

Strictly Confidential (FR) Class II FOMC

November 12, 1992

SUMMARY AND OUTLOOK

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

because of the revisions to our paths for interest and exchange rates. The pace of growth that we anticipate over the next few quarters should generate some small gains in employment, but we do not expect those gains to begin surpassing even the still-sluggish pace of labor force growth until the latter part of 1993. The civilian unemployment rate thus is projected to remain around 7-1/2 percent over the next year. In 1994, the jobless rate is expected to decline, roughly along the same path that was projected in the September Greenbook. Favorable incoming data on wages and prices are reflected in a marginal downward adjustment to the inflation forecast through the projection period.

STAFF ECONOMIC PROJECTIONS
(Percent change; Q4 to Q4)

	1991	1992	1993	1994
Real GDP	.1	2.3	2.4	3.2
<i>Previous</i>	.1	1.9	2.7	3.3
Civilian unemployment rate ¹	6.7	7.4	7.6	7.1
<i>Previous</i>	6.7	7.5	7.7	7.1
CPI excluding food and energy	4.5	3.2	2.5	2.0
<i>Previous</i>	4.5	3.5	2.7	2.1

1. Annual average.

The basic story line remains unchanged: Growth of aggregate demand is damped in the near term by cautious spending behavior on the part of consumers, who remain fearful of losing their jobs. Over time, however, a diminution in the ability of businesses to increase production without adding workers, as well as the effects of lower interest rates and of further progress in redressing financial imbalances, should lead to more hiring and investment-- which, in turn, should encourage households to spend more. Although the possibility exists that the dynamics of this process could produce a more robust expansion than we have projected, the unusual

productivity growth and our output forecast, we expect that growth in employment will pick up only gradually over the course of 1993 and then continue at a moderate pace in 1994. Employment gains of the magnitude that we foresee in the near term probably are not large enough to alter the unemployment rate to any great extent. By the end of 1993, however, the unemployment rate is expected to start tilting downward--falling to a level of 6-3/4 percent by the end of 1994.

Whether our forecast of the jobless rate proves to be accurate also will depend importantly on the path of labor force participation. In the forecast, we are expecting that the participation rate will change little in the near term, but that it will start rising slowly beginning in the second half of 1993, when job opportunities start to be perceived as more plentiful. Recent developments, however, have once again underscored the difficulties of predicting the changes in participation, as unexpected declines in the rate since mid-year have now retraced a large part of its first-half surge.

LABOR MARKET PROJECTIONS
(Percent change, Q4 to Q4)

	1991	1992	1993	1994
Output per hour, nonfarm business sector	1.3	2.5	1.5	1.4
Labor force participation rate ¹	65.9	66.1	66.2	66.4
Civilian labor force	.5	1.3	1.1	1.2
Civilian employment, household survey	-.6	.7	1.1	2.0
Civilian unemployment rate ¹	6.9	7.5	7.5	6.8

1. Average for the fourth quarter.

Wages and prices. Although rates of resource utilization--of both labor and industrial plant--are projected to be rising by

the latter part of 1993, this tightening will be gradual and the remaining amount of slack substantial. The anticipated behavior of the dollar and of oil prices implies no external shocks to the system, and the accumulation of crop inventories from the current harvest should help to contain agricultural prices, even if production declines somewhat. Under the circumstances, it is reasonable to expect that the trend toward lower inflation will persist through 1994.

STAFF INFLATION PROJECTIONS
(Percent change, Q4 to Q4)

	1991	1992	1993	1994
Consumer price index	3.0	2.9	2.7	2.1
<i>Previous</i>	3.0	3.2	2.8	2.2
Excluding food and energy	4.5	3.2	2.5	2.0
<i>Previous</i>	4.5	3.5	2.7	2.1
ECI for compensation, private industry workers ¹	4.4	3.3	3.0	2.7
<i>Previous</i>	4.4	3.4	3.0	2.7

1. December to December.

Unit labor costs should be damped by an ongoing moderation of wage and benefit increases. We have projected that the ECI for compensation will rise 3 percent in 1993 and about 2-3/4 percent in 1994. There are, however, some obvious risks. One is the possibility that employers' efforts to contain medical benefit costs will be hindered by federal mandates for health insurance. This is likely to be an issue in the upcoming congressional session, but at this point we cannot assess the legislative outcome or the near-term economic consequences. Other mandates could also translate into additional out-of-pocket expenses or short-run productivity losses for businesses; here, too, incorporating such items in the forecast would only be conjecture.

at which little, if any, additional slowing of inflation would be expected.

Clearly, the reaction of the financial markets would play an important role in influencing the macroeconomic outcomes associated with any changes in fiscal policy. If, in contrast to the

STAFF SIMULATIONS OF THE EFFECTS OF FISCAL ACTIONS ON THE ECONOMY
(Percentage change, fourth quarter to fourth quarter)

	1993	1994
1. <u>Growth of real GDP:</u>		
Baseline	2.4	3.2
With alternative fiscal actions:		
a. \$20 billion cut in personal income taxes	2.8	3.6
b. \$20 billion increase in grants-in-aid	2.6	3.6
c. 5 percent investment tax credit	3.1	4.4
2. <u>Civilian unemployment rate:</u> ¹		
Baseline	7.5	6.8
With alternative fiscal actions:		
a. \$20 billion cut in personal income taxes	7.4	6.5
b. \$20 billion increase in grants-in-aid	7.4	6.6
c. 5 percent investment tax credit	7.3	6.1
3. <u>Consumer price index:</u>		
Baseline	2.7	2.1
With alternative fiscal actions:		
a. \$20 billion cut in personal income taxes	2.7	2.4
b. \$20 billion increase in grants-in-aid	2.7	2.3
c. 5 percent investment tax credit	2.8	2.5

1. Average in the fourth quarter.

assumption underlying the simulations reported in the table, we were to assume that the path of long-term interest rates moves roughly 1/4 percentage point above the baseline in response to the enactment of a \$20 billion fiscal stimulus measure, the effects on real activity would be greatly diminished; of the three measures only the ITC would show an appreciable increase in the level of real GDP by the end of 1994.

Strictly Confidential (FR) STAFF PROJECTIONS OF CHANGES IN GDP, PRICES, AND UNEMPLOYMENT
 Class II FOMC (Percent, annual rate) November 12, 1992

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index ¹		Unemployment rate (level except as noted)	
	09/30/92	11/12/92	09/30/92	11/12/92	09/30/92	11/12/92	09/30/92	11/12/92	09/30/92	11/12/92
ANNUAL										
1990 ²	5.2	5.2	.8	.8	4.5	4.5	5.4	5.4	5.5	5.5
1991 ²	2.8	2.8	-1.2	-1.2	4.0	4.0	4.2	4.2	6.7	6.7
1992	4.4	4.5	1.7	1.8	3.0	3.0	3.1	3.0	7.5	7.4
1993	4.5	4.5	2.1	2.2	2.6	2.6	3.1	2.8	7.7	7.6
1994	5.1	4.8	3.2	3.0	2.2	2.1	2.4	2.2	7.1	7.1
QUARTERLY										
1991 Q1 ²	1.8	1.8	-3.0	-3.0	4.7	4.7	3.3	3.3	6.5	6.5
Q2 ²	5.2	5.2	1.7	1.7	3.5	3.5	2.4	2.4	6.7	6.7
Q3 ²	4.0	4.0	1.2	1.2	3.0	3.0	2.7	2.7	6.8	6.8
Q4 ²	2.8	2.8	.6	.6	2.4	2.4	3.6	3.6	6.9	6.9
1992 Q1 ²	6.2	6.2	2.9	2.9	3.6	3.6	2.9	2.9	7.2	7.2
Q2 ²	4.3	4.3	1.5	1.5	2.9	2.9	3.5	3.5	7.5	7.5
Q3 ²	4.3	4.5	1.9	2.7	1.9	2.1	2.9	2.6	7.6	7.6
Q4	3.4	4.5	1.2	2.0	2.7	2.8	3.6	3.0	7.8	7.5
1993 Q1	4.8	4.9	2.0	2.0	3.0	3.0	3.1	3.1	7.8	7.6
Q2	4.7	4.2	2.5	2.0	2.4	2.4	2.8	2.7	7.8	7.6
Q3	5.0	4.5	2.9	2.5	2.2	2.2	2.7	2.5	7.7	7.6
Q4	5.1	4.7	3.3	2.9	2.1	2.0	2.6	2.3	7.5	7.5
1994 Q1	5.8	5.2	3.5	3.1	2.5	2.5	2.4	2.3	7.3	7.3
Q2	5.0	4.7	3.3	3.2	2.0	1.9	2.2	2.1	7.1	7.2
Q3	4.7	4.6	3.1	3.2	1.8	1.7	2.0	2.0	7.0	7.0
Q4	4.5	4.6	3.0	3.3	1.8	1.7	2.0	2.0	6.8	6.8
TWO-QUARTER³										
1991 Q2 ²	3.5	3.5	-.7	-.7	4.2	4.2	2.9	2.9	.7	.7
Q4 ²	3.4	3.4	.9	.9	2.7	2.7	3.1	3.1	.2	.2
1992 Q2 ²	5.2	5.2	2.2	2.2	3.4	3.4	3.1	3.1	.6	.6
Q4	3.8	4.5	1.5	2.3	2.3	2.4	3.2	2.8	.3	.0
1993 Q2	4.8	4.5	2.3	2.0	2.7	2.7	3.0	2.9	.0	.1
Q4	5.1	4.6	3.1	2.7	2.2	2.1	2.6	2.4	-.3	-.1
1994 Q2	5.4	5.0	3.4	3.2	2.3	2.2	2.3	2.2	-.4	-.3
Q4	4.6	4.6	3.1	3.2	1.8	1.7	2.0	2.0	-.3	-.4
FOUR-QUARTER⁴										
1990 Q4 ²	4.1	4.1	-.5	-.5	4.7	4.7	6.3	6.3	.6	.6
1991 Q4 ²	3.5	3.5	.1	.1	3.5	3.5	3.0	3.0	.9	.9
1992 Q4	4.5	4.9	1.9	2.3	2.9	2.9	3.2	2.9	.9	.6
1993 Q4	4.9	4.6	2.7	2.4	2.4	2.4	2.8	2.7	-.3	.0
1994 Q4	5.0	4.8	3.3	3.2	2.0	1.9	2.2	2.1	-.7	-.7

1. For all urban consumers.

2. Actual.

3. Percent change from two quarters earlier; for unemployment rate, change in percentage points.

4. Percent change from four quarters earlier; for unemployment rate, change in percentage points.

Strictly Confidential (FR)
Class II FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES
(Seasonally adjusted, annual rate)

November 12, 1992

Item	Unit ¹	Projected								
		1986	1987	1988	1989	1990	1991	1992	1993	1994
EXPENDITURES										
Nominal GDP	Bill. \$	4268.6	4539.9	4900.4	5250.8	5522.2	5677.5	5935.5	6203.9	6498.6
Real GDP	Bill. 87\$	4404.5	4540.0	4718.6	4838.0	4877.5	4821.0	4909.9	5016.5	5165.2
Real GDP	% change	2.2	4.5	3.3	1.6	-.5	.1	2.3	2.4	3.2
Gross domestic purchases		2.1	3.9	2.5	.9	-1.2	-.2	3.0	2.5	3.3
Final sales		3.3	2.7	4.2	1.5	.6	-.6	2.2	2.1	3.1
Private dom. final purch.		3.0	1.9	4.2	.5	-.8	-.9	3.6	3.2	4.1
Personal cons. expend.		4.0	2.1	4.2	1.2	-.2	.0	2.6	2.5	3.2
Durables		12.5	-2.6	8.5	-.5	-2.3	-2.5	7.0	5.4	7.4
Nondurables		3.3	1.4	3.2	1.2	-.7	-1.5	1.5	1.7	2.3
Services		2.5	3.7	3.7	1.7	1.3	1.6	2.1	2.3	2.6
Business fixed invest.		-5.7	3.0	5.5	-.4	-1.4	-7.0	7.4	6.0	7.3
Producers' dur. equip.		-.7	2.4	9.1	-1.7	-.2	-3.5	11.9	8.0	8.7
Nonres. structures		-14.1	4.4	-1.2	2.3	-3.7	-14.3	-3.2	.8	3.3
Res. structures		11.1	-3.1	.9	-7.7	-14.7	-.1	12.8	5.7	9.8
Exports		9.9	12.6	13.5	11.3	7.2	7.4	1.6	6.2	6.2
Imports		6.7	4.7	3.6	2.6	.1	4.8	7.9	6.8	6.6
Government purchases		4.1	3.3	.2	2.0	2.8	-.6	.0	-1.9	-.8
Federal		3.8	3.7	-3.4	-.6	3.0	-2.3	-1.9	-5.6	-4.0
Defense		3.7	4.5	-3.2	-1.5	1.5	-5.2	-4.3	-8.6	-6.6
State and local		4.4	2.9	2.9	4.0	2.7	.7	1.3	.5	1.2
Change in bus. invent.	Bill. 87\$	8.6	26.3	19.9	29.8	6.2	-9.3	5.5	23.1	27.5
Nonfarm		10.6	32.7	26.9	29.9	3.7	-9.6	3.3	24.0	28.9
Net exports		-155.1	-143.0	-104.0	-73.7	-51.8	-21.8	-43.5	-63.1	-69.7
Nominal GDP	% change	4.7	8.0	7.7	6.0	4.1	3.5	4.9	4.6	4.8
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	99.5	102.2	105.5	108.3	109.8	108.3	108.4	109.1	111.2
Unemployment rate	%	7.0	6.2	5.5	5.3	5.5	6.7	7.4	7.6	7.1
Industrial prod. index	% change	1.4	6.5	4.5	1.1	.3	-.5	.9	3.6	4.6
Capacity util. rate-mfg.	%	79.0	81.4	83.9	83.9	82.3	78.2	77.5	77.5	78.4
Housing starts	Millions	1.81	1.62	1.49	1.38	1.19	1.01	1.20	1.28	1.43
Auto sales in U.S.		11.45	10.24	10.63	9.91	9.51	8.39	8.33	8.64	9.24
North American produced		8.22	7.07	7.54	7.08	6.91	6.14	6.23	6.50	6.95
Other		3.24	3.18	3.10	2.83	2.60	2.25	2.10	2.14	2.29
INCOME AND SAVING										
Nominal GNP	Bill. \$	4277.8	4544.5	4908.2	5266.8	5542.9	5694.9	5947.3	6216.7	6511.5
Nominal GNP	% change	4.4	8.1	7.8	6.1	4.2	3.1	4.8	4.6	4.7
Nominal personal income		5.5	7.4	7.1	6.5	6.3	3.3	4.7	5.5	5.3
Real disposable income		2.8	2.1	3.2	1.1	.9	.5	2.0	2.6	3.1
Personal saving rate	%	6.0	4.3	4.4	4.1	4.4	4.7	4.9	4.9	4.8
Corp. profits, IVA&CCAdj	% change	-7.1	29.7	10.2	-6.3	-3.0	.9	19.1	2.4	3.0
Profit share of GNP	%	6.4	7.0	7.4	6.9	6.5	6.1	6.5	6.7	6.6
Federal surpl./def.	Bill. \$	-201.1	-151.8	-136.6	-122.3	-166.2	-210.4	-293.9	-277.9	-262.6
State/local surpl./def.		54.3	40.1	38.4	44.8	30.1	17.1	11.9	20.5	38.3
Ex. social ins. funds		1.5	-14.7	-18.4	-17.5	-32.9	-43.1	-45.8	-36.4	-18.3
PRICES AND COSTS										
GDP implicit deflator	% change	2.6	3.3	4.2	4.4	4.5	3.4	2.5	2.2	1.5
GDP fixed-wt. price index		2.6	3.4	4.2	4.3	4.7	3.5	2.9	2.4	1.9
Gross domestic purchases		2.3	3.9	4.1	4.3	5.3	2.8	2.8	2.4	2.0
fixed-wt. price index		1.3	4.5	4.3	4.6	6.3	3.0	2.9	2.7	2.1
CPI		3.9	4.3	4.5	4.4	5.3	4.5	3.2	2.5	2.0
Ex. food and energy										
ECI, hourly compensation ²		3.2	3.3	4.8	4.8	4.6	4.4	3.3	3.0	2.7
Nonfarm business sector		1.2	1.8	.5	-1.4	.1	1.3	2.5	1.5	1.4
Output per hour		4.6	3.8	3.8	3.1	6.3	4.2	3.3	3.1	2.9
Compensation per hour		3.4	1.9	3.3	4.6	6.2	2.8	.8	1.6	1.5
Unit labor cost										

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

2. Private-industry workers.

Strictly Confidential (FR)
Class II POMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES
(Seasonally adjusted, annual rate except as noted)

November 12, 1992

Item	Unit	1990				1991				1992		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
		Bill. \$	5445.2	5522.6	5559.6	5561.3	5585.8	5657.6	5713.1	5753.3	5840.2	5902.2
EXPENDITURES		Bill. 87\$	4890.8	4902.7	4882.6	4833.8	4796.7	4817.1	4831.8	4838.5	4873.7	4892.4
Nominal GDP		% change	2.8	1.0	-1.6	-3.9	-3.0	1.7	1.2	.6	2.9	1.5
Real GDP			2.1	.9	-1.4	-6.0	-4.2	1.7	2.4	-.4	3.0	3.4
Real GDP			4.3	-1.1	.1	-9	-3.2	1.3	-.5	.0	4.7	-.1
Gross domestic purchases			2.9	-1.7	.8	-5.0	-6.0	1.5	1.4	-.4	5.5	2.4
Final sales												
Private dom. final purch.												
Personal cons. expend.			2.2	.1	1.7	-3.1	-3.0	2.0	1.5	-.3	5.1	-.1
Durables			16.2	-12.0	-1.4	-9.8	-13.0	-.7	8.1	-3.1	16.5	-2.1
Nondurables			-.2	-.5	.8	-2.8	-3.2	1.3	-.6	-3.5	5.5	-1.5
Services			.3	3.7	3.1	-1.6	-.3	3.0	1.2	2.3	2.2	1.2
Business fixed invest.			6.2	-6.6	5.6	-9.6	-15.8	-3.1	-3.4	-5.2	3.0	16.1
Producers' dur. equip.			6.8	-7.8	7.2	-6.1	-16.7	.7	6.0	-2.4	3.2	24.1
Nonres. structures			5.0	-4.1	2.5	-16.5	-14.0	-10.6	-20.8	-11.5	2.7	-.8
Res. structures			5.3	-15.9	-22.9	-22.4	-26.9	7.0	14.4	11.3	20.1	12.6
Exports			10.7	7.0	-.2	11.6	-5.0	16.6	6.2	13.3	2.9	-1.4
Imports			2.6	5.1	1.5	-8.5	-14.6	15.6	17.1	4.2	3.5	14.7
Government purchases			6.4	1.1	-2.0	6.1	2.8	-.2	-2.3	-3.0	1.7	-1.2
Federal			8.0	2.1	-7.2	9.9	7.2	-.3	-6.5	-9.0	-3.0	-2.7
Defense			4.9	.3	-10.5	12.8	8.7	-5.6	-9.4	-13.0	-7.7	-5.2
State and local			5.2	.4	1.9	3.5	-.1	.6	.9	1.4	5.1	-.2
Change in bus. invent.		Bill. 87\$	7.5	32.8	11.2	-26.8	-25.1	-20.4	.6	7.5	-12.6	7.8
Nonfarm			5.9	27.9	6.6	-25.6	-24.7	-24.5	-1.0	11.8	-10.7	6.0
Net exports			-58.4	-56.9	-59.3	-32.7	-17.9	-17.4	-31.6	-20.5	-21.5	-43.9
Nominal GDP		% change	7.7	5.8	2.7	.1	1.8	5.2	4.0	2.8	6.2	4.3
EMPLOYMENT AND PRODUCTION												
Nonfarm payroll employ.		Millions	109.8	110.2	109.9	109.3	108.6	108.2	108.3	108.2	108.1	108.4
Unemployment rate ¹		%	5.2	5.3	5.6	6.0	6.5	6.7	6.8	6.9	7.2	7.5
Industrial prod. index		% change	.6	4.2	3.9	-7.0	-9.7	2.6	6.6	-.7	-2.9	5.2
Capacity util. rate-mfg. ¹		%	82.7	82.8	82.9	80.8	78.0	77.9	78.7	78.2	77.3	77.9
Housing starts		Millions	1.46	1.20	1.13	1.03	.92	1.00	1.04	1.10	1.26	1.14
Auto sales in U.S.			9.95	9.52	9.56	9.02	8.36	8.43	8.56	8.21	8.31	8.50
North American produced			7.16	6.80	7.05	6.61	6.13	6.10	6.28	6.06	6.07	6.32
Other			2.79	2.71	2.51	2.41	2.23	2.33	2.28	2.15	2.24	2.19
INCOME AND SAVING												
Nominal GNP		Bill. \$	5464.1	5537.0	5577.8	5592.7	5614.9	5674.3	5726.4	5764.1	5859.8	5909.3
Nominal GNP		% change	7.6	5.4	3.0	1.1	1.6	4.3	3.7	2.7	6.8	3.4
Nominal personal income			9.5	6.2	4.6	5.2	.1	4.6	3.3	5.1	6.1	3.9
Real disposable income			4.2	.8	-1.2	-.2	-2.6	1.9	.7	2.2	4.0	1.2
Personal saving rate ¹		%	4.4	4.6	3.9	4.6	4.7	4.7	4.5	5.1	4.9	5.3
Corp. profits, IVA&CCAdj		% change	15.6	19.1	-29.9	-8.2	6.7	-2.6	-6.8	7.1	49.8	4.7
Profit share of GNP ¹		%	6.7	6.9	6.3	6.2	6.2	6.1	6.0	6.0	6.6	6.6
Federal govt. surpl./def.		Bill. \$	-167.8	-156.9	-145.6	-194.6	-149.9	-212.2	-221.0	-258.7	-289.2	-302.9
State/local surpl./def.			36.1	33.8	30.3	20.2	14.6	16.5	15.4	22.0	16.6	17.7
Ex. social ins. funds			-27.3	-29.4	-32.5	-42.2	-46.6	-44.1	-44.5	-37.3	-41.8	-40.3
PRICES AND COSTS												
GDP implicit deflator		% change	4.4	4.8	4.7	3.9	5.3	3.5	2.4	2.4	3.1	2.7
GDP fixed-wt. price index			5.4	4.6	4.7	4.1	4.7	3.5	3.0	2.4	3.6	2.9
Gross domestic purchases			5.9	3.7	5.6	5.8	3.1	2.5	2.9	2.5	3.1	3.2
fixed-wt. price index			7.2	4.1	7.0	6.9	3.3	2.4	2.7	3.6	2.9	3.5
CPI			5.6	5.5	5.8	4.2	6.5	3.8	4.0	3.7	3.9	3.9
Ex. food and energy			5.6	5.1	8.2	.58	4.6	4.0	2.0	.6	.1	.8
ECI, hourly compensation ²			5.6	4.7	4.7	3.8	4.9	4.5	4.1	4.0	4.0	2.5
Nonfarm business sector			-.5	2.5	-1.7	.1	-.7	1.7	1.9	2.5	3.7	1.7
Output per hour			5.0	7.8	6.4	5.9	3.8	5.8	3.9	3.1	3.8	2.4
Compensation per hour			5.6	5.1	8.2	.58	4.6	4.0	2.0	.6	.1	.8

1. Not at an annual rate.

2. Private-industry workers.

Strictly Confidential (F8)
Class II FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES
(Seasonally adjusted, annual rate except as noted)

November 12, 1992

Item	Units	Projected									
		1992		1993				1994			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. \$	5967.1	6032.4	6104.4	6167.8	6236.0	6307.3	6388.0	6462.3	6535.3	6608.9
Real GDP	Bill. 87\$	4924.5	4948.8	4973.5	4998.2	5029.0	5065.2	5104.4	5144.4	5185.0	5226.9
Real GDP	% change	2.7	2.0	2.0	2.0	2.5	2.9	3.1	3.2	3.2	3.3
Gross domestic purchases		3.3	2.4	2.1	2.4	2.7	2.7	3.1	3.6	3.3	3.1
Final sales		2.1	2.2	1.8	1.3	2.1	3.2	3.2	3.1	3.1	3.2
Private dom. final purch.		2.9	3.8	2.8	2.6	3.3	3.9	4.1	4.4	4.0	3.7
Personal cons. expend.		3.4	2.0	2.3	2.1	2.6	3.2	3.3	3.6	3.1	2.8
Durables		8.6	5.7	3.5	3.5	5.8	8.9	8.8	9.0	7.2	4.8
Nondurables		1.7	.4	1.8	1.4	1.7	2.1	2.3	2.6	2.2	2.2
Services		3.1	2.0	2.3	2.1	2.3	2.5	2.5	2.8	2.6	2.6
Business fixed invest.		.3	10.7	5.4	5.8	6.3	6.6	7.2	7.8	7.4	6.8
Producers' dur. equip.		8.5	13.0	7.3	7.8	8.4	8.4	8.8	9.5	8.8	7.8
Nonres. structures		-17.7	4.7	.6	.4	.6	1.6	2.9	3.2	3.4	3.8
Res. structures		.4	19.0	5.4	2.5	6.6	8.7	9.5	9.7	9.3	10.5
Exports		1.9	3.3	6.1	6.1	6.1	6.3	6.1	6.2	6.3	6.3
Imports		6.9	6.7	6.2	9.2	7.5	4.2	5.9	9.4	6.6	4.4
Government purchases		2.0	-2.3	-2.4	-2.1	-1.9	-1.3	-1.0	-.8	-.7	-.7
Federal		4.4	-5.7	-6.1	-5.9	-5.4	-4.9	-4.4	-3.9	-3.9	-3.9
Defense		6.9	-10.4	-9.4	-8.9	-8.3	-7.7	-7.1	-6.4	-6.5	-6.6
State and local		.4	.0	.1	.5	.5	1.0	1.1	1.1	1.3	1.3
Change in bus. invent.	Bill. 87\$	14.7	12.0	14.7	23.8	28.7	25.4	25.2	26.8	28.2	29.8
Nonfarm		9.8	8.0	14.2	24.8	30.0	27.2	26.8	28.3	29.5	30.9
Net exports		-51.5	-56.9	-57.9	-63.5	-66.6	-64.3	-64.8	-71.0	-72.5	-70.4
Nominal GDP	% change	4.5	4.5	4.9	4.2	4.5	4.7	5.2	4.7	4.6	4.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.5	108.5	108.6	108.8	109.2	109.7	110.3	110.8	111.5	112.1
Unemployment rate ¹	%	7.6	7.5	7.6	7.6	7.6	7.5	7.3	7.2	7.0	6.8
Industrial prod. index	% change	1.6	.0	3.4	3.2	3.7	4.2	4.6	4.4	4.6	4.7
Capacity util. rate-mfg ¹	%	77.7	77.1	77.3	77.4	77.5	77.8	78.1	78.3	78.6	78.8
Housing starts	Millions	1.20	1.23	1.23	1.26	1.30	1.34	1.38	1.42	1.45	1.48
Auto sales in U.S.		8.21	8.28	8.36	8.52	8.75	8.93	9.05	9.17	9.30	9.42
North American produced		6.24	6.28	6.30	6.40	6.60	6.70	6.80	6.90	7.00	7.10
Other		1.97	2.00	2.06	2.12	2.15	2.23	2.25	2.27	2.30	2.32
INCOME AND SAVING											
Nominal GNP	Bill. \$	5979.4	6040.7	6116.3	6179.4	6251.5	6319.8	6401.2	6474.9	6550.1	6619.9
Nominal GNP	% change	4.8	4.2	5.1	4.2	4.7	4.4	5.3	4.7	4.7	4.3
Nominal personal income		2.2	6.5	6.6	5.3	4.8	5.5	6.5	4.8	4.9	5.1
Real disposable income		.0	2.9	2.6	2.5	1.9	3.3	3.9	2.8	2.7	3.0
Personal saving rate ¹	%	4.5	4.8	4.9	5.0	4.8	4.8	5.0	4.8	4.7	4.7
Corp. profits, IVA&CCAdj	% change	-16.6	53.6	4.3	-.1	-.5	6.2	-.3	7.7	-2.2	7.4
Profit share of GNP ¹	%	6.2	6.8	6.8	6.8	6.7	6.7	6.6	6.7	6.5	6.6
Federal govt. surpl./def.	Bill. \$	-292.3	-291.3	-286.1	-282.8	-270.0	-272.8	-273.7	-266.1	-253.8	-257.0
State/local surpl./def.		3.2	10.2	15.3	14.8	25.3	26.7	33.1	34.6	41.4	44.2
Ex. social ins. funds		-54.1	-47.0	-41.8	-42.2	-31.6	-30.1	-23.6	-22.0	-15.2	-12.5
PRICES AND COSTS											
GDP implicit deflator	% change	1.8	2.4	2.8	2.2	2.0	1.7	2.0	1.5	1.4	1.3
GDP fixed-wt. price index		2.1	2.8	3.0	2.4	2.2	2.0	2.5	1.9	1.7	1.7
Gross domestic purchases		2.4	2.6	3.0	2.4	2.2	2.0	2.5	1.9	1.8	1.8
fixed-wt. price index		2.6	3.0	3.1	2.7	2.5	2.3	2.3	2.1	2.0	2.0
CPI		2.5	2.7	2.8	2.5	2.5	2.3	2.2	2.0	1.9	1.9
Ex. food and energy		3.2	3.3	3.2	3.1	3.0	2.9	2.8	2.7	2.7	2.6
ECI, hourly compensation ²		3.2	3.3	3.2	3.1	3.0	2.9	2.8	2.7	2.7	2.6
Nonfarm business sector		2.6	2.0	1.9	1.5	1.4	1.4	1.5	1.4	1.4	1.4
Output per hour		3.7	3.3	3.4	3.0	3.1	3.1	3.3	2.8	2.7	2.6
Compensation per hour		1.0	1.3	1.5	1.5	1.7	1.7	1.9	1.4	1.3	1.2

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 ITEMS¹
(Billions of 1987 dollars)

November 12, 1992

Item									Proj.					
	1990				1991									
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1989	1990	1991	1992
Real GDP	34.1	11.9	-20.1	-48.8	-37.1	20.4	14.7	6.7	35.2	18.7	77.0	-22.9	4.7	110.3
Gross domestic purchases	25.1	10.4	-17.7	-75.4	-51.9	19.9	28.9	-4.4	36.2	41.1	41.7	-57.6	-7.5	146.8
Final sales	51.5	-13.3	1.4	-10.8	-38.8	15.6	-6.2	-.3	55.4	-1.7	73.1	28.8	-29.7	105.9
Private dom. final purch.	28.3	-17.4	8.4	-51.1	-60.2	14.6	13.4	-4.3	52.5	23.5	19.7	-31.8	-36.5	142.2
Personal cons. expend.	17.5	.6	13.8	-25.9	-24.5	15.8	11.9	-2.2	40.3	-.8	39.1	6.0	1.0	83.2
Durables	16.7	-14.3	-1.5	-11.1	-14.6	-.7	8.1	-3.3	16.2	-2.3	-2.4	-10.2	-10.5	29.1
Nondurables	-.6	-1.2	2.0	-7.5	-8.6	3.3	-1.5	-9.2	14.0	-4.8	12.1	-7.3	-16.0	15.5
Services	1.4	16.0	13.4	-7.3	-1.3	13.3	5.2	10.4	9.9	5.6	29.4	23.5	27.6	38.6
Business fixed invest.	8.1	-9.2	7.3	-13.6	-22.3	-4.0	-4.3	-6.6	3.7	18.9	-2.1	-7.4	-37.2	36.2
Producers' dur. equip.	5.9	-7.3	6.2	-5.6	-15.9	.6	5.0	-2.1	2.7	19.2	-6.2	-.8	-12.4	41.0
Nonres. structures	2.2	-1.9	1.1	-8.0	-6.4	-4.6	-9.2	-4.6	1.0	-.3	4.1	-6.6	-24.8	-4.8
Res. structures	2.7	-8.9	-12.7	-11.6	-13.4	2.8	5.7	4.7	8.3	5.6	-17.3	-30.5	-.2	22.6
Change in bus. invent.	-17.4	25.3	-21.6	-38.0	1.7	4.7	21.0	6.9	-20.1	20.4	4.0	-51.7	34.3	4.5
Nonfarm	-25.3	22.0	-21.3	-32.2	.9	.2	23.5	12.8	-22.5	16.7	.7	-56.8	37.4	-3.8
Farm	7.9	3.2	-.2	-5.8	.8	4.5	-2.5	-5.8	2.3	3.7	3.3	5.1	-3.0	8.2
Net exports	9.0	1.5	-2.4	26.6	14.8	.5	-14.2	11.1	-1.0	-22.4	35.3	34.7	12.2	-36.4
Exports	12.5	8.5	-.3	14.2	-6.7	20.2	8.1	17.2	4.0	-2.0	49.5	34.9	38.8	9.2
Imports	3.6	7.0	2.1	-12.4	-21.5	19.7	22.3	6.0	5.0	20.5	14.1	.3	26.5	45.8
Government purchases	14.2	2.6	-4.6	13.7	6.6	.5	-5.4	-7.1	3.9	-2.8	18.1	25.9	-5.4	.2
Federal	7.3	2.0	-7.1	9.0	6.8	-.3	-6.6	-9.0	-2.9	-2.6	-2.3	11.2	-9.1	-7.0
Defense	3.4	.2	-7.8	8.5	6.0	-4.2	-7.0	-9.6	-5.4	-3.5	-4.2	4.3	-14.8	-11.7
Nondefense	3.8	1.8	.7	.5	.7	4.0	.4	.6	2.5	.9	2.0	6.8	5.7	4.7
State and local	6.9	.6	2.5	4.7	-.2	.8	1.2	1.9	6.9	-.3	20.4	14.7	3.7	7.2

1. Annual changes are from Q4 to Q4.

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Strictly Confidential (FR)
Class II FOMC

NET CHANGES IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS¹
(Billions of 1987 dollars)

November 12, 1992

Item	Projected										Projected			
	1992		1993				1994				1991	1992	1993	1994
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GDP	32.1	24.3	24.6	24.7	30.8	36.2	39.2	40.0	40.6	41.9	4.7	110.3	116.4	161.7
Gross domestic purchases	39.7	29.8	25.6	30.3	33.9	33.9	39.8	46.1	42.1	39.8	-7.5	146.8	123.7	167.9
Final sales	25.2	27.0	22.0	15.6	25.8	39.6	39.4	38.3	39.2	40.4	-29.7	105.9	103.0	157.3
Private dom. final purch.	28.2	38.0	28.6	26.0	33.2	40.2	42.4	46.3	42.2	39.8	-36.5	142.2	128.0	170.7
Personal cons. expend.	27.6	16.1	18.9	17.2	21.6	27.0	27.6	30.3	26.8	24.3	1.0	83.2	84.7	109.0
Durables	9.0	6.2	3.8	3.9	6.4	9.9	10.0	10.4	8.5	5.9	-10.5	29.1	24.1	34.8
Nondurables	4.4	1.1	4.6	3.7	4.5	5.6	6.0	6.9	6.0	6.0	-16.0	15.5	18.4	24.9
Services	14.1	9.0	10.5	9.6	10.7	11.5	11.6	13.1	12.3	12.3	27.6	38.6	42.3	49.3
Business fixed invest.	.4	13.2	7.0	7.6	8.3	8.9	9.9	10.9	10.5	9.8	-37.2	36.2	31.8	41.0
Producers' dur. equip.	7.5	11.6	6.8	7.4	8.1	8.3	8.9	9.7	9.2	8.4	-12.4	41.0	30.6	36.2
Nonres. structures	-7.1	1.6	.2	.1	.2	.6	1.0	1.1	1.2	1.4	-24.8	-4.8	1.2	4.8
Res. structures	.2	8.5	2.6	1.3	3.3	4.3	4.9	5.1	5.0	5.7	-.2	22.6	11.5	20.7
Change in bus. invent.	6.9	-2.7	2.7	9.1	5.0	-3.4	-.1	1.6	1.4	1.6	34.3	4.5	13.4	4.4
Nonfarm	3.8	-1.8	6.2	10.6	5.3	-2.9	-.3	1.5	1.2	1.4	37.4	-3.8	19.2	3.7
Farm	3.2	-1.0	-3.5	-1.5	-.3	-.5	.2	.1	.2	.2	-3.0	8.2	-5.8	.7
Net exports	-7.6	-5.4	-1.0	-5.6	-3.1	2.4	-.6	-6.1	-1.5	2.1	12.2	-36.4	-7.3	-6.2
Exports	2.6	4.6	8.5	8.6	8.8	9.2	9.1	9.4	9.6	9.7	38.8	9.2	35.2	37.8
Imports	10.2	10.1	9.5	14.2	11.9	6.9	9.6	15.5	11.2	7.6	26.5	45.8	42.5	43.9
Government purchases	4.6	-5.5	-5.6	-4.8	-4.3	-3.0	-2.4	-1.8	-1.5	-1.5	-5.4	.2	-17.7	-7.2
Federal	4.0	-5.5	-5.8	-5.5	-5.0	-4.4	-3.9	-3.4	-3.4	-3.4	-9.1	-7.0	-20.7	-14.1
Defense	4.4	-7.2	-6.3	-5.8	-5.3	-4.8	-4.3	-3.8	-3.8	-3.8	-14.8	-11.7	-22.2	-15.7
Nondefense	-.4	1.7	.5	.3	.3	.4	.4	.4	.4	.4	5.7	4.7	1.5	1.6
State and local	.6	.0	.2	.7	.7	1.4	1.5	1.6	1.9	1.9	3.7	7.2	3.0	6.9

1. Annual changes are from Q4 to Q4.

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Item	Fiscal year				1992				1993				1994							
	1991 ^a	1992 ^a	1993	1994	Q1 ^a	Q2 ^a	Q3 ^a	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
UNIFIED BUDGET					Not seasonally adjusted															
Receipts ¹	1054	1092	1151	1202	239	322	276	260	251	348	291	266	268	370	298	279				
Outlays ¹	1324	1382	1485	1549	355	350	338	385	334	386	380	387	382	390	389	399				
Surplus/deficit ¹	-269	-290	-334	-347	-116	-28	-62	-125	-83	-38	-89	-121	-114	-20	-91	-121				
On-budget	-322	-340	-387	-404	-121	-60	-62	-133	-90	-70	-93	-132	-122	-57	-93	-135				
Off-budget	52	50	-53	57	6	31	-1	8	7	32	5	11	7	36	3	14				
Surplus excluding deposit insurance ²	-203	-287	-299	-299	-105	-25	-69	-130	-84	-13	-72	-108	-104	-7	-80	-109				
Means of financing																				
Borrowing	293	311	324	371	83	62	77	88	77	69	90	119	108	51	93	113				
Cash decrease	-1	-17	19	0	29	-27	-12	33	8	-22	0	10	10	-20	0	10				
Other ³	-23	-4	-9	-24	4	-7	-3	5	-2	-10	-1	-8	-4	-10	-2	-2				
Cash operating balance, end of period	41	59	40	40	20	47	59	26	18	40	40	30	20	40	40	30				
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate															
Receipts	1118	1145	1214	1283	1143	1150	1157	1182	1213	1224	1236	1252	1278	1294	1307	1325				
Expenditures	1313	1431	1496	1549	1433	1453	1450	1473	1499	1507	1506	1525	1551	1560	1561	1582				
Purchases	447	446	446	438	445	445	452	447	449	445	441	438	441	439	436	434				
Defense	326	315	307	293	314	312	318	312	310	305	300	296	296	292	289	285				
Nondefense	121	131	139	145	131	133	134	135	139	140	141	142	145	146	148	149				
Other expenditures	866	985	1051	1111	988	1008	998	1026	1050	1062	1065	1087	1110	1121	1125	1148				
Surplus/deficit	-194	-286	-283	-267	-289	-303	-292	-291	-286	-283	-270	-273	-274	-266	-254	-257				
FISCAL INDICATORS ⁴																				
High-employment (HEB) surplus/deficit	-155	-220	-212	-208	-226	-235	-223	-223	-215	-211	-199	-205	-211	-210	-205	-216				
Change in HEB, percent of potential GDP	-.4	1.1	-.1	-.1	.5	.1	-.2	0	-.1	-.1	-.2	.1	.1	0	-.1	.2				
Fiscal impetus (FI), percent, cal. year	-3.8	-4.2	-4.2	-3.8	-2.5	-.1	.4	-.9	-2.1	-1.3	-1.3	-1.1	-.7	-.8	-.8	-.8				

1. OMB's July deficit estimates are \$334 billion in FY92, \$341 billion in FY93 and \$274 billion in FY94. CBO's August deficit estimates are \$314 billion in FY92, \$331 billion in FY93 and \$268 billion in FY94. 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 deficit estimates, excluding deposit insurance spending, are \$323 billion in FY92, \$282 billion in FY93 and \$253 billion in FY94. CBO's March deficit estimates, excluding deposit insurance spending, are \$301 billion in FY92, \$282 billion in FY93 and \$251 billion in FY94.

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 2.1 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.

Confidential FR Class II
November 10, 1992

GROWTH RATES OF DEBT BY SECTOR¹
(Percent, period-end to period-end)

	Domestic Nonfinancial Sectors								Memo	
	Households								State & local govts.	Private financial assets ³
	Total ²	U.S. govt. ²	Non-federal	Total	Home mtgs.	Cons. credit	Business	Nominal GDP ⁴		
1983	11.7	18.9	9.9	11.6	11.3	12.6	8.3	9.7	11.7	11.0
1984	14.5	16.9	13.8	13.2	12.0	18.7	15.4	9.1	13.0	9.1
1985	15.0	16.5	14.5	14.3	12.2	15.8	11.5	31.3	13.1	7.0
1986	12.9	13.6	12.7	14.1	17.3	9.6	11.9	10.5	9.1	4.7
1987	9.2	8.0	9.6	11.5	13.7	5.0	7.1	13.4	8.4	8.0
1988	9.1	8.0	9.4	11.1	12.5	7.2	8.3	7.0	8.4	7.7
1989	8.0	7.0	8.2	9.6	11.3	5.6	6.9	8.4	7.1	6.0
1990	6.6	11.0	5.3	7.2	9.0	2.2	3.3	5.9	4.5	4.1
1991	4.2	11.1	2.1	4.2	5.3	-1.6	-0.6	4.5	0.7	3.5
1992	4.9	11.2	2.9	4.4	5.7	-0.0	0.7	4.6	1.2	4.9
1993	5.8	11.6	3.8	5.1	6.2	2.3	2.3	3.7	1.3	4.6
1994	6.2	10.7	4.5	5.9	6.8	4.3	3.1	3.9	2.7	4.8
Seasonally adjusted, annual rates										
1991 -- Q1	4.2	9.1	2.8	4.3	5.7	-1.3	0.9	4.2	4.6	1.8
Q2	5.0	10.9	3.2	5.0	5.8	-1.0	1.1	4.4	1.5	5.2
Q3	3.7	11.1	1.4	3.5	4.4	-3.1	-1.6	4.3	-2.4	4.0
Q4	3.7	11.9	1.0	3.8	4.8	-1.0	-2.8	4.7	-0.9	2.8
1992 -- Q1	5.8	13.3	3.3	5.3	7.2	0.4	0.8	4.6	4.9	6.2
Q2	4.7	12.3	2.2	3.9	4.7	-1.7	-0.9	6.4	-0.3	4.3
Q3	3.8	6.8	2.8	3.9	5.1	0.1	1.5	3.1	-0.7	4.5
Q4	5.1	11.0	3.1	4.4	5.5	1.0	1.4	3.9	0.8	4.5
1993 -- Q1	5.4	11.2	3.3	4.6	5.8	1.5	1.9	3.3	-0.1	4.9
Q2	5.9	11.9	3.7	5.0	6.0	1.9	2.1	4.0	1.6	4.2
Q3	4.8	7.8	3.8	5.0	6.1	2.5	2.5	3.3	0.5	4.5
Q4	6.8	13.7	4.2	5.5	6.3	3.2	2.7	4.0	3.2	4.7

1. Published data through 1992 Q2.

2. Deposit insurance activity raised total debt growth roughly .5 percentage points in 1991 and is expected to increase 1993 growth by a similar amount. There is virtually no effect on debt growth in 1992.

3. Sometimes referred to as the "Kaufman debt proxy"; includes liquid assets and credit market instruments.

4. Annual figures are Q4 to Q4.

FLOW OF FUNDS PROJECTION HIGHLIGHTS¹
(Billions of dollars, seasonally adjusted annual rates)

	Calendar year				1992				1993			
	1991	1992	1993	1994	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net funds raised by domestic nonfinancial sectors:												
1 Total	470.8	578.5	694.9	774.8	694.2	570.9	450.2	598.8	646.1	710.2	592.1	831.0
2 Net equity issuance	18.3	25.8	10.0	5.0	46.0	36.0	11.0	10.0	13.0	11.0	9.0	7.0
3 Net debt issuance	452.5	552.8	684.9	769.8	648.2	534.9	439.2	588.8	633.1	699.2	583.1	824.0
Borrowing sectors:												
Nonfinancial business												
4 Financing gap ²	-4.4	-19.2	33.0	63.2	-43.1	-14.7	-27.7	8.8	17.5	32.5	39.3	42.8
5 Net equity issuance	18.3	25.8	10.0	5.0	46.0	36.0	11.0	10.0	13.0	11.0	9.0	7.0
6 Credit market borrowing	-22.3	25.5	83.8	113.7	29.4	-30.8	53.8	49.5	68.1	77.7	90.7	98.6
Households												
7 Net borrowing, of which:	158.0	174.6	210.4	253.7	208.8	155.4	157.7	176.3	190.2	208.2	208.5	234.5
8 Home mortgages	137.1	156.9	178.0	207.5	196.0	129.5	144.4	157.5	166.4	174.9	181.2	189.4
9 Consumer credit	-12.6	-0.4	18.0	34.6	3.1	-13.5	1.0	8.0	12.0	15.0	20.0	25.0
10 Debt/DPI (percent) ³	91.7	90.8	90.5	90.8	90.8	90.9	91.5	91.0	90.9	90.9	91.0	91.1
State and local governments												
11 Net borrowing	38.5	41.1	35.0	37.6	41.1	58.4	28.5	36.4	31.4	38.2	31.7	38.6
12 Current surplus ⁴	-39.6	-42.9	-41.5	-28.1	-39.4	-33.8	-50.2	-48.3	-43.6	-43.4	-40.6	-38.2
U.S. government												
13 Net borrowing	278.2	311.7	355.8	364.8	368.9	351.9	199.2	326.6	343.4	75.1	252.2	452.3
14 Net borrowing; quarterly, nsa	278.2	311.7	355.8	364.8	83.4	63.6	77.0	87.7	77.0	69.4	90.2	119.1
15 Unified deficit; quarterly, nsa	266.8	331.2	330.7	346.0	115.5	28.4	62.4	124.9	82.9	37.9	88.7	121.1
Funds supplied by depository institutions												
16	-61.0	50.0	97.3	104.2	-4.2	1.8	115.1	87.4	96.2	98.6	67.1	117.1
Memoranda: As percent of GDP:												
17 Dom. nonfinancial debt ³	193.5	193.1	194.4	196.8	194.0	194.2	193.9	194.2	194.5	95.4	195.6	196.6
18 Dom. nonfinancial borrowing	8.0	9.3	11.0	11.8	11.1	9.1	7.4	9.8	10.4	11.3	9.4	13.1
19 U.S. government ⁵	4.9	5.3	5.7	5.6	6.3	6.0	3.3	5.4	5.6	6.1	4.0	7.2
20 Private	3.1	4.1	5.3	6.2	4.8	3.1	4.0	4.3	4.7	5.3	5.3	5.9

- 1. Published data through 1992 Q2.
- 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.

Short-term interest rates in major European countries other than Germany have declined sharply since the October 6 FOMC meeting as EMS tensions have eased (see table below). In the United Kingdom, and to a lesser extent Germany and France, short-term rates are now well below their levels on June 2 (the date of the Danish referendum on Maastricht, which marked the early onset of the recent turmoil in the EMS). In Italy, Spain, and Sweden, rates remain above their early-June levels -- Italy's by the greatest margin. As a result of monetary restraint and the passage of several deficit reduction measures by the Italian government, the lira has risen 7-3/4 percent against the mark over the intermeeting period, and has reversed about one-third of its earlier decline.

THREE-MONTH INTEREST RATES
(Interbank loan or nearest equivalent, percent)

	June 2	September Peak	October 6	November 10
Germany	9.65	9.85	8.90	8.85
United Kingdom	9.94	10.56	9.00	6.94
France	9.98	13.00	12.75	9.31
Italy	12.56	20.13	17.06	14.63
Spain	12.50	15.00	15.25	13.90
Sweden	11.42	28.00	15.25	12.33
Japan	4.69	3.98	3.47	3.41
Canada	6.35	7.50	8.00	7.20
United States	3.94	3.34	3.04	3.50

. The desk did not intervene.

nearly 2 percentage points to a little over 5 percent at an annual rate. Most of the projected expansion of these exports is now accounted for by the anticipated pickup in GDP growth abroad. In addition, we continue to expect exports of computers to grow rapidly in real terms, adding at least 2 percentage points to the growth of nonagricultural exports over the next two years. Agricultural exports should decline somewhat in the fourth quarter from abnormally high levels recorded in the third quarter and be little changed over the year ahead.

TRADE QUANTITIES*

(Percent change from preceding period shown, except as noted. A.R.)

	1992				Projection	
	Q1	Q2	Q3	Q4	1993 Q4	1994 Q4
Nonag. exports	0.2	1.1	-0.4	4.9	7.1	7.3
Agric. exports	6.4	-10.9	40.0	-14.1	0.5	1.2
Non-oil imports	5.2	14.8	8.1	7.4	7.7	6.9
Oil imports	1.7	41.1	8.9	8.8	3.8	10.3

* GDP basis, 1987 dollars.

The quantity of non-oil imports is expected to increase over the next five quarters at slightly less than the relatively strong pace in the third quarter of 1992. Exceptionally rapid growth in imports of computers has contributed about 5 percentage points to the expected growth of non-oil imports over the four quarters of 1992. During the next two years, the growth of total non-oil imports is expected to be maintained at a fairly strong pace by several factors. One factor is continued strong growth in computers, albeit at a substantially slower pace than in 1992. A second is the expected pickup in U.S. GDP growth later in 1993 and in 1994. A third factor is the decline in the relative price of imported goods resulting from the recent appreciation of the dollar. The stimulus to import demand from this lower relative price of

foreign-currency prices at least to some extent. We project export prices thereafter to rise roughly in line with U.S. producer prices.

SELECTED PRICE INDICATORS
(Percent change from preceding period shown, except as noted, A.R.)

	<u>1992</u>				<u>Projection</u>	
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>1993</u>	<u>1994</u>
PPI (exp. wts.)	-0.3	3.9	3.3	-0.3	1.6	1.1
Nonag. exports*	0.1	2.7	4.1	0.9	1.3	1.2
Non-oil imports*	2.1	0.2	4.7	-0.9	1.6	2.6
Oil imports (\$/bl)	15.27	17.47	18.62	18.60	19.00	19.00

* Excluding computers.

Nominal Trade and Current Account Balances. The merchandise trade deficit is projected to widen from an estimated annual rate of nearly \$110 billion in the third quarter to more than \$125 billion in the second half of 1993 and more than \$135 billion in 1994. The projected level of the deficit in 1994 exceeds that in the previous forecast by \$10 billion, and the difference is largely accounted for by the higher projected path of the dollar.

After having worsened sharply in the second quarter, the current account probably registered a \$10 billion (annual rate) improvement in the third quarter. That improvement is likely to be transitory, reflecting primarily the expected one-time receipt of payments from foreign reinsurance companies covering losses associated with Hurricane Andrew. We expect gains in net services and net investment income receipts to offset much of the decline in the trade balance over the rest of the forecast period. However, paralleling the revision to the outlook for the trade balance, the projection shows the current account following a significantly more negative path than in the previous projection, reaching a deficit of more than \$80 billion by the end of 1993 and \$90 billion by the end of 1994.

November 10, 1992

**STRICTLY CONFIDENTIAL - FR
CLASS II FOMC**

**REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1990-94
(Percent change from fourth quarter to fourth quarter)**

Measure and country	Projection				
	1990	1991	1992	1993	1994
REAL GDP					

Canada	-2.0	-0.0	1.3	2.8	3.2
France	1.5	1.9	1.5	2.3	3.0
Western Germany	5.8	2.0	1.7	1.7	2.4
Italy	1.6	1.7	0.7	1.2	2.2
Japan	5.2	3.0	1.5	2.8	4.3
United Kingdom	-1.0	-1.6	-0.7	2.1	2.6
Average, weighted by 1987-89 GDP	2.7	1.6	1.1	2.2	3.2
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	1.9	1.7	2.0	3.1	3.7
G-6	0.6	0.8	1.1	2.5	3.2
Developing countries	5.0	5.0	4.4	5.2	5.4
CONSUMER PRICES					

Canada	4.9	4.1	2.0	2.3	2.3
France	3.6	2.9	2.7	2.6	2.5
Western Germany	3.0	3.9	3.4	3.4	2.8
Italy	6.3	6.1	5.5	5.3	3.9
Japan	3.2	3.2	2.3	2.1	2.1
United Kingdom	10.0	4.2	3.1	3.5	4.6
Average, weighted by 1987-89 GDP	4.8	3.9	3.1	3.0	2.9
Average, weighted by share of U.S. non-oil imports					

	4.4	3.8	2.5	2.6	2.5

	U.S. CURRENT ACCOUNT AND REAL NET EXPORTS												
	(Billions of dollars, seasonally adjusted annual rates)												
	1990				1991				1992		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1989	1990	1991
GDP Net Exports of Goods and Services (87\$)	-58.4	-56.9	-59.3	-32.7	-17.9	-17.4	-31.6	-20.5	-21.5	-43.9	-73.7	-51.8	-21.8
Exports of G+S Merchandise Services	500.2	508.7	508.4	522.6	515.9	536.1	544.2	561.4	565.4	563.4	471.8	510.0	539.4
	363.5	368.7	366.7	375.3	377.4	390.1	395.2	407.3	408.1	408.0	343.8	368.5	392.5
	136.7	140.0	141.7	147.3	138.5	146.1	149.0	154.0	157.3	155.4	127.9	141.4	146.9
Imports of G+S Merchandise Oil Non-oil Services	558.6	565.6	567.7	555.3	533.8	553.5	575.8	581.8	586.8	607.3	545.4	561.8	561.2
	458.3	464.5	465.7	452.7	438.9	454.9	477.9	482.2	488.0	507.8	450.4	460.3	463.5
	55.9	55.6	53.3	43.5	44.2	51.5	52.4	46.5	46.7	50.9	51.3	52.1	48.6
	402.4	408.9	412.4	409.1	394.7	403.4	425.5	435.7	441.3	456.8	399.0	408.2	414.8
	100.3	101.2	102.0	102.6	94.9	98.5	97.9	99.6	98.8	99.5	95.0	101.5	97.7
Memo:(Percent changes 1/)													
Exports of G+S of which: Goods	10.7	7.0	-0.2	11.6	-5.0	16.6	6.2	13.3	2.9	-1.4	11.3	7.2	7.4
	10.2	5.8	-2.2	9.7	2.3	14.2	5.3	12.8	0.8	-0.1	10.2	5.8	8.5
Imports of G+S of which: Non-oil Goods	2.6	5.1	1.5	-8.5	-14.6	15.6	17.1	4.2	3.5	14.7	2.6	0.1	4.8
	-4.4	6.6	3.5	-3.2	-13.4	9.1	23.8	9.9	5.2	14.8	3.1	0.5	6.5
Current Account Balance	-89.5	-85.3	-95.9	-91.0	48.8	9.7	-44.3	-28.9	-23.6	-71.2	-101.1	-90.4	-3.7
Merchandise Trade, net	-109.5	-99.2	-115.6	-111.1	-73.3	-65.6	-80.7	-74.2	-68.9	-97.7	-115.7	-108.9	-73.4
Exports Agricultural Nonagricultural	379.9	386.6	386.2	402.1	402.5	413.3	416.6	431.4	431.8	430.3	361.7	388.7	416.0
	43.0	40.5	39.4	37.9	39.2	37.5	40.7	43.2	43.3	42.0	42.2	40.2	40.1
	337.0	346.1	346.8	364.2	363.3	375.8	375.9	388.2	388.5	388.3	319.5	348.5	375.8
Imports Oil Non-oil	489.4	485.8	501.7	513.2	475.8	478.9	497.3	505.6	500.7	528.0	477.4	497.6	489.4
	63.2	51.3	61.8	72.9	51.7	51.7	52.5	48.8	41.5	51.9	50.9	62.3	51.2
	426.3	434.5	439.9	440.3	424.2	427.1	444.8	456.8	459.2	476.1	426.4	435.3	438.2
Other Current Account	2.7	1.1	2.8	-10.0	94.2	59.6	24.0	35.5	27.4	21.0	0.2	-0.9	53.3
Invest. Income, net Direct, net Portfolio, net	17.3	12.8	16.9	30.1	27.9	15.7	12.3	9.8	17.9	5.5	14.4	19.3	16.4
	52.1	51.5	54.0	59.7	61.7	53.0	48.3	48.5	55.3	46.4	47.8	54.3	52.9
	-34.8	-38.7	-37.1	-29.6	-33.9	-37.3	-36.0	-38.7	-37.4	-40.9	-33.5	-35.1	-36.5
Military, net Other Services, net Transfers, net	-7.5	-6.5	-6.8	-10.5	-10.3	-5.7	-4.0	-2.2	-2.5	-2.6	-6.8	-7.8	-5.5
	36.3	37.2	38.3	47.6	47.7	48.8	52.1	54.7	57.9	54.5	32.6	39.9	50.8
	-26.2	-29.6	-28.8	-47.1	56.8	16.5	-24.0	-17.1	-28.0	-30.9	-25.6	-32.9	8.0

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

OUTLOOK FOR U.S. CURRENT ACCOUNT AND REAL NET EXPORTS

(Billions of dollars, seasonally adjusted annual rates)

	Projection												Projection			
	1992		1993				1994				ANNUAL					
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1992	1993	1994			
GDP Net Exports of Goods and Services (87\$)	-51.5	-56.9	-57.9	-63.5	-66.6	-64.3	-64.8	-71.0	-72.5	-70.4	-43.5	-63.1	-69.7			
Exports of G+S Merchandise Services	566.0	570.6	579.1	587.8	596.6	605.8	614.9	624.2	633.9	643.6	566.4	592.3	629.1			
Imports of G+S Merchandise Oil Non-oil Services	411.0	413.9	420.5	427.0	433.6	440.7	447.8	455.4	463.1	470.7	410.3	430.5	459.2	517.8	527.3	535.2
	155.0	156.7	158.7	160.7	163.0	165.1	167.0	168.8	170.8	172.9	156.1	161.9	169.9	52.0	53.1	51.3
	465.8	474.2	483.9	492.8	501.5	510.6	519.4	528.2	536.7	545.6	459.5	497.2	532.5	99.7	100.2	101.9
Memo: (Percent changes 1/)																
Exports of G+S of which: Goods	1.9	3.3	6.1	6.1	6.1	6.3	6.1	6.2	6.3	6.3	1.6	6.2	6.2			
Imports of G+S of which: Non-oil Goods	3.0	2.9	6.5	6.4	6.3	6.7	6.6	6.9	6.9	6.7	1.6	6.5	6.8			
	6.9	6.7	6.2	9.2	7.5	4.2	5.9	9.4	6.6	4.4	7.9	6.8	6.6			
	8.1	7.4	8.5	7.5	7.3	7.4	7.1	7.0	6.6	6.8	8.8	7.7	6.9			
Current Account Balance	-63.6	-84.0	-75.9	-81.4	-79.7	-82.0	-79.0	-86.8	-87.3	-92.5	-60.6	-79.7	-86.4			
Merchandise Trade, net	-108.9	-114.3	-114.2	-121.8	-126.7	-126.0	-128.5	-137.5	-141.8	-142.9	-97.4	-122.2	-137.7			
Exports Agricultural Nonagricultural	432.1	434.3	439.8	446.8	453.7	461.5	469.1	476.9	484.8	492.4	432.1	450.5	480.8			
	44.7	42.3	42.2	42.4	42.7	43.6	44.3	45.1	45.8	46.5	43.1	42.7	45.4			
	387.4	391.9	397.6	404.4	411.0	417.9	424.8	431.8	439.1	446.0	389.0	407.7	435.4			
Imports Oil Non-oil	541.0	548.6	554.0	568.5	580.5	587.5	597.6	614.4	626.6	635.3	529.6	572.6	618.5			
	56.3	57.4	55.8	61.3	64.0	60.8	61.0	67.6	69.6	67.4	51.8	60.5	66.4			
	484.7	491.2	498.2	507.2	516.5	526.6	536.6	546.8	557.0	567.9	477.8	512.1	552.1			
Other Current Account	34.4	23.5	28.0	30.3	33.1	33.0	37.8	39.5	41.2	40.9	26.6	31.1	39.9			
Invest. Income, net	10.9	6.8	10.4	10.1	14.0	11.0	11.7	11.1	13.3	9.5	10.3	11.4	11.4			
Direct, net	48.4	45.1	44.5	45.2	46.6	46.7	46.3	48.0	48.7	49.2	48.8	45.7	48.0			
Portfolio, net	-37.5	-38.3	-34.1	-35.1	-32.7	-35.7	-34.6	-36.8	-35.4	-39.7	-38.5	-34.4	-36.6			
Military, net	-2.7	-2.4	-2.0	-1.6	-1.0	-0.6	-0.2	0.2	0.6	1.0	-2.5	-1.3	0.4			
Other Services, net	69.3	60.1	61.6	63.5	65.7	67.8	69.4	70.7	72.0	73.7	60.4	64.6	71.5			
Transfers, net	-32.2	-34.2	-31.6	-31.6	-31.6	-34.2	-31.4	-31.4	-31.4	-33.8	-31.3	-32.2	-32.0			

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

Confidential (FR) Class III FOMC

November 12, 1992

RECENT DEVELOPMENTS

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

while defense equipment, industrial equipment, and construction supplies have shown little or no sign of recovery.

NEW ORDERS FOR DURABLE GOODS
(Percent change from preceding period; seasonally adjusted)

	1992					
	H1 Share	Q2	Q3	July	Aug.	Sep.
Total durable goods	100	2.6	-1.9	-2.7	-.4	.1
Adjusted durable goods ¹	66	2.8	1.3	.1	-2.3	1.5
Office and computing	5	4.4	2.1	-2.5	4.2	-4.1
Nondefense capital goods ²	16	-.6	2.5	-.9	-5.2	9.5
Other	45	3.8	.8	.7	-2.0	-.5

1. Excludes defense capital goods, nondefense aircraft, motor vehicle parts, and those companies not reporting unfilled orders.

2. Excludes aircraft and computers.

Indicators of the direction of manufacturing activity are mixed. Adjusted orders for durable goods, which exclude motor vehicles and items with unusually long lead times, rose in September after a decline in August. The October NAPM index inched back to only a fraction above the 50 percent level, and the Chicago purchasers' index moved below 50 percent. Anecdotal reports--such as those contained in the Beige Book--are similarly ambiguous.

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

	1992			1992		
	Q2	Q3	Sep.	Oct.	Nov.	Dec.
U.S. production	10.0	9.5	9.4	9.9	10.6	10.3
Autos	6.1	5.6	5.6	5.5	6.0	5.7
Trucks	3.9	3.9	3.8	4.4	4.6	4.7

1. Components may not add to totals due to rounding.

Prospects appear favorable for near-term production in the motor vehicle industry, however. Total assemblies in October rose to a 9.9 million unit annual rate, half a million units higher than in September; all the gain was in the production of light trucks, as auto assemblies declined somewhat. Given recent sales levels, it

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

	Q3 1991	Q3 1992	Fiscal years			
			FY1991	FY1992	Dollar change	
					Percent change	
Outlays	355.7	338.0	1323.8	1381.9	58.1	4.4
Deposit insurance (DI)	36.0	-6.4	66.6	2.9	-63.7	-95.6
Defense Cooperation account (DCA)	-4.8	.0	-43.6	-5.2	38.4	-88.1
Outlays excluding DI and DCA	324.5	344.6	1300.7	1384.2	83.5	6.4
National defense	78.6	77.4	316.9	303.4	-13.5	-4.3
Net interest	49.4	49.4	194.5	199.4	4.9	2.5
Social security	67.9	72.5	269.0	287.5	18.5	6.9
Medicare and health	47.4	54.7	175.7	208.6	32.9	18.7
Income security	42.4	48.1	170.8	199.4	28.6	16.7
Other	38.9	42.5	173.8	185.9	12.1	7.0
Receipts	264.4	275.6	1054.3	1091.7	37.4	3.5
Withheld + FICA	185.9	185.8	745.1	765.1	20.0	2.7
Nonwithheld + SECA	28.5	34.4	168.2	173.8	5.6	3.3
Corporate income taxes	21.7	24.2	98.1	100.3	2.2	2.2
Other	28.3	31.2	42.8	52.6	9.8	22.8
Deficit (+) excluding DI and DCA	91.4	62.4	269.5	290.2	20.7	7.7
	60.2	68.9	246.8	292.5	45.7	18.5

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

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

	1992				
	Q3	Q4 P	Oct. P	Nov. P	Dec. P
<u>Treasury financing</u>					
Total surplus/deficit (-)	-62.4	-124.9	-41.8	-44.9	-38.2
Means of financing deficit:					
Net cash borrowing from the public	77.0	87.7	-2.8	62.7	27.7
Marketable borrowings/ repayments (-)	72.6	83.7	-2.5	61.4	24.7
Bills	16.1	30.4	-6.5	18.0	18.9
Coupons	56.4	53.3	4.0	43.5	5.8
Nonmarketable	4.4	4.0	-.3	1.3	3.0
Decrease in the cash balance	-11.7	32.6	39.4	-1.1	-5.7
Memo: Cash balance at end of period	58.8	26.2	19.4	20.5	26.2
² Other	-2.8	4.5	5.1	-16.7	16.1
<u>Federally sponsored credit agencies, net cash borrowing³</u>					
FHLBs	2.3	--	--	--	--
FHLMC	2.5	--	--	--	--
FNMA	5.0	--	--	--	--
Farm Credit Banks	--	--	--	--	--
SLMA	-.7	--	--	--	--
FAMC ⁴	.0	--	--	--	--

1. Data reported on a not seasonally adjusted, payment basis.
 2. Includes checks issued less checks paid, accrued items and other transactions.
 3. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
 4. Federal Agricultural mortgage Corporation.
 p--projected.
 Note: Details may not add to totals due to rounding.

CONFIDENTIAL (FR)
CLASS III - FOMC

November 13, 1992

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

November 13, 1992

UNIVERSITY OF MICHIGAN SURVEY RESEARCH CENTER: SURVEY OF CONSUMER ATTITUDES
(Not seasonally adjusted)

	1992 Mar	1992 Apr	1992 May	1992 Jun	1992 Jul	1992 Aug	1992 Sep	1992 Oct	1992 Nov (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	76.0	77.2	79.2	80.4	76.6	76.1	75.6	73.3	83.6
Current conditions	84.9	87.7	91.5	95.4	90.6	86.2	88.3	82.5	96.7
Expected conditions	70.3	70.5	71.2	70.7	67.6	69.5	67.4	67.5	75.1
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Personal financial situation									
Now compared with 12 months ago*	93	97	97	100	96	91	102	90	109
Expected in 12 months*	113	129	122	125	125	121	123	121	121
Expected business conditions									
Next 12 months*	90	87	92	88	78	81	78	80	90
Next 5 years*	77	66	70	70	66	76	68	67	90
Appraisal of buying conditions									
Cars	125	131	135	144	128	129	130	121	132
Large household appliances*	126	130	139	147	138	132	126	123	141
Houses	153	162	159	163	153	159	162	148	163
Willingness to use credit	39	31	45	38	39	41	44	34	44
Willingness to use savings	53	54	59	67	58	61	65	61	67
Average expected increase in prices during the next 12 months	3.3	3.7	3.4	4.2	3.9	4.0	4.1	3.6	4.6
Average expected increase in prices (per year) over the next 5 to 10 years	4.6	4.9	5.5	4.7	4.7	5.0	5.0	5.1	5.0

* -- Indicates the question is one of the five equally-weighted components of the index of sentiment.

(p) -- Preliminary

(f) -- Final

Note: Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Asterisk (*) indicates the question is one of the five equally-weighted components of the index of sentiment.