	ANNUAL			1989		1990				1991			
	1989	1990-P	1991-P	-Q3	-Q4	Q1	-Q2-P	-Q3-P	-Q4-P	Q1-P	-Q2-P	-Q3-P	-Q4-P
1. <u>GNP Exports and Imports 1/</u>													
Current \$, Net	-47.1	-23.2	-13.0	-45.1	-38.8	-32.0	-23.5	-19.6	-17.9	-16.9	-15.7	-12.0	-7.7
Exports of G+S	625.9	679.0	738.2	628.5	643.5	664.7	669.1	682.9	699.2	714.6	729.3	745.9	762.9
Imports of G+S	673.0	702.1	751.1	673.6	682.3	696.6	692.4	702.4	717.1	731.4	744.9	757.7	770.4
Constant 82 \$, Net	-52.6	-27.9	-15.3	-57.1	-47.2	-33.6	-30.6	-26.9	-20.6	-19.4	-18.7	-14.1	-8.8
Exports of G+S	589.2	631.7	673.2	593.1	606.6	625.1	623.3	633.1	645.5	656.1	666.6	678.7	691.3
Imports of G+S	641.8	659.6	688.4	650.2	653.8	658.7	653.9	660.0	666.1	675.6	685.3	692.7	700.1
2. <u>Merchandise Trade Balance 2/</u>	-114.9	-97.1	-94.9	-119.2	-115.0	-105.5	-93.2	-94.2	-95.6	-96.6	-96.6	-94.5	-91.7
Exports	360.5	392.2	431.9	357.4	367.0	384.2	387.2	393.3	404.2	415.0	425.4	437.3	449.8
Agricultural	41.5	43.6	47.5	39.7	40.9	43.8	42.4	42.7	45.7	46.5	47.0	47.9	48.7
Non-Agricultural	319.0	348.6	384.3	317.7	326.1	340.4	344.8	350.7	358.5	368.5	378.4	389.4	401.1
Imports	475.3	489.3	526.7	476.6	481.9	489.7	480.4	487.5	499.8	511.6	522.1	531.7	541.5
Petroleum and Products	50.9	52.0	58.4	52.7	53.3	62.4	48.8	46.1	50.5	55.1	58.2	59.5	60.8
Non-Petroleum	424.4	437.4	468.3	423.9	428.6	427.2	431.6	441.4	449.3	456.5	463.9	472.3	480.7
3. <u>Other Current Account Transactions</u>													
Capital Gains and Losses 3/	-0.6	0.2	0.0	1.2	-1.2	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other D.I. Income, Net	40.3	43.8	46.9	38.9	45.4	43.1	41.3	44.9	46.1	46.7	46.7	47.1	47.4
Portfolio Income, Net	-40.5	-42.8	-46.1	-40.0	-41.9	-41.5	-42.5	-43.4	-44.0	-44.5	-45.4	-46.6	-47.8
Other Current Account, Net	5.7	11.0	15.9	8.8	6.0	11.3	10.8	11.7	10.3	14.7	16.0	17.3	15.6
4. <u>U.S. Current Account Balance</u>													
Including Capital G/L	-110.0	-84.8	-78.1	-110.4	-106.8	-91.8	-83.5	-81.0	-83.1	-79.8	-79.4	-76.8	-76.6
Excluding Capital G/L	-109.4	-85.0	-78.1	-111.6	-105.5	-92.6	-83.5	-81.0	-83.1	-79.8	-79.4	-76.8	-76.6
5. <u>Foreign Outlook 4/</u>													
Real GNP--Ten Industrial 5/	3.5	3.3	3.0	2.7	3.7	5.8	1.5	2.6	2.7	3.1	3.3	3.5	3.4
Real GNP--LDC 6/	3.2	3.4	4.1	3.0	3.1	3.3	3.5	3.8	4.1	4.3	4.3	4.2	4.1
Consumer Prices--Ten Ind. 5/	4.0	4.4	4.1	2.3	4.2	4.9	5.7	3.2	4.0	3.8	4.9	4.1	4.2

1/ National Income and Product Account data.

2/ International accounts basis.

3/ The net of gains (+) or losses (-) on foreign-currency denominated assets due to their revaluation at current exchange rates and other valuation adjustments.

4/ Percent change, annual rates.

5/ Weighted by multilateral trade-weights of G-10 countries plus Switzerland; prices are not seasonally adjusted.

6/ Weighted by share in LDC GNP.

P/ Projected

June 27, 1990

## **RECENT DEVELOPMENTS**

---

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

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS  
(Monthly rates, not seasonally adjusted, billions of dollars)

	1987	1988	1989	1990				
	Year	Year	Year	Q1 <sup>P</sup>	Mar. <sup>P</sup>	Apr. <sup>P</sup>	May <sup>P</sup>	June <sup>e</sup>
Corporate securities - total <sup>1</sup>	24.10	22.32	19.67	16.91	21.54	14.23	21.59	22.50
Public offerings in U.S.	21.91	20.30	17.61	15.04	19.29	13.06	18.35	19.50
Stocks--total <sup>2</sup>	4.45	3.53	2.69	2.99	3.79	1.76	2.35	1.50
Nonfinancial	2.32	1.14	1.09	1.58	1.61	1.14	1.67	.75
Utility	.57	.24	.29	.40	.53	.92	.79	.10
Industrial	1.75	.90	.80	1.18	1.08	.22	.88	.65
Financial	2.12	2.39	1.60	1.41	2.18	.62	.68	.75
Bonds--total <sup>1</sup>	17.46	16.77	14.92	12.05	15.50	11.30	16.00	18.00
Nonfinancial	6.58	6.13	6.17	3.73	4.10	4.95	4.40	9.00
Utility	2.02	1.78	1.73	1.23	1.40	1.20	1.90	4.00
Industrial	4.56	4.35	4.44	2.50	2.70	3.75	2.50	5.00
Financial <sup>3</sup>	10.88	10.64	8.75	8.32	11.40	6.35	11.60	9.00
By quality <sup>3</sup>								
Aaa and Aa	3.28	2.71	3.26	2.66	2.74	2.60	4.80	2.50
A and Baa	5.22	5.48	5.55	4.25	6.30	4.80	4.35	8.60
Less than Baa	2.77	2.59	2.39	.17	.00	.05	.40	.30
No rating (or unknown)	.07	.04	.03	.00	.00	.00	.00	.00
Memo items:								
Equity-based bonds <sup>4</sup>	.87	.28	.52	.05	.00	.22	.40	2.00
Mortgage-backed bonds	5.19	4.69	1.66	1.69	1.93	2.50	4.20	1.00
Other asset-backed	.93	1.26	2.03	3.28	4.53	1.35	2.25	5.60
Variable-rate notes	1.88	1.19	1.01	1.39	1.64	.23	.20	.10
Bonds sold abroad - total	2.03	1.93	1.90	1.61	1.89	1.00	2.80	2.80
Nonfinancial	.94	.73	.48	.50	.76	.50	.45	1.00
Financial	1.09	1.20	1.42	1.11	1.13	.50	2.35	1.80
Stocks sold abroad - total	.16	.09	.16	.27	.36	.17	.44	.20
Nonfinancial	.12	.08	.12	.10	.12	.09	.31	.15
Financial	.04	.01	.04	.17	.24	.08	.13	.05

1. Securities issued in the private placement market are not included.  
Total reflects gross proceeds rather than par value of original discount bonds.
2. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings. Such swaps totaled \$20.4 billion in 1989.
3. Bonds categorized according to Moody's bond ratings, or to Standard and Poors' if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.
4. Includes bonds convertible into equity and bonds with warrants that entitle the holder to purchase equity in the future.
- n--preliminary. e--staff estimates.

TREASURY AND AGENCY FINANCING<sup>1</sup>  
(Total for period; billions of dollars)

	1990				
	Q1	Q2 <sup>e</sup>	Apr.	May	June <sup>e</sup>
<u>Treasury financing</u>					
Total surplus/deficit (-)	-80.3	-16.9	41.8	-42.6	-16.1
Means of financing deficit:					
Net cash borrowing from the public	90.1	40.1	-5.9	23.4	22.7
Marketable borrowings/repayments (-)	51.0	32.4	-13.1	23.3	22.2
Bills	22.4	0.2	-20.0	6.8	13.4
Coupons	28.6	32.2	6.9	16.4	8.8
Nonmarketable <sup>2</sup>	39.1	7.7	7.2	.1	.4
Decrease in the cash balance	8.4	-13.7	-20.8	25.6	-18.4
Memo: Cash balance at end of period	18.5	32.2	39.3	13.7	32.2
Other <sup>3</sup>	-18.2	-9.5	-15.0	-6.4	11.9
<u>Federally sponsored credit agencies, net cash borrowing<sup>4</sup></u>					
	2.3	--	2.5 <sup>5</sup>	--	--
FHLBS	-4.6	--	-4.1	-1.9 <sup>p</sup>	--
FHLMC	.0	--	2.6	--	--
FNMA	.8	--	.5	.8	--
Farm Credit Banks	-1.1	--	.0	.1	--
FAC	.0	.3	.0	.0	.3
SLMA	2.3	--	--	--	--
FICO	.0	.0	.0	.0	.0
REFCORP	5.0	3.5	3.5	.0	.0

1. Data reported on a not seasonally adjusted, payment basis.

2. Includes proceeds from securities issued by federal agencies under special financing authorities (primarily FSLIC) and the face value of the zero coupon bonds issued to REFCORP. The discount from face value is offset in other means of finance.

3. Includes checks issued less checks paid, accrued items and other transactions.

4. Excludes mortgage pass-through securities issued by FNMA and FHLMC.

5. Excluding SLMA.

e--staff estimate

p--preliminary

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

State to cover a budgetary shortfall and about \$1 billion of seasonal borrowing by Los Angeles County.

GROSS OFFERINGS OF MUNICIPAL SECURITIES  
(Monthly rates, not seasonally adjusted, billions of dollars)

	1988	1989	1989		1990	1990		
	Year	Year	Q3	Q4	Q1	Apr.	May <sup>p</sup>	June <sup>f</sup>
Total offerings <sup>1</sup>	11.73	11.90	12.78	12.47	8.85	--	--	--
Total tax-exempt	11.41	11.65	12.58	12.13	8.73	9.01	10.33	16.25
Long-term	9.54	9.47	9.79	10.76	7.63	8.58	9.15	9.00
Refundings <sup>2</sup>	2.90	2.47	2.83	2.35	1.45	.54	.71	2.00
New capital	6.64	7.01	6.97	8.41	6.19	7.74	8.44	7.00
Short-term	1.87	2.17	2.78	1.37	1.10	.42	1.19	7.25
Total taxable	.32	.25	.20	.34	.12	--	--	--

p--preliminary. f--forecast.

1. Includes issues for public and private purposes; also includes taxable issues.

2. Includes all refunding bonds, not just advance refundings.

Reflecting weaker economic conditions in the Northeast, downgradings of municipal credit ratings by Standard and Poor's outpaced upgradings by three to one in the first quarter. Of the 87 downgradings in the first quarter, three-fifths were for issuers in Northeastern states, with most concentrated among state agencies and housing authorities. The first-quarter pattern was a reversal of 1989 experience, when upgradings exceeded downgradings.

The volume of municipal bond offerings has dropped sharply since passage of the Tax Reform Act that limited uses of tax-exempt financing for certain private purposes and tightened arbitrage restrictions. In the first half of 1990, issuance has been running at an estimated annual pace of \$95 billion, well below the record high \$214 billion in 1985. This drop in volume, and a corresponding drop in underwriting profitability, led Bank of