

September 21, 1994

SUMMARY AND OUTLOOK

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

We are predicting that total factory production will register an increase around 6-3/4 percent (annual rate) this quarter.

SUMMARY OF THE NEAR-TERM OUTLOOK
(Percent change, at annual rates, except as noted)

	1994			
	Q1	Q2	Q3	Q4
Real GDP	3.3	3.8	3.0	2.8
<i>Previous</i>	3.3	3.7	2.8	2.3
CPI	1.9	2.8	3.8	3.3
<i>Previous</i>	1.9	2.8	4.0	3.5
Civilian unemployment rate ¹	6.6	6.2	6.1	6.0
<i>Previous</i>	6.6	6.2	6.2	6.2
Manufacturing capacity utilization ¹	82.5	83.3	84.0	84.3
<i>Previous</i>	82.5	82.9	83.0	82.9

1. Level, percent.

Real consumer spending is projected to grow at nearly a 3 percent rate in the third quarter. Retail sales (excluding motor vehicles) recorded solid gains in July and August, leading us to project that outlays for goods other than motor vehicles will rise almost 5 percent (annual rate) this quarter. Sales of cars and light trucks have, on average, been running a bit short of their second-quarter pace, as demand has been constrained by shortages of popular models. Higher production--some of it in Canada and Mexico--already may be starting to relieve the shortfalls.³

Single-family home building has been more buoyant over the past couple of months than we had anticipated, and starts have remained close to their second-quarter pace. Other indicators suggest some

3. Some of the resulting increase in sales, however, likely will be to rental car companies, where fleet turnover appears to have been delayed in order to minimize the effect of shortages on retail sales. We are assuming that the additional fleet sales eventually will show up in PDE, although we are not sure that BEA's initial estimates will show the appropriate allocation of sales between PCE and PDE.

expected to average 6 percent in the next few months and then to edge up to 6-1/4 percent. The ongoing runup in materials prices and higher import prices are expected to boost core inflation--as measured by the CPI excluding food and energy--to about a 3-1/2 percent annual rate in late 1994 and early 1995. As growth slows in 1995, increases in the core CPI are expected to move back down to a 3-1/4 percent pace.

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

	1993	1994	1995
Real GDP	3.1	3.3	1.8
<i>Previous</i>	3.1	3.0	2.1
Real PCE	3.0	2.9	2.0
<i>Previous</i>	3.0	2.7	2.0
Real BFI	16.0	9.9	6.3
<i>Previous</i>	16.0	11.1	7.6
Net Exports ¹	-43.7	-20.5	-2.8
<i>Previous</i>	-43.7	-24.8	-2.9

1. Change in billions of \$1987. Q4 to Q4.

Consumer spending. Real personal consumption expenditures are projected to increase again at just less than 3 percent at an annual rate in the fourth quarter of 1994 and then to rise 2 percent in 1995. Much of the strength in consumer spending in the past two years has reflected a surge in outlays for durable goods that is typical once a business cycle recovery gains momentum and households become more confident about job prospects. We are projecting that durables outlays will continue to post sizable gains in the near term. However, consumers presumably will have satisfied many of their pent-up demands, and with borrowing costs rising and gains in labor income smaller, growth in spending on durable goods is expected to slow considerably in 1995. Outlays for furniture and appliances, which have been exhibiting robust growth recently, also

Net exports. Our forecast is that real net exports, which declined sharply over the past two and a half years, will change little on balance during the projection period. With the recent depreciation of the dollar and more moderate pace of income growth in the United States, growth of real imports of goods and services is expected to slow appreciably. At the same time, the lower dollar and strength in foreign economic activity are projected to boost real exports. (A discussion of these developments is contained in the International Developments section.)

Labor markets. Payroll employment growth is projected to remain relatively brisk over the next few months but is expected to moderate in 1995 with the slower growth in economic activity. Although growth in output per hour is likely to be stronger in the second half of this year than it was in the first, at this stage of the expansion businesses likely have already exploited most of the opportunities for outsized gains in productivity. Furthermore, the pool of highly skilled workers available for hire is shrinking.

STAFF LABOR MARKET PROJECTIONS¹
(Percent change, at annual rates, except as noted)

	1993	1994		1995
		H1	H2	
Nonfarm payroll employment	2.0	3.0	2.6	1.1
<i>Previous</i>	2.0	3.0	2.4	1.3
Output per hour, nonfarm business	1.9	.0	.9	1.1
<i>Previous</i>	1.9	.7	.8	1.3
Civilian unemployment rate ²	6.5	6.2	6.0	6.3
<i>Previous</i>	6.5	6.2	6.2	6.3

1. Percent changes are from final quarter of previous period to final quarter of period indicated.

2. Average for the final quarter of the period. The value for 1993 is from the old CPS.

Thus, productivity is projected to grow at about a 1 percent annual rate in the second half of 1994 and in 1995, a little below our

estimate of trend productivity growth (that is, close to 1-1/2 percent per year).

After falling 1/2 percentage point over the first half of this year (our estimate on the new CPS basis), the unemployment rate is projected to edge down to 6 percent by the fourth quarter of this year. The unemployment rate is projected to turn up next year as output growth runs below potential, and we anticipate that it will average 6.3 percent by the end of 1995.

Wages and prices. CPI inflation is expected to average about 3-1/2 percent over the fourth and first quarters, not much different from the accelerated pace we are anticipating for the current quarter. Food prices, which were up only slightly earlier in the year, have registered larger gains in the past few months. These

STAFF INFLATION PROJECTIONS
(Percent change, annual rate)

	1994			1995		
	H1	Q3	Q4	Q1	Q2	H2
Consumer price index	2.4	3.8	3.3	3.7	3.2	3.0
<i>Previous</i>	2.4	4.0	3.5	3.3	2.9	2.9
Food	1.0	4.8	3.0	2.8	2.7	2.5
<i>Previous</i>	1.0	4.5	2.8	2.7	2.6	2.3
Energy	-1.2	10.2	.7	7.5	3.5	2.5
<i>Previous</i>	-1.2	14.2	7.6	5.4	2.3	1.8
Excluding food and energy	3.0	3.0	3.6	3.5	3.2	3.2
<i>Previous</i>	3.0	3.1	3.3	3.3	3.1	3.1
ECI for compensation of private industry workers	3.2	4.5	2.7	3.6	3.6	3.6
<i>Previous</i>	3.2	4.5	2.7	3.5	3.5	3.5

increases largely reflect the surge in coffee prices, which is expected to quickly run its course. Consumer energy price inflation is projected to move up temporarily around the turn of the year.

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index ¹		Unemployment rate (level except as noted)	
	08/12/94	09/21/94	08/12/94	09/21/94	08/12/94	09/21/94	08/12/94	09/21/94	08/12/94	09/21/94
ANNUAL										
1992 ²	5.2	5.2	2.3	2.3	3.2	3.2	3.0	3.0	7.4	7.4
1993 ²	5.4	5.4	3.1	3.1	3.0	3.0	3.0	3.0	6.8	6.8
1994	5.8	5.9	3.7	3.8	2.7	2.7	2.7	2.7	6.3	6.2
1995	4.6	4.9	2.3	2.3	2.9	3.1	3.2	3.4	6.3	6.2
1996		4.5		2.1		2.9		3.0		6.3
QUARTERLY										
1993 Q1 ²	4.4	4.4	1.2	1.2	4.2	4.2	2.8	2.8	7.0	7.0
Q2 ²	4.2	4.2	2.4	2.4	2.4	2.4	3.1	3.1	7.0	7.0
Q3 ²	3.8	3.8	2.7	2.7	2.0	2.0	2.0	2.0	6.7	6.7
Q4 ²	7.7	7.7	6.3	6.3	2.4	2.4	3.1	3.1	6.5	6.5
1994 Q1 ²	6.1	6.1	3.3	3.3	3.1	3.1	1.9	1.9	6.6	6.6
Q2 ²	6.8	6.9	3.7	3.8	2.9	2.9	2.8	2.8	6.2	6.2
Q3	4.4	4.8	2.8	3.0	2.6	2.6	4.0	3.8	6.2	6.1
Q4	4.9	5.6	2.3	2.8	3.1	3.2	3.5	3.3	6.2	6.0
1995 Q1	4.6	4.9	1.9	1.9	3.2	3.5	3.3	3.7	6.2	6.1
Q2	4.3	4.0	2.1	1.7	2.7	2.8	2.9	3.2	6.2	6.2
Q3	4.3	4.3	2.2	1.8	2.7	2.8	2.9	3.1	6.3	6.2
Q4	4.4	4.4	2.3	2.0	2.7	2.8	2.9	3.0	6.3	6.3
1996 Q1		4.8		2.2		3.2		3.0		6.3
Q2		4.7		2.3		2.8		3.0		6.3
Q3		4.6		2.3		2.8		3.0		6.3
Q4		4.6		2.3		2.8		3.0		6.3
TWO-QUARTER³										
1993 Q2 ²	4.3	4.3	1.8	1.8	3.3	3.3	3.1	3.1	-.3	-.3
Q4 ²	5.7	5.7	4.5	4.5	2.2	2.2	2.4	2.4	-.5	-.5
1994 Q2 ²	6.4	6.5	3.5	3.6	3.0	3.0	2.4	2.4	-.3	-.3
Q4	4.6	5.2	2.6	2.9	2.8	2.9	3.8	3.6	.0	-.2
1995 Q2	4.4	4.4	2.0	1.8	3.0	3.2	3.1	3.4	.0	.2
Q4	4.4	4.3	2.3	1.9	2.7	2.8	2.9	3.0	.1	.1
1996 Q2		4.7		2.3		3.0		3.0		.0
Q4		4.6		2.3		2.8		3.0		.0
FOUR-QUARTER⁴										
1992 Q4 ²	6.4	6.4	3.7	3.7	3.2	3.2	3.1	3.1	.3	.3
1993 Q4 ²	5.0	5.0	3.1	3.1	2.8	2.8	2.7	2.7	-.8	-.8
1994 Q4	5.5	5.9	3.0	3.3	2.9	3.0	3.1	3.0	-.3	-.5
1995 Q4	4.4	4.4	2.1	1.8	2.9	3.0	3.0	3.2	.1	.3
1996 Q4		4.7		2.3		2.9		3.0		.0

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.

Item	Unit	Projected								
		1988	1989	1990	1991	1992	1993	1994	1995	1996
EXPENDITURES										
Nominal GDP	Bill \$	4900 4	5250 8	5546 1	5724 8	6020 2	6343 3	6720 7	7047 4	7366 8
Real GDP	Bill 87s	4718 6	4838 0	4897 3	4867 6	4979 3	5134 5	5327 3	5448 9	5565 3
Real GDP	% change	3 3	1 6	2	3	3 7	3 1	3 3	1 8	2 3
Gross domestic purchases		2 5	9	- 4	- 1	4 1	3 9	3 6	1 9	2 2
Final sales		4 2	1 5	1 2	- 4	3 8	3 0	2 8	2 1	2 3
Private dom final purch		4 2	5	- 1	- 8	5 1	5 0	4 0	2 5	2 6
Personal cons expend		4 2	1 2	7	0	4 2	3 0	2 9	2 0	2 1
Durables		8 5	- 5	8	- 1 3	9 6	9 0	4 9	2 8	3 1
Nondurables		3 2	1 2	- 1	1 6	3 2	1 3	2 8	1 5	1 4
Services		3 7	1 7	1 7	1 2	3 5	2 5	2 5	2 1	2 2
Business fixed invest		5 5	- 4	7	- 6 2	6 7	16 0	9 9	6 3	4 9
Producers dur equip		9 1	- 1 7	2 9	3 2	11 0	21 3	11 8	6 4	5 2
Nonres structures		1 2	2 3	- 3 9	12 4	- 3 4	1 6	3 9	6 0	3 9
Res structures		9	- 7 7	- 15 2	7	17 0	8 1	3 0	- 8	3 1
Exports		13 5	11 3	6 7	8 1	5 0	5 8	6 8	7 7	9 1
Imports		3 6	2 6	4	4 0	8 6	12 4	8 9	7 0	7 5
Government purchases		2	2 0	3 3	- 8	7	- 1 0	8	- 1	5
Federal		- 3 4	- 6	2 8	- 3 2	8	6 9	- 5 6	- 4 8	- 3 3
Defense		3 2	- 1 5	1 5	- 7 0	1 3	- 9 0	- 6 8	- 6 6	4 5
State and local		2 9	4 0	3 6	8	6	3 0	2 0	2 5	2 5
Change in bus invent	Bill 87s	19 9	29 8	5 7	- 1 1	2 5	15 3	41 3	29 2	23 7
Nonfarm		26 9	29 9	3 2	- 1 3	- 2 0	18 5	35 8	25 4	21 3
Net exports		- 104 0	- 73 7	- 54 7	- 19 5	- 32 3	- 73 9	- 106 8	- 105 2	- 102 9
Nominal GDP	% change	7 7	6 0	4 7	3 5	6 4	5 0	5 9	4 4	4 7
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ	Millions	105 2	107 9	109 4	108 3	108 6	110 5	113 3	115 2	116 6
Unemployment rate	%	5 5	5 3	5 5	6 7	7 4	6 8	6 2	6 2	6 3
Industrial prod index	% change	3 2	- 1	2	- 3	3 2	4 2	5 7	2 6	3 1
Capacity util rate-mfg	%	83 6	83 1	81 1	77 8	78 6	80 6	83 5	83 6	83 4
Housing starts	Millions	1 49	1 38	1 19	1 01	1 20	1 29	1 40	1 37	1 46
Light Motor Vehicle Sales		15 43	14 53	13 85	12 31	12 80	13 89	14 96	15 13	15 28
Auto sales in U S		10 63	9 91	9 50	8 39	8 35	8 72	9 22	9 16	9 20
North American prod		7 54	7 08	6 90	6 14	6 26	6 75	7 27	7 59	7 64
Other		3 10	2 83	2 60	2 25	2 10	1 97	1 95	1 57	1 56
INCOME AND SAVING										
Nominal GNP	Bill \$	4908 2	5266 8	5567 8	5740 8	6025 8	6347 8	6715 8	7031 9	7345 6
Nominal GNP	% change	7 8	6 1	4 9	3 2	6 1	5 0	5 7	4 2	4 6
Nominal personal income		7 1	6 5	6 5	3 7	8 1	2 8	6 1	5 6	5 2
Real disposable income		3 2	1 1	1 1	9	5 0	5	3 0	2 3	2 3
Personal saving rate	%	4 4	4 0	4 2	5 0	5 5	4 1	3 8	4 0	4 4
Corp profits, IVA&CCAdj	% change	10 2	- 6 3	2 3	8 8	9 6	23 4	3 5	- 2 4	5 6
Profit share of GNP	%	7 4	6 9	6 8	6 8	6 7	7 7	8 0	7 7	7 6
Federal surpl /def.	Bill \$	-136 6	-122 3	-163 5	-202 9	-282 7	-241 4	-158 8	-166 4	-191 0
State/local surpl./def.		38 4	44 8	25 1	17 0	24 8	26 3	28 2	36 1	47 0
Ex social ins funds		-18 4	-17 5	-35 6	-46 5	-41 6	-40 0	-37 4	-28 4	-17 1
PRICES AND COSTS										
GDP implicit deflator	% change	4 2	4 3	4 5	3 3	2 6	1 8	2 5	2 5	2 3
GDP fixed-wt. price index		4 2	4 4	4 6	3 6	3 2	2 8	3 0	3 0	2 9
Gross domestic purchases		4 1	4 4	5 2	2 9	3 2	2 5	3 0	3 0	2 8
fixed-wt. price index		4 3	4 6	6 3	3 0	3 1	2 7	3 0	3 2	3 0
CPI		4 5	4 4	5 3	4 4	3 5	3 1	3 1	3 3	3 1
Ex food and energy		4 8	4 8	4 6	4 4	3 5	3 1	3 1	3 3	3 1
ECI, hourly compensation ²		4 8	4 8	4 6	4 4	3 5	3 6	3 4	3 6	3 5
Nonfarm business sector		5	-1 4	4	2 3	3 2	1 9	6	1 1	1 4
Output per hour		3 8	3 1	6 2	4 7	5 2	2 5	3 5	3 7	3 6
Compensation per hour		3 3	4 6	5 7	2 3	1 9	6	3 0	2 6	2 2
Unit labor cost										

1 Percent changes are from fourth quarter to fourth quarter

2 Private-industry workers

Item	Unit	1992				1993				1994	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EXPENDITURES											
Nominal GDP	Bill \$	5896.8	5971.3	6043.6	6169.3	6235.9	6299.9	6359.2	6478.1	6574.7	6685.5
Real GDP	Bill '87\$	4918.5	4947.5	4990.5	5060.7	5075.3	5105.4	5139.4	5218.0	5261.1	5310.2
Real GDP	% change	3.1	2.4	3.5	5.7	1.2	2.4	2.7	6.3	3.3	3.8
Gross domestic purchases		3.2	3.7	3.9	5.7	2.7	3.3	4.0	5.8	5.0	4.4
Final sales		4.8	1.5	3.5	5.6	2	2.4	3.2	6.4	2.2	1.4
Private dom final purch		5.7	4.2	3.9	6.7	3.5	3.7	5.3	7.4	5.8	2.8
Personal cons expend		5.8	1.7	3.9	5.6	1.6	2.6	3.9	4.0	4.7	1.4
Durables		15.5	4	10.0	13.2	3.2	9.8	7.7	15.5	8.8	1.2
Nondurables		4.2	7	2.7	6.9	1.6	1.6	2.8	2.4	3.8	2.1
Services		4.5	3.4	3.2	3.0	3.1	1.4	3.6	2.0	4.0	1.0
Business fixed invest		-1	15.0	5.0	7.5	15.1	15.6	12.2	21.1	10.9	9.2
Producers dur equip		-1.3	22.7	11.0	12.9	20.0	21.6	16.2	27.5	18.6	6.5
Nonres structures		2.9	1.6	8.9	5.5	2.5	3	5	3.3	-11.8	19.6
Res structures		22.4	22.7	8	23.8	5.3	-7.6	9.4	28.2	10.0	7.3
Exports		6.1	1.5	5.3	7.2	-1.0	2.7	-3.2	21.7	-3.5	15.8
Imports		6.6	13.0	8.4	6.5	11.6	14.9	7.4	16.0	9.5	18.9
Government purchases		1.5	-3.0	3.4	9	-5.9	1.2	1.1	-1	-4.9	1.6
Federal		-1.3	4.8	8.6	1.1	15.4	-3.6	-3.0	-5.0	10.3	8.8
Defense		7.2	-5.1	11.5	-3.3	-20.0	-2.2	-9.2	-3.6	-16.0	-6.2
State and local		3.3	-1.8	1	8	9	4.4	3.7	2.9	-1.4	2.9
Change in bus invent	Bill '87\$	6.3	4.2	5.2	6.6	18.5	18.9	13.0	10.8	25.4	56.3
Nonfarm		14.3	-1.9	1.8	6.3	19.7	22.8	20.9	10.7	22.1	51.8
Net exports		-17.9	34.1	38.9	38.5	57.6	-69.3	-86.3	-82.2	104.0	112.9
Nominal GDP	% change	7.1	5.2	4.9	8.6	4.4	4.2	3.8	7.7	6.1	6.9
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ	Millions	108.1	108.4	108.7	109.1	109.7	110.3	110.8	111.4	112.0	113.0
Unemployment rate ¹	%	7.3	7.5	7.5	7.3	7.0	7.0	6.7	6.5	6.6	6.2
Industrial prod index	% change	3	5.6	6	6.4	5.2	2.3	2.8	6.7	8.3	5.2
Capacity util rate-mfg ¹	%	77.9	78.7	78.5	79.4	80.1	80.3	80.3	81.5	82.5	83.3
Housing starts	Millions	1.24	1.15	1.19	1.24	1.15	1.24	1.31	1.48	1.37	1.44
Light Motor Vehicle Sales		12.46	12.81	12.71	13.22	13.23	14.11	13.69	14.53	15.45	14.75
Auto sales in U.S.		8.33	8.41	8.24	8.43	8.32	8.93	8.65	8.97	9.45	9.15
North American prod		6.12	6.25	6.25	6.40	6.36	6.87	6.68	7.08	7.44	7.16
Other		2.21	2.16	1.99	2.03	1.96	2.07	1.97	1.89	2.00	1.99
INCOME AND SAVING											
Nominal GNP	Bill \$	5907.7	5979.1	6049.4	6167.0	6243.9	6303.3	6367.8	6476.2	6574.0	6680.3
Nominal GNP	% change	6.8	4.9	4.8	8.0	5.1	3.9	4.2	7.0	6.2	6.6
Nominal personal income		8.2	5.6	3.7	15.3	-5.8	8.6	2.4	6.7	5.3	7.0
Real disposable income		5.9	2.1	1.7	10.6	+7.4	4.7	8	4.3	3.4	2.7
Personal saving rate ¹	%	5.3	5.5	5.0	6.2	4.0	4.6	3.9	4.0	3.6	3.9
Corp profits, IV&CCAdj	% change	18.8	5	-40.0	101.1	9.6	30.7	18.4	37.0	-17.9	34.5
Profit share of GNP ¹	%	7.0	6.9	6.0	7.0	7.1	7.5	7.7	8.2	7.7	8.2
Federal govt surpl /def	Bill \$	-279.9	-284.8	-293.9	-272.1	-283.5	-237.0	-224.9	-220.1	-176.2	-145.0
State/local surpl /def.		19.9	25.9	20.4	33.1	21.6	25.3	23.9	34.5	25.2	25.7
Ex social ins funds		-45.7	-40.5	-46.3	-33.8	-44.7	-41.1	-42.4	-31.7	-40.7	-40.1
PRICES AND COSTS											
GDP implicit deflator	% change	3.8	2.7	1.4	2.7	3.2	1.7	1.1	1.3	2.7	3.0
GDP fixed-wt price index		3.9	3.3	2.7	2.8	4.2	2.4	2.0	2.4	3.1	2.9
Gross domestic purchases		3.6	3.4	3.2	2.5	3.3	2.6	1.6	2.4	2.5	3.3
fixed-wt price index		2.6	3.5	2.9	3.5	2.8	3.1	2.0	3.1	1.9	2.8
CPI		3.7	3.6	3.0	3.6	3.5	3.5	2.4	2.9	2.6	3.4
Ex food and energy											
ECI hourly compensation ²		3.6	3.2	3.2	3.5	3.9	3.8	3.4	3.4	2.7	3.7
Nonfarm business sector											
Output per hour		4.2	1.9	2.8	3.9	-1.8	5	4.1	4.9	2.9	-2.5
Compensation per hour		5.7	4.6	5.8	4.6	2.2	2.5	2.8	2.4	6.1	8
Unit labor cost		1.4	2.6	3.0	6	4.2	2.0	-1.2	-2.4	3.1	3.4

1 Not at an annual rate

2 Private-industry workers

Item	Units	Projected											
		1994		1995				1996					
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EXPENDITURES													
Nominal GDP	Bill \$	6764.4	6858.0	6940.7	7008.8	7082.1	7158.0	7242.6	7325.7	7407.9	7491.0		
Real GDP	Bill \$7S	5350.1	5387.7	5413.0	5435.2	5460.1	5487.2	5517.4	5549.4	5581.0	5613.5		
Real GDP	% change	3.0	2.8	1.9	1.7	1.8	2.0	2.2	2.3	2.3	2.3		
Gross domestic purchases		2.6	2.4	2.0	1.6	1.8	2.0	2.1	2.2	2.2	2.3		
Final sales		3.8	3.7	2.1	2.0	2.1	2.3	2.2	2.4	2.3	2.4		
Private dom final purch		3.5	3.7	2.7	2.4	2.5	2.6	2.5	2.6	2.6	2.6		
Personal cons expend		2.8	2.9	2.5	1.8	1.9	1.9	2.0	2.1	2.1	2.1		
Durables		5.1	4.8	3.8	2.3	2.6	2.7	2.8	3.1	3.2	3.2		
Nondurables		2.8	2.6	2.1	1.2	1.4	1.4	1.4	1.4	1.4	1.4		
Services		2.3	2.6	2.4	2.0	2.0	2.0	2.1	2.2	2.2	2.2		
Business fixed invest		7.0	11.9	7.1	7.1	5.6	5.5	4.9	4.9	4.9	5.0		
Producers' dur equip		8.5	14.0	7.5	7.2	5.4	5.4	5.1	5.2	5.2	5.3		
Nonres structures		5.3	5.0	5.7	6.4	6.3	5.7	4.0	4.0	3.9	3.9		
Res structures		2.3	-6.9	7.2	2.6	2.1	5.0	3.1	3.3	2.7	3.2		
Exports		7.5	8.4	7.3	7.4	7.8	8.2	8.8	9.2	9.2	9.4		
Imports		3.5	4.4	7.5	6.6	6.9	7.1	7.3	7.1	7.8	8.0		
Government purchases		2.2	1.0	-3	-1	-1	2	4	3	5	9		
Federal		-1.0	1.9	5.2	4.8	4.9	-4.2	3.6	3.9	-3.2	-2.3		
Defense		-2.6	-1.6	-7.0	-6.8	-6.7	-5.7	-4.7	-5.3	-4.3	3.7		
State and local		4.0	2.7	2.5	2.5	2.5	2.6	2.5	2.4	2.4	2.5		
Change in bus invent	Bill \$7S	47.1	36.4	34.5	30.4	27.6	24.3	24.1	23.8	23.6	23.4		
Nonfarm		40.5	28.7	28.8	25.9	25.1	21.8	21.6	21.4	21.2	21.0		
Net exports		-107.7	-102.7	-104.9	-105.2	-105.4	-105.4	104.6	-102.9	-102.3	-101.9		
Nominal GDP	% change	4.8	5.6	4.9	4.0	4.3	4.4	4.8	4.7	4.6	4.6		
EMPLOYMENT AND PRODUCTION													
Nonfarm payroll employ	Millions	113.8	114.4	114.8	115.0	115.4	115.7	116.1	116.4	116.8	117.2		
Unemployment rate ¹	%	6.1	6.0	6.1	6.2	6.2	6.3	6.3	6.3	6.3	6.3		
Industrial prod index	% change	5.5	3.9	2.4	2.2	2.9	2.8	3.0	3.1	3.1	3.1		
Capacity util rate-mfg ¹	%	84.0	84.3	84.0	83.6	83.5	83.5	83.4	83.4	83.4	83.4		
Housing starts	Millions	1.41	1.36	1.34	1.34	1.38	1.40	1.43	1.44	1.47	1.48		
Light Motor Vehicle Sales		14.57	15.08	15.09	15.10	15.14	15.18	15.22	15.26	15.30	15.34		
Auto sales in U S		9.03	9.25	9.16	9.15	9.16	9.17	9.18	9.19	9.20	9.21		
North American prod		7.05	7.42	7.56	7.58	7.60	7.61	7.62	7.63	7.64	7.65		
Other		1.98	1.84	1.60	1.57	1.56	1.56	1.56	1.56	1.56	1.56		
INCOME AND SAVING													
Nominal GNP	Bill \$	6761.0	6847.8	6930.5	6991.5	7067.8	7137.9	7222.3	7302.7	7389.8	7467.6		
Nominal GNP	% change	4.9	5.2	4.9	3.6	4.4	4.0	4.8	4.5	4.9	4.3		
Nominal personal income		4.7	7.3	6.9	5.0	4.5	6.0	6.2	4.8	4.4	5.6		
Real disposable income		2.0	4.0	2.9	1.0	2.2	3.1	3.8	9	2.0	2.7		
Personal saving rate ¹	%	3.7	3.9	4.0	3.8	3.9	4.2	4.6	4.3	4.3	4.4		
Corp profits, IV&CCAdj	% change	4.0	-2	-3.8	-5.5	2.9	-2.9	4.6	5.8	9.1	3.1		
Profit share of GNP ¹	%	8.2	8.1	7.9	7.7	7.7	7.6	7.6	7.6	7.6	7.6		
Federal govt. surpl./def	Bill \$	-144.2	-169.9	-167.0	-158.6	-158.4	181.7	-195.7	-181.5	-182.6	-204.4		
State/local surpl./def		28.4	33.5	35.2	35.2	36.4	37.8	40.9	44.0	50.2	52.7		
Ex social ins funds		-37.1	-31.7	-29.7	-29.4	-27.9	-26.4	23.2	-20.0	-13.8	-11.3		
PRICES AND COSTS													
GDP implicit deflator	% change	1.7	2.7	3.0	2.3	2.4	2.3	2.5	2.3	2.2	2.2		
GDP fixed-wt price index		2.6	3.2	3.5	2.8	2.8	2.8	3.2	2.8	2.8	2.8		
Gross domestic purchases		3.0	3.1	3.6	2.8	2.8	2.8	3.1	2.8	2.7	2.7		
fixed-wt price index		3.8	3.3	3.7	3.2	3.1	3.0	3.0	3.0	3.0	3.0		
CPI		3.0	3.6	3.5	3.2	3.2	3.2	3.2	3.2	3.1	3.1		
Ex food and energy		3.0	3.6	3.5	3.2	3.2	3.2	3.2	3.2	3.1	3.1		
ECI, hourly compensation ²		4.5	2.7	3.6	3.6	4.2	3.1	3.6	3.6	3.5	3.5		
Nonfarm business sector		1.2	7	1.0	1.2	1.0	1.1	1.3	1.4	1.3	1.4		
Output per hour		3.7	3.7	3.9	3.6	3.6	3.6	3.9	3.6	3.5	3.5		
Compensation per hour		2.5	3.0	2.9	2.4	2.6	2.5	2.6	2.1	2.1	2.0		
Unit labor cost													

1 Not at an annual rate

2 Private-industry workers

Strictly Confidential (FR)
Class II FOMC

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

September 21, 1994

Item	1992				1993				1994		Projected					
	Q1		Q2		Q1		Q2		Q1		Q2		1991	1992	1993	1994
Real GDP	37.7	29.0	43.0	70.2	14.6	30.1	34.0	78.6	43.1	49.1	13.6	179.9	157.3	169.7		
Gross domestic purchases	38.8	45.1	47.9	69.8	33.7	41.8	51.1	74.4	64.9	58.0	-6.4	201.6	201.0	190.2		
Final sales	57.5	18.4	42.1	68.8	2.7	29.7	40.0	80.7	28.5	18.2	-20.7	186.8	153.1	144.1		
Private dom final purch.	55.1	41.7	39.1	66.3	35.9	38.6	54.5	76.9	61.9	30.7	-32.6	202.2	205.9	172.4		
Personal cons expend	46.1	14.0	32.2	45.8	13.8	22.0	33.0	34.0	40.1	12.3	-6	138.1	102.8	103.4		
Durables	15.7	-4	10.7	14.3	3.7	11.2	9.0	18.1	10.9	1.6	-5.5	41.1	42.0	25.3		
Nondurables	10.7	-1.8	7.1	17.8	4.2	4.3	7.4	6.3	10.3	5.6	-17.1	33.8	13.8	30.8		
Services	19.7	15.3	14.4	13.7	14.4	6.4	16.6	9.6	18.9	5.0	22.1	63.1	47.0	47.3		
Business fixed invest	-1	18.0	6.4	9.7	19.4	20.7	16.9	29.3	16.4	14.3	33.3	34.0	86.3	62.3		
Producers' dur equip.	-1.2	18.6	9.9	11.8	18.4	20.7	16.6	28.2	20.9	7.9	11.9	39.1	83.9	56.5		
Nonres structures	1.1	-6	-3.5	-2.1	9	1	2	1.2	4.6	6.6	-21.4	-5.1	2.4	5.8		
Res structures	9.2	9.8	4	10.8	2.7	-4.1	4.7	13.5	5.4	4.1	1.2	30.2	16.8	6.7		
Change in bus invent	-19.8	10.5	1.0	1.4	11.9	4	-5.9	-2.2	14.6	30.9	34.4	-6.9	4.2	25.6		
Nonfarm	-28.9	12.4	3.7	4.5	13.4	3.1	-1.9	-10.2	11.4	29.7	33.3	8.3	4.4	18.0		
Farm	9.1	-1.8	-2.8	3.1	-1.5	-2.7	-4.0	8.0	3.2	1.3	1.0	1.4	2	7.6		
Net exports	-1.0	-16.2	-4.8	4	19.1	11.7	17.0	4.1	-21.8	-8.9	19.9	21.6	-43.7	-20.5		
Exports	8.4	2.1	7.4	10.2	1.5	11.0	-4.9	29.9	-5.6	23.1	42.2	28.1	34.5	42.5		
Imports	9.4	18.3	12.3	9.9	17.5	22.8	12.0	25.8	16.2	32.0	22.2	49.9	78.1	63.0		
Government purchases	3.4	-7.1	7.8	2.1	-14.1	2.0	2.5	-3	11.6	-3.6	8.0	6.2	9.1	-7.9		
Federal	-1.2	-4.6	7.7	1.0	-15.4	-3.3	-2.7	-4.5	-9.4	7.8	-12.4	2.9	25.9	19.6		
Defense	-4.9	-3.4	7.1	-2.2	14.2	-1.4	-5.9	-2.2	10.2	-3.6	-19.9	-3.4	-23.7	-16.2		
Nondefense	3.8	-1.2	6	3.2	-1.3	1.0	3.2	-2.3	8	4.2	7.4	6.4	2.2	-3.4		
State and local	4.5	-2.5	1	1.1	1.3	6.1	5.2	4.2	-2.1	4.1	4.6	3.2	16.8	11.7		

1 Annual changes are from Q4 to Q4

Strictly Confidential (FR)
Class II FOMC

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

September 21 1994

Item	Projected										Projected			
	1994		1995				1996				1993	1994	1995	1996
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GDP	39.9	37.6	25.3	22.2	24.9	27.1	30.2	32.1	31.6	32.4	157.3	169.7	99.5	126.3
Gross domestic purchases	34.7	32.6	27.5	22.5	25.1	27.1	29.4	30.3	31.0	32.0	201.0	190.2	102.2	122.8
Final sales	49.1	48.3	27.2	26.3	27.7	30.3	30.4	32.4	31.8	32.7	153.1	144.1	111.6	127.3
Private dom final purch.	38.9	41.0	30.1	26.9	28.2	29.9	28.7	30.0	30.0	30.3	205.9	172.4	115.1	119.0
Personal cons. expend	25.0	26.0	22.5	16.3	17.2	17.5	18.1	19.2	19.4	19.2	102.8	103.4	73.5	75.9
Durables	6.6	6.2	5.0	3.1	3.5	3.7	3.8	4.3	4.4	4.4	42.0	25.3	15.3	16.9
Nondurables	7.7	7.3	5.8	3.5	3.9	3.9	4.0	4.0	4.0	3.9	13.8	30.8	17.2	15.8
Services	10.8	12.6	11.6	9.8	9.8	9.9	10.4	10.9	11.0	10.9	47.0	47.3	41.0	43.2
Business fixed invest	12.5	19.1	12.0	12.1	9.8	9.7	8.8	8.9	9.1	9.3	86.3	62.3	43.5	36.1
Producers' dur equip.	10.5	17.2	9.8	9.6	7.3	7.4	7.2	7.3	7.5	7.6	83.9	56.5	34.2	29.6
Nonres structures	2.0	1.9	2.2	2.5	2.4	2.2	1.6	1.6	1.6	1.6	2.4	5.8	9.3	6.5
Res structures	1.4	-4.1	-4.3	-1.5	1.2	2.8	1.8	1.9	1.6	1.8	16.8	6.7	-1.8	7.0
Change in bus invent	-9.2	-10.7	-1.9	-4.1	-2.8	-3.3	-2	-3	2	-2	4.2	25.6	-12.1	1.0
Nonfarm	-11.3	-11.8	1	-2.9	8	-3.3	-2	-2	2	2	4.4	18.0	-6.9	9
Farm	2.0	1.1	-2.0	-1.2	-2.0	0	0	-1	0	0	2	7.6	-5.2	1
Net exports	5.2	5.0	-2.2	-3	-2	0	8	1.6	5	4	-43.7	20.5	-2.8	3.5
Exports	11.7	13.3	11.8	12.3	13.1	14.0	15.4	16.3	16.7	17.4	34.5	42.5	51.2	65.7
Imports	6.5	8.3	14.0	12.6	13.4	14.0	14.6	14.5	16.1	17.0	78.1	63.0	54.0	62.2
Government purchases	5.0	2.3	-7	-3	-3	5	9	6	1.2	2.0	-9.1	-7.9	8	4.7
Federal	-8	-1.6	-4.4	-4.0	-4.0	-3.4	-2.9	-3.1	-2.5	-1.8	-25.9	19.6	15.8	10.3
Defense	-1.5	-9	-4.0	-3.8	3.7	3.1	-2.5	-2.8	2.2	-1.9	-23.7	16.2	14.6	-9.4
Nondefense	7	-7	-4	2	-3	-3	4	-3	3	1	2.2	-3.4	1.2	9
State and local	5.8	3.9	3.7	3.7	3.7	3.9	3.8	3.7	3.7	3.8	16.8	11.7	15.0	15.0

1 Annual changes are from Q4 to Q4

Strictly Confidential (FR)
Class II FOMC

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

September 21, 1994

Item	Fiscal year				1994				1995				1996			
	1993*	1994	1995	1996	Q1*	Q2*	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
Receipts ¹	1153	1261	1338	1405	289	363	322	303	294	410	332	316	303	436	350	321
Outlays ¹	1408	1460	1527	1608	348	362	371	379	390	375	383	401	406	402	400	424
Surplus/deficit ¹	-255	-199	-188	-203	-59	1	-49	-76	-97	35	-51	-85	-102	34	-50	-103
On-budget	-301	-239	-250	-262	-66	-15	-52	-83	-105	-4	-57	-90	-110	-4	-57	-104
Off-budget	46	39	62	59	8	16	3	7	9	39	7	5	8	38	7	2
Surplus excluding deposit insurance ²	-283	-205	-205	-215	-65	4	-51	-79	-102	32	-57	-87	-107	33	-54	-102
Means of financing																
Borrowing	249	179	216	213	51	8	31	82	71	17	46	69	85	13	45	73
Cash decrease	6	14	-21	0	5	-6	12	-5	29	-45	0	25	20	-45	0	25
Other ³	0	7	-7	-9	2	-2	6	-1	-4	-7	5	-9	-3	-3	5	5
Cash operating balance, end of period	53	39	60	60	45	51	39	44	15	60	60	35	15	60	60	35
NIPA FEDERAL SECTOR																
Receipts	1242	1356	1442	1507	1338	1381	1391	1410	1435	1458	1465	1479	1493	1524	1533	1551
Expenditures	1497	1527	1606	1693	1514	1526	1535	1580	1602	1617	1624	1661	1689	1705	1716	1755
Purchases	447	436	433	427	438	435	432	434	436	432	429	426	429	427	425	425
Defense	307	293	288	280	292	291	290	290	290	287	284	281	282	279	278	277
Nondefense	140	143	145	147	146	144	142	144	146	145	145	145	147	147	147	148
Other expenditures	1049	1091	1173	1266	1076	1091	1103	1146	1166	1185	1195	1235	1260	1279	1290	1331
Surplus/deficit	-254	-171	-164	-186	-176	-145	-144	-170	-167	-159	-159	-182	-196	-182	-183	-205
FISCAL INDICATORS⁴																
High-employment (HEB) surplus/deficit	-210	-159	-165	-177	-158	-140	-145	-174	-171	-158	-155	-176	-186	-172	-173	-194
Change in HEB, percent of potential GDP	-.1	-.8	.1	.2	-.6	-.3	.1	.4	-.1	-.2	0	.3	.1	-.2	0	.3
Fiscal impetus (FI), percent, cal. year	-4.1	-8.2	-5.5	-4.9	-4.2	-4.6	.5	-.5	-2.3	-2	-.5	-.8	-2.3	-1.7	.1	-.4

1. Excluding health reform, OMB's July 1994 deficit estimates are \$220 billion in FY94, \$167 billion in FY95, and \$179 billion in FY96. CBO's August 1994 deficit estimates of the budget are \$202 billion in FY94, \$162 billion in FY95, and \$176 billion in FY96. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's July 1994 deficit estimates, excluding deposit insurance spending, are \$224 billion in FY94, \$185 billion in FY95, and \$187 billion in FY96. CBO's August 1994 deficit estimates, excluding deposit insurance spending, are \$207 billion in FY94, \$180 billion in FY95, and \$188 billion in FY96.

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 2.3 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.

Confidential FR Class II
September 21, 1994

CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS¹
(Percent)

	Nonfederal							MEMO	
	Households							Private financial assets	Nominal GDP
Total ²	Federal govt.	Total	Total	Home mtg.	Cons. credit	Business	State and local govt.		
Year									
1981	9.8	11.6	9.3	7.5	7.0	4.8	11.9	5.2	10.4
1982	9.8	19.7	7.4	5.5	4.7	4.4	8.8	9.3	10.1
1983	11.9	18.9	10.1	11.8	10.8	12.6	8.7	9.7	12.5
1984	14.6	16.9	13.9	13.0	11.7	18.7	15.6	9.1	12.8
1985	15.5	16.5	15.2	15.3	13.2	15.8	12.1	31.6	12.4
1986	12.3	13.6	11.9	12.0	14.3	9.6	12.2	9.8	7.3
1987	9.4	8.0	9.8	11.4	14.9	5.0	7.9	12.1	8.1
1988	8.9	8.0	9.2	10.5	12.7	7.2	8.7	6.0	8.6
1989	7.8	7.0	8.1	9.2	10.8	6.2	6.9	9.3	5.8
1990	6.3	11.0	5.0	6.5	7.9	2.0	3.4	5.7	4.7
1991	4.4	11.1	2.4	4.7	6.5	-1.8	-1.0	7.4	-1.0
1992	4.8	10.9	2.8	5.8	6.7	0.7	-0.1	1.8	0.7
1993	5.4	8.3	4.3	7.3	6.4	8.0	0.6	6.4	-0.7
1994	4.9	5.2	4.7	7.0	5.6	11.2	4.1	-2.8	4.4
1995	5.2	5.8	5.0	6.3	6.0	8.6	4.1	2.2	1.0
Quarter (seasonally adjusted annual rates)									
1993:1	4.2	7.8	2.9	4.4	4.2	2.7	-0.3	8.7	-3.1
2	6.4	10.7	4.8	6.8	6.7	6.0	1.0	11.3	1.4
3	5.0	5.4	4.9	9.1	8.1	9.3	0.3	4.5	-2.3
4	5.5	8.4	4.5	8.3	6.2	13.2	1.2	0.6	7.7
1994:1	5.3	6.3	5.0	7.3	6.2	8.6	3.9	-1.1	9.2
2	3.9	3.6	4.0	6.2	3.6	13.4	4.0	-5.5	4.5
3	4.3	3.2	4.7	6.9	6.2	10.9	4.0	-2.8	1.9
4	5.5	7.1	4.9	6.9	6.0	10.1	4.1	-1.8	5.6
1995:1	5.9	8.4	5.0	6.2	5.8	9.3	4.4	2.3	1.5
2	4.8	4.5	4.9	6.1	5.8	8.6	4.1	2.5	0.6
3	4.8	4.6	4.9	6.2	5.9	7.9	3.9	2.0	0.7
4	4.9	5.3	4.8	6.1	6.1	7.3	3.9	2.0	4.4

1. Data after 1994:2 are staff projections. Year-to-year changes in nominal GDP are measured from the fourth quarter of the preceding year to the fourth quarter of the year indicated; other changes are measured from end of preceding period to end of period indicated.
2. On a quarterly average basis, total debt growth was 5.2 percent in 1993, and it is projected to be 4.9 in 1994 and 5.3 in 1995.
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FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS¹
(Billions of dollars)

	Calendar year			1994				1995			
	1993	1994	1995	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-----Seasonally Adjusted Annual Rates-----											
Net funds raised by domestic nonfinancial sectors											
1 Total	651.4	577.4	662.2	657.2	501.7	503.3	647.4	746.8	619.7	627.6	654.7
2 Net equity issuance	20.9	-21.9	-11.8	-2.8	10.4	-42.0	-53.0	-23.0	-8.0	-8.0	-8.0
3 Net debt issuance	630.5	599.2	673.9	660.0	491.3	545.3	700.4	769.8	627.7	635.6	662.7
Borrowing sectors											
Nonfinancial business											
4 Financing gap ²	28.8	63.5	100.8	22.1	71.9	78.0	82.0	92.0	101.3	102.3	107.6
5 Net equity issuance	20.9	-21.9	-11.8	-2.8	10.4	-42.0	-53.0	-23.0	-8.0	-8.0	-8.0
6 Credit market borrowing	21.1	152.8	160.2	145.1	152.5	154.0	159.5	169.4	159.4	155.5	156.6
Households											
7 Net borrowing, of which:	293.8	301.7	289.2	315.7	269.7	308.7	312.8	284.0	284.3	294.7	293.6
8 Home mortgages	179.7	166.9	188.4	182.8	109.7	190.0	185.0	181.1	183.1	191.1	198.2
9 Consumer credit	64.4	97.0	82.5	74.4	118.7	100.0	95.0	90.0	85.0	80.0	75.0
10 Debt/DPI (percent) ³	88.5	90.0	90.7	90.5	90.6	90.9	90.9	90.9	91.4	91.6	91.7
State and local governments											
11 Net borrowing	59.5	-27.4	21.5	-11.3	-53.8	-27.2	-17.2	22.3	24.3	19.8	19.8
12 Current surplus ⁴	-45.5	-31.0	-22.9	-29.1	-37.6	-31.0	-26.0	-23.1	-23.6	-22.9	-22.0
U.S. government											
13 Net borrowing	256.1	172.1	203.0	210.5	122.9	109.8	245.3	294.0	159.6	165.6	192.7
14 Net borrowing; quarterly, nsa	256.1	172.1	203.0	51.2	7.7	30.9	82.2	71.2	17.1	45.7	69.1
15 Unified deficit; quarterly, nsa	226.3	183.8	197.5	58.6	-0.3	49.3	76.0	96.5	-35.0	50.8	85.2
Funds supplied by depository institutions											
16 Dom. nonfinancial debt ³	140.4	204.6	187.9	203.4	155.0	239.0	220.9	196.7	186.3	188.9	179.6
MEMO: (percent of GDP)											
17 Dom. nonfinancial debt ³	189.7	188.2	188.6	190.4	189.1	188.9	188.8	189.4	189.8	190.0	190.3
18 Dom. nonfinancial borrowing	9.9	8.9	9.6	10.0	7.3	8.1	10.2	11.1	9.0	9.0	9.3
19 U.S. government ⁵	4.0	2.6	2.9	3.2	1.8	1.6	3.6	4.2	2.3	2.3	2.7
20 Private	5.9	6.4	6.7	6.8	5.5	6.4	6.6	6.9	6.7	6.6	6.6

1. Data after 1994:2 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.

end of 1995 and to strengthen some in 1996. This deceleration reflects the projected slower U.S. GDP growth, the lower dollar, and the unwinding of a number of special factors that boosted imports in the second quarter. We expect that the quantity of oil imports will fall in the current quarter from the recent record highs. We anticipate a more rapid decline in the fourth quarter as increased winter consumption is met by slightly higher domestic production and stock drawdowns. In 1995, imports should remain on an upward trend as U.S. oil consumption continues to increase in line with economic activity.

TRADE QUANTITIES*
(percent change from end of previous period, saar)

	1993	-----Projection-----			1995	1996
		H1	Q3	Q4		
Merchandise exports						
Total	6.1	6.7	8.1	9.4	8.5	10.3
Agricultural	-5.3	-8.0	2.5	15.8	1.3	1.5
Computers	23.1	14.8	21.7	21.6	28.7	28.7
Other nonag.	4.5	6.6	5.9	6.2	4.6	5.9
Merchandise imports						
Total	13.1	16.5	4.3	4.8	7.7	8.3
Oil	10.0	8.1	-5.0	-16.8	9.2	1.3
Computers	38.3	27.9	12.1	21.5	24.3	22.5
Other non-oil	9.3	15.2	3.8	4.2	3.6	5.1

* NIPA basis, 1987 dollars.

Oil prices. During August and September, oil prices on balance fell from the levels anticipated at the time of the August Greenbook as the market disruptions abated. Accordingly, the third and fourth quarter assumptions for the oil import unit value have been revised down by 75 cents to \$1. We expect the near term spot WTI to average \$17.25 per barrel, returning to \$18.50 per barrel in the first quarter of 1995, consistent with global economic expansion, the onset of winter and little change in OPEC production through early

1995. By the second quarter 1995, the oil import unit value will have returned to our long-run view of \$16.00 per barrel.

Over the longer term, increasing world economic activity should continue to raise world oil consumption. We continue to assume no significant Iraqi exports during 1995; therefore, higher consumption should be offset by an increase in production by Saudi Arabia or a combination of other OPEC producers with excess capacity. Assuming a return of Iraq to the world oil market in 1996, we anticipate a downward adjustment in Saudi Arabian production in that year. Accordingly, beyond the first quarter 1995, we assume WTI and the oil import price will remain at \$18.50 and \$16.00 per barrel, respectively.

SELECTED PRICE INDICATORS
(percent change from end of previous period except as noted, ar)

	<u>1993</u>	-----Projection-----				
		<u>H1</u>	<u>1994</u>	<u>Q3</u>	<u>Q4</u>	<u>1995</u>
PPI (export. wts.)	0.9	2.8	5.8	3.6	2.9	2.3
Nonag. exports*	0.7	3.2	4.0	2.6	2.4	1.8
Non-oil imports*	1.3	2.1	6.2	4.1	2.4	1.6
Oil imports (Q4 level. \$/bl.)	14.09	14.66	16.02	15.04	16.00	16.00

* Excluding computers.

Prices of non-oil imports and exports. The prices of non-oil imports excluding computers are expected to accelerate markedly during the second half of this year in response to the recent substantial rise of non-oil commodity prices and the lagged effect of the decline in the dollar since early this year. Next year, the increase in these prices will fall back to about 2-1/2 percent as the effects of these factors wane. Prices of U.S. nonagricultural exports are expected to move with U.S. producer prices, increasing about 2-1/2 percent on average over the forecast period.

Nominal trade and current account balances. The trade deficit on goods and services is projected to change little on balance

September 21, 1994

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REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1992-96
(Percent change from fourth quarter to fourth quarter)

Measure and country	Projection				
	1992	1993	1994	1995	1996
REAL GDP					
<b">-----</b">					
Canada	0.5	3.2	4.5	3.6	3.5
France	0.6	-0.5	3.0	2.9	3.1
Germany	1.0	0.0	3.0	3.1	3.6
W. Germany	0.3	-0.5	2.5	2.8	2.9
Italy	-0.6	0.3	2.0	2.5	2.8
Japan	-0.3	-0.1	1.5	2.8	3.3
United Kingdom	0.3	2.6	3.6	3.1	2.7
Average, weighted by 1987-89 GDP	0.1	0.6	2.6	2.9	3.2
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	1.6	2.8	3.8	3.7	3.8
Foreign G-7	0.3	1.8	3.4	3.2	3.3
Developing countries	3.9	4.7	5.2	5.0	5.2
CONSUMER PRICES					
<b">-----</b">					
Canada	1.8	1.8	-0.2	1.9	2.1
France	1.8	2.1	1.7	1.5	1.5
Western Germany	3.7	3.7	2.8	2.1	2.2
Italy	4.8	4.1	3.5	3.7	3.6
Japan	0.9	1.2	0.7	1.1	0.8
United Kingdom	3.1	1.6	3.0	3.8	3.9
Average, weighted by 1987-89 GDP	2.4	2.2	1.8	2.1	2.1
Average, weighted by share of U.S. non-oil imports					
	1.9	1.9	1.0	1.8	1.8

U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT

(Billions of dollars, seasonally adjusted annual rates)

	1992				1993				1994		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1991	1992	1993
NIPA Real Net Exports of Goods & Services (87\$)	-17.9	-34.1	-38.9	-38.5	-57.6	-69.3	-86.3	-82.2	-104.0	-112.9	-19.5	-32.3	-73.9
Exports of G&S Goods	571.0	573.1	580.5	590.7	589.2	600.2	595.3	625.2	619.6	642.7	542.6	578.8	602.5
Agricultural	416.0	421.5	427.4	441.1	433.9	443.3	438.5	468.1	464.4	483.5	397.1	426.5	445.9
Computers	38.9	38.4	40.5	41.3	39.1	39.3	36.9	39.1	36.6	37.5	35.5	39.8	38.6
Other Goods	47.1	52.3	56.2	60.1	60.9	62.9	68.5	74.0	76.9	79.3	41.4	53.9	66.6
Services	330.0	330.8	330.7	339.8	333.9	341.1	333.1	355.1	350.9	366.7	320.2	332.8	340.8
Imports of G&S Goods	154.9	151.6	153.1	149.6	155.3	156.9	156.7	157.1	155.2	159.2	145.5	152.3	156.5
Oil	489.5	509.7	521.7	530.2	546.6	567.4	577.1	599.9	615.2	647.4	464.4	512.8	572.8
Computers	47.2	51.6	53.1	52.8	53.4	57.7	56.7	58.1	56.5	60.4	49.2	51.2	56.5
Other Goods	51.2	57.5	64.7	68.4	73.3	80.0	87.8	94.6	99.7	107.0	41.6	60.5	83.9
Services	391.1	400.6	403.9	409.0	419.9	429.7	432.6	447.2	458.9	480.0	373.7	401.2	432.4
Memo: (Percent change 1/)	99.3	97.4	97.7	99.0	100.1	102.2	104.5	107.6	108.5	108.1	97.7	98.3	103.6
Exports of G&S	6.1	1.5	5.3	7.2	-1.0	7.7	-3.2	21.7	-3.5	15.8	8.1	5.0	5.8
Agricultural	13.4	-5.0	23.7	8.1	-19.7	2.1	-22.3	26.1	-23.2	10.2	10.9	9.5	-5.3
Computers	24.4	52.0	33.3	30.8	5.4	13.8	40.7	36.2	16.6	13.1	26.7	34.8	23.1
Other Goods	3.1	1.0	-0.1	11.5	-6.8	8.9	-9.1	29.2	-4.6	19.3	7.2	3.8	4.5
Services	5.9	-8.3	4.0	-8.8	16.1	4.2	-0.5	1.0	-4.8	10.7	4.7	-2.0	5.0
Imports of G&S	6.6	13.0	8.4	6.5	11.6	14.9	7.4	16.0	9.5	18.9	4.0	8.6	12.4
Oil	0.9	42.8	12.1	-2.2	4.6	36.3	-6.8	10.2	-10.6	30.6	8.3	12.1	10.0
Computers	53.5	59.1	60.3	24.9	31.9	41.9	45.1	34.8	23.4	32.7	45.6	48.7	38.3
Other Goods	2.4	10.1	3.3	5.1	11.1	9.7	2.7	14.2	10.9	19.7	2.9	5.2	9.3
Services	7.2	-7.4	1.2	5.4	4.5	8.7	9.3	12.4	3.4	-1.5	-6.2	1.4	8.7
Current Account Balance	-33.4	-66.1	-74.4	-97.5	-79.4	-102.4	-111.4	-122.3	-129.3	-147.9	-6.9	-67.9	-103.9
Goods & Serv (BOP), net	-15.5	-41.5	-51.1	-53.4	-57.7	-76.3	-89.0	-79.9	-97.3	-108.0	-28.5	-40.4	-75.7
Goods (BOP), net	-72.3	-97.3	-109.4	-105.3	-116.8	-134.9	-145.9	-132.7	-147.8	-167.1	-74.1	-96.1	-132.6
Services (BOP), net	56.7	55.8	58.3	52.0	59.1	58.6	56.9	52.8	50.5	59.0	45.6	55.7	56.8
Investment Income, net	9.7	6.5	4.9	-2.9	7.4	2.7	8.1	-2.4	-3.2	-10.0	14.8	4.5	4.0
Direct, net	50.8	51.0	47.1	42.0	54.6	50.8	55.9	48.4	45.9	43.0	55.4	47.7	52.4
Portfolio, net	-41.1	-44.5	-42.2	-44.9	-47.2	-48.1	-47.8	-50.8	-49.1	-53.0	-40.5	-43.2	-48.5
Unilateral Transfers, net	-27.7	-31.1	-28.2	-41.2	-29.1	-28.8	-30.5	-40.1	-28.7	-29.9	6.7	-32.0	-32.1

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT
(Billions of dollars, seasonally adjusted annual rates)

	Projection												Projection			
	1994		1995				1996				ANNUAL					
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1994	1995	1996			
NIPA Real Net Exports of Goods & Services (\$7\$)	-107.7	-102.7	-104.9	-105.2	-105.4	-105.4	-104.6	-102.9	-102.3	-101.9	-106.8	-105.2	-102.9			
Exports of G&S Goods	654.4	667.7	679.5	691.8	705.0	718.9	734.3	750.6	767.3	784.7	646.1	698.8	759.2			
Agricultural	493.0	504.2	514.0	524.3	535.3	547.0	560.1	574.0	588.2	603.2	486.3	530.2	581.4			
Computers	37.7	39.1	39.3	39.4	39.4	39.6	39.8	39.9	40.1	40.3	37.7	39.4	40.0			
Other Goods	83.3	87.5	93.1	99.2	105.6	112.5	119.8	127.6	135.9	144.8	81.7	102.6	132.0			
Services	372.0	377.6	381.6	385.8	390.2	394.8	400.5	406.4	412.2	418.1	366.8	388.1	409.3			
Imports of G&S Goods	762.1	770.4	784.4	797.0	810.4	824.4	838.9	853.5	869.6	886.6	752.9	804.0	862.2			
Oil	654.2	662.0	675.3	687.2	699.9	713.2	727.0	740.8	756.1	772.2	644.7	693.9	749.0			
Computers	59.6	56.9	58.8	60.0	61.3	62.2	62.8	62.3	62.5	63.0	58.4	60.6	62.7			
Other Goods	110.1	115.6	122.5	129.5	136.5	143.8	151.2	159.1	167.4	176.1	108.1	133.1	163.4			
Services	484.5	489.5	493.9	497.7	502.1	507.2	513.0	519.4	526.2	533.1	478.2	500.2	522.9			
Imports of G&S Services	107.8	108.3	109.0	109.7	110.4	111.1	111.9	112.6	113.4	114.3	108.2	110.0	113.0			
Memo: (Percent change 1/)																
Exports of G&S	7.5	8.4	7.3	7.4	7.8	8.2	8.8	9.2	9.2	9.4	6.8	7.7	9.1			
Agricultural	2.5	15.8	1.6	0.6	0.6	2.3	1.5	1.5	1.5	1.5	0.1	1.3	1.5			
Computers	21.7	21.6	28.7	28.7	28.7	28.7	28.7	28.7	28.7	28.7	18.2	28.7	28.7			
Other Goods	5.9	6.2	4.3	4.4	4.7	4.8	5.8	6.0	5.8	5.9	6.3	4.6	5.9			
Services	5.7	5.4	4.8	5.0	5.3	5.4	5.5	5.7	5.5	5.5	4.1	5.1	5.6			
Imports of G&S	3.5	4.4	7.5	6.6	6.9	7.1	7.3	7.1	7.8	8.0	8.9	7.0	7.5			
Oil	-5.0	-16.8	13.9	8.2	8.9	6.0	3.6	-2.7	1.3	3.3	-2.0	9.2	1.3			
Computers	12.1	21.5	26.2	24.8	23.4	22.9	22.5	22.5	22.5	22.5	22.2	24.3	22.5			
Other Goods	3.8	4.2	3.7	3.1	3.6	4.2	4.6	5.1	5.4	5.4	9.4	3.6	5.1			
Services	-1.1	1.8	2.9	2.3	2.6	2.7	2.9	2.6	2.9	3.0	0.6	2.6	2.9			
Current Account Balance	-152.9	-161.8	-156.5	-163.5	-159.4	-173.0	-162.2	-162.0	-155.2	-168.7	-147.9	-163.1	-162.0			
Goods & Serv (BOP), net	-113.7	-106.3	-109.5	-109.4	-108.3	-107.1	-104.6	-101.7	-99.9	-99.0	-106.3	-108.6	-101.3			
Goods (BOP), net	-175.2	-170.4	-175.7	-177.9	-179.2	-180.5	-180.6	-180.4	-181.2	-183.1	-165.1	-178.3	-181.3			
Services (BOP), net	61.6	64.1	66.2	68.5	70.9	73.4	76.0	78.7	81.3	84.1	58.8	69.8	80.0			
Investment Income, net	-8.2	-14.9	-15.0	-22.1	-19.1	-24.9	-25.1	-27.8	-22.8	-28.2	-9.1	-20.3	-26.0			
Direct, net	44.2	46.0	47.3	47.3	48.1	49.6	50.7	52.5	54.5	56.3	44.8	48.1	53.5			
Portfolio, net	-52.4	-60.9	-62.2	-69.4	-67.2	-74.5	-75.7	-80.3	-77.3	-84.5	-53.9	-68.3	-79.5			
Unilateral Transfers, net	-31.0	-40.5	-32.0	-32.0	-32.0	-41.0	-32.5	-32.5	-32.5	-41.5	-32.5	-34.2	-34.8			

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

September 21, 1994

RECENT DEVELOPMENTS

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

Industrial Production

Reflecting a large increase in manufacturing output, the industrial production index rose 0.7 percent in August. Moreover, the increases for the preceding three months are now reported to be larger than previously estimated. As a result, the rate of capacity utilization for total industry has climbed to 84.7 percent--2.8 percentage points above the 1967-93 average.

In August, higher output of motor vehicles and parts directly contributed 0.5 percentage point to the 1.0 percent rise in manufacturing output. Total motor vehicle assemblies increased more than 1 million units (annual rate) to 12.3 million units. Industry sources indicate that quicker retooling for the new model year permitted the rapid August rise in production. Indeed, General Motors met production schedules despite a strike at a parts plant in August, and the company reports that it will make up the lost output of about 200,000 units (annual rate) for affected models in September.

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

	1994		1994		
	July	Aug.	Sept.	Oct.	Q4
-----scheduled-----					
U.S. production	11.2	12.3	11.9	12.4	12.7
Autos	6.0	6.4	6.3	6.8	7.0
Trucks	5.2	5.9	5.6	5.7	5.6
Days' supply					
Autos	65.9	56.7			
Light Trucks	63.2	65.4			

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

Outside of the motor vehicle industry, much of the rise in manufacturing output was from motor-vehicle-related industries such as tires, consumer steel, and metal stampings; production in these industries, taken together, was up 3.7 percent in August. Another

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

	Jul. 1993	Jul. 1994	Fiscal year to date			
			FY1993	FY1994	Dollar change	Percent change
Outlays	120.2	118.0	1179.7	1207.2	27.5	2.3
Deposit insurance (DI)	-3.4	-.6	-23.9	-4.4	19.5	-81.7
Outlays excluding DI	123.6	118.6	1203.6	1211.6	8.0	.7
National defense	25.9	22.1	244.4	230.0	-14.5	-5.9
Net interest	17.2	18.0	165.9	167.7	1.7	1.1
Social security	25.6	26.7	253.5	265.9	12.4	4.9
Medicare and health	20.1	20.8	190.1	207.4	17.2	9.1
Income security	18.7	17.0	177.4	180.0	2.6	1.4
Other	16.1	14.0	172.2	160.6	-11.5	-6.7
Receipts	80.6	84.8	939.0	1024.0	85.0	9.0
Personal income taxes	37.5	37.4	414.6	441.6	27.0	6.5
Social insurance taxes	32.3	34.0	353.9	381.8	27.9	7.9
Corporate income taxes	2.7	3.8	91.1	110.0	18.9	20.8
Other	8.2	9.6	79.5	90.6	11.1	14.0
Deficit(+) Excluding DI	39.6	33.2	240.8	183.3	-57.5	-23.9
	42.9	33.8	264.7	187.7	-77.0	-29.1

Details may not add to totals because of rounding.

CBO BUDGET PROJECTIONS¹
 (Billions of dollars, except where noted)

	Fiscal years					
	1994	1995	1996	1997	1998	1999
Outlays	1467	1525	1609	1684	1758	1863
Receipts	1265	1363	1433	1492	1562	1632
Deficit	202	162	176	193	197	231
Deficit (percent of GDP)						
Total	3.0	2.3	2.4	2.5	2.4	2.7
Excluding Deposit Insurance	3.1	2.5	2.5	2.5	2.5	2.7

CBO ECONOMIC ASSUMPTIONS

	Calendar years					
	1994	1995	1996	1997	1998	1999
-----Percent change, year over year-----						
Real GDP	4.0	3.0	2.4	2.1	2.1	2.2
GDP deflator	2.2	2.5	2.6	2.7	2.7	2.7
CPI-U	2.6	3.1	3.3	3.4	3.4	3.4
-----Percent, annual average-----						
Civilian unemployment rate ²	6.2	5.8	5.9	6.0	6.1	6.1
Interest rates						
Treasury bills	4.1	5.5	5.1	4.9	4.9	4.9
Treasury notes	6.8	6.8	6.5	6.5	6.5	6.5

1. The projections assume that revenues and outlays for major benefit programs evolve according to laws in effect at the time the projections are made, and that appropriations through FY1999 for other programs are consistent with the discretionary spending caps. The projections include Social Security and the Postal Service, which are off-budget.

2. Pre-1994 basis.

Source: CBO, The Economic and Budget Outlook: An Update, August 1994.

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS¹
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1994						
	1992	1993	Q1	Q2	Jun	Jul ^P	Aug ^P
All U.S. corporations	40.84	53.42	52.90	40.78	43.39	23.93	29.28
Stocks ²	7.04	9.65	8.18	5.48	6.77	4.46	3.43
Bonds	33.80	43.77	44.72	35.30	36.63	19.47	25.85
<u>Nonfinancial corporations</u>							
Stocks ²	4.42	5.32	4.33	3.38	3.97	1.29	1.60
Sold in U.S.	4.03	5.12	4.03	3.19	3.68	1.23	1.54
Utility	.87	1.06	.65	.44	.78	.08	.23
Industrial	3.16	4.00	3.38	2.75	2.91	1.16	1.30
Sold abroad	.39	.19	.30	.19	.29	.06	.07
Bonds	13.67	16.19	11.07	6.50	7.53	5.10	5.74
Sold in U.S.	12.83	15.55	10.33	5.63	6.67	4.50	5.00
Utility	5.33	7.34	4.57	1.84	2.26	1.20	1.00
Industrial	7.50	8.21	5.76	3.79	4.41	3.30	4.00
Sold abroad	.84	.64	.74	.87	.87	.60	.74
By quality ³							
Aaa and Aa	2.18	2.56	.80	.59	.92	.06	.23
A and Baa	7.74	8.70	5.60	3.02	4.03	1.92	3.20
Less than Baa	2.86	4.17	3.92	1.99	1.74	.98	.69
Unrated or rating unknown	.09	.09	.00	.00	.01	.00	.03
<u>Financial corporations</u>							
Stocks ²	2.62	4.61	3.82	2.10	2.79	3.17	1.82
Sold in U.S.	2.51	4.16	3.55	1.95	2.66	2.28	1.81
Sold abroad	.11	.45	.28	.15	.13	.89	.02
Bonds	20.13	27.58	33.65	28.81	29.10	14.37	19.50
Sold in U.S.	18.67	25.02	29.28	24.59	25.09	13.00	18.20
Sold abroad	1.46	2.56	4.37	4.22	4.00	1.37	1.30
By quality ³							
Aaa and Aa	1.55	1.78	3.31	4.08	2.43	2.06	.74
A and Baa	6.77	9.01	11.24	9.68	10.85	2.85	3.27
Less than Baa	.31	.49	.63	.17	.20	.00	.19
Unrated or rating unknown	.04	.08	.04	.11	.20	.01	.00

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

2. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings.

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

p Preliminary.

TREASURY FINANCING¹
(Total for period; billions of dollars)

Item	1994		1994		
	Q2	Q3 ^p	Jul.	Aug. ^e	Sept. ^e
Total surplus/deficit (-)	.6	-49.4	-33.2	-29.3	13.2
Means of financing deficit:					
Net cash borrowing/repayments(-)	7.7	30.9	-3.2	51.3	-17.1
Nonmarketable	-.5	-3.2	-3.6	.8	-.3
Marketable	8.2	34.1	0.4	50.5	-16.8
Bills	-22.7	-6.5	7.6	8.3	-22.4
Coupons	30.9	40.7	-7.2	42.2	5.7
Decrease in the cash balance	-6.4	12.0	30.7	-9.8	-8.7
² Other	-2.0	6.4	5.7	-12.2	12.8
Memo:					
Cash balance, end of period	51.0	39.0	20.3	30.1	39.0

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

NET CASH BORROWING OF FEDERALLY SPONSORED CREDIT AGENCIES¹
(Billions of dollars)

Agency	1993		1994		1994	
	Q3	Q4	Q1	Apr.	May	June
FHLBs	5.4	8.9	5.7	6.2	3.4	--
FHLMC	17.1	-2.7	12.9	2.7	5.7	2.1
FNMA	19.3	5.3	15.3	2.4	4.3	4.7
Farm Credit Banks	-.1	1.5	-.7	0.2	-0.1	1.2
SLMA ²	-.1	1.0	1.3	3.2	1.5	2.1
FAMC ²	0	0	0	0	0	0

- 1. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
- 2. Federal Agricultural Mortgage Corporation.