

March 17, 1993

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

\$6 billion and reduce the deficit in FY1994 by \$23 billion. In addition, these projections incorporate lower outlays for deposit insurance, somewhat higher effective tax rates, and changes to several other technical assumptions.

REVISIONS TO STAFF UNIFIED BUDGET DEFICIT PROJECTIONS
(Billions of dollars)

	FY1993	FY1994
Deficit, January Greenbook	295	307
New policy assumptions		
Higher receipts	0	-29
Higher outlays	6	6
Economic assumptions		
GDP	-4	-2
Lower interest rates	0	-2
Technical assumptions		
Deposit insurance	-10	-4
Other	-10	3
Deficit, March Greenbook	277	279

The trade-weighted foreign exchange value of the dollar has been about unchanged, on balance, since the FOMC meeting and is projected to appreciate gradually over the projection period. Although the staff still expects foreign economic activity to accelerate through 1994, the forecast has been revised downward from the last Greenbook, because of weaker growth in the major industrialized countries. The projection of crude oil prices is essentially unchanged from the January Greenbook. The posted price of West Texas intermediate crude oil is expected to average around \$18.75 per barrel in the first half of this year before edging down to \$18.50 per barrel.

Summary of the forecast. Although the forecast of real GDP growth is little changed from the last Greenbook, the composition of output has been altered somewhat. Most notably, in response to the

Clinton fiscal initiatives and the decline in long-term interest rates, business investment has been strengthened significantly in this forecast and personal consumption has been weakened. And we now expect the external sector to be a greater drag on real GDP than before in 1993 and 1994, because of the higher value of the dollar and somewhat slower growth in the economies of our major trading partners.

STAFF REAL GDP PROJECTION--SELECTED COMPONENTS
(Percent change, Q4 to Q4)

	1992	1993	1994
Real GDP	3.2	2.9	2.9
<i>Previous</i>	2.9	2.8	3.0
Real PCE	3.3	3.0	2.9
<i>Previous</i>	3.3	3.1	3.3
Real PDE	12.5	12.4	12.0
<i>Previous</i>	10.8	11.1	9.3

Consumer spending. After a 3-1/4 percent increase in 1992, real personal consumption expenditures are expected to grow 3.0 percent in 1993 and 2.9 percent in 1994--downward revisions from the January Greenbook of 0.1 percentage point and 0.4 percentage point, respectively. This change in the outlook reflects the contractionary effect of higher personal income taxes under the Clinton plan, which is only partially offset by lower interest rates. The increased taxes represent a reduction in the "permanent" income of the affected individuals. Higher-income taxpayers, especially, are likely to be forward-looking with respect to their personal finances, and we anticipate that they will begin adjusting their consumption downward before very long. Although the higher taxes do not need to be paid until 1994, we expect approximately one-half of the adjustment to consumption to be complete by the end of this year and virtually all of the adjustment by the fourth

The forecast for state and local purchases has been revised upward from the January Greenbook, because of increased federal grants for infrastructure improvement, education and training, and nutrition programs. We now expect real purchases to increase 1-1/4 percent in 1993 and 2-1/4 percent in 1994. Despite greater federal assistance, many governmental units will remain under considerable fiscal pressure, and as a result, we anticipate income tax hikes and higher indirect business taxes in both years. These measures, together with the improvement in the economy as a whole, are sufficient to reduce the state and local deficit on operating and current account from \$42 billion in 1992 to \$13 billion in 1994.

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

	1992	1993	1994
Output per hour, nonfarm business	3.3	1.8	1.6
Nonfarm payroll employment	.4	1.7	1.7
Civilian unemployment rate ¹	7.3	6.9	6.6

1. Average for the fourth quarter.

Labor markets. Labor markets are expected to firm gradually over the forecast period in response to rising levels of economic activity. Although businesses are expected to maintain their focus on improving efficiency, given the trimming of workforces that already has occurred, we believe that the scope for increasing output per hour by this means has been reduced. Thus, growth in labor productivity is expected to slow from the rapid pace in 1992, and employment is projected to grow moderately. We expect the labor force to increase again, after the recent lull. Some of this increase reflects the expanded summer jobs program, but we also are expecting the expanding economy to attract new entrants or

some caution is appropriate in reacting to the most recent data. Of course, the firming in materials prices that has accompanied the recent pickup in activity is a departure from the pattern of the past couple of years. However, we believe that, at this point, it is appropriate to put greater weight in our forecast of inflation on the continued slack in labor and product markets and the relative stability of non-oil import prices. Food prices are projected to increase only a bit more than 2 percent in both 1993 and 1994. Energy prices increase 1 percent this year but accelerate to 4-1/2 percent in 1994, as the first round of the BTU tax goes into effect in July.⁷ Excluding food and energy, the CPI is expected to slow to almost a 3 percent pace this year and to 2-3/4 percent in 1994--core inflation is 1/4 percentage point higher than in the previous forecast. The overall CPI is projected to increase just under 3 percent in 1993 and 2-3/4 percent in 1994.

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

	1992	1993	1994
Consumer price index	3.1	2.9	2.7
<i>Previous</i>	3.0	2.6	2.4
Energy	2.4	1.1	4.6
<i>Previous</i>	2.4	2.2	3.2
Excluding food and energy	3.4	3.1	2.7
<i>Previous</i>	3.4	2.8	2.4
ECI for compensation private industry workers ¹	3.5	3.3	3.2
<i>Previous</i>	3.5	3.2	2.9

1. December to December.

7. The staff estimates that the BTU tax will raise consumer prices by 0.2 percentage point in 1994; it eventually will add 1 percent to the price level when it is fully implemented in 1998.

Strictly Confidential (FR)
Class II FOMC

STAFF PROJECTIONS OF CHANGES IN GDP, PRICES, AND UNEMPLOYMENT
(Percent, annual rate)

March 17, 1993

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index ¹		Unemployment rate (level except as noted)	
	1/27/93	3/17/93	1/27/93	3/17/93	1/27/93	3/17/93	1/27/93	3/17/93	1/27/93	3/17/93
ANNUAL										
1990 ²	5.2	5.2	.8	.8	4.5	4.5	5.4	5.4	5.5	5.5
1991 ²	2.8	2.8	-1.2	-1.2	4.0	4.0	4.2	4.2	6.7	6.7
1992 ²	4.8	4.8	2.0	2.1	3.0	3.0	3.0	3.0	7.4	7.4
1993	5.6	5.9	3.0	3.2	2.8	2.9	2.8	3.0	7.1	6.9
1994	5.1	5.2	2.9	2.9	2.4	2.5	2.5	2.6	6.8	6.7
QUARTERLY										
1991 Q1 ²	1.8	1.8	-3.0	-3.0	4.7	4.7	3.3	3.6	6.5	6.5
Q2 ²	5.2	5.2	1.7	1.7	3.5	3.5	2.4	2.1	6.7	6.7
Q3 ²	4.0	4.0	1.2	1.2	3.0	3.0	2.7	2.7	6.7	6.7
Q4 ²	2.8	2.8	.6	.6	2.4	2.4	3.6	3.3	7.0	7.0
1992 Q1 ²	6.2	6.2	2.9	2.9	3.6	3.6	2.9	3.5	7.3	7.3
Q2 ²	4.3	4.3	1.5	1.5	2.9	2.9	3.5	2.9	7.5	7.5
Q3 ²	5.3	5.3	3.4	3.4	2.1	2.1	2.6	2.9	7.5	7.5
Q4 ²	6.5	7.1	3.6	4.8	3.2	2.9	3.3	3.2	7.3	7.3
1993 Q1	6.2	6.7	2.7	3.0	3.4	3.9	2.4	3.8	7.2	7.0
Q2	5.1	5.4	2.9	2.7	2.4	2.8	2.8	2.7	7.2	7.0
Q3	5.1	5.0	2.9	2.8	2.5	2.4	2.7	2.3	7.1	6.9
Q4	5.1	5.2	2.9	2.9	2.4	2.4	2.6	2.6	7.0	6.9
1994 Q1	5.2	5.2	2.9	2.9	2.6	2.5	2.5	2.7	6.9	6.8
Q2	5.0	5.1	3.0	2.9	2.2	2.4	2.4	2.7	6.8	6.8
Q3	4.9	5.2	3.0	2.9	2.1	2.5	2.3	2.9	6.7	6.6
Q4	4.8	5.1	3.1	2.9	2.0	2.4	2.2	2.6	6.6	6.6
TWO-QUARTER³										
1991 Q2 ²	3.5	3.5	-.7	-.7	4.2	4.2	2.9	3.0	.7	.7
Q4 ²	3.4	3.4	.9	.9	2.7	2.7	3.1	3.0	.3	.3
1992 Q2 ²	5.2	5.2	2.2	2.2	3.4	3.4	3.1	3.2	.5	.5
Q4 ²	5.9	6.2	3.5	4.1	2.6	2.5	3.0	2.9	-.2	-.2
1993 Q2	5.7	6.0	2.8	2.9	2.9	3.3	2.6	3.3	-.1	-.3
Q4	5.1	5.1	2.9	2.9	2.4	2.4	2.6	2.4	-.2	-.1
1994 Q2	5.1	5.1	2.9	2.9	2.4	2.4	2.5	2.7	-.2	-.1
Q4	4.9	5.1	3.0	2.9	2.1	2.5	2.3	2.8	-.2	-.2
FOUR-QUARTER⁴										
1990 Q4 ²	4.1	4.1	-.5	-.5	4.7	4.7	6.3	6.2	.6	.6
1991 Q4 ²	3.5	3.5	.1	.1	3.5	3.5	3.0	3.0	1.0	1.0
1992 Q4 ²	5.6	5.7	2.9	3.2	3.0	2.9	3.0	3.1	.3	.3
1993 Q4	5.4	5.6	2.8	2.9	2.7	2.9	2.6	2.9	-.3	-.4
1994 Q4	5.0	5.1	3.0	2.9	2.3	2.5	2.4	2.7	-.4	-.3

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

March 17, 1993

Item	Unit ¹	Projected								
		1986	1987	1988	1989	1990	1991	1992	1993	1994
EXPENDITURES										
Nominal GDP	Bill. \$	4268.6	4539.9	4900.4	5250.8	5522.2	5677.5	5950.7	6301.3	6625.9
Real GDP	Bill. 87\$	4404.5	4540.0	4718.6	4838.0	4877.5	4821.0	4922.8	5080.7	5226.1
Real GDP	% change	2.2	4.5	3.3	1.6	-.5	.1	3.2	2.9	2.9
Gross domestic purchases		2.1	3.9	2.5	.9	-1.2	-.2	3.7	3.4	3.2
Final sales		3.3	2.7	4.2	1.5	.6	-.6	3.1	2.5	2.9
Private dom. final purch.		3.0	1.9	4.2	.5	-.8	-.9	4.4	4.2	4.0
Personal cons. expend.		4.0	2.1	4.2	1.2	.2	.0	3.3	3.0	2.9
Durables		12.5	-2.6	8.5	-.5	-2.3	-2.5	9.2	6.9	5.9
Nondurables		3.3	1.4	3.2	1.2	-.7	-1.5	3.3	1.9	1.8
Services		2.5	3.7	3.7	1.7	1.3	1.6	2.0	2.7	2.8
Business fixed invest.		-5.7	3.0	5.5	-.4	-1.4	-7.0	7.9	9.9	10.0
Producers' dur. equip.		-.7	2.4	9.1	-1.7	-.2	-3.5	12.5	12.4	12.0
Nonres. structures		-14.1	4.4	-1.2	2.3	-3.7	-14.3	-2.8	3.3	4.1
Res. structures		11.1	-3.1	.9	-7.7	-14.7	-.1	14.3	7.9	4.4
Exports		9.9	12.6	13.5	11.3	7.2	7.4	5.0	5.2	5.4
Imports		6.7	4.7	3.6	2.6	.1	4.8	9.6	9.6	7.7
Government purchases		4.1	3.3	.2	2.0	2.8	-.6	.5	-1.6	-.1
Federal		3.8	3.7	-3.4	-.6	3.0	-2.3	-.7	-5.8	-4.1
Defense		3.7	4.5	-3.2	-1.5	1.5	-5.2	-1.8	-9.3	-6.8
State and local		4.4	2.9	2.9	4.0	2.7	.7	1.4	1.2	2.3
Change in bus. invent.	Bill. 87\$	8.6	26.3	19.9	29.8	6.2	-9.3	5.0	24.3	28.9
Nonfarm		10.6	32.7	26.9	29.9	3.7	-9.6	2.7	25.9	31.7
Net exports		-155.1	-143.0	-104.0	-73.7	-51.8	-21.8	-41.5	-67.9	-90.6
Nominal GDP	% change	4.7	8.0	7.7	6.0	4.1	3.5	5.7	5.6	5.1
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	99.5	102.2	105.5	108.3	109.8	108.3	108.4	109.9	111.7
Unemployment rate	%	7.0	6.2	5.5	5.3	5.5	6.7	7.4	6.9	6.7
Industrial prod. index	% change	1.4	6.5	4.5	1.1	.3	-.5	2.2	4.7	3.7
Capacity util. rate-mfg.	%	79.0	81.4	83.9	83.9	82.3	78.2	77.8	79.4	80.0
Housing starts	Millions	1.81	1.62	1.49	1.38	1.19	1.01	1.20	1.33	1.44
Auto sales in U.S.		11.45	10.24	10.63	9.91	9.51	8.39	8.35	8.70	9.27
North American produced		8.22	7.07	7.54	7.08	6.91	6.14	6.25	6.63	7.06
Other		3.24	3.18	3.10	2.83	2.60	2.25	2.10	2.06	2.21
INCOME AND SAVING										
Nominal GNP	Bill. \$	4277.8	4544.5	4908.2	5266.8	5542.9	5694.9	5962.0	6305.2	6628.1
Nominal GNP	% change	4.4	8.1	7.8	6.1	4.2	3.1	5.6	5.5	5.1
Nominal personal income		5.5	7.4	7.1	6.5	6.3	3.3	5.2	6.0	5.4
Real disposable income		2.8	2.1	3.2	1.1	.9	.5	2.5	2.8	2.1
Personal saving rate	%	6.0	4.3	4.4	4.1	4.4	4.8	4.8	4.3	3.7
Corp. profits, IVA&CCAdj	% change	-7.1	29.7	10.2	-6.3	-3.0	.9	25.4	8.8	1.5
Profit share of GNP	%	6.4	7.0	7.4	6.9	6.5	6.1	6.6	7.4	7.2
Federal surpl./def.	Bill. \$	-201.1	-151.8	-136.6	-122.3	-166.2	-210.4	-295.2	-245.1	-174.7
State/local surpl./def.		54.3	40.1	38.4	44.8	30.1	17.1	15.4	34.5	43.2
Ex. social ins. funds		1.5	-14.7	-18.4	-17.5	-32.9	-43.1	-42.1	-21.5	-12.5
PRICES AND COSTS										
GDP implicit deflator	% change	2.6	3.3	4.2	4.4	4.5	3.4	2.5	2.6	2.2
GDP fixed-wt. price index		2.6	3.4	4.2	4.3	4.7	3.5	2.9	2.9	2.5
Gross domestic purchases										
fixed-wt. price index		2.3	3.9	4.1	4.3	5.3	2.8	2.9	2.7	2.4
CPI		1.3	4.5	4.3	4.6	6.3	3.0	3.1	2.9	2.7
Ex. food and energy		3.9	4.3	4.5	4.4	5.3	4.5	3.4	3.1	2.7
ECI, hourly compensation ²		3.2	3.3	4.8	4.8	4.6	4.4	3.5	3.3	3.2
Nonfarm business sector										
Output per hour		1.2	1.8	.5	-1.4	.1	1.3	3.2	1.8	1.6
Compensation per hour		4.6	3.8	3.8	3.1	6.3	4.2	3.7	3.5	3.3
Unit labor cost		3.4	1.9	3.3	4.6	6.2	2.8	.4	1.6	1.6

1. Percent changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

Strictly Confidential (FR)
Class II FOMC

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

March 17, 1993

Item	Unit	1990				1991				1992	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EXPENDITURES											
Nominal GDP	Bill. \$	5445.2	5522.6	5559.6	5561.3	5585.8	5657.6	5713.1	5753.3	5840.2	5902.2
Real GDP	Bill. \$75	4890.8	4902.7	4882.6	4833.8	4796.7	4817.1	4831.8	4838.5	4873.7	4892.4
Real GDP	% change	2.8	1.0	-1.6	-3.9	-3.0	1.7	1.2	.6	2.9	1.5
Gross domestic purchases		2.1	.9	-1.4	-6.0	-4.2	1.7	2.4	-.4	3.0	3.4
Final sales		4.3	-1.1	.1	-.9	-3.2	1.3	-.5	.0	4.7	-.1
Private dom. final purch.		2.9	-1.7	.8	-5.0	-6.0	1.5	1.4	-.4	5.5	2.4
Personal cons. expend.		2.2	.1	1.7	-3.1	-3.0	2.0	1.5	-.3	5.1	-.1
Durables		16.2	-12.0	-1.4	-9.8	-13.0	-.7	8.1	-3.1	16.5	-2.1
Nondurables		-.2	-.5	.8	-2.8	-3.2	1.3	-.6	-3.5	5.5	-1.5
Services		.3	3.7	3.1	-1.6	-.3	3.0	1.2	2.3	2.2	1.2
Business fixed invest.		6.2	-6.6	5.6	-9.6	-15.8	-3.1	-3.4	-5.2	3.0	16.1
Producers' dur. equip.		6.8	-7.8	7.2	-6.1	-16.7	.7	6.0	-2.4	3.2	24.1
Nonres. structures		5.0	-4.1	2.5	-16.5	-14.0	-10.6	-20.8	-11.5	2.7	-.8
Res. structures		5.3	-15.9	-22.9	-22.4	-26.9	7.0	14.4	11.3	20.1	12.6
Exports		10.7	7.0	-.2	11.6	-5.0	16.6	6.2	13.3	2.9	-1.4
Imports		2.6	5.1	1.5	-8.5	-14.6	15.6	17.1	4.2	3.5	14.7
Government purchases		6.4	1.1	-2.0	6.1	2.8	.2	-2.3	-3.0	1.7	-1.2
Federal		8.0	2.1	-7.2	9.9	7.2	-.3	-6.5	-9.0	-3.0	-2.7
Defense		4.9	.3	-10.5	12.8	8.7	-5.6	-9.4	-13.0	-7.7	-5.2
State and local		5.2	.4	1.9	3.5	-.1	.6	.9	1.4	5.1	-.2
Change in bus. invent.	Bill. \$75	7.5	32.8	11.2	-26.8	-25.1	-20.4	.6	7.5	-12.6	7.8
Nonfarm		5.9	27.9	6.6	-25.6	-24.7	-24.5	-1.0	11.8	-10.7	6.0
Net exports		-58.4	-56.9	-59.3	-32.7	-17.9	-17.4	-31.6	-20.5	-21.5	-43.9
Nominal GDP	% change	7.7	5.8	2.7	.1	1.8	5.2	4.0	2.8	6.2	4.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	109.8	110.2	109.9	109.3	108.6	108.2	108.3	108.2	108.1	108.4
Unemployment rate ¹	%	5.3	5.3	5.6	6.0	6.5	6.7	6.7	7.0	7.3	7.5
Industrial prod. index	% change	.6	4.2	3.9	-7.0	-9.7	2.6	6.6	-.7	-2.9	5.2
Capacity util. rate-mfg. ¹	%	82.7	82.8	82.9	80.8	78.0	77.9	78.7	78.2	77.3	77.9
Housing starts	Millions	1.43	1.21	1.13	1.04	.90	1.01	1.04	1.09	1.26	1.14
Auto sales in U.S.		9.95	9.52	9.56	9.02	8.36	8.43	8.56	8.21	8.31	8.50
North American produced		7.16	6.80	7.05	6.61	6.13	6.10	6.28	6.06	6.07	6.32
Other		2.79	2.71	2.51	2.41	2.23	2.33	2.28	2.15	2.24	2.19
INCOME AND SAVING											
Nominal GNP	Bill. \$	5464.1	5537.0	5577.8	5592.7	5614.9	5674.3	5726.4	5764.1	5859.8	5909.3
Nominal GNP	% change	7.6	5.4	3.0	1.1	1.6	4.3	3.7	2.7	6.8	3.4
Nominal personal income		9.5	6.2	4.6	5.2	.1	4.6	3.3	5.1	6.1	3.9
Real disposable income		4.2	.8	-1.2	-.2	-2.6	1.9	.7	2.2	4.0	1.2
Personal saving rate ¹	%	4.4	4.6	3.9	4.6	4.7	4.7	4.5	5.1	4.9	5.3
Corp. profits, IVA&CCAdj	% change	15.6	19.1	-29.9	-8.2	6.7	-2.6	-6.8	7.1	49.8	4.7
Profit share of GNP ¹	%	6.7	6.9	6.3	6.2	6.2	6.1	6.0	6.0	6.6	6.6
Federal govt. surpl./def.	Bill. \$	-167.8	-156.9	-145.6	-194.6	-149.9	-212.2	-221.0	-258.7	-289.2	-302.9
State/local surpl./def.		36.1	33.8	30.3	20.2	14.6	16.5	15.4	22.0	16.6	17.7
Ex. social ins. funds		-27.3	-29.4	-32.5	-42.2	-46.6	-44.1	-44.5	-37.3	-41.8	-40.3
PRICES AND COSTS											
GDP implicit deflator	% change	4.4	4.8	4.7	3.9	5.3	3.5	2.4	2.4	3.1	2.7
GDP fixed-wt. price index		5.4	4.6	4.7	4.1	4.7	3.5	3.0	2.4	3.6	2.9
Gross domestic purchases											
fixed-wt. price index		5.9	3.7	5.6	5.8	3.1	2.5	2.9	2.5	3.1	3.2
CPI		7.5	3.8	7.0	6.9	3.6	2.1	2.7	3.3	3.5	2.9
Ex. food and energy		5.3	5.5	5.8	4.2	6.5	3.8	4.0	3.7	4.2	3.3
ECI, hourly compensation ²		5.6	5.1	4.3	3.8	4.6	4.9	4.4	3.7	4.0	2.9
Nonfarm business sector											
Output per hour		-.5	2.5	-1.7	.1	-.7	1.7	1.9	2.5	3.7	1.7
Compensation per hour		5.0	7.8	6.4	5.9	3.9	5.8	3.9	3.1	3.8	2.4
Unit labor cost		5.6	5.1	8.2	5.8	4.6	4.0	2.0	.6	.1	.8

1. Not at an annual rate.

2. Private-industry workers.

Strictly Confidential (PR)
Class II POMC

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

March 17, 1993

Item	Units	Projected									
		1992		1993				1994			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. \$	5978.5	6082.1	6181.5	6262.7	6340.2	6420.7	6502.3	6583.7	6667.3	6750.2
Real GDP	Bill. 87\$	4933.7	4991.5	5029.1	5062.3	5097.3	5134.1	5170.6	5207.5	5244.4	5282.1
Real GDP	% change	3.4	4.8	3.0	2.7	2.8	2.9	2.9	2.9	2.9	2.9
Gross domestic purchases		4.1	4.3	3.6	3.5	3.4	3.2	3.2	3.3	3.2	3.2
Final sales		2.8	5.2	2.2	2.3	2.7	2.8	2.8	2.9	2.8	3.1
Private dom. final purch.		3.5	6.4	4.2	4.4	4.0	4.1	3.9	4.0	3.8	4.2
Personal cons. expend.		3.7	4.8	3.2	3.3	2.7	2.9	2.9	3.1	2.8	2.9
Durables		9.4	14.0	7.6	8.5	5.3	6.3	5.3	7.1	5.5	5.6
Nondurables		2.5	6.7	1.3	3.0	1.6	1.7	1.9	1.8	1.7	1.9
Services		3.1	1.6	3.1	2.2	2.8	2.8	2.8	2.8	2.8	2.8
Business fixed invest.		3.1	9.9	9.6	10.3	9.7	10.0	9.1	9.5	9.9	11.6
Producers' dur. equip.		9.5	14.4	12.9	12.6	11.8	12.2	11.2	11.6	11.8	13.7
Nonres. structures		-11.3	-1.1	1.2	3.9	4.1	4.0	3.1	3.4	4.4	5.5
Res. structures		.2	26.1	6.7	7.5	9.6	7.7	6.3	4.6	3.1	3.7
Exports		9.2	9.8	5.0	4.7	5.4	5.8	5.2	5.2	5.4	5.6
Imports		14.8	5.7	9.0	11.1	10.4	7.8	7.2	8.0	7.9	7.6
Government purchases		3.8	-2.1	-3.2	-2.1	.4	-1.4	-.4	-.2	.4	-.3
Federal		7.5	-4.0	-5.9	-6.2	-6.0	-5.1	-5.0	-4.5	-3.4	-3.5
Defense		8.3	-2.1	-10.1	-9.5	-9.0	-8.5	-8.0	-7.4	-5.9	-6.0
State and local		1.4	-.8	-1.3	.7	4.7	1.0	2.5	2.5	2.7	1.6
Change in bus. invent.	Bill. 87\$	15.0	9.9	20.0	24.0	25.7	27.4	28.7	29.2	29.7	28.1
Nonfarm		9.6	5.7	18.3	25.3	28.7	31.4	32.2	32.2	32.2	30.1
Net exports		-52.7	-48.0	-54.6	-65.1	-73.8	-78.1	-82.4	-88.1	-93.5	-98.4
Nominal GDP	% change	5.3	7.1	6.7	5.4	5.0	5.2	5.2	5.1	5.2	5.1
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.5	108.7	109.1	109.6	110.4	110.5	110.9	111.4	112.0	112.4
Unemployment rate ¹	%	7.5	7.3	7.0	7.0	6.9	6.9	6.8	6.8	6.6	6.6
Industrial prod. index	% change	2.3	4.4	5.5	5.6	3.9	3.9	3.7	3.7	3.5	3.8
Capacity util. rate-mfg ¹	%	77.8	78.2	78.8	79.4	79.6	79.7	79.8	80.0	80.0	80.1
Housing starts	Millions	1.18	1.25	1.22	1.32	1.37	1.39	1.41	1.43	1.45	1.47
Auto sales in U.S.		8.21	8.38	8.37	8.72	8.80	8.90	9.00	9.18	9.35	9.53
North American produced		6.24	6.37	6.37	6.68	6.72	6.77	6.83	6.98	7.13	7.28
Other		1.97	2.01	2.00	2.04	2.08	2.13	2.17	2.20	2.22	2.25
INCOME AND SAVING											
Nominal GNP	Bill. \$	5992.0	6087.0	6187.1	6265.6	6344.9	6423.0	6506.7	6584.9	6670.6	6750.4
Nominal GNP	% change	5.7	6.5	6.7	5.2	5.2	5.0	5.3	4.9	5.3	4.9
Nominal personal income		2.7	8.0	6.0	5.9	5.9	6.0	6.0	5.2	5.1	5.7
Real disposable income		.5	4.4	1.9	2.9	3.2	3.2	.2	1.8	4.0	2.8
Personal saving rate ¹	%	4.6	4.5	4.3	4.2	4.3	4.4	3.8	3.5	3.7	3.7
Corp. profits, IVA&CCAdj	% change	-13.9	83.3	27.2	7.2	-3.1	5.8	1.3	5.1	-5.7	5.7
Profit share of GNP ¹	%	6.2	7.2	7.5	7.5	7.4	7.4	7.3	7.3	7.1	7.1
Federal govt. surpl./def.	Bill. \$	-304.4	-284.3	-256.7	-247.3	-239.8	-236.8	-185.0	-169.1	-171.4	-173.5
State/local surpl./def.		9.2	18.3	26.2	30.6	40.2	41.1	41.7	41.3	44.0	45.9
Ex. social ins. funds		-48.0	-38.1	-30.0	-25.5	-15.8	-14.8	-14.1	-14.4	-11.6	-9.7
PRICES AND COSTS											
GDP implicit deflator	% change	1.8	2.2	3.5	2.6	2.2	2.2	2.2	2.2	2.3	2.1
GDP fixed-wt. price index		2.1	2.9	3.9	2.8	2.4	2.4	2.5	2.4	2.5	2.4
Gross domestic purchases											
fixed-wt. price index		2.5	2.8	3.5	2.7	2.3	2.4	2.4	2.4	2.5	2.4
CPI		2.9	3.2	3.8	2.7	2.3	2.6	2.7	2.7	2.9	2.6
Ex. food and energy		2.7	3.6	4.3	3.0	2.7	2.7	2.7	2.7	2.6	2.6
ECI, hourly compensation ²		3.2	3.5	3.4	3.3	3.2	3.2	3.5	3.1	3.0	3.0
Nonfarm business sector											
Output per hour		2.9	4.8	1.8	1.4	2.0	1.9	1.8	1.7	1.6	1.5
Compensation per hour		4.2	4.3	3.9	3.4	3.3	3.2	4.0	3.1	3.0	3.0
Unit labor cost		1.3	-.4	2.1	1.9	1.3	1.3	2.2	1.4	1.4	1.5

1. Not at an annual rate.

2. Private-industry workers.

Strictly Confidential (FR)
Class II FOMC

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

March 17, 1993

Item	1990				1991				1992					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1989	1990	1991	1992
Real GDP	34.1	11.9	-20.1	-48.8	-37.1	20.4	14.7	6.7	35.2	18.7	77.0	-22.9	4.7	153.0
Gross domestic purchases	25.1	10.4	-17.7	-75.4	-51.9	19.9	28.9	-4.4	36.2	41.1	41.7	-57.6	-7.5	180.5
Final sales	51.5	-13.3	1.4	-10.8	-38.8	15.6	-6.2	-.3	55.4	-1.7	73.1	28.8	-29.7	150.6
Private dom. final purch.	28.3	-17.4	8.4	-51.1	-60.2	14.6	13.4	-4.3	52.5	23.5	19.7	-31.8	-36.5	173.2
Personal cons. expend.	17.5	.6	13.8	-25.9	-24.5	15.8	11.9	-2.2	40.3	-.8	39.1	6.0	1.0	108.7
Durables	16.7	-14.3	-1.5	-11.1	-14.6	-.7	8.1	-3.3	16.2	-2.3	-2.4	-10.2	-10.5	38.3
Nondurables	-.6	-1.2	2.0	-7.5	-8.6	3.3	-1.5	-9.2	14.0	-4.0	12.1	-7.3	-16.0	33.7
Services	1.4	16.0	13.4	-7.3	-1.3	13.3	5.2	10.4	9.9	5.6	29.4	23.5	27.6	36.6
Business fixed invest.	8.1	-9.2	7.3	-13.6	-22.3	-4.0	-4.3	-6.6	3.7	18.9	-2.1	-7.4	-37.2	39.0
Producers' dur. equip.	5.9	-7.3	6.2	-5.6	-15.9	.6	5.0	-2.1	2.7	19.2	-6.2	-.8	-12.4	43.1
Nonres. structures	2.2	-1.9	1.1	-8.0	-6.4	-4.6	-9.2	-4.6	1.0	-.3	4.1	-6.6	-24.8	-4.1
Res. structures	2.7	-8.9	-12.7	-11.6	-13.4	2.8	5.7	4.7	8.3	5.6	-17.3	-30.5	-.2	25.4
Change in bus. invent.	-17.4	25.3	-21.6	-38.0	1.7	4.7	21.0	6.9	-20.1	20.4	4.0	-51.7	34.3	2.4
Nonfarm	-25.3	22.0	-21.3	-32.2	.9	.2	23.5	12.8	-22.5	16.7	.7	-56.8	37.4	-6.1
Farm	7.9	3.2	-.2	-5.8	.8	4.5	-2.5	-5.8	2.3	3.7	3.3	5.1	-3.0	8.4
Net exports	9.0	1.5	-2.4	26.6	14.8	.5	-14.2	11.1	-1.0	-22.4	35.3	34.7	12.2	-27.5
Exports	12.5	8.5	-.3	14.2	-6.7	20.2	8.1	17.2	4.0	-2.0	49.5	34.9	38.8	28.1
Imports	3.6	7.0	2.1	-12.4	-21.5	19.7	22.3	6.0	5.0	20.5	14.1	.3	26.5	55.6
Government purchases	14.2	2.6	-4.6	13.7	6.6	.5	-5.4	-7.1	3.9	-2.8	18.1	25.9	-5.4	4.9
Federal	7.3	2.0	-7.1	9.0	6.8	-.3	-6.6	-9.0	-2.9	-2.6	-2.3	11.2	-9.1	-2.6
Defense	3.4	.2	-7.8	8.5	6.0	-4.2	-7.0	-9.6	-5.4	-3.5	-4.2	4.3	-14.8	-5.0
Nondefense	3.8	1.8	.7	.5	.7	4.0	.4	.6	2.5	.9	2.0	6.8	5.7	2.4
State and local	6.9	.6	2.5	4.7	-.2	.8	1.2	1.9	6.9	-.3	20.4	14.7	3.7	7.5

1. Annual changes are from Q4 to Q4.

Strictly Confidential (FR)
Class II FOMC

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

March 17, 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	57.8	37.6	33.2	34.9	36.8	36.6	36.9	36.8	37.7	4.7	153.0	142.6	148.0
Gross domestic purchases	50.1	53.0	44.2	43.7	43.7	41.1	40.8	42.7	42.3	42.6	-7.5	180.5	172.6	168.4
Final sales	34.1	62.8	27.7	29.1	33.3	35.0	35.3	36.4	36.3	39.3	-29.7	150.6	125.1	147.4
Private dom. final purch.	34.1	63.1	41.8	44.5	41.1	42.6	40.6	42.7	40.8	44.9	-36.5	173.2	170.0	169.0
Personal cons. expend.	29.9	39.3	26.2	27.3	23.2	24.8	24.4	26.5	24.5	25.4	1.0	108.7	101.5	100.8
Durables	9.8	14.6	8.4	9.5	6.1	7.3	6.3	8.5	6.7	7.0	-10.5	38.3	31.3	28.6
Nondurables	6.4	17.3	3.5	7.9	4.2	4.5	5.0	4.8	4.5	5.1	-16.0	33.7	20.1	19.5
Services	13.7	7.4	14.2	9.9	12.9	13.0	13.1	13.1	13.2	13.3	27.6	36.6	50.0	52.8
Business fixed invest.	4.0	12.4	12.3	13.4	13.1	13.8	12.8	13.7	14.6	17.4	-37.2	39.0	52.6	58.5
Producers' dur. equip.	8.4	12.8	11.9	12.0	11.6	12.4	11.7	12.4	12.9	15.4	-12.4	43.1	47.9	52.4
Nonres. structures	-4.4	-.4	.4	1.4	1.5	1.4	1.2	1.3	1.6	2.1	-24.8	-4.1	4.7	6.1
Res. structures	.1	11.4	3.3	3.7	4.9	4.0	3.4	2.5	1.7	2.1	-.2	25.4	15.9	9.7
Change in bus. invent.	7.2	-5.1	10.1	4.1	1.6	1.8	1.2	.5	.5	-1.6	34.3	2.4	17.5	.6
Nonfarm	3.6	-3.9	12.6	7.1	3.3	2.8	.7	.0	.0	-2.1	37.4	-6.1	25.7	-1.4
Farm	3.5	-1.1	-2.5	-3.0	-1.7	-1.0	.5	.5	.5	.5	-3.0	8.4	-8.2	2.0
Net exports	-8.8	4.7	-6.6	-10.5	-8.7	-4.3	-4.3	-5.7	-5.4	-4.9	12.2	-27.5	-30.1	-20.3
Exports	12.5	13.6	7.2	6.8	8.0	8.7	7.9	8.1	8.4	8.9	38.8	28.1	30.8	33.3
Imports	21.3	8.8	13.9	17.3	16.8	13.0	12.2	13.8	13.9	13.7	26.5	55.6	61.0	53.6
Government purchases	8.8	-5.0	-7.5	-4.9	.9	-3.3	-1.0	-.5	.9	-.7	-5.4	4.9	-14.8	-1.3
Federal	6.8	-3.9	-5.6	-5.9	-5.6	-4.7	-4.5	-4.0	-3.0	-3.0	-9.1	-2.6	-21.8	-14.5
Defense	5.3	-1.4	-7.0	-6.4	-5.9	-5.4	-5.0	-4.5	-3.5	-3.5	-14.8	-5.0	-24.7	-16.5
Nondefense	1.5	-2.5	1.4	.5	.3	.7	.5	.5	.5	.5	5.7	2.4	2.9	2.0
State and local	2.0	-1.1	-1.9	1.0	6.5	1.4	3.5	3.5	3.9	2.3	3.7	7.5	7.0	13.2

1. Annual changes are from Q4 to Q4.

Item	Fiscal year				1992				1993				1994			
	1991 ^a	1992 ^a	1993	1994	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^b	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
					Not seasonally adjusted											
Receipts ¹	1054	1091	1180	1243	239	322	276	265	266	356	293	271	272	392	308	290
Outlays ¹	1324	1381	1457	1522	355	350	338	386	329	365	377	383	376	383	380	397
Surplus/deficit ¹	-269	-290	-276	-279	-116	-28	-62	-120	-63	-9	-84	-112	-104	9	-72	-107
On-budget	-322	-340	-338	-340	-121	-60	-62	-108	-93	-47	-90	-123	-113	-25	-78	-119
Off-budget	52	50	62	61	6	31	-1	-13	30	38	7	11	9	34	6	12
Surplus excluding deposit insurance ²	-203	-287	-276	-263	-105	-25	-69	-128	-68	-7	-72	-106	-101	14	-69	-102
Means of financing																
Borrowing	293	311	244	285	83	62	77	81	57	31	75	108	91	26	59	96
Cash decrease	-1	-17	19	0	29	-27	-12	29	6	-25	9	10	10	-30	10	10
Other ³	-23	-4	14	-6	4	-7	-3	10	1	3	0	-6	3	-5	3	1
Cash operating balance, end of period	41	59	40	40	20	47	59	30	24	49	40	30	20	50	40	30
NIPA FEDERAL SECTOR																
					Seasonally adjusted, annual rate											
Receipts	1118	1144	1243	1352	1143	1150	1155	1198	1243	1259	1274	1292	1357	1380	1379	1398
Expenditures	1313	1433	1500	1543	1433	1453	1460	1482	1499	1507	1513	1529	1542	1550	1551	1572
Purchases	447	446	449	436	445	445	455	452	453	449	444	441	437	434	432	430
Defense	326	315	313	294	314	312	320	319	316	311	305	300	296	292	289	286
Nondefense	121	132	137	142	131	133	136	133	137	138	139	140	141	142	144	145
Other expenditures	866	987	1051	1107	988	1008	1005	1030	1046	1058	1069	1088	1105	1116	1119	1141
Surplus/deficit	-194	-289	-257	-191	-289	-303	-304	-284	-257	-247	-240	-237	-185	-169	-172	-174
FISCAL INDICATORS ⁴																
High-employment (HEB) surplus/deficit	-153	-222	-208	-159	-224	-233	-237	-227	-206	-201	-197	-199	-151	-139	-147	-154
Change in HEB, percent of potential GDP	-.4	1.2	-.2	-.8	.5	.2	.1	-.2	-.3	-.1	-.1	0	-.7	-.2	.1	.1
Fiscal impetus (FI), percent, cal. year	-3.8	-3.8	-2.2	-6.1	-2.6	-.1	1.3	-1	-1.6	-.3	.4	-2.5	-2.4	-1.5	-1.9	-.8

1. OMB's February deficit estimates, including the President's proposals, are \$332 billion in FY93 and \$262 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 February deficit estimates, excluding deposit insurance spending, are \$325 billion in FY93 and \$254 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 2.0 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.

Confidential FR Class II
March 17, 1993

CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS¹
(Percent)

-----Nonfederal-----										
-----Households-----										
-----MEMO-----										
Year	Total ²	Federal govt.	Total	Total	Home mtg.	Cons. credit	Business	State and local govt.	Private financial assets	Nominal GDP
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	19.6	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	31.4	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	6.9	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	4.1	11.1	2.0	3.8	4.8	-1.6	-0.5	4.5	0.6	3.5
1992	5.2	10.9	3.4	5.5	7.0	0.3	0.6	5.3	1.0	5.7
1993	5.4	8.8	4.2	5.8	6.8	3.3	2.3	4.5	0.1	5.6
1994	5.7	8.1	4.7	6.4	7.2	5.2	2.8	4.5	0.9	5.1
Quarter (seasonally adjusted annual rates)										
1992:1	6.1	13.3	3.8	5.8	7.9	0.4	1.2	5.1	5.9	6.2
2	5.1	12.3	2.7	4.4	5.3	-1.6	-0.3	6.9	-0.6	4.3
3	4.1	6.5	3.3	5.5	6.9	0.1	0.3	5.4	-2.4	5.3
4	5.2	10.0	3.5	5.7	7.2	2.4	1.0	3.5	1.3	7.1
1993:1	5.2	8.5	4.0	5.7	6.7	2.5	2.0	4.0	-1.6	6.7
2	4.8	7.0	4.0	5.5	6.6	3.0	2.2	4.6	0.6	5.4
3	4.6	6.0	4.2	5.6	6.6	3.5	2.5	4.3	-0.1	5.0
4	6.6	12.6	4.4	5.9	6.7	4.3	2.6	4.7	1.5	5.2
1994:1	6.5	11.9	4.5	6.0	6.9	4.5	2.7	4.2	1.2	5.2
2	5.0	5.9	4.7	6.2	6.9	4.9	2.8	4.5	0.8	5.1
3	4.4	3.7	4.7	6.4	7.1	5.3	2.8	4.1	0.0	5.2
4	6.3	10.1	4.8	6.5	7.2	5.8	2.9	4.7	1.4	5.1

1. Data after 1992:4 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 5.2 in 1993 and 5.7 percent in 1994.

FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS¹
(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	460.9	614.2	652.4	707.8	634.3	591.1	570.4	813.9	810.5	635.0	569.9	816.0
2 Net equity issuance	18.3	26.8	13.5	5.0	22.0	14.0	10.0	8.0	5.0	5.0	5.0	5.0
3 Net debt issuance	442.7	587.5	638.9	702.8	612.3	577.1	560.4	805.9	805.5	630.0	564.9	811.0
Borrowing sectors												
Nonfinancial business												
4 Financing gap ²	-4.4	-29.7	18.2	57.9	-3.9	11.7	27.0	38.1	46.6	51.1	63.5	70.6
5 Net equity issuance	18.3	26.8	13.5	5.0	22.0	14.0	10.0	8.0	5.0	5.0	5.0	5.0
6 Credit market borrowing	-18.9	20.3	84.4	104.6	74.1	78.7	90.6	94.1	99.4	105.1	106.1	107.7
Households												
7 Net borrowing, of which:	144.9	215.2	241.0	281.8	237.7	232.7	237.1	256.5	264.3	276.6	289.2	297.2
8 Home mortgages	123.9	190.8	199.2	225.0	195.4	196.9	200.2	204.4	214.2	219.9	229.6	236.4
9 Consumer credit	-12.6	2.5	26.8	43.1	20.0	24.0	28.0	35.0	37.0	41.1	45.0	49.4
10 Debt/DPI (percent) ³	91.5	91.0	91.3	92.3	91.8	91.8	91.9	91.9	92.6	93.0	93.0	93.2
State and local governments												
11 Net borrowing	38.5	48.1	42.5	44.2	38.4	44.2	41.3	46.2	41.6	45.6	41.5	48.1
12 Current surplus ⁴	-39.6	-42.9	-27.4	-23.4	-32.7	-27.6	-25.7	-23.8	-23.7	-25.1	-23.0	-21.7
U.S. government												
13 Net borrowing	278.2	304.0	271.0	272.2	262.1	221.5	191.4	409.1	400.3	202.7	128.0	357.9
14 Net borrowing; quarterly, nsa	278.2	304.0	271.0	272.2	56.7	31.0	75.0	108.3	91.2	26.3	59.2	95.6
15 Unified deficit; quarterly, nsa	266.8	326.9	268.0	273.8	63.4	8.9	83.8	112.0	104.0	-8.9	72.0	106.7
Funds supplied by												
16 depository institutions	-61.0	27.0	93.2	107.0	39.4	96.6	114.1	122.8	124.5	92.4	91.6	119.6
MEMO: (percent of GDP)												
17 Dom. nonfinancial debt ³	193.4	193.2	192.1	192.9	193.2	193.0	192.8	193.5	194.2	194.2	193.9	194.5
18 Dom. nonfinancial borrowing	7.8	9.9	10.1	10.6	9.9	9.2	8.8	12.6	12.4	9.6	8.5	12.0
19 U.S. government ⁵	4.9	5.1	4.3	4.1	4.2	3.5	3.0	6.4	6.2	3.1	1.9	5.3
20 Private	2.9	4.8	5.8	6.5	5.7	5.7	5.8	6.2	6.2	6.5	6.6	6.7

1. Data after 1992:4 are staff projections.
2. For corporations: Excess of capital expenditures over U.S. internal funds.
3. Annals 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.

recent and projected further appreciation of the dollar more than offset the stimulative effects of the gradual pickup in GDP growth abroad. Although exports take off from a significantly higher level in the fourth quarter of 1992 than we had projected previously, the projected growth of exports averages nearly 1 percentage point per year less than in the January forecast, reflecting the higher path of the dollar and the weaker outlook for growth abroad.

TRADE QUANTITIES*
(Percent change from preceding period shown, A.R.)

	1992		Projection				1994
	Q3	Q4	Q1	Q2	Q3	Q4	
Exports							
Total	12.7	13.9	6.2	5.4	6.2	6.6	5.9
Agricultural	58.7	-6.5	1.8	-11.9	2.1	13.5	2.6
Computers	35.4	34.4	21.3	21.6	21.6	21.6	26.4
Other nonag.	5.1	13.6	4.4	5.0	4.0	3.1	2.3
Imports							
Total	15.5	6.5	9.9	12.3	11.4	8.6	8.5
Oil	13.2	-1.5	-3.7	8.9	14.7	2.1	9.2
Computers	81.2	19.7	23.3	24.0	23.9	24.0	22.3
Other non-oil	8.3	5.6	9.6	10.8	9.0	6.8	5.8

* GDP basis, 1987 dollars.

We expect total merchandise imports in real terms to expand 10-1/2 percent in 1993 and about 8-1/2 percent in 1994, somewhat faster than projected in the January Greenbook. Declines in relative prices of imports (associated in part with the appreciation of the dollar) and rapid growth of trade in computers contribute importantly to the projected strong growth of imports. Even so, the growth of computer imports is expected to slow substantially from the exceptionally rapid rate of about 50 percent during 1992 and to be generally in line with the projected growth of computer exports.

The quantity of oil imports is projected to remain essentially flat in the first quarter. Over the rest of the forecast period, imports are likely to show seasonal fluctuations around a strong upward trend as U.S. oil drilling activity stagnates and production declines.

Oil prices. Since the previous Greenbook, spot West Texas Intermediate (WTI) has varied between roughly \$19.00 and \$21.00 per barrel, nearly \$1.00 per barrel above the range assumed in the last Greenbook. We assume that the price will recede a bit from the current level (just below \$20 per barrel) as production cuts by OPEC fail to fully offset seasonal declines in consumption. Beyond the middle of the year we assume that spot WTI prices will remain at \$19.50 per barrel. This spot price should be consistent with an import unit value of \$17.00 per barrel, which is the same projection for the longer-term as in the January Greenbook. We continue to assume that Iraq will begin exporting significant volumes of oil sometime in early 1994.

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

	1992		Projection				1994
	Q3	Q4	Q1	Q2	Q3	Q4	Q4
PPI (exp. wts.)	3.0	-1.5	2.2	2.3	1.4	1.6	1.7
Nonag. exports*	3.2	-0.3	1.5	0.9	0.7	1.2	1.5
Non-oil imports*	4.7	0.9	-0.9	-0.2	1.3	2.1	1.5
Oil imports (level, \$/bbl)	18.60	17.90	16.90	17.40	17.00	17.00	17.00

* Excluding computers.

Prices of non-oil imports and exports. The appreciation of the dollar in recent months is expected to result in slight declines in U.S. non-oil import prices during the first half of 1993. We expect these import prices to continue rising less rapidly than domestic

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STRICTLY CONFIDENTIAL - FR
CLASS II FOMCREAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1990-94
(Percent change from fourth quarter to fourth quarter)

Measure and country	1990	1991	1992	Projection	
				1993	1994
<u>REAL GDP</u>					
Canada	-2.0	-0.0	1.3	2.7	3.2
France	1.5	1.6	1.0	0.9	3.1
Western Germany	6.0	2.0	0.2	-0.6	2.1
Italy	1.6	1.7	-0.0	0.1	1.7
Japan	4.7	3.0	0.2	0.8	2.7
United Kingdom	-1.0	-1.6	0.1	1.5	2.5
Average, weighted by 1987-89 GDP	2.6	1.5	0.3	0.8	2.5
Average, weighted by share of					
U.S. nonagricultural exports					
Total foreign	1.8	1.7	1.5	2.3	3.3
G-6	0.6	0.8	0.7	1.6	2.9
Developing countries	5.0	4.9	3.9	4.8	5.2
<u>CONSUMER PRICES</u>					
Canada	4.9	4.1	1.8	2.1	1.8
France	3.6	2.9	2.2	2.5	1.8
Western Germany	3.0	3.9	3.7	3.2	2.2
Italy	6.3	6.1	4.8	5.8	3.8
Japan	3.2	3.2	0.9	1.9	1.6
United Kingdom	10.0	4.2	3.1	2.4	3.5
Average, weighted by 1987-89 GDP	4.8	3.9	2.4	2.8	2.3
Average, weighted by share of					
U.S. non-oil imports	4.4	3.8	1.9	2.3	2.0

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 (\$B)	-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	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
Merchandise	363.5	368.7	366.7	375.3	377.4	390.1	395.2	407.3	408.1	408.0	343.8	368.5	392.5
Services	136.7	140.0	141.7	147.3	138.5	146.1	149.0	154.0	157.3	155.4	127.9	141.4	146.9
Imports of G+S	558.6	565.6	567.7	555.3	533.8	553.5	575.8	581.8	586.8	607.3	545.4	561.8	561.2
Merchandise	458.3	464.5	465.7	452.7	438.9	454.9	477.9	482.2	488.0	507.8	450.4	460.3	463.5
Oil	55.9	55.6	53.3	43.5	44.2	51.5	52.4	46.5	46.7	50.9	51.3	52.1	48.6
Non-oil	402.4	408.9	412.4	409.1	394.7	403.4	425.5	435.7	441.3	456.8	399.0	408.2	414.8
Services	100.3	101.2	102.0	102.6	94.9	98.5	97.9	99.6	98.8	99.5	95.0	101.5	97.7
Memo: (Percent changes 1/)													
Exports of G+S	10.7	7.0	-0.2	11.6	-5.0	16.6	6.2	13.3	2.9	-1.4	11.3	7.2	7.4
of which: Goods	10.2	5.8	-2.2	9.7	2.3	14.2	5.3	12.8	0.8	-0.1	10.2	5.8	8.5
Imports of G+S	2.6	5.1	1.5	-8.5	-14.6	15.6	17.1	4.2	3.5	14.7	2.6	0.1	4.8
of which: Non-oil Goods	-4.4	6.6	3.5	-3.2	-13.4	9.1	23.8	9.9	5.2	14.8	3.1	0.5	6.5
<hr/>													
Current Account Balance	-89.5	-85.3	-95.9	-91.0	48.8	9.7	-44.3	-28.9	-25.5	-73.1	-101.1	-90.4	-3.7
Merchandise Trade, net	-109.5	-99.2	-115.6	-111.1	-73.3	-65.6	-80.7	-74.2	-70.7	-100.0	-115.7	-108.9	-73.4
Exports	379.9	386.6	386.2	402.1	402.5	413.3	416.6	431.4	430.5	428.6	361.7	388.7	416.0
Agricultural	43.0	40.5	39.4	37.9	39.2	37.5	40.7	43.2	42.9	41.4	42.2	40.2	40.1
Nonagricultural	337.0	346.1	346.8	364.2	363.3	375.8	375.9	388.2	387.7	387.2	319.5	348.5	375.8
Imports	489.4	485.8	501.7	513.2	475.8	478.9	497.3	505.6	501.2	528.6	477.4	497.6	489.4
Oil	63.2	51.3	61.8	72.9	51.7	51.7	52.5	48.8	41.6	51.9	50.9	62.3	51.2
Non-oil	426.3	434.5	439.9	440.3	424.2	427.1	444.8	456.8	459.6	476.8	426.4	435.3	438.2
Other Current Account	2.7	1.1	2.8	-10.0	94.2	59.6	24.0	35.5	27.6	19.5	0.2	-0.9	53.3
Invest. Income, net	17.3	12.8	16.9	30.1	27.9	15.7	12.3	9.8	17.6	7.4	14.4	19.3	16.4
Direct, net	52.1	51.5	54.0	59.7	61.7	53.0	48.3	48.5	55.0	47.7	47.8	54.3	52.9
Portfolio, net	-34.8	-38.7	-37.1	-29.6	-33.9	-37.3	-36.0	-38.7	-37.4	-40.3	-33.5	-35.1	-36.5
Military, net	-7.5	-6.5	-6.8	-10.5	-10.3	-5.7	-4.0	-2.2	-2.5	-2.5	-6.8	-7.8	-5.5
Other Services, net	36.3	37.2	38.3	47.6	47.7	48.8	52.1	54.7	57.8	53.0	32.6	39.9	50.8
Transfers, net	-26.2	-29.6	-28.8	-47.1	56.8	16.5	-24.0	-17.1	-27.7	-31.0	-25.6	-32.9	8.0

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

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	-48.0	-54.7	-65.2	-73.9	-78.2	-82.5	-88.2	-93.6	-98.5	-41.5	-68.0	-90.7
Exports of G+S	575.9	589.5	596.7	603.6	611.6	620.3	628.2	636.3	644.7	653.6	573.5	608.1	640.7
Merchandise	420.4	434.3	440.9	446.7	453.4	460.7	467.2	473.7	480.7	487.9	417.7	450.4	477.4
Services	155.5	155.1	155.8	156.8	158.1	159.6	161.0	162.5	164.0	165.6	155.8	157.5	163.2
Imports of G+S	628.6	637.4	651.3	668.7	685.4	698.4	710.6	724.4	738.3	752.0	615.0	676.0	731.3
Merchandise	526.4	534.8	547.5	563.7	579.1	591.3	602.5	615.5	628.5	641.3	514.2	570.4	621.9
Oil	52.5	52.3	51.8	52.9	54.8	55.1	55.0	57.2	59.0	60.1	50.6	53.6	57.9
Non-oil	473.9	482.5	495.7	510.7	524.4	536.2	547.5	558.2	569.5	581.2	463.6	516.8	564.1
Services	102.2	102.6	103.8	105.0	106.3	107.2	108.1	108.9	109.8	110.7	100.8	105.6	109.4
demo:(Percent changes 1/)													
Exports of G+S	9.2	9.8	5.0	4.7	5.4	5.8	5.2	5.2	5.4	5.6	5.0	5.2	5.4
of which: Goods	12.7	13.9	6.2	5.4	6.2	6.6	5.8	5.7	6.0	6.2	6.6	6.1	5.9
Imports of G+S	14.8	5.7	9.0	11.1	10.4	7.8	7.2	8.0	7.9	7.6	9.6	9.6	7.7
of which: Non-oil Goods	15.8	7.5	11.4	12.7	11.1	9.3	8.7	8.1	8.3	8.5	10.7	11.1	8.4
Current Account Balance	-63.1	-88.1	-77.6	-89.6	-94.3	-103.0	-102.1	-110.4	-112.6	-122.6	-62.4	-91.1	-111.9
Merchandise Trade, net	-110.5	-103.9	-104.3	-114.8	-122.5	-127.6	-132.5	-139.0	-144.8	-150.5	-96.3	-117.3	-141.7
Exports	440.5	457.5	461.0	465.2	471.1	478.1	484.0	489.4	495.4	500.9	439.3	468.9	492.4
Agricultural	45.9	45.6	44.8	44.6	45.1	47.1	47.9	48.7	49.6	50.4	43.9	45.4	49.1
Nonagricultural	394.6	411.9	416.2	420.7	426.0	431.0	436.1	440.7	445.8	450.5	395.3	423.5	443.3
Imports	551.0	561.4	565.3	580.0	593.6	605.7	616.5	628.4	640.2	651.4	535.5	586.2	634.1
Oil	57.1	55.0	51.3	54.1	54.7	54.9	54.9	57.1	58.9	59.9	51.4	53.8	57.7
Non-oil	493.9	506.4	514.0	525.9	538.9	550.8	561.6	571.3	581.3	591.4	484.2	532.4	576.4
Other Current Account	35.5	12.5	21.7	22.9	24.1	22.8	26.7	28.1	29.5	28.3	23.8	22.9	28.1
Invest. Income, net	11.9	3.4	5.0	2.3	4.1	1.8	3.8	0.6	2.7	-0.4	10.1	3.3	1.7
Direct, net	49.1	44.9	42.7	41.4	40.9	41.3	40.9	40.7	41.1	41.3	49.2	41.6	41.0
Portfolio, net	-37.2	-41.6	-37.6	-39.1	-36.8	-39.5	-37.2	-40.2	-38.4	-41.7	-39.1	-38.3	-39.4
Military, net	-2.3	-2.7	-2.0	-1.6	-1.0	-0.6	-0.2	0.2	0.6	1.0	-2.5	-1.3	0.4
Other Services, net	65.3	54.5	55.1	55.9	56.5	57.6	58.3	59.3	60.3	61.5	57.6	56.3	59.8
Transfers, net	-27.4	-39.3	-31.4	-31.4	-31.4	-34.2	-31.4	-31.4	-31.4	-34.2	-31.4	-32.1	-32.1

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

March 17, 1993

RECENT DEVELOPMENTS

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

gains in these areas contributed substantially to industrial production growth in February.

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

	1992		1993			
	Nov.	Dec.	Jan.	Feb.	Mar.	Q2
U.S. production	10.0	10.8	11.6	11.1	11.1	10.9
Autos	5.6	6.1	6.4	6.2	6.4	6.3
Trucks	4.5	4.8	5.2	4.9	4.8	4.6
Days' supply ²						
Autos	66.3	65.1	68.3	80.3	n.a.	n.a.
Light Trucks	66.9	73.4	73.2	75.8	n.a.	n.a.

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

2. BEA seasonal basis, end of month.

Outside of motor vehicles, manufacturing output rose, on average, 1/2 percent in January and February, boosted by sharp gains in consumer durables and computers, as well as by increases in a number of other categories, including non-energy materials and construction supplies. Production of non-energy materials had substantially lagged the growth in output of final products in the fourth quarter of 1992, but it seems to have made up ground in the first quarter. Surveys suggest that new orders continued to increase through February, and the lean factory inventories early in the year--together with reports of lengthening delivery times--also point to further gains in production in coming months.

Output in the mining and utilities sectors has been volatile in recent months. Unusually cold weather in February, which followed unusually warm weather in January, caused utility output to surge nearly 4 percent; that gain contributed 0.3 percentage point to the overall February rise in industrial production. Partially offsetting this increase was a sharp decline in mining, reflecting a coal miners' strike and reductions in drilling activity.

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

	Fiscal year to date			
	FY1992	FY1993	Change	
			\$Billions	Percent
Outlays	458.5	468.7	10.2	2.2
Deposit insurance (DI)	-.9	-9.0	-8.2	932.5
Defense Cooperation account (DCA)	-4.0	.0	3.9	-99.0
Outlays excluding DI and DCA	463.3	477.8	14.4	3.1
National defense	103.6	98.0	-5.6	-5.4
Net interest	67.2	67.0	-.1	-.2
Social security	92.2	98.2	6.0	6.5
Medicare and health	67.3	72.2	4.9	7.2
Income security	63.1	67.4	4.3	6.8
Other	70.0	75.0	5.1	7.2
Receipts	359.0	378.0	19.0	5.3
Personal income taxes	174.8	195.3	20.5	11.7
Social insurance taxes	122.8	123.8	1.1	.9
Corporate income taxes	26.4	29.7	3.3	12.5
Other	35.1	29.2	-5.9	-16.7
Deficit(+)	99.5	90.7	-8.8	-8.9
excluding DI and DCA	104.3	99.7	-4.6	-4.4

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

APPENDIX

PRESIDENT CLINTON'S ECONOMIC PROGRAM

President Clinton presented his economic program to the Congress in mid-February. In early April, he will deliver a formal budget containing detailed and revised budget proposals and updated budget estimates.¹ Meanwhile, the Congress is considering the President's proposals in the context of developing a budget resolution for FY1994.

The President's Program and the Budget Outlook

Some of the President's proposals are aimed at stimulating economic activity over the near term, while others are geared to the achievement of longer-run economic and budgetary objectives. The Office of Management and Budget (OMB) projects that the proposed changes, on net, would increase the budget deficit \$13 billion in FY1993 but reduce it significantly in subsequent years (table 1). By FY1998, the program is projected to lower the deficit, on net, by \$148 billion (\$53 billion from net reductions in spending on items other than interest, \$73 billion from net increases in taxes, and

Table 1

PRESIDENT CLINTON'S BUDGET PROJECTIONS (Fiscal years)

	1993	1994	1995	1996	1997	1998
-----Billions of dollars-----						
Current services deficit	319	306	306	314	369	419
Less:						
"Bush" defense cuts ¹	--	5	11	16	23	29
Equals:						
Baseline deficit	319	301	296	297	346	390
Less:						
Spending reductions (net)	-9	2	12	27	52	53
Revenue increases (net)	-4	36	39	58	74	73
Debt service savings	<u>0</u>	<u>0</u>	<u>3</u>	<u>7</u>	<u>14</u>	<u>22</u>
Subtotal	-13	39	54	92	140	148
Equals:						
Proposed deficit	332	262	242	205	206	241
-----Percent of GDP-----						
Baseline deficit	5.2	4.6	4.3	4.1	4.6	5.0
Proposed deficit	5.4	4.0	3.5	2.9	2.7	3.1

1. Includes related debt service (\$4 billion in FY1998).

1. Estimates presented here are drawn from the Administration document *A Vision of Change for America*.

\$22 billion from savings on debt service).² The savings are measured relative to a baseline that already incorporates the reductions in defense spending (with certain adjustments) proposed by President Bush in his January 1992 budget request but holds the rest of the budget at "current services" levels.³

Assuming enactment of the President's program, the deficit is projected to expand from \$290 billion in FY1992 to \$332 billion in FY1993; it then narrows to the area of \$200 billion in FY1996 and FY1997 before moving back up to \$241 billion in FY1998.⁴ By comparison, the baseline deficit in FY1998 is estimated at \$390 billion. The budget projections are based on essentially the same "technical" assumptions as were used in OMB's January budget document (with updated estimates for deposit insurance). In a break from convention, however, the Administration draws the economic assumptions underlying the budget projections from CBO's January Report (table 2). Consequently, neither the economic assumptions

Table 2

ECONOMIC ASSUMPTIONS UNDERLYING THE PRESIDENT'S BUDGET
(Calendar years)

	1993	1994	1995	1996	1997	1998
-----Percent change, Q4-to-Q4-----						
Real GDP	2.8	3.0	2.8	2.6	2.2	1.8
GDP deflator	2.5	2.4	2.3	2.2	2.2	2.2
Consumer price index	2.8	2.7	2.7	2.7	2.7	2.7
-----Percent, annual average-----						
Civilian unemployment rate	7.1	6.6	6.2	6.0	5.8	5.7
Interest rates						
Treasury bills	3.2	3.7	4.3	4.7	4.8	4.9
Treasury notes	6.7	6.6	6.6	6.5	6.5	6.4

2. Unlike the President, we classify the proposed rise in the share of social security benefits subject to income tax as a tax increase. Also note that savings from actions to shorten the maturity structure of the debt are included in the "spending reductions" line in table 1; the debt service savings are attributable entirely to the reduced size of the debt.

3. In contrast, when the Congressional Budget Office (CBO) constructs a baseline, it assumes full compliance with the Budget Enforcement Act (BEA) of 1990, which established limits on discretionary spending through FY1995. For years after 1995, CBO assumes that discretionary spending will grow in line with inflation.

4. The effects of the President's health care plan were not included in the economic program. However, he apparently expects savings from health care reform to help keep the budget deficit on a downward track after the mid-1990s.

Table 3

KEY SPENDING PROPOSALS
(Change from baseline in billions of dollars, fiscal years)

	1993	1994	1995	1996	1997	1998
Net change (excluding interest saving from change in debt service)	9	-2	-12	-27	-52	-53
Increases	8	15	22	33	39	45
Stimulus proposals	8	6	2	1	0	0
UI extension	4	0	0	0	0	0
Summer programs	1	1	0	0	0	0
Other	3	5	2	1	0	0
Investment proposals	0	9	20	32	39	45
UI extension	0	2	0	0	0	0
Infrastructure	0	2	7	11	14	16
Education and training	0	2	6	10	13	15
Health and nutrition	0	2	6	9	11	12
Reductions	1	-17	-34	-59	-91	-98
Defense spending	0	-7	-12	-20	-37	-36
Nondefense discretionary spending	1	-4	-10	-15	-20	-23
Eliminate programs	0	0	-1	-2	-3	-3
Higher user fees, lower subsidies	0	-1	-1	-2	-2	-2
Cuts to federal employment, pay	0	-2	-4	-5	-5	-6
Other	1	-1	-4	-6	-10	-12
Mandatory spending	0	-6	-12	-25	-35	-40
Medicare	0	-3	-5	-10	-15	-20
Higher SMI premiums	0	0	0	-1	-4	-7
Medicaid	0	0	-1	-2	-2	-3
Fees and subsidies	0	-1	-2	-5	-7	-5
Federal retirees	0	0	0	-2	-3	-3
Other transfers	0	0	-1	-3	-4	-4
Shorten maturity of debt	0	-2	-3	-3	-4	-5
Net interest (due to change in debt levels)	0	0	-3	-7	-14	-22

1. Consists largely of grants for transportation, housing, and community development.

10 percent per year, on average, between FY1992 and FY1998. The Medicaid program also would see some cuts, largely through a suspension of the federal requirement that states pay for at-home personal care services.

Revenue Proposals

A major theme of the President's economic program is a shift in the distribution of tax burdens: Upper-income individuals and businesses generally would face higher liabilities, while many middle- and low-income individuals would see little change in their overall tax payments. On net, the proposed changes to the tax laws would add slightly to the deficit in FY1993 but are expected to narrow it appreciably thereafter--by almost \$75 billion in both FY1997 and FY1998 (table 4). In addition to new initiatives, the package contains the extension of several expiring provisions, but these would have only a small effect on the deficit.

Table 4

KEY REVENUE PROPOSALS
(Change from baseline in billions of dollars, fiscal years)

	1993	1994	1995	1996	1997	1998
Net change	-4	36	39	58	74	73
<i>Personal taxes</i>						
Higher taxes on upper incomes	2	28	20	23	26	28
Tax 85 percent of social security benefits	0	3	6	6	7	8
Expansion of EITC	0	-1	-6	-6	-7	-7
Repeal of Medicare wage cap	0	3	6	6	7	7
<i>Business taxes</i>						
Higher tax rate on large corps.	0	8	5	6	6	6
Smaller deducts. for meals, etc.	0	2	3	3	4	4
Investment tax credit	-5	-9	-7	-3	-2	-3
Extension of R&E credit	-1	-1	-2	-2	-2	-2
Compliance initiatives	0	0	1	2	3	3
<i>Energy taxes</i>						
BTU tax	0	2	9	16	22	22
Extension of gasoline tax	0	0	0	3	3	3
Memo:						
Extensions of expiring provisions	-2	-2	-3	2	8	7
New provisions	-2	38	42	55	65	65

Upper-income individuals would pay higher income and social insurance taxes under the President's plan. The increase in income taxes would be accomplished through (1) the addition of a fourth (36 percent) bracket for taxable incomes over \$140,000 (joint returns) and \$115,000 (single returns), (2) the imposition of a 10 percent surtax on taxpayers as their taxable incomes exceed \$250,000 (on both joint and single returns), (3) the permanent extension of provisions that limit the itemized deductions and phase

gasoline tax would be extended beyond its September 30, 1995, expiration date.

CBO Re-Estimates

On March 3, CBO released its preliminary analysis of the President's budget program (table 5). CBO expects the program to generate somewhat less deficit reduction than does the Administration; for example, CBO foresees savings of \$132 billion in FY1998, compared with OMB's estimate of \$148 billion. Nonetheless, the five-year budget projections of the two agencies are quite similar. The differences in the estimated effects of the President's proposals are not large, and they are roughly offset by differences in the CBO and OMB baselines (adjusted for conceptual differences).

Table 5

CBO RE-ESTIMATES OF THE PRESIDENT'S PROPOSED BUDGET (Billions of dollars, fiscal years)

	1993	1994	1995	1996	1997	1998
OMB deficit estimate	332	262	242	205	206	241
CBO re-estimates of the OMB baseline						
Revenues ¹	5	0	-6	-6	-16	-28
Deposit insurance	-14	-3	14	13	-2	-2
Other outlays	<u>-9</u>	<u>-2</u>	<u>-2</u>	<u>-4</u>	<u>-2</u>	<u>0</u>
Subtotal	-17	-5	6	4	-19	-29
CBO re-estimates of the President's plan						
Revenues	-4	9	4	6	7	6
Debt management	0	2	3	3	4	5
Medicare	0	1	1	0	1	2
Pay offsets (defense)	0	1	1	1	2	2
Debt service	0	0	0	1	2	2
Other outlays	<u>-2</u>	<u>-1</u>	<u>0</u>	<u>1</u>	<u>3</u>	<u>-1</u>
Subtotal	-6	11	10	13	18	16
President's budget as estimated by CBO	308	268	257	222	205	229

1. Increases in revenues are shown with a negative sign because they reduce the deficit.

Several factors contribute to the differences in the estimates of the President's proposals. About one-third of the discrepancy is on the revenue side (\$6 billion in FY1998), where CBO adopts the Joint Committee on Taxation's view that the Administration is overstating the likely revenue gains from the proposed tax rate increases for high-income individuals and from compliance and enforcement efforts. On the outlay side, CBO identifies inadvertent errors in OMB's estimates of the savings in Medicare and defense (\$4 billion combined in FY1998); also, because of the lack of specificity in the Administration's proposed changes in debt management policies, CBO chooses not to recognize the claimed

savings. Finally, the smaller amount of deficit reduction estimated by CBO tempers the projected savings in debt service.

The budget committees in the Congress have taken account of the CBO assessment in shaping their budget resolutions for FY1994. Accordingly, they have altered the President's program by enough to produce the full amount of deficit reduction he had targeted, largely through bigger reductions in spending. President Clinton has indicated his willingness to consider spending cuts in excess of those he proposed in February.

Budget Process

President Clinton wants to extend the Budget Enforcement Act (BEA), with limited modifications, beyond its scheduled expiration in 1995; he is expected to release detailed proposals shortly. In general, he would extend the caps on discretionary spending through 1998, carry the pay-as-you-go (PAYGO) provisions governing mandatory spending and taxes through 2003, support the use of sequestration to enforce compliance, and enhance the President's rescission authority.

The President's program would lift nondefense discretionary spending in FY1993 above its BEA cap (as estimated by the staff). However, given the reductions in defense funding already in place, total discretionary spending would remain below the level implied by combining the defense and nondefense caps (table 6).⁹ In FY1994, when the separate caps disappear, total discretionary spending would exceed the aggregate cap by about \$10 billion; a similar discrepancy would be present in FY1995. In any event, the overruns for discretionary programs in those two years would be more than offset by the proposed changes to mandatory spending and taxes, holding the deficits well below the levels implied by the BEA caps on discretionary spending.

Table 6

THE PRESIDENT'S PROPOSED BUDGET AND THE BUDGET ENFORCEMENT ACT¹
(Billions of dollars, fiscal years)

	1993	1994	1995
Total discretionary spending			
Proposed by President	556	548	555
BEA caps	560	538	543
Deficit			
Proposed by President	332	262	242
Implied by BEA caps	332	292	279

1. BEA caps are staff estimates. Official caps will be released with the Budget in April.

9. The additional funding for extended unemployment benefits was given the "emergency" designation and thus did not require the adjustments to other mandatory spending or taxes normally required by the PAYGO rules. The Congress is expected to apply the emergency designation to the rest of the stimulus package as well. Under the BEA rules, when discretionary funding is considered to be for emergency purposes, the caps are adjusted to accommodate it.

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SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

March 19, 1993

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

	1992 Jul	1992 Aug	1992 Sep	1992 Oct	1992 Nov	1992 Dec	1993 Jan	1993 Feb	1993 Mar (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	76.6	76.1	75.6	73.3	85.3	91.0	89.3	86.6	84.3
Current conditions	90.6	86.2	88.3	82.5	96.4	93.4	98.6	96.0	100.1
Expected conditions	67.6	69.5	67.4	67.5	78.2	89.5	83.4	80.6	74.2

Personal financial situation									
Now compared with 12 months ago*	96	91	102	90	109	99	110	100	111
Expected in 12 months*	125	121	123	121	124	131	127	125	119
Expected business conditions									
Next 12 months*	78	81	78	80	99	126	111	103	92
Next 5 years*	66	76	68	67	91	103	97	95	85
Appraisal of buying conditions									
Cars	128	129	130	121	134	145	134	132	137
Large household appliances*	138	132	126	123	140	142	145	148	148
Houses	153	159	162	148	160	162	166	158	175
Willingness to use credit	39	41	44	34	43	39	37	40	43
Willingness to use savings	58	61	65	61	70	59	64	52	73
Expected unemployment change - next 12 months	132	123	127	125	109	99	98	110	120
Expected inflation - next 12 months	3.9	4.0	4.1	3.6	4.6	3.3	3.5	4.6	4.3
Expected inflation - next 5 to 10 years	4.7	5.0	5.0	5.1	5.5	5.2	4.8	5.9	4.9

* -- 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.