

## **Part 1**

August 16, 1995

---

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

---

## **Summary and Outlook**

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

sizable improvement in foreign economic growth, albeit one that is a shade smaller than that in the previous projection, largely because of a weaker outlook for Japan. Although oil prices last month fell below our expectations, they have since recovered to levels about in line with our previous assumptions. As in the June Greenbook, the acceleration in economic activity both here and abroad is assumed to boost the spot price of West Texas intermediate from its current level of about \$17.35 to \$19.50 per barrel by early 1996. Oil prices are assumed to remain at this level for the remainder of the forecast period.

Third-quarter Forecast

Real GDP is projected to increase 2-1/4 percent at an annual rate in the current quarter. Final sales are forecast to rise at a healthy 3-1/4 percent rate, reflecting continued solid growth in business fixed investment and consumer spending. However, production is expected to be held back by further inventory adjustments, especially in the motor vehicle sector.

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

	1995:Q2 <sup>1</sup>	1995:Q3
Real GDP	.5	2.2
<i>Previous</i>	-.5	1.1
Final sales	2.1	3.3
<i>Previous</i>	1.3	3.0
Unemployment rate <sup>2</sup>	5.7	5.8
<i>Previous</i>	5.8	6.0
Industrial production	-2.7	1.1
<i>Previous</i>	-3.5	-.5

1. Figures shown for real GDP and final sales are from the BEA's advance report for the second quarter.

2. Quarterly average, percent.

should also boost GDP growth next quarter. But elsewhere, final sales are expected to slow, largely because of less robust gains in business outlays for equipment and smaller increases in consumption.

SUMMARY OF STAFF REAL GDP PROJECTION  
(Percent change, annual rate)

	1995				1996
	Q1	Q2	Q3	Q4	
Real GDP	2.7	.5	2.2	2.9	2.3
<i>Previous</i>	2.7	-.5	1.1	3.4	2.2
Final sales	2.6	2.1	3.3	2.4	2.1
<i>Previous</i>	2.5	1.3	3.0	2.3	2.2
Private domestic final demand	4.2	3.1	3.8	3.1	2.6
<i>Previous</i>	4.4	1.8	2.8	2.5	2.6
Government purchases	-.7	-.3	.7	-2.0	-1.1
<i>Previous</i>	-1.2	-.9	1.1	-.6	-1.3
Net exports <sup>1</sup>	-11.4	-6.5	-.1	1.9	5.4
<i>Previous</i>	-12.9	-2.1	4.7	3.8	8.4

1. Change in billions of 1987 dollars.

Real output is projected to grow a bit below potential in 1996. The restraint imposed on the economy this year by the inventory correction, the slump in housing construction, and the slowdown in the growth of exports should give way to positive contributions to growth in 1996. However, a greater degree of fiscal restraint is projected to hold down growth next year. This occurs directly through lower federal purchases and the effect of reduced transfers on incomes and spending, and indirectly through spending cuts at the state and local levels in response to reduced federal grants. Moreover, business fixed investment should decelerate noticeably in lagged response to the downshift in sales expectations that can be expected to accompany the broader slowdown in economic activity.

Personal consumption expenditures. After increasing at an annual rate of around 2-3/4 percent in the third quarter, real consumer spending is projected to moderate to about a 2 percent pace

STAFF LABOR MARKET PROJECTION  
(Percent change, annual rate)

	1995				1996
	Q1	Q2	Q3	Q4	
Nonfarm payroll employment	2.6	.9	1.2	1.6	1.1
<i>Previous</i>	2.6	.7	.7	1.5	1.0
Output per hour, nonfarm business	2.5	3.0	-1.0	1.4	1.3
<i>Previous</i>	2.7	.3	-.5	2.1	1.3
Civilian unemployment rate <sup>1</sup>	5.5	5.7	5.8	5.8	5.9
<i>Previous</i>	5.5	5.8	6.0	6.0	6.1

1. Percent. 1996 is fourth quarter average.

Wages and prices. As measured by the ECI, hourly compensation is projected to remain around 3 percent throughout the forecast period, even though the unemployment rate is projected to stay below our estimate of the NAIRU, 5.9 percent, until the second quarter of 1996. Growth in hourly compensation is expected to be held down for a while longer by factors not directly related to labor market slack. Most important, we expect that subdued increases in benefit costs, particularly from the restructuring of health insurance packages, will continue to offset some of the upward pressure on costs from a taut labor market. Although we do not anticipate these favorable developments on benefits to persist indefinitely, by the time they have run their course the unemployment rate is expected to have returned to nearly 6 percent. Thus, by then, little pressure--either upward or downward--would be exerted on compensation growth from labor market slack.

Given this projection for labor costs, we are anticipating no significant deviation of underlying inflation from recent trends. As discussed earlier, the bump up in the core CPI that occurred in the first half of this year is on its way to largely retracing itself this quarter. Over 1995 as a whole, the increase in the CPI excluding food and energy is expected to come in at 3.1 percent:

core inflation is then projected to decelerate to 2.9 percent in 1996. However, on average, the total CPI is projected to increase

STAFF INFLATION PROJECTION  
(Percent change, annual rate)

	1995				1996
	Q1	Q2	Q3	Q4	
Consumer price index	3.2	3.2	2.0	2.8	3.0
<i>Previous</i>	3.2	3.5	2.8	2.9	2.9
Excluding food and energy	3.3	3.6	2.7	2.9	2.9
<i>Previous</i>	3.3	3.6	3.0	2.9	2.9
ECI for compensation of private industry workers	2.3	2.9	3.0	3.0	3.1
<i>Previous</i>	2.3	3.4	3.2	3.2	3.2

at a 2-1/2 percent rate in the second half of 1995 before moving up to a 3 percent pace in 1996. Retail energy prices are projected to be a restraining factor over the near term. But energy prices are expected to turn up later this year and early next year, reflecting the anticipated firming of world oil markets. Food prices are expected to be a relatively neutral influence on inflation over the forecast period.

#### Alternative Simulations

We have run two sets of alternative forecast simulations using the Board's quarterly econometric model. The first set considers the outlook under alternative views of the NAIRU and reflects the risk that structural changes in the labor market may be under way that our statistical models would be slow in detecting. The second set of simulations examines different choices for the federal funds rate.

In the first simulation, the NAIRU is pegged 1/2 percentage point below our current estimate of 5.9 percent.<sup>3</sup> Relative to baseline, the additional degree of labor market slack lowers the growth in compensation per hour by 0.2 percentage point in 1995 and 0.4 percentage point in 1996. No appreciable influence is seen on price inflation until 1996, when core inflation is 1/4 percentage point lower than it otherwise would have been. The differences from baseline in real GDP growth and the unemployment rate were negligible over the simulation interval. Symmetrical results hold if the NAIRU were 1/2 percentage point higher than assumed in the staff forecast.

ALTERNATIVE NAIRU ASSUMPTIONS  
(Percent change, Q4 to Q4)

	1994	1995	1996
Compensation per hour <sup>1</sup>			
Baseline	3.2	3.5	3.2
Lower NAIRU	3.2	3.3	2.8
Higher NAIRU	3.2	3.7	3.6
CPI excluding food and energy			
Baseline	2.8	3.1	2.9
Lower NAIRU	2.8	3.1	2.7
Higher NAIRU	2.8	3.1	3.1

1. NIPA compensation per hour in the nonfarm business sector.

In the monetary policy simulations, the federal funds rate is assumed to be either raised or lowered 50 basis points by the end of the year. In view of the proximity to year-end, neither policy move has any perceptible effect on output or inflation in 1995. In 1996, real GDP growth is raised 1/4 percentage point under the lower funds rate assumption, and the unemployment rate is 0.1 percentage point lower. Core inflation is 0.1 percentage point higher than in the

---

3. The exercise holds the nominal federal funds rate at the baseline.

baseline forecast. The results for the tighter monetary policy scenario are symmetrical.

ALTERNATIVE FEDERAL FUNDS RATE ASSUMPTIONS  
(Percent change, Q4 to Q4, except as noted)

	1994	1995	1996
Real GDP			
Baseline	4.1	2.1	2.3
Lower funds rate	4.1	2.1	2.6
Higher funds rate	4.1	2.1	2.0
Civilian unemployment rate <sup>1</sup>			
Baseline	5.6	5.8	5.9
Lower funds rate	5.6	5.8	5.8
Higher funds rate	5.6	5.8	6.0
CPI excluding food and energy			
Baseline	2.8	3.1	2.9
Lower funds rate	2.8	3.1	3.0
Higher funds rate	2.8	3.1	2.8

1. Average for the fourth quarter.

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index <sup>1</sup>		Unemployment rate (level except as noted)	
	06/28/95	08/16/95	06/28/95	08/16/95	06/28/95	08/16/95	06/28/95	08/16/95	06/28/95	08/16/95
<b>ANNUAL</b>										
1992 <sup>2</sup>	5.2	5.2	2.3	2.3	3.2	3.2	3.0	3.0	7.4	7.4
1993 <sup>2</sup>	5.4	5.4	3.1	3.1	3.0	3.0	3.0	3.0	6.8	6.8
1994 <sup>2</sup>	6.2	6.2	4.1	4.1	2.7	2.7	2.6	2.6	6.1	6.1
1995	4.8	4.9	2.6	2.9	2.9	2.9	3.1	2.9	5.8	5.7
1996	4.5	4.5	2.1	2.3	2.8	2.9	2.9	2.9	6.1	5.9
<b>QUARTERLY</b>										
1993 Q1 <sup>2</sup>	4.4	4.4	1.2	1.2	4.2	4.2	3.1	3.1	7.0	7.0
Q2 <sup>2</sup>	4.2	4.2	2.4	2.4	2.4	2.4	2.8	2.8	7.0	7.0
Q3 <sup>2</sup>	3.8	3.8	2.7	2.7	2.0	2.0	1.7	1.7	6.7	6.7
Q4 <sup>2</sup>	7.7	7.7	6.3	6.3	2.4	2.4	3.4	3.4	6.5	6.5
1994 Q1 <sup>2</sup>	6.1	6.1	3.3	3.3	3.1	3.1	2.2	2.2	6.6	6.6
Q2 <sup>2</sup>	7.2	7.2	4.1	4.1	2.9	2.9	2.5	2.5	6.2	6.2
Q3 <sup>2</sup>	6.2	6.2	4.0	4.0	3.0	3.0	3.6	3.6	6.0	6.0
Q4 <sup>2</sup>	6.4	6.4	5.1	5.1	2.6	2.6	2.2	2.2	5.6	5.6
1995 Q1 <sup>2</sup>	4.9	4.7	2.7	2.7	3.3	3.3	3.2	3.2	5.5	5.5
Q2 <sup>2</sup>	1.7	2.0	-.5	.5	2.7	2.7	3.5	3.2	5.8	5.7
Q3	3.9	4.6	1.1	2.2	3.1	2.8	2.8	2.0	6.0	5.8
Q4	5.8	5.4	3.4	2.9	2.8	2.9	2.9	2.8	6.0	5.8
1996 Q1	4.6	4.7	2.1	2.3	3.0	3.1	3.1	3.3	6.0	5.8
Q2	4.4	4.3	2.1	2.3	2.7	2.7	2.9	3.1	6.1	5.9
Q3	4.5	4.4	2.3	2.3	2.7	2.8	2.8	2.9	6.1	5.9
Q4	4.6	4.3	2.4	2.3	2.7	2.8	2.8	2.8	6.1	5.9
<b>TWO-QUARTER<sup>3</sup></b>										
1993 Q2 <sup>2</sup>	4.3	4.3	1.8	1.8	3.3	3.3	3.0	3.0	-.3	-.3
Q4 <sup>2</sup>	5.7	5.7	4.5	4.5	2.2	2.2	2.5	2.5	-.5	-.5
1994 Q2 <sup>2</sup>	6.6	6.6	3.7	3.7	3.0	3.0	2.3	2.3	-.3	-.3
Q4 <sup>2</sup>	6.3	6.3	4.6	4.6	2.8	2.8	2.9	2.9	-.6	-.6
1995 Q2 <sup>2</sup>	3.3	3.4	1.1	1.6	2.9	2.9	3.3	3.2	.2	.1
Q4	4.8	5.0	2.2	2.5	2.9	2.8	2.8	2.4	.2	.1
1996 Q2	4.5	4.5	2.1	2.3	2.8	2.9	3.0	3.2	.1	.1
Q4	4.6	4.4	2.3	2.3	2.7	2.8	2.8	2.9	.0	.0
<b>FOUR-QUARTER<sup>4</sup></b>										
1992 Q4 <sup>2</sup>	6.4	6.4	3.7	3.7	3.2	3.2	3.1	3.1	.3	.3
1993 Q4 <sup>2</sup>	5.0	5.0	3.1	3.1	2.8	2.8	2.7	2.7	-.8	-.8
1994 Q4 <sup>2</sup>	6.5	6.5	4.1	4.1	2.9	2.9	2.6	2.6	-.9	-.9
1995 Q4	4.1	4.2	1.7	2.1	2.9	2.9	3.0	2.8	.4	.2
1996 Q4	4.5	4.4	2.2	2.3	2.8	2.8	2.9	3.0	.1	.1

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								
		1988	1989	1990	1991	1992	1993	1994	1995	1996
<b>EXPENDITURES</b>										
Nominal GDP	Bill. \$	4900.4	5250.8	5546.1	5724.8	6020.2	6343.3	6738.4	7066.6	7385.7
Real GDP	Bill. \$ <sup>75</sup>	4718.6	4838.0	4897.3	4857.6	4979.3	5134.5	5344.0	5500.1	5624.9
Real GDP	% change	3.3	1.6	.2	.3	3.7	3.1	4.1	2.1	2.3
Gross domestic purchases		2.5	.9	-.4	-.1	4.1	3.9	4.5	2.3	2.1
Final sales		4.2	1.5	1.2	-.4	3.8	3.0	3.4	2.6	2.1
Private dom. final purch		4.2	.5	-.1	-.8	5.1	5.0	4.9	3.5	2.6
Personal cons. expend.		4.2	1.2	.7	.0	4.2	3.0	3.5	2.3	2.1
Durables		8.5	-.5	-.8	-1.3	9.6	9.0	8.6	1.5	3.3
Nondurables		3.2	1.2	-.1	-1.6	3.2	1.3	3.1	1.9	1.7
Services		3.7	1.7	1.7	1.2	3.5	2.5	2.4	2.7	1.9
Business fixed invest.		5.5	-.4	.7	-6.2	6.7	16.0	12.9	11.9	5.3
Producers' dur. equip.		9.1	-1.7	2.9	-3.2	11.0	21.3	15.5	13.0	5.6
Nonres. structures		-1.2	2.3	-3.9	-12.4	-3.4	1.6	4.6	8.1	4.0
Res. structures		9	-7.7	-15.2	.7	17.0	8.1	3.1	-2.1	2.3
Exports		13.5	11.3	6.7	8.1	5.0	5.8	11.6	6.7	9.5
Imports		3.6	2.6	.4	4.0	8.6	12.4	13.8	7.8	7.5
Government purchases		.2	2.0	3.3	-.8	.7	-1.0	-1.0	-.6	-1.1
Federal		-3.4	-.6	2.8	-3.2	.8	-6.9	-5.9	-4.3	-5.9
Defense		-3.2	-1.5	1.5	-7.0	-1.3	-9.0	-8.2	-4.4	-4.5
State and local		2.9	4.0	3.6	.8	.6	3.0	2.0	1.5	1.4
Change in bus. invent.	Bill. \$ <sup>75</sup>	19.9	29.8	5.7	-1.1	2.5	15.3	47.8	29.5	30.7
Nonfarm		26.9	29.9	3.2	-1.3	-2.0	28.5	40.7	30.9	30.8
Net exports		-104.0	-73.7	-54.7	-19.5	-32.3	-73.9	-110.0	-122.9	-121.4
Nominal GDP	% change	7.7	6.0	4.7	3.5	6.4	5.0	6.5	4.2	4.4
<b>EMPLOYMENT AND PRODUCTION</b>										
Nonfarm payroll employ.	Millions	105.2	107.9	109.4	108.3	108.6	110.7	114.0	116.6	118.0
Unemployment rate	%	5.5	5.3	5.5	6.7	7.4	6.8	6.1	5.7	5.9
Industrial prod. index	% change	3.2	-.1	-.2	.2	4.0	3.6	6.0	1.4	3.0
Capacity util. rate-mfg.	%	83.6	83.2	81.3	78.0	79.2	80.9	83.4	83.1	81.8
Housing starts	Millions	1.49	1.38	1.19	1.01	1.20	1.29	1.46	1.34	1.41
Light Motor Vehicle Sales		15.43	14.53	13.85	12.31	12.80	13.89	15.07	14.62	14.50
Auto sales in U.S.		10.63	9.91	9.50	8.39	8.35	8.72	9.24	8.78	8.60
North American prod.		7.54	7.08	6.90	6.14	6.26	6.75	7.28	7.02	6.99
Other		3.10	2.83	2.60	2.25	2.10	1.97	1.96	1.76	1.61
<b>INCOME AND SAVING</b>										
Nominal GNP	Bill. \$	4908.2	5266.8	5567.8	5740.8	6025.8	6347.8	6726.9	7044.1	7357.0
Nominal GNP	% change	7.8	6.1	4.9	3.2	6.1	5.0	6.1	4.2	4.4
Nominal personal income		7.1	6.5	6.5	3.7	8.1	2.8	6.8	5.1	4.4
Real disposable income		3.2	1.1	1.1	.9	5.0	.5	4.4	2.4	1.9
Personal saving rate	%	4.4	4.0	4.2	5.0	5.5	4.1	4.1	4.6	4.6
Corp. profits, IVA&CCAdj	% change	10.2	-6.3	2.3	8.8	9.6	23.4	4.9	2.9	4.2
Profit share of GNP	%	7.4	6.9	6.8	6.8	6.7	7.7	8.1	8.1	8.1
Federal surpl./def.	Bill. \$	-136.6	-122.3	-163.5	-202.9	-282.7	-241.4	-159.1	-146.5	-145.2
State/local surpl./def.		38.4	44.8	25.1	17.0	24.8	26.3	26.2	23.6	24.9
Ex. social ins. funds		-18.4	-17.5	-35.6	-46.5	-41.6	-40.0	-39.3	-41.2	-39.2
<b>PRICES AND COSTS</b>										
GDP implicit deflator	% change	4.2	4.4	4.5	3.3	2.6	1.8	2.3	2.1	2.1
GDP fixed-wt. price index		4.2	4.4	4.6	3.6	3.2	2.8	2.9	2.9	2.8
Gross domestic purchases		4.1	4.4	5.2	2.9	3.2	2.5	2.9	2.8	2.8
fixed-wt. price index		4.3	4.6	6.3	3.0	3.1	2.7	2.6	2.8	3.0
CPI		4.5	4.4	5.3	4.4	3.5	3.1	2.8	3.1	2.9
Ex. food and energy										
ECI, hourly compensation <sup>2</sup>		4.8	4.8	4.6	4.4	3.5	3.6	3.1	2.8	3.1
Nonfarm business sector		.5	-1.4	.4	2.3	3.1	1.3	1.8	1.5	1.3
Output per hour		3.8	3.1	5.2	4.7	5.1	1.9	3.2	3.5	3.2
Compensation per hour		3.3	4.6	5.7	2.3	1.9	.5	1.4	1.9	1.9
Unit labor cost										

1. Percent changes are from fourth quarter to fourth quarter. 2. Private-industry workers.

Item	Unit	1992				1993				1994	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	5896.8	5971.3	6043.6	6169.3	6235.9	6299.9	6359.2	6478.1	6574.7	6689.9
Real GDP	Bill. 87\$	4918.5	4947.5	4990.5	5060.7	5075.3	5105.4	5139.4	5218.0	5261.1	5314.1
Real GDP	% change	3.1	2.4	3.5	5.7	1.2	2.4	2.7	6.3	3.3	4.1
Gross domestic purchases		3.2	3.7	3.9	5.7	2.7	3.3	4.0	5.8	5.0	4.6
Final sales		4.8	1.5	3.5	5.6	1.2	2.4	3.2	6.4	2.2	1.5
Private dom. final purch.		5.7	4.2	3.9	6.7	3.5	3.7	5.3	7.4	5.8	2.7
Personal cons. expend.		5.8	1.7	3.9	5.6	1.6	2.6	3.9	4.0	4.7	1.3
Durables		15.5	.4	10.0	13.2	3.2	9.8	7.7	15.5	8.8	.4
Nondurables		4.2	-.7	2.7	6.9	-1.6	1.6	2.8	2.4	3.8	2.2
Services		4.5	3.4	3.2	3.0	3.1	1.4	3.6	2.0	4.0	1.1
Business fixed invest.		-.1	15.0	5.0	7.5	15.1	15.6	12.2	21.1	10.9	9.2
Producers' dur. equip.		-1.3	22.7	11.0	12.9	20.0	21.6	16.2	27.5	18.6	6.1
Nonres. structures		2.9	-1.6	-8.9	-5.5	2.5	-.3	.5	3.3	-11.8	20.6
Res. structures		22.4	22.7	.8	23.8	5.3	-7.6	9.4	28.2	10.0	7.0
Exports		6.1	1.5	5.3	7.2	-1.0	7.7	-3.2	21.7	-3.5	16.6
Imports		6.6	13.0	8.4	6.5	11.6	14.9	7.4	16.0	9.5	18.9
Government purchases		1.5	-3.0	3.4	.9	-5.9	1.2	1.1	-.1	-4.9	-1.2
Federal		-1.3	-4.8	8.6	1.1	-15.4	-3.6	-3.0	-5.0	-10.3	-7.9
Defense		-7.2	-5.1	11.5	-3.3	-20.0	-2.2	-9.2	-3.6	-16.0	-4.1
State and local		3.3	-1.8	.1	.8	.9	4.4	3.7	2.9	-1.4	2.9
Change in bus. invent.	Bill. 87\$	-6.3	4.2	5.2	6.6	18.5	18.9	13.0	10.8	25.4	59.2
Nonfarm		-14.3	-1.9	1.8	6.3	19.7	22.8	20.9	10.7	22.1	51.7
Net exports		-17.9	-34.1	-38.9	-38.5	-57.6	-69.3	-86.3	-82.2	-104.0	-111.8
Nominal GDP	% change	7.1	5.2	4.9	8.6	4.4	4.2	3.8	7.7	6.1	7.2
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employ.	Millions	108.1	108.4	108.7	109.1	109.7	110.4	111.0	111.8	112.7	113.6
Unemployment rate <sup>1</sup>	%	7.3	7.5	7.5	7.3	7.0	7.0	6.7	6.5	6.6	6.2
Industrial prod. index	% change	.9	5.8	3.4	6.2	5.1	.7	3.3	5.3	7.1	6.0
Capacity util. rate-mfg. <sup>1</sup>	%	78.4	79.1	79.4	80.1	80.8	80.6	80.7	81.4	82.3	83.1
Housing starts	Millions	1.24	1.15	1.18	1.23	1.16	1.25	1.31	1.47	1.36	1.44
Light Motor Vehicle Sales		12.46	12.81	12.71	13.22	13.23	14.11	13.69	14.53	15.45	14.76
Auto sales in U.S.		8.33	8.41	8.24	8.43	8.32	8.93	8.65	8.97	9.45	9.15
North American prod.		6.12	6.25	6.25	6.40	6.36	6.87	6.68	7.08	7.44	7.16
Other		2.21	2.16	1.99	2.03	1.96	2.07	1.97	1.89	2.00	1.99
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	5907.7	5979.1	6049.4	6167.0	6243.9	6303.3	6367.8	6476.2	6574.0	6682.5
Nominal GNP	% change	6.8	4.9	4.8	8.0	5.1	3.9	4.2	7.0	6.2	6.8
Nominal personal income		8.2	5.6	3.7	15.3	-5.8	8.6	2.4	6.7	5.3	7.7
Real disposable income		5.9	2.1	1.7	10.6	-7.4	4.7	.8	4.3	3.4	3.5
Personal saving rate <sup>1</sup>	%	5.3	5.5	5.0	6.2	4.0	4.6	3.9	4.0	3.6	4.1
Corp. profits, IVACCAdj	% change	18.8	.5	-40.0	101.1	9.6	30.7	18.4	37.0	-17.9	33.6
Profit share of GNP <sup>1</sup>	%	7.0	6.9	6.0	7.0	7.1	7.5	7.7	8.2	7.7	8.2
Federal govt. surpl./def.	Bill. \$	-279.9	-284.8	-293.9	-272.1	-283.5	-237.0	-224.9	-220.1	-176.2	-145.1
State/local surpl./def.		19.9	25.9	20.4	33.1	21.6	25.3	23.9	34.5	25.2	27.0
Ex. social ins. funds		-45.7	-40.5	-46.3	-33.8	-44.7	-41.1	-42.4	-31.7	-40.7	-38.9
<b>PRICES AND COSTS</b>											
GDP implicit deflator	% change	3.8	2.7	1.3	2.7	3.3	1.6	1.0	1.3	2.9	2.9
GDP fixed-wt. price index		3.9	3.3	2.7	2.8	4.2	2.4	2.0	2.4	3.1	2.9
Gross domestic purchases		3.6	3.4	3.2	2.5	3.3	2.6	1.6	2.4	2.5	3.2
fixed-wt. price index		2.9	2.9	3.2	3.5	3.1	2.8	1.7	3.4	2.2	2.5
CPI		3.7	3.3	3.3	3.6	3.5	3.5	2.4	2.9	2.9	2.9
Ex. food and energy		4.0	2.9	2.8	3.9	4.2	3.5	3.4	3.4	3.0	3.4
ECI, hourly compensation <sup>2</sup>		4.0	2.9	2.8	3.9	4.2	3.5	3.4	3.4	3.0	3.4
Nonfarm business sector		4.0	2.3	2.4	3.9	-2.2	4	2.9	4.2	1.7	-1.4
Output per hour		5.5	5.0	5.3	4.6	1.9	2.4	1.5	1.6	4.9	1.4
Compensation per hour		1.4	2.7	2.9	6	4.1	2.0	-1.3	-2.5	3.1	2.8

1. Not at an annual rate.

2. Private-industry workers.

Item	Units	Projected									
		1994		1995				1996			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	6791.7	6897.2	6977.4	7011.8	7091.9	7185.4	7268.3	7345.8	7424.6	7503.9
Real GDP	Bill. '87\$	5367.0	5433.8	5470.1	5477.3	5506.8	5546.1	5577.5	5609.0	5640.5	5672.5
Real GDP	% change	4.0	5.1	2.7	.5	2.2	2.9	2.3	2.3	2.3	2.3
Gross domestic purchases		4.4	4.2	3.5	1.0	2.1	2.7	2.3	2.1	2.4	1.8
Final sales		4.3	5.7	2.6	2.1	3.3	2.4	1.7	2.2	2.0	2.6
Private dom. final purch.		4.1	6.8	4.2	3.1	3.8	3.1	2.5	2.6	2.7	2.7
Personal cons. expend.		3.1	5.1	1.6	2.5	2.8	2.2	2.0	2.0	2.1	2.1
Durables		5.8	20.4	-3.4	.4	6.8	2.6	2.6	3.7	3.6	3.6
Nondurables		3.3	3.1	2.3	1.3	2.3	1.9	1.7	1.6	1.7	1.7
Services		2.2	2.3	2.6	3.8	2.1	2.3	2.0	1.8	1.9	1.9
Business fixed invest.		14.1	17.6	21.5	11.8	8.6	6.3	4.5	5.5	5.5	5.6
Producers' dur. equip.		18.1	19.6	24.5	12.7	8.9	6.5	4.6	5.9	5.9	6.0
Nonres. structures		1.6	11.0	11.5	8.5	7.2	5.2	4.0	3.9	4.0	4.0
Res. structures		-6.0	2.3	-3.4	-14.2	3.0	7.8	3.3	2.1	2.0	1.9
Exports		14.8	20.2	4.8	7.2	3.6	11.3	7.1	12.0	5.8	13.2
Imports		15.6	11.4	10.1	9.4	3.1	8.7	6.2	9.2	6.0	8.7
Government purchases		6.7	-4.1	-.7	-.3	.7	-2.0	-2.0	-1.4	-.7	-.4
Federal		10.9	-14.4	-3.8	-3.1	-2.3	-7.8	-7.3	-6.9	-5.3	-4.1
Defense		12.8	-21.8	-7.5	-2.0	-3.0	-5.2	-4.7	-5.3	-4.2	-3.7
State and local		4.3	2.3	1.0	1.4	2.2	1.2	.8	1.5	1.7	1.5
Change in bus. invent.	Bill. '87\$	57.1	49.4	51.1	30.4	15.3	21.2	28.7	30.5	34.2	29.5
Nonfarm		47.4	41.7	49.1	32.9	18.3	23.2	29.5	30.7	34.1	29.0
Net exports		-117.0	-107.1	-118.5	-125.0	-125.1	-123.2	-123.4	-121.2	-123.4	-117.8
Nominal GDP	% change	6.2	6.4	4.7	2.0	4.6	5.4	4.7	4.3	4.4	4.3
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employ.	Millions	114.5	115.3	116.1	116.4	116.7	117.2	117.5	117.8	118.1	118.4
Unemployment rate <sup>1</sup>	%	6.0	5.6	5.5	5.7	5.8	5.8	5.8	5.9	5.9	5.9
Industrial prod. index	% change	4.9	5.9	5.2	-2.7	1.1	2.4	3.2	3.2	2.8	2.7
Capacity util. rate-mfg <sup>1</sup>	%	83.6	84.5	84.7	83.1	82.3	82.0	82.0	81.9	81.8	81.6
Housing starts	Millions	1.47	1.51	1.31	1.28	1.37	1.39	1.40	1.41	1.42	1.42
Light Motor Vehicle Sales		14.65	15.44	14.90	14.35	14.41	14.82	14.49	14.50	14.50	14.50
Auto sales in U.S.		9.09	9.25	8.84	8.72	8.76	8.78	8.61	8.61	8.60	8.59
North American prod.		7.09	7.42	7.03	6.91	6.99	7.16	7.00	7.00	6.99	6.98
Other		2.01	1.83	1.81	1.82	1.77	1.62	1.61	1.61	1.61	1.61
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	6779.6	6871.3	6959.5	6985.8	7071.0	7159.9	7243.1	7314.6	7398.4	7472.1
Nominal GNP	% change	5.9	5.5	5.2	1.5	5.0	5.1	4.7	4.0	4.7	4.0
Nominal personal income		5.4	8.8	7.4	2.8	5.2	5.1	4.6	4.2	4.1	4.7
Real disposable income		3.1	7.5	4.1	-1.3	4.6	2.5	2.8	.2	2.6	2.0
Personal saving rate <sup>1</sup>	%	4.1	4.6	5.1	4.1	4.5	4.6	4.8	4.4	4.5	4.5
Corp. profits, IVACCAdj	% change	7.2	3.1	6.9	-2.8	-1.3	9.4	4.9	1.6	8.9	1.6
Profit share of GNP <sup>1</sup>	%	8.2	8.2	8.2	8.1	8.0	8.1	8.1	8.0	8.1	8.0
Federal govt. surpl./def.	Bill. \$	-154.0	-161.1	-148.6	-128.3	-148.4	-160.7	-153.8	-130.5	-141.6	-154.9
State/local surpl./def.		23.9	28.8	28.2	20.9	21.8	23.4	20.6	23.1	26.6	29.4
Ex. social ins. funds		-41.4	-36.4	-36.9	-44.0	-42.8	-40.9	-43.6	-41.0	-37.4	-34.6
<b>PRICES AND COSTS</b>											
GDP implicit deflator	% change	1.9	1.3	2.2	1.3	2.5	2.4	2.4	2.0	2.0	2.0
GDP fixed-wt. price index		3.0	2.6	3.3	2.7	2.8	2.9	3.1	2.7	2.8	2.8
Gross domestic purchases fixed-wt. price index		3.5	2.6	3.0	2.9	2.3	2.6	3.1	2.8	2.7	2.7
CPI		3.6	2.2	3.2	3.2	2.0	2.8	3.3	3.1	2.9	2.8
Ex. food and energy		3.1	2.3	3.3	3.6	2.7	2.9	2.9	2.9	2.9	2.9
ECI, hourly compensation <sup>2</sup>		3.3	2.6	2.3	2.9	3.0	3.0	3.1	3.1	3.1	3.1
Nonfarm business sector		2.7	4.3	2.5	3.0	-1.0	1.4	1.5	1.2	1.2	1.2
Output per hour		2.7	3.8	4.1	3.6	3.0	3.0	3.6	2.8	3.2	3.2
Compensation per hour		0	-.4	1.6	.6	4.0	1.6	2.1	1.6	2.0	2.0
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)

August 16, 1995

Item	1992										1993				1994			
	1992				1993				1994		1991		1992		1993		1994	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1991	1992	1993	1994	1991	1992	1993	1994
Real GDP	37.7	29.0	43.0	70.2	14.6	30.1	34.0	78.6	43.1	53.0	13.6	179.9	157.3	215.8				
Gross domestic purchases	38.8	45.1	47.9	69.8	33.7	41.8	51.1	74.4	64.9	60.7	-6.4	201.6	201.0	240.7				
Final sales	57.5	18.4	42.1	68.8	2.7	29.7	40.0	80.7	28.5	19.2	-20.7	186.8	153.1	177.2				
Private dom. final purch.	55.1	41.7	39.1	66.3	35.9	38.6	54.5	76.9	61.9	29.8	-32.6	202.2	205.9	211.4				
Personal cons. expend.	46.1	14.0	32.2	45.8	13.8	22.0	33.0	34.0	40.1	11.5	-.6	138.1	102.8	123.4				
Durables	15.7	.4	10.7	14.3	3.7	11.2	9.0	18.1	10.9	.5	-5.5	41.1	42.0	44.0				
Nondurables	10.7	-1.8	7.1	17.8	-4.2	4.3	7.4	6.3	10.3	6.0	-17.1	33.8	13.8	33.9				
Services	19.7	15.3	14.4	13.7	14.4	6.4	16.6	9.6	18.9	5.1	22.1	63.1	47.0	45.5				
Business fixed invest.	-.1	18.0	6.4	9.7	19.4	20.7	16.9	29.3	16.4	14.3	-33.3	34.0	86.3	81.0				
Producers' dur. equip.	-1.2	18.6	9.9	11.8	18.4	20.7	16.6	28.2	20.9	7.5	-11.9	39.1	83.9	74.1				
Nonres. structures	1.1	-.6	-3.5	-2.1	.9	.1	.2	1.2	-4.6	6.9	-21.4	-5.1	2.4	6.9				
Res. structures	9.2	9.8	.4	10.8	2.7	-4.1	4.7	13.5	5.4	3.9	1.2	30.2	16.8	7.0				
Change in bus. invent.	-19.8	10.5	1.0	1.4	11.9	.4	-5.9	-2.2	14.6	33.8	34.4	-6.9	4.2	38.6				
Nonfarm	-28.9	12.4	3.7	4.5	13.4	3.1	-1.9	-10.2	11.4	29.6	33.3	-8.3	4.4	31.0				
Farm	9.1	-1.8	-2.8	-3.1	-1.5	-2.7	-4.0	8.0	3.2	4.2	1.0	1.4	-.2	7.6				
Net exports	-1.0	-16.2	-4.8	.4	-19.1	-11.7	-17.0	4.1	-21.8	-7.8	19.9	-21.6	-43.7	-24.9				
Exports	8.4	2.1	7.4	10.2	-1.5	11.0	-4.9	29.9	-5.6	24.3	42.2	28.1	34.5	72.7				
Imports	9.4	18.3	12.3	9.9	17.5	22.8	12.0	25.8	16.2	32.0	22.2	49.9	78.1	97.6				
Government purchases	3.4	-7.1	7.8	2.1	-14.1	2.8	2.5	-.3	-11.6	-2.8	-8.0	6.2	-9.1	-9.3				
Federal	-1.2	-4.6	7.7	1.0	-15.4	-3.3	-2.7	-4.5	-9.4	-7.0	-12.4	2.9	-25.9	-20.7				
Defense	-4.9	-3.4	7.1	-2.2	-14.2	-1.4	-5.9	-2.2	-10.2	-2.4	-19.9	-3.4	-23.7	-19.6				
Nondefense	3.8	-1.2	.6	3.2	-1.3	-1.8	3.2	-2.3	.8	-4.5	7.4	6.4	-2.2	-1.1				
State and local	4.5	-2.5	.1	1.1	1.3	6.1	5.2	4.2	-2.1	4.1	4.6	3.2	16.8	11.4				

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)

August 16, 1995

Item	Projected										Projected			
	1994		1995					1996			1993	1994	1995	1996
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GDP	52.9	66.8	36.3	7.2	29.5	39.2	31.4	31.5	31.6	31.9	157.3	215.8	112.3	126.4
Gross domestic purchases	58.2	56.9	47.7	13.7	29.6	37.3	31.7	29.2	33.8	26.3	201.0	240.7	128.3	121.0
Final sales	55.1	74.4	34.6	27.9	44.6	33.3	24.0	29.7	27.9	36.6	153.1	177.2	140.4	118.1
Private dom. final purch.	45.4	74.3	47.7	35.0	43.2	36.1	28.9	30.7	31.6	31.9	205.9	211.4	162.0	123.2
Personal cons. expend.	26.9	44.9	14.3	22.6	25.7	20.0	18.3	18.7	19.5	19.6	102.8	123.4	82.6	76.1
Durables	7.4	25.2	-4.8	.5	9.1	3.6	3.6	5.2	5.0	5.1	42.0	44.0	8.4	18.9
Nondurables	9.1	8.5	6.3	3.7	6.4	5.3	4.8	4.6	4.9	4.9	13.8	33.9	21.7	19.2
Services	10.4	11.1	12.8	18.4	10.2	11.1	10.0	9.0	9.5	9.6	47.0	45.5	52.5	38.1
Business fixed invest.	22.1	28.2	35.4	21.0	15.9	11.9	8.8	10.8	11.0	11.3	86.3	81.0	84.2	41.8
Producers' dur. equip.	21.5	24.2	31.1	17.7	13.0	9.8	7.1	9.1	9.3	9.6	83.9	74.1	71.6	35.1
Nonres. structures	.6	4.0	4.3	3.3	2.9	2.1	1.6	1.7	1.7	1.7	2.4	6.9	12.6	6.7
Res. structures	-3.6	1.3	-2.0	-8.6	1.6	4.2	1.8	1.2	1.2	1.1	16.8	7.0	-4.8	5.3
Change in bus. invent.	-2.1	-7.7	1.7	-20.7	-15.1	5.9	7.4	1.8	3.7	-4.7	4.2	38.6	-28.2	8.3
Nonfarm	-4.3	-5.7	7.4	-16.2	-14.6	4.9	6.2	1.2	3.4	-5.1	4.4	31.0	-18.5	5.8
Farm	2.2	-2.0	-5.7	-4.5	-.5	1.0	1.2	.6	.3	.4	-.2	7.6	-9.7	2.5
Net exports	-5.2	9.9	-11.4	-6.5	-.1	1.9	-.3	2.3	-2.2	5.6	-43.7	-24.9	-16.1	5.4
Exports	22.6	31.4	8.3	12.3	6.3	19.7	12.8	21.8	11.1	25.0	34.5	72.7	46.7	70.6
Imports	27.9	21.5	19.6	18.8	6.5	17.9	13.0	19.5	13.3	19.3	78.1	97.6	62.8	65.2
Government purchases	14.9	-9.8	-1.7	-.6	1.5	-4.7	-4.7	-3.3	-1.5	-.9	-9.1	-9.3	-5.5	-10.5
Federal	8.8	-13.1	-3.2	-2.6	-1.9	-6.5	-5.9	-5.5	-4.1	-3.1	-25.9	-20.7	-14.2	-18.7
Defense	6.9	-13.9	-4.2	-1.1	-1.6	-2.8	-2.5	-2.8	-2.2	-1.9	-23.7	-19.6	-9.7	-9.4
Nondefense	1.8	.8	1.0	-1.5	-.3	-3.7	-3.4	-2.7	-1.9	-1.2	-2.2	-1.1	-4.5	-9.3
State and local	6.1	3.3	1.5	2.1	3.3	1.8	1.2	2.2	2.6	2.2	16.8	11.4	8.7	8.2

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)

August 16, 1995

Item	Fiscal year				1994				1995				1996			
	1993 <sup>a</sup>	1994 <sup>a</sup>	1995	1996	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4 <sup>a</sup>	Q1 <sup>a</sup>	Q2 <sup>b</sup>	Q3	Q4	Q1	Q2	Q3	Q4
<b>UNIFIED BUDGET</b>																
Receipts <sup>1</sup>	1153	1257	1353	1390	289	363	318	308	307	404	335	320	294	427	349	335
Outlays <sup>1</sup>	1409	1461	1518	1579	348	363	371	380	378	379	380	396	397	392	395	412
Surplus/deficit <sup>1</sup>	-255	-203	-164	-189	-59	0	-53	-73	-71	24	-45	-76	-102	35	-46	-77
On-budget	-301	-259	-230	-251	-66	-33	-55	-87	-83	-10	-50	-84	-109	-7	-50	-82
Off-budget	46	56	65	61	8	33	2	14	12	34	5	9	7	42	4	5
Surplus excluding deposit insurance <sup>2</sup>	-283	-211	-183	-196	-65	3	-57	-77	-77	19	-47	-76	-106	35	-50	-76
Means of financing																
Borrowing	249	185	168	217	51	8	37	60	66	26	17	62	92	11	51	55
Cash decrease	6	17	-3	-21	5	-6	15	9	8	-42	21	16	8	-45	0	25
Other <sup>3</sup>	0	1	0	-6	2	-2	1	5	-3	-7	6	-3	2	-1	-5	-3
Cash operating balance, end of period	53	36	39	60	45	51	36	27	18	61	39	23	15	60	60	35
<b>NIPA FEDERAL SECTOR</b>																
Receipts	1242	1355	1448	1505	1338	1381	1389	1409	1441	1472	1472	1488	1491	1521	1521	1536
Expenditures	1497	1529	1595	1652	1514	1526	1543	1570	1590	1600	1620	1649	1644	1651	1662	1691
Purchases	447	439	434	422	438	435	444	432	434	434	434	427	425	420	417	416
Defense	307	296	285	281	292	292	301	285	284	285	284	282	283	281	280	279
Nondefense	140	144	149	141	146	144	144	147	151	149	149	144	142	139	137	137
Other expenditures	1049	1090	1161	1229	1076	1091	1099	1138	1155	1166	1186	1222	1219	1231	1245	1275
Surplus/deficit	-254	-174	-147	-147	-176	-145	-154	-161	-149	-128	-148	-161	-154	-130	-141	-155
<b>FISCAL INDICATORS<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-211	-164	-169	-164	-158	-140	-161	-184	-176	-149	-167	-180	-172	-148	-158	-171
Change in HEB, percent of potential GDP	-.1	-.7	.1	-.1	-.6	-.3	.3	.3	-.1	-.4	.2	.2	-.1	-.3	.1	.2
Fiscal impetus (FI), percent, cal. year	-4.1	-7.3	-5.9	-11.6	-4.2	-4.3	3.4	-3.8	-1.7	-1.8	-.4	-1.9	-6.9	-2.6	-.5	-3

1. OMB's July 1995 deficit estimates are \$160 billion in FY95 and \$163 billion in FY96. CBO's March 1995 deficit estimates are \$175 billion in FY95 and \$210 billion in FY96. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's July 1995 deficit estimates, excluding deposit insurance spending, are \$177 billion in FY95 and \$170 billion in FY96. CBO's March 1995 deficit estimates, excluding deposit insurance spending, are \$191 billion in FY95 and \$218 billion in FY96.

3. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.

4. HEB is the NIPA measure in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output generated by 2.4 percent real growth and an associated unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes (in 1987 dollars), scaled by real federal purchases. For change in HEB and FI, negative values indicate restraint.

a--Actual.

b--Preliminary.

Confidential FR Class II  
August 16, 1995

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

	-----Nonfederal-----									
	-----Households-----							-----MEMO-----		
	Total <sup>2</sup>	Federal govt.	Total	Total	Home mtg.	Cons. credit	Business	State and local govt.	Private financial assets	Nominal GDP
<b>Year</b>										
1982	9.8	19.7	7.4	5.5	4.7	4.4	8.8	9.3	10.1	3.2
1983	11.9	18.9	10.1	11.8	10.8	12.6	8.7	9.7	12.5	11.0
1984	14.6	16.9	13.9	13.0	11.7	18.7	15.6	9.1	12.8	9.1
1985	15.5	16.5	15.2	15.3	13.2	15.8	12.1	31.6	12.4	7.0
1986	12.3	13.6	11.9	12.0	14.3	9.6	12.2	9.8	7.3	4.7
1987	9.4	8.0	9.8	11.4	14.9	5.0	7.9	12.1	8.1	8.0
1988	8.9	8.0	9.2	10.5	12.7	7.2	8.7	6.0	8.6	7.7
1989	7.8	7.0	8.1	9.2	10.8	6.2	6.9	9.3	5.8	6.0
1990	6.3	11.0	5.0	6.5	7.9	2.0	3.4	5.7	4.7	4.7
1991	4.4	11.1	2.4	4.7	6.5	-1.8	-1.0	7.4	-1.0	3.5
1992	4.8	10.9	2.8	5.8	6.7	0.7	-0.1	1.8	0.7	6.4
1993	5.3	8.3	4.2	7.1	6.4	7.8	0.5	6.8	-0.4	5.0
1994	4.8	4.7	4.9	8.2	6.4	14.0	3.6	-4.9	5.0	6.5
1995	5.0	4.9	5.0	6.6	5.8	11.5	6.0	-7.3	1.3	4.2
1996	4.9	5.7	4.6	6.0	5.8	7.6	5.0	-5.2	1.0	4.4
<b>Quarter (seasonally adjusted annual rates)</b>										
1994:1	5.1	6.3	4.7	7.2	6.5	7.9	3.4	-1.4	6.3	6.1
2	4.2	3.6	4.4	7.0	5.2	13.9	3.8	-4.5	5.3	7.2
3	4.7	3.9	4.9	8.8	7.0	14.4	3.5	-7.2	2.1	6.2
4	4.9	4.5	5.1	8.9	6.2	17.1	3.6	-6.8	6.0	6.4
1995:1	6.3	7.8	5.8	6.7	6.2	10.2	7.8	-6.7	3.0	4.7
2	5.9	5.4	6.1	6.6	5.2	13.6	7.1	-1.2	0.6	2.0
3	3.1	1.5	3.8	6.4	5.5	10.5	4.3	-12.3	0.7	4.5
4	4.2	4.6	4.0	6.3	5.7	10.0	4.3	-9.9	1.0	5.4
1996:1	6.5	10.4	5.0	6.2	5.7	8.9	6.0	-6.8	1.0	4.7
2	4.4	3.6	4.6	6.0	5.7	7.8	4.6	-3.4	1.0	4.3
3	4.4	4.8	4.3	5.7	5.7	6.7	4.5	-5.3	1.0	4.4
4	4.0	3.5	4.1	5.6	5.7	6.2	4.3	-5.9	1.0	4.3

1. Data after 1995:q1 are staff projections. Changes are measured from end of the preceding period to end of period indicated except annual nominal GDP growth, which is Q4 to Q4.
  2. On a quarterly average basis, total debt growth is projected to be 5.0 in 1995 and 4.7 in 1996. Federal debt rises 4.6 percent in 1995 and 5.6 percent in 1996. Nonfederal debt is projected to increase 5.2 percent in 1995 and 4.4 percent in 1996.
- 2.6.3 FOF

Confidential FR Class II  
August 16, 1995

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

	Calendar year												
	1994	1995	1996	-1994-	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-----Seasonally Adjusted Annual Rates-----													
Net funds raised by domestic nonfinancial sectors													
1 Total	555.7	582.5	606.6	530.1	772.2	702.2	356.5	499.1	787.1	552.7	571.8	514.6	
2 Net equity issuance	-40.9	-61.0	-59.0	-102.0	-46.8	-73.2	-64.0	-60.0	-92.0	-52.0	-46.0	-46.0	
3 Net debt issuance	596.6	643.5	665.6	632.1	819.0	775.4	420.5	559.1	879.1	604.7	617.8	560.6	
Borrowing sectors													
Nonfinancial business													
4 Financing gap <sup>2</sup>	48.5	109.9	95.9	91.7	124.6	99.3	119.5	96.0	93.7	98.5	97.2	94.3	
5 Net equity issuance	-40.9	-61.0	-59.0	-102.0	-46.8	-73.2	-64.0	-60.0	-92.0	-52.0	-46.0	-46.0	
6 Credit market borrowing	136.2	233.5	204.6	137.5	301.5	281.4	174.1	177.2	249.1	193.3	190.2	185.8	
Households													
7 Net borrowing, of which:	352.7	308.2	297.4	404.7	308.8	311.5	307.2	305.4	307.2	304.0	289.8	288.6	
8 Home mortgages	190.1	182.5	194.7	194.5	195.0	166.9	180.0	188.0	191.0	193.0	196.0	199.0	
9 Consumer credit	121.2	113.5	83.5	161.5	100.3	137.0	109.7	107.2	97.2	87.2	77.2	72.2	
10 Debt/DPI (percent) <sup>3</sup>	90.1	91.4	92.7	90.0	90.3	91.6	91.6	91.9	92.1	92.8	93.0	93.2	
State and local governments													
11 Net borrowing	-48.2	-69.2	-45.7	-65.1	-63.1	-11.2	-113.6	-88.8	-59.2	-29.2	-45.2	-49.2	
12 Current surplus <sup>4</sup>	-46.8	-56.9	-57.2	-32.9	-48.5	-60.4	-59.9	-58.7	-61.6	-59.1	-55.6	-52.7	
U.S. government													
13 Net borrowing	156.1	170.9	209.3	155.9	271.8	193.6	52.9	165.4	382.0	136.7	183.0	135.4	
14 Net borrowing; quarterly, nsa	156.1	170.9	209.3	59.7	65.6	25.6	17.5	62.2	92.1	11.4	50.8	54.9	
15 Unified deficit; quarterly, nsa	184.5	167.2	190.5	72.7	71.3	-24.3	44.7	75.6	102.3	-34.8	46.3	76.7	
Funds supplied by depository institutions													
16 Dom. nonfinancial debt <sup>3</sup>	196.9	227.1	217.7	193.4	366.4	202.7	175.6	163.5	220.7	216.7	213.7	219.7	
MEMO: (percent of GDP)													
17 Dom. nonfinancial debt <sup>3</sup>	188.0	188.0	188.7	186.8	187.3	189.2	189.2	188.4	188.7	189.3	189.3	189.3	
18 Dom. nonfinancial borrowing	8.9	9.1	9.0	9.2	11.7	11.1	5.9	7.8	12.1	8.2	8.3	7.5	
19 U.S. government <sup>5</sup>	2.3	2.4	2.8	2.3	3.9	2.8	0.7	2.3	5.3	1.9	2.5	1.8	
20 Private	6.5	6.7	6.2	6.9	7.8	8.3	5.2	5.5	6.8	6.4	5.9	5.7	

1. Data after 1995:q1 are staff projections.

2. For corporations: Excess of capital expenditures over U.S. internal funds.

3. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.

4. NIPA surplus, net of retirement funds.

5. Excludes government-insured mortgage pool securities.

real export growth in 1996. With real import growth somewhat slower than export growth, but starting from a larger base, real net exports will be essentially unchanged over the forecast period.

Growth of real exports of goods and services is projected to increase somewhat during the second half of 1995 from its earlier pace and then to average 9 percent over the four quarters of 1996. Continued double-digit growth of computer exports contributes importantly to the strength in real exports. The growth of nonagricultural exports other than computers is projected to fluctuate some during the remainder of this year in response to seasonal influences not captured in the published data and to accelerate from an average annual rate of growth of 2-1/4 percent during the last half of 1995 to 5-1/4 percent during 1996.

**QUANTITIES OF GOODS AND SERVICES**  
(Percent change from end of previous period, SAAR)

	-----Projection-----				
	Q1	Q2	1995	Q4	1996
Exports of G&S	4.8	7.2	3.6	11.3	9.5
Services	-3.1	-1.5	2.0	4.6	4.8
Computers	28.5	29.9	29.3	29.8	31.8
Other goods <sup>1</sup>	3.6	9.4	-3.4	8.4	5.3
Imports of G&S	10.1	9.4	3.1	8.7	7.5
Services	15.9	-3.1	0.9	2.4	2.8
Oil	-11.4	9.7	30.6	-2.3	1.8
Computers	13.3	24.9	26.0	26.1	21.5
Other goods <sup>2</sup>	10.7	8.5	-4.4	6.7	5.0

Note. NIPA basis, 1987 dollars.

1. Nonagricultural exports of goods excluding computers.

2. Non-oil imports of goods excluding computers.

Real imports of goods and services are projected to rise at an average annual rate of 6 percent during this quarter and next, somewhat slower than during the first half of the year. During 1996, import growth is projected to increase to about 7-1/2 percent, about the same as that projected for 1995 as a whole. Computer imports are projected to continue expanding rapidly. Growth of non-oil imports other than computers is expected to weaken during the second half of this year.

because of lagged effects of the lower dollar and our projection that adjustment of our trade with Mexico, which raised imports earlier this year, is nearly complete. Growth of these imports will rebound to 5 percent next year. Part of the slowing in total import growth is accounted for by a drop in the growth of the quantity of oil imports to about 1-3/4 percent next year. We expect the quantity of oil imports to rise sharply this quarter on seasonally higher consumption and inventory accumulation and to remain strong next quarter. During the remainder of the forecast period, oil imports are projected to resume growing as U.S. production declines and U.S. oil consumption increases.

Oil prices. We project that during the remainder of the year, the price of imported oil will remain below the second-quarter level in the face of an uptick in world oil production. While the third-quarter assumption for the oil import unit value has been revised up a marginal \$0.24 per barrel, to \$15.58 per barrel, this is about a \$2.00 per barrel drop from the second-quarter average. Given the staff's assumption that Iraq will not return to the world oil export market during 1996, stronger global economic activity will raise oil prices next year. During 1996, the spot WTI price and the oil import unit value are projected to be \$19.50 per barrel and \$17.00 per barrel, respectively.

**SELECTED PRICE INDICATORS**  
(Percent change from end of previous period except as noted, AR)

---

-----Projection-----

					<u>1996</u>
	<u>1995</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
U.S. PPI <sup>1</sup>	5.9	5.6	1.5	4.3	2.4
Nonag. exports <sup>2</sup>	9.7	6.7	4.5	4.7	2.5
Non-oil imports <sup>2</sup>	3.6	5.9	1.8	1.3	1.7
Oil imports <sup>3</sup> (\$bl.)	16.01	17.41	15.58	15.33	17.00

1. Selected categories (excluding computers) weighted by U.S. exports.  
 2. Excluding computers.  
 3. 1996 is Q4 level.

Prices of non-oil imports and exports. U.S. non-oil import prices (excluding computers) are projected to decelerate significantly during

STRICTLY CONFIDENTIAL - FR  
CLASS II FOMC

August 16, 1995

REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1993-96  
(Percent; quarterly change at an annual rate except as noted)

Measure and country	Projected											
	Projected				1994				1995			
	1993	1994	1995	1996	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
<b>REAL GDP</b>												
Canada	3.1	5.4	1.1	2.6	4.6	0.7	-0.0	0.9	3.0	3.0	2.4	
France	-0.9	4.0	2.6	3.0	3.2	2.8	3.0	1.9	2.6	2.8	3.0	
Germany	-0.0	4.0	2.4	2.8	4.1	1.9	2.0	2.7	2.8	2.9	2.8	
W. Germany	-0.5	3.3	1.8	2.2	3.0	0.9	1.7	2.2	2.3	2.4	2.2	
Italy	-0.3	2.9	4.0	3.1	0.7	6.0	2.6	3.8	3.8	3.6	3.2	
Japan	-0.5	0.8	0.1	1.5	-3.9	0.3	0.0	0.0	0.3	1.1	1.3	
United Kingdom	2.9	4.0	2.6	2.8	2.8	2.7	2.3	2.7	2.8	2.8	2.7	
Average, weighted by 1987-89 GDP	0.3	2.9	1.8	2.4	0.7	2.1	1.4	1.7	2.1	2.4	2.4	
Average, weighted by share of U.S. nonagricultural exports												
Total foreign	2.7	4.4	2.2	3.3	NA							
Foreign G-7	1.6	4.0	1.4	2.4	2.3	1.3	0.8	1.3	2.4	2.6	2.3	
Developing countries	5.2	5.7	3.1	5.0	NA							
<b>CONSUMER PRICES (1)</b>												
Canada	1.8	0.0	3.0	2.2	1.3	4.2	3.1	2.4	2.2	2.2	2.2	
France	2.1	1.6	2.8	1.7	1.7	2.2	2.1	4.0	2.8	1.6	1.6	
Western Germany	3.7	2.8	2.4	2.6	1.3	3.8	2.7	1.4	1.7	3.8	3.1	
Italy	4.1	3.8	6.0	5.0	4.7	6.3	8.0	4.2	5.5	6.1	6.6	
Japan	1.2	0.8	-0.5	-0.9	2.0	-2.3	0.7	-0.0	-0.1	-0.4	-0.8	
United Kingdom	1.6	2.6	3.4	3.9	2.6	3.6	7.5	0.7	1.9	4.5	7.5	
Average, weighted by 1987-89 GDP	2.2	1.8	2.2	1.8	2.3	1.9	3.4	1.7	1.9	2.4	2.6	
Average, weighted by share of U.S. non-oil imports												
	1.9	1.1	1.7	1.2	1.9	1.5	2.6	1.4	1.4	1.7	1.7	

Note. Annual values are measured from Q4 to Q4.

1. Not seasonally adjusted.

Strictly Confidential (FR) Class II-FOMC

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

(Billions of dollars, seasonally adjusted annual rates)

	1992				1993				1994		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1991	1992	1993
	NIPA Real Net Exports of Goods & Services (87\$)	-17.9	-34.1	-38.9	-38.5	-57.6	-69.3	-86.3	-82.2	-104.0	-111.8	-19.5	-32.3
Exports of G&S Goods	571.0	573.1	580.5	590.7	589.2	600.2	595.3	625.2	619.6	643.9	542.6	578.8	602.5
Agricultural	416.0	421.5	427.4	441.2	433.9	443.3	438.5	468.2	464.4	484.6	397.1	426.5	446.0
Computers	38.9	38.4	40.5	41.3	39.1	39.3	36.9	39.1	36.6	37.5	35.5	39.8	38.6
Other Goods	47.1	52.3	56.2	60.1	60.9	62.9	68.5	74.0	76.9	79.3	41.4	53.9	66.6
Services	330.0	330.8	330.7	339.8	333.9	341.1	333.1	355.1	350.9	367.8	320.2	332.8	340.8
	154.9	151.6	153.1	149.6	155.3	156.9	156.7	157.1	155.2	159.2	145.5	152.3	156.5
Imports of G&S Goods	588.8	607.1	619.4	629.3	646.8	669.6	681.6	707.4	723.6	755.6	562.1	611.1	676.3
Oil	489.5	509.7	521.7	530.2	546.6	567.4	577.1	599.9	615.2	648.3	464.4	512.8	572.8
Computers	47.2	51.6	53.1	52.8	53.4	57.7	56.7	58.1	56.5	60.3	49.2	51.2	56.5
Other Goods	51.2	57.5	64.7	68.4	73.3	80.0	87.8	94.6	99.7	106.9	41.6	60.5	83.9
Services	391.1	400.6	403.9	409.0	419.9	429.7	432.6	447.2	458.9	481.0	373.6	401.2	432.4
	99.3	97.4	97.7	99.0	100.1	102.2	104.5	107.6	108.5	107.4	97.7	98.3	103.6
Memo: (Percent change 1/)													
Exports of G&S	6.1	1.5	5.3	7.2	-1.0	7.7	-3.2	21.7	-3.5	16.6	8.1	5.0	5.8
Agricultural	13.4	-5.0	23.7	8.1	-19.7	2.1	-22.3	26.1	-23.2	10.2	10.9	9.5	-5.3
Computers	24.4	52.0	33.3	30.8	5.4	13.8	40.7	36.2	16.6	13.1	26.7	34.8	23.1
Other Goods	3.1	1.0	-0.1	11.5	-6.8	8.9	-9.1	29.2	-4.6	20.7	7.2	3.8	4.5
Services	5.9	-8.3	4.0	-8.8	16.1	4.2	-0.5	1.0	-4.8	10.7	4.7	-2.0	5.0
Imports of G&S	6.6	13.0	8.4	6.5	11.6	14.9	7.4	16.0	9.5	18.9	4.0	8.6	12.4
Oil	0.9	42.8	12.1	-2.2	4.6	36.3	-6.8	10.2	-10.6	29.7	8.3	12.1	10.0
Computers	53.5	59.1	60.3	24.9	31.9	41.9	45.1	34.8	23.4	32.2	45.6	48.7	38.3
Other Goods	2.4	10.1	3.3	5.1	11.1	9.7	2.7	14.2	10.9	20.7	2.9	5.2	9.3
Services	7.2	-7.4	1.2	5.4	4.5	8.7	9.3	12.4	3.4	-4.0	-6.2	1.4	8.7
Current Account Balance	-28.0	-62.1	-67.2	-89.0	-69.5	-97.4	-108.1	-124.7	-121.1	-151.9	-7.4	-61.5	-99.9
Goods & Serv (BOP), net	-15.9	-41.1	-47.5	-53.5	-54.3	-75.2	-88.0	-82.0	-92.1	-107.7	-29.4	-39.5	-74.8
Goods (BOP), net	-71.8	-97.0	-109.2	-106.5	-115.8	-134.4	-146.4	-133.9	-146.0	-166.0	-74.1	-96.1	-132.6
Services (BOP), net	55.9	56.0	61.7	53.0	61.5	59.2	58.5	51.9	53.9	58.3	44.7	56.6	57.8
Investment Income, net	15.5	10.0	8.5	6.4	14.8	8.3	12.8	0.1	0.5	-9.1	15.1	10.1	9.0
Direct, net	56.6	53.6	50.1	46.1	61.1	55.3	59.2	49.7	46.2	43.9	55.6	51.6	56.3
Portfolio, net	-41.1	-43.6	-41.6	-39.7	-46.2	-47.0	-46.5	-49.6	-45.7	-53.0	-40.5	-41.5	-47.3
Unilateral Transfers, net	-27.5	-31.0	-28.1	-42.0	-30.1	-30.4	-32.9	-42.9	-29.5	-35.1	6.9	-32.1	-34.1

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

Strictly Confidential (FR) Class II-FOMC

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

(Billions of dollars, seasonally adjusted annual rates)

	Projection												Projection		
	1994				1995				1996				ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1994	1995	1996		
NIPA Real Net Exports of Goods & Services (87\$)	-117.0	-107.1	-118.5	-125.0	-125.2	-123.3	-123.5	-121.3	-123.5	-117.9	-110.0	-123.0	-121.5		
Exports of G&S Goods	666.5	697.9	706.2	718.5	724.8	744.6	757.4	779.1	790.2	815.2	657.0	723.5	785.5		
Agricultural	505.1	533.5	543.2	556.0	561.5	579.4	590.5	610.2	619.5	642.0	496.9	560.0	615.6		
Computers	40.7	45.9	45.9	42.8	44.6	46.6	46.5	46.4	48.3	48.3	40.2	45.0	47.4		
Other Goods	85.9	95.8	102.0	108.9	116.1	124.0	132.7	142.2	152.4	163.3	84.5	112.7	147.6		
Services	378.5	391.8	395.3	404.3	400.8	408.9	411.2	421.6	418.9	430.4	372.2	402.3	420.6		
Imports of G&S Goods	161.3	164.3	163.0	162.4	163.2	165.1	166.8	168.8	170.6	173.0	160.0	163.4	169.8		
Oil	783.5	805.0	824.6	843.4	849.9	867.8	880.8	900.3	913.6	933.0	766.9	846.4	906.9		
Computers	674.6	695.9	711.5	731.2	737.4	754.6	766.9	785.6	798.3	816.7	658.5	733.7	791.9		
Other Goods	64.3	57.1	55.4	56.7	60.6	60.3	60.8	63.1	64.2	61.4	59.6	58.2	62.4		
Services	115.4	128.9	133.0	140.6	149.0	157.9	165.7	174.0	182.7	191.8	112.7	145.1	178.5		
Memo: (Percent change 1/)	494.9	510.0	523.1	533.9	527.9	536.5	540.4	548.5	551.4	563.6	486.2	530.3	551.0		
Exports of G&S Agricultural	108.9	109.1	113.2	112.3	112.6	113.2	114.0	114.8	115.5	116.4	108.5	112.8	115.2		
Computers	14.8	20.2	4.8	7.2	3.6	11.3	7.1	12.0	5.8	13.2	11.6	6.7	9.5		
Other Goods	38.8	61.8	-0.0	-24.4	18.2	18.4	-0.1	-0.9	16.5	-0.0	17.4	1.4	3.6		
Services	37.7	54.7	28.5	29.9	29.3	29.8	31.3	31.8	32.0	32.0	29.5	29.4	31.8		
Imports of G&S Oil	12.2	14.8	3.6	9.4	-3.4	8.4	2.3	10.5	-2.5	11.5	10.3	4.4	5.3		
Computers	5.4	7.6	-3.1	-1.5	2.0	4.6	4.3	5.0	4.3	5.9	4.6	0.5	4.8		
Other Goods	35.8	55.7	13.3	24.9	26.0	26.1	21.5	21.5	21.5	21.5	36.3	22.5	21.5		
Services	12.1	12.8	10.7	8.5	-4.4	6.7	3.0	6.1	2.1	9.1	14.0	5.2	5.0		
Investment Income, net Direct, net	5.7	0.7	15.9	-3.1	0.9	2.4	2.6	2.9	2.3	3.2	1.4	3.8	2.8		
Unilateral Transfers, net	-158.9	-173.1	-162.0	-185.4	-166.4	-172.3	-163.0	-168.1	-166.6	-177.6	-151.2	-171.5	-168.8		
Current Account Balance	-115.2	-109.9	-120.1	-134.6	-120.6	-111.5	-112.4	-111.4	-115.0	-109.9	-106.2	-121.7	-112.2		
Goods & Serv (BOP), net Goods (BOP), net	-178.5	-174.0	-180.2	-195.6	-182.3	-175.1	-177.9	-178.8	-184.2	-181.7	-166.1	-183.3	-180.6		
Services (BOP), net	63.3	64.1	60.1	61.0	61.6	63.6	65.5	67.3	69.2	71.8	59.9	61.6	68.4		
Investment Income, net Portfolio, net	-10.1	-18.3	-10.8	-18.9	-13.8	-18.3	-18.1	-24.1	-19.1	-24.8	-9.3	-15.4	-21.5		
Unilateral Transfers, net	-44.6	45.7	54.7	54.5	58.6	61.6	62.3	61.8	64.7	65.9	45.1	57.4	63.7		
1/ Percent change (AR) from previous period; percent changes for annual data are calculated Q4/Q4.	-54.7	-64.0	-65.5	-73.4	-72.4	-79.9	-80.4	-85.9	-83.7	-90.6	-54.4	-72.8	-85.2		

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

## **Part 2**

August 16, 1995

---

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

---

## **Recent Developments**

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

however, in view of the high levels of stocks at GM and Ford dealers.

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

	June	July	Aug.	Q2	Q3
U.S. production			<u>schd.</u>		<u>schd.</u>
Autos	11.6	11.2	12.0	11.7	11.8
Trucks	6.0	6.0	5.9	6.2	6.1
Days' supply					
Autos	5.6	5.2	6.1	5.6	5.8
Light trucks	71.9	73.8 <sup>e</sup>			
	67.9	69.3 <sup>e</sup>			

Note: Components may not sum to totals because of rounding.

Outside motor vehicles, manufacturing production was unchanged in July. As in the second quarter, business equipment production was the strongest component of this aggregate, with output gains led by another jump in production of office and computing equipment. Production of industrial equipment also posted another modest increase. The output of non-motor vehicle manufactured consumer goods fell 0.2 percent last month; weaker production of home furnishings offset a gain in output of appliances. Materials production turned up 0.2 percent.

Looking forward, other indicators of manufacturing activity are consistent with a firming in production over the next couple of months. Real new orders for goods in the adjusted durable goods grouping grew more than 2-1/2 percent in both May and June. And the purchasing managers indexes of new orders and production turned up in July: in both indexes more companies reported increases than decreases, a marked improvement from the readings in May and June.

#### Personal Income and Consumption

Overall consumer spending appears to have returned to a moderate growth path even though demand for motor vehicles has

**ADJUSTED FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS**  
**(Unified basis; billions of dollars except as noted)**

	Fiscal years through June					
	June				Dollar change	Percent change
	1994	1995	1994	1995		
Outlays	123.3	128.4	1089.3	1137.7	48.4	4.4
Deposit insurance (DI)	1.2	-3.4	-3.8	-15.8	-11.9	313.0
Outlays excluding DI	122.0	131.8	1093.1	1153.5	60.4	5.5
National defense	24.2	23.4	207.9	200.2	-7.8	-3.7
Net interest	15.9	18.6	149.7	172.4	22.6	15.1
Social security	30.1	32.1	239.2	251.7	12.5	5.2
Medicare and health	23.0	26.2	186.7	204.7	18.1	9.7
Income security	13.1	14.6	163.0	168.4	5.4	3.3
Other	15.7	16.8	146.6	156.1	9.5	6.5
Receipts	138.1	147.9	939.4	1018.0	78.6	8.4
Personal income	58.1	61.5	404.5	442.5	37.9	9.4
Withheld	37.7	40.9	348.7	380.4	31.8	9.1
Nonwithheld	21.7	23.1	127.5	141.5	14.0	11.0
Refunds	1.3	2.5	71.6	80.0	8.4	11.7
Social insurance	41.5	41.3	347.8	368.3	20.5	5.9
Corporate	29.1	35.9	106.2	118.6	12.4	11.7
Other	9.3	9.2	80.9	89.2	8.3	10.3
Deficit(+) Excluding DI	-14.8	-19.5	149.9	119.7	-30.2	-20.2
	-16.1	-16.1	153.7	135.4	-18.3	-11.9

Note. Monthly and fiscal year to date outlays for defense, income security, and "other outlays" are adjusted to account for the shifting of scheduled payroll and benefit payments when the 1st of the month falls on a weekend or holiday. Components may not sum to totals because of rounding.

## ADMINISTRATION BUDGET AND ECONOMIC PROJECTIONS

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Budget projections (billions of dollars; fiscal years)											
Baseline deficit	160	186	197	194	202	208	206	215	222	235	248
Net reduction	0	23	18	33	56	83	115	157	200	242	289
Policy	0	21	12	22	38	54	74	102	129	154	183
Interest Fiscal div. <sup>1</sup>	-	2	6	11	18	29	41	55	71	88	106
Other	-	2	5	9	14	21	28	35	42	49	55
Proposed deficit	160	163	179	161	146	125	91	58	23	-7	-41
Memo: CBO baseline deficit	-	210	230	232	265	296	310	340	372	408	454
Economic assumptions (calendar years)											
-----Percentage change, Q4 to Q4-----											
Real GDP	1.9	2.5	2.5	2.5	2.5	2.5	2.4	2.4	2.4	2.4	2.4
GDP deflator	2.8	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
CPI-U	3.2	3.2	3.2	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1
-----Percent, annual average-----											
Unemployment rate	5.8	5.9	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Yield on selected Treasuries											
Three-month	5.7	5.4	5.2	5.0	4.8	4.6	4.6	4.4	4.4	4.4	4.4
Ten-year	6.6	6.5	6.6	6.4	6.2	6.0	5.8	5.6	5.4	5.3	5.3

1. The fiscal dividend is the reduction in interest outlays that OMB estimates would result from the adoption of the President's budget plan.

Source. Administration estimates are from the Mid-Session Review of the 1996 Budget, July 28, 1995. CBO estimates are the March baseline (adjusted for the rebenchmarking of the CPI) reported in the statement of June E. O'Neill before the Committee on the Budget, U.S. House of Representatives, August 3, 1995.

U.S. CROP PRODUCTION<sup>1</sup>

	1992	1993	1994	USDA Projections for 1995, as of	
				July 12	Aug. 11
- - - - - billions of bushels - - - - -					
Corn	9.48	6.34	10.10	7.79	8.12
Soybeans	2.19	1.87	2.56	2.24	2.25
Wheat	2.47	2.40	2.32	2.19	2.23
Sorghum	.88	.53	.66	.58	.54
Oats	.29	.21	.23	.18	.19
Barley	.46	.40	.38	.38	.39
- - - - - billions of hundredweight - - - - -					
Rice	.18	.16	.20	.18	.19
- - - - - billions of pounds - - - - -					
Peanuts	4.28	3.39	4.25	n.a.	3.88
Tobacco	1.72	1.61	1.58	n.a.	1.41
- - - - - millions of bales - - - - -					
Cotton	16.22	16.13	19.73	21.50	21.81
- - - - - millions of tons - - - - -					
Sugar beets	29.14	26.25	31.99	n.a.	28.89
Sugar cane	30.36	31.10	30.93	n.a.	29.19
Memo:					
- - - - - billions of 1987 dollars - - - - -					
Value, 12 crops <sup>2</sup>	47.03	38.62	49.64	44.12	44.42

1. Data are from the U.S. Department of Agriculture.

2. Calculated by the staff from USDA data.

attractive relative to both short- and long-term yields, money funds appear to have drawn flows that in earlier months were directed to market instruments outside M2. Indeed, net noncompetitive tenders for Treasury bills and bonds at recent auctions have slowed to a trickle from the very high levels recorded earlier in the year.

The strength of M2 in June and July does not appear to have come at the expense of bond and stock mutual funds. The growth of M2 plus stock and bond funds in both months, for example, is estimated to have exceeded M2 growth by a considerable margin. Flows into stock mutual funds were quite strong in July, and net sales of bond mutual funds picked up as well (table).

In contrast to the broader aggregates, M1 remained rather weak--expanding at a 1-1/2 percent rate in July--with declines in currency and other checkable deposits largely offsetting considerable growth in demand deposits. The sudden weakness in

**NET SALES OF MUTUAL FUNDS CLASSIFIED BY TYPE**  
(Billions of dollars, monthly rate, not seasonally adjusted)

	1995					Memo: June
	Q1	Q2	May	June	July <sup>e</sup>	Assets
Total stock	8.2	10.1	9.0	10.4	15.9	1,066.7
International	.4	1.3	1.3	.4	1.8	177.2
Domestic	7.8	8.8	7.7	10.0	14.1	889.5
Total bond	.2	.9	2.5	-.4	2.9	773.7
GNMA	-.7	.0	-.1	.0	-.2	54.5
Government	-.6	-.6	-.5	-.8	-.5	87.0
High-yield	1.0	.7	.9	.3	1.4	52.9
Tax-exempt	.3	-.5	.9	-1.7	.3	240.9
Income	.8	1.2	1.2	1.6	1.9	244.3
Other	-.6	.1	.1	.2	.0	61.3
Total money fund	8.4	16.2	20.0	25.4	23.5	701.1
Taxable	7.4	15.5	17.8	22.8	20.4	579.6
Tax-exempt	1.0	.7	2.2	2.6	3.1	121.4

<sup>e</sup> Staff estimate.

Source: Investment Company Institute.

TREASURY FINANCING  
(Billions of dollars; total for period)

Item	1995				
	Q2 <sup>e</sup>	Q3 <sup>p</sup>	Jul. <sup>e</sup>	Aug <sup>e</sup>	Sept. <sup>p</sup>
Total surplus/deficit (-)	24.3	-44.7	-22.5	-32.2	10.0
<b>Means of financing deficit</b>					
Net cash borrowing and repayments (-)	25.6	17.5	7.4	13.2	-3.1
Nonmarketable	-2.7	-8.1	-7.4	0.5	-1.2
Marketable	28.3	25.6	14.8	12.7	-1.9
Bills	-8.3	-5.5	7.6	-11.2	-1.9
Coupons	36.6	31.0	7.2	23.8	0.0
Decrease in cash balance	-42.4	21.3	11.6	31.0	-21.3
Other <sup>1</sup>	-7.5	5.8	3.5	-12.0	14.4
<b>Memo:</b>					
Cash balance, end of period	60.5	39.2	48.9	17.9	39.2

Note. Data reported on a payment basis. Details may not sum to totals because of rounding.

p Projected.

e Estimate.

1. Accrued items, checks issued less checks paid, and other transactions.

**NET CASH BORROWING OF GOVERNMENT-SPONSORED ENTERPRISES**  
(Billions of dollars)

Agency	1995				
	Q1	Q2	Apr.	May	June
FHLBs	4.4	13.7	1.8	6.2	5.8
FHLMC	8.4	6.8	4.8	1.3	0.8
FNMA	1.4	12.3	-0.5	4.8	7.9
Farm Credit Banks	0.8	0.0	-0.3	0.4	-0.1
SLMA	1.2	-0.3	-0.8	-0.8	1.3

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

CONFIDENTIAL (FR)  
CLASS III - FOMC

August 18, 1995

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

August 18, 1995

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

	1994 Dec	1995 Jan	1995 Feb	1995 Mar	1995 Apr	1995 May	1995 Jun	1995 Jul	1995 Aug (p)
<b>Indexes of consumer sentiment (Feb. 1966=100)</b>									
Composite of current and expected conditions	95.1	97.6	95.1	90.3	92.5	89.8	92.7	94.4	96.5
Current conditions	104.9	112.0	109.3	106.5	105.9	105.0	106.1	105.2	115.4
Expected conditions	88.8	88.4	85.9	79.8	83.8	80.1	84.1	87.4	84.4
<hr/>									
<b>Personal financial situation</b>									
Now compared with 12 months ago*	113	120	119	110	116	113	116	113	128
Expected in 12 months*	130	127	128	119	130	125	127	130	126
<hr/>									
<b>Expected business conditions</b>									
Next 12 months*	123	129	116	108	114	108	117	123	119
Next 5 years*	104	99	101	93	93	88	94	99	94
<hr/>									
<b>Appraisal of buying conditions</b>									
Cars	134	139	129	136	123	129	131	141	137
Large household appliances*	158	170	164	166	159	159	159	160	172
Houses	144	136	134	141	140	147	139	166	160
<hr/>									
Willingness to use credit	39	44	45	47	43	44	43	51	41
Willingness to use savings	62	65	66	76	69	64	70	70	70
<hr/>									
Expected unemployment change - next 12 months	108	112	119	120	120	118	120	129	128
<hr/>									
Expected inflation - next 12 months	4.0	3.7	4.0	4.6	4.3	4.0	4.0	3.8	3.6
Expected inflation - next 5 to 10 years	4.2	3.9	4.1	4.4	4.4	4.1	4.3	4.3	3.6

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

(p) -- Preliminary

(f) -- Final

Note: Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall.