

December 15, 1993

## **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

higher rate of motor vehicle production than that projected earlier. The step-up in assemblies, from a level in the third quarter that was constrained by problems with model changeovers, now accounts for fully 2 percentage points of GDP growth. More broadly, the added strength in our output forecast for this quarter is rooted in the apparently robust final demand from households and businesses.

**SUMMARY OF THE NEAR-TERM OUTLOOK**  
(Percent change, at annual rates, except as noted)

	1993			1994
	H1	Q3	Q4	Q1
Real GDP	1.3	2.7	5.0	3.6
<i>Previous</i>	1.3	2.8	4.0	2.7
Excluding crop losses		3.3	4.6	3.4
<i>Previous</i>		3.4	3.6	2.5
Memo:				
Contribution of motor vehicle production	.0	-.9	2.1	.6
<i>Previous</i>	.0	-.8	1.6	.1
Civilian unemployment rate (percent)	7.0	6.7	6.6	6.5
<i>Previous</i>	7.0	6.7	6.8	6.7
CPI inflation	3.3	1.4	2.9	2.9
<i>Previous</i>	3.3	1.4	3.2	3.6

In the consumer sector, nonauto retail sales rose substantially in real terms in October and November, and purchases of light motor vehicles increased sharply. Growth of total real PCE is projected at 4 percent, a pace appreciably exceeding the expansion of labor income.<sup>2</sup> Households have been reporting more positive views of prospects for economic activity and employment, and that confidence

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2. Real disposable personal income is projected to increase at a 4-1/4 percent rate, but a good part of that gain is the result of the recovery, in BEA's estimates, of farm and other non-labor income from a third-quarter level that was depressed by the flood losses. The rate of growth in real wage and salary income in the fourth quarter is expected to be 2.6 percent (annual rate), versus 4 percent for PCE.

slow and is likely to be obscured in 1994 by a firming in food and energy prices.

SUMMARY OF STAFF PROJECTION FOR 1994-95  
(Percent change, at annual rates, except as noted)

	1993		1994	1995
	H1	H2		
Real GDP	1.3	3.8	2.7	2.5
Previous	1.3	3.4	2.5	2.5
Real PCE	2.1	4.2	2.4	1.9
Previous	2.1	3.3	2.0	2.1
Real disposable personal income	-1.2	2.7	2.2	2.0
Previous	-1.2	2.5	1.9	2.1
Civilian unemployment rate	7.0	6.6	6.4	6.4
Previous	7.0	6.8	6.7	6.6

1. Averages for final quarter of period shown.

Consumer spending. Since mid-1992, growth in consumer spending has outstripped the increase in disposable income by a considerable margin. It is conceivable that the BEA has been underestimating income growth, but the resurgence of consumer installment credit recently suggests that at least some households have had to borrow to cover their spending. A decline in the personal saving rate has been a common feature of cyclical upswings and can be explained by the response of households to increases in wealth, improvements in income prospects, and a catch-up in durable goods purchases (which may be viewed as a shift in the form of saving). At this juncture, a key question in our forecast is just how much further this process is likely to go. Our conclusion is, not much, if at all.

Indeed, we are forecasting a distinct slowing in the growth of real personal consumption expenditures in the early part of next year. And the projection shows real PCE increasing at just under 2-1/2 percent throughout 1994, compared with an estimated rise of

STAFF INFLATION PROJECTION FOR 1994-95  
(Percent change)

	1993	1994	1995
Consumer price index	2.7	3.1	2.9
<i>Previous</i>	2.8	3.1	2.8
Excluding food and energy	3.1	3.0	2.9
<i>Previous</i>	3.1	2.9	2.7
Employment cost index <sup>1</sup>	3.7	3.6	3.6
<i>Previous</i>	3.6	3.5	3.4

1. December to December.

Our projection continues to show core CPI inflation moving up somewhat in early 1994 and then settling down at just under a 3 percent rate of increase thereafter. The intra-year swing in this measure of inflation during 1994 is smaller than occurred in 1993 because we now believe that the BLS will revise its seasonal adjustment procedures for the CPI to eliminate much of the upward bias apparent in the first quarter in recent years. Nonetheless, we still are showing a small acceleration in the CPI excluding food and energy in the first quarter of 1994 to allow for some repetition of the "speed" effects that apparently occurred in early 1993, in the wake of a run-up in sales and resource utilization. We recognize that reduced domestic slack might raise the prospects of greater--and more persistent--cost pressures or more aggressive markup behavior this time; however, we believe that, with growth in domestic demand moderating and with supplies of many goods from abroad remaining ample, the uptick in inflation will again prove transitory.

In addition to the movements in core inflation, the quarterly pattern for the overall CPI that is projected for 1994 is influenced by sizable swings in energy prices as well as by the temporary pickup in food prices now under way. We expect that consumer prices

	Nominal GDP	Real GDP		GDP fixed-weight price index		Consumer price index <sup>1</sup>		Unemployment rate (level except as noted)		
		11/10/93	12/15/93	11/10/93	12/15/93	11/10/93	12/15/93	11/10/93	12/15/93	
Interval										
<b>ANNUAL</b>										
1991 <sup>2</sup>	3.2	3.2	-.7	-.7	4.1	4.1	4.2	4.2	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	5.5	5.5	2.8	2.9	3.2	3.2	3.0	3.0	6.9	6.8
1994	5.1	5.6	2.8	3.1	2.8	2.9	3.0	2.8	6.7	6.4
1995	4.6	4.7	2.5	2.5	2.6	2.8	2.8	3.0	6.6	6.4
<b>QUARTERLY</b>										
1992 Q1 <sup>2</sup>	7.4	7.4	3.5	3.5	4.2	4.2	3.5	3.5	7.3	7.3
Q2 <sup>2</sup>	5.7	5.7	2.8	2.8	3.4	3.4	2.9	2.9	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	3.2	3.2	7.3	7.3
1993 Q1 <sup>2</sup>	4.4	4.4	.8	.8	4.3	4.3	3.7	3.7	7.0	7.0
Q2 <sup>2</sup>	4.3	4.3	1.9	1.9	2.8	2.8	2.8	2.8	7.0	7.0
Q3 <sup>2</sup>	4.4	4.3	2.8	2.7	2.1	2.2	1.4	1.4	6.7	6.7
Q4	6.6	7.4	4.0	5.0	3.1	2.9	3.2	2.9	6.8	6.6
1994 Q1	5.3	6.5	2.7	3.6	3.1	3.1	3.6	2.9	6.7	6.5
Q2	4.8	4.6	2.3	2.0	2.8	3.0	3.1	3.5	6.7	6.5
Q3	4.6	5.0	2.4	2.5	2.6	2.8	2.9	3.2	6.7	6.4
Q4	4.5	4.7	2.4	2.5	2.5	2.6	2.8	3.0	6.7	6.4
1995 Q1	4.9	5.0	2.5	2.5	2.9	3.0	3.0	3.0	6.7	6.4
Q2	4.5	4.7	2.5	2.5	2.5	2.6	2.7	2.9	6.7	6.4
Q3	4.4	4.5	2.5	2.5	2.4	2.6	2.6	2.9	6.6	6.4
Q4	4.4	4.5	2.5	2.5	2.5	2.6	2.6	2.9	6.6	6.4
<b>TWO-QUARTER<sup>3</sup></b>										
1992 Q2 <sup>2</sup>	6.6	6.6	3.2	3.2	3.9	3.9	3.2	3.2	.5	.5
Q4 <sup>2</sup>	6.9	6.9	4.6	4.6	2.8	2.8	2.9	2.9	-.2	-.2
1993 Q2 <sup>2</sup>	4.3	4.3	1.3	1.3	3.4	3.4	3.4	3.4	-.3	-.3
Q4	5.5	5.8	3.4	3.8	2.7	2.6	2.2	2.0	-.2	-.4
1994 Q2	5.1	5.5	2.5	3.8	3.0	3.1	3.4	3.2	-.1	-.1
Q4	4.5	4.8	2.4	2.5	2.5	2.7	2.8	3.1	.0	-.1
1995 Q2	4.7	4.8	2.5	2.5	2.7	2.8	2.9	3.0	.0	.0
Q4	4.4	4.5	2.5	2.5	2.5	2.6	2.6	2.9	-.1	.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	4.9	5.1	2.4	2.6	3.1	3.0	2.8	2.7	-.5	-.7
1994 Q4	4.8	5.2	2.5	2.7	2.7	2.9	3.1	3.1	-.1	-.2
1995 Q4	4.6	4.7	2.5	2.5	2.6	2.7	2.8	2.9	-.1	.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	
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	4539.9	4900.4	5250.8	5546.1	5722.9	6038.5	6373.4	6729.1	7048.7	
Real GDP	Bill. \$75	4540.0	4718.6	4838.0	4897.3	4861.4	4986.3	5128.8	5289.4	5419.7	
Real GDP	% change	4.5	3.3	1.6	.2	.3	3.9	2.6	2.7	2.5	
Gross domestic purchases		3.9	2.5	.9	-.4	-.2	4.3	3.6	3.3	2.6	
Final sales		2.7	4.2	1.5	1.2	-.3	3.8	2.7	2.4	2.4	
Private dom. final purch.		1.9	4.2	.5	-.1	-.7	5.0	4.7	3.7	2.9	
Personal cons. expend.		2.1	4.2	1.2	.7	.0	4.0	3.1	2.4	1.9	
Durables		-2.6	8.5	-.5	-.8	-.4	9.7	7.2	3.0	2.1	
Nondurables		1.4	3.2	1.2	-.1	-1.3	3.6	1.9	1.9	1.8	
Services		3.7	3.7	1.7	1.7	-.9	2.8	2.8	2.5	2.0	
Business fixed invest.		3.0	5.5	-.4	.7	-6.3	7.4	13.6	10.2	8.8	
Producers' dur. equip.		2.4	9.1	-1.7	2.9	-3.3	11.4	17.2	11.8	9.4	
Nonres. structures		4.4	-1.2	2.3	-3.9	-12.6	-2.0	4.0	5.3	6.8	
Res. structures		-3.1	.9	-7.7	-15.2	1.6	17.6	6.3	5.9	1.3	
Exports		12.6	13.5	11.3	6.7	8.4	4.9	2.0	5.7	8.0	
Imports		4.7	3.6	2.6	.4	4.2	8.5	10.2	10.0	8.2	
Government purchases		3.3	.2	2.0	3.3	-.7	1.1	-.6	-.1	.8	
Federal		3.7	-3.4	-.6	2.8	-3.7	.4	-6.2	-4.3	-2.7	
Defense		4.5	-3.2	-1.5	1.5	-7.3	-1.4	-9.2	-6.7	-4.4	
State and local		2.9	2.9	4.0	3.6	1.5	1.6	3.0	2.4	2.7	
Change in bus. invent.	Bill. \$75	26.3	19.9	29.8	5.7	-8.4	6.5	12.9	16.4	21.3	
Nonfarm		32.7	26.9	29.9	3.2	-8.6	2.7	18.4	18.3	21.0	
Net exports		-143.0	-104.0	-73.7	-54.7	-19.1	-33.6	-78.3	-115.1	-134.2	
Nominal GDP	% change	8.0	7.7	6.0	4.7	3.7	6.7	5.1	5.2	4.7	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employ.	Millions	102.0	105.2	107.9	109.4	108.3	108.5	110.2	112.2	113.9	
Unemployment rate	%	6.2	5.5	5.3	5.5	6.7	7.4	6.8	6.4	6.4	
Industrial prod. index	% change	6.3	3.2	-.1	-.2	-.3	3.2	4.4	3.7	3.3	
Capacity util. rate-mfg.	%	81.6	83.6	83.1	81.1	77.8	78.8	81.0	82.8	83.3	
Housing starts	Millions	1.62	1.49	1.38	1.19	1.01	1.20	1.28	1.43	1.44	
Auto sales in U.S.		10.24	10.63	9.91	9.50	8.39	8.38	8.71	8.97	9.09	
North American produced		7.07	7.54	7.08	6.90	6.14	6.28	6.74	7.08	7.19	
Other		3.18	3.10	2.83	2.60	2.25	2.11	1.97	1.89	1.90	
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	4544.5	4908.2	5266.8	5567.8	5737.1	6045.8	6372.9	6723.8	7038.7	
Nominal GNP	% change	8.1	7.8	6.1	4.9	3.3	6.5	5.1	5.2	4.5	
Nominal personal income		7.4	7.1	6.5	6.5	3.5	8.1	3.2	5.5	5.2	
Real disposable income		2.1	3.2	1.1	1.1	.7	4.9	.7	2.2	2.0	
Personal saving rate	%	4.3	4.4	4.0	4.2	4.8	5.3	3.9	3.6	3.7	
Corp. profits, IVA&CCAdj	% change	29.7	10.2	-6.3	2.3	4.4	16.0	10.9	3.7	2.7	
Profit share of GNP	%	7.0	7.4	6.9	6.8	6.4	6.7	7.2	7.4	7.3	
Federal surpl./def.	Bill. \$	-151.8	-136.6	-122.3	-163.5	-203.4	-276.3	-224.2	-154.8	-139.9	
State/local surpl./def.		40.1	38.4	44.8	25.1	7.3	7.2	1.2	-.5	3.1	
Ex. social ins. funds		-14.7	-18.4	-17.5	-35.6	-51.2	-52.2	-57.4	-58.3	-53.9	
<b>PRICES AND COSTS</b>											
GDP implicit deflator	% change	3.4	4.2	4.3	4.5	3.4	2.8	2.4	2.5	2.1	
GDP fixed-wt. price index		3.4	4.2	4.4	4.6	3.6	3.3	3.0	2.9	2.7	
Gross domestic purchases		3.9	4.1	4.4	5.2	3.1	3.3	2.7	2.9	2.7	
fixed-wt. price index		4.5	4.3	4.6	6.2	3.0	3.1	2.7	3.1	2.9	
CPI		4.3	4.5	4.4	5.2	4.5	3.4	3.1	3.0	2.9	
Ex. food and energy		3.3	3.8	3.1	6.2	4.7	5.2	3.1	3.6	3.7	
ECI, hourly compensation <sup>2</sup>		3.3	4.8	4.8	4.6	4.4	3.5	3.7	3.6	3.6	
Nonfarm business sector		1.9	.5	-1.4	.4	2.2	3.6	1.4	1.1	1.4	
Output per hour		3.9	3.8	3.1	6.2	4.7	5.2	3.1	3.6	3.7	
Compensation per hour		1.9	3.3	4.6	5.7	2.5	1.5	1.7	2.4	2.3	
Unit labor cost											

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

2. Private-industry workers.

Item	Unit	1991				1992				1993	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	5631.7	5697.7	5758.6	5803.7	5908.7	5991.4	6059.5	6194.4	6261.6	6327.6
Real GDP	Bill. \$75	4837.8	4855.6	4872.6	4879.6	4922.0	4956.5	4998.2	5068.3	5078.2	5102.1
Real GDP	% change	-2.4	1.5	1.4	.6	3.5	2.8	3.4	5.7	.8	1.9
Gross domestic purchases		-3.6	.8	2.4	-.1	3.4	4.7	3.8	5.4	2.5	3.1
Final sales		-2.7	1.9	-.4	-.1	4.5	1.4	3.7	5.8	-.8	3.2
Private dom. final purch.		-5.4	1.1	1.2	.2	4.8	4.3	4.0	7.1	2.5	4.4
Personal cons. expend.		-2.8	1.8	1.3	.0	4.3	1.8	4.2	5.6	.8	3.4
Durables		-11.4	1.6	10.4	-1.0	14.7	.8	10.7	13.2	-1.3	10.8
Nondurables		-3.5	1.1	-.7	-2.0	3.1	1.1	3.0	7.3	-2.1	2.7
Services		-.2	2.2	.3	1.5	2.6	2.4	3.3	2.9	3.1	2.1
Business fixed invest.		-13.2	-2.7	-3.8	-5.1	3.5	15.1	3.8	7.6	14.4	16.6
Producers' dur. equip.		-15.3	.1	5.3	-2.2	2.8	22.0	10.2	11.5	19.9	19.8
Nonres. structures		-8.5	-8.7	-21.3	-11.3	4.9	.3	-10.3	-2.1	.5	8.1
Res. structures		-25.5	1.2	17.3	20.3	16.8	21.8	1.2	32.8	1.5	-9.5
Exports		-.8	19.4	3.0	13.3	4.9	-.6	6.5	8.8	-2.4	3.6
Imports		-11.1	11.7	11.8	6.3	3.8	15.9	9.2	5.6	11.6	13.3
Government purchases		2.8	1.4	-2.0	-4.7	3.0	-1.0	4.1	-1.4	-6.4	4.3
Federal		7.8	-.2	-6.9	-14.2	.0	-3.1	8.7	-3.5	-16.2	2.0
Defense		9.1	-4.4	-12.3	-19.2	-5.5	-5.0	10.5	-4.6	-21.4	.7
State and local		-.5	2.6	1.7	2.2	5.0	.4	1.2	.0	.3	5.6
Change in bus. invent.	Bill. \$75	-17.4	-22.3	-.9	7.1	-5.0	12.6	9.6	8.7	29.3	13.0
Nonfarm		-18.7	-26.2	.0	10.3	-9.6	7.0	5.8	7.5	29.3	17.1
Net exports		-21.6	-13.3	-25.0	-16.4	-15.2	-38.0	-42.5	-38.8	-59.9	-75.2
Nominal GDP	% change	2.4	4.8	4.3	3.2	7.4	5.7	4.6	9.2	4.4	4.3
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employ.	Millions	108.6	108.2	108.2	108.1	108.1	108.4	108.6	108.9	109.4	110.0
Unemployment rate <sup>1</sup>	%	6.5	6.7	6.7	7.0	7.3	7.5	7.5	7.3	7.0	7.0
Industrial prod. index	% change	-7.2	.3	5.5	.3	.8	4.7	.8	6.7	5.5	2.3
Capacity util. rate-mfg. <sup>1</sup>	%	77.5	77.4	78.2	78.1	78.1	78.8	78.7	79.6	80.5	80.8
Housing starts	Millions	.90	1.01	1.04	1.09	1.26	1.14	1.18	1.25	1.16	1.23
Auto sales in U.S.		8.39	8.35	8.55	8.25	8.40	8.45	8.24	8.45	8.35	8.95
North American produced		6.16	6.05	6.25	6.09	6.15	6.29	6.24	6.43	6.38	6.90
Other		2.24	2.30	2.31	2.16	2.25	2.16	2.00	2.02	1.97	2.06
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	5656.1	5710.6	5766.2	5815.5	5927.6	5996.3	6067.3	6191.9	6262.1	6327.1
Nominal GNP	% change	1.9	3.9	4.0	3.5	7.9	4.7	4.8	8.5	4.6	4.2
Nominal personal income		2.1	4.2	2.1	5.8	7.5	6.2	3.7	15.5	-5.4	9.3
Real disposable income		-.4	1.9	-.9	2.2	4.2	3.1	1.9	10.6	-7.8	5.8
Personal saving rate <sup>1</sup>	%	4.8	4.9	4.4	4.9	5.0	5.3	4.9	6.0	3.9	4.4
Corp. profits, IVACCAdj	% change	7.4	1.6	-12.1	24.0	37.1	1.8	-36.5	104.6	-6.6	26.3
Profit share of GNP <sup>1</sup>	%	6.5	6.5	6.2	6.5	6.9	6.9	6.1	7.1	6.9	7.2
Federal govt. surpl./def.	Bill. \$	-145.2	-206.2	-217.7	-244.7	-270.2	-279.9	-290.7	-264.2	-263.5	-222.6
State/local surpl./def.		6.1	5.5	5.5	12.1	6.1	7.8	1.2	13.5	.8	1.1
Ex. social ins. funds		-52.5	-53.1	-52.9	-46.5	-52.8	-51.8	-58.3	-46.0	-58.2	-57.8
<b>PRICES AND COSTS</b>											
GDP implicit deflator	% change	5.0	3.2	2.9	2.6	3.8	2.8	1.2	3.3	3.6	2.3
GDP fixed-wt. price index		5.1	3.4	3.4	2.7	4.2	3.4	2.5	3.1	4.3	2.8
Gross domestic purchases		3.6	2.5	3.1	3.0	3.9	3.3	3.0	2.8	3.5	2.9
fixed-wt. price index		3.6	2.1	2.7	3.3	3.5	2.9	2.9	3.2	3.7	2.8
CPI		6.5	3.8	4.0	3.7	4.2	3.3	2.7	3.6	4.1	3.5
Ex: food and energy		4.6	4.9	4.4	3.7	4.0	2.9	3.2	3.5	4.2	3.5
ECI, hourly compensation <sup>2</sup>		4.6	4.9	4.4	3.7	4.0	2.9	3.2	3.5	4.2	3.5
Nonfarm business sector		1.9	2.7	.8	3.4	3.8	2.8	3.6	4.2	-1.8	-.4
Output per hour		4.4	4.9	4.6	4.9	5.6	4.7	5.9	4.6	2.9	1.9
Compensation per hour		2.5	2.2	3.7	1.5	1.7	1.8	2.2	.4	4.8	2.3
Unit labor cost											

1. Not at an annual rate.

2. Private-industry workers.

Item	Units	Projected									
		1993		1994				1995			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	6394.6	6509.8	6612.3	6687.6	6769.1	6847.3	6930.6	7010.1	7087.9	7166.2
Real GDP	Bill. '87\$	5135.8	5199.0	5245.2	5271.1	5304.1	5337.1	5369.6	5403.2	5436.3	5469.4
Real GDP	% change	2.7	5.0	3.6	2.0	2.5	2.5	2.5	2.5	2.5	2.5
Gross domestic purchases		3.6	5.2	4.4	2.7	3.0	2.9	2.7	2.7	2.6	2.6
Final sales		3.3	5.1	2.7	2.0	2.3	2.4	2.4	2.4	2.4	2.4
Private dom. final purch.		5.1	6.6	4.4	3.4	3.5	3.4	3.2	3.0	2.8	2.8
Personal cons. expend.		4.4	4.0	2.4	2.2	2.5	2.4	2.1	2.0	1.9	1.8
Durables		7.3	12.5	2.5	2.8	3.4	3.2	2.3	2.1	2.0	1.8
Nondurables		3.7	3.3	2.1	1.6	2.0	1.9	1.9	1.9	1.8	1.8
Services		4.0	2.1	2.5	2.5	2.5	2.5	2.2	2.0	1.9	1.8
Business fixed invest.		7.4	16.2	12.9	10.0	9.3	8.8	8.7	8.8	8.8	8.9
Producers' dur. equip.		10.0	19.4	15.8	11.5	10.5	9.7	9.4	9.4	9.4	9.4
Nonres. structures		.3	7.4	4.7	5.3	5.4	6.0	6.5	6.7	6.7	7.1
Res. structures		10.9	25.4	14.0	4.2	3.2	2.5	3.2	1.5	.6	.0
Exports		-1.5	8.8	5.0	5.5	6.0	6.4	7.0	7.6	8.4	9.0
Imports		6.1	9.9	11.3	10.7	9.3	8.7	8.2	8.0	8.3	8.4
Government purchases		.3	-.2	-.3	-.3	-.1	.2	.6	.7	.8	.9
Federal		-4.9	-4.8	-4.4	-4.6	-4.5	-3.8	-2.9	-2.7	-2.6	-2.4
Defense		-7.9	-6.6	-6.7	-7.2	-7.0	-6.1	-4.8	-4.5	-4.4	-4.1
State and local		3.6	2.6	2.3	2.2	2.4	2.5	2.6	2.7	2.7	2.8
Change in bus. invent.	Bill. '87\$	5.5	3.9	15.0	14.7	17.1	18.7	19.0	20.7	22.1	23.6
Nonfarm		16.7	10.5	19.1	17.1	18.1	18.9	18.9	20.4	21.7	23.1
Net exports		-87.3	-91.0	-102.3	-112.5	-119.8	-125.8	-130.1	-133.3	-135.7	-137.5
Nominal GDP	% change	4.3	7.4	6.5	4.6	5.0	4.7	5.0	4.7	4.5	4.5
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employ	Millions	110.4	110.9	111.5	111.9	112.4	112.9	113.3	113.7	114.2	114.6
Unemployment rate <sup>1</sup>	%	6.7	6.6	6.5	6.5	6.4	6.4	6.4	6.4	6.4	6.4
Industrial prod. index	% change	2.6	7.1	5.5	2.6	3.3	3.4	3.3	3.3	3.3	3.3
Capacity util. rate-mfg <sup>1</sup>	%	80.9	82.1	82.8	82.7	82.6	83.0	83.1	83.3	83.4	83.5
Housing starts	Millions	1.31	1.40	1.41	1.43	1.44	1.44	1.44	1.45	1.44	1.43
Auto sales in U.S.		8.60	8.95	8.91	8.95	9.00	9.02	9.04	9.08	9.10	9.12
North American produced		6.63	7.08	7.05	7.05	7.10	7.13	7.15	7.18	7.20	7.22
Other		1.97	1.87	1.86	1.90	1.90	1.89	1.89	1.90	1.90	1.90
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	6397.4	6504.8	6609.0	6681.5	6764.6	6840.2	6925.0	6999.6	7079.5	7150.8
Nominal GNP	% change	4.5	6.9	6.6	4.5	5.1	4.5	5.1	4.4	4.6	4.1
Nominal personal income		2.8	6.9	5.7	5.2	5.0	6.0	6.3	4.8	5.0	4.9
Real disposable income		1.3	4.2	2.3	1.0	2.9	2.8	2.4	1.7	1.8	1.9
Personal saving rate <sup>1</sup>	%	1.7	3.8	3.8	3.5	3.6	3.7	3.7	3.7	3.7	3.7
Corp. profits, IVACCCAdj	% change	11.1	15.2	9.9	-4.0	4.8	4.7	1.0	3.2	2.3	4.2
Profit share of GNP <sup>1</sup>	%	7.4	7.5	7.5	7.4	7.4	7.4	7.3	7.3	7.3	7.3
Federal govt. surpl./def.	Bill. \$	-211.7	-198.8	-171.8	-150.0	-146.0	-151.6	-149.9	-141.2	-129.1	-139.5
State/local surpl./def.		1.1	2.0	.5	-2.4	-.3	.3	.6	-.6	6.0	6.3
Ex. social ins. funds		-57.4	-56.3	-57.6	-60.3	-58.0	-57.2	-56.7	-57.7	-50.9	-50.4
<b>PRICES AND COSTS</b>											
GDP implicit deflator	% change	1.6	2.3	2.7	2.6	2.4	2.1	2.4	2.1	2.0	2.0
GDP fixed-wt. price index		2.2	2.9	3.1	3.0	2.8	2.6	3.0	2.6	2.6	2.6
Gross domestic purchases fixed-wt. price index		1.8	2.7	3.0	3.0	2.8	2.7	3.0	2.6	2.6	2.6
CPI		1.4	2.9	2.9	3.5	3.2	3.0	3.0	2.9	2.9	2.9
Ex. food and energy		1.9	2.7	3.3	2.9	2.9	2.9	3.0	2.9	2.8	2.8
ECI, hourly compensation <sup>2</sup>		3.4	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Nonfarm business sector		4.3	3.7	2.0	.5	.9	1.2	1.4	1.4	1.4	1.4
Output per hour		3.7	3.9	4.1	3.5	3.4	3.4	3.9	3.6	3.5	3.5
Compensation per hour		-.6	.2	2.0	3.0	2.5	2.3	2.6	2.3	2.2	2.2
Unit labor cost											

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)

December 15, 1993

Item	1991				1992				1993		Projected					
	Q1		Q2		Q3		Q4		Q1		Q2		1990	1991	1992	1993
Real GDP	-29.4	17.8	17.0	7.0	42.4	34.5	41.7	70.1	9.9	23.9	10.5	12.4	188.7	130.7		
Gross domestic purchases	-44.6	9.6	28.6	-1.6	41.1	57.4	46.2	66.4	31.0	39.3	-20.1	-8.0	211.1	182.8		
Final sales	-32.8	22.8	-4.5	-1.0	54.4	16.9	44.8	71.0	-10.7	40.2	56.2	-15.5	187.1	135.5		
Private dom. final purch.	-54.5	11.1	11.9	1.8	46.3	42.1	39.8	70.6	26.0	45.7	-4.2	-29.7	198.8	193.4		
Personal cons. expend.	-23.2	14.2	10.2	.4	34.8	14.5	34.1	46.3	6.6	28.9	23.9	1.6	129.7	106.2		
Durables	-12.9	1.7	10.6	-1.1	15.1	.9	11.5	14.4	-1.5	12.3	-3.6	-1.7	41.9	34.2		
Nondurables	-9.3	2.9	-1.8	-5.3	8.0	3.0	7.9	18.9	-5.8	7.1	-1.4	-13.5	37.8	20.1		
Services	-1.0	9.6	1.4	6.8	11.7	10.6	14.7	13.0	13.9	9.5	28.9	16.8	50.0	51.9		
Business fixed invest.	-18.8	-3.6	-5.0	-6.7	4.4	18.3	5.0	9.9	18.6	22.0	3.5	-34.1	37.6	73.9		
Producers' dur. equip.	-14.9	.1	4.6	-2.0	2.5	18.2	9.2	10.6	18.4	19.1	10.5	-12.2	40.5	68.0		
Nonres. structures	-3.8	-3.8	-9.6	-4.6	1.8	.1	-4.1	-.8	.2	2.9	-7.0	-21.8	-3.0	5.9		
Res. structures	-12.5	.5	6.7	8.1	7.1	9.4	.6	14.4	.8	-5.2	-31.7	2.8	31.5	13.3		
Change in bus. invent.	3.5	-4.9	21.4	8.0	-12.1	17.6	-3.0	-.9	20.6	-16.3	-45.8	28.0	1.6	-4.8		
Nonfarm	.0	-7.5	26.2	10.3	-19.9	16.6	-1.2	1.7	21.8	-12.2	-49.9	29.0	-2.8	3.0		
Farm	3.4	2.5	-4.7	-2.3	7.8	1.0	-1.8	-2.6	-1.2	-4.1	4.2	-1.1	4.4	-7.8		
Net exports	15.2	8.3	-11.7	8.6	1.2	-22.8	-4.5	3.7	-21.1	-15.3	30.6	20.4	-22.4	-52.2		
Exports	-1.0	23.5	4.0	17.3	6.8	-.8	9.1	12.3	-3.6	5.2	32.7	43.8	27.4	12.0		
Imports	-16.2	15.2	15.7	8.8	5.5	22.0	13.6	8.5	17.6	20.5	2.2	23.5	49.6	64.2		
Government purchases	6.5	3.4	-4.7	-11.4	6.9	-2.4	9.5	-3.3	-15.6	9.8	29.8	-6.2	10.7	-5.7		
Federal	7.3	-.2	-7.0	-14.5	.0	-2.9	7.8	-3.3	-16.1	1.8	10.4	-14.4	1.6	-23.1		
Defense	6.3	-3.3	-9.3	-14.5	-3.7	-3.3	6.5	-3.1	-15.3	.4	4.2	-20.8	-3.6	-24.0		
Nondefense	1.0	3.1	2.3	.0	3.7	.4	1.2	-.1	-.9	1.5	6.1	6.4	5.2	.9		
State and local	-.7	3.6	2.3	3.1	6.9	.5	1.7	.0	.5	7.9	19.3	8.3	9.1	17.4		

1. Annual changes are from Q4 to Q4.

Strictly Confidential (FR)  
Class II FOMC

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

December 15, 1993

Item	Projected										Projected			
	1993		1994				1995				1992	1993	1994	1995
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GDP	33.7	63.2	46.2	25.9	33.0	33.0	32.6	33.6	33.0	33.4	188.7	130.7	138.1	132.6
Gross domestic purchases	45.8	66.7	57.6	36.1	40.3	39.0	36.9	36.8	35.5	35.2	211.1	182.8	172.9	144.3
Final sales	41.3	64.7	35.1	26.2	30.5	31.5	32.2	31.9	31.6	31.9	187.1	135.5	123.3	127.7
Private dom. final purch.	52.8	68.9	47.0	37.2	38.2	37.1	35.1	33.4	32.1	31.6	198.8	193.4	159.5	132.2
Personal cons. expend.	36.9	33.8	20.5	19.6	21.7	21.4	18.9	17.7	16.7	16.0	129.7	106.2	83.2	69.4
Durables	8.6	14.8	3.1	3.5	4.3	4.2	3.0	2.7	2.6	2.4	41.9	34.2	15.1	10.7
Nondurables	9.8	9.0	5.6	4.3	5.5	5.3	5.3	5.3	5.1	5.1	37.8	20.1	20.7	20.8
Services	18.5	10.0	11.8	11.8	11.9	11.9	10.6	9.7	9.0	8.6	50.0	51.9	47.4	37.9
Business fixed invest.	10.5	22.8	19.0	15.3	14.6	14.2	14.4	14.8	15.1	15.5	37.6	73.9	63.1	59.7
Producers' dur. equip.	10.4	20.1	17.3	13.3	12.5	11.9	11.8	12.0	12.3	12.6	40.5	68.0	54.9	48.7
Nonres. structures	.1	2.7	1.8	2.0	2.1	2.3	2.6	2.7	2.7	2.9	-3.0	5.9	8.2	11.0
Res. structures	5.4	12.3	7.5	2.4	1.8	1.5	1.9	.9	.3	.0	31.5	13.3	13.1	3.1
Change in bus. invent.	-7.5	-1.6	11.1	-.3	2.4	1.5	.3	1.7	1.4	1.5	1.6	-4.8	14.8	4.9
Nonfarm	-.4	-6.2	8.6	-2.0	1.0	.7	.0	1.5	1.3	1.4	-2.8	3.0	8.4	4.2
Farm	-7.1	4.6	2.5	1.7	1.4	.8	.3	.2	.1	.1	4.4	-7.8	6.4	.7
Net exports	-12.1	-3.7	-11.4	-10.2	-7.3	-6.0	-4.3	-3.2	-2.4	-1.8	-22.4	-52.2	-34.9	-11.7
Exports	-2.2	12.6	7.5	8.2	9.1	9.9	10.8	11.9	13.5	14.6	27.4	12.0	34.7	50.9
Imports	9.9	16.2	18.8	18.4	16.5	15.8	15.1	15.1	15.9	16.5	49.6	64.2	69.5	62.6
Government purchases	.6	-.5	-.6	-.8	-.3	-.4	1.4	1.7	1.9	2.2	10.7	-5.7	-1.3	7.2
Federal	-4.5	-4.3	-3.9	-4.1	-3.9	-3.3	-2.5	-2.3	-2.2	-2.0	1.6	-23.1	-15.2	-9.0
Defense	-5.0	-4.1	-4.1	-4.3	-4.1	-3.5	-2.7	-2.5	-2.4	-2.2	-3.6	-24.0	-16.0	-9.8
Nondefense	.4	-.1	.2	.2	.2	.2	.2	.2	.2	.2	5.2	.9	.8	.8
State and local	5.2	3.8	3.3	3.3	3.6	3.7	3.9	4.0	4.1	4.2	9.1	17.4	13.9	16.2

1. Annual changes are from Q4 to Q4.

Strictly Confidential (PR)  
Class II FOMC

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

December 15, 1993

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	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>UNIFIED BUDGET</b>																
Receipts <sup>1</sup>	1090	1153	1247	1316	252	331	295	279	277	380	312	295	287	409	325	310
Outlays <sup>1</sup>	1381	1408	1479	1525	324	349	349	376	365	365	373	380	386	378	381	397
Surplus/deficit <sup>1</sup>	-290	-255	-232	-208	-62	-18	-54	-97	-88	15	-61	-84	-99	31	-56	-87
On-budget	-340	-301	-294	-278	-90	-49	-54	-110	-98	-22	-64	-99	-110	-9	-61	-102
Off-budget	50	46	62	70	27	31	0	13	9	37	3	14	11	40	5	16
Surplus excluding deposit insurance <sup>2</sup>	-287	-283	-228	-214	-68	-25	-61	-96	-89	18	-61	-84	-102	31	-59	-88
Means of financing																
Borrowing	311	249	245	219	60	61	46	88	72	28	56	70	83	16	50	72
Cash decrease	-17	6	-7	0	8	-39	8	15	15	-37	0	20	20	-40	0	20
Other <sup>3</sup>	-4	0	-6	-11	-6	-4	0	-6	1	-6	5	-6	-4	-7	6	-5
Cash operating balance, end of period	59	53	60	60	22	61	53	38	23	60	60	40	20	60	60	40
<b>NIPA FEDERAL SECTOR</b>																
Receipts	1163	1247	1358	1435	1218	1268	1279	1313	1358	1379	1381	1400	1430	1447	1464	1482
Expenditures	1435	1487	1525	1578	1482	1491	1490	1512	1530	1529	1527	1551	1580	1588	1593	1622
Purchases	445	447	442	439	443	448	445	442	444	441	439	437	440	440	439	438
Defense	313	308	297	290	305	308	304	300	300	296	293	290	291	290	288	287
Nondefense	132	139	146	149	138	140	142	142	144	145	146	147	149	150	151	151
Other expenditures	990	1040	1083	1139	1039	1043	1045	1070	1085	1088	1089	1115	1139	1148	1154	1183
Surplus/deficit	-271	-241	-167	-143	-264	-223	-212	-199	-172	-150	-146	-152	-150	-141	-129	-140
<b>FISCAL INDICATORS<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-212	-192	-134	-113	-215	-172	-164	-161	-140	-118	-116	-122	-120	-112	-100	-110
Change in HEB, percent of potential GDP	.9	-.3	-.9	-.3	0	-.7	-.1	0	-.3	-.3	0	.1	0	-.1	-.2	.1
Fiscal impetus (FI), percent, cal. year	-4.5	-4.4	-7.5	-5	-4.9	1.3	-.5	-1.3	-3.4	-3.5	-1	-1	-1.8	-1.5	.1	-.4

1. OMB's September deficit estimates are \$285 billion in FY93, \$259 billion in FY94, and \$200 billion in FY95. CBO's September deficit estimates of the budget are \$266 billion in FY93, \$253 billion in FY94, and \$196 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 September deficit estimates, excluding deposit insurance spending, are \$311 billion in FY93, \$250 billion in FY94, and \$209 billion in FY95. CBO's September deficit estimates, excluding deposit insurance spending, are \$292 billion in FY93, \$240 billion in FY94, and \$260 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.

--Actual.

Confidential FR Class II  
December 15, 1993

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

	-----Nonfederal-----										Private financial assets	Nominal GDP
	Total <sup>2</sup>	Federal govt.	Households			Business			State and local govt.			
Year	Total	Total	Home mtg.	Cons. credit								
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	1.1	6.7		
1993	5.0	8.3	3.9	6.3	6.7	5.6	0.7	5.9	-1.7	5.1		
1994	5.3	6.8	4.7	7.0	7.2	8.7	2.1	4.6	0.1	5.2		
1995	5.1	6.2	4.7	6.7	7.1	7.3	2.5	4.0	0.6	4.7		
Quarter (seasonally adjusted annual rates)												
1992:1	5.4	11.7	3.3	5.3	8.2	-1.2	0.5	6.7	3.3	7.4		
2	5.2	12.3	2.8	4.6	4.0	-1.8	-0.3	7.1	0.9	5.7		
3	5.3	10.2	3.7	5.6	7.5	1.7	0.6	7.6	-0.9	4.6		
4	4.6	7.9	3.4	6.8	6.2	6.1	-0.3	3.6	0.9	9.2		
1993:1	3.4	7.5	2.0	3.5	4.5	2.4	-1.1	7.2	-6.1	4.4		
2	5.6	11.1	3.7	5.4	6.1	2.8	0.9	6.8	0.6	4.3		
3	4.8	5.5	4.6	7.9	7.9	7.4	1.0	4.3	-1.6	4.3		
4	5.9	8.1	5.1	7.9	7.8	9.5	1.9	4.8	0.4	7.4		
1994:1	5.8	8.4	4.8	7.4	7.5	9.0	2.1	4.5	1.1	6.5		
2	5.0	6.4	4.5	6.5	6.7	8.6	2.2	4.8	-0.3	4.6		
3	5.0	6.2	4.6	6.8	7.0	8.2	2.1	4.3	-0.3	5.0		
4	4.8	5.5	4.6	6.6	7.0	7.8	2.2	4.5	0.0	4.7		

1. Data after 1993:3 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 4.9 in 1993, 5.4 in 1994, and 5.2 in 1995.

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

	Calendar year			1993				1994				
	1992	1993	1994	1995	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-----Seasonally Adjusted Annual Rates-----												
<b>Net funds raised by domestic nonfinancial sectors</b>												
1 Total	609.1	614.1	673.5	674.8	408.3	693.5	609.7	744.8	722.4	653.3	678.4	639.9
2 Net equity issuance	26.8	23.8	22.5	10.0	9.0	26.0	30.0	30.0	5.0	23.0	41.0	21.0
3 Net debt issuance	582.4	590.3	651.0	664.8	399.3	667.5	579.7	714.8	717.4	630.3	637.4	618.9
<b>Borrowing sectors</b>												
Nonfinancial business												
4 Financing gap <sup>2</sup>	-26.4	22.7	59.0	91.0	34.0	20.3	13.9	22.6	37.2	52.2	67.7	79.0
5 Net equity issuance	26.8	23.8	22.5	10.0	9.0	26.0	30.0	30.0	5.0	23.0	41.0	21.0
6 Credit market borrowing	4.0	25.9	79.6	95.3	-38.9	34.5	36.4	71.6	77.0	81.7	77.3	82.4
Households												
7 Net borrowing, of which:	215.0	250.9	296.0	305.2	137.4	215.8	322.4	328.0	311.8	278.9	298.0	295.3
8 Home mortgages	170.9	185.6	212.0	224.8	122.8	170.6	223.9	225.0	220.0	200.0	212.0	216.0
9 Consumer credit	9.3	45.5	74.0	67.5	19.2	22.9	60.8	79.0	77.0	75.0	73.0	71.0
10 Debt/DPI (percent) <sup>3</sup>	86.0	87.3	88.4	89.7	87.3	86.7	87.8	88.1	88.6	89.1	89.3	89.5
State and local governments												
11 Net borrowing	59.4	58.4	48.3	43.5	71.2	68.9	43.7	49.7	47.6	50.6	46.5	48.5
12 Current surplus <sup>4</sup>	-51.0	-53.4	-56.9	-58.0	-53.6	-53.1	-54.0	-52.9	-54.8	-58.6	-57.1	-57.1
U.S. government												
13 Net borrowing	304.0	255.1	227.1	220.8	229.6	348.2	177.2	265.5	280.9	219.1	215.5	192.8
14 Net borrowing; quarterly, nsa	304.0	255.1	227.1	220.8	59.8	61.1	46.1	88.2	72.5	28.0	56.2	70.4
15 Unified deficit; quarterly, nsa	327.0	231.6	218.9	210.7	62.4	17.8	54.4	97.1	88.5	-14.9	61.0	84.4
Funds supplied by depository institutions												
16	34.9	114.0	161.0	178.8	58.2	136.3	140.0	121.5	155.7	150.6	162.9	175.0
<b>MEMO: (percent of GDP)</b>												
17 Dom. nonfinancial debt <sup>3</sup>	189.7	188.9	188.2	189.0	189.2	189.9	190.1	189.5	189.3	189.5	189.6	189.7
18 Dom. nonfinancial borrowing	9.6	9.3	9.7	9.4	6.4	10.5	9.1	11.0	10.8	9.4	9.4	9.0
19 U.S. governments <sup>5</sup>	5.0	4.0	3.4	3.1	3.7	5.5	2.8	4.1	4.2	3.3	3.2	2.8
20 Private	4.6	5.3	6.3	6.3	2.7	5.0	6.3	6.9	6.6	6.1	6.2	6.2

1. Data after 1993:3 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.

as shipments of corn have returned to more normal levels after a pause in the third quarter.

We expect non-agricultural exports excluding computers to grow 3 percent in 1994 and 3-1/2 percent in 1995, roughly in line with the expansion of domestic demand abroad. Continued rapid expansion of trade in computers is projected to add another 4 to 5 percentage points to the growth of total exports.

TRADE QUANTITIES<sup>\*</sup>  
(Percent change from preceding period shown, s.a.a.r.)

	1993				Projection	
	Q1	Q2	Q3	Q4	1994 Q4	1995 Q4
<b>Exports</b>						
Total	-6.3	4.1	-0.4	10.8	6.7	9.1
Agricultural	-21.4	1.0	-14.6	8.8	0.1	2.0
Computers	-3.5	8.1	44.6	26.2	29.2	34.8
Other nonag.	-4.7	3.7	-5.0	8.3	3.0	3.6
<b>Imports</b>						
Total	12.3	15.3	6.9	11.2	11.2	9.2
Oil	4.6	37.3	-6.1	-7.2	7.3	4.9
Computers	32.0	36.4	39.8	36.0	30.8	28.6
Other non-oil	10.1	9.4	3.3	9.3	7.6	4.7

\* GDP basis, 1987 dollars.

Non-oil imports excluding computers should expand fairly rapidly in the fourth quarter as activity in the auto sector picks up. Beyond the current quarter, we expect the expansion of these imports to be stimulated by fairly strong growth in domestic expenditures, by declines in the relative price of imports, and by heightened nonprice competition from firms abroad that are facing considerable slack in their own domestic markets. Nevertheless, import growth should slow noticeably over the forecast period as the growth of U.S. domestic demand eases and as foreign competitive pressures lessen. Compared with the previous forecast, the level and growth of these imports has been revised up significantly, largely because of the higher projected path of U.S. domestic

prices of U.S. nonagricultural exports should, over time, move in line with increases in U.S. producer prices.

**SELECTED PRICE INDICATORS**  
(Percent change from preceding period shown, except as noted. a.r.)

	1993				Projection	
	Q1	Q2	Q3	Q4	1994 Q4	1995 Q4
PPI (Exp. wts.)	1.8	2.5	-0.2	-0.3	2.1	1.8
Nonag. exports*	0.8	3.4	-1.8	-0.4	1.8	1.7
Non-oil imports*	-2.7	3.5	0.9	0.0	1.6	2.2
Oil imports (level, \$/bl)	16.44	17.07	15.23	14.33	15.00	15.00

\* Excluding computers.

Nominal trade and current account balances. The merchandise trade deficit is projected to be \$142 billion (annual rate) in the current quarter and then to rise to about \$175 billion by the end of 1994 and \$190 billion by the end of 1995. We expect that net service receipts will continue to expand slowly, from an annual rate of \$56 billion in the third quarter of 1993 to more than \$70 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. We expect these developments to push the current account deficit up to nearly \$160 billion for the year 1995. This projected level of the deficit for 1995 is about \$10 billion more than in the previous forecast, largely because of the higher projected level of non-oil imports.

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

Measure and country	Projection				
	1991	1992	1993	1994	1995
<b>REAL GDP</b>					
Canada	-0.1	0.8	3.0	3.1	3.2
France	1.3	0.6	-0.3	1.0	2.3
Western Germany	2.7	0.0	-0.6	0.4	2.0
Italy	1.7	-0.3	0.8	1.5	2.1
Japan	3.6	-0.3	0.7	1.4	2.9
United Kingdom	-1.6	0.2	2.2	2.3	2.8
Average, weighted by 1987-89 GDP	1.8	0.0	0.8	1.5	2.6
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	1.7	1.1	2.1	2.7	3.3
G-6	0.9	0.3	1.8	2.2	2.9
Developing countries	5.0	3.8	3.9	4.4	5.0
<b>CONSUMER PRICES</b>					
Canada	4.1	1.8	1.7	1.8	1.8
France	2.9	1.8	2.2	2.0	1.8
Western Germany	3.9	3.7	3.7	2.7	2.1
Italy	6.1	4.8	4.3	3.5	2.8
Japan	3.2	0.9	1.1	1.0	1.0
United Kingdom	4.2	3.1	1.8	3.6	3.7
Average, weighted by 1987-89 GDP	3.9	2.4	2.3	2.2	2.0
Average, weighted by share of U.S. non-oil imports	3.6	1.9	1.8	1.8	1.7

Strictly Confidential (FR) Class II-FOMC

U. S. CURRENT ACCOUNT AND REAL NET EXPORTS  
(Billions of dollars, seasonally adjusted annual rates)

	1991				1992				1993				ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1990	1991	1992		
GDP Net Exports of Goods and 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 Merchandise Services	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		
Imports of G+S Merchandise Oil Non-oil Services	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		
	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		
Memo: (Percent change 1/)															
Exports of G+S of which: Goods	-0.8	19.4	3.0	13.3	4.9	-0.6	6.5	8.8	-2.4	3.6	6.8	8.7	4.9		
Imports of G+S of which: Non-oil Goods	7.7	16.1	2.1	13.2	3.7	1.5	7.0	14.2	-6.3	4.1	5.8	9.8	6.6		
	-11.1	11.7	11.8	6.3	3.8	15.9	9.2	5.6	11.6	13.3	0.6	4.7	8.6		
	-11.3	8.0	17.3	12.9	4.6	17.2	10.1	8.0	13.1	13.1	0.8	6.7	10.0		
Current Account Balance	37.6	7.1	-47.4	-30.6	-26.7	-73.0	-71.1	-94.7	-89.2	-108.7	-91.9	-8.3	-66.4		
Merchandise Trade, net	-75.2	-65.3	-78.6	-76.2	-71.1	-99.2	-110.4	-103.8	-117.2	-137.5	-109.0	-73.8	-96.1		
Exports Agricultural Nonagricultural	405.3	416.8	415.1	430.5	433.4	433.2	438.0	456.0	446.1	452.5	389.3	416.9	440.1		
	39.5	38.5	39.7	42.8	43.3	42.6	44.7	45.5	43.4	43.1	40.2	40.1	44.0		
	365.8	378.3	375.4	387.7	390.0	390.6	393.3	410.4	402.7	409.4	349.1	376.8	396.1		
Imports Oil Non-oil	480.5	482.1	493.6	506.7	504.4	532.4	548.4	559.8	563.4	590.0	498.3	490.7	536.3		
	52.4	52.3	53.0	49.4	41.9	52.4	57.2	54.9	51.0	57.3	62.3	51.8	51.6		
	428.1	429.8	440.7	457.4	462.5	480.0	491.2	505.0	512.3	532.7	436.0	439.0	484.7		
Other Current Account	89.7	60.7	24.6	34.8	26.6	22.6	32.5	12.3	28.2	28.7	-3.2	52.5	23.5		
Invest. Income, net	23.1	11.6	6.5	10.9	17.7	3.6	6.8	-3.2	-0.2	0.2	20.3	13.0	6.2		
Direct, net	60.3	52.8	45.1	52.8	57.6	47.6	47.1	40.8	45.2	46.8	56.2	52.8	48.3		
Portfolio, net	-37.2	-41.1	-38.6	-42.0	-39.9	-44.0	-40.3	-44.0	-45.3	-46.6	-35.9	-39.7	-42.0		
Military, net	-10.1	-5.6	-4.7	-3.0	-2.3	-2.9	-2.5	-3.3	-0.6	-0.9	-7.8	-5.9	-2.8		
Other Services, net	43.4	50.8	55.6	57.2	58.5	57.5	63.6	57.1	59.1	58.7	38.5	51.7	59.2		
Transfers, net	56.4	15.5	-26.3	-19.4	-29.6	-32.0	-28.6	-41.4	-30.3	-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. CURRENT ACCOUNT AND REAL NET EXPORTS**  
 (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				
GDP Net Exports of Goods and Services (B7\$)	-87.3	-91.0	-102.3	-112.5	-119.8	-125.8	-130.1	-133.3	-135.7	-137.5	-78.3	-115.1	-134.2				
Exports of G+S Merchandise Services	591.0	603.6	611.0	619.2	628.4	638.2	649.1	661.0	674.5	689.1	593.9	624.2	668.4				
Imports of G+S Merchandise Oil	434.1	445.4	452.2	459.2	466.9	475.1	484.1	494.1	505.6	518.1	436.0	463.3	500.5				
Imports of G+S Merchandise Non-oil Services	156.9	158.2	158.9	160.0	161.5	163.2	164.9	166.9	168.9	171.1	157.9	160.9	168.0				
Memo: (Percent change 1/)																	
Exports of G+S of which: Goods	-1.5	8.8	5.0	5.5	6.0	6.4	7.0	7.6	8.4	9.0	2.1	5.7	8.0				
Imports of G+S of which: Non-oil Goods	-0.4	10.8	6.3	6.4	6.9	7.2	7.9	8.5	9.6	10.3	2.0	6.7	9.1				
Current Account Balance	678.3	694.5	713.4	731.7	748.2	764.0	779.2	794.3	810.2	826.7	672.3	739.3	802.6				
Merchandise Trade, net	575.2	590.7	608.5	626.1	641.8	657.0	671.4	686.0	701.3	717.1	569.4	633.4	693.9				
Exports Agricultural	56.9	55.8	55.6	56.8	58.8	59.9	60.3	60.9	61.8	62.9	56.0	57.8	61.5				
Exports Nonagricultural	518.3	534.9	552.9	569.4	583.0	597.1	611.1	625.1	639.4	654.3	513.4	575.6	632.5				
Imports Oil	103.2	103.9	104.9	105.7	106.5	107.2	107.8	108.4	109.0	109.7	103.0	106.1	108.7				
Imports Non-oil																	
Other Current Account	26.2	22.5	27.5	28.7	30.1	27.0	33.2	35.4	37.7	35.1	26.4	28.4	35.3				
Invest. Income, net	7.0	-0.7	1.0	-1.9	-0.1	-2.8	-1.2	-6.2	-4.1	-11.1	1.6	-1.0	-5.7				
Direct, net	50.8	47.3	46.6	46.9	46.4	48.1	47.7	47.8	48.3	46.9	47.5	47.0	47.7				
Portfolio, net	-43.8	-48.0	-45.6	-48.8	-46.5	-50.9	-48.9	-54.0	-52.4	-58.0	-45.9	-48.0	-53.3				
Military, net	-1.4	-0.6	-0.4	-0.2	0.2	0.6	1.0	1.4	1.8	2.2	-0.9	0.0	1.6				
Other Services, net	57.8	58.3	58.3	59.3	60.3	61.6	63.2	65.0	66.9	68.9	58.5	59.9	66.0				
Transfers, net	-30.2	-35.2	-30.4	-30.4	-30.4	-35.2	-31.0	-31.0	-31.0	-36.0	-31.2	-31.6	-32.2				

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

**December 15, 1993**

## **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**

first quarter of 1994. Despite the pickup in assemblies, the brisk sales of the past few months have left dealer stocks very lean, suggesting that the further scheduled increases may not be unrealistic.

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

	1993		1994		
	Oct.	Nov.	Dec.	Jan.	Q1
-----scheduled-----					
U.S. production	11.0	12.0	12.4	13.5	13.2
Autos	5.9	6.6	6.8	7.4	7.3
Trucks	5.2	5.4	5.6	6.1	5.9
Days' supply <sup>2</sup>					
Autos	55.2	56.2			
Light trucks	59.0	56.5			

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

2. Data for November are staff estimates.

Outside the motor vehicle industry, factory output climbed 0.6 percent in November, after a 0.3 percent increase in October. Production of business equipment rose 0.8 percent in November, as output of computers continued to surge and production of most other types of capital goods other than aircraft and related equipment continued to trend up. With the improved pace of activity in the construction sector, output of construction supplies rose 1.1 percent in November, bringing the increase over the past six months to 6.4 percent at an annual rate.

The large increases in production in the last two months are consistent with other indicators of manufacturing activity. Real adjusted durable goods orders rose 2.5 percent in October, the fifth straight increase. The Purchasing Managers' Index increased to 55.7 percent in November, with notable gains in new orders and in production.

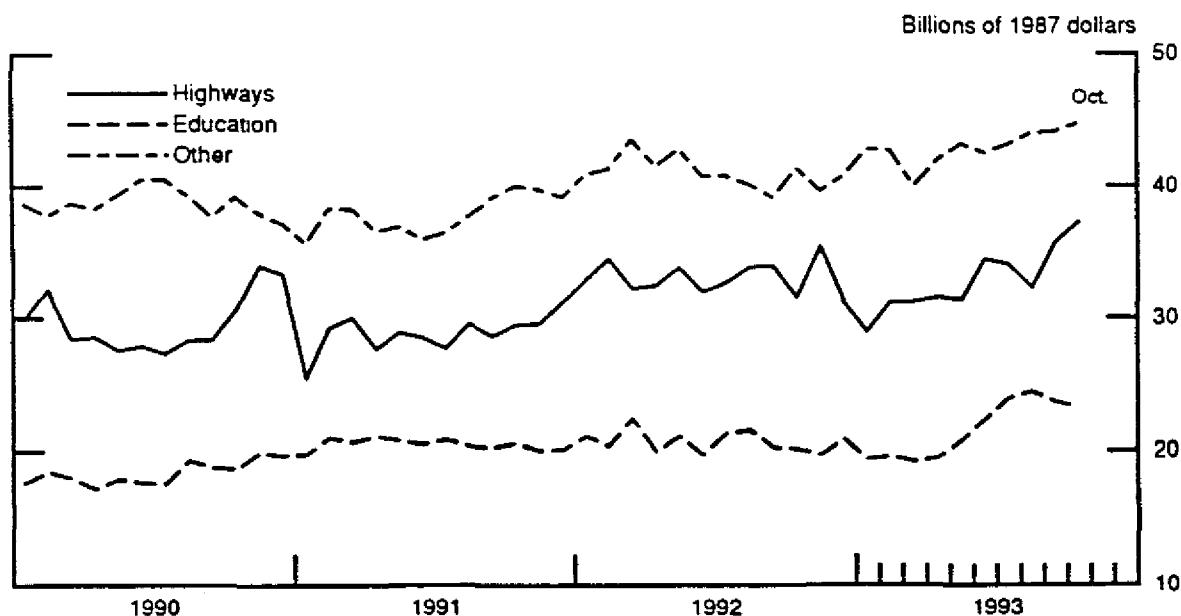
FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS  
 (Unified basis, billions of dollars, except where otherwise noted)

	Oct. FY1993	Oct. FY1994	Dollar change	Percent change
Outlays	125.6	124.0	-1.6	-1.3
Deposit insurance (DI)	-2.6	.1	2.6	n.m.
Outlays excluding DI	128.2	124.0	-4.3	-3.3
National defense	27.2	24.3	-2.9	-10.6
Net interest	16.5	17.1	.6	3.8
Social security	24.3	25.5	1.2	5.1
Medicare and health	19.0	20.0	1.0	5.3
Income security	18.3	17.3	-1.0	-5.4
Other	22.9	19.7	-3.2	-14.2
Receipts	76.8	78.7	1.8	2.4
Personal income and social insurance taxes	66.9	68.5	1.6	2.4
Corporate income taxes	2.1	2.2	.1	.9
Other	2.8	8.0	.2	2.0
Deficit(+) Excluding DI	48.8	45.3	-3.4	-7.1
	51.4	45.3	-6.1	-11.9

Details may not add to totals because of rounding.  
 n.m. not meaningful

### STATE AND LOCAL CONSTRUCTION

(Construction Put-In-Place)



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

	1993				
	Q3	Q4 <sup>P</sup>	Oct.	Nov. <sup>P</sup>	Dec. <sup>P</sup>
<b>Treasury financing</b>					
Total surplus/deficit (-)	-54.5	-97.1	-45.3	-42.8	-9.0
Means of financing deficit:					
Net cash borrowing from the public	46.0	88.2	4.3	71.7	12.2
Marketable borrowings/ repayments (-)	44.5	84.8	3.3	69.7	11.8
Bills	-.9	56.3	10.3	40.5	5.5
Coupons	45.4	28.5	-7.0	29.2	6.3
Nonmarketable	1.6	3.3	.9	2.0	-.4
Decrease in the cash balance	8.1	14.8	33.6	-13.5	-5.4
Memo: Cash balance at end of period	52.5	37.7	18.9	32.3	37.7
<sup>2</sup> Other	.4	-5.9	7.4	-15.5	2.2

1. Data reported on a not seasonally adjusted, payment basis.  
 2. Includes checks issued less checks paid, accrued items and other transactions.  
 p-Projected.  
 NOTE: Details may not add to totals due to rounding.

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

	1993					
	Q1	Q2	Q3	Jul.	Aug.	Sept.
FHLBs	0.5	12.0	5.3	-1.8	4.4	2.8
FHLMC	11.6	-5.6	17.1	6.7	13.1	-2.7
FNMA	-.5	10.7	19.3	4.2	4.2	10.9
Farm Credit Banks	0.3	0.1	0.0	0.0	-0.2	0.2
SLMA <sup>2</sup>	-0.9	0.1	-0.1	-1.1	0.6	0.4
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.