

August 15, 1990

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

Regarding foreign exchange rates, we have lowered the projected path of the dollar by 4-1/4 percent, incorporating most of the depreciation that has occurred since the June Greenbook. The dollar remains around this lower level throughout the current forecast.

For fiscal policy, our assumption regarding deficit reduction is unchanged. We are still assuming that the budget negotiations will result in a deficit-reduction package totaling \$35 billion in FY1991, which is less ambitious than the summit participants initially planned. For FY1992, we are assuming an additional \$35 billion in cuts.

Near-Term Developments

As a consequence of recent developments in oil prices, growth of real GNP is expected to average about 1 percent at an annual rate over the next three quarters, down from the 1-3/4 percent rate that we were projecting in June. We expect domestic production of goods to be affected disproportionately by the softening in demand, and industrial production is projected to flatten out in the final quarter of this year and in the first quarter of 1991.

NEAR-TERM PROJECTIONS
(Percent change from preceding period; compound annual rate)

	1990		1991
	Q3	Q4	Q1
Real GNP	1.2	.5	1.3
Personal consumption expenditures	1.7	.6	1.5
Real disposable personal income	.2	.2	2.6
Consumer price index	6.1	5.3	4.4
Excluding energy	5.0	4.8	4.9

both more persistent higher inflation and a longer period of economic activity below its potential rate than shown in the Greenbook baseline.

With the failure of crude oil prices to drop back, CPI inflation probably would average 5-1/4 percent at an annual rate in the first quarter of next year and 4-3/4 percent in the second quarter and would remain around a 5 percent rate in the second half. On balance, these changes would add about 1/2 percentage point to the CPI increase for 1991 relative to the Greenbook projection of 4-1/2 percent.

ALTERNATIVE SCENARIO
(Percent change from end of previous period; compound annual rate)

	1990 H2	1991 H1	1991 H2	1991:Q4 to 1992:Q4
Real GNP	.8	1.5	1.9	2.4
Personal consumption expenditures	1.2	1.2	1.3	1.9
Real disposable personal income	.2	1.5	1.2	1.5
Consumer price index	5.7	5.0	4.9	4.4
Excluding energy	4.9	4.9	4.9	4.3
Unemployment rate (percent) ¹	5.9	6.1	6.2	6.3
Current account balance (billions) ¹	-98	-86	-74	-61

1. End of period.

Growth of real economic activity is shown to be depressed somewhat more in 1991 and 1992 than the current Greenbook forecast has indicated. Growth of consumer spending would be slower throughout 1991, by about 1/2 percentage point. Moreover, the spillover effects on housing and business investment would be larger and would extend into 1992. The simulation suggests that growth of real GNP would remain below its longer-run potential rate through the end of 1991 and average just under

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STAFF GNP PROJECTIONS

Percent changes, annual rate

		Nominal GNP		Real GNP		GNP fixed-weight price index		Consumer Price Index <1>		Unemployment rate (percent)	
		6/27/90	8/15/90	6/27/90	8/15/90	6/27/90	8/15/90	6/27/90	8/15/90	6/27/90	8/15/90
Annual changes:											
1988	<2>	7.9	7.9	4.4	4.5	4.2	4.2	4.1	4.1	5.5	5.5
1989	<2>	7.2	6.7	3.0	2.5	4.5	4.5	4.8	4.8	5.3	5.3
1990		6.0	5.4	1.7	1.2	4.4	4.6	4.8	5.3	5.5	5.5
1991		6.1	5.8	1.9	1.4	4.1	4.5	4.3	4.7	5.9	6.1
1992			6.5		2.4		4.2		4.4		6.1
Quarterly changes:											
1989	Q1 <2>	7.9	7.5	3.7	3.6	4.8	4.9	5.4	5.4	5.2	5.2
	Q2 <2>	7.1	5.8	2.5	1.6	5.0	4.6	6.0	6.0	5.3	5.3
	Q3 <2>	6.2	5.1	3.0	1.7	2.9	3.1	2.9	2.9	5.3	5.3
	Q4 <2>	4.6	3.9	1.1	.3	3.6	3.8	3.9	3.9	5.3	5.3
	Q1 <2>	7.1	6.7	1.9	1.7	6.4	6.6	8.2	8.2	5.2	5.2
	Q2 <2>	5.8	5.8	1.3	1.2	4.2	3.9	3.3	3.8	5.4	5.3
	Q3	5.7	5.7	1.6	1.2	3.6	4.7	3.7	6.1	5.6	5.6
	Q4	5.3	3.9	1.6	.5	3.8	4.0	4.1	5.3	5.8	5.9
1991	Q1	6.7	6.2	1.8	1.3	4.7	4.9	4.6	4.4	5.8	6.0
	Q2	6.4	6.7	2.1	2.0	4.2	4.5	4.5	4.3	5.9	6.1
	Q3	6.3	6.3	2.3	2.3	4.1	4.2	4.4	4.4	6.0	6.1
	Q4	6.2	6.3	2.4	2.4	4.0	4.1	4.4	4.5	6.1	6.1
1992	Q1		7.1		2.4		4.6		4.5		6.1
	Q2		6.3		2.4		4.1		4.4		6.1
	Q3		6.4		2.5		4.0		4.3		6.1
	Q4		6.3		2.5		4.0		4.3		6.1
Two-quarter changes: <3>											
1989	Q2 <2>	7.5	6.7	3.1	2.6	5.0	4.7	5.7	5.7	.0	.0
	Q4 <2>	5.4	4.5	2.0	1.0	3.3	3.4	3.4	3.4	.0	.0
1990	Q2 <2>	6.5	6.2	1.6	1.5	5.2	5.3	5.7	5.9	.1	.0
	Q4	5.5	4.8	1.6	.8	3.7	4.4	3.9	5.7	.4	.6
1991	Q2	6.5	6.5	2.0	1.7	4.4	4.7	4.5	4.4	.1	.2
	Q4	6.2	6.3	2.4	2.3	4.0	4.1	4.4	4.4	.2	.0
1992	Q2		6.7		2.4		4.3		4.4		.0
	Q4		6.3		2.5		4.0		4.3		.0
Four-quarter changes: <4>											
1988	Q4 <2>	7.5	7.8	3.4	3.5	4.5	4.6	4.3	4.3	-.5	-.5
1989	Q4 <2>	6.4	5.6	2.6	1.8	4.1	4.0	4.6	4.6	.0	.0
1990	Q4	6.0	5.5	1.6	1.1	4.4	4.8	4.8	5.8	.5	.6
1991	Q4	6.4	6.4	2.2	2.0	4.2	4.4	4.5	4.4	.3	.2
	Q4		6.5		2.4		4.2		4.4		.0

<1> For all urban consumers.

<2> Actual.

<3> Percent change from two quarters earlier.

<4> Percent change from four quarters earlier.

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

		Projection								
	Units	1984	1985	1986	1987	1988	1989	1990	1991	1992
EXPENDITURES										
Nominal GNP	Billions of \$	3772.2	4014.9	4231.6	4515.6	4873.7	5200.8	5483.8	5802.0	6181.3
Real GNP	Billions of 82\$	3501.4	3618.7	3717.9	3845.3	4016.9	4117.7	4167.3	4227.6	4327.8
Real GNP	Percent change*	5.1	3.6	1.9	5.0	3.5	1.8	1.1	2.0	2.4
Gross domestic purchases		6.4	4.3	2.1	4.2	2.6	1.1	.6	1.5	2.2
Final sales		4.7	4.6	2.7	3.1	4.5	1.7	1.3	1.8	2.0
Private dom. final purchases		5.6	4.6	2.9	2.5	4.0	1.2	.4	1.6	2.2
Personal consumption expend.		4.1	4.6	3.8	2.3	4.1	1.2	.8	1.8	2.0
Durables		10.8	7.0	11.5	-1.2	9.3	-1.4	1.3	1.2	1.8
Nondurables		2.3	3.3	2.9	1.3	2.4	.6	-2.2	.7	1.1
Services		3.5	5.0	2.1	4.1	3.7	2.4	2.7	2.7	2.7
Business fixed investment		13.8	3.7	-5.5	6.1	5.3	4.5	-.2	.9	3.3
Producers' durable equipment		14.9	4.6	.4	8.2	8.2	5.4	.4	2.4	5.3
Nonresidential structures		11.8	1.9	-17.7	.8	-2.7	1.7	-1.8	-4.1	-3.6
Residential structures		6.1	5.8	11.6	-2.2	-.1	-7.1	-3.7	1.3	2.2
Exports		5.9	-2.4	10.6	19.8	14.0	10.1	4.7	7.4	6.6
Imports		17.4	4.5	10.0	10.4	5.5	4.5	1.0	3.8	5.1
Government purchases		7.9	8.6	3.1	2.0	1.1	.3	2.0	-.2	-.3
Federal		13.0	13.3	.5	1.5	-1.6	-2.8	1.8	-3.1	-3.3
Defense		6.5	7.1	6.0	4.0	-1.8	-2.1	-1.5	-5.4	-4.9
State and local		4.4	4.9	5.2	2.3	3.1	2.6	2.1	1.8	1.6
Change in business inventories	Billions of 82\$	62.3	9.1	5.6	22.8	23.6	23.8	14.9	20.3	35.9
Nonfarm	Billions of 82\$	57.8	13.4	8.0	28.7	26.5	18.7	12.9	17.2	32.4
Net exports	Billions of 82\$	-84.0	-104.3	-129.7	-118.5	-75.9	-54.1	-35.9	-12.8	3.4
Nominal GNP	Percent change*	8.6	6.6	4.6	8.2	7.8	5.6	5.5	6.4	6.5
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	94.5	97.5	99.5	102.2	105.6	108.6	110.6	111.3	112.6
Unemployment rate	Percent	7.5	7.2	7.0	6.2	5.5	5.3	5.5	6.1	6.1
Industrial production index	Percent change*	4.7	1.9	1.4	6.5	4.5	1.1	1.7	2.3	3.4
Capacity utilization rate-mfg.	Percent	80.4	79.5	79.0	81.4	83.9	83.9	82.4	81.3	81.4
Housing starts	Millions	1.75	1.74	1.81	1.62	1.49	1.38	1.25	1.25	1.31
Auto sales	Millions	10.35	11.03	11.44	10.23	10.65	9.89	9.52	8.99	9.08
Domestic	Millions	7.92	8.22	8.22	7.06	7.55	7.06	6.82	6.51	6.58
Foreign	Millions	2.43	2.82	3.22	3.18	3.10	2.83	2.70	2.48	2.50
INCOME AND SAVING										
Nominal personal income	Percent change*	8.4	6.6	5.8	8.1	7.6	6.8	6.6	6.9	6.6
Real disposable income	Percent change*	4.3	2.7	3.3	2.7	4.3	1.7	.8	1.8	1.5
Personal saving rate	Percent	6.1	4.4	4.1	2.9	4.2	4.6	4.9	4.8	4.5
Corp. profits with IVA & CCAdj	Percent change*	7.4	9.2	-5.6	17.4	8.2	-16.8	-2.9	-2.4	2.0
Profit share of GNP	Percent	7.1	7.0	6.7	6.8	6.9	6.0	5.4	4.8	4.5
Federal govt. surplus/deficit	Billions of \$	-169.6	-196.9	-206.9	-158.2	-141.7	-134.3	-153.1	-127.2	-87.8
State and local govt. surplus		64.6	65.1	62.8	51.0	46.5	46.4	36.7	47.4	68.9
Exc. social insurance funds		19.8	13.8	5.6	-8.3	-16.4	-19.9	-32.8	-25.7	-7.8
PRICES AND COSTS										
GNP implicit deflator	Percent change*	3.4	2.9	2.6	3.0	4.1	3.7	4.3	4.3	4.0
GNP fixed-weight price index		3.7	3.3	2.6	3.8	4.6	4.0	4.8	4.4	4.2
Cons. & fixed invest. prices		3.3	3.4	2.5	4.5	4.3	4.3	5.2	4.3	4.2
CPI		4.2	3.5	1.3	4.5	4.3	4.6	5.8	4.4	4.4
Exc. food and energy		5.0	4.3	3.9	4.3	4.5	4.3	5.3	4.8	4.5
ECI hourly compensation		4.9	3.9	3.2	3.3	4.8	4.8	5.1	4.9	4.6
Nonfarm business sector										
Output per hour		1.5	1.6	1.3	2.2	1.7	-1.3	.2	1.3	1.3
Compensation per hour		4.2	4.6	5.0	3.7	4.7	2.0	5.1	4.9	4.6
Unit labor costs		2.6	3.0	3.6	1.4	2.9	3.4	4.9	3.6	3.3

* Percent changes are from fourth quarter to fourth quarter.

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

		1988				1989				1990	
	Units	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EXPENDITURES											
Nominal GNP	Billions of \$	4735.8	4831.4	4917.9	5009.8	5101.3	5174.0	5238.6	5289.3	5375.4	5451.6
Real GNP	Billions of 82\$	3970.2	4005.8	4032.1	4059.3	4095.7	4112.2	4129.7	4133.2	4150.6	4163.2
Real GNP	Percent Change	5.1	3.6	2.7	2.7	3.6	1.6	1.7	.3	1.7	1.2
Gross domestic purchases		1.6	3.0	3.2	2.4	1.2	1.8	2.8	-1.2	.5	2.3
Final sales		7.1	5.1	1.1	4.6	2.4	1.7	1.8	.9	3.8	-1.5
Private dom. final purchases		6.7	4.8	3.0	1.7	.8	1.4	4.1	-1.5	2.4	-2.0
Personal consumption expend.		6.9	2.7	3.5	3.5	-.3	1.3	4.6	-.8	1.1	-.3
Durables		21.8	3.7	-1.1	14.1	-6.0	5.6	9.6	-13.0	14.4	-8.7
Nondurables		2.6	2.0	4.1	1.2	.6	-1.7	3.9	-.2	-3.2	-4.4
Services		5.6	2.9	4.5	1.9	.9	2.1	3.5	3.1	.1	5.5
Business fixed investment		11.4	15.7	1.6	-6.3	8.9	6.9	6.3	-3.8	5.0	-6.1
Producers' durable equipment		20.3	17.9	2.2	-5.5	9.5	12.2	6.1	-5.2	5.7	-6.2
Nonresidential structures		-10.5	9.9	-.3	-8.7	7.5	-8.2	7.1	1.3	2.3	-6.0
Residential structures		-6.8	6.8	.4	-.4	-3.6	-11.3	-7.6	-5.5	15.1	-13.5
Exports		31.7	4.4	5.4	16.7	15.8	12.4	-.5	13.5	11.2	-3.7
Imports		.5	.3	9.2	12.4	-2.3	12.8	6.4	1.7	2.5	3.2
Government purchases		-9.2	3.3	-3.8	15.7	-3.3	4.0	-2.4	3.0	2.9	6.2
Federal		-24.1	3.5	-10.4	33.6	-9.1	7.0	-7.9	-.4	.4	15.2
Defense		-5.6	-1.4	-5.0	4.9	-10.9	3.2	7.2	-7.0	-1.7	3.3
State and local		3.9	3.2	1.2	4.3	1.3	1.8	1.8	5.6	4.8	.2
Change in business inventories	Billions of 82\$	31.0	16.9	32.6	14.0	26.1	25.5	24.6	18.9	-2.2	26.2
Nonfarm	Billions of 82\$	28.8	19.2	31.0	27.2	16.4	21.5	21.7	15.3	-8.2	27.3
Exports	Billions of 82\$	-77.3	-72.2	-78.5	-75.7	-51.1	-53.3	-64.1	-47.9	-35.4	-46.5
Nominal GNP	Percent change	7.8	8.3	7.4	7.7	7.5	5.8	5.1	3.9	6.7	5.8
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	104.4	105.2	106.0	106.8	107.7	108.3	108.9	109.4	110.2	110.7
Unemployment rate	Percent*	5.7	5.5	5.5	5.3	5.2	5.3	5.3	5.3	5.2	5.3
Industrial production index	Percent change	5.0	4.2	5.9	2.8	2.7	2.8	-1.2	.2	.6	4.0
Capacity utilization rate-mfg.	Percent*	83.1	83.6	84.3	84.6	84.7	84.5	83.7	82.9	82.6	82.7
Housing starts	Millions	1.46	1.49	1.47	1.54	1.51	1.35	1.34	1.35	1.45	1.20
Auto sales	Millions	10.91	10.67	10.15	10.88	10.03	10.26	10.20	9.09	10.01	9.53
Domestic	Millions	7.60	7.50	7.20	7.89	7.08	7.26	7.36	6.56	7.11	6.78
Foreign	Millions	3.30	3.17	2.95	2.99	2.95	3.00	2.84	2.53	2.90	2.75
INCOME AND SAVING											
Nominal personal income	Percent change	6.4	8.6	8.1	7.4	11.6	5.8	3.7	6.2	8.6	5.4
Real disposable income	Percent change	7.3	2.7	4.9	2.3	4.2	-1.2	2.7	1.2	2.5	.5
Personal saving rate	Percent*	4.0	4.1	4.5	4.1	5.2	4.6	4.1	4.6	4.9	5.1
Corp. profits with IVA & CCAdj	Percent change	9.5	6.6	-1.7	19.5	-23.2	-7.0	-17.1	-19.1	8.4	18.9
Profit share of GNP	Percent*	7.0	7.0	6.8	7.0	6.4	6.2	5.9	5.5	5.5	5.7
Federal govt. surplus/deficit	Billions of \$	-153.7	-136.9	-120.1	-156.3	-132.6	-122.7	-131.7	-150.1	-168.3	-153.2
State and local govt. surplus		45.5	48.3	46.8	45.2	48.9	50.3	48.1	38.5	38.1	32.3
Exc. social insurance funds		-15.6	-14.1	-17.0	-19.0	-16.2	-15.6	-18.7	-29.1	-30.2	-36.8
PRICES AND COSTS											
GNP implicit deflator	Percent change	2.7	4.4	4.7	4.7	3.9	3.9	3.2	3.8	4.8	4.4
GNP fixed-weight price index		3.9	4.7	5.5	4.4	4.9	4.6	3.1	3.8	6.6	3.9
Cons. & fixed invest. prices		2.9	4.9	4.5	5.0	5.0	5.3	2.3	4.6	6.8	3.0
CPI		3.5	4.2	5.2	4.1	5.4	6.0	2.9	3.9	8.2	3.8
Exc. food and energy		4.4	4.7	4.6	4.6	5.2	4.1	3.8	4.4	6.2	4.9
*CI hourly compensation**		5.2	5.2	3.8	4.6	4.6	4.9	4.9	4.8	5.6	5.1
nfarm business sector											
Output per hour		4.2	-.6	2.8	.5	-1.7	-.5	-.8	-2.2	-1.9	1.6
Compensation per hour		4.3	5.0	5.3	4.2	2.0	1.5	1.8	2.7	3.2	5.6
Unit labor costs		.1	5.6	2.5	3.6	3.8	2.0	2.7	5.1	5.2	3.9

* Not at an annual rate.

** Private industry workers

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

	Units	Projection									
		1990		1991				1992			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of \$	5527.3	5580.7	5665.7	5758.0	5847.0	5937.5	6040.2	6132.8	6228.2	6324.2
Real GNP	Billions of 82\$	4175.2	4180.2	4193.7	4214.6	4238.2	4263.7	4289.1	4314.2	4340.7	4367.3
Real GNP	Percent Change	1.2	.5	1.3	2.0	2.3	2.4	2.4	2.4	2.5	2.5
Gross domestic purchases		.1	-.5	.7	1.7	1.8	1.8	1.9	2.2	2.4	2.3
Final sales		1.6	1.2	1.2	1.5	2.2	2.3	1.8	2.0	2.0	2.1
Private dom. final purchases		1.0	.2	.8	1.5	2.1	2.0	2.1	2.2	2.3	2.3
Personal consumption expend.		1.7	.6	1.5	1.8	2.0	1.8	2.0	2.0	2.1	2.0
Durables		4.9	-3.7	-.6	1.5	2.9	.9	1.7	1.7	2.0	1.6
Nondurables		-1.0	-.2	.6	.6	.6	.9	1.1	1.1	1.2	1.2
Services		2.6	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Business fixed investment		2.0	-1.1	-1.8	.4	2.1	2.7	3.1	3.2	3.4	3.5
Producers' durable equipment		2.7	-.4	-.6	1.8	3.9	4.6	5.2	5.3	5.4	5.4
Nonresidential structures		-.1	-3.2	-5.4	-4.1	-3.6	-3.3	-3.7	-3.8	-3.6	-3.4
Residential structures		-12.0	-2.0	-1.5	.7	3.8	2.4	1.3	1.2	2.9	3.4
Exports		6.8	4.9	5.8	7.2	8.0	8.6	7.4	6.0	6.6	6.6
Imports		-.1	-1.4	1.8	4.8	4.7	4.2	4.4	4.9	5.9	5.4
Government purchases		-1.0	.0	-.4	-.4	-.1	.1	-1.8	.3	.1	.1
Federal		-4.6	-2.6	-3.5	-3.6	-2.9	-2.3	-6.9	-1.8	-2.1	-2.1
Defense		-3.8	-3.7	-5.8	-5.8	-5.0	-4.9	-4.8	-4.8	-4.7	-5.1
State and local		1.7	1.9	1.8	1.8	1.8	1.8	1.6	1.6	1.6	1.6
Change in business inventories	Billions of 82\$	21.4	14.3	15.5	20.9	21.7	23.2	29.3	33.4	38.5	42.6
Nonfarm	Billions of 82\$	20.4	12.3	12.5	17.8	18.5	19.9	25.9	29.9	34.9	38.9
at exports	Billions of 82\$	-35.9	-25.9	-19.7	-16.2	-11.1	-4.1	.8	2.8	3.9	6.1
Nominal GNP	Percent change	5.7	3.9	6.2	6.7	6.3	6.3	7.1	6.3	6.4	6.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	110.7	110.7	110.9	111.1	111.5	111.8	112.1	112.4	112.8	113.2
Unemployment rate	Percent*	5.6	5.9	6.0	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Industrial production index	Percent change	2.6	-.3	1.4	1.8	2.8	3.1	3.3	3.4	3.4	3.4
Capacity utilization rate-mfg.	Percent*	82.5	81.8	81.5	81.2	81.2	81.2	81.3	81.3	81.4	81.5
Housing starts	Millions	1.19	1.21	1.23	1.25	1.26	1.27	1.29	1.30	1.32	1.33
Auto sales	Millions	9.52	9.02	8.90	8.95	9.05	9.05	9.05	9.05	9.10	9.10
Domestic	Millions	6.94	6.45	6.45	6.50	6.55	6.55	6.55	6.55	6.60	6.60
Foreign	Millions	2.58	2.57	2.45	2.45	2.50	2.50	2.50	2.50	2.50	2.50
INCOME AND SAVING											
Nominal personal income	Percent change	6.0	6.5	7.9	6.4	6.2	7.1	7.7	6.1	5.9	6.5
Real disposable income	Percent change	.2	.2	2.6	1.5	1.2	1.9	2.4	1.1	1.0	1.5
Personal saving rate	Percent*	4.8	4.7	4.9	4.9	4.7	4.7	4.8	4.6	4.3	4.2
Corp. profits with IVA & CCAadj	Percent change	-6.2	-26.3	-2.2	-2.2	-4.1	-1.0	-4.2	-1.0	3.3	10.6
Profit share of GNP	Percent*	5.5	5.1	5.0	4.9	4.7	4.6	4.5	4.4	4.4	4.4
Federal govt. surplus/deficit	Billions of \$	-143.0	-148.0	-146.1	-128.9	-116.4	-117.3	-106.0	-93.1	-77.9	-74.1
State and local govt. surplus		37.0	39.5	42.3	44.5	48.9	54.0	60.5	66.0	71.4	77.7
Exc. social insurance funds		-33.0	-31.4	-29.5	-28.2	-24.7	-20.5	-14.9	-10.3	-5.8	-.4
PRICES AND COSTS											
GNP implicit deflator	Percent change	4.6	3.4	4.9	4.6	4.0	3.8	4.6	3.8	3.8	3.7
GNP fixed-weight price index		4.7	4.0	4.9	4.5	4.2	4.1	4.6	4.1	4.0	4.0
Cons. & fixed invest. prices		5.7	5.4	4.4	4.2	4.3	4.3	4.3	4.2	4.1	4.1
CPI		6.1	5.3	4.4	4.3	4.4	4.5	4.5	4.4	4.3	4.3
Exc. food and energy		5.0	5.1	5.0	4.8	4.7	4.6	4.6	4.5	4.4	4.4
ECI hourly compensation**		4.7	4.9	5.2	5.1	4.7	4.7	5.1	4.5	4.5	4.3
Nonfarm business sector											
Output per hour		.8	.3	.9	1.4	1.4	1.4	1.3	1.3	1.3	1.3
Compensation per hour		5.9	5.8	3.8	5.6	4.8	5.3	5.1	4.5	4.5	4.3
Unit labor costs		5.1	5.5	2.9	4.1	3.4	3.8	3.8	3.2	3.2	3.0

* Not at an annual rate.

** Private industry workers

CONFIDENTIAL - FR
CLASS II FOMC

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

August 15, 1990

											Projection			
	1988				1989				1990		1987	1988	1989	1990
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	(fourth quarter to fourth quarter, net change)			
Real GNP	49.5	35.6	26.3	27.2	36.4	16.5	17.5	3.5	17.4	12.6	187.1	138.6	73.9	47.0
Gross domestic purchases	15.5	30.5	32.6	24.4	11.8	18.7	28.3	-12.7	4.9	23.7	163.0	103.0	46.1	25.0
Final sales	66.9	49.7	10.6	45.7	24.4	17.0	18.5	9.3	38.4	-15.8	117.9	172.9	69.2	51.5
Private dom. final purchases	51.8	38.3	24.4	14.2	6.5	11.4	34.1	-12.9	20.2	-17.0	78.5	128.7	39.1	13.6
Personal consumption expend.	42.6	17.3	22.3	22.4	-2.1	8.6	30.0	-5.4	7.4	-2.1	56.4	104.6	31.1	21.1
Durables	19.8	3.8	-1.1	13.9	-6.6	5.8	9.9	-15.0	14.5	-9.9	-4.9	36.4	-5.9	5.7
Nondurables	5.7	4.4	9.1	2.7	1.4	-3.9	8.8	-.4	-7.4	-10.2	11.7	21.9	5.9	-20.4
Services	17.1	9.1	14.2	6.0	3.0	6.7	11.3	10.0	.4	18.0	49.6	46.4	31.0	35.8
Business fixed investment	12.7	17.6	2.0	-8.0	10.5	8.4	7.8	-4.9	6.2	-8.1	26.6	24.3	21.8	-.8
Producers' durable equipment	16.0	14.9	2.0	-5.2	8.4	10.9	5.7	-5.2	5.4	-6.2	25.6	27.7	19.8	1.4
Nonresidential structures	-3.4	2.9	-.1	-2.8	2.2	-2.6	2.1	.4	.7	-1.9	1.0	-3.4	2.1	-2.2
Residential structures	-3.4	3.2	.2	-.2	-1.8	-5.7	-3.7	-2.6	6.5	-6.7	-4.5	-.2	-13.8	-6.8
Change in business inventories	-17.4	-14.1	15.7	-18.6	12.1	-.6	-.9	-5.7	-21.1	28.4	69.2	-34.4	4.9	-4.6
Nonfarm	-26.6	-9.6	11.8	-3.8	-10.8	5.1	.2	-6.4	-23.5	35.5	66.3	-28.2	-11.9	-3.0
Farm	9.1	-4.5	3.9	-14.8	22.9	-5.7	-1.1	.7	2.4	-7.0	3.0	-6.3	16.8	-1.6
Net exports	34.0	5.1	-6.3	2.8	24.6	-2.2	-10.8	16.2	12.5	-11.1	24.1	35.6	27.8	22.0
Exports	34.7	5.6	7.0	21.0	20.8	17.1	-.7	19.1	16.5	-5.9	80.5	68.3	56.3	28.6
Imports	.7	.5	13.3	18.2	-3.7	19.2	10.1	2.8	4.1	5.2	56.4	32.7	28.4	6.7
Government purchases	-18.9	6.3	-7.5	28.7	-6.7	7.8	-4.8	6.0	5.7	12.3	15.3	8.6	2.3	15.9
Federal	-23.2	2.8	-8.9	23.9	-8.1	5.7	-6.9	-.3	.3	12.0	5.3	-5.4	-9.6	6.0
Defense	-3.8	-.9	-3.3	3.1	-7.4	2.0	4.5	-4.7	-1.1	2.1	10.2	-4.9	-5.6	-3.9
Nondefense	-19.4	3.7	-5.6	20.8	-.8	3.8	-11.4	4.4	1.4	9.9	-4.9	-.5	-4.0	9.9
State and local	4.3	3.5	1.3	4.8	1.5	2.1	2.1	6.3	5.5	.2	10.0	13.9	12.0	9.9

CONFIDENTIAL - FR
CLASS II FOMC

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

August 15, 1990

	Projection										Projection			
	1990		1991				1992				1989	1990	1991	1992
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	12.0	5.0	13.5	21.0	23.6	25.6	25.4	25.0	26.5	26.6	73.9	47.0	83.6	103.5
Gross domestic purchases	1.5	-5.1	7.3	17.5	18.5	18.5	20.5	23.1	25.4	24.4	46.1	25.0	61.8	93.4
Final sales	16.8	12.1	12.3	15.6	22.8	24.1	19.3	20.9	21.4	22.5	69.2	51.5	74.7	84.1
Private dom. final purchases	8.3	2.1	6.9	12.9	18.0	16.7	18.2	18.4	20.0	20.1	39.1	13.6	54.5	76.6
Personal consumption expend.	11.5	4.3	9.8	12.1	13.7	12.2	13.7	13.8	14.4	14.1	31.1	21.1	47.8	55.8
Durables	5.2	-4.1	-6	1.6	3.1	.9	1.8	1.9	2.2	1.8	-5.9	5.7	5.0	7.7
Nondurables	-2.3	-5	1.4	1.4	1.4	2.0	2.5	2.5	2.7	2.7	5.9	-20.4	6.1	10.4
Services	8.6	8.9	9.1	9.1	9.2	9.3	9.3	9.4	9.5	9.5	31.0	35.8	36.7	37.7
Business fixed investment	2.5	-1.4	-2.3	.5	2.7	3.4	4.0	4.1	4.3	4.5	21.8	-.8	4.3	16.9
Producers' durable equipment	2.5	-.4	-.6	1.7	3.7	4.4	5.1	5.2	5.4	5.4	19.8	1.4	9.3	21.1
Nonresidential structures	.0	-1.0	-1.7	-1.2	-1.1	-1.0	-1.1	-1.1	-1.0	-1.0	2.1	-2.2	-5.0	-4.2
Residential structures	-5.7	-.9	-.7	.3	1.7	1.1	.6	.5	1.3	1.5	-13.8	-6.8	2.3	3.9
Change in business inventories	-4.8	-7.1	1.2	5.4	.8	1.5	6.1	4.1	5.1	4.1	4.9	-4.6	8.9	19.4
Nonfarm	-6.9	-8.1	.2	5.3	.7	1.4	6.0	4.0	5.0	4.0	-11.9	-3.0	7.6	19.0
Farm	2.0	1.0	1.0	.1	.1	.1	.1	.1	.1	.1	16.8	-1.6	1.3	.4
Net exports	10.6	10.1	6.2	3.5	5.1	7.1	4.9	2.0	1.1	2.2	27.8	22.0	21.8	10.2
Exports	10.3	7.7	9.1	11.4	12.9	14.1	12.4	10.3	11.4	11.6	56.3	28.6	47.4	45.7
Imports	-.2	-2.4	2.9	7.9	7.8	7.0	7.5	8.3	10.3	9.5	28.4	6.7	25.6	35.6
Government purchases	-2.0	.0	-.8	-.9	-.3	.3	-3.8	.6	.3	.3	2.3	15.9	-1.6	-2.7
Federal	-4.0	-2.2	-3.0	-3.1	-2.5	-1.9	-5.8	-1.4	-1.7	-1.7	-9.6	6.0	-10.4	-10.7
Defense	-2.5	-2.4	-3.7	-3.7	-3.1	-3.0	-2.9	-2.9	-2.8	-3.0	-5.6	-3.9	-13.5	-11.6
Nondefense	-1.5	.2	.7	.6	.6	1.1	-2.9	1.5	1.1	1.3	-4.0	9.9	3.1	.9
State and local	2.0	2.2	2.2	2.2	2.2	2.2	2.0	2.0	2.0	2.0	12.0	9.9	8.8	8.0

I-16b

FEDERAL SECTOR ACCOUNTS¹
(Billions of dollars)

	Fiscal years				1990				1991				1992			
	1989a	1990	1991	1992	Ia	IIa	III	IV	I	II	III	IV	I	II	III	IV
BUDGET					Not seasonally adjusted											
Budget receipts ²	991	1038	1120	1211	230	319	261	244	256	341	279	262	279	369	301	279
Budget outlays ²	1143	1261	1337	1354	310	331	321	350	332	330	325	346	334	336	339	354
Surplus/deficit (-) ²	-152	-223	-216	-143	-80	-12	-60	-106	-76	11	-46	-83	-55	33	-38	-76
(On-budget)	-207	-285	-285	-219	-94	-41	-72	-112	-96	-15	-63	-92	-77	6	-55	-86
(Off-budget)	55	61	69	76	14	29	12	7	20	26	17	9	22	27	18	10
Surplus excluding RTC spending ³	-143	-166	-146	-117	-77	11	-35	-85	-57	28	-31	-71	-47	37	-36	-75
Means of financing:																
Borrowing	140	267	208	133	90	41	73	94	58	22	33	76	37	-5	25	72
Cash decrease	3	2	3	0	8	-16	-4	13	5	-25	10	10	5	-20	5	10
Other ⁴	8	-47	5	10	-18	-13	-9	-2	12	-8	2	-2	13	-8	7	-7
Cash operating balance, end of period	41	38	35	35	18	35	38	25	20	45	35	25	20	40	35	25
NIPA FEDERAL SECTOR					Seasonally adjusted annual rates											
Receipts	1038	1091	1176	1267	1081	1104	1124	1139	1171	1189	1204	1223	1262	1281	1302	1325
Expenditures	1174	1245	1310	1366	1249	1257	1267	1287	1317	1318	1321	1341	1368	1374	1380	1399
Purchases	400	413	424	427	411	421	422	422	425	425	424	424	429	429	428	428
Defense	301	306	306	301	307	310	308	307	308	305	303	301	303	301	299	296
Nondefense	99	107	118	127	103	111	114	115	117	119	121	123	126	128	130	132
Other expend.	774	831	887	938	838	836	845	865	891	893	897	917	939	946	951	972
Surplus/deficit	-136	-154	-135	-99	-168	-153	-143	-148	-146	-129	-116	-117	-106	-93	-78	-74
FISCAL INDICATORS⁵																
High-employment (HEB) surplus/deficit (-)	-162	-163	-116	-71	-182	-161	-143	-137	-128	-107	-92	-92	-79	-65	-49	-45
Change in HEB, percent of potential GNP	.1	0	-.9	-.8	.3	-.4	-.3	-.1	-.2	-.4	-.3	0	-.2	-.2	-.2	-.1
Fiscal impetus measure (FI), percent	-3.5 *	-4.3 *	-4.9 *	-4.6 *	-2.3	.7	-.5	-1.7	-2.3	-.9	-.7	-1.4	-2	-.6	-.6	-1.3
a--actual				*--calendar year												

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

- Staff projections. The FY1990, FY1991 and FY1992 deficits in OMB's Mid-Session Review (July 1990) are \$220 billion, \$176 billion and \$134 billion, respectively. These estimates incorporate approximately \$53 billion of cuts from the adjusted Gramm-Rudman-Hollings baseline in FY1991 and \$70 billion in FY1992. CBO's FY1990, FY1991 and FY1992 baseline deficits (July 1990) are \$195 billion, \$232 billion and \$239 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, for FY1990, FY1991 and FY1992, were \$163 billion, \$114 billion and \$93 billion, respectively. CBO's July deficit estimates, excluding RTC spending, for FY1990, FY1991 and FY1992, were \$159 billion, \$162 billion, and \$179 billion, 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 2.5% 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.

rebound to about 4 percent in 1991 and 1992. Activity is expected to strengthen particularly in Latin America, as a result of recovery in Brazil and Argentina. This outlook calls for slower growth this year and next than the June forecast, as a result of the higher world oil prices, the loss of output expected for Iraq and Kuwait, and the slower growth expected in exports to the industrial countries.

U.S. Merchandise Trade Quantities. Growth of the quantity of U.S. nonagricultural exports is projected to ease slightly in the second half of this year as foreign growth slows, and then to pick up during the next two years in response to the recent decline in the dollar and a rebound in growth abroad. (See the table below.) The quantity of U.S. agricultural exports is expected to continue to rise much less rapidly than other exports will, because Soviet purchases are not expected to expand further during the next two years. Relative to the June projection, the path of total exports is slightly lower in the near term in response to slower growth abroad, but somewhat higher thereafter as a result of the lower dollar.

TRADE QUANTITIES *
(Percent change, annual rate)

	<u>1989-Q4</u> 1988-Q4	<u>1990-Q2</u> 1989-Q4	--- Projection ---	
			<u>1990-Q4</u> 1990-Q2	<u>1992-Q4</u> 1990-Q4
Nonagricultural exports	12.2	7.7	6.5	10.0
Agricultural exports	12.1	-2.4	5.5	1.0
Non-oil imports	6.6	1.7	2.1	5.4
Oil imports	2.4	5.8	-10.6	5.1

* GNP basis data.

Growth in the quantity of non-oil imports is projected to remain sluggish in the second half of this year, and to rebound over the next two

The average price of oil imports is expected to follow the pattern of spot oil prices discussed in the section on domestic nonfinancial developments. The import price is assumed to average \$25 per barrel in the fourth quarter, to decline to about \$20.50 by the third quarter next year, and then to resume a gradual upward trend. From the third quarter of next year through the end of the forecast period, oil import prices are approximately \$3 per barrel higher than those incorporated in the June forecast, largely reflecting the results of the July OPEC accord.

SELECTED PRICE INDICATORS
(Percent change, annual rate)

	<u>1989-Q4</u> 1988-Q4	<u>1990-Q2</u> 1989-Q4	--- Projection --- <u>1990-Q4</u> 1990-Q2	<u>1992-Q4</u> 1990-Q4
PPI (export-share weighted)	3.4	2.2	4.2	2.3
Nonagric. exports (Fx-Wt)	0.0	2.3	4.5	2.3
Non-oil imports (Fx-Wt)	-1.0	2.6	5.6	3.7
Oil imports	36.8	-18.7	146.3	-6.2

Nominal Balances: Trade and Services. The merchandise trade deficit is expected to increase significantly in the second half of this year, largely in response to rising oil prices, and to narrow next year. It is then projected to stabilize at an annual rate of about \$85 billion during 1992. Net portfolio payments to foreigners are expected to rise significantly over the forecast period because of rising U.S. international indebtedness. This deterioration is not significantly different than that projected in the June forecast. These rising net payments are expected to be more than fully offset by increases in net receipts on services, transfers, and net direct investment income. As a result, the current account balance is projected to improve somewhat more than the trade balance

Strictly Confidential (FR) Class II-FOMC

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

	ANNUAL			1990		1991				1992			
	1990-P	1991-P	1992-P	-Q3-P	-Q4-P	Q1-P	-Q2-P	-Q3-P	-Q4-P	Q1-P	-Q2-P	-Q3-P	-Q4-P
1. GNP Exports and Imports 1/													
Current \$, Net	-30.4	-13.7	4.4	-27.6	-36.9	-26.5	-15.6	-9.6	-3.1	1.7	3.5	4.7	7.5
Exports of G+S	673.9	733.2	800.4	679.4	693.1	707.9	723.7	741.3	759.8	777.0	791.7	808.1	824.8
Imports of G+S	704.3	746.9	796.0	707.1	730.0	734.4	739.3	750.9	762.9	775.2	788.2	803.3	817.4
Constant 82 \$, Net	-35.9	-12.8	3.4	-35.9	-25.9	-19.7	-16.2	-11.1	-4.1	0.8	2.8	3.9	6.1
Exports of G+S	630.8	667.8	716.4	632.5	640.2	649.3	660.7	673.6	687.7	700.0	710.3	721.7	733.4
Imports of G+S	666.7	680.6	713.0	668.5	666.1	669.0	676.9	684.7	691.7	699.2	707.5	717.8	727.3
2. Merchandise Trade Balance 2/	-103.6	-94.6	-84.0	-102.0	-113.6	-105.4	-95.8	-91.1	-86.1	-84.3	-83.9	-83.9	-84.0
Exports	390.2	430.8	478.3	391.7	401.5	412.1	423.6	436.7	450.8	462.4	473.2	483.7	493.7
Agricultural	42.9	44.8	47.9	42.6	43.4	43.9	44.5	45.0	45.9	46.5	47.4	48.2	49.3
Non-Agricultural	347.3	386.0	430.4	349.1	358.1	368.2	379.2	391.7	405.0	415.9	425.8	435.5	444.4
Imports	493.8	525.5	562.3	493.7	515.0	517.6	519.5	527.9	537.0	546.7	557.1	567.6	577.8
Petroleum and Products	61.7	67.2	70.7	59.7	74.9	71.0	65.2	65.8	66.9	68.3	70.0	71.8	72.8
Non-Petroleum	432.1	458.2	491.5	434.0	440.1	446.6	454.2	462.1	470.0	478.3	487.1	495.8	504.9
3. Other Current Account Transactions													
Capital Gains and Losses 3/	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other D.I. Income, Net	44.7	47.7	49.0	46.9	47.7	48.2	47.9	47.5	47.2	48.6	48.6	48.6	50.0
Portfolio Income, Net	-42.7	-45.8	-49.3	-42.9	-43.7	-44.4	-45.2	-46.2	-47.2	-48.0	-48.9	-49.8	-50.7
Other Current Account, Net	11.6	18.5	24.1	12.7	11.8	16.6	18.4	20.1	18.9	23.2	24.4	25.5	23.6
4. U.S. Current Account Balance													
Including Capital G/L	-89.8	-74.2	-60.2	-85.4	-97.8	-84.9	-74.8	-69.7	-67.2	-60.4	-59.7	-59.7	-61.1
Excluding Capital G/L	-90.0	-74.2	-60.2	-85.4	-97.8	-84.9	-74.8	-69.7	-67.2	-60.4	-59.7	-59.7	-61.1
5. Foreign Outlook 4/													
Real GNP--Ten Industrial 5/	3.2	2.8	3.3	2.1	2.1	3.0	3.5	3.6	3.4	3.2	3.2	3.1	3.2
Real GNP--LDC 6/	3.0	3.9	4.2	3.4	3.8	4.1	4.1	4.0	4.0	4.0	4.3	4.7	5.1
Consumer Prices--Ten Ind. 5/	4.6	4.3	3.7	4.0	5.0	4.0	4.9	3.1	3.7	3.7	4.1	3.5	3.8

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

August 15, 1990

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee

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

U.S. AGRICULTURAL PRODUCTION AND INVENTORIES¹CROP PRODUCTION

	Millions of bushels						
	1980 to 1989			1988	1989	Projected for 1990	
	High	Low	Ave.			as of June 12	as of Aug. 9
Wheat	2785	1812	2342	1812	2036	2689	2706
Corn	8875	4174	7153	4929	7527	8100	7850
Soybeans	2190	1549	1893	1549	1927	1925	1836

CROP INVENTORIES

	Months' supply at end of marketing year						
	1980 to 1989			Marketing year beginning		Projected for 1990	
	High	Low	Avg.	1988	1989	as of June 12	as of Aug. 9
Wheat	11.69	2.35	6.44	3.52	2.35	3.88	4.20
Corn	7.93	1.80	4.42	3.19	1.88	1.79	1.82
Soybeans	3.42	1.17	1.99	1.31	1.95	2.20	1.44

LIVESTOCK PRODUCTION

	Percent change from previous year								
	1985	1986	1987	1988	1989	Projected			
						1990		1991	
						as of June 12	as of Aug. 9	as of July 12	as of Aug. 9
Red meats and poultry	1.7	1.7	2.0	3.7	1.8	2.1	1.4	--	3.2
Beef	.6	2.8	-3.3	.1	-.2	.0	-1.2	--	1.3
Pork	.1	-5.0	2.3	9.1	.9	-1.8	-2.6	--	3.3
Poultry	4.9	6.3	9.5	4.2	7.1	7.4	7.1	--	5.1
Milk	5.7	.7	-.7	2.1	-.8	2.1	2.4	--	1.3

1. Derived from data in USDA's World Agricultural Supply and Demand Estimates, August 9, 1990. Production, consumption, and stocks are measured on a "marketing year" basis, which differs from crop to crop.

APPENDIX B

MID-SESSION REVIEW OF THE BUDGET

The Administration has released its Mid-Session Review of the Budget. The document contains new deficit estimates, which are substantially higher than those presented in last January's budget; it also provides a preliminary assessment of the sequester amounts that are required to meet the Gramm-Rudman-Hollings targets for FY1991. The Congressional Budget Office (CBO) has issued its usual summer report, The Economic and Budget Outlook: An Update, as well; apart from spending by the Resolution Trust Corporation (RTC), CBO's deficit projections for FY1990 and FY1991 are similar to those of the Administration.

Near-Term Budget Developments and Prospects

The Administration now projects a baseline deficit of \$219 billion in FY1990, compared with a figure of \$122 billion in the January budget (table 1). Higher outlays by the RTC account for about half of the increase. But the expected deficit excluding the RTC also has been raised substantially; at \$161 billion, it stands a bit above the actual deficits that were recorded during FY1987-89. For FY1991, the Administration now estimates the baseline deficit--including the reauthorization of the food

Table 1

EVOLUTION OF PROJECTIONS FOR THE BASELINE BUDGET DEFICIT¹ (Billions of dollars)

Fiscal year	Administration		CBO	
	January	July	March	July
-----Deficit including RTC spending-----				
1990	122	219	159	195
1991	101	231	161	232
-----Deficit excluding RTC spending-----				
1990	120	161	126	159
1991	93	169	130	162

1. Administration figures are for the "adjusted consolidated baseline deficit." The CBO baseline includes "additional RTC spending needs." Both baselines include the extension of the food stamp program, which is scheduled to expire at the end of FY1990.

Table 2

CHANGES TO THE ADMINISTRATION BASELINE DEFICIT
(Fiscal years, billions of dollars)

	1990	1991	1992	1993	1994	1995
Total changes	97	131	132	96	67	90
Excluding the RTC	42	76	91	101	108	110
Changes to outlays						
RTC	55	55	41	-5	-42	-20
Net interest	6	21	31	35	39	43
Other	7	20	19	21	31	28
	68	96	92	51	28	51
Changes to receipts	-29	-35	-40	-45	-39	-40

Table 3

ECONOMIC ASSUMPTIONS OF THE ADMINISTRATION FOR 1990 AND 1991

	1990	1991
-Percent change, Q4 to Q4-		
Real GNP		
July	2.2	2.9
January	2.6	3.3
CPI		
July	4.8	4.2
January	4.1	4.0
-Percent, annual average-		
Three-month Treasury bill rate		
July	7.7	6.8
January	6.7	5.4
Ten-year Treasury note rate		
July	8.5	7.9
January	7.7	6.8
Corporate profits as a percent of GNP		
July	5.5	6.0
January	6.5	7.0

whole, however, the changes to the forecasts of real growth and inflation are relatively small and thus have only a modest effect on the overall deficit projection.³

Apart from the RTC, the latest estimates from the CBO are similar to those of the Administration. Its baseline deficit--excluding RTC spending--edges up to around \$160 billion in both FY1990 and FY1991, a bit above the actual deficits of the past few years. CBO's figures show RTC spending in FY1990 at only \$36 billion; this estimate was developed in June and now looks low in light of the sharp pickup in resolutions since late spring; its RTC estimate for FY1991--\$70 billion--is close to the Administration's.

Table 4

ADMINISTRATION DEFICIT-REDUCING PROPOSALS¹
(Change from baseline in billions of dollars,
fiscal years)

	1991	1992	1993	1994	1995
Total	53	70	85	109	130
January recommendations	41	50	61	80	98
Additional June proposals	12	20	24	30	32
Receipts	14	12	4	7	6
Outlays					
Defense	7	13	21	30	37
Discretionary	5	7	10	13	16
Entitlements/mandatory					
Medicare	6	9	12	15	18
Other	11	15	18	21	23
User fees	6	6	6	6	6
Undistributed offsetting					
receipts	1	1	0	1	0
Net interest	2	7	12	18	23
	<u>39</u>	<u>58</u>	<u>80</u>	<u>102</u>	<u>124</u>

1. Consists of policy recommendations in the Administration's January budget (with minor reestimates) and additional proposals submitted to the Administration/Congressional Budget Summit on June 20.

3. OMB's July forecast anticipates a pickup in real activity in the second half of 1990, while prices are expected to rise less rapidly than in the first half. In the past few weeks, however, private forecasters generally have raised their inflation projections and have become more pessimistic about the outlook for real GNP.

Table 5

ADMINISTRATION BUDGET PROJECTIONS
(Fiscal years, billions of dollars)

	1990	1991	1992	1993	1994	1995
<u>Baseline</u> ¹						
Outlays ¹	1,263	1,353	1,400	1,414	1,443	1,518
Receipts	1,044	1,122	1,195	1,279	1,363	1,441
Deficit ¹	219	231	205	135	80	77
<u>Proposed</u>						
Outlays	1,264	1,312	1,340	1,332	1,339	1,392
Receipts	1,044	1,135	1,206	1,283	1,370	1,447
Deficit	220	176	134	49	-32	-55
<u>Memo</u>						
RTC net outlays	57	63	41	-5	-42	-20
Deficit excluding RTC:						
Baseline	161	169	164	141	121	97
Proposed	163	114	93	55	10	-35

1. Figures are for the "adjusted consolidated baseline budget."

Table 6

CBO BASELINE BUDGET PROJECTIONS
(Fiscal years, billions of dollars)

	1990	1991	1992	1993	1994	1995
Outlays ¹	1,238	1,355	1,426	1,455	1,483	1,555
Receipts	1,044	1,123	1,188	1,260	1,337	1,417
Deficit ¹	195	232	239	194	146	138
<u>Memo</u>						
RTC net outlays	36	70	60	13	-30	-18
Deficit excluding RTC	159	162	179	182	177	157

1. Includes additional RTC spending needs as forecast by the CBO.

Table 7

ECONOMIC ASSUMPTIONS OF THE ADMINISTRATION AND CBO

	Forecast		Projected			
	1990	1991	1992	1993	1994	1995
-----Percent change, calendar year average-----						
Real GNP						
Administration	2.0	2.8	3.2	3.2	3.1	3.0
CBO	2.0	2.5	2.6	2.6	2.6	2.6
GNP deflator						
Administration	4.2	4.2	4.0	3.7	3.4	3.1
CBO	4.1	4.0	3.9	3.8	3.8	3.8
CPI ¹						
Administration	4.8	4.1	4.0	3.7	3.4	3.0
CBO	4.8	4.2	4.2	4.0	4.0	4.0
-----Percent, calendar year average-----						
Unemployment rate						
Administration	5.4	5.6	5.5	5.4	5.3	5.2
CBO	5.3	5.4	5.4	5.5	5.5	5.5
Three-month Treasury bill rate						
Administration	7.7	6.8	5.8	5.1	4.8	4.4
CBO	7.6	6.9	6.7	6.2	5.6	5.4
Ten-year Treasury note rate						
Administration	8.5	7.9	7.0	6.1	5.8	5.4
CBO	8.5	7.8	7.4	7.2	6.9	6.8
Corporate profits as a percent of GNP						
Administration	5.5	6.0	6.5	6.5	6.7	6.8
CBO	5.3	5.1	5.1	5.2	5.2	5.2

1. Administration forecasts the CPI-W; CBO forecasts the CPI-U.

TREASURY AND AGENCY FINANCING¹
(Total for period; billions of dollars)

	1990				
	Q2	Q3 ^e	Jul. ^p	Aug. ^e	Sept. ^e
<u>Treasury financing</u>					
Total surplus/deficit (-)	-12.0	-60.1	-24.3	-55.7	19.9
Means of financing deficit:					
Net cash borrowing					
from the public	41.0	72.9	24.8	46.1	2.1
Marketable borrowings/					
repayments (-)	32.6	67.7	21.1	46.0	0.6
Bills	.5	31.8	11.3	29.1	-8.6
Coupons	32.1	36.0	9.8	16.9	9.3
Nonmarketable ²	8.3	5.2	3.7	.1	1.4
Decrease in the cash					
balance	-16.2	-3.8	9.8	2.5	-16.0
Memo: Cash balance					
at end of period	34.6	38.4	24.9	22.4	38.4
Other ³	-12.8	-9.1	-10.3	7.2	-5.9
<u>Federally sponsored credit</u>					
<u>agencies, net cash</u>					
<u>borrowing⁴</u>	2.5	--	--	--	--
FHLBs	-8.5	--	--	--	--
FHLMC	4.9	--	--	--	--
FNMA	1.1	--	--	--	--
Farm Credit Banks	.0	--	--	--	--
FAC	.0	--	--	--	--
SLMA	1.4	--	--	--	--
FICO	.0	.0	.0	.0	.0
REFCORP	3.5	5.0	5.0	.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.

e--staff estimate

p--preliminary

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

CONFIDENTIAL (FR)
CLASS III - FOMC

August 17, 1990

SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

ERRATA

1. The first paragraph on page I-12 of the Greenbook should have read:

"The current account deficit in the alternative scenario is about \$10 billion greater in the second quarter of 1991 than shown in the current Greenbook forecast. However, this difference diminishes after mid-1991 as the level of GNP in the alternative scenario continues to fall below the Greenbook path and reduces demand for imports."

2. The first sentence of the Domestic Financial Developments section of Part 1 should have read:

"Short-term interest rates fell during July in response to the announcement of a possible System easing and the subsequent 1/4 percentage point drop in the federal funds rate on July 13."