

Strictly Confidential (FR) Class II FOMC

March 21, 1996

SUMMARY AND OUTLOOK

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

steady in the first half of this year at its fourth-quarter average of about \$18 per barrel. In the interim, the spot price has moved above \$19 per barrel on average this quarter, and we now expect it to rise slightly above \$20 per barrel early next quarter. The longer-term outlook for oil prices has not been revised, however: We still expect that the spot price will settle at \$18.50 by midyear--with a downside risk associated with possible resumption of oil exports by Iraq.

Recent Developments

Our forecast of real GDP growth in the first quarter now stands at 1-1/2 percent--about 3/4 percentage point higher than in the January Greenbook. All of the upward revision is in final sales, which are now expected to increase at a 2-1/4 percent rate. The pickup in GDP this quarter would have been stronger if not for the GM strike, which we estimate to slice almost 3/4 percentage point from real growth, assuming that production returns to normal in the next few days.¹

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

	1995:Q4			1996:Q1	
	Jan GB	BEA adv	Mar GB	Jan GB	Mar GB
Real GDP	1.9	0.9	0.3	0.8	1.5
Final sales	1.5	1.8	1.9	1.4	2.2
<i>Change in billions of chained (1992) dollars</i>					
Nonfarm inventory inv.	4.6	-14.7	-25.6	-11.7	-13.8

Of course, a great deal of uncertainty attaches to these estimates--probably even more than is usual at this point in a

1. If the tentative strike settlement were not ratified or there were other delays in resuming production, GDP growth would be reduced by about 1/3 percentage point for each additional week of lost GM output.

equity prices should help sustain consumer spending. Real final sales are projected to advance about 2 percent in 1996 and 1997, close to the pace seen last year. However, the predicted composition of spending involves a step-up of growth in consumer outlays that offsets a further cyclical moderation of growth in business fixed investment.

SUMMARY OF STAFF PROJECTIONS
(Percent change, at annual rates, unless otherwise noted)

	1995	1996	1997
Real GDP	1.2	2.2	2.0
<i>Previous</i>	1.5	1.8	2.0
Final sales	1.9	2.1	2.0
<i>Previous</i>	1.9	2.0	2.1
PCE	2.0	2.5	2.4
BFI	7.3	3.0	3.8
Civilian unemployment rate ¹	5.5	5.6	5.6
<i>Previous</i>	5.6	5.6	5.6

1. Average level in the final quarter of the year indicated.

Personal consumption expenditure. We are projecting that the rate of growth of real consumer outlays will move up from 2 percent in 1995 to 2-1/2 percent in 1996 and 1997--a forecast that has spending advancing a bit faster than disposable income. In contrast, consumption grew considerably more slowly than income in 1995.

Given the rise in household net worth associated with the soaring stock market, it might have been expected that the personal saving rate would have fallen, not risen, last year. Although there is a danger of overanalyzing noisy data that have yet to undergo the usual sequence of annual revisions, some interpretation of this surprise is necessary in thinking about the outlook. Several possible drags on consumer demand can be readily suggested: (1) The

delay in the survey, owing to the government shutdowns, might have distorted the results), we have reacted cautiously to the surprise and raised our projection of the growth rate of ECI benefits less than 1/2 percentage point. Overall, we expect that the tightness of the labor markets--and some pickup in consumer price inflation (see below)--will be reflected in a modest elevation of compensation gains. The ECI index for compensation of private industry workers is expected to accelerate from growth of 2.8 percent in 1995 to 3.0 percent in 1996 and 3.3 percent in 1997.

SUMMARY OF STAFF INFLATION PROJECTIONS
(Percent change, Q4 to Q4, except as noted)

	1995	1996	1997
Consumer price index	2.7	3.1	3.0
<i>Previous</i>	2.7	3.0	2.9
Excluding food and energy	3.1	2.9	3.1
<i>Previous</i>	3.1	2.8	3.0
Employment cost index ¹	2.8	3.0	3.3
<i>Previous</i>	2.6	2.8	3.1

1. Compensation of private industry workers, percent change from final month of previous year to final month of year indicated.

On the view that firms' profit margins are ample, only part of the upward revision in the projection for labor costs has been passed through to prices. The core CPI is expected to increase 2.9 percent in 1996 and 3.1 percent in 1997, up a tenth of a point each year compared with the January Greenbook. Core inflation in 1996 is expected to be held down by more-favorable import prices and the pass-through of recent declines in prices of raw materials and intermediate goods.

The overall CPI is projected to increase about 3 percent in both 1996 and 1997, up somewhat from the pace of the past couple of years. Because of the increases that have occurred in grain and oilseed prices, we are anticipating that--even on the assumption of

point higher in 1997. The unemployment rate is reduced 0.3 percentage point by the end of 1997, and core CPI inflation is 0.3 percentage point higher than in the baseline forecast. The effects of the tighter policy scenario are symmetric.

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

	1996	1997
Real GDP		
Baseline	2.2	2.0
Lower funds rate	2.4	2.7
Higher funds rate	2.0	1.3
Civilian unemployment rate ¹		
Baseline	5.6	5.6
Lower funds rate	5.5	5.3
Higher funds rate	5.7	5.9
CPI excluding food and energy		
Baseline	2.9	3.1
Lower funds rate	2.9	3.4
Higher funds rate	2.9	2.8

1. Average for the fourth quarter.

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CLASS II FOMCSTAFF PROJECTIONS OF CHANGES IN GDP, PRICES, AND UNEMPLOYMENT
(Percent, annual rate)

March 21, 1996

Interval	Nominal GDP		Real GDP		Consumer price index		Unemployment rate (level)	
	01/26/96	03/21/96	01/26/96	03/21/96	01/26/96	03/21/96	01/26/96	03/21/96
ANNUAL								
1993		4.9	4.9	2.2	2.2	3.0	3.0	6.8
1994		5.8	5.8	3.5	3.5	2.6	2.6	6.1
1995		4.7	4.5	2.1	2.0	2.8	2.8	5.6
1996		4.5	4.3	1.8	1.9	2.8	2.9	5.6
1997		4.6	4.8	2.1	2.1	2.9	3.0	5.6
QUARTERLY								
1994 Q1		5.4	5.4	2.5	2.5	2.2	2.2	6.6
Q2		6.8	6.8	4.8	4.8	2.5	2.5	6.2
Q3		6.1	6.1	3.6	3.6	3.6	3.6	6.0
Q4		5.4	5.4	3.2	3.2	2.2	2.2	5.6
1995 Q1		3.9	3.9	0.6	0.6	3.2	3.2	5.5
Q2		2.8	2.8	0.5	0.5	3.2	3.2	5.7
Q3		5.7	5.8	3.2	3.6	2.1	2.1	5.6
Q4		4.6	2.1	1.9	0.3	2.3	2.1	5.5
1996 Q1		4.3	4.5	0.8	1.5	3.3	3.2	5.6
Q2		4.5	5.9	2.0	3.4	3.0	3.4	5.6
Q3		4.6	4.4	2.0	1.8	3.0	2.9	5.6
Q4		4.9	4.9	2.5	2.3	2.9	2.9	5.6
1997 Q1		4.6	4.9	1.9	2.1	2.9	3.0	5.6
Q2		4.6	4.8	2.1	2.1	2.9	3.0	5.6
Q3		4.2	4.3	1.6	1.8	2.9	3.0	5.6
Q4		4.9	5.1	2.3	2.3	2.9	3.0	5.6
TWO-QUARTER								
1994 Q2		6.1	6.1	3.7	3.7	2.3	2.3	-0.3
Q4		5.7	5.7	3.4	3.4	2.9	2.9	-0.6
1995 Q2		3.3	3.3	0.5	0.5	3.2	3.2	0.1
Q4		5.1	3.9	2.6	1.9	2.2	2.2	-0.1
1996 Q2		4.4	5.2	1.4	2.4	3.1	3.3	0.0
Q4		4.8	4.6	2.2	2.1	2.9	2.9	0.0
1997 Q2		4.6	4.9	2.0	2.1	2.9	3.0	0.0
Q4		4.6	4.7	2.0	2.0	2.9	3.0	0.0
FOUR-QUARTER								
1993 Q4		4.6	4.6	2.2	2.2	2.7	2.7	-0.8
1994 Q4		5.7	5.7	3.5	3.5	2.6	2.6	-1.0
1995 Q4		4.2	3.6	1.5	1.2	2.7	2.7	0.0
1996 Q4		4.6	4.9	1.8	2.2	3.0	3.1	0.0
1997 Q4		4.6	4.8	2.0	2.0	2.9	3.0	0.0

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CLASS II FOMC

REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES
 (Seasonally adjusted, annual rate except as noted)

March 21, 1996

Item	Units	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	6442.8	6503.2	6571.3	6683.7	6772.8	6885.0	6987.6	7080.0	7147.8	7196.5
Real GDP	Bill. Ch. \$	6327.0	6353.7	6390.4	6463.9	6504.6	6581.5	6639.5	6691.3	6701.6	6709.4
Real GDP	% change	0.0	1.7	2.3	4.7	2.5	4.8	3.6	3.2	0.6	0.5
Gross domestic purchases		0.9	2.4	3.7	4.4	3.4	5.4	3.6	2.7	1.4	0.9
Final sales		-0.8	1.5	2.3	4.8	1.2	2.8	4.2	3.6	0.7	1.8
Private dom. final purch.		1.4	2.8	4.4	5.4	3.7	4.5	3.6	4.1	2.1	2.6
Personal cons. expend.		0.7	2.7	3.8	2.8	2.6	3.6	2.5	3.3	0.8	3.4
Durables		0.8	11.2	7.3	10.2	5.8	4.3	5.6	12.6	-8.7	7.0
Nondurables		-0.9	2.3	2.9	1.7	3.8	3.3	4.0	3.2	2.4	1.9
Services		1.6	1.3	3.6	1.9	1.4	3.6	1.2	1.4	2.1	3.4
Business fixed invest.		6.0	6.3	4.7	17.5	7.3	7.1	13.7	12.2	15.3	3.6
Producers' dur. equip.		7.1	11.4	6.3	21.7	15.6	4.1	19.3	11.9	17.4	3.7
Nonres. structures		3.5	-5.3	0.8	7.5	-11.8	15.7	0.2	13.0	9.9	3.4
Res. structures		2.1	-5.1	13.2	24.3	12.8	12.7	-1.8	-0.1	-6.3	13.3
Exports		0.4	7.9	-7.9	21.5	-0.6	14.8	12.2	15.3	2.6	4.6
Imports		9.6	14.5	4.9	17.0	7.5	19.1	11.0	9.3	8.7	7.7
Government purchases		-4.7	0.2	1.0	1.5	-4.2	-0.8	7.0	-1.4	-1.1	0.9
Federal		-13.1	-4.9	-2.9	-0.7	-11.1	-5.3	11.5	-5.9	-6.3	-1.1
Defense		-15.6	-5.2	-5.8	-0.5	-17.0	0.7	13.3	-16.1	-7.0	0.9
State and local		1.7	3.9	3.8	3.0	0.7	2.2	4.2	1.6	2.3	2.1
Change in bus. invent	Bill. Ch. \$	19.4	21.6	20.1	18.0	40.8	75.1	64.9	57.9	54.5	30.6
Nonfarm		26.0	26.7	30.9	22.1	29.8	54.1	50.1	53.3	58.1	33.8
Net exports		-55.2	-67.0	-89.1	-86.2	-101.3	-112.2	-113.3	-105.8	-119.0	-126.8
Nominal GDP	% change	3.8	3.8	4.3	7.0	5.4	6.8	6.1	5.4	3.9	2.8
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	109.7	110.4	111.0	111.8	112.7	113.6	114.5	115.3	116.1	116.4
Unemployment rate	%	7.2	7.1	6.8	6.6	6.6	6.2	6.0	5.6	5.5	5.7
Industrial prod. index	% change	3.7	0.5	3.2	5.5	8.4	7.0	4.6	6.4	3.9	-1.4
Capacity util. rate-mfg	%	80.6	80.3	80.4	81.1	82.2	83.2	83.4	84.3	82.9	82.6
Housing starts	Millions	1.16	1.25	1.31	1.47	1.36	1.44	1.47	1.51	1.31	1.28
Light motor vehicle sales		13.23	14.11	13.69	14.53	15.45	14.76	14.65	15.44	14.90	14.35
INCOME AND SAVING											
Nominal GNP	Bill. \$	6458.4	6512.3	6584.8	6684.5	6773.6	6876.3	6977.6	7062.2	7140.5	7187.0
Nominal GNP	% change	4.3	3.4	4.5	6.2	5.4	6.2	6.0	4.9	4.5	2.6
Nominal personal income		-5.7	8.8	2.9	8.3	-3.3	13.6	4.2	6.5	7.1	4.5
Real disposable income		-8.1	5.2	1.1	5.0	-5.3	10.1	2.1	4.0	3.6	0.0
Personal saving rate	%	4.2	4.8	4.2	4.7	2.8	4.2	4.1	4.2	4.8	4.0
Corp. profits, IVA & CCAdj	% change	-1.2	22.9	19.7	42.2	-37.5	84.7	14.5	14.6	-6.4	1.1
Profit share of GNP	%	6.6	6.9	7.1	7.7	6.7	7.7	7.9	8.1	7.8	7.8
Federal govt. surpl./def.	Bill. \$	-283.7	-249.2	-253.5	-232.4	-212.9	-169.9	-186.3	-190.4	-173.3	-160.5
State/local surpl./def.		80.5	89.1	94.9	115.0	94.8	105.2	99.6	99.3	99.0	99.0
Ex. social ins. funds		13.3	22.0	28.1	48.5	29.0	41.1	37.9	39.4	40.2	40.9
PRICES AND COSTS											
GDP implicit deflator	% change	3.8	2.1	1.9	2.2	2.8	1.9	2.4	2.2	3.2	2.3
CPI		3.1	2.8	1.7	3.4	2.2	2.5	3.6	2.2	3.2	3.2
Ex. food and energy		3.5	3.5	2.4	2.9	2.9	2.9	3.1	2.3	3.3	3.6
ECI, hourly compensation		4.2	3.5	3.4	3.4	3.0	3.4	3.3	2.6	2.3	2.9
Nonfarm business sector		-3.9	-1.7	2.1	1.6	-2.5	1.9	2.6	0.9	-1.1	3.0
Output per hour		1.0	2.7	2.0	1.1	3.3	2.1	1.2	3.3	3.7	5.4
Compensation per hour		5.1	4.5	-0.1	-0.5	5.9	0.2	-1.4	2.4	4.9	2.3

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CLASS II FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES
(Seasonally adjusted, annual rate except as noted)

March 21, 1996

Item	Units	Projected									
		1995 Q3*	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4
EXPENDITURES											
Nominal GDP	bill. \$	7298.5	7335.9	7416.7	7523.0	7603.8	7695.2	7788.5	7880.1	7962.6	8061.7
Real GDP	bill. Ch. \$	6768.3	6773.3	6797.9	6855.3	6885.6	6925.2	6960.6	6996.3	7026.7	7066.7
Real GDP	% change	3.6	0.3	1.5	3.4	1.8	2.3	2.1	2.1	1.8	2.3
Gross domestic purchases		2.8	-0.8	1.8	3.5	2.3	2.0	2.0	2.2	2.3	2.2
Final sales		3.4	1.9	2.2	2.1	1.6	2.4	2.1	2.0	1.7	2.4
Private dom. final purch.		3.3	1.8	2.9	2.5	2.5	2.3	2.5	2.4	2.5	2.5
Personal cons. expend.		2.8	1.1	2.5	2.4	2.7	2.5	2.5	2.3	2.4	2.5
Durables		9.4	2.1	9.5	3.4	4.8	3.4	2.9	2.4	3.3	3.5
Nondurables		0.5	-0.7	-0.7	1.8	2.2	2.2	2.2	2.2	2.2	2.2
Services		2.6	1.8	2.7	2.5	2.5	2.5	2.5	2.4	2.4	2.4
Business fixed invest.		5.2	5.4	4.2	1.9	2.9	2.9	4.0	3.8	3.7	3.5
Producers' dur. equip.		4.8	6.2	3.9	2.2	3.1	3.2	4.8	4.7	4.6	4.8
Nonres. structures		6.2	3.4	5.2	1.0	2.3	2.0	1.7	1.1	1.1	-0.2
Res. structures		9.2	4.4	6.6	6.7	-2.8	-2.5	-1.2	0.0	0.8	0.4
Exports		8.0	10.5	5.1	9.5	4.1	11.6	7.0	10.8	5.0	11.3
Imports		1.0	0.6	7.4	9.8	7.6	7.9	6.2	10.7	8.3	9.2
Government purchases		-0.7	-3.7	0.7	0.7	0.2	1.1	0.3	0.9	0.5	1.0
Federal		5.9	-11.9	-3.2	-1.9	-3.4	-0.9	-3.5	-2.0	-3.1	-2.3
Defense		-8.1	-11.6	0.5	-5.2	-3.6	-1.3	-3.9	-2.5	-2.9	-1.6
State and local		2.7	1.7	3.0	2.2	2.2	2.1	2.5	2.5	2.5	2.7
Change in bus. invent.	bill. Ch. \$	33.2	9.5	-2.7	20.0	23.9	22.1	21.3	22.0	23.5	22.4
Nonfarm		38.3	12.7	-1.1	19.1	21.5	19.6	18.7	19.4	20.8	19.6
Net exports		-114.3	-95.9	-102.0	-104.9	-113.6	-108.6	-108.8	-111.4	-120.6	-118.8
Nominal GDP	% change	5.8	2.1	4.5	5.9	4.4	4.9	4.9	4.8	4.3	5.1
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	116.8	117.2	117.6	118.0	118.3	118.7	119.0	119.3	119.7	120.0
Unemployment rate	%	5.6	5.5	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Industrial prod. index	% change	3.2	0.4	0.9	5.3	2.7	3.1	2.7	2.7	2.2	3.2
Capacity util. rate-mfg	%	82.6	82.0	81.4	81.7	81.5	81.4	81.5	81.5	81.4	81.6
Housing starts	Millions	1.42	1.41	1.47	1.44	1.40	1.39	1.39	1.39	1.38	1.38
Light motor vehicle sales		15.04	14.91	15.00	14.60	14.65	14.70	14.74	14.75	14.77	14.80
INCOME AND SAVING											
Nominal GNP	bill. \$	7283.0	7334.9	7414.7	7514.3	7596.1	7682.6	7778.6	7865.0	7950.6	8043.1
Nominal GNP	% change	5.5	2.9	4.4	5.5	4.4	4.6	5.1	4.5	4.4	4.7
Nominal personal income		5.0	5.3	6.3	4.8	4.9	4.6	5.7	4.7	5.0	5.5
Real disposable income		4.5	3.8	3.8	0.1	3.5	1.6	3.2	1.7	2.3	2.3
Personal saving rate	%	4.4	4.9	5.2	4.7	4.9	4.7	4.9	4.7	4.7	4.7
Corp. profits, IVA & CCAdj	% change	44.1	-12.6	-5.5	14.7	-0.2	7.7	5.3	4.1	1.8	0.4
Profit share of GNP	%	8.4	8.1	7.9	8.1	8.0	8.0	8.0	8.0	8.0	7.9
Federal govt. surpl./def.	bill. \$	-161.6	-159.7	-187.8	-147.5	-162.2	-171.7	-176.8	-175.9	-174.4	-184.8
State/local surpl./def.		93.9	88.1	84.5	85.2	85.3	87.0	88.3	90.8	89.2	92.0
Ex. social ins. funds		35.8	30.5	27.2	28.3	28.7	30.7	32.3	35.0	33.6	36.6
PRICES AND COSTS											
GDP implicit deflator	% change	2.2	1.8	3.0	2.4	2.5	2.5	2.8	2.7	2.5	2.7
CPI		2.1	2.1	3.2	3.4	2.9	2.9	3.0	3.0	3.0	3.0
Ex. food and energy		2.5	2.5	2.7	2.8	3.0	3.0	3.1	3.1	3.1	3.1
ECI, hourly compensation		2.3	3.5	2.9	3.0	3.0	3.1	3.2	3.2	3.3	3.3
Nonfarm business sector											
Output per hour		1.7	-1.0	2.1	-0.4	0.6	1.4	1.1	1.1	0.6	1.3
Compensation per hour		4.3	3.0	6.4	0.8	3.7	3.6	3.9	3.8	3.8	3.9
Unit labor cost		2.5	3.5	4.2	1.2	3.1	2.1	2.8	2.6	3.1	2.5

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CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

March 21, 1996

Item	Projected										Projected		
	1995 Q3*	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	95Q4/ 94Q4	96Q4/ 95Q4	97Q4/ 96Q4
Real GDP	3.6	0.3	1.5	3.4	1.8	2.3	2.1	2.1	1.8	2.3	1.2	2.2	2.0
Gross domestic purchases	2.8	-0.8	1.8	3.6	2.3	2.0	2.1	2.2	2.3	2.2	1.1	2.4	2.2
Final sales	3.4	1.8	2.2	2.1	1.6	2.4	2.1	2.0	1.7	2.4	1.9	2.1	2.0
Private dom. final purch.	2.7	1.4	2.4	2.1	2.0	1.9	2.1	2.0	2.1	2.1	2.0	2.1	2.1
Personal cons. expend.	1.9	0.8	1.7	1.6	1.8	1.7	1.7	1.6	1.7	1.7	1.4	1.7	1.7
Durables	0.8	0.2	0.8	0.3	0.4	0.3	0.3	0.2	0.3	0.3	0.2	0.5	0.3
Nondurables	0.1	-0.1	-0.1	0.4	0.5	0.5	0.5	0.5	0.4	0.5	0.2	0.3	0.5
Services	1.1	0.7	1.0	1.0	1.0	1.0	1.0	0.9	0.9	0.9	0.9	1.0	0.9
Business fixed invest.	0.5	0.6	0.5	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.7	0.3	0.4
Producers' dur. equip.	0.4	0.5	0.3	0.2	0.2	0.3	0.4	0.4	0.4	0.4	0.6	0.3	0.4
Nonres. structures	0.2	0.1	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	-0.0	0.1	0.1
Res. structures	0.3	0.2	0.3	0.3	-0.1	-0.1	-0.0	0.0	0.0	0.0	-0.1	0.1	-0.0
Change in bus. invent.	0.2	-1.4	-0.7	1.4	0.2	-0.1	-0.0	0.0	0.1	-0.1	-0.7	0.2	0.0
Nonfarm	0.3	-1.5	-0.8	1.2	0.1	-0.1	-0.1	0.0	0.1	-0.1	-0.6	0.1	-0.0
Farm	-0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	-0.1	0.1	0.0
Net exports	0.7	1.1	-0.4	-0.2	-0.5	0.3	-0.0	-0.2	-0.5	0.1	0.1	-0.2	-0.1
Exports	0.9	1.2	0.6	1.1	0.5	1.4	0.8	1.3	0.6	1.4	0.7	0.9	1.1
Imports	0.1	0.1	1.0	1.3	1.0	1.1	0.9	1.5	1.2	1.3	0.6	1.1	1.2
Government purchases	-0.1	-0.7	0.1	0.1	0.0	0.2	0.1	0.2	0.1	0.2	-0.2	0.1	0.1
Federal	-0.4	-0.9	-0.2	-0.1	-0.2	-0.1	-0.2	-0.1	-0.2	-0.1	-0.5	-0.2	-0.2
Defense	-0.4	-0.6	0.0	-0.2	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1	-0.3	-0.1	-0.1
Nondefense	-0.0	-0.3	-0.2	0.1	-0.1	-0.0	-0.1	-0.0	-0.1	-0.1	-0.1	-0.1	-0.1
State and local	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
GDP Residual	-0.0	-0.2	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

* Published

Components may not sum to total due to rounding.

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Item	Fiscal year				1995				1996				1997			
	1994 ^a	1995 ^a	1996	1997	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^b	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
Receipts ¹	1257	1351	1417	1463	307	404	333	324	316	423	354	338	317	441	367	348
Outlays ¹	1461	1514	1577	1655	380	381	373	380	397	396	404	415	419	407	414	433
Surplus/deficit ¹	-203	-164	-160	-192	-73	23	-40	-56	-81	27	-50	-77	-102	34	-47	-86
On-budget	-259	-226	-228	-248	-85	-11	-43	-69	-92	-13	-54	-81	-113	-4	-50	-87
Off-budget	56	62	68	56	12	34	2	14	11	40	3	4	11	38	3	2
Surplus excluding deposit insurance ²	-210	-181	-169	-195	-79	18	-42	-59	-84	25	-52	-78	-103	33	-47	-86
Means of financing																
Borrowing	185	171	162	193	66	26	20	33	59	-2	73	55	74	12	52	64
Cash decrease	17	-2	-22	0	8	-42	23	17	6	-27	-18	25	20	-45	0	25
Other ³	1	-5	20	0	0	-7	-2	5	17	3	-5	-3	9	-1	-5	-3
Cash operating balance, end of period	36	38	60	60	18	61	38	20	15	42	60	35	15	60	60	35
NIPA FEDERAL SECTOR																
Receipts	1354	1459	1519	1590	1449	1483	1487	1489	1502	1543	1544	1563	1581	1600	1617	1636
Expenditures	1554	1630	1685	1764	1623	1644	1648	1650	1692	1691	1706	1735	1757	1773	1789	1817
Consumption expend.	450	455	447	446	455	456	453	451	449	444	443	445	447	447	446	447
Defense	307	304	298	299	303	305	301	299	299	297	296	298	299	299	299	300
Nondefense	143	151	149	148	152	151	152	152	150	147	147	147	148	148	147	146
Other expenditures	1104	1175	1238	1317	1168	1188	1195	1198	1242	1247	1264	1290	1310	1326	1343	1371
Current account surplus	-200	-171	-165	-174	-173	-161	-162	-160	-190	-148	-163	-172	-176	-174	-172	-181
Gross investment	67	65	61	61	65	67	63	57	62	62	62	61	61	61	61	61
Current and capital account surplus	-267	-237	-226	-235	-238	-227	-225	-217	-252	-210	-225	-234	-238	-235	-233	-242
FISCAL INDICATORS⁴																
High-employment (HEB) surplus/deficit	-263	-262	-252	-269	-265	-248	-253	-243	-274	-238	-253	-265	-272	-271	-270	-282
Change in HEB, percent of potential GDP	-.6	0	-.1	.2	-.3	-.2	.1	-.1	4	-.5	.2	.2	.1	0	0	.2
Fiscal impetus (FI), percent, cal. year	-6.4	-5.6	-7.7	-2.7	-1.9	-.8	-1.4	-4.6	-2.2	-1.7	-.1	-1	-1.1	-.7	-.9	-.7

1. OMB's March 1996 baseline deficit estimates (assuming discretionary spending at OBRA93 caps, and an extension of the expired trust fund excise taxes) are \$161 billion in FY96 and \$144 billion in FY97. CBO's December 1995 baseline deficit estimates (including the fiscal dividend from assumed enactment of congressional budget program) are \$172 billion in FY96 and \$182 billion in FY97. 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 March 1996 baseline deficit estimates (assuming discretionary spending at OBRA93 caps, and an extension of the expired trust fund excise taxes), excluding deposit insurance spending, are \$169 billion in FY96 and \$148 billion in FY97. CBO's December 1995 baseline deficit estimates (including the fiscal dividend from assumed enactment of congressional budget program), excluding deposit insurance spending, are \$180 billion in FY96 and \$186 billion in FY97.

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 current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output generated by 1.8 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 chained 1992 dollars), scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.

a--Actual

b--Preliminary

Confidential FR Class II
March 21, 1996

CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS¹
(Percent)

	Nonfederal								MEMO	
	Households				State and local govt.	Business				
	Total	Federal govt.	Total	Total	Home mtg.	Cons. credit	Business	State and local govt.		
Year										
1986	12.2	13.6	11.8	11.5	13.8	9.6	12.2	10.8	5.0	
1987	9.2	8.0	9.6	12.1	16.3	5.0	6.7	12.1	7.4	
1988	8.8	8.0	9.1	9.3	10.9	7.2	9.7	6.5	7.6	
1989	7.6	7.0	7.8	8.8	10.1	6.2	7.5	5.7	6.4	
1990	6.6	11.0	5.3	7.9	10.1	2.0	3.1	4.9	4.4	
1991	4.4	11.1	2.4	5.0	6.6	-1.8	-1.7	8.2	3.8	
1992	4.8	10.9	2.8	5.3	6.1	0.9	0.5	2.0	6.3	
1993	5.3	8.3	4.2	6.1	5.4	7.3	1.6	5.7	4.7	
1994	4.9	4.7	5.0	8.4	6.6	14.0	3.8	-3.7	5.9	
1995	5.4	4.1	5.9	8.1	6.5	13.3	6.4	-4.6	3.6	
1996	5.0	5.1	4.9	6.7	6.5	9.0	4.6	-2.4	4.9	
1997	4.7	5.3	4.5	6.1	6.3	6.4	4.2	-2.1	4.8	
Quarter (seasonally adjusted annual rates)										
1995:1	6.4	7.6	5.9	6.6	5.8	9.5	8.1	-4.3	3.9	
2	6.6	5.7	6.9	8.3	6.3	15.7	7.6	-1.5	2.8	
3	3.9	1.8	4.6	8.4	7.5	10.5	4.4	-10.6	5.8	
4	4.5	1.2	5.7	8.1	5.9	15.0	5.0	-2.4	2.1	
1996:1	5.3	5.6	5.2	6.7	6.4	9.7	5.1	-1.3	4.5	
2	5.0	3.5	5.6	6.8	6.4	9.0	4.8	2.5	5.9	
3	5.0	7.4	4.1	6.4	6.3	8.4	4.2	-7.5	4.4	
4	4.2	3.4	4.5	6.3	6.3	7.8	4.2	-3.2	4.9	
1997:1	5.3	8.0	4.4	6.2	6.2	6.6	4.0	-2.9	4.9	
2	4.3	3.8	4.5	6.1	6.2	6.5	4.1	-1.9	4.8	
3	4.5	4.8	4.3	5.9	6.1	6.0	4.1	-3.3	4.3	
4	4.4	4.1	4.6	5.8	6.0	5.9	4.1	-0.6	5.1	

1. Data after 1995:q4 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. On a quarterly average basis, total debt grows 5.5 percent in 1995, 4.9 percent in 1996, and 4.7 percent in 1997. Federal debt rises 4.4 percent in 1995, 4.5 percent in 1996, and 5.3 percent in 1997. Nonfederal debt increases 5.9 percent in 1995, 5.0 percent in 1996, and 4.5 percent in 1997.

2.6.3 FOF

Confidential FR Class II
March 21, 1996

FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS¹
(Billions of dollars)

	Calendar year				1995		1996				1997	
	1994	1995	1996	1997	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
Seasonally Adjusted Annual Rates												
Net funds raised by domestic nonfinancial sectors												
1 Total	572.1	640.7	623.9	628.7	430.8	541.2	639.0	656.1	645.0	555.4	650.3	607.1
2 Net equity issuance	-44.9	-76.0	-65.8	-60.0	-98.8	-77.2	-95.6	-50.4	-64.4	-52.8	-59.3	-60.8
3 Net debt issuance	617.0	716.7	689.7	688.7	529.6	618.4	734.6	706.5	709.4	608.2	709.6	667.8
Borrowing sectors												
Nonfinancial business												
4 Financing gap ²	4.1	58.9	9.7	15.0	66.5	6.5	1.9	10.3	15.5	11.0	9.1	20.8
5 Net equity issuance	-44.9	-76.0	-65.8	-60.0	-98.8	-77.2	-95.6	-50.4	-64.4	-52.8	-59.3	-60.8
6 Credit market borrowing	144.3	250.8	193.9	181.9	178.3	205.5	211.1	204.6	180.3	179.5	179.4	184.4
Households												
7 Net borrowing, of which:	360.3	373.1	336.9	327.7	401.8	396.5	335.2	346.0	333.8	332.6	329.2	326.2
8 Home mortgages	196.7	207.1	219.0	225.8	246.0	196.3	216.0	218.0	220.0	222.0	224.8	226.8
9 Consumer credit	121.2	130.8	100.5	78.0	109.6	161.8	108.7	102.7	97.7	92.7	80.5	75.5
10 Debt/DPI (percent) ³	88.7	90.8	92.6	93.7	91.0	91.7	91.8	92.6	92.7	93.2	93.4	93.9
State and local governments												
11 Net borrowing	-43.4	-51.5	-25.2	-22.2	-116.2	-26.1	-13.7	26.3	-80.2	-33.2	-24.7	-19.7
12 Current surplus ⁴	107.4	104.7	98.8	105.9	106.9	89.0	97.4	98.0	98.5	101.3	104.7	107.1
U.S. government												
13 Net borrowing	155.9	144.4	184.1	201.3	65.8	42.4	202.0	129.7	275.5	129.3	225.7	176.9
14 Net borrowing (quarterly, nsa)	155.9	144.4	184.1	201.3	19.9	33.3	58.8	-2.4	72.6	55.2	85.7	115.6
15 Unified deficit (quarterly, nsa)	185.2	146.4	181.5	200.8	40.2	55.9	81.2	-26.9	50.1	77.0	68.4	132.4
16 Funds supplied by depository institutions	198.3	284.0	200.4	205.7	284.5	155.2	196.7	194.7	202.7	207.7	209.7	201.7
MEMO: (percent of GDP)												
17 Domestic nonfinancial debt ³	185.4	186.6	188.1	188.2	187.1	188.1	188.3	188.1	188.4	188.3	188.2	188.3
18 Domestic nonfinancial borrowing	8.9	9.9	9.1	8.7	7.3	8.4	9.9	9.4	9.3	7.9	9.1	8.3
19 U.S. government ⁵	2.2	2.0	2.4	2.5	0.9	0.6	2.7	1.7	3.6	1.7	2.9	2.2
20 Private	6.7	7.9	6.7	6.2	6.4	7.9	7.2	7.7	5.7	6.2	6.2	6.1

1. Data after 1995:q4 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 less retirement funds plus consumption of fixed capital.

5. Excludes government-insured mortgage pool securities.

2.6.4 FOF

during the remainder of the forecast period, as consumption rises and U.S. production declines.

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

	-----Projection-----				<u>1997</u>
	<u>1995</u> Q4	<u>1996</u> Q1	<u>1996</u> Q2	<u>H2</u>	
Exports of G&S	10.5	5.1	9.5	7.8	8.5
Services	4.5	2.6	2.6	3.8	3.5
Computers	60.0	28.9	28.6	30.9	31.1
Semiconductors	48.1	28.8	28.6	28.4	28.7
Other goods ¹	3.1	-0.4	9.8	2.0	2.7
Imports of G&S	0.6	7.4	9.8	7.7	8.6
Services	7.2	4.2	4.9	2.3	3.0
Oil	-17.2	7.8	31.8	-5.0	5.8
Computers	52.9	24.8	21.6	21.5	21.6
Semiconductors	51.8	26.2	31.0	30.9	31.0
Other goods ²	-9.8	3.3	4.5	5.4	4.5

Note: NIPA basis, chained (1992) dollars.

1. Merchandise exports excluding agriculture, computers and semiconductors.
2. Merchandise imports excluding oil, computers, and semiconductors.

Oil prices. Given recent increases in spot oil prices, the projected prices of imported oil for the first and second quarters have been revised up \$0.89 and \$1.80 per barrel, to \$16.80 and \$17.33 per barrel respectively. The staff forecast continues to assume that Iraq will not resume selling oil on world markets until 1997. Our projections for WTI spot price and the oil import unit value in 1997 are \$18.50 and \$16.00 per barrel respectively, unchanged from the January Greenbook. If Iraq reaches an agreement to sell a limited amount of oil under the supervision of the United Nations starting this year, the additional 700 thousand to 800 thousand barrels of oil per day on the world oil market would likely depress prices by \$3-\$4 per barrel. (See below for a discussion of

the implications of such a change in the oil price on the staff forecast.)

Prices of non-oil imports and exports. Prices of non-oil imports (including computers and semiconductors) are expected to move up slightly this year and next as foreign inflation remains low and the dollar is stable. Prices of nonagricultural exports (including computers and semiconductors) are projected to decelerate through the middle of this year and then to rise moderately during the second half of this year and somewhat faster next year.

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

	-----Projection-----				1997
	1995 Q4	1996 Q1	1996 Q2	1997 H2	
Nonag. exports ¹	-3.1	1.9	0.6	1.3	2.2
Non-oil imports ¹	-1.5	-0.3	0.6	0.7	0.3
Oil Imports (Q4 level, \$bl)	16.01	16.80	17.33	16.05	16.00

1. NIPA chain-weighted basis, including computers and semiconductors.

Nominal trade and current account balances. The nominal trade deficit on goods and services is projected to widen only slightly over the forecast period from its unusually low value in the fourth quarter of last year to more than \$90 billion at an annual rate at the end of 1997. The deficit on net investment income is projected to increase somewhat over the forecast period. The current account deficit is projected to average about \$145 billion in both 1996 and 1997, just under 2 percent of GDP.

Alternative oil-price scenario. We estimate that if Iraq were to reach agreement with the United Nations to sell a limited amount of oil this year, with no offset in production by other OPEC members, spot oil prices would likely fall on world markets by \$3 to \$4 per barrel. In order to judge the impact of such a change on the U.S. economy, we used the staff's econometric models to simulate a

decline in the price of oil of \$3.50 starting in the second quarter of this year; the price remains at that lower level through the second quarter of next year and then gradually returns to baseline. The baseline forecast incorporates the assumption that Iraq resumes exporting oil in 1997. In the simulation, it is assumed that the U.S. short-term interest rate remains on its baseline path. Under this monetary policy assumption, lower inflation results in higher real short-term interest rates. Consumers benefit from higher real disposable income with the lower oil price, and GDP initially rises relative to baseline. By the second year, the impact of higher real short-term interest rates offsets the stronger consumption and depresses real GDP.

ALTERNATIVE OIL PRICE ASSUMPTION
(Percent change, Q4 to Q4)

	1996	1997
Real GDP		
Baseline	2.2	2.0
Lower oil price	2.4	1.9
CPI excluding food and energy		
Baseline	2.9	3.1
Lower oil price	2.6	2.9

STRICTLY CONFIDENTIAL FR
CLASS II FOMC

March 21, 1996

REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1994-97
(Percent; quarterly change at an annual rate except as noted)

Measure and country	Projected											
	Projected				1995				1996			
	1994	1995	1996	1997	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
REAL GDP												
Canada	5.4	0.6	2.6	2.5	-0.8	1.2	0.8	2.6	2.6	2.5	2.5	2.5
France	4.3	0.7	2.1	2.6	0.6	0.7	-1.3	2.0	1.8	2.3	2.3	2.5
Germany	3.7	1.0	1.5	2.3	4.4	0.4	-1.6	-0.1	1.5	2.3	2.3	2.3
Italy	2.9	2.4	2.8	2.2	-0.4	8.0	-3.9	3.5	3.3	2.4	2.2	2.2
Japan	0.4	2.2	2.6	2.4	2.6	2.3	3.6	2.5	2.7	2.6	2.7	2.7
United Kingdom	4.2	1.9	2.0	2.5	1.6	1.8	2.1	1.6	1.8	2.2	2.5	2.5
Average, weighted by 1987-89 GDP	2.8	1.6	2.3	2.4	1.7	2.4	0.5	2.0	2.3	2.4	2.5	2.5
Average, weighted by share of U.S. nonagricultural exports												H
Total foreign	4.5	1.9	3.4	3.3	NA	NA						
Foreign G-7	3.9	1.2	2.4	2.4	0.8	1.7	1.0	2.2	2.4	2.4	2.5	2.5
Developing countries	6.0	2.7	5.2	5.6	NA	NA						
CONSUMER PRICES(1)												
Canada	0.0	2.1	1.7	2.0	3.1	0.9	0.1	1.4	1.6	1.8	1.8	1.8
France	1.6	1.9	1.8	1.8	2.1	1.2	2.3	2.1	1.8	1.8	1.6	1.6
Western Germany	2.5	1.6	1.6	2.0	2.2	1.5	-0.5	2.6	2.4	1.8	-0.2	
Italy	3.8	5.9	4.2	3.7	8.0	4.1	5.1	3.3	6.8	3.6	3.1	
Japan	0.8	-0.8	-0.0	0.0	0.7	-1.0	-0.5	-1.6	2.0	-0.2	-0.1	
United Kingdom(2)	2.2	2.9	2.5	2.8	6.4	0.8	1.4	1.5	6.4	0.8	1.5	
Average, weighted by 1987-89 GDP	1.7	1.7	1.6	1.7	3.1	0.8	1.0	1.0	3.3	1.3	1.0	
Average, weighted by share of U.S. non-oil imports	1.0	1.1	1.2	1.3	2.4	0.4	0.2	0.5	2.4	1.0	0.9	

Note. Annual values are measured from Q4 to Q4.

1. Not seasonally adjusted.

2. CPI excluding mortgage interest payments; the targeted inflation rate. Previously the CPI including mortgage interest payments was shown.

Strictly Confidential (FR) Class II-FOMC

U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT
(Billions of dollars, seasonally adjusted annual rates)

	1993				1994				1995				ANNUAL						
	Q1		Q2		Q3		Q4		Q1		Q2		Q3		Q4		1992	1993	1994
NIPA Real Net Exports (Chained 1992 dollars)	-55.2	-67.0	-89.1	-86.2	-101.3	-112.2	-113.3	-105.8	-119.0	-126.8	-129.5	-124.4	-108.1						
Exports of G&S Goods	649.8	662.3	648.9	681.4	680.4	704.3	724.8	751.0	755.8	764.3	639.4	660.6	715.1						
Agricultural	454.2	465.8	453.3	484.6	481.5	501.8	518.3	543.9	548.9	557.7	448.7	464.5	511.4						
Computers	43.8	43.9	41.0	43.4	40.7	41.0	44.8	51.2	51.3	48.2	44.1	43.0	44.4						
Semiconductors	32.3	33.1	35.9	38.6	40.7	41.8	44.9	49.6	52.9	55.7	28.7	35.0	44.2						
Other Goods	20.6	22.3	25.5	28.2	33.5	35.4	39.5	47.2	50.7	53.3	16.0	24.1	38.9						
Services	357.5	366.5	350.9	374.4	366.6	383.6	389.1	395.9	394.0	400.5	359.9	362.3	383.8						
Imports of G&S Goods	705.1	729.4	738.1	767.6	781.7	816.5	838.1	856.8	874.9	891.2	668.9	735.0	823.3						
Oil	577.3	598.6	605.1	629.1	643.0	676.5	698.1	718.6	732.8	750.5	544.8	602.5	684.0						
Computers	53.7	57.9	56.9	58.3	57.0	60.6	64.6	58.2	56.5	57.4	51.4	56.7	60.1						
Semiconductors	38.9	42.3	46.5	49.9	53.9	57.3	61.8	68.3	71.7	76.3	31.7	44.4	60.3						
Other Goods	19.2	21.2	22.4	25.0	27.3	28.5	31.6	36.9	39.4	45.3	15.5	22.0	31.1						
Services	465.5	477.2	479.3	495.9	504.8	530.1	540.1	555.2	565.2	571.5	446.3	479.5	532.6						
Memo: (Percent change 1/)	127.8	130.8	133.0	138.5	138.8	140.2	140.2	138.5	142.4	141.1	124.1	132.5	139.4						
Exports of G&S	0.4	7.9	-7.9	21.6	-0.6	14.8	12.2	15.3	2.6	4.6	4.1	5.0	10.2						
Agricultural	-17.8	0.9	-23.9	25.6	-22.7	3.0	42.6	70.6	0.8	-22.1	10.6	-5.7	18.0						
Computers	12.0	10.3	38.4	33.7	23.6	11.3	33.1	48.9	29.4	22.9	25.1	22.9	28.5						
Semiconductors	34.4	39.3	68.4	50.1	100.8	23.7	55.5	103.3	33.5	22.1	64.8	47.5	67.4						
Other Goods	-7.4	10.4	-15.9	29.6	-8.1	20.0	5.8	7.2	-1.9	6.8	2.6	2.7	5.7						
Services	16.4	2.1	-1.8	2.9	4.1	7.6	8.3	1.8	-0.2	-0.4	-0.8	4.7	5.4						
Imports of G&S	9.6	14.5	4.9	17.0	7.6	19.0	11.0	9.2	8.7	7.7	7.4	11.4	11.6						
Oil	5.4	35.2	-6.7	10.2	-8.6	27.8	29.1	-34.1	-11.2	6.5	12.1	10.0	-0.2						
Computers	41.0	39.8	46.0	32.6	36.1	27.7	35.3	49.2	21.4	28.2	45.1	39.8	36.9						
Semiconductors	61.1	48.4	24.9	53.3	42.8	18.4	51.6	87.1	29.9	74.4	42.0	46.3	48.0						
Other Goods	8.5	10.4	1.8	14.7	7.4	21.6	7.7	11.6	7.4	4.5	5.5	8.8	11.9						
Services	1.3	9.7	6.9	17.6	0.9	4.1	0.0	-4.8	11.7	-3.6	1.4	8.7	-0.0						
Current Account Balance	-69.5	-97.4	-108.1	-124.7	-121.1	-151.9	-158.9	-173.1	-153.8	-172.6	-61.5	-99.9	-151.2						
Goods & Serv (BOP), net	-54.3	-75.2	-88.0	-82.0	-92.1	-107.7	-115.2	-109.9	-115.6	-133.4	-39.5	-74.8	-106.2						
Goods (BOP), net	-115.8	-134.4	-146.4	-133.9	-146.0	-166.0	-178.5	-174.0	-177.8	-194.6	-96.1	-132.6	-166.1						
Services (BOP), net	61.5	59.2	58.5	51.9	53.9	58.3	63.3	64.1	62.2	61.3	56.6	57.8	59.9						
Investment Income, net	14.8	8.3	12.8	0.1	0.5	-9.1	-10.1	-18.3	-8.1	-10.7	10.1	9.0	-9.3						
Direct, net	61.1	55.3	59.2	49.7	46.2	43.9	44.6	45.7	57.0	58.7	51.6	56.3	45.1						
Portfolio, net	-46.2	-47.0	-46.5	-49.6	-45.7	-53.0	-54.7	-64.0	-65.1	-69.5	-41.5	-47.3	-54.4						
Unilateral Transfers, net	-30.1	-30.4	-32.9	-42.9	-29.5	-35.1	-33.5	-45.0	-30.1	-28.5	-32.1	-34.1	-35.8						

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		
	1995				1996				1997				ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1995	1996	1997		
NIPA Real Net Exports (Chained 1992 dollars)	-114.3	-95.9	-102.0	-104.9	-113.6	-108.6	-108.8	-111.4	-120.6	-118.8	-114.0	-107.3	-114.9		
Exports of G&S Goods	779.1	798.7	808.8	827.4	835.8	859.1	873.6	896.3	907.3	931.9	774.5	832.8	902.3		
Agricultural	570.7	588.0	596.7	613.9	620.3	641.6	654.0	674.6	683.8	706.8	566.3	618.1	679.8		
Computers	50.0	50.3	50.4	48.7	49.6	50.7	51.0	51.3	51.6	51.8	49.9	49.9	51.5		
Semiconductors	65.2	73.3	78.1	83.2	89.0	95.2	101.9	109.0	116.7	124.8	61.8	86.4	113.1		
Other Goods	57.0	62.9	67.0	71.4	76.0	80.9	86.2	91.8	97.8	104.1	56.0	73.8	95.0		
Services	398.5	401.5	401.1	410.6	405.7	414.7	414.9	422.5	417.7	426.0	398.6	408.0	420.3		
Imports of G&S Goods	209.4	211.7	213.1	214.5	216.5	218.5	220.6	222.7	224.5	226.1	209.0	215.6	223.5		
Oil	893.4	894.7	910.8	932.3	949.4	967.6	982.4	1007.7	1027.9	1050.8	888.5	940.0	1017.2		
Computers	752.2	751.0	765.6	785.3	801.7	818.9	832.6	856.8	876.0	897.5	746.6	792.9	865.7		
Semiconductors	60.7	57.9	59.0	63.2	66.3	61.6	61.6	67.0	69.9	65.2	58.1	62.5	65.9		
Other Goods	88.0	97.9	103.4	108.6	114.1	119.7	125.7	132.0	138.6	145.6	83.5	111.5	135.5		
Services	53.0	58.8	62.3	66.7	71.3	76.3	81.6	87.4	93.5	100.0	49.1	69.1	90.6		
Memo: (Percent change 1/)	550.5	536.5	540.9	546.8	550.1	561.3	563.7	570.4	574.0	586.7	555.9	549.8	573.7		
Exports of G&S	141.6	144.1	145.6	147.4	148.1	149.1	150.2	151.3	152.3	153.7	142.3	147.5	151.9		
Agricultural	8.0	10.5	5.1	9.5	4.1	11.6	7.0	10.8	5.0	11.3	6.4	7.6	8.5		
Computers	15.8	2.3	1.2	-12.9	7.6	9.2	2.4	2.4	2.4	1.6	-1.8	0.9	2.2		
Semiconductors	87.7	60.0	28.9	28.6	31.0	31.0	31.1	31.0	31.1	31.1	47.8	29.9	31.1		
Other Goods	31.0	48.1	28.8	28.6	28.6	28.6	28.6	28.6	28.6	28.7	33.4	28.7	28.7		
Services	-2.0	3.1	-0.4	9.8	-4.7	9.2	0.2	7.5	-4.4	8.2	1.4	3.3	2.7		
Imports of G&S	1.9	4.5	2.6	2.6	3.8	3.7	4.0	3.8	3.3	2.9	1.9	3.2	3.5		
Oil	1.0	0.6	7.4	9.8	7.6	7.9	6.2	10.7	8.3	9.2	4.4	8.2	8.6		
Computers	25.1	-17.2	7.8	31.8	20.9	-25.5	-0.1	40.2	18.7	-24.4	-0.5	6.4	5.8		
Semiconductors	76.9	52.9	24.8	21.6	21.6	21.5	21.6	21.6	21.5	21.6	43.3	22.4	21.6		
Other Goods	86.4	51.8	26.2	31.0	31.1	31.1	31.0	31.1	31.0	31.0	59.1	29.8	31.0		
Services	-13.9	-9.8	3.3	4.5	2.4	8.4	1.7	4.8	2.6	9.2	-3.4	4.6	4.5		
Current Account Balance	1.4	7.2	4.2	4.9	2.0	2.9	2.9	3.0	2.6	3.7	4.0	3.5	3.0		
Goods & Serv (BOP), net	-161.0	-124.3	-138.9	-139.4	-143.6	-152.2	-137.1	-141.9	-146.5	-159.5	-152.9	-143.5	-146.3		
Goods (BOP), net	-109.2	-87.5	-89.4	-92.5	-97.7	-91.0	-89.1	-88.7	-96.3	-92.3	-111.4	-92.6	-91.6		
Services (BOP), net	-173.3	-152.1	-155.8	-159.5	-166.5	-161.6	-161.6	-163.0	-172.5	-169.8	-174.5	-160.8	-166.7		
Investment Income, net	-31.1	-30.7	-42.4	-33.0	-33.0	-43.5	-33.0	-33.0	-33.0	-43.5	-30.1	-38.0	-35.6		
Direct, net	-20.7	-6.1	-7.1	-13.9	-12.9	-17.7	-15.0	-20.2	-17.2	-23.8	-11.4	-12.9	-19.0		
Portfolio, net	52.7	68.1	65.6	64.1	63.5	65.0	67.1	67.2	68.0	68.2	59.1	64.5	67.6		
Unilateral Transfers, net	-73.4	-74.2	-72.7	-77.9	-76.4	-82.7	-82.1	-87.4	-85.2	-91.9	-70.5	-77.4	-86.7		

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

Part 2

March 21, 1996

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

ADMINISTRATION BUDGET AND ECONOMIC PROJECTIONS¹

	1995	1996	1997	1998	1999	2000	2001	2002
Budget projections (Billions of dollars; fiscal years)								
Receipts	1355	1427	1495	1578	1653	1734	1820	1912
Outlays	1519	1572	1635	1676	1717	1761	1812	1868
Deficit	164	146	140	98	64	28	-8	-44
Economic assumptions ² (Calendar years)								
-Percentage change, Q4 to Q4-								
Real GDP	1.5	2.2	2.3	2.3	2.3	2.3	2.3	2.3
GDP deflator	2.5	2.8	2.7	2.7	2.7	2.7	2.7	2.7
CPI-U	2.7	3.1	2.9	2.8	2.8	2.8	2.8	2.8
Percent, annual average-								
Unemployment rate	5.6	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Yield on selected Treasuries								
Three-month	5.5	4.9	4.5	4.3	4.2	4.0	4.0	4.0
Ten-year	6.6	5.6	5.3	5.0	5.0	5.0	5.0	5.0

1. The projections assume that the President's tax and spending proposals are enacted.

2. Based on information available as of mid-January 1996.

Source. The Budget of the United States Government, Office of Management and Budget, March 19, 1996.

TREASURY FINANCING
(Billions of dollars; total for period)

Item	1995		1996		
	Q4	Q1 ^p	Jan.	Feb. ^e	Mar. ^P
Total surplus/deficit (-)	-55.9	-81.2	19.3	-47.5	-53.0
Means of financing deficit					
Net cash borrowing and repayments (-)	33.3	58.8	-4.7	49.9	13.6
Nonmarketable	14.9	11.3	10.6	-0.5	-0.1
Marketable	48.2	70.0	5.9	50.4	13.7
Bills	18.2	45.0	-3.4	34.8	13.7
Coupons	30.0	25.0	9.3	15.7	0.0
Decrease in cash balance	17.5	5.6	-17.0	6.3	16.3
Other ¹	5.1	16.9	2.4	-8.7	23.1
Memo:					
Cash balance, end of period	20.5	14.9	37.5	31.2	14.9

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

p Projection.

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		1996		
	Q3	Q4	Dec.	Jan.	Feb.
FHLBs	13.8	6.3	4.2	-8.5	1.3
FHLMC	3.1	8.4	4.4	0.9	2.9
FNMA	6.3	22.0	9.4	-1.5	6.5
Farm Credit Banks	1.9	1.6	0.7	1.3	1.1
SLMA	0.4	-4.1	-3.0	n.a.	n.a.

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

n.a. Not available.