

Strictly Confidential (FR) Class II FOMC

September 30, 1992

SUMMARY AND OUTLOOK

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

insecurity about employment and income. Starts rose sharply in August, but permits (a more reliable indicator) declined, and sales of single-family homes generally have been lackluster. Expenditures on residential construction are likely to be little changed in the third quarter, after rising appreciably over the first half of the year.

We have made only minor adjustments to the inflation forecast for the third quarter; the CPI now is expected to rise at about a 3 percent annual rate. The largest adjustment is to food prices, which jumped in August after several months of little net change; consumer energy prices also are a bit higher than in the previous forecast. Prices for items other than food and energy increased just 0.2 percent in August for the fourth straight month, and the twelve-month change in this series dropped to 3.5 percent. Average hourly earnings soared 0.7 percent in August, but the twelve-month change still was only 2.6 percent.

The Outlook for the Economy through 1993

The growth in real GDP projected for the next few quarters is noticeably lower in this Greenbook than had been indicated in the last projection. We now expect an increase in real GDP of just over 1 percent at an annual rate for the fourth quarter despite a small boost to activity from post-hurricane rebuilding, and growth in the first half of next year--at a 2-1/4 percent annual rate, on

PROJECTIONS OF REAL GDP
(Percent change; annual rate)

	1992		1993			
	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP	1.9	1.2	2.0	2.5	2.9	3.3
Previous	1.7	2.5	2.8	3.0	3.2	3.2
Unemployment rate (level)	7.6	7.8	7.8	7.8	7.7	7.5
Previous	7.6	7.4	7.4	7.3	7.2	7.0

food and energy is likely to pick up some in the fourth quarter after the unsustainably low readings of the past few months. But the underlying trend is clearly down, and the forecast shows core inflation moving below 3 percent next year.

STAFF INFLATION PROJECTION
(Percent change; annual rate)

	1992			1993			
	H1	Q3	Q4	Q1	Q2	Q3	Q4
-----projected-----							
Consumer price index	3.2	2.9	3.6	3.1	2.8	2.7	2.6
Excluding food and energy	3.9	2.7	3.5	2.9	2.7	2.7	2.6
Employment cost index (Private compensation)	3.3	3.5	3.4	3.2	3.1	3.0	2.9

A Note on 1994

The projection for 1994 is in most respects an extension of the patterns visible in the projection for late 1993. Output is expected to grow rapidly enough to achieve a gradual reduction in unemployment, but not so fast as to halt the disinflation process. The forecast is predicated on the assumption of continued restraint from fiscal policy. Even so, a firming of short-term interest rates may be needed by 1994 to temper the growth of aggregate demand as the forces of cyclical expansion gather momentum.

STAFF PROJECTIONS

	1992	1993	1994
---Percent change, Q4 to Q4---			
Real GDP	1.9	2.7	3.3
Consumer price index	3.2	2.8	2.2
--Fourth-quarter level, percent--			
Unemployment rate	7.8	7.5	6.8

Strictly Confidential (FR)
Class II FOMCSTAFF PROJECTIONS OF CHANGES IN GDP, PRICES, AND UNEMPLOYMENT
(Percent, annual rate)

September 30, 1992

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index ¹		Unemployment rate (level except as noted)	
	8/13/92	9/30/92	8/13/92	9/30/92	8/13/92	9/30/92	8/13/92	9/30/92	8/13/92	9/30/92
ANNUAL										
1990 ²	.2	5.2	.8	.8	4.5	4.5	5.4	5.4	5.5	5.5
1991 ²	2.8	2.8	-1.2	-1.2	4.1	4.0	4.2	4.2	6.7	6.7
1992	4.4	4.4	1.7	1.7	2.7	3.0	3.1	3.1	7.4	7.5
1993	5.2	4.5	2.6	2.1	2.6	2.6	3.1	3.1	7.2	7.7
1994	5.4	5.1	3.1	3.2	2.4	2.2	2.7	2.4	6.7	7.1
QUARTERLY										
1991 Q1 ²	1.8	1.8	-3.0	-3.0	4.7	4.7	3.3	3.3	6.5	6.5
Q2 ²	5.2	5.2	1.7	1.7	3.5	3.5	2.4	2.4	6.7	6.7
Q3 ²	4.0	4.0	1.2	1.2	3.0	3.0	2.7	2.7	6.8	6.8
Q4 ²	2.8	2.8	.6	.6	2.4	2.4	3.6	3.6	6.9	6.9
1992 Q1 ²	6.2	6.2	2.9	2.9	3.6	3.6	2.9	2.9	7.2	7.2
Q2 ²	3.7	4.3	1.4	1.5	1.6	2.9	3.5	3.5	7.5	7.5
Q3	3.4	4.3	1.7	1.9	1.9	1.9	2.7	2.9	7.6	7.6
Q4	5.5	3.4	2.5	1.2	3.0	2.7	3.4	3.6	7.4	7.8
1993 Q1	5.8	4.8	2.8	2.0	3.2	3.0	3.1	3.1	7.4	7.8
Q2	5.4	4.7	3.0	2.5	2.6	2.4	3.1	2.8	7.3	7.8
Q3	5.5	5.0	3.2	2.9	2.5	2.2	3.1	2.7	7.2	7.7
Q4	5.4	5.1	3.2	3.3	2.4	2.1	2.9	2.6	7.0	7.5
1994 Q1	5.9	5.8	3.2	3.5	2.9	2.5	2.7	2.4	6.9	7.3
Q2	5.1	5.0	3.0	3.3	2.2	2.0	2.5	2.2	6.7	7.1
Q3	4.9	4.7	3.0	3.1	2.1	1.8	2.4	2.0	6.6	7.0
Q4	4.9	4.5	3.0	3.0	2.1	1.8	2.4	2.0	6.4	6.8
TWO-QUARTER³										
1991 Q2 ²	3.5	3.5	-.7	-.7	4.2	4.2	2.9	2.9	.7	.7
Q4 ²	3.4	3.4	.9	.9	2.7	2.7	3.1	3.1	.2	.2
1992 Q2 ²	4.9	5.2	2.2	2.2	2.7	3.4	3.1	3.1	-.6	.6
Q4	4.4	3.8	2.1	1.5	2.5	2.3	3.1	3.2	-.1	.3
1993 Q2	5.6	4.8	2.9	2.3	2.9	2.7	3.1	3.0	-.1	.0
Q4	5.4	5.1	3.2	3.1	2.4	2.2	3.0	2.6	-.3	-.3
1994 Q2	5.5	5.4	3.1	3.4	2.5	2.3	2.6	2.3	-.3	-.4
Q4	4.9	4.6	3.0	3.1	2.1	1.8	2.4	2.0	-.3	-.3
FOUR-QUARTER⁴										
1990 Q4 ²	4.1	4.1	-.5	-.5	4.7	4.7	6.3	6.3	.6	.6
1991 Q4 ²	3.5	3.5	.1	.1	3.5	3.5	3.0	3.0	.9	.9
1992 Q4	4.7	4.5	2.1	1.9	2.6	2.9	3.1	3.2	.5	.9
1993 Q4	5.5	4.9	3.0	2.7	2.6	2.4	3.0	2.8	-.4	-.3
1994 Q4	5.2	5.0	3.0	3.3	2.3	2.0	2.5	2.2	-.6	-.7

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)

September 30, 1992

Item	Unit ¹	Projected								
		1986	1987	1988	1989	1990	1991	1992	1993	1994
EXPENDITURES										
Nominal GDP	Bill. \$	4268.6	4539.9	4900.4	5250.8	5522.2	5677.5	5930.1	6194.9	6513.8
Real GDP	Bill. 87\$	4404.5	4540.0	4718.6	4838.0	4877.5	4821.0	4902.7	5006.1	5167.8
Real GDP	% change	2.2	4.5	3.3	1.6	-.5	.1	1.9	2.7	3.3
Gross domestic purchases		2.1	3.9	2.5	.9	-1.2	-.2	2.5	2.6	3.2
Final sales		3.3	2.7	4.2	1.5	.6	-.6	2.1	2.4	3.3
Private dom. final purch.		3.0	1.9	4.2	.5	-.8	-.9	3.3	3.2	4.1
Personal cons. expend.		4.0	2.1	4.2	1.2	-.2	.0	2.4	2.5	3.5
Durables		12.5	-2.6	8.5	-.5	-2.3	-2.5	5.1	6.0	7.8
Nondurables		3.3	1.4	3.2	1.2	-.7	-1.5	1.3	1.5	2.6
Services		2.5	3.7	3.7	1.7	1.3	1.6	2.4	2.3	2.9
Business fixed invest.		-5.7	3.0	5.5	-.4	-1.4	-7.0	6.5	6.2	7.1
Producers' dur. equip.		-.7	2.4	9.1	-1.7	-.2	-3.5	9.3	8.2	8.4
Nonres. structures		-14.1	4.4	-1.2	2.3	-3.7	-14.3	.0	.9	3.6
Res. structures		11.1	-3.1	.9	-7.7	-14.7	-.1	9.8	7.4	6.3
Exports		9.9	12.6	13.5	11.3	7.2	7.4	2.8	6.9	7.1
Imports		6.7	4.7	3.6	2.6	.1	4.8	7.5	5.7	6.3
Government purchases		4.1	3.3	.2	2.0	2.8	-.6	.3	-1.7	-.6
Federal		3.8	3.7	-3.4	-.6	3.0	-2.3	-1.5	-4.8	-3.6
Defense		3.7	4.5	-3.2	-1.5	1.5	-5.2	-4.5	-7.3	-6.0
State and local		4.4	2.9	2.9	4.0	2.7	.7	1.5	.4	1.3
Change in bus. invent.	Bill. 87\$	8.6	26.3	19.9	29.8	6.2	-9.3	-3.0	9.9	10.7
Nonfarm		10.6	32.7	26.9	29.9	3.7	-9.6	-2.1	9.7	11.0
Net exports		-155.1	-143.0	-104.0	-73.7	-51.8	-21.8	-40.9	-46.7	-44.8
Nominal GDP	% change	4.7	8.0	7.7	6.0	4.1	3.5	4.5	4.9	5.0
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	99.5	102.2	105.5	108.3	109.8	108.3	108.3	109.0	111.3
Unemployment rate	%	7.0	6.2	5.5	5.3	5.5	6.7	7.5	7.7	7.1
Industrial prod. index	% change	1.4	6.5	4.5	1.1	.3	-.5	.2	4.1	4.2
Capacity util. rate-mfg.	%	79.0	81.4	83.9	83.9	82.3	78.2	77.3	77.2	78.3
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	8.31	8.70	9.66
North American produced		8.22	7.07	7.54	7.08	6.91	6.14	6.21	6.55	7.38
Other		3.24	3.18	3.10	2.83	2.60	2.25	2.10	2.15	2.29
INCOME AND SAVING										
Nominal GNP	Bill. \$	4277.8	4544.5	4908.2	5266.8	5542.9	5694.9	5942.3	6209.6	6531.0
Nominal GNP	% change	4.4	8.1	7.8	6.1	4.2	3.1	4.5	5.0	5.0
Nominal personal income		5.5	7.4	7.1	6.5	6.3	3.3	4.8	5.9	5.6
Real disposable income		2.8	2.1	3.2	1.1	.9	.5	2.0	2.8	3.2
Personal saving rate	%	6.0	4.3	4.4	4.1	4.4	4.7	4.9	5.1	5.0
Corp. profits, IVA&CCAdj	% change	-7.1	29.7	10.2	-6.3	-3.0	.9	15.5	5.2	5.7
Profit share of GNP	%	6.4	7.0	7.4	6.9	6.5	6.1	6.5	6.7	6.7
Federal surpl./def.	Bill. \$	-201.1	-151.8	-136.6	-122.3	-166.2	-210.4	-300.0	-287.6	-264.3
State/local surpl./def.		54.3	40.1	38.4	44.8	30.1	17.1	15.8	22.6	41.9
Ex. social ins. funds		1.5	-14.7	-18.4	-17.5	-32.9	-43.1	-42.2	-35.0	-15.5
PRICES AND COSTS										
GDP implicit deflator	% change	2.6	3.3	4.2	4.4	4.5	3.4	2.6	2.2	1.7
GDP fixed-wt. price index		2.6	3.4	4.2	4.3	4.7	3.5	2.9	2.4	2.0
Gross domestic purchases		2.3	3.9	4.1	4.3	5.3	2.8	2.9	2.5	2.1
fixed-wt. price index		1.3	4.5	4.3	4.6	6.3	3.0	3.2	2.8	2.2
CPI		3.9	4.3	4.5	4.4	5.3	4.5	3.5	2.7	2.1
Ex. food and energy										
ECI, hourly compensation ²		3.2	3.3	4.8	4.8	4.6	4.4	3.4	3.0	2.7
Nonfarm business sector										
Output per hour		1.2	1.8	.5	-1.4	.0	1.0	2.5	1.7	1.4
Compensation per hour		4.6	3.8	3.8	3.1	6.1	3.8	3.2	3.1	2.9
Unit labor cost		3.4	1.9	3.3	4.6	6.2	2.7	.8	1.4	1.5

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)

September 30, 1992

Item	Unit	1990				1991				1992	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EXPENDITURES											
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
EMPLOYMENT AND PRODUCTION											
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 ¹	%	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	5.3
Capacity util. rate-mfg. ¹	%	82.7	82.8	82.9	80.8	78.0	77.9	78.7	78.2	77.3	77.9
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
INCOME AND SAVING											
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 ¹	%	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 ¹	%	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
PRICES AND COSTS											
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
CPI		5.6	5.5	5.8	4.2	6.5	3.8	4.0	3.7	3.9	3.9
Ex. food and energy		5.6	4.7	4.7	3.8	4.9	4.5	4.1	4.0	4.0	2.5
SI, hourly compensation ²		5.6	4.7	4.7	3.8	4.9	4.5	4.1	4.0	4.0	2.5
Nonfarm business sector		-.4	2.5	-1.9	-.3	-1.3	1.3	1.7	2.5	3.8	2.0
Output per hour		5.2	7.7	6.1	5.4	3.1	5.3	3.7	3.1	3.9	2.6
Compensation per hour		5.6	5.1	8.2	5.7	4.5	3.9	2.0	.6	.1	.6
Unit labor cost											

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)

September 30, 1992

Item	Units	Projected									
		1992		1993				1994			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. \$	5964.2	6013.6	6084.1	6155.1	6230.9	6309.5	6398.9	6477.7	6552.8	6625.7
Real GDP	Bill. '87\$	4915.0	4929.7	4954.5	4985.5	5021.7	5062.6	5107.0	5148.6	5188.4	5227.2
Real GDP	% change	1.9	1.2	2.0	2.5	2.9	3.3	3.5	3.3	3.1	3.0
Gross domestic purchases		2.3	1.1	1.7	2.7	3.0	3.0	3.4	3.5	3.2	2.6
Final sales		2.9	1.1	1.9	1.5	2.3	3.8	3.7	3.2	3.1	3.3
Private dom. final purch.		3.3	1.9	2.5	2.5	3.3	4.5	4.5	4.3	4.0	3.7
Personal cons. expend.		3.5	1.2	1.8	1.9	2.6	3.8	3.8	3.6	3.4	3.1
Durables		4.5	2.2	4.0	3.5	5.8	10.9	10.1	8.3	7.2	5.5
Nondurables		1.8	-.3	.7	1.0	1.7	2.5	2.7	2.7	2.5	2.5
Services		4.2	1.9	1.9	2.0	2.3	2.9	2.9	2.9	2.9	2.9
Business fixed invest.		2.7	4.7	5.6	5.9	6.4	6.8	7.4	7.7	7.1	6.2
Producers' dur. equip.		4.8	6.5	7.7	8.0	8.5	8.8	9.0	9.3	8.3	7.0
Nonres. structures		-2.2	.3	.4	.5	.9	1.7	3.1	3.4	3.7	4.1
Res. structures		1.5	5.9	7.1	5.0	8.4	9.3	7.6	6.3	5.4	6.0
Exports		4.7	5.0	6.0	6.7	7.3	7.5	7.1	7.0	7.1	7.1
Imports		8.2	4.2	3.3	7.7	7.3	4.5	5.7	8.2	7.3	4.0
Government purchases		3.4	-2.6	-2.3	-1.9	-1.8	-.8	-.6	-.5	-.5	-.5
Federal		5.6	-5.5	-5.5	-5.5	-4.6	-3.5	-3.4	-3.5	-3.6	-3.7
Defense		4.5	-9.2	-8.1	-8.3	-6.9	-5.8	-5.9	-6.0	-6.0	-6.1
State and local		1.9	-.6	-.1	.5	.1	.9	1.1	1.3	1.4	1.4
Change in bus. invent.	Bill. '87\$	-4.3	-3.0	-1.4	10.8	18.3	11.9	10.5	11.7	12.2	8.4
Nonfarm		-1.1	-2.4	-3.0	10.7	18.5	12.6	11.0	12.1	12.4	8.4
Net exports		-49.4	-48.8	-45.5	-47.8	-48.7	-45.0	-43.5	-46.0	-47.2	-42.7
Nominal GDP	% change	4.3	3.4	4.8	4.7	5.0	5.1	5.8	5.0	4.7	4.5
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.5	108.3	108.4	108.7	109.2	109.8	110.4	111.0	111.6	112.2
Unemployment rate ¹	%	7.6	7.8	7.8	7.8	7.7	7.5	7.3	7.1	7.0	6.8
Industrial prod. index	% change	.6	-2.0	3.6	4.2	4.3	4.5	4.8	4.5	3.9	3.8
Capacity util. rate-mfg ¹	%	77.5	76.5	76.7	77.0	77.3	77.6	78.0	78.2	78.4	78.5
Housing starts	Millions	1.19	1.24	1.27	1.30	1.34	1.37	1.40	1.43	1.45	1.48
Auto sales in U.S.		8.16	8.28	8.40	8.52	8.75	9.13	9.40	9.57	9.75	9.92
North American produced		6.19	6.27	6.30	6.40	6.60	6.90	7.15	7.30	7.45	7.60
Other		1.97	2.02	2.10	2.12	2.15	2.23	2.25	2.27	2.30	2.32
INCOME AND SAVING											
Nominal GNP	Bill. \$	5976.5	6023.5	6097.8	6168.6	6248.2	6323.9	6416.7	6494.2	6572.0	6641.2
Nominal GNP	% change	4.6	3.2	5.0	4.7	5.3	4.9	6.0	4.9	4.9	4.3
Nominal personal income		1.8	7.3	6.7	5.3	5.6	5.9	7.1	5.0	4.9	5.5
Real disposable income		-.2	3.0	2.8	2.4	2.5	3.4	4.3	2.7	2.6	3.2
Personal saving rate ¹	%	4.4	4.9	5.1	5.2	5.2	5.1	5.2	5.0	4.9	4.9
Corp. profits, IVA&CCAdj	% change	-8.0	23.5	2.4	11.1	-.8	8.4	5.6	11.7	2.2	3.5
Profit share of GNP ¹	%	6.4	6.7	6.6	6.7	6.6	6.7	6.7	6.8	6.7	6.7
Federal govt. surpl./def.	Bill. \$	-305.7	-302.0	-298.9	-292.1	-278.9	-280.3	-278.1	-268.1	-253.6	-257.5
State/local surpl./def.		15.0	14.0	17.0	16.4	27.4	29.7	37.7	38.9	43.6	47.4
Ex. social ins. funds		-43.0	-43.9	-40.8	-41.3	-30.2	-27.8	-19.7	-18.4	-13.7	-10.0
PRICES AND COSTS											
GDP implicit deflator	% change	2.5	2.1	2.7	2.2	2.0	1.8	2.2	1.7	1.5	1.5
GDP fixed-wt. price index		1.9	2.7	3.0	2.4	2.2	2.1	2.5	2.0	1.8	1.8
Gross domestic purchases		2.3	2.9	3.1	2.4	2.3	2.2	2.6	2.0	1.9	1.8
fixed-wt. price index		2.9	3.6	3.1	2.8	2.7	2.6	2.4	2.2	2.0	2.0
CPI		2.7	3.5	2.9	2.7	2.7	2.6	2.4	2.2	2.0	2.0
Ex. food and energy		3.5	3.4	3.2	3.1	3.0	2.9	2.8	2.7	2.7	2.6
CI, hourly compensation ²		3.5	3.4	3.2	3.1	3.0	2.9	2.8	2.7	2.7	2.6
Nonfarm business sector		1.8	2.4	1.9	1.9	1.6	1.6	1.5	1.4	1.3	1.2
Output per hour		3.0	3.4	3.4	2.9	3.1	3.1	3.3	2.8	2.7	2.6
Compensation per hour		1.2	1.0	1.5	1.0	1.5	1.5	1.8	1.3	1.3	1.3
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)

September 30, 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	91.2
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	119.5
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	101.8
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	127.5
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	77.9
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	21.1
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	13.9
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	42.9
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	32.1
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	32.1
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	,0
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	17.4
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	-10.5
Nonfarm	-25.3	22.0	-21.3	-32.2	.9	.2	23.5	12.8	-22.5	16.7	.7	-56.8	37.4	-14.2
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	3.6
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	-28.3
Exports	12.5	6.5	-.3	14.2	-6.7	20.2	9.1	17.2	4.0	-2.0	49.5	34.9	38.8	15.5
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	43.9
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	2.6
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	-5.8
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	-12.3
Nondefense	3.8	1.8	.7	.5	.7	4.0	.4	.6	2.5	.9	2.0	6.8	5.7	6.5
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	8.4

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)

September 30, 1992

Item	Projected										Projected			
	1992		1993				1994				1991	1992	1993	1994
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GDP	22.6	14.7	24.8	30.9	36.3	40.9	44.3	41.6	39.9	38.8	4.7	91.2	132.9	164.6
Gross domestic purchases	28.2	14.1	21.5	33.2	37.1	37.2	42.9	44.1	41.0	34.3	-7.5	119.5	129.0	162.3
Final sales	34.7	13.4	23.2	18.7	28.8	47.3	45.7	40.4	39.4	42.6	-29.7	101.8	118.0	168.1
Private dom. final purch.	32.5	19.0	25.2	25.5	33.8	45.5	45.8	44.2	41.7	39.3	-36.5	127.5	130.0	171.0
Personal cons. expend.	28.2	10.3	14.6	15.4	21.4	31.8	31.9	30.3	28.9	27.2	1.0	77.9	83.2	118.3
Durables	4.7	2.4	4.3	3.8	6.3	11.8	11.3	9.6	8.5	6.6	-10.5	21.1	26.2	36.0
Nondurables	4.7	-.8	1.8	2.6	4.5	6.6	7.1	7.2	6.7	6.7	-16.0	13.9	15.5	27.7
Services	18.7	8.6	8.5	9.0	10.6	13.4	13.5	13.6	13.7	13.8	27.6	42.9	41.5	54.6
Business fixed invest.	3.5	6.0	7.2	7.6	8.4	9.1	10.0	10.6	9.9	8.9	-37.2	32.1	32.3	39.5
Producers' dur. equip.	4.3	5.9	7.0	7.4	8.0	8.5	8.9	9.3	8.6	7.4	-12.4	32.1	31.0	34.2
Nonres. structures	-.8	.1	.2	.2	.3	.6	1.1	1.3	1.4	1.5	-24.8	.0	1.3	5.3
Res. structures	.7	2.8	3.4	2.4	4.1	4.6	3.9	3.3	2.9	3.2	-.2	17.4	14.5	13.2
Change in bus. invent.	-12.1	1.3	1.6	12.2	7.5	-6.4	-1.4	1.2	.5	-3.8	34.3	-10.5	14.9	-3.5
Nonfarm	-7.1	-1.3	-.6	13.7	7.8	-5.9	-1.6	1.1	.3	-4.0	37.4	-14.2	15.0	-4.2
Farm	-5.0	2.6	2.2	-1.5	-.3	-.5	.2	.1	.2	.2	-3.0	3.6	-.1	.7
Net exports	-5.5	.6	3.3	-2.3	-.9	3.7	1.4	-2.5	-1.1	4.5	12.2	-28.3	3.9	2.3
Exports	6.5	7.0	8.5	9.5	10.6	11.0	10.6	10.8	11.1	11.3	38.8	15.5	39.7	43.8
Imports	12.1	6.4	5.2	11.8	11.5	7.3	9.2	13.3	12.2	6.8	26.5	43.9	35.8	41.5
Government purchases	7.8	-6.3	-5.3	-4.5	-4.2	-1.9	-1.5	-1.3	-1.2	-1.2	-5.4	2.6	-15.8	-5.1
Federal	5.1	-5.4	-5.2	-5.2	-4.3	-3.2	-3.1	-3.2	-3.2	-3.2	-9.1	-5.8	-17.8	-12.6
Defense	2.9	-6.3	-5.4	-5.4	-4.4	-3.6	-3.6	-3.6	-3.6	-3.6	-14.8	-12.3	-18.8	-14.4
Nondefense	2.2	.9	.2	.2	.1	.4	.5	.4	.4	.4	5.7	6.5	1.0	1.8
State and local	2.7	-.9	-.1	.7	.1	1.3	1.6	1.9	2.0	2.0	3.7	8.4	2.0	7.5

1. Annual changes are from Q4 to Q4.

I
I-1
88

Item	Fiscal year				1992				1993				1994			
	1991*	1992	1993	1994	Q1*	Q2*	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
Receipts ¹	1054	1088	1144	1202	239	322	272	257	253	345	289	264	270	371	297	277
Outlays ¹	1324	1386	1496	1550	355	350	343	370	364	384	378	390	383	391	386	401
Surplus/deficit ¹	-269	-298	-352	-347	-116	-28	-71	-113	-111	-39	-89	-126	-112	-20	-89	-123
On-budget	-322	-350	-405	-406	-121	-60	-71	-122	-118	-71	-94	-135	-121	-56	-93	-138
Off-budget	52	51	53	58	6	31	0	9	7	33	5	9	9	36	4	15
Surplus excluding deposit insurance ²	-203	-296	-311	-299	-105	-25	-78	-111	-109	-17	-73	-113	-102	-7	-78	-111
Means of financing																
Borrowing	293	307	337	350	83	62	73	81	106	64	85	119	99	46	85	108
Cash decrease	-1	-17	18	0	29	-27	-11	36	2	-20	0	10	10	-20	0	10
Other ³	-23	8	-3	-2	4	-7	8	-4	3	-6	4	-3	3	-6	4	5
Cash operating balance, end of period	41	58	40	40	20	47	58	22	20	40	40	30	20	40	40	30
NIPA FEDERAL SECTOR																
Receipts	1118	1144	1205	1285	1143	1150	1154	1172	1201	1217	1230	1249	1279	1297	1313	1329
Expenditures	1313	1433	1498	1555	1433	1453	1460	1474	1500	1509	1509	1529	1557	1565	1566	1587
Purchases	447	446	447	443	445	445	452	448	451	446	443	441	445	443	441	438
Defense	326	314	306	295	314	312	316	310	309	304	300	297	298	294	291	287
Nondesign	121	132	141	148	131	133	137	138	141	142	143	144	146	149	150	151
Other expenditures	866	987	1051	1112	988	1007	1007	1026	1050	1062	1066	1088	1112	1122	1122	1148
Surplus/deficit	-194	-289	-293	-270	-289	-303	-306	-302	-299	-292	-279	-280	-278	-268	-254	-258
FISCAL INDICATORS⁴																
High-employment (HEB) surplus/deficit	-158	-228	-221	-218	-230	-240	-240	-231	-225	-219	-210	-217	-222	-220	-212	-223
Change in HEB, percent of potential GDP	-.4	1.2	-.1	-.1	.5	.2	0	-.1	-.1	-.1	-.1	.1	.1	0	-.1	.2
Fiscal impetus (FI), percent, cal. year	-3.8	-3.9	-3.9	-3.2	-2.5	-.1	1.3	-1.4	-2.1	-1.2	-1.1	-.8	-.5	-.8	-.8	-.8

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.

--Actual.

Confidential FR Class II
September 30, 1992

GROWTH RATES OF DEBT BY SECTOR¹
(Percent, period-end to period-end)

	Domestic Nonfinancial Sectors							Memo		
	Households									
	Total ²	U.S. govt. ²	Non- federal	Total	Home mtgs.	Cons. credit	Business	State & local govts.	Private financial assets ³	Nominal GDP ⁴
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	31.3	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	7.0	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	4.8	6.1	-0.5	0.5	4.6	1.1	4.5
1993	6.0	12.3	3.8	5.5	6.4	1.9	2.0	3.9	1.8	4.9
1994	5.9	9.9	4.4	6.2	7.1	4.1	2.5	4.1	3.0	5.0
Seasonally adjusted, annual rates										
1991 -- Q1	4.2	9.1	2.8	4.3	5.7	-1.3	0.9	4.2	4.6	1.8
Q2	5.0	10.9	3.2	5.0	5.8	-1.0	1.1	4.4	1.5	5.2
Q3	3.7	11.1	1.4	3.5	4.4	-3.1	-1.6	4.3	-2.4	4.0
Q4	3.7	11.9	1.0	3.8	4.8	-1.0	-2.8	4.7	-0.9	2.8
1992 -- Q1	5.8	13.3	3.3	5.3	7.2	0.4	0.8	4.6	4.9	6.2
Q2	4.7	12.3	2.2	3.9	4.7	-1.7	-0.9	6.4	-0.3	4.3
Q3	3.8	6.3	3.0	4.5	5.9	-0.6	1.3	3.1	-1.1	4.3
Q4	5.0	10.1	3.2	5.1	6.1	-0.1	0.9	3.9	1.0	3.4
1993 -- Q1	6.5	15.1	3.5	5.1	6.1	1.0	1.5	4.0	1.6	4.8
Q2	5.7	11.2	3.7	5.2	6.1	1.7	1.9	4.0	2.0	4.7
Q3	4.7	7.2	3.8	5.4	6.2	2.3	2.1	3.3	0.5	5.0
Q4	6.8	13.7	4.2	5.9	6.6	2.7	2.4	4.0	3.0	5.1

1. Published data through 1992 Q2.

2. Deposit insurance activity raised total debt growth roughly .5 percentage points in 1991 and is expected to increase 1993 growth by a similar amount. There is virtually no effect on debt growth in 1992.

3. Sometimes referred to as the "Kaufman debt proxy"; includes liquid assets and credit market instruments.

4. Annual figures are Q4 to Q4.

Confider 'R Class II
September , 1992

FLOW OF FUNDS PROJECTION HIGHLIGHTS¹
(Billions of dollars, seasonally adjusted annual rates)

	Calendar year												
	1991	1992	1993	1994	Q1	Q2	Q3	Q4	1992	1993	Q1	Q2	Q3
Net funds raised by domestic nonfinancial sectors:													
1 Total	470.8	578.5	718.0	744.1	694.2	570.9	453.9	595.0	772.6	686.9	575.5	837.1	
2 Net equity issuance	18.3	28.3	10.0	5.0	46.0	36.0	13.0	18.0	13.0	11.0	9.0	7.0	
3 Net debt issuance	452.5	550.2	708.0	739.1	648.2	534.9	440.9	577.0	759.6	675.9	566.5	830.1	
Borrowing sectors:													
Nonfinancial business													
4 Financing gap ²	-4.4	-14.1	20.3	53.2	-43.1	-14.7	-1.4	2.8	4.5	17.1	29.7	29.8	
5 Net equity issuance	18.3	28.3	10.0	5.0	46.0	36.0	13.0	18.0	13.0	11.0	9.0	7.0	
6 Credit market borrowing	-22.3	19.7	71.4	94.1	29.4	-30.8	47.8	32.4	53.5	68.1	76.1	88.0	
Households													
7 Net borrowing, of which:	158.0	188.2	225.2	266.5	208.8	155.4	180.0	208.5	208.8	214.8	226.1	251.1	
8 Home mortgages	137.1	156.4	186.1	219.9	196.0	129.5	167.0	173.1	177.0	180.5	186.8	200.0	
9 Consumer credit	-12.6	-4.1	15.0	32.4	3.1	-13.5	-5.0	-1.0	8.0	13.0	18.0	21.0	
10 Debt/DFI (percent) ³	91.7	90.9	90.6	90.9	90.8	90.9	91.6	91.1	91.0	91.0	91.1	91.2	
State and local governments													
11 Net borrowing	38.5	41.1	36.5	39.6	41.1	58.4	28.5	36.4	37.4	38.2	31.7	38.6	
12 Current surplus ⁴	-39.6	-39.0	-39.3	-24.6	-39.4	-33.8	-38.4	-44.5	-41.9	-41.8	-38.5	-35.2	
U.S. government													
13 Net borrowing	278.2	301.3	374.9	338.9	368.9	351.9	184.6	299.7	459.9	354.8	232.6	452.4	
14 Net borrowing; quarterly, nsa	278.2	301.3	374.9	338.9	83.4	63.6	73.3	81.0	106.1	64.3	85.3	119.2	
15 Unified deficit; quarterly, nsa	266.8	327.9	364.3	344.9	115.5	28.4	70.6	113.3	110.7	38.6	88.9	126.0	
Funds supplied by depository institutions													
16	-61.0	37.0	71.8	87.7	-4.2	1.8	78.8	71.4	84.2	55.6	33.1	114.1	
Memoranda: As percent of GDP:													
17 Dom. nonfinancial debt ³	193.5	193.3	194.8	196.4	194.0	194.2	194.0	194.8	195.7	196.1	196.0	196.9	
18 Dom. nonfinancial borrowing	8.0	9.3	11.4	11.3	11.1	9.1	7.4	9.6	12.5	11.0	9.1	13.2	
19 U.S. government ⁵	4.9	5.1	6.1	5.2	6.3	6.0	3.1	5.0	7.6	5.8	3.7	7.2	
20 Private	3.1	4.2	5.4	6.1	4.8	3.1	4.3	4.6	4.9	5.2	5.4	6.0	

1. Published data through 1992 Q2.

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.

the second quarter; more recently, housing starts, retail sales, and factory orders have declined, but consumer and business confidence appears to have picked up a bit.

The sluggishness of output growth has helped push unemployment in many of the G-7 countries to relatively high levels. Unemployment rates of about 10 percent or more now prevail in the United Kingdom, France, Italy, and Canada, and labor-market slack has helped to moderate inflation in these countries (see the table below). In Japan, although the unemployment rate has remained fairly stable at a little over 2 percent, labor market slack has shown up in a declining offers-to-applicants ratio and a sharp drop in overtime hours; moreover, inflation has receded. In western Germany, although the unemployment rate has moved up after declining through early this year, the labor market has remained fairly tight, and inflation has remained near 3-1/2 percent.

**UNEMPLOYMENT AND INFLATION RATES
(percent)**

	<u>Unemployment</u>		<u>12-month CPI Inflation</u>	
	Latest month	Year earlier	Latest month	Year earlier
Japan	2.2	2.2	2.2	3.0
W. Germany	6.7	6.4	3.6	3.9
U.K.	9.9	8.6	3.6	4.7
France	10.3	9.5	2.8	3.0
Canada	11.6	10.5	1.2	5.8
Italy	11.3	11.3	5.4	6.7

The weakness of activity abroad has manifested itself in the U.S. external accounts. During the second quarter, real net exports of goods and services and the current account deteriorated substantially, largely reflecting a worsening of the merchandise trade deficit. Merchandise exports were little changed from their rates during the preceding two quarters, while imports of computers surged and imports of other goods grew strongly as well. In addition, net service receipts and net

Mexico and Japan in the near term; little change is expected for 1993, on average, from 1992 levels.

TRADE QUANTITIES*

(Percent change from preceding period shown, except as noted, A.R.)

	1992				Projection	
	Q1	Q2	Q3	Q4	1993 Q4	1994 Q4
Nonag. exports	.0.2	1.1	3.5	6.2	.8.0	8.4
Agric. exports	6.4	-10.9	25.7	-7.8	0.3	0.3
Non-oil imports	5.2	14.8	8.9	4.1	6.3	6.7
Oil imports	1.7	41.1	18.2	18.8	5.2	8.4

* GDP basis, 1987 dollars.

After having slowed in the third quarter from its high second-quarter rate, the growth of non-oil imports is projected to slow further during the fourth quarter, and to pick up moderately during 1993. Nonetheless, the projected increase in these imports in the third quarter is noticeably greater than in the previous forecast because of a continuing surge in domestic computer purchases. Import growth in the fourth quarter was lowered because of the weaker outlook for U.S. GDP growth. The pick-up in imports beyond the fourth quarter is slightly faster than previously projected because of the somewhat higher path of the dollar.

The quantity of oil imports is projected to increase further in the fourth quarter, as imports offset some of the domestic oil production lost to Hurricane Andrew. Imports are likely to ease somewhat in the first quarter of 1993 before resuming an upward trend brought about by the secular decline in U.S. oil production.

Oil Prices. Current prices in the spot and futures markets for crude oil are consistent with an average U.S. oil import unit value of \$19 per barrel in the fourth quarter of 1992. This projection is

slightly below that in the last Greenbook. The widely expected increase in OPEC's quota for the fourth quarter had little effect on prices, as did the withdrawal of Ecuador from the cartel. Market concerns appear to be focused on the prospects for a cold winter, along with questions about the availability of Russian supplies in the winter. We assume that WTI spot prices will remain at about current levels (\$21.50 per barrel) through the forecast period; this level of spot prices is consistent with an average import price of \$19 per barrel.

Over the year ahead, this price path is \$1 above that in the August Greenbook, because of our reassessment of the likely timing of Iraq's re-entry to the world oil market. We now assume that Iraq will not resume oil exports under U.N. auspices until the second half of 1993. We also assume that in the meantime, most of the Iraqi shortfall will continue to be made up by increased production in Saudi Arabia and Kuwait (where reconstruction continues at a rapid pace). A continued absence of Iraq from the world oil market beyond the second half of 1993 would put upward pressure on oil prices.

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

	Projection					
	1992				1993	1994
	Q1	Q2	Q3	Q4	Q4	Q4
PPI (exp. wts.)	-0.3	3.9	2.8	1.9	1.6	1.2
Nonag. exports*	0.1	2.7	2.8	2.8	1.7	1.1
Non-oil imports*	2.1	0.2	3.8	3.6	3.1	2.6
Oil imports (\$/bl)	15.27	17.47	18.61	19.00	19.00	19.00

* Excluding computers.

Prices of Exports and Non-oil Imports. The fixed-weight price index for U.S. nonagricultural exports (excluding computers) is projected to increase at a moderate pace over the period ahead, roughly in line with U.S. producer prices. The price of non-oil imports

September 30, 1992

STRICTLY CONFIDENTIAL - FR
CLASS II FOMC

REAL 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
REAL GDP					
Canada	-2.0	-0.0	0.9	2.6	3.2
France	1.5	1.7	2.0	2.6	2.8
Western Germany	5.8	2.0	2.1	2.0	2.6
Italy	1.6	1.8	1.4	1.7	2.1
Japan	5.2	3.0	1.5	2.8	4.3
United Kingdom	-1.0	-1.6	0.2	2.7	2.8
Average, weighted by 1987-89 GDP	2.7	1.5	1.4	2.5	3.2
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	1.9	1.7	2.0	3.2	3.7
G-6	0.6	0.8	1.2	2.6	3.3
Developing countries	5.0	5.0	4.4	5.1	5.5
CONSUMER PRICES					
Canada	4.9	4.1	2.0	2.3	2.3
France	3.6	2.9	2.8	2.8	2.7
Western Germany	3.0	3.9	3.0	3.2	3.0
Italy	6.3	6.1	7.4	4.3	3.4
Japan	3.2	3.2	2.3	2.1	2.1
United Kingdom	10.0	4.2	3.3	4.0	4.8
Average, weighted by 1987-89 GDP	4.8	3.9	3.3	3.0	2.9
Average, weighted by share of U.S. non-oil imports	4.4	3.8	2.6	2.6	2.6

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	1990	1991	1992
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
Imports of G+S Merchandise Oil Non-oil Services	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	
558.6	565.6	567.7	555.3	533.8	553.5	575.8	581.8	586.8	607.3	545.4	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	
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
Imports of G+S of which: Non-oil Goods	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
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	-97.7	-115.7	-108.9	-73.4
Exports	379.9	386.6	386.2	402.1	402.5	413.3	416.6	431.4	431.8	430.3	361.7	388.7	416.0
Agricultural	43.0	40.5	39.4	37.9	39.2	37.5	40.7	43.2	43.3	42.0	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	388.3	319.5	348.5	375.8
Imports	489.4	485.8	501.7	513.2	475.8	478.9	497.3	505.6	500.7	528.0	477.4	497.6	489.4
Oil	63.2	51.3	61.8	72.9	51.7	51.7	52.5	48.8	41.5	51.9	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	476.1	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	21.0	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	5.5	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	46.4	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	-40.9	-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	-2.6	-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	54.5	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	-30.9	-25.6	-32.9	8.0

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

Strictly C

ntial (FR) Class II-FOMC

September 30, 19

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\$)	-49.4	-48.8	-45.5	-47.8	-48.7	-45.0	-43.5	-46.0	-47.2	-42.7	-40.9	-46.7	-44.8			
Exports of G+S Merchandise Services	569.9	576.9	585.4	594.9	605.5	616.5	627.2	637.9	649.0	660.3	568.9	600.6	643.6	413.4	418.3	424.6
Imports of G+S Merchandise Oil Non-oil Services	519.8	526.9	530.9	541.9	552.8	559.5	567.9	580.5	591.9	598.0	510.6	546.3	584.6	53.1	55.4	53.5
Memo: (Percent changes 1/)	4.7	5.0	6.0	6.7	7.3	7.5	7.1	7.0	7.1	7.1	2.8	6.9	7.1	5.4	4.8	6.2
Exports of G+S of which: Goods Imports of G+S of which: Non-oil Goods	8.2	4.2	3.3	7.7	7.3	4.5	5.7	8.2	7.3	4.0	7.5	5.7	6.3	8.9	4.1	5.2
Current Account Balance	-61.1	-80.3	-70.3	-73.1	-70.3	-71.9	-64.3	-68.8	-67.7	-69.1	-59.0	-71.4	-67.5			
Merchandise Trade, net	-107.0	-112.7	-111.2	-116.2	-120.1	-118.8	-119.9	-125.3	-129.0	-126.6	-96.6	-116.6	-125.2			
Exports Agricultural Nonagricultural	437.3	441.9	449.3	458.1	467.7	477.7	487.1	496.6	506.4	516.2	435.3	463.2	501.6	44.0	42.3	42.5
Imports Oil Non-oil	544.3	554.6	560.5	574.2	587.8	596.5	607.0	621.9	635.4	642.9	531.9	579.8	626.8	57.5	61.3	59.2
Other Current Account	35.1	24.0	28.7	31.1	34.0	34.0	39.3	41.5	43.5	43.5	26.9	32.0	41.9			
Invest. Income, net Direct, net Portfolio, net	10.8	8.4	12.2	12.0	15.8	12.9	16.3	15.0	17.8	14.0	10.7	13.2	15.8	48.4	46.9	46.4
Military, net Other Services, net Transfers, net	-2.7	-2.4	-2.0	-1.6	-1.0	-0.6	-0.2	0.2	0.6	1.0	-2.5	-1.3	0.4	70.0	60.6	62.3
1/ Percent change (AR) from previous period; percent changes for annual data are calculated Q4/Q4.	-32.2	-34.2	-31.6	-31.6	-31.6	-34.2	-31.4	-31.4	-31.4	-33.8	-31.3	-32.2	-32.0			

Confidential (FR) Class III FOMC

September 30, 1992

RECENT DEVELOPMENTS

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

and the strike at GM's Lordstown parts plant together accounted for about one-third of the decline in total IP.

Regarding the special factors in August, the hurricane disrupted oil and gas extraction in the Gulf of Mexico and caused the temporary closing of petroleum refineries and petrochemical plants in Louisiana and Texas. We estimate that it reduced industrial production by a little more than 0.1 percent in August. The strike at Lordstown forced the temporary shutdown of several assembly plants in late August and early September. Despite the strike, overall output of motor vehicles (value weighted) posted a 1 percent gain in August because higher truck production more than offset the drop in auto output.

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

	1992						
	Q1	Q2	July	Aug.	Sep. ^e	Oct.	Q4
	-----actual-----						
Domestic production	8.8	10.0	9.5	9.4	9.3	10.0	10.0
Autos	5.2	6.1	5.7	5.4	5.5	5.6	5.5
Trucks	3.6	3.9	3.7	4.1	3.8	4.4	4.5

e Estimated.

On balance, automobile and truck assemblies were a bit under 9-1/2 million units at an annual rate in August and much of September, compared with plans as of mid-August to produce at a rate of around 10 million units. Part of the shortfall was a result of the Lordstown strike, but lagging orders from dealers led to underbuilds at other GM plants and prompted the company to reevaluate demand. Not only has GM reduced planned sales to car rental companies by 200,000 for the 1993 model year, but it also announced a 0.2 million unit (annual rate) cut in scheduled

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

	<u>July and August</u>		<u>Fiscal year through August</u>			
	1991	1992	FY1991	FY1992	Dollar change	Percent change
Outlays	239.5	225.1	1207.5	1268.5	61.0	5.1
Deposit insurance (DI)	19.2	-3.6	49.9	5.7	-44.2	-88.6
Defense Cooperation account (DCA)	-3.5	.0	-42.4	-5.2	37.2	-87.7
Outlays excluding DI and DCA	223.8	228.8	1200.0	1267.9	67.9	5.7
National defense	55.4	51.5	292.9	277.3	-15.6	-5.3
Net interest	33.6	34.0	178.4	184.2	5.8	3.3
Social security	45.3	48.3	246.4	263.4	17.0	6.9
Medicare and health	32.1	35.6	160.4	189.0	28.6	17.8
Income security	30.2	32.9	159.5	183.9	24.4	15.1
Other	27.3	26.5	162.5	170.1	7.6	4.7
Receipts	155.0	157.3	944.9	972.9	28.0	3.0
Personal income taxes	73.0	69.8	419.7	418.1	-1.6	-0.4
Social insurance taxes	61.9	64.8	362.0	380.3	18.3	5.1
Corporate income taxes	3.1	4.3	79.5	82.3	2.8	3.5
Other	17.2	18.3	83.8	92.0	8.2	9.8
Deficit(+) excluding DI and DCA	84.5	67.8	262.6	295.6	33.0	12.6
	68.8	71.4	255.2	295.1	40.0	15.7

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

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS
(Monthly rates, not seasonally adjusted, billions of dollars)

	1992						
	1990	1991	Q1	Q2 ^P	July ^P	Aug. ^P	Sept. ^e
Corporate securities - total ¹	19.82	32.15	41.01	41.45	46.89	38.43	41.56
Public offerings in U.S.	17.68	29.36	37.66	38.20	44.48	35.28	40.30
Stocks--total ²	1.95	5.44	7.53	7.08	6.48	5.28	5.30
Nonfinancial	1.03	3.72	5.14	4.99	3.02	2.95	2.60
Utility	0.35	0.42	0.79	1.24	0.56	0.95	1.80
Industrial	0.68	3.30	4.35	3.75	2.46	2.00	0.80
Financial	0.92	1.72	2.38	2.09	3.46	2.70	2.70
Bonds	15.73	23.92	30.13	31.12	38.00	30.00	35.00
Nonfinancial	5.62	9.51	13.43	12.37	19.50	12.50	16.50
Utility	1.98	2.98	5.00	5.42	9.50	5.50	7.00
Industrial	3.64	6.53	8.43	6.95	10.00	7.00	9.50
Financial	10.11	14.41	16.70	18.75	18.50	17.50	18.50
By quality ³							
Aaa and Aa	3.42	3.72	4.13	2.89	6.63	4.00	5.50
A and Baa	6.44	12.09	15.84	15.01	17.07	12.55	17.70
Less than Baa	0.15	1.03	2.64	3.31	4.13	2.62	2.58
No rating (or unknown)	0.04	0.02	0.10	0.02	0.03	0.08	0.02
Memo items:							
Equity-based bonds ⁴	0.40	0.63	1.01	0.52	0.23	0.28	0.33
Mortgage-backed bonds	2.43	2.99	4.83	6.63	6.20	7.96	3.00
Other asset-backed	3.27	4.08	2.63	3.26	3.94	2.79	6.20
Variable-rate notes	0.80	0.84	0.90	2.18	0.98	1.84	2.61
Bonds sold abroad - total	1.92	2.33	2.61	2.46	2.20	3.00	1.00
Nonfinancial	0.46	1.00	0.96	1.06	0.80	1.30	0.30
Financial	1.46	1.33	1.64	1.40	1.40	1.70	0.70
Stocks sold abroad - total	0.22	0.46	0.74	0.79	0.21	0.16	0.26
Nonfinancial	0.10	0.38	0.53	0.67	0.09	0.14	0.26
Financial	0.12	0.08	0.21	0.12	0.12	0.01	0.00

1. Securities issued in the private placement market are not included. Total reflects gross proceeds rather than par value of original discount bonds.

2. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings. Such swaps totaled \$9.4 billion in 1990.

3. Bonds categorized according to Moody's bond ratings, or to Standard and Poor's if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.

4. Includes bonds convertible into equity and bonds with warrants that entitle the holder to purchase equity in the future.

p--preliminary. e--staff estimate.

\$5 billion of notes for funding government operations. The state had already sold \$3 billion of one-month notes to pay down scrip issued during the state's two-month budget crisis. Despite the resolution of the budget crisis, many analysts fear that the fiscal 1993 budget does not address the full extent of the state's deficit problems. These concerns were reflected in the premium paid on the state's one-month note offering. These tax-exempt notes were priced to yield 3.4 percent, only about 10 basis points below medium-grade taxable commercial paper yields with the same maturity.

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

	1992			1992				
	1990	1991	Q1	Q2	Q3 ^f	July	Aug. ^P	Sept. ^f
Total offerings ¹	13.49	16.60	16.75	21.64	24.18	19.75	23.09	29.71
Total tax-exempt	13.24	16.18	16.20	20.89	23.80	19.67	22.24	29.50
Long-term	10.26	12.84	14.47	16.60	17.39	16.18	18.00	18.00
Refundings ²	1.68	3.11	5.12	5.81	7.54	8.62	6.01	8.00
New capital	8.58	9.73	9.35	10.79	9.85	7.56	11.99	10.00
Short-term	2.98	3.34	1.73	4.29	6.41	3.49	4.24	11.50
Total taxable	.25	.42	.55	.75	.38	.08	.85	.21

p--preliminary. f--forecast.

1. Includes issues for public and private purposes.

2. Includes all refunding bonds, not just advance refundings.

Several other states have tapped or soon will tap the short-term market for funds. These states have entered the 1993 fiscal year with smaller-than-normal cash reserves and are using short-term debt to finance temporary imbalances between outlays and revenues. Yields on new tax-exempt notes have jumped over the past month, owing primarily to the sharp increase in supply. The rating agencies view negatively the heavy reliance on short-term debt by states with financial problems, as it signals a reluctance to deal with budget imbalances. Such borrowings have been a factor in several downgradings, including Moody's lowering of New Jersey's

CONFIDENTIAL - (FR)
CLASS III - FOMC

October 2, 1992

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

October 2, 1992

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

	1992 Jan	1992 Feb	1992 Mar	1992 Apr	1992 May	1992 Jun	1992 Jul	1992 Aug	1992 Sep (f)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	67.5	68.8	76.0	77.2	79.2	80.4	76.6	76.1	75.6
Current conditions	80.5	79.7	84.9	87.7	91.5	95.4	90.6	86.2	88.3
Expected conditions	59.1	61.8	70.3	70.5	71.2	70.7	67.6	69.5	67.4
Personal financial situation									
Now compared with 12 months ago*	90	91	93	97	97	100	96	91	102
Expected in 12 months*	119	123	113	129	122	125	125	121	123
Expected business conditions									
Next 12 months*	53	60	90	87	92	88	78	81	78
Next 5 years*	63	63	77	66	70	70	66	76	68
Appraisal of buying conditions									
Cars	123	126	125	131	135	144	128	129	130
Large household appliances*	117	114	126	130	139	147	138	132	126
Houses	155	163	153	162	159	163	153	159	162
Willingness to use credit	37	39	39	31	45	38	39	41	44
Willingness to use savings	46	47	53	54	59	67	58	61	65
Average expected increase in prices during the next 12 months	3.5	3.5	3.3	3.7	3.4	4.2	3.9	4.0	4.1
Average expected increase in prices (per year) over the next 5 to 10 years	5.4	4.5	4.6	4.9	5.5	4.7	4.7	5.0	5.0

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

(p) -- Preliminary

(f) -- Final

Note: Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Asterisk (*) indicates the question is one of the five equally-weighted components of the index of sentiment.