

December 14, 1994

SUMMARY AND OUTLOOK

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

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

	1994	
	Q3	Q4
Real GDP	3.9	5.0
<i>Previous</i>	3.4	4.1
Final sales	4.2	6.0
<i>Previous</i>	3.1	4.8
Unemployment rate (level, percent)	6.0	5.6
<i>Previous</i>	6.0	5.7

The incoming data on spending and inventories are also consistent with a big gain in real GDP this quarter. The spending figures in hand appear to be consistent with final sales growth at an annual rate of around 6 percent. As for inventories, we think our forecast of a moderate falloff in the pace of stockbuilding represents a sensible balancing of the impetus to accumulation from firms' desire to maintain adequate buffer stocks against the run-offs associated with stronger-than-expected growth in final sales.

The surge in final sales this quarter is being paced by continued rapid growth in business fixed investment. At this stage, we estimate that real BFI will grow at an annual rate of close to 20 percent, with broad-based advances likely for both producers' durable equipment and nonresidential construction. Orders and shipments of computing equipment posted large gains through early autumn, and reports in the trade press suggest that demand for these items continues to surge.¹ Bookings for other types of equipment (excluding aircraft) have also remained robust, the October level

1. We do not expect the difficulties with the Pentium chip to have much effect on outlays in the current quarter. The problem was not made public until late November, and Pentium-based machines account for only a small share of business computer purchases. Moreover, any drop in sales is likely to be largely offset in GDP by movements in inventories. Looking ahead, we have trimmed \$2 billion (annual rate) from real computer outlays in the first quarter of 1995.

nominal interest rates stimulates a mild pickup in homebuilding and other final demand.

SUMMARY OF STAFF PROJECTIONS¹
 (Percent change at annual rates, except as noted)

	1994	1995		1996
		H1	H2	
Real GDP	4.1	2.5	1.3	1.8
<i>Previous</i>	3.8	1.9	1.2	2.2
Private domestic final purchases ²	4.9	3.9	2.1	2.1
<i>Previous</i>	4.2	2.9	1.8	2.4
Civilian unemployment rate (percent) ³	5.6	5.5	5.7	6.1
<i>Previous</i>	5.7	5.8	6.1	6.3

1. Percent change from final quarter of previous period to final quarter of period indicated, unless otherwise indicated.

2. Personal consumption expenditures plus business fixed investment plus residential investment.

3. Average level for the final quarter of period indicated.

Consumer spending. Our forecast now has real consumer spending growing at an annual rate of nearly 3-1/2 percent in the first quarter of 1995, a percentage point more than in the November Greenbook. The fourth-quarter surge in wages and salaries is likely to produce a whopping 6-1/2 percent (annual rate) gain in real disposable personal income in the fourth quarter. And, indications of hiring plans (for example, from Manpower Inc.) suggest that job growth will remain brisk in the first quarter, increasing income and buoying sentiment in the face of what we anticipate will be less favorable financial market conditions.

As we move through 1995, however, the underlying pace of income growth slows, and we expect to see increases in consumption drop into the area of 1-1/2 percent at an annual rate in the second half of the year. Finance charges on auto and other consumer loans will rise appreciably over the coming year, in lagged adjustment to the increases in market rates that have already occurred and to the assumed further rise in short rates; this increase will affect many

appear likely. Thus, to meet the growth in sales and production that we are forecasting into early 1995, businesses will need to maintain a brisk pace of hiring.

The rapid pace of job creation of late appears to be spurring an uptick in the participation rate, and further improvements in job prospects should stimulate somewhat faster growth of the labor force in the first part of next year. On balance, the unemployment rate is projected to remain at around 5-1/2 percent through mid-1995.

With output growth dropping to an annual rate of only about 1-1/4 percent in the second half of 1995 and remaining below potential in 1996, employment gains taper off and the unemployment rate backs up noticeably. Nonetheless, the projected unemployment rate at the end of 1996--at 6.1 percent--is a shade below that in the November Greenbook. As for productivity, we now expect to see an increase of only about 3/4 percent over 1995 as whole. Productivity growth is expected to improve a little in 1996--but still to fall a bit short of its long-run trend of close to 1-1/2 percent.

SUMMARY OF STAFF INFLATION PROJECTIONS
(Percent change at annual rates)

	1995			
	1994	H1	H2	1996
ECI for compensation of private industry workers ¹	3.3	3.7	3.7	3.7
<i>Previous</i>	3.3	3.8	3.7	3.6
Consumer price index ²	2.7	3.1	2.9	2.9
<i>Previous</i>	2.9	3.5	3.0	2.9
Excluding food and energy	2.9	3.4	3.0	3.1
<i>Previous</i>	3.1	3.7	3.1	3.1

1. Percent change from final month of previous period to final month of period indicated.

2. Percent change from final quarter of previous period to final quarter of period indicated.

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index ¹		Unemployment rate (level except as noted)	
	11/09/94	12/14/94	11/09/94	12/14/94	11/09/94	12/14/94	11/09/94	12/14/94	11/09/94	12/14/94
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	6.1	6.2	3.9	4.1	2.7	2.7	2.6	2.7	6.1	6.1
1995	5.1	5.6	2.5	3.1	3.1	3.1	3.3	3.0	5.9	5.6
1996	4.3	4.2	1.8	1.6	2.9	2.9	3.0	2.9	6.2	6.0
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	7.2	7.2	4.1	4.1	2.9	2.9	2.8	2.8	6.2	6.2
Q3 ²	5.2	5.9	3.4	3.9	2.7	2.8	3.6	3.6	6.0	6.0
Q4	6.1	6.9	4.1	5.0	3.0	2.7	3.1	2.3	5.7	5.6
1995 Q1	5.7	6.3	2.5	3.0	3.7	3.6	3.7	3.1	5.7	5.5
Q2	4.2	4.7	1.4	2.0	3.1	3.0	3.3	3.2	5.8	5.5
Q3	3.6	3.9	1.0	1.3	2.9	2.9	3.1	3.0	6.0	5.6
Q4	3.8	3.6	1.5	1.2	2.8	2.7	2.9	2.8	6.1	5.7
1996 Q1	4.5	4.1	1.8	1.4	3.1	3.2	2.9	2.9	6.2	5.9
Q2	4.6	4.3	2.2	1.8	2.8	2.9	2.9	2.9	6.2	6.0
Q3	4.7	4.6	2.3	2.0	2.9	2.9	2.9	2.9	6.2	6.1
Q4	4.8	4.7	2.4	2.1	2.9	2.9	2.9	2.9	6.3	6.1
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	6.6	6.6	3.7	3.7	3.0	3.0	2.4	2.4	-.3	-.3
Q4	5.7	6.4	3.8	4.5	2.8	2.8	3.3	2.9	-.5	-.6
1995 Q2	4.9	5.5	1.9	2.5	3.4	3.3	3.5	3.2	.1	-.1
Q4	3.7	3.7	1.2	1.3	2.9	2.8	3.0	2.9	.3	.2
1996 Q2	4.6	4.2	2.0	1.6	3.0	3.0	2.9	2.9	.1	.3
Q4	4.8	4.6	2.4	2.1	2.9	2.9	2.9	2.9	.1	.1
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	6.2	6.5	3.8	4.1	2.9	2.9	2.9	2.7	-.8	-.9
1995 Q4	4.3	4.6	1.5	1.9	3.1	3.1	3.3	3.0	.4	.1
1996 Q4	4.7	4.4	2.2	1.8	2.9	3.0	2.9	2.9	.2	.4

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 ¹								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	6737.8	7116.2	7412.6	
Real GDP	Bill. 87\$	4718.6	4838.0	4897.3	4867.6	4979.3	5134.5	5342.9	5506.3	5594.3	
Real GDP	% change	3.3	1.6	.2	.3	3.7	3.1	4.1	1.9	1.8	
Gross domestic purchases		2.5	.9	-.4	-.1	4.1	3.9	4.7	1.9	1.8	
Final sales		4.2	1.5	1.2	-.4	3.8	3.0	3.4	2.4	1.9	
Private dom. final purch.		4.2	.5	-.1	-.8	5.1	5.0	4.9	3.0	2.1	
Personal cons. expend.		4.2	1.2	.7	.0	4.2	3.0	3.7	2.2	1.8	
Durables		8.5	-.5	-.8	-1.3	9.6	9.0	8.4	.1	.4	
Nondurables		3.2	1.2	-.1	-1.6	3.2	1.3	3.3	2.2	1.8	
Services		3.7	1.7	1.7	1.2	3.5	2.5	2.6	2.7	2.2	
Business fixed invest.		5.5	-.4	.7	-6.2	6.7	16.0	13.2	9.1	3.6	
Producers' dur. equip.		9.1	-1.7	2.9	-3.2	11.0	21.3	15.8	9.5	2.7	
Nonres. structures		-1.2	2.3	-3.9	-12.4	-3.4	1.6	4.8	7.7	6.6	
Res. structures		.9	-7.7	-15.2	.7	17.0	8.1	1.6	-2.9	1.4	
Exports		13.5	11.3	6.7	8.1	5.0	5.8	9.5	8.3	8.7	
Imports		3.6	2.6	.4	4.0	8.6	12.4	13.5	7.3	7.2	
Government purchases		.2	2.0	3.3	-.8	.7	-1.0	.0	-.5	.3	
Federal		-3.4	-.6	2.8	-3.2	.8	-6.9	-3.9	-5.9	-3.2	
Defense		-3.2	-1.5	1.5	-7.0	-1.3	-9.0	-5.1	-8.2	-4.5	
State and local		2.9	4.0	3.6	.8	.6	3.0	2.4	2.5	2.2	
Change in bus. invent.	Bill. 87\$	19.9	29.8	5.7	-1.1	2.5	15.3	46.5	30.7	15.9	
Nonfarm		26.9	29.9	3.2	-1.3	-2.0	18.5	38.9	27.1	13.6	
Net exports		-104.0	-73.7	-54.7	-19.5	-32.3	-73.9	-113.9	-122.3	-117.3	
Nominal GDP	% change	7.7	6.0	4.7	3.5	6.4	5.0	6.5	4.6	4.4	
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	105.2	107.9	109.4	108.3	108.6	110.5	113.4	116.1	117.2	
Unemployment rate	%	5.5	5.3	5.5	6.7	7.4	6.8	6.1	5.6	6.0	
Industrial prod. index	% change	3.2	-.1	-.2	.2	4.0	3.6	5.8	2.5	1.8	
Capacity util. rate-mfg.	%	83.6	83.2	81.3	78.0	79.2	80.9	83.3	84.2	82.4	
Housing starts	Millions	1.49	1.38	1.19	1.01	1.20	1.29	1.42	1.39	1.41	
Light Motor Vehicle Sales		15.43	14.53	13.85	12.31	12.80	13.89	15.09	15.23	14.51	
Auto sales in U.S.		10.63	9.91	9.50	8.39	8.35	8.72	9.20	9.26	8.68	
North American prod.		7.54	7.08	6.90	6.14	6.26	6.75	7.23	7.43	6.93	
Other		3.10	2.83	2.60	2.25	2.10	1.97	1.97	1.83	1.75	
INCOME AND SAVING											
Nominal GNP	Bill. \$	4908.2	5266.8	5567.8	5740.8	6025.8	6347.8	6729.5	7089.7	7375.8	
Nominal GNP	% change	7.8	6.1	4.9	3.2	6.1	5.0	6.3	4.3	4.4	
Nominal personal income		7.1	6.5	6.5	3.7	8.1	2.8	6.7	5.7	5.1	
Real disposable income		3.2	1.1	1.1	.9	5.0	.5	4.1	2.4	2.2	
Personal saving rate	%	4.4	4.0	4.2	5.0	5.5	4.1	4.0	4.2	4.6	
Corp. profits, IVA&CCAdj	% change	10.2	-6.3	2.3	8.8	9.6	23.4	4.6	-3.5	4.4	
Profit share of GNP	%	7.4	6.9	6.8	6.8	6.7	7.7	8.1	7.8	7.5	
Federal surpl./def.	Bill. \$	-136.6	-122.3	-163.5	-202.9	-282.7	-241.4	-162.3	-158.3	-189.5	
State/local surpl./def.		38.4	44.8	25.1	17.0	24.8	26.3	25.8	27.5	27.8	
Ex. social ins. funds		-18.4	-17.5	-35.6	-46.5	-41.6	-40.0	-39.8	-37.0	-36.2	
PRICES AND COSTS											
GDP implicit deflator	% change	4.2	4.4	4.5	3.3	2.6	1.8	2.4	2.6	2.5	
GDP fixed-wt. price index		4.2	4.4	4.6	3.6	3.2	2.8	2.9	3.1	3.0	
Gross domestic purchases		4.1	4.4	5.2	2.9	3.2	2.5	3.0	3.0	2.9	
fixed-wt. price index		4.3	4.6	6.3	3.0	3.1	2.7	2.7	3.0	2.9	
CPI		4.5	4.4	5.3	4.4	3.5	3.1	2.9	3.2	3.1	
Ex. food and energy											
ECI, hourly compensation ²		4.8	4.8	4.6	4.4	3.5	3.6	3.3	3.7	3.7	
Nonfarm business sector		.5	-1.4	.4	2.3	3.2	1.8	1.2	.8	1.2	
Output per hour		3.8	3.1	6.2	4.7	5.1	2.4	3.4	4.0	4.0	
Compensation per hour		3.3	4.6	5.7	2.3	1.9	.6	2.1	3.1	2.8	
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	6689.9
Real GDP	Bill. 87\$	4918.5	4947.5	4990.5	5060.7	5075.3	5105.4	5139.4	5218.0	5261.1	5314.1
Real GDP	% change	3.1	2.4	3.5	5.7	1.2	2.4	2.7	6.3	3.3	4.1
Gross domestic purchases		3.2	3.7	3.9	5.7	2.7	3.3	4.0	5.8	5.0	4.6
Final sales		4.8	1.5	3.5	5.6	.2	2.4	3.2	6.4	2.2	1.5
Private dom. final purch.		5.7	4.2	3.9	6.7	3.5	3.7	5.3	7.4	5.8	2.7
Personal cons. expend.		5.8	1.7	3.9	5.6	1.6	2.6	3.9	4.0	4.7	1.3
Durables		15.5	.4	10.0	13.2	3.2	9.8	7.7	15.5	8.8	.4
Nondurables		4.2	-.7	2.7	6.9	-1.6	1.6	2.8	2.4	3.8	2.2
Services		4.5	3.4	3.2	3.0	3.1	1.4	3.6	2.0	4.0	1.1
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	6.1
Nonres. structures		2.9	-1.6	-8.9	-5.5	2.5	.3	.5	3.3	-11.8	20.6
Res. structures		22.4	22.7	.8	23.8	5.3	-7.6	9.4	28.2	10.0	7.0
Exports		6.1	1.5	5.3	7.2	-1.0	7.7	-3.2	21.7	-3.5	16.6
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	-1.2
Federal		-1.3	-4.8	8.6	1.1	-15.4	-3.6	-3.0	-5.0	-10.3	-7.9
Defense		-7.2	-5.1	11.5	-3.3	-20.0	-2.2	-9.2	-3.6	-16.0	-4.1
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	59.2
Nonfarm		-14.3	-1.9	1.8	6.3	19.7	22.8	20.9	10.7	22.1	51.7
Net exports		-17.9	-34.1	-38.9	-38.5	-57.6	-69.3	-86.3	-82.2	-104.0	-111.8
Nominal GDP	% change	7.1	5.2	4.9	8.6	4.4	4.2	3.8	7.7	6.1	7.2
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	.9	5.8	3.4	6.2	5.1	.7	3.3	5.3	7.1	6.0
Capacity util. rate-mfg. ¹	%	78.4	79.1	79.4	80.1	80.8	80.6	80.7	81.4	82.3	83.1
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	14.76
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	6682.5
Nominal GNP	% change	6.8	4.9	4.8	8.0	5.1	3.9	4.2	7.0	6.2	6.8
Nominal personal income		8.2	5.6	3.7	15.3	-5.8	8.6	2.4	6.7	5.3	7.7
Real disposable income		5.9	2.1	1.7	10.6	-7.4	4.7	.8	4.3	3.4	3.5
Personal saving rate ¹	%	5.3	5.5	5.0	6.2	4.0	4.6	3.9	4.0	3.6	4.1
Corp. profits, IVA&CCAdj	% change	18.8	.5	-40.0	101.1	9.6	30.7	18.4	37.0	-17.9	33.6
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	-145.1
State/local surpl./def.		19.9	25.9	20.4	33.1	21.6	25.3	23.9	34.5	25.2	27.0
Ex. social ins. funds		-45.7	-40.5	-46.3	-33.8	-44.7	-41.1	-42.4	-31.7	-40.7	-38.9
PRICES AND COSTS											
GDP implicit deflator	% change	3.8	2.7	1.3	2.7	3.3	1.6	1.0	1.3	2.9	2.9
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	fixed-wt. price index	3.6	3.4	3.2	2.5	3.3	2.6	1.6	2.4	2.5	3.2
CPI		2.6	3.5	2.9	3.5	2.8	3.1	2.0	3.1	1.9	2.8
Ex. food and energy		3.7	3.6	3.0	3.6	3.5	3.5	2.4	2.9	2.6	3.4
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	3.8	-2.0	.4	4.0	4.9	2.9	-2.1
Compensation per hour		5.7	4.6	5.8	4.5	2.1	2.4	2.8	2.4	6.1	.7
Unit labor cost		1.4	2.6	2.9	.6	4.1	2.0	-1.2	-2.4	3.1	2.9

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
EXPENDITURES											
Nominal GDP	Bill. \$	6786.5	6900.2	7006.1	7086.6	7154.4	7217.5	7291.0	7368.9	7452.4	7538.1
Real GDP	Bill. 87\$	5365.0	5431.5	5472.3	5500.0	5518.3	5534.8	5553.8	5579.0	5607.3	5637.0
Real GDP	% change	3.9	5.0	3.0	2.0	1.3	1.2	1.4	1.8	2.0	2.1
Gross domestic purchases		4.5	4.8	3.2	2.2	1.3	1.0	1.2	1.6	2.0	2.2
Final sales		4.2	6.0	3.2	2.6	2.1	1.7	1.7	1.8	1.9	2.1
Private dom. final purch.		4.3	7.0	4.3	3.5	2.5	1.7	1.7	2.0	2.2	2.4
Personal cons. expend.		3.3	5.5	3.4	2.4	1.6	1.3	1.5	1.8	1.9	2.0
Durables		6.3	18.9	6.7	.8	-3.6	-3.4	-1.2	.2	1.2	1.5
Nondurables		3.3	4.0	2.6	2.2	2.1	1.8	1.8	1.8	1.8	
Services		2.4	3.0	2.9	2.9	2.8	2.2	2.2	2.2	2.2	
Business fixed invest.		14.4	18.6	12.4	11.6	7.9	4.6	3.0	3.0	3.7	4.5
Producers' dur. equip.		18.0	21.2	13.5	12.7	8.0	4.0	2.0	2.0	3.0	4.0
Nonres. structures		2.9	10.0	8.5	7.6	7.6	7.0	6.8	6.7	6.5	6.3
Res. structures		-6.5	-3.1	-5.7	-3.3	-1.5	-.9	.6	1.4	1.4	2.0
Exports		12.2	13.7	9.0	8.5	7.8	7.9	8.4	8.8	8.8	9.0
Imports		15.6	10.4	9.0	8.4	6.3	5.5	6.3	6.5	7.6	8.2
Government purchases		7.1	-.5	-1.2	-1.0	-.1	.2	.2	.1	.3	.7
Federal		12.5	-8.1	-7.4	-7.1	-4.8	-4.2	-3.6	-3.9	-3.2	-2.3
Defense		13.6	-11.3	-10.2	-10.1	-6.7	-5.7	-4.7	-5.3	-4.3	-3.7
State and local		4.2	4.1	2.5	2.5	2.5	2.5	2.2	2.2	2.2	2.2
Change in bus. invent.		Bill. 87\$	56.1	45.1	43.2	35.5	25.1	18.8	15.2	15.1	16.5
Nonfarm		46.3	35.6	36.7	32.0	23.1	16.5	12.9	12.8	14.1	14.6
Net exports			-120.8	-118.8	-121.6	-123.9	-123.1	-120.6	-118.7	-116.5	-116.6
Nominal GDP	% change	5.9	6.9	6.3	4.7	3.9	3.6	4.1	4.3	4.6	4.7
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	113.9	114.7	115.4	116.0	116.4	116.7	116.8	117.0	117.3	117.7
Unemployment rate ¹	%	6.0	5.6	5.5	5.5	5.6	5.7	5.9	6.0	6.1	6.1
Industrial prod. index	% change	5.0	5.1	5.4	2.8	1.1	.8	1.1	1.8	2.1	2.3
Capacity util. rate-mfg ¹	%	83.6	84.3	84.7	84.6	84.0	83.4	82.9	82.5	82.3	82.1
Housing starts	Millions	1.47	1.42	1.40	1.39	1.38	1.38	1.39	1.41	1.42	1.43
Light Motor Vehicle Sales		14.65	15.49	15.74	15.58	15.00	14.60	14.50	14.50	14.50	14.55
Auto sales in U.S.		9.09	9.12	9.62	9.55	9.06	8.80	8.70	8.63	8.66	8.71
North American prod.		7.09	7.23	7.62	7.65	7.36	7.07	6.95	6.88	6.91	6.96
Other		2.01	1.89	2.00	1.90	1.70	1.73	1.75	1.75	1.75	1.75
INCOME AND SAVING											
Nominal GNP	Bill. \$	6775.9	6885.8	6988.5	7059.5	7127.6	7183.3	7256.9	7330.9	7417.9	7497.3
Nominal GNP	% change	5.7	6.6	6.1	4.1	3.9	3.2	4.2	4.1	4.8	4.4
Nominal personal income		5.1	8.8	7.9	5.3	4.0	5.7	6.0	4.5	4.3	5.7
Real disposable income		2.9	6.5	3.7	1.3	1.6	2.9	3.3	.7	1.9	2.7
Personal saving rate ¹	%	4.0	4.2	4.3	4.0	4.0	4.4	4.8	4.5	4.5	4.7
Corp. profits, IVAtCCAdj	% change	8.1	1.0	1.2	-5.2	.5	-10.0	-.8	5.1	10.4	3.2
Profit share of GNP ¹	%	8.2	8.1	8.0	7.8	7.8	7.5	7.4	7.4	7.5	7.5
Federal govt. surpl./def.	Bill. \$	-155.1	-172.6	-158.5	-147.2	-149.0	-178.4	-192.9	-181.8	-181.0	-202.3
State/local surpl./def.		24.1	26.7	29.1	29.0	27.3	24.6	24.8	25.9	29.7	30.9
Ex. social ins. funds		-41.2	-38.5	-35.8	-35.6	-37.0	-39.6	-39.3	-38.1	-34.3	-33.1
PRICES AND COSTS											
GDP implicit deflator	% change	1.9	1.7	3.1	2.6	2.5	2.4	2.7	2.5	2.5	2.5
GDP fixed-wt. price index		2.8	2.7	3.6	3.0	2.9	2.7	3.2	2.9	2.9	2.9
Gross domestic purchases	fixed-wt. price index		3.4	2.7	3.5	3.0	2.9	2.7	3.1	2.8	2.8
CPI		3.6	2.3	3.1	3.2	3.0	2.8	2.9	2.9	2.9	2.9
Ex. food and energy		2.8	2.6	3.5	3.3	3.0	2.9	3.0	3.1	3.1	3.1
ECI, hourly compensation ²		3.3	3.6	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Nonfarm business sector											
Output per hour		2.9	1.3	1.0	.8	.7	.7	1.1	1.4	1.2	1.1
Compensation per hour		3.0	3.8	4.1	3.8	3.9	4.0	4.3	3.9	3.9	3.9
Unit labor cost		.0	2.5	3.0	3.0	3.2	3.3	3.1	2.5	2.7	2.7

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)

December 14, 1994

Item	1992				1993				1994		Projected					
	Q1		Q2		Q3		Q4		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	53.0		13.6	179.9	157.3	213.5	
Gross domestic purchases	38.8	45.1	47.9	69.8	33.7	41.8	51.1	74.4	64.9	60.7		-6.4	201.6	201.0	250.1	
Final sales	57.5	18.4	42.1	68.8	2.7	29.7	40.0	80.7	28.5	19.2		-20.7	186.8	153.1	179.1	
Private dom. final purch.	55.1	41.7	39.1	66.3	35.9	38.6	54.5	76.9	61.9	29.8		-32.6	202.2	205.9	215.4	
Personal cons. expend.	46.1	14.0	32.2	45.8	13.8	22.0	33.0	34.0	40.1	11.5		.6	138.1	102.8	128.9	
Durables	15.7	.4	10.7	14.3	3.7	11.2	9.0	18.1	10.9	.5		-5.5	41.1	42.0	42.9	
Nondurables	10.7	-1.8	7.1	17.8	-4.2	4.3	7.4	6.3	10.3	6.0		-17.1	33.8	13.8	36.2	
Services	19.7	15.3	14.4	13.7	14.4	6.4	16.6	9.6	18.9	5.1		22.1	63.1	47.0	49.9	
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	82.9	
Producers' dur. equip.	-1.2	18.6	9.9	11.8	18.4	20.7	16.6	28.2	20.9	7.5		-11.9	39.1	83.9	75.8	
Nonres. structures	1.1	-.6	-3.5	-2.1	.9	.1	.2	1.2	-4.6	6.9		-21.4	-5.1	2.4	7.1	
Res. structures	9.2	9.8	.4	10.8	2.7	-4.1	4.7	13.5	5.4	3.9		1.2	30.2	16.8	3.6	
Change in bus. invent.	-19.8	10.5	1.0	1.4	11.9	.4	-5.9	-2.2	14.6	33.8		34.4	-6.9	4.2	34.3	
Nonfarm	-28.9	12.4	3.7	4.5	13.4	3.1	-1.9	-10.2	11.4	29.6		33.3	-8.3	4.4	24.9	
Farm	9.1	-1.8	-2.8	-3.1	-1.5	-2.7	-4.0	8.0	3.2	4.2		1.0	1.4	-.2	9.4	
Net exports	-1.0	-16.2	-4.8	.4	-19.1	-11.7	-17.0	4.1	-21.8	-7.8		19.9	-21.6	-43.7	-36.6	
Exports	8.4	2.1	7.4	10.2	-1.5	11.0	-4.9	29.9	-5.6	24.3		42.2	28.1	34.5	59.1	
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	95.7	
Government purchases	3.4	-7.1	7.8	2.1	-14.1	2.8	2.5	-.3	-11.6	-2.8		-8.0	6.2	-9.1	.3	
Federal	-1.2	-4.6	7.7	1.0	-15.4	-3.3	-2.7	-4.5	-9.4	-7.0		-12.4	2.9	-25.9	-13.6	
Defense	-4.9	-3.4	7.1	-2.2	-14.2	-1.4	-5.9	-2.2	-10.2	-2.4		-19.9	-3.4	-23.7	-12.2	
Nondefense	3.8	-1.2	.6	3.2	-1.3	-1.8	3.2	-2.3	.8	-4.5		7.4	6.4	-2.2	-1.4	
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	13.9	

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)

December 14, 1994

Item	Projected										Projected			
	1994		1995				1996				1993	1994	1995	1996
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GDP	50.9	66.5	40.9	27.6	18.4	16.4	19.1	25.2	28.3	29.7	157.3	213.5	103.3	102.3
Gross domestic purchases	60.1	64.4	43.6	29.9	17.6	13.9	17.2	23.0	28.3	30.6	201.0	250.1	105.0	99.2
Final sales	54.1	77.3	42.8	35.3	28.7	22.8	22.6	25.4	26.9	29.1	153.1	179.1	129.6	104.0
Private dom. final purch.	47.2	76.5	48.3	39.9	28.3	19.8	20.4	23.0	26.2	28.4	205.9	215.4	136.3	98.0
Personal cons. expend.	28.6	48.7	30.5	21.5	14.7	11.5	14.3	16.4	18.1	18.5	102.8	128.9	78.3	67.3
Durables	8.0	23.5	9.1	1.1	-5.1	-4.8	-1.6	.2	1.7	2.1	42.0	42.9	.3	2.4
Nondurables	8.9	11.0	7.2	6.3	6.1	5.2	5.1	5.2	5.1	5.1	13.8	36.2	24.8	20.5
Services	11.6	14.3	14.2	14.1	13.8	11.1	10.7	11.0	11.3	11.4	47.0	49.9	53.2	44.5
Business fixed invest.	22.5	29.7	21.0	20.3	14.4	8.7	5.8	5.8	7.3	8.7	86.3	82.9	64.5	27.6
Producers' dur. equip.	21.4	26.0	17.8	17.4	11.5	5.9	3.0	3.0	4.5	6.0	83.9	75.8	52.6	16.5
Nonres. structures	1.1	3.7	3.2	2.9	3.0	2.8	2.8	2.8	2.7	2.7	2.4	7.1	11.9	11.1
Res. structures	-3.9	-1.8	-3.3	-1.9	-.8	-.5	.3	.8	.8	1.1	16.8	3.6	-6.5	3.0
Change in bus. invent.	-3.1	-11.0	-1.9	-7.7	-10.4	-6.3	-3.6	-.2	1.4	.6	4.2	34.3	-26.3	-1.8
Nonfarm	-5.4	-10.7	1.1	-4.7	-8.9	-6.6	-3.6	-.2	1.3	.6	4.4	24.9	-19.1	-1.9
Farm	2.3	-.3	-3.0	-3.0	-1.5	.3	.0	.0	.1	.0	-.2	9.4	-7.2	.1
Net exports	-9.0	2.0	-2.7	-2.3	.7	2.6	1.8	2.2	.0	-.9	-43.7	-36.6	-1.7	3.1
Exports	18.8	21.6	14.8	14.5	13.5	14.0	15.1	16.1	16.4	17.1	34.5	59.1	56.9	64.7
Imports	27.9	19.6	17.6	16.7	12.8	11.4	13.2	13.9	16.5	18.0	78.1	95.7	58.6	61.7
Government purchases	15.9	-1.2	-2.7	-2.3	-.3	.4	.4	.2	.8	1.6	-9.1	.3	-4.9	3.0
Federal	10.0	-7.2	-6.4	-6.0	-4.0	-3.4	-2.9	-3.1	-2.5	-1.8	-25.9	-13.6	-19.8	-10.3
Defense	7.3	-6.9	-6.0	-5.8	-3.7	-3.1	-2.5	-2.8	-2.2	-1.9	-23.7	-12.2	-18.6	-9.4
Nondefense	2.5	-.2	-.4	-.2	-.3	-.3	-.4	-.3	-.3	.1	-2.2	-1.4	-1.2	-.9
State and local	6.0	5.9	3.7	3.7	3.7	3.8	3.3	3.3	3.3	3.4	16.8	13.9	14.9	13.3

1. Annual changes are from Q4 to Q4.

Item	Fiscal year				1994				1995				1996			
	1993 ^a	1994 ^a	1995	1996	Q1 ^a	Q2 ^a	Q3 ^b	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
Receipts ¹	1153	1257	1349	1414	289	363	318	302	295	415	337	320	304	437	354	327
Outlays ¹	1409	1461	1535	1618	348	363	372	381	393	376	385	402	409	403	404	423
Surplus/deficit ¹	-255	-203	-186	-204	-59	0	-53	-79	-98	39	-48	-82	-105	34	-50	-97
On-budget	-301	-259	-250	-269	-66	-33	-55	-86	-107	-1	-56	-88	-114	-6	-60	-102
Off-budget	46	56	64	65	8	33	2	6	9	40	7	6	9	40	10	5
Surplus excluding deposit insurance ²	-283	-210	-203	-216	-65	3	-57	-82	-104	37	-54	-83	-110	32	-55	-96
Means of financing																
Borrowing	249	185	184	208	51	8	37	55	80	11	39	61	88	14	45	67
Cash decrease	6	17	-24	0	5	-6	15	9	16	-49	0	25	20	-45	0	25
Other ³	0	1	26	-5	2	-2	1	15	3	-2	10	-4	-3	-3	5	5
Cash operating balance, end of period	53	36	60	60	45	51	36	27	11	60	60	35	15	60	60	35
NIPA FEDERAL SECTOR																
Receipts	1242	1355	1461	1523	1338	1381	1388	1416	1458	1482	1488	1496	1511	1538	1549	1568
Expenditures	1497	1529	1618	1707	1514	1526	1544	1589	1617	1630	1637	1674	1703	1720	1730	1770
Purchases	447	439	437	430	438	435	444	441	441	435	432	429	432	430	429	428
Defense	307	296	290	280	292	292	301	295	293	287	284	281	282	280	278	277
Nondefense	140	144	147	150	146	144	144	146	148	148	148	148	150	150	150	151
Other expenditures	1049	1090	1181	1277	1076	1091	1099	1148	1176	1195	1205	1245	1272	1290	1302	1342
Surplus/deficit	-254	-174	-157	-183	-176	-145	-155	-172	-158	-147	-149	-178	-193	-182	-181	-202
FISCAL INDICATORS⁴																
High-employment (HEB) surplus/deficit	-210	-164	-185	-196	-158	-141	-161	-196	-189	-179	-177	-201	-206	-190	-186	-206
Change in HEB, percent of potential GDP	-.1	-.7	.3	.1	-.6	-.3	.3	.5	-.1	-.1	0	.3	.1	-.2	-.1	.3
Fiscal imetus (FI), percent, cal. year	-4.1	-6.8	-6.2	-5.1	-4.2	-4.3	3.8	-2.6	-2.8	-2.5	-.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.

b--Preliminary.

Confidential FR Class II
December 14, 1994

CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS¹
(Percent)

Year	-----Nonfederal-----										-----MEMO-----			
	Total ²	Federal govt.	-----Households-----					State and local govt.	Private financial assets	Nominal GDP				
			Total	Total	Home mtg.	Cons. credit	Business							
1982	9.8	19.7	7.4	5.5	4.7	4.4	8.8	9.3	10.1	3.2				
1983	11.9	18.9	10.1	11.8	10.8	12.6	8.7	9.7	12.5	11.0				
1984	14.6	16.9	13.9	13.0	11.7	18.7	15.6	9.1	12.8	9.1				
1985	15.5	16.5	15.2	15.3	13.2	15.8	12.1	31.6	12.4	7.0				
1986	12.3	13.6	11.9	12.0	14.3	9.6	12.2	9.8	7.3	4.7				
1987	9.4	8.0	9.8	11.4	14.9	5.0	7.9	12.1	8.1	8.0				
1988	8.9	8.0	9.2	10.5	12.7	7.2	8.7	6.0	8.6	7.7				
1989	7.8	7.0	8.1	9.2	10.8	6.2	6.9	9.3	5.8	6.0				
1990	6.3	11.0	5.0	6.5	7.9	2.0	3.4	5.7	4.7	4.7				
1991	4.4	11.1	2.4	4.7	6.5	-1.8	-1.0	7.4	-1.0	3.5				
1992	4.8	10.9	2.8	5.8	6.7	0.7	-0.1	1.8	0.7	6.4				
1993	5.4	8.3	4.3	7.1	6.4	7.8	0.6	7.1	-0.4	5.0				
1994	5.0	4.5	5.1	7.7	6.2	12.7	4.1	-2.6	5.2	6.5				
1995	5.0	5.5	4.9	6.4	5.7	9.7	4.0	0.8	1.0	4.6				
1996	5.0	5.8	4.7	5.8	5.5	7.9	3.8	3.4	1.0	4.4				
Quarter (seasonally adjusted annual rates)														
1993:1	4.1	7.8	2.8	4.2	4.1	2.5	-0.3	9.2	-2.9	4.4				
2	6.2	10.7	4.6	6.5	6.7	.5.1	0.7	11.9	1.5	4.2				
3	5.1	5.4	5.0	9.0	8.0	.9.3	0.6	4.8	-2.2	3.8				
4	5.6	8.4	4.5	8.0	6.1	13.3	1.3	1.7	1.9	7.7				
1994:1	5.3	6.3	4.9	7.1	6.3	8.4	3.5	1.0	9.1	6.1				
2	4.5	3.6	4.8	7.3	5.6	13.8	3.8	-2.8	6.4	7.2				
3	4.9	3.9	5.2	8.4	6.5	13.9	4.1	-4.9	3.0	5.9				
4	4.8	3.9	5.2	7.3	5.9	12.7	4.8	-3.6	1.7	6.9				
1995:1	6.3	9.4	5.2	6.8	5.6	11.3	4.6	-0.2	1.5	6.3				
2	4.4	3.8	4.6	6.2	5.6	9.4	3.7	0.4	0.6	4.7				
3	4.4	3.8	4.6	6.1	5.6	8.7	3.6	1.3	0.7	3.9				
4	4.6	4.4	4.7	6.0	5.6	8.0	3.8	1.8	1.0	3.6				

1. Data after 1994:3 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.
2. On a quarterly average basis, total debt growth is projected to be 5.3 percent in 1994, 4.9 in 1995, and 5.0 in 1996. Federal debt rises 5.7 percent in 1994, 5.0 percent in 1995, and 5.8 percent in 1996. Nonfederal debt rises 5.1 percent in 1994, 4.9 percent in 1995, and 4.8 percent in 1996.

2.6.3 FOF

FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS¹
(Billions of dollars)

	1993	Calendar year	1994	1995	1996	Q1	1994	Q2	Q3	Q4	1995	Q1	Q2	Q3	Q4
-----Seasonally Adjusted Annual Rates-----															
Net funds raised by domestic nonfinancial sectors															
1 Total	649.4	580.8	637.4	677.5	647.6	556.4	565.3	554.1	788.5	570.4	579.6	610.9			
2 Net equity issuance	21.3	-31.7	-13.5	-8.0	-9.6	-2.0	-50.0	-65.0	-30.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0
3 Net debt issuance	628.1	612.5	650.9	685.5	657.2	558.4	615.3	619.1	818.5	578.4	587.6	618.9			
Borrowing sectors															
Nonfinancial business															
4 Financing gap ²	28.9	56.7	121.7	120.5	13.5	62.1	64.6	86.5	111.4	126.2	123.0	126.2			
5 Net equity issuance	21.3	-31.7	-13.5	-8.0	-9.6	-2.0	-50.0	-65.0	-30.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0
6 Credit market borrowing	21.9	154.5	154.5	152.6	131.4	144.7	156.4	185.5	177.4	145.4	143.5	151.6			
Households															
7 Net borrowing, of which:	284.5	332.6	297.7	286.0	305.4	318.6	373.5	333.0	314.8	293.7	293.5	288.8			
8 Home mortgages	178.2	184.2	180.5	184.0	186.3	168.9	199.5	182.0	177.7	179.1	181.4	183.8			
9 Consumer credit	62.3	110.5	94.4	84.2	72.7	121.9	127.1	120.2	110.0	94.2	89.2	84.2			
10 Debt/DPI (percent) ³	88.4	90.0	90.6	91.5	90.4	90.5	91.1	90.8	90.9	91.3	91.6	91.7			
State and local governments															
11 Net borrowing	65.7	-25.5	8.0	32.8	9.9	-27.8	-48.8	-35.2	-2.2	3.8	12.8	17.8			
12 Current surplus ⁴	-56.3	-56.5	-44.0	-44.5	-49.8	-63.2	-67.6	-45.3	-41.7	-42.3	-44.4	-47.7			
U.S. government															
13 Net borrowing	256.1	150.8	190.6	214.1	210.6	122.9	134.1	135.7	328.5	135.5	137.8	160.8			
14 Net borrowing; quarterly, nsa	256.1	150.8	190.6	214.1	51.2	7.7	37.0	54.9	79.8	11.0	38.7	61.1			
15 Unified deficit; quarterly, nsa	226.3	191.2	188.6	218.3	58.6	-0.2	53.5	79.3	97.9	-39.5	48.3	81.9			
Funds supplied by depository institutions															
16	140.2	204.5	164.6	191.8	198.2	154.8	228.1	237.1	171.4	155.1	160.6	171.3			
MEMO: (percent of GDP)															
17 Dom. nonfinancial debt ³	189.8	188.0	186.9	188.5	190.5	189.3	188.9	188.0	188.1	188.0	188.3	188.8			
18 Dom. nonfinancial borrowing	9.9	9.1	9.1	9.2	10.0	8.3	9.1	9.0	11.7	8.2	8.2	8.6			
19 U.S. government ⁵	4.0	2.2	2.7	2.9	3.2	1.8	2.0	2.0	4.7	1.9	1.9	2.2			
20 Private	5.9	6.9	6.5	6.4	6.8	6.5	7.1	7.0	7.0	6.3	6.3	6.3			

1. Data after 1994:3 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.

U.S. real net exports. Real net exports of goods and services are expected to fluctuate narrowly over the forecast period and to show little net change from current levels through the end of 1996.

Rapid growth of real exports of goods and services will be sustained by the strong pace of foreign output growth and the lagged effects of the decline in the dollar during 1994. Growth of computer exports is expected to remain rapid through the forecast period. The growth rates of other nonagricultural exports and of services are projected to lie in the 5-6 percent range in 1995 and 1996.

QUANTITIES of GOODS and SERVICES^{*}
(percent change from end of previous period, saar)

	1993	1994			-----Projection-----	
		H1	Q3	Q4	1995	1996
Exports of G&S:	5.8	6.1	12.2	13.7	8.3	8.7
of which:						
Services	5.0	2.7	-3.7	7.5	5.1	5.2
Computers	23.1	14.8	38.3	33.5	28.6	26.2
Other goods 1/	4.5	7.3	12.0	12.0	5.5	5.9
Imports of G&S	12.4	14.1	15.6	10.4	7.3	7.2
of which:						
Services	8.7	-0.4	6.9	5.1	3.2	2.9
Oil	10.0	7.7	30.1	-26.6	2.7	1.2
Computers	38.3	27.7	35.8	33.6	25.6	21.6
Other goods 2/	9.3	15.7	11.7	12.2	4.2	4.5

* NIPA basis, 1987 dollars.

1. Nonagricultural exports of goods excluding computers

2. Non-oil imports of goods excluding computers

In the near term, growth of total imports of goods and services reflects the stronger outlook for U.S. real GDP growth. In 1995 and 1996, the growth of non-oil imports other than computers slows to about 4-1/2 percent. This rate reflects the projected slowing of U.S. GDP growth over this period, the tendency for these imports to grow about twice as fast as income, and the lagged effects of higher import price inflation in the near term. Service imports are also expected to slow through 1996. The very rapid growth of computer imports, which currently have a weight in total real imports of

about 20 percent, boosts the growth of total imports. We expect the quantity of oil imports to fall in the current quarter as winter consumption is met in part by seasonal stock draws and inventories return to more normal levels. In 1995, oil imports are projected to remain on a moderate upward trend as U.S. oil consumption continues to increase in line with economic activity.

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

	1993				-----Projection-----	
		H1	1994 Q3	Q4	1995	1996
US PPI 1/	0.9	2.8	5.6	3.1	3.5	2.1
Nonag. exports 2/	0.7	3.2	6.1	3.8	2.7	1.7
Non-oil imports 2/	1.3	2.1	6.2	5.7	2.5	1.1
Oil imports (Q4 level, \$/bl.)	14.09	14.67	16.24	15.37	16.00	16.00

1. Selected categories (ex computers) weighted by U.S. exports.
 2. Excluding computers.

Oil prices. For the current quarter and the first quarter of next year, assumptions for the oil import unit value have been revised down \$0.40 and \$0.90 per barrel, respectively. With inventories ample and the weather unseasonably warm, the twelve-month extension of OPEC's quota has not supported prices. We expect near-term WTI spot oil price to average \$17.25 per barrel in January and to reach \$18.50 per barrel by June 1995, consistent with continued global economic expansion. By the end of the second quarter, the oil import unit value is projected to rise to \$16.00 per barrel and remain at that level through 1996. This price forecast assumes that members will not strictly comply with the twelve-month extension of the current quota; if OPEC countries were to adhere to their quota, the oil price path would be roughly \$3.00 per barrel higher, an upside risk to the forecast. Meanwhile, we continue to assume that Iraq will return to the world oil market in 1996.

December 14, 1994

REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1993-96
(Percent; quarterly change at an annual rate except as noted)

Measure and country	Projected											
	Projected				1994			1995				
	1993	1994	1995	1996	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
REAL GDP												
Canada	3.2	5.0	4.1	3.8	6.7	4.7	4.5	4.4	4.1	3.9	4.0	
France	-0.5	3.3	3.2	3.6	4.6	3.0	2.1	2.8	3.2	3.3	3.5	
Germany	-0.1	4.1	2.9	3.2	4.5	5.3	3.7	3.0	2.7	2.8	3.1	
W. Germany	-0.5	3.6	2.5	2.6	4.0	5.3	3.0	2.4	2.3	2.4	2.7	
Italy	0.4	2.1	4.0	3.0	5.7	3.6	-2.4	4.0	5.0	4.0	3.0	
Japan	-0.5	2.5	2.7	3.4	0.7	3.7	2.3	2.5	2.4	2.9	2.8	
United Kingdom	2.7	4.1	3.1	2.8	5.5	3.8	3.2	3.2	3.2	3.0	3.0	
Average, weighted by 1987-89 GDP	0.4	3.2	3.2	3.3	3.7	3.9	2.2	3.1	3.2	3.2	3.1	
Average, weighted by share of U.S. nonagricultural exports												
Total foreign	2.7	4.3	4.0	4.1	NA	NA	NA	NA	NA	NA	NA	
Foreign G-7	1.7	4.1	3.5	3.5	4.9	4.3	3.4	3.6	3.5	3.5	3.4	
Developing countries	4.8	5.6	5.3	5.6	NA	NA	NA	NA	NA	NA	NA	
CONSUMER PRICES(1)												
Canada	1.8	-0.0	1.8	2.1	-1.4	2.2	1.2	1.6	1.6	2.0	2.0	
France	2.1	1.7	1.5	1.5	2.5	0.5	2.0	1.6	1.5	1.5	1.4	
Western Germany	3.7	2.7	2.3	2.5	2.7	1.4	1.0	4.5	2.8	1.0	1.0	
Italy	4.1	3.8	4.2	4.0	3.4	3.0	4.4	4.5	4.5	3.6	4.1	
Japan	1.2	1.2	0.8	0.7	1.3	-0.9	3.8	1.1	0.7	0.4	1.1	
United Kingdom	1.6	2.7	3.6	3.9	7.4	0.1	2.8	3.1	7.4	1.5	2.5	
Average, weighted by 1987-89 GDP	2.2	2.0	2.1	2.1	2.6	0.6	2.8	2.5	2.7	1.4	1.8	
Average, weighted by share of U.S. non-oil imports												
	1.9	1.2	1.7	1.8	1.1	0.7	2.5	2.0	1.9	1.3	1.6	

Note. Annual values are measured from Q4 to Q4.

1. Not seasonally adjusted.

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	-111.8	-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	643.9	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	484.6	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	367.8	320.2	332.8	340.8
	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
Imports of G&S Goods	588.8	607.1	619.4	629.3	646.8	669.6	681.6	707.4	723.6	755.6	562.1	611.1	676.3
Oil	489.5	509.7	521.7	530.2	546.6	567.4	577.1	599.9	615.2	648.3	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	60.3	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	106.9	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	481.0	373.7	401.2	432.4
	99.3	97.4	97.7	99.0	100.1	102.2	104.5	107.6	108.5	107.4	97.7	98.3	103.6
Memo: (Percent change 1/)													
Exports of G&S	6.1	1.5	5.3	7.2	-1.0	7.7	-3.2	21.7	-3.5	16.6	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	20.7	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	29.7	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	32.2	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	20.7	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	-4.0	-6.2	1.4	8.7
Current Account Balance	-33.4	-66.2	-74.4	-97.5	-79.4	-102.4	-111.4	-122.3	-129.3	-147.3	-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	-107.5	-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	-166.5	-74.1	-96.1	-132.6
Services (BOP), net	56.8	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 (87\$)	-120.8	-118.8	-121.6	-123.9	-123.1	-120.6	-118.7	-116.5	-116.6	-117.5	-113.9	-122.3	-117.3		
Exports of G&S Goods	662.7	684.3	699.1	713.6	727.1	741.2	756.2	772.3	788.8	805.9	652.6	720.3	780.8		
Agricultural	505.0	523.7	536.7	549.1	560.5	572.4	585.4	599.3	613.5	628.4	494.4	554.7	606.6		
Computers	40.6	42.0	42.7	42.8	42.6	42.8	42.9	43.1	43.2	43.4	39.2	42.7	43.1		
Other Goods Services	86.0	92.4	98.9	105.8	112.2	118.9	126.1	133.6	141.6	150.1	83.7	109.0	137.9		
Services	378.4	389.2	395.0	400.5	405.7	410.7	416.4	422.6	428.6	434.9	371.6	403.0	425.6		
Imports of G&S Goods	157.7	160.6	162.5	164.5	166.6	168.8	170.9	173.1	175.3	177.5	158.2	165.6	174.2		
Oil	662.7	684.3	699.1	713.6	727.1	741.2	756.2	772.3	788.8	805.9	652.6	720.3	780.8		
Computers	40.6	42.0	42.7	42.8	42.6	42.8	42.9	43.1	43.2	43.4	39.2	42.7	43.1		
Other Goods Services	86.0	92.4	98.9	105.8	112.2	118.9	126.1	133.6	141.6	150.1	83.7	109.0	137.9		
Services	378.4	389.2	395.0	400.5	405.7	410.7	416.4	422.6	428.6	434.9	371.6	403.0	425.6		
Imports of G&S Goods	157.7	160.6	162.5	164.5	166.6	168.8	170.9	173.1	175.3	177.5	158.2	165.6	174.2		
Oil	662.7	684.3	699.1	713.6	727.1	741.2	756.2	772.3	788.8	805.9	652.6	720.3	780.8		
Computers	40.6	42.0	42.7	42.8	42.6	42.8	42.9	43.1	43.2	43.4	39.2	42.7	43.1		
Other Goods Services	86.0	92.4	98.9	105.8	112.2	118.9	126.1	133.6	141.6	150.1	83.7	109.0	137.9		
Memo: (Percent change 1/)															
Exports of G&S Goods	12.2	13.7	9.0	8.5	7.8	7.9	8.4	8.8	8.8	9.0	9.5	8.3	8.7		
Agricultural	37.4	15.0	6.5	0.4	-1.2	1.2	1.4	1.4	1.4	1.4	7.5	1.7	1.4		
Computers	38.3	33.5	31.1	31.1	26.2	26.2	26.2	26.2	26.2	26.2	24.9	28.6	26.2		
Other Goods Services	12.0	12.0	6.1	5.7	5.3	5.0	5.7	6.1	5.8	6.0	9.6	5.5	5.9		
Services	-3.7	7.5	4.8	5.1	5.3	5.3	5.0	5.3	5.2	5.2	2.2	5.1	5.2		
Imports of G&S Goods	15.6	10.4	9.0	8.4	6.3	5.5	6.3	6.5	7.6	8.2	13.5	7.3	7.2		
Oil	30.1	-26.6	-11.4	15.7	5.6	2.8	5.0	-2.3	0.1	2.1	2.6	2.7	1.2		
Computers	35.8	33.6	31.1	26.3	23.9	21.6	21.5	21.6	21.5	21.6	31.1	25.6	21.6		
Other Goods Services	11.7	12.2	7.5	4.4	2.8	2.4	3.1	4.1	5.2	5.7	13.8	4.2	4.5		
Services	6.9	5.1	5.3	3.8	2.2	1.8	2.4	2.5	3.2	3.5	2.8	3.2	2.9		
Current Account Balance	-164.6	-180.7	-174.8	-186.1	-184.1	-195.9	-182.6	-181.5	-175.0	-188.7	-155.5	-185.2	-181.9		
Goods & Serv (BOP), net	-123.8	-123.3	-122.8	-124.5	-122.7	-118.2	-113.5	-108.6	-105.5	-104.0	-113.0	-122.1	-107.9		
Goods (BOP), net	-178.5	-180.9	-182.1	-185.9	-186.7	-184.9	-182.8	-180.4	-179.8	-180.7	-168.4	-184.9	-180.9		
Services (BOP), net	54.7	57.6	59.3	61.3	63.9	66.7	69.3	71.8	74.3	76.7	55.5	62.8	73.0		
Investment Income, net	-9.8	-17.0	-20.0	-29.6	-29.3	-36.7	-36.5	-40.4	-37.0	-43.2	-10.0	-28.9	-39.3		
Direct, net	45.9	48.3	48.6	48.5	49.6	50.8	52.0	53.8	55.8	57.6	45.8	49.4	54.8		
Portfolio, net	-55.7	-65.2	-68.6	-78.1	-78.9	-87.6	-88.5	-94.2	-92.8	-100.8	-55.8	-78.3	-94.1		
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.

December 14, 1994

RECENT DEVELOPMENTS

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

the turn of the year;⁵ even assuming a typical production shortfall, the motor vehicles and parts industry should make a solid contribution to overall IP gains in coming months. The ramp-up in motor vehicle output may be motivated in part by the current low level of dealer stocks of automobiles and light trucks relative to the recent sales pace. Days' supply for automobiles and light trucks remained somewhat short of the level of sixty-five days that the industry considers "comfortable."

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

	1994			1994	1995
	Oct.	Nov.	Dec.	Q4	Q1
-----scheduled-----					
U.S. production	11.9	12.3	12.8	12.3	13.3
Autos	6.4	6.5	7.1	6.7	7.4
Trucks	5.5	5.8	5.7	5.7	5.9
Days' supply					
Autos	60.8	58.0			
Light trucks	62.6	62.5			

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

Unlike October's widespread output gains, last month's production increases were concentrated in durable goods industries, where output climbed 1.1 percent. Among nondurable industries, petroleum and rubber posted large advances.

Capacity constraints do not appear to be leading to much slowing in manufacturing activity. The following table reports recent production growth rates in three manufacturing groups. The first group includes those two-digit SIC industries for which factory operating rates had, by August, exceeded their 1988-89

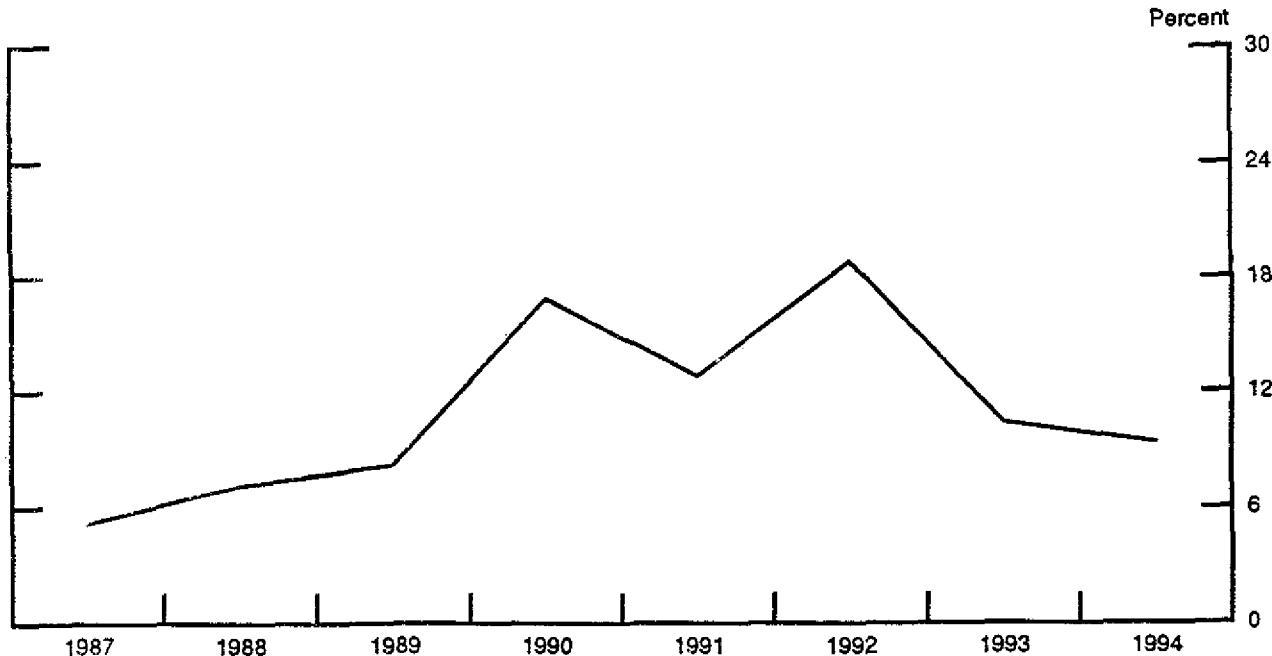
5. General Motors has indicated to us that Wards' schedules for production at GM may be overstated for the first quarter by about 0.3 million units. If this is correct, total schedules for the first quarter of 1995 would be 13.0 million rather than the 13.3 million that appears in the table.

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

	Oct. 1993	Oct. 1994	Dollar change	Percent change
Outlays				
Deposit insurance (DI)	124.1	121.5	-2.6	-2.1
.1	-.7		-.7	---
Outlays excluding DI	124.0	122.2	-1.9	-1.5
National defense	24.3	18.8	-5.5	-22.6
Net interest	17.1	18.7	1.6	9.3
Social security	25.5	26.7	1.2	4.6
Medicare and health	20.0	19.7	-.3	-1.6
Income security	17.4	15.3	-2.1	-12.0
Other	19.7	23.0	3.3	16.5
Receipts				
Personal income taxes	78.7	89.0	10.4	13.2
Social insurance taxes	37.7	43.2	5.6	14.8
Corporate income taxes	30.8	32.7	1.9	6.0
Other	2.2	3.5	1.3	60.8
9.0	9.6		1.6	20.3
Deficit(+) Excluding DI	45.4	32.4	-13.0	-28.6
	45.4	33.1	-12.2	-27.0

Details may not add to totals because of rounding.

Federal Unified Budget Outlays for Health Programs
 (Percent change from previous fiscal year)



TREASURY FINANCING¹
(Total for period; billions of dollars)

Item	1994		1994		
	Q3	Q4 ^P	Oct.	Nov. ^P	Dec. ^P
Total surplus/deficit (-)	-53.4	-75.2	-31.4	-43.4	-0.4
Means of financing deficit:					
Net cash borrowing/repayments (-)	37.1	52.2	27.1	35.9	-10.8
Nonmarketable	-3.4	-0.9	-0.6	-.7	0.3
Marketable	40.5	53.1	27.7	36.6	-11.2
Bills	-1.2	29.3	20.2	20.2	-11.2
Coupons	41.7	23.9	7.5	16.4	.0
Decrease in the cash balance	15.0	11.2	-0.5	9.8	1.9
² Other	1.2	11.7	4.8	-2.3	9.3
Memo:					
Cash balance, end of period	35.9	24.7	36.4	26.6	24.7

- 1. Data reported on a payment basis.
 - 2. Includes checks issued less checks paid, accrued items, and other transactions.
- p--projected.

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

NET CASH BORROWING OF GOVERNMENT SPONSORED ENTERPRISES¹
(Billions of dollars)

Agency	1994			
	Q1	Q2	Q3	Oct.
FHLBs	5.7	13.5	13.6	11.5
FHLMC	12.9	10.4	10.6	5.62
FNMA	15.3	11.5	11.4	2.67
Farm Credit Banks	-0.7	1.3	0.6	-1.41
SLMA	5.9	2.3	1.8	.10

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