

January 31, 1990

SUMMARY AND OUTLOOK

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

SUMMARY OF STAFF PROJECTION
(Percent change, Q4 to Q4)

	1989	1990	1991
Real GNP	2.4	1.6	2.3
Gross domestic purchases ¹	2.1	1.1	1.5
CPI	4.5	4.4	4.5
CPI excluding food and energy	4.3	4.6	4.7
Unemployment rate (fourth quarter)	5.3	5.9	6.1

1. Real GNP excluding net exports.

Real GNP is projected to increase at an annual rate of just 3/4 percent in the first quarter. Growth is expected to be restrained by a considerable slump in manufacturing activity. Most notably, for the first quarter as a whole, output of motor vehicles is expected to be off 13 percent (not at an annual rate) from the fourth-quarter pace, even though assemblies of autos and light trucks are likely to recover from the extraordinarily low rate in January. The decline in motor vehicle production, which will manifest itself on the expenditure side of the national income accounts as a drop in inventory investment, is projected to reduce directly the annualized growth rate of real GNP about 1-1/4 percentage points. In addition, production of other goods is likely to be damped as businesses attempt to reduce inventory-sales ratios.⁴

While inventory corrections should be largely completed by the spring, final sales are projected to grow at a relatively slow pace through the end

(Footnote is continued from previous page.)

than the staff's. These profits feed more rapidly into receipts when measured on an NIPA basis than on a unified basis, because the NIPA measures profits taxes on an accrual basis, while profits taxes are not recorded in the unified budget until received by the Treasury.

4. Some of the inventory correction also will affect foreign producers that export goods to the United States. This is reflected in the projection as a drop in real non-oil imports in the first quarter.

to fill in revenue shortfalls.⁵ On balance, real GNP is projected to increase 2-1/4 percent over the four quarters of 1991.

With real GNP growth expected to fall short of its potential rate, which the staff puts at between 2-1/2 and 2-3/4 percent per year, the civilian unemployment rate is projected to rise over the projection period to a little more than 6 percent. It is anticipated that greater slack in the labor market will tend to damp compensation increases. However, compensation will be boosted in the first and second quarters of 1990 and 1991 by higher social security taxes and hikes in the federal minimum wage. In the second half of 1991, the rise in ECI compensation slows to about 4-1/4 percent, roughly 1/2 percentage point below the pace of 1989. At the same time, productivity gains are projected to pick up in 1991, returning to the longer-run trend rate of increase, and growth of unit labor costs slows markedly.

EMPLOYMENT COST INDEX FOR COMPENSATION OF PRIVATE INDUSTRY WORKERS
(Percent change, seasonally adjusted)

	1988	1989	1990		1991	
			H1	H2	H1	H2
ECI	4.9	4.8	5.4	4.6	4.9	4.3
ECI - excluding social security and minimum wage effects	4.6	4.7	4.7	4.6	4.4	4.3

Despite some diminution in underlying labor cost pressures, the inflation rate shows little change over the next two years. In the first quarter, inflation is likely to be boosted appreciably by the steep runup in food and energy prices around the turn of the year. The bulk of these

5. Projected increases in indirect business taxes add about 0.1 percentage point to CPI inflation in both 1990 and 1991.

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CONFIDENTIAL - FR
CLASS II FOMC

STAFF GNP PROJECTIONS

Percent changes, annual rate

		Nominal GNP		Real GNP		GNP fixed-weight price index		Consumer Price Index <1>		Unemployment rate (percent)	
		12/13/89	1/31/90	12/13/89	1/31/90	12/13/89	1/31/90	12/13/89	1/31/90	12/13/89	1/31/90
Annual changes:											
1987	<2>	6.9	6.9	3.7	3.7	3.6	3.6	3.7	3.7	6.2	6.2
1988	<2>	7.9	7.9	4.4	4.4	4.2	4.2	4.1	4.1	5.5	5.5
1989	<2>	7.2	7.2	2.9	2.9	4.5	4.5	4.8	4.8	5.3	5.3
1990		5.7	5.6	1.7	1.6	4.0	4.1	3.9	4.3	5.8	5.7
1991		6.1	6.3	1.9	2.1	4.3	4.3	4.4	4.4	6.2	6.1
Quarterly changes:											
1988	Q1 <2>	6.5	6.5	4.0	4.0	3.8	3.8	3.9	3.9	5.7	5.7
	Q2 <2>	8.6	8.6	3.7	3.7	4.8	4.8	4.5	4.5	5.5	5.5
	Q3 <2>	7.5	7.5	3.2	3.2	5.2	5.2	4.5	4.5	5.5	5.5
	Q4 <2>	7.5	7.5	2.7	2.7	4.3	4.3	4.4	4.4	5.3	5.3
1989	Q1 <2>	7.9	7.9	3.7	3.7	4.8	4.8	5.4	5.4	5.2	5.2
	Q2 <2>	7.1	7.1	2.5	2.5	5.0	5.0	6.4	6.4	5.3	5.3
	Q3 <2>	6.1	6.2	2.7	3.0	2.9	2.9	2.6	2.6	5.2	5.3
	Q4 <2>	4.5	4.3	.7	.5	3.8	3.8	3.6	3.9	5.4	5.3
1990	Q1	6.1	5.2	2.1	.7	4.2	5.0	3.6	5.6	5.6	5.5
	Q2	5.5	6.3	1.2	2.6	4.2	3.7	4.2	3.7	5.8	5.6
	Q3	5.7	5.8	1.6	1.6	4.1	4.1	4.3	4.2	5.9	5.8
	Q4	5.6	5.6	1.6	1.7	4.1	4.1	4.3	4.3	6.0	5.9
1991	Q1	6.6	6.8	1.9	2.1	4.9	4.9	4.6	4.6	6.1	6.0
	Q2	6.1	6.4	2.2	2.3	4.1	4.2	4.4	4.5	6.1	6.0
	Q3	6.2	6.4	2.3	2.4	4.0	4.1	4.4	4.5	6.2	6.1
	Q4	6.2	6.5	2.4	2.5	4.0	4.1	4.4	4.5	6.2	6.1
Two-quarter changes: <3>											
1988	Q2 <2>	7.5	7.5	3.9	3.9	4.2	4.2	4.1	4.1	-.4	-.3
	Q4 <2>	7.5	7.5	2.9	2.9	4.8	4.8	4.6	4.6	-.2	-.2
1989	Q2 <2>	7.5	7.5	3.1	3.1	5.0	5.0	5.9	5.9	.0	.0
	Q4 <2>	5.3	5.3	1.7	1.7	3.3	3.3	3.0	3.2	.1	.0
1990	Q2	5.8	5.7	1.7	1.6	4.2	4.3	3.9	4.6	.4	.3
	Q4	5.7	5.7	1.6	1.6	4.1	4.1	4.3	4.2	.2	.3
1991	Q2	6.3	6.6	2.0	2.2	4.5	4.6	4.5	4.6	.1	.1
	Q4	6.2	6.4	2.3	2.5	4.0	4.1	4.4	4.5	.1	.1
Four-quarter changes: <4>											
1987	Q4 <2>	8.6	8.6	5.4	5.4	4.0	4.0	4.4	4.4	-.9	-1.0
1988	Q4 <2>	7.5	7.5	3.4	3.4	4.5	4.5	4.3	4.3	-.6	-.5
1989	Q4 <2>	6.4	6.4	2.4	2.4	4.1	4.1	4.4	4.5	.1	.0
1990	Q4	5.7	5.7	1.6	1.6	4.2	4.2	4.1	4.4	.6	.6
1991	Q4	6.3	6.5	2.2	2.3	4.2	4.3	4.4	4.5	.2	.2

1> For all urban consumers.

2> Actual.

<3> Percent change from two quarters earlier.

<4> Percent change from four quarters earlier.

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

		Projection								
	Units	1983	1984	1985	1986	1987	1988	1989	1990	1991
EXPENDITURES										
Nominal GNP	Billions of \$	3405.7	3772.2	4014.9	4231.6	4524.3	4880.6	5233.2	5525.5	5872.3
Real GNP	Billions of 82\$	3279.1	3501.4	3618.7	3717.9	3853.7	4024.4	4142.6	4208.0	4295.5
Real GNP	Percent change*	6.5	5.1	3.6	1.9	5.4	3.4	2.4	1.6	2.3
Gross domestic purchases		8.4	6.4	4.3	2.1	4.6	2.4	2.1	1.1	1.5
Final sales		3.7	4.7	4.6	2.7	3.3	4.4	2.1	2.2	2.1
Private dom. final purchases		7.7	5.6	4.6	2.9	2.7	3.8	2.1	1.8	1.5
Personal consumption expend.		5.4	4.1	4.6	3.8	2.2	3.8	2.3	2.0	1.6
Durables		14.7	10.8	7.0	11.5	-2.0	8.0	.3	2.6	1.5
Nondurables		4.4	2.3	3.3	2.9	1.1	2.1	.6	1.1	.9
Services		3.9	3.5	5.0	2.1	4.4	3.6	4.3	2.3	2.2
Business fixed investment		10.8	13.8	3.7	-5.5	8.5	4.2	4.3	1.3	1.8
Producers' durable equipment		20.9	14.9	4.6	.4	11.1	7.0	5.9	3.1	3.9
Nonresidential structures		-4.8	11.8	1.9	-17.7	1.9	-3.4	-.5	-4.5	-5.3
Residential structures		38.1	6.1	5.8	11.6	-4.2	3.2	-6.1	1.2	-1.2
Exports		5.8	5.9	-2.4	10.6	19.1	13.9	8.9	7.4	9.3
Imports		23.8	17.4	4.5	10.0	9.6	5.3	5.9	3.4	4.1
Government purchases		-2.7	7.9	8.6	3.1	2.1	1.8	.2	.8	.5
Federal		-8.1	13.0	13.3	.5	.7	-.3	-3.0	-.6	-1.4
Defense		5.1	6.5	7.1	6.0	4.3	-1.9	-2.6	-4.2	-3.0
State and local		1.5	4.4	4.9	5.2	3.1	3.4	2.5	1.8	1.8
Change in business inventories	Billions of 82\$	-6.4	62.3	9.1	5.6	23.7	27.9	24.5	2.7	17.7
Nonfarm	Billions of 82\$	-.1	57.8	13.4	8.0	25.8	30.7	21.0	4.1	17.3
Net exports	Billions of 82\$	-19.9	-84.0	-104.3	-129.7	-115.7	-74.9	-56.3	-42.3	-21.7
Nominal GNP	Percent change*	10.4	8.6	6.6	4.6	8.6	7.5	6.4	5.7	6.5
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	90.2	94.5	97.5	99.5	102.2	105.6	108.6	110.3	111.5
Unemployment rate	Percent	9.6	7.5	7.2	7.0	6.2	5.5	5.3	5.7	6.1
Industrial production index	Percent change*	14.3	6.6	1.7	1.0	5.8	5.0	1.7	1.4	3.0
Capacity utilization rate-mfg.	Percent	73.9	80.5	80.1	79.7	81.1	83.5	84.0	81.9	81.4
Housing starts	Millions	1.70	1.75	1.74	1.81	1.62	1.49	1.37	1.34	1.33
Auto sales	Millions	9.19	10.35	11.04	11.46	10.24	10.65	9.89	9.53	9.50
Domestic	Millions	6.82	7.92	8.22	8.22	7.06	7.55	7.06	6.90	6.95
Foreign	Millions	2.37	2.43	2.82	3.23	3.18	3.10	2.83	2.63	2.55
INCOME AND SAVING										
Nominal personal income	Percent change*	7.8	8.4	6.6	5.8	8.6	7.1	8.5	6.1	6.3
Real disposable income	Percent change*	5.1	4.3	2.7	3.3	3.0	4.0	3.6	1.2	1.4
Personal saving rate	Percent	5.4	6.1	4.4	4.1	3.2	4.2	5.5	5.3	5.1
Corp. profits with IVA & CCAdj	Percent change*	70.1	7.4	9.2	-5.6	12.0	10.4	-19.7	-.6	5.9
Profit share of GNP	Percent	6.3	7.1	7.0	6.7	6.6	6.7	5.7	4.9	4.8
Federal govt. surplus/deficit	Billions of \$	-176.0	-169.6	-196.9	-206.9	-161.4	-145.8	-149.9	-136.7	-109.0
State and local govt. surplus		47.5	64.6	65.1	62.8	51.3	49.7	45.0	45.3	62.1
Exc. social insurance funds		4.4	19.8	13.8	5.6	-12.4	-21.4	-33.0	-38.9	-28.1
PRICES AND COSTS										
GNP implicit deflator	Percent change*	3.6	3.4	2.9	2.6	3.0	4.0	3.8	4.1	4.1
GNP fixed-weight price index		3.9	3.7	3.3	2.6	4.0	4.5	4.1	4.2	4.3
Cons. & fixed invest. prices		3.3	3.3	3.4	2.5	4.7	4.2	4.3	4.3	4.4
CPI		3.2	4.2	3.5	1.3	4.4	4.3	4.5	4.4	4.5
Exc. food and energy		4.2	5.0	4.3	3.9	4.2	4.6	4.3	4.6	4.7
ECI hourly compensation		5.7	4.9	3.9	3.2	3.3	4.9	4.8	5.0	4.5
Nonfarm business sector										
Output per hour		3.4	1.5	1.6	1.3	2.4	1.6	.6	.7	1.5
Compensation per hour		3.1	4.2	4.6	5.0	4.0	4.8	5.7	5.6	5.2
Unit labor costs		-.4	2.6	3.0	3.6	1.5	3.1	5.1	4.9	3.7

* Percent changes are from fourth quarter to fourth quarter.

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

	Units	Projection									
		1989		1990				1991			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of \$	5281.0	5337.0	5404.8	5488.2	5566.3	5642.8	5736.3	5825.6	5917.0	6010.3
Real GNP	Billions of 82\$	4162.9	4168.1	4175.2	4202.0	4218.4	4236.4	4258.2	4282.1	4307.4	4334.3
Real GNP		3.0	.5	.7	2.6	1.6	1.7	2.1	2.3	2.4	2.5
Gross domestic purchases		3.5	.9	-1.5	3.2	1.6	1.2	1.6	1.4	1.6	1.6
Final sales		2.7	-.5	4.8	1.5	.9	1.5	1.6	2.1	2.2	2.4
Private dom. final purchases		4.7	-.4	2.6	2.3	1.3	1.1	1.3	1.5	1.6	1.7
Personal consumption expend.		5.6	-.1	2.2	2.7	1.5	1.5	1.6	1.6	1.7	1.7
Durables		11.3	-12.9	7.0	3.2	-.4	.9	1.5	1.3	1.5	1.7
Nondurables		5.0	-1.4	.8	1.8	.9	.9	.8	.9	.9	1.0
Services		4.3	5.3	1.6	3.1	2.6	2.0	2.1	2.2	2.2	2.2
Business fixed investment		5.2	-3.0	4.1	1.3	.1	-.2	.9	1.9	2.2	2.4
Producers' durable equipment		4.6	-4.3	5.9	3.0	1.8	1.6	2.8	4.0	4.3	4.4
Nonresidential structures		8.0	1.3	-2.1	-4.2	-5.5	-6.1	-5.7	-5.3	-5.2	-5.0
Residential structures		-9.2	2.6	4.8	.3	.2	-.4	-2.1	-1.9	-.6	-.2
Exports		3.9	4.9	13.6	2.1	5.7	8.6	7.3	9.5	9.7	10.6
Imports		7.4	7.5	-2.0	5.8	5.5	4.4	3.9	3.8	4.3	4.2
Government purchases		-2.4	1.3	2.2	1.3	-.5	.4	.7	.4	.5	.3
Federal		-8.4	-2.9	2.7	.4	-3.5	-1.6	-.9	-1.7	-1.5	-1.6
Defense		6.9	-8.0	-4.9	-5.1	-3.8	-3.1	-3.2	-3.1	-3.0	-2.8
State and local		2.2	4.3	1.9	1.9	1.7	1.8	1.8	1.8	1.8	1.6
Change in business inventories	Billions of 82\$	21.9	32.6	-9.4	1.3	8.3	10.4	15.0	16.9	18.9	20.0
Nonfarm	Billions of 82\$	16.2	31.3	-6.2	3.7	8.3	10.6	14.8	16.8	18.3	19.3
Net exports	Billions of 82\$	-57.1	-61.8	-38.9	-45.1	-45.4	-39.7	-34.8	-26.3	-17.9	-7.7
Nominal GNP	Percent change	6.2	4.3	5.2	6.3	5.8	5.6	6.8	6.4	6.4	6.5
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	108.9	109.4	109.8	110.4	110.4	110.6	111.0	111.3	111.6	112.0
Unemployment rate	Percent*	5.3	5.3	5.5	5.6	5.8	5.9	6.0	6.0	6.1	6.1
Industrial production index	Percent change	1.3	.2	-.9	2.8	1.8	2.0	2.5	3.0	3.2	3.4
Capacity utilization rate-mfg.	Percent*	84.0	83.1	82.2	82.1	81.8	81.5	81.4	81.4	81.4	81.5
Housing starts	Millions	1.34	1.33	1.37	1.33	1.33	1.33	1.33	1.33	1.33	1.33
Auto sales	Millions	10.24	9.14	9.57	9.65	9.45	9.45	9.50	9.50	9.50	9.50
Domestic	Millions	7.36	6.56	6.90	6.95	6.85	6.90	6.95	6.95	6.95	6.95
Foreign	Millions	2.88	2.59	2.67	2.70	2.60	2.55	2.55	2.55	2.55	2.55
INCOME AND SAVING											
Nominal personal income	Percent change	5.2	7.9	7.0	6.5	5.2	5.9	7.1	6.3	5.6	6.5
Real disposable income	Percent change	4.4	2.6	1.2	2.2	.4	1.0	2.3	1.2	.6	1.4
Personal saving rate	Percent*	5.1	5.8	5.6	5.5	5.2	5.1	5.3	5.2	5.0	5.0
Corp. profits with IVA & CCAdj	Percent change	-15.4	-26.5	-7.4	.0	8.6	-2.9	4.6	-2.9	14.5	8.0
Profit share of GNP	Percent*	5.6	5.1	5.0	4.9	4.9	4.8	4.8	4.7	4.8	4.8
Federal govt. surplus/deficit	Billions of \$	-144.7	-162.4	-152.6	-143.8	-127.3	-123.2	-122.8	-114.4	-101.7	-97.1
State and local govt. surplus		44.9	39.1	41.9	44.4	45.9	49.1	53.2	60.5	64.7	70.1
Exc. social insurance funds		-34.3	-41.4	-40.1	-39.1	-39.1	-37.4	-34.8	-29.0	-26.3	-22.4
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.2	3.5	4.6	3.6	4.2	3.8	4.6	4.0	3.9	3.8
GNP fixed-weight price index		2.9	3.8	5.0	3.7	4.1	4.1	4.9	4.2	4.1	4.1
Cons. & fixed invest. prices		2.3	4.4	5.3	3.5	4.1	4.2	4.5	4.5	4.4	4.4
CPI		2.6	3.9	5.6	3.7	4.2	4.3	4.6	4.5	4.5	4.5
Exc. food and energy		3.5	4.7	4.3	4.7	4.7	4.6	4.8	4.7	4.6	4.6
ECI hourly compensation**		4.9	4.7	5.5	5.3	4.6	4.5	4.8	4.9	4.3	4.2
Nonfarm business sector											
Output per hour		2.5	.1	.0	.9	.9	1.0	1.3	1.6	1.6	1.6
Compensation per hour		5.3	6.8	6.1	5.9	5.3	5.2	5.5	5.6	5.0	4.9
Unit labor costs		2.8	6.7	6.1	5.0	4.4	4.2	4.1	3.9	3.3	3.2

* Not at an annual rate.

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

CONFIDENTIAL - FR
CLASS II FOMC

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

January 31, 1990

	Projection										Projection			
	1989		1990				1991				1988	1989	1990	1991
											(fourth quarter to fourth quarter, net change)			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GNP	30.4	5.2	7.1	26.8	16.3	18.1	21.8	23.8	25.3	26.9	133.8	98.7	68.3	97.9
Gross domestic purchases	36.3	9.9	-15.8	33.0	16.7	12.4	16.9	15.3	17.0	16.7	97.8	86.7	46.3	65.8
Final sales	27.5	-5.5	49.1	16.1	9.3	16.0	17.2	21.9	23.3	25.8	172.0	84.5	90.5	88.3
Private dom. final purchases	38.4	-3.4	21.9	19.7	10.7	9.5	10.8	12.6	14.0	14.9	121.7	71.0	61.7	52.3
Personal consumption expend.	36.4	-1.8	14.6	17.9	10.5	9.9	10.7	11.0	11.4	11.9	95.4	61.6	52.8	45.0
Durables	11.5	-14.8	7.2	3.4	-4.4	1.0	1.7	1.4	1.7	1.9	31.1	1.1	11.1	6.6
Nondurables	11.1	-3.3	1.9	4.1	2.1	2.1	1.8	2.1	2.1	2.3	19.1	5.5	10.2	8.3
Services	13.9	17.4	5.4	10.4	8.8	6.8	7.2	7.6	7.6	7.7	45.2	55.1	31.4	30.1
Business fixed investment	6.5	-3.9	5.2	1.7	.1	-.2	1.1	2.5	2.9	3.1	20.0	21.3	6.8	9.6
Producers' durable equipment	4.4	-4.3	5.7	3.0	1.8	1.6	2.8	4.0	4.4	4.5	24.3	22.0	12.1	15.7
Nonresidential structures	2.3	.4	-.6	-1.3	-1.7	-1.8	-1.7	-1.5	-1.5	-1.4	-4.3	-.6	-5.4	-6.1
Residential structures	-4.5	1.2	2.2	.2	.1	-.2	-1.0	-.9	-.3	-.1	6.2	-12.1	2.2	-2.3
Change in business inventories	2.8	10.7	-42.0	10.7	7.0	2.1	4.6	1.9	2.0	1.1	-38.3	14.3	-22.2	9.6
Nonfarm	-3.3	15.1	-37.5	9.9	4.6	2.3	4.2	2.0	1.5	1.0	-23.7	-.6	-20.7	8.7
Farm	6.1	-4.3	-4.5	.8	2.4	-.2	.4	-.1	.5	.1	-14.6	14.9	-1.5	.9
Net exports	-5.9	-4.7	22.9	-6.2	-.3	5.7	4.9	8.6	8.4	10.2	36.0	12.0	22.1	32.1
Exports	5.6	7.1	19.5	3.2	8.7	13.1	11.5	15.1	15.8	17.5	67.3	48.8	44.4	59.9
Imports	11.5	11.8	-3.4	9.4	9.0	7.4	6.6	6.5	7.4	7.3	31.3	36.8	22.4	27.8
Government purchases	-5.0	2.6	4.3	2.6	-1.0	.8	1.5	.8	1.0	.7	14.3	1.5	6.7	3.9
Federal	-7.5	-2.5	2.2	.3	-3.0	-1.4	-.7	-1.4	-1.2	-1.3	-1.0	-10.3	-1.9	-4.7
Defense	4.3	-5.4	-3.2	-3.3	-2.4	-1.9	-2.0	-1.9	-1.8	-1.7	-5.1	-6.9	-10.8	-7.4
Nondefense	-11.8	3.0	5.3	3.6	-.6	.5	1.3	.5	.6	.4	4.1	-3.3	8.8	2.7
State and local	2.5	5.0	2.2	2.3	2.0	2.2	2.2	2.2	2.2	2.0	15.3	11.7	8.7	8.6

January 31, 1990

	Fiscal years				1989				1990				1991			
	1988a	1989a	1990	1991	Ia	IIa	IIIa	IV	I	II	III	IV	I	II	III	IV
BUDGET					Not seasonally adjusted											
Budget receipts ²	908	991	1055	1132	219	308	242	229	240	322	264	251	259	339	283	269
Budget outlays ²	1063	1143	1192	1250	280	285	288	298	299	300	295	318	308	314	310	321
Surplus/deficit (-) to be financed ²	-155	-152	-137	-118	-61	23	-46	-70	-59	23	-31	-67	-49	24	-27	-52
(On-budget)	-194	-204	-199	-188	-77	0	-54	-76	-77	0	-46	-77	-69	1	-42	-62
(Off-budget)	39	52	62	70	16	23	7	6	19	23	14	10	21	24	16	10
Means of financing:																
Borrowing	162	140	144	115	38	10	39	63	51	10	20	65	24	8	17	48
Cash decrease	-8	3	6	0	19	-29	3	14	11	-24	5	10	10	-25	5	10
Other ³	1	8	-13	3	4	-4	5	-8	-4	-8	6	-8	14	-8	4	-6
Cash operating balance, end of period	44	41	35	35	15	44	41	27	16	40	35	25	15	40	35	25
NIPA FEDERAL SECTOR					Seasonally adjusted annual rates											
Receipts	958	1032	1099	1187	1036	1053	1043	1054	1093	1114	1134	1153	1180	1199	1219	1240
Expenditures	1103	1183	1246	1303	1184	1199	1188	1217	1246	1258	1262	1276	1303	1313	1321	1337
Purchases	377	404	414	424	399	406	403	409	413	417	415	416	426	427	428	428
Defense	297	302	304	305	299	301	308	303	306	304	303	302	306	306	306	305
Nondefense	80	101	110	119	100	105	95	105	108	113	113	114	120	121	122	123
Other expend.	726	780	832	879	785	793	785	808	832	841	846	860	877	886	893	909
Surplus/deficit	-145	-151	-147	-116	-148	-145	-145	-162	-153	-144	-127	-123	-123	-114	-102	-97
FISCAL INDICATORS⁴																
High-employment (HEB) surplus/deficit (-)	-150	-167	-147	-97	-165	-162	-162	-172	-153	-142	-120	-110	-106	-94	-78	-72
Change in HEB, percent of potential GNP	.3	.4	-.4	-.9	-.3	-.1	.0	.2	-.4	-.2	-.4	-.2	-.1	-.2	-.3	-.1
Fiscal impetus measure (FI), percent	.2 *	-3.5 *	-6.8 *	-3.4 *	-2.7	-.2	.5	-2.6	-4.0	-.2	-1.0	-1.9	-1.0	-.3	-.4	-.4

a--actual

*--calendar year

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

- Staff projections. The FY90 and FY91 deficits in OMB's FY1991 Budget (January 1990) are \$124 billion and \$63 billion, respectively. These estimates incorporate approximately \$39 billion of cuts from the adjusted Gramm-Rudman-Hollings baseline in FY1991. The FY90 and FY91 baseline deficits in CBO's Economic and Budget Outlook (January 1990) are \$138 billion and \$138 billion, respectively.
- Budget receipts, outlays, and surplus/deficit include social security (OASDI) receipts, outlays and surplus, respectively. The OASDI surplus is excluded from the "on-budget" deficit and shown separately as "off-budget", as classified under current law.
- Other means of financing are checks issued less checks paid, accrued items; and changes in other financial assets and liabilities, including Post Office surplus/deficit in FY90 and FY91.
- HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate and 2.7% potential output growth. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.

January 30, 1990

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

	ANNUAL			1989		1990				1991			
	1989-P	1990-P	1991-P	Q3	Q4-P	Q1	Q2-P	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
1. <u>GNP Exports and Imports 1/</u>													
Current \$, Net	-50.9	-39.1	-23.7	-45.1	-53.8	-36.0	-43.3	-40.7	-36.4	-33.9	-27.4	-21.2	-12.3
Exports of G+S	624.4	679.3	753.9	628.5	637.3	662.4	669.4	683.2	702.3	719.9	741.7	764.5	789.7
Imports of G+S	675.2	718.4	777.6	673.6	691.1	698.4	712.6	723.9	738.8	753.8	769.1	785.7	802.0
Constant \$2, Net	-56.3	-42.3	-21.7	-57.1	-61.8	-38.9	-45.1	-45.4	-39.7	-34.8	-26.3	-17.9	-7.7
Exports of G+S	587.6	629.7	679.7	593.1	600.2	619.7	622.9	631.5	644.6	656.1	671.2	687.0	704.5
Imports of G+S	643.9	672.0	701.4	650.2	662.0	658.6	668.0	677.0	684.4	691.0	697.5	704.9	712.2
2. <u>Merchandise Trade Balance 2/</u>	-114.9	-111.5	-103.8	-111.0	-124.9	-106.6	-114.8	-113.3	-111.4	-110.2	-106.6	-102.3	-96.2
Exports	362.9	396.9	445.1	366.3	368.1	387.9	390.0	398.7	410.9	422.5	436.8	452.4	468.7
Agricultural	41.5	41.9	44.9	39.1	40.4	41.2	41.5	41.7	43.1	43.6	44.4	45.2	46.2
Non-Agricultural	321.4	355.0	400.3	327.2	327.6	346.7	348.5	357.1	367.7	378.9	392.4	407.2	422.5
Imports	477.8	508.4	548.9	477.3	493.0	494.5	504.8	512.0	522.2	532.7	543.5	554.7	564.9
Petroleum and Products	50.9	56.7	59.6	53.2	53.5	58.9	57.8	54.8	55.4	57.1	58.7	60.4	62.1
Non-Petroleum	426.9	451.7	489.4	424.1	439.5	435.7	447.0	457.2	466.8	475.7	484.7	494.2	502.8
3. <u>Other Current Account Transactions</u>													
Capital Gains and losses 3/	-5.3	2.1	0.9	10.9	2.9	6.3	0.7	0.6	0.6	0.9	0.9	0.9	0.9
Other D.I. Income, Net	36.1	39.1	42.2	35.1	38.2	39.0	38.4	38.8	40.1	40.5	42.0	42.5	43.8
Portfolio Income, Net	-36.5	-44.6	-49.9	-35.5	-40.2	-42.3	-43.8	-45.3	-46.8	-48.0	-49.3	-50.6	-51.8
Other Current Account, Net	5.9	9.7	14.2	9.8	5.7	8.7	10.2	10.9	9.1	13.1	14.4	15.6	13.8
4. <u>U.S. Current Account Balance</u>													
Including Capital G/L	-114.7	-105.2	-96.4	-90.7	-118.3	-94.9	-109.3	-108.2	-108.3	-103.8	-98.7	-93.8	-89.4
Excluding Capital G/L	-109.4	-107.2	-97.3	-101.6	-121.2	-101.1	-110.0	-108.9	-108.9	-104.8	-99.6	-94.8	-90.3
5. <u>Foreign Outlook 4/</u>													
Real GNP--Ten Industrial 5/	3.7	3.0	2.8	3.7	3.9	2.9	2.8	2.8	2.9	2.8	2.8	2.9	2.9
Real GNP--LDC 6/	2.7	3.7	3.9	3.0	3.6	4.1	4.1	3.9	3.7	3.7	4.0	4.3	4.7
Consumer Prices--Ten Ind. 5/	4.0	3.9	3.8	2.3	4.4	3.3	4.9	3.3	3.4	3.8	4.3	3.5	3.6

1/ National Income and Product Account data.

2/ International accounts basis.

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

4/ Percent change, annual rates.

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

6/ Weighted by share in LDC GNP.

P/ Projected

January 31, 1990

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee

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

SURVEYS OF PLANT AND EQUIPMENT EXPENDITURES
(Percent change from previous year, current dollars)

	1988 ¹	Planned for 1989	Planned for 1990	
		Commerce (Oct.-Nov.)	McGraw-Hill (Sept.-Oct.)	ECAP (Sept.-Oct.)
All business	10.3	6.4	4.4	3.0
Manufacturing	10.1	3.8	6.4	3.4
Durable	6.1	.2	6.4	.4
Nondurable	13.7	6.8	6.4	5.7
Nonmanufacturing	10.4	8.0	3.1	2.8
Memo: ²				
Mean error		-1.2	-1.2	-2.0
Mean absolute error		2.9	4.0	4.7

1. As estimated in the October-November Commerce Department Survey.

2. Estimated from 1970 for McGraw-Hill and ECAP and from 1985 for Commerce Department.

Taking equipment and structures together, the recent capital spending surveys point to a further gain in 1990, though not at the pace of 1989. The Commerce Department survey of business plans for plant and equipment outlays, taken in October and November, suggests that firms will boost nominal outlays for plant and equipment 6.4 percent in 1990, after an estimated 10.3 percent rise in 1989. The Commerce figure for 1990 is somewhat stronger than the spending plans reported earlier in the private surveys. Much of the slowdown from 1989 is expected to occur in manufacturing, where the Commerce Department survey shows a rise in spending this year of 3.8 percent, as compared with a 10.1 percent estimated gain for 1989. An 8 percent rise is planned in the nonmanufacturing sector.

ADMINISTRATION BUDGET PROPOSAL
(Billions of dollars)

	Fiscal years					
	1990	1991	1992	1993	1994	1995
Outlays:						
Baseline outlays ¹	1197.2	1258.7	1307.9	1361.2	1412.3	1463.4
Policy changes:						
Excluding SSIDRF ²	.0	-25.4	-36.5	-53.5	-67.9	-88.2
Payments to SSIDRF	.0	.0	.0	14.1	53.6	101.8
Proposed outlays	1197.2	1233.3	1271.4	1321.8	1398.0	1477.0
Receipts:						
Baseline receipts	1072.8	1156.3	1234.9	1323.5	1401.9	1480.8
Policy changes	.6	13.9	11.4	4.1	6.7	5.6
Proposed receipts	1073.5	1170.2	1246.4	1327.6	1408.6	1486.3
Deficit:						
Baseline deficit (-)	-124.4	-102.4	-73.0	-37.7	-10.4	17.4
Policy changes	-.6	-39.3	-47.9	-43.4	-21.1	8.0
Proposed deficit (-)	-123.8	-63.1	-25.1	5.7	10.7	9.4
Memo:						
Proposed deficit excluding SSIDRF (-)	-123.8	-63.1	-25.1	19.9	64.2	111.2

1. Baseline includes extension of food stamp program and Postal Service outlays.

2. Starting in FY1993 with a three-year phase-in, the government will make payments equal to the projected social security surplus into a new off-budget fund--the Social Security Integrity and Debt Reduction Fund (SSIDRF).

ADMINISTRATION ECONOMIC ASSUMPTIONS

	Calendar years					
	1990	1991	1992	1993	1994	1995
-----Percent change, Q4 to Q4-----						
Real GNP	2.6	3.3	3.2	3.1	3.0	3.0
GNP deflator	4.2	4.1	3.8	3.5	3.2	2.9
CPI-U	4.1	4.0	3.8	3.5	3.2	2.9
-----Percent, annual average-----						
Unemployment rate	5.4	5.3	5.2	5.1	5.0	5.0
Interest rates:						
Treasury bills	6.7	5.4	5.3	5.0	4.7	4.4
Treasury notes	7.7	6.8	6.3	6.0	5.7	5.4

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

	1989		1990			
	Q3	Q4	Q1 ^P	Jan. ^P	Feb. ^P	Mar. ^P
<u>Treasury financing</u>						
Total surplus/deficit (-)	-46.5	-69.7	-58.8	10.4	-28.6	-40.6
Means of financing deficit:						
Net cash borrowing						
from the public	38.6	63.3	51.0	15.6	16.0	19.5
Marketable borrowings/						
repayments (-)	33.4	52.8	43.9	10.8	15.2	17.9
Bills	9.5	24.0	17.2	4.5	2.1	10.6
Coupons	23.9	28.8	26.7	6.3	13.1	7.3
Nonmarketable ²	5.2	10.5	7.1	4.8	.7	1.6
Decrease in the cash						
balance	2.8	14.1	11.4	-16.8	21.7	6.5
Memo: Cash balance						
at end of period	41.0	26.9	15.5	43.7	22.0	15.5
Other ³	5.1	-7.6	-3.6	-9.1	-9.1	14.6
<u>Federally sponsored credit</u>						
<u>agencies, net cash</u>						
<u>borrowing⁴</u>	1.6	5.4	--	--	--	--
FHLBs	-10.3	-7.5	--	--	--	--
FHLMC ⁵	1.5	.3	--	--	--	--
FNMA	5.2	4.6	--	--	--	--
Farm Credit Banks	1.7	1.9	--	--	--	--
FAC	0.0	0.0	0.0	0.0	0.0	0.0
SLMA	2.9	1.6	--	--	--	--
FICO	0.7	0.0	0.0	0.0	0.0	0.0
REFCORP	--	4.5	5.0	5.0	5.0	0.0

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

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

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

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

5. Borrowing reflects October and November only.

p--projected.

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

below its October high. The credit quality concerns reflected in these significant declines in stock prices have not shown up in the agencies' borrowing costs, however. The spreads on Fannie Mae and Freddie Mac debt have not changed appreciably in recent months.

Municipal Securities

In December, gross issuance of long-term municipal securities surged to nearly \$13 billion, the highest monthly rate of the year. Refunding, stimulated by interest rate declines early in the month, and new capital offerings both picked up sharply. The new capital offerings consisted primarily of revenue bonds intended to finance education and housing. Total long-term issuance in January is expected to taper off to \$6 billion or less, with refunding in particular damped by the backup of interest rates.

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

	1988	1989	1989			1989		1990
	Year	Year ^P	Q2	Q3	Q4 ^P	Nov.	Dec. ^P	Jan. ^f
Total offerings ¹	11.73	11.67	13.14	12.78	11.57	10.51	13.83	--
Total tax-exempt	11.41	11.43	12.95	12.58	11.26	10.20	13.41	6.40
Long-term	9.55	9.37	9.56	9.80	10.33	9.56	12.45	6.00
Refundings ²	2.90	2.43	2.20	2.83	2.20	1.78	3.04	--
New capital	6.65	6.94	7.36	6.97	8.13	7.78	9.41	--
Short-term ³	1.89	2.06	3.39	2.78	.93	.64	.96	.40
Total taxable	.33	.24	.19	.20	.31	.31	.42	--

p--preliminary. f--forecast.

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

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

3. Does not include tax-exempt commercial paper.

CONFIDENTIAL (FR)
CLASS III - FOMC

February 2, 1990

SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

APPENDIX

FEDERAL BUDGET DEVELOPMENTS

President Bush has submitted his FY1991 budget to the Congress, with proposals that satisfy the Gramm-Rudman-Hollings requirements. The budget projections hinge on assumptions of fairly robust economic growth and falling interest rates, which cause the baseline deficit to fall year by year. In contrast, the Congressional Budget Office (CBO) has released estimates, based on less favorable economic assumptions, that show the baseline deficit remaining in the neighborhood of \$140 billion through 1993.

Near-term Budget Developments and Prospects

This week's news contained much information about the prospects for the budget in the near term, including updated estimates for FY1990. As shown in table 1, the Administration now projects an FY1990 deficit of \$124 billion, compared with a figure of \$99 billion in the July Mid-Session Review. Outlays were revised up nearly \$20 billion, largely because of legislation passed since midsummer. Most notably, FIRREA contributed to an \$8 billion upward revision in expenditures for deposit insurance, which now are expected to total \$11 billion in FY1990. Spending on defense also was revised up. Changes to revenues were smaller, on net, as a sharp reduction in projected taxes in response to weak incoming data on corporate profits and tax payments was partially offset by technical reestimates of other revenues. CBO, however, estimates the FY1990 deficit at \$138 billion.

Table 1

ESTIMATES OF TOTAL BUDGET (Billions of dollars)

	<u>Administration</u>			
	Mid-Session Review	Baseline ¹	Proposed	CBO Baseline
	-----FY1990-----			
Total deficit	99	124	124	138
Receipts	1080	1073	1074	1067
Outlays	1179	1197	1197	1205
	-----FY1991-----			
Total deficit	85	102	63	138
Receipts	1152	1156	1170	1137
Outlays	1237	1259	1233	1275

1. Includes extension of food stamp program, which is scheduled to expire in 1991, and adjustments for other accounting anomalies.

Table 2

ADMINISTRATION AND CBO ECONOMIC ASSUMPTIONS

	Forecast		Projected			
	1990	1991	1992	1993	1994	1995
-----Percent change, calendar year average-----						
Real GNP						
Administration	2.4	3.2	3.2	3.1	3.0	3.0
CBO	1.7	2.4	2.5	2.5	2.4	2.4
GNP deflator						
Administration	4.1	4.2	3.9	3.6	3.3	3.0
CBO	4.0	4.0	4.0	4.0	4.0	4.0
CPI ¹						
Administration	3.9	4.0	3.9	3.6	3.3	3.0
CBO	4.0	4.3	4.3	4.3	4.3	4.3
-----Percent, calendar year average-----						
Unemployment rate						
Administration	5.4	5.3	5.2	5.1	5.0	5.0
CBO	5.6	5.5	5.5	5.5	5.5	5.5
Three-month Treasury bill rate						
Administration	6.7	5.4	5.3	5.0	4.7	4.4
CBO	6.9	7.2	6.9	6.5	6.1	5.8
Ten-year Treasury note rate						
Administration	7.7	6.8	6.3	6.0	5.7	5.4
CBO	7.8	7.7	7.6	7.5	7.4	7.3
Corporate profits as a percent of GNP						
Administration	6.4	7.0	7.3	7.5	7.5	7.5
CBO	5.6	5.7	5.7	5.6	5.7	5.6

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

Table 3

CBO BASELINE BUDGET PROJECTIONS
(Fiscal years)

	1990	1991	1992	1993	1994	1995
-----Billions of dollars-----						
Total deficit	138	138	135	141	130	118
Revenues	1067	1137	1204	1277	1355	1438
Outlays	1205	1275	1339	1418	1484	1555
Gramm-Rudman deficit targets	100	64	28	0	--	--
-----As a percentage of GNP-----						
Total deficit	2.5	2.4	2.2	2.1	1.8	1.6
Revenues	19.6	19.6	19.5	19.4	19.3	19.3
Outlays	22.1	22.0	21.7	21.5	21.2	20.8

The Administration Budget Proposals

President Bush's proposals are consistent, at this stage, with the requirements of the Gramm-Rudman law. Given the underlying economic and technical assumptions, his program meets the deficit target of \$64 billion in FY1991 and achieves balance by FY1993. President Bush proposes a modest reduction--relative to the baseline--in defense spending and some reallocation of resources among nondefense programs over the next few years. He also continues to press for a cut in capital gains taxes and proposes a new incentive to spur personal saving.¹

Proposals for FY1991. The Administration is proposing deficit-reducing actions totaling \$39 billion for FY1991 (see table 4). Outlays

1. Under the Administration plan, households filing joint tax returns and earning less than \$120,000 would be allowed to contribute \$5000 per year to a Family Savings Account (FSA); single filers with incomes below \$60,000 could put in \$2500. Contributions would not be deductible, but earnings on accounts held for more than seven years would be tax-exempt. Because there is no upfront deduction for the contributions, the estimated revenue loss to the Treasury in early years is small--reaching only \$1 billion by 1995. Allowable investment vehicles would be the same as for current IRAs. Contribution limits on IRAs, 401Ks, and Keoghs would not change under this proposal, but the Administration would like to waive the penalty for early withdrawals of up to \$10,000 from IRAs, if the withdrawn funds are used for first-time home purchases.

are to be lowered \$25 billion relative to baseline, with the largest reductions slated for medicare (\$6 billion), defense (\$3 billion), and agriculture (\$3 billion). Proposed changes in miscellaneous user fees--which are scored in the budget as offsets to outlays--amount to \$6 billion.

Table 4

COMPOSITION OF ADMINISTRATION BUDGET PROPOSALS¹
(Change from baseline in billions of dollars, fiscal years)

	1991	1992	1993
Outlays	-25	-37	-53
Defense	-3	-9	-17
Medicare	-6	-8	-11
Agriculture	-3	-5	-6
User fees	-6	-4	-5
Other	-7	-11	-14
Receipts	14	11	4
Capital gains	5	3	1
Social security ²	4	4	4
Excise taxes	3	4	5
Other	2	0	-6
Deficit	-39	-48	-57

1. Excluding payments to the SSIDRF.

2. Extension of OASDI coverage to additional state and local employees and HI coverage to all workers in the sector.

The budget also calls for \$14 billion in new revenues in FY1991. About \$5 billion is projected to come from a revamped proposal to cut the effective tax rate on capital gains; this proposal would allow an exclusion from gross income of 30 percent of the realized gains on certain assets held more than three years, with smaller exclusions for assets held for shorter periods. According to the Administration, enactment of this provision would result in an increase in realizations large enough to add \$5 billion, on net, to FY1991 receipts. The longer-run relationship between capital gains rates and tax collections, of course, is uncertain; but the Administration projects small revenue gains at least through 1995.

Much of the remaining FY1991 revenue would come from bringing additional state and local employees under the social security system (OASDI) and extending medicare coverage (HI) to all workers in that sector. Similar proposals have been rejected by the Congress in the past. The Administration is also requesting about \$3 billion of hikes

in excise taxes, including the extension of the telephone excise tax, which currently is scheduled to expire at the end of 1990.

The longer-run outlook. In contrast to CBO, the Administration expects the deficit to disappear by the mid-1990s--whether measured on a baseline or on a policy basis. However, the \$9 billion surplus shown in table 5 for the proposed budget in FY1995 understates the federal government's total contribution to national saving by \$102 billion because it includes an outlay of that amount to a new off-budget fund, the Social Security Integrity and Debt Reduction Fund (SSIDRF) which is designed to protect the assets in the social security trust funds.² Excluding payments to the SSIDRF, the budget is projected to run a surplus of \$111 billion in FY1995.

Table 5

ADMINISTRATION BUDGET PROJECTIONS
(Fiscal years, billions of dollars)

	1990	1991	1992	1993	1994	1995
Baseline deficit (-)	-124	-102	-73	-38	-10	17
Receipts	1073	1156	1235	1324	1402	1481
Outlays	1197	1259	1308	1361	1412	1463
Proposed deficit (-)	-124	-63	-25	6	11	9
Receipts	1074	1170	1246	1328	1409	1486
Outlays	1197	1233	1271	1322	1398	1477
Memo:						
Payments to SSIDRF	0	0	0	14	54	102
Deficit excl. payments to SSIDRF (-)	-124	-63	-25	20	64	111

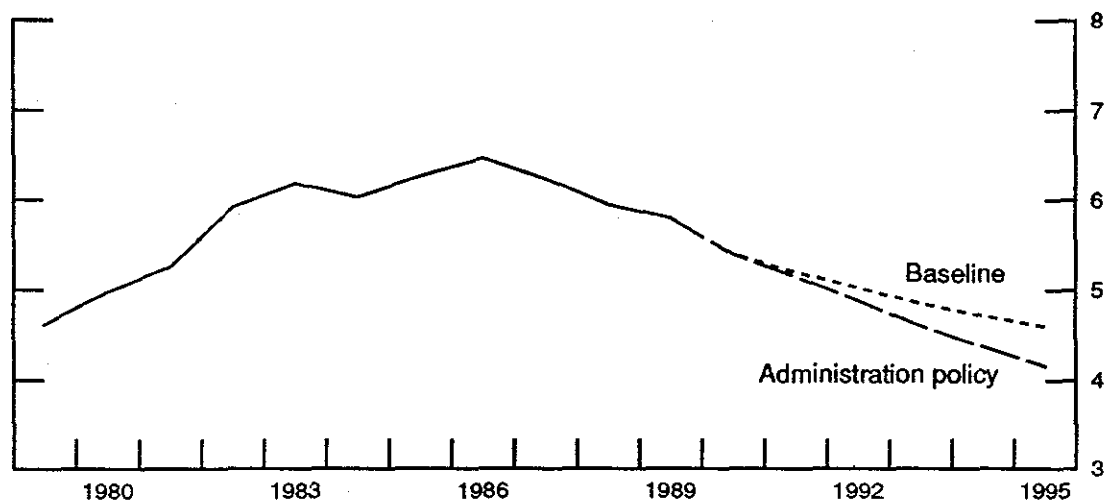
The Administration projections assume that real GNP will continue to grow about 3 percent per year and that inflation will decline to about 3 percent by 1995. OMB assumes a somewhat steeper fall in nominal interest rates than does CBO; but the two projections do not show much difference in the levels of real rates by the mid-1990s.

Prospects for defense spending. One reason for the projected improvement in the deficit path over this period is the lack of further growth in real defense spending. In real terms, defense appropriations have already declined 13 percent from their 1985 peak. And if they are held constant in real terms over the next five years at FY1990 levels--the baseline assumption--nominal outlays will fall from about 5-1/2

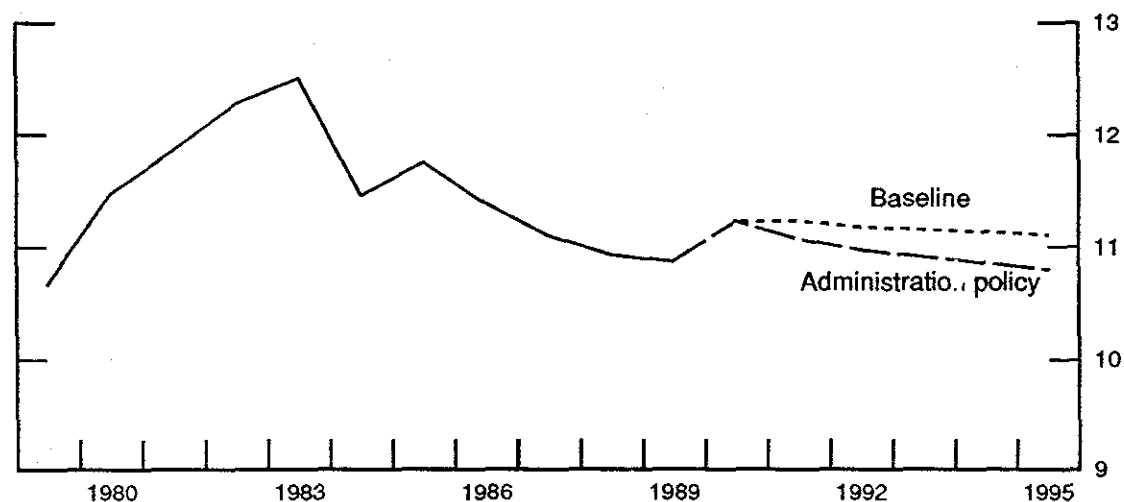
2. See page II-A-7 for a detailed description of the proposed fund.

FEDERAL OUTLAYS * (As a percent of GNP)

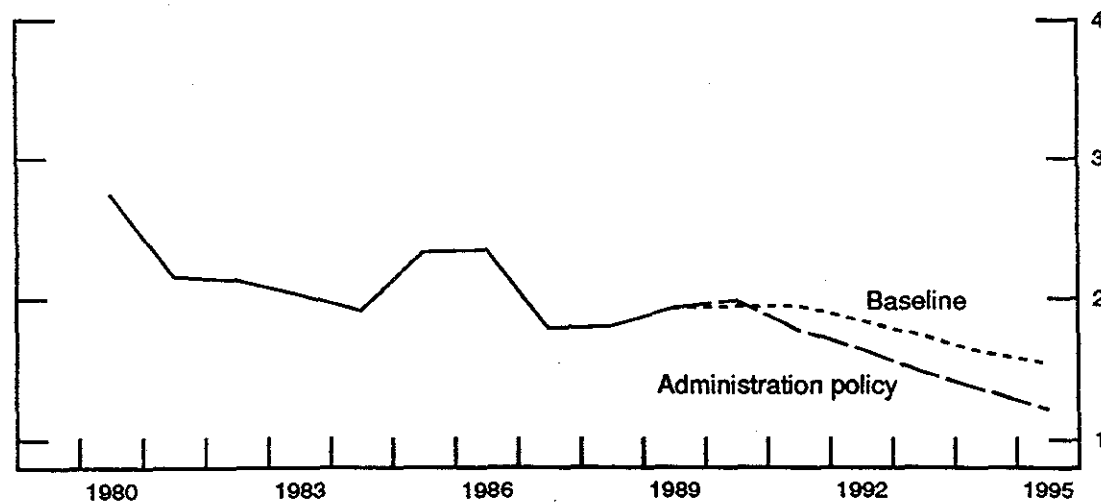
National Defense



Human Resources



Other (excluding Net Interest Outlays)



Source: OMB, Budget of the U.S. Government, FY 1991, January 1990.

* Outlays exclude payments to the Social Security Integrity and Debt Reduction Fund.