

September 15, 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

than spread it more evenly over the third and fourth quarters.<sup>3</sup>

Thus, we have deepened the decline in farm inventories this quarter; the reduced drawdown of stocks in the fourth quarter augments GDP growth in that period, and a lesser positive swing is implied for the opening quarter of 1994, when it is assumed that crop production will return to "normal."

**THE EFFECT OF CROP LOSSES ON GROWTH OF REAL GDP**  
(Percentage change; annual rate)

	1993		1994
	Q3	Q4	Q1
Real GDP	1.2	3.4	3.0
Previous	2.3	2.4	2.8
Excluding crop losses	1.8	3.0	2.8
Previous	2.6	2.5	2.4

A second important factor in the lower current-quarter estimate of GDP growth is the shortfall in production of motor vehicles relative to our August projection. Earlier published reports of scheduled assemblies proved to be in error, and actual production has fallen below even the corrected numbers. Thus, production of motor vehicles is now estimated to have reduced growth of real GDP 3/4 percentage point this quarter rather than to have contributed the almost 1/2 percentage point anticipated in the August Greenbook.

We still expect final domestic purchases--that is, GDP excluding the change in inventories and net exports--to rise at close to a 3 percent rate this quarter. Consumption, which is projected to grow at a 3-1/4 percent rate, now looks to have been somewhat stronger than we had anticipated; much of the additional spending has occurred in the services category, where hot weather

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3. We anticipate that those losses will total about \$2-3/4 billion (not at an annual rate), which is toward the upper end of the range that we used when putting together the August forecast.

noticeable degree of downward pressure on consumer prices. By the end of 1994, the year-over-year change in the overall CPI is projected to be just over 3 percent; the index excluding food and energy is forecast to be up slightly less than 3 percent from a year earlier.

STAFF INFLATION PROJECTIONS  
(Percentage change: Q4 to Q4)

	1992	1993	1994
Consumer price index	3.1	3.0	3.1
Excluding food and energy	3.4	3.1	2.9
Employment cost index	3.4	3.6	3.4

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

September 15, 1993

Interval					GDP fixed-weight price index		Consumer price index <sup>1</sup>		Unemployment rate (level except as noted)	
	8/11/93	9/15/93	8/11/93	9/15/93	8/11/93	9/15/93	8/11/93	9/15/93	8/11/93	9/15/93
<b>ANNUAL</b>										
1990 <sup>2</sup>	5.2	5.6	8	1.2	4.6	4.6	5.4	5.4	5.5	5.5
1991 <sup>2</sup>	2.8	3.2	-1.2	-7	4.0	4.0	4.2	4.2	6.7	6.7
1992 <sup>2</sup>	4.8	5.5	2.1	2.6	2.9	3.3	3.0	3.0	7.4	7.4
1993	5.0	5.3	2.3	2.6	3.2	3.1	3.1	3.0	6.9	6.9
1994	5.0	4.9	2.4	2.5	2.9	2.7	3.3	3.1	6.8	6.7
<b>QUARTERLY</b>										
1991 Q1 <sup>2</sup>	1.8	2.4	-3.0	2.4	4.9	5.1	3.6	3.6	6.5	6.5
Q2 <sup>2</sup>	5.2	4.8	1.7	1.5	3.5	3.4	2.1	2.1	6.7	6.7
Q3 <sup>2</sup>	4.0	4.3	1.2	1.4	2.9	3.4	2.7	2.7	6.7	6.7
Q4 <sup>2</sup>	2.8	3.2	6	6	2.4	2.7	3.3	3.3	7.0	7.0
1992 Q1 <sup>2</sup>	6.2	7.4	2.9	3.5	3.4	4.2	3.5	3.5	7.3	7.3
Q2 <sup>2</sup>	4.3	5.7	1.5	2.8	2.9	3.4	2.9	2.9	7.5	7.5
Q3 <sup>2</sup>	5.3	4.6	3.4	3.4	2.2	2.5	2.9	2.9	7.5	7.5
Q4 <sup>2</sup>	7.1	9.2	4.7	5.7	3.4	3.1	3.2	3.2	7.3	7.3
1993 Q1 <sup>2</sup>	4.3	4.4	7	8	4.3	4.3	3.7	3.7	7.0	7.0
Q2 <sup>2</sup>	4.0	4.2	1.6	1.8	2.6	2.8	2.8	2.8	7.0	7.0
Q3 <sup>2</sup>	4.8	3.5	2.3	1.2	2.4	2.1	1.9	1.5	6.9	6.8
Q4 <sup>2</sup>	5.4	5.8	2.4	3.4	3.3	3.0	4.2	3.6	6.9	6.7
94 Q1	5.4	5.4	2.8	3.0	3.0	2.8	3.7	3.8	6.9	6.7
Q2	4.9	4.7	2.3	2.3	2.9	2.7	3.2	3.0	6.8	6.7
Q3	4.8	4.6	2.4	2.4	2.7	2.5	3.0	2.8	6.8	6.7
Q4	4.7	4.5	2.4	2.4	2.6	2.5	2.9	2.7	6.8	6.7
<b>TWO-QUARTER<sup>3</sup></b>										
1991 Q2 <sup>2</sup>	3.5	3.6	-.7	-5	4.2	4.4	3.0	3.0	.7	.7
Q4 <sup>2</sup>	3.4	3.8	.9	1.0	2.6	2.9	3.0	3.0	.3	.3
1992 Q2 <sup>2</sup>	5.2	6.6	2.2	3.2	3.2	3.9	3.2	3.2	.5	.5
Q4 <sup>2</sup>	6.2	6.9	4.1	4.6	2.8	2.8	2.9	2.9	-.2	-.2
1993 Q2 <sup>2</sup>	4.2	4.3	1.2	1.3	3.4	3.4	3.4	3.4	-.3	-.3
Q4 <sup>2</sup>	5.1	4.7	2.3	2.3	2.8	2.5	3.0	2.5	-.1	-.3
1994 Q2	5.1	5.0	2.5	2.7	2.9	2.7	3.4	3.4	-.1	.0
Q4	4.7	4.5	2.4	2.4	2.7	2.5	3.0	2.8	.0	.0
<b>FOUR-QUARTER<sup>4</sup></b>										
1990 Q4 <sup>2</sup>	4.1	4.7	-.5	.2	4.7	4.6	6.2	6.2	.6	.6
1991 Q4 <sup>2</sup>	3.5	3.7	.1	.3	3.4	3.6	3.0	3.0	1.0	1.0
1992 Q4 <sup>2</sup>	5.7	6.7	3.1	3.9	3.0	3.3	3.1	3.1	.3	.3
1993 Q4	4.6	4.5	1.7	1.8	3.1	3.0	3.2	3.0	-.4	-.6
1994 Q4	4.9	4.8	2.5	2.5	2.8	2.6	3.2	3.1	-.1	.0

<sup>1</sup> For all urban consumers.<sup>2</sup> Actual<sup>3</sup> Percent change from two quarters earlier; for unemployment rate, change in percentage points.<sup>4</sup> Percent change from four quarters earlier; for unemployment rate, change in percentage points.

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

September '93

Item	Unit <sup>1</sup>	Projected								
		1986	1987	1988	1989	1990	1991	1992	1993	1994
<u>EXPENDITURES</u>										
Nominal GDP	Bill. \$	4268.6	4539.9	4900.4	5250.8	5546.1	5722.9	6038.5	6359.8	6669.4
Real GDP	Bill. 87\$	4404.5	4540.0	4718.6	4838.0	4897.3	4861.4	4986.3	5113.6	5243.5
Real GDP	% change	2.2	4.5	3.3	1.6	2	3	3.9	1.8	2.5
Cross domestic purchases		2.1	3.9	2.5	9	-4	-2	4.3	2.6	2.9
Final sales		3.3	2.7	4.2	1.5	1.2	-3	3.8	2.0	2.2
Private dom. final purch		3.0	1.9	4.2	5	-1	-7	5.0	3.6	3.1
Personal cons. expend.		4.0	2.1	4.2	1.2	7	0	4.0	2.4	2.1
Durables		12.5	-2.6	8.5	-5	-8	4	9.7	4.5	3.1
Nondurables		3.3	1.4	3.2	1.2	-1	-1.3	3.6	2.1	1.4
Services		2.5	3.7	3.7	1.7	1.7	9	2.8	2.6	2.3
Business fixed invest		-5.7	3.0	5.5	-4	7	-6.3	7.4	11.2	7.8
Producers' dur. equip		-7	2.4	9.1	-1.7	2.9	-3.3	11.4	14.1	8.8
Nonres. structures		14.1	4.4	-1.2	2.3	-3.9	-12.6	-2.0	3.5	4.6
Res. structures		11.1	-3.1	9	-7.7	-15.2	1.6	17.6	3.3	5.6
Exports		9.9	12.6	13.5	11.3	6.7	8.4	4.9	2.7	5.9
Imports		6.7	4.7	3.6	2.6	.4	4.2	8.5	9.0	8.0
Government purchases		4.1	3.3	2	2.0	3.3	-7	1.1	6	3
Federal		3.8	3.7	-3.4	-6	2.8	-3.7	4	-5.8	-4.1
Defense		3.7	4.5	-3.2	-1.5	1.5	-7.3	1.4	-9.1	6.7
State and local		4.4	2.9	2.9	4.0	3.6	1.5	1.6	2.7	1.9
Change in bus. invent.	Bill. 87\$	8.6	26.3	19.9	29.8	5.7	-8.4	6.5	8.2	11.6
Nonfarm		10.6	32.7	26.9	29.9	3.2	-8.6	2.7	14.2	14.3
Net exports		-155.1	-143.0	-104.0	-73.7	-54.7	-19.1	-33.6	-72.4	-91.8
Nominal GDP	% change	4.7	8.0	7.7	6.0	4.7	3.7	6.7	4.5	4.8
<u>EMPLOYMENT AND PRODUCTION</u>										
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	6.7
Industrial prod. index	% change	1.5	6.3	3.2	-.1	-.2	-.3	3.2	3.7	3.3
Capacity util. rate-mfg.	%	79.1	81.6	83.6	83.1	81.1	77.8	78.8	80.9	82.3
Housing starts	Millions	1.81	1.63	1.49	1.38	1.20	1.01	1.21	1.25	1.40
Auto sales in U.S.		11.45	10.24	10.63	9.91	9.50	8.39	8.38	8.64	8.88
North American produced		8.22	7.07	7.54	7.08	6.90	6.14	6.28	6.64	6.89
Other		3.24	3.18	3.10	2.83	2.60	2.25	2.11	2.00	1.99
<u>INCOME AND SAVING</u>										
Nominal GNP	Bill. \$	4277.8	4544.5	4908.2	5266.8	5567.8	5737.1	6045.8	6356.5	6662.5
Nominal GNP	% change	4.4	8.1	7.8	6.1	4.9	3.3	6.5	4.4	4.8
Nominal personal income		5.5	7.4	7.1	6.5	6.5	3.5	8.1	3.5	5.1
Real disposable income		2.8	2.1	3.2	1.1	1.1	7	4.9	7	2.0
Personal saving rate	%	6.0	4.3	4.4	4.1	4.2	4.8	5.3	4.2	4.3
Corp. profits, IVACCA <sup>adj</sup>	% change	-7.1	29.7	10.2	-6.3	2.3	4.4	16.0	-1.1	4.1
Profit share of GNP	%	6.4	7.0	7.4	6.9	6.8	6.4	6.7	6.9	6.7
Federal surpl./def.	Bill. \$	-201.1	-151.8	-136.6	-122.3	-163.5	-203.4	-276.3	-230.9	-173.2
State/local surpl./def.		54.3	40.1	38.4	44.8	25.1	7.3	7.2	.8	3.8
Ex. social ins. funds		1.5	-14.7	-18.4	-17.5	-35.6	-51.2	-52.2	-58.0	-54.2
<u>PRICES AND COSTS</u>										
GDP implicit deflator	% change	2.6	3.3	4.2	4.4	4.5	3.4	2.8	2.6	2.2
GDP fixed-wt. price index		2.6	3.4	4.2	4.4	4.6	3.6	3.4	3.0	2.6
Cross domestic purchases		2.3	3.9	4.1	4.4	5.2	3.1	3.3	2.8	2.7
fixed-wt. price index		1.3	4.5	4.3	4.6	6.2	3.0	3.1	3.0	3.1
CPI		3.9	4.3	4.5	4.4	5.2	4.5	3.4	3.1	2.9
Ex. food and energy		3.2	3.3	4.8	4.8	4.6	4.4	3.5	3.6	3.4
'1, hourly compensation <sup>2</sup>		3.2	3.3	4.8	4.8	4.6	4.4	3.5	3.6	3.4
Nonfarm business sector		1.3	1.9	.5	-1.4	.4	2.3	3.7	0	1.4
Output per hour		4.7	3.9	3.8	3.1	6.1	4.8	5.3	2.8	3.4
Compensation per hour		3.4	1.9	3.3	4.6	5.7	2.4	1.6	2.9	2.0

1 Percent changes are from fourth quarter to fourth quarter.

2 Private-industry workers.

Strictly Confidential (PR  
Class I POMC)REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS QUARTERLY VALUES  
(Seasonally adjusted annual rate except as noted)

September 15 1993

Item	Units	Projected											
		1992		1993				1994					
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
<b>EXPENDITURES</b>													
Nominal GDP	Bill \$	6059.5	6194.4	6261.6	6325.7	6380.6	6471.2	6557.3	6632.5	6706.8	6780.9		
Real GDP	Bill \$75	4998.2	5068.3	5078.2	5101.0	5116.0	5159.3	5198.2	5227.5	5258.4	5289.9		
Real GDP	% change	3.4	5.7	.8	1.8	1.2	3.4	3.0	2.3	2.4	2.4		
Gross domestic purchases		3.8	5.4	2.5	2.8	1.5	3.5	3.3	2.8	2.7	2.6		
Final sales		3.7	5.8	-8	3.1	2.9	3.1	2.5	1.7	2.2	2.3		
Private dom. final purch.		4.0	7.1	2.5	4.0	3.7	4.1	3.5	2.8	3.0	3.1		
Personal cons. expend.		4.2	5.6	.8	3.2	3.3	2.3	2.2	1.9	2.2	2.3		
Durables		10.7	13.2	-1.3	10.8	1.8	7.2	4.6	2.7	2.6	2.3		
Nondurables		3.0	7.3	-2.1	2.6	2.6	1.3	1.0	1.0	1.7	2.0		
Services		3.3	2.9	3.1	1.7	4.1	1.6	2.2	2.2	2.4	2.5		
Business fixed invest		3.8	7.6	14.4	14.4	5.5	10.7	7.5	7.7	7.9	8.0		
Producers' dur. equip		10.2	11.5	19.9	17.4	5.9	13.6	8.6	8.8	9.0	9.0		
Nonres. structures		-10.3	-2.1	5	6.4	4.4	2.7	4.3	4.5	4.7	4.9		
Res. structures		1.2	32.8	1.5	-8.4	4.6	17.1	14.7	3.9	2.7	1.7		
Exports		6.5	8.8	-2.4	4.8	3.0	5.7	5.5	5.6	6.0	6.4		
Imports		9.2	5.6	11.6	13.1	5.2	6.2	7.3	9.6	7.7	7.6		
Government purchases		4.1	-1.4	-6.4	4.3	1.0	-1.1	-6	-3	-3	-1		
Federal		8.7	-3.5	16.2	3.1	-3.3	-5.6	-4.9	-4.0	-3.8	-3.7		
Defense		10.5	-4.6	-21.4	2.0	-6.9	-8.6	-7.8	-6.5	-6.3	-6.2		
State and local		1.2	0	.3	5.0	3.7	1.8	2.0	1.8	1.8	2.0		
Change in bus. invent.	Bill \$75	9.6	8.7	29.3	13.9	-7.5	-2.8	4.1	11.7	14.6	16.2		
Nonfarm		5.8	7.5	29.3	17.5	6.1	3.8	7.7	14.3	17.0	18.4		
Net exports		-42.5	-38.8	-59.9	-73.1	-77.2	-79.2	-83.1	-90.7	-94.9	-98.5		
Nominal GDP	% change	4.6	9.2	4.4	4.2	3.5	5.8	5.4	4.7	4.6	4.5		
<b>ELOMENT AND PRODUCTION</b>													
Nonfarm payroll employ	Millions	108.6	108.9	109.4	110.0	110.3	110.7	111.2	111.5	111.9	112.4		
Unemployment rate <sup>1</sup>	%	7.5	7.3	7.0	7.0	6.8	6.7	6.7	6.7	6.7	6.7		
Industrial prod. index	% change	.8	6.7	5.5	2.3	2.8	4.3	4.3	2.7	3.2	2.9		
Capacity util. rate-mfg <sup>1</sup>	%	78.7	79.6	80.5	80.8	80.9	81.6	82.2	82.2	82.4	82.6		
Housing starts	Millions	1.18	1.25	1.16	1.23	1.28	1.34	1.37	1.39	1.42	1.43		
Auto sales in U.S.		8.23	8.45	8.35	8.95	8.62	8.64	8.74	8.84	8.94	8.99		
North American produced		6.24	6.43	6.38	6.90	6.63	6.65	6.75	6.85	6.95	7.00		
Other		2.00	2.02	1.97	2.06	1.99	1.99	1.99	1.99	1.99	1.99		
<b>INCOME AND SAVING</b>													
Nominal GNP	Bill. \$	6067.3	6191.9	6262.1	6323.3	6378.6	6461.8	6552.6	6623.4	6701.2	6772.7		
Nominal GNP	% change	4.8	8.5	4.6	4.0	3.5	5.3	5.7	4.4	4.8	4.3		
Nominal personal income		3.7	15.5	-5.4	9.5	3.9	6.7	5.8	4.8	4.5	5.5		
Real disposable income		1.9	10.6	-7.8	5.9	1.7	3.4	1.8	1.0	2.7	2.5		
Personal saving rate <sup>1</sup>	%	4.9	6.0	3.9	4.5	4.2	4.4	4.3	4.1	4.3	4.3		
Corp. profits, IVA&CCAdj	% change	-36.5	104.6	-6.6	10.8	-8.7	1.3	12.6	-2.1	.4	6.1		
Profit share of GNP <sup>1</sup>	%	6.1	7.1	6.9	7.0	6.8	6.7	6.8	6.7	6.7	6.7		
Federal govt. surpl./def.	Bill. \$	-290.7	-264.2	-263.5	-227.6	-217.5	-215.1	-188.7	-166.8	-167.6	-169.9		
State/local surpl./def.		1.2	13.5	.8	.5	.8	.9	2.5	.1	6.0	6.7		
Ex. social ins. funds		-58.3	-46.0	-58.2	-58.4	-57.9	-57.6	-55.8	-58.0	-51.9	-51.0		
<b>PRICES AND COSTS</b>													
GDP implicit deflator	% change	1.2	3.3	3.6	2.3	2.3	2.3	2.3	2.3	2.1	2.0		
GDP fixed-wt. price index		2.5	3.1	4.3	2.8	2.1	3.0	2.8	2.7	2.5	2.5		
Gross domestic purchases fixed-wt. price index		3.0	2.8	3.5	3.0	1.9	3.1	3.0	2.7	2.5	2.5		
CPI		2.9	3.2	3.7	2.8	1.5	3.6	3.8	3.0	2.8	2.7		
Ex. food and energy		2.7	3.6	4.1	3.5	2.2	2.7	3.3	2.9	2.8	2.8		
1. hourly compensation <sup>2</sup>		3.2	3.5	4.2	3.5	3.4	3.4	3.4	3.4	3.5	3.4		
Nonfarm business sector													
Output per hour		3.6	4.1	-1.8	-1.3	.6	2.6	1.5	1.4	1.3	1.3		
Compensation per hour		6.0	4.6	2.8	1.4	3.8	3.5	3.9	3.3	3.3	3.3		
Unit labor cost		2.2	5	4.7	2.8	3.1	9	2.4	1.9	2.0	2.0		

1 Not at an annual rate

2. Private-industry workers.

Strictly Confidential (FR)  
Class II FOMC

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

September 15, 1993

Item	Projected										Projected			
	1992		1993				1994				1991	1992	1993	1994
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GDP	41.7	70.1	9.9	22.8	15.0	43.4	38.9	29.3	30.9	31.5	12.4	188.7	91.0	130.6
Gross domestic purchases	46.2	66.4	31.0	36.0	19.1	45.4	42.8	37.0	35.1	35.1	-8.0	211.1	131.4	149.8
Final sales	44.8	71.0	-10.7	38.2	36.4	38.7	31.9	21.8	28.0	29.9	-15.5	187.1	102.6	111.5
Private dom. final purch.	39.8	70.6	26.0	41.6	38.2	43.1	37.3	30.2	32.8	33.6	29.7	198.8	149.0	133.9
Personal cons. expend.	34.1	46.3	6.6	27.0	28.0	19.5	18.7	16.5	19.2	20.3	1.6	129.7	81.1	74.6
Durables	11.5	14.4	-1.5	12.3	2.2	8.5	5.6	3.4	3.2	2.9	-1.7	41.9	21.5	15.1
Nondurables	7.9	18.9	-5.8	6.8	7.0	3.5	2.7	2.7	4.6	5.5	-13.5	37.8	11.5	15.6
Services	14.7	13.0	13.9	7.9	18.8	7.5	10.3	10.4	11.4	11.9	16.8	50.0	48.1	43.9
Business fixed invest.	5.0	9.9	18.6	19.2	7.9	15.2	11.0	11.5	12.1	12.4	-34.1	37.6	60.9	47.0
Producers' dur. equip.	9.2	10.6	18.4	16.9	6.3	14.2	9.4	9.8	10.3	10.5	-12.2	40.5	55.7	40.0
Nonres. structures	-4.1	-8	.2	2.3	1.6	1.0	1.6	1.7	1.8	1.9	-21.8	-3.0	5.1	7.1
Res. structures	.6	14.4	.8	-4.6	2.3	8.4	7.6	2.2	1.5	1.0	2.8	31.5	6.9	12.3
Change in bus. invent.	-3.0	-9	20.6	-15.4	-21.4	4.7	7.0	7.5	2.9	1.6	28.0	1.6	-11.5	19.0
Nonfarm	-1.2	1.7	21.8	-11.8	-11.4	-2.3	4.0	6.5	2.7	1.4	29.0	-2.8	-3.7	14.6
Farm	-1.8	-2.6	-1.2	-3.6	-10.0	7.0	3.0	1.0	.2	2	-1.1	4.4	-7.8	4.4
Net exports	-4.5	3.7	-21.1	-13.2	-4.1	-2.0	3.9	-7.6	-4.2	-3.5	20.4	22.4	-40.4	19.3
Exports	9.1	12.3	-3.6	7.0	4.4	8.3	8.3	8.5	9.2	10.0	43.8	27.4	16.1	35.9
Imports	13.6	8.5	17.6	20.2	8.5	10.3	12.1	16.1	13.4	13.5	23.5	49.6	56.6	55.2
Government purchases	9.5	-3.3	-15.6	9.8	2.3	-2.5	-1.5	-.8	-.6	-.2	-6.2	10.7	-6.0	3.1
Federal	7.8	-3.3	-16.1	2.7	-3.0	-5.1	-4.4	-3.5	-3.3	-3.2	14.4	1.6	-21.5	-14.4
Defense	6.5	-3.1	-15.3	1.2	-4.4	-5.4	4.8	-3.9	-3.7	-3.6	-20.8	3.6	-23.9	16.0
Nondefense	1.2	-.1	-.9	1.6	1.4	3	.4	.4	.4	.4	6.4	5.2	2.4	1.6
State and local	1.7	.0	.5	7.1	5.3	2.6	2.9	2.7	2.7	3.0	8.3	9.1	15.5	11.3

1. Annual changes are from Q4 to Q4.

Strictly Confidential (PR)  
Class II FOMC

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

September 15, 1993

Item	Fiscal year				1993				1994				1995			
	1992 <sup>a</sup>	1993	1994	1995	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>UNIFIED BUDGET</b>																
Receipts <sup>1</sup>	1090	1153	1228	1294	262	331	294	275	275	372	306	289	286	401	318	302
Outlays <sup>1</sup>	1381	1412	1481	1524	325	349	352	362	371	370	378	377	385	380	382	394
Surplus/deficit <sup>1</sup>	-290	-258	-253	-230	-62	-18	-58	-88	-96	3	-72	-87	-100	21	-64	-92
On-budget	-340	-304	-314	-296	-90	-49	-58	-100	-105	-34	-74	-101	-109	-18	-68	-106
Off-budget	50	46	60	67	27	31	0	13	9	37	2	14	10	39	4	15
Surplus excluding deposit insurance <sup>2</sup>	-287	-288	-250	-236	-68	-25	-67	-91	-95	7	-71	-87	-103	21	-67	-93
Means of financing																
Borrowing	311	245	256	250	60	61	42	85	80	33	57	83	94	16	57	84
Cash decrease	-17	15	4	-10	8	-39	17	9	15	-30	10	10	10	-30	0	20
Other <sup>3</sup>	-4	-1	-7	-10	-6	-4	-1	-7	1	-6	5	-5	-5	-7	7	-12
Cash operating balance, end of period	59	44	40	50	22	61	44	35	20	50	40	30	20	50	50	30
<b>NIPA FEDERAL SECTOR</b>																
Receipts	1163	1245	1341	1411	1218	1264	1279	1299	1342	1363	1361	1378	1407	1422	1437	1453
Expenditures	1435	1489	1526	1575	1482	1491	1496	1514	1531	1530	1528	1548	1579	1585	1588	1613
Purchases	445	448	439	436	443	448	447	443	440	438	436	434	438	437	436	435
Defense	313	308	294	286	305	308	304	300	296	292	289	287	287	285	283	281
Nondefense	132	139	145	150	139	140	142	163	164	145	146	147	150	151	152	153
Other expenditures	990	1041	1087	1139	1039	1043	1049	1071	1091	1092	1092	1114	1141	1148	1153	1179
Surplus/deficit	-271	-243	-185	-164	-264	-228	-217	-215	-189	-167	-168	-170	-172	-163	-151	-160
<b>FISCAL INDICATORS<sup>4</sup></b>																
High-employment (HED) surplus/deficit	-212	-193	-134	-113	-215	-177	-163	-163	-139	-116	-117	-117	-121	-112	-101	-110
Change in HED, percent of potential GDP	.9	-.3	-.9	-.3	0	-.6	-.2	0	-.4	-.3	0	0	0	-.1	-.2	.1
Fiscal impetus (FI), percent, cal. year	-4.4	-4.5	-7.2	-4.1	-5	1.3	-.4	-2.3	-3.2	-2.3	-1.3	-1.2	-1.3	-.5	-.5	-.5

1. OMB's September deficit estimates are \$285 billion in FY93, \$259 billion in FY94, and \$200 billion in FY95. CBO's September deficit estimates of the budget are \$266 billion in FY93, \$253 billion in FY94, and \$196 billion in FY95. 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 September deficit estimates, excluding deposit insurance spending, are \$311 billion in FY93, \$250 billion in FY94, and \$209 billion in FY95. CBO's September deficit estimates, excluding deposit insurance spending, are \$292 billion in FY93, \$240 billion in FY94, and \$260 billion in FY95.

3. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.

4. HED is the NIPA measure in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output generated by 2.4 percent real growth and an associated unemployment rate of 6 percent. Quarterly figures for change in HED and FI are not at annual rates. Change in HED, 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 HED and FI, negative values indicate restraint.

a--Actual.

Confidential FR Class II  
September 15, 1993

CHANGE IN DEBT OF THE DOM. . . NONFINANCIAL SECTORS<sup>1</sup>  
(Percent)

Year	Nonfederal									MEMO			
	Total <sup>2</sup>	Federal govt.	Households			Business	State and local govt.	Private financial assets	Nominal GDP				
			Total	Total	Home mtg.								
<b>Year</b>													
1980	9.4	11.8	8.8	8.6	10.7	1.4	10.2	3.6	9.6	9.9			
1981	9.7	11.6	9.3	7.5	7.0	4.8	11.9	5.2	10.3	9.3			
1982	9.8	19.7	7.4	5.5	4.7	4.4	8.8	9.3	9.8	3.2			
1983	11.9	18.9	10.1	11.1	10.8	12.6	9.3	9.7	12.4	11.0			
1984	14.5	16.9	13.8	12.8	11.7	18.7	15.6	9.1	12.6	9.1			
1985	15.5	16.5	15.2	15.3	13.2	15.8	12.1	31.3	12.2	7.0			
1986	12.3	13.6	11.9	12.0	14.3	9.6	12.2	10.5	7.4	4.7			
1987	9.4	8.0	9.9	12.3	14.9	5.0	7.1	13.4	8.4	8.0			
1988	8.8	8.0	9.0	10.8	11.8	7.2	7.9	7.0	7.9	7.7			
1989	7.8	7.0	8.0	9.0	10.2	6.7	7.0	8.4	5.2	6.0			
1990	6.3	11.0	4.9	6.2	7.7	1.7	3.4	6.7	4.3	4.7			
1991	4.4	11.1	2.4	4.7	6.7	-1.6	-0.9	7.2	0.6	3.7			
1992	5.2	10.9	3.3	5.7	6.6	1.2	0.1	6.4	0.7	6.7			
1993	4.5	8.1	3.3	4.8	5.4	3.7	0.9	6.0	0.5	4.5			
1994	4.8	7.6	3.8	5.6	6.2	5.8	1.4	4.8	1.2	4.8			
<b>Quarter (seasonally adjusted annual rates)</b>													
1992:1	5.5	11.7	3.5	5.8	8.2	-1.2	0.4	6.7	3.6	7.4			
2	5.0	12.3	2.6	4.2	4.0	-1.8	-0.3	7.1	0.0	5.7			
3	5.3	10.2	3.7	5.6	7.5	1.7	0.6	7.6	-0.8	4.6			
4	4.5	7.9	3.3	6.8	6.2	6.1	-0.4	3.6	0.2	9.2			
1993:1	3.4	7.5	2.0	3.5	4.4	2.5	-1.1	7.1	-6.1	4.4			
2	5.6	11.1	3.7	5.4	5.4	3.8	1.1	6.2	1.8	4.2			
3	4.0	5.0	3.6	4.9	5.4	3.8	1.9	5.0	0.6	3.5			
4	4.8	7.8	3.7	5.3	5.9	4.7	1.6	5.1	1.5	5.8			
1994:1	5.2	9.4	3.6	5.3	6.0	5.1	1.4	4.6	1.1	5.4			
2	4.6	7.0	3.7	5.6	6.1	5.8	1.3	4.8	0.8	4.7			
3	4.5	6.4	3.7	5.5	6.0	5.8	1.5	4.4	1.3	4.6			
4	4.7	6.9	3.9	5.6	6.1	6.2	1.6	5.0	1.5	4.5			

1. Data after 1993:2 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 4.5 in 1993 and 4.9 percent in 1994.

Confidential R Class II  
September 1993

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

	Calendar year				1993				1994			
	1991	1992	1993	1994	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
----- Seasonally Adjusted Annual Rates -----												
Net funds raised by domestic nonfinancial sectors												
1 Total	493.8	608.2	560.2	610.6	427.2	699.2	508.7	605.5	655.0	593.8	577.3	616.5
2 Net equity issuance	18.3	26.8	28.0	17.5	27.0	32.0	28.0	25.0	20.0	18.0	16.0	16.0
3 Net debt issuance	475.5	581.4	532.2	593.1	400.2	667.2	480.7	580.5	635.0	575.8	561.3	600.5
Borrowing sectors												
Nonfinancial business												
4 Financing gap <sup>2</sup>	-12.6	-26.4	27.6	62.4	34.0	25.5	19.2	31.7	43.0	60.6	70.5	75.6
5 Net equity issuance	18.3	26.8	28.0	17.5	27.0	32.0	28.0	25.0	20.0	18.0	16.0	16.0
6 Credit market borrowing	-33.4	2.2	32.1	54.1	-39.9	39.5	70.3	58.3	52.0	48.8	56.2	59.3
Households												
7 Net borrowing, of which:	168.4	215.9	192.4	234.9	139.7	216.8	197.2	215.9	222.5	235.8	237.2	244.2
8 Home mortgages	161.4	170.9	147.8	178.6	120.7	149.8	152.9	167.9	172.7	178.4	178.2	185.0
9 Consumer credit	-13.1	9.3	30.2	49.0	20.0	30.7	31.0	39.0	43.0	49.0	50.0	54.0
10 Debt/DPI (percent) <sup>3</sup>	87.0	86.0	86.4	86.4	87.2	86.6	86.9	86.6	86.6	87.0	87.0	87.1
State and local governments												
11 Net borrowing	62.3	59.4	59.5	50.5	70.9	62.7	51.3	53.2	48.6	51.6	47.5	54.1
12 Current surplus <sup>4</sup>	-47.4	-51.0	-54.8	-60.6	-50.6	-50.7	-56.1	62.0	-60.8	-64.1	-58.8	-58.7
U.S. government												
13 Net borrowing	278.2	304.0	248.2	253.7	229.6	348.2	161.9	253.1	311.9	239.7	220.3	242.9
14 Net borrowing; quarterly, nsa	278.2	304.0	248.2	253.7	59.8	61.1	42.2	85.1	80.2	33.2	57.4	83.0
15 Unified deficit; quarterly, nsa	266.8	326.8	225.7	253.0	62.4	17.8	57.9	87.7	96.0	-2.5	72.0	87.5
Funds supplied by depository institutions												
16	-38.7	34.9	127.1	132.3	59.3	162.9	149.1	137.1	139.5	104.4	128.5	156.6
MEMO: (percent of GDP)												
17 Dom. nonfinancial debt <sup>3</sup>	190.9	189.6	188.8	188.5	189.1	189.8	190.1	189.7	189.6	189.7	189.6	189.8
18 Dom. nonfinancial borrowing	8.3	9.6	8.4	8.9	6.4	10.5	7.5	9.0	9.7	8.7	8.4	8.9
19 U.S. government <sup>5</sup>	4.9	5.0	3.9	3.8	3.7	5.5	2.5	3.9	4.8	3.6	3.3	3.8
20 Private	3.4	4.6	4.5	5.1	2.7	5.0	5.0	5.1	4.9	5.1	5.1	5.3

I-26

1. Data after 1993:2 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.

TRADE QUANTITIES<sup>\*</sup>  
(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	7.0	14.2	-6.3	4.3	4.6	6.6	6.8		
Agricultural	30.1	3.0	-21.4	2.1	-6.3	4.9	-0.6		
Computers	27.6	33.2	-3.5	8.9	14.0	23.9	29.3		
Other nonag.	1.7	12.7	-4.7	3.9	4.4	4.0	3.6		
<b>Imports</b>									
Total	10.3	6.8	12.3	16.0	5.8	7.2	9.0		
Oil	12.1	-2.2	4.6	36.3	-18.0	-12.1	7.6		
Computers	65.5	27.3	32.0	36.4	29.6	28.7	26.3		
Other non-oil	3.5	5.1	10.1	10.3	5.3	5.9	5.6		

\* GDP basis, 1987 dollars.

expansion of these imports should slow significantly from the elevated pace seen during the first half of 1993, that growth will remain high relative to the growth of total domestic expenditures, for several reasons. First, while imports of computers are expected to keep pace with the rapid growth of domestic expenditures on computers, this rapidly growing sector accounts for a much larger share of imports than it does of total domestic expenditures. Second, in recent decades, other imports have grown 1-1/2 to 2 times as fast as U.S. GDP, and they are expected to continue to do so. Third, when economic activity abroad slows, foreign producers tend to place greater emphasis on selling in the U.S. market; our expectation that output gaps in major foreign industrial countries will widen somewhat further over the year ahead on average suggests additional stimulus to imports from this source.

We expect that the quantity of oil imports will decline in the third and fourth quarters after the heavy stockbuilding that took place in the second quarter. Over the remainder of the forecast period, imports are likely to continue on an upward trend as U.S. oil production continues to decline.

Oil Prices. Since the August Greenbook, spot oil prices have declined roughly \$1.00 per barrel. OPEC production continues strong, especially in Kuwait, Iran, and Saudi Arabia. With the near-term futures contract for West Texas Intermediate now trading around \$16.75 per barrel, we have lowered the assumed path of the oil import unit value (relative to that in the August Greenbook) by \$0.35 per barrel for the fourth quarter of 1993.

We expect that oil prices will strengthen somewhat over the next several months as OPEC reins in production after the late-September ministerial and as foreign economic activity picks up. Our projection is consistent with the near-term futures contract for WTI reaching \$19.50 by year-end. As in the previous forecast, prices are assumed to remain at that level (consistent with an import unit value of \$17.00 per barrel) through 1994. Our judgment remains that Iraq will not reenter the world oil market until after 1994.

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

	1992		1993			--- Projection ---	
	Q3	Q4	Q1	Q2	Q3	Q4	1994
PPI (ESP. wts.)	3.3	-1.1	1.8	2.4	-0.3	2.2	1.8
Nonag. exports*	1.7	0.7	0.8	3.0	-0.3	1.8	1.7
Non-oil imports*	4.3	2.0	-2.7	3.5	0.8	3.0	2.4
Oil imports (level, \$/bl)	18.54	17.89	16.44	17.07	15.45	15.90	17.00

\* Excluding computers.

Prices of non-oil imports and exports. The somewhat lower path for the dollar in the near term has led us to revise up the projected rate of increase in non-oil import prices over the next several months. We expect these prices (excluding computers) to rise at a 3 percent annual rate in the fourth quarter and

September 15, 1993

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

Measure and country	projection			
	1991	1992	1993	1994
<b>REAL GDP</b>				
<b>-----</b>				
Canada	-0.1	0.8	2.9	3.3
France	1.3	0.6	-0.6	2.1
Western Germany	2.7	0.0	-1.5	1.6
Italy	1.7	-0.2	0.5	1.9
Japan	3.0	0.0	0.4	2.4
United Kingdom	-1.5	0.3	2.0	2.3
Average, weighted by 1987-89 GDP	1.6	0.2	0.4	2.2
Average, weighted by share of U.S. nonagricultural exports				
Total foreign	1.7	1.2	2.0	3.0
G-6	0.8	0.4	1.5	2.7
Developing countries	4.9	3.9	4.3	4.6
<b>CONSUMER PRICES</b>				
<b>-----</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	3.4	2.4
Italy	6.1	4.8	4.4	4.7
Japan	3.2	0.9	1.9	1.2
United Kingdom	4.2	3.1	1.8	3.7
Average, weighted by 1987-89 GDP	3.9	2.4	2.5	2.4
Average, weighted by share of U.S. non-oil imports				
	3.8	1.9	2.1	1.8

## trictly C ential (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\$)	-60.8	-58.9	-62.2	-36.8	-21.6	-13.3	-25.0	-16.4	-15.2	-38.0	-73.7	-54.7	-19.1
Exports of G+S Merchandise Services	501.8	511.1	508.6	520.4	519.4	542.9	546.9	564.2	571.0	570.2	471.8	510.5	543.4
Merchandise	364.3	370.4	366.4	374.6	381.6	396.1	398.2	410.7	414.4	415.9	343.8	368.9	396.7
Services	137.5	140.7	142.2	145.8	137.8	146.8	148.7	153.5	156.6	154.2	128.0	141.6	146.7
Imports of G+S Merchandise Oil Non-oil Services	562.6	570.0	570.7	557.2	541.0	556.2	571.9	580.7	586.2	608.2	545.4	565.1	562.4
Merchandise	459.6	466.5	466.4	453.1	442.1	457.2	474.6	481.7	486.8	509.0	450.4	461.4	463.9
Oil	55.9	55.5	53.3	43.5	44.7	52.0	52.9	47.1	47.3	51.6	51.3	52.1	49.2
Non-oil	403.7	410.9	413.1	409.6	397.5	405.2	421.7	434.7	439.6	457.4	399.1	409.3	414.8
Services	103.0	103.5	104.3	104.1	98.9	99.1	97.3	98.9	99.3	99.2	95.1	103.7	98.5
Memo: (Percent change 1/)													
Exports of G+S of which: Goods	12.1	7.6	-1.9	9.6	-0.8	19.4	3.0	13.3	4.9	-0.6	11.5	6.8	8.7
Imports of G+S of which: Non-oil Goods	11.1	6.9	-4.3	9.3	7.7	16.1	2.1	13.2	3.7	1.5	10.6	5.8	9.8
Non-oil	5.6	5.4	0.5	-9.1	-11.1	11.7	11.8	6.3	3.8	15.9	2.7	0.6	4.7
Goods	-3.1	7.3	2.2	-3.3	-11.3	8.0	17.3	12.9	4.6	17.2	3.2	0.8	6.7
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		1992		1993		1994		1992	1993	1994
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1992	1993	1994		
GDP Net Exports of Goods and Services (87\$)	-42.5	-38.8	-59.9	-73.1	-77.2	-79.2	-83.1	-90.7	-94.9	-98.5	-33.6	-72.4	-91.8		
Exports of G+S Merchandise Services	579.3	591.6	588.0	595.0	599.4	607.7	615.9	624.4	633.7	643.6	578.0	597.5	629.4		
Imports of G+S Merchandise Oil	423.0	437.3	430.2	434.7	439.6	446.7	453.8	461.1	468.8	477.0	422.7	437.8	465.2		
Imports of G+S Merchandise Non-oil Services	156.3	154.3	157.8	160.3	159.8	160.9	162.1	163.3	164.8	166.6	155.4	159.7	164.2		
Imports of G+S Merchandise Oil	621.8	630.3	647.9	668.1	676.6	686.9	699.0	715.2	728.6	742.1	611.6	669.9	721.2		
Imports of G+S Merchandise Non-oil Services	521.6	530.3	545.9	566.5	574.6	584.6	596.1	611.4	624.2	637.0	511.9	567.9	617.2		
Imports of G+S Merchandise Oil	53.1	52.8	53.4	57.7	54.9	53.2	53.1	56.6	57.2	57.2	51.2	54.8	56.0		
Imports of G+S Merchandise Non-oil Services	468.5	477.6	492.5	508.8	519.7	531.5	543.0	554.8	567.0	579.8	460.8	513.1	561.1		
Imports of G+S Merchandise Oil	100.1	100.0	102.0	101.6	102.0	102.2	102.9	103.7	104.4	105.1	99.6	102.0	104.0		
Memo: (Percent change 1/)															
Exports of G+S	6.5	8.8	-2.4	4.8	3.0	5.7	5.5	5.6	6.0	6.4	4.9	2.8	5.9		
of which: Goods	7.0	14.2	-6.3	4.3	4.6	6.6	6.5	6.6	6.8	7.2	6.6	2.3	6.8		
Imports of G+S	9.2	5.6	11.6	13.1	5.2	6.2	7.3	9.6	7.7	7.6	8.6	9.0	8.0		
of which: Non-oil Goods	10.1	8.0	13.1	13.9	8.8	9.4	8.9	9.0	9.1	9.3	10.0	11.3	9.1		
Current Account Balance	-71.1	-94.7	-89.2	-107.7	-106.4	-121.8	-119.1	-130.2	-130.6	-141.6	-66.4	-106.3	-130.4		
Merchandise Trade, net	-110.4	-103.8	-117.2	-137.5	-134.3	-139.0	-146.8	-154.7	-160.2	-165.7	-96.1	-132.0	-156.9		
Exports	438.0	456.0	446.1	452.5	455.3	457.7	464.3	470.3	476.3	482.5	440.1	452.9	473.4		
Agricultural	44.7	45.5	43.4	43.2	41.7	42.3	42.5	42.5	42.4	42.8	44.0	42.6	42.6		
Nonagricultural	393.3	410.4	402.7	409.4	413.6	415.3	421.8	427.8	433.9	439.7	396.1	410.2	430.8		
Imports	548.4	559.8	563.4	590.1	589.6	596.6	611.2	625.0	636.6	648.2	536.3	584.9	630.2		
Oil	57.2	54.9	51.0	57.2	49.3	49.2	52.5	55.9	56.5	56.5	51.6	51.7	55.4		
Non-oil	491.2	505.0	512.3	532.8	540.3	547.4	558.6	569.1	580.0	591.7	484.7	533.2	574.9		
Other Current Account	32.5	12.3	28.2	30.9	28.4	25.2	31.1	32.2	33.8	30.9	23.5	28.2	32.0		
Invest. Income, net	6.8	-3.2	-0.2	-1.1	-0.5	-8.0	-3.3	-7.6	-4.2	-6.8	6.2	-2.4	-5.5		
Direct, net	47.1	40.8	45.2	44.6	42.4	39.4	41.4	41.2	42.0	43.6	48.3	42.9	42.1		
Portfolio, net	-40.3	-44.0	-45.3	-45.7	-42.9	-47.4	-44.7	-48.8	-46.2	-50.4	-42.0	-45.4	-47.5		
Military, net	-2.5	-3.3	-0.6	0.1	-1.0	-0.6	-0.4	-0.2	0.2	0.6	-2.8	-0.5	0.0		
Other Services, net	63.6	57.1	59.1	59.1	59.6	60.8	61.9	62.8	64.0	65.5	59.2	59.7	63.5		
Transfers, net	-28.6	-41.4	-30.3	-28.3	-30.2	-35.0	-30.4	-30.4	-30.4	-35.2	-32.9	-31.0	-31.6		

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

September 15, 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

64 days' supply in August, while inventories of light trucks held at 62 days' supply.

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

	1993					
	May	June	July	Aug.	Sep.	Q4 --scheduled--
U.S. production	10.7	10.2	9.6	9.5	10.7	11.7
Autos	6.0	5.8	5.4	5.0	5.9	6.5
Trucks	4.7	4.4	4.2	4.5	4.8	5.2
Days' supply						
Autos <sup>2</sup>	67	66	69	64		
Light trucks	69	69	62	62		

1. Components may not sum to totals because of rounding.  
 2. BEA seasonal basis, end of month.

Outside of the motor vehicle industry, another sharp gain in computers and related electronic components held up production of business equipment, and advances in the output of steel boosted production of durable materials. Output of nondurable consumer goods was unchanged, and durable consumer goods fell back as the production of appliances retraced much of the advance posted in July. Apart from the rise in office and computing equipment, production of business equipment was sustained after rising quite rapidly in July. Construction supplies changed little in August, after bouncing about of late.

With the modest increase in industrial production, overall capacity utilization remained unchanged in August (chart). Within manufacturing, the operating rate edged up; utilization for primary processing industries now is 2-1/2 percentage points above its long-run average, as most major industries in this category have posted sustained improvement over the past year.

The revision to the NIPA brought the cyclical pattern of goods GDP more in line with the pattern in industrial production

responding to the survey believed that prices of commercial real estate were either steady or increasing at the beginning of the third quarter: This measure of sentiment has trended up from a low of 54 percent in early 1992. Weakness in California, where only 53 percent of examiners surveyed believed prices were holding steady or increasing, held back the national average. Finally, vacancy rates have moved down about 1 percentage point over the past year, to a national average of 18 percent.

**RUSSELL-NCREIF INDEX OF PROPERTY VALUES**  
(Annual percent change, not seasonally adjusted)

	1990	1991	1992	1993
Total	.8	-7.7	-13.4	-11.2
Office buildings	-3.6	-11.8	-17.6	-16.9
Retail stores	2.9	-3.5	-10.2	-7.4
Warehouses	1.6	-6.5	-10.0	-11.9

Note: Changes are from second quarter to second quarter.

Elsewhere, natural gas exploration is continuing to pick up in the current quarter, with footage drilled in July and the rig count for August both well above their second-quarter levels. Natural gas producers are optimistic about the demand for gas over the next decade, as, among other things, the Clean Air Act is inducing utilities to switch to gas-fired plants.<sup>12</sup>

Business Inventories

Business inventory investment came to a halt around midyear. Excluding auto dealers, manufacturing and trade inventories fell at an annual rate of \$6.1 billion in July, after a downward-revised decline of \$0.9 billion in June. The slowing occurred at a time

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12. The Utility Data Institute, in its 1993 annual survey, estimates that natural gas plants will account for more than 40 percent of the additions to generating capacity over the remainder of the decade. Natural gas plants have lower stack emissions than coal- or oil-fired units. In addition, the cost of generating a kilowatt-hour with a gas-fired unit can be up to 30 percent less than with a coal-powered unit.

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

	Jul. 1992	Jul. 1993	Fiscal year to date			
			FY1992	FY1993	Dollar change	Percent change
<b>Outlays</b>	<b>122.2</b>	<b>120.2</b>	<b>1165.1</b>	<b>1179.7</b>	<b>14.6</b>	<b>1.3</b>
Deposit insurance (DI)	-.4	-3.4	9.0	-23.9	-32.9	n.m.
Defense Cooperation account (DCA)	.0	.0	-5.2	.0	5.2	n.m.
<b>Outlays excluding DI and DCA</b>	<b>122.6</b>	<b>123.6</b>	<b>1161.3</b>	<b>1203.6</b>	<b>42.3</b>	<b>3.6</b>
National defense	30.2	25.9	256.3	244.7	-11.6	-4.5
Net interest	16.7	17.2	166.6	166.0	-.6	-.4
Social security	24.2	25.6	239.3	253.5	14.2	5.9
Medicare and health	18.5	20.1	172.4	190.1	17.8	10.3
Income security	18.2	18.7	168.1	178.3	10.2	6.1
Other	14.7	16.1	158.7	171.0	12.3	7.7
<b>Receipts</b>	<b>79.1</b>	<b>80.6</b>	<b>894.2</b>	<b>939.5</b>	<b>45.4</b>	<b>5.1</b>
Personal income and Social insurance taxes	66.9	69.8	733.0	769.0	36.0	4.9
Corporate income taxes	2.8	2.7	78.8	91.1	12.3	15.6
Other	9.3	8.2	82.4	79.4	-2.9	-3.6
<b>Deficit(+) Excluding DI and DCA</b>	<b>43.1</b>	<b>39.6</b>	<b>270.9</b>	<b>240.2</b>	<b>-30.7</b>	<b>-11.3</b>
	<b>43.5</b>	<b>42.9</b>	<b>267.1</b>	<b>264.1</b>	<b>-3.0</b>	<b>-1.1</b>

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

Federal Sector

Federal unified deficit numbers for the first ten months of fiscal year 1993 have come in at \$240 billion, well below the \$271 billion deficit for the comparable period of fiscal year 1992.<sup>13</sup> However, excluding deposit insurance, the deficit for the first ten months of FY93 is nearly identical with the comparable deficit for the same period of last year.

Reduced outlays for deposit insurance also made the deficit results better than anticipated by the Administration and CBO at the time budget estimates were released last spring. In its recently released Mid-Session Review of the Budget, the Administration reduced its FY93 deficit estimate from \$310 billion to \$285 billion. The CBO's recent update of the budget shows even more improvement with an estimated FY93 deficit of \$266 billion. The CBO forecast seems more consistent with data for the first ten months of the fiscal year.

For the fiscal years from 1994 to 1998, the Administration and CBO forecasts of the deficit are similar. The Administration now projects the deficit to decline to \$180 billion by FY96 and to stay at that level through FY98, while CBO projects the deficit to decline to \$190 billion by FY96 and to rise slightly thereafter, to \$200 billion by FY98.

Some of the reduction in deficits from the spring forecasts reflects more favorable economic assumptions, but most of it results from the Omnibus Budget Reconciliation Act of 1993 (OBRA-93). Measured relative to a baseline that incorporates the reductions in defense spending in President Bush's January 1992 budget and holds the rest of the budget at "current services" levels, the

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13. Benchmark revisions show the NIPA deficit over calendar year 1992 to have been \$276 billion, about \$22 billion lower than previously estimated. Almost all of the revision comes from increased receipts, particularly for personal and corporate taxes.

**OMB BUDGET PROJECTIONS**  
 (Billions of dollars)

	Fiscal years					
	1993	1994	1995	1996	1997	1998
Outlays	1425	1500	1536	1599	1677	1758
Receipts	1140	1240	1336	1420	1493	1577
Deficit	285	259	200	179	184	181

Memo:  
 Deficit reduction package,  
 relative to baseline <sup>1</sup>      0      -47      -83      -101      -129      -146

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1. The Administration's baseline assumes that nondefense discretionary spending would grow with inflation, that defense spending would evolve according to President Bush's last budget proposal, and that expiring tax provisions would not be extended.

**ADMINISTRATION ECONOMIC ASSUMPTIONS**

	Calendar years					
	1993	1994	1995	1996	1997	1998
-----Percent change, Q4 over Q4-----						
Real GDP	2.0	3.0	2.7	2.7	2.6	2.6
GDP deflator	2.9	2.9	3.1	3.1	3.1	3.1
CPI-U	3.3	3.3	3.5	3.5	3.5	3.5
-----Percent, annual average-----						
Civilian unemployment rate	6.9	6.5	6.1	5.9	5.7	5.5
Interest rates						
3-month Treasury bills	3.1	3.6	3.9	4.2	4.5	4.5
10-year Treasury notes	6.0	5.9	5.9	5.9	5.9	5.9

Source: OMB, Mid-Session Review of the 1994 Budget, September 1993.

**CBO BUDGET PROJECTIONS**  
(Billions of dollars)

	Fiscal years					
	1993	1994	1995	1996	1997	1998
Outlays	1416	1497	1529	1592	1670	1747
Receipts	1150	1244	1332	1403	1472	1547
Deficit	266	253	196	190	198	200
Deficit reduction package <sup>1</sup>	0	-42	-73	-94	-124	-144

1. The deficit reduction package is shown relative to CBO's re-estimate of the Administration's baseline, which assumes that nondefense discretionary spending would grow with inflation, that defense spending would evolve according to President Bush's last budget proposal, and that expiring tax provisions would not be extended.

**CBO ECONOMIC ASSUMPTIONS**

	Calendar years					
	1993	1994	1995	1996	1997	1998
-----Percent change, year over year-----						
Real GDP	2.6	2.7	2.7	2.7	2.6	2.4
GDP deflator	2.6	2.6	2.5	2.5	2.5	2.5
CPI-U	3.3	3.2	3.0	3.0	3.0	3.0
-----Percent, annual average-----						
Civilian unemployment rate	6.9	6.6	6.3	6.0	5.8	5.7
Interest rates						
Treasury bills	3.1	3.6	4.1	4.5	4.6	4.6
Treasury notes	6.0	6.1	6.1	6.1	6.1	6.1

Source: CBO, The Economic and Budget Outlook: An Update, September 1993.

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

	1993				
	Q2	Q3 <sup>P</sup>	July	Aug.	Sept. <sup>P</sup>
<b>Treasury financing</b>					
Total surplus/deficit (-)	-17.8	-57.9	-39.6	-27.8	9.5
<b>Means of financing deficit:</b>					
Net cash borrowing from the public	61.1	42.2	1.1	52.5	-11.3
Marketable borrowings/ repayments (-)	53.6	43.6	5.2	51.5	-13.2
Bills	-.6	-1.2	11.9	5.8	-19.0
Coupons	54.3	44.8	-6.7	45.7	5.8
Nonmarketable	7.4	-1.3	-4.1	0.9	1.9
Decrease in the cash balance	-39.0	16.7	32.4	-12.7	-3.1
Memo: Cash balance at end of period	60.6	43.9	28.1	40.8	43.9
<sup>2</sup> Other	-4.2	-1.0	6.1	-12.0	4.9

FEDERALLY SPONSORED CREDIT AGENCIES  
Net Cash Borrowing<sup>3</sup>  
(billions of dollars)

	1993				
	Q1	Q2	Apr.	May	June
FHLBs	0.5	12.0	2.1	2.8	7.1
FHLMC	11.6	-5.6	6.7	-1.3	-11.0
FNMA	-0.5	10.7	-0.7	5.6	5.8
Farm Credit Banks	0.3	0.1	-0.4	0.3	0.1
SLMA	-0.9	0.1	-0.6	-0.2	0.9
FAMC <sup>4</sup>	0.0	--	0.0	--	--

- 1. Data reported on a not seasonally adjusted, payment basis.
  - 2. Includes checks issued less checks paid, accrued items and other transactions.
  - 3. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
  - 4. Federal Agricultural Mortgage Corporation.
- e--estimated.  
p--projected.  
NOTE: Details may not add to totals due to rounding.

CONFIDENTIAL (FR)  
CLASS III FOMC

September 17 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

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SUPPLEMENTAL NOTES

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THE DOMESTIC NONFINANCIAL ECONOMY

Consumer Sentiment

The Michigan index of consumer sentiment was little changed in the first part of September from the levels prevailing in July and August. The early September index value of 77.4 was approximately 14 points below its recent peak in December 1992, reflecting the deterioration in sentiment that occurred in the first half of the year. Consumers' assessments of current conditions improved modestly in September while consumers' expectations of future conditions edged lower.

Among the questions not included in the composite index, consumers' appraisals of buying conditions for cars and houses reversed the declines recorded in August moving back up to their relatively favorable July levels. In contrast, respondents' average expectation of the change in unemployment edged up further to its most pessimistic level since July 1992.

Average expected inflation over the next twelve months fell by 0.6 percentage point in early September to 4.3 percent, while the median inflation expectation fell 0.2 percentage point to 3.1 percent. The average expectation of inflation over the next five to ten years also fell somewhat to 4.4 percent—the lowest reading in the eleven-year history of this series. Although the median expectation of inflation over the next five to ten years rose in September from 3.2 percent to 3.5 percent this series has also displayed a downward trend in the past several years.

Erratum

On page two of the Greensheets, page I-16, the percent change in the GDP fixed-weight price index for 1992 was incorrectly reported as 3.4 percent. The correct figure is 3.3 percent.

September 17, 1993

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

	1993 Jan	1993 Feb	1993 Mar	1993 Apr	1993 May	1993 Jun	1993 Jul	1993 Aug	1993 Sep (p)
<b>Indexes of consumer sentiment (Feb. 1966=100)</b>									
Composite of current and expected conditions	89.3	86.6	85.9	85.6	80.3	81.5	77.0	77.3	77.4
Current conditions	98.6	96.0	101.6	99.9	98.7	98.7	96.2	95.1	97.9
Expected conditions	83.4	80.6	75.8	76.4	68.5	70.4	64.7	65.8	64.3
<hr/>									
<b>Personal financial situation</b>									
Now compared with 12 months ago*	110	100	111	104	103	108	102	96	105
Expected in 12 months*	127	125	119	120	115	117	112	114	113
<hr/>									
<b>Expected business conditions</b>									
Next 12 months*	111	103	96	95	83	89	80	76	72
Next 5 years*	97	95	88	91	76	75	66	73	71
<hr/>									
<b>Appraisal of buying conditions</b>									
Cars	134	132	136	137	140	140	141	138	140
Large household appliances*	145	148	152	155	152	147	147	150	148
Houses	166	158	173	167	163	166	171	166	172
<hr/>									
Willingness to use credit	37	40	46	43	41	35	42	42	50
Willingness to use savings	64	52	74	64	73	53	65	58	63
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Expected unemployment change - next 12 months	98	110	117	115	125	127	130	129	131
Expected inflation - next 12 months	3.5	4.6	4.9	4.1	4.4	4.8	4.4	4.9	4.3
Expected inflation - next 5 to 10 years	4.8	5.9	4.9	4.8	5.7	5.2	5.0	4.6	4.4

\* -- 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.