

Strictly Confidential (FR) Class II FOMC

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September 25, 1991

## **SUMMARY AND OUTLOOK**

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

labor and product markets to reduce the trend rate of inflation significantly over the forecast period.

#### Current-Quarter Developments

Recent data on labor inputs support the projection of a moderate increase in aggregate activity in the third quarter, paced by gains in the industrial sector. The August employment report showed a sizable rise in aggregate hours worked in the private nonfarm economy, reversing much of the sharp decline registered in July; the average level of aggregate hours in July and August was about unchanged from its second-quarter average. Allowing for some cyclical upswing in labor productivity, these data on hours worked appear to be consistent with a moderate increase in real GNP this quarter.

CURRENT-QUARTER PROJECTIONS  
(Percent change, annual rate)

	1991		
	Q1	Q2	Q3
-Projection-			
Real GNP (August projection)	-2.8 (-2.8)	-.1 (.4)	2.8 (2.9)
Industrial production (August projection)	-9.7 (-9.7)	2.6 (1.7)	7.8 (6.1)

In manufacturing, employment continued to trend higher in July and August, and the level of industrial production in August was about 1-3/4 percent above the second-quarter average (not at an annual rate). Domestic assemblies of motor vehicles turned down in August after rising sharply between February and July; however, weekly data indicate that the assembly rate rebounded smartly during

intermediaries, and the working off of excess capacity in real estate markets. However, these problems have been afflicting the economy for some time now, and past Greenbook projections have attempted to account for their restraining effect on aggregate activity. Given little evidence to indicate that these problems have recently intensified, we continue to believe that the most likely outcome for the economy over the forecast period will be a relatively subdued, but sustained, upswing in activity.

We look for the growth of real GNP to pick up slightly in coming quarters to a 3-1/4 to 3-1/2 percent annual rate, lifted initially by a positive swing in inventory investment. As the boost from inventory investment begins to wane in mid-1992, growth is sustained at a pace above that of potential output by a strengthening of final sales.

**PROJECTIONS OF REAL GNP AND RELATED ITEMS  
(Percent change, annual rate)**

	1991			1992		
	Q2	Q3	Q4	Q1	Q2	H2
-----Projection-----						
Real GNP	-.1	2.8	3.2	3.6	3.5	3.2
Real GDP	.8	2.7	3.3	3.5	3.6	3.3
Final sales excl. CCC	-.6	2.8	1.7	2.2	2.6	2.8
Memo:						
Real GNP (1987 dollars)	1.2	2.4	2.7	3.3	3.5	3.1

The forecast continues to show a notable slowing in wage and price inflation over the projection period. We expect the unemployment rate to remain near its current level of 6-3/4 percent through year-end and then to edge down only to 6-1/2 percent by the

end of 1992. As a result of this labor market slack and some further reduction in inflation expectations, increases in hourly compensation are expected to slow steadily over time. The underlying trend in inflation, as measured by the CPI excluding food and energy, is projected to move down as well, dropping to around 3-1/2 percent in late 1992.

PROJECTIONS OF INFLATION  
(Percent change, annual rate)

	1991				1992	
	Q1	Q2	Q3	Q4	H1	H2
-----Projection-----						
Consumer price index	3.6	2.1	2.8	3.8	3.9	3.4
Excl. food and energy	6.8	3.5	4.2	3.8	3.9	3.5
ECI hourly compensation	4.6	4.9	4.4	4.3	4.1	3.9
Memo:						
Civilian unemployment rate (percent)	6.5	6.8	6.8	6.8	6.7*	6.5*

\*Projection for final quarter of period.

Key assumptions. The System's recent easing has pushed the federal funds rate 25 basis points below the level assumed in the August projection. In the current projection, we assume that the funds rate will remain around 5-1/4 percent throughout the forecast period. The decline in long-term rates since the last Greenbook has been greater than we had anticipated, but a further edging off in long rates is expected as private credit demands pick up only a little and disinflationary trends in the economy are fully recognized. Constraints on credit availability are expected to increase gradually as the expansion progresses and asset quality improves.

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## STAFF GNP PROJECTIONS

Percent changes, annual rate

	Nominal GNP		Real GNP		GNP fixed-weight price index		Consumer Price Index <1>		Unemployment rate (percent)			
	8/14/91	9/25/91	8/14/91	9/25/91	8/14/91	9/25/91	8/14/91	9/25/91	8/14/91	9/25/91		
<b>Annual changes:</b>												
1989	<2>	6.7	6.7	2.5	2.5	4.5	4.5	4.8	4.8	5.3	5.3	
1990	<2>	5.1	5.1	1.0	1.0	4.6	4.6	5.4	5.4	5.5	5.5	
1991		3.6	3.4	-.1	-.3	4.0	4.0	4.3	4.2	6.7	6.7	
1992		6.5	6.1	3.1	3.1	3.6	3.3	3.7	3.5	6.5	6.6	
1993		5.8	6.0	2.9	3.1	3.3	3.2	3.4	3.4	6.2	6.2	
<b>Quarterly changes:</b>												
1990	Q1	<2>	6.7	6.7	1.7	1.7	6.6	6.6	7.5	7.5	5.3	5.3
	Q2	<2>	5.1	5.1	.4	.4	3.9	3.9	3.8	3.8	5.3	5.3
	Q3	<2>	5.3	5.3	1.4	1.4	4.2	4.2	7.0	7.0	5.6	5.6
	Q4	<2>	.9	.9	-1.6	-1.6	4.7	4.7	6.9	6.9	5.9	5.9
91	Q1	<2>	2.2	2.2	-2.8	-2.8	5.2	5.2	3.6	3.6	6.5	6.5
	Q2	<2>	4.6	4.2	.4	-.1	3.0	3.0	2.1	2.1	6.8	6.8
	Q3		4.9	4.5	2.9	2.8	2.5	2.1	3.3	2.8	6.8	6.8
	Q4		7.0	5.8	3.6	3.2	3.9	3.4	4.1	3.8	6.8	6.8
1992	Q1		7.9	7.2	3.9	3.6	4.3	4.1	4.1	4.1	6.6	6.7
	Q2		6.6	6.8	3.1	3.5	3.5	3.4	3.6	3.6	6.5	6.7
	Q3		5.8	6.3	2.8	3.4	3.3	3.2	3.6	3.4	6.5	6.6
	Q4		5.5	5.8	2.7	3.1	3.2	3.0	3.5	3.4	6.4	6.5
1993	Q1		6.4	6.5	3.0	3.1	3.8	3.7	3.4	3.4	6.3	6.4
	Q2		5.5	5.7	2.8	3.0	3.1	3.0	3.3	3.3	6.2	6.3
	Q3		5.5	5.7	2.9	3.2	2.9	2.9	3.2	3.2	6.1	6.2
	Q4		5.2	5.3	2.7	2.8	2.9	2.9	3.1	3.2	6.0	6.1
<b>Two-quarter changes: &lt;3&gt;</b>												
1990	Q2	<2>	5.9	5.9	1.1	1.1	5.3	5.3	5.6	5.6	.0	.0
	Q4	<2>	3.1	3.1	-.1	-.1	4.4	4.4	6.9	6.9	.6	.6
1991	Q2	<2>	3.4	3.2	-1.2	-1.5	4.1	4.1	2.8	2.8	.9	.9
	Q4		5.9	5.1	3.2	3.0	3.2	2.7	3.7	3.3	.0	.0
1992	Q2		7.2	7.0	3.5	3.6	3.9	3.8	3.9	3.9	-.3	-.1
	Q4		5.7	6.0	2.7	3.2	3.2	3.1	3.5	3.4	-.1	-.2
1993	Q2		6.0	6.1	2.9	3.1	3.4	3.4	3.4	3.3	-.2	-.2
	Q4		5.4	5.5	2.8	3.0	2.9	2.9	3.2	3.2	-.2	-.2
<b>Four-quarter changes: &lt;4&gt;</b>												
1989	Q4	<2>	5.6	5.6	1.8	1.8	4.0	4.0	4.6	4.6	.0	.0
1990	Q4	<2>	4.5	4.5	.5	.5	4.8	4.8	6.3	6.3	.6	.6
1991	Q4		4.7	4.2	1.0	.8	3.7	3.4	3.2	3.1	.9	.9
'92	Q4		6.4	6.5	3.1	3.4	3.6	3.4	3.7	3.6	-.4	-.3
3	Q4		5.7	5.8	2.9	3.0	3.2	3.1	3.3	3.3	-.4	-.4

&lt;1&gt; For all urban consumers.

&lt;2&gt; Actual.

&lt;3&gt; Percent change from two quarters earlier.

&lt;4&gt; Percent change from four quarters earlier.

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

	Units	1985	1986	1987	1988	1989	1990	1991	1992	1993	Projection
<b>EXPENDITURES</b>											
Nominal GNP	\$Billions of \$	4014.9	4231.6	4515.6	4873.7	5200.8	5465.2	5652.4	5999.7	6361.2	
Real GNP	\$Billions of 82\$	3618.7	3717.9	3845.3	4016.9	4117.7	4157.3	4146.0	4275.9	4409.8	
Real GNP	Percent change*	3.6	1.9	5.0	3.5	1.8	.5	-.8	3.4	3.0	
Real GDP		3.8	2.3	5.0	3.5	1.7	.4	-.9	3.4	3.0	
Gross domestic purchases		4.3	2.1	4.2	2.6	1.1	-.5	-.8	3.5	3.0	
Final sales		4.6	2.7	3.1	4.5	1.7	1.6	-.3	2.6	3.0	
Private dom. final purchases		4.6	2.9	2.5	4.0	1.2	-.1	.6	3.6	3.5	
Personal consumption expend.		4.6	3.8	2.3	4.1	1.2	-.1	1.7	2.9	2.7	
Durables		7.0	11.5	-1.2	9.3	-1.4	-1.8	-.1	4.5	3.0	
Nondurables		3.3	2.9	1.3	2.4	.6	-2.4	1.5	2.1	2.2	
Services		5.0	2.1	4.1	3.7	2.4	2.5	2.3	2.8	2.9	
Business fixed investment		3.7	-5.5	6.1	5.3	4.5	2.2	-4.9	5.5	6.3	
Producers' durable equipment		4.6	-.4	8.2	8.2	5.4	4.6	-2.5	8.2	8.0	
Nonresidential structures		1.9	-17.7	-.8	-2.7	1.7	-5.4	-13.4	-5.4	-1.3	
Residential structures		5.8	11.6	-2.2	-.1	-7.1	-10.2	.6	9.8	8.2	
Exports		-2.4	10.6	19.8	14.0	10.1	5.8	4.8	7.3	6.7	
Imports		4.5	10.0	10.4	5.5	4.5	-.5	5.0	7.6	6.5	
Government purchases		8.6	3.1	2.0	1.1	-.3	3.8	-.7	-1.1	.9	
Federal		13.3	-.5	1.5	-1.6	-2.8	5.2	-.8	-4.6	-2.2	
Defense		7.1	6.0	4.0	-1.8	-2.1	4.0	-3.7	-8.1	-4.5	
State and local		4.9	5.2	2.3	3.1	2.6	2.7	-.7	1.4	3.0	
Change in business inventories	\$Billions of 82\$	9.1	5.6	22.8	23.6	23.8	-3.6	-20.5	18.3	27.3	
Nonfarm	\$Billions of 82\$	13.4	8.0	28.7	26.5	18.7	-5.1	-18.2	19.7	27.7	
Net exports	\$Billions of 82\$	-104.3	-129.7	-118.5	-75.9	-54.1	-33.8	-8.1	-11.2	-12.7	
Nominal GNP	Percent change*	6.6	4.6	8.2	7.8	5.6	4.5	4.2	6.5	5.8	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	97.5	99.5	102.2	105.5	108.3	110.0	109.0	109.9	112.0	
Unemployment rate	Percent	7.2	7.0	6.2	5.5	5.3	5.5	6.7	6.6	6.2	
Industrial production index	Percent change*	1.9	1.4	6.5	4.5	1.1	.3	1.5	5.8	3.8	
Capacity utilization rate-mfg.	Percent	79.5	79.0	81.4	83.9	83.9	82.3	78.6	80.9	81.9	
Housing starts	Millions	1.74	1.81	1.62	1.49	1.38	1.19	1.01	1.18	1.31	
Auto sales	Millions	11.03	11.44	10.23	10.65	9.89	9.51	8.50	9.06	9.40	
Domestic	Millions	8.22	8.22	7.06	7.55	7.06	6.90	6.21	6.60	6.84	
Foreign	Millions	2.82	3.22	3.18	3.10	2.83	2.60	2.29	2.46	2.56	
<b>INCOME AND SAVING</b>											
Nominal personal income	Percent change*	6.6	5.8	8.1	7.6	6.8	5.6	3.9	6.5	6.1	
Real disposable income	Percent change*	2.7	3.3	2.7	4.3	1.7	-.4	1.3	2.7	2.9	
Personal saving rate	Percent	4.4	4.1	2.9	4.2	4.6	4.6	4.0	3.9	4.2	
Corp. profits with IVA & CCAdj	Percent change*	9.2	-5.6	17.4	8.2	-16.8	-.7	7.0	20.2	10.5	
Profit share of GNP	Percent	7.0	6.7	6.8	6.9	6.0	5.5	5.2	5.9	6.2	
Federal govt. surplus/deficit	\$Billions of \$	-196.9	-206.9	-158.2	-141.7	-134.3	-166.1	-180.6	-207.1	+205.8	
State and local govt. surplus		65.1	62.8	51.0	46.5	46.4	35.4	43.0	71.2	63.2	
Exc. social insurance funds		13.8	5.6	-8.3	-16.4	-19.9	-34.0	-29.2	-3.8	3.9	
<b>PRICES AND COSTS</b>											
GNP implicit deflator	Percent change*	2.9	2.6	3.0	4.1	3.7	4.0	3.4	3.0	2.7	
GNP fixed-weight price index		3.3	2.4	3.8	4.6	4.0	4.8	3.4	3.4	3.1	
CPI		3.5	1.3	4.5	4.3	4.6	6.3	3.1	2.6	3.3	
Exc. food and energy		4.3	3.9	4.3	4.5	4.3	5.3	4.5	3.7	3.3	
ECI hourly compensation		3.9	3.2	3.3	4.8	4.8	4.6	4.5	4.0	3.7	
Nonfarm business sector		1.6	1.3	2.3	1.8	-1.4	-.1	1.6	2.2	1.3	
Output per hour		4.6	4.9	3.8	4.2	2.5	4.6	4.4	4.0	3.7	
Compensation per hour		3.0	3.6	1.5	2.3	4.0	4.7	2.8	1.7	2.4	
Unit labor costs											

\* Percent changes are from fourth quarter to fourth quarter.

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

			1989				1990				1991	
	Units		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<b>EXPENDITURES</b>												
Nominal GNP	Billions of \$	5101.3	5174.0	5238.6	5289.3	5375.4	5443.3	5514.6	5527.3	5557.7	5615.8	
Real GNP	Billions of 82\$	4095.7	4112.2	4129.7	4133.2	4150.6	4155.1	4170.0	4153.4	4124.1	4123.0	
Real GNP	Percent Change	3.6	1.6	1.7	.3	1.7	.4	1.4	-1.6	-2.8	-.1	
Real GDP		3.5	2.1	1.4	-.1	1.8	1.2	.7	-2.1	-3.0	.8	
Gross domestic purchases		1.2	1.8	2.8	-1.2	.5	1.3	1.6	-5.1	-4.3	2.0	
Final sales		2.4	1.7	1.8	.9	3.8	-.7	1.9	1.4	-2.9	.2	
Private dom. final purchases		.8	1.4	4.1	-1.5	2.4	-1.2	2.3	-3.8	-5.1	2.1	
Personal consumption expend.		-.3	1.3	4.6	-.8	1.1	.2	2.7	-3.4	-1.5	2.8	
Durable		-6.0	5.6	9.6	-13.0	14.4	-9.5	2.6	-12.3	-11.7	-1.3	
Nondurables		.6	-1.7	3.9	-.2	-3.2	-1.9	2.3	-6.5	-1.8	2.7	
Services		.9	2.1	3.5	3.1	.1	5.1	3.0	1.8	2.1	4.1	
Business fixed investment		8.9	6.9	6.3	-3.8	5.0	-4.7	8.9	.1	-16.3	-1.8	
Producers' durable equipment		9.5	12.2	6.1	-5.2	5.7	-3.3	10.2	6.3	-18.4	2.0	
Nonresidential structures		7.5	-8.2	7.1	1.3	2.3	-9.0	5.1	-18.2	-9.0	-13.7	
Residential structures		-3.6	-11.3	-7.6	-5.5	15.1	-11.2	-19.8	-20.6	-25.3	2.7	
Exports		15.8	12.4	-.5	13.5	11.2	-5.0	6.9	11.0	-.5	4.3	
Imports		-2.3	12.8	6.4	1.7	2.5	.7	7.6	-11.8	-8.8	19.0	
Government purchases		-3.3	4.0	-2.4	3.0	2.9	6.2	1.2	4.7	-1.3	3.0	
Federal		-9.1	7.0	-7.9	-.4	-.4	16.4	.1	4.6	-.5	8.1	
Defense		-10.9	3.2	7.2	-7.0	-1.7	3.3	2.7	12.1	2.7	-8.7	
State and local		1.3	1.8	1.8	5.6	4.8	-.6	2.0	4.9	-1.9	-.6	
Change in business inventories	Billions of 82\$	26.1	25.5	24.6	18.9	-2.2	9.5	4.7	-26.4	-25.0	-27.7	
Nonfarm	Billions of 82\$	16.4	21.5	21.7	15.3	-8.2	11.6	4.7	-28.5	-28.1	-21.6	
. exports	Billions of 82\$	-51.1	-53.3	-64.1	-47.9	-35.4	-44.6	-46.5	-8.8	7.1	-14.5	
Nominal GNP	Percent change	7.5	5.8	5.1	3.9	6.7	5.1	5.3	.9	2.2	4.2	
<b>EMPLOYMENT AND PRODUCTION</b>												
Nonfarm payroll employment	Millions	107.6	108.1	108.5	109.0	109.7	110.2	110.2	109.8	109.2	108.8	
Unemployment rate	Percent*	5.2	5.3	5.3	5.3	5.3	5.3	5.6	5.9	6.5	6.8	
Industrial production index	Percent change	2.7	2.8	-1.2	.2	.6	4.2	3.9	-7.0	-9.7	2.6	
Capacity utilization rate-mfg.	Percent*	84.7	84.5	83.7	82.9	82.7	82.8	82.9	80.8	78.0	77.9	
Housing starts	Millions	1.46	1.36	1.35	1.35	1.43	1.20	1.13	1.04	.92	1.00	
Auto sales	Millions	10.03	10.26	10.20	9.09	10.01	9.53	9.58	8.93	8.25	8.46	
Domestic	Millions	7.08	7.26	7.36	6.56	7.11	6.78	7.21	6.59	6.00	6.10	
Foreign	Millions	2.95	3.00	2.84	2.53	2.90	2.75	2.47	2.34	2.25	2.36	
<b>INCOME AND SAVING</b>												
Nominal personal income	Percent change	11.6	5.8	3.7	6.2	8.6	5.3	5.0	3.5	1.5	4.3	
Real disposable income	Percent change	4.2	-1.2	2.7	1.2	2.5	.3	-.7	-3.5	-1.5	2.5	
Personal saving rate	Percent*	5.2	4.6	4.1	4.6	4.9	5.0	4.2	4.2	4.2	4.2	
Corp. profits with IVA & CCAdj	Percent change	-23.2	-7.0	-17.1	-19.1	8.4	13.9	-7.5	-14.8	-3.7	2.4	
Profit share of GNP	Percent*	6.4	6.2	5.9	5.5	5.5	5.6	5.5	5.2	5.1	5.1	
Federal govt. surplus/deficit	Billions of \$	-132.6	-122.7	-131.7	-150.1	-168.3	-166.0	-145.7	-184.3	-126.9	-185.0	
State and local govt. surplus		48.9	50.3	48.1	38.5	38.1	38.6	39.3	25.7	30.0	38.8	
Exc. social insurance funds		-16.2	-15.6	-18.7	-29.1	-30.2	-30.4	-30.5	-44.8	-41.0	-32.8	
<b>PRICES AND COSTS</b>												
GNP implicit deflator	Percent change	3.9	3.9	3.2	3.8	4.8	4.7	3.7	2.8	5.2	4.2	
GNP fixed-weight price index		4.9	4.6	3.1	3.8	6.6	3.9	4.2	4.7	5.2	3.0	
CPI		5.1	6.0	3.3	3.9	7.5	3.8	7.0	6.9	3.6	2.1	
Exc. food and energy		4.9	4.2	3.8	4.7	5.9	4.9	6.1	4.2	5.8	3.5	
ECI hourly compensation**		4.2	4.9	5.3	4.4	5.6	5.1	4.3	3.8	4.6	4.9	
farm business sector												
Output per hour		-2.8	.1	-.7	-2.2	-1.1	1.2	.6	-.8	.0	.5	
Compensation per hour		3.1	2.2	2.3	2.6	4.0	5.9	5.0	3.7	4.2	4.6	
Unit labor costs		6.0	2.0	3.0	5.0	5.2	4.7	4.4	4.6	4.2	4.0	

\* Not at an annual rate.

\*\* Private industry workers

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

	Units	Projection									
		1991		1992				1993			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>EXPENDITURES</b>											
Nominal GNP	Billions of \$	5677.7	5758.6	5860.1	5956.7	6048.1	6134.0	6231.1	6317.4	6406.2	6490.0
Real GNP	Billions of 1985 \$	4151.8	4185.0	4222.3	4259.3	4294.6	4327.4	4360.7	4393.0	4427.5	4458.0
Real GNP	Percent Change	2.8	3.2	3.6	3.5	3.4	3.1	3.1	3.0	3.2	2.8
Real GDP		2.7	3.3	3.5	3.6	3.4	3.3	3.0	3.0	3.1	3.0
Gross domestic purchases		2.8	2.8	3.6	3.6	3.4	3.3	3.1	3.0	3.1	2.9
Final sales		2.3	1.7	2.2	2.6	2.9	2.6	3.0	3.1	3.2	2.9
Private dom. final purchases		3.6	2.1	3.0	3.6	4.0	3.7	3.6	3.6	3.5	3.3
Personal consumption expend.		3.8	1.7	2.5	2.9	3.1	2.9	2.8	2.7	2.7	2.6
Durables		10.1	3.9	4.8	4.6	4.5	4.0	3.2	3.0	3.0	2.9
Nondurables		4.2	.8	1.7	2.2	2.4	2.3	2.3	2.2	2.2	2.1
Services		1.7	1.5	2.4	2.9	3.1	3.0	3.0	2.9	2.9	2.9
Business fixed investment		-2.2	1.6	4.3	5.3	6.1	6.1	6.2	6.2	6.4	6.4
Producers' durable equipment		2.2	6.1	8.0	8.5	8.5	8.0	8.0	8.0	8.0	8.0
Nonresidential structures		-17.0	-13.7	-9.1	-6.8	-3.5	-1.9	-1.7	-1.6	-1.0	-1.9
Residential structures		20.0	11.3	7.0	10.0	12.3	9.8	9.7	9.4	8.6	5.1
Exports		6.6	7.8	7.7	7.8	7.0	6.7	6.3	7.4	6.6	6.4
Imports		6.4	5.1	7.3	7.9	7.3	8.0	6.1	7.1	5.8	7.0
Government purchases		-2.9	-1.7	-1.3	-1.2	-1.1	-.8	.2	.8	1.2	1.3
Federal		-5.7	-4.7	-4.5	-4.5	-4.6	-4.6	-2.7	-1.9	-2.1	-2.1
Defense		-.6	-7.7	-8.2	-8.2	-7.9	-7.9	-5.3	-4.1	-4.3	-4.3
State and local		-.7	.6	1.0	1.3	1.5	1.8	2.2	2.6	3.4	3.6
Change in business inventories	Billions of 1985 \$	-22.1	-7.0	7.7	17.1	21.8	26.7	28.0	27.4	27.2	26.7
Nonfarm	Billions of 1985 \$	-18.5	-4.4	8.8	18.6	23.1	28.1	28.2	27.8	27.6	27.3
Net exports	Billions of 1985 \$	-14.5	-10.4	-10.0	-10.4	-11.0	-13.4	-13.2	-12.9	-11.7	-12.8
Nominal GNP	Percent change	4.5	5.8	7.2	6.8	6.3	5.8	6.5	5.7	5.7	5.3
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	108.8	109.0	109.3	109.7	110.2	110.7	111.2	111.8	112.3	112.9
Unemployment rate	Percent*	6.8	6.8	6.7	6.7	6.6	6.5	6.4	6.3	6.2	6.1
Industrial production index	Percent change	7.8	6.4	6.1	6.1	5.5	5.3	3.9	3.9	3.9	3.7
Capacity utilization rate-mfg.	Percent*	78.8	79.6	80.1	80.7	81.1	81.5	81.7	81.8	82.0	82.2
Housing starts	Millions	1.06	1.08	1.12	1.16	1.20	1.24	1.27	1.30	1.32	1.35
Auto sales	Millions	8.69	8.63	8.85	9.02	9.14	9.24	9.31	9.37	9.43	9.48
Domestic	Millions	6.42	6.33	6.45	6.58	6.65	6.72	6.77	6.82	6.86	6.90
Foreign	Millions	2.27	2.30	2.40	2.44	2.49	2.52	2.54	2.55	2.57	2.58
<b>INCOME AND SAVING</b>											
Nominal personal income	Percent change	3.5	6.3	7.6	6.0	6.0	6.5	7.6	5.7	5.4	5.7
Real disposable income	Percent change	1.7	2.4	3.2	2.0	2.5	3.1	5.4	2.2	2.0	2.1
Personal saving rate	Percent*	3.7	3.9	4.1	3.9	3.8	3.8	4.4	4.2	4.2	4.1
Corp. profits with IVA & CCAdj	Percent change	11.5	19.2	33.3	24.9	11.7	12.3	13.2	7.7	10.7	10.6
Profit share of GNP	Percent*	5.2	5.4	5.7	5.9	6.0	6.1	6.2	6.2	6.3	6.3
Federal govt. surplus/deficit	Billions of \$	-202.0	-208.4	-225.3	-210.5	-196.3	-196.2	-217.9	-209.3	-197.6	-198.4
State and local govt. surplus		49.1	54.0	63.3	70.2	75.5	78.5	81.1	82.3	83.6	85.5
Exc. social insurance funds		-23.4	-19.4	-11.0	-5.0	-6	1.5	3.2	3.5	3.9	4.9
<b>PRICES AND COSTS</b>											
GDP implicit deflator	Percent change	1.6	2.5	3.5	3.1	2.8	2.6	3.3	2.6	2.5	2.5
GDP fixed-weight price index		2.1	3.4	4.1	3.4	3.2	3.0	3.7	3.0	2.9	2.9
CPI		2.8	3.8	4.1	3.6	3.4	3.4	3.4	3.3	3.2	3.2
Exc. food and energy		4.2	3.8	4.1	3.7	3.6	3.4	3.4	3.3	3.2	3.2
ECI hourly compensation**		4.4	4.3	4.1	4.0	3.9	3.9	3.8	3.7	3.6	3.6
Nonfarm business sector											
Output per hour		3.3	2.8	3.0	2.6	1.8	1.6	1.4	1.3	1.3	1.3
Compensation per hour		4.6	4.3	4.5	3.9	3.8	3.8	4.1	3.7	3.6	3.6
Unit labor costs		1.3	1.5	1.5	1.3	2.0	2.2	2.7	2.4	2.3	2.3

\* Not at an annual rate.

\*\* Private industry workers

CONFIDENTIAL - FR  
CLASS II FOMC

September 25, 1991

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

	Proj.													
	1989				1990				1991		1988	1989	1990	1991
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	(fourth quarter to fourth quarter,			
Real GNP	36.4	16.5	17.5	3.5	17.4	4.5	14.9	-16.6	-29.3	-1.1	138.6	73.9	20.2	31.6
Real GDP	35.1	21.0	14.3	-.6	18.7	12.4	6.9	-22.3	-31.6	8.3	135.1	69.8	15.7	37.7
Gross domestic purchases	11.8	18.7	28.3	-12.7	4.9	13.7	16.8	-54.3	-45.2	20.5	103.0	46.1	-18.9	33.1
Final sales	24.4	17.0	18.5	9.3	38.4	-7.2	19.7	14.5	-30.8	1.7	172.9	69.2	65.4	12.2
Private dom. final purchases	6.5	11.4	34.1	-12.9	20.2	-10.3	19.1	-32.8	-44.0	17.1	128.7	39.1	-3.8	19.8
Personal consumption expend.	-2.1	8.6	30.0	-5.4	7.4	1.5	18.0	-23.2	-9.9	18.4	104.6	31.1	3.7	44.6
Durables	-6.6	5.8	9.9	-15.0	14.5	-10.8	2.7	-13.9	-12.7	-1.3	36.4	-5.9	-7.5	-.2
Nondurables	1.4	-3.9	8.8	-.4	-7.4	-4.4	5.2	-15.2	-4.1	6.0	21.9	5.9	-21.8	13.2
Services	3.0	6.7	11.3	10.0	.4	16.6	10.0	5.9	7.0	13.7	46.4	31.0	32.9	31.7
Business fixed investment	10.5	8.4	7.8	-4.9	6.2	-6.2	10.9	.1	-22.6	-2.3	24.3	21.8	11.0	-25.7
Producers' durable equipment	8.4	10.9	5.7	-5.2	5.4	-3.3	9.5	6.1	-20.0	1.9	27.7	19.8	17.7	-10.2
Nonresidential structures	2.2	-2.6	2.1	.4	-2.9	1.5	-6.0	-2.7	-4.1	-3.4	2.1	-6.7	-15.6	
Residential structures	-1.8	-5.7	-3.7	-2.6	6.5	-5.5	-9.8	-9.7	-11.5	1.0	-.2	-13.8	-18.5	.9
Change in business inventories	12.1	-.6	-.9	-5.7	-21.1	11.7	-4.6	-31.1	1.4	-2.7	-34.4	4.9	-45.3	19.4
Nonfarm	-10.8	5.1	.2	-6.4	-23.5	19.8	-6.9	-33.2	.4	6.5	-28.2	-11.9	-43.8	24.1
Farm	22.9	-5.7	-1.1	.7	2.4	-8.1	2.1	2.1	1.0	-9.2	6.3	16.8	-1.5	-4.7
Net exports	24.6	-2.2	-10.8	16.2	12.5	-9.2	-1.9	37.7	15.9	-21.6	35.6	27.8	39.1	-1.6
Exports	20.8	17.1	-.7	19.1	16.5	-8.0	10.4	16.7	.8	6.9	68.3	56.3	35.6	30.9
Imports	-3.7	19.2	10.1	2.8	4.1	1.2	12.3	-21.0	-15.0	28.5	32.7	28.4	-3.4	32.5
Government purchases	-6.7	7.8	-4.8	6.0	5.7	12.3	2.5	9.6	-2.7	6.2	8.6	2.3	30.1	-6.1
Federal	-8.1	5.7	-6.9	-.3	.3	12.9	.1	3.9	-.4	6.9	-5.4	-9.6	17.2	-2.9
Defense	-7.4	2.0	4.5	-4.7	-1.1	2.1	1.7	7.5	1.8	-6.0	-4.9	-5.6	10.2	-9.8
Nonddefense	-.8	3.8	-11.4	4.4	1.4	10.8	-1.6	-3.6	-2.2	12.9	-.5	-4.0	7.0	6.9
State and local	1.5	2.1	2.1	6.3	5.5	-.7	2.4	5.7	-2.3	-.7	13.9	12.0	12.9	-3.2

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CONFIDENTIAL - FR  
CLASS II FOMC

September 25, 1991

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

	Projection										Projection			
	1991		1992				1993				1990	1991	1992	1993
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter,			
											net change)			
Real GNP	28.8	33.2	37.4	36.9	35.3	32.8	33.3	32.3	34.5	30.6	20.2	31.6	142.4	130.7
Real GDP	27.0	34.0	36.2	37.1	35.3	34.6	32.2	32.2	33.2	32.2	15.7	37.7	143.2	129.8
Gross domestic purchases	28.8	29.1	37.0	37.3	36.0	35.1	33.1	32.0	33.3	31.7	-18.9	33.1	145.4	130.1
Final sales	23.2	18.1	22.6	27.5	30.7	27.9	32.0	32.9	34.7	31.1	65.4	12.2	108.7	130.7
Private dom. final purchases	29.3	17.5	25.1	30.3	33.5	31.9	31.4	30.9	31.1	29.5	-3.8	19.8	120.8	122.9
Personal consumption expend.	24.9	11.2	17.0	19.7	20.9	20.1	19.3	18.7	18.8	18.6	3.7	44.6	77.8	75.3
Durables	9.8	4.0	4.9	4.7	4.7	4.3	3.4	3.2	3.2	3.1	-7.5	-.2	18.5	13.0
Nondurables	9.4	1.9	3.9	5.0	5.5	5.3	5.3	5.1	5.2	4.9	-21.8	13.2	19.7	20.5
Services	5.7	5.3	8.3	10.0	10.8	10.5	10.6	10.3	10.4	10.5	32.9	31.7	39.6	41.8
Business fixed investment	-2.8	2.0	5.3	6.5	7.6	7.6	7.9	8.0	8.4	8.5	11.0	-25.7	27.0	32.8
Producers' durable equipment	2.1	5.8	7.6	8.3	8.4	8.1	8.3	8.4	8.6	8.8	17.7	-10.2	32.4	34.0
Nonresidential structures	-5.0	-3.8	-2.4	-1.7	-.9	-.5	-.4	-.4	-.2	-.2	-6.7	-15.6	-5.4	-1.2
Residential structures	7.1	4.3	2.8	4.0	5.0	4.2	4.2	4.2	3.9	2.4	-18.5	.9	16.1	14.8
Change in business inventories	5.6	15.1	14.7	9.4	4.7	4.9	1.3	-.6	-.2	-.5	-45.3	19.4	33.7	.0
Nonfarm	3.1	14.1	13.2	9.8	4.5	5.0	.1	-.4	-.2	-.3	-43.8	24.1	32.5	-.8
Farm	2.5	1.0	1.5	-.4	.2	-.1	1.2	-.2	.0	-.2	-1.5	-4.7	1.2	.8
Net exports	.0	4.1	.3	-.4	-.7	-2.3	.2	.2	1.2	-1.1	39.1	-1.6	-3.0	.5
Exports	10.6	12.6	12.6	13.0	12.0	11.8	11.2	13.3	12.1	12.0	35.6	30.9	49.5	48.6
Imports	10.5	8.5	12.3	13.4	12.7	14.1	11.0	13.0	10.9	13.2	-3.4	32.5	52.5	48.1
Government purchases	-6.1	-3.5	-2.8	-2.4	-2.2	-1.7	.4	1.7	2.4	2.7	30.1	-6.1	-9.1	7.2
Federal	-5.2	-4.2	-4.0	-3.9	-4.0	-3.9	-2.3	-1.5	-1.7	-1.7	17.2	-2.9	-15.8	-7.2
Defense	-.4	-5.2	-5.4	-5.3	-5.0	-4.9	-3.2	-2.4	-2.5	-2.5	10.2	-9.8	-20.6	-10.6
Nondefense	-4.8	1.0	1.4	1.4	1.0	1.0	.9	.9	.8	.8	7.0	6.9	4.8	3.4
State and local	-.9	.7	1.2	1.5	1.8	2.2	2.7	3.2	4.1	4.4	12.9	-3.2	6.7	14.4

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FEDERAL SECTOR ACCOUNTS<sup>1</sup>  
(Billions of dollars)

	Fiscal years				1991				1992				1993			
	1990*	1991	1992	1993	Ia	IIa	III	IV	I	II	III	IV	I	II	III	IV
	BUDGET															
<b>Not seasonally adjusted</b>																
Budget receipts <sup>2</sup>	1031	1054	1134	1215	233	307	264	255	252	344	283	275	267	365	308	289
Budget outlays <sup>2</sup>	1252	1330	1490	1508	299	333	362	381	369	375	365	394	374	372	367	393
Surplus/deficit (-) <sup>2</sup>	-220	-276	-356	-292	-66	-26	-99	-126	-117	-31	-82	-119	-107	-7	-59	-104
(On-budget)	-277	-330	-416	-356	-80	-50	-103	-137	-128	-62	-89	-130	-117	-42	-68	-118
(Off-budget)	57	54	60	64	15	24	5	11	11	31	7	12	10	35	8	14
Surplus excluding deposit insurance <sup>3</sup>	-162	-208	-241	-227	-63	-12	-61	-95	-88	0	-58	-95	-91	8	-49	-95
Means of financing:																
Borrowing	263	297	354	291	56	43	99	105	113	56	81	111	95	27	58	97
Cash decrease	1	0	0	0	0	-12	3	23	2	-20	-5	10	10	-15	-5	10
Other <sup>4</sup>	-44	-21	1	1	9	-6	-3	-2	2	-5	6	-2	2	-5	6	-2
Cash operating balance, end of period	40	40	40	40	32	44	40	17	15	35	40	30	20	35	40	30
<b>Seasonally adjusted annual rates</b>																
<b>NIPA FEDERAL SECTOR</b>																
Receipts	1092	1139	1218	1301	1135	1139	1156	1177	1209	1232	1253	1274	1290	1309	1330	1351
Expenditures	1249	1314	1428	1506	1261	1224	1358	1386	1434	1442	1449	1471	1508	1518	1527	1549
Purchases	415	445	446	446	444	451	449	446	449	447	444	441	448	448	447	446
Defense	307	328	317	305	331	327	327	322	320	315	310	305	307	305	303	301
Nondefense	107	118	129	140	113	124	122	124	129	131	133	135	140	142	144	146
Other expend.	835	868	981	1060	818	873	909	940	985	996	1005	1030	1060	1071	1080	1103
Surplus/deficit	-158	-175	-210	-205	-127	-185	-202	-208	-225	-211	-196	-196	-218	-209	-198	-198
<b>FISCAL INDICATORS<sup>5</sup></b>																
High-employment (HEB) surplus/deficit (-)	-150	-110	-140	-153	-63	-107	-124	-132	-153	-143	-133	-137	-163	-159	-152	-156
Change in HEB, percent of potential GNP	0	-.7	.5	.2	-1.5	.8	.3	.1	.3	-.2	-.2	.1	.4	-.1	-.1	.1
Fiscal impetus measure (FI), percent	-3.3 *	-2.9 *	-5 *	-3.5 *	-3.8	-.4	.1	-1.2	-2.6	-1	-1.1	-.9	-1.5	-.4	-.4	-.4

\*\*--actual

\*\*--calendar year

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

1. Staff projections. OMB's July deficit estimates are \$282 billion in FY1991 and \$348 billion in FY1992. CBO's August deficit estimates are \$279 billion in FY1991 and \$362 billion in FY1992.
2. Budget receipts, outlays, and surplus/deficit include social security (OASDI) receipts, outlays and surplus, respectively. The OASDI surplus is excluded from the "on-budget" deficit and shown separately as "off-budget", as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY1990.
3. OMB's July deficit estimates, excluding deposit insurance spending, are \$199 billion in FY1991 and \$230 billion in FY1992. CBO's August deficit estimates, excluding deposit insurance spending, are \$202 billion in FY1991 and \$248 billion in FY1992.
4. Other means of financing are checks issued less checks paid, accrued items; and changes in other financial assets and liabilities.
5. HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate and 2.3% potential output growth in the forecast period. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.

GROWTH RATES IN DEBT BY SECTOR<sup>1</sup>  
(Percent, period-end to period-end)

	Domestic Nonfinancial Sectors							Memo		
	Households									
	Total <sup>2</sup>	U.S. govt. <sup>2</sup>	Non- federal	Total	Home mtgs.	Cons. credit	Business	State & local govts.	Private financial assets <sup>3</sup>	Nominal GNP <sup>4</sup>
1982	9.3	19.4	6.9	5.4	4.5	4.4	7.8	9.1	10.3	3.1
1983	11.5	18.8	9.6	11.4	11.0	12.6	8.3	7.1	11.8	10.4
1984	14.4	16.9	13.7	12.9	11.7	18.7	15.6	7.9	13.4	8.6
1985	14.2	16.2	13.6	14.1	11.9	15.9	11.4	23.7	12.0	6.6
1986	12.3	13.4	12.0	12.8	14.9	9.6	12.0	7.6	9.1	4.6
1987	9.0	8.0	9.3	11.6	14.0	5.1	7.0	9.6	7.8	8.2
1988	9.1	8.0	9.5	10.9	12.2	7.2	8.2	8.2	8.7	7.8
1989	7.5	7.2	7.5	8.9	10.5	5.3	6.7	4.9	7.4	5.6
1990	6.5	12.0	4.9	7.3	9.1	1.8	2.8	2.7	4.7	4.5
1991	5.2	11.8	3.1	5.1	6.8	-2.1	0.9	3.3	3.5	4.2
1992	7.1	12.5	5.2	6.7	7.9	1.7	3.7	3.6	4.2	6.5
1993	6.4	8.6	5.5	6.9	7.8	3.3	4.3	3.3	5.0	5.8
Seasonally adjusted, annual rates										
1990 -- Q1	8.2	10.9	7.4	10.8	12.8	3.8	4.8	2.5	7.3	6.7
Q2	5.9	9.7	4.8	7.0	8.8	0.4	2.7	2.7	4.7	5.1
Q3	6.4	11.8	4.7	6.1	7.2	2.6	3.4	4.4	4.1	5.3
Q4	4.8	13.2	2.2	4.0	5.9	0.3	0.3	1.2	2.2	0.9
1991 -- Q1	3.9	8.0	2.6	4.2	5.4	-2.9	0.9	1.9	5.0	2.2
Q2	4.3	9.2	2.7	5.1	6.5	-2.5	0.1	2.6	1.8	4.2
Q3	6.2	15.2	3.2	5.2	7.1	-1.9	0.5	5.2	3.9	4.5
Q4	6.2	12.8	3.9	5.6	7.5	-1.0	2.1	3.6	3.1	5.8
1992 -- Q1	7.5	14.9	4.9	6.5	7.7	1.2	3.3	3.6	5.3	7.2
Q2	6.3	10.0	4.9	6.4	7.6	1.3	3.5	3.6	3.0	6.8
Q3	6.7	11.0	5.1	6.5	7.5	2.1	3.9	3.5	3.8	6.3
Q4	7.1	12.2	5.3	6.8	7.9	2.1	4.0	3.5	4.4	5.8
1993 -- H1	6.2	8.3	5.4	6.8	7.7	3.1	4.1	3.4	5.1	6.1
H2	6.3	8.5	5.5	6.8	7.6	3.5	4.4	3.1	4.9	5.5

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1. Published data through 1991:2; projections for other periods.

2. Deposit insurance activity adds roughly .9 percentage points to total debt in 1991 and 1992 and .3 points in 1993; federal debt growth increases about 3 points in 1991 and 1992 and 1 point in 1993.

3. Sometimes referred to as the "Kaufman debt proxy"; includes liquid assets and credit market instruments.

4. Annual figures are Q4 to Q4.

FLOW OF FUNDS PROJECTION HIGHLIGHTS<sup>1</sup>  
(Billions of dollars, seasonally adjusted annual rates)

	1990	Calendar year			1991				1992			
		1991	1992	1993	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Net funds raised by domestic nonfinancial sectors:</b>												
1 Total	576.3	556.5	781.0	746.3	399.4	473.6	675.0	677.8	826.2	706.0	762.8	829.2
2 Net equity issuance	-63.0	3.0	-4.0	-10.0	-12.0	11.0	11.0	2.0	-2.0	-2.0	-6.0	-6.0
3 Net debt issuance	639.3	553.5	785.0	756.3	411.4	462.6	664.0	675.8	828.2	708.0	768.8	835.2
<b>Borrowing sectors:</b>												
<b>Nonfinancial business</b>												
4 Financing gap <sup>2</sup>	39.6	-11.9	7.5	16.7	-16.5	-7.9	-13.9	-9.3	-3.5	4.6	10.8	18.2
5 Net equity issuance	-63.0	3.0	-4.0	-10.0	-12.0	11.0	11.0	2.0	-2.0	-2.0	-6.0	-6.0
6 Credit market borrowing	95.6	31.6	130.1	157.6	32.0	4.3	16.5	73.4	115.1	123.4	138.7	143.3
<b>Households</b>												
7 Net borrowing, of which:	254.0	197.8	270.6	298.9	162.6	199.7	206.1	222.6	262.7	262.6	270.4	286.7
8 Home mortgages	215.2	181.3	224.5	239.5	144.9	175.3	195.0	210.0	220.0	220.0	220.8	237.2
9 Consumer credit	14.3	-16.7	13.3	26.9	-23.6	-20.4	-15.0	-8.0	9.6	10.1	16.6	17.1
10 Debt/DPI (percent) <sup>3</sup>	93.1	96.5	96.6	97.0	96.7	96.7	97.2	97.0	97.0	97.2	97.4	97.6
<b>State and local governments</b>												
11 Net borrowing	17.2	21.7	24.0	22.8	12.2	16.8	34.0	24.0	23.9	24.1	23.9	24.1
12 Current surplus <sup>4</sup>	-30.6	-22.0	8.7	16.0	-35.2	-29.5	-14.9	-8.2	1.3	6.9	12.5	14.1
<b>U.S. government</b>												
13 Net borrowing	272.5	302.4	360.3	277.0	204.7	241.8	407.4	355.8	426.5	297.9	335.8	381.1
14 Net borrowing; quarterly, nsa	272.5	302.4	360.3	277.0	55.8	43.0	98.6	105.1	113.0	55.8	80.6	110.9
15 Unified deficit; quarterly, nsa	236.1	315.9	348.2	278.1	65.6	25.7	98.6	126.1	116.8	31.1	81.7	118.6
<b>Funds supplied by depository institutions</b>												
16 Dom. nonfinancial debt <sup>3</sup>	-26.9	-105.8	-37.3	48.4	-9.9	-96.4	-201.9	-115.0	-50.4	-23.2	-41.9	-33.8
<b>Memoranda: As percent of GNP:</b>												
17 Dom. nonfinancial debt <sup>3</sup>	186.3	191.7	191.7	193.0	191.8	191.9	192.7	192.9	193.1	193.0	193.2	193.9
18 Dom. nonfinancial borrowing	11.7	9.8	13.1	11.9	7.4	8.2	11.7	11.7	14.1	11.9	12.7	13.6
19 U.S. government <sup>5</sup>	5.0	5.4	6.0	4.4	3.7	4.3	7.2	6.2	7.3	5.0	5.6	6.2
20 Private	6.7	4.4	7.1	7.5	3.7	3.9	4.5	5.6	6.9	6.9	7.2	7.4

1. Published data through 1991:2; projections for other periods.

2. For corporations: excess of capital expenditures over U.S. internal funds.

3. Annuals are average debt levels in the year (computed as the average of year-end debt positions) divided by nominal GNP.

4. NIPA surplus, net of retirement funds.

5. Excludes government-insured mortgage pool securities.

Trade data for July and preliminary indicators for August and September indicate some slowing in the growth of real nonagricultural exports in the third quarter following a strong second quarter. This growth is projected to pick up to an average annual rate of a little over 10 percent through next year. The key factors underlying this outlook are the resumption of fairly strong growth abroad on average and some lingering stimulus from the sharp depreciation of the dollar last year. In addition, the quantity of computer exports is expected to continue to expand rapidly and to contribute about 2 percentage points to the growth rate for nonagricultural export volume over the projection period. Compared with the previous forecast, the growth rate for nonagricultural exports through next year has been raised about 1 percentage point, primarily because the path for the dollar's exchange rate was lowered.

**TRADE QUANTITIES\***  
(Percent change from preceding comparable period, annual rate)

	1991				Projection	
	Q1	Q2	Q3	Q4	1992 Q4	1993 Q4
Nonagric. exports	6.6	17.8	7.0	11.8	10.0	8.6
Agricultural exports	13.1	-27.1	36.3	-4.1	1.5	1.6
Non-oil imports	-10.0	15.6	17.8	8.8	8.8	7.1
Oil imports	23.4	73.7	-14.7	-1.8	11.0	9.7

\* GNP basis, 1982 dollars.

Agricultural exports are expected to strengthen somewhat in the second half of this year, largely because of the recent provision of credit guarantees to the Soviet Union. Exports of corn to the Soviet Union increased sharply in June, and weekly data from the U.S. Department of Agriculture indicate continued strength through the first half of September. As of yet, there have been no indications of large purchases of wheat by the

reach .4 million barrels per day by the end of this year and to rise further next year.

Prices of Exports and Non-oil Imports. The fixed-weight price index for U.S. nonagricultural exports is projected to have declined slightly in the third quarter, reflecting the recent weakness in domestic producer prices. Export prices are expected to resume a moderate uptrend over the period ahead. Non-oil import prices are expected to have declined

**SELECTED PRICE INDICATORS**  
(Percent change from the end of preceding comparable period, annual rate)

	1991				Projection	
	Q1	Q2	Q3	Q4	1992 Q4	1993 Q4
PPI (export wts.)	-2.0	-4.0	0.6	2.1	2.0	2.1
Nonag exports (Fx-Wt)	-1.0	-3.1	-0.5	1.1	2.0	2.0
Non-oil imports (Fx-Wt)	4.0	-3.7	-0.6	2.3	3.2	3.0
Oil imports (\$/barrel)	20.33	17.31	17.51	18.86	18.00	18.00

slightly further in the third quarter but are projected to increase later this year and next as the effects of the appreciation of the dollar earlier this year wear off.

Nominal Trade and Current Account Balances. The trend improvement in the merchandise trade balance is thought to have come to an end after the second quarter. The deficit is expected to widen to more than \$70 billion at an annual rate in the third quarter and to increase moderately further over the forecast period. Excluding the effects of cash grants associated with the Gulf War, the current account deficit is projected to remain in the neighborhood of the \$35 billion annual rate recorded in the second quarter. Improvements in the nontrade portion of the current account should about offset the moderate deterioration in the trade balance.

Within the nontrade portions of the accounts, net service receipts are expected to expand steadily over the forecast period as markets for U.S. services continue to grow relatively rapidly on average. Net investment income receipts are expected to have increased in the third quarter because the recent declines in U.S. interest rates will have reduced payments on U.S. net portfolio debts to the rest of the world. Through the rest of the forecast period, increases in net investment income receipts are projected to remain little changed on balance.

NOMINAL EXTERNAL BALANCES  
(Billions of dollars, SAAR)

	1991				Projection	
	Q1	Q2	Q3	Q4	1992 Year	1993 Year
Trade Balance	-73.6	-62.5	-69.5	-72.3	-77.0	-82.7
Current Account excl.						
Gulf War Cash Grants	-48.8	-34.5	-37.2	-39.4	-36.6	-37.8
Gulf War Cash Grants	90.8	46.4	21.6	16.0	0.0	0.0
Current Account	42.0	11.9	-15.6	-23.4	-36.6	-37.8

Cash grants received from foreign governments to support Operation Desert Storm, which totaled \$34 billion (not at an annual rate) in the first half of the year, are expected to amount to \$9 billion in the second half. As a result, the current account is projected to move back into deficit during the third and fourth quarters after having shown surpluses during the first two quarters of the year.

September 25, 1991

STRICTLY CONFIDENTIAL - FR  
CLASS II FOMCREAL GNP AND CONSUMER PRICES, SELECTED COUNTRIES, 1989-93  
(Percent change from fourth quarter to fourth quarter)

Measure and country	Projection				
	1989	1990	1991	1992	1993
<b>REAL GNP</b>					
Canada	2.1	-1.1	1.0	2.7	3.1
France	3.9	1.9	1.8	2.4	2.6
Western Germany	3.2	5.3	2.3	3.0	3.1
Italy	2.9	1.0	1.6	2.4	2.6
Japan	4.8	4.8	3.9	3.6	3.8
United Kingdom	1.3	-0.7	-0.2	2.0	2.1
Average, weighted by 1987-89 GNP	3.4	2.6	2.2	2.9	3.0
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	3.5	2.1	2.5	3.4	3.6
G-6	2.8	1.0	1.6	2.8	3.1
Developing countries	5.0	4.9	5.9	5.7	6.2
<b>CONSUMER PRICES</b>					
Canada	5.2	4.9	5.2	3.4	3.6
France	3.6	3.6	2.7	3.3	3.4
Western Germany	3.0	3.0	4.0	3.1	2.8
Italy	6.6	6.3	5.8	5.8	5.3
Japan	2.9	3.5	3.1	3.0	2.7
United Kingdom	7.6	10.0	4.2	5.0	4.1
Average, weighted by 1987-89 GNP	4.4	4.9	3.9	3.8	3.5
Average, weighted by share of U.S. non-oil imports	4.2	4.5	4.1	3.4	3.3

September 24, 1991

U.S. CURRENT ACCOUNT AND REAL NET EXPORTS													
	(Billions of dollars, seasonally adjusted annual rates)												
	1989				1990				1991		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1988	1989	1990
Net Exports (\$B)	-51.1	-53.3	-64.1	-47.9	-35.4	-44.6	-46.5	-8.8	7.1	-14.5	-75.9	-54.1	-33.8
Exports of G+S	576.1	593.2	592.5	611.6	628.1	620.1	630.5	647.2	648.0	654.9	534.6	593.3	631.5
Merchandise	376.9	390.7	390.3	405.2	422.4	418.4	421.0	433.8	441.4	455.2	347.3	390.8	423.9
Services	199.2	202.5	202.2	206.4	205.7	201.7	209.5	213.4	206.7	199.8	187.4	202.6	207.6
Imports of G+S	627.3	646.5	656.6	659.4	663.5	664.7	677.0	656.0	641.0	669.5	610.6	647.4	665.3
Merchandise	480.6	492.4	509.8	514.3	517.8	515.2	526.5	508.4	501.7	530.1	469.4	499.3	517.0
Oil	88.8	92.9	98.5	95.0	100.8	96.9	100.9	83.3	87.8	100.8	86.9	93.8	95.5
Non-oil	391.8	399.5	411.4	419.3	417.1	418.3	425.5	425.1	414.0	429.3	382.5	405.5	421.5
Services	146.7	154.1	146.7	145.1	145.6	149.4	150.5	147.6	139.2	139.4	141.1	148.1	148.3
Memo: (Percent changes 1/)													
Exports of G+S	15.8	12.4	-0.5	13.5	11.2	-5.0	6.9	11.0	0.5	4.3	14.0	10.1	5.8
of which: Gds.	18.6	15.5	-0.4	16.2	18.1	-3.7	2.5	12.7	7.2	13.1	15.0	12.2	7.1
Imports G+S	-2.3	12.8	6.4	1.7	2.5	0.7	7.6	-11.8	-8.8	19.0	5.5	4.5	-0.5
of which: Non-oil Gds.	-1.4	8.1	12.5	7.9	-2.1	1.2	7.1	-0.4	-10.0	15.6	3.4	6.6	1.4
U.S. Current Account Balance	-110.3	-111.2	-104.9	-98.8	-90.7	-88.7	-95.5	-93.6	42.0	11.9	-126.2	-106.3	-92.1
Merchandise Trade, net	-117.7	-114.8	-116.7	-114.4	-110.1	-96.4	-115.0	-110.9	-73.6	-62.5	-127.0	-115.9	-108.1
Exports	348.8	366.4	360.6	370.0	381.0	388.4	386.6	402.3	403.6	416.4	320.3	361.5	389.5
Agricultural	42.9	43.1	40.6	42.2	43.0	40.8	39.3	37.8	39.8	38.0	38.2	42.2	40.2
Nonagricultural	306.0	323.3	320.0	327.8	338.0	347.5	347.3	364.5	363.8	378.4	282.1	319.3	349.3
Imports	466.5	481.2	477.3	484.4	491.1	484.7	501.6	513.2	477.2	478.9	447.3	477.4	497.7
Oil	44.2	54.2	52.2	53.1	63.2	51.3	61.8	72.1	52.9	51.6	39.6	50.9	62.1
Non-oil	422.3	427.0	425.1	431.3	427.9	433.4	439.8	441.1	424.3	427.3	407.7	426.4	435.6
Other Current Account	7.4	3.6	11.9	15.6	19.5	7.6	19.5	17.3	115.6	74.4	0.7	9.6	16.0
Investment Income, net	3.6	-4.7	2.0	9.9	12.0	0.0	11.2	24.5	19.5	9.9	5.4	2.7	11.9
Direct, net	42.4	36.1	41.2	50.2	51.9	43.6	53.5	61.7	61.3	52.6	36.8	42.5	52.7
Portfolio, net	-38.8	-40.9	-39.2	-40.3	-39.8	-43.6	-42.3	-37.2	-41.8	-42.8	-31.5	-39.8	-40.7
Military Transactions, net	-6.9	-6.5	-4.6	-6.8	-6.9	-6.2	-6.7	-9.0	-9.3	-6.7	-5.7	-6.2	-7.2
Other Services, net	24.8	27.3	29.7	32.7	30.5	32.6	32.3	38.9	37.6	38.6	16.1	28.6	33.6
Unilateral Transfers, net	-14.2	-12.6	-15.2	-20.2	-16.1	-18.8	-17.3	-37.1	67.8	32.6	-14.9	-15.5	-22.3

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

**OUTLOOK FOR U.S. CURRENT ACCOUNT AND REAL NET EXPORTS**  
(Billions of dollars, seasonally adjusted annual rates)

	Projection												Projection				
	1991		1992				1993				ANNUAL						
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1991	1992	1993				
GNP Net Exports (82\$)	-14.4	-10.3	-9.9	-10.3	-11.0	-13.3	-13.1	-12.8	-11.6	-12.7	-8.0	-11.1	-12.6				
Exports of G+S Merchandise Services	665.5	678.1	690.7	703.8	715.8	727.6	738.8	752.1	764.2	776.2	661.6	709.5	757.8				
	465.3	477.0	488.3	500.1	510.9	521.5	531.6	542.2	552.8	563.6	459.7	505.2	547.6				
	200.3	201.3	202.6	203.8	205.0	206.2	207.3	210.0	211.5	212.7	202.0	204.4	210.4				
Imports of G+S Merchandise Oil Non-oil Services	680.0	688.5	700.8	714.2	726.9	741.0	752.0	765.0	775.9	789.1	669.7	720.7	770.5				
	544.1	553.2	566.8	579.6	592.2	603.9	615.8	626.9	638.2	649.4	532.3	585.7	632.6				
	96.9	96.4	99.0	101.7	104.4	107.1	109.7	112.3	114.9	117.5	95.5	103.1	113.6				
	447.3	456.8	467.8	477.9	487.8	496.9	506.2	514.7	523.4	531.9	436.8	482.6	519.0				
	135.9	135.2	133.9	134.6	134.6	137.1	136.2	138.1	137.6	139.7	137.4	135.0	137.9				
Memo: (Percent changes 1/)																	
Exports of G+S of which: Gds.	6.6	7.8	7.7	7.8	7.0	6.7	6.3	7.4	6.6	6.4	4.8	7.3	6.7				
	9.2	10.4	9.8	10.0	8.9	8.5	8.0	8.2	8.0	8.1	9.9	9.3	8.1				
Imports G+S of which: Non-oil Gds.	6.4	5.1	7.3	7.9	7.3	8.0	6.1	7.1	5.8	7.0	5.0	7.6	6.5				
	17.8	8.8	10.0	8.9	8.5	7.6	7.7	6.9	6.9	6.7	7.5	8.8	7.1				
Current Account Balance	-15.6	-23.4	-35.4	-34.9	-34.6	-41.5	-37.7	-37.5	-35.6	-40.3	3.7	-36.6	-37.8				
Merchandise Trade, net	-69.5	-72.3	-75.9	-76.0	-77.1	-79.0	-81.3	-82.1	-83.3	-84.0	-69.5	-77.0	-82.7				
Exports Agricultural Nonagricultural	424.4	436.5	448.1	460.2	470.6	480.3	489.6	499.4	509.0	518.8	420.2	464.8	504.2				
	41.0	41.1	42.4	43.5	43.9	44.1	44.8	45.6	46.2	46.9	40.0	43.5	45.9				
	383.4	395.4	405.8	416.6	426.8	436.2	444.9	453.9	462.8	471.8	380.3	421.3	458.3				
Imports Oil Non-oil	493.9	508.8	524.0	536.2	547.8	559.3	570.9	581.5	592.3	602.8	489.7	541.8	586.9				
	51.7	55.7	57.7	57.8	57.7	59.2	60.7	62.2	63.8	65.3	53.0	58.1	63.0				
	442.1	453.1	466.3	478.5	490.1	500.1	510.2	519.3	528.5	537.5	436.7	483.7	523.9				
Other Current Account	53.9	48.9	40.4	41.1	42.6	37.6	43.6	44.6	47.7	43.7	73.2	40.4	44.9				
Investment Income, net	13.9	14.0	16.4	16.2	16.2	13.1	14.6	14.4	16.3	13.8	14.3	15.5	14.8				
Direct, net	49.7	50.4	50.6	50.8	50.4	49.5	49.3	51.2	51.5	51.1	53.5	50.3	50.8				
Portfolio, net	-35.8	-36.4	-34.2	-34.7	-34.2	-36.4	-34.8	-36.8	-35.2	-37.3	-39.2	-34.9	-36.0				
Military, net	-4.4	-3.2	-2.5	-2.5	-1.7	-1.3	-0.8	-1.2	-1.6	-1.6	-5.9	-2.0	-1.3				
Other Services, net	39.8	42.1	43.5	44.4	45.1	45.7	46.8	48.4	50.0	51.5	39.5	44.7	49.2				
Unilater. Transfers, net	4.6	-4.0	-17.0	-17.0	-17.0	-20.0	-17.0	-17.0	-17.0	-20.0	25.2	-17.8	-17.8				

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

Confidential (FR) Class III FOMC

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September 25, 1991

## **RECENT DEVELOPMENTS**

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

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS  
(Monthly rates, not seasonally adjusted, billions of dollars)

	1988	1989	1990	Q1	Q2 <sup>p</sup>	July <sup>p</sup>	Aug. <sup>p</sup>	Sept. <sup>e</sup>
	-1991-							
Corporate securities - total <sup>1</sup>	22.41	19.87	19.86	28.34	35.05	22.23	31.75	24.50
Public offerings in U.S.	20.39	17.80	17.73	26.10	31.22	20.18	29.73	23.00
Stocks--total <sup>2</sup>	3.54	2.69	1.95	2.22	6.12	2.68	6.73	4.00
Nonfinancial	1.15	1.08	1.03	1.29	4.01	2.32	5.43	2.00
Utility	0.24	0.29	0.35	0.47	0.70	0.21	0.21	0.00
Industrial	0.91	0.79	0.68	0.82	3.31	2.11	5.22	2.00
Financial	2.39	1.60	0.92	0.93	2.11	0.35	1.30	2.00
Bonds	16.85	15.12	15.77	23.89	25.10	17.50	23.00	19.00
Nonfinancial	6.19	6.30	5.65	9.10	10.18	6.50	9.70	8.50
Utility	1.79	1.78	1.97	2.20	3.68	2.60	2.80	2.00
Industrial	4.41	4.52	3.69	6.90	6.50	3.90	6.90	6.50
Financial	10.66	8.81	10.12	14.79	14.92	11.00	13.30	10.50
By quality <sup>3</sup> >								
Aaa and Aa	2.77	3.17	3.43	4.78	3.76	1.21	3.90	3.29
A and Baa	5.50	5.83	6.41	12.82	12.84	9.20	10.25	4.06
Less than Baa	2.56	2.39	0.15	0.41	1.33	0.49	0.48	0.1
No rating (or unknown)	0.05	0.05	0.04	0.03	0.00	0.00	0.02	0
Memo items:								
Equity-based bonds <sup>4</sup>	0.28	0.52	0.38	0.77	0.78	0.54	0.38	0.31
Mortgage-backed bonds	4.72	1.68	2.41	2.04	3.31	2.72	4.71	2.50
Other asset-backed	1.26	2.02	3.35	3.84	3.86	3.88	3.65	8.50
Variable-rate notes	1.19	1.03	0.82	0.75	0.82	0.33	1.37	0.10
Bonds sold abroad - total	1.93	1.90	1.92	2.07	3.04	1.50	1.50	1.50
Nonfinancial	0.73	0.48	0.46	1.04	1.60	0.85	0.65	0.35
Financial	1.20	1.43	1.46	1.03	1.44	0.65	0.85	1.15
Stocks sold abroad - total	0.09	0.16	0.22	0.17	0.80	0.54	0.52	0.00
Nonfinancial	0.08	0.12	0.10	0.05	0.75	0.37	0.47	0.00
Financial	0.02	0.04	0.12	0.11	0.05	0.18	0.04	0.00

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

2. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings. Such swaps totaled \$9.4 billion in 1990.

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

4. Includes bonds convertible into equity and bonds with warrants that entitle the holder to purchase equity in the future.

p--preliminary. e--staff estimate.

TREASURY AND AGENCY FINANCING<sup>1</sup>  
(Total for period; billions of dollars)

	1991				
	Q2	Q3 <sup>P</sup>	July <sup>e</sup>	Aug. <sup>P</sup>	Sept. <sup>P</sup>
<u>Treasury financing</u>					
Total surplus/deficit (-)	-25.7	-98.6	-40.8	-42.7	-15.1
Means of financing deficit:					
Net cash borrowing from the public	43.1	98.6	34.4	32.6	31.6
Marketable borrowings/ repayments (-)					
Bills	-11.7	43.1	16.7	13.4	12.9
Coupons	50.3	59.2	24.0	17.6	17.8
Nonmarketable	4.5	-3.7	-6.2	1.6	.9
Decrease in the cash balance	-11.6	3.1	6.7	18.5	-22.1
Memo: Cash balance at end of period	43.6	40.5	36.9	18.4	40.5
<sup>2</sup> Other	-5.8	-3.1	-.4	-8.4	5.7
<u>Federally sponsored credit agencies, net cash borrowing</u>					
FHLBs	-6.5	--	.6	--	--
FHLMC	-2.6	--	.7	--	--
FNMA	1.7	--	2.2	--	--
Farm Credit Banks	-.2	--	-.4	--	--
SLMA	.5	--	--	--	--

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1. Data reported on a not seasonally adjusted, payment basis.
  2. Includes checks issued less checks paid, accrued items and other transactions.
  3. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
  4. Total does not include SLMA.
- p--projected.  
e--staff estimate.  
Note: Details may not add to totals due to rounding.

Municipal Securities

Gross issuance of long-term municipal securities rose sharply in August to more than \$15 billion, the highest level in four years. Municipal issuance of short-term debt also was brisk, totaling \$5.6 billion. Issuance of both short- and long-term securities has remained strong in September. Market participants suggest that some of the surge in borrowing is attributable to relatively attractive yields, which stand at their lowest point since February. While refunding announcements did pick up in mid-September, the drop in rates has yet to boost refunding volume to an appreciable extent. Because of the relative stability of municipal bond yields over the past several years, most of the bonds suitable for refinancing at current yields have already been refunded. The

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

	1989	1990	1991				f
	Year	Year	Q1	Q2	July	Aug.	
Total offerings <sup>1</sup>	11.90	13.10	11.39	17.51	14.56	21.77	--
Total tax-exempt	11.65	12.85	11.25	17.20	14.50	20.94	16.00
Long-term	9.47	10.03	9.81	13.16	10.41	15.31	12.00
Refundings <sup>2</sup>	2.47	1.45	.79	.68	.06	.56	--
New capital	7.01	8.60	9.02	12.48	10.35	14.75	--
Short-term	2.17	2.82	1.44	4.04	4.09	5.63	4.00
Total taxable	.25	.25	.14	.31	.06	.83	--

p--preliminary f--forecast.

1. Includes issues for public and private purposes.

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