

November 9, 1994

## **SUMMARY AND OUTLOOK**

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

part of 1996. The unemployment rate is projected to rise next year and to edge above the NAIRU in 1996; with goods output decelerating and capacity expanding a bit faster, the factory utilization rate is projected to drop appreciably by 1996. Although we are showing some acceleration in core inflation in the near term, the easing of pressure on productive resources is projected to return the trend in CPI inflation to about 3 percent in 1996.

STAFF REAL GDP PROJECTION  
(Percent change, annual rate)

	1994		1995			1996
	Q3	Q4	Q1	Q2	H2	
Real GDP	3.4	4.1	2.5	1.4	1.2	2.2
<i>Previous</i>		2.8	1.9	1.7	1.9	2.3
Final sales	3.1	4.8	2.4	2.2	1.8	2.2
<i>Previous</i>		3.7	2.1	2.0	2.2	2.3
Real PCE	3.0	4.3	2.5	2.2	1.6	1.9
<i>Previous</i>		2.9	2.5	1.8	1.9	2.1

Substantial uncertainties attach to any forecast, and recent developments have underscored two key areas of concern as we attempt to gauge the cyclical forces in the economy. The first is the difficulty in assessing the extent and timing with which various sectors of final demand will respond to movements in interest rates; in the current instance, we need also to cope with an unusual pattern of financial developments in the period of monetary tightening, including a depreciating dollar and easing credit supplies. The second area of concern is the difficulty in judging how fast businesses will seek to gear down their accumulation of inventories; gauging desired levels of stocks is always a tricky affair. While we believe that a pattern of activity at least roughly along the lines we are describing is the most probable, we recognize that many other scenarios are possible: These range from

cyclically adjusted trend, which we estimate to be about 1.4 percent per annum. The growth of output per hour is projected to recede to less than 1 percent (annual rate) in the second half of next year. Assuming businesses will remain cautious as economic activity picks up in 1996, labor productivity is likely to accelerate somewhat.

**STAFF LABOR MARKET PROJECTION<sup>1</sup>**  
(Percent change, at annual rates, except as noted)

	<u>1994</u>	<u>1995</u>		
	Q4	H1	H2	1996
Nonfarm payroll employment	2.4	1.5	.8	1.1
<i>Previous</i>	2.3	1.0	1.2	1.3
Output per hour, nonfarm business	.1	1.6	.7	1.3
<i>Previous</i>	.7	1.1	1.0	1.4
Civilian unemployment rate <sup>2</sup>	5.7	5.8	6.1	6.3
<i>Previous</i>	6.0	6.2	6.3	6.3

1. Percent changes are from final quarter of previous period to final quarter of period indicated.

2. Average for final quarter of period.

Wages and prices. Because resource utilization currently is tighter than we previously anticipated, we are now forecasting a more noticeable upturn in wage and price inflation for early 1995.<sup>2</sup> With labor markets assumed to remain tight in the near term, the trend in ECI compensation is projected to accelerate from 3.3 percent over the twelve months ended in September to 3-3/4 percent by the middle of next year. In particular, wage increases are likely to break above the 3 percent trend that has been apparent in the ECI for the past several years; by the second quarter of 1995, the year-over-year change in ECI wages and salaries is projected to be about 3-1/2 percent. We are anticipating that trends in benefit costs will be little changed, with health

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2. The projection incorporates the changes in CPI measurement that are discussed in the Appendix to the Nonfinancial Developments section of Part 2. All told, the effect of the changes is to lower CPI inflation by about 0.1 percentage point per year.

insurance cost increases remaining relatively moderate and pension fund contributions continuing to rise substantially.

STAFF INFLATION PROJECTION  
(Percent change, annual rate)

	<u>1994</u> Q4	<u>1995</u>			<u>1996</u>
		Q1	Q2	H2	
CPI	3.1	3.7	3.3	3.0	2.9
<i>Previous</i>	3.3	3.7	3.2	3.1	3.0
Excl. food and energy	3.5	3.8	3.6	3.2	3.1
<i>Previous</i>	3.6	3.5	3.2	3.2	3.1
ECI	3.6	3.8	3.8	3.7	3.6
<i>Previous</i>	2.7	3.6	3.6	3.6	3.5

The projected rise in the core CPI over the first half of 1995 is now 3-3/4 percent, which will boost the year-over-year change from 3 percent as of this September to 3-1/2 percent in mid-1995. The acceleration is expected to occur largely, if not entirely, in the goods component of the index. That pickup in inflation is expected to be the result of the combined influence of several factors, which overlap and whose effects cannot be readily separated: the pressures from higher costs of materials on the pricing of finished goods; the effect that the speed with which production and sales have firmed recently is expected to have on materials costs and price markups; and the direct and indirect effect of rising prices of non-oil imports. By the first quarter of 1995, the CPI for consumer goods (excluding food and energy) is projected to be rising at a 3-3/4 percent annual rate, up from less than a 2 percent rate over the first three quarters of this year.

The CPI for energy, which has fluctuated widely in recent quarters, is anticipated to swing up sharply again in the first quarter of 1995. In particular, higher prices of crude oil and the switch to reformulated gasoline should lead to a substantial rise in

								Unemployment rate (level except as noted)		
		Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index <sup>1</sup>		
Interval	09/21/94	11/09/94	09/21/94	11/09/94	09/21/94	11/09/94	09/21/94	11/09/94	09/21/94	11/09/94
<b>ANNUAL</b>										
1992 <sup>2</sup>	5.2	5.2	2.3	2.3	3.2	3.2	3.0	3.0	7.4	7.4
1993 <sup>2</sup>	5.4	5.4	3.1	3.1	3.0	3.0	3.0	3.0	6.8	6.8
1994	5.9	6.1	3.8	3.9	2.7	2.7	2.7	2.6	6.2	6.1
1995	4.9	5.1	2.3	2.5	3.1	3.1	3.4	3.3	6.2	5.9
1996	4.5	4.3	2.1	1.8	2.9	2.9	3.0	3.0	6.3	6.2
<b>QUARTERLY</b>										
1993 Q1 <sup>2</sup>	4.4	4.4	1.2	1.2	4.2	4.2	2.8	2.8	7.0	7.0
Q2 <sup>2</sup>	4.2	4.2	2.4	2.4	2.4	2.4	3.1	3.1	7.0	7.0
Q3 <sup>2</sup>	3.8	3.8	2.7	2.7	2.0	2.0	2.0	2.0	6.7	6.7
Q4 <sup>2</sup>	7.7	7.7	6.3	6.3	2.4	2.4	3.1	3.1	6.5	6.5
1994 Q1 <sup>2</sup>	6.1	6.1	3.3	3.3	3.1	3.1	1.9	1.9	6.6	6.6
Q2 <sup>2</sup>	6.9	7.2	3.8	4.1	2.9	2.9	2.8	2.8	6.2	6.2
Q3 <sup>2</sup>	4.8	5.2	3.0	3.4	2.6	2.7	3.8	3.6	6.1	6.0
Q4	5.6	6.1	2.8	4.1	3.2	3.0	3.3	3.1	6.0	5.7
1995 Q1	4.9	5.7	1.9	2.5	3.5	3.7	3.7	3.7	6.1	5.7
Q2	4.0	4.2	1.7	1.4	2.8	3.1	3.2	3.3	6.2	5.8
Q3	4.3	3.6	1.8	1.0	2.8	2.9	3.1	3.1	6.2	6.0
Q4	4.4	3.8	2.0	1.5	2.8	2.8	3.0	2.9	6.3	6.1
1996 Q1	4.8	4.5	2.2	1.8	3.2	3.1	3.0	2.9	6.3	6.2
Q2	4.7	4.6	2.3	2.2	2.8	2.8	3.0	2.9	6.3	6.2
Q3	4.6	4.7	2.3	2.3	2.8	2.9	3.0	2.9	6.3	6.2
Q4	4.6	4.8	2.3	2.4	2.8	2.9	3.0	2.9	6.3	6.3
<b>TWO-QUARTER<sup>3</sup></b>										
1993 Q2 <sup>2</sup>	4.3	4.3	1.8	1.8	3.3	3.3	3.1	3.1	-.3	-3
Q4 <sup>2</sup>	5.7	5.7	4.5	4.5	2.2	2.2	2.4	2.4	-.5	-.5
1994 Q2 <sup>2</sup>	6.5	6.6	3.6	3.7	3.0	3.0	2.4	2.4	-.3	-.3
Q4	5.2	5.7	2.9	3.8	2.9	2.8	3.6	3.3	-.2	-.5
1995 Q2	4.4	4.9	1.8	1.9	3.2	3.4	3.4	3.5	2	1
Q4	4.3	3.7	1.9	1.2	2.8	2.9	3.0	3.0	.1	.3
1996 Q2	4.7	4.6	2.3	2.0	3.0	3.0	3.0	2.9	.0	1
Q4	4.6	4.8	2.3	2.4	2.8	2.9	3.0	2.9	.0	.1
<b>FOUR-QUARTER<sup>4</sup></b>										
1992 Q4 <sup>2</sup>	6.4	6.4	3.7	3.7	3.2	3.2	3.1	3.1	3	3
1993 Q4 <sup>2</sup>	5.0	5.0	3.1	3.1	2.8	2.8	2.7	2.7	-.8	-.8
1994 Q4	5.9	6.2	3.3	3.8	3.0	2.9	3.0	2.9	.5	-.8
1995 Q4	4.4	4.3	1.8	1.5	3.0	3.1	3.2	3.3	.3	.4
1996 Q4	4.7	4.7	2.3	2.2	2.9	2.9	3.0	2.9	0	2

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

Item	Unit <sup>1</sup>	Projected								
		1988	1989	1990	1991	1992	1993	1994	1995	1996
<b>EXPENDITURES</b>										
Nominal GDP	Bill \$	4900.4	5250.8	5546.1	5724.8	6020.2	6343.3	6729.4	7074.3	7379.9
Real GDP	Bill '87\$	4718.6	4838.0	4897.3	4867.6	4979.3	5134.5	5337.1	5471.8	5570.5
Real GDP	% change	3.3	1.6	2	3	3.7	3.1	3.8	1.5	2.2
Gross domestic purchases		2.5	9	-4	-1	4.1	3.9	4.3	1.4	2.1
Final sales		4.2	1.5	1.2	-4	3.8	3.0	2.9	2.1	2.2
Private dom. final purch		4.2	5	-1	-8	5.1	5.0	4.2	2.4	2.4
Personal cons. expend.		4.2	1.2	7	0	4.2	3.0	3.3	1.9	1.9
Durables		8.5	-5	-8	-13	9.6	9.0	7.6	1.1	2.3
Nondurables		3.2	1.2	-1	-1.6	3.2	1.3	2.7	1.6	1.5
Services		3.7	1.7	1.7	1.2	3.5	2.5	2.5	2.4	2.1
Business fixed invest.		5.5	-4	7	-6.2	6.7	16.0	10.3	7.0	4.3
Producers' dur. equip.		9.1	-1.7	2.9	-3.2	11.0	21.3	12.9	7.1	4.4
Nonres. structures		-1.2	2.3	-3.9	-12.4	-3.4	1.6	2.1	6.5	3.9
Res. structures		9	-7.7	-15.2	7	17.0	8.1	1.1	-4.9	3.0
Exports		13.5	11.3	6.7	8.1	5.0	5.8	8.3	8.6	9.1
Imports		3.6	2.6	4	4.0	8.6	12.4	11.9	6.2	7.2
Government purchases		2	2.0	3.3	-8	7	-1.0	-1.1	-0.7	5
Federal		-3.4	-6	2.8	-3.2	.8	-6.9	-3.4	-6.3	-3.2
Defense		-3.2	-1.5	1.5	-7.0	-1.3	9.0	-4.5	-8.8	-4.5
State and local		2.9	4.0	3.6	8	.6	3.0	1.9	2.5	2.5
Change in bus. invent.	Bill '87\$	19.9	29.8	5.7	-1.1	2.5	15.3	51.5	43.0	28.4
Nonfarm		26.9	29.9	3.2	-1.3	-2.0	18.5	44.3	39.4	26.1
Net exports		-104.0	-73.7	-54.7	-19.5	-32.3	-73.9	-112.1	-110.3	-100.6
Nominal GDP	% change	7.7	6.0	4.7	3.5	6.4	5.0	6.2	4.3	4.7
<b>EMPLOYMENT AND PRODUCTION</b>										
Nonfarm payroll employ.	Millions	105.2	107.9	109.4	108.3	108.6	110.5	113.4	115.5	116.7
Unemployment rate	%	5.5	5.3	5.5	6.7	7.4	6.8	6.1	5.9	6.2
Industrial prod. index	% change	3.2	-1	-2	-3	3.2	4.2	6.4	1.9	2.6
Capacity util. rate-mfg	%	83.6	83.1	81.1	77.8	78.6	80.6	83.7	84.4	83.4
Housing starts	Millions	1.49	1.38	1.19	1.01	1.20	1.29	1.42	1.35	1.41
Light Motor Vehicle Sales		15.43	14.53	13.85	12.31	12.80	13.89	15.10	15.13	15.25
Auto sales in U.S.		10.63	9.91	9.50	8.39	8.35	8.72	9.24	9.17	9.28
North American prod.		7.54	7.08	6.90	6.14	6.26	6.75	7.25	7.34	7.53
Other		3.10	2.83	2.60	2.25	2.10	1.97	1.99	1.83	1.75
<b>INCOME AND SAVING</b>										
Nominal GNP	Bill \$	4908.2	5266.8	5567.8	5740.8	6025.8	6347.8	6722.1	7050.1	7347.7
Nominal GNP	% change	7.8	6.1	4.9	3.2	6.1	5.0	6.0	4.1	4.6
Nominal personal income		7.1	6.5	6.5	3.7	8.1	2.8	6.6	5.4	5.2
Real disposable income		3.2	1.1	1.1	9	5.0	5	3.8	2.0	2.2
Personal saving rate	%	4.4	4.0	4.2	5.0	5.5	4.1	4.0	4.2	4.6
Corp. profits, IV&CCAdj	% change	10.2	-6.3	2.3	8.8	9.6	23.4	3.9	-3.1	6.0
Profit share of GNP	%	7.4	6.9	6.8	6.8	6.7	7.7	8.1	7.8	7.6
Federal surpl./def.	Bill. \$	-136.6	-122.3	-163.5	-202.9	-282.7	-241.4	-162.8	-162.8	-189.5
State/local surpl./def.		38.4	44.8	25.1	17.0	24.8	26.3	26.8	29.2	32.5
Ex. social ins. funds		-18.4	-17.5	-35.6	-46.5	-41.6	-40.0	-38.8	-35.3	-31.6
<b>PRICES AND COSTS</b>										
GDP implicit deflator	% change	4.2	4.4	4.5	3.3	2.6	1.8	2.4	2.7	2.4
GDP fixed-wt. price index		4.2	4.4	4.6	3.6	3.2	2.8	2.9	3.1	2.9
Gross domestic purchases		4.1	4.4	5.2	2.9	3.2	2.5	3.0	3.1	2.8
fixed-wt. price index		4.3	4.6	6.3	3.0	3.1	2.7	2.9	3.3	2.9
CPI		4.5	4.4	5.3	4.4	3.5	3.1	3.1	3.4	3.1
Ex. food and energy		4.8	4.8	4.6	4.4	3.5	3.1	3.1	3.6	3.6
ECI, hourly compensation <sup>2</sup>		4.8	4.8	4.6	4.4	3.5	3.6	3.3	3.7	3.6
nonfarm business sector		5	-1.4	.4	2.3	3.2	1.8	8	1.2	1.3
Output per hour		3.8	3.1	6.2	4.7	5.1	2.4	3.3	3.8	3.7
Compensation per hour		3.3	4.6	5.7	2.3	1.9	.6	2.5	2.6	2.4
Unit labor cost										

1. Percent changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

Item	Unit	1992				1993				1994	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<u>EXPENDITURES</u>											
Nominal GDP	Bill \$	5896.8	5971.3	6043.6	6169.3	6235.9	6299.9	6359.2	6478.1	6574.7	6689.9
Real GDP	Bill \$7s	4918.5	4947.5	4990.5	5060.7	5075.3	5105.4	5139.4	5218.0	5261.1	5314.1
Real GDP	% change	3.1	2.4	3.5	5.7	1.2	2.4	2.7	6.3	3.3	4.1
Gross domestic purchases		3.2	3.7	3.9	5.7	2.7	3.3	4.0	5.8	5.0	4.6
Final sales		4.8	1.5	3.5	5.6	2	2.4	3.2	6.4	2.2	1.5
Private dom. final purch.		5.7	4.2	3.9	6.7	3.5	3.7	5.3	7.4	5.8	2.7
Personal cons. expend.		5.8	1.7	3.9	5.6	1.6	2.6	3.9	4.0	4.7	1.3
Durables		15.5	4	10.0	13.2	3.2	9.8	7.7	15.5	8.8	.4
Nondurables		4.2	-7	2.7	6.9	-1.6	1.6	2.8	2.4	3.8	2.2
Services		4.5	3.4	3.2	3.0	3.1	1.4	3.6	2.0	4.0	1.1
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	6.1
Nonres. structures		2.9	-1.6	-8.9	-5.5	2.5	3	5	3.3	-11.8	20.6
Res. structures		22.4	22.7	8	23.8	5.3	-7.6	9.4	28.2	10.0	7.0
Exports		6.1	1.5	5.3	7.2	-1.0	7.7	-3.2	21.7	-3.5	16.6
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	-1.1	-4.9	-1.2
Federal		-1.3	-4.8	8.6	1.1	-15.4	-3.6	-3.0	-5.0	-10.3	-7.9
Defense		-7.2	-5.1	11.5	-3.3	-20.0	-2.2	-9.2	-3.6	-16.0	-4.1
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 \$7s	-6.3	4.2	5.2	6.6	18.5	18.9	13.0	10.8	25.4	59.2
Nonfarm		-14.3	-1.9	1.8	6.3	19.7	22.8	20.9	10.7	22.1	51.7
Net exports		-17.9	-34.1	-38.9	-38.5	-57.6	-69.3	-86.3	-82.2	-104.0	-111.8
Nominal GDP	% change	7.1	5.2	4.9	8.6	4.4	4.2	3.8	7.7	6.1	7.2
<u>EMPLOYMENT AND PRODUCTION</u>											
Onfarm 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 <sup>1</sup>	%	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	5.4
Capacity util. rate-mfg <sup>1</sup>	%	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
<u>INCOME AND SAVING</u>											
Nominal GNP	Bill \$	5907.7	5979.1	6049.4	6167.0	6243.9	6303.3	6367.8	6476.2	6574.0	6682.5
Nominal GNP	% change	6.8	4.9	4.8	8.0	5.1	3.9	4.2	7.0	6.2	6.8
Nominal personal income		8.2	5.6	3.7	15.3	-5.8	8.6	2.4	6.7	5.3	7.7
Real disposable income		5.9	2.1	1.7	10.6	-7.4	4.7	8	4.3	3.4	3.5
Personal saving rate <sup>1</sup>	%	5.3	5.5	5.0	6.2	4.0	4.6	3.9	4.0	3.6	4.1
Corp. profits, IV&CCAdj	% change	18.8	5	-40.0	101.1	9.6	30.7	18.4	37.0	-17.9	33.6
Profit share of GNP <sup>1</sup>	%	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	-145.1
State/local surpl./def		19.9	25.9	20.4	33.1	21.6	25.3	23.9	34.5	25.2	27.0
Ex. social ins. funds		-45.7	-40.5	-46.3	-33.8	-44.7	-41.1	-42.4	-31.7	-40.7	-38.9
<u>PRICES AND COSTS</u>											
GDP implicit deflator	% change	3.8	2.7	1.3	2.7	3.3	1.6	1.0	1.3	2.9	2.9
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		3.6	3.4	3.2	2.5	3.3	2.6	1.6	2.4	2.5	3.2
fixed-wt. price index		2.6	3.5	2.9	3.5	2.8	3.1	2.0	3.1	1.9	2.8
CPI		3.7	3.6	3.0	3.6	3.5	3.5	2.4	2.9	2.6	3.4
Ex. food and energy		3.6	3.2	3.2	3.5	3.9	3.8	3.4	3.4	2.7	3.7
CI, hourly compensation <sup>2</sup>		3.6	3.2	3.2	3.5	3.9	3.8	3.4	3.4	2.7	3.7
Onfarm business sector		4.2	1.9	2.8	3.8	-2.0	.4	4.0	4.9	2.9	-2.1
Output per hour		5.7	4.6	5.8	4.5	2.1	2.4	2.8	2.4	6.1	.7
Compensation per hour		1.4	2.6	2.9	6	4.1	2.0	-1.2	-2.4	3.1	2.9
Unit labor cost											

1 Not at an annual rate

2 Private-industry workers

Item	Units	Projected											
		1994		1995				1996					
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
<b>APENDITURES</b>													
Nominal GDP	Bill \$	6775.9	6876.9	6972.1	7044.2	7106.8	7174.2	7253.6	7335.9	7421.1	7509.0		
Real GDP	Bill \$7S	5359.2	5413.8	5446.7	5465.0	5477.9	5497.7	5522.8	5553.5	5585.9	5619.7		
Real GDP	% change	3.4	4.1	2.5	1.4	1.0	1.5	1.8	2.2	2.3	2.4		
Gross domestic purchases		3.9	3.8	2.4	1.2	7	1.2	1.6	2.0	2.2	2.4		
Final sales		3.1	4.8	2.4	2.2	1.7	1.9	2.2	2.3	2.2	2.3		
Private dom. final purch.		3.0	5.3	3.2	2.6	1.7	1.9	2.2	2.3	2.4	2.5		
Personal cons. expend.		3.0	4.3	2.5	2.2	1.4	1.7	1.8	1.9	2.0	2.1		
Durables		7.9	13.7	2.0	2.1	-1.7	2.0	2.2	2.2	2.2	2.5		
Nondurables		2.1	2.7	2.1	1.5	1.5	1.3	1.4	1.5	1.5	1.5		
Services		2.1	2.7	2.8	2.7	2.2	2.0	2.0	2.0	2.2	2.3		
Business fixed invest.		7.0	14.2	10.9	8.1	5.3	3.9	4.1	4.2	4.4	4.6		
Producers' dur. equip.		11.0	16.1	11.8	8.5	5.0	3.4	4.1	4.3	4.5	4.8		
Nonres. structures		-5.4	8.1	7.5	6.4	6.3	5.8	4.0	3.9	3.9	3.9		
Res. structures		-7.2	-4.4	-6.6	-7.2	-4.2	-1.2	3.0	3.8	2.8	2.5		
Exports		9.8	11.4	9.0	9.0	8.2	8.1	8.8	9.2	9.1	9.2		
Imports		12.1	7.5	7.5	6.8	5.4	5.3	6.5	6.6	7.6	8.2		
Government purchases		5.9	2	-1.8	-1.0	.1	2	4	3	5	9		
Federal		9.8	-4.1	-9.0	-7.1	-4.8	-4.2	-3.6	-3.9	-3.2	-2.3		
Defense		8.6	-4.8	-12.5	-10.1	-6.7	-5.7	-4.7	-5.3	-4.3	-3.7		
State and local		3.8	2.7	2.5	2.5	2.5	2.6	2.5	2.4	2.4	2.5		
Change in bus. invent.	Bill \$7S	64.5	57.0	57.3	46.7	37.3	30.8	26.6	26.7	28.9	31.5		
Nonfarm		56.0	47.5	50.8	43.2	35.3	28.5	24.3	24.4	26.5	29.1		
Net exports		-118.3	-114.4	-114.1	-112.4	-109.1	-105.7	-103.3	-100.2	-99.3	-99.4		
Nominal GDP	% change	5.2	6.1	5.7	4.2	3.6	3.8	4.5	4.6	4.7	4.8		
<b>EMPLOYMENT AND PRODUCTION</b>													
Nonfarm payroll employ.	Millions	113.9	114.6	115.2	115.5	115.6	115.9	116.2	116.5	116.9	117.2		
Unemployment rate <sup>1</sup>	%	6.0	5.7	5.7	5.8	6.0	6.1	6.2	6.2	6.2	6.3		
Industrial prod. index	% change	6.0	5.8	3.7	1.9	9	1.2	1.9	2.6	2.8	3.0		
Capacity util. rate-mfg <sup>1</sup>	%	84.1	84.9	85.0	84.7	84.2	83.8	83.5	83.4	83.4	83.4		
Housing starts	Millions	1.48	1.41	1.37	1.34	1.33	1.35	1.38	1.40	1.42	1.43		
Light Motor Vehicle Sales		14.64	15.55	15.34	15.30	14.89	14.99	15.13	15.21	15.29	15.37		
Auto sales in U.S.		9.09	9.27	9.30	9.30	9.00	9.08	9.20	9.25	9.30	9.35		
North American prod.		7.09	7.31	7.30	7.40	7.30	7.35	7.45	7.50	7.55	7.60		
Other		2.01	1.97	2.00	1.90	1.70	1.73	1.75	1.75	1.75	1.75		
<b>INCOME AND SAVING</b>													
Nominal GNP	Bill. \$	6768.9	6862.8	6955.8	7018.8	7082.4	7143.4	7223.0	7302.1	7391.6	7473.9		
Nominal GNP	% change	5.3	5.7	5.5	3.7	3.7	3.5	4.5	4.5	5.0	4.5		
Nominal personal income		4.9	8.6	6.8	4.9	4.1	5.8	6.1	4.8	4.3	5.6		
Real disposable income		2.7	5.8	2.2	9	1.7	3.1	3.3	1.0	1.9	2.6		
Personal saving rate <sup>1</sup>	%	4.0	4.3	4.3	4.0	4.1	4.4	4.7	4.5	4.5	4.6		
Corp. profits, IV&CCAdj	% change	6.7	-.5	4	-5.9	3	-7.1	2.8	4.8	11.1	5.5		
Profit share of GNP <sup>1</sup>	%	8.2	8.1	8.0	7.8	7.7	7.5	7.5	7.5	7.6	7.6		
Federal govt. surpl./def	Bill. \$	-154.3	-175.6	-160.1	-152.2	-155.7	-183.1	-194.2	-182.0	-180.7	-201.0		
State/local surpl./def		26.5	28.5	30.1	30.1	28.8	27.7	29.0	30.4	34.4	36.0		
Ex social ins funds		-38.8	-36.7	-34.8	-34.5	-35.5	-36.5	-35.1	-33.6	-29.6	-28.0		
<b>PRICES AND COSTS</b>													
GDP implicit deflator	% change	1.6	2.0	3.1	2.8	2.6	2.4	2.6	2.3	2.3	2.3		
GDP fixed-wt. price index		2.7	3.0	3.7	3.1	2.9	2.8	3.1	2.8	2.9	2.9		
Gross domestic purchases													
fixed-wt. price index		3.2	3.2	3.8	3.1	2.9	2.7	3.1	2.7	2.8	2.8		
CPI		3.6	3.1	3.7	3.3	3.1	2.9	2.9	2.9	2.9	2.9		
Ex food and energy		2.8	3.5	3.8	3.6	3.2	3.1	3.1	3.1	3.1	3.1		
PI, hourly compensation <sup>2</sup>		3.3	3.6	3.8	3.8	3.7	3.7	3.7	3.7	3.6	3.6		
Nonfarm business sector													
Output per hour		2.7	-1	2.0	1.3	7	7	1.1	1.3	1.4	1.4		
Compensation per hour		2.9	3.8	4.1	3.8	3.7	3.7	4.0	3.7	3.6	3.6		
Unit labor cost		1	3.9	2.1	2.5	3.0	3.0	2.8	2.3	2.1	2.1		

1 Not at an annual rate.

2 Private-industry workers.

Strictly Confidential (FR)  
Class II FOMC

NET CHANGES IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS<sup>1</sup>  
(Billions of 1987 dollars)

November 9, 1994

Item	1992				1993				1994		Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1991	1992	1993	1994
Real GDP	37.7	29.0	43.0	70.2	14.6	30.1	34.0	78.6	43.1	53.0	13.6	179.9	157.3	195.8
Gross domestic purchases	38.8	45.1	47.9	69.8	33.7	41.8	51.1	74.4	64.9	60.7	-6.4	201.6	201.0	228.1
Final sales	57.5	18.4	42.1	68.8	2.7	29.7	40.0	80.7	28.5	19.2	-20.7	186.8	153.1	149.6
Private dom. final purch.	55.1	41.7	39.1	66.3	35.9	38.6	54.5	76.9	61.9	29.8	-32.6	202.2	205.9	182.7
Personal cons. expend.	46.1	14.0	32.2	45.8	13.8	22.0	33.0	34.0	40.1	11.5	-6	138.1	102.8	115.6
Durables	15.7	4	10.7	14.3	3.7	11.2	9.0	18.1	10.9	5	-5.5	41.1	42.0	38.8
Nondurables	10.7	-1.8	7.1	17.8	-4.2	4.3	7.4	6.3	10.3	6.0	-17.1	33.8	13.8	29.6
Services	19.7	15.3	14.4	13.7	14.4	6.4	16.6	9.6	18.9	5.1	22.1	63.1	47.0	47.2
Business fixed invest.	-1.1	18.0	6.4	9.7	19.4	20.7	16.9	29.3	16.4	14.3	-33.3	34.0	86.3	64.6
Producers' dur. equip.	-1.2	18.6	9.9	11.8	18.4	20.7	16.6	28.2	20.9	7.5	-11.9	39.1	83.9	61.5
Nonres. structures	1.1	-6	-3.5	-2.1	.9	1	.2	1.2	-4.6	6.9	-21.4	-5.1	2.4	3.1
Res. structures	9.2	9.8	4	10.8	2.7	-4.1	4.7	13.5	5.4	3.9	1.2	30.2	16.8	2.4
Change in bus. invent.	-19.8	10.5	1.0	1.4	11.9	4	-5.9	-2.2	14.6	33.8	34.4	-6.9	4.2	46.2
Nonfarm	-28.9	12.4	3.7	4.5	13.4	3.1	-1.9	-10.2	11.4	29.6	33.3	-8.3	4.4	36.8
Farm	9.1	-1.8	-2.8	-3.1	-1.5	-2.7	-4.0	8.0	3.2	4.2	1.0	1.4	-2	9.4
Net exports	-1.0	-16.2	-4.8	4	-19.1	-11.7	-17.0	4.1	-21.8	-7.8	19.9	-21.6	43.7	-32.2
Exports	8.4	2.1	7.4	10.2	-1.5	11.0	-4.9	29.9	-5.6	24.3	42.2	28.1	34.5	52.0
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	84.2
Government purchases	3.4	-7.1	7.8	2.1	-14.1	2.8	2.5	-3	-11.6	-2.8	-8.0	6.2	-9.1	-8
Federal	-1.2	-4.6	7.7	1.0	-15.4	-3.3	-2.7	-4.5	-9.4	-7.0	-12.4	2.9	-25.9	-12.1
Defense	-4.9	-3.4	7.1	-2.2	-14.2	-1.4	-5.9	-2.2	-10.2	-2.4	-19.9	-3.4	-23.7	-10.7
Nondefense	3.8	-1.2	6	3.2	-1.3	-1.8	3.2	-2.3	.8	-4.5	7.4	6.4	-2.2	-1.4
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	11.3

1. Annual changes are from Q4 to Q4

Strictly Confidential (FR)  
Class II FOMC

NET CHANGES IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS<sup>1</sup>  
(Billions of 1987 dollars)

November 9, 1994

Item	Projected												Projected			
	1994		1995				1996						1993	1994	1995	1996
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4						
Real GDP	45.1	54.6	32.9	18.3	12.9	19.8	25.1	30.8	32.3	33.8	157.3	195.8	83.9	122.0		
Gross domestic purchases	51.7	50.8	32.5	16.6	9.7	16.3	22.7	27.7	31.4	33.9	201.0	228.1	75.1	115.7		
Final sales	39.8	62.1	32.5	29.0	22.3	26.3	29.2	30.7	30.1	31.3	153.1	149.6	110.1	121.2		
Private dom. final purch.	33.1	57.9	36.3	29.6	19.4	22.3	25.9	27.0	28.0	29.4	205.9	182.7	107.7	110.3		
Personal cons. expend.	26.1	37.9	22.1	-19.8	12.4	16.0	16.8	17.2	18.3	19.3	102.8	115.6	70.3	71.7		
Durables	10.0	17.4	2.8	2.8	-2.4	2.8	3.1	3.0	3.1	3.5	42.0	38.8	6.0	12.6		
Nondurables	5.8	7.5	5.9	4.1	4.2	3.5	3.8	4.2	4.3	4.3	13.8	29.6	17.7	16.6		
Services	10.2	13.0	13.4	12.9	10.6	9.6	9.9	10.0	11.0	11.6	47.0	47.2	46.6	42.5		
Business fixed invest	11.3	22.6	18.1	13.9	9.4	7.0	7.5	7.8	8.1	8.6	86.3	64.6	48.4	32.0		
Producers' dur. equip.	13.4	19.7	15.3	11.5	7.0	4.8	5.9	6.2	6.5	7.0	83.9	61.5	38.6	25.6		
Nonres. structures	-2.1	2.9	2.8	2.4	2.4	2.3	1.6	1.6	1.6	1.6	2.4	3.1	9.9	6.3		
Res. structures	-4.3	-3.6	-3.9	-4.1	-2.4	-7	1.6	2.1	1.5	1.4	16.8	2.4	-11.0	6.6		
Change in bus invent	5.3	-7.5	4	-10.7	-9.4	-6.5	-4.1	1	2.3	2.5	4.2	46.2	-26.2	7		
Nonfarm	4.3	-8.5	3.4	-7.7	-7.9	-6.8	-4.1	1	2.2	2.5	4.4	36.8	-19.0	6		
Farm	1.0	1.0	-3.0	-3.0	-1.5	3	0	0	1	0	-2	9.4	-7.2	1		
Net exports	-6.5	3.9	4	1.7	3.2	3.4	2.4	3.0	9	-1	-43.7	-32.2	8.8	6.3		
Exports	15.3	18.0	14.7	15.1	14.0	14.1	15.7	16.8	16.9	17.4	34.5	52.0	58.0	66.9		
Imports	21.9	14.1	14.4	13.4	10.8	10.7	13.3	13.7	16.0	17.6	78.1	84.2	49.3	60.6		
Government purchases	13.2	4	-4.2	-2.3	-3	5	9	6	1.2	2.0	-9.1	-8	-6.3	4.7		
Federal	7.9	-3.6	-7.9	-6.0	-4.0	-3.4	-2.9	-3.1	-2.5	-1.8	-25.9	-12.1	-21.3	-10.3		
Defense	4.7	-2.8	-7.5	-5.8	-3.7	-3.1	-2.5	-2.8	-2.2	-1.9	-23.7	-10.7	-20.1	-9.4		
Nondefense	3.0	-7	-4	-2	-3	-3	-4	-3	-3	1	-2.2	-1.4	-1.2	-9		
State and local	5.4	3.9	3.7	3.7	3.7	3.9	3.8	3.7	3.7	3.8	16.8	11.3	15.0	15.0		

1 Annual changes are from Q4 to Q4.

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Class II FOMC

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

November 9, 1994

Item	Fiscal year				1994				1995				1996			
	1993 <sup>a</sup>	1994 <sup>a</sup>	1995	1996	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>b</sup>	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>UNIFIED BUDGET</b>																
Receipts <sup>1</sup>	1153	1257	1342	1407	289	363	318	304	294	411	333	317	302	435	352	325
Outlays <sup>1</sup>	1409	1461	1530	1612	348	363	372	380	391	376	384	402	407	403	400	424
Surplus/deficit <sup>1</sup>	-255	-203	-188	-205	-59	0	-53	-75	-97	35	-50	-84	-105	33	-48	99
On-budget	-301	-259	-252	-267	-66	-33	-55	-83	-107	-5	-57	-90	-113	-7	-57	-103
Off-budget	46	56	64	63	8	33	2	8	9	40	7	6	9	39	9	5
Surplus excluding deposit insurance <sup>2</sup>	-283	-210	-205	-217	-65	3	-57	-78	-103	32	-56	-86	-109	31	-53	98
<b>Means of financing</b>																
Borrowing	249	185	202	212	51	8	37	61	86	11	44	66	88	15	43	69
Cash decrease	6	17	-24	0	5	-6	15	8	13	-45	0	25	20	-45	0	25
Other <sup>3</sup>	0	1	11	-8	2	-2	1	7	-1	-1	6	-7	-3	-3	5	5
Cash operating balance, end of period	53	36	60	60	45	51	36	28	15	60	60	35	15	60	60	35
<b>NIPA FEDERAL SECTOR</b>																
Receipts	1242	1355	1451	1514	1338	1381	1388	1414	1449	1470	1473	1483	1501	1530	1542	1561
Expenditures	1497	1529	1612	1699	1514	1526	1543	1589	1609	1622	1629	1666	1696	1712	1722	1762
Purchases	447	439	437	429	438	435	443	443	441	434	431	429	431	429	428	427
Defense	307	295	290	280	292	292	298	297	293	287	284	281	282	279	278	277
Nondefense	140	144	147	149	146	144	145	146	148	147	148	148	150	150	150	151
Other expenditures	1049	1090	1175	1270	1076	1091	1100	1147	1168	1187	1198	1237	1265	1283	1295	1335
Surplus/deficit	-254	-174	-161	-185	-176	-145	-154	-175	-160	-152	-156	-183	-194	-182	-181	201
<b>FISCAL INDICATORS<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-210	-163	-176	-182	-158	-141	-159	-192	-179	-168	-164	-186	-190	-176	-174	-194
Change in HEB, percent of potential GDP	-1	-7	2	.1	-6	-3	3	5	-2	-2	-1	3	1	-2	0	3
Fiscal impetus (FI), percent, cal year	-4.1	-6.9	-6.1	-5	-4.2	-4.3	3.1	-1.6	-3.1	-2.5	-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

b--Preliminary

Confidential FR Class II  
November 9, 1994

CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS<sup>1</sup>  
(Percent)

Year	Nonfederal						State and local govt.	MEMO--	
	Total <sup>2</sup>	Federal govt.	Total	Total	Home mtg.	Cons. credit		Private financial assets	Nominal GDP
<b>Year</b>									
1982	9.8	19.7	7.4	5.5	4.7	4.4	8.8	9.3	10.1
1983	11.9	18.9	10.1	11.8	10.8	12.6	8.7	9.7	12.5
1984	14.6	16.9	13.9	13.0	11.7	18.7	15.6	9.1	12.8
1985	15.5	16.5	15.2	15.3	13.2	15.8	12.1	31.6	12.4
1986	12.3	13.6	11.9	12.0	14.3	9.6	12.2	9.8	7.3
1987	9.4	8.0	9.8	11.4	14.9	5.0	7.9	12.1	8.1
1988	8.9	8.0	9.2	10.5	12.7	7.2	8.7	6.0	8.6
1989	7.8	7.0	8.1	9.2	10.8	6.2	6.9	9.3	5.8
1990	6.3	11.0	5.0	6.5	7.9	2.0	3.4	5.7	4.7
1991	4.4	11.1	2.4	4.7	6.5	-1.8	-1.0	7.4	-1.0
1992	4.8	10.9	2.8	5.8	6.7	0.7	-0.1	1.8	0.7
1993	5.4	8.3	4.3	7.3	6.4	8.0	0.6	6.4	-0.7
1994	4.8	4.7	4.8	7.2	5.6	12.2	4.4	-3.8	4.4
1995	5.0	5.9	4.7	6.1	5.6	9.4	4.1	0.3	1.0
1996	4.9	5.8	4.6	6.0	5.6	7.9	3.5	1.9	1.0
<b>Quarter (seasonally adjusted annual rates)</b>									
1993:1	4.2	7.8	2.9	4.4	4.2	2.7	-0.3	8.7	-3.1
2	6.4	10.7	4.8	6.8	6.7	6.0	1.0	11.3	1.4
3	5.0	5.4	4.9	9.1	8.1	9.3	0.3	4.5	-2.3
4	5.5	8.4	4.5	8.3	6.2	13.2	1.2	0.6	1.4
1994:1	5.3	6.3	5.0	7.3	6.2	8.6	3.9	-1.1	9.2
2	3.9	3.6	4.0	6.2	3.6	13.4	4.0	-5.5	4.5
3	4.6	3.9	4.9	7.6	6.3	13.9	4.4	-5.2	1.9
4	4.9	4.6	5.0	7.1	5.9	11.0	4.8	-3.7	1.7
1995:1	6.2	10.1	4.7	6.0	5.6	10.2	4.5	-0.8	1.5
2	4.3	3.8	4.5	5.8	5.5	9.4	4.1	-0.1	0.6
3	4.5	4.4	4.6	6.0	5.5	8.7	3.8	0.8	0.7
4	4.7	5.0	4.6	5.8	5.4	8.1	3.8	1.3	1.0

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 5.0 percent in 1994 and 1995, and 4.9 in 1996.
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FLOW OF FUNDS PROJECT...S: HIGHLIGHTS<sup>1</sup>  
(Billions of dollars)

	1993	Calendar year 1994	1995	1996	1994				1995			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-----Seasonally Adjusted Annual Rates-----												
<b>Net funds raised by domestic nonfinancial sectors</b>												
1 Total	651.4	571.3	633.7	659.1	657.2	501.7	538.9	587.3	758.6	561.9	594.2	620.1
2 Net equity issuance	20.9	-20.9	-15.8	-8.0	-2.8	10.4	-48.0	-43.0	-39.0	-8.0	-8.0	-8.0
3 Net debt issuance	630.5	592.1	649.4	667.1	660.0	491.3	586.9	630.3	797.6	569.9	602.2	628.1
<b>Borrowing sectors</b>												
Nonfinancial business												
4 Financing gap <sup>2</sup>	28.8	71.9	125.4	122.3	22.1	75.3	91.2	98.8	119.6	129.2	125.6	127.2
5 Net equity issuance	20.9	-20.9	-15.8	-8.0	-2.8	10.4	-48.0	-43.0	-39.0	-8.0	-8.0	-8.0
6 Credit market borrowing	21.1	162.5	160.2	143.6	145.1	152.5	168.1	184.5	174.4	162.4	150.5	153.6
Households												
7 Net borrowing, of which:	293.8	310.7	278.8	290.8	315.7	269.7	335.4	322.0	278.0	272.7	284.5	279.8
8 Home mortgages	179.7	166.9	176.5	186.8	182.8	109.7	192.1	183.0	174.7	176.1	177.4	177.8
9 Consumer credit	64.4	106.1	91.7	84.2	74.4	118.7	127.0	104.2	99.2	94.2	89.2	84.2
10 Debt/DPI (percent) <sup>3</sup>	88.5	89.8	90.4	91.1	90.5	90.4	90.8	90.6	90.6	91.0	91.3	91.3
State and local governments												
11 Net borrowing	59.5	-37.8	3.0	17.8	-11.3	-53.8	-50.8	-35.2	-7.2	-1.2	7.8	12.8
12 Current surplus <sup>4</sup>	-45.5	-29.9	-27.4	-24.8	-29.1	-36.3	-25.6	-28.5	-25.7	-26.2	-28.0	-29.6
U.S. government												
13 Net borrowing	256.1	156.6	207.4	215.0	210.5	122.9	134.1	159.0	352.4	136.0	159.4	181.9
14 Net borrowing; quarterly, nsa	256.1	156.6	207.4	215.0	51.2	7.7	37.1	60.7	85.7	11.2	44.1	66.4
15 Unified deficit; quarterly, nsa	226.3	187.0	197.4	219.2	58.6	-0.3	53.5	75.2	97.5	-34.6	50.1	84.3
Funds supplied by depository institutions												
16 Dom. nonfinancial debt <sup>3</sup>	140.4	206.4	198.6	188.8	203.4	155.0	233.1	234.1	207.9	197.6	199.1	189.8
<b>MEMO: (percent of GDP)</b>												
17 Dom. nonfinancial debt <sup>3</sup>	189.7	188.0	187.6	188.7	190.4	188.9	188.7	188.2	188.5	188.6	189.1	189.5
18 Dom. nonfinancial borrowing	9.9	8.8	9.2	9.0	10.0	7.3	8.7	9.2	11.4	8.1	8.5	8.8
19 U.S. government <sup>5</sup>	4.0	2.3	2.9	2.9	3.2	1.8	2.0	2.3	5.1	1.9	2.2	2.5
20 Private	5.9	6.5	6.2	6.1	6.8	5.5	6.7	6.9	6.4	6.2	6.2	6.2

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.

nonagricultural exports are projected to grow about 6-1/4 percent in 1995-96. The level of agricultural exports is projected to change little over the forecast period.

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

	1993	H1	1994	Q3	Q4	Projection-----	
						1995	1996
<b>Merchandise exports</b>							
Total	6.1		7.2	14.6	12.4	9.4	10.3
Agricultural	-5.3		-8.0	44.3	0.3	-1.0	1.6
Computers	23.1		14.8	36.4	31.1	28.6	26.3
Other nonag.	4.5		7.3	7.6	9.8	6.0	6.5
<b>Merchandise imports</b>							
Total	13.1		16.8	13.8	8.3	6.8	7.8
Oil	10.0		7.7	23.8	-27.2	5.3	1.9
Computers	38.3		27.7	22.7	26.3	25.1	21.6
Other non-oil	9.3		15.7	10.8	9.7	2.7	4.6

\* NIPA basis, 1987 dollars.

Growth of non-oil imports other than computers is expected to remain near 10 percent this quarter, to slow significantly to about 3 percent in 1995, and to strengthen in 1996. This deceleration reflects the projected slower U.S. GDP growth next year, the lagged effects of higher import price inflation in the near term, and the unwinding of a number of transitory factors that boosted imports in the second and third quarters. We expect the quantity of oil imports to fall in the current quarter as stocks are drawn down to more normal levels. Increased winter consumption should be met by slightly higher domestic production and stock draws. In 1995, imports of oil are projected to remain on an upward trend as U.S. oil consumption continues to increase in line with economic activity.

Oil prices. The fourth quarter assumption for the oil import unit value has been revised upward by nearly 80 cents to \$15.82, owing to several developments: the massing of Iraqi troops on the

Kuwaiti border and an oil workers' strike in Brazil early in the quarter and the rupture of the Houston pipeline more recently. By the second quarter of 1995, the oil import unit value should return to our long-run view of \$16.00 per barrel, consistent with continued global economic expansion, seasonally higher oil demand, and an anticipated rollover in OPEC's production quota through early 1995. Beyond the first quarter of 1995, we project WTI and the oil import price to be flat at \$18.50 and \$16.00 per barrel, respectively. We assume that Iraqi oil exports will return to world markets in 1996, permitting further increases in world oil demand to be met readily by increased supply.

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

	<u>1993</u>	<u>1994</u>			<u>-----Projection-----</u>	
		H1	Q3	Q4	<u>1995</u>	<u>1996</u>
PPI (export. wts.)	0.9	2.9	5.6	3.9	3.4	2.2
Nonag. exports*	0.7	3.2	5.7	4.1	3.0	1.8
Non-oil imports*	1.3	2.1	5.8	7.2	3.1	1.5
Oil imports (Q4 level, \$/bl.)	14.09	14.67	16.30	15.82	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 further during the current quarter from their rapid third-quarter rate of increase. The substantial increases in non-oil commodity prices on world markets and the lagged effect of the decline in the dollar since early this year will exert upward pressure on import price inflation in the near term that then will wane in mid-1995. Import prices are expected to decelerate to about a 1-1/2 percent rate of increase in 1996. In the near term, prices of U.S. nonagricultural exports reflect the sharp increases in materials prices. For 1995-96, increases in nonagricultural export prices are expected to fall in line with the slowing of U.S. producer price inflation.

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

Measure and country	Projection				
	1992	1993	1994	1995	1996
<b>REAL GDP</b>					
Canada	0.5	3.2	5.0	4.3	3.8
France	0.6	-0.5	3.3	3.4	3.6
Germany	1.0	0.0	3.3	3.0	3.2
W. Germany	0.3	-0.5	2.8	2.5	2.6
Italy	-0.6	0.4	3.5	3.1	3.1
Japan	-0.3	-0.1	1.6	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	2.9	3.1	3.3
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	1.6	2.7	4.1	3.9	4.0
Foreign G-7	0.3	1.8	3.8	3.6	3.5
Developing countries	3.9	4.7	5.2	5.1	5.3
<b>CONSUMER PRICES</b>					
Canada	1.8	1.8	0.1	2.2	2.3
France	1.8	2.1	1.7	1.5	1.5
Western Germany	3.7	3.7	2.8	2.3	2.5
Italy	4.8	4.1	3.6	4.2	4.0
Japan	0.9	1.2	0.7	0.8	0.7
United Kingdom	3.1	1.6	2.7	3.8	3.9
Average, weighted by 1987-89 GDP	2.4	2.2	1.8	2.2	2.2
Average, weighted by share of U.S. non-oil imports					
	1.9	1.9	1.1	1.8	1.9

Strictly Confidential (FR) Class II-FOMC

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	-111.8	-19.5	-32.3	-73.9
Exports of G&S Goods	571.0	573.1	580.5	590.7	589.2	600.2	595.3	625.2	619.6	643.9	542.6	578.8	602.5
Agricultural	416.0	421.5	427.4	441.1	433.9	443.3	438.5	468.1	464.4	484.6	397.1	426.5	445.9
Computers	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
Other Goods	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
Services	330.0	330.8	330.7	339.8	333.9	341.1	333.1	355.1	350.9	367.8	320.2	332.8	340.8
Imports of G&S Goods	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
Oil	489.5	509.7	521.7	530.2	546.6	567.4	577.1	599.9	615.2	648.3	464.4	512.8	572.8
Computers	47.2	51.6	53.1	52.8	53.4	57.7	56.7	58.1	56.5	60.3	49.2	51.2	56.5
Other Goods	51.2	57.5	64.7	68.4	73.3	80.0	87.8	94.6	99.7	106.9	41.6	60.5	83.9
Services	391.1	400.6	403.9	409.0	419.9	429.7	432.6	447.2	458.9	481.0	373.7	401.2	432.4
Memo:(Percent change 1/)	99.3	97.4	97.7	99.0	100.1	102.2	104.5	107.6	108.5	107.4	97.7	98.3	103.6
Exports of G&S	6.1	1.5	5.3	7.2	-1.0	7.7	-3.2	21.7	-3.5	16.6	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	20.7	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	29.7	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	32.2	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	20.7	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	-4.0	-6.2	1.4	8.7
Current Account Balance	-33.4	-66.2	-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	56.8	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.

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

(Billions of dollars, seasonally adjusted annual rates)

	Projection												Projection		
	1994				1995				1996				ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1994	1995	1996		
NIPA Real Net Exports of Goods & Services (87\$)	-118.3	-114.4	-114.1	-112.4	-109.1	-105.7	-103.3	-100.2	-99.3	-99.4	-112.1	-110.3	-100.6		
Exports of G&S Goods	659.2	677.2	691.9	707.1	721.1	735.2	751.0	767.7	784.7	802.1	650.0	713.8	776.4		
Agricultural	501.4	516.3	528.7	541.4	553.1	565.0	578.6	593.1	607.9	623.1	491.7	547.0	600.7		
Computers	41.1	41.1	41.3	41.4	41.1	40.7	40.9	41.0	41.2	41.4	39.1	41.1	41.1		
Other Goods	85.7	91.7	98.1	105.0	111.3	118.0	125.1	132.6	140.5	148.9	83.4	108.1	136.8		
Services	374.6	383.4	389.3	395.0	400.7	406.3	412.7	419.5	426.2	432.8	369.2	397.8	422.8		
Imports of G&S Goods	777.5	791.6	806.0	819.4	830.2	840.9	854.2	868.0	884.0	901.6	762.1	824.2	876.9		
Oil	669.6	683.0	696.6	709.2	719.4	729.5	742.1	755.0	770.1	786.6	654.0	713.7	763.4		
Computers	63.6	58.7	58.6	60.7	61.5	61.9	62.9	62.6	62.7	63.0	59.8	60.7	62.8		
Other Goods	112.5	119.3	127.0	134.6	142.0	149.1	156.6	164.4	172.6	181.3	109.6	138.2	168.7		
Services	493.5	505.0	511.0	513.9	515.9	518.5	522.5	528.0	534.8	542.3	484.6	514.8	531.9		
Memo: (Percent change 1/)															
Exports of G&S	9.8	11.4	9.0	9.0	8.2	8.1	8.8	9.2	9.1	9.2	8.3	8.6	9.1		
Agricultural	44.3	0.3	1.5	0.7	-2.5	-3.6	1.5	1.5	1.6	1.6	5.2	-1.0	1.6		
Computers	36.4	31.1	31.1	31.1	26.3	26.3	26.3	26.3	26.3	26.3	23.9	28.6	26.3		
Other Goods	7.6	9.8	6.2	6.1	5.9	5.7	6.4	6.8	6.5	6.4	8.0	6.0	6.5		
Services	-3.5	8.2	5.9	6.1	5.7	5.3	5.1	5.4	5.1	5.0	2.4	5.8	5.1		
Imports of G&S Goods	12.1	7.5	7.5	6.8	5.4	5.3	6.5	6.6	7.6	8.2	11.9	6.2	7.2		
Oil	23.8	-27.2	-1.0	14.9	5.3	2.6	7.1	-2.1	0.5	2.4	1.1	5.3	1.9		
Computers	22.7	26.3	28.7	26.3	23.9	21.5	21.6	21.6	21.6	21.6	26.1	25.1	21.6		
Other Goods	10.8	9.7	4.8	2.3	1.6	2.0	3.1	4.2	5.2	5.7	12.9	2.7	4.6		
Services	2.3	2.6	2.9	3.1	2.3	2.2	2.7	2.8	3.4	3.7	1.0	2.6	3.2		
Current Account Balance	-165.7	-183.3	-178.0	-182.8	-175.7	-185.9	-172.5	-170.3	-163.0	-175.5	-156.5	-180.6	-170.4		
Goods & Serv (BOP), net	-125.1	-127.5	-128.6	-124.3	-118.2	-113.0	-108.3	-103.0	-99.9	-97.8	-114.5	-121.0	-102.2		
Goods (BOP), net	-180.5	-186.3	-189.9	-188.5	-185.5	-183.0	-180.8	-178.1	-177.4	-177.7	-170.4	-186.7	-178.5		
Services (BOP), net	55.3	58.8	61.3	64.2	67.3	70.0	72.6	75.1	77.5	79.8	55.9	65.7	76.3		
Investment Income, net	-9.5	-15.3	-17.5	-26.5	-25.5	-31.9	-31.8	-34.9	-30.6	-36.2	-9.5	-25.3	-33.4		
Direct, net	44.5	47.7	48.5	48.1	49.2	50.8	51.9	53.8	55.8	57.6	45.3	49.2	54.8		
Portfolio, net	-54.0	-63.0	-66.0	-74.6	-74.7	-82.7	-83.7	-88.6	-86.5	-93.8	-54.8	-74.5	-88.1		
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.

November 9, 1994

## **RECENT DEVELOPMENTS**

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

productivity increased 5.3 percent (annual rate) in the third quarter, and over the past four quarters, it has increased 6.4 percent.

#### Industrial Production

Available indicators suggest that industrial production posted a large gain in October following growth at a 6.0 percent annual rate in the third quarter. Accordingly, capacity utilization in manufacturing, mining, and utilities probably moved up considerably above the September rate of 84.6 percent.

Manufacturers assembled motor vehicles at an 11.9 million unit annual rate in October--little changed from the assembly rate in September. However, that pace ended up to be about 1/2 million units short of the rate scheduled at the beginning of the month. Most of the shortfall reflected a temporary shutdown of lines at General Motors (GM), Ford, and Chrysler in order to address quality control problems.<sup>5</sup> Following the shortfall in October, production schedules for the fourth quarter as a whole were revised up 100,000 units to an annual rate of 12.5 million units. General Motors, which continues to be plagued by production problems, has lowered assembly plans, while other domestic manufacturers (both U.S. and transplants) have raised their schedules.<sup>6</sup>

PRODUCTION OF DOMESTIC AUTOS AND TRUCKS  
(Millions of units at an annual rate; FRB seasonal basis)<sup>1</sup>

	1994			1994	
	Q3	Sept.	Oct.	Nov.	Dec.
U.S. production	11.8	12.0	11.9	12.7	12.8
Autos	6.2	6.3	6.4	7.0	7.2
Trucks	5.6	5.7	5.5	5.7	5.7

1. Components may not sum to totals because of rounding.

5. A brief strike at GM in late September lowered October output as well.

6. GM is having trouble maintaining adequate supplies of some parts, and it is having difficulty at the vehicle assembly stage of production.

**FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS**  
 (Unified basis, billions of dollars, except where otherwise noted)

	Sept. 1993	Sept. 1994	Fiscal year to date		
			FY1993	FY1994	Dollar change
Outlays	119.0	131.9	1408.5	1460.6	52.0
Deposit insurance (DI)	-.4	.9	-27.9	-7.2	20.7
Outlays excluding DI	119.4	131.0	1436.4	1467.8	31.4
National defense	25.4	27.7	291.1	281.5	-9.6
Net interest	15.4	16.9	198.8	203.0	4.1
Social security	25.6	26.9	304.6	319.6	15.0
Medicare and health	20.5	22.1	230.1	251.2	21.1
Income security	14.9	17.1	207.3	214.0	6.7
Other	17.6	20.3	204.5	198.5	-6.1
Receipts	127.5	135.9	1153.2	1257.2	104.0
Personal income taxes	55.7	58.0	509.7	542.7	33.1
Social insurance taxes	37.8	40.4	428.3	461.5	33.2
Corporate income taxes	24.5	27.3	117.5	140.4	22.9
Other	9.6	10.3	97.7	112.7	15.0
Deficit(+)	-8.5	-4.0	255.3	203.4	-51.9
Excluding DI	-8.1	-4.9	282.9	210.3	-72.6
					-25.7

Details may not add to totals because of rounding.

TREASURY FINANCING<sup>1</sup>  
(Total for period, billions of dollars)

Item	1994		1994		
	Q3	Q4 <sup>P</sup>	Oct. <sup>e</sup>	Nov <sup>P</sup>	Dec <sup>P</sup>
Total surplus/deficit (-)	-53.4	-75.2	-31.4	-43.4	-.4
<b>Means of financing deficit:</b>					
Net cash borrowing/repayments(-)	37.1	60.7	27.1	38.5	-4.9
Nonmarketable	-3.4	.6	-.6	-.8	2.0
Marketable	40.5	60.0	27.7	39.3	-6.9
Bills	-1.2	36.2	20.2	22.9	-6.9
Coupons	41.7	23.9	7.5	16.4	.0
Decrease in the cash balance	15.0	7.9	-.5	11.7	-3.3
<sup>2</sup> Other	1.2	6.6	4.8	-6.9	8.7
Memo: Cash balance, end of period	35.9	28.1	36.4	24.7	28.1

1. Data reported on a payment basis.

2. Includes checks issued less checks paid, accrued items, and other transactions.  
p projected. e estimated.

Note: Details may not add to totals because of rounding.

NET CASH BORROWING OF GOVERNMENT SPONSORED ENTERPRISES<sup>1</sup>  
(Billions of dollars)

Agency	1993		1994		
	Q4	Q1	Q2	Jul.	Aug.
FHLBs	8.9	5.7	13.5	5.3	3.1
FHLMC	-2.7	12.9	10.4	5.6	2.3
FNMA	5.3	15.3	11.5	2.6	7.1
Farm Credit Banks	1.5	-0.7	1.3	-1.4	1.6
SLMA	1.0	1.3	6.8	.1	0.2
					1.4

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