

January 25, 1995

SUMMARY AND OUTLOOK

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

influences will be a net negative for U.S. net exports, but only in the near term.

SUMMARY OF STAFF REAL GDP PROJECTION FOR 1995-1996
(Percent change, at annual rates)

	<u>1994</u>	<u>1995</u>		<u>1996</u>
		H1	H2	
Real GDP	4.1	2.6	1.7	2.5
Previous	4.1	2.5	1.3	1.8
Real PCE	3.4	3.4	2.2	2.4
Previous	3.7	2.9	1.4	1.8
Real BFI	13.9	12.4	7.2	6.6
Previous	13.2	12.0	6.3	3.6
Real residential inv.	2.4	1.7	-2.7	-.1
Previous	1.6	-4.5	-1.2	1.4

On balance, we are projecting that real GDP will increase at a 3-1/4 percent annual rate in the current quarter, before slowing to an annual pace of less than 2 percent over the remainder of the year. The drop-off in growth in the latter half of the year is milder than in the December Greenbook, owing in part to the change in monetary policy assumptions.

In 1996, real GDP is projected to increase 2-1/2 percent, 3/4 percentage point faster than in the December Greenbook. As in the last forecast, economic activity accelerates next year as the inventory adjustment is completed. Although the amount of fiscal restraint in 1996 is greater than in the last projection, this is more than offset by lower interest rates and the accompanying higher values of shares and other assets--and by the effects of a weaker dollar on U.S. net exports.

Consumer spending. All indications are that employment growth is still proceeding apace and that increases in labor income will continue to be sizable in the near term. Given the optimism currently prevailing among consumers, we expect real PCE to increase

Net exports. The outlook for the U.S. external sector is considerably weaker in the first half of 1995 than in the December Greenbook, reflecting mainly the net effects of economic developments in Mexico and, to a lesser extent, earthquake-related disruptions of Japanese trade activity. Looking beyond the near term, the outlook for real net exports differs little from the last forecast, as the stimulative effects of the lower projected path for the exchange rate are essentially offset by faster growth in the United States and some reduction in projected increases in economic activity abroad. (A fuller discussion of these developments is contained in the International Developments section.)

Labor markets. Labor demand is projected to remain robust in the near term, as firms continue to adjust their staffing levels in light of the recent strong pace of activity and a generally positive outlook for the economy. In some cases, pressures to rely less heavily on overtime will encourage extra hiring. Private surveys point to a rapid pace of hiring, and the recent low level of initial claims for unemployment insurance is consistent with strong employment growth. We expect payroll gains to average 270,000 per month in the first quarter, a pace comparable to that in 1994.

STAFF LABOR MARKET PROJECTIONS
(Percent change, Q4 to Q4, unless otherwise noted)

	1994	1995	1996
Output per hour, nonfarm business	1.1	.7	1.5
Previous	1.2	.8	1.2
Nonfarm payroll employment	3.0	2.2	1.2
Previous	3.0	1.8	.8
Civilian unemployment rate ¹	5.6	5.4	5.5
Previous	5.6	5.7	6.1

1. Average for the fourth quarter.

broad pickup in inflation obviously have yet to materialize. These developments raise some question about whether the Phillips curve is "working" and particularly whether the NAIRU might be lower than 6 percent. We have reexamined the set of econometric models that we use to assist us in our inflation forecasts, and the experience of 1994 is generally well within their confidence intervals. Moreover, the increasing number of reports in the Beige Book and elsewhere of wage and price pressures seems consistent with what is to be expected if the economy has passed the point of full employment. Although the picture is not uniform across all indicators, most alternative measures of labor market tightness have moved into the ranges observed in the late 1980s, when inflation picked up. Consequently, we have decided that we should make no significant change in our working assumption regarding the NAIRU, which we take to be about 6 percent.

STAFF INFLATION PROJECTIONS
(Percent change, Q4 to Q4, unless otherwise noted)

	1994	1995	1996
Consumer price index	2.7	2.9	3.1
Previous	2.7	3.0	2.9
Excluding food and energy	2.8	3.2	3.3
Previous	2.9	3.2	3.1
ECI for compensation of private industry workers ¹	3.3	3.7	4.0
Previous	3.3	3.7	3.7

1. December to December.

Applying customary rules of thumb, the roughly 1/2 percentage point differential between the projected level of the actual unemployment rate and the NAIRU would imply an acceleration of 3/4 to 1 percent in hourly compensation over the next two years. Our forecast is on the low side of that range, with the ECI index for private compensation accelerating from a predicted 3.3 percent

observation) is the highest since 1979. The 7-1/2 percent level projected for 1996 would still be high by the standards of recent years.

Alternative Simulation

Under the baseline assumption of no change in the nominal federal funds rate over the projection period, we have forecast that the unemployment rate would remain below the staff's estimate of the NAIRU and inflation would drift upward. In light of the stated objective of the Committee of achieving price stability and to provide background information for the choice of policy options, an alternative simulation was run with the Board staff's macroeconomic model. The alternative simulation is based on an assumption that the federal funds rate is raised to about 7 percent by midsummer and is held close to that level in 1996. This probably is not far from the expectations prevailing in the markets at this time.

The results of this simulation are presented in the table below. Under the tighter policy assumption, a significant slowdown in economic growth occurs over the next two years, with the unemployment rate rising to 6 percent by the end of 1996. With the slack effects of a higher unemployment rate being reinforced by favorable exchange rate effects, inflation would be held in check.

ALTERNATIVE SIMULATION
(Percent change, Q4 to Q4, unless otherwise noted)

	1994	1995	1996
Real GDP	4.1	1.9	1.4
Baseline	4.1	2.2	2.5
Civilian unemployment rate ¹	5.6	5.5	6.0
Baseline	5.6	5.4	5.5
CPI excluding food and energy	2.8	3.0	2.9
Baseline	2.8	3.2	3.3

1. Average for the fourth quarter.

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index ¹		Unemployment rate (level except as noted)	
	12/14/94	1/25/95	12/14/94	1/25/95	12/14/94	1/25/95	12/14/94	1/25/95	12/14/94	1/25/95
ANNUAL										
1992 ²	5.2	5.2	2.3	2.3	3.2	3.2	3.0	3.0	7.4	7.4
1993 ²	5.4	5.4	3.1	3.1	3.0	3.0	3.0	3.0	6.8	6.8
1994	6.2	6.3	4.1	4.1	2.7	2.7	2.7	2.6	6.1	6.1
1995	5.6	5.7	3.1	3.2	3.1	3.0	3.0	3.0	5.6	5.4
1996	4.2	4.6	1.6	2.2	2.9	2.9	2.9	3.0	6.0	5.5
QUARTERLY										
1993 Q1 ²	4.4	4.4	1.2	1.2	4.2	4.2	2.8	2.8	7.0	7.0
Q2 ²	4.2	4.2	2.4	2.4	2.4	2.4	3.1	3.1	7.0	7.0
Q3 ²	3.8	3.8	2.7	2.7	2.0	2.0	2.0	2.0	6.7	6.7
Q4 ²	7.7	7.7	6.3	6.3	2.4	2.4	3.1	3.1	6.5	6.5
1994 Q1 ²	6.1	6.1	3.3	3.3	3.1	3.1	1.9	1.9	6.6	6.6
Q2 ²	7.2	7.2	4.1	4.1	2.9	2.9	2.8	2.8	6.2	6.2
Q3 ²	5.9	6.2	3.9	4.0	2.8	3.0	3.6	3.6	6.0	6.0
Q4	6.9	6.8	5.0	5.0	2.7	2.5	2.3	2.4	5.6	5.6
1995 Q1	6.3	6.4	3.0	3.2	3.6	3.5	3.1	2.9	5.5	5.3
Q2	4.7	4.5	2.0	2.0	3.0	2.9	3.2	2.9	5.5	5.3
Q3	3.9	4.1	1.3	1.7	2.9	2.8	3.0	3.0	5.6	5.4
Q4	3.6	4.0	1.2	1.7	2.7	2.8	2.6	3.0	5.7	5.4
1996 Q1	4.1	4.7	1.4	2.0	3.2	3.1	2.9	3.0	5.9	5.5
Q2	4.3	5.0	1.8	2.5	2.9	2.9	3.1	6.0	5.5	5.5
Q3	4.6	5.2	2.0	2.6	2.9	3.0	2.9	3.1	6.1	5.5
Q4	4.7	5.2	2.1	2.6	2.9	3.0	2.9	3.2	6.1	5.5
TWO-QUARTER³										
1993 Q2 ²	4.3	4.3	1.8	1.8	3.3	3.3	3.1	3.1	-3	-3
Q4 ²	5.7	5.7	4.5	4.5	2.2	2.2	2.4	2.4	-5	-5
1994 Q2 ²	6.6	6.6	3.7	3.7	3.0	3.0	2.4	2.4	-3	-3
Q4	6.4	6.5	4.5	4.5	2.8	2.7	2.9	2.9	-6	-6
1995 Q2	5.5	5.4	2.5	2.6	3.3	3.2	2.9	2.9	-1	-3
Q4	3.7	4.3	1.3	1.7	2.8	2.8	2.9	3.0	2	.1
1996 Q2	4.2	4.9	1.6	2.3	3.0	3.0	2.9	3.1	3	1
Q4	4.6	5.2	2.1	2.6	2.9	3.0	2.9	3.1	.1	0
FOUR-QUARTER⁴										
1992 Q4 ²	6.4	6.4	3.7	3.7	3.2	3.2	3.1	3.1	3	3
1993 Q4 ²	5.0	5.0	3.1	3.1	2.8	2.8	2.7	2.7	-8	-8
1994 Q4	6.5	6.6	4.1	4.1	2.9	2.8	2.7	2.7	-9	-9
1995 Q4	4.6	4.8	1.9	2.2	3.1	3.0	2.9	2.9	1	-2
1996 Q4	4.4	5.0	1.8	2.5	3.0	3.0	2.9	3.1	.4	1

¹ For all urban consumers.² Actual³ Percent change from two quarters earlier; for unemployment rate, change in percentage points⁴ Percent change from four quarters earlier; for unemployment rate, change in percentage points

Item	Unit ¹	Projected								
		1988	1989	1990	1991	1992	1993	1994	1995	1996
EXPENDITURES										
Nominal GDP	Bill. \$	4900.4	5250.8	5546.1	5724.8	6020.2	6343.3	6740.1	7123.6	7454.1
Real GDP	Bill. 87\$	4718.6	4838.0	4897.3	4867.6	4979.3	5134.5	5343.8	5514.5	5633.1
Real GDP	% change	3.3	1.6	2	3	3.7	3.1	4.1	2.2	2.5
Gross domestic purchases		2.5	.9	-4	-1	4.1	3.9	4.8	2.4	2.3
Final sales		4.2	1.5	1.2	-4	3.8	3.0	3.2	2.9	2.7
Private dom final purch		4.2	5	-1	-8	5.1	5.0	4.8	3.7	3.0
Personal cons expend		4.2	1.2	7	.0	4.2	3.0	3.4	2.8	2.4
Durables		8.5	-5	-8	-1.3	9.6	9.0	8.4	3.3	2.7
Nondurables		3.2	1.2	-1	-1.6	3.2	1.3	2.7	2.8	2.2
Services		3.7	1.7	1.7	1.2	3.5	2.5	2.4	2.6	2.4
Business fixed invest		5.5	-4	7	-6.2	6.7	16.0	13.9	9.8	6.6
Producers' dur equip.		9.1	-1.7	2.9	-3.2	11.0	21.3	16.5	10.0	6.0
Nonres structures		-1.2	2.3	-3.9	-12.4	-3.4	1.6	5.7	9.0	8.8
Res structures		9	-7.7	-15.2	7	17.0	8.1	2.4	-6	-1
Exports		13.5	11.3	6.7	8.1	5.0	5.8	10.4	7.5	9.2
Imports		3.6	2.6	.4	4.0	8.6	12.4	14.8	7.9	7.2
Government purchases		2	2.0	3.3	-8	7	-1.0	-.7	-.3	1
Federal		-3.4	-6	2.8	-3.2	8	-6.9	-5.3	-4.9	-4.1
Defense		-3.2	-1.5	1.5	-7.0	-1.3	-9.0	-7.2	-5.5	-4.5
State and local		2.9	4.0	3.6	8	6	3.0	2.0	2.3	2.3
Change in bus invent	Bill. 87\$	19.9	29.8	5.7	-1.1	2.5	15.3	50.8	38.4	19.7
Nonfarm		26.9	29.9	3.2	-1.3	-2.0	18.5	43.7	35.3	17.3
Net exports		-104.0	-73.7	-54.7	-19.5	-32.3	-73.9	-113.6	-134.6	-129.4
Nominal GDP	% change	7.7	6.0	4.7	3.5	6.4	5.0	6.6	4.8	5.0
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	105.2	107.9	109.4	108.3	108.6	110.5	113.4	116.5	118.1
Unemployment rate	%	5.5	5.3	5.5	6.7	7.4	6.8	6.1	5.4	5.5
Industrial prod index	% change	3.2	-1	-.2	2	4.0	3.6	5.9	3.4	3.0
Capacity util rate-mfg	%	83.6	83.2	81.3	78.0	79.2	80.9	83.4	84.8	84.0
Housing starts	Millions	1.49	1.38	1.19	1.01	1.20	1.29	1.45	1.47	1.47
Light Motor Vehicle Sales		15.43	14.53	13.85	12.31	12.80	13.89	15.07	15.10	15.10
Auto sales in U S		10.63	9.91	9.50	8.39	8.35	8.72	9.23	9.23	9.10
North American prod.		7.54	7.08	6.90	6.14	6.26	6.75	7.28	7.44	7.35
Other		3.10	2.83	2.60	2.25	2.10	1.97	1.96	1.79	1.75
INCOME AND SAVING										
Nominal GNP	Bill. \$	4908.2	5266.8	5567.8	5740.8	6025.8	6347.8	6730.5	7099.1	7421.2
Nominal GNP	% change	7.8	6.1	4.9	3.2	6.1	5.0	6.3	4.6	4.9
Nominal personal income		7.1	6.5	6.5	3.7	8.1	2.8	6.9	5.6	5.4
Real disposable income		3.2	1.1	1.1	9	5.0	5	4.2	2.2	2.5
Personal saving rate	%	4.4	4.0	4.2	5.0	5.5	4.1	4.1	4.3	4.3
Corp. profits, IVACCAadj	% change	10.2	-6.3	2.3	8.8	9.6	23.4	4.4	-3.0	6.5
Profit share of GNP	%	7.4	6.9	6.8	6.8	6.7	7.7	8.1	7.7	7.5
Federal surpl./def	Bill. \$	-136.6	-122.3	-163.5	-202.9	-282.7	-241.4	-159.2	-141.9	-142.9
State/local surpl./def.		38.4	44.8	25.1	17.0	24.8	26.3	26.1	29.7	32.5
Ex. social ins. funds		-18.4	-17.5	-35.6	-46.5	-41.6	-40.0	-39.5	-34.8	-31.5
PRICES AND COSTS										
GDP implicit deflator	% change	4.2	4.4	4.5	3.3	2.6	1.8	2.4	2.5	2.5
GDP fixed-wt. price index		4.2	4.4	4.6	3.6	3.2	2.8	2.8	3.0	3.0
Gross domestic purchases		4.1	4.4	5.2	2.9	3.2	2.5	2.9	3.0	3.0
fixed-wt. price index		4.3	4.6	6.3	3.0	3.1	2.7	2.7	2.9	3.1
CPI		4.5	4.4	5.3	4.4	3.5	3.1	2.8	3.2	3.3
Ex food and energy		4.8	4.8	4.6	4.4	3.5	3.1	2.8	3.2	3.0
ECI, hourly compensation ²		4.8	4.8	4.6	4.4	3.5	3.6	3.3	3.7	4.0
Nonfarm business sector		5	-1.4	4	2.3	3.2	1.8	1.1	7	1.5
Output per hour		3.8	3.1	6.2	4.7	5.1	2.4	3.4	4.0	4.3
Compensation per hour		3.3	4.6	5.7	2.3	1.9	6	2.1	3.3	2.8
Unit labor cost										

1 Percent changes are from fourth quarter to fourth quarter

2 Private-industry workers

Strictly Confidential (FR)
Class II FOMC

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

January 25, 1995

Item	Unit	1992				1993				1994	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EXPENDITURES											
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	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
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.1	108.4	108.7	109.1	109.7	110.3	110.8	111.4	112.0	113.0
Unemployment rate ¹	\$	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 ¹	\$	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	1.19	1.24	1.15	1.24	1.31	1.48	1.37	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
INCOME AND SAVING											
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 ¹	%	5.3	5.5	5.0	6.2	4.0	4.6	3.9	4.0	3.6	4.1
Corp. profits, IVA&CCAdj	% change	18.8	5	-40.0	101.1	9.6	30.7	18.4	37.0	-17.9	33.6
Profit share of GNP ¹	%	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
PRICES AND COSTS											
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		2.6	3.5	2.9	3.5	2.8	3.1	2.0	3.1	1.9	2.8
CPI		3.7	3.6	3.0	3.6	3.5	3.5	2.4	2.9	2.6	3.4
Ex food and energy											
ECI, hourly compensation ²		3.6	3.2	3.2	3.5	3.9	3.8	3.4	3.4	2.7	3.7
Nonfarm business sector											
Output per hour		4.2	1.9	2.8	3.8	-2.0	4	4.0	4.9	2.9	-2.1
Compensation per hour		5.7	4.6	5.8	4.5	2.1	2.4	2.8	2.4	6.1	7
Unit labor cost		1.4	2.6	2.9	6	4.1	2.0	-1.2	-2.4	3.1	2.9

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		
EXPENDITURES													
Nominal GDP	Bill. \$	6791.7	6904.0	7011.8	7089.6	7160.7	7232.1	7315.3	7405.6	7500.1	7595.4		
Real GDP	Bill. '87\$	5367.0	5433.0	5476.0	5503.6	5527.2	5551.0	5579.1	5614.3	5651.0	5687.8		
Real GDP	% change	4.0	5.0	3.2	2.0	1.7	1.7	2.0	2.5	2.6	2.6		
Gross domestic purchases		4.4	5.3	3.6	2.7	1.7	1.4	1.7	2.4	2.6	2.5		
Final sales		4.3	4.7	4.0	2.7	2.4	2.3	2.3	2.7	2.7	2.8		
Private dom. final purch.		4.1	6.7	5.2	4.2	2.9	2.5	2.6	3.0	3.1	3.1		
Personal cons. expend.		3.1	4.4	4.0	2.8	2.2	2.1	2.1	2.4	2.5	2.5		
Durables		5.8	19.4	7.0	4.3	.6	1.3	.9	2.9	3.6	3.5		
Nondurables		3.3	1.5	3.6	2.7	2.6	2.2	2.2	2.2	2.2	2.2		
Services		2.2	2.3	3.3	2.4	2.4	2.3	2.3	2.4	2.4	2.4		
Business fixed invest.		14.1	22.0	11.6	13.1	7.9	6.5	6.7	6.7	6.6	6.5		
Producers' dur. equip		18.1	23.9	11.9	14.2	8.0	6.1	6.1	6.0	6.0	6.0		
Nonres. structures		1.6	15.5	10.6	9.6	7.7	8.1	8.8	9.0	8.8	8.5		
Res. structures		-6.0	4	4.6	-1.2	-2.0	-3.5	-2.1	.2	.4	1.2		
Exports		14.8	15.1	6.2	7.9	7.5	8.4	8.9	9.2	9.3	9.6		
Imports		15.6	15.4	8.8	11.4	6.4	5.2	5.8	7.0	7.9	8.0		
Government purchases		6.7	-3.1	1.0	-1.0	-1	-1.1	-1.0	-2	.5	.8		
Federal		10.9	-12.2	-1.7	-7.1	-4.8	-6.0	-7.0	-3.9	-3.2	-2.3		
Defense		12.8	-18.3	-1.8	-10.1	-6.7	-3.0	-4.7	-5.3	-4.2	-3.7		
State and local		4.3	2.5	2.5	2.5	1.5	2.2	2.3	2.4	2.4	2.4		
Change in bus invent	Bill. '87\$	57.1	61.5	51.0	42.7	33.4	26.4	22.8	20.3	19.1	16.6		
Nonfarm		47.4	53.8	46.0	39.7	31.4	24.1	20.5	18.0	16.7	14.2		
Net exports		-117.0	-121.7	-128.5	-137.8	-137.9	-134.3	-130.7	-129.1	-129.1	-128.6		
Nominal GDP	% change	6.2	6.8	6.4	4.5	4.1	4.0	4.7	5.0	5.2	5.2		
EMPLOYMENT AND PRODUCTION													
Nonfarm payroll employ.	Millions	113.9	114.8	115.6	116.3	116.8	117.2	117.5	117.9	118.3	118.7		
Unemployment rate ¹	%	6.0	5.6	5.3	5.3	5.4	5.4	5.5	5.5	5.5	5.5		
Industrial prod. index	% change	4.9	5.4	6.4	3.3	2.1	1.9	2.2	3.0	3.3	3.4		
Capacity util. rate-mfg ¹	%	83.6	84.4	85.1	85.1	84.7	84.4	84.1	84.0	84.0	84.1		
Housing starts	Millions	1.47	1.50	1.49	1.48	1.46	1.44	1.45	1.46	1.47	1.48		
Light Motor Vehicle Sales		14.65	15.43	15.33	15.31	14.90	14.85	14.87	15.02	15.17	15.32		
Auto sales in U.S.		9.09	9.24	9.35	9.48	9.10	8.98	9.02	9.07	9.12	9.17		
North American prod.		7.09	7.42	7.49	7.61	7.40	7.25	7.27	7.32	7.37	7.42		
Other		2.01	1.82	1.86	1.87	1.70	1.73	1.75	1.75	1.75	1.75		
INCOME AND SAVING													
Nominal GNP	Bill. \$	6779.6	6885.9	6991.1	7062.2	7138.5	7204.4	7287.1	7370.6	7468.3	7558.9		
Nominal GNP	% change	5.9	6.4	6.3	4.1	4.4	3.7	4.7	4.7	5.4	4.9		
Nominal personal income		5.4	9.2	7.6	5.5	4.2	5.0	5.3	5.1	4.8	6.2		
Real disposable income		3.1	7.0	3.3	1.8	1.8	2.1	3.5	1.2	2.3	3.1		
Personal saving rate ¹	%	4.1	4.6	4.5	4.2	4.2	4.2	4.5	4.2	4.1	4.2		
Corp. profits, IVA&CCAdj	% change	7.2	9	-1	-8.8	2.4	-5.2	0	9.4	11.8	5.3		
Profit share of GNP ¹	%	8.2	8.1	8.0	7.7	7.7	7.5	7.4	7.5	7.6	7.6		
Federal govt. surpl./def	Bill. \$	-154.0	-161.6	-147.2	-136.8	-137.4	-146.2	-153.2	-136.2	-132.0	-150.3		
State/local surpl./def		23.9	28.1	31.1	30.9	30.0	26.9	28.3	30.8	34.4	36.4		
Ex social ins funds		-41.4	-37.1	-33.8	-33.7	-34.3	-37.3	-35.8	-33.2	-29.6	-27.6		
PRICES AND COSTS													
GDP implicit deflator	% change	1.9	1.8	3.1	2.4	2.3	2.3	2.6	2.4	2.5	2.5		
GDP fixed-wt. price index		3.0	2.5	3.5	2.9	2.8	2.8	3.1	2.9	3.0	3.0		
Gross domestic purchases		3.5	2.5	3.6	2.9	2.9	2.8	3.2	2.9	2.9	2.9		
fixed-wt. price index		3.6	2.4	2.9	2.9	3.0	3.0	3.1	3.1	3.1	3.2		
CPI		2.8	2.3	3.3	3.1	3.1	3.1	3.2	3.3	3.3	3.4		
Ex. food and energy		3.3	3.5	3.6	3.7	3.7	3.8	3.9	4.0	4.0	4.1		
ECI, hourly compensation ²		3.3	3.5	3.6	3.7	3.7	3.8	3.9	4.0	4.0	4.1		
Nonfarm business sector		2.9	1.0	7	4	9	9	1.2	1.6	1.5	1.5		
Output per hour		3.0	3.7	4.1	3.8	4.0	4.1	4.6	4.3	4.2	4.3		
Compensation per hour		0	2.7	3.3	3.4	3.1	3.2	3.3	2.6	2.6	2.7		
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 ITEMS¹
(Billions of 1987 dollars)

January 25, 1995

Item													Projected			
	1992				1993				1994		1991		1992		1993	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	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	215.0		
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	254.5		
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	164.3		
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	210.6		
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	117.6		
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	42.8		
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	29.5		
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	45.3		
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	87.5		
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	79.0		
Nonres structures	1.1	-6	-3.5	-2.1	.9	1	2	1.2	-4.6	6.9	-21.4	-5.1	2.4	8.5		
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	5.5		
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	50.7		
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	43.1		
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	-39.5		
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	65.1		
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	104.6		
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	-6.8		
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	-18.6		
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	-17.2		
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	-1.4		
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	11.8		

1. Annual changes are from Q4 to Q4

Strictly Confidential (FR)
Class II FOMC

NET CHANGES IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS¹
(Billions of 1987 dollars)

January 25, 1995

Item	Projected										Projected			
	1994		1995				1996							
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1993	1994	1995	1996
Real GDP	52.9	66.0	43.1	27.6	23.6	23.8	28.1	35.2	36.7	36.8	157.3	215.0	118.0	136.8
Gross domestic purchases	58.2	70.7	49.8	36.9	23.8	20.1	24.6	33.5	36.7	36.3	201.0	254.5	130.6	131.1
Final sales	55.1	61.5	53.6	35.9	32.9	30.8	31.8	37.7	37.9	39.3	153.1	164.3	153.1	146.6
Private dom. final purch	45.4	73.5	58.0	47.5	33.4	29.7	30.6	35.6	36.8	37.0	205.9	210.6	168.6	140.0
Personal cons. expend.	26.9	39.1	35.6	25.1	19.9	19.5	19.0	22.5	23.5	23.2	102.8	117.6	100.1	88.2
Durables	7.4	24.0	9.4	6.0	8	1.9	1.3	4.2	5.1	5.1	42.0	42.8	18.1	15.7
Nondurables	9.1	4.1	10.0	7.6	7.3	6.2	6.3	6.3	6.3	6.2	13.8	29.5	31.1	25.1
Services	10.4	10.9	16.2	11.5	11.8	11.4	11.4	12.0	12.1	11.9	47.0	45.3	50.8	47.3
Business fixed invest.	22.1	34.7	19.9	23.0	14.6	12.3	12.8	13.0	13.1	13.1	86.3	87.5	69.8	52.0
Producers' dur. equip	21.5	29.1	15.9	19.3	11.5	9.0	9.1	9.2	9.3	9.4	83.9	79.0	55.7	37.0
Nonres. structures	.6	5.6	4.0	3.7	3.1	3.3	3.6	3.8	3.8	3.8	2.4	8.5	14.1	15.1
Res. structures	-3.6	-2	2.6	-7	-1.2	-2.0	-1.2	1	2	7	16.8	5.5	-1.3	-2
Change in bus. invent.	-2.1	4.4	-10.5	-8.3	-9.3	-7.0	-3.6	-2.5	-1.2	-2.5	4.2	50.7	-35.1	-9.8
Nonfarm	-4.3	6.4	-7.8	-6.3	-8.3	-7.3	-3.6	2.5	-1.3	-2.5	4.4	43.1	-29.7	-9.9
Farm	2.2	-2.0	-2.7	-2.0	-1.0	3	0	.0	1	.0	-.2	7.6	-5.4	1
Net exports	-5.2	-4.7	-6.8	-9.3	-.2	3.7	3.5	1.7	0	5	-43.7	-39.5	-12.6	5.7
Exports	22.6	23.8	10.5	13.4	13.1	14.8	16.0	16.9	17.3	18.3	34.5	65.1	51.7	68.6
Imports	27.9	28.5	17.2	22.7	13.2	11.1	12.5	15.2	17.3	17.8	78.1	104.6	64.3	62.9
Government purchases	14.9	-7.3	2.3	-2.3	-3	-2.6	-2.4	.4	1.1	1.8	-9.1	-6.8	-2.9	9
Federal	8.8	-11.0	-1.4	-6.0	-4.0	-4.9	-5.7	-3.1	-2.5	-1.8	-25.9	-18.6	-16.3	-13.1
Defense	6.9	-11.5	-1.0	-5.8	-3.7	-1.6	-2.5	-2.8	-2.2	-1.9	-23.7	-17.2	-12.1	-9.4
Nondefense	1.8	5	-4	-2	-3	-3.3	-3.2	-3	-3	1	-2.2	-1.4	-4.2	-3.7
State and local	6.1	3.7	3.7	3.7	3.7	2.3	3.3	3.5	3.6	3.6	16.8	11.8	13.4	14.0

1 Annual changes are from Q4 to Q4

Strictly Confidential (FR)
Class II FOMC

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

January 25, 1995

Item	Fiscal year				1994				1995				1996			
	1993 ^a	1994 ^a	1995	1996	Q1 ^a	Q2 ^a	Q3 ^a	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
Receipts ¹	1153	1257	1348	1407	289	363	318	308	297	407	337	320	309	425	352	332
Outlays ¹	1409	1461	1532	1576	348	363	372	381	392	375	384	391	398	392	393	414
Surplus/deficit ¹	-255	-204	-184	-169	-59	0	-54	-74	-95	32	-47	-71	-89	33	-41	-82
On-budget																
Off-budget	-301	-259	-252	-232	-66	-33	-56	-87	-104	-7	-54	-78	-97	-8	-49	-87
Surplus excluding deposit insurance ²	46	56	68	63	8	33	2	13	9	39	7	7	8	41	7	5
Surplus excluding deposit insurance ²	-283	-211	-203	-181	-65	3	-57	-78	-101	29	-53	-73	-94	32	-46	-81
Means of financing																
Borrowing	249	185	191	171	51	8	37	60	76	7	49	50	65	15	40	60
Cash decrease	6	17	-24	0	5	-6	15	9	2	-36	0	25	20	-45	0	25
Other ³	0	1	13	-2	2	-2	1	1	17	-4	-2	-4	4	-4	1	-3
Cash operating balance, end of period	53	36	60	60	45	51	36	27	24	60	60	35	15	60	60	35
NIPA FEDERAL SECTOR																
Receipts	1242	1355	1464	1524	1338	1381	1389	1418	1461	1484	1491	1502	1505	1538	1553	1574
Expenditures	1497	1529	1610	1666	1514	1526	1543	1580	1609	1621	1628	1649	1658	1674	1685	1725
Purchases	447	439	436	425	438	435	444	435	441	435	432	427	426	424	423	422
Defense	307	296	288	282	292	292	301	289	293	287	284	283	284	282	280	279
Nondefense	140	144	147	143	146	144	144	146	148	148	148	144	142	142	142	143
Other expenditures	1049	1090	1174	1242	1076	1091	1099	1145	1168	1187	1197	1221	1232	1251	1262	1302
Surplus/deficit	-254	-174	-146	-142	-176	-145	-154	-162	-147	-137	-138	-146	-153	-136	-132	-150
FISCAL INDICATORS⁴																
High-employment (HEB) surplus/deficit	-211	-164	-175	-168	-158	-140	-161	-184	-179	-170	-168	-174	-178	-162	-159	-179
Change in HEB, percent of potential GDP	-1	-7	2	-1	-6	-3	3	3	-1	-1	0	1	1	-2	0	3
Fiscal impetus (FI), percent, cal year	-4.1	-7.2	-6.6	-9.2	-4.2	-4.3	3.4	-3.5	-1.5	-2.5	-5	-4.5	-3.8	-1.8	1	-4

1 Excluding health reform, OMB's July 1994 deficit estimates are \$167 billion in FY95 and \$179 billion in FY96 CBO's January 1995 deficit estimates are \$176 billion in FY95 and \$207 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 1994 deficit estimates, excluding deposit insurance spending, are \$185 billion in FY95 and \$187 billion in FY96 CBO's January 1995 deficit estimates, excluding deposit insurance spending, are \$192 billion in FY95 and \$216 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
January 25, 1995

CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS¹
(Percent)

	-----Nonfederal-----									-----MEMO-----	
			-----Households-----						State and local govt.	Private financial assets	Nominal GDP
	Total ²	Federal govt.	Total	Total	Home mtg.	Cons. credit	Business				
Year											
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	5.4	8.3	4.3	7.1	6.4	7.8	0.6	7.1	-0.4	5.0	
1994	5.0	4.7	5.2	7.8	6.2	13.0	4.2	-2.4	5.2	6.6	
1995	5.2	5.2	5.2	6.5	5.7	9.7	4.8	0.4	1.0	4.8	
1996	5.1	4.9	5.2	6.2	5.7	8.2	4.6	3.0	1.0	5.0	
Quarter (seasonally adjusted annual rates)											
1994:1	5.3	6.3	4.9	7.1	6.3	8.4	3.5	1.0	9.1	6.1	
2	4.5	3.6	4.8	7.3	5.6	13.8	3.8	-2.8	6.4	7.2	
3	4.9	3.9	5.2	8.4	6.5	13.9	4.1	-4.9	3.0	6.2	
4	5.1	4.5	5.3	7.5	5.9	13.7	4.9	-3.1	1.7	6.8	
1995:1	6.3	8.9	5.4	6.9	5.7	11.2	4.9	-0.2	1.5	6.4	
2	4.5	3.4	4.9	6.4	5.6	9.4	4.4	-0.1	0.6	4.5	
3	5.0	4.9	5.0	6.2	5.6	8.8	4.6	0.8	0.7	4.1	
4	4.6	3.2	5.2	6.1	5.5	8.2	5.0	1.3	1.0	4.0	
1996:1	5.8	7.5	5.2	6.0	5.5	8.1	4.8	2.3	1.0	4.7	
2	4.8	4.1	5.1	6.0	5.6	8.0	4.5	2.8	1.0	5.0	
3	4.7	3.7	5.1	6.0	5.6	7.9	4.4	3.3	1.0	5.2	
4	4.7	4.1	5.0	6.0	5.6	7.7	4.2	3.3	1.0	5.2	

1. Data after 1994:3 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 5.2 percent in 1994, 5.2 in 1995, and 5.2 in 1996. Federal debt rises 5.7 percent in 1994, 5.0 percent in 1995, and 5.0 percent in 1996. Nonfederal debt rises 5.1 percent in 1994, 5.2 percent in 1995, and 5.2 percent in 1996.

2.6.3 FOF

Confidential FR Class II
January 25, 1995

FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS¹
(Billions of dollars)

	1993	Calendar year 1994	1995	1996	----1994----	-----1995-----	----1996----					
					Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
-----Seasonally Adjusted Annual Rates-----												
Net funds raised by domestic nonfinancial sectors												
1 Total	649.4	581.0	631.2	686.2	565.3	554.7	755.2	542.5	626.0	601.2	715.8	656.6
2 Net equity issuance	21.3	-40.9	-45.5	-13.0	-50.0	-102.0	-65.0	-50.0	-42.0	-25.0	-15.0	-11.0
3 Net debt issuance	628.1	621.9	676.7	699.2	615.3	656.7	820.2	592.5	668.0	626.2	730.8	667.6
Borrowing sectors												
Nonfinancial business												
4 Financing gap ²	28.9	62.1	137.1	144.5	63.3	109.4	123.8	143.3	139.4	141.9	142.7	146.4
5 Net equity issuance	21.3	-40.9	-45.5	-13.0	-50.0	-102.0	-65.0	-50.0	-42.0	-25.0	-15.0	-11.0
6 Credit market borrowing	21.9	155.6	187.7	186.1	156.4	190.0	191.4	173.4	184.5	201.6	192.1	180.1
Households												
7 Net borrowing, of which:	284.5	334.6	302.7	303.3	373.5	341.1	318.8	299.7	298.5	293.8	299.8	306.8
8 Home mortgages	178.2	184.4	180.5	189.3	199.5	183.0	179.7	180.1	180.4	181.8	186.3	192.3
9 Consumer credit	62.3	113.0	95.1	88.0	127.1	130.2	110.0	94.2	90.2	86.2	87.7	88.2
10 Debt/DPI (percent) ³	88.4	89.9	90.6	91.5	91.0	90.7	90.9	91.3	91.6	91.9	91.3	91.7
State and local governments												
11 Net borrowing	65.7	24.2	4.3	29.0	-48.8	-30.2	-2.2	-1.2	7.8	12.8	25.3	32.8
12 Current surplus ⁴	-56.3	-56.2	-41.8	-39.8	-67.8	-43.9	-39.7	-40.4	-41.8	-45.4	-42.7	-36.9
U.S. government												
13 Net borrowing	256.1	155.9	182.0	180.9	134.1	155.9	312.2	120.6	177.2	118.1	213.7	148.0
14 Net borrowing; quarterly, nsa	256.1	155.9	182.0	180.9	37.0	59.7	75.7	7.3	48.6	50.4	80.7	100.2
15 Unified deficit; quarterly, nsa	226.3	185.8	181.7	179.2	53.5	74.0	95.2	-31.9	47.0	71.4	56.2	123.0
Funds supplied by depository institutions												
16	140.2	203.5	193.6	213.0	228.1	233.1	199.4	188.1	189.6	197.3	211.3	214.8
MEMO: (percent of GDP)												
17 Dom. nonfinancial debt ³	189.8	188.0	187.0	188.0	188.8	188.1	188.1	188.1	188.6	188.9	188.1	188.1
18 Dom. nonfinancial borrowing	9.9	9.2	9.5	9.4	9.1	9.5	11.7	8.4	9.3	8.7	9.9	8.8
19 U.S. government ⁵	4.0	2.3	2.6	2.4	2.0	2.3	4.5	1.7	2.5	1.6	2.9	2.0
20 Private	5.9	6.9	6.9	7.0	7.1	7.3	7.2	6.7	6.9	7.0	7.0	6.9

1. Data after 1994:3 are staff projections.
2. For corporations: Excess of capital expenditures over U.S. internal funds.
3. Annuals are average debt levels in the year (computed as the average of year-end debt positions) divided by nominal GDP.
4. NIPA surplus, net of retirement funds.
5. Excludes government-insured mortgage pool securities.

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

	1993	-----Projection-----			
		1994		1995	1996
		H1	Q3	Q4	
Exports	5.8	6.1	14.8	15.1	7.5
Services	5.0	2.7	5.4	5.2	4.1
Computers	23.1	14.8	37.7	38.7	29.2
Other goods 1/	4.5	7.3	12.2	12.2	4.8
Imports	12.4	14.1	15.6	15.4	7.9
Services	8.7	-0.4	5.7	10.9	3.7
Oil	10.0	7.7	29.3	-36.3	8.1
Computers	38.3	27.7	35.8	60.5	27.8
Other goods 2/	9.3	15.7	12.1	15.4	3.8

* NIPA basis, 1987 dollars.

1. Nonagricultural exports of goods excluding computers.
2. Non-oil imports of goods excluding computers.

increase in import price inflation. The recent earthquake's disruption of port and transportation facilities in the Kobe area is expected to reduce U.S. imports from Japan about \$3 billion (AR) in the first quarter. We assume this shortfall will be made up during the second and third quarters. The very rapid growth of computer imports, which currently have a weight in total real imports of about 20 percent, significantly boosts the growth of total imports over the forecast period. We expect the quantity of oil imports to remain on an upward trend as U.S. oil consumption increases in line with economic activity and domestic oil production recedes further.

Oil prices. The outlook for oil import prices has been revised upward slightly in the near term because of the recent firming of spot prices, but our longer-term outlook for oil prices remains unchanged. We expect the WTI to fall a bit in the near term and then to return to \$18.50 per barrel by June 1995, and remain unchanged through 1996. The U.N. sanctions against Iraqi oil exports remained in place at this month's sanction review, and we assume that Iraq will not return to the world oil market until 1996.

Prices of non-oil imports and exports. The increase in prices of non-oil imports excluding computers is expected to slow during

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

	<u>1993</u>				<u>Projection</u>	
		<u>H1</u>	<u>1994</u>	<u>Q4</u>	<u>1995</u>	<u>1996</u>
US PPI 1/	0.9	2.8	5.7	3.4	3.7	2.3
Nonag. exports 2/	0.7	3.2	6.1	4.0	3.1	2.0
Non-oil imports 2/	1.3	2.1	6.2	5.4	3.9	2.4
Oil imports (Q4 level, \$/bl.)	14.09	14.67	16.22	15.44	16.00	16.00

1. Selected categories (ex computers) weighted by U.S. exports.
2. Excluding computers.

1995 and to decelerate further in 1996 as the effects of last year's depreciation of the dollar and rapid increase in commodity prices recede. In the absence of further supply shocks, we are projecting that commodity prices will rise much less rapidly in real terms than they did during 1994. Nonagricultural export price increases are expected to slow over the forecast period.

Nominal trade and current account balances. The trade deficit on goods and services is projected to widen somewhat further during 1995 and remain little changed in 1996. The deficit on net investment income is projected to increase, reflecting the path of interest rates and rising U.S. net international indebtedness. We expect that, as a result of these developments, the current account deficit will average about \$195 billion in 1995 and 1996, 2.6 percent of GDP and approximately \$40 billion larger than our estimate for 1994.

STRICTLY CONFIDENTIAL - FR
CLASS II FOMC

January 25, 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	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
REAL GDP												
Canada	3.2	5.0	3.4	3.0	6.7	4.7	4.3	3.8	3.6	3.2	3.2	3.2
France	-0.5	3.4	3.4	3.7	4.5	3.3	2.5	3.2	3.3	3.4	3.6	3.6
Germany	-0.1	4.1	2.8	3.0	4.5	5.3	3.7	2.9	2.7	2.7	2.9	2.9
W. Germany	-0.5	3.6	2.3	2.5	4.0	5.3	3.0	2.2	2.2	2.3	2.4	2.4
Italy	0.4	2.4	4.0	3.0	4.8	4.0	0.0	4.0	5.0	4.0	3.0	3.0
Japan	-0.5	2.5	2.8	3.5	0.7	3.7	2.3	1.5	2.6	3.4	3.5	3.5
United Kingdom	2.7	4.0	3.1	2.8	5.5	3.2	3.1	3.2	3.2	3.0	3.0	3.0
Average, weighted by 1987-89 GDP	0.5	3.3	3.1	3.2	3.6	3.9	2.5	2.8	3.2	3.3	3.3	3.3
Average, weighted by share of U.S. nonagricultural exports												
Total foreign	2.8	4.4	3.5	3.6	NA	NA	NA	NA	NA	NA	NA	NA
Foreign G-7	1.7	4.1	3.2	3.1	4.9	4.2	3.4	3.1	3.3	3.2	3.3	3.3
Developing countries	5.9	5.9	4.4	4.8	NA	NA	NA	NA	NA	NA	NA	NA
CONSUMER PRICES(1)												
Canada	1.8	0.0	1.8	2.1	-1.4	2.2	1.3	1.5	1.6	2.0	2.0	2.0
France	2.1	1.6	1.6	1.5	2.5	0.6	1.7	1.8	1.5	1.5	1.4	1.4
Western Germany	3.7	2.8	2.3	2.7	2.7	1.4	1.3	4.2	2.8	1.0	1.3	1.3
Italy	4.1	3.8	4.2	4.4	3.4	3.0	4.7	4.6	4.5	3.6	4.1	4.1
Japan	1.2	0.8	0.9	0.7	1.3	-0.9	2.1	1.5	0.7	0.4	1.1	1.1
United Kingdom	1.6	2.6	3.5	3.9	7.4	0.1	2.6	2.8	7.4	1.5	2.6	2.6
Average, weighted by 1987-89 GDP	2.2	1.8	2.1	2.2	2.6	0.6	2.3	2.6	2.7	1.4	1.9	1.9
Average, weighted by share of U.S. non-oil imports	1.9	1.1	1.7	1.8	1.1	0.7	1.9	2.0	1.9	1.3	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	-73.9
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	441.1	433.9	443.3	438.5	468.1	464.4	484.6	397.1	426.5	445.9
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
Imports of G&S Goods	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
Oil	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
Computers	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
Other Goods	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
Services	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
Memo:(Percent change 1/)	391.1	400.6	403.9	409.0	419.9	429.7	432.6	447.2	458.9	481.0	373.7	401.2	432.4
Exports of G&S	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
Agricultural	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
Computers	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
Other Goods	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
Services	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
Imports of G&S	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
Oil	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
Computers	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
Other Goods	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
Services	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
Current Account Balance	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
Goods & Serv (BOP), net	-33.4	-66.2	-74.4	-97.5	-79.4	-102.4	-111.4	-122.3	-129.3	-151.6	-6.9	-67.9	-103.9
Goods (BOP), net	-15.5	-41.5	-51.1	-53.4	-57.7	-76.3	-89.0	-79.9	-97.3	-106.6	-28.5	-40.4	-75.7
Services (BOP), net	-72.3	-97.3	-109.4	-105.3	-116.8	-134.9	-145.9	-132.7	-147.8	-166.5	-74.1	-96.1	-132.6
Investment Income, net	9.7	6.5	4.9	-2.9	7.4	2.7	8.1	-2.4	-3.2	-11.2	14.8	4.5	4.0
Direct, net	50.8	51.0	47.1	42.0	54.6	50.8	55.9	48.4	45.9	43.5	55.4	47.7	52.4
Portfolio, net	-41.1	-44.5	-42.2	-44.9	-47.2	-48.1	-47.8	-50.8	-49.1	-54.7	-40.5	-43.2	-48.5
Unilateral Transfers, net	-27.7	-31.1	-28.2	-41.2	-29.1	-28.8	-30.5	-40.1	-28.7	-33.8	6.7	-32.0	-32.1

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	-121.7	-128.5	-137.8	-137.9	-134.3	-130.7	-129.1	-129.1	-128.6	-113.6	-134.6	-129.4
Exports of G&S Goods	666.5	690.3	700.8	714.2	727.2	742.0	758.1	775.0	792.3	810.6	655.1	721.1	784.0
Agricultural	505.1	526.8	537.3	548.5	559.5	571.9	585.8	600.7	616.1	632.5	495.2	554.3	608.8
Computers	40.7	44.0	43.3	43.2	43.0	43.1	43.3	43.5	43.7	43.9	39.7	43.2	43.6
Other Goods	85.9	93.2	100.2	107.2	113.7	120.5	127.7	135.4	143.5	152.1	83.8	110.4	139.7
Services	378.5	389.6	393.7	398.1	402.9	408.3	414.8	421.8	428.9	436.5	371.7	400.7	425.5
Imports of G&S Goods	783.5	812.0	829.2	851.9	865.2	876.3	888.8	904.1	921.4	939.2	768.7	855.7	913.4
Oil	674.6	700.3	715.4	736.6	749.5	760.5	772.5	786.8	803.0	819.6	659.6	740.5	795.5
Computers	64.3	57.4	57.7	60.1	61.2	62.1	61.8	62.2	62.6	62.4	59.6	60.3	62.3
Other Goods	115.4	129.9	140.7	149.5	157.8	166.0	174.3	183.0	192.1	201.7	113.0	153.5	187.8
Services	494.9	512.9	517.0	527.0	530.5	532.4	536.4	541.6	548.3	555.5	486.9	526.7	545.4
Memo: (Percent change 1/)	108.9	111.8	113.9	115.4	115.7	115.9	116.4	117.3	118.4	119.6	109.1	115.2	117.9
Exports of G&S Agricultural	14.8	15.1	6.2	7.9	7.5	8.4	8.9	9.2	9.3	9.6	10.4	7.5	9.2
Computers	38.8	37.2	-6.3	-1.0	-2.6	1.4	1.9	1.9	1.8	1.8	12.7	-2.1	1.8
Other Goods	37.7	38.7	33.5	31.1	26.2	26.2	26.2	26.2	26.2	26.2	26.0	29.2	26.2
Services	12.2	12.2	4.3	4.5	4.9	5.5	6.5	6.9	7.2	7.2	9.7	4.8	6.9
Imports of G&S Oil	15.6	15.4	8.8	11.4	6.4	5.2	5.8	7.0	7.9	8.0	14.8	7.9	7.2
Computers	29.3	-36.3	2.0	17.3	7.6	6.1	-1.7	2.6	2.5	-1.2	-1.1	8.1	0.5
Other Goods	35.8	60.5	37.6	27.7	23.9	22.5	21.6	21.6	21.6	21.6	37.3	27.8	21.6
Services	12.1	15.4	3.2	8.0	2.7	1.4	3.0	4.0	5.0	5.4	14.7	3.8	4.3
Current Account Balance	5.7	10.9	7.8	5.2	1.2	0.5	1.8	3.1	4.0	4.1	3.9	3.7	3.2
Goods & Serv (BOP), net	-166.9	-183.8	-183.2	-199.1	-195.6	-205.8	-193.4	-197.5	-192.5	-204.4	-157.9	-195.9	-196.9
Goods (BOP), net	-118.0	-121.4	-126.8	-136.0	-137.6	-133.4	-129.0	-126.3	-124.6	-122.7	-110.8	-133.5	-125.6
Services (BOP), net	-178.5	-181.5	-185.8	-197.2	-201.0	-199.5	-197.6	-196.9	-197.2	-197.2	-168.6	-195.9	-197.2
Investment Income, net	-15.8	-21.9	-24.4	-31.1	-26.0	-31.4	-31.9	-38.7	-35.4	-40.2	-13.0	-28.2	-36.6
Direct, net	41.1	44.0	42.8	43.1	46.9	49.6	50.0	49.7	51.5	54.5	43.6	45.6	51.4
Portfolio, net	-56.9	-65.9	-67.2	-74.2	-72.9	-81.0	-81.9	-88.4	-86.9	-94.7	-56.6	-73.8	-88.0
Unilateral Transfers, net	-33.1	-40.5	-32.0	-32.0	-32.0	-41.0	-32.5	-32.5	-32.5	-41.5	-34.0	-34.2	-34.8

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

Confidential (FR) Class III FOMC

January 25, 1995

RECENT DEVELOPMENTS

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

quarter.⁶ By December, assemblies reached 12.7 million units (annual rate), compared with 11.8 million units in the third quarter.

Current assembly schedules show a further step-up to a 13.0 million unit annual rate in the first quarter of 1995. In January, production is scheduled to remain at the high December pace as firms seek to replenish dealer stocks from a relatively low December level.⁷

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

	1994		1995	
	Nov.	Dec.	Q4	Jan.
-scheduled-				
U.S. production	12.3	12.7	12.3	12.7
Autos	6.5	7.0	6.6	7.1
Trucks	5.8	5.8	5.7	5.6
Days' supply				
Autos	60.0	62.2		
Light trucks	62.6	64.3		

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

In contrast to other major areas of industrial production, utilities output continued to be depressed in December by unseasonably warm weather; the index of utilities output stood 2.7 percent below its average for the year. Thus, with a return to normal temperatures, utilities could contribute significantly to IP growth in coming months.

6. This spring, plants producing Chrysler's popular minivans are scheduled for a lengthy changeover to the production of a newly designed van. Sources at Chrysler indicate that additional production in the fourth quarter and output scheduled for the first quarter should cover some of the 40,000 units (not annual rate) that they expect to lose during down time at these plants.

7. Current schedules are 0.8 million units below those at the beginning of January. The brief UAW strike last week at a key parts facility disrupted production at several assembly plants, reducing schedules by 0.1 million units. The remainder of the drop likely reflects some production adjustments by firms in response to softening sales as well as the correction of an error in Wards' reporting which had overstated GM's assembly plans for January.

year 1995 to \$74 billion. After adjusting for differences in the timing of some payroll and benefits payments, the three-month deficit was \$12 billion lower than during the comparable period of fiscal 1994. This favorable trend in the deficit reflected a combination of continued robust growth in receipts and relatively small increases in outlays.

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

	December		Fiscal year to December			
	1993	1994	FY94	FY95	Dollar change	Percent change
Outlays	133.1	134.9	378.6	381.5	2.9	.8
Deposit insurance (DI)	1.0	-2.5	-.6	-4.4	-3.8	n.m.
Outlays excluding DI	132.1	137.4	379.2	385.9	6.7	1.8
National defense	26.8	26.3	74.1	67.6	-6.5	-8.8
Net interest	16.6	19.3	49.9	56.2	6.3	12.6
Social security	25.9	27.2	77.0	80.5	3.5	4.5
Medicare and health	22.7	23.3	62.9	65.2	2.3	3.7
Income security	19.8	19.3	53.9	50.8	-3.1	-5.7
Other	20.2	22.0	61.4	65.6	4.2	6.8
Receipts	125.4	130.8	287.2	307.5	20.3	7.1
Personal income and social insurance taxes	88.1	90.1	228.9	241.2	12.3	5.4
Corporate income taxes	28.2	31.9	32.6	36.5	3.9	12.0
Other	9.0	8.8	25.6	29.8	4.2	16.4
Deficit(+)	7.7	4.1	91.4	74.0	-17.4	-19.0
Excluding DI	6.7	6.6	92.0	78.4	-13.6	-14.8

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

n.m. Not meaningful.

Receipts were about 7 percent higher for the current fiscal year through December than in the comparable period for fiscal 1994. Corporate tax receipts continued to be strong, although their 12 percent advance was only half that seen for the comparable period a year before. Personal income and social insurance taxes rose at about a 5-1/2 percent rate through December, slightly less than wages and salaries. Data from the Daily Treasury Statements through

CBO BUDGET PROJECTIONS¹
(Billions of dollars, except where noted)

	<u>Fiscal years</u>					
	1995	1996	1997	1998	1999	2000
Outlays	1531	1625	1699	1769	1872	1981
Receipts	1355	1418	1475	1546	1618	1697
Deficit	176	207	224	222	253	284
Deficit (percent of GDP)						
Total	2.5	2.8	2.9	2.7	3.0	3.1
Excluding deposit insurance	2.7	2.9	2.9	2.8	3.0	3.1

CBO ECONOMIC ASSUMPTIONS

	<u>Calendar years</u>					
	1995	1996	1997	1998	1999	2000
-----Percent change, year over year-----						
Real GDP	3.1	1.8	2.4	2.3	2.3	2.3
GDP deflator	2.6	2.8	2.8	2.8	2.8	2.8
CPI-U	3.1	3.4	3.4	3.4	3.4	3.4
-----Percent, annual average-----						
Civilian unemployment rate	5.5	5.7	5.8	5.9	6.0	6.0
Interest rates						
Treasury bills	6.2	5.7	5.3	5.1	5.1	5.1
Treasury notes	7.7	7.0	6.7	6.7	6.7	6.7

1. The projections assume that revenues and outlays for major benefit programs evolve according to laws in effect at the time the projections are made, and that appropriations for other programs are consistent with the discretionary spending caps through FY1998 and rise at the rate inflation thereafter. The projections include Social Security and the Postal Service, which are off-budget.

Source: Congressional Budget Office, The Economic and Budget Outlook: A Preliminary Report, January 5, 1995.

for a possible downgrade, as the city's budget cuts were not viewed as sufficient to this point.

Treasury and Sponsored Agency Financing

The staff anticipates that the Treasury will finance the projected \$95 billion first-quarter fiscal deficit partly by borrowing \$76 billion from the public and by drawing down its cash balance by \$2 billion. Because the upcoming mid-quarter refunding includes an issue of thirty-year bonds, the Treasury is likely to rely less heavily on regular bill sales. To help bridge seasonal financial needs, the Treasury is expected to raise \$30 billion by auctioning cash management bills that will mature after the April tax date.

TREASURY FINANCING¹ (Total for period; billions of dollars)

Item	1994		1995		
	Q4	Q1 P	Jan. P	Feb. P	Mar. P
Total surplus/deficit (-)	-69.9	-95.2	3.4	-49.6	-49.1
Means of financing deficit:					
Net cash borrowing/ repayments (-)	59.7	75.7	7.8	27.2	40.7
Nonmarketable	-2.9	-5.0	-6.4	-.5	2.0
Marketable	62.5	80.7	14.3	27.7	38.7
Bills	36.4	42.9	3.5	3.0	36.4
Coupons	26.1	37.8	10.8	24.7	2.3
Decrease in the cash balance ²	9.4	2.2	-22.6	25.4	-.5
Other	.9	17.3	11.4	-2.9	8.9
Memo:					
Cash balance, end of period	26.6	24.4	49.2	23.9	24.4

1. Data reported on a payment basis.

2. Includes checks issued less checks paid, accrued items, and other transactions.

P Projected.

Note: Details may not add to totals because of rounding.