

Strictly Confidential (FR) Class II FOMC

---

December 16, 1992

## **SUMMARY AND OUTLOOK**

---

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

Reflecting current labor-market conditions, as well as the revised output path, the unemployment rate now is projected to be 1/2 percentage point lower by the end of next year than in the previous forecast; with less output growth in 1994, the downward revision to the unemployment rate diminishes to 1/4 percentage point. Because of somewhat greater inflation in 1992 and less slack in the economy over the remainder of the forecast period, we have raised our forecast for the CPI excluding food and energy by 0.3 percentage point in 1993 and 0.4 percentage point in 1994.

**STAFF ECONOMIC PROJECTIONS**  
(Percent change: Q4 to Q4)

	1991	1992	1993	1994
Real GDP	.1	2.9	2.7	2.9
Previous	.1	2.3	2.4	3.2
Gross domestic purchases	-.2	3.6	3.2	3.2
Previous	-.2	3.0	2.5	3.3
Civilian unemployment rate	1 6.9	7.3	7.0	6.6
Previous	6.9	7.5	7.5	6.8
CPI excluding food and energy	4.5	3.5	2.8	2.4
Previous	4.5	3.2	2.5	2.0

1. Average for the fourth quarter.

Key assumptions

The staff's central monetary policy assumption is little changed from that in the November Greenbook: We have assumed no significant change in the federal funds rate through 1993 and only a mild firming over the course of 1994--by which time credit-supply constraints should have eased perceptibly. In the bond market, yields already have retraced some of the run-up that occurred in advance of the elections; rather than simply heightening concerns about prospective rate pressures, positive economic news has reduced market participants' fears of a new, budget-busting fiscal initiative, and the appointments to President-elect Clinton's

operating and capital account) from more than \$40 billion this year to \$12 billion in 1994.

Net exports. An expected acceleration in economic activity abroad is projected to boost the growth of real exports of goods and services to a 5-3/4 percent annual pace, on average, over the next two years. However, real imports of goods and services are expected to rise 9-1/4 percent in 1993 and 8 percent in 1994. Consequently, the deficit on real net exports widens from around \$42 billion in 1992 to almost \$95 billion in 1994. (A detailed discussion of these projections is contained in the International Developments section.)

LABOR MARKET PROJECTIONS  
(Percent change; Q4 to Q4)

	1991	1992	1993	1994
Output per hour, nonfarm business sector	1.3	2.5	1.8	1.2
Labor force participation rate	65.9	66.1	66.3	66.5
Civilian labor force	.5	1.3	1.3	1.2
Civilian employment, household survey	.6	.9	1.6	1.7
Civilian unemployment rate	6.9	7.3	7.0	6.6

1. Average for the fourth quarter.

Labor markets. As the result of the stronger output path, we now anticipate that the unemployment rate will fall over the course of 1993. Nonetheless, we expect the progress in reducing unemployment to be slow. The improved economic environment is likely to attract more people into the labor force, while at the same time employers, intent on raising productivity, remain cautious in expanding their staffs. On balance, we expect the unemployment rate to fall to 7 percent by the end of next year. In 1994, productivity gains are likely to slow a bit as restructuring

wanes, and the jobless rate falls to 6.6 percent by the fourth quarter.

Wages and prices. Although the downsizing of the defense establishment is expected to cause some extra frictional unemployment over the next two years, considerable effective slack still is projected to remain in labor markets. As a result, we expect further progress in reducing wage and price inflation. ECI hourly compensation is projected to decelerate about 1/2 percentage point over the forecast period to a 2-3/4 percent rate of increase in 1994. We anticipate a slowdown in wages and salaries and in the cost of employer-provided benefits. Although some type of health-care reform may well emerge in the next session of the Congress, we have not incorporated such reform into the forecast. Rather, the downtrend in benefits reflects some success on the part of employers and insurance companies in containing costs.

Reflecting the moderation in labor cost increases as well as relative stability in the prices of imported goods, consumer price inflation is expected to slow further. After an increase of just over 3 percent in 1992, the CPI is projected to rise 2-3/4 percent in 1993 and 2-1/2 percent in 1994. The CPI excluding food and energy is expected to decelerate from a 3-1/2 percent increase in 1992 to less than 2-1/2 percent in 1994. The increase in energy prices in 1993 is expected to be a bit less than in the prior forecast, reflecting the lower path for crude oil prices; energy prices accelerate in 1994, as tougher environmental regulations and increases in demand raise the prices of electricity and natural gas.

STAFF INFLATION PROJECTIONS  
(Percent change: Q4 to Q4)

	1991	1992	1993	1994
Consumer price index	3.0	3.1	2.7	2.4
<i>Previous</i>	3.0	2.9	2.7	2.1
Food	1.7	1.7	2.4	2.0
<i>Previous</i>	1.7	2.0	2.3	1.8
Energy	-8.0	2.4	2.9	3.5
<i>Previous</i>	-8.0	2.4	5.0	3.4
Excluding food and energy	4.5	3.5	2.8	2.4
<i>Previous</i>	4.5	3.2	2.5	2.0
ECI for compensation, private industry workers <sup>1</sup>	4.4	3.3	3.1	2.8
<i>Previous</i>	4.4	3.3	3.0	2.7

1. December to December.

Strictly Confidential (FR)  
Issue II FOMC

STAFF PROJECTIONS OF CHANGES IN GDP, PRICES, AND UNEMPLOYMENT  
(Percent, annual rate)

December 16, 1992

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index <sup>1</sup>		Unemployment rate (level except as noted)	
	11/12/92	12/16/92	11/12/92	12/16/92	11/12/92	12/16/92	11/12/92	12/16/92	11/12/92	12/16/92
<b>ANNUAL</b>										
1990 <sup>2</sup>	5.2	5.2	.8	.8	4.5	4.5	5.4	5.4	5.5	5.5
1991 <sup>2</sup>	2.8	2.8	-1.2	-1.2	4.0	4.0	4.2	4.2	6.7	6.7
1992	4.5	4.8	1.8	2.1	3.0	3.0	3.0	3.0	7.4	7.4
1993	4.5	5.5	2.2	2.9	2.6	2.8	2.8	2.9	7.6	7.1
1994	4.8	5.0	3.0	2.7	2.1	2.4	2.2	2.6	7.1	6.8
<b>QUARTERLY</b>										
1991 Q1 <sup>2</sup>	1.8	1.8	-3.0	-3.0	4.7	4.7	3.3	3.3	6.5	6.5
Q2 <sup>2</sup>	5.2	5.2	1.7	1.7	3.5	3.5	2.4	2.4	6.7	6.7
Q3 <sup>2</sup>	4.0	4.0	1.2	1.2	3.0	3.0	2.7	2.7	6.8	6.8
Q4 <sup>2</sup>	2.8	2.8	.6	.6	2.4	2.4	3.6	3.6	6.9	6.9
1992 Q1 <sup>2</sup>	6.2	6.2	2.9	2.9	3.6	3.6	2.9	2.9	7.2	7.2
Q2 <sup>2</sup>	4.3	4.3	1.5	1.5	2.9	2.9	3.5	3.5	7.5	7.5
Q3 <sup>2</sup>	4.5	5.6	2.7	3.9	2.1	2.2	2.6	2.6	7.6	7.6
Q4	4.5	6.2	2.0	3.3	2.8	3.3	3.0	3.5	7.5	7.3
1993 Q1	4.9	6.0	2.0	2.7	3.0	3.3	3.1	2.4	7.6	7.3
Q2	4.2	5.0	2.0	2.7	2.4	2.5	2.7	3.0	7.6	7.2
Q3	4.5	5.1	2.5	2.7	2.2	2.5	2.5	2.9	7.6	7.1
Q4	4.7	4.9	2.9	2.6	2.0	2.4	2.3	2.6	7.5	7.0
1994 Q1	5.2	5.3	3.1	2.7	2.5	2.8	2.3	2.5	7.3	6.9
Q2	4.7	4.9	3.2	2.7	1.9	2.2	2.1	2.4	7.2	6.8
Q3	4.6	4.9	3.2	3.0	1.7	2.2	2.0	2.3	7.0	6.7
Q4	4.6	4.9	3.3	3.0	1.7	2.1	2.0	2.2	6.8	6.6
<b>TWO-QUARTER<sup>3</sup></b>										
1991 Q2 <sup>2</sup>	3.5	3.5	-.7	-.7	4.2	4.2	2.9	2.9	.7	.7
Q4 <sup>2</sup>	3.4	3.4	.9	.9	2.7	2.7	3.1	3.1	-.2	-.2
1992 Q2 <sup>2</sup>	5.2	5.2	2.2	2.2	3.4	3.4	3.1	3.1	.6	.6
Q4	4.5	5.9	2.3	3.6	2.4	2.8	2.8	3.0	-.0	-.2
1993 Q2	4.5	5.5	2.0	2.7	2.7	2.9	2.9	2.7	-.1	-.1
Q4	4.6	5.0	2.7	2.6	2.1	2.4	2.4	2.7	-.1	-.2
1994 Q2	5.0	5.1	3.2	2.7	2.2	2.5	2.2	2.5	-.3	-.2
Q4	4.6	4.9	3.2	3.0	1.7	2.1	2.0	2.3	-.4	-.2
<b>FOUR-QUARTER<sup>4</sup></b>										
1990 Q4 <sup>2</sup>	4.1	4.1	-.5	-.5	4.7	4.7	6.3	6.3	.6	.6
1991 Q4 <sup>2</sup>	3.5	3.5	.1	.1	3.5	3.5	3.0	3.0	.9	.9
1992 Q4	4.9	5.6	2.3	2.9	2.9	3.1	2.9	3.1	.6	.4
1993 Q4	4.6	5.2	2.4	2.7	2.4	2.7	2.7	2.7	-.0	-.3
1994 Q4	4.8	5.0	3.2	2.9	1.9	2.3	2.1	2.4	-.7	-.4

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.

Strictly Confidential (FR)  
Class II FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES  
(Seasonally adjusted, annual rate)

December 16, 1992

Item	Unit <sup>1</sup>	Projected								
		1986	1987	1988	1989	1990	1991	1992	1993	1994
<u>EXPENDITURES</u>										
Nominal GDP	Bill. \$	4268.6	4539.9	4900.4	5250.8	5522.2	5677.5	5949.5	6276.7	6591.6
Real GDP	Bill. 87\$	4404.5	4540.0	4718.6	4838.0	4877.5	4821.0	4921.2	5063.7	5202.7
Real GDP	% change	2.2	4.5	3.3	1.6	-.5	.1	2.9	2.7	2.9
Gross domestic purchases		2.1	3.9	2.5	.9	-1.2	-.2	3.6	3.2	3.2
Final sales		3.3	2.7	4.2	1.5	-.6	-.6	2.8	2.4	2.9
Private dom. final purch.		3.0	1.9	4.2	.5	-.8	-.9	4.2	3.9	4.0
Personal cons. expend.		4.0	2.1	4.2	1.2	.2	.0	3.3	3.1	3.2
Durables		12.5	-2.6	8.5	-.5	-2.3	-2.5	8.6	6.8	7.3
Nondurables		3.3	1.4	3.2	1.2	-.7	-1.5	3.0	2.0	2.2
Services		2.5	3.7	3.7	1.7	1.3	1.6	2.3	2.7	2.6
Business fixed invest.		-5.7	3.0	5.5	-.4	-1.4	-7.0	7.1	7.9	7.8
Producers' dur. equip.		-.7	2.4	9.1	-1.7	-.2	-3.5	11.0	10.7	9.3
Nonres. structures		-14.1	4.4	-1.2	2.3	-3.7	-14.3	-1.9	.8	3.4
Res. structures		11.1	-3.1	.9	-7.7	-14.7	-.1	12.8	7.6	7.0
Exports		9.9	12.6	13.5	11.3	7.2	7.4	3.5	5.6	5.9
Imports		6.7	4.7	3.6	2.6	.1	4.8	9.2	9.3	7.9
Government purchases		4.1	3.3	.2	2.0	2.8	-.6	.2	-1.6	-.3
Federal		3.8	3.7	-3.4	-.6	3.0	-2.3	-1.6	-5.6	-4.1
Defense		3.7	4.5	-3.2	-1.5	1.5	-5.2	-4.3	-8.6	-6.6
State and local		4.4	2.9	2.9	4.0	2.7	.7	1.5	1.1	2.1
Change in bus. invent.	Bill. 87\$	8.6	26.3	19.9	29.8	6.2	-9.3	7.4	28.8	28.7
Nonfarm		10.6	32.7	26.9	29.9	3.7	-9.6	5.0	29.4	29.8
Net exports		-155.1	-143.0	-104.0	-73.7	-51.8	-21.8	-42.3	-74.4	-93.6
Nominal GDP	% change	4.7	8.0	7.7	6.0	4.1	3.5	5.6	5.2	5.0
<u>EMPLOYMENT AND PRODUCTION</u>										
Nonfarm payroll employ.	Millions	99.5	102.2	105.5	108.3	109.8	108.3	108.4	109.7	111.7
Unemployment rate	%	7.0	6.2	5.5	5.3	5.5	6.7	7.4	7.1	6.8
Industrial prod. index	% change	1.4	6.5	4.5	1.1	.3	-.5	1.7	4.3	3.9
Capacity util. rate-mfg.	%	79.5	82.6	84.2	83.5	81.9	78.5	77.8	78.8	79.3
Housing starts	Millions	1.81	1.62	1.49	1.38	1.19	1.01	1.20	1.32	1.44
Auto sales in U.S.		11.45	10.24	10.63	9.91	9.51	8.39	8.34	8.78	9.33
North American produced		8.22	7.07	7.54	7.08	6.91	6.14	6.23	6.60	6.95
Other		3.24	3.18	3.10	2.83	2.60	2.25	2.10	2.18	2.38
<u>INCOME AND SAVING</u>										
Nominal GNP	Bill. \$	4277.8	4544.5	4908.2	5266.8	5542.9	5694.9	5958.5	6277.3	6589.6
Nominal GNP	% change	4.4	8.1	7.8	6.1	4.2	3.1	5.3	5.2	4.9
Nominal personal income		5.5	7.4	7.1	6.5	6.3	3.3	5.2	5.9	5.9
Real disposable income		2.8	2.1	3.2	1.1	.9	.5	2.5	2.8	3.2
Personal saving rate	%	6.0	4.3	4.4	4.0	4.3	4.7	4.8	4.5	4.4
Corp. profits, IVA&CCAdj	% change	-7.1	29.7	10.2	-6.3	-3.0	.9	17.2	7.6	3.0
Profit share of GNP	%	6.4	7.0	7.4	6.9	6.5	6.1	6.5	6.9	6.8
Federal surpl./def.	Bill. \$	-201.1	-151.8	-136.6	-122.3	-166.2	-210.4	-297.0	-265.1	-244.8
State/local surpl./def.		54.3	40.1	38.4	44.8	30.1	17.1	15.3	29.3	44.3
Ex. social ins. funds		1.5	-14.7	-18.4	-17.5	-32.9	-43.1	-42.4	-27.6	-12.3
<u>PRICES AND COSTS</u>										
GDP implicit deflator	% change	2.6	3.3	4.2	4.4	4.5	3.4	2.6	2.5	2.1
GDP fixed-wt. price index		2.6	3.4	4.2	4.3	4.7	3.5	3.1	2.7	2.3
Gross domestic purchases		2.3	3.9	4.1	4.3	5.3	2.8	3.1	2.6	2.3
fixed-wt. price index		1.3	4.5	4.3	4.6	6.3	3.0	3.1	2.7	2.4
CPI		3.9	4.3	4.5	4.4	5.3	4.5	3.5	2.8	2.4
Ex. food and energy										
C.I. hourly compensation <sup>2</sup>		3.2	3.3	4.8	4.8	4.6	4.4	3.3	3.1	2.8
Nonfarm business sector										
Output per hour		1.2	1.8	.5	-1.4	.1	1.3	2.5	1.8	1.2
Compensation per hour		4.6	3.8	3.8	3.1	6.3	4.2	3.4	3.3	3.0
Unit labor cost		3.4	1.9	3.3	4.6	6.2	2.8	.9	1.5	1.8

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

2. Private-industry workers.

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

December 16, 1992

Item	Unit	1990				1991				1992	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	5445.2	5522.6	5559.6	5561.3	5585.8	5657.6	5713.1	5753.3	5840.2	5902.2
Real GDP	Bill. 87\$	4890.8	4902.7	4882.6	4833.8	4796.7	4817.1	4831.8	4838.5	4873.7	4892.4
Real GDP	% change	2.8	1.0	-1.6	-3.9	-3.0	1.7	1.2	.6	2.9	1.5
Gross domestic purchases		2.1	.9	-1.4	-6.0	-4.2	1.7	2.4	-.4	3.0	3.4
Final sales		4.3	-1.1	.1	-.9	-3.2	1.3	-.5	.0	4.7	-.1
Private dom. final purch.		2.9	-1.7	.8	-5.0	-6.0	1.5	1.4	-.4	5.5	2.4
Personal cons. expend.		2.2	.1	1.7	-3.1	-3.0	2.0	1.5	-.3	5.1	-.1
Durables		16.2	-12.0	-1.4	-9.8	-13.0	-.7	8.1	-3.1	16.5	-2.1
Nondurables		-.2	-.5	.8	-2.8	-3.2	1.3	-.6	-3.5	5.5	-1.5
Services		.3	3.7	3.1	-1.6	-.3	3.0	1.2	2.3	2.2	1.2
Business fixed invest.		6.2	-6.6	5.6	-9.6	-15.8	-3.1	-3.4	-5.2	3.0	16.1
Producers' dur. equip.		6.8	-7.8	7.2	-6.1	-16.7	.7	6.0	-2.4	3.2	24.1
Nonres. structures		5.0	-4.1	2.5	-16.5	-14.0	-10.6	-20.8	-11.5	2.7	-.8
Res. structures		5.3	-15.9	-22.9	-22.4	-26.9	7.0	14.4	11.3	20.1	12.6
Exports		10.7	7.0	-.2	11.6	-5.0	16.6	6.2	13.3	2.9	-1.4
Imports		2.6	5.1	1.5	-8.5	-14.6	15.6	17.1	4.2	3.5	14.7
Government purchases		6.4	1.1	-2.0	6.1	2.8	.2	-2.3	-3.0	1.7	-1.2
Federal		8.0	2.1	-7.2	9.9	7.2	-.3	-6.5	-9.0	-3.0	-2.7
Defense		4.9	.3	-10.5	12.8	8.7	-5.6	-9.4	-13.0	-7.7	-5.2
State and local		5.2	.4	1.9	3.5	-.1	.6	.9	1.4	5.1	-.2
Change in bus. invent.	Bill. 87\$	7.5	32.8	11.2	-26.8	-25.1	-20.4	.6	7.5	-12.6	7.8
Nonfarm		5.9	27.9	6.6	-25.6	-24.7	-24.5	-1.0	11.8	-10.7	6.0
Net exports		-58.4	-56.9	-59.3	-32.7	-17.9	-17.4	-31.6	-20.5	-21.5	-43.9
Nominal GDP	% change	7.7	5.8	2.7	.1	1.8	5.2	4.0	2.8	6.2	4.3
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employ.	Millions	109.8	110.2	109.9	109.3	108.6	108.2	108.3	108.2	108.1	108.4
Unemployment rate <sup>1</sup>	%	5.2	5.3	5.6	6.0	6.5	6.7	6.8	6.9	7.2	7.5
Industrial prod. index	% change	.6	4.2	3.9	-7.0	-9.7	2.6	6.6	-.7	-2.9	5.2
Capacity util. rate-mfg. <sup>1</sup>	%	82.9	82.9	82.9	78.7	78.7	78.7	78.7	77.8	77.8	77.8
Housing starts	Millions	1.46	1.20	1.13	1.03	.92	1.00	1.04	1.10	1.26	1.14
Auto sales in U.S.		9.95	9.52	9.56	9.02	8.36	8.43	8.56	8.21	8.31	8.50
North American produced		7.16	6.80	7.05	6.61	6.13	6.10	6.28	6.06	6.07	6.32
Other		2.79	2.71	2.51	2.41	2.23	2.33	2.28	2.15	2.24	2.19
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	5464.1	5537.0	5577.8	5592.7	5614.9	5674.3	5726.4	5764.1	5859.8	5909.3
Nominal GNP	% change	7.6	5.4	3.0	1.1	1.6	4.3	3.7	2.7	6.8	3.4
Nominal personal income		9.5	6.2	4.6	5.2	.1	4.6	3.3	5.1	6.1	3.9
Real disposable income		4.2	.8	-1.2	-.2	-2.6	1.9	.7	2.2	4.0	1.2
Personal saving rate <sup>1</sup>	%	4.4	4.6	3.9	4.6	4.7	4.7	4.5	5.1	4.9	5.3
Corp. profits, IVA&CCAdj	% change	15.6	19.1	-29.9	-8.2	6.7	-2.6	-6.8	7.1	49.8	4.7
Profit share of GNP <sup>1</sup>	%	6.7	6.9	6.3	6.2	6.2	6.1	6.0	6.0	6.6	6.6
Federal govt. surpl./def.	Bill. \$	-167.8	-156.9	-145.6	-194.6	-149.9	-212.2	-221.0	-258.7	-289.2	-302.9
State/local surpl./def.		36.1	33.8	30.3	20.2	14.6	16.5	15.4	22.0	16.6	17.7
Ex. social ins. funds		-27.3	-29.4	-32.5	-42.2	-46.6	-44.1	-44.5	-37.3	-41.8	-40.3
<b>PRICES AND COSTS</b>											
GDP implicit deflator	% change	4.4	4.8	4.7	3.9	5.3	3.5	2.4	2.4	3.1	2.7
GDP fixed-wt. price index		5.4	4.6	4.7	4.1	4.7	3.5	3.0	2.4	3.6	2.9
Gross domestic purchases		5.9	3.7	5.6	5.8	3.1	2.5	2.9	2.5	3.1	3.2
fixed-wt. price index		7.2	4.1	7.0	6.9	3.3	2.4	2.7	3.6	2.9	3.5
Ex. food and energy		5.6	5.5	5.8	4.2	6.5	3.8	4.0	3.7	3.9	3.9
ECI, hourly compensation <sup>2</sup>		5.6	4.7	4.7	3.8	4.9	4.5	4.1	4.0	4.0	2.5
Nonfarm business sector		-.5	2.5	-1.7	.1	-.7	1.7	1.9	2.5	3.7	1.7
Output per hour		5.0	7.8	6.4	5.9	3.8	5.8	3.9	3.1	3.8	2.4
Compensation per hour		5.6	5.1	8.2	5.8	4.6	4.0	2.0	.6	.1	.8

1. Not at an annual rate.

2. Private-industry workers.

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

December 16, 1992

Item	Units	Projected									
		1992		1993				1994			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	5982.5	6073.0	6162.0	6237.5	6315.9	6391.5	6474.3	6551.5	6630.7	6709.9
Real GDP	Bill. '87\$	4939.4	4979.3	5013.1	5047.1	5081.0	5113.6	5147.7	5182.4	5220.6	5259.9
Real GDP	% change	3.9	3.3	2.7	2.7	2.7	2.6	2.7	2.7	3.0	3.0
Gross domestic purchases		4.3	3.6	3.5	3.5	3.1	2.6	3.0	3.4	3.3	3.1
Final sales		2.9	3.8	2.1	2.1	2.3	3.0	2.8	2.7	3.0	3.1
Private dom. final purch.		3.3	5.8	4.0	4.0	3.7	3.9	3.9	4.1	4.0	3.9
Personal cons. expend.		3.7	4.7	3.0	2.9	3.1	3.3	3.2	3.3	3.2	3.0
Durables		9.5	11.4	7.0	5.5	6.9	8.0	7.9	7.7	7.4	6.2
Nondurables		2.5	5.6	2.0	2.0	2.0	2.0	2.3	2.3	2.2	2.1
Services		3.0	2.7	2.5	2.8	2.8	2.8	2.5	2.8	2.7	2.6
Business fixed invest.		1.9	7.9	7.8	10.1	6.8	7.1	7.5	7.8	7.8	7.9
Producers' dur. equip.		9.2	8.6	10.8	14.0	9.0	8.9	9.1	9.4	9.3	9.3
Nonres. structures		-14.4	6.1	.1	.0	.9	2.0	3.0	3.3	3.6	3.9
Res. structures		.8	18.6	12.6	6.9	5.2	5.7	6.8	6.6	6.6	8.0
Exports		9.4	3.6	4.5	5.7	6.0	6.4	6.1	5.9	5.8	5.9
Imports		12.8	6.2	10.4	11.8	9.0	6.1	7.9	10.3	7.6	5.8
Government purchases		3.3	-2.7	-2.1	-1.9	-1.4	-.8	-.6	-.3	-.2	-.1
Federal		6.3	-6.6	-6.1	-5.9	-5.4	-5.0	-4.5	-4.0	-4.0	-4.1
Defense		6.7	-10.2	-9.4	-8.9	-8.3	-7.7	-7.1	-6.4	-6.5	-6.6
State and local		1.4	.0	.6	.8	1.2	1.8	1.9	2.0	2.1	2.2
Change in bus. invent.	Bill. '87\$	20.2	14.0	21.6	29.5	34.5	29.6	28.1	28.9	29.3	28.4
Nonfarm		14.8	9.7	22.3	29.5	34.8	31.0	29.4	30.1	30.3	29.2
Net exports		-49.8	-54.1	-63.6	-73.9	-79.7	-80.5	-84.7	-93.3	-97.6	-99.0
Nominal GDP	% change	5.6	6.2	6.0	5.0	5.1	4.9	5.3	4.9	4.9	4.9
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employ.	Millions	108.5	108.6	109.0	109.5	110.0	110.4	110.9	111.4	111.9	112.5
Unemployment rate <sup>1</sup>	%	7.6	7.3	7.3	7.2	7.1	7.0	6.9	6.8	6.7	6.6
Industrial prod. index	% change	2.1	2.4	5.4	4.5	3.5	3.8	3.7	3.6	4.1	4.3
Capacity util. rate-mfg <sup>1</sup>	%	77.8	77.9	78.5	78.7	78.9	79.0	79.1	79.2	79.4	79.6
Housing starts	Millions	1.19	1.24	1.28	1.31	1.34	1.37	1.40	1.43	1.45	1.48
Auto sales in U.S.		8.21	8.32	8.65	8.70	8.80	8.95	9.10	9.25	9.40	9.55
North American produced		6.24	6.31	6.55	6.55	6.60	6.70	6.80	6.90	7.00	7.10
Other		1.97	2.01	2.10	2.15	2.20	2.25	2.30	2.35	2.40	2.45
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	5993.1	6072.0	6162.9	6237.3	6318.5	6390.7	6474.2	6549.0	6630.0	6705.1
Nominal GNP	% change	5.8	5.4	6.1	4.9	5.3	4.7	5.3	4.7	5.0	4.6
Nominal personal income		2.5	8.4	6.5	5.9	5.2	6.1	6.9	5.4	5.4	5.8
Real disposable income		.4	4.5	3.0	2.8	1.9	3.4	3.9	2.9	2.7	3.3
Personal saving rate <sup>1</sup>	%	4.5	4.6	4.6	4.6	4.3	4.3	4.5	4.4	4.3	4.3
Corp. profits, IVA&CCAdj	% change	-17.3	45.6	19.0	3.8	4.1	4.3	1.3	5.2	-1.0	6.7
Profit share of GNP <sup>1</sup>	%	6.2	6.7	6.9	6.9	6.9	6.9	6.8	6.8	6.7	6.7
Federal govt. surpl./def.	Bill. \$	-301.9	-294.1	-279.5	-270.6	-253.8	-256.4	-257.0	-249.6	-235.6	-237.0
State/local surpl./def.		9.0	18.0	22.6	24.1	33.9	36.8	40.1	42.3	47.1	47.7
Ex. social ins. funds		-48.2	-39.2	-34.5	-32.9	-23.0	-20.0	-16.6	-14.3	-9.5	-9.0
<b>PRICES AND COSTS</b>											
GDP implicit deflator	% change	1.7	2.8	3.2	2.2	2.4	2.2	2.5	2.1	1.9	1.8
GDP fixed-wt. price index		2.2	3.3	3.3	2.5	2.5	2.4	2.8	2.2	2.2	2.1
Gross domestic purchases		2.5	3.1	2.8	2.6	2.5	2.3	2.7	2.2	2.1	2.1
fixed-wt. price index		2.6	3.5	2.4	3.0	2.9	2.6	2.5	2.4	2.3	2.2
x. food and energy		2.5	3.7	3.0	2.8	2.7	2.6	2.5	2.4	2.3	2.2
UCL, hourly compensation <sup>2</sup>		3.2	3.4	3.3	3.1	3.1	3.0	2.9	2.9	2.8	2.7
Nonfarm business sector		3.0	1.7	3.2	1.6	1.3	1.2	1.1	1.2	1.3	1.2
Output per hour		3.5	3.8	3.8	3.2	3.2	3.1	3.4	3.0	2.9	2.8
Compensation per hour		.6	2.1	.6	1.6	1.9	1.9	2.3	1.8	1.6	1.6
Unit labor cost											

1. Not at an annual rate.

2. Private-industry workers.

Strictly Confidential (FR)  
Class II FOMC

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

December 16, 1992

Item	1990				1991				1992		Proj.			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1989	1990	1991	1992
Real GDP	34.1	11.9	-20.1	-48.8	-37.1	20.4	14.7	6.7	35.2	18.7	77.0	-22.9	4.7	140.8
Gross domestic purchases	25.1	10.4	-17.7	-75.4	-51.9	19.9	28.9	-4.4	36.2	41.1	41.7	-57.6	-7.5	174.5
Final sales	51.5	-13.3	1.4	-10.8	-38.8	15.6	-6.2	-.3	55.4	-1.7	73.1	28.8	-29.7	134.4
Private dom. final purch.	28.3	-17.4	8.4	-51.1	-60.2	14.6	13.4	-4.3	52.5	23.5	19.7	-31.8	-36.5	165.8
Personal cons. expend.	17.5	.6	13.8	-25.9	-24.5	15.8	11.9	-2.2	40.3	-.8	39.1	6.0	1.0	108.0
Durables	16.7	-14.3	-1.5	-11.1	-14.6	-.7	8.1	-3.3	16.2	-2.3	-2.4	-10.2	-10.5	35.8
Nondurables	-.6	-1.2	2.0	-7.5	-8.6	3.3	-1.5	-9.2	14.0	-4.0	12.1	-7.3	-16.0	31.0
Services	1.4	16.0	13.4	-7.3	-1.3	13.3	5.2	10.4	9.9	5.6	29.4	23.5	27.6	41.1
Business fixed invest.	8.1	-9.2	7.3	-13.6	-22.3	-4.0	-4.3	-6.6	3.7	18.9	-2.1	-7.4	-37.2	35.0
Producers' dur. equip.	5.9	-7.3	6.2	-5.6	-15.9	-.6	5.0	-2.1	2.7	19.2	-6.2	-.8	-12.4	37.8
Nonres. structures	2.2	-1.9	1.1	-8.0	-6.4	-4.6	-9.2	-4.6	1.0	-.3	4.1	-6.6	-24.8	-2.9
Res. structures	2.7	-8.9	-12.7	-11.6	-13.4	2.8	5.7	4.7	8.3	5.6	-17.3	-30.5	-.2	22.6
Change in bus. invent.	-17.4	25.3	-21.6	-38.0	1.7	4.7	21.0	6.9	-20.1	20.4	4.0	-51.7	34.3	6.5
Nonfarm	-25.3	22.0	-21.3	-32.2	.9	.2	23.5	12.8	-22.5	16.7	.7	-56.8	37.4	~2.1
Farm	7.9	3.2	-.2	-5.8	.8	4.5	-2.5	-5.8	2.3	3.7	3.3	5.1	-3.0	8.5
Net exports	9.0	1.5	-2.4	26.6	14.8	.5	-14.2	11.1	-1.0	-22.4	35.3	34.7	12.2	-33.6
Exports	12.5	8.5	-.3	14.2	-6.7	20.2	8.1	17.2	4.0	-2.0	49.5	34.9	38.8	19.9
Imports	3.6	7.0	2.1	-12.4	-21.5	19.7	22.3	6.0	5.0	20.5	14.1	.3	26.5	53.6
Government purchases	14.2	2.6	-4.6	13.7	6.6	.5	-5.4	-7.1	3.9	-2.8	18.1	25.9	-5.4	2.3
Federal	7.3	2.0	-7.1	9.0	6.8	-.3	-6.6	-9.0	-2.9	-2.6	-2.3	11.2	-9.1	-6.2
Defense	3.4	.2	-7.8	8.5	6.0	-4.2	-7.0	-9.6	-5.4	-3.5	-4.2	4.3	-14.8	-11.7
Nondefense	3.8	1.8	.7	.5	.7	4.0	.4	.6	2.5	.9	2.0	6.8	5.7	5.5
State and local	6.9	.6	2.5	4.7	-.2	.8	1.2	1.9	6.9	-.3	20.4	14.7	3.7	8.5

1. Annual changes are from Q4 to Q4.

Strictly Confidential (FR)  
Class II FOMC

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

December 16, 1992

Item	Projected										Projected			
	1992		1993				1994				1991	1992	1993	1994
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GDP	47.0	39.9	33.8	34.0	33.9	32.6	34.1	34.7	38.2	39.3	4.7	140.8	134.2	146.4
Gross domestic purchases	52.9	44.3	43.2	44.3	39.7	33.3	38.4	43.3	42.5	40.6	-7.5	174.5	160.6	164.9
Final sales	34.6	46.1	26.2	26.1	28.8	37.5	35.6	33.9	37.8	40.2	-29.7	134.4	118.7	147.5
Private dom. final purch.	32.9	56.9	40.6	40.8	38.0	40.2	41.1	43.2	42.7	41.9	-36.5	165.8	159.5	168.8
Personal cons. expend.	29.9	38.6	24.6	24.3	26.1	27.6	27.2	28.7	27.8	25.9	1.0	108.0	102.5	109.6
Durables	9.9	12.0	7.7	6.2	7.9	9.2	9.3	9.3	9.0	7.8	-10.5	35.8	31.0	35.4
Nondurables	6.6	14.4	5.4	5.3	5.3	5.4	6.2	6.2	6.0	5.8	-16.0	31.0	21.4	24.2
Services	13.4	12.2	11.5	12.8	12.9	13.0	11.7	13.2	12.8	12.4	27.6	41.1	50.2	50.0
Business fixed invest.	2.4	10.0	10.0	13.0	9.2	9.6	10.3	11.0	11.2	11.6	-37.2	35.0	41.8	44.2
Producers' dur. equip.	8.1	7.8	9.9	13.0	8.8	8.9	9.3	9.8	9.9	10.1	-12.4	37.8	40.7	39.1
Nonres. structures	-5.7	2.1	.0	.0	.3	.7	1.1	1.2	1.3	1.5	-24.8	-2.9	1.1	5.0
Res. structures	.4	8.3	6.0	3.5	2.7	3.0	3.6	3.5	3.6	4.4	-.2	22.6	15.2	15.1
Change in bus. invent.	12.4	-6.2	7.6	7.9	5.1	-5.0	-1.4	.8	.4	-.9	34.3	6.5	15.6	-1.2
Nonfarm	8.8	-5.1	12.6	7.2	5.4	-3.9	-1.5	.7	.2	-1.1	37.4	-2.1	21.3	-1.8
Farm	3.5	-1.0	-5.0	.7	-.3	-1.1	.1	.1	.2	.2	-3.0	8.5	-5.7	.6
Net exports	-5.9	-4.3	-9.4	-10.3	-5.9	-.7	-4.2	-8.6	-4.3	-1.4	12.2	-33.6	-26.3	-18.5
Exports	12.8	5.1	6.4	8.2	8.8	9.4	9.1	9.0	9.0	9.2	38.8	19.9	32.8	36.4
Imports	18.6	9.5	15.8	18.5	14.6	10.1	13.3	17.6	13.3	10.6	26.5	53.6	59.1	54.9
Government purchases	7.6	-6.4	-4.9	-4.4	-3.3	-1.9	-1.3	-.7	-.5	-.3	-5.4	2.3	-14.5	-2.8
Federal	5.7	-6.4	-5.8	-5.5	-5.0	-4.5	-4.0	-3.5	-3.5	-3.5	-9.1	-6.2	-20.8	-14.5
Defense	4.3	-7.1	-6.3	-5.8	-5.3	-4.8	-4.3	-3.8	-3.8	-3.8	-14.8	-11.7	-22.2	-15.7
Nondefense	1.5	.6	.5	.3	.3	.3	.3	.3	.3	.3	5.7	5.5	1.4	1.2
State and local	1.9	.0	.9	1.1	1.7	2.6	2.7	2.8	3.0	3.2	3.7	8.5	6.3	11.7

1. Annual changes are from Q4 to Q4.

I-20

Item	Fiscal year				1992				1993				1994			
	1991*	1992*	1993	1994	Q1*	Q2*	Q3*	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>UNIFIED BUDGET</b>																
Receipts <sup>1</sup>	1054	1092	1158	1219	239	322	276	257	254	353	294	268	273	377	301	281
Outlays <sup>1</sup>	1324	1382	1469	1547	355	350	338	385	334	373	378	387	382	391	387	398
Surplus/deficit <sup>1</sup>	-269	-290	-312	-327	-116	-28	-62	-128	-80	-20	-84	-119	-109	-14	-86	-117
On-budget	-322	-340	-367	-387	-121	-60	-62	-138	-88	-53	-89	-131	-117	-51	-89	-132
Off-budget	52	50	56	60	6	31	-1	10	8	33	5	12	8	37	3	15
Surplus excluding deposit insurance <sup>2</sup>	-203	-287	-291	-279	-105	-25	-69	-135	-82	-8	-65	-106	-98	0	-75	-108
Means of financing																
Borrowing	293	311	298	352	83	62	77	80	84	49	86	117	103	44	88	109
Cash decrease	-1	-17	19	0	29	-27	-12	41	-2	-19	0	10	10	-20	0	10
Other <sup>3</sup>	-23	-4	-5	-24	4	-7	-3	8	-2	-10	-1	-8	-4	-10	-2	-2
Cash operating balance, end of period	41	59	40	40	20	47	59	18	21	40	40	30	20	40	40	30
<b>NIPA FEDERAL SECTOR</b>																
Receipts	1118	1144	1228	1305	1143	1150	1155	1187	1226	1241	1256	1273	1299	1316	1331	1350
Expenditures	1313	1433	1502	1554	1433	1453	1457	1482	1505	1511	1510	1529	1556	1566	1567	1587
Purchases	447	446	447	439	445	445	454	448	450	446	442	439	442	440	437	434
Defense	326	315	307	293	314	312	318	312	311	305	300	296	296	293	289	285
Nondefense	121	132	140	146	131	133	136	136	140	141	142	143	146	147	148	149
Other expenditures	866	987	1055	1115	988	1008	1003	1034	1055	1065	1068	1090	1114	1126	1129	1152
Surplus/deficit	-194	-288	-275	-250	-289	-303	-302	-295	-280	-271	-254	-256	-257	-250	-236	-237
<b>FISCAL INDICATORS<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-155	-224	-221	-211	-226	-235	-238	-236	-224	-219	-206	-212	-216	-213	-204	-211
Change in HEB, percent of potential GDP	-.4	1.2	0	-.2	.5	.1	.1	0	-.2	-.1	-.2	.1	.1	0	-.1	.1
Fiscal impetus (FI), percent, cal. year	-3.8	-4	-4.3	-4	-2.5	-.1	1.1	-1.4	-2.1	-1.3	-1.3	-1.1	-.7	-.9	-.9	-.9

1. OMB's July deficit estimates are \$334 billion in FY92, \$341 billion in FY93 and \$274 billion in FY94. CBO's August deficit estimates are \$314 billion in FY92, \$331 billion in FY93 and \$268 billion in FY94. 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 deficit estimates, excluding deposit insurance spending, are \$323 billion in FY92, \$282 billion in FY93 and \$253 billion in FY94. CBO's March deficit estimates, excluding deposit insurance spending, are \$301 billion in FY92, \$282 billion in FY93 and \$251 billion in FY94.

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 2.1 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.

GROWTH RATES OF DEBT BY SECTOR<sup>1</sup>  
(Percent, period-end to period-end)

	Domestic Nonfinancial Sectors							Memo		
	Households									
	Total <sup>2</sup>	U.S. govt. <sup>2</sup>	Non- federal	Total	Home mtgs.	Cons. credit	Business	State & local govts.	Private financial assets <sup>3</sup>	Nominal GDP <sup>4</sup>
1983	11.7	18.9	9.9	11.6	11.3	12.6	8.3	9.7	11.7	11.0
1984	14.5	16.9	13.8	13.2	12.0	18.7	15.4	9.1	13.0	9.1
1985	15.0	16.5	14.5	14.3	12.2	15.8	11.5	31.4	13.1	7.0
1986	12.9	13.6	12.7	14.1	17.3	9.6	11.9	10.5	9.1	4.7
1987	9.2	8.0	9.6	11.5	13.7	5.0	7.1	13.4	8.4	8.0
1988	9.1	8.0	9.4	11.1	12.5	7.2	8.3	7.0	8.4	7.7
1989	8.0	6.9	8.2	9.6	11.3	5.6	6.9	8.4	7.1	6.0
1990	6.6	11.0	5.3	7.2	9.0	2.2	3.3	5.9	4.5	4.1
1991	4.2	11.1	2.1	4.2	5.3	-1.6	-0.6	4.5	0.7	3.5
1992	4.9	10.9	3.0	4.7	6.0	0.0	0.5	5.4	0.1	5.6
1993	5.7	10.9	3.9	5.1	5.9	2.6	2.7	3.5	0.8	5.2
1994	6.0	10.1	4.4	5.7	6.4	4.6	3.1	3.8	1.8	5.0
Seasonally adjusted, annual rates										
1992 -- Q1	6.0	13.3	3.5	5.5	7.4	0.4	1.0	5.1	5.2	6.2
Q2	4.7	12.3	2.2	3.6	4.1	-1.6	-0.6	6.9	-1.2	4.3
Q3	3.3	6.5	2.2	3.7	5.0	0.1	-0.3	5.4	-4.1	5.6
Q4	5.4	9.8	3.9	5.5	6.9	1.1	2.0	3.9	0.5	6.2
1993 -- Q1	5.8	12.1	3.5	4.7	5.6	1.8	2.2	3.0	0.3	6.0
Q2	5.2	9.2	3.7	4.8	5.8	2.2	2.6	3.8	0.3	5.0
Q3	4.8	7.2	4.0	5.0	5.9	2.9	2.9	3.2	0.0	5.1
Q4	6.7	13.5	4.3	5.5	6.0	3.5	2.9	3.9	2.5	4.9
1994 -- Q1	6.7	13.1	4.3	5.4	6.0	3.9	3.0	3.7	2.3	5.3
Q2	5.3	7.8	4.4	5.5	6.2	4.4	3.1	4.0	1.2	4.9
Q3	5.1	6.7	4.4	5.7	6.5	4.8	3.1	3.3	0.9	4.9
Q4	6.4	11.3	4.5	5.7	6.4	5.0	3.1	4.0	2.7	4.9

I-27

- Published data through 1992 Q3.
- Deposit insurance activity raised total debt growth roughly 0.5 percentage point in 1991 and is expected to raise growth by 0.3 percentage point in both 1993 and 1994; there is no effect on debt growth in 1992.
- Sometimes referred to as the "Kaufman debt proxy"; includes liquid assets and credit market instruments.
- Annual figures are Q4 to Q4.

FLOW OF FUNDS PROJECTION HIGHLIGHTS<sup>1</sup>  
(Billions of dollars, seasonally adjusted annual rates)

	Calendar year													
	1991	1992	1993	1994	Q1	Q2	1992	Q3	Q4	Q1	Q2	1993	Q3	Q4
<b>Net funds raised by domestic nonfinancial sectors:</b>														
1 Total	470.9	578.5	686.2	750.0	713.5	571.1	390.9	638.3	689.7	630.5	592.4	832.2		
2 Net equity issuance	18.3	25.8	10.0	5.0	46.0	36.0	11.0	10.0	13.0	11.0	9.0	7.0		
3 Net debt issuance	452.7	552.7	676.2	745.0	667.5	535.1	379.9	628.3	676.7	619.5	583.4	825.2		
<b>Borrowing sectors:</b>														
Nonfinancial business														
4 Financing gap <sup>2</sup>	-4.4	-20.9	24.7	57.4	-43.1	-14.8	-23.7	-1.9	9.6	23.9	30.2	35.1		
5 Net equity issuance	18.3	25.8	10.0	5.0	46.0	36.0	11.0	10.0	13.0	11.0	9.0	7.0		
6 Credit market borrowing	-22.1	18.2	96.8	115.5	35.4	-23.4	-11.7	72.5	81.1	92.7	105.6	107.6		
Households														
7 Net borrowing, of which:	158.0	183.3	210.1	248.4	217.1	143.3	148.1	224.8	195.2	198.2	212.6	234.5	H	
8 Home mortgages	137.1	163.4	172.2	197.5	202.2	114.2	139.7	197.5	161.4	169.9	176.2	181.4	N	
9 Consumer credit	-12.6	0.0	20.8	37.6	3.1	-12.4	0.4	9.0	14.0	18.0	23.0	28.0	O	
10 Debt/DPI (percent) <sup>3</sup>	91.7	91.0	90.4	90.2	91.6	91.3	91.8	91.2	91.0	90.8	90.9	90.8		
State and local governments														
11 Net borrowing	38.5	49.0	33.5	37.5	46.1	63.4	50.0	36.4	28.4	36.2	31.3	38.2	H	
12 Current surplus <sup>4</sup>	-39.6	-43.9	-32.7	-22.1	-49.8	-38.2	-47.0	-40.5	-36.3	-34.1	-32.0	-28.1	N	
U.S. government														
13 Net borrowing	278.2	302.2	335.8	343.7	368.9	351.9	193.4	294.6	372.0	292.4	233.9	444.9		
14 Net borrowing; quarterly, nsa	278.2	302.2	335.8	343.7	83.4	63.6	75.5	79.7	84.2	48.7	85.7	117.3		
15 Unified deficit; quarterly, nsa	266.8	334.5	302.9	324.8	115.6	28.4	62.4	128.1	79.8	19.7	84.2	119.3		
Funds supplied by depository institutions														
16	-61.0	41.9	124.3	128.0	-14.4	-23.2	79.7	125.4	124.8	125.6	112.1	134.8		
Memoranda: As percent of GDP:														
17 Dom. nonfinancial debt <sup>5</sup>	193.5	193.1	192.8	194.4	194.8	195.0	194.0	193.7	193.7	193.8	193.7	194.6		
18 Dom. nonfinancial borrowing	8.0	9.3	10.8	11.3	11.4	9.1	6.4	10.3	11.0	9.9	9.2	12.9		
19 U.S. government <sup>5</sup>	4.9	5.1	5.4	5.2	6.3	6.0	3.2	4.9	6.0	4.7	3.7	7.0		
20 Private	3.1	4.2	5.4	6.1	5.1	3.1	3.1	5.5	4.9	5.2	5.5	6.0		

1. Published data through 1992 Q3.

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

3. Annuals are average debt levels in the year (computed as the average of year-end debt positions) divided by nominal GDP.

4. NIPA surplus, net of retirement funds.

5. Excludes government-insured mortgage pool securities.

slower growth abroad and somewhat faster growth in the United States, and to a slight extent, the appreciation of the dollar. In 1994, the rise in the dollar and, to a lesser extent, slower growth abroad are the main factors underlying the further deterioration in the outlook for net exports.

The growth of real merchandise exports is projected to slow to about 4 percent at an annual rate in the current quarter and then to average about 6-1/2 percent over the next two years. Excluding shipments of agricultural commodities (which are expected to remain little changed on average) and computers (which are expected to continue to expand rapidly over the forecast period), export growth is projected to average about 5 percent in 1993 and 4 percent in 1994. Export growth slows over the forecast period because the depressing effects of the rising dollar more than offset the stimulative effects of the gradual pick-up in GDP growth abroad.

**TRADE QUANTITIES\***  
(Percent change from preceding period shown, A.R.)

	Projection						
	1992		1993			1994	
	Q3	Q4	Q1	Q2	Q3	Q4	Q4
<b>Exports</b>							
Agricultural	58.7	-9.2	-10.5	-0.5	2.1	6.4	0.6
Computers	38.5	21.2	17.0	17.0	19.3	20.6	25.1
Other nonag.	7.0	2.9	4.9	5.1	5.0	4.7	3.8
<b>Imports:</b>							
Oil	15.8	3.8	0.6	43.3	11.0	-15.6	11.6
Computers	82.3	18.4	23.9	23.9	23.9	23.9	19.2
Other non-oil	7.5	5.8	9.7	8.2	7.6	6.9	6.3

\* GDP basis, 1987 dollars.

The recent strengthening of U.S. economic activity has added to the projected growth of U.S. imports through the first half of 1993. We now expect total merchandise imports to expand at an average rate of 10 percent during 1993 and a bit less in 1994. Declines in relative prices of imports and rapid growth in imports of computers

remain there through the end of 1994, \$1.50 less than the price path in the November Greenbook.

Prices of Non-oil Imports and Nonagricultural Exports. Owing to the appreciation of the dollar in recent months, U.S. non-oil import prices are projected to decline slightly in the fourth quarter and to rise only marginally in the first quarter of 1993. We expect these import prices to continue rising less rapidly than domestic prices abroad after mid-1993 because of the projected appreciation of the dollar. The increase in prices of U.S. nonagricultural exports (excluding computers) should roughly keep pace with increases in U.S. producer prices.

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

	Projection						1994 Q4
	1992		1993		1994		
	Q3	Q4	Q1	Q2	Q3	Q4	
PPI (exp. wts.)	3.5	-1.0	0.8	2.6	2.0	1.6	1.4
Nonag. exports*	3.2	0.4	0.5	2.1	1.6	1.6	1.3
Non-oil imports*	4.7	-0.6	0.5	1.0	1.2	1.2	1.3
Oil imports (\$/bl)	18.55	17.95	15.70	17.00	17.50	17.50	17.50

\* Excluding computers.

Nominal Trade and Current Account Balances. The merchandise trade deficit is projected to widen from an annual rate of \$106 billion in the third quarter of 1992 to about \$130 billion in the second half of 1993 and nearly \$150 billion in 1994. The projected level of the deficit in 1994 exceeds that in the previous forecast by \$8 billion. The worsening of the outlook for the nominal trade balance is substantially less than that for real net exports of goods because the projected terms of trade have improved relative to the November forecast.

December 16, 1992

STRICTLY CONFIDENTIAL - FR  
CLASS II FOMCREAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1990-94  
(Percent change from fourth quarter to fourth quarter)

Measure and country	Projection				
	1990	1991	1992	1993	1994
<b>REAL GDP</b>					
Canada	-2.0	-0.0	1.1	2.6	3.2
France	1.5	1.7	1.8	1.9	3.0
Western Germany	5.8	2.0	0.9	1.4	2.4
Italy	1.6	1.7	0.7	1.2	2.2
Japan	4.7	3.0	0.5	1.8	3.2
United Kingdom	-1.0	-1.6	-0.9	1.5	2.6
Average, weighted by 1987-89 GDP	2.6	1.5	0.6	1.7	2.8
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	1.8	1.6	1.7	2.7	3.4
G-6	0.6	0.8	0.8	2.1	3.0
Developing countries	5.0	4.9	4.1	5.0	5.2
<b>CONSUMER PRICES</b>					
Canada	4.9	4.1	2.0	2.3	2.3
France	3.6	2.9	2.6	2.5	2.2
Western Germany	3.0	3.9	3.7	3.3	2.3
Italy	6.3	6.1	5.0	5.6	3.9
Japan	3.2	3.2	1.2	2.2	1.6
United Kingdom	10.0	4.2	3.1	2.6	3.0
Average, weighted by 1987-89 GDP	4.8	3.9	2.6	3.0	2.4
Average, weighted by share of U.S. non-oil imports	4.4	3.8	2.1	2.6	2.2

December 16, 1992

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

	1990				1991				1992		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1989	1990	1991
GDP Net Exports of Goods and Services (87\$)	-58.4	-56.9	-59.3	-32.7	-17.9	-17.4	-31.6	-20.5	-21.5	-43.9	-73.7	-51.8	-21.8
Exports of G+S Merchandise Services	500.2	508.7	508.4	522.6	515.9	536.1	544.2	561.4	565.4	563.4	471.8	510.0	539.4
	363.5	368.7	366.7	375.3	377.4	390.1	395.2	407.3	408.1	408.0	343.8	368.5	392.5
	136.7	140.0	141.7	147.3	138.5	146.1	149.0	154.0	157.3	155.4	127.9	141.4	146.9
Imports of G+S Merchandise Oil	558.6	565.6	567.7	555.3	533.8	553.5	575.8	581.8	586.8	607.3	595.4	561.8	561.2
	458.3	464.5	465.7	452.7	438.9	454.9	477.9	482.2	488.0	507.8	450.4	460.3	463.5
	55.9	55.6	53.3	43.5	44.2	51.5	52.4	46.5	46.7	50.9	51.3	52.1	48.6
	402.4	408.9	412.4	409.1	394.7	403.4	425.5	435.7	441.3	456.8	399.0	408.2	414.8
Non-oil Services	100.3	101.2	102.0	102.6	94.9	98.5	97.9	99.6	98.8	99.5	95.0	101.5	97.7
Memo: (Percent changes 1/)													
Exports of G+S of which: Goods	10.7	7.0	-0.2	11.6	-5.0	16.6	6.2	13.3	2.9	-1.4	11.3	7.2	7.4
	10.2	5.8	-2.2	9.7	2.3	14.2	5.3	12.8	0.8	-0.1	10.2	5.8	8.5
Imports of G+S of which: Non-oil Goods	2.6	5.1	1.5	-8.5	-14.6	15.6	17.1	4.2	3.5	14.7	2.6	0.1	4.8
	-4.4	6.6	3.5	-3.2	-13.4	9.1	23.8	9.9	5.2	14.8	3.1	0.5	6.5
Current Account Balance	-89.5	-85.3	-95.9	-91.0	48.8	9.7	-44.3	-28.9	-23.6	-71.2	-101.1	-90.4	-3.7
Merchandise Trade, net	-109.5	-99.2	-115.6	-111.1	-73.3	-65.6	-80.7	-74.2	-68.9	-98.2	-115.7	-108.9	-73.4
Exports Agricultural	379.9	386.6	386.2	402.1	402.5	413.3	416.6	431.4	431.8	429.9	361.7	388.7	416.0
	43.0	40.5	39.4	37.9	39.2	37.5	40.7	43.2	43.3	41.9	42.2	40.2	40.1
Nonagricultural	337.0	346.1	346.8	364.2	363.3	375.8	375.9	388.2	388.5	388.0	319.5	348.5	375.8
Imports Oil	489.4	485.8	501.7	513.2	475.8	478.9	497.3	505.6	500.7	528.1	477.4	497.6	489.4
	63.2	51.3	61.8	72.9	51.7	51.7	52.5	48.8	41.5	51.7	50.9	62.3	51.2
Non-oil	426.3	434.5	439.9	440.3	424.2	427.1	444.8	456.8	459.2	476.4	426.4	435.3	438.2
Other Current Account	2.7	1.1	2.8	-10.0	94.2	59.6	24.0	35.5	27.4	19.3	0.2	-0.9	53.3
Invest. Income, net	17.3	12.8	16.9	30.1	27.9	15.7	12.3	9.8	17.9	7.7	14.4	19.3	16.4
Direct, net	52.1	51.5	54.0	59.7	61.7	53.0	48.3	48.5	55.3	48.0	47.8	54.3	52.9
Portfolio, net	-34.8	-38.7	-37.1	-29.6	-33.9	-37.3	-36.0	-38.7	-37.4	-40.3	-33.5	-35.1	-36.5
Military, net	-7.5	-6.5	-6.8	-10.5	-10.3	-5.7	-4.0	-2.2	-2.5	-2.5	-6.8	-7.8	-5.5
Other Services, net	36.3	37.2	38.3	47.6	47.7	48.8	52.1	54.7	57.9	53.0	32.6	39.9	50.8
Transfers, net	-26.2	-29.6	-28.8	-47.1	56.8	16.5	-24.0	-17.1	-28.0	-31.2	-25.6	-32.9	8.0

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

Strictly Confidential (FR) Class II-FOMC

December 16, 1992

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

	Projection								Projection				
	1992		1993				1994				ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1992	1993	1994
GDP Net Exports of Goods and Services (87\$)	-49.8	-54.2	-63.7	-74.0	-79.8	-80.6	-84.8	-93.4	-97.7	-99.1	-42.4	-74.5	-93.7
Exports of G+S Merchandise Services	576.2	581.3	587.7	595.9	604.7	614.0	623.1	632.2	641.2	650.4	571.6	600.6	636.7
	422.2	426.1	431.2	437.7	444.7	452.4	459.8	467.2	474.5	482.0	416.1	441.5	470.9
	154.0	155.1	156.5	158.2	160.0	161.7	163.4	165.0	166.7	168.4	155.5	159.1	165.9
Imports of G+S Merchandise	625.9	635.4	651.3	669.7	684.4	694.5	707.8	725.5	738.8	749.4	613.9	675.0	730.4
	526.0	535.1	548.6	566.0	579.7	589.0	601.3	618.0	630.5	640.2	514.2	570.8	622.5
	52.8	53.3	53.4	58.4	59.9	57.4	58.5	64.2	65.7	64.1	50.9	57.3	63.1
	473.2	481.8	495.2	507.6	519.7	531.5	542.7	553.8	564.8	576.1	463.3	513.5	559.3
	100.0	100.5	102.8	103.9	104.8	105.7	106.7	107.6	108.4	109.3	99.7	104.3	108.0
Memo: (Percent changes 1/)													
Exports of G+S of which: Goods	9.4	3.6	4.5	5.7	6.0	6.4	6.1	5.9	5.8	5.9	3.5	5.6	5.9
	14.7	3.8	4.8	6.1	6.6	7.1	6.7	6.6	6.4	6.4	4.6	6.2	6.5
Imports of G+S of which: Non-oil Goods	12.8	6.2	10.4	11.8	9.0	6.1	7.9	10.3	7.6	5.8	9.2	9.3	7.9
	15.2	7.4	11.6	10.4	10.0	9.4	8.7	8.4	8.2	8.2	10.6	10.3	8.4
Current Account Balance	-56.9	-84.9	-80.7	-93.2	-95.3	-99.3	-99.1	-109.0	-110.7	-118.4	-59.2	-92.1	-109.3
Merchandise Trade, net	-106.2	-111.5	-111.3	-124.5	-131.4	-131.5	-135.8	-144.8	-150.1	-152.7	-96.2	-124.7	-145.9
Exports	443.2	444.7	448.0	454.6	461.9	469.8	477.0	483.9	490.1	496.2	437.4	458.6	486.8
Agricultural	46.4	43.8	42.4	42.6	43.1	44.3	44.9	45.5	46.0	46.5	43.8	43.1	45.7
Nonagricultural	396.8	400.9	405.5	411.9	418.7	425.5	432.1	438.4	444.1	449.6	393.6	415.4	441.1
Imports	549.4	556.1	559.3	579.1	593.3	601.3	612.8	628.7	640.2	648.9	533.6	583.2	632.7
Oil	56.9	55.5	48.6	57.8	60.9	58.3	59.5	65.2	66.8	65.1	51.4	56.4	64.1
Non-oil	492.5	500.7	510.7	521.2	532.4	543.0	553.4	563.5	573.5	583.8	482.2	526.8	568.5
Other Current Account	35.0	20.0	22.1	23.9	26.0	25.4	29.3	30.7	32.4	31.6	25.4	24.4	31.0
Invest. Income, net	14.2	6.6	8.5	7.4	10.1	6.7	7.4	5.1	6.9	2.7	11.6	8.2	5.5
Direct, net	51.8	44.7	42.6	42.6	43.2	42.9	42.7	43.5	43.8	43.9	50.0	42.8	43.5
Portfolio, net	-37.6	-38.1	-34.0	-35.2	-33.0	-36.1	-35.3	-38.4	-36.9	-41.2	-38.3	-34.6	-37.9
Military, net	-2.2	-1.6	-2.0	-1.6	-1.0	-0.6	-0.2	0.2	0.6	1.0	-2.2	-1.3	0.4
Other Services, net	64.7	55.2	55.5	56.9	58.4	59.6	60.7	61.7	63.0	64.2	57.7	57.6	62.4
Transfers, net	-27.5	-33.6	-31.4	-31.4	-31.4	-33.6	-31.2	-31.2	-31.2	-33.6	-30.1	-31.9	-31.8

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

**Confidential (FR) Class III FOMC**

---

**December 16, 1992**

## **RECENT DEVELOPMENTS**

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

was held down by a further decline in commercial aircraft production.<sup>4</sup>

Output of construction supplies grew noticeably in October and November, retracing part of the losses that occurred in late summer. These increases partly reflected gains in output of lumber and are broadly consistent with the recent firming in homebuilding activity. Production of industrial materials also grew in November, as output of paper, textiles, and chemicals posted notable gains.

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

	1992			1993			1992		
	Q2	Q3	Q4	Q1 <sup>1</sup>	Oct.	Nov.	Dec. <sup>1</sup>		
Domestic production	10.0	9.5	10.2	11.1	9.9	10.1	10.7		
Autos	6.1	5.6	5.7	6.3	5.5	5.6	6.0		
Trucks	3.9	3.9	4.5	4.8	4.4	4.5	4.7		

1. Figures beyond November are based on current manufacturers' schedules.

Personal Consumption and Income

Incoming data on retail sales point to a further strong advance in consumer spending in the current quarter, and consumer confidence, which was stuck in the doldrums last summer and early fall, has risen impressively of late.

Total retail sales posted a modest increase in November after a substantial upward revision to growth in October. November spending in the retail control category, which excludes auto sales and sales at building material and supply stores, advanced 0.4 percent last month, and the October gain was revised up 0.8 percentage point, to

---

4. Production cutbacks at Boeing are expected to continue throughout 1993 in response to weak new orders, cancellations, and customer requests for delayed deliveries.

TREASURY AND AGENCY FINANCING<sup>1</sup>  
(Total for period; billions of dollars)

	1992				
	Q3	Q4 <sup>P</sup>	Oct.	Nov. <sup>P</sup>	Dec. <sup>P</sup>
<u>Treasury financing</u>					
Total surplus/deficit (-)	-62.4	-128.1	-48.9	-37.2	-42.0
Means of financing deficit:					
Net cash borrowing from the public	77.0	79.7	-1.6	62.1	19.2
Marketable borrowings/ repayments (-)	72.6	75.2	-2.5	59.7	18.0
Bills	16.1	22.6	-6.5	17.2	11.9
Coupons	56.4	52.7	4.0	42.5	6.1
Nonmarketable	4.4	4.5	.9	2.3	1.2
Decrease in the cash balance	-11.7	42.3	39.4	-7.3	10.2
Memo: Cash balance at end of period	58.8	16.5	19.4	26.7	16.5
<sup>2</sup>					
Other	-2.8	6.1	11.0	-17.5	12.6
<u>Federally sponsored credit agencies, net cash borrowing<sup>3</sup></u>					
FHLBs	17.0	--	3.3	--	--
FHLMC	4.8	--	1.6	--	--
FNMA	4.3	--	-2.6	--	--
Farm Credit Banks	6.2	--	4.5	--	--
SLMA	0.9	--	-.2	--	--
FAMC <sup>4</sup>	.7	--	--	--	--
	.0	--	-.0	--	--

- 1. Data reported on a not seasonally adjusted, payment basis.
  - 2. Includes checks issued less checks paid, accrued items and other transactions.
  - 3. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
  - 4. Federal Agricultural mortgage Corporation.
- p--projected.

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

THE GROWTH AND FLOW OF MONETARY AND CREDIT AGGREGATES  
(Q4 to Q4 averages, seasonally adjusted unless otherwise noted)

<u>Growth rates or flows</u>	1988	1989	1990	1991	1992 <sup>1</sup>	Memo: Recent 1992 levels (billions of dollars) <sup>1</sup>
<u>Growth rates (percent)</u>						
M1	4.3	0.6	4.2	8.0	14.5	1019.2
M2	5.2	4.8	4.0	2.8	2.2	3505.1
M3	6.4	3.6	1.7	1.2	0.6	4190.0
Domestic nonfinancial debt	9.2	8.1	6.9	4.3	4.4	11622.4
Bank credit	7.9	7.3	5.5	3.6	4.0	2936.3
Thrift credit	7.6	-2.5	-9.8	-10.7	-3.6	1378.9
<u>Flows (\$ billions)</u>						
M1						
Currency	15.3	10.3	24.2	20.5	22.7	290.0
Demand deposits	-3.0	-7.5	-1.9	12.4	49.8	339.3
Other checkable deposits	21.3	4.5	8.8	39.3	48.0	381.2
M2						
Nontransactions M2	123.4	149.0	79.7	28.8	-55.8	2485.9
Savings & MMDAs	-10.9	-35.0	29.5	121.9	138.9	1181.5
Small time deposits	115.4	115.6	20.2	-105.7	-180.8	882.2
General purpose and broker/dealer money market mutual fund assets	20.2	74.4	32.6	11.6	-11.8	348.7
Overnight RPs, net (NSA)	3.1	-6.8	-8.1	-1.4	0.4	54.0
Overnight Eurodollars, net (NSA)	-4.0	1.2	5.2	2.9	-1.9	20.7
M3						
Non-M2 component	81.7	-19.5	-56.9	-44.4	-46.3	684.9
Institution-only money market mutual fund assets	-1.1	16.2	26.5	45.4	24.4	203.5
Large time deposits	52.2	18.1	-64.4	-57.8	-67.5	369.6
Term RPs, net (NSA)	15.7	-22.6	-9.5	-19.1	8.9	79.4
Term Eurodollars net (NSA)	14.7	-26.2	-10.8	-11.5	-9.4	47.8

1. For monetary aggregates and bank credit, through November; for domestic nonfinancial debt, through October; for thrift credit, through August.