

August 11, 1993

## **SUMMARY AND OUTLOOK**

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

core inflation is offset by higher food and energy prices over the next year and a half.

**SUMMARY OF THE STAFF PROJECTION**  
(Percent change, at annual rates, except as noted)

	<u>1993</u>			1993	1994
	H1	Q3	Q4		
Real GDP	1.2	2.3	2.4	1.7	2.5
<i>Previous</i>	1.6	2.2	2.5	2.0	2.6
Civilian unemployment rate <sup>1</sup>	7.0	6.9	6.9	6.9	6.8
<i>Previous</i>	7.0	7.0	6.9	6.9	6.8
CPI inflation	3.4	1.9	4.2	3.2	3.2
<i>Previous</i>	3.4	2.4	4.0	3.3	3.1

1. Averages for final quarter of period shown.

Key assumptions. Short-term interest rates are assumed to remain close to current levels through 1994. Bond yields are projected to fall somewhat further over the next few quarters as net demands on the capital markets remain subdued and as disappointing yields on cash and the absence of a buildup in inflationary pressures encourage investors to reach out the term structure for yield. The availability of credit to businesses appears to be improving: The Senior Loan Officer survey and other reports suggest that commercial banks are pursuing loans more aggressively, and the securities markets have been more receptive to issues even by riskier firms.

The broad monetary aggregates have shown few signs of life lately. M2 growth was sluggish in July, despite a substantial boost provided by special factors, while M3 declined. Again, banks continued to fund credit with sources outside the monetary aggregates. Looking forward, corporations are expected to continue to rely heavily on financing through the issuance of securities and, with the yield curve remaining steep, households are likely to persist in shifting funds from deposits to capital market

period. These increases reflect additional spending for law enforcement and for science and research, while nondefense compensation is expected to decrease slightly as the result of cutbacks in federal employment.<sup>5</sup>

Real state and local government purchases are projected to grow modestly over the projection period, boosted a bit in the near term by infrastructure repair in the flood-affected areas of the Midwest. Although many states and localities continue to be under considerable fiscal pressure, their ability to cut back on the provision of essential services (particularly for health care and corrections) is limited. Thus, as units attempt to improve their financial condition, additional tax hikes are likely to be enacted. These tax increases, together with continued restraint on spending, are projected to reduce the sector's deficit, excluding social insurance funds, from just under \$50 billion in the second quarter of 1993 to around \$25 billion by the end of 1994.

**STAFF LABOR MARKET PROJECTIONS**  
(Percent change, Q4 TO Q4, except as noted)

	1992	1993	1994
Output per hour, nonfarm business	2.9	.1	1.5
<i>Previous</i>	2.9	.5	1.5
Nonfarm payroll employment	.7	1.7	1.5
<i>Previous</i>	.7	1.7	1.7
Civilian unemployment rate <sup>1</sup>	7.3	6.9	6.8
<i>Previous</i>	7.3	6.9	6.8

1. Average for the fourth quarter.

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5. The federal pay increase scheduled for the beginning of 1994 was approved as part of the budget reconciliation act, but agencies were not given additional funds to pay for it. Rather than face the prospect of furloughs of federal workers, the Congress is assumed to rescind the scheduled pay increase this fall.

After a decline in June and a small increase in July, food prices are expected to rise 0.4 percent a month for the rest of this year.

STAFF INFLATION PROJECTIONS  
(Percent change, Q4 TO Q4, except as noted)

	1992	1993	1994
Consumer price index	3.1	3.2	3.2
<i>Previous</i>	3.1	3.3	3.1
Food	1.6	3.0	3.2
<i>Previous</i>	1.6	2.6	2.6
Energy	2.4	2.4	3.9
<i>Previous</i>	2.4	4.9	3.8
Excluding food and energy	3.4	3.3	3.1
<i>Previous</i>	3.4	3.3	3.1
ECI for compensation of private industry workers <sup>1</sup>	3.5	3.6	3.3
<i>Previous</i>	3.5	3.4	3.3
Non oil import prices	1.7	.5	1.6
<i>Previous</i>	1.7	.7	1.9

1. December to December.

This results in a pickup in CPI food price inflation from 2 percent at an annual rate in the third quarter to a 4-3/4 percent annual pace in the fourth quarter and a 4 percent annual rate in the first quarter of 1994. Food price increases are expected to moderate in the second half of next year as crop production bounces back, but the food price rise over 1994 as a whole is expected to be slightly above that of 1993.

Consumer energy prices are expected to rise a bit less over the projection period than in the June Greenbook, reflecting the lower path for crude oil prices and the elimination in the final budget agreement of new excise taxes on fuel oil, electricity, and natural gas. After a decline in the third quarter, prices are projected to increase at a double-digit pace in the fourth quarter, as the 4.3 cents per gallon gasoline tax goes into effect on October 1 and

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

August 11, 1993

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index <sup>1</sup>		Unemployment rate (level except as noted)	
	6/30/93	8/11/93	6/30/93	8/11/93	6/30/93	8/11/93	6/30/93	8/11/93	6/30/93	8/11/93
<b>ANNUAL</b>										
1990 <sup>2</sup>	5.2	5.2	.8	.8	4.6	4.6	5.4	5.4	5.5	5.5
1991 <sup>2</sup>	2.8	2.8	-1.2	-1.2	4.0	4.0	4.2	4.2	6.7	6.7
1992 <sup>2</sup>	4.8	4.8	2.1	2.1	2.9	2.9	3.0	3.0	7.4	7.4
1993	5.2	5.0	2.5	2.3	3.2	3.2	3.2	3.1	7.0	6.9
1994	5.1	5.0	2.5	2.4	2.8	2.9	3.3	3.3	6.9	6.8
<b>QUARTERLY</b>										
1991 Q1 <sup>2</sup>	1.8	1.8	-3.0	-3.0	4.9	4.9	3.6	3.6	6.5	6.5
Q2 <sup>2</sup>	5.2	5.2	1.7	1.7	3.5	3.5	2.1	2.1	6.7	6.7
Q3 <sup>2</sup>	4.0	4.0	1.2	1.2	2.9	2.9	2.7	2.7	6.7	6.7
Q4 <sup>2</sup>	2.8	2.8	.6	.6	2.4	2.4	3.3	3.3	7.0	7.0
1992 Q1 <sup>2</sup>	6.2	6.2	2.9	2.9	3.4	3.4	3.5	3.5	7.3	7.3
Q2 <sup>2</sup>	4.3	4.3	1.5	1.5	2.9	2.9	2.9	2.9	7.5	7.5
Q3 <sup>2</sup>	5.3	5.3	3.4	3.4	2.2	2.2	2.9	2.9	7.5	7.5
Q4 <sup>2</sup>	7.1	7.1	4.7	4.7	3.4	3.4	3.2	3.2	7.3	7.3
1993 Q1 <sup>2</sup>	4.3	4.3	.7	.7	4.3	4.3	3.7	3.7	7.0	7.0
Q2 <sup>2</sup>	5.2	4.0	2.5	1.6	2.6	2.6	3.1	2.8	7.0	7.0
Q3	4.4	4.8	2.2	2.3	2.4	2.4	2.4	1.9	7.0	6.9
Q4	5.5	5.4	2.5	2.4	3.3	3.3	4.0	4.2	6.9	6.9
1994 Q1	5.1	5.4	2.5	2.8	2.9	3.0	3.5	3.7	6.9	6.9
Q2	5.1	4.9	2.6	2.3	2.8	2.9	3.1	3.2	6.9	6.8
Q3	4.9	4.8	2.6	2.4	2.6	2.7	2.9	3.0	6.8	6.8
Q4	4.9	4.7	2.7	2.4	2.6	2.6	2.9	2.9	6.8	6.8
<b>TWO-QUARTER<sup>3</sup></b>										
1991 Q2 <sup>2</sup>	3.5	3.5	-.7	-.7	4.2	4.2	3.0	3.0	.7	.7
Q4 <sup>2</sup>	3.4	3.4	.9	.9	2.6	2.6	3.0	3.0	.3	.3
1992 Q2 <sup>2</sup>	5.2	5.2	2.2	2.2	3.2	3.2	3.2	3.2	.5	.5
Q4 <sup>2</sup>	6.2	6.2	4.1	4.1	2.8	2.8	2.9	2.9	-.2	-.2
1993 Q2 <sup>2</sup>	4.7	4.2	1.6	1.2	3.4	3.4	3.4	3.4	-.3	-.3
Q4	4.9	5.1	2.3	2.3	2.8	2.8	3.2	3.0	-.1	-.1
1994 Q2	5.1	5.1	2.5	2.5	2.9	2.9	3.3	3.4	.0	-.1
Q4	4.9	4.7	2.6	2.4	2.6	2.7	2.9	3.0	-.1	.0
<b>FOUR-QUARTER<sup>4</sup></b>										
1990 Q4 <sup>2</sup>	4.1	4.1	-.5	-.5	4.7	4.7	6.2	6.2	.6	.6
1991 Q4 <sup>2</sup>	3.5	3.5	.1	.1	3.4	3.4	3.0	3.0	1.0	1.0
1992 Q4 <sup>2</sup>	5.7	5.7	3.1	3.1	3.0	3.0	3.1	3.1	.3	.3
1993 Q4	4.8	4.6	2.0	1.7	3.1	3.1	3.3	3.2	-.4	-.4
1994 Q4	5.0	4.9	2.6	2.5	2.7	2.8	3.1	3.2	-.1	-.1

1. For all urban consumers.

2. Actual.

3. Percent change from two quarters earlier; for unemployment rate, change in percentage points.

4. Percent change from four quarters earlier; for unemployment rate, change in percentage points.

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

August 11, 1993

Item	Unit <sup>1</sup>									Projected	
		1986	1987	1988	1989	1990	1991	1992	1993	1994	
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	4268.6	4539.9	4900.4	5250.8	5522.2	5677.5	5950.7	6249.4	6563.8	
Real GDP	Bill. 87\$	4404.5	4540.0	4718.6	4838.0	4877.5	4821.0	4922.6	5036.2	5157.7	
Real GDP	% change	2.2	4.5	3.3	1.6	-.5	.1	3.1	1.7	2.5	
Gross domestic purchases		2.1	3.9	2.5	.9	-1.2	-2.2	3.7	2.3	2.8	
Final sales		3.3	2.7	4.2	1.5	.6	-.6	3.1	1.8	2.1	
Private dom. final purch.		3.0	1.9	4.2	.5	-.8	-.9	4.5	3.3	3.1	
Personal cons. expend.		4.0	2.1	4.2	1.2	-.2	.0	3.4	2.4	2.1	
Durables		12.5	-2.6	8.5	-.5	-2.3	-2.5	9.2	5.1	3.1	
Nondurables		3.3	1.4	3.2	1.2	-.7	-1.5	3.3	1.1	1.3	
Services		2.5	3.7	3.7	1.7	1.3	1.6	2.2	2.5	2.3	
Business fixed invest.		-5.7	3.0	5.5	-.4	-1.4	-7.0	7.9	9.5	7.5	
Producers' dur. equip.		-.7	2.4	9.1	-1.7	-.2	-3.5	12.6	11.8	8.7	
Nonres. structures		-14.1	4.4	-1.2	2.3	-3.7	-14.3	-3.0	3.2	3.9	
Res. structures		11.1	-3.1	.9	-7.7	-14.7	-.1	14.1	2.2	6.4	
Exports		9.9	12.6	13.5	11.3	7.2	7.4	4.8	3.2	5.6	
Imports		6.7	4.7	3.6	2.6	.1	4.8	9.5	7.3	7.6	
Government purchases		4.1	3.3	.2	2.0	2.8	-.6	.4	-1.7	-.3	
Federal		3.8	3.7	-3.4	-.6	3.0	-2.3	-.8	-6.6	-4.1	
Defense		3.7	4.5	-3.2	-1.5	1.5	-5.2	-2.2	-9.5	-6.7	
State and local		4.4	2.9	2.9	4.0	2.7	.7	1.3	1.6	2.0	
Change in bus. invent.	Bill. 87\$	8.6	26.3	19.9	29.8	6.2	-9.3	5.0	12.1	18.3	
Nonfarm		10.6	32.7	26.9	29.9	3.7	-9.6	2.6	15.1	18.7	
Net exports		-155.1	-143.0	-104.0	-73.7	-51.8	-21.8	-41.8	-71.5	-89.3	
Nominal GDP	% change	4.7	8.0	7.7	6.0	4.1	3.5	5.7	4.6	4.9	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employ.	Millions	99.3	102.0	105.2	107.9	109.4	108.3	108.5	110.1	111.8	
Unemployment rate	%	7.0	6.2	5.5	5.3	5.5	6.7	7.4	6.9	6.8	
Industrial prod. index	% change	1.5	6.3	3.2	-.1	-.2	-.3	3.2	3.2	3.0	
Capacity util. rate-mfg.	%	79.1	81.6	83.6	83.1	81.1	77.8	78.8	80.7	81.3	
Housing starts	Millions	1.81	1.62	1.49	1.38	1.19	1.01	1.20	1.25	1.39	
Auto sales in U.S.		11.45	10.24	10.63	9.91	9.51	8.39	8.35	8.82	9.12	
North American produced		8.22	7.07	7.54	7.08	6.91	6.14	6.25	6.79	7.13	
Other		3.24	3.18	3.10	2.83	2.60	2.25	2.10	2.03	1.99	
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	4277.8	4544.5	4908.2	5266.8	5542.9	5694.9	5962.0	6255.8	6568.4	
Nominal GNP	% change	4.4	8.1	7.8	6.1	4.2	3.1	5.6	4.6	5.0	
Nominal personal income		5.5	7.4	7.1	6.5	6.3	3.3	5.2	5.1	5.6	
Real disposable income		2.8	2.1	3.2	1.1	.9	.5	2.5	2.1	2.0	
Personal saving rate	%	6.0	4.3	4.4	4.1	4.4	4.8	4.8	4.4	4.0	
Corp. profits, IVAA&CCAdj	% change	-7.1	29.7	10.2	-6.3	-3.0	.9	23.5	.2	2.4	
Profit share of GNP	%	6.4	7.0	7.4	6.9	6.5	6.1	6.6	6.8	6.7	
Federal surpl./def.	Bill. \$	-201.1	-151.8	-136.6	-122.3	-166.2	-210.4	-298.0	-257.4	-206.8	
State/local surpl./def.		54.3	40.1	38.4	44.8	30.1	17.1	15.5	11.7	22.6	
Ex. social ins. funds		1.5	-14.7	-18.4	-17.5	-32.9	-43.1	-42.1	-43.4	-31.4	
<b>PRICES AND COSTS</b>											
GDP implicit deflator	% change	2.6	3.3	4.2	4.4	4.5	3.4	2.5	2.9	2.4	
GDP fixed-wt. price index		2.6	3.4	4.2	4.4	4.7	3.4	3.0	3.1	2.8	
Gross domestic purchases		2.3	3.9	4.1	4.4	5.3	2.8	2.8	2.9	2.8	
fixed-wt. price index		1.3	4.5	4.3	4.6	6.2	3.0	3.1	3.2	3.2	
CPI		3.9	4.3	4.5	4.4	5.2	4.5	3.4	3.3	3.1	
Ex. food and energy											
ECI, hourly compensation <sup>2</sup>		3.2	3.3	4.8	4.8	4.6	4.4	3.5	3.6	3.3	
Nonfarm business sector		1.3	1.9	.5	-1.4	-.2	1.3	2.8	.1	1.5	
Output per hour		4.7	3.9	3.8	3.1	6.0	4.1	3.4	3.0	3.4	
Compensation per hour											
Unit labor cost		3.4	1.9	3.3	4.6	6.2	2.8	.6	2.9	1.9	

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)

August 11, 1993

Item	Units	Projected									
		1992		1993				1994			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	5978.5	6081.8	6145.8	6206.9	6280.8	6364.2	6448.0	6525.9	6602.6	6678.4
Real GDP	Bill. 87\$	4933.7	4990.8	4999.9	5019.5	5047.8	5077.7	5112.8	5141.8	5172.6	5203.7
Real GDP	% change	3.4	4.7	.7	1.6	2.3	2.4	2.8	2.3	2.4	2.4
Gross domestic purchases		4.1	4.4	2.4	1.5	2.2	2.9	3.1	2.9	2.7	2.6
Final sales		2.8	5.2	-1.2	3.7	2.8	2.1	2.2	1.8	2.2	2.3
Private dom. final purch.		3.5	6.6	2.3	4.4	2.9	3.5	3.3	3.0	3.1	3.0
Personal cons. expend.		3.7	5.1	.8	3.8	2.3	2.6	2.0	2.1	2.2	2.3
Durables		9.4	14.0	-.8	14.2	1.5	5.9	2.8	3.1	3.2	3.3
Nondurables		2.5	6.8	-2.7	2.4	2.3	2.4	1.2	1.2	1.5	1.5
Services		3.1	2.1	3.2	2.2	2.6	1.9	2.2	2.3	2.4	2.5
Business fixed invest.		3.1	9.7	13.1	13.3	5.4	6.3	7.3	7.6	7.4	7.5
Producers' dur. equip.		9.5	14.5	18.3	16.5	5.7	7.4	8.9	8.8	8.5	8.5
Nonres. structures		-11.3	-1.9	.0	4.8	4.7	3.4	2.8	4.0	4.2	4.7
Res. structures		.2	25.1	1.4	-9.5	6.7	11.5	14.3	5.5	4.4	2.0
Exports		9.2	8.9	-2.8	6.7	4.5	4.6	5.2	5.2	5.5	6.4
Imports		14.8	5.7	11.2	5.7	3.9	8.4	7.5	9.3	6.9	6.8
Government purchases		3.8	-2.6	-7.1	.2	1.8	-1.3	-.6	-.3	-.3	-.1
Federal		7.5	-4.7	-17.9	-3.0	.8	-5.3	-4.9	-4.0	-3.8	-3.7
Defense		8.3	-3.5	-25.9	-1.5	.5	-8.5	-7.8	-6.5	-6.2	-6.2
State and local		1.4	-1.1	.5	2.3	2.4	1.3	2.0	1.9	1.9	2.1
Change in bus. invent.	Bill. 87\$	15.0	9.8	33.5	8.2	1.8	4.9	12.0	18.2	20.8	22.2
Nonfarm		9.6	5.6	30.5	9.0	8.0	12.9	13.0	18.5	21.2	22.2
Net exports		-52.7	-49.0	-70.3	-69.9	-69.6	-76.4	-81.1	-88.9	-92.5	-94.7
Nominal GDP	% change	5.3	7.1	4.3	4.0	4.8	5.4	5.4	4.9	4.8	4.7
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employ.	Millions	108.6	108.9	109.4	110.0	110.4	110.7	111.1	111.5	112.0	112.4
Unemployment rate <sup>1</sup>	%	7.5	7.3	7.0	7.0	6.9	6.9	6.9	6.8	6.8	6.8
Industrial prod. index	% change	.8	6.7	5.5	1.9	2.2	3.2	3.0	3.0	3.0	3.0
Capacity util. rate-mfg <sup>1</sup>	%	78.7	79.6	80.5	80.6	80.7	81.1	81.2	81.3	81.4	81.4
Housing starts	Millions	1.18	1.25	1.16	1.24	1.28	1.31	1.35	1.38	1.41	1.42
Auto sales in U.S.		8.21	8.38	8.29	9.04	8.92	9.05	9.04	9.04	9.14	9.24
North American produced		6.24	6.38	6.31	6.94	6.89	7.01	7.05	7.05	7.15	7.25
Other		1.97	2.01	1.97	2.10	2.03	2.04	1.99	1.99	1.99	1.99
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	5992.0	6086.8	6155.1	6214.1	6287.5	6366.4	6454.2	6528.3	6609.1	6682.0
Nominal GNP	% change	5.7	6.5	4.6	3.9	4.8	5.1	5.6	4.7	5.0	4.5
Nominal personal income		2.7	8.0	6.1	4.0	3.7	6.7	6.5	4.8	5.1	5.9
Real disposable income		.5	4.3	2.7	1.3	1.7	2.6	1.7	.8	2.9	2.7
Personal saving rate <sup>1</sup>	%	4.6	4.4	4.9	4.3	4.2	4.2	4.1	3.8	4.0	4.1
Corp. profits, IVA&CCAdj	% change	-13.9	72.1	-4.0	-1.4	3.4	3.0	4.3	3.3	3.7	-1.4
Profit share of GNP <sup>1</sup>	%	6.2	7.0	6.9	6.8	6.8	6.7	6.7	6.7	6.7	6.6
Federal govt. surpl./def.	Bill. \$	-304.4	-295.5	-272.1	-254.2	-253.4	-250.0	-223.1	-199.5	-199.2	-205.3
State/local surpl./def.		9.2	18.3	10.1	8.1	13.2	15.5	19.2	18.7	25.8	26.5
Ex. social ins. funds		-48.0	-38.1	-45.5	-47.1	-41.8	-39.2	-35.3	-35.5	-28.0	-27.0
<b>PRICES AND COSTS</b>											
GDP implicit deflator	% change	1.8	2.3	3.5	2.4	2.5	3.0	2.5	2.6	2.3	2.2
GDP fixed-wt. price index		2.2	3.4	4.3	2.6	2.4	3.3	3.0	2.9	2.7	2.6
Gross domestic purchases		2.5	2.9	3.5	2.7	2.0	3.4	3.0	2.8	2.7	2.6
fixed-wt. price index		2.9	3.2	3.7	2.8	1.9	4.2	3.7	3.2	3.0	2.9
CPI		2.7	3.6	4.1	3.5	2.5	3.1	3.5	3.1	3.0	3.0
Ex. food and energy		3.2	3.5	4.2	3.5	3.3	3.3	3.3	3.4	3.3	3.3
ECI, hourly compensation <sup>2</sup>		3.2	3.5	4.2	3.5	3.3	3.3	3.3	3.4	3.3	3.3
Nonfarm business sector		2.7	3.2	-1.6	-2.5	2.7	1.9	1.5	1.5	1.6	1.5
Output per hour		3.5	3.9	3.2	1.6	3.8	3.5	3.9	3.3	3.3	3.3
Compensation per hour		.7	.6	4.8	4.2	1.1	1.6	2.4	1.8	1.7	1.8
Unit labor cost											

1. Not at an annual rate.

2. Private-industry workers.

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

August 11, 1993

Item	Projected										Projected			
	1992		1993				1994				1991	1992	1993	1994
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GDP	41.3	57.1	9.1	19.6	28.3	29.8	35.1	29.1	30.8	31.1	4.7	152.3	86.9	126.1
Gross domestic purchases	50.1	53.4	30.3	19.2	28.0	36.7	39.8	36.8	34.4	33.3	-7.5	180.8	114.2	144.3
Final sales	34.1	62.3	-14.7	45.0	34.7	26.8	28.0	22.9	28.2	29.8	-29.7	150.1	91.8	108.8
Private dom. final purch.	34.1	64.8	23.8	44.1	30.3	36.6	34.2	31.4	32.4	32.2	-36.5	174.9	134.9	130.2
Personal cons. expend.	29.9	41.5	6.6	31.6	19.7	22.2	16.8	17.7	19.2	19.8	1.0	110.9	80.1	73.5
Durables	9.8	14.6	-.9	15.3	1.8	6.8	3.3	3.6	3.8	3.9	-10.5	38.3	23.0	14.7
Nondurables	6.4	17.4	-7.2	6.4	6.0	6.4	3.2	3.2	4.1	4.1	-16.0	33.8	11.6	14.6
Services	13.7	9.6	14.6	9.9	11.9	9.0	10.3	10.8	11.3	11.9	27.6	38.8	45.5	44.2
Business fixed invest.	4.0	12.2	16.6	17.4	7.5	8.8	10.4	10.9	10.9	11.2	-37.2	38.8	50.4	43.3
Producers' dur. equip.	8.4	12.9	16.6	15.7	5.8	7.6	9.3	9.4	9.3	9.5	-12.4	43.2	45.7	37.5
Nonres. structures	-4.4	-.7	.0	1.7	1.7	1.2	1.0	1.5	1.6	1.8	-24.8	-4.4	4.6	5.8
Res. structures	.1	11.0	.7	-5.0	3.2	5.6	7.0	2.9	2.4	1.1	-.2	25.0	4.5	13.3
Change in bus. invent.	7.2	-5.2	23.7	-25.3	+6.4	3.0	7.1	6.2	2.6	1.4	34.3	2.3	-4.9	17.3
Nonfarm	3.6	-4.0	24.9	-21.5	-1.0	4.8	.1	5.5	2.7	1.0	37.4	-6.2	7.3	9.3
Farm	3.5	-1.1	-1.2	-3.8	-5.4	-1.8	7.0	.7	-.1	.4	-3.0	8.4	-12.2	8.0
Net exports	-8.8	3.7	-21.3	.4	.3	-6.8	-4.7	-7.8	-3.6	-2.2	12.2	-28.5	-27.4	-18.3
Exports	12.5	12.4	-4.1	9.6	6.6	6.9	7.8	7.8	8.4	9.8	38.8	26.9	18.9	33.9
Imports	21.3	8.7	17.2	9.1	6.3	13.7	12.5	15.6	12.1	12.0	26.5	55.5	46.3	52.2
Government purchases	8.8	-6.2	-17.2	.5	4.0	-3.0	-1.5	-.8	-.6	-.2	-5.4	3.7	-15.7	-3.1
Federal	6.8	-4.5	-18.0	-2.7	.7	-4.8	-4.4	-3.5	-3.3	-3.2	-9.1	-3.2	-24.8	-14.4
Defense	5.3	-2.4	-19.1	-.9	.3	-5.4	-4.8	-3.9	-3.7	-3.6	-14.8	-6.0	-25.1	-16.0
Nondefense	1.5	-2.2	1.2	-1.8	.4	.6	.4	.4	.4	.4	5.7	2.7	.4	1.6
State and local	2.0	-1.6	.7	3.2	3.3	1.8	2.9	2.7	2.7	3.0	3.7	7.0	9.0	11.3

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)

August 11, 1993

Item	Fiscal year				1992				1993				1994			
	1991 <sup>a</sup>	1992 <sup>a</sup>	1993	1994	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4 <sup>a</sup>	Q1 <sup>a</sup>	Q2 <sup>b</sup>	Q3	Q4	Q1	Q2	Q3	Q4
<b>UNIFIED BUDGET</b>																
Receipts <sup>1</sup>	1054	1091	1150	1222	239	321	275	265	262	331	291	274	273	370	305	290
Outlays <sup>1</sup>	1324	1381	1414	1492	354	350	338	386	325	349	354	371	371	371	379	382
Surplus/deficit <sup>1</sup>	-269	-290	-264	-270	-116	-28	-62	-120	-62	-18	-63	-97	-98	-1	-74	-92
On-budget	-322	-340	-310	-329	-121	-60	-62	-108	-90	-49	-64	-110	-106	-37	-76	-107
Off-budget	52	50	47	59	6	31	-1	-13	27	31	1	13	8	36	2	15
Surplus excluding deposit insurance <sup>2</sup>	-203	-287	-292	-266	-105	-25	-69	-128	-68	-25	-71	-95	-99	2	-74	-90
Means of financing																
Borrowing	293	311	250	267	83	62	77	81	60	61	48	87	86	36	58	87
Cash decrease	-1	-17	11	8	29	-27	-12	29	8	-39	13	17	11	-30	10	10
Other <sup>3</sup>	-23	-4	2	-4	4	-7	-3	10	-6	-4	2	-6	1	-5	6	-5
Cash operating balance, end of period	41	59	48	40	20	47	59	30	22	61	48	31	20	50	40	30
<b>NIPA FEDERAL SECTOR</b>																
Receipts	1118	1144	1220	1312	1143	1150	1155	1193	1214	1231	1242	1265	1311	1335	1336	1350
Expenditures	1313	1433	1489	1530	1433	1453	1460	1489	1486	1495	1515	1534	1534	1535	1555	I-120
Purchases	447	446	444	436	445	445	455	452	441	441	443	440	437	435	433	431
Defense	326	315	309	297	314	312	320	318	304	305	307	302	298	295	292	289
Nondefense	121	132	136	139	131	133	136	133	137	136	136	138	139	140	141	142
Other expenditures	866	987	1045	1094	988	1008	1005	1037	1045	1045	1052	1075	1097	1099	1103	1124
Surplus/deficit	-194	-289	-269	-218	-289	-303	-304	-296	-272	-254	-253	-250	-223	-200	-199	-205
<b>FISCAL INDICATORS<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-153	-218	-203	-152	-221	-229	-232	-232	-207	-186	-186	-182	-156	-133	-134	-141
Change in HEB, percent of potential GDP	-.4	1.1	-.3	-.8	.5	.1	0	0	-.4	-.3	0	-.1	-.4	-.4	0	.1
Fiscal impetus (FI), percent, cal. year	-3.9	-4.2	-5.8	-7.2	-2.6	-.1	1.3	-1.2	-5.5	-.3	1.1	-2.2	-3.4	-2.5	-1.2	-1.2

1. OMB's April deficit estimates, including the President's proposals, are \$322 billion in FY93 and \$264 billion in FY94. CBO's preliminary deficit estimates of the President's proposals are \$308 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 April deficit estimates, excluding deposit insurance spending, are \$319 billion in FY93 and \$256 billion in FY94. CBO's preliminary deficit estimates, excluding deposit insurance spending, are \$315 billion in FY93 and \$263 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 2.2 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--Unified and NIPA data are actuals except for NIPA corporate profit tax total which is a staff projection.

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

	1991	Calendar year	1993	1994	Q1	Q2	Q3	Q4	1994	Q1	Q2	Q3	Q4
-----Seasonally Adjusted Annual Rates-----													
Net funds raised by domestic nonfinancial sectors													
1 Total	479.2	601.1	602.4	642.0	549.7	738.4	429.5	692.0	739.9	613.1	497.8	716.9	
2 Net equity issuance	18.3	26.8	27.3	17.5	27.0	32.0	25.0	25.0	20.0	18.0	16.0	16.0	
3 Net debt issuance	461.0	574.4	575.2	624.5	522.7	706.4	404.5	667.0	719.9	595.1	481.8	700.9	
Borrowing sectors													
Nonfinancial business													
4 Financing gap <sup>2</sup>	-4.3	-30.0	14.6	41.5	17.5	16.5	6.5	18.1	27.7	39.8	46.6	52.0	
5 Net equity issuance	18.3	26.8	27.3	17.5	27.0	32.0	25.0	25.0	20.0	18.0	16.0	16.0	
6 Credit market borrowing	-15.9	0.8	35.0	45.9	-34.8	71.7	52.1	51.1	43.9	40.6	48.1	51.1	
Households													
7 Net borrowing, of which:	160.2	222.6	235.0	271.5	224.1	231.7	232.3	252.0	257.6	272.9	274.2	281.2	
8 Home mortgages	139.5	190.6	182.3	200.0	172.1	193.2	174.4	189.4	194.2	199.9	199.6	206.4	
9 Consumer credit	-13.1	9.3	34.5	54.0	27.8	30.2	36.0	44.0	48.0	54.0	55.0	59.0	
10 Debt/DPI (percent) <sup>3</sup>	91.8	91.5	92.1	92.8	92.2	92.6	93.0	92.8	93.0	93.5	93.6	93.7	H-125
State and local governments													
11 Net borrowing	38.5	47.0	49.9	39.5	58.8	61.2	37.3	42.2	37.6	40.6	36.5	43.1	
12 Current surplus <sup>4</sup>	-39.6	-42.9	-41.4	-36.9	-41.5	-43.1	-38.7	-42.4	-39.1	-40.5	-34.0	-33.9	
U.S. government													
13 Net borrowing	278.2	304.0	255.3	267.6	274.7	341.8	82.8	321.7	380.9	241.1	123.0	325.4	
14 Net borrowing; quarterly, nsa	278.2	304.0	255.3	267.6	59.8	61.1	47.9	86.5	86.4	35.9	57.9	87.4	
15 Unified deficit; quarterly, nsa	266.8	326.8	240.4	265.2	62.4	17.8	63.1	97.2	98.3	0.7	74.0	92.2	
Funds supplied by depository institutions													
16 Dom. nonfinancial debt <sup>3</sup>	-60.9	30.2	132.8	121.8	117.0	155.1	135.1	124.1	127.5	94.4	118.5	146.6	
MEMO: (percent of GDP)													
17 Dom. nonfinancial debt <sup>3</sup>	193.6	193.5	193.4	193.3	194.1	195.1	194.4	194.5	194.7	194.7	194.2	194.7	
18 Dom. nonfinancial borrowing	8.1	9.7	9.2	9.5	8.5	11.4	6.4	10.5	11.2	9.1	7.3	10.5	
19 U.S. government <sup>5</sup>	4.9	5.1	4.1	4.1	4.5	5.5	1.3	5.1	5.9	3.7	1.9	4.9	
20 Private	3.2	4.5	5.1	5.4	4.0	5.9	5.1	5.4	6.3	5.4	5.4	5.6	

1. Data after 1993:1 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.

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

Year	Nonfederal							MEMO		
	Total <sup>2</sup>	Federal govt.	Households			State and local govt.	Private financial assets	Nominal GDP		
	Total	Total	Home mtg.	Cons. credit	Business					
<b>Year</b>										
1980	9.4	11.8	8.9	8.7	11.1	0.7	10.2	3.6	9.7	9.9
1981	9.8	11.6	9.4	7.9	7.6	4.8	11.6	5.2	10.6	9.3
1982	9.4	19.7	7.0	5.6	4.8	4.4	7.8	9.3	10.4	3.2
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	4.3	11.1	2.2	4.2	5.4	-1.6	-0.4	4.5	0.9	3.5
1992	5.1	10.9	3.2	5.6	7.0	1.2	0.0	5.2	1.3	5.7
1993	4.9	8.3	3.7	5.6	6.2	4.3	1.0	5.3	-0.7	4.6
1994	5.0	8.0	3.9	6.2	6.4	6.4	1.3	3.9	-0.4	4.9
<b>Quarter (seasonally adjusted annual rates)</b>										
1992:1	6.0	13.3	3.6	5.9	7.9	-0.2	0.7	5.1	5.3	6.2
2	4.9	12.3	2.4	3.9	4.8	-1.9	-0.4	6.9	-0.7	4.3
3	4.2	6.5	3.4	5.9	7.3	1.2	0.1	5.4	-2.1	5.3
4	5.0	10.0	3.2	6.4	7.2	5.7	-0.4	3.0	2.6	7.1
1993:1	4.4	8.9	2.8	5.4	5.9	3.4	-1.0	6.2	-1.1	4.3
2	5.9	10.9	4.2	5.5	6.5	3.7	2.0	6.3	1.6	4.0
3	3.3	2.6	3.6	5.4	5.8	4.4	1.4	3.8	-2.9	4.8
4	5.5	9.9	3.9	5.8	6.2	5.3	1.4	4.3	-0.6	5.4
1994:1	5.8	11.4	3.7	5.9	6.2	5.7	1.2	3.8	-0.1	5.4
2	4.7	7.0	3.9	6.1	6.3	6.3	1.1	4.0	0.2	4.9
3	3.8	3.5	3.9	6.0	6.2	6.3	1.3	3.6	-1.3	4.8
4	5.5	9.2	4.0	6.1	6.3	6.7	1.4	4.2	-0.4	4.7

1. Data after 1993:1 are staff projections. Year-to-year change in nominal GDP measured from the fourth quarter of the preceding year to the fourth quarter of the year indicated; other changes measured from end of preceding period to end of period indicated.
2. Deposit insurance outlays raised total debt growth roughly 0.4 percentage point in 1991; it had little effect on debt growth in 1992 and is not anticipated to affect debt growth significantly in 1993 or 1994. On a quarterly average basis, total debt growth is projected to be 4.8 in 1993 and 5.0 percent in 1994.

After rebounding in the second quarter, the quantity of merchandise exports is projected to grow at about a 6 percent annual rate over the next year and a half. This rate of growth is about 1/2 percentage point less than in the previous forecast, largely because of the recent appreciation of the dollar. Although growth in total agricultural exports is expected to resume this quarter, on balance it is likely to be slow over the remainder of the forecast period. Exports of computers are expected to grow at a rapid pace for the remainder of the forecast period, as economic activity abroad picks up.

**TRADE QUANTITIES\***  
(Percent change from preceding period shown, s.a.a r.)

	1992		1993			--- Projection --	
	Q3	Q4	Q1	Q2	Q3	Q4	1994 Q4
<b>Exports</b>							
Total	12.7	13.7	-6.6	8.9	6.0	5.6	6.2
Agricultural	58.7	-5.6	-20.3	-4.0	5.7	3.5	2.4
Computers	35.4	33.5	-2.8	18.4	17.5	23.4	27.6
Other nonag.	5.1	13.2	-5.4	9.1	4.1	3.8	2.7
<b>Imports</b>							
Total	15.5	6.8	12.4	8.0	4.1	9.5	8.5
Oil	13.2	-3.0	6.3	23.8	-22.5	8.3	7.4
Computers	81.2	19.0	32.8	27.6	19.8	26.3	24.7
Other non-oil	8.3	6.2	10.1	3.0	5.3	6.7	5.5

\* GDP basis, 1987 dollars.

Given the absence of special factors, the quantity of imports (excluding oil and computers) is expected to be driven by the projected expansion of U.S. domestic expenditures and the fairly high income elasticity of U.S. import demand. Imports of computers are expected to increase at about the same rapid pace in real terms as domestic expenditures on computers.

The quantity of oil imports is projected to decline in the current quarter, after heavy stockbuilding throughout the second

forecast. The increase in prices of U.S. nonagricultural exports (excluding computers) should keep pace with increases in U.S. producer prices.

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

	1992		1993			Projection	
	Q3	Q4	Q1	Q2	Q3	Q4	1994 Q4
PPI (exp. wts.)	3.1	-1.6	1.8	2.3	-0.1	2.8	2.0
Nonag. exports*	3.2	0.5	1.2	2.6	-0.1	2.2	1.8
Non-oil imports*	4.7	1.0	-2.3	3.1	0.7	1.6	1.9
Oil imports (level, \$/bl)	18.50	17.90	16.40	17.10	15.00	16.30	17.00

\* Excluding computers.

Nominal trade and current account balances. The merchandise trade deficit increased to an estimated \$126 billion at an annual rate in the second quarter. It is projected to fluctuate near that rate over the rest of 1993 and then to rise to \$150 billion by the end of 1994. We expect that net service receipts will continue to expand slowly from an annual rate of \$60 billion in the second quarter of 1993 to nearly \$70 billion by the end of 1994. Investment income receipts are expected to roughly offset investment income payments throughout the forecast period. The net effect on the current account of the above developments is a projected deterioration of about \$19 billion over the last three quarters of 1993 and another \$14 billion during 1994, to reach an annual rate of \$122 billion by the end of 1994; this is about a \$6 billion larger decline than presented in the June Greenbook.

August 11, 1993

STRICTLY CONFIDENTIAL - FR  
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REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1991-94  
 (Percent change from fourth quarter to fourth quarter)

Measure and country	1991	1992	Projection	
			1993	1994
<b>REAL GDP</b>				
Canada	-0.1	0.8	2.9	3.2
France	1.1	0.7	-0.4	2.4
Western Germany	2.0	0.4	-2.3	1.7
Italy	1.7	-0.2	0.7	1.8
Japan	3.0	0.0	1.3	2.7
United Kingdom	-1.7	0.2	2.0	2.3
Average, weighted by 1987-89 GDP	1.4	0.2	0.6	2.3
Average, weighted by share of U.S. nonagricultural exports				
Total foreign	1.6	1.2	2.1	3.1
G-6	0.7	0.5	1.7	2.7
Developing countries	4.9	3.9	4.3	4.6
<b>CONSUMER PRICES</b>				
Canada	4.1	1.8	1.7	1.5
France	2.9	1.8	2.5	1.9
Western Germany	3.9	3.7	3.6	2.4
Italy	6.1	4.8	4.7	4.7
Japan	3.2	0.9	1.4	1.2
United Kingdom	4.2	3.1	1.8	4.0
Average, weighted by 1987-89 GDP	3.9	2.4	2.4	2.4
Average, weighted by share of U.S. non-oil imports	3.8	1.9	2.0	1.8

Strictly Confidential (FR) Class II-FOMC

U.S. CURRENT ACCOUNT AND REAL NET EXPORTS

(Billions of dollars, seasonally adjusted annual rates)

	1990				1991				1992		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1989	1990	1991
GDP Net Exports of Goods and Services (87\$)	-58.4	-56.9	-59.3	-32.7	-17.9	-17.4	-31.6	-20.5	-21.5	-43.9	-73.7	-51.8	-21.8
Exports of G+S Merchandise Services	500.2	508.7	508.4	522.6	515.9	536.1	544.2	561.4	565.4	563.4	471.8	510.0	539.4
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	368.6	392.5
Services	136.7	140.0	141.7	147.3	138.5	146.1	149.0	154.0	157.3	155.4	128.0	141.4	146.9
Memo: (Percent change 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	11.5	7.3	7.8
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	10.6	5.9	8.6
Current Account Balance	-89.3	-83.1	-100.2	-94.7	37.6	7.1	-47.4	-30.6	-26.7	-73.0	-101.6	-91.9	-8.3
Merchandise Trade, net	-108.9	-99.0	-115.8	-112.4	-75.2	-65.3	-78.6	-76.2	-71.1	-99.2	-115.2	-109.0	-73.8
Exports	381.1	389.3	385.7	401.0	405.3	416.8	415.1	430.5	433.4	433.2	362.1	389.3	416.9
Agricultural	43.1	41.5	38.7	37.4	39.5	38.5	39.7	42.8	43.3	42.6	42.2	40.2	40.1
Nonagricultural	338.0	347.9	347.0	363.6	365.8	378.3	375.4	387.7	390.0	390.6	319.9	349.1	376.8
Imports	490.0	488.3	501.5	513.4	480.5	482.1	493.6	506.7	504.4	532.4	477.4	498.3	490.7
Oil	63.2	51.3	61.8	72.9	52.4	52.3	53.0	49.4	41.9	52.4	50.9	62.3	51.8
Non-oil	426.9	437.0	439.7	440.6	428.1	429.8	440.7	457.4	462.5	480.0	426.4	436.0	439.0
Other Current Account	0.9	-1.1	0.7	-13.2	89.7	60.7	24.6	34.8	26.6	22.6	-1.2	-3.2	52.5
Invest. Income, net	18.7	16.9	14.9	30.9	23.1	11.6	6.5	10.9	17.7	3.6	14.8	20.3	13.0
Direct, net	54.4	56.7	52.4	61.4	60.3	52.8	45.1	52.8	57.6	47.6	48.9	56.2	52.8
Portfolio, net	-35.7	-39.8	-37.5	-30.5	-37.2	-41.1	-38.6	-42.0	-39.9	-44.0	-34.0	-35.9	-39.7
Military, net	-7.6	-6.5	-6.3	-10.9	-10.1	-5.6	-4.7	-3.0	-2.3	-2.9	-6.7	-7.8	-5.9
Other Services, net	35.3	36.2	36.7	45.7	43.4	50.8	55.6	57.2	58.5	57.5	31.6	38.5	51.7
Transfers, net	-26.9	-30.7	-29.7	-48.0	56.4	15.5	-26.3	-19.4	-29.6	-32.0	-26.1	-33.8	6.6

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. 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\$)	-52.7	-49.0	-70.3	-69.9	-69.7	-76.5	-81.2	-89.0	-92.6	-94.8	-41.8	-71.6	-89.4			
Exports of G+S Merchandise Services	575.9	588.3	584.2	593.8	600.4	607.2	615.0	622.9	631.3	641.1	573.3	596.4	627.6			
Imports of G+S Merchandise	420.4	434.1	426.7	435.9	442.3	448.4	454.9	461.3	468.2	476.3	417.7	438.3	465.2			
Oil	155.5	154.2	157.5	157.8	158.0	158.7	160.1	161.5	163.0	164.7	155.6	158.0	162.3			
Non-oil Services	628.6	637.3	654.5	663.6	669.9	683.6	696.1	711.7	723.8	735.8	615.0	667.9	716.9			
Oil	526.4	535.1	551.0	561.7	567.4	580.4	592.2	607.0	618.4	629.9	514.3	565.1	611.9			
Non-oil	52.5	52.1	52.9	55.8	52.4	53.4	52.9	56.3	56.4	57.4	50.6	53.6	55.8			
Services	473.9	483.0	498.1	505.9	515.1	527.0	539.2	550.7	562.0	572.5	463.7	511.5	556.1			
Memo: (Percent change 1/)	102.2	102.2	103.5	102.0	102.6	103.3	104.0	104.8	105.4	106.0	100.7	102.8	105.1			
Exports of G+S of which: Goods	9.2	8.9	-2.8	6.7	4.5	4.6	5.2	5.2	5.5	6.4	4.9	3.3	5.6			
Imports of G+S of which: Non-oil Goods	12.7	13.7	-6.6	8.9	6.0	5.6	5.9	5.8	6.1	7.1	6.8	3.5	6.2			
Current Account Balance	14.8	5.7	11.2	5.7	3.9	8.4	7.5	9.3	6.9	6.8	9.7	7.3	7.6			
Merchandise Trade, net	15.8	7.9	13.1	6.4	7.5	9.6	9.6	8.8	8.5	7.7	10.9	9.1	8.6			
Exports Agricultural	438.0	456.0	446.5	456.4	458.6	462.4	468.6	474.2	479.7	486.0	440.1	456.0	477.1			
Nonagricultural	44.7	45.5	43.4	42.4	42.4	42.4	43.0	43.5	43.7	44.6	44.0	42.7	43.7			
Imports Oil	393.3	410.4	403.1	414.0	416.2	420.0	425.6	430.7	436.1	441.4	396.1	413.3	433.4			
Non-oil	548.4	559.8	562.8	582.8	578.0	590.4	602.9	616.0	626.2	636.4	536.3	578.5	620.4			
Other Current Account	57.2	54.9	51.0	56.0	46.5	51.2	53.1	56.4	56.5	57.4	51.6	51.2	55.8			
Invest. Income, net	491.2	505.0	511.8	526.8	531.5	539.2	549.8	559.7	569.7	578.9	484.7	527.3	564.5			
Direct, net	6.8	-3.2	1.1	-0.3	-1.6	-6.2	-2.1	-5.9	-1.8	-4.7	6.2	-1.7	-3.6			
Portfolio, net	47.1	40.8	46.5	46.5	42.5	42.1	43.3	43.0	44.0	45.0	48.3	44.4	43.8			
Military, net	-40.3	-44.0	-45.4	-46.9	-44.1	-48.2	-45.4	-49.0	-45.8	-49.8	-42.0	-46.1	-47.5			
Other Services, net	-2.5	-3.3	-1.5	-1.5	-1.5	-1.1	-0.6	-0.2	0.2	0.6	-2.8	-1.4	0.0			
Transfers, net	63.6	57.1	60.0	61.0	61.5	62.3	63.4	64.6	65.9	67.4	59.2	61.2	65.3			
Other	-28.6	-41.4	-32.3	-31.8	-31.8	-34.6	-31.8	-31.8	-31.8	-34.6	-32.9	-32.6	-32.5			

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

August 11, 1993

## **RECENT DEVELOPMENTS**

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

Production of motor vehicles slipped to a 9.7 million unit annual rate in July (lower right panel of chart) as carmakers closed out the 1993 model year with somewhat lower production than they scheduled a month ago. Dealers' inventories of new domestic autos, which had shrunk to an estimated 67 days' supply in June, remained comfortable in July, as sales moved back to about the same pace as production last month. Stocks of light trucks were toward the low end of the historical range. Assemblies of both autos and trucks are scheduled to be much higher in August and September than in July.

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

	1993					
	Apr.	May.	June	July	Aug.	Sep.
U.S. production					-- scheduled --	
Autos	11.1	10.7	10.2	9.7	11.7	11.2
Trucks	6.3	6.0	5.8	5.4	6.7	6.3
Days' supply <sup>2</sup>						
Autos	4.8	4.7	4.4	4.3	5.0	4.8
Light Trucks	72.9	71.5	66.8	68.0		
	71.4	70.0	66.5	67.2		

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

2. BEA seasonal basis, end of month.

#### Personal Income and Consumption

Real personal consumption expenditures picked up in the second quarter, increasing 3.8 percent at an annual rate. This increase followed almost no growth in the first quarter, when winter storms disrupted sales of motor vehicles and spending on consumer goods generally ebbed after the fourth-quarter surge. Cutting through these gyrations, real consumer spending grew moderately over the first half of the year, about in line with growth in real income.

Real expenditures on motor vehicles and parts posted a sizable gain in the first six months of the year, rising more than 9 percent at an annual rate. Although sales of new cars and light trucks

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

	Jun. 1992	Jun. 1993	Fiscal year to date			
			FY1992	FY1993	Dollar change	Percent change
<b>Outlays</b>	<b>117.1</b>	<b>117.5</b>	<b>1042.9</b>	<b>1059.5</b>	<b>16.6</b>	<b>1.6</b>
Deposit insurance (DI)	1.4	-2.0	9.3	-20.5	-29.9	n.m.
Defense Cooperation account (DCA)	.0	.0	-5.2	.0	5.2	n.m.
Outlays excluding DI and DCA	115.7	119.5	1038.8	1080.1	41.3	4.0
National defense	25.9	24.8	226.1	218.8	-7.3	-3.2
Net interest	15.5	15.5	149.9	148.8	-1.1	-.7
Social security	27.2	28.7	215.1	227.9	12.9	6.0
Medicare and health	18.9	21.3	153.8	170.0	16.2	10.5
Income security	13.5	13.8	149.9	159.7	9.8	6.5
Other	14.8	15.4	144.0	154.9	10.9	7.6
<b>Receipts</b>	<b>120.9</b>	<b>128.6</b>	<b>815.2</b>	<b>858.9</b>	<b>43.8</b>	<b>5.4</b>
Personal income and social insurance taxes	91.5	94.9	666.1	699.3	33.2	5.0
Corporate income taxes	20.8	24.9	76.0	88.4	12.4	16.3
Other	8.6	8.8	73.1	71.3	-1.8	-2.4
<b>Deficit(+) Excluding DI and DCA</b>	<b>-3.8</b>	<b>-11.1</b>	<b>227.8</b>	<b>200.6</b>	<b>-27.2</b>	<b>-11.9</b>
	<b>-5.2</b>	<b>-9.1</b>	<b>223.6</b>	<b>221.2</b>	<b>-2.4</b>	<b>-1.1</b>

Details may not add to totals due to rounding.  
 n.m. - not meaningful

Table 1  
BUDGET PROJECTIONS, BY FISCAL YEAR  
(Billions of dollars)

	1993	1994	1995	1996	1997	1998
Baseline deficit	285	300	286	291	340	379
LESS						
Spending reductions (net)	...	19	26	35	48	62
Revenue increases (net)	...	26	44	52	61	59
Debt service savings	...	2	6	12	18	27
Total	...	47	76	98	127	148
EQUALS						
Post-reconciliation deficit	285	253	210	193	213	231
<u>Memo</u>						
Congressional deficit estimate ...		255	227	204	201	213

entitlement programs, and \$66 billion from lower debt service costs (table 2).

With respect to discretionary (annually appropriated) spending, the reconciliation agreement reaffirms the caps specified by the 1990 budget act for fiscal 1994-95 and sets caps on spending for fiscal 1996-98. The new caps hold nominal spending at its fiscal 1993 level and imply an average decline in real spending of about 3 percent per year.<sup>3</sup>

Although the caps for the fiscal 1994-98 period apply to discretionary spending in total (separate caps for defense and other categories ended in fiscal 1993), with the actual programmatic changes to be worked out in yearly appropriations, defense is expected to account for virtually all of the savings. Notably, in *The Budget for Fiscal Year 1994*, President Clinton proposed to hold nondefense discretionary spending about even in real terms over the next five years, whereas defense spending was slated to fall by fiscal 1998 to a level about 12 percent below that proposed by President Bush in 1992. Such a level of defense spending in fiscal 1998 would be about 20 percent below that needed to maintain 1993's real funding level.

The reconciliation agreement also includes \$88 billion in entitlement cuts over the five years, with around two-thirds of the reductions coming from Medicare. The savings in Medicare come primarily from restraints on payments to health care providers and, after 1995, from higher premiums for Supplementary Medical Insurance (SMI). The savings are expected to cumulate to \$56 billion over the next five years, but Medicare outlays still are expected to grow approximately 10 percent per year, on average, over the period.

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3. Because the nominal caps will be adjusted in future years for unanticipated changes in inflation, the agreement, in effect, establishes a path for real spending.

Table 2  
KEY SPENDING PROVISIONS, CHANGES FROM BASELINE, BY FISCAL YEAR  
(Billions of dollars)

	1994	1995	1996	1997	1998	Total
Total	-21	-32	-46	-67	-89	-256
Discretionary spending	-9	-15	-16	-26	-36	-102
Mandatory spending	-10	-11	-18	-22	-27	-88
Medicare	-2	-5	-12	-16	-20	-56
Medicaid	0	-1	-2	-2	-3	-8
Government retirement	0	-1	-3	-4	-4	-12
FCC spectrum auction	-2	-3	-2	-1	-1	-10
Student loans	-1	0	-1	-1	-1	-5
Expansion of EITC <sup>1</sup>	0	2	4	6	6	19
Debt service	-2	-6	-12	-18	-27	-66

1. Earned income tax credit. Outlay effect only; also entails a five-year revenue loss of \$2 billion.

Other significant savings are estimated to come from reductions in Medicaid, changes in federal retirement policies (mainly by eliminating the "lump-sum" retirement option), the introduction of competitive bidding for the use of the telecommunications spectrum (the proceeds are treated as an offset to outlays), and reform of the student loan program. The student loan reforms will phase in the replacement of guaranteed student loans by direct government loans (until they account for half of new lending) and impose fees on banks and other institutions.

The agreement contains a substantial expansion of the earned income tax credit (EITC), which has been touted by the President as a first step in the reform of assistance to low-income families. The agreement also increases funding for food stamps and a variety of child welfare and health programs.

#### Revenue Provisions

According to congressional estimates, the changes to the tax laws are estimated to narrow the deficit, on net, \$26 billion in fiscal 1994 and a cumulative \$241 billion over the five years (table 3). The distribution of tax burdens also shifts appreciably: Upper-income individuals and businesses generally will face higher liabilities, while most middle- and low-income individuals will see little change in their overall tax payments.<sup>4</sup> In addition to new initiatives, the package extends several expiring provisions, but the extensions have only a small effect on the deficit.

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4. According to the JCT, taxpayers earning \$200,000 or more will see an increase in their total tax liabilities equal to 5.4 percent of their incomes while those earning less than \$10,000 will see a decrease equal to 1.3 percent of income. Tax burdens of other groups are estimated to change by less than 1 percent of income. These calculations include the change to the outlay portion of the EITC.

Table 3  
KEY REVENUE PROVISIONS. CHANGES FROM BASELINE, BY FISCAL YEAR  
(Billions of dollars)

	1994	1995	1996	1997	1998	Total
Total	26	44	52	61	59	241
Provisions affecting individuals						
Upper-income tax rates	15	23	26	25	26	115
Tax up to 85 percent of social security benefits	2	5	5	6	7	25
Repeal of Medicare wage cap	3	6	6	7	7	29
Provisions affecting businesses						
Higher tax rate on large corporations	4	3	3	3	3	16
Smaller deduction for meals, entertainment	2	3	3	3	4	15
Estimated tax rules	2	0	0	4	1	8
Transportation fuels tax						
Increase, 4.3 cents per gallon	4	4	5	5	5	23
Extension of existing tax	0	0	3	3	3	8
Investment incentives						
Small business expensing	-2	-1	-1	0	0	-5
Extension of R&E credit	-2	-1	-1	0	0	-5
Empowerment zones <sup>1</sup>	0	0	-1	-1	-1	-2

1. Revenue effect only; also adds \$1 billion to outlays over five years.

Upper-income individuals will pay higher income and social insurance taxes. The increase in income taxes is accomplished through (1) the addition of a fourth (36 percent) bracket for taxable incomes of more than \$140,000 (joint returns) and \$115,000 (single returns), (2) the imposition of a 10 percent surtax on the portion of taxable income that exceeds \$250,000 (on both joint and single returns), (3) the permanent extension of provisions that limit the itemized deductions and phase out the personal exemptions claimed by high-income taxpayers, and (4) adjustments to the provisions concerning the alternative minimum tax.<sup>5</sup> These provisions change liabilities for 1993, but affected taxpayers will be able to pay this year's additional taxes in installments over the 1994-96 period. Moreover, beginning in 1994, the wage-base cap on Medicare taxes (currently \$135,000) will be repealed. (Upper-income persons also will be affected by new limits on contributions to 401(k) and other

5. According to staff estimates, these changes are likely to affect only about 10 percent of individual returns reporting business income. Partnerships and Subchapter-S corporations account for about one-third of individually reported business income, and almost all of their income is reported on affected returns. The remaining two-thirds of individually reported business income is earned by sole proprietors; roughly one-fifth of sole-proprietorship income is on affected returns.

lowering of guaranteed rates earlier this year has slowed savings bond growth, and state and local government series bonds (SLGS) have been running off as municipalities have increasingly invested the proceeds of advance refunding operations in eligible, higher-yielding instruments. The recently passed budget bill included a permanent increase in the debt ceiling to \$4.9 trillion, thereby avoiding possible disruptions at the end of September when the temporary debt ceiling of \$4.4 trillion was due to expire. At the end of July, debt subject to the limit totaled \$4.3 trillion.

TREASURY FINANCING<sup>1</sup>  
(Total for period: billions of dollars)

	1993				
	Q2	Q3 <sup>P</sup>	July <sup>e</sup>	Aug. <sup>P</sup>	Sept.
<u>Treasury financing</u>					
Total surplus/deficit (-)	-17.8	-63.1	-42.0	-30.5	9.3
Means of financing deficit:					
Net cash borrowing from the public	61.1	47.9	1.2	50.0	-3.3
Marketable borrowings/ repayments (-)	53.6	50.0	5.2	48.7	-3.9
Bills	-.6	8.3	11.9	6.1	-9.7
Coupons	54.3	41.7	-6.7	42.6	5.8
Nonmarketable	7.4	-2.1	-4.0	1.3	.6
Decrease in the cash balance	-39.0	12.9	32.4	-8.9	-10.7
Memo: Cash balance at end of period	60.6	47.7	28.1	37.1	47.7
<sup>2</sup> Other	-4.2	2.4	8.4	-10.6	4.6

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1. Data reported on a not seasonally adjusted, payment basis.
  2. Includes checks issued less checks paid, accrued items and other transactions.
- e--estimated.  
p--projected.  
Note: Details may not add to totals due to rounding.

CONFIDENTIAL (FR)  
CLASS III - FOMC

August 13, 1993

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

August 13, 1993

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

	1992 Dec	1993 Jan	1993 Feb	1993 Mar	1993 Apr	1993 May	1993 Jun	1993 Jul	1993 Aug (p)
<b>Indexes of consumer sentiment (Feb. 1966=100)</b>									
Composite of current and expected conditions	91.0	89.3	86.6	85.9	85.6	80.3	81.5	77.0	75.4
Current conditions	93.4	98.6	96.0	101.6	99.9	98.7	98.7	96.2	92.5
Expected conditions	89.5	83.4	80.6	75.8	76.4	68.5	70.4	64.7	64.5
<hr/>									
<b>Personal financial situation</b>									
Now compared with 12 months ago*	99	110	100	111	104	103	108	102	90
Expected in 12 months*	131	127	125	119	120	115	117	112	116
<hr/>									
<b>Expected business conditions</b>									
Next 12 months*	126	111	103	96	95	83	89	80	69
Next 5 years*	103	97	95	88	91	76	75	66	72
<hr/>									
<b>Appraisal of buying conditions</b>									
Cars	145	134	132	136	137	140	140	141	134
Large household appliances*	142	145	148	152	155	152	147	147	149
Houses	162	166	158	173	167	163	166	171	165
<hr/>									
Willingness to use credit	39	37	40	46	43	41	35	42	35
Willingness to use savings	59	64	52	74	64	73	53	65	55
<hr/>									
Expected unemployment change - next 12 months	99	98	110	117	115	125	127	130	133
<hr/>									
Expected inflation - next 12 months	3.3	3.5	4.6	4.9	4.1	4.4	4.8	4.4	5.3
Expected inflation - next 5 to 10 years	5.2	4.8	5.9	4.9	4.8	5.7	5.2	5.0	4.8

\* -- 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. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall.

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

	1991	1992	USDA Projection for 1993		
			May 11	July 12	Aug. 11
billions of bushels					
1. Corn	7.48	9.48	8.50	7.85	7.42
2. Soybeans	1.99	2.20	2.05	1.98	1.90
3. Wheat	1.98	2.46	2.52	2.60	2.55
4. Sorghum	.59	.88	.66	.67	.64
5. Oats	.24	.30	.25	.26	.25
6. Barley	.46	.46	.41	.46	.47
billions of hundredweight					
7. Rice	16	18	17	17	17
billions of pounds					
8. Peanuts	4.93	4.28	n.a.	n.a.	3.91
9. Tobacco	1.66	1.72	n.a.	n.a.	1.55
millions of bales					
10. Cotton	17.61	16.22	17.50	17.80	18.55
millions of tons					
11. Sugar beets	28.20	28.93	n.a.	n.a.	28.05
12. Sugar cane	30.25	30.36	n.a.	n.a.	30.85
billions of 1987 dollars					
13. Value, 12 crops <sup>2</sup>	41.18	47.05	44.31	43.30	42.18

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

2. Calculated by the staff from USDA data.

CORN AND SOYBEAN PRODUCTION, SELECTED STATES  
(Billions of bushels)

	1990	1991	1992	USDA Forecast For 1993
<b>Corn:</b>				
Iowa	1.56	1.43	1.90	1.25
Illinois	1.32	1.18	1.65	1.40
Nebraska	.93	.99	1.07	.95
Indiana	.70	.51	.88	.76
Minnesota	.76	.72	.74	.46
Ohio	.42	.33	.51	.40
Wisconsin	.35	.38	.31	.27
Michigan	.24	.25	.24	.24
South Dakota	.23	.24	.28	.18
Missouri	.21	.21	.32	.20
Total, 10 states	6.72	6.24	7.90	6.11
Total, U.S.	7.93	7.48	9.48	7.42
 <b>Soybeans:</b>				
Illinois	.35	.34	.41	.37
Iowa	.33	.35	.36	.28
Minnesota	.18	.20	.17	.14
Indiana	.17	.17	.19	.22
Ohio	.14	.14	.15	.17
Missouri	.12	.14	.16	.12
Arkansas	.09	.09	.10	.09
Nebraska	.08	.08	.10	.09
South Dakota	.05	.06	.06	.04
Kansas	.05	.04	.07	.05
Mississippi	.04	.05	.06	.05
Michigan	.04	.05	.05	.05
Total, 12 states	1.64	1.71	1.88	1.67
Total, U.S.	1.93	1.99	2.20	1.90