

Part 1

January 26, 1996

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

Prepared for the Federal Open Market Committee

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

The recent news from the industrial sector is a bit less upbeat, however. Factory output was little changed in December and posted a gain of 1-3/4 percent at an annual rate for the fourth quarter. Moreover, looking into the early part of 1996, surveys of manufacturers have pointed to weak orders and production, reflecting inventory overhangs in at least some cases. Notably, significant cuts in motor vehicle assemblies are under way. Orders for steel appear to be holding up well for the moment; however, anecdotal reports indicate that the high-tech sector--the driver of IP growth in recent months--may be moving onto a less spectacular trajectory. On the plus side, though, Boeing has returned to its pre-strike level of production.

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

	1995		1996	
	Q3	Q4	Q1	Q2
Real GDP	3.2	1.9	0.8	2.0
<i>Previous</i>	3.0	1.3	2.2	2.0
Final sales	3.5	1.5	1.4	2.5
<i>Previous</i>	2.9	1.9	2.4	1.8
Civilian unemployment rate ¹	5.6	5.6	5.6	5.6
<i>Previous</i>	5.6	5.6	5.6	5.6
CPI inflation	2.1	2.3	3.3	3.0
<i>Previous</i>	2.1	2.3	3.1	3.2

Note: The previous projection lines for the NIPA series reflect BEA's advance estimate of the alternative chain quantity index for 1995:Q3 and the December staff projection expressed in 1994 dollars for all other periods.

1. Percent.

Consumer spending appears to have grown moderately in the fourth quarter, supported by further gains in real incomes and last year's big increase in household net worth. The latest data from BEA show real PCE gyrating in October and November--but the level of spending in November was still 2 percent (annual rate) above the

adjustment to the growth rate of potential GDP--from 2 percent (using BEA's previously published chain data) to 1.9 percent.

SUMMARY OF STAFF REAL GDP PROJECTION FOR 1996-1997
(Percent change, at annual rates)

	1995	1996		1997
		H1	H2	
Real GDP	1.5	1.4	2.2	2.0
<i>Previous</i>	2.2	2.1	2.0	1.9
Personal consumption expenditures	2.2	2.5	2.4	2.4
Business fixed investment	7.7	1.3	3.3	3.4
Residential investment	-2.3	3.6	1.1	0.8
Federal gov't cons. & inv.	-7.3	-2.8	-1.5	-2.8
State & local cons. & inv.	2.7	2.2	2.2	2.5
Exports	6.5	7.3	6.3	6.2
Imports	6.5	7.1	6.7	6.0

Note: The previous projection line reflects the December staff projection expressed in 1994 dollars.

Consumer spending. Real consumer spending is projected to increase at a 2-1/2 percent annual pace over the forecast period. Although concerns about job security have grown and consumer debt burdens have risen further, credit remains readily available overall, and mortgage refinancing is improving the financial position of some households. In addition, we likely have yet to see the full effects of last year's gain in stock market wealth. Indeed, were we simply to apply standard rules of thumb regarding wealth effects, we would have a substantially higher path for consumption even with the muted asset appreciation anticipated in the period ahead.

In the near term, we expect the blizzard of 1996 to produce considerable volatility in the monthly consumption data. Many purchases delayed by bad weather are likely to be made up soon;

reason for this situation to change over the forecast period, and as a result, we no longer expect the labor force participation rate to move up slightly from the low fourth-quarter level. All told, we are projecting that the unemployment rate will remain close to its recent level, at just over 5-1/2 percent.

Wages and prices. With continued tightness in labor markets, we are anticipating somewhat faster growth in compensation per hour. After a projected increase of 2.6 percent in 1995, the ECI for private industry workers is forecast to rise 2.8 percent in 1996 and 3.1 percent in 1997. Reports of labor shortages have grown over the past six months, and we expect wages to accelerate gradually over the projection period. We also are guessing that benefits costs will start to increase more rapidly. In this regard, the behavior of health insurance costs will be key. In particular, we think that savings on health insurance costs will be harder to come by now that many firms already have shifted to managed care programs.

STAFF INFLATION PROJECTIONS
(Percent change, Q4 to Q4, unless otherwise noted)

	1995	1996	1997
Consumer price index	2.7	3.0	2.9
<i>Previous</i>	2.7	3.1	2.9
Excluding food and energy	3.1	2.8	3.0
<i>Previous</i>	3.1	2.9	3.0
ECI for compensation of private industry workers ¹	2.6	2.8	3.1
<i>Previous</i>	2.6	2.8	3.0

1. December to December.

We also are anticipating some deterioration in recent price trends. After a projected increase of 2.7 percent in 1995, the CPI is expected to rise 3 percent in 1996 and 2.9 percent in 1997. Part of this pickup reflects developments in food and energy markets. Food prices are forecast to accelerate slightly in 1996 in response

to tight grain supplies, and energy prices are projected to be boosted by the rise in crude oil prices. Excluding food and energy, the CPI is projected to rise 2.8 percent in 1996 and 3 percent in 1997. Prices are held down this year by marginally lower non-oil import prices, but with labor and product markets remaining tight, we expect core inflation to rise in 1997.

Alternative simulations

We have generated two alternative simulations this month with the Board staff's quarterly econometric model in which the federal funds rate is lowered (or raised) relative to the path in the Greenbook. In these alternative interest rate scenarios, the funds rate is lowered (raised) by 25 basis points per quarter during 1996. In the lower rate simulation, real GDP growth is 1/4 percentage point higher this year and 3/4 percentage point higher in 1997. The unemployment rate is reduced by 0.3 percentage point by the end of next year, while CPI inflation is 0.3 percentage point higher than in the baseline forecast. The effects of a tightening of policy are symmetric.

ALTERNATIVE FEDERAL FUNDS RATE ASSUMPTIONS (Percent change, Q4 to Q4, except as noted)

	1996	1997
Real GDP		
Baseline	1.8	2.0
Lower funds rate	2.0	2.7
Higher funds rate	1.6	1.3
Civilian unemployment rate ¹		
Baseline	5.6	5.6
Lower funds rate	5.5	5.3
Higher funds rate	5.7	5.9
CPI excluding food and energy		
Baseline	2.8	3.0
Lower funds rate	2.8	3.3
Higher funds rate	2.8	2.7

1. Average for the fourth quarter.

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CLASS II FOMCSTAFF PROJECTIONS OF CHANGES IN GDP, PRICES, AND UNEMPLOYMENT
(Percent, annual rate)

January 26, 1996

Interval	Nominal GDP		Real GDP		Consumer price index		Unemployment rate (level)	
	12/14/95	01/26/96	12/14/95	01/26/96	12/14/95	01/26/96	12/14/95	01/26/96
ANNUAL								
1993	5.4	4.9	3.1	2.2	3.0	3.0	6.8	6.8
1994	6.2	5.8	4.1	3.5	2.6	2.6	6.1	6.1
1995	5.1	4.7	3.4	2.1	2.8	2.8	5.6	5.6
1996	4.6	4.5	2.6	1.8	2.8	2.8	5.6	5.6
1997	4.5	4.6	2.5	2.1	2.9	2.9	5.6	5.6
QUARTERLY								
1994 Q1	6.1	5.4	3.3	2.5	2.2	2.2	6.6	6.6
Q2	7.2	6.8	4.1	4.8	2.5	2.5	6.2	6.2
Q3	6.2	6.1	4.0	3.6	3.6	3.6	6.0	6.0
Q4	6.4	5.4	5.1	3.2	2.2	2.2	5.6	5.6
1995 Q1	4.7	3.9	2.7	0.6	3.2	3.2	5.5	5.5
Q2	3.0	2.8	1.3	0.5	3.2	3.2	5.7	5.7
Q3	5.9	5.7	5.4	3.2	2.1	2.1	5.6	5.6
Q4	3.9	4.6	1.9	1.9	2.3	2.3	5.6	5.6
1996 Q1	5.1	4.3	2.5	0.8	3.1	3.3	5.6	5.6
Q2	4.7	4.5	2.4	2.0	3.2	3.0	5.6	5.6
Q3	4.0	4.6	2.0	2.0	3.0	3.0	5.6	5.6
Q4	4.8	4.9	2.9	2.5	2.9	2.9	5.6	5.6
1997 Q1	4.7	4.6	2.5	1.9	2.9	2.9	5.6	5.6
Q2	4.7	4.6	2.7	2.1	2.9	2.9	5.6	5.6
Q3	4.1	4.2	2.1	1.6	2.9	2.9	5.6	5.6
Q4	4.2	4.9	2.4	2.3	2.9	2.9	5.6	5.6
TWO-QUARTER								
1994 Q2	6.6	6.1	3.7	3.7	2.3	2.3	-0.3	-0.3
Q4	6.3	5.7	4.6	3.4	2.9	2.9	-0.6	-0.6
1995 Q2	3.9	3.3	2.0	0.5	3.2	3.2	0.1	0.1
Q4	4.9	5.1	3.6	2.6	2.1	2.2	-0.1	-0.1
1996 Q2	4.9	4.4	2.5	1.4	3.2	3.1	0.0	0.0
Q4	4.4	4.8	2.5	2.2	3.0	2.9	0.0	0.0
1997 Q2	4.7	4.6	2.6	2.0	2.9	2.9	0.0	0.0
Q4	4.1	4.6	2.3	2.0	2.9	2.9	0.0	0.0
FOUR-QUARTER								
1993 Q4	5.0	4.6	3.1	2.2	2.7	2.7	-0.8	-0.8
1994 Q4	6.5	5.7	4.1	3.5	2.6	2.6	-0.9	-0.9
1995 Q4	4.4	4.2	2.8	1.5	2.7	2.7	0.0	0.0
1996 Q4	4.7	4.6	2.5	1.8	3.1	3.0	0.0	0.0
1997 Q4	4.4	4.6	2.5	2.0	2.9	2.9	0.0	0.0

1 Fixed weights

2 Chain type

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

January 26, 1996

Item	Units	History									
		1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	6442.8	6503.2	6571.3	6683.7	6772.8	6885.0	6987.6	7080.0	7147.8	7196.5
Real GDP	Bill. Ch. \$	6327.0	6353.7	6390.4	6463.9	6504.6	6581.5	6639.5	6691.3	6701.6	6709.4
Real GDP	% change	0.0	1.7	2.3	4.7	2.5	4.8	3.6	3.2	0.6	0.5
Gross domestic purchases		0.9	2.4	3.7	4.4	3.4	5.4	3.6	2.7	1.4	0.9
Final sales		-0.8	1.5	2.3	4.8	1.2	2.8	4.2	3.6	0.7	1.8
Private dom. final purch.		1.4	2.8	4.4	5.4	3.7	4.5	3.6	4.1	2.1	2.6
Personal cons. expend.		0.7	2.7	3.8	2.8	2.6	3.6	2.5	3.3	0.8	3.4
Durables		0.8	11.2	7.3	10.2	5.8	4.3	5.6	12.6	-8.7	7.0
Nondurables		-0.9	2.3	2.9	1.7	3.8	3.3	4.0	3.2	2.4	1.9
Services		1.6	1.3	3.6	1.9	1.4	3.6	1.2	1.4	2.1	3.4
Business fixed invest.		6.0	6.3	4.7	17.5	7.3	7.1	13.7	12.2	15.3	3.6
Producers' dur. equip.		7.1	11.4	6.3	21.7	15.6	4.1	19.3	11.9	17.4	3.7
Nonres. structures		3.5	-5.3	0.8	7.5	-11.8	15.7	0.2	13.0	9.9	3.4
Res. structures		2.1	-5.1	13.2	24.3	12.8	12.7	-1.8	-0.1	-6.3	-13.3
Exports		0.4	7.9	-7.9	21.5	-0.6	14.8	12.2	15.3	2.6	4.6
Imports		9.6	14.5	4.9	17.0	7.5	19.1	11.0	9.3	8.7	7.7
Government purchases		-4.7	0.2	1.0	1.5	-4.2	-0.8	7.0	-1.4	-1.1	0.9
Federal		-13.1	-4.9	-2.9	-0.7	-11.1	-5.3	11.5	-5.9	-6.3	-1.1
Defense		-15.6	-5.2	-5.8	-0.5	-17.0	0.7	13.3	-16.1	-7.0	0.9
State and local		1.7	3.9	3.8	3.0	0.7	2.2	4.2	1.6	2.3	2.1
Change in bus. invent.	Bill. Ch. \$	19.4	21.6	20.1	18.0	40.8	75.1	64.9	57.9	54.5	30.6
Nonfarm		26.0	26.7	30.9	22.1	29.8	54.1	50.1	53.3	58.1	33.8
Net exports		-55.2	-67.0	-89.1	-86.2	-101.3	-112.2	-113.3	-105.8	-119.0	-126.8
Nominal GDP	% change	3.8	3.8	4.3	7.0	5.4	6.8	6.1	5.4	3.9	2.8
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	109.7	110.4	111.0	111.8	112.7	113.6	114.5	115.3	116.1	116.4
Unemployment rate	%	7.0	7.0	6.7	6.5	6.6	6.2	6.0	5.6	5.5	5.7
Industrial prod. index	% change	3.7	0.5	3.2	5.5	8.4	7.0	4.6	6.4	3.9	-1.4
Capacity util. rate-mfg	%	80.6	80.3	80.4	81.1	82.2	83.2	83.4	84.3	82.9	82.6
Housing starts	Millions	1.16	1.25	1.31	1.47	1.36	1.44	1.47	1.51	1.31	1.28
Light motor vehicle sales		13.23	14.11	13.69	14.53	15.45	14.76	14.65	15.44	14.90	14.35
INCOME AND SAVING											
Nominal GNP	Bill. \$	6458.4	6512.3	6584.8	6684.5	6773.6	6876.3	6977.6	7062.2	7140.5	7187.0
Nominal GNP	% change	4.3	3.4	4.5	6.2	5.4	6.2	6.0	4.9	4.5	2.6
Nominal personal income		-5.7	8.8	2.9	8.3	-3.3	13.6	4.2	6.5	7.1	4.5
Real disposable income		-8.1	5.2	1.1	5.0	-5.3	10.1	2.1	4.0	3.6	0.0
Personal saving rate	%	4.2	4.8	4.2	4.7	2.8	4.2	4.1	4.2	4.8	4.0
Corp. profits, IVA & CCAAdj	% change	-1.2	22.9	19.7	42.2	-37.5	84.7	14.5	14.6	-6.4	1.1
Profit share of GNP	%	6.6	6.9	7.1	7.7	6.7	7.7	7.9	8.1	7.8	7.8
Federal govt. surpl./def.	Bill. \$	-283.7	-249.2	-253.5	-232.4	-212.9	-169.9	-186.3	-190.4	-173.3	-160.5
State/local surpl./def.		80.5	89.1	94.9	115.0	94.8	105.2	99.6	99.3	99.0	99.0
Ex. social ins. funds		13.3	22.0	28.1	48.5	29.0	41.1	37.9	39.4	40.2	40.9
PRICES AND COSTS											
GDP implicit deflator	% change	3.8	2.1	1.9	2.2	2.8	1.9	2.4	2.2	3.2	2.3
CPI		3.1	2.8	1.7	3.4	2.2	2.5	3.6	2.2	3.2	3.2
Ex. food and energy		3.5	3.5	2.4	2.9	2.9	2.9	3.1	2.3	3.3	3.6
ECL hourly compensation		4.2	3.5	3.4	3.4	3.0	3.4	3.3	2.6	2.3	2.9
Nonfarm business sector											
Output per hour *		-3.5	-1.7	2.0	1.9	-3.2	2.6	2.5	0.6	-1.1	3.0
Compensation per hour		1.9	2.4	1.5	1.6	4.9	1.4	2.7	3.8	4.1	3.7
Unit labor cost		4.1	2.0	-1.3	-2.5	3.1	2.8	0.0	-0.4	1.6	-1.2

* Staff estimate, chain-weighted basis.

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

January 26, 1996

Item	Units	Projected									
		1995 Q3*	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	7297.2	7379.2	7456.8	7539.5	7624.6	7717.2	7805.1	7893.8	7976.0	8071.4
Real GDP	Bill. Ch. \$	6763.2	6795.0	6808.6	6842.9	6876.1	6918.4	6951.5	6987.8	7015.7	7056.4
Real GDP	% change	3.2	1.9	0.8	2.0	2.0	2.5	1.9	2.1	1.6	2.3
Gross domestic purchases		2.5	1.8	1.0	2.0	2.5	2.2	1.8	2.1	2.1	2.2
Final sales		3.5	1.5	1.4	2.5	1.5	2.6	2.1	2.1	1.6	2.4
Private dom. final purch.		2.7	1.4	1.6	2.4	2.0	2.3	2.0	2.1	2.1	2.2
Personal cons. expend.		2.9	1.8	2.3	2.6	2.4	2.4	2.4	2.4	2.4	2.4
Durables		9.5	5.7	1.4	5.6	3.2	3.0	3.1	3.1	3.3	3.1
Nondurables		0.5	-0.1	2.8	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Services		2.7	2.0	2.3	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Business fixed invest.		5.3	7.1	-1.0	3.6	3.2	3.3	3.4	3.4	3.2	3.6
Producers' dur. equip.		5.2	7.2	-1.5	3.1	3.1	3.3	4.0	4.5	4.2	4.8
Nonres. structures		5.6	6.8	0.3	5.2	3.5	3.3	1.4	0.3	0.3	-0.1
Res. structures		8.4	3.5	3.3	3.9	0.9	1.3	0.8	0.9	0.8	0.8
Exports		8.3	10.6	4.8	9.8	2.2	10.5	6.7	8.8	0.7	8.7
Imports		1.2	8.5	5.6	8.6	6.2	7.2	5.0	8.1	4.4	6.8
Government purchases		-0.4	-4.0	0.0	0.7	0.2	1.5	-0.2	0.8	0.8	1.2
Federal		-5.5	-15.9	-3.7	-1.9	-3.3	0.3	-4.8	-2.4	-2.5	-1.7
Defense		-7.5	-4.2	-5.6	-5.1	-3.6	1.3	-6.2	-2.7	-2.8	-1.7
State and local		2.8	3.7	2.2	2.2	2.2	2.1	2.5	2.5	2.5	2.7
Change in bus. invent.	Bill. Ch. \$	27.1	34.2	23.5	16.3	24.4	23.4	20.4	20.1	20.3	19.8
Nonfarm		31.9	36.5	24.8	15.1	20.7	20.7	17.7	17.4	17.6	17.1
Net exports		-114.1	-112.7	-115.6	-115.8	-125.6	-121.4	-119.4	-120.2	-129.5	-127.6
Nominal GDP	% change	5.7	4.6	4.3	4.5	4.6	4.9	4.6	4.6	4.2	4.9
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	116.8	117.2	117.5	117.9	118.1	118.5	118.7	119.0	119.2	119.5
Unemployment rate	%	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Industrial prod. index	% change	3.2	0.8	0.1	2.9	3.0	3.4	3.7	3.3	2.5	3.0
Capacity util. rate-mfg	%	82.6	82.0	81.4	81.4	81.3	81.4	81.6	81.8	81.7	81.8
Housing starts	Millions	1.41	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.38	1.38
Light motor vehicle sales		14.74	15.05	14.46	14.61	14.50	14.52	14.53	14.55	14.57	14.62
INCOME AND SAVING											
Nominal GNP	Bill. \$	7281.3	7360.5	7446.2	7525.0	7611.6	7699.8	7788.8	7873.7	7958.1	8046.5
Nominal GNP	% change	5.4	4.4	4.7	4.3	4.7	4.7	4.7	4.4	4.4	4.5
Nominal personal income		4.7	5.1	6.5	4.4	4.9	5.1	5.7	4.8	4.8	5.2
Real disposable income		3.6	3.3	3.4	0.4	3.5	2.3	3.0	2.0	2.2	2.3
Personal saving rate	%	4.1	4.5	4.7	4.2	4.5	4.5	4.6	4.5	4.5	4.5
Corp. profits, IVA & CCAdj	% change	43.8	-2.0	-2.6	4.0	4.6	3.5	2.2	2.3	2.8	0.3
Profit share of GNP	%	8.4	8.3	8.2	8.1	8.1	8.1	8.1	8.0	8.0	7.9
Federal govt. surpl./def.	Bill. \$	-158.4	-142.6	-158.7	-140.7	-163.7	-173.2	-177.2	-184.5	-195.2	-203.3
State/local surpl./def.		92.8	79.4	80.8	83.0	82.8	84.9	86.8	88.7	86.3	89.0
Ex. social ins. funds		34.7	21.7	23.5	26.1	26.2	28.6	30.8	32.9	30.7	33.6
PRICES AND COSTS											
GDP implicit deflator	% change	2.4	2.6	3.4	2.4	2.6	2.4	2.7	2.5	2.6	2.5
CPI		2.1	2.3	3.3	3.0	3.0	2.9	2.9	2.9	2.9	2.9
Ex. food and energy		2.5	2.7	2.6	2.8	2.9	2.9	3.0	3.0	3.0	3.0
ECL, hourly compensation		2.3	2.7	2.7	2.8	2.8	2.9	3.1	3.1	3.1	3.1
Nonfarm business sector											
Output per hour **		1.6	0.9	0.4	-0.2	1.0	2.0	1.3	1.5	1.0	1.5
Compensation per hour		3.1	3.4	3.8	3.5	3.6	3.5	3.7	3.5	3.5	3.6
Unit labor cost		1.1	2.5	3.4	3.7	2.6	1.5	2.4	2.0	2.5	2.1

* Published

** Staff estimate, chain-weighted basis.

STRICTLY CONFIDENTIAL <FR>
CLASS II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

January 26, 1996

Item	Projected										Projected		
	1995 Q3*	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	95Q4/ 94Q4	96Q4/ 95Q4	97Q4/ 96Q4
Real GDP	3.2	1.9	0.8	2.0	2.0	2.5	1.9	2.1	1.6	2.3	1.5	1.8	2.0
Gross domestic purchases	2.5	1.8	1.0	2.0	2.5	2.2	1.8	2.1	2.1	2.2	1.7	1.9	2.1
Final sales	3.5	1.5	1.4	2.5	1.5	2.5	2.1	2.1	1.6	2.4	1.9	2.0	2.0
Private dom. final purch.	2.7	1.4	1.6	2.5	2.0	2.3	2.0	2.2	2.1	2.3	2.0	2.1	2.1
Personal cons. expend.	1.9	1.2	1.6	1.8	1.6	1.6	1.6	1.6	1.6	1.6	1.5	1.7	1.6
Durables	0.8	0.5	0.1	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Nondurables	0.1	-0.0	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.2	0.5	0.5
Services	1.1	0.8	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9	1.0	0.9	0.9
Business fixed invest.	0.5	0.7	-0.1	0.4	0.3	0.4	0.4	0.4	0.3	0.4	0.8	0.2	0.4
Producers' dur. equip.	0.4	0.6	-0.1	0.2	0.3	0.3	0.3	0.4	0.3	0.4	0.6	0.2	0.4
Nonres. structures	0.1	0.2	0.0	0.1	0.1	0.1	0.0	0.0	0.0	-0.0	0.2	0.1	0.0
Res. structures	0.3	0.1	0.1	0.2	0.0	0.1	0.0	0.0	0.0	0.0	-0.1	0.1	0.0
Change in bus. invent.	-0.2	0.4	-0.6	-0.4	0.5	-0.1	-0.2	-0.0	0.0	-0.0	-0.4	-0.2	-0.1
Nonfarm	-0.1	0.3	-0.7	-0.6	0.3	0.0	-0.2	-0.0	0.0	-0.0	-0.3	-0.2	-0.1
Farm	-0.1	0.1	0.1	0.1	0.1	-0.1	0.0	0.0	0.0	0.0	-0.1	0.1	0.0
Net exports	0.7	0.1	-0.2	-0.0	-0.6	0.2	0.1	-0.0	-0.5	0.1	-0.1	-0.1	-0.1
Exports	0.9	1.2	0.6	1.1	0.3	1.2	0.8	1.1	0.1	1.1	0.7	0.8	0.8
Imports	0.2	1.1	0.7	1.1	0.8	1.0	0.7	1.1	0.6	1.0	0.8	0.9	0.9
Government purchases	-0.1	-0.8	0.0	0.1	0.0	0.3	-0.0	0.1	0.1	0.2	-0.2	0.1	0.1
Federal	-0.4	-1.2	-0.3	-0.1	-0.2	0.0	-0.3	-0.2	-0.2	-0.1	-0.5	-0.1	-0.2
Defense	-0.4	-0.2	-0.3	-0.2	-0.2	0.1	-0.3	-0.1	-0.1	-0.1	-0.2	-0.2	-0.1
Nondefense	-0.0	-1.0	0.0	0.1	-0.1	-0.0	-0.0	-0.0	-0.0	-0.0	-0.3	0.0	-0.0
State and local	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
GDP Residual	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

* Published

Components may not sum to total due to rounding.

Item	Fiscal year				1995				1996				1997			
	1994 ^a	1995	1996	1997	Q1 ^a	Q2 ^a	Q3 ^b	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
					Not seasonally adjusted											
Receipts ¹	1257	1351	1409	1466	307	404	333	326	302	428	354	337	319	443	367	347
Outlays ¹	1461	1514	1572	1659	380	381	373	379	395	397	401	418	419	409	413	436
Surplus/deficit ¹	-203	-164	-163	-193	-73	23	-40	-53	-93	31	-47	-81	-100	34	-46	-89
On-budget	-259	-226	-223	-247	-85	-11	-43	-59	-104	-9	-50	-84	-111	-3	-49	-90
Off-budget	56	62	60	55	12	34	2	6	11	40	3	4	10	37	3	1
Surplus excluding deposit insurance ²	-210	-181	-170	-196	-79	18	-42	-56	-96	31	-50	-80	-102	35	-49	-88
Means of financing																
Borrowing	185	171	171	193	66	26	20	21	84	14	52	59	71	12	51	67
Cash decrease	17	-2	-22	0	8	-42	23	17	2	-42	0	25	20	-45	0	25
Other ³	1	-5	14	0	0	-7	-2	15	7	-3	-5	-3	9	-1	-5	-3
Cash operating balance, end of period	36	38	60	60	18	61	38	20	18	60	60	35	15	60	60	35
NIPA FEDERAL SECTOR																
					Seasonally adjusted, annual rate											
Receipts	1354	1460	1530	1593	1449	1483	1490	1501	1519	1550	1549	1566	1586	1602	1617	1633
Expenditures	1554	1630	1680	1762	1623	1644	1648	1639	1689	1688	1703	1734	1755	1771	1788	1819
Consumption expend.	450	455	439	441	455	456	454	438	443	438	437	440	441	441	441	442
Defense	307	304	300	301	303	305	302	302	301	299	298	302	301	301	301	302
Nondefense	143	151	139	140	152	151	152	135	142	139	139	138	140	140	140	139
Other expenditures	1037	1110	1178	1260	1103	1121	1131	1138	1183	1188	1204	1232	1252	1270	1287	1317
Current account surplus	-200	-171	-150	-169	-173	-161	-158	-138	-170	-138	-153	-168	-168	-170	-171	-186
Gross investment	67	65	62	61	65	67	63	63	62	62	62	61	61	61	61	61
Current and capital account surplus	-267	-236	-212	-230	-238	-227	-222	-201	-232	-200	-215	-230	-230	-231	-232	-247
FISCAL INDICATORS ⁴																
High-employment (HEB) surplus/deficit	-264	-261	-238	-262	-265	-247	-248	-229	-257	-227	-241	-260	-261	-264	-265	-283
Change in HEB, percent of potential GDP	-.6	0	-.3	.3	-.3	-.2	0	-.3	.4	-.4	.2	2	0	0	0	.2
Fiscal impetus (FI), percent, cal year	-6.4	-6	-9	-2.3	-1.9	-8	-1.3	-6.3	-2.5	-1.4	-1	.2	-1.2	-.6	-.6	-.3

1. OMB's July 1995 deficit estimates are \$160 billion in FY95, \$163 billion in FY96 and \$179 billion in FY97. CBO's December 1995 baseline deficit estimates (including the fiscal dividend from assumed enactment of congressional budget program) are \$161 billion in FY95, \$172 billion in FY96 and \$182 billion in FY97. 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 1995 deficit estimates, excluding deposit insurance spending, are \$177 billion in FY95, \$170 billion in FY96 and \$182 billion in FY97. CBO's December 1995 baseline deficit estimates (including the fiscal dividend from assumed enactment of congressional budget program), excluding deposit insurance spending, are \$177 billion in FY95, \$180 billion in FY96 and \$186 billion in FY97.

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 current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output generated by 1.8 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 chained 1992 dollars), scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.

a--Actual

b--Preliminary.

Confidential FR Class II
January 26, 1996

CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS¹
(Percent)

-----Nonfederal-----										
-----Households-----										
-----MEMO-----										
Year	Total	Federal govt.	Total	Total	Home mtg.	Cons. credit	Business	State and local govt.	Private financial assets	Nominal GDP
1986	12.2	13.6	11.8	11.5	13.8	9.6	12.2	10.8	8.1	5.0
1987	9.2	8.0	9.6	12.1	16.3	5.0	6.7	12.1	8.2	7.4
1988	8.8	8.0	9.1	9.3	10.9	7.2	9.7	6.5	8.5	7.6
1989	7.6	7.0	7.8	8.8	10.1	6.2	7.5	5.7	5.6	6.4
1990	6.6	11.0	5.3	7.9	10.1	2.0	3.1	4.9	4.8	4.4
1991	4.4	11.1	2.4	5.0	6.6	-1.8	-1.7	8.2	1.7	3.8
1992	4.8	10.9	2.8	5.3	6.1	0.9	0.5	2.0	1.6	6.3
1993	5.3	8.3	4.2	6.1	5.4	7.3	1.6	5.7	1.0	4.7
1994	4.9	4.7	5.0	8.4	6.6	14.0	3.8	-3.7	4.6	5.9
1995	5.0	3.8	5.5	7.6	6.5	11.7	6.2	-5.4	2.5	4.2
1996	4.9	5.8	4.6	6.2	6.4	7.2	4.9	-3.9	0.9	4.6
1997	4.5	5.2	4.2	5.9	6.2	5.7	4.1	-3.8	0.9	4.6
Quarter (seasonally adjusted annual rates)										
1994:1	5.2	6.2	4.8	6.8	6.3	7.5	4.1	-0.0	4.3	5.4
2	4.6	3.9	4.8	8.1	6.0	14.8	3.7	-3.4	5.3	6.8
3	4.5	4.0	4.7	8.6	6.7	13.7	3.4	-5.7	2.7	6.1
4	5.0	4.3	5.3	9.3	6.9	17.5	4.0	-6.0	6.0	5.4
1995:1	6.3	7.6	5.8	6.5	5.8	9.5	8.0	-4.7	3.1	3.9
2	6.6	5.7	6.9	8.3	6.3	15.7	7.6	-1.5	4.8	2.8
3	3.8	1.8	4.5	7.9	6.6	10.5	4.6	-10.9	1.2	5.7
4	3.2	-0.2	4.4	6.7	6.5	9.3	4.0	-4.7	0.9	4.6
1996:1	6.2	8.4	5.3	6.2	6.3	8.0	6.1	-1.8	0.9	4.3
2	5.0	5.2	4.9	6.2	6.2	7.1	4.6	-0.0	0.9	4.5
3	4.2	5.1	3.8	6.0	6.2	6.8	4.4	-9.3	0.9	4.6
4	4.1	3.8	4.2	5.9	6.2	6.2	4.2	-4.7	0.9	4.9

1. Data after 1995:q3 are staff projections. Changes are measured from end of the preceding period to end of period indicated except annual nominal GDP growth, which is Q4 to Q4. On a quarterly average basis, total debt grows 5.3 percent in 1995, 4.6 percent in 1996, and 4.5 percent in 1997. Federal debt rises 4.3 percent in 1995, 4.8 percent in 1996, and 5.2 percent in 1997. Nonfederal debt is projected to increase 5.6 percent in 1995, 4.6 percent in 1996, and 4.2 percent in 1997.

2.6.3 FOF

Confidential FR Class II
January 26, 1996

FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS¹
(Billions of dollars)

	Calendar year				----1995----		-----1996-----				----1997----	
	1994	1995	1996	1997	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
-----Seasonally Adjusted Annual Rates-----												
Net funds raised by domestic nonfinancial sectors												
1 Total	572.1	591.7	610.6	614.0	428.3	358.0	754.3	632.4	520.7	535.0	619.5	608.6
2 Net equity issuance	-44.9	-72.5	-71.5	-40.0	-84.8	-77.2	-96.0	-70.0	-70.0	-50.0	-44.0	-36.0
3 Net debt issuance	617.0	664.2	682.1	654.0	513.1	435.2	850.3	702.4	590.7	585.0	663.5	644.6
Borrowing sectors												
Nonfinancial business												
4 Net equity issuance	-44.9	-72.5	-71.5	-40.0	-84.8	-77.2	-96.0	-70.0	-70.0	-50.0	-44.0	-36.0
5 Credit market borrowing	144.3	241.8	205.6	178.4	187.0	162.9	254.9	194.4	189.9	182.9	176.1	180.7
Households												
6 Net borrowing, of which:	360.3	350.0	309.2	313.2	380.3	329.1	310.0	313.8	306.6	306.4	310.2	316.2
7 Home mortgages	196.7	204.4	214.2	220.7	216.7	214.2	211.2	212.2	215.2	218.2	215.2	226.2
8 Consumer credit	121.2	115.4	79.5	67.5	109.6	100.2	88.2	80.2	77.2	72.2	70.0	65.0
9 Debt/DPI (percent) ²	88.7	90.6	92.0	92.7	91.0	91.4	91.4	92.1	92.1	92.3	92.5	92.9
State and local governments												
10 Net borrowing	-43.4	-59.7	-41.4	-38.8	-119.9	-49.8	-19.2	-0.0	-98.0	-48.4	-42.9	-34.6
11 Current surplus ³	107.4	104.9	99.0	109.1	105.8	90.9	95.6	98.2	99.4	102.9	107.8	110.5
U.S. government												
12 Net borrowing	155.9	132.1	208.8	201.2	65.8	-7.0	304.6	194.3	192.2	144.1	220.1	182.3
13 Net borrowing; quarterly, nsa	155.9	132.1	208.8	201.2	19.9	21.0	84.4	13.7	51.8	58.8	82.9	118.3
14 Unified deficit; quarterly, nsa	185.2	143.9	190.2	200.6	40.2	53.4	93.1	-30.7	47.0	80.7	65.5	135.1
Funds supplied by												
15 depository institutions	198.3	275.3	205.2	209.7	284.7	120.5	203.7	203.7	204.7	208.7	213.7	205.7
MEMO: (percent of GDP)												
16 Dom. nonfinancial debt ²	185.4	186.0	186.8	186.9	187.1	186.6	186.8	187.3	187.4	187.0	186.9	186.9
17 Dom. nonfinancial borrowing	8.9	9.2	9.0	8.2	7.0	5.9	11.4	9.3	7.7	7.6	8.5	8.0
18 U.S. government ⁴	2.2	1.8	2.8	2.5	0.9	-0.1	4.1	2.6	2.5	1.9	2.8	2.3
19 Private	6.7	7.3	6.2	5.7	6.1	6.0	7.3	6.7	5.2	5.7	5.6	5.8

1. Data after 1995:q3 are staff projections.
2. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.
3. NIPA surplus less retirement funds plus consumption of fixed capital.
4. Excludes government-insured mortgage pool securities.

monthly data point to a deceleration of output in several of these countries.

U.S. exports and imports of goods and services. Our outlook for the U.S. external sector has been affected both by changes in economic fundamentals and by the shift to chain-weighted prices. We now project real net exports, measured in chained (1992) dollars, to decline by about 0.1 percent of GDP per year during 1996 and 1997. This is a slightly weaker outlook than that in the December Greenbook, mostly because of the higher projected level of the dollar. The shift to chain-weighted price and volume measures did not affect the projected contribution of real net exports to U.S. GDP growth appreciably, but has substantially altered the projected paths of both exports and imports in real terms.

QUANTITIES OF GOODS AND SERVICES
(Percent change from end of previous period, SAAR)

	Year	1995	-----Projection-----		
		Q3	Q4	1996	1997
Exports of G&S	6.5	8.3	10.6	6.8	6.2
Services	1.3	4.3	1.7	3.3	3.5
Computers	43.3	88.9	40.4	29.9	31.1
Other goods ¹	5.8	1.4	12.2	5.1	2.8
Imports of G&S	6.5	1.2	8.5	6.9	6.0
Services	3.6	2.0	4.9	2.6	2.6
Oil	-3.2	25.1	-25.8	7.4	3.7
Computers	45.0	76.9	60.3	22.7	21.5
Other goods ²	3.6	-7.9	6.8	5.3	4.1

Note: NIPA basis, chained (1992) dollars.

1. Nonagricultural exports of goods excluding computers.

2. Non-oil imports of goods excluding computers.

The shift to chain-weighted measures, by itself, has raised the projected annual rates of growth of prices and reduced the projected growth of volumes of exports and imports of goods and

SELECTED PRICE INDICATORS
(Percent change from end of previous period except as noted, AR)

	Year	1995		-----Projection-----	
		Q3	Q4	1996	1997
Nonag. exports ¹	2.0	-1.2	-1.9	0.8	0.8
Non-oil imports ¹	0.4	0.8	-5.6	-0.4	0.6
Oil imports (Q4 level, \$b1)	15.73	16.00	15.73	16.00	16.00

1. NIPA chain-weighted basis, including computers.

Nominal trade and current account balances. The nominal U.S. trade deficit on goods and services is expected to average a bit over \$90 billion during 1996 and 1997, not far from its rate in recent months. Net investment income is projected to deteriorate over the forecast period, contributing to a slight worsening of the current account next year. The current account deficit is expected to be about \$145 billion in 1996 and more than \$150 billion in 1997, just under 2 percent of GDP in both cases.

January 26, 1996

REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1994-97
(Percent; quarterly change at an annual rate except as noted)

Measure and country	Projected										
	Projected				1995			1996			
	1994	1995	1996	1997	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP											
Canada	5.4	0.9	2.4	2.3	-0.6	2.1	0.9	2.4	2.5	2.4	2.5
France	4.3	0.8	2.4	2.6	0.7	0.8	-1.0	2.4	2.2	2.4	2.5
Germany	3.7	1.0	2.2	2.4	4.3	-0.1	-1.1	1.9	2.1	2.4	2.4
W. Germany	3.1	1.0	1.7	2.0	3.8	0.2	-0.8	1.4	1.6	1.9	1.9
Italy	2.9	2.9	2.8	2.2	-0.4	8.0	-2.0	3.5	3.3	2.4	2.2
Japan	0.4	1.4	3.1	2.3	2.6	0.6	2.0	3.3	3.5	3.0	2.6
United Kingdom	4.2	1.8	2.1	2.5	2.0	1.6	1.6	1.8	2.0	2.3	2.3
Average, weighted by 1987-89 GDP	2.8	1.5	2.6	2.4	1.8	1.8	0.4	2.7	2.8	2.6	2.4
Average, weighted by share of											
U.S. nonagricultural exports											
Total foreign	4.5	1.9	3.4	3.3	NA	NA	NA	NA	NA	NA	NA
Foreign G-7	3.9	1.2	2.5	2.3	0.9	1.7	0.8	2.5	2.6	2.5	2.5
Developing countries	6.0	2.7	5.2	5.6	NA	NA	NA	NA	NA	NA	NA
CONSUMER PRICES(1)											
Canada	0.0	2.1	1.6	2.0	3.1	0.9	0.1	1.1	1.6	1.8	1.8
France	1.6	1.9	1.8	1.8	2.1	1.2	2.3	2.0	1.8	1.8	1.6
Western Germany	2.5	1.5	1.9	2.0	2.2	1.5	-0.6	3.2	2.3	1.9	0.3
Italy	3.8	5.9	4.4	4.0	8.0	3.9	5.2	4.2	6.7	3.5	3.2
Japan	0.8	-0.8	-0.0	0.0	0.7	-1.0	-0.5	-1.6	2.0	-0.2	-0.1
United Kingdom(2)	2.2	2.9	2.8	3.0	6.4	0.8	1.4	2.7	6.2	0.9	1.4
Average, weighted by 1987-89 GDP	1.7	1.7	1.7	1.7	3.1	0.8	1.0	1.3	3.2	1.3	1.0
Average, weighted by share of											
U.S. non-oil imports	1.0	1.1	1.2	1.4	2.4	0.4	0.2	0.6	2.4	1.1	0.9

Note. Annual values are measured from Q4 to Q4.

1. Not seasonally adjusted.

2. CPI excluding mortgage interest payments; the targeted inflation rate. Previously the CPI including mortgage interest payments was shown.

Strictly Confidential (FR) Class II-FOMC

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

	1993				1994				1995		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1992	1993	1994
NIPA Real Net Exports of Goods & Services (Chained 1992 dollars)	-55.2	-67.0	-89.1	-86.2	-101.3	-112.2	-113.3	-105.8	-119.0	-126.8	-29.5	-74.4	-108.1
Exports of G&S	649.8	662.3	648.9	681.4	680.4	704.3	724.8	751.0	755.8	764.3	639.4	660.6	715.1
Goods	454.3	465.8	453.3	484.5	481.5	501.8	518.3	543.9	548.9	557.8	448.7	464.5	511.4
Agricultural	43.8	43.9	41.0	43.4	40.7	41.0	44.8	51.2	51.3	48.2	44.1	43.0	44.4
Computers	32.3	33.1	35.9	38.6	40.7	41.8	44.9	49.6	52.9	55.7	28.7	35.0	44.2
Other Goods	378.2	388.8	376.4	402.6	400.3	419.3	428.8	443.1	444.7	454.1	375.9	386.5	422.9
Services	195.5	196.5	195.6	197.0	199.0	202.7	206.8	207.7	207.6	207.4	190.8	196.2	204.1
Imports of G&S	705.1	729.4	738.1	767.6	781.7	816.5	838.1	856.8	874.9	891.2	668.9	735.0	823.3
Goods	577.3	598.6	605.1	629.1	643.0	676.4	698.1	718.6	732.8	750.5	544.8	602.5	684.0
Oil	53.7	57.9	56.9	58.3	57.0	60.6	64.6	58.2	56.5	57.4	51.4	56.7	60.1
Computers	38.9	42.3	46.5	49.9	53.9	57.3	61.8	68.3	71.7	76.3	31.7	44.4	60.3
Other Goods	484.7	498.5	501.7	520.8	531.7	558.2	571.7	590.8	602.8	614.8	461.6	501.4	563.1
Services	127.8	130.8	133.0	138.5	138.8	140.2	140.2	138.5	142.4	141.1	124.1	132.5	139.4
Memo: (Percent change 1/)													
Exports of G&S	0.4	7.9	-7.9	21.6	-0.6	14.8	12.2	15.3	2.6	4.6	4.1	5.0	10.2
Agricultural	-17.8	0.9	-23.9	25.6	-22.7	3.0	42.6	70.6	0.8	-22.1	10.6	-5.7	18.0
Computers	12.0	10.3	38.4	33.7	23.6	11.3	33.1	48.9	29.4	22.9	25.1	22.9	28.5
Other Goods	-5.5	11.7	-12.2	30.9	-2.3	20.4	9.4	14.0	1.5	8.7	4.5	5.0	10.1
Services	16.4	2.1	-1.8	2.9	4.1	7.6	8.3	1.8	-0.2	-0.4	-0.8	4.7	5.4
Imports of G&S	9.6	14.5	4.9	17.0	7.6	19.0	11.0	9.2	8.7	7.7	7.4	11.4	11.6
Oil	5.4	35.2	-6.7	10.2	-8.6	27.8	29.1	-34.1	-11.2	6.5	12.1	10.0	-0.2
Computers	41.0	39.8	46.0	32.6	36.1	27.7	35.3	49.2	21.4	28.2	45.1	39.8	36.9
Other Goods	10.4	11.9	2.6	16.1	8.6	21.5	10.0	14.0	8.4	8.2	6.5	10.1	13.4
Services	1.3	9.7	6.9	17.6	0.9	4.1	0.0	-4.8	11.7	-3.6	1.4	8.7	-0.0
Current Account Balance	-69.5	-97.4	-108.1	-124.7	-121.1	-151.9	-158.9	-173.1	-154.3	-173.1	-61.5	-99.9	-151.2
Goods & Serv (BOP), net	-54.3	-75.2	-88.0	-82.0	-92.1	-107.7	-115.2	-109.9	-116.0	-133.7	-39.5	-74.8	-106.2
Goods (BOP), net	-115.8	-134.4	-146.4	-133.9	-146.0	-166.0	-178.5	-174.0	-178.4	-195.2	-96.1	-132.6	-166.1
Services (BOP), net	61.5	59.2	58.5	51.9	53.9	58.3	63.3	64.1	62.4	61.5	56.6	57.8	59.9
Investment Income, net	14.8	8.3	12.8	0.1	0.5	-9.1	-10.1	-18.3	-7.8	-10.5	10.1	9.0	-9.3
Direct, net	61.1	55.3	59.2	49.7	46.2	43.9	44.6	45.7	57.2	58.9	51.6	56.3	45.1
Portfolio, net	-46.2	-47.0	-46.5	-49.6	-45.7	-53.0	-54.7	-64.0	-65.1	-69.4	-41.5	-47.3	-54.4
Unilateral Transfers, net	-30.1	-30.4	-32.9	-42.9	-29.5	-35.1	-33.5	-45.0	-30.5	-28.9	-32.1	-34.1	-35.8

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

Strictly Confidential (FR) Class II-FOMC

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

	Projection										Projection		
	1995		1996				1997				ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1995	1996	1997
NIPA Real Net Exports of Goods & Services (Chained 1992 dollars)	-114.1	-112.6	-115.5	-115.7	-125.5	-121.3	-119.3	-120.1	-129.4	-127.5	-118.1	-119.5	-124.1
Exports of G&S	779.7	799.6	809.0	828.1	832.7	853.8	867.8	886.3	887.8	906.5	774.8	830.9	887.1
Goods	571.1	590.1	599.2	615.9	618.4	637.4	649.3	665.7	665.5	682.6	567.0	617.7	665.8
Agricultural	50.3	50.2	50.2	50.2	51.2	52.4	53.1	53.8	54.5	55.2	50.0	51.0	54.1
Computers	65.3	71.1	75.7	80.6	86.3	92.3	98.8	105.7	113.1	121.0	61.2	83.7	109.6
Other Goods	455.7	469.0	473.5	485.2	481.1	492.9	497.6	506.4	498.1	506.6	455.9	483.2	502.2
Services	209.6	210.5	210.8	213.2	215.3	217.3	219.5	221.6	223.2	224.9	208.8	214.2	222.3
Imports of G&S	893.9	912.2	924.7	943.9	958.2	975.1	987.2	1006.5	1017.3	1034.1	893.1	950.5	1011.2
Goods	752.4	769.0	780.7	799.1	812.6	828.2	839.2	857.7	867.7	883.3	751.2	805.1	862.0
Oil	60.7	56.3	60.3	62.7	66.1	60.5	61.4	65.6	68.4	62.8	57.7	62.4	64.5
Computers	88.0	99.0	105.0	110.2	115.7	121.5	127.6	133.9	140.6	147.7	83.8	113.1	137.5
Other Goods	602.2	612.2	613.9	624.6	629.2	644.6	648.8	656.6	657.2	671.3	608.0	628.1	658.5
Services	141.8	143.5	144.3	145.1	146.0	147.3	148.2	149.1	149.9	151.1	142.2	145.7	149.6
Memo: (Percent change 1/)													
Exports of G&S	8.3	10.6	4.8	9.8	2.2	10.5	6.7	8.8	0.7	8.7	6.5	6.8	6.2
Agricultural	18.6	-0.6	0.0	0.0	8.2	9.9	5.3	5.3	5.3	4.9	-1.9	4.4	5.2
Computers	88.9	40.4	28.7	28.7	31.1	31.1	31.1	31.1	31.1	31.1	43.3	29.9	31.1
Other Goods	1.4	12.2	3.9	10.3	-3.4	10.1	3.9	7.3	-6.4	7.0	5.8	5.1	2.8
Services	4.3	1.7	0.6	4.7	3.9	3.9	4.1	3.8	3.1	3.0	1.3	3.3	3.5
Imports of G&S	1.2	8.5	5.6	8.6	6.2	7.2	5.0	8.1	4.4	6.8	6.5	6.9	6.0
Oil	25.1	-25.8	31.3	17.2	23.4	-29.9	5.8	30.7	17.8	-28.9	-3.2	7.4	3.7
Computers	76.9	60.3	26.2	21.5	21.5	21.5	21.5	21.5	21.5	21.5	45.0	22.7	21.5
Other Goods	-7.9	6.8	1.1	7.2	2.9	10.2	2.6	4.9	0.4	8.9	3.6	5.3	4.1
Services	2.0	4.9	2.3	2.2	2.5	3.6	2.7	2.3	2.2	3.3	3.6	2.6	2.6
Current Account Balance	-157.9	-149.7	-146.2	-135.7	-143.0	-153.5	-144.3	-147.6	-152.7	-164.1	-158.8	-144.6	-152.2
Goods & Serv (BOP), net	-110.1	-96.6	-92.5	-87.4	-96.3	-91.9	-94.3	-93.9	-101.1	-95.0	-114.1	-92.0	-96.1
Goods (BOP), net	-173.7	-161.2	-158.0	-155.5	-166.5	-163.5	-167.9	-169.5	-178.6	-173.9	-177.1	-160.9	-172.5
Services (BOP), net	63.7	64.6	65.5	68.1	70.1	71.7	73.6	75.6	77.4	78.9	63.0	68.8	76.4
Investment Income, net	-16.6	-19.4	-11.3	-15.3	-13.7	-18.1	-17.0	-20.8	-18.6	-25.6	-13.6	-14.6	-20.5
Direct, net	55.0	56.9	63.2	63.1	62.7	64.5	65.1	66.7	66.9	66.8	57.0	63.4	66.4
Portfolio, net	-71.6	-76.4	-74.5	-78.3	-76.4	-82.5	-82.1	-87.4	-85.5	-92.4	-70.6	-78.0	-86.9
Unilateral Transfers, net	-31.2	-33.6	-42.4	-33.0	-33.0	-43.5	-33.0	-33.0	-33.0	-43.5	-31.1	-38.0	-35.6

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

Part 2

January 26, 1996

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

Prepared for the Federal Open Market Committee

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

January 26, 1996

RECENT DEVELOPMENTS

the motor vehicle industry indicate that scheduled production of 11.9 million units (annual rate) in February and March is being revised. At this point, we have only been able to confirm that Chrysler will shave 170,000 units (annual rate) from its February plan; Ford and GM have not yet provided official figures.

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

	1995			1996	
	Nov.	Dec.	Q4	Jan. ^e	Feb-Mar. ^s
U.S. production	11.7	11.9	11.7	10.9	11.9
Autos	6.1	6.1	6.1	5.5	6.0
Trucks	5.6	5.8	5.6	5.4	5.9
Days' supply					
Autos	71.7	65.5	69.3	n.a.	n.a.
Light trucks	72.2	66.7	71.8	n.a.	n.a.

Note: Components may not sum to totals because of rounding; figures for days supply for Q4 are end of year stocks relative to sales for the quarter.

e Staff estimate based on four weeks of data.

s Schedules as of January 19.

n.a. Not applicable.

Anecdotal reports and available statistical indicators suggest that industrial activity outside the motor vehicle sector remained sluggish in January. The forward-looking orders components of the national and regional purchasing managers indexes released early in the month pointed to a further slowing of the manufacturing sector early this year. With four weeks of estimates available for January, our weekly index of indicators of non-auto physical product, which covers about a sixth of the IP index, is likely to edge down; declines in electricity generation, coal, paper, lumber, and appliances appear to be offsetting increases in steel and petroleum products. Nevertheless, IP in January will be boosted

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

			Fiscal year to date			
	November				Dollar change	Percent change
	1995	1996	FY1995	FY1996		
Outlays	124.9	128.5	245.3	246.8	1.5	.6
Deposit insurance (DI)	-1.3	-.8	-2.0	-2.0	.0	2.1
Outlays excluding DI	126.2	129.3	247.3	248.8	1.6	.6
National defense	22.4	21.2	41.2	39.6	-1.7	-4.0
Net interest	18.2	19.1	36.9	39.6	2.7	7.3
Social security	26.6	27.9	53.3	56.0	2.6	4.9
Medicare and health	22.2	24.2	41.9	46.6	4.6	11.0
Income security	16.2	18.1	31.4	32.7	1.2	3.9
Other	20.6	18.7	42.4	34.4	-8.0	-18.8
Receipts	87.7	90.0	176.7	185.6	8.9	5.0
Personal income and social insurance taxes						
Withheld	71.4	74.5	142.3	151.7	9.4	6.6
Nonwithheld	1.9	2.1	6.2	7.9	1.6	26.3
Other	1.5	1.1	2.1	2.1	-.1	-4.1
Corporate income taxes	1.5	1.7	5.0	3.9	-1.1	-22.0
Other	11.4	10.6	21.0	20.1	-.9	-4.5
Deficit(+)	37.2	38.5	68.6	61.2	-7.4	-10.8
Excluding DI	38.5	39.3	70.6	63.2	-7.3	-10.4

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