

January 30, 1991

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

renewed concerns about oil supplies. One apparent reason for lower oil prices recently is the announced draws of supplies from the U.S. Strategic Petroleum Reserve and from similar caches in other industrial countries; we are assuming that additional draws from those reserves would be made available if production were disrupted enough to raise prices materially. The spot price of West Texas Intermediate is assumed to fluctuate around \$22-1/2 per barrel over the course of the war. After the war ends, prices are assumed to remain at this level, in line with the OPEC target established last July.

OPERATION DESERT STORM AND THE BUDGET
(Billions of dollars)

	Total	FY1991	FY1992	Beyond
TOTAL INCREMENTAL COST:	75			
less				
UNREPLACED MILITARY HARDWARE:	15			
equals				
BUDGET OUTLAYS:	60	20	20	20
less				
ASSUMED ALLIED CONTRIBUTIONS:	45	20	20	5
equals				
NET BUDGET DEFICIT EFFECT:	15	0	0	15

These figures include the prewar buildup costs of Operation Desert Shield.

On the fiscal front, higher defense purchases offset some of the moderate restraint on aggregate demand assumed in the last Greenbook for FY1991.¹ Defense outlays stemming from the war are assumed to total \$60 billion; this is less than the total cost because we assume that some

1. Despite the additions to defense outlays associated with Operation Desert Storm, it is important to point out that we continue to expect overall real defense expenditures to decline after the current quarter, though less rapidly than in the last Greenbook. Although the Desert Storm experience inevitably will influence future debates about defense appropriations, we assume that the plans for multi-year cutbacks agreed to last fall will remain highly relevant.

January 30, 1991

CONFIDENTIAL - FR
CLASS II FOMC

STAFF GNP PROJECTIONS

Percent changes, annual rate

		Nominal GNP		Real GNP		GNP fixed-weight price index		Consumer Price Index <1>		Unemployment rate (percent)	
		12/12/90	1/30/91	12/12/90	1/30/91	12/12/90	1/30/91	12/12/90	1/30/91	12/12/90	1/30/91
Annual changes:											
1988	<2>	7.9	7.9	4.5	4.5	4.2	4.2	4.1	4.1	5.5	5.5
1989	<2>	6.7	6.7	2.5	2.5	4.5	4.5	4.8	4.8	5.3	5.3
1990	<2>	5.1	5.0	.9	.9	4.6	4.5	5.4	5.4	5.5	5.5
1991		4.8	4.4	.5	.5	4.4	4.2	4.9	4.7	6.5	6.3
1992		6.1	6.5	2.5	2.8	3.8	3.9	4.0	4.0	6.5	6.0
Quarterly changes:											
1989	Q1 <2>	7.5	7.5	3.6	3.6	4.9	4.9	5.4	5.4	5.2	5.2
	Q2 <2>	5.8	5.8	1.6	1.6	4.6	4.6	6.0	6.0	5.3	5.3
	Q3 <2>	5.1	5.1	1.7	1.7	3.1	3.1	2.9	2.9	5.3	5.3
	Q4 <2>	3.9	3.9	.3	.3	3.8	3.8	3.9	3.9	5.3	5.3
1990	Q1 <2>	6.7	6.7	1.7	1.7	6.6	6.6	8.2	8.2	5.2	5.3
	Q2 <2>	5.1	5.1	.4	.4	3.9	3.9	3.8	3.8	5.3	5.3
	Q3 <2>	5.8	5.3	1.7	1.4	4.2	4.2	6.3	6.3	5.6	5.6
	Q4 <2>	.9	.3	-3.1	-2.1	4.5	4.1	7.2	6.9	5.9	5.9
1991	Q1	4.3	3.3	-.9	-1.5	5.5	5.0	4.2	3.4	6.4	6.4
	Q2	7.4	6.7	3.2	2.8	4.0	3.7	4.0	3.8	6.4	6.4
	Q3	6.1	6.8	2.5	3.1	3.8	4.0	4.1	4.3	6.5	6.2
	Q4	5.8	6.7	2.3	3.1	3.7	3.7	4.0	4.1	6.5	6.1
1992	Q1	6.2	6.8	2.4	2.8	4.2	4.3	4.0	4.1	6.5	6.1
	Q2	6.0	6.0	2.4	2.6	3.7	3.7	4.0	4.0	6.5	6.1
	Q3	5.9	6.0	2.4	2.5	3.6	3.7	3.7	3.8	6.5	6.0
	Q4	5.8	5.9	2.4	2.4	3.6	3.6	3.7	3.7	6.5	6.0
Two-quarter changes: <3>											
1989	Q2 <2>	6.7	6.7	2.6	2.6	4.7	4.7	5.7	5.7	.0	.0
	Q4 <2>	4.5	4.5	1.0	1.0	3.4	3.4	3.4	3.4	.0	.0
1990	Q2 <2>	5.9	5.9	1.1	1.1	5.3	5.3	5.9	5.9	.0	.0
	Q4 <2>	3.3	2.8	-.7	-.4	4.3	4.2	6.8	6.6	.6	.6
1991	Q2	5.8	5.0	1.2	.7	4.8	4.4	4.1	3.6	.5	.5
	Q4	6.0	6.8	2.4	3.1	3.7	3.8	4.1	4.2	.1	-.3
1992	Q2	6.1	6.4	2.4	2.7	4.0	4.0	4.0	4.1	.0	.0
	Q4	5.8	5.9	2.4	2.5	3.6	3.6	3.7	3.8	.0	-.1
Four-quarter changes: <4>											
1988	Q4 <2>	7.8	7.8	3.5	3.5	4.6	4.6	4.3	4.3	-.5	-.5
1989	Q4 <2>	5.6	5.6	1.8	1.8	4.0	4.0	4.6	4.6	.0	.0
1990	Q4 <2>	4.6	4.3	.2	.3	4.8	4.7	6.3	6.3	.6	.6
1991	Q4	5.9	5.9	1.8	1.9	4.3	4.1	4.1	3.9	.6	.2
1992	Q4	6.0	6.2	2.4	2.6	3.8	3.8	3.8	3.9	.0	-.1

<1> For all urban consumers.

<2> Actual.

<3> Percent change from two quarters earlier.

<4> Percent change from four quarters earlier.

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

										Projection	
	Units	1984	1985	1986	1987	1988	1989	1990	1991	1992	
EXPENDITURES											
Nominal GNP	Billions of \$	3772.2	4014.9	4231.6	4515.6	4873.7	5200.8	5463.0	5701.9	6071.5	
Real GNP	Billions of 82\$	3501.4	3618.7	3717.9	3845.3	4016.9	4117.7	4155.8	4177.7	4294.0	
Real GNP	Percent change*	5.1	3.6	1.9	5.0	3.5	1.8	.3	1.9	2.6	
Gross domestic purchases		6.4	4.3	2.1	4.2	2.6	1.1	-.2	1.2	2.2	
Final sales		4.7	4.6	2.7	3.1	4.5	1.7	1.2	1.1	2.4	
Private dom. final purchases		5.6	4.6	2.9	2.5	4.0	1.2	-.2	.4	2.6	
Personal consumption expend.		4.1	4.6	3.8	2.3	4.1	1.2	.2	1.2	2.2	
Durables		10.8	7.0	11.5	-1.2	9.3	-1.4	-.8	1.4	2.6	
Nondurables		2.3	3.3	2.9	1.3	2.4	.6	-2.2	-.6	1.0	
Services		3.5	5.0	2.1	4.1	3.7	2.4	2.2	2.3	2.8	
Business fixed investment		13.8	3.7	-5.5	6.1	5.3	4.5	.9	-3.1	3.7	
Producers' durable equipment		14.9	4.6	.4	8.2	8.2	5.4	2.8	-1.9	6.2	
Nonresidential structures		11.8	1.9	-17.7	.8	-2.7	1.7	-5.0	-7.2	-5.3	
Residential structures		6.1	5.8	11.6	-2.2	-.1	-7.1	-8.7	-.9	7.4	
Exports		5.9	-2.4	10.6	19.8	14.0	10.1	5.0	5.8	8.5	
Imports		17.4	4.5	10.0	10.4	5.5	4.5	1.0	1.2	6.0	
Government purchases		7.9	8.6	3.1	2.0	1.1	.3	3.8	.3	-.3	
Federal		13.0	13.3	.5	1.5	-1.6	-2.8	5.5	.0	-3.3	
Defense		6.5	7.1	6.0	4.0	-1.8	-2.1	4.7	-2.2	-5.5	
State and local		4.4	4.9	5.2	2.3	3.1	2.6	2.5	.5	1.8	
Change in business inventories	Billions of 82\$	62.3	9.1	5.6	22.8	23.6	23.8	-1.1	-1.1	20.9	
Nonfarm	Billions of 82\$	57.8	13.4	8.0	28.7	26.5	18.7	-2.9	-3.6	18.4	
Net exports	Billions of 82\$	-84.0	-104.3	-129.7	-118.5	-75.9	-54.1	-37.5	-1.6	17.4	
Nominal GNP	Percent change*	8.6	6.6	4.6	8.2	7.8	5.6	4.3	5.9	6.2	
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	94.5	97.5	99.5	102.2	105.5	108.4	110.3	110.5	112.4	
Unemployment rate	Percent	7.5	7.2	7.0	6.2	5.5	5.3	5.5	6.3	6.0	
Industrial production index	Percent change*	4.7	1.9	1.4	6.5	4.5	1.1	.1	2.2	3.6	
Capacity utilization rate-mfg.	Percent	80.4	79.5	79.0	81.4	83.9	83.9	82.2	79.3	80.2	
Housing starts	Millions	1.77	1.74	1.81	1.62	1.49	1.38	1.19	1.06	1.18	
Auto sales	Millions	10.35	11.03	11.44	10.23	10.65	9.89	9.53	8.72	9.33	
Domestic	Millions	7.92	8.22	8.22	7.06	7.55	7.06	6.92	6.39	6.78	
Foreign	Millions	2.43	2.82	3.22	3.18	3.10	2.83	2.61	2.33	2.56	
INCOME AND SAVING											
Nominal personal income	Percent change*	8.4	6.6	5.8	8.1	7.6	6.8	5.6	6.2	6.7	
Real disposable income	Percent change*	4.3	2.7	3.3	2.7	4.3	1.7	-.4	1.9	1.9	
Personal saving rate	Percent	6.1	4.4	4.1	2.9	4.2	4.6	4.5	4.9	4.7	
Corp. profits with IVA & CCAdj	Percent change*	7.4	9.2	-5.6	17.4	8.2	-16.8	-2.3	2.5	2.4	
Profit share of GNP	Percent	7.1	7.0	6.7	6.8	6.9	6.0	5.4	4.8	4.9	
Federal govt. surplus/deficit	Billions of \$	-169.6	-196.9	-206.9	-158.2	-141.7	-134.3	-161.3	-160.3	-127.8	
State and local govt. surplus		64.6	65.1	62.8	51.0	46.5	46.4	35.4	32.9	57.8	
Exc. social insurance funds		19.8	13.8	5.6	-8.3	-16.4	-19.9	-34.0	-39.8	-18.4	
PRICES AND COSTS											
GNP implicit deflator	Percent change*	3.4	2.9	2.6	3.0	4.1	3.7	4.0	3.9	3.5	
GNP fixed-weight price index		3.7	3.3	2.6	3.8	4.6	4.0	4.7	4.1	3.8	
Cons. & fixed invest. prices		3.3	3.4	2.5	4.5	4.3	4.3	5.2	3.8	3.8	
CPI		4.2	3.5	1.3	4.5	4.3	4.6	6.3	3.9	3.9	
Exc. food and energy		5.0	4.3	3.9	4.3	4.5	4.3	5.2	4.7	4.0	
ECI hourly compensation		4.9	3.9	3.2	3.3	4.8	4.8	4.6	4.3	4.0	
Nonfarm business sector											
Output per hour		1.5	1.6	1.3	2.3	1.8	-1.6	-.3	1.3	1.3	
Compensation per hour		4.1	4.6	4.9	3.7	4.2	2.2	4.2	4.5	4.0	
Unit labor costs		2.6	3.0	3.6	1.4	2.3	3.9	4.6	3.2	2.7	

* Percent changes are from fourth quarter to fourth quarter.

January 30, 1991

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

		1988				1989				1990	
	Units	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EXPENDITURES											
Nominal GNP	Billions of \$	4735.8	4831.4	4917.9	5009.8	5101.3	5174.0	5238.6	5289.3	5375.4	5443.3
Real GNP	Billions of 82\$	3970.2	4005.8	4032.1	4059.3	4095.7	4112.2	4129.7	4133.2	4150.6	4155.1
Real GNP	Percent Change	5.1	3.6	2.7	2.7	3.6	1.6	1.7	.3	1.7	.4
Gross domestic purchases		1.6	3.0	3.2	2.4	1.2	1.8	2.8	-1.2	.5	1.3
Final sales		7.1	5.1	1.1	4.6	2.4	1.7	1.8	.9	3.8	-.7
Private dom. final purchases		6.7	4.8	3.0	1.7	.8	1.4	4.1	-1.5	2.4	-1.2
Personal consumption expend.		6.9	2.7	3.5	3.5	-.3	1.3	4.6	-.8	1.1	.2
Durables		21.8	3.7	-1.1	14.1	-6.0	5.6	9.6	-13.0	14.4	-9.5
Nondurables		2.6	2.0	4.1	1.2	.6	-1.7	3.9	-.2	-3.2	-1.9
Services		5.6	2.9	4.5	1.9	.9	2.1	3.5	3.1	.1	5.1
Business fixed investment		11.4	15.7	1.6	-6.3	8.9	6.9	6.3	-3.8	5.0	-4.7
Producers' durable equipment		20.3	17.9	2.2	-5.5	9.5	12.2	6.1	-5.2	5.7	-3.3
Nonresidential structures		-10.5	9.9	-.3	-8.7	7.5	-8.2	7.1	1.3	2.3	-9.0
Residential structures		-6.8	6.8	.4	-.4	-3.6	-11.3	-7.6	-5.5	15.1	-11.2
Exports		31.7	4.4	5.4	16.7	15.8	12.4	-.5	13.5	11.2	-5.0
Imports		.5	.3	9.2	12.4	-2.3	12.8	6.4	1.7	2.5	.7
Government purchases		-9.2	3.3	-3.8	15.7	-3.3	4.0	-2.4	3.0	2.9	6.2
Federal		-24.1	3.5	-10.4	33.6	-9.1	7.0	-7.9	-.4	.4	16.4
Defense		-5.6	-1.4	-5.0	4.9	-10.9	3.2	7.2	-7.0	-1.7	3.3
State and local		3.9	3.2	1.2	4.3	1.3	1.8	1.8	5.6	4.8	-.6
Change in business inventories	Billions of 82\$	31.0	16.9	32.6	14.0	26.1	25.5	24.6	18.9	-2.2	9.5
Nonfarm	Billions of 82\$	28.8	19.2	31.0	27.2	16.4	21.5	21.7	15.3	-8.2	11.6
Net exports	Billions of 82\$	-77.3	-72.2	-78.5	-75.7	-51.1	-53.3	-64.1	-47.9	-35.4	-44.6
Nominal GNP	Percent change	7.8	8.3	7.4	7.7	7.5	5.8	5.1	3.9	6.7	5.1
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	104.3	105.1	105.9	106.8	107.6	108.2	108.7	109.2	109.9	110.5
Unemployment rate	Percent*	5.7	5.5	5.5	5.3	5.2	5.3	5.3	5.3	5.3	5.3
Industrial production index	Percent change	5.0	4.2	5.9	2.8	2.7	2.8	-1.2	.2	.6	4.2
Capacity utilization rate-mfg.	Percent*	83.1	83.6	84.3	84.6	84.7	84.5	83.7	82.9	82.6	82.8
Housing starts	Millions	1.46	1.49	1.47	1.54	1.51	1.35	1.34	1.35	1.45	1.20
Auto sales	Millions	10.91	10.67	10.15	10.88	10.03	10.26	10.20	9.09	10.01	9.53
Domestic	Millions	7.60	7.50	7.20	7.89	7.08	7.26	7.36	6.56	7.11	6.78
Foreign	Millions	3.30	3.17	2.95	2.99	2.95	3.00	2.84	2.53	2.90	2.75
INCOME AND SAVING											
Nominal personal income	Percent change	6.4	8.6	8.1	7.4	11.6	5.8	3.7	6.2	8.6	5.3
Real disposable income	Percent change	7.3	2.7	4.9	2.3	4.2	-1.2	2.7	1.2	2.5	.3
Personal saving rate	Percent*	4.0	4.1	4.5	4.1	5.2	4.6	4.1	4.6	4.9	5.0
Corp. profits with IVA & CCAdj	Percent change	9.5	6.6	-1.7	19.5	-23.2	-7.0	-17.1	-19.1	8.4	13.9
Profit share of GNP	Percent*	7.0	7.0	6.8	7.0	6.4	6.2	5.9	5.5	5.5	5.6
Federal govt. surplus/deficit	Billions of \$	-153.7	-136.9	-120.1	-156.3	-132.6	-122.7	-131.7	-150.1	-168.3	-166.0
State and local govt. surplus		45.5	48.3	46.8	45.2	48.9	50.3	48.1	38.5	38.1	38.6
Exc. social insurance funds		-15.6	-14.1	-17.0	-19.0	-16.2	-15.6	-18.7	-29.1	-30.2	-30.4
PRICES AND COSTS											
GNP implicit deflator	Percent change	2.7	4.4	4.7	4.7	3.9	3.9	3.2	3.8	4.8	4.7
GNP fixed-weight price index		3.9	4.7	5.5	4.4	4.9	4.6	3.1	3.8	6.6	3.9
Cons. & fixed invest. prices		2.9	4.9	4.5	5.0	5.0	5.3	2.3	4.6	6.8	2.6
CPI		3.5	4.2	5.2	4.1	5.4	6.0	2.9	3.9	8.2	3.8
Exc. food and energy		4.4	4.7	4.6	4.6	5.2	4.1	3.8	4.4	6.2	4.9
ECI hourly compensation**		5.2	5.2	3.8	5.1	4.2	4.9	5.3	4.4	5.6	5.1
onfarm business sector											
Output per hour		4.7	-.5	2.8	.2	-2.7	-.3	-1.0	-2.5	-1.3	.3
Compensation per hour		2.4	5.1	5.3	3.8	3.3	1.7	1.6	2.3	3.9	5.0
Unit labor costs		-2.2	5.7	2.5	3.6	6.1	2.0	2.6	5.0	5.3	4.7

* Not at an annual rate.

** Private industry workers

January 30, 1991

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

	Units	Projection									
		1990		1991				1992			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of \$	5514.6	5518.9	5563.3	5654.0	5748.1	5842.1	5939.5	6027.4	6115.6	6203.5
Real GNP	Billions of 82\$	4170.0	4147.6	4132.2	4161.1	4192.5	4224.9	4254.1	4281.0	4307.4	4333.5
Real GNP	Percent Change	1.4	-2.1	-1.5	2.8	3.1	3.1	2.8	2.6	2.5	2.4
Gross domestic purchases		1.6	-4.2	-2.9	2.3	2.6	2.7	2.2	2.0	2.2	2.2
Final sales		1.9	-1	-1.3	1.7	1.9	2.1	2.3	2.6	2.5	2.4
Private dom. final purchases		2.3	-4.0	-3.5	1.2	1.9	2.2	2.4	2.6	2.8	2.7
Personal consumption expend.		2.7	-3.1	-1.5	2.5	1.7	2.0	2.1	2.2	2.2	2.2
Durables		2.6	-8.6	-6.6	7.6	3.1	2.1	2.4	2.6	2.8	2.5
Nondurables		2.3	-5.8	-5.4	1.8	.5	.8	.9	1.0	1.0	1.0
Services		3.0	.7	2.9	1.5	2.1	2.7	2.7	2.8	2.8	2.8
Business fixed investment		8.9	-4.6	-9.3	-4.5	.4	1.6	3.1	3.6	4.0	4.1
Producers' durable equipment		10.2	-7	-9.4	-3.8	2.5	3.8	5.6	6.2	6.6	6.6
Nonresidential structures		5.1	-16.5	-9.5	-7.2	-6.6	-5.6	-5.5	-5.4	-5.2	-5.2
Residential structures		-19.8	-15.4	-15.7	-2.8	8.8	8.2	5.6	7.5	9.5	6.9
Exports		6.9	7.8	-.3	6.5	7.8	9.3	8.9	8.7	8.5	7.8
Imports		7.6	-6.3	-9.0	3.2	5.1	6.3	5.3	5.5	6.9	6.4
Government purchases		1.2	4.9	.5	1.5	-.2	-.6	-.6	-.3	-.4	.0
Federal		.1	6.0	.2	2.6	-.9	-1.9	-3.2	-3.1	-3.7	-3.1
Defense		2.7	15.0	2.6	-3.7	-3.7	-3.7	-5.2	-5.3	-6.1	-5.5
State and local		2.0	4.0	.7	.7	.3	.3	1.2	1.7	1.9	2.2
Change in business inventories	Billions of 82\$	4.7	-16.3	-18.3	-7.1	5.1	15.8	20.6	20.6	21.0	21.5
Nonfarm	Billions of 82\$	4.7	-19.8	-21.8	-8.7	3.0	13.3	18.1	18.0	18.5	19.0
Net exports	Billions of 82\$	-46.5	-23.6	-8.6	-3.6	.6	5.3	11.1	16.5	19.6	22.2
Nominal GNP	Percent change	5.3	.3	3.3	6.7	6.8	6.7	6.8	6.0	6.0	5.9
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	110.7	110.2	109.9	110.1	110.7	111.3	111.7	112.2	112.6	113.1
Unemployment rate	Percent*	5.6	5.9	6.4	6.4	6.2	6.1	6.1	6.1	6.0	6.0
Industrial production index	Percent change	3.9	-7.9	-4.6	4.0	4.9	5.0	4.1	3.5	3.5	3.2
Capacity utilization rate-mfg.	Percent*	82.8	80.5	78.8	79.0	79.4	79.8	80.1	80.2	80.3	80.3
Housing starts	Millions	1.13	1.05	1.00	1.04	1.09	1.11	1.15	1.17	1.20	1.22
Auto sales	Millions	9.68	8.93	8.20	8.73	8.91	9.02	9.15	9.29	9.40	9.49
Domestic	Millions	7.21	6.59	6.10	6.38	6.49	6.57	6.67	6.75	6.81	6.88
Foreign	Millions	2.47	2.34	2.10	2.35	2.42	2.45	2.48	2.54	2.59	2.61
INCOME AND SAVING											
Nominal personal income	Percent change	5.0	3.5	6.3	6.1	5.5	7.0	7.9	6.3	5.9	6.6
Real disposable income	Percent change	-.7	-3.6	2.5	2.2	.6	2.4	2.6	1.6	1.4	2.1
Personal saving rate	Percent*	4.2	4.1	5.0	4.9	4.7	4.8	4.9	4.8	4.6	4.6
Corp. profits with IVA & CCAdj	Percent change	-7.5	-20.1	-29.7	15.0	21.4	12.5	6.6	-3.0	.6	5.5
Profit share of GNP	Percent*	5.5	5.2	4.7	4.8	4.9	5.0	5.0	4.9	4.8	4.8
Federal govt. surplus/deficit	Billions of \$	-145.7	-165.2	-175.6	-168.5	-149.0	-148.2	-144.2	-132.1	-118.6	-116.3
State and local govt. surplus		39.3	25.5	22.6	28.0	35.9	44.9	51.1	55.8	60.3	64.1
Exc. social insurance funds		-30.5	-44.9	-48.7	-44.2	-37.2	-29.1	-23.8	-20.0	-16.4	-13.5
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.7	2.8	4.7	3.8	3.7	3.5	3.9	3.4	3.4	3.3
GNP fixed-weight price index		4.2	4.1	5.0	3.7	4.0	3.7	4.3	3.7	3.7	3.6
Cons. & fixed invest. prices		5.4	6.1	3.4	3.8	4.1	3.8	3.9	3.8	3.7	3.6
CPI		6.3	6.9	3.4	3.8	4.3	4.1	4.1	4.0	3.8	3.7
Exc. food and energy		5.8	3.9	5.2	4.5	4.7	4.6	4.3	4.1	3.9	3.8
ECI hourly compensation**		4.3	3.8	4.6	4.4	4.1	4.0	4.3	3.9	3.8	3.8
Nonfarm business sector											
Output per hour		.2	-.3	-.6	2.6	1.8	1.5	1.4	1.3	1.2	1.2
Compensation per hour		4.6	3.6	5.9	4.2	4.0	4.1	4.4	3.9	3.8	3.8
Unit labor costs		4.4	3.8	6.5	1.6	2.2	2.6	3.0	2.6	2.6	2.6

* Not at an annual rate.

** Private industry workers

CONFIDENTIAL - FR
CLASS II FOMC

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

January 30, 1991

	1988				1989				1990		1987	1988	1989	1990
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	(fourth quarter to fourth quarter, net change)			
Real GNP	49.5	35.6	26.3	27.2	36.4	16.5	17.5	3.5	17.4	4.5	187.1	138.6	73.9	14.4
Gross domestic purchases	15.5	30.5	32.6	24.4	11.8	18.7	28.3	-12.7	4.9	13.7	163.0	103.0	46.1	-9.9
Final sales	66.9	49.7	10.6	45.7	24.4	17.0	18.5	9.3	38.4	-7.2	117.9	172.9	69.2	49.5
Private dom. final purchases	51.8	38.3	24.4	14.2	6.5	11.4	34.1	-12.9	20.2	-10.3	78.5	128.7	39.1	-3.1
Personal consumption expend.	42.6	17.3	22.3	22.4	-2.1	8.6	30.0	-5.4	7.4	1.5	56.4	104.6	31.1	5.9
Durables	19.8	3.8	-1.1	13.9	-6.6	5.8	9.9	-15.0	14.5	-10.8	-4.9	36.4	-5.9	-3.2
Nondurables	5.7	4.4	9.1	2.7	1.4	-3.9	8.8	-4	-7.4	-4.4	11.7	21.9	5.9	-20.2
Services	17.1	9.1	14.2	6.0	3.0	6.7	11.3	10.0	.4	16.6	49.6	46.4	31.0	29.3
Business fixed investment	12.7	17.6	2.0	-8.0	10.5	8.4	7.8	-4.9	6.2	-6.2	26.6	24.3	21.8	4.8
Producers' durable equipment	16.0	14.9	2.0	-5.2	8.4	10.9	5.7	-5.2	5.4	-3.3	25.6	27.7	19.8	10.9
Nonresidential structures	-3.4	2.9	-1	-2.8	2.2	-2.6	2.1	.4	.7	-2.9	1.0	-3.4	2.1	-6.1
Residential structures	-3.4	3.2	.2	-.2	-1.8	-5.7	-3.7	-2.6	6.5	-5.5	-4.5	-.2	-13.8	-15.9
Change in business inventories	-17.4	-14.1	15.7	-18.6	12.1	-.6	-.9	-5.7	-21.1	11.7	69.2	-34.4	4.9	-35.2
Nonfarm	-26.6	-9.6	11.8	-3.8	-10.8	5.1	.2	-6.4	-23.5	19.8	66.3	-28.2	-11.9	-35.1
Farm	9.1	-4.5	3.9	-14.8	22.9	-5.7	-1.1	.7	2.4	-8.1	3.0	-6.3	16.8	-.1
Net exports	34.0	5.1	-6.3	2.8	24.6	-2.2	-10.8	16.2	12.5	-9.2	24.1	35.6	27.8	24.3
Exports	34.7	5.6	7.0	21.0	20.8	17.1	-.7	19.1	16.5	-8.0	80.5	68.3	56.3	30.8
Imports	.7	.5	13.3	18.2	-3.7	19.2	10.1	2.8	4.1	1.2	56.4	32.7	28.4	6.6
Government purchases	-18.9	6.3	-7.5	28.7	-6.7	7.8	-4.8	6.0	5.7	12.3	15.3	8.6	2.3	30.3
Federal	-23.2	2.8	-8.9	23.9	-8.1	5.7	-6.9	-.3	.3	12.9	5.3	-5.4	-9.6	18.4
Defense	-3.8	-.9	-3.3	3.1	-7.4	2.0	4.5	-4.7	-1.1	2.1	10.2	-4.9	-5.6	11.9
Nondefense	-19.4	3.7	-5.6	20.8	-.8	3.8	-11.4	4.4	1.4	10.8	-4.9	-.5	-4.0	6.4
State and local	4.3	3.5	1.3	4.8	1.5	2.1	2.1	6.3	5.5	-.7	10.0	13.9	12.0	11.9

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

January 30, 1991

	Projection										Projection			
	1990		1991				1992				1989	1990	1991	1992
											(fourth quarter to fourth quarter, net change)			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GNP	14.9	-22.4	-15.4	28.9	31.4	32.4	29.2	27.0	26.4	26.1	73.9	14.4	77.3	108.6
Gross domestic purchases	16.8	-45.3	-30.4	23.9	27.2	27.7	23.4	21.5	23.3	23.4	46.1	-9.9	48.4	91.6
Final sales	19.7	-1.4	-13.4	17.7	19.2	21.7	24.4	27.0	26.0	25.6	69.2	49.5	45.2	102.9
Private dom. final purchases	19.1	-34.1	-29.4	9.7	15.4	18.3	19.9	22.2	23.9	22.9	39.1	-5.1	13.9	88.8
Personal consumption expend.	18.0	-21.0	-10.0	16.6	11.6	13.1	13.9	14.7	14.9	14.8	31.1	5.9	31.2	58.2
Durables	2.7	-9.6	-7.1	7.7	3.2	2.2	2.6	2.8	3.0	2.7	-5.9	-3.2	5.9	11.0
Nondurables	5.2	-13.6	-12.4	3.9	1.1	1.7	2.1	2.2	2.2	2.3	5.9	-20.2	-5.7	8.8
Services	10.0	2.3	9.6	5.0	7.2	9.2	9.2	9.7	9.7	9.8	31.0	29.3	31.0	38.4
Business fixed investment	10.9	-6.1	-12.4	-5.8	.5	2.0	3.8	4.5	5.0	5.2	21.8	4.8	-15.7	18.5
Producers' durable equipment	9.5	-.7	-9.6	-3.7	2.4	3.6	5.3	6.0	6.4	6.5	19.8	10.9	-7.3	24.3
Nonresidential structures	1.5	-5.4	-2.9	-2.1	-1.9	-1.6	-1.5	-1.5	-1.4	-1.4	2.1	-6.1	-8.5	-5.8
Residential structures	-9.8	-7.1	-6.9	-1.1	3.4	3.2	2.3	3.0	3.9	2.9	-13.8	-15.9	-1.5	12.1
Change in business inventories	-4.8	-21.0	-2.0	11.2	12.2	10.7	4.8	.0	.4	.5	4.9	-35.2	32.1	5.7
Nonfarm	-6.9	-24.5	-2.0	13.1	11.7	10.3	4.8	-.1	.5	.5	-11.9	-35.1	33.1	5.7
Farm	2.1	3.5	.0	-1.9	.5	.4	.0	.1	-.1	.0	16.8	-.1	-1.0	.0
Net exports	-1.9	22.9	15.0	5.0	4.2	4.7	5.8	5.4	3.0	2.7	27.8	24.3	28.9	16.9
Exports	10.4	11.9	-.5	10.1	12.4	14.9	14.6	14.6	14.7	13.7	56.3	30.8	37.0	57.5
Imports	12.3	-11.0	-15.5	5.2	8.2	10.3	8.8	9.1	11.6	11.0	28.4	6.6	8.2	40.6
Government purchases	2.5	9.8	1.1	3.0	-.4	-1.3	-1.4	-.7	-.9	.1	2.3	30.3	2.4	-2.9
Federal	.1	5.1	.2	2.2	-.8	-1.7	-2.9	-2.7	-3.2	-2.6	-9.6	18.4	-.1	-11.4
Defense	1.7	9.2	1.7	-2.5	-2.5	-2.5	-3.5	-3.5	-4.0	-3.5	-5.6	11.9	-5.8	-14.5
Nondefense	-1.6	-4.2	-1.4	4.7	1.7	.8	.6	.8	.8	.9	-4.0	6.4	5.8	3.1
State and local	2.4	4.7	.9	.8	.4	.4	1.5	2.0	2.3	2.7	12.0	11.9	2.5	8.5

FEDERAL SECTOR ACCOUNTS¹
(Billions of dollars)

	Fiscal years				1990				1991				1992			
	1989a	1990a	1991	1992	Ia	IIa	IIIa	IVa	I	II	III	IV	I	II	III	IV
BUDGET					Not seasonally adjusted											
Budget receipts ²	991	1031	1115	1183	230	319	254	254	253	331	278	262	272	353	296	277
Budget outlays ²	1144	1252	1398	1459	310	331	312	341	344	358	356	373	359	362	364	361
Surplus/deficit (-) ²	-153	-220	-283	-276	-80	-12	-58	-87	-91	-27	-78	-111	-87	-10	-68	-84
(On-budget)	-206	-277	-347	-345	-94	-41	-65	-97	-107	-50	-93	-118	-107	-35	-85	-93
(Off-budget)	53	57	64	69	14	29	7	10	16	23	15	7	20	26	16	9
Surplus excluding deposit insurance ³	-131	-162	-192	-182	-74	17	-41	-72	-71	0	-49	-88	-63	14	-45	-71
Means of financing:																
Borrowing	140	263	298	261	90	41	69	99	67	46	85	101	63	38	60	84
Cash decrease	3	1	0	5	8	-16	-6	8	6	-9	-4	15	5	-20	5	10
Other ⁴	10	-44	-15	10	-18	-13	-6	-20	17	-10	-3	-5	19	-8	4	-10
Cash operating balance, end of period	41	40	40	35	18	35	40	32	26	36	40	25	20	40	35	25
NIPA FEDERAL SECTOR					Seasonally adjusted annual rates											
Receipts	1038	1092	1166	1263	1081	1106	1126	1135	1157	1175	1199	1222	1257	1276	1295	1318
Expenditures	1174	1249	1331	1399	1248	1272	1272	1300	1333	1343	1348	1371	1401	1408	1414	1435
Purchases	400	415	446	451	411	422	426	439	446	448	449	449	453	452	450	449
Defense	301	307	330	326	307	310	313	327	333	332	329	327	328	325	322	318
Nondefense	99	107	116	126	104	112	113	112	113	118	120	122	125	127	129	131
Other expend.	774	835	885	947	838	850	846	862	887	894	899	921	948	956	964	985
Surplus/deficit	-136	-158	-165	-136	-168	-166	-146	-165	-176	-168	-149	-148	-144	-132	-119	-116
FISCAL INDICATORS ⁵																
High-employment (HEB) surplus/deficit (-)	-149	-150	-109	-82	-166	-154	-127	-123	-114	-107	-90	-92	-90	-78	-66	-64
Change in HEB, percent of potential GNP	0	0	-.8	-.5	.3	-.2	-.5	-.1	-.2	-.1	-.3	0	0	-.2	-.2	0
Fiscal impetus measure (FI), percent	-3.5 *	-3.4 *	-3.1 *	-3.7 *	-2.3	1.2	-.8	1.4	-4.3	.7	-.5	-.6	-2.2	-.7	-.8	-.6
a--actual				*--calendar year												

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

- Staff projections. CBO's January deficit estimates are \$298 billion in FY1991 and \$284 billion in FY1992. OMB's baseline deficit estimates made for the Budget Summit (September 1990), in combination with their preliminary estimates of the savings in the recent budget agreement, imply deficits of \$255 billion in FY1991 and \$233 billion in FY1992.
- Budget receipts, outlays, and surplus/deficit include social security (OASDI) receipts, outlays and surplus, respectively. The OASDI surplus is excluded from the "on-budget" deficit and shown separately as "off-budget", as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY1990.
- CBO's January deficit estimates, excluding deposit insurance spending, are \$194 billion in FY1991 and \$186 billion in FY1992. OMB's September deficit projections, excluding deposit insurance spending, are \$158 billion in FY1991 and \$153 billion in FY1992.
- Other means of financing are checks issued less checks paid, accrued items; and changes in other financial assets and liabilities.
- HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate and 2.3% potential output growth in the forecast period. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.

GROWTH RATE OF LBT BY SECTOR¹
(Period-end to period-end)

-----Domestic Nonfinancial Sectors-----								-----Memo-----			
-----Households-----								State & local govts.	Private financial assets ²	Nominal GNP ³	
Total	U.S. govt.	Non- federal	Total	Home mtgs.	Cons. credit	Business					
Annual (percent)											
1982	9.3	19.4	6.9	5.4	4.5	4.4	7.8	9.1	10.3	3.1	
1983	11.5	18.8	9.6	11.4	11.0	12.6	8.3	7.1	11.8	10.4	
1984	14.4	16.9	13.7	12.9	11.7	18.7	15.6	7.9	13.4	8.6	
1985	14.2	16.2	13.6	14.1	11.9	15.9	11.4	23.7	12.0	6.6	
1986	12.3	13.4	12.0	12.8	14.9	9.6	12.0	7.6	9.1	4.6	
1987	9.0	8.0	9.3	11.6	14.0	5.1	7.0	9.6	7.8	8.2	
1988	9.1	8.0	9.5	10.9	12.2	7.2	8.2	8.2	8.7	7.8	
1989	7.5	7.2	7.5	8.9	10.5	5.3	6.7	4.9	7.4	5.6	
1990	7.1	12.0	5.6	7.6	9.1	2.0	4.2	2.0	5.8	4.3	
1991	6.5	11.6	4.8	5.6	7.1	1.3	4.7	0.7	4.7	5.9	
1992	6.5	8.5	5.8	6.5	7.9	2.9	5.6	3.2	5.0	6.2	
Quarterly (percent-SAAR)											
1989 --	Q1	8.2	7.0	8.6	9.2	10.6	5.1	8.4	6.6	8.5	7.5
	Q2	7.2	4.6	7.9	8.0	9.7	4.9	8.3	5.4	8.0	5.8
	Q3	7.2	8.0	6.9	8.7	10.2	4.8	5.6	4.6	8.5	5.1
	Q4	6.4	8.3	5.9	8.5	9.6	5.7	3.8	2.6	3.6	3.9
1990 --	Q1	7.8	10.9	6.8	8.6	10.2	1.8	6.0	1.4	8.4	6.7
	Q2	6.2	9.7	5.2	7.6	9.4	1.2	3.2	2.3	4.9	5.1
	Q3	7.0	11.9	5.4	7.8	8.4	3.5	3.4	3.2	5.5	5.3
	Q4	6.6	13.1	4.6	5.7	7.1	1.2	4.0	0.9	3.8	0.3
1991 --	Q1	5.7	9.7	4.4	5.1	6.8	0.0	4.3	0.9	4.3	3.3
	Q2	5.7	9.6	4.5	5.4	6.7	1.3	4.3	0.1	3.7	6.7
	Q3	7.0	13.1	4.9	5.7	7.0	2.0	4.9	0.6	5.3	6.8
	Q4	6.8	12.2	5.0	5.8	7.2	2.0	4.9	1.4	5.0	6.7
1992 --	Q1	6.1	7.8	5.5	6.1	7.4	2.5	5.3	2.9	4.8	6.8
	Q2	6.1	7.7	5.5	6.2	7.6	2.7	5.3	2.8	4.5	6.0
	Q3	6.5	8.4	5.9	6.4	7.8	3.1	5.7	3.5	4.9	6.0
	Q4	6.7	8.9	5.9	6.5	8.0	3.1	5.7	3.4	5.3	5.9

1. Published data through 1990:3; projections for other periods
2. Sometimes referred to as the "Kaufman debt proxy"; it includes holdings of liquid assets (currency and deposits) and credit market instruments.
3. Annual figures are Q4 to Q4.

2.6.3 FOF

FLOW OF FUNDS PROJECTION HIGHLIGHTS¹
(Billions of dollars, seasonally adjusted annual rates)

	1989	Calendar year 1990	1991	1992	1990 Q1	1990 Q2	1990 Q3	1990 Q4	1991 Q1	1991 Q2	1991 Q3	1991 Q4
Net funds raised by domestic												
1 nonfinancial sectors	554.0	633.0	633.0	686.4	693.1	576.6	634.6	627.7	539.8	568.3	713.4	710.4
2 Net equity issuance	-124.2	-63.0	-49.8	-45.0	-69.0	-48.0	-74.0	-61.0	-64.0	-45.0	-45.0	-45.0
3 Net debt issuance	678.2	696.0	682.7	731.4	762.1	624.6	708.6	688.7	603.8	613.3	758.4	755.4
Borrowing sectors												
Nonfinancial business												
4 Financing gap ²	33.9	35.2	36.7	52.9	10.7	28.1	58.3	43.6	21.9	29.7	40.4	54.9
5 Net equity issuance	-124.2	-63.0	-49.8	-45.0	-69.0	-48.0	-74.0	-61.0	-64.0	-45.0	-45.0	-45.0
6 Credit market borrowing	211.9	143.8	165.5	208.0	205.4	110.7	118.1	141.0	153.0	153.8	176.9	178.4
Households												
7 Net borrowing, of which:	285.0	266.6	212.0	258.0	300.0	270.2	283.4	212.5	193.7	205.4	221.4	227.3
8 Home mortgages	221.6	213.6	183.1	218.1	239.3	226.6	208.1	180.4	175.5	176.2	187.1	193.9
9 Consumer credit	39.1	15.6	10.9	23.8	14.6	9.8	27.7	10.1	0.1	10.8	16.8	16.1
10 Debt/DPI (percent) ³	89.8	92.3	93.7	93.7	92.0	92.8	94.0	94.6	94.3	94.1	94.3	94.2
State and local governments												
11 Net borrowing	29.6	12.6	4.8	20.7	9.0	14.9	20.5	6.0	5.8	0.5	4.2	8.9
12 Current surplus ⁴	-25.7	-37.8	-30.5	-10.9	-34.2	-39.7	-41.6	-35.4	-38.7	-34.6	-28.1	-20.4
U.S. government												
13 Net borrowing from public	151.6	273.0	300.4	244.8	247.6	228.7	286.7	329.1	251.4	253.6	355.9	340.8
14 Net borrowing from public ⁵	151.6	273.0	300.4	244.8	64.5	40.8	68.4	98.8	67.4	45.7	85.5	101.2
15 Unified budget deficit ⁵	155.0	236.7	307.0	248.3	80.2	11.8	57.8	86.9	90.6	26.7	78.4	111.3
Funds supplied by												
16 depository institutions	92.8	-7.6	-65.2	-23.4	133.0	-73.1	-47.1	-43.0	-83.9	-54.6	-57.9	-64.3
17 Share of total (percent) ⁶	13.5	-1.1	-9.2	-3.1	17.5	-11.0	-6.4	-6.1	-13.4	-8.6	-7.4	-8.2
Memoranda: As percent of GNP:												
18 Dom. nonfinancial debt ³	181.7	186.5	191.4	191.4	186.4	187.0	188.6	191.6	192.7	192.4	192.5	192.6
19 Dom. nonfinancial borrowing	13.0	12.7	12.0	12.0	14.2	11.5	12.9	12.5	10.9	10.8	13.2	12.9
20 U.S. government ⁷	2.9	5.0	5.3	4.0	4.6	4.2	5.2	6.0	4.5	4.5	6.2	5.8
21 Private	10.1	7.7	6.7	8.0	9.6	7.3	7.7	6.5	6.3	6.4	7.0	7.1

1. Published data through 1990:3; projections for other periods.
2. For corporations: excess of capital expenditures over U.S. internal funds.
3. Annuals are average debt levels in the year (computed as the average of year-end debt positions) divided by annual GNP.
4. NIPA surplus, net of retirement funds.
5. Quarterly data at quarterly rates, nsa.
6. Total in this ratio includes foreign borrowing in U.S.
7. Excludes gov't-insured mortgage pool securities.

countries. Output in Asia, which grew 5 percent in 1990, is not expected to accelerate further until 1992 when external demand improves.

U.S. Merchandise Trade Quantities. The quantity of U.S. nonagricultural exports is expected to grow moderately during the current quarter and then to expand at double-digit rates over the rest of the forecast period. This outlook reflects the effects of the 15 percent decline in the weighted-average foreign exchange value of the dollar over the past year and a projected rebound in growth abroad after the middle of this year.

Agricultural exports are expected to pick up somewhat in the first quarter as sales to the Soviet Union increased significantly in recent weeks. Beyond the first quarter little further growth is anticipated because demand for imported grains and soybeans in the major U.S. export markets is expected to remain sluggish.

TRADE QUANTITIES*
(Percent change, annual rate)

	<u>1990</u> Q4/Q4	----- Projection -----			
		<u>1991</u>		<u>1992</u>	
		Q1/Q4	Q2/Q1	Q4/Q2	Q4/Q4
Nonagricultural exports	9.0	3.6	10.3	12.4	11.3
Agricultural exports	-5.1	31.8	0.2	-10.2	1.3
Non-oil imports	2.3	-7.8	0.7	7.1	7.2
Oil imports	-9.8	6.1	33.0	7.0	6.7

* GNP basis, 1982 dollars.

The quantity of non-oil imports is projected to decline in the first quarter, as a result of the downturn in U.S. domestic demand. This near-term drop in imports is somewhat larger than in the December forecast, reflecting an expected reversal of some of the unusually strong increases

SELECTED PRICE INDICATORS
(Percent change, annual rate)

	<u>1990</u> Q4/Q4	----- Projection -----			<u>1992</u> Q4/Q4
		<u>1991</u> Q1/Q4	Q2/Q1	Q4/Q2	
PPI (export-share wts.)	4.7	-0.7	0.4	2.4	2.7
Nonagric exports (Fx-Wt)	2.7	1.0	1.4	2.6	2.7
Non-oil imports (Fx-Wt)	3.2	5.4	5.3	4.4	3.6
Oil imports (Fx-Wt)	63.7	-60.3	-24.1	0.0	0.0

Oil Import Price. The quarterly average price of oil imports peaked in 1990-Q4 at an estimated \$29 per barrel and is expected to decline to \$21 per barrel in the second quarter and remain at that level through 1992. This projection for oil import prices is somewhat lower than in the December Greenbook, reflecting recent events and our changed assumptions about developments in the Middle East. Underlying the current price path is the assumption that OPEC producers will set production in order to maintain the \$21 per barrel target agreed upon in the July 1990 accord. This outcome would be achieved, for example, if Saudi Arabian production averaged more than 8 mb/d during 1991 and Iraq gradually resumed production after the assumed end to the Gulf war in the middle of the second quarter. To maintain the \$21 per barrel price in 1992, Saudi Arabia would need to reduce production if Iraq increased production further and Kuwaiti production began to recover. There is tremendous uncertainty regarding post-war production capability in both Iraq and Kuwait and the response of Saudi Arabia to a resumption of production in Iraq and Kuwait. Moreover, prices are likely to move in an erratic pattern in the short run, depending on the course of events.

Outlook for U.S. Net Exports and Related Items
(Billions of Dollars, Seasonally Adjusted Annual Rates)

	ANNUAL			1990		1991				1992			
	1990-P	1991-P	1992-P	-Q3	-Q4	Q1-P	-Q2-P	-Q3-P	-Q4-P	Q1-P	-Q2-P	-Q3-P	-Q4-P
1. GNP Exports and Imports 1/													
Current \$, Net	-38.0	-13.1	9.7	-41.3	-55.9	-24.3	-14.0	-9.6	-4.5	2.1	8.1	12.3	16.4
Exports of G+S	670.4	713.5	790.1	672.7	687.7	688.8	703.0	720.8	741.3	760.9	780.4	800.1	818.9
Imports of G+S	708.4	726.7	780.5	714.1	743.7	713.2	717.1	730.5	745.8	759.0	772.4	787.9	802.6
Constant 82 \$, Net	-37.5	-1.6	17.4	-46.5	-23.6	-8.6	-3.6	0.6	5.3	11.1	16.5	19.6	22.2
Exports of G+S	630.3	659.5	715.7	630.5	642.4	641.9	652.1	664.5	679.4	694.0	708.6	723.2	736.9
Imports of G+S	667.8	661.1	698.3	677.0	666.0	650.5	655.7	663.9	674.2	682.9	692.1	703.7	714.7
2. Merchandise Trade Balance 2/	-111.2	-92.5	-80.6	-119.0	-128.4 ^P	-99.7	-92.2	-90.4	-87.9	-84.3	-81.6	-79.4	-77.1
Exports	389.1	425.2	480.4	384.6	399.7 ^P	406.4	417.7	431.4	445.2	459.9	473.9	487.7	500.0
Agricultural	40.6	42.7	45.1	38.9	38.3 ^P	41.8	42.7	43.1	43.1	43.7	44.4	45.6	46.6
Non-Agricultural	348.5	382.5	435.3	345.7	361.4 ^P	364.6	375.0	388.4	402.1	416.1	429.4	442.1	453.3
Imports	500.3	517.7	561.0	503.6	528.1 ^P	506.1	509.9	521.8	533.0	544.2	555.5	567.1	577.1
Petroleum and Products	63.1	64.2	68.1	62.8	78.5 ^P	63.2	63.4	64.5	65.5	66.3	67.1	68.9	69.9
Non-Petroleum	437.3	453.5	492.9	440.9	449.6 ^P	442.9	446.5	457.3	467.5	477.9	488.3	498.2	507.2
3. Other Current Account Trans.													
Capital Gains and Losses 3/	2.7	0.0	0.0	5.6	0.0 ^P	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other D.I. Income, Net	45.4	46.7	47.4	47.7	49.2 ^P	46.4	46.9	46.9	46.6	47.2	47.7	47.5	47.3
Portfolio Income, Net	-43.4	-45.8	-46.6	-43.5	-44.4 ^P	-45.7	-45.5	-45.9	-46.1	-46.2	-46.4	-46.7	-47.0
Other Current Account, Net	13.2	38.1	46.4	6.8	29.0 ^P	35.5	37.1	39.9	40.0	44.7	46.7	48.1	46.3
4. U.S. Current Account Balance													
Including Capital G/L	-93.4	-53.5	-33.3	-102.3	-94.6 ^P	-63.4	-53.7	-49.4	-47.4	-38.7	-33.6	-30.5	-30.4
Excluding Capital G/L	-96.0	-53.5	-33.3	-107.9	-94.6 ^P	-63.4	-53.7	-49.4	-47.4	-38.7	-33.6	-30.5	-30.4
5. Foreign Outlook 4/													
Real GNP--Ten Industrial 5/	3.1	1.9	2.8	2.7	0.8 ^P	1.7	2.2	2.9	3.0	2.8	2.8	2.8	2.8
Real GNP--LDC 6/	2.6	2.6	4.2	2.3	2.2 ^P	2.2	2.7	3.3	3.8	4.3	4.6	4.8	5.0
Consumer Prices--Ten Ind. 5/	4.6	4.4	3.7	3.8	5.5 ^P	4.4	4.4	3.1	3.9	3.5	4.0	3.3	4.1

1/ National Income and Product Account data.

2/ International accounts basis.

3/ The net of gains (+) or losses (-) on foreign-currency denominated assets due to their revaluation at current exchange rates and other valuation adjustments.

4/ Percent change, annual rates.

5/ Weighted by multilateral trade-weights of G-10 countries plus Switzerland; prices are not seasonally adjusted.

6/ Weighted by share in LDC GNP.

P/ Projected

January 30, 1991

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee

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

useful indicator of general trends in outlays, it is not a precise forecasting tool. In the past, this survey has had a mean absolute error of 2.6 percentage points in predicting the actual growth of spending on plant and equipment.

COMMERCE SURVEY OF PLANT AND EQUIPMENT EXPENDITURES¹
(Percent change from previous year, current dollars)

	<u>Actual</u> 1989	<u>Planned</u> 1990	1991
All business	11.4	5.2	2.4
Manufacturing	12.5	4.6	.7
Durable	7.2	1.4	-.8
Nondurable	17.2	7.3	1.8
Nonmanufacturing	10.8	5.6	3.4

1. Taken in October and November of 1990.

Business Inventories

Since late last summer, businesses have trimmed their stocks in reaction to sluggish sales and to expectations of additional economic weakness. From August to October, constant-dollar inventories in manufacturing and trade were reduced at an annual rate of \$9.6 billion. Inventory adjustments apparently continued in November as industrial producers slashed their output further. Nonetheless, with the sharp decline in factory shipments and in sales at many types of wholesale distributors in that month, total manufacturing and trade inventories increased somewhat on net.

In manufacturing, real stocks declined at an average annual rate of \$5.9 billion between August and November. Virtually all of the recent decumulation was in stocks held by petroleum refineries--likely the result

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

	Dec. 1989	Dec. 1990	Fiscal year to date			
			FY1990	FY1991	Dollar change	Percent change
Outlays	103.9	109.7	299.4	340.7	41.3	13.8
Deposit insurance (DI)	1.6	4.3	7.0	14.8	7.8	112.2
Outlays excluding DI	102.3	105.3	292.4	325.9	33.5	11.5
National defense	28.6	26.0	73.7	80.9	7.1	9.7
Net interest	14.6	16.4	44.2	46.2	2.0	4.6
Social security	19.6	21.3	58.8	63.4	4.5	7.7
Medicare and health	12.0	13.2	35.9	40.2	4.3	11.9
Income security	13.2	13.9	34.4	40.5	6.1	17.7
Other	14.3	14.5	45.3	54.7	9.4	20.8
Receipts	89.1	102.3	228.8	253.8	25.0	10.9
Personal income taxes	37.4	46.5	107.4	114.3	6.9	6.5
Social insurance taxes	25.8	25.5	76.9	85.8	8.9	11.6
Corporate income taxes	18.9	22.5	22.0	25.4	3.4	15.6
Other	7.0	7.8	22.5	28.2	5.7	25.5
Deficit(+)	14.8	7.4	70.6	86.9	16.3	23.1

Details may not add to totals due to rounding.

TREASURY AND AGENCY FINANCING¹
(Total for period; billions of dollars)

	1990		1991			
	Q3	Q4	Q1 ^P	Jan. ^P	Feb. ^P	Mar. ^P
<u>Treasury financing</u>						
Total surplus/deficit (-)	-57.8	-86.9	-90.6	-6.6	-38.7	-45.3
Means of financing deficit:						
Net cash borrowing from the public	69.0	98.8	66.3	23.3	36.4	6.6
Marketable borrowings/ repayments (-)	64.5	83.9	66.8	25.3	36.6	5.0
Bills	29.0	45.0	20.4	9.5	5.9	5.0
Coupons	35.6	38.9	46.4	15.7	30.7	.0
Nonmarketable ²	4.5	15.0	-.5	-2.0	-0.2	1.6
Decrease in the cash balance	-5.5	7.9	5.2	-28.1	9.8	23.5
Memo: Cash balance at end of period	40.2	32.2	27.0	60.3	50.6	27.0
Other	-5.6	-19.9	19.1	11.4	-7.5	15.2
<u>Federally sponsored credit agencies, net cash borrowing</u>						
	-1.9	--	--	--	--	--
FHLBs	-6.7	--	--	--	--	--
FHLMC	-3.1	--	--	--	--	--
FNMA	.9	4.6	--	--	--	--
Farm Credit Banks	.9	--	--	--	--	--
FAC	.1	.0	.0	.0	.0	.0
SLMA	1.0	.8	--	--	--	--
REFCORP	5.0	5.0	6.9	6.9	.0	.0

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

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

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

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

p--projected.

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

sharply, owing to the uncertainty surrounding developments in the Middle East. A backup in yields prior to the outbreak of war also damped refunding volume. After falling in December, quality spreads on municipal securities jumped in anticipation of the outbreak of war and, on net, are slightly above mid-December levels.

GROSS OFFERINGS OF MUNICIPAL SECURITIES
(Monthly rates, not seasonally adjusted, billions of dollars)

	1989	1990	1990						1991
	Year	Year	Q1	Q2	Q3	Q4	Nov.	Dec. ^p	Jan. ^f
Total offerings ¹	11.90	13.10	8.86	15.63	15.49	12.36	12.57	14.63	--
Total tax-exempt	11.65	12.84	8.74	15.35	15.24	11.94	12.24	14.03	5.75
Long-term	9.47	7.64	11.22	10.90	10.25	9.96	12.25	5.00	
Refundings ²	2.47	1.34	1.45	1.86	1.07	0.98	0.90	1.54	--
New capital	7.01	8.66	6.19	9.36	9.83	9.27	9.06	10.71	--
Short-term	2.17	2.81	1.10	4.13	4.34	1.69	2.28	1.78	.75
Total taxable	.25	.27	.12	.28	.25	.42	.33	.60	--

p--preliminary. f--forecast.

1. Includes issues for public and private purposes; also includes taxable issues.

2. Includes all refunding bonds, not just advance refundings.

Philadelphia averted bankruptcy in mid-January by selling \$105 million in three-month notes to city and state pension funds and local banks. The notes yield 9.5 percent on an annual basis, but the annualized all-in cost to the city is approximately 24 percent as a result of fees required by the purchasers. The \$105 million obtained by the initial sale will be enough to bridge a gap in receipts and avoid default through the remainder of the fiscal year ending in June.

After showing mild deterioration over the previous three years, pressures on municipal credit ratings intensified in 1990 as the economy slipped into recession. Standard & Poor's downgraded 474 ratings on \$48.2

CONFIDENTIAL (FR)
CLASS III - FOMC

February 1, 1991

SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

FEDERAL SECTOR ACCOUNTS¹
(Billions of dollars)

	Fiscal years				1990				1991				1992			
	1989a	1990a	1991	1992	Ia	IIa	IIIa	IVa	I	II	III	IV	I	II	III	IV
BUDGET					Not seasonally adjusted											
Budget receipts ²	991	1031	1115	1193	230	319	254	254	253	331	278	264	275	355	298	280
Budget outlays ²	1144	1252	1398	1459	310	331	312	341	344	358	356	373	359	362	364	361
Surplus/deficit (-) ²	-153	-220	-283	-266	-80	-12	-58	-87	-91	-27	-78	-109	-84	-7	-66	-81
(On-budget)	-206	-277	-347	-335	-94	-41	-65	-97	-107	-50	-93	-116	-104	-33	-82	-91
(Off-budget)	53	57	64	69	14	29	7	10	16	23	15	7	20	26	16	9
Surplus excluding deposit insurance ³	-131	-162	-192	-172	-74	17	-41	-72	-71	0	-49	-85	-61	16	-42	-68
Means of financing:																
Borrowing	140	263	298	251	90	41	69	99	67	46	86	99	60	35	57	81
Cash decrease	3	1	0	5	8	-16	-6	8	6	-9	-4	15	5	-20	5	10
Other ⁴	10	-44	-15	10	-18	-13	-6	-20	17	-10	-3	-5	19	-8	4	-10
Cash operating balance, end of period	41	40	40	35	18	35	40	32	26	36	40	25	20	40	35	25
NIPA FEDERAL SECTOR					Seasonally adjusted annual rates											
Receipts	1038	1092	1166	1263	1081	1106	1126	1135	1157	1175	1199	1222	1257	1276	1295	1318
Expenditures	1174	1249	1331	1399	1249	1272	1272	1300	1333	1343	1348	1371	1401	1408	1414	1435
Purchases	400	415	446	451	411	422	426	439	446	449	449	449	453	452	450	449
Defense	301	307	330	326	307	310	313	327	333	332	329	327	328	325	322	318
Nondefense	99	107	116	126	103	112	113	112	113	118	120	122	125	127	129	131
Other expend.	774	835	885	947	838	850	846	862	887	894	899	921	948	956	964	985
Surplus/deficit	-136	-158	-165	-136	-168	-166	-146	-165	-176	-168	-149	-148	-144	-132	-119	-116
FISCAL INDICATORS⁵																
High-employment (HEB) surplus/deficit (-)	-149	-150	-109	-82	-166	-154	-127	-123	-114	-107	-90	-92	-90	-78	-66	-64
Change in HEB, percent of potential GNP	0	0	-.8	-.5	.3	-.2	-.5	-.1	-.2	-.1	-.3	0	0	-.2	-.2	0
Fiscal impetus measure (FI), percent	-3.5 *	-3.4 *	-3.1 *	-3.7 *	-2.3	1.2	-.8	1.4	-4.3	.7	-.5	-.6	-2.2	-.7	-.8	-.6

a--actual

*--calendar year

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

- Staff projections. CBO's January deficit estimates are \$298 billion in FY1991 and \$284 billion in FY1992. OMB's baseline deficit estimates made for the Budget Summit (September 1990), in combination with their preliminary estimates of the savings in the recent budget agreement, imply deficits of \$255 billion in FY1991 and \$233 billion in FY1992.
- Budget receipts, outlays, and surplus/deficit include social security (OASDI) receipts, outlays and surplus, respectively. The OASDI surplus is excluded from the "on-budget" deficit and shown separately as "off-budget", as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY1990.
- CBO's January deficit estimates, excluding deposit insurance spending, are \$194 billion in FY1991 and \$186 billion in FY1992. OMB's September deficit projections, excluding deposit insurance spending, are \$158 billion in FY1991 and \$153 billion in FY1992.
- Other means of financing are checks issued less checks paid, accrued items; and changes in other financial assets and liabilities.
- HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate and 2.3% potential output growth in the forecast period. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.