

May 13, 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

Oil prices are anticipated to fluctuate narrowly during the summer and to average around \$17.50 per barrel over the subsequent quarters.

#### Current-Quarter Economic Activity

The moderate increase reported for real GDP in the first quarter seems somewhat at odds with the strength in labor demand and the upbeat anecdotal and survey evidence.<sup>1</sup> It is quite

#### SUMMARY OF THE NEAR-TERM OUTLOOK (Percent change, at annual rates, unless otherwise noted)

	1993		1994	
	Q3	Q4	Q1	Q2
Real GDP	2.9	7.0	2.6	4.2
<i>Previous</i>	2.9	7.5	3.2	2.5
Memo:				
Contribution of motor vehicle production	-0.9	2.2	1.6	-1.4
Civilian unemployment rate (percent) <sup>1</sup>	6.7	6.5	6.6	6.5
CPI inflation	2.0	3.1	1.9	2.7

1. Values for 1993 are from the old CPS.

conceivable, however, that the severe winter weather was actually more disruptive than we had thought and that it depressed productivity. One may also recall the similar, unexplained deceleration a year ago, which serves as a reminder that GDP growth, whether actual or measured, is characterized simply by a good deal of short-run volatility.

We currently project that real GDP is rising at an annual rate of 4.2 percent in the current quarter. This pace is broadly consistent with the strong labor market report for April, which

1. Indeed, the apparent discrepancy is exacerbated by the fact that the monthly expenditure indicators received since the Commerce Department's advance estimate was released--if taken literally--would lower the GDP growth rate to roughly 1-1/2 percent. We suspect, however, that subsequent data will move that number appreciably closer to the advance estimate, and we have based our forecast on that assumption.

SUMMARY OF STAFF PROJECTIONS FOR 1994-95<sup>1</sup>  
(Percent change, unless otherwise noted)

	1993	1994	1994		1995
		Q1	Q2	H2	
	--Published--		---Projected---		
Real GDP	3.1	2.6	4.2	2.4	2.3
<i>Previous</i>	3.2	3.2	2.5	2.5	2.3
Real PCE	3.2	3.8	1.7	2.3	2.2
Real BFI	15.1	5.5	18.5	9.6	7.8
Civilian unemployment rate <sup>2</sup>	6.5	6.6	6.5	6.6	6.6

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

2. Average level in the final quarter of period indicated. percent. The value for 1993 is from the old CPS.

The longer-run forecast for real GDP does not differ significantly from that in the March Greenbook. We continue to expect spending in major interest-sensitive categories--residential construction, producers' durable equipment, and consumer durables--to decelerate sharply. The tightening of monetary policy offsets the effects of a lessening of fiscal restraint and a diminution of the drag from the external sector as time passes. The slowing of growth prevents an overshooting of productive capacity; but it does not leave enough slack in the economy to extend the downward trend in overall inflation, in the face of less favorable movements in food and energy prices.

Consumer spending. We expect consumption growth to slow noticeably over the next several quarters and to average only about 2-1/4 percent per year after mid-1994, roughly in line with the pace of income growth. The recent favorable readings on consumer sentiment could be regarded as a sign that households might be willing to spend a still greater proportion of their incomes. But a number of fundamental factors will tend to damp spending in coming

heretofore in the expansion. All told, we expect payroll employment to increase about 2-1/2 million in 1994 and 1-1/2 million in 1995.

Despite the strength of labor demand over the past few months, the rate of labor force participation apparently has not picked up. (We say "apparently" because the revision of the Current Population Survey (CPS) makes these numbers uncertain.) Still, perceptions of improved job availability--indicated, for example, by the Conference Board survey--should, before long, result in at least a modest increase in the number of job seekers. The unemployment rate is expected to average 6.5 percent in the second quarter and to tick up to 6.8 percent in the third quarter; it subsequently levels out at 6.6 percent.<sup>4</sup>

SUMMARY OF STAFF INFLATION PROJECTIONS  
(Percent change, Q4 to Q4, unless otherwise noted)

	1993	1994	1995
ECI for compensation of private industry workers <sup>1</sup>	3.6	3.3	3.4
Previous	3.6	3.6	3.6
Consumer price index	2.7	2.9	2.9
Previous	2.7	3.0	3.1
Excluding food and energy	3.1	2.9	2.8
Previous	3.1	2.9	2.9
GDP deflator	2.2	2.3	2.1
Previous	2.2	2.4	2.2

1. December to December.

Wages and prices. Prices of some important industrial and construction materials have risen sharply over the past year, but labor cost increases have been moderate, and the broad measures of inflation have remained subdued. Looking ahead, if activity

4. Based on discussions with BLS staff, we think that seasonal adjustment and other difficulties in the new CPS will impart an upward bias to the measured unemployment rate over the summer months. The unemployment rate projection for 1995 assumes that BLS will by then have corrected the technical biases in the new survey.

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

May 13, 1994

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index <sup>1</sup>		Unemployment rate (level except as noted)	
	3/16/94	5/13/94	3/16/94	5/13/94	3/16/94	5/13/94	3/16/94	5/13/94	3/16/94	5/13/94
<b>ANNUAL</b>										
1991 <sup>2</sup>	3.2	3.2	-.7	-.7	4.1	4.1	4.3	4.3	6.7	6.7
1992 <sup>2</sup>	5.5	5.5	2.6	2.6	3.3	3.3	3.0	3.0	7.4	7.4
1993 <sup>2</sup>	5.6	5.6	3.0	3.0	3.1	3.1	3.0	3.0	6.8	6.8
1994	5.7	5.7	3.6	3.7	2.7	2.6	2.8	2.6	6.6	6.6
1995	4.8	4.6	2.4	2.4	3.0	2.8	3.2	3.1	6.6	6.6
<b>QUARTERLY</b>										
1992 Q1 <sup>2</sup>	7.4	7.4	3.5	3.5	4.2	4.2	2.6	2.6	7.3	7.3
Q2 <sup>2</sup>	5.7	5.7	2.8	2.8	3.4	3.4	3.5	3.5	7.5	7.5
Q3 <sup>2</sup>	4.6	4.6	3.4	3.4	2.5	2.5	2.9	2.9	7.5	7.5
Q4 <sup>2</sup>	9.2	9.2	5.7	5.7	3.1	3.1	3.5	3.5	7.3	7.3
1993 Q1 <sup>2</sup>	4.4	4.4	.8	.8	4.3	4.3	2.8	2.8	7.0	7.0
Q2 <sup>2</sup>	4.3	4.3	1.9	1.9	2.8	2.8	3.1	3.1	7.0	7.0
Q3 <sup>2</sup>	4.4	4.4	2.9	2.9	2.1	2.1	2.0	2.0	6.7	6.7
Q4 <sup>2</sup>	8.8	8.4	7.5	7.0	2.3	2.3	3.1	3.1	6.5	6.5
1994 Q1 <sup>2</sup>	5.7	5.2	3.2	2.6	2.9	2.9	2.1	1.9	6.5	6.6
Q2	5.0	6.2	2.5	4.2	2.9	2.6	3.6	2.7	6.6	6.5
Q3	5.0	5.1	2.7	2.7	2.8	2.8	3.4	3.5	6.8	6.8
Q4	4.7	4.4	2.4	2.1	2.8	2.8	3.0	3.3	6.6	6.6
1995 Q1	5.1	4.8	2.3	2.2	3.4	3.2	3.4	3.1	6.6	6.6
Q2	4.6	4.3	2.3	2.2	2.8	2.7	3.1	2.9	6.6	6.6
Q3	4.4	4.3	2.4	2.3	2.7	2.6	2.9	2.8	6.6	6.6
Q4	4.3	4.3	2.4	2.4	2.7	2.6	2.9	2.7	6.6	6.6
<b>TWO-QUARTER<sup>3</sup></b>										
1992 Q2 <sup>2</sup>	6.6	6.6	3.2	3.2	3.9	3.9	3.0	3.0	.5	.5
Q4 <sup>2</sup>	6.9	6.9	4.6	4.6	2.8	2.8	3.2	3.2	-.2	-.2
1993 Q2 <sup>2</sup>	4.3	4.3	1.3	1.3	3.4	3.4	3.1	3.1	-.3	-.3
Q4 <sup>2</sup>	6.6	6.4	5.2	4.9	2.2	2.2	2.4	2.4	-.5	-.5
1994 Q2	5.3	5.7	2.8	3.4	2.9	2.7	2.8	2.4	.1	.0
Q4	4.8	4.7	2.5	2.4	2.8	2.8	3.2	3.4	.0	.1
1995 Q2	4.9	4.5	2.3	2.2	3.1	3.0	3.2	3.0	.0	.0
Q4	4.4	4.3	2.4	2.4	2.7	2.6	2.9	2.7	.0	.0
<b>FOUR-QUARTER<sup>4</sup></b>										
1991 Q4 <sup>2</sup>	3.7	3.7	.3	.3	3.6	3.6	3.0	3.0	1.0	1.0
1992 Q4 <sup>2</sup>	6.7	6.7	3.9	3.9	3.3	3.3	3.1	3.1	.3	.3
1993 Q4 <sup>2</sup>	5.5	5.4	3.2	3.1	2.8	2.8	2.7	2.7	-.8	-.8
1994 Q4	5.1	5.2	2.7	2.9	2.8	2.8	3.0	2.9	.1	.1
1995 Q4	4.6	4.4	2.3	2.3	2.9	2.8	3.1	2.9	.0	.0

1. For all urban consumers.

2. Actual.

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

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

Item	Unit <sup>1</sup>	Projected								
		1987	1988	1989	1990	1991	1992	1993	1994	1995
EXPENDITURES										
Nominal GDP	Bill. \$	4539.9	4900.4	5250.8	5546.1	5722.9	6038.5	6377.9	6744.6	7057.7
Real GDP	Bill. 87\$	4540.0	4718.6	4838.0	4897.3	4861.4	4986.3	5136.0	5324.3	5451.7
Real GDP	% change	4.5	3.3	1.6	.2	.3	3.9	3.1	2.9	2.3
Gross domestic purchases		3.9	2.5	.9	-.4	-.2	4.3	4.0	3.6	2.5
Final sales		2.7	4.2	1.5	1.2	-.3	3.8	3.1	2.2	2.4
Private dom. final purch.		1.9	4.2	.5	-.1	-.7	5.0	5.0	3.6	3.0
Personal cons. expend.		2.1	4.2	1.2	.7	.0	4.0	3.2	2.5	2.2
Durables		-2.6	8.5	-.5	-.8	-.4	9.7	7.9	2.0	2.1
Nondurables		1.4	3.2	1.2	-.1	-1.3	3.6	1.7	2.8	2.0
Services		3.7	3.7	1.7	1.7	.9	2.8	2.9	2.5	2.3
Business fixed invest.		3.0	5.5	-.4	.7	-6.3	7.4	15.1	10.7	7.8
Producers' dur. equip.		2.4	9.1	-1.7	2.9	-3.3	11.4	18.8	12.3	8.5
Nonres. structures		4.4	-1.2	2.3	-3.9	-12.6	-2.0	5.1	5.7	5.5
Res. structures		-3.1	.9	-7.7	-15.2	1.6	17.6	7.9	.3	1.0
Exports		12.6	13.5	11.3	6.7	8.4	4.9	4.8	2.9	7.8
Imports		4.7	3.6	2.6	.4	4.2	8.5	11.8	7.9	8.1
Government purchases		3.3	.2	2.0	3.3	-.7	1.1	-.5	-.3	.4
Federal		3.7	-3.4	-.6	2.8	-3.7	.4	-6.6	-4.2	-3.0
Defense		4.5	-3.2	-1.5	1.5	-7.3	-1.4	-9.3	-5.7	-4.5
State and local		2.9	2.9	4.0	3.6	1.5	1.6	3.4	1.9	2.3
Change in bus. invent.	Bill. 87\$	26.3	19.9	29.8	5.7	-8.4	6.5	14.3	40.3	43.5
Nonfarm		32.7	26.9	29.9	3.2	-8.6	2.7	19.7	39.5	41.1
Net exports		-143.0	-104.0	-73.7	-54.7	-19.1	-33.6	-76.5	-114.9	-130.6
Nominal GDP	% change	8.0	7.7	6.0	4.7	3.7	6.7	5.4	5.2	4.4
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	102.0	105.2	107.9	109.4	108.3	108.5	110.2	112.5	114.4
Unemployment rate	%	6.2	5.5	5.3	5.5	6.7	7.4	6.8	6.6	6.6
Industrial prod. index	% change	6.3	3.2	-.1	-.2	-.3	3.2	4.2	4.4	2.8
Capacity util. rate-mfg.	%	81.6	83.6	83.1	81.1	77.8	78.6	80.6	82.8	82.4
Housing starts	Millions	1.62	1.49	1.38	1.19	1.01	1.20	1.29	1.36	1.35
Light Motor Vehicle Sales		14.84	15.43	14.53	13.85	12.30	12.83	13.89	15.25	15.46
Auto sales in U.S.		10.24	10.63	9.91	9.50	8.39	8.38	8.71	9.31	9.30
North American prod.		7.07	7.54	7.08	6.90	6.14	6.28	6.74	7.37	7.43
Other		3.18	3.10	2.83	2.60	2.25	2.11	1.97	1.95	1.88
INCOME AND SAVING										
Nominal GNP	Bill. \$	4544.5	4908.2	5266.8	5567.8	5737.1	6045.8	6378.1	6737.3	7043.3
Nominal GNP	% change	8.1	7.8	6.1	4.9	3.3	6.5	5.3	5.1	4.4
Nominal personal income		7.4	7.1	6.5	6.5	3.5	8.1	3.5	5.6	5.1
Real disposable income		2.1	3.2	1.1	1.1	.7	4.9	1.1	2.7	2.3
Personal saving rate	%	4.3	4.4	4.0	4.2	4.8	5.3	4.0	3.9	4.1
Corp. profits, IVA&CCAdj	% change	29.7	10.2	-6.3	2.3	4.4	16.0	15.6	3.3	3.3
Profit share of GNP	%	7.0	7.4	6.9	6.8	6.4	6.7	7.3	7.5	7.6
Federal surpl./def.	Bill. \$	-151.8	-136.6	-122.3	-163.5	-203.4	-276.3	-226.4	-141.9	-150.2
State/local surpl./def.		40.1	38.4	44.8	25.1	7.3	7.2	1.8	.1	4.3
Ex. social ins. funds		-14.7	-18.4	-17.5	-35.6	-51.2	-52.2	-56.7	-56.6	-51.2
PRICES AND COSTS										
GDP implicit deflator	% change	3.4	4.2	4.3	4.5	3.4	2.8	2.2	2.3	2.1
GDP fixed-wt. price index		3.4	4.2	4.4	4.6	3.6	3.3	2.8	2.8	2.8
Gross domestic purchases		3.9	4.1	4.4	5.2	3.1	3.3	2.6	2.7	2.7
fixed-wt. price index		4.5	4.3	4.6	6.3	3.0	3.1	2.7	2.9	2.9
CPI		4.3	4.5	4.4	5.3	4.4	3.5	3.1	2.9	2.8
Ex. food and energy										
ECI, hourly compensation <sup>2</sup>		3.3	4.8	4.8	4.6	4.4	3.5	3.6	3.3	3.4
Nonfarm business sector										
Output per hour		1.9	.5	-1.4	.4	2.2	3.6	2.0	.9	1.2
Compensation per hour		3.9	3.8	3.1	6.2	4.7	5.2	2.8	3.5	3.4
Unit labor cost		1.9	3.3	4.6	5.7	2.5	1.5	.8	2.5	2.1

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

2. Private-industry workers.

Item	Units	Projected									
		1993		1994				1995			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. \$	6395.9	6526.5	6609.4	6709.8	6793.3	6866.0	6946.4	7020.3	7094.3	7170.0
Real GDP	Bill. 87\$	5138.3	5225.6	5259.0	5313.3	5348.5	5376.4	5405.4	5435.4	5466.7	5499.2
Real GDP	% change	2.9	7.0	2.6	4.2	2.7	2.1	2.2	2.2	2.3	2.4
Gross domestic purchases		3.7	6.7	4.1	4.7	3.3	2.2	2.4	2.4	2.5	2.5
Final sales		3.4	6.8	.9	3.4	2.3	2.2	2.1	2.4	2.4	2.5
Private dom. final purch.		5.1	8.0	4.3	4.0	3.2	2.8	2.8	3.0	3.1	3.0
Personal cons. expend.		4.4	4.4	3.8	1.7	2.3	2.3	2.1	2.1	2.2	2.2
Durables		7.6	15.2	9.7	-3.2	.1	1.6	1.8	2.1	2.4	2.1
Nondurables		3.7	2.7	2.4	4.1	2.6	2.2	2.0	2.0	2.0	2.0
Services		3.9	2.6	3.1	1.7	2.8	2.5	2.2	2.2	2.3	2.4
Business fixed invest.		7.4	22.5	5.5	18.5	10.4	8.7	8.5	8.1	7.6	7.1
Producers' dur. equip.		10.0	26.0	13.5	14.2	11.9	9.8	9.4	8.9	8.3	7.6
Nonres. structures		.3	12.2	-16.1	33.6	5.8	5.3	5.5	5.6	5.5	5.5
Res. structures		11.9	31.7	9.1	2.0	-3.1	-6.3	-2.2	1.1	2.1	3.1
Exports		-.9	20.4	-9.3	7.4	6.9	7.8	7.3	7.6	7.9	8.3
Imports		6.0	16.4	2.8	11.0	10.7	7.5	8.4	7.7	8.3	8.2
Government purchases		.3	.0	-6.2	3.7	1.4	.1	.1	.4	.5	.6
Federal		-6.2	-5.2	-12.0	.7	-1.5	-3.4	-3.2	-3.1	-3.0	-2.8
Defense		-9.8	-4.9	-13.9	-.5	-2.6	-5.2	-4.7	-4.6	-4.5	-4.2
State and local		4.5	3.3	-2.6	5.3	3.1	2.1	2.0	2.3	2.4	2.4
Change in bus. invent.	Bill. 87\$	6.5	8.5	30.5	40.5	45.6	44.3	45.6	44.1	42.9	41.6
Nonfarm		19.4	12.9	30.7	40.4	44.4	42.4	43.5	41.7	40.3	38.9
Net exports		-86.3	-84.5	-104.2	-112.2	-120.6	-122.4	-126.4	-129.1	-132.2	-134.7
Nominal GDP	% change	4.4	8.4	5.2	6.2	5.1	4.4	4.8	4.3	4.3	4.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	110.4	110.9	111.4	112.3	112.9	113.4	113.8	114.2	114.6	114.9
Unemployment rate <sup>1</sup>	%	6.7	6.5	6.6	6.5	6.8	6.6	6.6	6.6	6.6	6.6
Industrial prod. index	% change	2.8	6.7	8.1	4.1	3.2	2.3	2.6	2.7	2.9	2.9
Capacity util. rate-mfg <sup>1</sup>	%	80.3	81.5	82.5	82.9	82.9	82.8	82.6	82.4	82.4	82.3
Housing starts	Millions	1.31	1.48	1.35	1.41	1.34	1.33	1.33	1.34	1.36	1.37
Light Motor Vehicle Sales		13.56	14.55	15.54	15.07	15.14	15.27	15.31	15.40	15.51	15.61
Auto sales in U.S.		8.60	8.95	9.49	9.27	9.26	9.23	9.23	9.27	9.33	9.38
North American prod.		6.63	7.08	7.46	7.33	7.34	7.34	7.35	7.40	7.45	7.50
Other		1.97	1.87	2.03	1.95	1.92	1.89	1.88	1.87	1.88	1.88
INCOME AND SAVING											
Nominal GNP	Bill. \$	6402.3	6520.9	6609.4	6701.7	6785.3	6852.8	6934.5	7004.5	7081.0	7153.0
Nominal GNP	% change	4.8	7.6	5.5	5.7	5.1	4.0	4.9	4.1	4.4	4.1
Nominal personal income		3.0	7.6	4.8	7.6	4.5	5.7	6.1	4.7	4.2	5.5
Real disposable income		1.6	5.4	2.7	2.5	3.0	2.5	3.2	.1	3.1	2.8
Personal saving rate <sup>1</sup>	%	3.8	4.0	3.7	3.9	4.0	4.1	4.4	3.9	4.1	4.2
Corp. profits, IVA&CCAdj	% change	9.4	38.1	-26.3	41.2	8.9	.5	3.9	2.7	3.9	2.8
Profit share of GNP <sup>1</sup>	%	7.3	7.8	7.1	7.7	7.7	7.7	7.6	7.6	7.6	7.6
Federal govt. surpl./def.	Bill. \$	-212.7	-207.0	-155.6	-124.7	-134.6	-152.6	-156.0	-132.5	-146.1	-166.2
State/local surpl./def.		-1.7	7.2	-4.1	2.4	1.1	1.1	2.0	1.5	6.1	7.6
Ex. social ins. funds		-60.2	-50.7	-61.3	-54.4	-55.4	-55.1	-53.9	-54.1	-49.2	-47.6
PRICES AND COSTS											
GDP implicit deflator	% change	1.5	1.4	2.5	1.9	2.3	2.2	2.5	2.0	1.9	1.9
GDP fixed-wt. price index		2.1	2.3	2.9	2.6	2.8	2.8	3.2	2.7	2.6	2.6
Gross domestic purchases											
fixed-wt. price index		1.8	2.3	2.3	2.8	3.0	2.9	3.2	2.7	2.5	2.5
CPI		2.0	3.1	1.9	2.7	3.5	3.3	3.1	2.9	2.8	2.7
Ex. food and energy		2.4	2.9	2.6	3.1	3.0	2.8	2.9	2.8	2.8	2.8
ECI, hourly compensation <sup>2</sup>		3.4	3.4	2.7	3.5	4.2	2.8	3.4	3.4	4.1	2.7
Nonfarm business sector											
Output per hour		4.0	6.4	.5	1.2	1.1	.8	1.0	1.2	1.3	1.4
Compensation per hour		3.7	2.8	5.6	1.8	3.5	3.4	3.7	3.3	3.3	3.3
Unit labor cost		-.4	-3.3	5.0	.6	2.3	2.5	2.6	2.0	1.9	1.8

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)

May 13, 1994

Item	Projected										Projected			
	1993		1994				1995				1992	1993	1994	1995
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GDP	36.2	87.3	33.4	54.3	35.2	27.9	29.0	30.0	31.3	32.4	188.7	157.3	150.8	122.8
Gross domestic purchases	47.2	85.4	53.3	62.2	43.6	29.7	33.0	32.7	34.5	34.9	211.1	202.9	188.8	135.0
Final sales	42.7	85.3	11.5	44.2	30.1	29.2	27.7	31.6	32.5	33.7	187.1	157.5	115.0	125.4
Private dom. final purch.	53.2	83.5	46.1	43.8	35.2	30.8	31.5	33.3	34.6	34.7	198.8	208.4	155.9	134.0
Personal cons. expend.	36.9	37.3	32.9	15.1	20.4	20.2	18.5	18.8	20.0	20.2	129.7	109.7	88.6	77.5
Durables	8.9	17.8	12.0	-4.2	.1	2.1	2.3	2.8	3.1	2.8	41.9	37.5	10.0	10.9
Nondurables	9.9	7.2	6.5	11.1	7.1	6.1	5.6	5.5	5.7	5.7	37.8	18.4	30.8	22.5
Services	18.1	12.3	14.4	8.2	13.3	12.0	10.6	10.5	11.2	11.7	50.0	53.8	47.8	44.0
Business fixed invest.	10.5	30.9	8.4	27.4	16.6	14.3	14.2	13.9	13.4	12.7	37.6	82.0	66.8	54.2
Producers' dur. equip.	10.4	26.4	15.1	16.4	14.3	12.2	12.0	11.6	11.1	10.4	40.5	74.3	58.0	45.1
Nonres. structures	.1	4.4	-6.7	11.2	2.3	2.1	2.2	2.3	2.3	2.3	-3.0	7.6	8.9	9.1
Res. structures	5.9	15.1	5.0	1.2	-1.8	-3.7	-1.3	.6	1.2	1.8	31.5	16.6	.6	2.3
Change in bus. invent.	-6.5	2.0	22.0	10.0	5.1	-1.3	1.2	-1.5	-1.2	-1.2	1.6	-.2	35.8	-2.7
Nonfarm	2.3	-6.5	17.8	9.7	4.0	-2.0	1.0	-1.8	-1.4	-1.3	-2.8	5.4	29.5	-3.5
Farm	-8.8	8.5	4.2	.3	1.1	.7	.2	.3	.2	.1	4.4	-5.6	6.3	.8
Net exports	-11.1	1.8	-19.7	-8.0	-8.4	-1.7	-4.0	-2.6	-3.2	-2.4	-22.4	-45.7	-37.9	-12.3
Exports	-1.3	28.1	-15.0	10.8	10.3	11.9	11.4	11.9	12.7	13.5	27.4	28.4	18.0	49.6
Imports	9.8	26.3	4.8	18.8	18.7	13.6	15.5	14.6	15.9	16.0	49.6	74.2	55.9	61.9
Government purchases	.6	.0	-14.9	8.4	3.3	.2	.3	.9	1.1	1.4	10.7	-5.2	-3.0	3.7
Federal	-5.7	-4.7	-11.0	.6	-1.3	-2.9	-2.7	-2.6	-2.5	-2.3	1.6	-24.7	-14.6	-10.1
Defense	-6.3	-3.0	-8.7	-.3	-1.5	-3.0	-2.7	-2.6	-2.5	-2.3	-3.6	-24.2	-13.5	-10.1
Nondefense	.7	-1.9	-2.2	.9	.2	.1	.0	.0	.0	.0	5.2	-.6	-1.0	0
State and local	6.4	4.8	-3.9	7.7	4.6	3.1	3.0	3.5	3.6	3.7	9.1	19.6	11.5	13.8

1. Annual changes are from Q4 to Q4.



Item	Fiscal year				1993				1994				1995			
	1992 <sup>a</sup>	1993 <sup>a</sup>	1994	1995	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4 <sup>a</sup>	Q1 <sup>b</sup>	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
					Not seasonally adjusted											
Receipts <sup>1</sup>	1090	1153	1258	1322	262	331	295	287	289	364	317	299	290	405	328	311
Outlays <sup>1</sup>	1381	1408	1475	1532	324	349	349	379	348	373	376	380	388	380	384	401
Surplus/deficit <sup>1</sup>	-290	-255	-218	-210	-62	-18	-54	-92	-59	-8	-59	-81	-98	25	-56	-90
On-budget	-340	-301	-273	-271	-90	-49	-54	-105	-66	-40	-61	-88	-109	-12	-62	-96
Off-budget	50	46	55	61	27	31	0	13	8	32	2	7	11	38	5	6
Surplus excluding deposit insurance <sup>2</sup>	-287	-282	-224	-219	-68	-25	-61	-92	-65	-7	-59	-82	-102	25	-60	-92
Means of financing																
Borrowing	311	249	205	233	60	61	46	89	51	6	59	79	81	22	51	79
Cash decrease	-17	6	8	-15	8	-39	8	3	5	1	-2	5	20	-40	0	20
Other <sup>3</sup>	-4	0	4	-8	-6	-4	0	0	2	1	1	-3	-3	-8	5	-9
Cash operating balance, end of period	59	53	45	60	22	61	53	50	45	43	45	40	20	60	60	40
NIPA FEDERAL SECTOR																
					Seasonally adjusted, annual rate											
Receipts	1163	1246	1360	1438	1218	1268	1276	1316	1342	1394	1390	1405	1426	1464	1458	1475
Expenditures	1435	1487	1516	1585	1482	1491	1489	1523	1497	1518	1524	1558	1582	1597	1604	1641
Purchases	445	447	437	438	443	448	444	440	434	436	437	435	440	438	437	436
Defense	313	308	295	291	305	308	302	299	293	294	293	291	293	291	289	288
Nondefense	132	139	142	147	138	140	142	141	141	143	144	144	147	148	148	149
Other expenditures	990	1040	1079	1147	1039	1043	1045	1083	1063	1082	1088	1123	1142	1158	1167	1204
Surplus/deficit	-271	-241	-155	-147	-264	-223	-213	-207	-156	-125	-135	-153	-156	-132	-146	-166
FISCAL INDICATORS <sup>4</sup>																
High-employment (HEB) surplus/deficit	-212	-193	-135	-133	-215	-173	-165	-177	-132	-111	-122	-140	-143	-118	-131	-150
Change in HEB, percent of potential GDP	.9	-.3	-.9	0	0	-.7	-.1	.2	-.7	-.3	.2	.3	0	-.4	.2	.3
Fiscal impetus (FI), percent, cal. year	-4.5	-4.5	-7.7	-4.4	-4.9	1.3	-.8	-1.1	-5.3	-1.8	-.2	-.9	-1.9	-1.6	-.1	-.6

1. OMB's February 1994 deficit estimates are \$235 billion in FY94 and \$176 billion in FY95(excluding health reform). CBO's April 1994 deficit estimates of the budget are \$227 billion in FY94 and \$182 billion in FY95. 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 February 1994 deficit estimates, excluding deposit insurance spending, are \$238 billion in FY94 and \$187 billion in FY95. CBO's April 1994 deficit estimates, excluding deposit insurance spending, are \$230 billion in FY94, and \$194 billion in FY95.

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 2.4 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--Unified and NIPA data are actuals except for NIPA corporate profit tax total which is a staff projection.

Confidential FR Class II  
May 13, 1994

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

	-----Nonfederal-----									
	-----Households-----								-----MEMO-----	
	Total <sup>2</sup>	Federal govt.	Total	Total	Home mtg.	Cons. credit	Business	State and local govt.	Private financial assets	Nominal GDP
Year										
1981	9.7	11.6	9.3	7.5	7.0	4.8	11.9	5.2	10.3	9.3
1982	9.8	19.7	7.4	5.5	4.7	4.4	8.8	9.3	9.6	3.2
1983	11.9	18.9	10.1	11.1	10.8	12.6	9.3	9.7	12.4	11.0
1984	14.5	16.9	13.8	12.8	11.7	18.7	15.6	9.1	12.6	9.1
1985	15.5	16.5	15.2	15.3	13.2	15.8	12.1	31.3	12.1	7.0
1986	12.3	13.6	11.9	12.0	14.3	9.6	12.2	10.5	7.3	4.7
1987	9.5	8.0	9.9	12.4	14.9	5.0	7.1	13.4	8.4	8.0
1988	8.8	8.0	9.0	10.8	11.8	7.2	7.9	7.0	8.0	7.7
1989	7.8	7.0	8.0	9.0	10.2	6.7	7.0	8.4	5.0	6.0
1990	6.3	11.0	4.9	6.2	7.7	1.7	3.4	6.7	4.3	4.7
1991	4.4	11.1	2.4	4.7	6.7	-1.6	-0.9	7.2	-0.6	3.7
1992	5.2	10.9	3.3	5.7	6.6	1.2	0.1	6.4	0.9	6.7
1993	5.0	8.3	3.9	6.1	6.4	6.1	0.8	6.5	-1.2	5.4
1994	5.0	5.8	4.7	6.5	6.7	7.8	2.6	4.6	1.6	5.2
1995	5.1	6.6	4.5	6.0	6.2	7.0	3.0	4.0	1.0	4.4
Quarter (seasonally adjusted annual rates)										
1993:1	3.4	7.5	2.0	3.3	4.2	2.4	-0.7	7.2	-5.3	4.4
2	5.7	11.1	3.8	5.3	6.1	2.8	1.3	6.8	0.8	4.3
3	4.8	5.5	4.5	7.9	7.8	7.4	0.7	5.1	-2.3	4.4
4	5.8	8.2	5.0	7.4	7.0	11.2	1.8	6.3	1.8	8.4
1994:1	4.8	5.9	4.5	5.8	6.8	5.2	2.8	4.7	1.3	5.2
2	4.5	3.9	4.7	6.8	6.7	8.9	2.3	4.5	1.2	6.2
3	5.2	6.6	4.7	6.5	6.5	8.4	2.6	4.4	2.0	5.1
4	5.1	6.5	4.6	6.2	6.2	7.9	2.6	4.5	1.8	4.4
1995:1	5.7	9.0	4.5	6.1	6.0	7.1	2.8	4.0	1.6	4.8
2	4.8	5.5	4.5	5.9	6.0	6.9	2.9	4.2	0.7	4.3
3	4.6	5.2	4.4	5.8	6.1	6.7	2.9	3.8	0.8	4.3
4	4.9	6.1	4.4	5.7	6.1	6.5	3.1	3.7	1.1	4.3

1. Data after 1993:4 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 is projected to be 5.2 in 1994 and 5.1 in 1995.

Confident. R Class II  
May 13, 1995

FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS<sup>1</sup>  
(Billions of dollars)

	Calendar year			Seasonally Adjusted Annual Rates								
	1993	1994	1995	1993- Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-----Seasonally Adjusted Annual Rates-----												
Net funds raised by domestic nonfinancial sectors												
1 Total	615.3	627.8	672.4	738.0	594.7	566.6	687.6	662.3	755.2	638.2	630.3	666.1
2 Net equity issuance	23.0	12.3	12.0	28.0	-2.0	7.0	32.0	12.0	12.0	12.0	12.0	12.0
3 Net debt issuance	592.3	615.6	660.4	710.0	596.7	559.6	655.6	650.3	743.2	626.2	618.3	654.1
Borrowing sectors												
Nonfinancial business												
4 Financing gap <sup>2</sup>	17.8	86.1	111.7	8.4	51.4	88.6	99.9	104.4	109.6	111.9	112.1	113.1
5 Net equity issuance	23.0	12.3	12.0	28.0	-2.0	7.0	32.0	12.0	12.0	12.0	12.0	12.0
6 Credit market borrowing	27.8	98.2	113.7	66.2	106.1	88.0	99.0	99.6	108.9	111.0	113.6	121.2
Households												
7 Net borrowing, of which:	243.7	273.9	269.5	308.5	245.1	291.7	282.8	276.1	273.4	268.7	270.1	265.5
8 Home mortgages	177.0	197.0	193.0	202.1	199.8	201.0	196.0	191.0	188.0	189.0	195.0	200.0
9 Consumer credit	49.0	67.2	64.5	93.3	44.9	77.0	75.0	72.0	66.0	65.0	64.0	63.0
10 Debt/DPI (percent) <sup>3</sup>	87.1	87.7	88.6	87.7	88.1	88.4	88.4	88.6	88.6	89.3	89.4	89.5
State and local governments												
11 Net borrowing	64.7	48.8	44.0	65.7	49.6	48.6	47.5	49.5	44.5	46.5	42.5	42.5
12 Current surplus <sup>4</sup>	-58.6	-63.6	-59.8	-63.0	-67.4	-60.8	-62.7	-63.4	-61.3	-62.3	-58.3	-57.3
U.S. government												
13 Net borrowing	256.1	194.7	233.3	269.6	195.9	131.3	226.2	225.2	316.3	199.9	192.1	224.9
14 Net borrowing; quarterly, nsa	256.1	194.7	233.3	89.2	51.2	6.1	58.8	78.5	81.3	22.1	51.2	78.8
15 Unified deficit; quarterly, nsa	226.3	206.3	218.8	92.1	58.6	8.2	58.7	80.8	98.1	-25.5	56.1	90.0
Funds supplied by												
16 depository institutions	133.9	171.3	165.8	190.0	143.3	188.2	169.0	184.9	174.7	164.2	164.8	159.6
MEMO: (percent of GDP)												
17 Dom. nonfinancial debt <sup>3</sup>	188.8	187.5	188.2	189.1	189.0	188.2	188.3	188.7	189.2	189.4	189.6	189.9
18 Dom. nonfinancial borrowing	9.3	9.1	9.4	10.9	9.0	8.3	9.7	9.5	10.7	8.9	8.7	9.1
19 U.S. government <sup>5</sup>	4.0	2.9	3.3	4.1	3.0	2.0	3.3	3.3	4.6	2.8	2.7	3.1
20 Private	5.3	6.2	6.1	6.7	6.1	6.4	6.3	6.2	6.1	6.1	6.0	6.0

1. Data after 1993:4 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.

the assassination of presidential candidate Colosio on March 23. The growth forecast for Asia in 1995 is also slightly weaker, in part because the upward adjustment to the interest rate forecast for industrial countries implies weaker expected investment demand in the developing countries, particularly in Asia. In addition, a downward revision to the forecast for growth in China implies a weaker outlook for exports of its Asian trading partners.

U.S. real net exports. Real net exports of goods and services are projected to decline about \$18 billion over the remaining three quarters of 1994. During 1995 the pace of decline in net exports should slow a bit as U.S. growth settles down near potential while activity strengthens further in the rest of the world. For the forecast period as a whole, the decline in real net exports is slower than in the previous Greenbook because of the lower path for the dollar and the higher path for foreign growth.

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

	1993	----Projection-----			1995
		1994	1994	1994	
		Q1	Q2	H2	
Exports					
Total	5.9	-13.4	8.7	8.2	8.8
Agricultural	-4.9	-32.8	20.8	5.9	2.1
Computers	19.9	13.0	26.3	29.0	33.6
Other nonag.	4.9	-15.5	4.1	4.0	3.6
Imports					
Total	12.9	3.5	12.3	10.0	9.1
Oil	10.0	-18.5	9.4	8.5	8.1
Computers	34.9	20.5	41.0	30.1	27.4
Other non-oil	9.6	3.3	7.2	5.6	4.5

\* GDP basis, 1987 dollars.

The quantity of merchandise exports is projected to rebound this quarter from its decline in the first quarter and to grow moderately over the rest of the forecast period. Exports of computers are projected to strengthen somewhat this quarter, to grow

offset by OPEC production hikes, especially in 1995 when, we assume, Iraq will return to the oil market.

Prices of non-oil imports and exports. The prices of non-oil imports excluding computers are expected to rise at an annual rate of more than 3 percent over the remainder of this year, as a result of rapid increases in non-oil commodity prices and the lagged effects of recent exchange rate changes. Next year, increases in these prices are expected to fall back to 1-3/4 percent. The increase in prices of U.S. nonagricultural exports tend to move over time in line with increases in U.S. producer prices, about 2-1/4 percent annually.

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

	<u>1993</u>	----Projection-----			<u>1995</u>
		1994			
		Q1	Q2	H2	
PPI (export. wts.)	0.8	-0.2	3.1	2.2	2.0
Nonag. exports*	0.7	2.5	2.5	2.4	1.9
Non-oil imports*	1.2	1.2	3.4	3.0	1.7
Oil imports (Q4 level, \$/bl.)	14.04	12.59	13.79	14.81	15.00

\* Excluding computers.

Nominal trade and current account balances. The nominal trade deficit for goods and services is projected to increase from about \$100 billion at an annual rate in the current quarter to nearly \$113 billion by the end of 1994 and \$118 billion by the end of 1995. Investment income payments are expected to exceed investment income receipts by a small but increasing margin over the forecast period, as dollar interest rates rise further. We expect that, as a result of these developments, the current account deficit will rise to \$175 billion by the end of 1995.

May 13, 1994

STRICTLY CONFIDENTIAL - FR  
CLASS II FOMC

REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1991-95  
(Percent change from fourth quarter to fourth quarter)

Measure and country	1991	1992	1993	Projection	
				1994	1995
<hr/>					
REAL GDP					
-----					
Canada	-0.1	0.8	3.0	3.5	3.7
France	1.3	0.6	-0.3	1.6	2.5
Germany	2.2	0.7	-0.3	2.0	2.6
W. Germany	2.7	0.0	-0.8	1.5	2.3
Italy	1.7	-0.4	0.3	1.7	2.3
Japan	3.6	-0.3	0.0	1.4	2.7
United Kingdom	-1.6	0.2	2.4	2.6	2.8
Average, weighted by 1987-89 GDP	1.7	0.1	0.6	1.9	2.7
Average, weighted by share of					
U.S. nonagricultural exports					
Total foreign	1.7	1.2	2.2	2.8	3.5
G-6	0.8	0.4	1.7	2.6	3.1
Developing countries	4.9	4.0	4.2	4.2	4.9
CONSUMER PRICES					
-----					
Canada	4.1	1.8	1.8	0.6	1.8
France	2.9	1.8	2.1	1.7	1.5
Western Germany	3.9	3.7	3.7	2.7	2.1
Italy	6.1	4.8	4.1	3.4	3.0
Japan	3.2	0.9	1.2	1.0	0.8
United Kingdom	4.2	3.1	1.6	3.1	3.5
Average, weighted by 1987-89 GDP	3.9	2.4	2.2	2.0	1.9
Average, weighted by share of					
U.S. non-oil imports	3.8	1.9	1.9	1.4	1.6

Strictly Confidential (FR) Class II-FOMC

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

(Billions of dollars, seasonally adjusted annual rates)

	1991				1992				1993		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1990	1991	1992
NIPA Real Net Exports of Goods & Services (87\$)	-21.6	-13.3	-25.0	-16.4	-15.2	-38.0	-42.5	-38.8	-59.9	-75.2	-54.7	-19.1	-33.6
Exports of G&S	519.4	542.9	546.9	564.2	571.0	570.2	579.3	591.6	588.0	593.2	510.5	543.4	578.0
Goods	381.6	396.1	398.2	410.7	414.4	415.9	423.0	437.3	430.2	434.5	368.9	396.7	422.7
Agricultural	34.8	33.8	35.5	37.8	38.8	38.2	40.8	41.1	38.7	38.8	35.1	35.5	39.7
Computers	38.7	40.3	42.9	44.5	45.5	49.4	52.5	56.4	55.9	57.0	33.7	41.6	51.0
Other Goods	308.1	322.0	319.7	328.4	330.2	328.3	329.7	339.7	335.6	338.7	300.1	319.6	332.0
Services	137.8	146.8	148.7	153.5	156.6	154.2	156.3	154.3	157.8	158.6	141.6	146.7	155.4
Imports of G&S	541.0	556.2	571.9	580.7	586.2	608.2	621.8	630.3	647.9	668.4	565.1	562.4	611.6
Goods	442.1	457.2	474.6	481.7	486.8	509.0	521.6	530.3	545.9	565.7	461.4	463.9	511.9
Oil	44.7	52.0	52.9	47.1	47.3	51.6	53.1	52.8	53.4	57.8	52.1	49.2	51.2
Computers	36.3	39.5	44.5	46.5	50.0	56.6	64.2	68.2	73.1	79.0	29.8	41.7	59.8
Other Goods	361.2	365.7	377.2	388.2	389.6	400.8	404.3	409.4	419.4	428.9	379.5	373.1	401.0
Services	98.9	99.1	97.3	98.9	99.3	99.2	100.1	100.0	102.0	102.7	103.7	98.5	99.6
Memo: (Percent change 1/)													
Exports of G&S	-0.8	19.4	3.0	13.3	4.9	-0.6	6.5	8.8	-2.4	3.6	6.7	8.4	4.9
Agricultural	9.7	-11.0	21.7	28.5	11.0	-6.0	30.1	3.0	-21.4	1.0	-6.3	11.2	8.7
Computers	46.1	17.6	28.4	15.8	9.3	39.0	27.6	33.2	-3.5	8.1	16.2	26.4	26.7
Other Goods	3.6	19.3	-2.8	11.3	2.2	-2.3	1.7	12.7	-4.7	3.7	6.0	7.5	3.4
Services	-20.2	28.8	5.3	13.6	8.3	-6.0	5.6	-5.0	9.4	2.0	9.7	5.3	0.5
Imports of G&S	-11.1	11.7	11.8	6.3	3.8	15.9	9.2	5.6	11.6	13.3	0.4	4.2	8.5
Oil	11.5	83.1	7.1	-37.2	1.7	41.6	12.1	-2.2	4.6	37.3	-15.7	8.3	12.1
Computers	74.1	40.2	61.1	19.2	33.7	64.2	65.5	27.3	32.0	36.4	9.3	47.2	46.7
Other Goods	-16.6	5.1	13.2	12.2	1.5	12.0	3.5	5.1	10.1	9.4	-0.0	2.7	5.5
Services	-18.5	0.8	-7.1	6.7	1.6	-0.4	3.7	-0.4	8.2	2.8	7.9	-5.0	1.1
Current Account Balance	37.6	7.1	-47.4	-30.6	-26.7	-73.0	-71.1	-94.7	-89.5	-108.9	-91.9	-8.3	-66.4
Goods & Serv (BOP), net	-41.8	-20.1	-27.7	-22.1	-14.9	-44.6	-49.3	-50.1	-58.7	-79.6	-78.4	27.9	-39.7
Goods (BOP), net	-75.2	-65.3	-78.6	-76.2	-71.1	-99.2	-110.4	-103.8	-117.3	-137.6	-109.0	-73.8	-96.1
Services (BOP), net	33.3	45.2	50.9	54.1	56.2	54.6	61.1	53.7	58.6	58.0	30.7	45.9	56.4
Investment Income, net	23.1	11.6	6.5	10.9	17.7	3.6	6.8	-3.2	-0.4	-0.1	20.3	13.0	6.2
Direct, net	60.3	52.8	45.1	52.8	57.6	47.6	47.1	40.8	44.9	46.5	56.2	52.8	48.3
Portfolio, net	-37.2	-41.1	-38.6	-42.0	-39.9	-44.0	-40.3	-44.0	-45.4	-46.6	-35.9	-39.7	-42.0
Unilateral Transfers, net	56.4	15.5	-26.3	-19.4	-29.6	-32.0	-28.6	-41.4	-30.4	-29.2	-33.8	6.6	-32.9

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

Strictly Confidential (FR) Class II-FOMC

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

(Billions of dollars, seasonally adjusted annual rates)

	Projection										Projection		
	1993		1994				1995				ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1993	1994	1995
NIPA Real Net Exports of Goods & Services (87\$)	-86.3	-84.5	-104.2	-112.1	-120.5	-122.3	-126.3	-129.0	-132.1	-134.6	-76.5	-114.8	-130.5
Exports of G&S	591.9	620.0	605.0	615.8	626.2	638.0	649.4	661.4	674.1	687.6	598.3	621.3	668.1
Goods	434.1	463.0	446.7	456.1	464.8	474.8	484.4	494.5	505.2	516.8	440.4	460.6	500.2
Agricultural	37.3	39.1	35.4	37.1	37.2	38.2	38.4	38.6	38.8	39.0	38.5	37.0	38.7
Computers	62.5	67.6	69.7	73.9	79.1	84.6	91.0	97.8	105.1	113.0	60.8	76.8	101.7
Other Goods	334.3	356.3	341.6	345.1	348.5	352.0	355.0	358.1	361.3	364.7	341.2	346.8	359.8
Services	157.8	157.0	158.3	159.8	161.3	163.2	165.0	166.9	168.8	170.9	157.8	160.6	167.9
Imports of G&S	678.2	704.5	709.3	728.1	746.8	760.4	775.8	790.4	806.3	822.3	674.7	736.1	798.7
Goods	574.9	598.9	604.0	621.8	639.7	652.8	667.6	681.6	696.8	712.0	571.3	629.6	689.5
Oil	56.7	58.1	55.2	56.5	59.0	58.9	61.2	61.7	63.2	63.7	56.5	57.4	62.4
Computers	85.8	92.0	96.4	105.0	112.9	120.8	128.6	137.0	145.2	153.9	82.5	108.8	141.2
Other Goods	432.4	448.7	452.4	460.3	467.8	473.1	477.8	482.9	488.4	494.4	432.3	463.4	485.9
Services	103.3	105.6	105.3	106.3	107.1	107.6	108.3	108.9	109.5	110.2	103.4	106.6	109.2
Memo: (Percent change 1/)													
Exports of G&S	-0.9	20.4	-9.3	7.4	6.9	7.8	7.3	7.6	7.9	8.3	4.8	2.9	7.8
Agricultural	-14.6	20.7	-32.8	20.8	1.2	11.2	1.8	1.8	2.5	2.5	-4.9	-2.2	2.1
Computers	44.6	36.9	13.0	26.3	31.1	31.1	33.6	33.6	33.6	33.6	19.9	25.2	33.6
Other Goods	-5.1	29.0	-15.5	4.1	4.1	4.0	3.5	3.5	3.6	3.8	4.9	-1.2	3.6
Services	-2.0	-2.0	3.4	3.7	4.0	4.7	4.6	4.6	4.7	4.8	1.7	3.9	4.7
Imports of G&S	6.0	16.4	2.8	11.0	10.7	7.5	8.4	7.7	8.3	8.2	11.8	7.9	8.1
Oil	-7.4	10.2	-18.5	9.4	19.6	-0.8	16.1	3.4	10.0	3.5	10.0	1.4	8.1
Computers	39.1	32.2	20.5	41.0	33.5	31.0	28.6	28.6	26.2	26.2	34.9	31.3	27.4
Other Goods	3.3	16.0	3.3	7.2	6.7	4.6	4.0	4.4	4.6	5.0	9.6	5.4	4.5
Services	2.4	9.2	-1.1	3.7	3.0	2.1	2.5	2.2	2.5	2.6	5.6	1.9	2.4
Current Account Balance	-112.4	-126.2	-124.9	-139.3	-149.6	-165.3	-157.7	-162.6	-161.6	-174.9	-109.2	-144.8	-164.2
Goods & Serv (BOP), net	-88.5	-80.4	-91.0	-100.7	-111.3	-112.7	-114.8	-115.7	-117.1	-117.8	-76.8	-103.9	-116.3
Goods (BOP), net	-143.9	-131.1	-142.5	-153.4	-165.3	-168.9	-173.1	-176.1	-179.7	-182.6	-132.5	-157.5	-177.9
Services (BOP), net	55.4	50.7	51.5	52.6	54.1	56.2	58.4	60.5	62.6	64.8	55.7	53.6	61.6
Investment Income, net	6.5	-5.6	-3.5	-8.1	-8.0	-13.3	-11.9	-15.8	-13.3	-17.0	0.1	-8.2	-14.5
Direct, net	50.2	42.3	43.5	43.5	43.7	44.4	44.9	45.5	45.8	46.8	46.0	43.7	45.7
Portfolio, net	-43.7	-47.9	-47.0	-51.6	-51.6	-57.6	-56.8	-61.4	-59.1	-63.8	-45.9	-52.0	-60.3
Unilateral Transfers, net	-30.4	-40.1	-30.4	-30.4	-30.4	-39.4	-31.1	-31.1	-31.1	-40.1	-32.5	-32.6	-33.4

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



May 11, 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

earlier in the recovery but still well above our estimate of the cyclically adjusted trend growth rate.

### Industrial Production

The index of industrial production evidently rose appreciably in April but probably less than the average pace of around 1/2 percent per month in the first quarter. On a quarterly average basis, output grew at a 7.7 percent annual rate in the January-March period, boosted, in large part, by another spurt in assemblies of motor vehicles and by a weather-related boost to electricity generation. Output of other consumer goods and business equipment excluding office and computing equipment grew slowly during the first quarter, as weather-related stoppages early in the year were only partly offset by a strong rebound in March.

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

	1994				Q1	Q2
	Jan.	Feb.	Mar.	Apr.		
U.S. production <sup>1</sup>	12.8	13.9	13.0	12.5	13.2	11.9
Autos	7.0	7.6	7.2	6.9	7.3	6.5
Trucks	5.9	6.3	5.7	5.6	6.0	5.4
Days' supply						
Autos	61.2	60.9	58.2	58.1 <sup>e</sup>		
Light trucks	55.2	55.7	55.3	57.8 <sup>e</sup>		
Medium and heavy trucks	60.0	65.9	63.8	64.5 <sup>e</sup>		

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

e Staff estimate.

In April, a sizable increase in manufacturing output excluding motor vehicles and parts was partly offset by a 500,000-unit decline in motor vehicle assemblies and a slowing of electricity generation. Because automakers stepped up production sharply at the beginning of the year and are operating close to capacity, second-quarter production schedules are substantially lower than first-quarter output on a seasonally adjusted basis. (The number of vehicles

average sales pace for the two months still represents a high-water mark thus far in this economic upswing.<sup>2</sup>

According to confidential data, fleet purchases of new cars, which were boosted by a rebound in sales to rental companies earlier this year, have eased recently. This pattern of sales suggests that the shortfall in purchases that occurred during the second half of last year owing to limited supplies has been recouped (chart). The need to satisfy pent-up demand for fleet cars explains part of the surge in auto assemblies at the turn of the year.

ANNUAL ASSEMBLY CAPACITY  
FOR THE U.S. MOTOR VEHICLE INDUSTRY  
(Model years: millions of units)

	1992	1993	1994	1995
Total motor vehicles	13.60	13.89	13.94	14.36
Autos	8.19	8.24	8.11	8.35
Trucks	5.41	5.65	5.83	6.01
Medium and heavy	.45	.45	.45	.46
Light	4.96	5.20	5.38	5.55
Previous			(5.30)	(5.36)

Source: FRB staff compilation from industry sources.

Motor vehicle producers have recently expanded U.S. production capacity for both parts and assemblies. Light truck capacity has been increased by about 50,000 units for the current model year, and plans have been announced to substantially boost production capability for the 1995 model year. For both years, this increased capacity will be achieved mainly by adding shifts. In addition, Ford and Chrysler have begun assembling new light truck models in Canada and Mexico this quarter, which will add about 0.3 million

<sup>2</sup>. Anticipation of a 2 percentage point increase in the Michigan sales tax in May may have given sales a small lift in March and April.

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

	Fiscal year to date <sup>1</sup>			
	FY1993	FY1994	Dollar change	Percent change
Outlays	709.9	726.8	16.9	2.4
Deposit insurance (DI)	-13.6	-6.7	6.8	-50.3
Outlays excluding DI	723.5	733.6	10.1	1.4
National defense	146.1	139.6	-6.5	-4.4
Net interest	99.3	99.1	-.2	-.2
Social security	148.5	156.0	7.5	5.0
Medicare and health	110.5	123.4	12.9	11.7
Income security	108.9	113.1	4.2	3.9
Agriculture	14.5	11.1	-3.3	-23.0
Education	25.4	20.8	-4.6	-18.3
Other	70.3	70.4	.1	.1
Receipts	527.1	576.1	49.0	9.3
Personal income taxes	246.8	261.7	14.9	6.0
Social insurance taxes	191.7	209.4	17.7	9.2
Corporate income taxes	43.3	53.7	10.4	24.1
Other	45.3	51.4	6.1	13.5
Deficit(+)	182.8	150.7	-32.1	-17.6
Excluding DI	196.4	157.4	-39.0	-19.8

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

1. October through March

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS<sup>1</sup>  
(Billions of dollars; monthly rates; not seasonally adjusted)

	--1993--		-----1994-----				
	1992	1993	Q4	Q1 <sup>P</sup>	Feb. <sup>P</sup>	Mar. <sup>P</sup>	Apr. <sup>P</sup>
All U.S. corporations	40.73	53.23	51.68	53.36	48.26	54.11	31.31
Bonds	33.80	43.85	40.87	44.89	39.52	43.54	25.80
Stocks	6.93	9.38	10.81	8.47	8.74	10.57	5.51
<u>Nonfinancial corporations</u>							
Bonds	13.67	16.20	12.41	11.11	10.27	9.81	6.77
Sold in U.S.	12.83	15.56	12.10	10.60	10.00	9.50	6.00
Utility	5.33	7.34	5.15	4.64	4.10	4.45	2.50
Industrial	7.50	8.22	6.96	5.97	5.90	5.05	3.50
Sold abroad	0.84	0.64	0.31	0.51	0.27	0.31	0.77
By quality <sup>2</sup>							
Aaa and Aa	2.18	2.56	1.78	0.80	0.62	1.03	0.84
A and Baa	7.74	8.71	5.78	5.89	4.95	6.15	3.42
Less than Baa	2.86	4.17	4.45	3.91	4.43	2.32	1.75
Unrated or rating unknown	0.09	0.09	0.10	0.00	0.00	0.00	0.00
Stocks	4.42	5.22	6.08	4.62	4.68	5.90	3.63
Utility	0.87	1.06	1.60	0.95	1.03	1.46	0.18
Industrial	3.55	4.16	4.48	3.67	3.65	4.44	3.45
<u>Financial corporations</u>							
Bonds	20.13	27.65	28.46	33.78	29.25	33.73	19.03
Sold in U.S.	18.67	25.09	26.02	29.19	22.20	31.50	17.00
Sold abroad	1.46	2.56	2.44	4.59	7.05	2.23	2.03
By quality <sup>2</sup>							
Aaa and Aa	1.55	1.87	1.57	3.27	1.31	3.46	4.22
A and Baa	6.77	8.99	8.78	11.29	8.93	9.37	2.61
Less than Baa	0.31	0.48	0.66	0.64	0.94	0.58	0.12
Unrated or rating unknown	0.04	0.08	0.13	0.02	0.06	0.00	0.17
Stocks	2.51	4.16	4.73	3.85	4.06	4.67	1.88

1. Securities issued in the private placement market are not included. Totals reflect gross proceeds rather than par value of original discount bonds. Equity issues associated with equity-for-equity swaps that have occurred in restructurings are excluded.

2. Bonds categorized according to Moody's bond ratings, or to Standard and Poor's if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.

p Preliminary.

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

	1994				
	Q1	Q2 <sup>P</sup>	Apr. <sup>e</sup>	May <sup>P</sup>	Jun. <sup>P</sup>
<u>Treasury financing</u>					
Total surplus/deficit (-)	-58.6	-8.8	13.0	-40.5	18.7
Means of financing deficit:					
Net cash borrowing from the public	51.2	5.3	-27.0	23.8	-3.5
Marketable borrowings/ repayments (-)	54.0	2.5	-23.1	24.1	1.5
Bills	6.8	-26.6	-15.8	-6.9	-3.9
Coupons	47.2	29.1	-6.9	22.0	3.1
Nonmarketable	-2.8	2.8	1.1	-.3	2.0
Decrease in the cash balance	5.1	2.4	-4.1	31.0	-24.5
Memo: Cash balance at end of period	44.6	42.3	48.7	17.7	42.3
<sup>2</sup> Other	2.2	1.1	13.2	-14.3	2.3

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

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.

FEDERALLY SPONSORED CREDIT AGENCIES<sup>1</sup>  
Net Cash Borrowing  
(Billions of dollars)

	1993		1994	1994		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
FHLBs	5.4	8.9	3.8	-2.3	-1.4	7.5
FHLMC	17.1	-2.7	12.9	11.3	9.2	-7.6
FNMA	19.3	5.3	15.3	1.9	3.5	9.9
Farm Credit Banks	-0.1	1.5	-0.7	-0.5	0.2	-0.4
SLMA <sup>2</sup>	-0.1	1.0	--	--	--	--
FAMC <sup>2</sup>	0.0	0.0	0.0	0.0	0.0	0.0

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

2. Federal Agricultural Mortgage Corporation.

CONFIDENTIAL (FR)  
CLASS III FOMC

May 13, 1994

SUPPLEMENT  
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

May 13, 1994

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

	1993 Sep	1993 Oct	1993 Nov	1993 Dec	1994 Jan	1994 Feb	1994 Mar	1994 Apr	1994 May (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	77.9	82.7	81.2	88.2	94.3	93.2	91.5	92.6	91.5
Current conditions	95.2	98.7	98.2	102.9	106.6	108.3	101.4	108.1	105.2
Expected conditions	66.8	72.5	70.3	78.8	86.4	83.5	85.1	82.6	82.7
-----									
Personal financial situation									
Now compared with 12 months ago*	104	104	107	113	115	114	105	116	105
Expected in 12 months*	114	119	121	122	123	127	125	124	116
Expected business conditions									
Next 12 months*	77	95	83	107	126	121	121	117	121
Next 5 years*	76	76	77	87	99	88	96	91	95
Appraisal of buying conditions									
Cars	134	132	139	144	148	155	147	150	144
Large household appliances*	143	151	147	153	162	167	158	164	167
Houses	170	170	172	174	174	176	176	170	165
Willingness to use credit	50	43	55	50	50	52	50	58	52
Willingness to use savings	65	58	81	63	70	70	69	71	68
Expected unemployment change - next 12 months	133	137	131	115	104	115	112	116	118
Expected inflation - next 12 months	4.8	4.0	3.6	3.8	3.5	3.7	4.4	4.5	4.4
Expected inflation - next 5 to 10 years	4.6	4.8	4.5	4.8	4.8	4.7	5.4	5.0	4.7

\* -- 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. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall.