

August 12, 1994

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

shipments in the short run, and permits data point to further increases in nonresidential construction.

All signs are that activity in the single-family housing sector is weakening under the weight of higher mortgage rates. Starts fell appreciably in June, and home sales declined. In the multifamily sector, starts plunged in June after soaring in May; on balance, the indications are that apartment markets have firmed in enough locales to support a moderate uptrend in building. All told, the incoming information has led us to steepen the near-term decline of residential investment in this forecast.

On the inflation front, despite a continuing climb in industrial materials prices, broader wage and price trends have remained fairly stable. The Employment Cost Indexes for the second quarter showed a marked step-up in the pace of wage and salary increases, after a sharp slowing in the first quarter; benefit costs increased just a touch faster than the relatively moderate 3-1/2 percent pace in the previous period. Overall compensation rose at a 3.7 percent annual rate; given the short-run variation in the series, this datum can reasonably be characterized as in line

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

	1993	1994		
	Q4	Q1	Q2	Q3
Real GDP	6.3	3.3	3.7	2.8
<i>Previous</i>	7.0	3.0	3.5	2.9
Civilian unemployment rate ¹	6.5	6.6	6.2	6.2
<i>Previous</i>	6.5	6.6	6.3	6.3
CPI inflation	3.1	1.9	2.8	4.0
<i>Previous</i>	3.1	1.9	2.7	3.7

1 Values for 1993 are from the old CPS.

with the 3-1/2 percent per annum trend since 1992. In July, the narrower index of average hourly earnings jumped 0.4 percent, but

the twelve-month change, at 2.7 percent, was still within the range of the past couple of years. The CPI increased 0.3 percent in July, boosted by sizable increases in food and energy prices. Excluding food and energy, the CPI rose 0.2 percent, holding the twelve-month increase at 2.9 percent.

The Outlook for the Economy

The general contours of the projection have changed little from the June Greenbook. Real GDP growth is projected to slow appreciably in the near term and to average a little more than 2 percent over the four quarters of 1995. Much of the deceleration in final demand is attributable to the softening in major investment sectors that have propelled demand in the past year: residential construction, producers' durable equipment, and consumer durables. The unemployment rate is expected to edge back up to about 6-1/4 percent--a figure well within the range of alternative estimates of the NAIRU developed by the Board staff and other analysts. With little or no slack left in the economy, the "exogenous shocks" of higher oil prices and higher non-oil import prices show through in overall inflation during the projection period.

SUMMARY OF STAFF PROJECTIONS FOR 1994-95¹
(Percent change, at annual rates, except as noted)

	1993	1994		1995
		H1	H2	
Real GDP	3.1	3.5	2.6	2.1
<i>Previous</i>	3.1	3.2	2.6	2.2
Civilian unemployment rate ²	6.5	6.2	6.2	6.3
<i>Previous</i>	6.5	6.3	6.3	6.4

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

2. Average level in the final quarter of period indicated, percent. The value for 1993 is from the old CPS.

that of output, however, for two reasons. First, the larger cyclical gains in productivity are likely behind us. Second, it seems unlikely that average workweeks will rise from recent levels on a sustained basis.

We have continued to be surprised by the weakness in labor force growth. The participation rate inched up to 66.3 percent in July but remains well below rates seen earlier this year. The shortfall in participation rates in recent years relative to the trends of the 1980s has been fairly widespread across various demographic classifications. In particular the earlier steady uptrend among adult women has slowed noticeably. We had thought for some time that these phenomena were largely of a cyclical nature, but their persistence suggests that the explanation may be more secular. Labor force participation, after advancing sharply for more than two decades, may be on a slower trend growth path.

STAFF LABOR MARKET PROJECTIONS
(Percent, end-quarter average, except as noted)

	1993	1994		1995
		H1	H2	
Nonfarm payroll employment ¹	2.0	2.9	2.4	1.3
<i>Previous</i>	2.0	2.7	1.7	1.4
Output per hour, nonfarm business ²	1.9	.9	.8	1.3
<i>Previous</i>	1.7	1	1.7	1.1
Civilian participation rate	66.2	66.5	66.5	66.8
<i>Previous</i>	66.2	66.6	66.9	67.2
Civilian unemployment rate	6.5	6.4	6.2	6.3
<i>Previous</i>	6.5	6.4	6.3	6.4

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

2. Average for indicated period.

Accordingly, we have reduced our estimate of the trend rate of growth in the participation rate for the 1990s to less than 0.1 percent per year. However, the rate rises somewhat more rapidly

CPI inflation is expected to average about 3 3/4 percent in the second half of this year up considerably from the average pace of recent quarters. Food and energy prices registered little change in the first half of 1994 and have turned up sharply this quarter:

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

	1993	1994	1995
Consumer price index	2.7	3.1	3.0
<i>Previous</i>	2.7	3.0	3.1
Excluding food and energy	3.1	3.1	3.1
<i>Previous</i>	3.1	3.1	3.1
ECI for compensation of private industry workers ¹	3.6	3.4	3.5
<i>Previous</i>	3.6	3.4	3.5

1 December to December

the food price surge is expected to abate soon, but the pass-through of higher crude oil costs to retail energy prices is likely to continue through year-end. The rise in the cost of energy and petroleum-based materials will also have a modest effect on the core CPI. In addition, the recent depreciation of the dollar is likely to result in an acceleration of non-oil import prices, which will put some additional pressure on materials costs and finished goods prices, thereby affecting core CPI inflation. After the adjustment to these one-time shocks, the core inflation rate returns close to the recent trend, running at just above 3 percent in 1995; the overall CPI runs a shade lower because of the anticipated favorable behavior of food and energy prices.

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

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index ¹		Unemployment rate (level except as noted)	
	5/29/94	8/12/94	6/29/94	8/12/94	6/29/94	8/12/94	6/29/94	8/12/94	6/29/94	8/12/94
ANNUAL										
1991 ²	3.2	3.2	-1.7	-1.6	4.1	4.0	4.3	4.3	6.7	6.7
1992 ²	5.5	5.2	2.6	2.3	3.3	3.2	3.0	3.0	7.4	7.4
1993 ²	5.6	5.4	3.0	3.1	3.1	3.0	3.0	3.0	6.8	6.8
1994	5.9	5.8	3.7	3.7	2.7	2.7	2.7	2.7	6.4	6.3
1995	4.8	4.6	2.4	2.3	2.9	2.9	3.3	3.2	6.4	6.3
QUARTERLY										
1992 Q1 ²	7.4	7.1	3.5	3.1	4.2	3.9	2.6	2.6	7.3	7.3
Q2 ²	5.7	5.2	2.8	2.4	3.4	3.3	3.5	3.5	7.5	7.5
Q3 ²	4.6	4.9	3.4	3.5	2.5	2.7	2.9	2.9	7.5	7.5
Q4 ²	9.2	8.6	5.7	5.7	3.1	2.8	3.5	3.5	7.3	7.3
1993 Q1 ²	4.4	4.4	.8	1.2	4.3	4.2	2.8	2.8	7.0	7.0
Q2 ²	4.3	4.2	1.9	2.4	2.8	2.4	3.1	3.1	7.0	7.0
Q3 ²	4.4	3.8	2.9	2.7	2.1	2.0	2.0	2.0	6.7	6.7
Q4 ²	8.4	7.7	7.0	6.3	2.3	2.4	3.1	3.1	6.5	6.5
1994 Q1 ²	5.7	6.1	3.0	3.3	3.1	3.1	1.9	1.9	6.6	6.6
Q2 ²	5.9	6.8	3.5	3.7	2.5	2.9	2.7	2.8	6.3	6.2
Q3	5.2	4.4	2.9	2.8	2.7	2.6	3.7	4.0	6.3	6.2
Q4	4.8	4.9	2.4	2.3	3.0	3.1	3.6	3.5	6.3	6.2
1995 Q1	4.8	4.6	2.0	1.9	3.4	3.2	3.4	3.3	6.3	6.2
Q2	4.5	4.3	2.2	2.1	2.8	2.7	3.1	2.9	6.4	6.2
Q3	4.5	4.3	2.3	2.2	2.7	2.7	3.0	2.9	6.4	6.3
Q4	4.5	4.4	2.4	2.3	2.7	2.7	2.9	2.9	6.4	6.3
TWO-QUARTER³										
1992 Q2 ²	6.6	6.1	3.2	2.8	3.9	3.5	3.0	3.0	.5	.5
Q4 ²	6.9	6.7	4.6	4.6	2.8	2.8	3.2	3.2	-.2	-.2
1993 Q2 ²	4.3	4.3	1.3	1.8	3.4	3.3	3.1	3.1	-.3	-.3
Q4 ²	6.4	5.7	4.9	4.5	2.2	2.2	2.4	2.4	-.5	-.5
1994 Q2 ²	5.8	6.4	3.2	3.5	2.8	3.0	2.4	2.4	-.2	-.3
Q4	5.0	4.6	2.6	2.6	2.8	2.8	3.6	3.8	.0	.0
1995 Q2	4.7	4.4	2.1	2.0	3.1	3.0	3.3	3.1	.1	.0
Q4	4.5	4.4	2.3	2.3	2.7	2.7	3.0	2.9	.0	.1
FOUR-QUARTER⁴										
1991 Q4 ²	3.7	3.5	.3	.3	3.6	3.6	3.0	3.0	1.0	1.0
1992 Q4 ²	6.7	6.4	3.9	3.7	3.3	3.2	3.1	3.1	.3	.3
1993 Q4 ²	5.4	5.0	3.1	3.1	2.8	2.8	2.7	2.7	-.8	-.8
1994 Q4	5.4	5.5	2.9	3.0	2.8	2.9	3.0	3.1	-.2	-.3
1995 Q4	4.6	4.4	2.2	2.1	2.9	2.9	3.1	3.0	.1	.1

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								
		1987	1988	1989	1990	1991	1992	1993	1994	1995
EXPENDITURES										
Nominal GDP	Bill. \$	4539.9	4900.4	5250.8	5546.1	5724.8	6020.2	6343.3	6713.0	7025.0
Real GDP	Bill. 87\$	4540.0	4718.6	4838.0	4897.3	4867.6	4979.3	5134.5	5323.4	5445.6
Real GDP	% change	4.5	3.3	1.6	.2	.3	3.7	3.1	3.0	2.1
Gross domestic purchases		3.9	2.5	.9	-.4	-.1	4.1	3.9	3.5	2.1
Final sales		2.7	4.2	1.5	1.2	-.4	3.8	3.0	2.6	2.3
Private dom. final purch.		1.9	4.2	.5	-.1	-.8	5.1	5.0	3.8	2.8
Personal cons. expend.		2.1	4.2	1.2	.7	.0	4.2	3.0	2.7	2.0
Durables		-2.6	8.5	-.5	-.8	-1.3	9.6	9.0	4.7	2.9
Nondurables		1.4	3.2	1.2	-.1	-1.6	3.2	1.3	1.9	1.5
Services		3.7	3.7	1.7	1.7	1.2	3.5	2.5	2.7	2.0
Business fixed invest.		3.0	5.5	-.4	.7	-6.2	6.7	16.0	11.1	7.6
Producers' dur. equip.		2.4	9.1	-1.7	2.9	-3.2	11.0	21.3	13.1	8.0
Nonres. structures		4.4	-1.2	2.3	-3.9	-12.4	-3.4	1.6	4.6	6.2
Res. structures		-3.1	.9	-7.7	-15.2	.7	17.0	8.1	.3	1.2
Exports		12.6	13.5	11.3	6.7	8.1	5.0	5.8	5.9	7.5
Imports		4.7	3.6	2.6	.4	4.0	8.6	12.4	8.7	6.9
Government purchases		3.3	.2	2.0	3.3	-.8	.7	-1.0	-.6	-.1
Federal		3.7	-3.4	-.6	2.8	-3.2	.8	-6.9	-4.2	-4.2
Defense		4.5	-3.2	-1.5	1.5	-7.0	-1.3	-9.0	-5.7	-6.4
State and local		2.9	2.9	4.0	3.6	.8	.6	3.0	1.6	2.3
Change in bus. invent.	Bill. 87\$	26.3	19.9	29.8	5.7	-1.1	2.5	15.3	38.2	27.5
Nonfarm		32.7	26.9	29.9	3.2	-1.3	-2.0	18.5	33.0	24.3
Net exports		-143.0	-104.0	-73.7	-54.7	-19.5	-32.3	-73.9	-108.8	-109.1
Nominal GDP	% change	8.0	7.7	6.0	4.7	3.5	6.4	5.0	5.5	4.4
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	102.0	105.2	107.9	109.4	108.3	108.6	110.5	113.3	115.2
Unemployment rate	%	6.2	5.5	5.3	5.5	6.7	7.4	6.8	6.3	6.3
Industrial prod. index	% change	6.3	3.2	-.1	-.2	-.3	3.2	4.2	4.9	2.7
Capacity util. rate-mfg.	%	81.6	83.6	83.1	81.1	77.8	78.6	80.6	82.9	82.7
Housing starts	Millions	1.62	1.49	1.38	1.19	1.01	1.20	1.29	1.36	1.35
Light Motor Vehicle Sales		14.84	15.43	14.53	13.85	12.31	12.80	13.89	15.00	15.13
Auto sales in U.S.		10.24	10.63	9.91	9.50	8.39	8.35	8.72	9.24	9.16
North American prod.		7.07	7.54	7.08	6.90	6.14	6.26	6.75	7.29	7.35
Other		3.18	3.10	2.83	2.60	2.25	2.10	1.97	1.95	1.81
INCOME AND SAVING										
Nominal GNP	Bill. \$	4544.5	4908.2	5266.8	5567.8	5740.8	6025.8	6347.8	6710.1	7015.5
Nominal GNP	% change	8.1	7.8	6.1	4.9	3.2	5.1	5.0	5.5	4.3
Nominal personal income		7.4	7.1	6.5	6.5	3.7	8.1	2.8	5.8	5.4
Real disposable income		2.1	3.2	1.1	1.1	.9	5.0	.5	2.9	2.4
Personal saving rate	%	4.3	4.4	4.0	4.2	5.0	5.5	4.1	3.9	4.2
Corp. profits, IVA&CCAdj	% change	29.7	10.2	-6.3	2.3	8.8	9.6	23.4	6.0	1.2
Profit share of GNP	%	7.0	7.4	6.9	6.8	6.8	6.7	7.7	8.2	8.1
Federal surpl./def.	Bill. \$	-151.8	-136.6	-122.3	-163.5	-202.9	-282.7	-241.4	-155.5	-166.8
State/local surpl./def.		40.1	38.4	44.8	25.1	17.0	24.8	26.3	27.8	36.2
Ex. social ins. funds		-14.7	-18.4	-17.5	-35.6	-46.5	-41.6	-40.0	-37.8	-28.3
PRICES AND COSTS										
GDP implicit deflator	% change	3.4	4.2	4.3	4.5	3.3	2.6	1.8	2.4	2.2
GDP fixed-wt. price index		3.4	4.2	4.4	4.6	3.6	3.2	2.8	2.9	2.9
Gross domestic purchases										
fixed-wt. price index		3.9	4.1	4.4	5.2	2.9	3.2	2.5	3.0	2.8
CPI		4.5	4.3	4.6	6.3	3.0	3.1	2.7	3.1	3.0
Ex. food and energy		4.3	4.5	4.4	5.3	4.4	3.5	3.1	3.1	3.1
ECI, hourly compensation ²		3.3	4.8	4.8	4.6	4.4	3.5	3.6	3.4	3.5
Nonfarm business sector										
Output per hour		1.9	.5	-1.4	.4	2.3	3.2	1.9	.8	1.3
Compensation per hour		3.9	3.8	3.1	6.2	4.7	5.2	2.5	3.5	3.6
Unit labor cost		1.9	3.3	4.6	5.7	2.3	1.9	.6	2.7	2.3

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

2. Private-industry workers.

Strictly Confidential (FR)
Class II POMC

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

August 12, 1994

Item	Units	Projected									
		1993		1994				1995			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. \$	6359.2	6478.1	6574.7	6683.6	6756.4	6837.1	6914.0	6986.8	7061.2	7138.1
Real GDP	Bill. 87\$	5139.4	5218.0	5261.1	5309.2	5346.6	5376.6	5401.8	5430.2	5459.4	5491.1
Real GDP	% change	2.7	6.3	3.3	3.7	2.8	2.3	1.9	2.1	2.2	2.3
Gross domestic purchases		4.0	5.8	5.0	4.4	2.6	1.9	2.0	2.1	2.2	2.3
Final sales		3.2	6.4	2.2	1.5	4.0	2.8	2.1	2.3	2.3	2.5
Private dom. final purch.		5.3	7.4	5.8	2.8	3.9	2.8	2.8	2.7	2.8	2.9
Personal cons. expend.		3.9	4.0	4.7	1.2	2.8	2.4	2.2	1.8	1.9	2.0
Durables		7.7	15.5	8.8	.8	5.2	3.9	2.8	2.6	3.0	3.3
Nondurables		2.8	2.4	3.8	.7	.9	2.3	2.0	1.3	1.4	1.4
Services		3.6	2.0	4.0	1.6	3.2	2.0	2.2	1.9	1.9	2.0
Business fixed invest.		12.2	21.1	10.9	10.0	13.1	10.3	8.0	7.9	7.4	7.2
Producers' dur. equip.		16.2	27.5	18.6	7.7	15.0	11.3	8.5	8.3	7.8	7.5
Nonres. structures		.5	3.3	-11.8	18.4	7.3	7.1	6.1	6.7	6.1	6.0
Res. structures		9.4	28.2	10.0	7.0	-4.0	-10.3	-3.9	1.2	2.9	4.8
Exports		-3.2	21.7	-3.5	11.1	9.5	7.0	7.1	7.3	7.6	8.1
Imports		7.4	16.0	9.5	15.1	6.5	4.0	6.9	6.2	7.2	7.2
Government purchases		1.1	-.1	-4.9	.5	2.5	.7	-.5	.1	.2	.3
Federal		-3.0	-5.0	-10.3	-4.8	1.2	-2.6	-4.6	-4.1	-4.4	-3.8
Defense		-9.2	-3.6	-16.0	-3.8	.9	-3.0	-7.1	-6.4	-6.6	-5.7
State and local		3.7	2.9	-1.4	2.0	3.2	2.6	1.9	2.2	2.2	2.6
Change in bus. invent.	Bill. 87\$	13.0	10.8	25.4	54.0	40.2	33.3	30.1	28.1	27.0	24.7
Nonfarm		20.9	10.7	22.1	50.0	33.2	26.5	25.3	24.6	24.8	22.4
Net exports		-86.3	-82.2	-104.0	-113.4	-110.7	-107.0	-108.4	-108.3	-109.5	-110.0
Nominal GDP	% change	3.8	7.7	6.1	6.8	4.4	4.9	4.6	4.3	4.3	4.4
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	110.8	111.4	112.0	113.0	113.8	114.3	114.7	115.0	115.4	115.8
Unemployment rate ¹	%	6.7	6.5	6.6	6.2	6.2	6.2	6.2	6.2	6.3	6.3
Industrial prod. index	% change	2.8	6.7	8.3	4.4	3.9	3.0	2.5	2.6	2.8	3.0
Capacity util. rate-mfg ¹	%	80.3	81.5	82.5	82.9	83.0	82.9	82.8	82.7	82.6	82.6
Housing starts	Millions	1.31	1.48	1.37	1.44	1.33	1.31	1.32	1.33	1.36	1.38
Light Motor Vehicle Sales		13.69	14.53	15.45	14.75	14.73	15.08	15.05	15.10	15.15	15.22
Auto sales in U.S.		8.65	8.97	9.45	9.15	9.10	9.25	9.15	9.15	9.15	9.17
North American prod.		6.68	7.08	7.44	7.16	7.16	7.40	7.32	7.34	7.36	7.38
Other		1.97	1.89	2.00	1.99	1.94	1.85	1.83	1.81	1.79	1.79
INCOME AND SAVING											
Nominal GNP	Bill. \$	6367.8	6476.2	6574.0	6680.7	6754.6	6831.2	6908.7	6975.9	7052.4	7124.8
Nominal GNP	% change	4.2	7.0	6.2	6.7	4.5	4.6	4.6	3.9	4.5	4.2
Nominal personal income		2.4	6.7	5.3	7.2	4.4	6.5	6.6	5.2	4.1	5.7
Real disposable income		.8	4.3	3.4	3.0	2.0	3.2	3.4	1.2	2.1	2.8
Personal saving rate ¹	%	3.9	4.0	3.6	4.0	3.8	4.0	4.3	4.1	4.2	4.3
Corp. profits, IVA&CCAdj	% change	18.4	37.0	-17.9	49.2	2.8	.1	-2.5	-2.3	7.2	2.7
Profit share of GNP ¹	%	7.7	8.2	7.7	8.4	8.4	8.3	8.1	8.0	8.1	8.0
Federal govt. surpl./def.	Bill. \$	-224.9	-220.1	-176.2	-135.5	-143.8	-166.5	-170.1	-158.4	-159.6	-178.9
State/local surpl./def.		23.9	34.5	25.2	24.4	30.0	31.7	33.2	33.6	38.5	39.5
Ex. social ins. funds		-42.4	-31.7	-40.7	-41.4	-35.5	-33.5	-31.7	-31.0	-25.8	-24.7
PRICES AND COSTS											
GDP implicit deflator	% change	1.1	1.3	2.7	3.0	1.5	2.5	2.6	2.1	2.1	2.0
GDP fixed-wt. price index		2.0	2.4	3.1	2.9	2.6	3.1	3.2	2.7	2.7	2.7
Gross domestic purchases		1.6	2.4	2.5	3.2	3.1	3.1	3.2	2.7	2.6	2.6
fixed-wt. price index		2.0	3.1	1.9	2.8	4.0	3.5	3.3	2.9	2.9	2.9
CPI		2.4	2.9	2.6	3.4	3.1	3.3	3.3	3.1	3.1	3.1
Ex. food and energy		3.4	3.4	2.7	3.7	4.5	2.7	3.5	3.5	4.0	2.9
ECI, hourly compensation ²											
Nonfarm business sector											
Output per hour		4.1	4.9	2.9	-1.2	1.1	.5	1.2	1.3	1.3	1.3
Compensation per hour		2.8	2.4	6.1	.8	3.7	3.6	3.8	3.5	3.5	3.5
Unit labor cost		-1.2	-2.4	3.1	2.0	2.6	3.1	2.6	2.2	2.1	2.1

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)

August 12, 1994

Item	1993		Projected								1992	1993	Projected	
	Q3	Q4	1994				1995						1994	1995
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GDP	34.0	78.6	43.1	48.1	37.4	30.0	25.2	28.4	29.2	31.7	179.9	157.3	158.6	114.5
Gross domestic purchases	51.1	74.4	64.9	57.5	34.7	26.4	26.6	28.2	30.4	32.1	201.6	201.0	183.4	117.5
Final sales	40.0	80.7	28.5	19.5	51.2	36.9	28.4	30.4	30.2	34.0	186.8	153.1	136.1	123.1
Private dom. final purch.	54.5	76.9	61.9	30.1	42.8	31.7	30.9	30.5	31.9	33.6	202.2	205.9	166.5	127.0
Personal cons. expend.	33.0	34.0	40.1	-10.8	24.4	21.0	19.7	16.2	17.2	18.1	138.1	102.8	96.3	71.2
Durables	9.0	18.1	10.9	1.1	6.7	5.1	3.7	3.4	4.0	4.4	41.1	42.0	23.8	15.5
Nondurables	7.4	6.3	10.3	1.9	2.5	6.2	5.5	3.5	3.9	3.9	33.8	13.8	20.9	16.7
Services	16.6	9.6	18.9	7.8	15.2	9.7	10.5	9.3	9.3	9.9	63.1	47.0	51.6	39.0
Business fixed invest.	16.9	29.3	16.4	15.5	20.7	16.9	13.5	13.7	13.1	12.9	34.0	86.3	69.4	53.1
Producers' dur. equip.	16.6	28.2	20.9	9.3	18.1	14.2	11.1	11.1	10.7	10.5	39.1	83.9	62.5	43.4
Nonres. structures	.2	1.2	-4.6	6.2	2.7	2.6	2.3	2.6	2.4	2.4	-5.1	2.4	6.9	9.7
Res. structures	4.7	13.5	5.4	3.9	-2.4	-6.2	-2.2	.6	1.6	2.6	30.2	16.8	.7	2.7
Change in bus. invent.	-5.9	-2.2	14.6	28.6	-13.8	-6.9	-3.2	-2.1	-1.0	-2.3	-6.9	4.2	22.5	-8.6
Nonfarm	-1.9	-10.2	11.4	27.9	-16.8	-6.7	-1.2	-.8	.3	-2.4	-8.3	4.4	15.8	-4.1
Farm	-4.0	8.0	3.2	.8	2.9	.2	-2.0	-1.3	-1.3	.1	1.4	.2	6.7	-4.5
Net exports	-17.0	4.1	-21.8	-9.4	2.7	3.6	-1.4	.1	-1.2	.4	-21.6	-43.7	-24.8	-2.9
Exports	-4.9	29.9	-5.6	16.5	14.7	11.1	11.5	12.0	12.7	13.7	28.1	34.5	36.7	49.9
Imports	12.0	25.8	16.2	25.9	11.9	7.5	12.9	11.9	13.9	14.1	49.9	78.1	61.5	52.8
Government purchases	2.5	-.3	-11.6	-1.2	5.6	1.6	-1.1	.2	.4	.8	6.2	-9.1	-5.6	.9
Federal	-2.7	-4.5	-9.4	-4.2	1.0	-2.2	-3.9	-3.5	-3.7	-3.1	2.9	-25.9	-14.8	-14.2
Defense	-5.9	-2.2	-10.2	-2.2	.5	-1.7	-4.1	-3.6	-3.7	-3.1	-3.4	-23.7	-13.6	-14.5
Nondefense	3.2	-2.3	.8	-2.0	.5	.5	.2	.1	.0	.0	6.4	-2.2	-1.2	.3
State and local	5.2	4.2	-2.1	2.9	4.6	3.8	2.8	3.3	3.3	3.9	3.2	16.8	9.2	13.3

1. Annual changes are from Q4 to Q4.

Item	Fiscal year				1993				1994				1995			
	1992 ^a	1993 ^a	1994	1995	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1 ^a	Q2 ^b	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
					Not seasonally adjusted											
Receipts ¹	1090	1153	1258	1333	262	331	295	287	289	363	319	305	290	409	330	314
Outlays ¹	1381	1408	1464	1530	325	349	349	379	348	362	375	380	391	376	383	399
Surplus/deficit ¹	-290	-255	-206	-197	-63	-18	-54	-92	-59	1	-56	-75	-101	33	-54	-85
On-budget	-340	-301	-263	-257	-90	-49	-54	-105	-66	-33	-59	-82	-110	-6	-60	-90
Off-budget	50	46	56	60	27	31	0	13	8	33	2	7	8	39	6	5
Surplus excluding deposit insurance ¹	-287	-283	-212	-208	-68	-25	-61	-92	-65	4	-58	-76	-106	32	-58	-86
Means of financing																
Borrowing	311	249	188	217	60	61	46	89	51	8	39	68	81	20	49	69
Cash decrease	-17	6	4	-12	8	-39	8	3	5	-6	3	10	24	-45	0	25
Other ¹	-4	0	14	-8	-6	-4	0	0	2	-2	14	-3	-3	-7	5	-9
Cash operating balance, end of period	59	53	48	60	22	61	53	50	45	51	48	39	15	60	60	35
NIPA FEDERAL SECTOR																
					Seasonally adjusted, annual rate											
Receipts	1158	1242	1357	1437	1213	1264	1273	1314	1338	1386	1391	1409	1427	1454	1459	1477
Expenditures	1435	1497	1526	1601	1496	1501	1498	1534	1514	1522	1535	1575	1597	1612	1619	1656
Purchases	445	447	439	438	447	445	443	440	438	439	438	439	440	437	435	433
Defense	313	307	294	290	307	306	299	299	292	291	293	292	292	289	286	283
Nondefense	132	140	145	148	140	139	144	141	146	148	145	146	148	148	149	149
Other expenditures	990	1049	1087	1163	1049	1055	1055	1094	1076	1083	1097	1137	1157	1175	1184	1223
Surplus/deficit	-276	-254	-169	-164	-283	-237	-225	-220	-176	-135	-144	-167	-170	-158	-160	-179
FISCAL INDICATORS⁴																
High-employment (HEB) surplus/deficit	-218	-210	-156	-161	-237	-192	-184	-195	-158	-130	-142	-166	-168	-155	-155	-174
Change in HEB, percent of potential GDP	1	-.1	-.8	.1	.2	-.7	-.1	.2	-.6	-.4	.2	.4	0	-.2	0	.3
Fiscal impetus (FI), percent, cal. year	-4.4	-4.1	-7.8	-5.1	-4.7	0	0	-1.1	-4.4	-4.1	.9	-.7	-2.2	-1.9	-.4	-.8

1. OMB's July 1994 deficit estimates are \$220 billion in FY94 and \$167 billion in FY95 (excluding health reform). CBO's April 1994 deficit estimates of the budget are \$227 billion in FY94 and \$182 billion in FY95. 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 and \$185 billion in FY95. CBO's April 1994 deficit estimates, excluding deposit insurance spending, are \$230 billion in FY94, and \$194 billion in FY95.

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--Unified and NIPA data are actuals except for NIPA corporate profit tax accrual which is a staff projection.

Confidential FR Class II
August 12, 1994

CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS¹
(Percent)

Year	-----Nonfederal-----								-----MEMO-----	
	Total ²	Federal govt.	Total	-----Households-----			State and local govt.	Private financial assets	Nominal GDP	
1981	9.7	11.6	9.3	7.5	7.0	4.8	11.9	5.2	10.3	9.3
1982	9.8	19.7	7.4	5.5	4.7	4.4	8.8	9.3	9.6	3.2
1983	11.9	18.9	10.1	11.1	10.8	12.6	9.3	9.7	12.4	11.0
1984	14.5	16.9	13.8	12.8	11.7	18.7	15.6	9.1	12.6	9.1
1985	15.5	16.5	15.2	15.3	13.2	15.8	12.1	31.3	12.1	7.0
1986	12.3	13.6	11.9	12.0	14.3	9.6	12.2	10.5	7.3	4.7
1987	9.5	8.0	9.9	12.4	14.9	5.0	7.1	13.4	8.4	8.0
1988	8.8	8.0	9.0	10.8	11.8	7.2	7.9	7.0	8.0	7.7
1989	7.7	7.0	7.9	8.8	10.2	6.2	7.0	8.4	5.0	6.0
1990	6.3	11.0	5.0	6.2	7.7	2.0	3.4	6.7	4.4	4.7
1991	4.4	11.1	2.4	4.6	6.7	-1.8	-0.9	7.2	-0.6	3.5
1992	5.1	10.9	3.2	5.6	6.6	0.7	0.0	6.4	0.8	6.4
1993	5.2	8.3	4.1	6.6	6.6	8.0	0.8	6.6	-1.0	5.0
1994	4.9	5.0	4.9	6.8	6.4	10.6	2.8	4.8	2.7	5.5
1995	5.1	6.2	4.7	6.2	6.0	8.0	3.1	4.0	1.0	4.4
Quarter (seasonally adjusted annual rates)										
1993:1	3.4	7.5	1.9	2.8	3.4	2.4	-0.4	7.2	-5.0	4.4
2	6.3	11.1	4.6	6.8	7.4	5.3	1.6	6.8	1.1	4.2
3	5.0	5.5	4.8	8.3	7.9	9.6	0.8	5.1	-1.8	3.8
4	5.8	8.2	4.9	7.7	7.0	13.7	1.2	6.6	1.8	7.7
1994:1	5.1	5.9	4.8	6.2	6.1	8.4	2.5	6.8	5.6	6.1
2	4.8	4.1	5.1	7.3	6.6	12.4	2.6	4.7	1.2	6.8
3	4.8	4.4	5.0	6.7	6.3	10.4	3.2	3.8	1.9	4.4
4	4.7	5.3	4.5	6.4	6.0	9.6	2.7	3.6	1.8	4.9
1995:1	5.8	9.0	4.7	6.3	5.8	8.8	3.0	4.1	1.5	4.6
2	4.8	5.3	4.6	6.0	5.8	8.1	3.0	4.2	0.6	4.3
3	4.7	5.0	4.5	6.0	5.9	7.5	3.0	3.8	0.8	4.3
4	4.6	5.0	4.5	5.8	6.1	6.8	3.1	3.7	1.1	4.4

1. Data after 1994:1 are staff projections. Year-to-year changes in nominal GDP are measured from the fourth quarter of the preceding year to the fourth quarter of the year indicated; other changes are measured from end of preceding period to end of period indicated.
2. On a quarterly average basis, total debt growth is projected to be 5.2 in 1994 and 5.1 in 1995.

Confidential Class II
August 12,

FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS¹
(Billions of dollars)

	Calendar year			1993-					1994-				1995-			
	1993	1994	1995	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-----Seasonally Adjusted Annual Rates-----																
Net funds raised by domestic nonfinancial sectors																
1 Total	635.6	604.0	656.0	734.7	628.1	612.6	579.3	595.9	755.2	627.3	618.7	622.7				
2 Net equity issuance	22.9	-7.0	-2.0	29.5	2.0	12.0	-29.0	-13.0	-2.0	-2.0	-2.0	-2.0				
3 Net debt issuance	612.7	611.0	658.0	705.2	626.1	600.6	608.3	608.9	757.2	629.3	620.7	624.7				
Borrowing sectors																
Nonfinancial business																
4 Financing gap ²	33.5	64.2	99.2	20.3	21.6	79.2	74.8	81.0	90.0	100.0	102.1	104.6				
5 Net equity issuance	22.9	-7.0	-2.0	29.5	2.0	12.0	-29.0	-13.0	-2.0	-2.0	-2.0	-2.0				
6 Credit market borrowing	29.6	103.9	117.0	45.5	93.4	98.8	122.0	101.5	113.4	115.4	116.5	122.6				
Households																
7 Net borrowing, of which:	261.5	289.3	279.2	321.3	264.6	313.2	295.7	283.8	284.5	276.8	280.2	275.1				
8 Home mortgages	181.4	188.0	188.4	200.9	180.0	196.9	190.0	185.0	181.1	183.1	191.1	198.2				
9 Consumer credit	64.4	92.1	77.5	115.7	72.9	110.4	95.0	90.0	85.0	80.0	75.0	70.0				
10 Debt/DPI (percent) ³	87.6	88.8	89.6	88.8	89.2	89.4	89.7	89.8	89.7	90.2	90.5	90.6				
State and local governments																
11 Net borrowing	65.4	51.1	44.2	68.8	72.2	50.6	41.8	39.8	45.0	47.0	42.5	42.5				
12 Current surplus ⁴	-32.9	-29.2	-22.8	-30.6	-25.8	-34.0	-29.4	-27.8	-25.1	-25.2	-20.8	-20.3				
U.S. government																
13 Net borrowing	256.1	166.6	217.6	269.6	195.9	138.0	148.8	183.8	314.2	190.0	181.5	184.6				
14 Net borrowing; quarterly, nsa	256.1	166.6	217.6	89.2	51.2	7.7	39.5	68.2	80.8	19.6	48.5	68.7				
15 Unified deficit; quarterly, nsa	226.3	189.2	206.7	92.1	58.6	-0.6	56.1	75.0	101.3	-32.8	53.5	84.7				
Funds supplied by																
16 depository institutions	141.5	186.0	167.1	186.9	187.6	184.5	195.0	176.9	173.7	166.3	166.9	161.6				
MEMO: (percent of GDP)																
17 Dom. nonfinancial debt ³	190.0	188.7	189.4	190.8	190.4	189.5	189.8	189.7	190.4	190.6	190.8	191.0				
18 Dom. nonfinancial borrowing	9.7	9.1	9.4	10.9	9.5	9.0	9.0	8.9	11.0	9.0	8.8	8.8				
19 U.S. government ⁵	4.0	2.5	3.1	4.2	3.0	2.1	2.2	2.7	4.5	2.7	2.6	2.6				
20 Private	5.6	6.6	6.3	6.7	6.5	6.9	6.8	6.2	6.4	6.3	6.2	6.2				

1. Data after 1994:1 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.

We expect that the quantity of oil imports will increase slightly in the current quarter as U.S. stocks continue to be rebuilt. In 1995, imports are projected to resume upward trend as U.S. oil consumption continues to increase in line with economic activity.

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

	1993	1994				1995
		Q1	Q2	Q3	Q4	
---Projection---						
Merchandise exports						
Total	6.1	-3.1	12.0	10.1	7.6	8.3
Agricultural	-5.3	-23.2	7.9	2.1	14.5	1.5
Computers	23.1	16.6	6.4	23.8	21.5	28.6
Other nonag.	4.5	-4.6	13.5	8.2	3.9	4.3
Merchandise imports						
Total	13.1	10.6	19.0	7.5	4.6	7.7
Oil	10.0	-10.6	19.7	2.0	-14.2	5.3
Computers	38.3	23.4	32.7	21.5	21.5	24.7
Other non-oil	9.3	10.9	16.1	5.2	3.3	3.9

* NIPA basis, 1987 dollars.

Oil prices. Owing to the unrest in Nigeria, spot oil prices in July and early August were well above the levels anticipated at the time of the June Greenbook. Accordingly, our assumption for the oil import unit value in the current quarter has been increased \$0.66 per barrel. We expect the spot price for WTI to fall to \$18.50 per barrel by October, as unrest in Nigeria subsides.

Over the longer term, world oil consumption should continue to increase with gains in foreign economic activity. OPEC production is likely to increase only marginally through year-end, although in 1995 Saudi Arabian production should increase to offset gains in oil consumption. We continue to expect Iraq to remain off the world oil market through 1995, perhaps exporting in 1996. Thus, by early 1995 we anticipate a WTI price of \$18.50 per barrel, consistent with an import unit value of \$16.00 per barrel.

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

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

	1993	-Projection-				1995
		1994				
		Q1	Q2	Q3	Q4	
PPI (export, wts.)	0.9	1.5	3.7	5.7	2.6	2.3
Nonag. exports*	0.7	2.9	3.9	4.0	2.3	2.1
Non-oil imports*	1.3	0.5	3.3	5.6	4.8	2.1
Oil imports (Q4 level, \$/bbl.)	14.09	12.66	14.74	16.82	16.11	16.00

* Excluding computers.

Nominal trade and current account balances. The merchandise trade deficit is projected to increase to \$180 billion (AR) by the end of 1994 and to rise a bit further in 1995. Net service receipts will continue to expand, to an annual rate of about \$65 billion at the end of this year and to about \$75 billion by the end of 1995. The deficit on net investment income is projected to reach about \$15 billion by the end of 1995, reflecting higher interest rates and rising net indebtedness. We expect that, as a result of these developments, the current account deficit will rise to nearly \$170 billion by the end of 1995, 2.3 percent of GDP.

August 12, 1994

STRICTLY CONFIDENTIAL - FR
CLASS II FOMC

REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1991-95
(Percent change from fourth quarter to fourth quarter)

Measure and country	1991	1992	1993	Projection	
				1994	1995
REAL GDP					
Canada	-0.2	0.5	3.2	3.9	3.6
France	1.3	0.6	-0.5	2.8	2.7
Germany	2.2	0.7	-0.2	2.3	2.5
W. Germany	2.8	0.1	-0.8	1.6	2.3
Italy	1.8	-0.6	0.3	1.7	2.3
Japan	3.6	-0.3	-0.1	2.1	2.8
United Kingdom	-1.6	0.3	2.6	3.1	3.0
Average, weighted by 1987-89 GDP	1.7	0.1	0.5	2.5	2.8
Average, weighted by share of					
U.S. nonagricultural exports					
Total foreign	2.2	1.6	2.7	3.5	3.6
G-6	0.8	0.3	1.7	3.1	3.2
Developing countries	5.0	3.9	4.6	4.8	4.8
CONSUMER PRICES					
Canada	4.1	1.8	1.8	-0.2	1.8
France	2.9	1.8	2.1	1.7	1.5
Western Germany	3.9	3.7	3.7	2.8	2.1
Italy	6.1	4.8	4.1	3.4	3.0
Japan	3.2	0.9	1.2	1.0	0.8
United Kingdom	4.2	3.1	1.6	3.0	3.7
Average, weighted by 1987-89 GDP	3.9	2.4	2.2	1.9	1.9
Average, weighted by share of					
U.S. non-oil imports	3.8	1.9	1.9	1.1	1.6

Strictly Confidential (FR) Class II-FOMC

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

(Billions of dollars, seasonally adjusted annual rates)

	1991				1992				1993		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1990	1991	1992
NIPA Real Net Exports of Goods & Services (87\$)	-20.4	-13.8	-27.1	-16.9	-17.9	-34.1	-38.9	-38.5	-57.6	-69.3	-54.7	-19.5	-32.3
Exports of G&S	519.0	544.0	544.8	562.6	571.0	573.1	580.5	590.7	589.2	600.2	510.5	542.6	578.8
Goods	382.2	398.5	397.9	409.8	416.0	421.5	427.4	441.1	433.9	443.3	368.9	397.1	426.5
Agricultural	34.8	34.0	35.4	37.7	38.9	38.4	40.5	41.3	39.1	39.3	35.1	35.5	39.8
Computers	38.5	40.2	42.4	44.6	47.1	52.3	56.2	60.1	60.9	62.9	33.7	41.4	53.9
Other Goods	308.9	324.3	320.1	327.5	330.0	330.8	330.7	339.8	333.9	341.1	300.1	320.2	332.8
Services	136.7	145.5	146.9	152.7	154.9	151.6	153.1	149.6	155.3	156.9	141.6	145.5	152.3
Imports of G&S	539.4	557.8	571.8	579.4	588.8	607.1	619.4	629.3	646.8	669.6	565.1	562.1	611.1
Goods	441.5	459.0	475.3	481.8	489.5	509.7	521.7	530.2	546.6	567.4	461.4	464.4	512.8
Oil	44.7	52.0	52.9	47.1	47.2	51.6	53.1	52.8	53.4	57.7	52.1	49.2	51.2
Computers	36.3	39.7	44.4	46.0	51.2	57.5	64.7	68.4	73.3	80.0	29.8	41.6	60.5
Other Goods	360.5	367.3	378.0	388.8	391.1	400.6	403.9	409.0	419.9	429.7	379.6	373.7	401.2
Services	97.9	98.7	96.5	97.6	99.3	97.4	97.7	99.0	100.1	102.2	103.7	97.7	98.3
Memo: (Percent change 1/)													
Exports of G&S	-1.1	20.7	0.6	13.7	6.1	1.5	5.3	7.2	-1.0	7.7	6.7	8.1	5.0
Agricultural	9.7	-8.9	17.5	28.6	13.4	-5.0	23.7	8.1	-19.7	2.1	-6.3	10.9	9.5
Computers	43.1	18.9	23.8	22.4	24.4	52.0	33.3	30.8	5.4	13.8	16.2	26.7	34.8
Other Goods	4.7	21.5	-5.1	9.6	3.1	1.0	-0.1	11.5	-6.8	8.9	6.0	7.2	3.8
Services	-22.7	28.3	3.9	16.8	5.9	-8.3	4.0	-8.8	16.1	4.2	9.7	4.7	-2.0
Imports of G&S	-12.2	14.4	10.4	5.4	6.6	13.0	8.4	6.5	11.6	14.9	0.4	4.0	8.6
Oil	11.5	83.1	7.1	-37.2	0.9	42.8	12.1	-2.2	4.6	36.3	-15.7	8.3	12.1
Computers	74.1	43.1	56.4	15.2	53.5	59.1	60.3	24.9	31.9	41.9	9.3	45.6	48.7
Other Goods	-17.3	7.8	12.2	11.9	2.4	10.1	3.3	5.1	11.1	9.7	0.0	2.9	5.2
Services	-21.8	3.3	-8.6	4.6	7.2	-7.4	1.2	5.4	4.5	8.7	7.9	-6.2	1.4
Current Account Balance	40.1	7.0	-46.3	-28.6	-33.4	-66.2	-74.4	-97.5	-79.4	-102.4	-91.7	-6.9	-67.9
Goods & Serv (BOP), net	-42.6	-20.7	-28.5	-22.1	-15.5	-41.5	-51.1	-53.4	-57.7	-76.3	-78.8	-28.5	-40.4
Goods (BOP), net	-75.2	-64.7	-79.0	-77.4	-72.3	-97.3	-109.4	-105.3	-116.8	-134.9	-109.0	-74.1	-96.1
Services (BOP), net	32.6	44.0	50.5	55.3	56.8	55.8	58.3	52.0	59.1	58.6	30.2	45.6	55.7
Investment Income, net	26.1	11.9	8.3	13.1	9.7	6.5	4.9	-2.9	7.4	2.7	20.7	14.8	4.5
Direct, net	63.2	53.9	48.0	56.4	50.8	51.0	47.1	42.0	54.6	50.8	55.9	55.4	47.7
Portfolio, net	-37.1	-42.0	-39.8	-43.3	-41.1	-44.5	-42.2	-44.9	-47.2	-48.1	-35.1	-40.5	-43.2
Unilateral Transfers, net	56.6	15.8	-26.1	-19.6	-27.7	-31.1	-28.2	-41.2	-29.1	-28.8	-33.7	6.7	-32.0

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)

	1993						Projection				Projection		
	1993		1994				1995				ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1993	1994	1995
NIPA Real Net Exports of Goods & Services (87\$)	-86.3	-82.2	-104.0	-113.4	-110.7	-107.0	-108.4	-108.3	-109.5	-110.0	-73.9	-108.8	-109.1
Exports of G&S	595.3	625.2	619.6	636.1	650.8	661.9	673.4	685.4	698.1	711.8	602.5	642.1	692.2
Goods	438.5	468.1	464.4	477.7	489.4	498.4	507.9	517.8	528.3	539.8	445.9	482.5	523.4
Agricultural	36.9	39.1	36.6	37.3	37.5	38.8	38.9	39.0	39.1	39.4	38.6	37.5	39.1
Computers	68.5	74.0	76.9	78.1	82.4	86.5	92.1	98.1	104.5	111.2	66.6	81.0	101.5
Other Goods	333.1	355.1	350.9	362.2	369.4	373.0	376.7	380.5	384.6	389.1	340.8	363.9	382.7
Services	156.7	157.1	155.2	158.4	161.4	163.5	165.5	167.6	169.8	172.0	156.5	159.6	168.7
Imports of G&S	681.6	707.4	723.6	749.5	761.4	768.9	781.8	793.7	807.6	821.7	676.3	750.9	801.2
Goods	577.1	599.9	615.2	642.5	654.3	661.6	674.1	685.6	699.0	712.5	572.8	643.4	692.8
Oil	56.7	58.1	56.5	59.1	59.4	57.2	58.5	58.8	60.0	60.2	56.5	58.0	59.4
Computers	87.8	94.6	99.7	107.0	112.3	117.9	125.1	132.3	139.5	147.1	83.9	109.2	136.0
Other Goods	432.6	447.2	458.9	476.3	482.4	486.4	490.4	494.5	499.3	505.1	432.4	476.0	497.3
Services	104.5	107.6	108.5	107.0	107.2	107.3	107.7	108.1	108.6	109.2	103.6	107.5	108.4
Memo: (Percent change 1/)													
Exports of G&S	-3.2	21.7	-3.5	11.1	9.5	7.0	7.1	7.3	7.6	8.1	5.8	5.9	7.5
Agricultural	-22.3	26.1	-23.2	7.9	2.1	14.5	1.6	1.0	1.1	2.2	-5.3	-0.8	1.5
Computers	40.7	36.2	16.6	6.4	23.8	21.5	28.6	28.6	28.6	28.6	23.1	16.9	28.6
Other Goods	-9.1	29.2	-4.6	13.5	8.2	3.9	4.0	4.1	4.4	4.7	4.5	5.0	4.3
Services	-0.5	1.0	-4.8	8.5	7.8	5.4	5.0	5.1	5.3	5.3	5.0	4.1	5.2
Imports of G&S	7.4	16.0	9.5	15.1	6.5	4.0	6.9	6.2	7.2	7.2	12.4	8.7	6.9
Oil	-6.8	10.2	-10.6	19.7	2.0	-14.2	9.4	2.1	9.0	1.0	10.0	-1.6	5.3
Computers	45.1	34.8	23.4	32.7	21.5	21.5	26.7	24.8	23.9	23.4	38.3	24.7	24.7
Other Goods	2.7	14.2	10.9	16.1	5.2	3.3	3.3	3.3	4.0	4.7	9.3	8.8	3.9
Services	9.3	12.4	3.4	-5.4	0.6	0.6	1.5	1.5	1.9	2.2	8.7	-0.3	1.8
Current Account Balance	-111.4	-122.3	-127.6	-145.5	-152.5	-162.4	-154.1	-158.1	-154.8	-167.1	-103.9	-147.0	-158.5
Goods & Serv (BOP), net	-89.0	-79.9	-97.1	-110.9	-118.9	-115.7	-116.0	-114.4	-113.3	-112.0	-75.7	-110.6	-113.9
Goods (BOP), net	-145.9	-132.7	-147.9	-169.0	-180.0	-179.4	-182.2	-183.1	-184.5	-185.9	-132.6	-169.1	-183.9
Services (BOP), net	56.9	52.8	50.8	58.1	61.1	63.7	66.1	68.7	71.2	73.8	56.8	58.4	70.0
Investment Income, net	8.1	-2.4	-1.5	-3.7	-2.6	-6.7	-6.1	-11.7	-9.5	-14.0	4.0	-3.6	-10.4
Direct, net	55.9	48.4	47.7	49.5	50.3	52.2	53.1	52.9	52.6	54.0	52.4	50.0	53.1
Portfolio, net	-47.8	-50.8	-49.2	-53.2	-52.9	-59.0	-59.2	-64.6	-62.2	-68.0	-48.5	-53.6	-63.5
Unilateral Transfers, net	-30.5	-40.1	-29.1	-31.0	-31.0	-40.0	-32.0	-32.0	-32.0	-41.0	-32.1	-32.8	-34.2

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

August 12, 1994

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee

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

Retail trade employment grew 75,000, reflecting gains at eating and drinking establishments as well as general merchandise and food stores. In the construction industry, employment rose another 25,000 in July--a surprisingly large gain in light of the recent trends in homebuilding activity. Manufacturing employment rose 6,000 in July; however, strike activity by the United Auto Workers (UAW) at Caterpillar and General Dynamics reduced manufacturing payrolls by 12,000 workers. The average workweek in manufacturing edged down in July; nevertheless, at 41.9 hours, it remains very high by the standards of recent years.¹

The latest strikes in manufacturing underscore the more aggressive posture of organized labor this year. From January to June of this year, 24 strikes involving 1,000 or more workers occurred. Should strikes continue to occur at this rate, 1994 would register the largest number of work stoppages since 1989. Nevertheless, strike activity this year remains low in comparison with the 1970s, when strikes totaled at least 200 or more each year.

MAJOR WORK STOPPAGES
(Strikes involving 1,000 or more workers, for selected years)

	1988	1989	1990	1991	1992	1993	1994 ¹
Strikes	40	51	44	40	35	35	24
Workers involved (thousands)	118	452	185	392	364	182	215

1. January to June, not annualized.

In the household survey, total employment increased just 22,000 in July. Since January, growth in household employment has fallen

1. The workweek was down in a number of industries and fell sharply in motor vehicles. Unlike in previous years, General Motors shut down all of its plants in early July for summer vacation. Although most workers received paid time off for a regular workweek, their reported hours fell because no overtime was scheduled during that period.

primary processing industries, such as textiles, lumber, and iron and steel, remained well above their 1967-93 averages.

Assembly schedules for the third quarter indicate little change in car and truck output. In July, auto production was close to schedules, and truck production actually exceeded plans. As in July, car assemblies in August are expected to be held down by extended model changeovers at some plants.⁴ Truck schedules call for production to increase in August as additional capacity comes on line.

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

	1994					
	May	June	July	Q1	Q2	Q3 ^s
U.S. production ¹	11.5	11.6	11.3	12.9	11.8	11.7
Autos	6.3	6.2	6.0	7.1	6.4	6.2
Trucks	5.3	5.4	5.2	5.9	5.4	5.5
Days' supply						
Autos	60.3	63.0	64.5 ²	60.0	60.9	
Light trucks	61.7	64.2	61.7 ²	53.0	60.0	

1. Components may not add to totals due to rounding.

2. Days' supply in July estimated from production and sales.

s Scheduled.

The available evidence suggests that output of appliances and other household durables was robust in July. Meanwhile, declines in output of gasoline and residential electricity held down growth in production of consumer nondurables. The fallback in residential electricity came on the heels of a double-digit gain in June and

4. Altogether, unusually long downtimes reduced the level of motor vehicle output in the second quarter by roughly 0.2 million to 0.3 million units (annual rate) and are likely to reduce the level of motor vehicle output in the third quarter by a similar amount. The lost production is expected to be made up only gradually in coming quarters.

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

	Jun. 1993	Jun. 1994	Fiscal year to date			
			FY1993	FY1994	Dollar change	Percent change
Outlays	117.5	122.9	1059.5	1089.2	29.7	2.8
Deposit insurance (DI)	-2.0	1.2	-20.5	-3.8	16.7	-81.4
Outlays excluding DI	119.5	121.7	1080.1	1093.0	13.0	1.2
National defense	24.8	24.2	218.5	207.8	-10.7	-4.9
Net interest	15.5	15.9	148.8	149.7	.9	.6
Social security	28.7	30.1	227.9	239.2	11.3	5.0
Medicare and health	21.3	23.0	170.0	186.6	16.6	9.8
Income security	13.8	13.1	158.8	163.0	4.2	2.6
Other	15.4	15.4	156.0	146.7	-9.4	-6.0
Receipts	128.6	138.1	858.4	939.1	80.8	9.4
Personal income and social insurance taxes						
Withheld	70.4	74.4	604.4	647.8	43.4	7.2
Nonwithheld	24.9	25.8	138.8	148.3	9.4	6.8
Other	-.5	-.6	-44.5	-44.1	.5	N.A.
Corporate income taxes	24.9	29.1	88.4	106.2	17.8	20.2
Other	8.8	9.4	71.3	81.0	9.7	13.6
Deficit(+)	-11.1	-15.2	201.2	150.1	-51.1	-25.4
Excluding DI	-9.1	-16.4	221.7	153.9	-67.8	-30.6

Details may not add to totals because of rounding.

ADMINISTRATION BUDGET PROJECTIONS¹
(Billions of dollars)

	Fiscal years					
	1994	1995	1996	1997	1998	1999
Outlays	1480	1521	1605	1683	1761	1852
Receipts	1260	1354	1426	1493	1569	1645
Deficit	220	167	179	190	192	207

1. Estimates exclude the budgetary impact of the President's health care reform proposal.

ADMINISTRATION ECONOMIC ASSUMPTIONS

	Calendar years					
	1994	1995	1996	1997	1998	1999
-----Percent change, Q4 over Q4-----						
Real GDP	3.0	2.7	2.6	2.5	2.5	2.5
GDP deflator	2.7	2.8	2.9	3.0	3.0	3.0
CPI-U	2.9	3.2	3.3	3.4	3.4	3.4
-----Percent, annual average-----						
Civilian unemployment rate	6.3	6.2	6.1	6.1	6.1	6.1
Interest rates						
3-month Treasury bills	4.0	4.7	4.8	4.8	4.8	4.8
10-year Treasury notes	6.8	7.0	7.0	7.0	7.0	7.0

Source: OMB, Mid-Session Review of the Budget, July 1994.

In contrast to goods prices, prices of services have continued to moderate. The CPI for services other than energy has increased 3.4 percent at an annual rate over the past six months, down 1/2 percentage point from the six months ended July 1993. Increases in rent have picked up a bit, and higher interest rates have boosted auto financing costs. But offsetting changes have occurred in airline fares, tuition, entertainment, and medical care services.

INDEXES OF HOSPITAL CARE PRICES
(Percent change between July of the year indicated
and July of the previous year)

	CPI	PCE deflator ¹	PPI
1990	10.8	6.8	
1991	10.3	7.0	
1992	9.3	5.3	
1993	8.4	5.1	
1994	5.7	3.7	2.9

1. Percentage change, June to June.

An important part of medical services is hospital care. While hospital prices have decelerated in recent years along with other medical care services prices, the rate of increase in the CPI for hospitals has run considerably higher than other measures of hospital-price increases. Over the twelve months ended July 1994, the CPI for hospital care increased 5.7 percent, while the latest reading for the PPI and the PCE deflator indicate twelve-month increases of 2.9 and 3.7 percent respectively. The differences in these price increases may reflect the fact that the CPI relies on list prices for hospital services. By comparison, the PPI for hospital care explicitly attempts to monitor transactions price. While the PCE deflator relies, in part, on the CPI series, it also incorporates information on input costs prepared by the Health Care Financing Administration. Transactions prices may have been falling

U.S. CROP PRODUCTION¹

		USDA Projections for 1994				
		1992	1993	May 12	July 12	Aug. 12
		- - - - - Billions of bushels - - - - -				
1.	Corn	9.48	6.34	8.73	9.00	9.20
2.	Soybeans	2.19	1.81	2.10	2.16	2.28
3.	Wheat	2.46	2.40	2.36	2.42	2.39
4.	Sorghum	.88	.57	.59	.62	.66
5.	Oats	.30	.21	.25	.25	.25
6.	Barley	.46	.40	.40	.41	.39
		- - - - - Billions of hundredweight - - - - -				
7.	Rice	.18	.16	.18	.19	.19
		- - - - - Billions of pounds - - - - -				
8.	Peanuts	4.28	3.33	n.a.	n.a.	4.09
9.	Tobacco	1.72	1.61	n.a.	n.a.	1.56
		- - - - - Millions of bales - - - - -				
10.	Cotton	16.22	16.18	17.70	18.00	19.2
		- - - - - Millions of tons - - - - -				
11.	Sugar beets	29.14	26.40	n.a.	n.a.	29.2
12.	Sugar cane	30.36	30.53	n.a.	n.a.	31.4
Memo:						
		- - - - - Billions of 1987 dollars - - - - -				
13.	Value, 12 crops ²	47.03	38.42	44.58	45.65	46.76

1. Data are from the U.S. Department of Agriculture.

2. Calculated by the staff from USDA data.

TREASURY FINANCING¹
(Total for period: billions of dollars)

Item	1994		1994		
	Q2	Q3 ^P	Jul. ^e	Aug. ^P	Sept ^P
Total surplus/deficit (-)	.6	-56.1	-38.0	-32.2	14.1
Means of financing deficit:					
Net cash borrowing/repayments(-)	7.7	39.5	-4.3	50.8	-7.0
Nonmarketable	-.5	-2.1	-3.3	.7	.6
Marketable	8.2	41.6	-1.0	50.1	-7.6
Bills	-22.7	2.1	5.9	9.4	-13.2
Coupons	30.9	39.5	-6.9	40.7	5.7
Decrease in the cash balance	-6.4	2.7	30.7	-14.5	-13.6
² Other	-2.0	14.0	11.6	-4.1	6.4
Memo:					
Cash balance, end of period	51.0	48.3	20.3	34.8	48.3

1. Data reported on a payment basis.

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

p--projected.

e--estimated.

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

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

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

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

2. Federal Agricultural Mortgage Corporation.