

Strictly Confidential (FR) Class II FOMC

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May 8, 1991

## **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

The present forecast indicates less second-quarter growth in real consumer spending--both motor vehicles and other goods and services--than did the March projection. Real disposable income was much weaker than expected through March, and the April employment report suggests only marginal gains early in the current quarter. With the personal saving rate considerably lower in the first quarter than we previously anticipated, there seems to be less potential for a surge in spending; in a sense, the higher first-quarter spending "borrowed" from the second quarter. Thus, spending on consumer goods (excluding motor vehicles) is projected to fall further this period, while the pickup in the growth of the consumption of services reflects only a bounceback in energy use from an unusually low level in the first quarter.

**STAFF PROJECTIONS**  
 (Percent change from end of preceding comparable period;  
 annual rate)

	1991			1992	
	Q1	Q2	H2	H1	H2
Real GNP (previous)	-2.8 -2.4	-.2 1.9	4.0 3.9	3.3 3.0	2.7 2.6
Real PCE (previous)	-1.4 -3.5	1.5 3.6	2.6 2.8	2.8 2.6	2.6 2.5
Real disposable personal income (previous)	-1.6 1.4	1.8 3.3	2.0 2.0	3.0 2.4	2.6 2.3

Households do appear to be stepping up their purchases of homes; surveys and other anecdotal reports suggest an improvement in activity beyond that captured by the March statistics. Actual construction will turn around only with a lag, but the much smaller decline in real spending on

3 percent annual pace by the end of 1992, as prices continue to adjust to the slowdown in labor costs.

**STAFF INFLATION PROJECTIONS**  
**(Percent change from end of preceding comparable period;**  
**annual rate)**

	1991				1992	
	Q1	Q2	Q3	Q4	H1	H2
Consumer price index (previous)	3.6 3.7	2.7 2.7	4.0 4.2	3.6 4.0	3.7 4.0	3.1 3.5
CPI ex. food and energy (previous)	6.8 7.0	3.7 3.9	3.9 4.2	3.9 4.1	3.8 4.1	3.1 3.5
ECI hourly compensation (previous)	4.6 4.4	4.1 4.2	3.6 3.8	3.5 3.7	3.4 3.9	3.3 3.6
Civilian unemployment rate (previous)	6.5 6.5	6.8 6.8	6.8 6.5	6.6 6.3	6.3 6.2	6.2 6.0

Key assumptions. The System's recent easing action has pushed the federal funds rate 25 basis points lower than anticipated in the March projection; the current projection assumes that the funds rate remains near 5-3/4 percent through 1992. Long-term rates may come under some upward pressure in coming months as the economy strengthens, but following a pattern observed in some other recoveries, we have projected that bond yields will be below current levels in 1992 as the expansion moderates and disinflationary trends are recognized fully. Credit availability problems are assumed to ease gradually as the recovery progresses and asset quality consequently improves.

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## STAFF GNP PROJECTIONS

Percent changes, annual rate

	Nominal GNP		Real GNP		GNP fixed-weight price index		Consumer Price Index <1>		Unemployment rate (percent)	
	3/20/91	5/8/91	3/20/91	5/8/91	3/20/91	5/8/91	3/20/91	5/8/91	3/20/91	5/8/91
<b>Annual changes:</b>										
1988	<2>	7.9	7.9	4.5	4.5	4.2	4.2	4.1	4.1	5.5
1989	<2>	6.7	6.7	2.5	2.5	4.5	4.5	4.8	4.8	5.3
1990	<2>	5.1	5.1	.9	1.0	4.6	4.6	5.4	5.4	5.5
1991		4.1	3.7	.3	-.1	4.1	4.2	4.6	4.5	6.5
1992		6.5	6.4	3.1	3.2	3.6	3.4	3.9	3.5	6.1
<b>Quarterly changes:</b>										
1989	Q1	<2>	7.5	7.5	3.6	3.6	4.9	4.9	5.1	5.1
	Q2	<2>	5.8	5.8	1.6	1.6	4.6	4.6	6.0	6.0
	Q3	<2>	5.1	5.1	1.7	1.7	3.1	3.1	3.3	3.3
	Q4	<2>	3.9	3.9	.3	.3	3.8	3.8	3.9	3.9
1990	Q1	<2>	6.7	6.7	1.7	1.7	6.6	6.6	7.5	7.5
	Q2	<2>	5.1	5.1	.4	.4	3.9	3.9	3.8	3.8
	Q3	<2>	5.3	5.3	1.4	1.4	4.2	4.2	7.0	7.0
	Q4	<2>	.5	.9	-2.0	-1.6	4.7	4.7	6.9	6.9
1991	Q1	<2>	2.1	2.6	-2.4	-2.8	4.7	5.1	3.7	3.6
	Q2		5.7	3.0	1.9	-.2	3.5	3.1	2.7	2.7
	Q3		7.6	7.5	3.9	4.1	3.7	3.5	4.2	4.0
	Q4		7.2	7.4	3.8	4.0	3.5	3.5	4.0	3.6
1992	Q1		6.7	7.2	3.0	3.5	4.0	4.0	4.2	3.8
	Q2		6.0	6.0	2.9	3.1	3.4	3.3	3.8	3.5
	Q3		5.6	5.4	2.6	2.8	3.3	3.0	3.5	3.1
	Q4		5.5	5.1	2.6	2.6	3.2	2.9	3.5	3.1
<b>Two-quarter changes: &lt;3&gt;</b>										
1989	Q2	<2>	6.7	6.7	2.6	2.6	4.7	4.7	5.5	5.6
	Q4	<2>	4.5	4.5	1.0	1.0	3.4	3.4	3.6	3.6
1990	Q2	<2>	5.9	5.9	1.1	1.1	5.3	5.3	5.6	5.6
	Q4	<2>	2.9	3.1	-.3	-.1	4.4	4.4	6.9	6.9
1991	Q2		3.9	2.8	-.2	-1.5	4.1	4.2	3.2	3.1
	Q4		7.4	7.4	3.9	4.0	3.6	3.5	4.1	3.8
1992	Q2		6.3	6.6	3.0	3.3	3.7	3.6	4.0	3.7
	Q4		5.6	5.3	2.6	2.7	3.2	3.0	3.5	3.1
<b>Four-quarter changes: &lt;4&gt;</b>										
1988	Q4	<2>	7.8	7.8	3.5	3.5	4.6	4.6	4.3	4.3
1989	Q4	<2>	5.6	5.6	1.8	1.8	4.0	4.0	4.6	4.6
1990	Q4	<2>	4.4	4.5	.4	.5	4.8	4.8	6.3	6.3
	Q4		5.6	5.1	1.8	1.2	3.9	3.8	3.7	3.5
	Q4		5.9	5.9	2.8	3.0	3.5	3.3	3.7	3.4

For all urban consumers.

&lt;2&gt; Actual.

&lt;3&gt; Percent change from two quarters earlier.

&lt;4&gt; Percent change from four quarters earlier.

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GROSS NATIONAL PRODUCT AND RELATED ITEMS  
(Seasonally adjusted; annual rate)

	Units	1984	1985	1986	1987	1988	1989	1990	1991	Projection
<b>EXPENDITURES</b>										
Nominal GNP	Billions of \$	3772.2	4014.9	4231.6	4515.6	4873.7	5200.8	5465.1	5669.3	6032.5
Real GNP	Billions of 82\$	3501.4	3618.7	3717.9	3845.3	4016.9	4117.7	4157.3	4153.2	4285.9
Real GNP	Percent change*	5.1	3.6	1.9	5.0	3.5	1.8	.5	1.2	3.0
Gross domestic purchases		6.4	4.3	2.1	4.2	2.6	1.1	-.5	.9	3.0
Final sales		4.7	4.6	2.7	3.1	4.5	1.7	1.6	.3	2.5
Private dom. final purchases		5.6	4.6	2.9	2.5	4.0	1.2	-.1	.1	3.4
Personal consumption expend.		4.1	4.6	3.8	2.3	4.1	1.2	.1	1.3	2.7
Durables		10.8	7.0	11.5	-1.2	9.3	-1.4	-1.8	1.8	3.4
Nondurables		2.3	3.3	2.9	1.3	2.4	.6	-2.4	-1.1	1.9
Services		3.5	5.0	2.1	4.1	3.7	2.4	2.5	2.7	3.0
Business fixed investment		13.8	3.7	-5.5	6.1	5.3	4.5	2.2	-4.9	5.1
Producers' durable equipment		14.9	4.6	.4	8.2	8.2	5.4	4.6	-3.7	7.8
Nonresidential structures		11.8	1.9	-17.7	.8	-2.7	1.7	-5.4	-9.4	-4.8
Residential structures		6.1	5.8	11.6	-2.2	-.1	-7.1	-10.2	-3.1	9.7
Exports		5.9	-2.4	10.6	19.8	14.0	10.1	5.8	4.3	7.4
Imports		17.4	4.5	10.0	10.4	5.5	4.5	-.5	2.3	7.5
Government purchases		7.9	8.6	3.1	2.0	1.1	.3	3.8	-.6	-.9
Federal		13.0	13.3	.5	1.5	-1.6	-2.8	5.2	-1.0	-4.2
Defense		6.5	7.1	6.0	4.0	-1.8	-2.1	4.0	-3.8	-7.2
State and local		4.4	4.9	5.2	2.3	3.1	2.6	2.7	-.3	1.5
Change in business inventories	Billions of 82\$	62.3	9.1	5.6	22.8	23.6	23.8	-3.6	-11.6	29.2
Nonfarm	Billions of 82\$	57.8	13.4	8.0	28.7	26.5	18.7	-5.1	-15.0	25.4
Net exports	Billions of 82\$	-84.0	-104.3	-129.7	-118.5	-75.9	-54.1	-33.8	3.1	2.6
Nominal GNP	Percent change*	8.6	6.6	4.6	8.2	7.8	5.6	4.5	5.1	5.9
<b>EMPLOYMENT AND PRODUCTION</b>										
Nonfarm payroll employment	Millions	94.5	97.5	99.5	102.2	105.5	108.4	110.3	109.5	111.2
Unemployment rate	Percent	7.5	7.2	7.0	6.2	5.5	5.3	5.5	6.7	6.3
Industrial production index	Percent change*	4.7	1.9	1.4	6.5	4.5	1.1	.3	-.3	4.6
Capacity utilization rate-mfg.	Percent	80.4	79.5	79.0	81.4	83.9	83.9	82.3	77.7	78.8
Housing starts	Millions	1.77	1.74	1.81	1.62	1.49	1.38	1.19	1.01	1.15
Auto sales	Millions	10.35	11.03	11.44	10.23	10.65	9.89	9.51	8.70	9.48
Domestic	Millions	7.92	8.22	8.22	7.06	7.55	7.06	6.90	6.28	6.85
Foreign	Millions	2.43	2.82	3.22	3.18	3.10	2.83	2.60	2.42	2.63
<b>INCOME AND SAVING</b>										
Nominal personal income	Percent change*	8.4	6.6	5.8	8.1	7.6	6.8	5.6	4.4	6.6
Real disposable income	Percent change*	4.3	2.7	3.3	2.7	4.3	1.7	-.4	1.0	2.8
Personal saving rate	Percent	6.1	4.4	4.1	2.9	4.2	4.6	4.6	4.0	4.1
Corp. profits with IVA & CCAdj	Percent change*	7.4	9.2	-5.6	17.4	8.2	-16.8	-.7	13.0	6.6
Profit share of GNP	Percent	7.1	7.0	6.7	6.8	6.9	6.0	5.5	5.3	5.7
Federal govt. surplus/deficit	Billions of \$	-169.6	-196.9	-206.9	-158.2	-141.7	-134.3	-166.0	-143.9	-161.9
State and local govt. surplus		64.6	65.1	62.8	51.0	46.5	46.4	35.4	37.2	69.3
Exc. social insurance funds		19.8	13.8	5.6	-8.3	-16.4	-19.9	-34.0	-35.3	-6.7
<b>PRICES AND COSTS</b>										
GNP implicit deflator	Percent change*	3.4	2.9	2.6	3.0	4.1	3.7	4.0	3.8	2.9
GNP fixed-weight price index		3.7	3.3	2.6	3.8	4.6	4.0	4.8	3.8	3.3
Cons. & fixed invest. prices		3.3	3.4	2.5	4.5	4.3	4.3	5.3	3.3	3.2
CPI		4.2	3.5	1.3	4.5	4.3	4.6	6.3	3.5	3.4
Exc. food and energy		5.0	4.3	3.9	4.3	4.5	4.3	5.3	4.6	3.5
ECI hourly compensation		4.9	3.9	3.2	3.8	4.8	4.8	4.6	3.9	3.3
Nonfarm business sector		1.5	1.6	1.3	2.3	1.8	-1.6	-.3	1.9	1.6
Output per hour		4.1	4.6	4.9	3.7	4.2	2.2	4.4	4.0	3.4
Compensation per hour		2.6	3.0	3.6	1.4	2.3	3.9	4.7	2.1	1.7

\* Percent changes are from fourth quarter to fourth quarter.

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CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS  
(Seasonally adjusted; annual rate)

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	Units	1988				1989				1990	
		Q1		Q2		Q3		Q4		Q1	
<b>EXPENDITURES</b>											
Nominal GNP	Billions of \$	4735.8	4831.4	4917.9	5009.8	5101.3	5174.0	5238.6	5289.3	5375.4	5443.3
Real GNP	Billions of 82\$	3970.2	4005.8	4032.1	4059.3	4095.7	4112.2	4129.7	4133.2	4150.6	4155.1
Real GNP	Percent Change	5.1	3.6	2.7	2.7	3.6	1.6	1.7	.3	1.7	.4
Gross domestic purchases		1.6	3.0	3.2	2.4	1.2	1.8	2.8	-1.2	.5	1.3
Final sales		7.1	5.1	1.1	4.6	2.4	1.7	1.8	.9	3.8	-.7
Private dom. final purchases		6.7	4.8	3.0	1.7	.8	1.4	4.1	-1.5	2.4	-1.2
Personal consumption expend.		6.9	2.7	3.5	3.5	-.3	1.3	4.6	-.8	1.1	.2
Durables		21.8	3.7	-1.1	14.1	-6.0	5.6	9.6	-13.0	14.4	-9.5
Nondurables		2.6	2.0	4.1	1.2	.6	-1.7	3.9	-.2	-3.2	-1.9
Services		5.6	2.9	4.5	1.9	.9	2.1	3.5	3.1	.1	5.1
Business fixed investment		11.4	15.7	1.6	-6.3	8.9	6.9	6.3	-3.8	5.0	-4.7
Producers' durable equipment		20.3	17.9	2.2	-5.5	9.5	12.2	6.1	-5.2	5.7	-3.3
Nonresidential structures		-10.5	9.9	-.3	-8.7	7.5	-8.2	7.1	1.3	2.3	-9.0
Residential structures		-6.8	6.8	.4	-.4	-3.6	-11.3	-7.6	-5.5	15.1	-11.2
Exports		31.7	4.4	5.4	16.7	15.8	12.4	-.5	13.5	11.2	-5.0
Imports		.5	.3	9.2	12.4	-2.3	12.8	6.4	1.7	2.5	.7
Government purchases		-9.2	3.3	-3.8	15.7	-3.3	4.0	-2.4	3.0	2.9	6.2
Federal		-24.1	3.5	-10.4	33.6	-9.1	7.0	-7.9	-.4	.4	16.4
Defense		-5.6	-1.4	-5.0	4.9	-10.9	3.2	7.2	-7.0	-1.7	3.3
State and local		3.9	3.2	1.2	4.3	1.3	1.8	1.8	5.6	4.8	-.6
Change in business inventories	Billions of 82\$	31.0	16.9	32.6	14.0	26.1	25.5	24.6	18.9	-2.2	9.5
Nonfarm	Billions of 82\$	28.8	19.2	31.0	27.2	16.4	21.5	21.7	15.3	-8.2	11.6
Net exports	Billions of 82\$	-77.3	-72.2	-78.5	-75.7	-51.1	-53.3	-64.1	-47.9	-35.4	-44.6
Nominal GNP	Percent change	7.8	8.3	7.4	7.7	7.5	5.8	5.1	3.9	6.7	5.1
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	104.3	105.1	105.9	106.8	107.6	108.2	108.7	109.2	109.9	110.5
Unemployment rate	Percent*	5.7	5.5	5.5	5.3	5.2	5.3	5.3	5.3	5.3	5.3
Industrial production index	Percent change	5.0	4.2	5.9	2.8	2.7	2.8	-1.2	.2	.6	4.2
Capacity utilization rate-mfg.	Percent*	83.1	83.6	84.3	84.6	84.7	84.5	83.7	82.9	82.7	82.8
Housing starts	Millions	1.43	1.49	1.48	1.55	1.46	1.36	1.35	1.35	1.43	1.20
Auto sales	Millions	10.91	10.67	10.15	10.88	10.03	10.26	10.20	9.09	10.01	9.53
Domestic	Millions	7.60	7.50	7.20	7.89	7.08	7.26	7.36	6.56	7.11	6.78
Foreign	Millions	3.30	3.17	2.95	2.99	2.95	3.00	2.84	2.53	2.90	2.75
<b>INCOME AND SAVING</b>											
Nominal personal income	Percent change	6.4	8.6	8.1	7.4	11.6	5.8	3.7	6.2	8.6	5.3
Real disposable income	Percent change	7.3	2.7	4.9	2.3	4.2	-1.2	2.7	1.2	2.5	.3
Personal saving rate	Percent*	4.0	4.1	4.5	4.1	5.2	4.6	4.1	4.6	4.9	5.0
Corp. profits with IVA & CCAdj	Percent change	9.5	6.6	-1.7	19.5	-23.2	-7.0	-17.1	-19.1	8.4	13.9
Profit share of GNP	Percent*	7.0	7.0	6.8	7.0	6.4	6.2	5.9	5.5	5.5	5.6
Federal govt. surplus/deficit	Billions of \$	-153.7	-136.9	-120.1	-156.3	-132.6	-122.7	-131.7	-150.1	-168.3	-166.0
State and local govt. surplus	Billions of \$	45.5	48.3	46.8	45.2	48.9	50.3	48.1	38.5	38.1	38.6
Exc. social insurance funds		-15.6	-14.1	-17.0	-19.0	-16.2	-15.6	-18.7	-29.1	-30.2	-30.4
<b>PRICES AND COSTS</b>											
GNP implicit deflator	Percent change	2.7	4.4	4.7	4.7	3.9	3.9	3.2	3.8	4.8	4.7
GNP fixed-weight price index		3.9	4.7	5.5	4.4	4.9	4.6	3.1	3.8	6.6	3.9
Cons. & fixed invest. prices		2.9	4.9	4.5	5.0	5.0	5.3	2.3	4.6	6.8	2.6
CPI		3.2	4.5	5.2	4.4	5.1	6.0	3.3	3.9	7.5	3.8
Exc. food and energy		4.1	4.7	4.6	4.6	4.9	4.2	3.8	4.7	5.9	4.9
ECI hourly compensation**		5.2	5.2	3.8	5.1	4.2	4.9	5.3	4.4	5.6	5.1
Nonfarm business sector		4.7	-.5	2.8	.2	-2.7	-.3	-1.0	-2.5	-1.3	.3
Output per hour		2.4	5.1	5.3	3.8	3.3	1.7	1.6	2.3	3.9	5.0
Compensation per hour		-2.2	5.7	2.5	3.6	6.1	2.0	2.6	5.0	5.3	4.7
Unit labor costs											

\* Not at an annual rate.

\*\* Private industry workers

May 8, 1991

CONFIDENTIAL - FR  
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS  
(Seasonally adjusted; annual rate)

	Units	Projection									
		1990				1991				1992	
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>EXPENDITURES</b>											
Nominal GNP	Billions of \$	5514.6	5527.3	5562.3	5603.2	5704.8	5807.0	5908.5	5995.5	6075.1	6151.0
Real GNP	Billions of 82\$	4170.0	4153.4	4123.9	4121.8	4163.0	4204.0	4240.1	4272.4	4301.9	4329.4
Real GNP	Percent Change	1.4	-1.6	-2.8	-.2	4.1	4.0	3.5	3.1	2.8	2.6
Gross domestic purchases		1.6	-5.1	-3.8	-.2	3.9	4.1	3.6	3.1	2.8	2.5
Final sales		1.9	1.4	-3.3	.6	2.1	1.9	2.3	2.6	2.6	2.6
Private dom. final purchases		2.3	-3.8	-4.8	-.1	2.8	2.9	3.3	3.5	3.5	3.3
Personal consumption expend.		2.7	-3.4	-1.4	1.5	2.7	2.5	2.8	2.8	2.7	2.6
Durables		2.6	-12.3	-10.8	6.0	8.2	5.0	4.3	3.3	3.2	2.9
Nondurables		2.3	-6.5	-2.9	-2.6	.4	.9	1.8	2.1	2.0	1.9
Services		3.0	1.8	.2.6	3.0	2.6	2.7	3.0	3.1	3.0	2.9
Business fixed investment		8.9	.1	-14.4	-7.5	.6	2.6	4.3	5.2	5.5	5.3
Producers' durable equipment		10.2	6.3	-15.5	-6.7	3.5	5.5	7.5	8.0	8.0	7.5
Nonresidential structures		5.1	-18.2	-11.2	-10.2	-9.0	-7.2	-6.9	-5.1	-3.9	-3.4
Residential structures		-19.8	-20.6	-26.5	-4.1	12.5	11.2	9.5	9.7	9.8	9.6
Exports		6.9	11.0	-.4	3.6	6.1	8.0	7.4	7.3	7.1	8.0
Imports		7.6	-11.8	-6.9	3.5	4.9	8.6	8.1	7.2	7.2	7.4
Government purchases		1.2	4.7	-2.3	3.5	-1.9	-1.5	-1.1	-.9	-.7	-.8
Federal		.1	4.6	-3.5	9.4	-4.2	-4.8	-4.1	-4.2	-4.1	-4.4
Defense		2.7	12.1	-.8	1.7	-8.0	-7.7	-6.9	-7.1	-7.1	-7.5
State and local		2.0	4.9	-1.4	-.6	-.1	.9	1.1	1.5	1.7	1.8
Change in business inventories	Billions of 82\$	4.7	-26.4	-20.7	-29.0	-9.0	12.5	24.5	29.4	31.5	31.5
Nonfarm	Billions of 82\$	4.7	-28.5	-25.5	-31.4	-12.2	9.0	20.8	25.6	27.6	27.6
Net exports	Billions of 82\$	-46.5	-8.8	2.2	2.4	4.3	3.4	2.3	2.5	2.3	3.3
Nominal GNP	Percent change	5.3	.9	2.6	3.0	7.5	7.4	7.2	6.0	5.4	5.1
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	110.7	110.2	109.5	109.1	109.3	109.9	110.5	111.0	111.4	111.9
Unemployment rate	Percent*	5.6	5.9	6.5	6.8	6.8	6.6	6.4	6.3	6.3	6.2
Industrial production index	Percent change	3.9	-7.0	-9.3	-1.6	5.3	5.3	5.1	4.9	4.3	4.2
Capacity utilization rate-mfg.	Percent*	82.9	80.8	78.1	77.1	77.6	78.0	78.3	78.7	78.9	79.1
Housing starts	Millions	1.13	1.04	.91	1.01	1.06	1.08	1.12	1.14	1.17	1.20
Auto sales	Millions	9.68	8.97	8.23	8.32	8.97	9.25	9.40	9.45	9.50	9.55
Domestic	Millions	7.21	6.59	6.00	5.93	6.48	6.70	6.80	6.83	6.86	6.90
Foreign	Millions	2.47	2.38	2.23	2.39	2.48	2.55	2.60	2.62	2.64	2.65
<b>INCOME AND SAVING</b>											
Nominal personal income	Percent change	5.0	3.5	1.4	4.5	5.4	6.5	8.1	5.9	5.9	6.3
Real disposable income	Percent change	-.7	-3.5	-1.6	1.8	1.3	2.6	3.8	2.1	2.4	2.7
Personal saving rate	Percent*	4.2	4.2	4.1	4.2	3.9	3.9	4.2	4.0	4.0	4.0
Corp. profits with IVA & CCAdj	Percent change	-7.5	-14.8	-6.4	-7.9	41.2	34.1	18.6	7.3	-.9	2.5
Profit share of GNP	Percent*	5.5	5.2	5.1	5.0	5.3	5.6	5.8	5.7	5.7	5.7
Federal govt. surplus/deficit	Billions of \$	-145.7	-184.3	-97.4	-164.7	-162.8	-150.6	-174.9	-162.7	-154.0	-156.0
State and local govt. surplus		39.3	25.7	24.0	29.8	42.3	52.7	60.8	66.9	72.7	76.9
Exc. social insurance funds		-30.5	-44.8	-47.1	-42.2	-30.6	-21.1	-13.9	-8.7	-3.8	-.5
<b>PRICES AND COSTS</b>											
GNP implicit deflator	Percent change	3.7	2.8	5.5	3.1	3.3	3.2	3.6	2.9	2.6	2.4
GNP fixed-weight price index		4.2	4.7	5.1	3.1	3.5	3.5	4.0	3.3	3.0	2.9
Cons. & fixed invest. prices		5.4	6.4	3.1	2.8	3.8	3.4	3.4	3.3	3.1	3.0
CPI		7.0	6.9	3.6	2.7	4.0	3.6	3.8	3.5	3.1	3.1
Exc. food and energy		6.1	4.2	6.8	3.7	3.9	3.9	4.0	3.5	3.1	3.1
ECI hourly compensation**		4.3	3.8	4.6	4.1	3.6	3.5	3.4	3.3	3.3	3.2
farm business sector		.6	-.7	1.0	1.8	2.2	2.4	1.8	1.8	1.6	1.3
Input per hour		4.7	3.9	4.0	4.4	3.9	3.6	3.9	3.3	3.2	3.2
Compensation per hour		4.1	4.7	3.0	2.6	1.7	1.2	2.1	1.5	1.6	1.9

\* Not at an annual rate.

\*\* Private industry workers

May 8, 1991

GROSS NATIONAL PRODUCT AND RELATED ITEMS  
(Net changes, billions of 1982 dollars)

	1988										1987							
	1988					1989					1987	1988	1989	1990				
	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4	Q1	Q2		(fourth quarter to fourth quarter, net change)					
Real GNP	49.5	35.6	26.3	27.2	36.4	16.5	17.5	3.5	17.4	4.5	187.1	138.6	73.9	20.2				
Gross domestic purchases	15.5	30.5	32.6	24.4	11.8	18.7	28.3	-12.7	4.9	13.7	163.0	103.0	46.1	-18.9				
Final sales	66.9	49.7	10.6	45.7	24.4	17.0	18.5	9.3	38.4	-7.2	117.9	172.9	69.2	65.4				
Private dom. final purchases	51.8	38.3	24.4	14.2	6.5	11.4	34.1	-12.9	20.2	-10.3	78.5	128.7	39.1	-3.8				
Personal consumption expend.	42.6	17.3	22.3	22.4	-2.1	8.6	30.0	-5.4	7.4	1.5	56.4	104.6	31.1	3.7				
Durables	19.8	3.8	-1.1	13.9	-6.6	5.8	9.9	-15.0	14.5	-10.8	-4.9	36.4	-5.9	-7.5				
Nondurables	5.7	4.4	9.1	2.7	1.4	-3.9	8.8	-.4	-7.4	-4.4	11.7	21.9	5.9	-21.8				
Services	17.1	9.1	14.2	6.0	3.0	6.7	11.3	10.0	.4	16.6	49.6	46.4	31.0	32.9				
Business fixed investment	12.7	17.6	2.0	-8.0	10.5	8.4	7.8	-4.9	6.2	-6.2	26.6	24.3	21.8	11.0				
Producers' durable equipment	16.0	14.9	2.0	-5.2	8.4	10.9	5.7	-5.2	5.4	-3.3	25.6	27.7	19.8	17.7				
Nonresidential structures	-3.4	2.9	-.1	-2.8	2.2	-2.6	2.1	.4	.7	-2.9	1.0	-3.4	2.1	-6.7				
Residential structures	-3.4	3.2	.2	-.2	-1.8	-5.7	-3.7	-2.6	6.5	-5.5	-4.5	-.2	-13.8	-18.5				
Change in business inventories	-17.4	-14.1	15.7	-18.6	12.1	-.6	-.9	-5.7	-21.1	11.7	69.2	-34.4	4.9	-45.3				
Nonfarm	-26.6	-9.6	11.8	-3.8	-10.8	5.1	.2	-6.4	-23.5	19.8	66.3	-28.2	-11.9	-43.8				
Farm	9.1	-4.5	3.9	-14.8	22.9	-5.7	-1.1	.7	2.4	-8.1	3.0	-6.3	16.8	-1.5				
Net exports	34.0	5.1	-6.3	2.8	24.6	-2.2	-10.8	16.2	12.5	-9.2	24.1	35.6	27.8	39.1				
Exports	34.7	5.6	7.0	21.0	20.8	17.1	-.7	19.1	16.5	-8.0	80.5	68.3	56.3	35.6				
Imports	.7	.5	13.3	18.2	-3.7	19.2	10.1	2.8	4.1	1.2	56.4	32.7	28.4	-3.4				
Government purchases	-18.9	6.3	-7.5	28.7	-6.7	7.8	-4.8	6.0	5.7	12.3	15.3	8.6	2.3	30.1				
Federal	-23.2	2.8	-8.9	23.9	-8.1	5.7	-6.9	-.3	.3	12.9	5.3	-5.4	-9.6	17.2				
Defense	-3.8	-.9	-3.3	3.1	-7.4	2.0	4.5	-4.7	-1.1	2.1	10.2	-4.9	-5.6	10.2				
Nonddefense	-19.4	3.7	-5.6	20.8	-.8	3.8	-11.4	4.4	1.4	10.8	-4.9	-.5	-4.0	7.0				
State and local	4.3	3.5	1.3	4.8	1.5	2.1	2.1	6.3	5.5	-.7	10.0	13.9	12.0	12.9				

CONFIDENTIAL - FR  
CLASS II FOMC

May 8, 1991

GROSS NATIONAL PRODUCT AND RELATED ITEMS  
(Net changes, billions of 1982 dollars)

	Projection												Projection			
	1990				1991				1992				1989	1990	1991	1992
	Q3		Q4		Q1		Q2		Q3		Q4					
													(fourth quarter to fourth quarter, net change)			
Real GNP	14.9	-16.6	-29.5	-2.1	41.2	41.0	36.1	32.2	29.5	27.6		73.9	20.2	50.6	125.4	
Gross domestic purchases	16.8	-54.3	-40.5	-2.3	39.2	41.9	37.2	32.0	29.7	26.6		46.1	-18.9	38.4	125.5	
Final sales	19.7	14.5	-35.2	6.2	21.2	19.5	24.1	27.3	27.4	27.6		69.2	65.4	11.7	106.4	
Private dom. final purchases	19.1	-32.8	-41.4	-1.1	23.1	23.7	27.5	29.0	29.1	28.2		39.1	-3.8	4.3	113.8	
Personal consumption expend.	18.0	-23.2	-9.5	10.1	17.9	16.4	18.7	18.9	18.4	17.6		31.1	3.7	34.9	73.5	
Durables	2.7	-13.9	-11.7	6.0	8.1	5.1	4.5	3.5	3.4	3.1		-5.9	-7.5	7.5	14.5	
Nondurables	5.2	-15.2	-6.6	-5.8	.9	2.0	4.0	4.7	4.5	4.3		5.9	-21.8	-9.5	17.4	
Services	10.0	5.9	8.8	10.1	8.9	9.3	10.2	10.7	10.5	10.2		31.0	32.9	37.0	41.6	
Business fixed investment	10.9	.1	-19.8	-9.7	.8	3.2	5.2	6.3	6.8	6.6		21.8	11.0	-25.6	25.0	
Producers' durable equipment	9.5	6.1	-16.6	-6.6	3.3	5.2	7.1	7.7	7.8	7.5		19.8	17.7	-14.7	30.1	
Nonresidential structures	1.5	-6.0	-3.4	-3.0	-2.6	-2.0	-1.9	-1.4	-1.0	-.9		2.1	-6.7	-11.0	-5.1	
Residential structures	-9.8	-9.7	-12.1	-1.6	4.5	4.1	3.6	3.8	3.9	3.9		-13.8	-18.5	-5.0	15.3	H
Change in business inventories	-4.8	-31.1	5.7	-8.3	20.0	21.5	12.0	4.9	2.1	.0		4.9	-45.3	38.9	19.0	O
Nonfarm	-6.9	-33.2	3.0	-5.9	19.2	21.2	11.8	4.8	2.0	.0		-11.9	-43.8	37.5	18.6	
Farm	2.1	2.1	2.7	-2.4	.8	.3	.2	.1	.1	.0		16.8	-1.5	1.4	.4	
Net exports	-1.9	37.7	11.0	.2	1.9	-.9	-1.1	.2	-.2	1.0		27.8	39.1	12.2	-.1	
Exports	10.4	16.7	-.7	5.8	9.7	12.8	12.2	12.3	12.1	13.8		56.3	35.6	27.6	50.3	
Imports	12.3	-21.0	-11.7	5.6	7.8	13.7	13.2	12.1	12.3	12.8		28.4	-3.4	15.4	50.4	
Government purchases	2.5	9.6	-4.8	7.2	-3.9	-3.2	-2.3	-1.9	-1.5	-1.6		2.3	30.1	-4.8	-7.3	
Federal	.1	3.9	-3.1	7.9	-3.8	-4.3	-3.6	-3.7	-3.5	-3.8		-9.6	17.2	-3.4	-14.6	
Defense	1.7	7.5	-.5	1.1	-5.5	-5.2	-4.5	-4.6	-4.5	-4.7		-5.6	10.2	-10.1	-18.3	
Nondefense	-1.6	-3.6	-2.6	6.8	1.7	.9	.9	.9	1.0	.9		-4.0	7.0	6.7	3.7	
State and local	2.4	5.7	-1.7	-.7	-.1	1.1	1.3	1.8	2.0	2.2		12.0	12.9	-1.4	7.3	

FEDERAL SECTOR ACCOUNTS<sup>1</sup>  
(Billions of dollars)

	Fiscal years				1990				1991				1992			
	1989a	1990a	1991	1992	Ia	IIa	IIIa	IVa	Ia	II	III	IV	I	II	III	IV
<b>BUDGET</b>	Not seasonally adjusted															
Budget receipts <sup>2</sup>	991	1031	1080	1164	229	319	254	249	233	324	273	261	263	349	291	278
Budget outlays <sup>2</sup>	1144	1252	1344	1467	310	331	311	336	299	353	357	374	366	367	359	380
Surplus/deficit (-) <sup>2</sup>	-153	-220	-264	-303	-80	-12	-58	-86	-65	-29	-83	-114	-104	-18	-68	-102
(On-budget)	-206	-277	-326	-374	-94	-41	-65	-96	-80	-57	-92	-127	-116	-53	-78	-115
(Off-budget)	53	57	62	71	14	29	7	10	15	29	9	14	13	35	9	13
Surplus excluding deposit insurance <sup>3</sup>	-131	-162	-189	-196	-74	17	-41	-72	-63	-1	-52	-86	-76	10	-45	-84
Means of financing:																
Borrowing	140	263	294	286	90	41	69	99	56	42	97	99	81	37	69	102
Cash decrease	3	1	-9	9	8	-16	-6	8	0	-6	-11	19	10	-15	-5	10
Other <sup>4</sup>	10	-44	-21	8	-18	-13	-6	-20	9	-7	-3	-4	13	-4	4	-10
Cash operating balance, end of period	41	40	49	40	18	35	40	32	32	38	49	30	20	35	40	30
<b>NIPA FEDERAL SECTOR</b>	Seasonally adjusted annual rates															
Receipts	1038	1092	1155	1251	1081	1106	1126	1127	1148	1159	1186	1213	1245	1265	1281	1300
Expenditures	1174	1249	1307	1411	1249	1272	1272	1311	1246	1324	1349	1363	1420	1427	1435	1456
Purchases	400	415	445	445	411	422	426	438	442	452	448	445	448	445	442	439
Defense	301	307	329	317	307	310	313	325	330	333	326	321	320	316	311	306
Nondefense	99	107	117	128	103	112	113	113	112	120	122	124	128	130	132	134
Other expend.	774	835	862	967	838	850	846	873	804	871	900	919	973	982	992	1017
Surplus/deficit	-136	-158	-152	-161	-168	-166	-146	-184	-97	-165	-163	-151	-175	-163	-154	-156
<b>FISCAL INDICATORS<sup>5</sup></b>																
High-employment (HEB) surplus/deficit (-)	-149	-150	-88	-98	-166	-154	-127	-147	-31	-85	-88	-82	-111	-102	-96	-100
Change in HEB, percent of potential GNP	0	0	-1.1	.2	.3	-.2	-.5	.4	-2.1	.9	0	-.1	.5	-.1	-.1	.1
Fiscal impetus measure (FI), percent	-3.5 *	-3.3 *	-3.3 *	-4.9 *	-2.3	1.2	-.8	1.8	-4.7	1.3	-1.2	-1.3	-2.4	-.9	-.9	-.9

a--actual

\*\*\*calendar year

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

1. Staff projections. CBO's March deficit estimates are \$309 billion in FY1991 and \$294 billion in FY1992. OMB's February deficit estimates are \$318 billion in FY1991 and \$281 billion in FY1992.
2. Budget receipts, outlays, and surplus/deficit include social security (OASDI) receipts, outlays and surplus, respectively. 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 FY1990.
3. CBO's March deficit estimates, excluding deposit insurance spending, are \$205 billion in FY1991 and \$196 billion in FY1992. OMB's February deficit estimates, excluding deposit insurance spending, are \$207 billion in FY1991 and \$193 billion in FY1992.
4. Other means of financing are checks issued less checks paid, accrued items; and changes in other financial assets and liabilities.
5. HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate and 2.3% potential output growth in the forecast period. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.

GROWTH RATES <sup>BT BY SECTOR<sup>1</sup></sup>  
(Period-end to period-end)

	Domestic Nonfinancial Sectors							Memo		
	Households							State & local govts.	Private financial assets <sup>3</sup>	
	Total <sup>2</sup>	U.S. govt. <sup>2</sup>	Non-federal	Total	Home mtgs.	Cons. credit	Business			
Annual (percent)										
1982	9.3	19.4	6.9	5.4	4.5	4.4	7.8	9.1	10.3	3.1
1983	11.5	18.8	9.6	11.4	11.0	12.6	8.3	7.1	11.8	10.4
1984	14.4	16.9	13.7	12.9	11.7	18.7	15.6	7.9	13.4	8.6
1985	14.2	16.2	13.6	14.1	11.9	15.9	11.4	23.7	12.0	6.6
1986	12.3	13.4	12.0	12.8	14.9	9.6	12.0	7.6	9.1	4.6
1987	9.0	8.0	9.3	11.6	14.0	5.1	7.0	9.6	7.8	8.2
1988	9.1	8.0	9.5	10.9	12.2	7.2	8.2	8.2	8.7	7.8
1989	7.5	7.2	7.5	8.9	10.5	5.3	6.7	4.9	7.4	5.6
1990	6.7	12.0	5.1	7.2	9.2	1.7	3.5	2.3	4.8	4.5
1991	6.0	11.5	4.2	5.6	7.5	-0.3	3.2	1.5	4.5	5.1
1992	6.7	10.1	5.5	6.6	7.8	3.0	5.0	1.9	4.0	5.9
Quarterly (percent-SAAR)										
1989 -- Q1	8.2	7.0	8.6	9.2	10.6	5.1	8.4	6.6	8.5	7.5
Q2	7.2	4.6	7.9	8.0	9.7	4.9	8.3	5.4	8.0	5.8
Q3	7.2	8.0	6.9	8.7	10.2	4.8	5.6	4.6	8.5	5.1
Q4	6.4	8.3	5.9	8.5	9.6	5.7	3.8	2.6	3.6	3.9
1990 -- Q1	8.0	10.9	7.2	9.6	11.7	1.9	5.8	1.4	7.9	6.7
Q2	6.0	9.7	4.9	7.4	9.2	1.3	2.8	2.8	4.5	5.1
Q3	6.7	11.8	5.1	6.6	7.1	3.3	3.6	4.5	4.6	5.3
Q4	5.2	13.2	2.7	4.3	6.8	0.3	1.5	0.5	1.8	0.9
1991 -- Q1	4.4	8.1	3.3	4.3	6.8	-3.5	2.6	0.8	3.3	2.5
Q2	5.1	9.0	3.8	5.6	7.4	-0.6	2.3	1.7	4.3	3.0
Q3	7.1	15.0	4.5	6.0	7.5	1.1	3.3	2.0	5.6	7.5
Q4	6.7	11.9	4.9	6.1	7.5	1.7	4.2	1.5	4.5	7.4
1992 -- Q1	6.6	10.4	5.2	6.2	7.3	2.6	4.8	1.7	4.6	7.2
Q2	5.9	7.6	5.3	6.3	7.5	2.8	4.9	1.7	3.2	6.0
Q3	6.6	9.7	5.5	6.5	7.6	3.2	4.9	2.1	3.8	5.4
Q4	7.1	11.2	5.6	6.7	7.9	3.2	5.0	2.0	4.4	5.1

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- Published data through 1990:4; projections for other periods
- RTC activity adds roughly .6 and .7 percentage points to total debt growth in 1991 and 1992, respectively; it adds about 2.6 percentage points to federal debt growth in each year.
- Sometimes referred to as the "Kaufman debt proxy"; includes liquid assets and credit market instruments.
- Annual figures are Q4 to Q4.

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

	1989	Calendar year			1990		1991		1992		1990		1991		1992	
		1990	1991	1992	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2	Q1	Q2	H1	H2
Net funds raised by domestic nonfinancial sectors	554.0	595.5	606.2	714.5	613.2	485.4	451.4	536.1	735.4	701.9	669.3	759.8				
1 Net equity issuance	-124.2	-63.0	-24.5	-35.0	-74.0	-61.0	-17.0	-11.0	-35.0	-35.0	-35.0	-35.0				
2 Net debt issuance	678.2	658.5	630.7	749.5	687.2	546.4	468.4	547.1	770.4	736.9	704.3	794.8				
Borrowing sectors																
Nonfinancial business																
4 Financing gap <sup>2</sup>	33.9	34.5	24.9	53.8	52.7	38.9	24.9	14.6	23.6	36.6	48.4	59.2				
5 Net equity issuance	-124.2	-63.0	-24.5	-35.0	-74.0	-61.0	-17.0	-11.0	-35.0	-35.0	-35.0	-35.0				
6 Credit market borrowing	211.9	117.6	111.4	182.1	125.6	51.3	90.1	82.9	119.6	153.0	177.7	186.5				
Households																
7 Net borrowing, of which:	285.0	253.7	215.3	265.9	246.8	163.5	165.5	216.4	236.6	242.7	255.0	276.8				
8 Home mortgages	221.6	215.4	198.0	221.5	179.8	177.4	180.8	197.5	204.4	209.2	212.6	230.4				
9 Consumer credit	39.1	13.6	-2.7	23.8	26.6	2.5	-28.4	-5.0	8.7	13.8	21.8	25.8				
10 Debt/DPI (percent) <sup>3</sup>	89.8	92.9	96.1	96.1	95.4	95.6	96.3	96.5	96.7	96.7	95.9	96.3				
State and local governments																
11 Net borrowing	29.6	14.6	9.8	12.5	28.7	3.1	5.5	11.2	12.9	9.7	11.3	13.8				
12 Current surplus <sup>4</sup>	-25.7	-42.8	-26.1	0.6	-41.7	-55.4	-37.3	-32.8	-21.7	-12.7	-3.5	4.8				
U.S. government													I-26			
13 Net borrowing from public	151.6	272.5	294.2	289.0	286.1	328.4	207.4	236.6	401.3	331.6	260.3	317.8				
14 Net borrowing from public <sup>5</sup>	151.6	272.5	294.2	289.0	68.4	98.7	56.5	41.7	97.1	99.0	117.8	171.2				
15 Unified budget deficit <sup>5</sup>	155.0	236.1	291.3	291.7	57.8	86.3	65.3	29.0	83.4	113.6	121.6	170.0				
Funds supplied by depository institutions	92.8	-17.5	-58.4	-21.1	-57.4	-77.5	-28.1	-103.4	-60.3	-41.8	-30.3	-12.0				
Memoranda: As percent of GNP:																
17 Dom. nonfinancial debt <sup>3</sup>	181.7	186.5	192.1	192.0	189.3	191.3	192.2	193.3	193.2	193.0	191.2	192.3				
18 Dom. nonfinancial borrowing	13.0	12.0	11.1	12.4	12.5	9.9	8.4	9.8	13.5	12.7	11.8	13.0				
19 U.S. government <sup>6</sup>	2.9	5.0	5.2	4.8	5.2	5.9	3.7	4.2	7.0	5.7	4.4	5.2				
20 Private	10.1	7.1	5.9	7.6	7.3	3.9	4.7	5.5	6.5	7.0	7.5	7.8				

1. Published data through 1990:4; projections for other periods.  
 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 annual GNP.  
 4. NIPA surplus, net of retirement funds.  
 5. Quarterly data at quarterly rates, nsa.  
 6. Excludes gov't-insured mortgage pool securities.

growth in external demand, and the somewhat lower average level of oil prices expected for this year will be a net positive factor. The average projected growth of this group of countries has been revised up slightly since the March Greenbook as a result of both improved investor confidence (particularly in Taiwan) following the end of the Gulf War and an outlook for more expansionary government policies in key countries.

U.S. Real Net Exports of Goods and Services. Real net exports of goods and services are expected to remain little changed through next year, after having improved dramatically over the past two quarters. As anticipated in the March Greenbook, the level of net investment income receipts in GNP net exports for the fourth quarter of 1990 was revised up by \$10 billion (annual rate). Absent this revision, which has been carried through the forecast, the current outlook for the path of net exports is somewhat weaker than the previous forecast.

TRADE QUANTITIES\*  
(Percent change from end of preceding comparable period, annual rate)

	<u>1990</u>	----- Projection -----			<u>1992</u>
		<u>Q1</u>	<u>1991</u>	<u>H2</u>	
Nonagricultural exports	8.6	11.5	8.4	9.6	9.9
Agricultural exports	-6.1	12.0	-0.4	-1.0	2.0
Non-oil imports	1.4	-0.6	-0.7	9.4	8.9
Oil imports	-12.3	4.4	47.5	8.1	6.5

\* GNP basis, 1982 dollars.

Real nonagricultural exports of goods are projected to advance at an average annual rate of about 9-1/2 percent over the next seven quarters. This growth rate is nearly 2 percentage points below the previous forecast because of the stronger dollar and slightly weaker outlook for growth abroad. Nonetheless, exports are still expected to derive significant support from the net decline in the dollar over the past two years, from the

These prices are expected to be depressed by recent declines in domestic producer prices (particularly among industrial supplies and materials), and to some extent by the rise in the dollar. Non-oil import prices are also expected to decline in the current quarter, and to rise only moderately in the second half of this year, before picking up to a 3 percent rate of increase next year. The projected path of non-oil import prices is significantly below that in the March Greenbook as a result of the stronger dollar and lower inflation abroad.

SELECTED PRICE INDICATORS  
(Percent change from the end of preceding comparable period, annual rate)

	1990	----- Projection -----		
		1991	1992	
		Q1	Q2	H2
PPI (export-share wts.)	4.8	-2.0	-1.8	1.6
Nonagric exports (Fx-Wt)	4.0	-0.5	-0.9	0.5
Non-oil imports (Fx-Wt)	2.9	3.1	-1.0	1.6
Oil imports (\$/barrel)	20.52	20.37	18.85	18.75
				18.00

Nominal Trade and Current Account Balances. The merchandise trade deficit is projected to narrow further in the second quarter, to less than \$70 billion (annual rate), primarily because of the expected near-term weakness of import demand. Thereafter, the deficit is projected to widen gradually, returning to a rate of about \$75 billion next year. Excluding the effects of transfer payments associated with the Gulf War, the current account deficit this year is projected to be nearly \$50 billion, or roughly \$20 billion less than the trade deficit. Next year, continuing improvements in the non-trade portions of the current account (other than transfers) are expected to more than offset the worsening of the trade deficit, leaving the current account deficit in the neighborhood of \$45 billion.

May 8, 1991

**STRICTLY CONFIDENTIAL - FR**  
**CLASS II FOMC**

**REAL GNP AND THE CONSUMER PRICE INDEX, SELECTED COUNTRIES, 1988-92**  
**(Percent change from fourth quarter to fourth quarter)**

<b>Measure and country</b>	<b>Projection</b>				
	<b>1988</b>	<b>1989</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>
<b>REAL GNP</b>					
<b>-----</b>					
Canada	3.1	2.9	-1.0	0.0	2.6
France	3.6	3.6	2.2	2.0	2.6
Western Germany	3.4	3.2	4.8	2.9	2.9
Italy	3.7	3.0	1.5	2.1	2.7
Japan	5.6	4.8	4.7	3.2	3.7
United Kingdom	3.3	1.3	-1.4	0.2	1.8
Average, weighted by 1987-89 GNP	4.1	3.5	2.5	2.1	2.9
<b>Average, weighted by share of</b>					
<b>-----</b>					
<b>U.S. nonagricultural exports</b>					
<b>-----</b>					
Total foreign	4.0	3.7	2.0	2.2	3.3
G-6	3.7	3.2	1.0	1.2	2.8
LDC	5.2	5.0	4.6	5.1	5.2
<b>CONSUMER PRICES</b>					
<b>-----</b>					
Canada	4.1	5.2	4.9	5.6	3.4
France	3.0	3.6	3.6	2.4	2.9
Western Germany	1.6	3.1	3.0	3.8	2.8
Italy	5.1	6.6	6.3	6.0	5.1
Japan	1.5	2.9	3.5	3.3	3.0
United Kingdom	6.5	7.6	10.0	5.3	4.5
Average, weighted by 1987-89 GNP	3.2	4.4	4.9	4.1	3.5
<b>Average, weighted by share of</b>					
<b>-----</b>					
<b>U.S. non-oil imports</b>					
<b>-----</b>					
	3.0	4.2	4.5	4.3	3.3

Strictly Confidential (FR) Class II-FOMC

May 8, 1991

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

	ANNUAL			1990				1991				1992
				Q1	Q2	Q3	Q4	Q1	Q2-P	Q3-P	Q4-P	Q4-P
	1990	1991-P	1992-P									
<b>1. GNP Real Net Exports (\$B\$)</b>	-33.8	3.1	2.6	-35.4	-44.6	-46.5	-8.8	2.2	2.4	4.3	3.4	3.3
a. Exports of G+S Merchandise Services	631.5	658.9	705.6	628.1	620.1	630.5	647.2	646.5	652.3	662.0	674.8	725.0
	423.9	459.0	500.8	422.4	418.4	421.0	433.8	445.8	454.0	462.6	473.4	517.3
	207.6	199.9	204.8	205.7	201.7	209.5	213.4	200.7	198.3	199.4	201.4	207.7
b. Imports of G+S Merchandise Oil Non-oil Services	665.3	655.8	703.0	663.5	664.7	677.0	656.0	644.3	649.9	657.7	671.4	721.8
	517.0	522.8	569.2	517.8	515.2	526.5	508.4	508.7	516.5	526.3	539.6	585.4
	95.5	92.1	100.5	100.8	96.9	100.9	83.3	84.2	92.8	95.0	96.5	102.8
	421.5	430.7	468.7	417.1	418.3	425.5	425.1	424.5	423.7	431.3	443.1	482.6
	148.3	133.0	133.8	145.6	149.4	150.5	147.6	135.6	133.4	131.4	131.8	136.4
Memo:												
Percent Changes (AR) 1/												
Exports G+S	5.8	4.3	7.4	11.2	-5.0	6.9	11.0	-0.4	3.6	6.1	7.9	8.0
of which: Merchandise	7.1	9.1	9.3	18.1	-3.7	2.5	12.7	11.5	7.6	7.7	9.7	9.5
Imports G+S	-0.5	2.3	7.5	2.5	0.7	7.6	-11.8	-6.9	3.5	4.9	8.6	7.4
of which: Non-oil Merch.	1.4	4.2	8.9	-2.1	1.2	7.1	-0.4	-0.6	-0.7	7.3	11.4	7.8
<b>2. U.S. Current Account Balance</b>	-99.3	-6.2	-43.7	-89.3	-90.9	-105.9	-111.0	32.3	-8.6	-24.0	-24.5	-48.4
a. Merchandise Trade, net	-108.7	-69.7	-73.2	-107.2	-92.9	-119.1	-115.4	-74.4	-66.0	-68.5	-69.8	-74.6
Exports	389.3	422.4	462.9	384.4	386.3	384.6	401.8	409.7	418.1	425.8	435.8	479.4
Agricultural	40.4	40.4	43.2	43.8	41.3	38.9	37.5	40.0	40.3	40.4	40.8	44.7
Nonagricultural	348.9	382.0	419.7	340.6	345.1	345.7	364.3	369.7	377.8	385.4	394.9	434.7
Imports	498.0	492.0	536.1	491.6	479.2	503.8	517.3	484.2	484.2	494.3	505.5	554.0
Oil	62.1	55.9	58.0	62.4	48.7	62.6	74.8	52.5	56.0	58.3	56.8	59.3
Non-oil	435.9	436.1	478.1	429.2	430.6	441.2	442.4	431.7	428.1	436.0	448.7	494.7
b. Other Current Account	9.4	63.5	29.5	18.0	2.0	13.2	4.4	106.7	57.5	44.5	45.3	26.2
Investment Income, net	7.5	5.2	7.5	8.0	-4.0	9.0	17.1	4.7	3.4	5.7	6.9	6.5
Direct, net	49.4	44.7	43.8	48.2	41.7	52.6	55.0	46.8	44.5	43.9	43.8	43.0
Portfolio, net	-41.8	-39.6	-36.3	-40.2	-45.7	-43.6	-37.9	-62.0	-41.1	-38.3	-36.9	-36.5
of which: Gov't Payments	37.5	36.0	35.3	36.7	37.8	37.3	38.0	37.6	36.6	35.2	34.6	36.1
Military Transactions, net	-6.4	-7.1	-4.0	-5.1	-5.5	-6.8	-8.2	-9.2	-9.2	-6.0	-4.0	-4.0
Other Services, net	29.3	37.5	41.0	28.8	29.1	27.4	32.0	34.4	37.2	38.8	39.4	41.7
Unilateral Transfers, net	-21.1	27.9	-15.0	-13.8	-17.7	-16.4	-36.4	76.8	26.0	6.0	3.0	-18.0

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

Confidential (FR) Class III FOMC

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May 8, 1991

## **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

FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS  
(Billions of dollars,  
except where otherwise noted)

	October-March		
	FY1990	FY1991	Net change
			Percent change
Outlays	609.0	634.3	25.3
National defense	150.1	130.1	-20.0
ex-DCA	150.1	157.0	6.9
Net interest	90.3	96.2	5.9
Social Security	120.3	130.2	9.9
Medicare and health	73.9	81.8	7.9
Deposit insurance	13.4	16.4	3.0
Income security	76.1	87.1	11.0
Other	84.9	92.5	7.5
Receipts	458.2	482.6	24.5
Personal income taxes	204.9	204.4	-.5
Social insurance contributions	171.8	188.3	16.5
Corporate income taxes	39.0	44.6	5.6
Excise taxes	16.3	18.6	2.3
Other	26.2	26.7	.5
Deficit	150.8	151.6	.8

CASH AND IN-KIND CONTRIBUTIONS FOR OPERATION DESERT SHIELD/STORM  
(Billions of dollars)

Country	Commitments	Received			Future receipts
		Cash <sup>1</sup>	In-kind <sup>2</sup>	Total	
Saudi Arabia	16.8	4.5	3.1	7.6	9.2
Kuwait	16.0	9.3	.0	9.3	6.7
Japan	10.7	8.8	.7	9.4	1.3
Germany	6.6	5.8	.8	6.6	.0
United Arab Emirates	4.0	3.6	.2	3.8	.2
Korea	.4	.1	.0	.2	.2
Total	54.6	32.0	4.8	36.8	17.8

1 Through April 30, 1991.

2. Through March 31, 1991.

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

	1988	1989	1990	-1990-	1991		
			Q4	Q1 <sup>P</sup>	Feb <sup>P</sup>	Mar <sup>P</sup>	Apr <sup>P</sup>
Corporate securities - total <1>	22.41	19.86	19.80	22.09	25.74	28.63	31.03
Public offerings in U.S.	20.39	17.79	17.66	20.66	23.71	25.80	28.95
Stocks--total <2>	3.54	2.69	1.95	1.33	2.22	1.80	3.95
Nonfinancial	1.15	1.08	1.03	0.56	1.26	1.06	2.17
Utility	0.24	0.29	0.35	0.36	0.47	0.34	0.60
Industrial	0.91	0.79	0.68	0.20	0.79	0.73	1.57
Financial	2.39	1.60	0.92	0.77	0.93	0.74	1.69
Bonds	16.85	15.11	15.71	19.33	21.49	24.00	25.00
Nonfinancial	6.19	6.30	5.59	7.66	7.99	10.00	8.10
Utility	1.79	1.78	1.92	2.72	2.15	2.45	2.50
Industrial	4.41	4.52	3.67	4.94	5.84	7.55	5.60
Financial	10.65	8.80	10.11	11.67	13.50	14.00	16.90
By quality <3>							
Aaa and Aa	2.77	3.17	3.39	4.71	4.46	5.30	3.18
A and Baa	5.50	5.82	6.39	7.62	10.89	12.42	13.00
Less than Baa	2.56	2.39	0.15	0.11	0.41	0.31	0.55
No rating (or unknown)	0.05	0.05	0.04	0.01	0.01	0.00	0.03
Memo items:							
Equity-based bonds <4>	0.28	0.52	0.38	0.26	0.77	0.39	1.56
Mortgage-backed bonds	4.72	1.68	2.41	2.27	1.97	1.40	3.00
Other asset-backed	1.26	2.02	3.35	4.62	3.77	4.57	5.24
Variable-rate notes	1.19	1.03	0.82	1.13	0.76	0.65	1.61
Bonds sold abroad - total	1.93	1.90	1.92	1.42	1.87	2.80	2.00
Nonfinancial	0.73	0.48	0.46	0.17	1.03	1.50	1.30
Financial	1.20	1.43	1.46	1.25	0.83	1.30	0.70
Stocks sold abroad - total	0.09	0.16	0.22	0.02	0.17	0.03	0.08
Nonfinancial	0.08	0.12	0.10	0.02	0.05	0.01	0.08
Financial	0.02	0.04	0.12	0.01	0.11	0.03	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 \$20.4 billion in 1989.

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.

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

	1991				
	Q1	Q2 <sup>P</sup>	Apr. <sup>e</sup>	May <sup>P</sup>	June <sup>P</sup>
<u>Treasury financing</u>					
Total surplus/deficit (-)	-65.2	-29.0	31.1	-58.3	-1.7
Means of financing deficit:					
Net cash borrowing from the public	56.5	41.7	-10.6	28.4	23.9
Marketable borrowings/ repayments (-)	52.9	39.2	-11.3	28.2	22.3
Bills	5.9	-11.7	-29.1	-5.0	22.3
Coupons	47.0	50.9	17.7	33.2	0.0
Nonmarketable <sup>2</sup>	3.5	2.5	.7	.2	1.6
Decrease in the cash balance	.2	-6.0	-16.3	35.4	-25.1
Memo: Cash balance at end of period	32.0	38.0	48.3	13.0	38.0
Other <sup>3</sup>	8.5	-6.7	-4.2	-5.4	2.9
<u>Federally sponsored credit agencies, net cash borrowing<sup>4</sup></u>					
FHLBS	3.2	--	--	--	--
FHLMC	-.5	--	--	--	--
FNMA	1.5	--	--	--	--
Farm Credit Banks	-1.7	--	--	--	--
SLMA	1.6	--	--	--	--
REFCORP	6.9	--	--	--	--

1. Data reported on a not seasonally adjusted, payment basis.

2. Includes proceeds from securities issued by federal agencies under special financing authorities and the face value of zero-coupon bonds issued to REFCORP (the discount from face value is offset in other means of finance).

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

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

p--projected.

e--estimated.

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