

September 26, 1990

SUMMARY AND OUTLOOK

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

1-1/2 percentage points, on average, to the annual rate of increase in the overall CPI in the second half of 1990--twice as much as anticipated in the August Greenbook.

Relative to the last projection, prices of other goods and services also are projected to rise more rapidly, on average, over the next few quarters, in part because of indirect effects of the higher oil prices. In addition, the lower dollar exerts greater upward pressure on import prices. And in light of reports from the budget summit, we have built in additional hikes in excise and sales taxes; in total, the increases in indirect business taxes enacted at all levels of government are expected to add about 1/4 percentage point to consumer prices next year. On balance, the CPI excluding energy is now expected to rise about 5-1/4 percent next year, 1/2 percentage point more than in the last forecast.

PRICE AND WAGE PROJECTIONS
(Percent change from previous period, compound annual rates)

	1990		1991		1992	
	H2	Q1	Q2	H2	H1	H2
Consumer price index	6.8	5.4	4.1	4.6	4.7	4.1
Energy	26.9	-2.0	-6.5	.4	7.4	3.5
Excluding energy	5.2	6.1	5.1	5.0	4.5	4.2
Nonpetroleum import prices	7.6	5.8	6.0	5.5	3.4	2.4
ECI compensation	4.9	5.5	5.3	4.7	4.6	4.2

We continue to show a substantial easing of price pressures over time. Overall CPI inflation, which now is expected to be 6-1/4 percent over the four quarters of this year, is projected to fall to about 4 percent at the end of 1992. If crude oil prices decline next year, as assumed, much of the upward impetus to overall inflation from this year's price rise will be

reversed. Assuming, too, that the foreign exchange value of the dollar holds at current levels, prices of non-oil imports are expected to decelerate appreciably in 1992. Finally, with the unemployment rate now projected to rise to around 6-1/2 percent by mid-1991 and to remain at that level throughout 1992, wage inflation should ease. As measured by the employment cost index, hourly compensation is projected to decelerate to 4-3/4 percent in the second half of 1991 and to about 4 percent by the end of 1992.

Alternative Scenario

In light of the vast uncertainty surrounding the outlook for the energy market, we have used our econometric models to explore the possible economic effects of a less optimistic scenario for oil prices. In evaluating these simulations--or the judgmental baseline forecast for that matter--it should be kept in mind that the risks of error probably multiply, the larger the shock assumed.

In the simulation reported here, the spot price of West Texas Intermediate is assumed to remain at \$35 per barrel through the end of the forecast period. Such a price path might be sustained, for example, if world oil production eventually declined to rates 2 to 3 mbd below the path we have assumed in the more optimistic baseline scenario. Our assumptions regarding short-term interest rates and fiscal policy in this alternative scenario have not been altered.

This scenario shows substantially higher inflation in 1991 than in the staff forecast, while the level of real GNP is lower throughout the period. With the failure of crude oil prices to drop back, CPI inflation does not fall below 6 percent at an annual rate until the end of next year.

Nonetheless, in light of the higher levels of unemployment and lower rates of industrial capacity utilization, there is a noticeable improvement in the inflation trend over the course of 1992. The current account deficit is roughly \$20 billion (annual rate) greater in the second half of 1991 as a result of a higher value of oil imports. This effect diminishes over time as lower GNP and higher oil prices depress demand for imports.

ALTERNATIVE SCENARIO

(Percent change from end of previous period, compound annual rates)

	1991		1992	
	H1	H2	H1	H2
Real GNP				
Greenbook	.8	2.4	2.5	2.5
Alternative	.6	1.4	1.7	2.3
Consumer price index				
Greenbook	4.8	4.6	4.7	4.1
Alternative	6.2	5.8	5.1	4.3
Excluding energy				
Greenbook	5.6	5.0	4.5	4.2
Alternative	5.7	5.6	4.9	4.4
Unemployment rate (percent) ¹				
Greenbook	6.4	6.5	6.5	6.5
Alternative	6.5	6.7	6.9	6.9
Current account balance (billions) ¹				
Greenbook	-78	-70	-59	-60
Alternative	-97	-88	-70	-65

1. End of period.

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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)			
	8/15/90	9/26/90	8/15/90	9/26/90	8/15/90	9/26/90	8/15/90	9/26/90	8/15/90	9/26/90		
Annual changes:												
1988	<2>	7.9	7.9	4.5	4.5	4.2	4.2	4.1	4.1	5.5	5.5	
1989	<2>	6.7	6.7	2.5	2.5	4.5	4.5	4.8	4.8	5.3	5.3	
1990		5.4	5.2	1.2	1.0	4.6	4.5	5.3	5.4	5.5	5.5	
1991		5.8	5.4	1.4	.7	4.5	4.8	4.7	5.3	6.1	6.4	
1992		6.5	6.9	2.4	2.4	4.2	4.4	4.4	4.6	6.1	6.5	
Quarterly changes:												
1989	Q1	<2>	7.5	7.5	3.6	3.6	4.9	4.9	5.4	5.4	5.2	5.2
	Q2	<2>	5.8	5.8	1.6	1.6	4.6	4.6	6.0	6.0	5.3	5.3
	Q3	<2>	5.1	5.1	1.7	1.7	3.1	3.1	2.9	2.9	5.3	5.3
	Q4	<2>	3.9	3.9	.3	.3	3.8	3.8	3.9	3.9	5.3	5.3
1990	Q1	<2>	6.7	6.7	1.7	1.7	6.6	6.6	8.2	8.2	5.2	5.2
	Q2	<2>	5.8	5.1	1.2	.4	3.9	3.9	3.8	3.8	5.3	5.3
	Q3		5.7	5.7	1.2	1.4	4.7	4.2	6.1	6.4	5.6	5.6
	Q4		3.9	2.6	.5	-1.0	4.0	4.4	5.3	7.1	5.9	6.0
1991	Q1		6.2	5.1	1.3	-.4	4.9	5.8	4.4	5.4	6.0	6.3
	Q2		6.7	7.1	2.0	2.0	4.5	4.8	4.3	4.1	6.1	6.4
	Q3		6.3	6.9	2.3	2.3	4.2	4.5	4.4	4.4	6.1	6.5
	Q4		6.3	7.1	2.4	2.4	4.1	4.2	4.5	4.7	6.1	6.5
1992	Q1		7.1	7.2	2.4	2.5	4.6	5.0	4.5	5.1	6.1	6.5
	Q2		6.3	6.7	2.4	2.5	4.1	4.1	4.4	4.4	6.1	6.5
	Q3		6.4	6.4	2.5	2.5	4.0	4.0	4.3	4.2	6.1	6.5
	Q4		6.3	6.5	2.5	2.5	4.0	4.0	4.3	4.1	6.1	6.5
Two-quarter changes: <3>												
1989	Q2	<2>	6.7	6.7	2.6	2.6	4.7	4.7	5.7	5.7	.0	.0
	Q4	<2>	4.5	4.5	1.0	1.0	3.4	3.4	3.4	3.4	.0	.0
1990	Q2	<2>	6.2	5.9	1.5	1.1	5.3	5.3	5.9	5.9	.0	.0
	Q4		4.8	4.1	.8	.2	4.4	4.3	5.7	6.8	.6	.7
1991	Q2		6.5	6.1	1.7	.8	4.7	5.3	4.4	4.8	.2	.4
	Q4		6.3	7.0	2.3	2.4	4.1	4.3	4.4	4.6	.0	.1
1992	Q2		6.7	7.0	2.4	2.5	4.3	4.6	4.4	4.7	.0	.0
	Q4		6.3	6.5	2.5	2.5	4.0	4.0	4.3	4.1	.0	.0
Four-quarter changes: <4>												
1988	Q4	<2>	7.8	7.8	3.5	3.5	4.6	4.6	4.3	4.3	-.5	-.5
1989	Q4	<2>	5.6	5.6	1.8	1.8	4.0	4.0	4.6	4.6	.0	.0
1990	Q4		5.5	5.0	1.1	.6	4.8	4.8	5.8	6.3	.6	.7
1991	Q4		6.4	6.6	2.0	1.6	4.4	4.8	4.4	4.7	.2	.5
1992	Q4		6.5	6.7	2.4	2.5	4.2	4.3	4.4	4.4	.0	.0

<1> For all urban consumers.

<2> Actual.

<3> Percent change from two quarters earlier.

<4> Percent change from four quarters earlier.

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

	Units	1984	1985	1986	1987	1988	1989	1990	1991	1992	Projection
EXPENDITURES											
Nominal GNP	Billions of \$	3772.2	4014.9	4231.6	4515.6	4873.7	5200.8	5473.1	5770.8	6169.0	
Real GNP	Billions of 1985\$	3501.4	3618.7	3717.9	3845.3	4016.9	4117.7	4158.5	4189.4	4291.2	
Real GNP	Percent change*	5.1	3.6	1.9	5.0	3.5	1.8	.6	1.6	2.5	
Gross domestic purchases		6.4	4.3	2.1	4.2	2.6	1.1	.0	.7	2.2	
Final sales		4.7	4.6	2.7	3.1	4.5	1.7	.9	1.6	2.0	
Private dom. final purchases		5.6	4.6	2.9	2.5	4.0	1.2	.1	.9	2.1	
Personal consumption expend.		4.1	4.6	3.8	2.3	4.1	1.2	.8	1.4	1.6	
Durables		10.8	7.0	11.5	-1.2	9.3	-1.4	.2	.8	1.4	
Nondurables		2.3	3.3	2.9	1.3	2.4	.6	-1.3	.1	.5	
Services		3.5	5.0	2.1	4.1	3.7	2.4	2.5	2.3	2.4	
Business fixed investment		13.8	3.7	-5.5	6.1	5.3	4.5	-1.3	-1.8	3.6	
Producers' durable equipment		14.9	4.6	.4	8.2	8.2	5.4	-.3	-.3	6.0	
Nonresidential structures		11.8	1.9	-17.7	.8	-2.7	1.7	-4.5	-6.5	-5.0	
Residential structures		6.1	5.8	11.6	-2.2	-.1	-7.1	-6.2	.8	6.3	
Exports		5.9	-2.4	10.6	19.8	14.0	10.1	4.2	6.5	6.8	
Imports		17.4	4.5	10.0	10.4	5.5	4.5	.3	.9	5.3	
Government purchases		7.9	8.6	3.1	2.0	1.1	.3	1.4	.2	.0	
Federal		13.0	13.3	.5	1.5	-1.6	-2.8	.9	-1.7	-2.7	
Defense		6.5	7.1	6.0	4.0	-1.8	-2.1	-2.7	-3.4	-4.8	
State and local		4.4	4.9	5.2	2.3	3.1	2.6	1.8	1.6	1.7	
Change in business inventories	Billions of 1985\$	62.3	9.1	5.6	22.8	23.6	23.8	6.1	-.4	19.7	
Nonfarm	Billions of 1985\$	57.8	13.4	8.0	28.7	26.5	18.7	4.3	-3.1	16.4	
Net exports	Billions of 1985\$	-84.0	-104.3	-129.7	-118.5	-75.9	-54.1	-36.1	1.1	19.5	
Nominal GNP	Percent change*	8.6	6.6	4.6	8.2	7.8	5.6	5.0	6.6	6.7	
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	94.5	97.5	99.5	102.2	105.6	108.5	110.4	111.0	112.3	
Unemployment rate	Percent	7.5	7.2	7.0	6.2	5.5	5.3	5.5	6.4	6.5	
Industrial production index	Percent change*	4.7	1.9	1.4	6.5	4.5	1.1	1.2	1.4	3.7	
Capacity utilization rate-mfg.	Percent	80.4	79.5	79.0	81.4	83.9	83.9	82.4	80.2	80.7	
Housing starts	Millions	1.77	1.74	1.81	1.62	1.49	1.38	1.20	1.15	1.27	
Auto sales	Millions	10.35	11.03	11.44	10.23	10.65	9.89	9.51	8.91	9.08	
Domestic	Millions	7.92	8.22	8.22	7.06	7.55	7.06	6.83	6.48	6.58	
Foreign	Millions	2.43	2.82	3.22	3.18	3.10	2.83	2.68	2.44	2.50	
INCOME AND SAVING											
Nominal personal income	Percent change*	8.4	6.6	5.8	8.1	7.6	6.8	6.4	7.1	6.9	
Real disposable income	Percent change*	4.3	2.7	3.3	2.7	4.3	1.7	.1	1.5	1.6	
Personal saving rate	Percent	6.1	4.4	4.1	2.9	4.2	4.6	4.5	4.2	4.2	
Corp. profits with IVA & CCAdj	Percent change*	7.4	9.2	-5.6	17.4	8.2	-16.8	-6.8	-3.8	1.4	
Profit share of GNP	Percent	7.1	7.0	6.7	6.8	6.9	6.0	5.4	4.4	4.2	
Federal govt. surplus/deficit	Billions of \$	-169.6	-196.9	-206.9	-158.2	-141.7	-134.3	-158.8	-143.8	-98.8	
State and local govt. surplus		64.6	65.1	62.8	51.0	46.5	46.4	41.5	52.6	71.0	
Exc. social insurance funds		19.8	13.8	5.6	-8.3	-16.4	-19.9	-28.0	-20.5	-5.8	
PRICES AND COSTS											
GNP implicit deflator	Percent change*	3.4	2.9	2.6	3.0	4.1	3.7	4.3	4.9	4.1	
GNP fixed-weight price index		3.7	3.3	2.6	3.8	4.6	4.0	4.8	4.8	4.3	
Cons. & fixed invest. prices		3.3	3.4	2.5	4.5	4.3	4.3	5.5	4.5	4.2	
CPI		4.2	3.5	1.3	4.5	4.3	4.6	6.3	4.7	4.4	
Exc. food and energy		5.0	4.3	3.9	4.3	4.5	4.3	5.5	5.4	4.5	
ECI hourly compensation		4.9	3.9	3.2	3.3	4.8	4.8	5.1	5.0	4.4	
Nonfarm business sector		1.5	1.6	1.3	2.2	1.7	-1.3	-.1	1.0	1.2	
Output per hour		4.2	4.6	5.0	3.7	4.7	2.0	5.0	5.0	4.4	
Compensation per hour		2.6	3.0	3.6	1.4	2.9	3.4	5.2	4.0	3.1	
Unit labor costs											

* Percent changes are from fourth quarter to fourth quarter.

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

September 26, 1990

	Units	1988				1989				1990	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EXPENDITURES											
Nominal GNP	Billions of \$	4735.8	4831.4	4917.9	5009.8	5101.3	5174.0	5238.6	5289.3	5375.4	5443.3
Real GNP	Billions of 1925	3970.2	4005.8	4032.1	4059.3	4095.7	4112.2	4129.7	4133.2	4150.6	4155.1
Real GNP	Percent Change	5.1	3.6	2.7	2.7	3.6	1.6	1.7	.3	1.7	.4
Gross domestic purchases		1.6	3.0	3.2	2.4	1.2	1.8	2.8	-1.2	.5	1.3
Final sales		7.1	5.1	1.1	4.6	2.4	1.7	1.8	.9	3.8	-.7
Private dom. final purchases		6.7	4.8	3.0	1.7	.8	1.4	4.1	-1.5	2.4	-1.2
Personal consumption expend.		6.9	2.7	3.5	3.5	-.3	1.3	4.6	-.8	1.1	.2
Durables		21.8	3.7	-1.1	14.1	-6.0	5.6	9.6	-13.0	14.4	-9.5
Nondurables		2.6	2.0	4.1	1.2	.6	-1.7	3.9	-.2	-3.2	-1.9
Services		5.6	2.9	4.5	1.9	.9	2.1	3.5	3.1	.1	5.1
Business fixed investment		11.4	15.7	1.6	-6.3	8.9	6.9	6.3	-3.8	5.0	-4.7
Producers' durable equipment		20.3	17.9	2.2	-5.5	9.5	12.2	6.1	-5.2	5.7	-3.3
Nonresidential structures		-10.5	9.9	-.3	-8.7	7.5	-8.2	7.1	1.3	2.3	-9.0
Residential structures		-6.8	6.8	.4	-.4	-3.6	-11.3	-7.6	-5.5	15.1	-11.2
Exports		31.7	4.4	5.4	16.7	15.8	12.4	-.5	13.5	11.2	-5.0
Imports		.5	.3	9.2	12.4	-2.3	12.8	6.4	1.7	2.5	.7
Government purchases		-9.2	3.3	-3.8	15.7	-3.3	4.0	-2.4	3.0	2.9	6.2
Federal		-24.1	3.5	-10.4	33.6	-9.1	7.0	-7.9	-.4	1.4	16.4
Defense		-5.6	-1.4	-5.0	4.9	-10.9	3.2	7.2	-7.0	-1.7	3.3
State and local		3.9	3.2	1.2	4.3	1.3	1.8	1.8	5.6	4.8	-.6
Change in business inventories	Billions of 1925	31.0	16.9	32.6	14.0	26.1	25.5	24.6	18.9	-2.2	9.5
Nonfarm	Billions of 1925	28.8	19.2	31.0	27.2	16.4	21.5	21.7	15.3	-8.2	11.6
Net exports	Billions of 1925	-77.3	-72.2	-78.5	-75.7	-51.1	-53.3	-64.1	-47.9	-35.4	-44.6
Nominal GNP	Percent change	7.8	8.3	7.4	7.7	7.5	5.8	5.1	3.9	6.7	5.1
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	104.3	105.1	105.9	106.8	107.6	108.2	108.7	109.2	109.9	110.5
Unemployment rate	Percent*	5.7	5.5	5.5	5.3	5.2	5.3	5.3	5.3	5.2	5.3
Industrial production index	Percent change	5.0	4.2	5.9	2.8	2.7	2.8	-1.2	.2	.6	4.1
Capacity utilization rate-mfg.	Percent*	83.1	83.6	84.3	84.6	84.7	84.5	83.7	82.9	82.6	82.7
Housing starts	Millions	1.46	1.49	1.47	1.54	1.51	1.35	1.34	1.35	1.45	1.20
Auto sales	Millions	10.91	10.67	10.15	10.88	10.03	10.26	10.20	9.09	10.01	9.53
Domestic	Millions	7.60	7.50	7.20	7.89	7.08	7.26	7.36	6.56	7.11	6.78
Foreign	Millions	3.30	3.17	2.95	2.99	2.95	3.00	2.84	2.53	2.90	2.75
INCOME AND SAVING											
Nominal personal income	Percent change	6.4	8.6	8.1	7.4	11.6	5.8	3.7	6.2	8.6	5.3
Real disposable income	Percent change	7.3	2.7	4.9	2.3	4.2	-1.2	2.7	1.2	2.5	.3
Personal saving rate	Percent*	4.0	4.1	4.5	4.1	5.2	4.6	4.1	4.6	4.9	5.0
Corp. profits with IVA & CCAdj	Percent change	9.5	6.6	-1.7	19.5	-23.2	-7.0	-17.1	-19.1	8.4	19.9
Profit share of GNP	Percent*	7.0	7.0	6.8	7.0	6.4	6.2	5.9	5.5	5.5	5.6
Federal govt. surplus/deficit	Billions of \$	-153.7	-136.9	-120.1	-156.3	-132.6	-122.7	-131.7	-150.1	-168.3	-166.0
State and local govt. surplus		45.5	48.3	46.8	45.2	48.9	50.3	48.1	38.5	38.1	38.6
Exc. social insurance funds		-15.6	-14.1	-17.0	-19.0	-16.2	-15.6	-18.7	-29.1	-30.2	-30.4
PRICES AND COSTS											
GNP implicit deflator	Percent change	2.7	4.4	4.7	4.7	3.9	3.9	3.2	3.8	4.8	4.7
GNP fixed-weight price index		3.9	4.7	5.5	4.4	4.9	4.6	3.1	3.8	6.6	3.9
Cons. & fixed invest. prices		2.9	4.9	4.5	5.0	5.0	5.3	2.3	4.6	6.8	2.6
CPI		3.5	4.2	5.2	4.1	5.4	6.0	2.9	3.9	8.2	3.8
Exc. food and energy		4.4	4.7	4.6	4.6	5.2	4.1	3.8	4.4	6.2	4.9
ECI hourly compensation**		5.2	5.2	3.8	4.6	4.6	4.9	4.9	4.8	5.6	5.1
Nonfarm business sector		4.2	-.6	2.8	.5	-1.7	-.5	-.8	-2.2	-1.9	1.5
Output per hour		4.3	5.0	5.3	4.2	2.0	1.5	1.8	2.7	3.2	5.8
Compensation per hour		.1	5.6	2.5	3.6	3.8	2.0	2.7	5.1	5.2	4.3

* Not at an annual rate.

** Private industry workers

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

September 26, 1990

	Units	Projection									
		1990				1991				1992	
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of \$	5519.0	5554.6	5624.3	5722.0	5818.5	5918.6	6022.7	6120.8	6217.0	6315.5
Real GNP	Billions of 82\$	4169.4	4159.1	4155.2	4176.2	4200.5	4225.5	4251.5	4278.2	4304.4	4330.9
Real GNP	Percent Change	1.4	-1.0	-.4	2.0	2.3	2.4	2.5	2.5	2.5	2.5
Gross domestic purchases		1.0	-2.5	-1.6	1.0	1.9	1.8	2.1	2.2	2.3	2.4
Final sales		1.2	-.4	.8	1.7	1.9	2.0	2.0	2.1	1.9	1.9
Private dom. final purchases		1.1	-1.8	-1.1	.9	1.9	1.8	2.0	2.2	2.2	2.2
Personal consumption expend.		-2.6	-.7	.5	1.7	1.8	1.4	1.6	1.6	1.7	1.6
Durables		2.2	-4.7	-3.1	2.9	2.8	.6	1.2	1.3	1.7	1.3
Nondurables		.8	-1.0	-.5	.3	.4	.4	.5	.5	.5	.5
Services		3.9	.9	2.3	2.3	2.4	2.4	2.4	2.4	2.4	2.4
Business fixed investment		-.5	-4.7	-7.2	-2.9	1.2	2.1	2.8	3.7	3.9	4.0
Producers' durable equipment		.6	-3.9	-6.8	-1.8	3.3	4.4	5.2	6.2	6.4	6.4
Nonresidential structures		-3.9	-7.2	-8.6	-6.4	-5.7	-5.5	-5.2	-5.0	-4.9	-4.7
Residential structures		-14.4	-11.3	-7.9	-1.2	6.1	6.8	5.8	7.0	6.1	6.5
Exports		3.8	7.4	3.0	7.8	7.1	8.1	7.7	6.7	6.6	6.5
Imports		1.0	-3.0	-4.8	.8	3.9	4.2	5.0	4.5	5.7	6.0
Government purchases		-.7	-2.6	2.6	-.5	-.8	-.3	-.1	-.1	.0	.0
Federal		+3.7	-7.9	4.2	-3.4	-4.3	-3.2	-2.7	-2.9	-2.5	-2.5
Defense		-2.2	-9.7	4.6	-5.9	-6.5	-5.3	-5.1	-4.6	-4.9	-4.8
State and local		1.6	1.4	1.5	1.6	1.7	1.7	1.7	1.7	1.7	1.7
Change in business inventories	Billions of 82\$	11.5	5.7	-6.8	-3.0	2.0	6.3	11.5	16.4	22.1	28.6
Nonfarm	Billions of 82\$	9.6	4.3	-9.2	-5.5	-.9	3.3	8.4	13.2	18.8	25.2
Net exports	Billions of 82\$	-40.5	-24.0	-11.1	-.4	4.7	11.1	15.5	19.3	21.1	22.2
Nominal GNP	Percent change	5.7	2.6	5.1	7.1	6.9	7.1	7.2	6.7	6.4	6.5
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	110.7	110.6	110.6	110.8	111.1	111.4	111.7	112.1	112.5	112.9
Unemployment rate	Percent*	5.6	6.0	6.3	6.4	6.5	6.5	6.5	6.5	6.5	6.5
Industrial production index	Percent change	2.3	-2.0	-3.6	2.5	3.5	3.5	3.6	3.7	3.7	3.7
Capacity utilization rate-mfg.	Percent*	82.5	81.5	80.2	80.1	80.2	80.3	80.4	80.6	80.7	80.9
Housing starts	Millions	1.13	1.09	1.10	1.13	1.16	1.20	1.23	1.26	1.28	1.31
Auto sales	Millions	9.61	8.90	8.70	8.85	9.05	9.05	9.05	9.05	9.10	9.10
Domestic	Millions	7.10	6.35	6.35	6.45	6.55	6.55	6.55	6.55	6.60	6.60
Foreign	Millions	2.51	2.55	2.35	2.40	2.50	2.50	2.50	2.50	2.50	2.50
INCOME AND SAVING											
Nominal personal income	Percent change	5.2	6.4	7.9	6.9	6.4	7.2	8.3	6.5	6.1	6.7
Real disposable income	Percent change	-.5	-2.0	1.4	1.8	1.2	1.6	2.3	1.3	1.1	1.7
Personal saving rate	Percent*	4.3	4.0	4.2	4.2	4.1	4.1	4.3	4.2	4.1	4.1
Corp. profits with IVR & CCAdj	Percent change	3.9	-41.3	-28.2	-1.8	7.4	13.1	-8.7	1.2	2.5	11.6
Profit share of GNP	Percent*	5.6	4.9	4.4	4.3	4.3	4.4	4.2	4.2	4.1	4.2
Federal govt. surplus/deficit	Billions of \$	-150.6	-150.4	-164.5	-147.1	-133.8	-129.7	-118.5	-103.7	-88.3	-84.9
State and local govt. surplus		43.9	45.6	47.4	50.2	53.5	59.2	64.1	68.5	72.8	78.5
Exc. social insurance funds		-26.1	-25.3	-24.4	-22.5	-20.1	-15.3	-11.3	-7.8	-4.4	.4
PRICES AND COSTS											
GNP implicit deflator	Percent change	4.2	3.6	5.5	5.0	4.5	4.5	4.6	4.0	3.9	3.9
GNP fixed-weight price index		4.2	4.4	5.8	4.8	4.5	4.2	5.0	4.1	4.0	4.0
Cons. & fixed invest. prices		5.3	7.4	5.3	4.0	4.2	4.4	4.8	4.2	4.1	4.0
CPI		6.4	7.1	5.4	4.1	4.4	4.7	5.1	4.4	4.2	4.1
Exc. food and energy		5.9	4.9	6.4	5.2	5.1	5.0	4.8	4.5	4.3	4.2
ECI hourly compensation**		4.8	5.0	5.5	5.3	4.7	4.6	4.9	4.3	4.2	4.1
Nonfarm business sector											
Output per hour		1.0	-1.1	-.7	1.4	1.7	1.6	1.3	1.2	1.3	1.2
Compensation per hour		5.3	5.9	4.1	5.8	4.9	5.2	4.9	4.3	4.2	4.1
Unit labor costs		4.3	7.0	4.8	4.3	3.1	3.6	3.6	3.1	2.9	2.9

* Not at an annual rate.

** Private industry workers

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	1988												1989				Projection ----- (fourth quarter to fourth quarter, net change)
	1988				1989				1990		1987	1988	1989	1990			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2							
Real GNP	49.5	35.6	26.3	27.2	36.4	16.5	17.5	3.5	17.4	4.5	187.1	138.6	73.9	25.9			
Gross domestic purchases	15.5	30.5	32.6	24.4	11.8	18.7	28.3	-12.7	4.9	13.7	163.0	103.0	46.1	2.0			
Final sales	66.9	49.7	10.6	45.7	24.4	17.0	18.5	9.3	38.4	-7.2	117.9	172.9	69.2	39.0			
Private dom. final purchases	51.8	38.3	24.4	14.2	6.5	11.4	34.1	-12.9	20.2	-10.3	78.5	128.7	39.1	3.8			
Personal consumption expand.	42.6	17.3	22.3	22.4	-2.1	8.6	30.0	-5.4	7.4	1.5	56.4	104.6	31.1	21.6			
Durables	19.8	3.8	-1.1	13.9	-6.6	5.8	9.9	-15.0	14.5	-10.8	-4.9	36.4	-5.9	.9			
Nondurables	5.7	4.4	9.1	2.7	1.4	-3.9	8.8	-.4	-7.4	-4.4	11.7	21.9	5.9	-12.3			
Services	17.1	9.1	14.2	6.0	3.0	6.7	11.3	10.0	.4	16.6	49.6	46.4	31.0	33.0			
Business fixed investment	12.7	17.6	2.0	-8.0	10.5	8.4	7.8	-4.9	6.2	-6.2	26.6	24.3	21.8	-6.6			
Producers' durable equipment	16.0	14.9	2.0	-5.2	8.4	10.9	5.7	-5.2	5.4	-3.3	25.6	27.7	19.8	-1.1			
Nonresidential structures	-3.4	2.9	-.1	-2.8	2.2	-2.6	2.1	-.4	.7	-2.9	1.0	-3.4	2.1	-5.6			
Residential structures	-3.4	3.2	.2	-.2	-1.8	-5.7	-3.7	-2.6	6.5	-5.5	-4.5	-.2	-13.8	-11.2			
Change in business inventories	-17.4	-14.1	15.7	-18.6	12.1	-.6	-.9	-5.7	-21.1	11.7	69.2	-34.4	4.9	-13.2			
Nonfarm	-26.6	-9.6	11.8	-3.8	-10.8	5.1	.2	-6.4	-23.5	19.8	66.3	-28.2	-11.9	-11.0			
Farm	9.1	-4.5	3.9	-14.8	22.9	-5.7	-1.1	.7	2.4	-8.1	3.0	-6.3	16.8	-2.2			
Net exports	34.0	5.1	-6.3	2.8	24.6	-2.2	-10.8	16.2	12.5	-9.2	24.1	35.6	27.8	23.9			
Exports	34.7	5.6	7.0	21.0	20.8	17.1	-.7	19.1	16.5	-8.0	80.5	68.3	56.3	25.6			
Imports	.7	.5	13.3	18.2	-3.7	19.2	10.1	2.8	4.1	1.2	56.4	32.7	28.4	1.9			
Government purchases	-18.9	6.3	-7.5	28.7	-6.7	7.8	-4.8	6.0	5.7	12.3	15.3	8.6	2.3	11.4			
Federal	-23.2	2.8	-8.9	23.9	-8.1	5.7	-6.9	-.3	.3	12.9	5.3	-5.4	-9.6	3.0			
Defense	-3.8	-.9	-3.3	3.1	-7.4	2.0	4.5	-4.7	-1.1	2.1	10.2	-4.9	-5.6	-6.8			
Nondefense	-19.4	3.7	-5.6	20.8	-.8	3.8	-11.4	4.4	1.4	10.8	-4.9	-.5	-4.0	9.8			
State and local	4.3	3.5	1.3	4.8	1.5	2.1	2.1	6.3	5.5	-.7	10.0	13.9	12.0	8.4			

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(Net changes, billions of 1982 dollars)

	Projection												Projection							
	1990				1991				1992				1989	1990	1991	1992				
	Q3		Q4		Q1		Q2		Q3		Q4									
Real GNP	14.3	-10.3	-3.9	21.0	24.3	25.0	25.9	26.8	26.2	26.5	26.5	26.5	73.9	25.9	66.4	105.4				
Gross domestic purchases	10.2	-26.7	-16.8	10.2	19.2	18.7	21.5	22.9	24.5	25.4	25.4	25.4	46.1	2.0	31.3	94.3				
Final sales	12.3	-4.5	8.6	17.2	19.3	20.7	20.7	21.9	20.5	20.0	20.0	20.0	69.2	39.0	65.8	83.1				
Private dom. final purchases	9.5	-15.6	-9.5	7.4	15.9	15.0	16.5	18.3	18.8	18.8	18.8	18.8	39.1	3.8	28.8	72.3				
Personal consumption expend.	17.1	-4.4	3.2	11.5	12.0	9.7	10.6	10.8	11.3	11.0	11.0	11.0	31.1	21.6	36.4	43.7				
Durables	2.3	-5.1	-3.4	3.1	2.9	.6	1.2	1.4	1.8	1.4	1.4	1.4	-5.9	.9	3.2	5.9				
Nondurables	1.8	-2.3	-1.1	.7	.9	.9	1.1	1.1	1.1	1.1	1.1	1.1	5.9	-12.3	1.4	4.5				
Services	13.0	3.0	7.7	7.8	8.2	8.2	8.3	8.3	8.4	8.4	8.4	8.4	31.0	33.0	31.9	33.3				
Business fixed investment	-.6	-6.0	-9.3	-3.6	1.4	2.5	3.4	4.5	4.8	5.0	5.0	5.0	21.8	-6.6	-8.9	17.7				
Producers' durable equipment	.6	-3.8	-6.7	-1.7	3.1	4.1	4.9	5.9	6.2	6.3	6.3	6.3	19.8	-1.1	-1.2	23.2				
Nonresidential structures	-1.2	-2.2	-2.6	-1.9	-1.7	-1.6	-1.5	-1.4	-1.3	-1.3	-1.3	-1.3	2.1	-5.6	-7.7	-5.5				
Residential structures	-7.0	-5.2	-3.5	-.5	2.5	2.8	2.4	3.0	2.6	2.8	2.8	2.8	-13.8	-11.2	1.3	10.9				
Change in business inventories	2.0	-5.8	-12.5	3.8	5.0	4.3	5.2	4.9	5.7	6.5	6.5	6.5	4.9	-13.2	.6	22.3				
Nonfarm	-2.0	-5.3	-13.5	3.7	4.6	4.2	5.1	4.8	5.6	6.4	6.4	6.4	-11.9	-11.0	-1.0	21.9				
Farm	4.0	-.5	1.0	.1	.4	.1	.1	.1	.1	.1	.1	.1	16.8	-2.2	1.6	.4				
Net exports	4.1	16.5	12.9	10.8	5.0	6.4	4.4	3.9	1.7	1.1	1.1	1.1	27.8	23.9	35.1	11.1				
Exports	5.8	11.3	4.7	12.1	11.3	13.2	12.6	11.3	11.3	11.3	11.3	11.3	56.3	25.6	41.3	46.5				
Imports	1.7	-5.1	-8.1	1.4	6.3	6.8	8.2	7.4	9.6	10.1	10.1	10.1	28.4	1.9	6.3	35.4				
Government purchases	-1.4	-5.3	5.3	-1.0	-1.7	-.7	-.2	-.3	-.0	.1	.1	.1	2.3	11.4	1.9	-.3				
Federal	-3.3	-7.0	3.5	-2.9	-3.7	-2.7	-2.3	-2.4	-2.1	-2.0	-2.0	-2.0	-9.6	3.0	-5.8	-8.7				
Defense	-1.4	-6.4	2.8	-3.8	-6.1	-3.3	-3.1	-2.8	-2.9	-2.8	-2.8	-2.8	-5.6	-6.8	-8.4	-11.6				
Nondefense	-1.9	-.6	.7	.9	.4	.6	.8	.4	.8	.8	.8	.8	-4.0	9.8	2.6	2.9				
State and local	1.9	1.7	1.8	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	12.0	8.4	7.7	8.4				

FEDERAL SECTOR ACCOUNTS¹
(Billions of dollars)

	Fiscal years				1990				1991				1992			
	1989a	1990	1991	1992	Ia	IIa	III	IV	I	II	III	IV	I	II	III	IV
	BUDGET															
Budget receipts ²	991	1036	1112	1195	230	319	258	242	255	338	277	258	277	364	295	272
Budget outlays ²	1143	1257	1346	1373	310	331	316	345	331	334	335	347	338	342	346	357
Surplus/deficit (-) ²	-152	-221	-234	-178	-80	-12	-58	-103	-76	4	-58	-89	-61	23	-50	-84
(On-budget)	-207	-282	-302	-252	-94	-41	-70	-110	-96	-22	-75	-98	-82	-4	-68	-95
(Off-budget)	55	61	68	74	14	29	12	7	19	25	17	9	21	27	17	10
Surplus excluding RTC spending ³	-143	-173	-159	-137	-77	11	-42	-80	-58	22	-42	-75	-49	32	-44	-80
Means of financing:																
Borrowing	140	263	230	167	90	41	69	82	72	29	47	82	42	6	38	82
Cash decrease	3	4	2	0	8	-16	-3	26	-9	-25	10	10	5	-20	5	10
Other ⁴	8	-46	1	10	-18	-13	-8	-5	13	-8	1	-3	14	-8	7	-8
Cash operating balance, end of period	41	37	35	35	18	35	37	11	20	45	35	25	20	40	35	25
NIPA FEDERAL SECTOR																
Receipts	1038	1092	1167	1265	1081	1106	1128	1136	1159	1177	1197	1220	1259	1280	1301	1326
Expenditures	1174	1251	1316	1375	1249	1272	1278	1286	1323	1324	1331	1350	1378	1384	1390	1411
Purchases	400	414	426	429	411	422	424	419	430	429	427	426	431	430	430	430
Defense	301	307	308	303	307	310	310	305	313	310	306	304	305	303	301	299
Nondefense	99	108	118	126	103	112	114	114	117	119	121	122	126	127	129	131
Other expend.	774	837	890	946	838	850	854	867	893	896	904	924	947	954	960	981
Surplus/deficit	-136	-159	-149	-110	-168	-166	-151	-150	-165	-147	-134	-130	-118	-104	-88	-85
FISCAL INDICATORS ⁵																
High-employment (HEB) surplus/deficit (-)	-162	-167	-113	-62	-182	-171	-148	-130	-128	-106	-90	-83	-70	-55	-38	-34
Change in HEB, percent of potential GNP	.1	.1	-1	-.9	.3	-.2	-.4	-.3	0	-.4	-.3	-.1	-.2	-.3	-.3	-.1
Fiscal impetus measure (FI), percent	-3.5 *	-4.1 *	-4.1 *	-4.9 *	-2.3	1.2	-.4	-2.8	-.7	-.9	-1	-1.5	-2.1	-.6	-.6	-1.3

a--actual

*--calendar year

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

1. Staff projections. The FY1990, FY1991 and FY1992 deficits in OMB's Mid-Session Review (July 1990) are \$220 billion, \$176 billion and \$134 billion, respectively. These estimates incorporate approximately \$53 billion of cuts from the adjusted Gramm-Rudman-Hollings baseline in FY1991 and \$70 billion in FY1992. CBO's FY1990, FY1991 and FY1992 baseline deficits (July 1990) are \$195 billion, \$232 billion and \$239 billion, respectively.
2. Budget receipts, outlays, and surplus/deficit include social security (OASDI) receipts, outlays and surplus, respectively. The OASDI surplus is excluded from the "on-budget" deficit and shown separately as "off-budget", as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY1990.
3. The Administration's deficit projections, excluding RTC spending, for FY1990, FY1991 and FY1992, were \$163 billion, \$114 billion and \$93 billion, respectively. CBO's July deficit estimates, excluding RTC spending, for FY1990, FY1991 and FY1992, were \$159 billion, \$162 billion, and \$179 billion, respectively.
4. Other means of financing are checks issued less checks paid, accrued items; and changes in other financial assets and liabilities.
5. HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate and 2.5% potential output growth. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.

Thereafter, oil imports are projected to expand considerably faster, as domestic production of crude oil trends down and as activity picks up.

TRADE QUANTITIES *
(Percent change, annual rate)

	<u>1989-Q4</u> 1988-Q4	<u>1990-Q2</u> 1989-Q4	<u>1990-Q4</u> 1990-Q2	<u>1992-Q4</u> 1990-Q4
Nonagricultural exports	12.2	7.9	3.0	10.5
Agricultural exports	12.1	-4.4	5.1	1.1
Non-oil imports	6.6	-0.5	-0.1	4.5
Oil imports	2.4	4.0	-2.7	1.7

* GNP basis data.

On balance, total real net exports of merchandise are estimated to have weakened somewhat in the third quarter, but are still projected to show a significant improving trend through early 1992 and to level off thereafter. The improvement in net exports by the end of 1992 is now projected to be a little more than \$10 billion (annual rate) greater than in the August forecast, primarily because of the lower level of the dollar. The effects on net exports of lower domestic and foreign GNP growth are largely offsetting.

Merchandise Trade Prices. The fixed-weight index of prices of nonagricultural exports is expected to rise more strongly during the second-half of this year and more moderately thereafter, at about the projected rate of increase in domestic producer prices (export-share weighted) shown in the table below. The revisions to the outlook for the dollar and foreign inflation have raised the projected rate of increase in prices of non-oil imports somewhat. The average price of oil imports is expected to peak in the fourth quarter, to decline through the middle of next year, and to

remain unchanged thereafter, as discussed in the section on domestic nonfinancial developments.

SELECTED PRICE INDICATORS
(Percent change, annual rate)

	<u>1989-Q4</u> 1988-Q4	<u>1990-Q2</u> 1989-Q4	<u>--- Projection ---</u>	
			<u>1990-Q4</u> 1990-Q2	<u>1992-Q4</u> 1990-Q4
PPI (export-share weighted)	3.4	2.4	6.3	2.1
Nonagric. exports (Fx-Wt)	0.0	1.9	6.4	2.2
Non-oil imports (Fx-Wt)	-1.0	1.4	7.6	4.3
Oil imports	37.4	-19.6	351.7	-16.5

Nominal Balances: Trade and Services. As a result of the increase in oil import prices, the merchandise trade deficit is expected to rise sharply in the near term, reaching an annual rate of \$145 billion in the fourth quarter, well in excess of the \$119 billion rate recorded in July. This bulge in the deficit in the months ahead is expected to be unwound during 1991 as oil prices recede; the deficit is then projected to level off at an annual rate of about \$80 billion towards the end of the forecast period.

Net portfolio payments to foreigners are expected to rise significantly over the next two years because of rising U.S. international indebtedness; this deterioration does not differ significantly from that projected in the August forecast. These rising net payments are expected to be more than fully offset by increased receipts on net direct investment income and other net services and transfers. This outlook incorporates an estimated \$2 billion sales of military equipment to Saudi Arabia to be delivered by year-end 1990, and an estimate for cash grants received from foreign governments associated with Operation Desert Shield. As a result, of all of these changes in non-trade items, the current account balance is

Strictly Confidential (FR) Class II-FOMC

September 25, 1990

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

	ANNUAL			1990				1991				1992			
	1990-P	1991-P	1992-P	-Q3-P	-Q4-P	Q1-P	-Q2-P	-Q3-P	-Q4-P	Q1-P	-Q2-P	-Q3-P	-Q4-P		
1. GNP Exports and Imports 1/															
Current \$, Net	-37.6	-16.0	9.4	-35.7	-59.6	-40.7	-16.8	-6.1	-0.3	4.7	9.1	11.0	12.8		
Exports of G+S	672.5	729.7	795.8	673.7	695.3	704.7	721.6	737.3	755.2	772.9	788.3	803.5	818.8		
Imports of G+S	710.0	745.7	786.4	709.4	754.9	745.4	738.4	743.4	755.6	768.2	779.2	792.5	805.9		
Constant 82 \$, Net	-36.1	1.1	19.5	-40.5	-24.0	-11.1	-0.4	4.7	11.1	15.5	19.3	21.1	22.2		
Exports of G+S	627.8	660.0	708.2	625.9	637.2	642.0	654.1	665.4	678.6	691.2	702.5	713.8	725.1		
Imports of G+S	664.0	659.0	688.6	666.4	661.3	653.1	654.5	660.8	667.5	675.8	683.2	692.7	702.9		
2. Merchandise Trade Balance 2/	-113.5	-101.9	-83.5	-114.1	-144.6	-122.4	-102.3	-93.4	-89.4	-86.5	-83.8	-81.8	-81.9		
Exports	391.0	430.5	479.9	390.1	401.9	413.2	424.2	435.5	449.0	462.2	474.6	486.2	496.7		
Agricultural	42.4	45.0	48.2	41.4	42.8	44.2	45.0	44.9	46.1	46.8	47.8	48.5	49.6		
Non-Agricultural	348.7	385.4	431.8	348.7	359.1	368.9	379.3	390.6	403.0	415.4	426.8	437.7	447.1		
Imports	504.5	532.4	563.4	504.2	546.5	535.6	526.5	528.9	538.5	548.7	558.3	568.0	578.6		
Petroleum and Products	69.3	75.7	72.3	64.4	102.0	88.5	75.2	68.9	69.9	71.3	71.9	72.6	73.4		
Non-Petroleum	435.2	456.7	491.1	439.8	444.5	447.1	451.3	460.0	468.5	477.4	486.5	495.4	505.2		
3. Other Current Account Transactions															
Capital Gains and Losses 3/	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other D.I. Income, Net	46.5	51.2	52.3	47.7	50.8	51.0	51.1	51.3	51.3	51.7	52.5	52.0	52.8		
Portfolio Income, Net	-45.0	-49.7	-52.9	-45.8	-47.1	-48.3	-49.2	-50.2	-51.1	-51.9	-52.6	-53.2	-53.7		
Other Current Account, Net	11.1	20.3	24.1	9.9	18.5	18.7	22.7	20.5	19.3	24.0	24.6	24.9	22.9		
4. U.S. Current Account Balance															
Including Capital G/L	-99.6	-80.1	-60.0	-102.2	-122.3	-101.0	-77.7	-71.8	-69.9	-62.8	-59.2	-58.1	-59.9		
Excluding Capital G/L	-100.9	-80.1	-60.0	-102.2	-122.3	-101.0	-77.7	-71.8	-69.9	-62.8	-59.2	-58.1	-59.9		
5. Foreign Outlook 4/															
Real GNP--Ten Industrial 5/	3.0	2.4	3.1	1.0	1.9	2.8	3.2	3.4	3.2	3.1	3.0	2.9	2.9		
Real GNP--LDC 6/	2.8	3.7	4.2	3.2	3.6	4.0	4.0	4.0	3.9	4.0	4.3	4.6	5.0		
Consumer Prices--Ten Ind. 5/	4.6	4.7	3.8	3.9	5.9	4.9	5.1	3.2	3.5	3.8	4.2	3.8	3.9		

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

September 26, 1990

RECENT DEVELOPMENTS

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

downward revision concentrated in the nonmanufacturing sector. By this time of year, of course, the annual figures for 1990 are being heavily influenced by developments in past quarters; small changes in the annual averages thus are consistent with a wide range of second-half growth rates.

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

	1989 ¹	Planned for 1990		
		Commerce (Jan.-Mar.)	Commerce (Apr.-May)	Commerce (July-Aug.)
All business	11.4	8.1	6.8	5.4
Manufacturing	12.5	5.7	4.2	4.7
Durable	7.2	2.7	2.3	2.6
Nondurable	17.2	8.2	5.8	6.4
Nonmanufacturing	10.8	9.5	8.3	5.8

1. As estimated in the July-August Commerce Department Survey.

Business Inventories

Data on business inventories currently are available only through the end of July. At that point, there was little evidence of any serious inventory imbalances, as inventory-sales ratios for major sectors were all within the ranges observed over the past year. Given the cautious inventory practices that have been apparent throughout the expansion, it would seem likely that businesses were poised to respond quickly to any sign of emerging softness in sales in the period since July. Indeed, anecdotal evidence suggests that retailers have been ordering conservatively for the coming months.

Manufacturing inventories expanded at a \$29 billion annual rate (current cost) in July, after falling \$20 billion in June--a modest net

FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS
(Billions of dollars,
except where otherwise noted)

	July and August		October-August		Net change	Percent change
	1989	1990	FY1989	FY1990		
Outlays	182.7	229.5	1037.3	1170.3	133.0	12.8
Deposit insurance	2.3	6.5	13.1	48.3	35.2	268.7
Outlays, excluding						
deposit insurance	180.4	223.1	1024.2	1122.0	97.8	9.5
National defense	47.2	51.4	274.9	277.8	2.9	1.1
Net interest	30.0	32.7	155.6	168.1	12.5	8.0
Social Security	38.9	62.0	213.0	247.9	34.9	16.4
Medicare and health	23.6	28.8	122.4	143.1	20.7	16.9
Income security	21.4	25.3	124.6	138.1	13.5	10.8
Agriculture	0.2	0.5	17.0	11.9	-5.1	-29.8
Other	19.1	22.4	116.7	135.0	18.3	15.7
Receipts	142.3	150.8	891.5	928.6	37.1	4.2
Personal income taxes	66.3	69.7	400.7	420.0	19.3	4.8
Social insurance						
contributions	56.4	61.7	330.2	349.0	18.8	5.7
Corporate income taxes	4.0	3.7	83.9	76.2	-7.7	-9.2
Other	15.6	15.8	76.8	83.4	6.6	8.6
Deficit (+)	40.4	78.7	145.8	241.7	95.9	65.8

Details made not add due to rounding.

DOD ESTIMATES OF OPERATION DESERT SHIELD
(unified budget, billions of dollars)

	FY1990	FY1991
DoD estimate of Desert Shield expense	1.9	11.3
less		
Fuel price increase (on total DoD purchases)	0.3	1.7
equals		
Desert Shield cost	1.6	9.6
Fuel	0.4	2.4
In-theater support	0.3	1.8
Other operations and maintenance	0.6	3.1
Construction	0.0	0.4
Personnel	0.3	1.9

may be contributing to the relative decline in these two agency's stock prices.

Municipal Securities

Over the intermeeting period, the Bond Buyer index of municipal yields has followed Treasury rates, rising about 20 basis points. Moreover, as investors generally have reacted to the greater economic uncertainty by seeking safer havens for their funds, quality spreads within the market for municipal securities have tended to widen. The spread between Aaa and Baa yields for municipal securities of similar maturities increased about 15 basis points since early August.

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

	<u>1988</u>	<u>1989</u>	<u>1990</u>				
	Year	Year	Q1	Q2	July ^P	Aug. ^P	Sept. ^f
Total offerings ¹	11.73	11.90	8.85	15.53	11.76	17.90	--
Total tax-exempt	11.41	11.65	8.73	15.30	11.64	17.44	8.50
Long-term	9.54	9.47	7.63	11.41	8.73	10.04	7.50
Refundings ²	2.90	2.47	1.45	1.58	1.29	.69	--
New capital	6.64	7.01	6.19	9.73	7.44	9.39	--
Short-term	1.87	2.17	1.10	3.88	2.91	7.40	1.00
Total taxable	.32	.25	.12	.23	.12	.46	--

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.

The issuance of municipal securities jumped sharply in August, with long-term volume of \$10 billion being sold along with almost \$7-1/2 billion of short-term issues. Almost all of the long-term offerings were for new capital, as refundings fell to only \$700 million. The short-term volume was