

May 17, 1995

SUMMARY AND OUTLOOK

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

Near-term Forecast

Data received since the BEA prepared its advance report point to little change in the first-quarter estimate of real GDP growth. However, the rate of increase in domestic final sales appears likely to be revised up somewhat, while inventory change probably will be revised down moderately. The only key first-quarter report still outstanding -the March report on merchandise trade--will be released tomorrow.

This quarter, real GDP growth is projected to slow to roughly 1 percent at an annual rate. Inventory accumulation, which, on our estimate, accounted for more than a half percentage point of the first-quarter rise in aggregate output, likely will be a sizable negative in the second quarter. Growth of final sales is projected to be a little above 2-1/4 percent, the same as what available data indicate for the first quarter; in the second half of 1994, final sales had increased at an annual rate of about 5 percent, on average.

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

	1995:Q1 ¹	1995:Q2
Real GDP	2.8	.9
<i>Previous</i>	2.5	1.7
Final sales	1.8	2.1
<i>Previous</i>	1.9	3.7
Unemployment rate ²	5.5	5.7
<i>Previous</i>	5.5	5.5
Industrial production	4.6	-3.0
<i>Previous</i>	6.7	1.2

1. Figures shown for real GDP and final sales are from the BEA's advance report for the first quarter.

2. Quarterly average, percent.

regain its former vigor now that pent-up demands for vehicles and other durables have been largely satisfied and income growth is slowing. In addition, business fixed investment is not likely to maintain the frenetic growth pace of the past several quarters. However, lower mortgage rates should restore an upward tilt to residential construction. In the external sector, an improving export trend and a softening of demand for imports is likely to produce solid gains in real net exports over the next year and a half.

SUMMARY OF STAFF GDP PROJECTIONS
(Percent change, at annual rates)

	1995			
	Q2	Q3	Q4	1996
Real GDP	.9	1.9	2.8	2.4
<i>Previous</i>	1.7	2.1	2.3	2.3
Final sales	2.1	3.4	2.4	2.5
<i>Previous</i>	3.7	2.8	2.4	2.3
Real PCE	2.3	3.0	2.1	2.1
<i>Previous</i>	3.7	2.1	2.1	2.0
Real BFI	10.4	9.7	6.1	5.3
<i>Previous</i>	14.3	8.0	6.1	4.9
Real residential investment	-17.9	-.6	3.8	2.8
<i>Previous</i>	-9.0	.1	.4	1.1

Real GDP growth averages about 2-1/4 percent over the 1995-96 period, reversing at least some of the overshooting of full employment that occurred during 1994. Still, the projection anticipates that a modest degree of inflationary pressure remains through the end of next year. To restore a downward trend to inflation, resource utilization rates would likely have to be lowered somewhat further. Partly with that in mind, we later provide a model simulation of a tighter monetary policy that might

rising at rates of around 13 percent, on average, in 1993 and 1994, are projected to increase at rates of roughly 5 percent to 6 percent this year and next. The slowdown from past rates mirrors the deceleration in growth in the U.S. economy and the effects of dollar depreciation on the prices of imports. (More detail on exports and imports is contained in the International Finance section of the Greenbook.)

Labor markets. Businesses seem to be moving fairly quickly to adjust employment as the growth of output slows. We are anticipating a moderate bounceback in hiring in May, as some of the special factors that affected the April numbers are reversed. Thereafter, job growth is projected to proceed at a rate of about 135,000 a month through the third quarter, compared with average gains in the first quarter of about 235,000 a month. Fourth-quarter gains in employment are projected to be slightly less than those of the third quarter.

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

	1994	1995	1996
Output per hour, nonfarm business	2.0	.8	1.5
<i>Previous</i>	1.4	.8	1.4
Nonfarm payroll employment	3.1	1.7	1.3
<i>Previous</i>	3.1	1.8	1.1
Civilian unemployment rate ¹	5.6	5.8	5.8
<i>Previous</i>	5.6	5.7	5.8

1. Average for the fourth quarter.

By adjusting labor input fairly quickly as growth of output slows, businesses are expected to achieve another year of productivity gain in 1995. We are forecasting, in particular, that output per hour in the nonfarm business sector will rise 0.8 percent

than we previously had forecast. We now are predicting that the ECI for benefits will rise only 2-1/2 percent this year, more than a percentage point less than the increase of 1994. Only a moderate pickup in the rate of increase is predicted for 1996, to 3-1/4 percent. Much faster rates of increase--in the range of 5 percent to 6-1/2 percent--had prevailed over several years leading up to 1994.

The marked slowing of the rise in benefit costs of the past year or so has not been accompanied by an offsetting acceleration of wages. The rise in the ECI for wages and salaries over the year ended in March--2.9 percent--was close to the increases reported in each of the two preceding years. Moreover, recent anecdotal reports do not seem to be pointing to any significant pickup in wages, although there continue to be a few scattered references to shortages of qualified workers. Our forecast of the ECI for wages and salaries continues to show a relatively mild uptilt in coming quarters, with the year-to-year rate of change moving up to 3.4 percent by the end of 1996.

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

	1994	1995	1996
Consumer price index	2.6	3.1	3.0
<i>Previous</i>	2.6	3.1	3.0
Excluding food and energy	2.8	3.3	3.1
<i>Previous</i>	2.8	3.2	3.2
ECI for compensation of private industry workers ¹	3.1	3.1	3.4
<i>Previous</i>	3.1	3.4	3.7

1. December to December.

Our forecast of core inflation from mid-1995 forward has been revised down in this Greenbook, but the size of the revision is not as large as the downshift in our forecast of hourly compensation.

has the funds rate moving down 100 basis points in the second half of this year and showing no further change thereafter.

ALTERNATIVE FEDERAL FUNDS RATE ASSUMPTIONS
(Percent change, Q4 to Q4, unless otherwise noted)

	1994	1995	1996
Real GDP			
Baseline	4.1	2.1	2.4
Higher funds rate	...	2.0	1.8
Lower funds rate	...	2.2	3.0
Civilian unemployment rate ¹			
Baseline	5.6	5.8	5.8
Higher funds rate	...	5.8	6.0
Lower funds rate	...	5.8	5.5
CPI excluding food and energy			
Baseline	2.8	3.3	3.1
Higher funds rate	...	3.3	2.9
Lower funds rate	...	3.3	3.3

1. Average for the fourth quarter.

As shown in the table, the alternative simulation with the higher funds rate keeps growth of real GDP in a range of 2 percent or less this year and next. The civilian unemployment rate rises a little above the baseline projection, and this--together with dollar appreciation associated with the risk in interest rates--pushes the core rate of inflation down. By contrast, the alternative with the lower funds rate takes the civilian unemployment rate back down to 5-1/2 percent by the end of 1996. At that unemployment rate, pressures from the tightening of labor and product markets fully offset the effects of a slower rise in import prices; the core CPI moves up in 1996 by the same amount as in 1995, with the underlying trend headed up more significantly as the economy moves into 1997.

The simulation that is based on an alternative assumption about fiscal policy allows for \$50 billion in deficit reduction in fiscal 1996, rather than the \$20 billion in the baseline forecast. The

amount of near-term deficit reduction under this alternative is comparable in magnitude to reductions that are outlined in the House and Senate budget committee proposals. We have assumed that the incremental reduction comes entirely on the spending side, with cuts in nondefense purchases, transfers, and federal grants to states and localities.⁵ As in our baseline forecast, the fed funds rate remains unchanged through the end of 1996. In addition, we have not allowed for anticipatory effects in the stock and bond markets--but given the short time period involved, the GDP consequences of such responses would not obviously be large in any event.

The simulated economic outcome under this alternative fiscal scenario is depicted in the table below. The additional fiscal restraint holds GDP growth to around 2 percent through 1996, and the unemployment rate moves up to 6 percent. Inflation rates are little affected, in part because states are expected to make up for some of the loss of federal revenue by raising indirect business taxes, adding to the prices paid by consumers.

ALTERNATIVE FISCAL ASSUMPTION
(Percent change, Q4 to Q4, unless otherwise noted)

	1994	1995	1996
Real GDP			
Baseline	4.1	2.1	2.4
Larger deficit reduction	...	2.0	1.9
Civilian unemployment rate ¹			
Baseline	5.6	5.8	5.8
Larger deficit reduction	...	5.8	6.0
CPI excluding food and energy			
Baseline	2.8	3.3	3.1
Larger deficit reduction	...	3.3	3.2

1. Average for the fourth quarter.

5. The baseline package includes a tax credit for children, plus various spending cuts.

	Nominal GDP	Real GDP		GDP fixed-weight price index		Consumer price index ¹		Unemployment rate (level except as noted)	
		3/22/95	5/17/95	3/22/95	5/17/95	3/22/95	5/17/95	3/22/95	5/17/95
Interval									
ANNUAL									
1992 ²	5.2	5.2	2.3	2.3	3.2	3.2	3.0	3.0	7.4
1993 ²	5.4	5.4	3.1	3.1	3.0	3.0	3.0	3.0	6.8
1994 ²	6.2	6.2	4.0	4.1	2.7	2.7	2.6	2.6	6.1
1995	5.4	5.2	2.9	3.0	3.0	3.0	3.1	3.1	5.6
1996	4.7	4.8	2.3	2.3	2.9	2.9	3.0	3.0	5.7
QUARTERLY									
1993 Q1 ²	4.4	4.4	1.2	1.2	4.2	4.2	3.1	3.1	7.0
Q2 ²	4.2	4.2	2.4	2.4	2.4	2.4	2.8	2.8	7.0
Q3 ²	3.8	3.8	2.7	2.7	2.0	2.0	1.7	1.7	6.7
Q4 ²	7.7	7.7	6.3	6.3	2.4	2.4	3.4	3.4	6.5
1994 Q1 ²	6.1	6.1	3.3	3.3	3.1	3.1	2.2	2.2	6.6
Q2 ²	7.2	7.2	4.1	4.1	2.9	2.9	2.5	2.5	6.2
Q3 ²	6.2	6.2	4.0	4.0	3.0	3.0	3.6	3.6	6.0
Q4 ²	5.8	6.4	4.6	5.1	2.6	2.6	2.2	2.2	5.6
1995 Q1 ²	5.8	5.1	2.5	2.8	3.5	3.1	3.2	3.2	5.5
Q2	4.1	3.5	1.7	9	2.7	2.9	3.1	3.6	5.5
Q3	4.4	4.5	2.1	1.9	2.7	3.0	3.1	3.2	5.7
Q4	4.6	5.3	2.3	2.8	2.7	2.9	3.0	2.8	5.8
1996 Q1	4.9	4.8	2.3	2.1	3.1	3.2	3.0	2.9	5.7
Q2	4.8	4.8	2.4	2.4	2.8	2.8	3.0	3.0	5.8
Q3	4.8	4.9	2.3	2.5	2.8	2.8	3.0	3.0	5.8
Q4	4.7	4.8	2.2	2.4	2.9	2.8	3.0	3.0	5.8
TWO-QUARTER³									
1993 Q2 ²	4.3	4.3	1.8	1.8	3.3	3.3	3.0	3.0	-3
Q4 ²	5.7	5.7	4.5	4.5	2.2	2.2	2.5	2.5	-5
1994 Q2 ²	6.6	6.6	3.7	3.7	3.0	3.0	2.3	2.3	-3
Q4 ²	6.0	6.3	4.3	4.6	2.8	2.8	2.9	2.9	-6
1995 Q2	4.9	4.3	2.1	1.8	3.1	3.0	3.1	3.3	-1
Q4	4.5	4.9	2.2	2.3	2.7	2.9	3.0	3.0	1
1996 Q2	4.9	4.8	2.4	2.3	3.0	3.0	3.0	2.9	0
Q4	4.7	4.8	2.2	2.5	2.9	2.8	3.0	3.0	0
FOUR-QUARTER⁴									
1992 Q4 ²	6.4	6.4	3.7	3.7	3.2	3.2	3.1	3.1	3
1993 Q4 ²	5.0	5.0	3.1	3.1	2.8	2.8	2.7	2.7	-8
1994 Q4 ²	6.3	6.5	4.0	4.1	2.9	2.9	2.6	2.6	-9
1995 Q4	4.7	4.6	2.1	2.1	2.9	3.0	3.1	3.1	1
1996 Q4	4.8	4.8	2.3	2.4	2.9	2.9	3.0	3.0	0

1. For all urban consumers

2. Actual

3. Percent change from two quarters earlier; for unemployment rate, change in percentage points.

4. Percent change from four quarters earlier; for unemployment rate, change in percentage points

Item	Unit ¹	Projected								
		1988	1989	1990	1991	1992	1993	1994	1995	1996
EXPENDITURES										
Nominal GDP	Bill \$	4900.4	5250.8	5546.1	5724.8	6020.2	6343.3	6738.4	7090.0	7429.7
Real GDP	Bill \$79	4718.6	4838.0	4897.3	4867.6	4979.3	5134.5	5344.0	5503.1	5627.3
Real GDP	% change	3.3	1.6	2	3	3.7	3.1	4.1	2.1	2.4
Gross domestic purchases		2.5	9	-4	-1	4.1	3.9	4.5	2.2	2.1
Final sales		4.2	1.5	1.2	-4	3.8	3.0	3.4	2.4	2.5
Private dom final purch		4.2	5	-1	-8	5.1	5.0	4.9	3.2	2.7
Personal cons expend		4.2	1.2	7	0	4.2	3.0	3.5	2.2	2.1
Durables		8.5	-5	-8	-1.3	9.6	9.0	8.6	9	2.2
Nondurables		3.2	1.2	-1	-1.6	3.2	1.3	3.1	1.9	1.8
Services		3.7	1.7	1.7	1.2	3.5	2.5	2.4	2.7	2.3
Business fixed invest		5.5	-4	7	6.2	6.7	16.0	12.9	11.3	5.3
Producers' dur equip		9.1	1.7	2.9	-3.2	11.0	21.3	15.5	11.7	5.3
Nonres structures		-1.2	2.3	-3.9	-12.4	-3.4	1.6	4.6	9.7	5.3
Res structures		9	-7.7	-15.2	7	17.0	8.1	3.1	-5.7	2.8
Exports		13.5	11.3	6.7	8.1	5.0	5.8	11.6	5.3	9.3
Imports		3.6	2.6	4	4.0	8.6	12.4	13.8	5.9	6.5
Government purchases		2	2.0	3.3	-8	7	-1.0	-1.0	-5	1
Federal		-3.4	-6	2.8	-3.2	8	-6.9	-5.9	-4.3	-4.4
Defense		-3.2	1.5	1.5	-7.0	-1.3	-9.0	-8.2	-4.4	-4.5
State and local		2.9	4.0	3.6	8	6	3.0	2.0	1.6	2.2
Change in bus invent	Bill \$79	19.9	29.8	5.7	-1.1	2.5	15.3	47.8	42.3	26.2
Nonfarm		26.9	29.9	3.2	-1.3	-2.0	18.5	40.7	39.4	24.7
Net exports		-104.0	-73.7	-54.7	-19.5	-32.3	-73.9	-110.0	-119.9	-110.2
Nominal GDP	% change	7.7	6.0	4.7	3.5	6.4	5.0	6.5	4.6	4.8
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ	Millions	105.2	107.9	109.4	108.3	108.6	110.5	113.4	116.2	117.7
Unemployment rate	%	5.5	5.3	5.5	6.7	7.4	6.8	6.1	5.7	5.8
Industrial prod index	% change	3.2	-1	-2	2	4.0	3.6	6.0	1.6	3.0
Capacity util rate-mfg	%	83.6	83.2	81.3	78.0	79.2	80.9	83.4	83.2	81.7
Housing starts	Millions	1.49	1.38	1.19	1.01	1.20	1.29	1.46	1.31	1.40
Light Motor Vehicle Sales		15.43	14.53	13.85	12.31	12.80	13.89	15.07	14.58	14.81
Auto sales in U.S.		10.63	9.91	9.50	8.39	8.35	8.72	9.24	8.70	8.86
North American prod.		7.54	7.08	6.90	6.14	6.26	6.75	7.28	7.01	7.13
Other		3.10	2.83	2.60	2.25	2.10	1.97	1.96	1.69	1.73
INCOME AND SAVING										
Nominal GNP	Bill \$	4908.2	5266.8	5567.8	5740.8	6025.8	6347.8	6726.9	7060.0	7387.1
Nominal GNP	% change	7.8	6.1	4.9	3.2	6.1	5.0	6.1	4.4	4.7
Nominal personal income		7.1	6.5	6.5	3.7	8.1	2.8	6.8	5.5	4.7
Real disposable income		3.2	1.1	1.1	9	5.0	5	4.4	2.4	1.9
Personal saving rate	%	4.4	4.0	4.2	5.0	5.5	4.1	4.1	4.8	4.6
Corp. profits, IVA&CCAdj	% change	10.2	-6.3	2.3	8.8	9.6	23.4	4.9	2.6	2.1
Profit share of GNP	%	7.4	6.9	6.8	6.8	6.7	7.7	8.1	8.0	7.9
Federal surpl./def	Bill \$	-136.6	-122.3	-163.5	-202.9	-282.7	241.4	-159.1	-149.2	-146.1
State/local surpl./def		38.4	44.8	25.1	17.0	24.8	26.3	26.2	29.3	33.0
Ex social ins. funds		-18.4	-17.5	-35.6	-46.5	-41.6	-40.0	-39.3	-35.4	31.1
PRICES AND COSTS										
GDP implicit deflator	% change	4.2	4.4	4.5	3.3	2.6	1.8	2.3	2.5	2.4
GDP fixed-wt price index		4.2	4.4	4.6	3.6	3.2	2.8	2.9	3.0	2.9
Gross domestic purchases fixed-wt price index		4.1	4.4	5.2	2.9	3.2	2.5	2.9	3.0	2.9
CPI		4.3	4.6	6.3	3.0	3.1	2.7	2.6	3.1	3.0
Ex food and energy		4.5	4.4	5.3	4.4	3.5	3.1	2.8	3.3	3.1
ECI, hourly compensation ²		4.8	4.8	4.6	4.4	3.5	3.6	3.1	3.1	3.4
Nonfarm business sector		5	-1.4	4	2.3	3.2	1.8	2.0	8	1.5
Output per hour		3.8	3.1	6.2	4.7	5.1	2.4	3.3	3.3	3.5
Compensation per hour		3.3	4.6	5.7	2.3	1.9	6	1.3	2.6	1.9
Unit labor cost										

¹ Percent changes are from fourth quarter to fourth quarter² Private-industry workers

Item	Unit	1992				1993				1994	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EXPENDITURES											
Nominal GDP	Bill \$	5896.6	5971.3	6043.6	6169.3	6235.9	6299.9	6359.2	6478.1	6574.7	6689.9
Real GDP	Bill \$78	4918.5	4947.5	4990.5	5060.7	5075.3	5105.4	5139.4	5218.0	5261.1	5314.1
Real GDP	% change	3.1	2.4	3.5	5.7	1.2	2.4	2.7	6.3	3.3	4.1
Gross domestic purchases		3.2	3.7	3.9	5.7	2.7	3.3	4.0	5.8	5.0	4.6
Final sales		4.8	1.5	3.5	5.6	2	2.4	3.2	6.4	2.2	1.5
Private dom. final purch		5.7	4.2	3.9	6.7	3.5	3.7	5.3	7.4	5.8	2.7
Personal cons. expend		5.8	1.7	3.9	5.6	1.6	2.6	3.9	4.0	4.7	1.3
Durables		15.5	4	10.0	13.2	3.2	9.8	7.7	15.5	8.8	4
Nondurables		4.2	-7	2.7	6.9	-1.6	1.6	2.8	2.4	3.8	2.2
Services		4.5	3.4	3.2	3.0	3.1	1.4	3.6	2.0	4.0	1.1
Business fixed invest		-1	15.0	5.0	7.5	15.1	15.6	12.2	21.1	10.9	9.2
Producers' dur. equip.		-1.3	22.7	11.0	12.9	20.0	21.6	16.2	27.5	18.6	6.1
Nonres. structures		2.9	-1.6	-8.9	5.5	2.5	3	5	3.3	-11.8	20.6
Res. structures		22.4	22.7	8	23.8	5.3	-7.6	9.4	28.2	10.0	7.0
Exports		6.1	1.5	5.3	7.2	-1.0	7.7	-3.2	21.7	-3.5	16.6
Imports		6.6	13.0	8.4	6.5	11.6	14.9	7.4	16.0	9.5	18.9
Government purchases		1.5	-3.0	3.4	9	5.9	1.2	1.1	-1	-4.9	-1.2
Federal		-1.3	-4.8	8.6	1.1	-15.4	-3.6	-3.0	-5.0	-10.3	-7.9
Defense		7.2	-5.1	11.5	-3.3	-20.0	-2.2	-9.2	-3.6	-16.0	-4.1
State and local		3.3	-1.8	1	8	9	4.4	3.7	2.9	-1.4	2.9
Change in bus. invent	Bill \$78	-6.3	4.2	5.2	6.6	18.5	18.9	13.0	10.8	25.4	59.2
Nonfarm		-14.3	-1.9	1.8	6.3	19.7	22.8	20.9	10.7	22.1	51.7
Net exports		-17.9	-34.1	-38.9	-38.5	-57.6	-69.3	-86.3	-82.2	-104.0	-111.8
Nominal GDP	% change	7.1	5.2	4.9	8.6	4.4	4.2	3.8	7.7	6.1	7.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ	Millions	108.1	108.4	108.7	109.1	109.7	110.3	110.8	111.4	112.0	113.0
Unemployment rate ¹	%	7.3	7.5	7.5	7.3	7.0	7.0	6.7	6.5	6.6	6.2
Industrial prod. index	% change	9	5.8	3.4	6.2	5.1	7	3.3	5.3	7.1	6.0
Capacity util. rate-mfg. ¹	%	78.4	79.1	79.4	80.1	80.8	80.6	80.7	81.4	82.3	83.1
Housing starts	Millions	1.24	1.15	1.18	1.23	1.16	1.25	1.31	1.47	1.36	1.44
Light Motor Vehicle Sales		12.46	12.81	12.71	13.22	13.23	14.11	13.69	14.53	15.45	14.76
Auto sales in U.S.		8.33	8.41	8.24	8.43	8.32	8.93	8.65	8.97	9.45	9.15
North American prod.		6.12	6.25	6.25	6.40	6.36	6.87	6.68	7.08	7.44	7.16
Other		2.21	2.16	1.99	2.03	1.96	2.07	1.97	1.89	2.00	1.99
INCOME AND SAVING											
Nominal GNP	Bill \$	5907.7	5979.1	6049.4	6167.0	6243.9	6303.3	6367.8	6476.2	6574.0	6682.5
Nominal GNP	% change	6.8	4.9	4.8	8.0	5.1	3.9	4.2	7.0	6.2	6.8
Nominal personal income		8.2	5.6	3.7	15.3	-5.8	8.6	2.4	6.7	5.3	7.7
Real disposable income		5.9	2.1	1.7	10.6	-7.4	4.7	8	4.3	3.4	3.5
Personal saving rate ¹	%	5.3	5.5	5.0	6.2	4.0	4.6	3.9	4.0	3.6	4.1
Corp. profits, IV&CCAdj	% change	18.8	5	-40.0	101.1	9.6	30.7	18.4	37.0	-17.9	33.6
Profit share of GNP ¹	%	7.0	6.9	6.0	7.0	7.1	7.5	7.7	8.2	7.7	8.2
Federal govt. surpl./def.	Bill \$	-279.9	-284.8	-293.9	-272.1	-283.5	-237.0	-224.9	-220.1	-176.2	-145.1
State/local surpl./def.		19.9	25.9	20.4	33.1	21.6	25.3	23.9	34.5	25.2	27.0
Ex. social ins. funds		-45.7	-40.5	-46.3	-33.8	-44.7	-41.1	-42.4	-31.7	-40.7	-38.9
PRICES AND COSTS											
GDP implicit deflator	% change	3.8	2.7	1.3	2.7	3.3	1.6	1.0	1.3	2.9	2.9
GDP fixed-wt. price index		3.9	3.3	2.7	2.8	4.2	2.4	2.0	2.4	3.1	2.9
Gross domestic purchases		3.6	3.4	3.2	2.5	3.3	2.6	1.6	2.4	2.5	3.2
fixed-wt. price index		2.9	2.9	3.2	3.5	3.1	2.8	1.7	3.4	2.2	2.5
CPI		3.7	3.3	3.3	3.6	3.5	3.5	2.4	2.9	2.9	2.9
Ex. food and energy		4.0	2.9	2.8	3.9	4.2	3.5	3.4	3.4	3.0	3.4
ECI, hourly compensation ²		4.0	2.9	2.8	3.9	4.2	3.5	3.4	3.4	3.0	3.4
Nonfarm business sector		4.2	1.9	2.8	3.8	-2.0	4	4.0	4.9	2.9	2.1
Output per hour		5.7	4.6	5.8	4.5	2.1	2.4	2.8	2.4	6.1	7
Compensation per hour		1.4	2.6	2.9	6	4.1	2.0	-1.2	2.4	3.1	2.9
Unit labor cost											

1 Not at an annual rate

2 Private-industry workers

Item	Units	Projected									
		1994		1995				1996			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill \$	6791.7	6897.2	6982.9	7043.3	7120.8	7213.1	7298.3	7385.0	7474.0	7561.5
Real GDP	Bill \$ 87\$	5367.0	5433.8	5471.7	5483.8	5509.1	5547.7	5576.6	5609.9	5644.4	5678.2
Real GDP	% change	4.0	5.1	2.8	9	1.9	2.8	2.1	2.4	2.5	2.4
Gross domestic purchases		4.4	4.2	3.7	1.1	1.7	2.5	1.8	2.2	2.3	2.0
Final sales		4.3	5.7	1.8	2.1	3.4	2.4	2.4	2.6	2.5	2.6
Private dom. final purch		4.1	6.8	3.6	2.5	3.9	2.8	2.8	2.7	2.7	2.5
Personal cons. expend		3.1	5.1	1.4	2.3	3.0	2.1	2.1	2.2	2.2	2.1
Durables		5.8	20.4	4.7	2	6.3	2.0	1.3	2.4	2.7	2.5
Nondurables		3.3	3.1	1.5	2.0	2.6	1.5	1.8	1.8	1.8	1.8
Services		2.2	2.3	3.1	3.0	2.3	2.4	2.4	2.3	2.3	2.1
Business fixed invest		14.1	17.6	19.3	10.4	9.7	6.1	5.5	5.5	5.3	5.1
Producers' dur. equip		18.1	19.6	20.8	10.6	10.2	5.8	5.2	5.3	5.4	5.5
Nonres. structures		1.6	11.0	14.1	9.9	7.8	7.1	6.6	6.1	4.9	3.9
Res. structures		-6.0	2.3	-6.6	-17.9	-6	3.8	4.9	4.1	1.5	6
Exports		14.8	20.2	6	6.6	7.0	8.5	8.8	9.5	9.3	9.5
Imports		15.6	11.4	5.9	6.9	4.9	5.7	6.0	7.1	7.0	5.9
Government purchases		6.7	-4.1	-1.6	9	-2	-1.2	-1.1	1	4	3
Federal		10.9	-14.4	-4.6	-1.7	-4.8	-6.0	-7.0	-3.9	-3.2	-3.4
Defense		12.8	-21.8	-7.1	-7	6.7	-3.0	4.7	-5.3	-4.2	3.7
State and local		4.3	2.3	2	2.3	2.4	1.5	2.1	2.3	2.3	2.2
Change in bus. invent	Bill \$ 87\$	57.1	49.4	63.0	47.5	26.5	32.3	28.5	26.5	25.8	23.8
Nonfarm		47.4	41.7	58.3	44.0	24.5	30.8	27.0	25.0	24.3	22.3
Net exports		-117.0	-107.1	-119.7	-122.4	-120.3	-117.2	-114.2	-112.1	-109.7	-104.6
Nominal GDP	% change	6.2	6.4	5.1	3.5	4.5	5.3	4.8	4.8	4.9	4.8
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ	Millions	113.9	114.8	115.6	116.0	116.4	116.8	117.1	117.5	117.9	118.3
Unemployment rate ¹	\$	6.0	5.6	5.5	5.7	5.7	5.8	5.8	5.8	5.8	5.8
Industrial prod. index	% change	4.9	5.9	4.6	-3.0	1.5	3.3	2.9	2.9	3.0	3.1
Capacity util. rate-mfg ¹	%	83.6	84.5	84.7	83.1	82.5	82.4	82.1	81.8	81.5	81.3
Housing starts	Millions	1.47	1.51	1.31	1.27	1.31	1.36	1.39	1.39	1.40	1.40
Light Motor Vehicle Sales		14.65	15.44	14.90	14.18	14.68	14.55	14.65	14.76	14.86	14.96
Auto sales in U.S.		9.09	9.25	8.84	8.44	8.80	8.73	8.78	8.85	8.89	8.93
North American prod.		7.09	7.42	7.03	6.83	7.20	7.00	7.08	7.12	7.14	7.18
Other		2.01	1.83	1.81	1.61	1.60	1.73	1.70	1.73	1.75	1.75
INCOME AND SAVING											
Nominal GNP	Bill \$	6779.6	6871.3	6957.9	7013.6	7092.5	7176.0	7260.6	7341.8	7433.4	7512.8
Nominal GNP	% change	5.9	5.5	5.1	3.2	4.6	4.8	4.8	4.6	5.1	4.3
Nominal personal income		5.4	8.8	7.5	5.0	4.3	5.2	4.9	4.3	4.4	5.1
Real disposable income		3.1	7.5	4.4	4	2.4	2.3	2.9	-2	2.7	2.0
Personal saving rate ¹	%	4.1	4.6	5.2	4.7	4.6	4.7	4.9	4.4	4.5	4.5
Corp. profits, IVACCAdj	% change	7.2	3.1	3	-2.2	4.5	8.1	6	2.9	8.1	-2.8
Profit share of GNP ¹	%	8.2	8.2	8.1	7.9	7.9	8.0	7.9	7.9	8.0	7.8
Federal govt. surpl./def	Bill \$	-154.0	-161.1	-154.7	-136.4	-150.2	-155.4	-157.3	-131.6	-143.0	-152.6
State/local surpl./def		23.9	28.8	33.5	26.7	29.9	27.0	29.0	31.4	35.8	35.8
Ex. social ins. funds		-41.4	-36.4	-31.6	-38.2	-34.7	-37.3	-35.2	-32.7	-28.2	-28.2
PRICES AND COSTS											
GDP implicit deflator	% change	1.9	1.3	2.2	2.7	2.6	2.4	2.7	2.4	2.4	2.3
GDP fixed-wt. price index		3.0	2.6	3.1	2.9	3.0	2.9	3.2	2.8	2.8	2.8
Gross domestic purchases		3.5	2.6	2.8	3.2	3.1	2.8	3.1	2.8	2.8	2.8
fixed wt. price index		3.6	2.2	3.2	3.6	3.2	2.8	2.9	3.0	3.0	3.0
CPI		3.1	2.3	3.3	3.6	3.0	3.0	3.1	3.1	3.1	3.1
Ex. food and energy											
ECI, hourly compensation ²		3.3	2.6	2.3	3.4	3.2	3.3	3.3	3.3	3.4	3.4
Nonfarm business sector		3.2	4.0	7	-7	1.0	2.1	1.6	1.5	1.4	1.4
Output per hour		3.1	3.5	4.1	2.5	3.3	3.3	3.8	3.0	3.5	3.5
Compensation per hour		-1	-6	3.4	3.3	2.3	1.2	2.1	1.4	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)

May 17, 1995

Item	1992				1993				1994		1991	1992	1993	1994
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
Real GDP	37.7	29.0	43.0	70.2	14.6	30.1	34.0	78.6	43.1	53.0	13.6	179.9	157.3	215.8
Gross domestic purchases	38.8	45.1	47.9	69.8	33.7	41.8	51.1	74.4	64.9	60.7	6.4	201.6	201.0	240.7
Final sales	57.5	18.4	42.1	68.8	2.7	29.7	40.0	80.7	28.5	19.2	-20.7	186.8	153.1	177.2
Private dom. final purch	55.1	41.7	39.1	66.3	35.9	38.6	54.5	76.9	61.9	29.8	-32.6	202.2	205.9	211.4
Personal cons. expend.	46.1	14.0	32.2	45.8	13.8	22.0	33.0	34.0	40.1	11.5	-6	138.1	102.8	123.4
Durables	15.7	.4	10.7	14.3	3.7	11.2	9.0	18.1	10.9	.5	-5.5	41.1	42.0	44.0
Nondurables	10.7	-1.8	7.1	17.8	-4.2	4.3	7.4	6.3	10.3	6.0	-17.1	33.8	13.8	33.9
Services	19.7	15.3	14.4	13.7	14.4	6.4	16.6	9.6	18.9	5.1	22.1	63.1	47.0	45.5
Business fixed invest.	-1	18.0	6.4	9.7	19.4	20.7	16.9	29.3	16.4	14.3	-33.3	34.0	86.3	81.0
Producers' dur. equip	-1.2	18.6	9.9	11.8	18.4	20.7	16.6	28.2	20.9	7.5	-11.9	39.1	83.9	74.1
Nonres. structures	1.1	-6	-3.5	-2.1	9	1	2	1.2	4.6	6.9	-21.4	-5.1	2.4	6.9
Res. structures	9.2	9.8	4	10.8	2.7	-4.1	4.7	13.5	5.4	3.9	1.2	30.2	16.8	7.0
Change in bus. invent.	-19.8	10.5	1.0	1.4	11.9	4	-5.9	-2.2	14.6	33.8	34.4	-6.9	4.2	38.6
Nonfarm	-28.9	12.4	3.7	4.5	13.4	3.1	-1.9	-10.2	11.4	29.6	33.3	-8.3	4.4	31.0
Farm	9.1	-1.8	-2.8	-3.1	-1.5	-2.7	-4.0	8.0	3.2	4.2	1.0	1.4	-2	7.6
Net exports	-1.0	-16.2	-4.8	4	-19.1	-11.7	-17.0	4.1	-21.8	-7.8	19.9	-21.6	-43.7	-24.9
Exports	8.4	2.1	7.4	10.2	-1.5	11.0	-4.9	29.9	-5.6	24.3	42.2	28.1	34.5	72.7
Imports	9.4	18.3	12.3	9.9	17.5	22.8	12.0	25.8	16.2	32.0	22.2	49.9	78.1	97.6
Government purchases	3.4	-7.1	7.8	2.1	-14.1	2.8	2.5	-3	-11.6	-2.8	-8.0	6.2	-9.1	-9.3
Federal	-1.2	-4.6	7.7	1.0	-15.4	-3.3	-2.7	-4.5	-9.4	-7.0	-12.4	2.9	-25.9	-20.7
Defense	-4.9	-3.4	7.1	-2.2	-14.2	-1.4	-5.9	-2.2	-10.2	-2.4	-19.9	-3.4	-23.7	-19.6
Nondefense	3.8	-1.2	6	3.2	-1.3	-1.8	3.2	-2.3	0	-4.5	7.4	6.4	-2.2	-1.1
State and local	4.5	-2.5	1	1.1	1.3	6.1	5.2	4.2	-2.1	4.1	4.6	3.2	16.8	11.4

1 Annual changes are from Q4 to Q4

Strictly Confidential (FR)
Class II FOMC

NET CHANGES IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS¹
(Billions of 1987 dollars)

May 17, 1995

Item	Projected										Projected			
	1994		1995				1996				1993	1994	1995	1996
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GDP	52.9	66.8	37.9	12.1	25.3	38.6	28.9	33.3	34.5	33.8	157.3	215.8	113.9	130.5
Gross domestic purchases	58.2	56.9	50.5	14.8	23.2	35.5	25.9	31.2	32.2	28.7	201.0	240.7	124.0	118.0
Final sales	55.1	74.4	24.3	27.7	46.2	32.8	32.7	35.3	35.2	35.8	153.1	177.2	131.0	138.9
Private dom. final purch.	45.4	74.3	40.5	28.3	44.5	32.5	32.2	32.9	31.9	30.0	205.9	211.4	145.8	126.9
Personal cons. expend.	26.9	44.9	12.4	20.7	27.1	18.9	18.9	19.9	20.6	19.4	102.8	123.4	79.1	78.7
Durables	7.4	25.2	-6.6	2	8.4	2.8	1.8	3.3	3.8	3.5	42.0	44.0	4.8	12.5
Nondurables	9.1	8.5	4.1	5.6	7.2	4.2	5.1	5.1	5.2	5.2	13.8	33.9	21.2	20.6
Services	10.4	11.1	15.0	14.8	11.5	11.9	11.9	11.5	11.6	10.6	47.0	45.5	53.2	45.6
Business fixed invest.	22.1	28.2	31.9	18.6	17.8	11.5	10.6	10.7	10.5	10.3	86.3	81.0	79.8	42.2
Producers' dur. equip.	21.5	24.2	26.7	14.8	14.6	8.6	7.9	8.1	8.4	8.6	83.9	74.1	64.7	33.0
Nonres. structures	.6	4.0	5.2	3.8	3.1	2.9	2.8	2.6	2.1	1.7	2.4	6.9	15.1	9.1
Res. structures	-3.6	1.3	-3.9	-10.9	-3	2.0	2.7	2.2	8	3	16.8	7.0	-13.1	6.0
Change in bus. invent.	-2.1	-7.7	13.6	-15.5	-21.0	5.8	-3.7	-2.0	-7	-2.0	4.2	38.6	-17.1	-8.4
Nonfarm	-4.3	-5.7	16.6	-14.3	-19.5	6.3	-3.7	-2.0	-7	-2.0	4.4	31.0	-10.9	-8.4
Farm	2.2	-2.0	-3.0	-1.2	-1.5	-5	0	0	0	0	-2	7.6	-6.2	0
Net exports	-5.2	9.9	-12.6	-2.7	2.1	3.0	3.0	2.1	2.4	5.1	-43.7	-24.9	-10.1	12.6
Exports	22.6	31.4	-1.0	11.2	12.1	14.9	15.6	17.2	17.3	18.0	34.5	72.7	37.1	68.1
Imports	27.9	21.5	11.6	13.8	10.0	12.8	12.6	15.1	14.9	12.9	78.1	97.6	47.2	55.5
Government purchases	14.9	-9.8	-3.6	2.0	-4	-2.7	-2.5	3	1.0	7	-9.1	-9.3	-4.7	-5
Federal	8.8	-13.1	-3.9	-1.4	-4.0	-4.9	-5.7	-3.1	-2.5	-2.6	-25.9	-20.7	-14.2	-13.9
Defense	6.9	-13.9	-4.0	-4	-3.7	-1.6	-2.5	-2.8	-2.2	-1.9	-23.7	-19.6	-9.7	-9.4
Nondefense	1.8	8	1	-1.0	-3	-3.3	-3.2	-3	-3	-7	-2.2	-1.1	-4.5	-4.5
State and local	6.1	3.3	.3	3.4	3.6	2.2	3.2	3.4	3.5	3.3	16.8	11.4	9.5	13.4

1. Annual changes are from Q4 to Q4

Strictly Confidential (FR)
Class II FOMC

STAFF PROJECTIONS OF FEDERAL SECTOR ACCOUNTS AND RELATED ITEMS
(Billions of dollars except as noted)

May 17, 1995

Item	Fiscal year				1994				1995				1996			
	1993 ^a	1994 ^a	1995	1996	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1 ^b	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
Receipts ¹	1153	1257	1360	1397	289	363	318	308	307	411	335	316	300	430	351	330
Outlays ¹	1409	1461	1526	1586	348	363	371	380	378	386	382	394	401	395	396	410
Surplus/deficit ¹	-255	-203	-166	-190	-59	0	-53	-73	-71	24	-47	-78	-101	35	-45	80
On-budget	-301	-259	-237	-250	-66	-33	-55	-87	-83	-14	-53	-85	-108	-6	-51	84
Off-budget	46	56	71	60	8	33	2	14	12	39	6	7	7	41	6	4
Surplus excluding deposit insurance ²	-283	-211	-183	-197	-65	3	-57	-77	-77	23	-51	-79	-104	35	-48	-79
Means of financing																
Borrowing	249	185	159	219	51	8	37	60	66	-2	35	85	77	14	44	58
Cash decrease	6	17	5	-29	5	-6	15	9	8	-16	3	-4	20	-45	0	25
Other ³	0	1	4	-1	2	-2	1	5	-3	-7	9	-3	4	-4	1	-3
Cash operating balance, end of period	53	36	31	60	45	51	36	27	18	34	31	35	15	60	60	35
NIPA FEDERAL SECTOR																
Receipts	1242	1355	1448	1513	1338	1381	1389	1409	1437	1474	1472	1492	1496	1532	1533	1549
Expenditures	1497	1529	1599	1660	1514	1526	1543	1570	1592	1610	1622	1647	1654	1663	1677	1702
Purchases	447	439	433	425	438	435	444	432	433	435	432	427	426	424	423	421
Defense	307	296	285	282	292	292	301	285	284	287	284	283	284	282	280	279
Nondefense	140	144	148	143	146	144	144	147	149	148	148	144	142	142	142	142
Other expenditures	1049	1090	1166	1235	1076	1091	1099	1138	1159	1176	1191	1220	1228	1240	1254	1281
Surplus/deficit	-254	-174	-151	-147	-176	-145	-154	-161	-155	137	-150	156	-157	-132	143	-153
FISCAL INDICATORS⁴																
High-employment (HEB) surplus/deficit	-21.1	-164	-174	-166	-158	-140	-161	-184	-183	-159	171	-176	-176	-151	-163	-173
Change in HEB, percent of potential GDP	-1	.7	2	-1	-6	-3	3	3	0	4	2	1	0	-3	2	1
Fiscal impetus (FI), percent, cal year	-4.1	-7.3	-6.2	-9.5	-4.2	-4.3	3.4	-3.8	-1.5	-2.1	-5	2.7	-5.1	-1.8	1	-2.3

1 OMB's February 1995 deficit estimates are \$193 billion in FY95 and \$197 billion in FY96. CBO's March 1995 deficit estimates are \$175 billion in FY95 and \$210 billion in FY96. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2 OMB's February 1995 deficit estimates, excluding deposit insurance spending, are \$205 billion in FY95 and \$203 billion in FY96. CBO's March 1995 deficit estimates, excluding deposit insurance spending, are \$191 billion in FY95 and \$218 billion in FY96.

3 Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.

4 HEB is the NIPA measure in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output generated by 2.4 percent real growth and an associated unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes (in 1987 dollars), scaled by real federal purchases. For change in HEB and FI, negative values indicate restraint.

a--Actual.

b--Preliminary

Confidential FR Class II
May 17, 1995

CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS¹
(Percent)

Year	Nonfederal								MEMO	
	Total ²	Federal govt.	Households		State and local govt.		Private financial assets	Nominal GDP		
	Total	Total	Home mtg.	Cons credit	Business					
1982	9.8	19.7	7.4	5.5	4.7	4.4	8.8	9.3	10.1	3.2
1983	11.9	18.9	10.1	11.8	10.8	12.6	8.7	9.7	12.5	11.0
1984	14.6	16.9	13.9	13.0	11.7	18.7	15.6	9.1	12.8	9.1
1985	15.5	16.5	15.2	15.3	13.2	15.8	12.1	31.6	12.4	7.0
1986	12.3	13.6	11.9	12.0	14.3	9.6	12.2	9.8	7.3	4.7
1987	9.4	8.0	9.8	11.4	14.9	5.0	7.9	12.1	8.1	8.0
1988	8.9	8.0	9.2	10.5	12.7	7.2	8.7	6.0	8.6	7.7
1989	7.8	7.0	8.1	9.2	10.8	6.2	6.9	9.3	5.8	6.0
1990	6.3	11.0	5.0	6.5	7.9	2.0	3.4	5.7	4.7	4.7
1991	4.4	11.1	2.4	4.7	6.5	-1.8	-1.0	7.4	-1.0	3.5
1992	4.8	10.9	2.8	5.8	6.7	0.7	-0.1	1.8	0.7	6.4
1993	5.4	8.3	4.3	7.1	6.4	7.8	0.6	7.1	-0.3	5.0
1994	5.0	4.7	5.2	8.2	6.3	13.6	3.8	-2.9	5.7	6.5
1995	5.2	5.3	5.1	6.5	5.8	9.0	6.5	-6.7	1.0	4.6
1996	4.9	5.3	4.7	5.8	5.8	7.1	5.4	-4.4	1.0	4.8
Quarter (seasonally adjusted annual rates)										
1994:1	5.3	6.3	4.9	7.1	6.2	8.4	3.6	0.7	7.6	6.1
2	4.4	3.6	4.7	7.2	5.5	13.8	3.7	-2.8	6.0	7.2
3	4.9	3.9	5.3	8.7	7.2	13.8	3.9	-4.9	2.0	6.2
4	5.1	4.5	5.4	8.8	5.8	15.8	3.9	-4.8	6.7	6.4
1995:1	5.9	7.8	5.2	6.7	5.7	8.3	6.6	-7.9	1.5	5.1
2	4.4	2.4	5.2	6.5	5.6	9.4	6.6	-7.4	0.6	3.5
3	4.6	3.4	5.0	6.1	5.6	8.8	6.3	-6.4	0.7	4.5
4	5.4	7.1	4.8	6.1	5.7	8.2	5.7	-5.7	1.0	5.3
1996:1	5.8	8.8	4.7	5.9	5.7	7.6	5.5	-5.1	1.0	4.8
2	4.4	3.9	4.6	5.8	5.7	7.1	5.3	-4.8	1.0	4.8
3	4.5	4.1	4.6	5.6	5.7	6.7	5.2	-4.4	1.0	4.9
4	4.4	3.9	4.6	5.5	5.7	6.2	5.1	-3.7	1.0	4.8

1. Data after 1994:4 are staff projections. Changes are measured from end of the preceding period to end of period indicated except annual nominal GDP growth, which is Q4 to Q4.

2. On a quarterly average basis, total debt growth is projected to be 5.0 in 1995 and 5.0 in 1996. Federal debt rises 4.5 percent in 1995 and 5.8 percent in 1996. Nonfederal debt is projected to increase 5.2 percent in 1995 and 4.7 percent in 1996.

2.6.3 FOF

Confidential FR Class II
May 17, 1995

FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS¹
(Billions of dollars)

	Calendar year			-1994-				1995				1996				
	1994	1995	1996	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	580.4	624.0	649.0	554.7	716.6	521.7	558.7	699.1	772.1	600.8	612.1	611.1				
2 Net equity issuance	-40.9	-47.2	-15.0	-102.0	-46.8	-60.0	-50.0	-32.0	-24.0	-14.0	-12.0	-10.0				
3 Net debt issuance	621.3	671.2	664.0	656.7	763.4	581.7	608.7	731.1	796.1	614.8	624.1	621.1				
Borrowing sectors																
Nonfinancial business																
4 Financing gap ²	58.4	139.5	135.3	90.2	143.7	141.2	132.7	140.5	133.8	133.4	135.1	138.8				
5 Net equity issuance	-40.9	-47.2	-15.0	-102.0	-46.8	-60.0	-50.0	-32.0	-24.0	-14.0	-12.0	-10.0				
6 Credit market borrowing	143.3	250.6	221.6	150.7	257.9	261.2	251.0	232.3	225.6	220.9	220.2	219.5				
Households																
7 Net borrowing, of which:	351.4	301.5	289.2	397.7	309.4	306.3	294.7	295.4	294.0	290.8	286.6	285.4				
8 Home mortgages	187.7	182.5	194.7	180.5	180.0	180.0	183.0	187.0	191.0	193.0	196.0	199.0				
9 Consumer credit	117.5	88.1	75.8	149.4	81.9	94.2	90.2	86.2	81.0	78.0	74.0	70.0				
10 Debt/DPI (percent) ³	90.1	90.9	92.0	91.0	91.0	91.7	91.8	92.0	92.1	92.8	92.8	93.0				
State and local governments																
11 Net borrowing	-29.3	-64.2	-39.7	-46.6	-75.7	-70.2	-59.2	-51.7	-46.2	42.2	-38.2	-32.2				
12 Current surplus ⁴	-62.3	-52.3	-49.3	-68.4	-47.3	-54.6	-51.9	-55.3	-53.3	-50.9	-46.5	-46.5				
U.S. government																
13 Net borrowing	155.9	183.4	193.0	155.0	271.8	84.4	122.2	255.1	322.7	145.3	155.5	148.4				
14 Net borrowing; quarterly, nsa	155.9	183.4	193.0	59.7	66.0	-1.7	34.8	84.7	77.3	13.6	43.9	58.2				
15 Unified deficit; quarterly, nsa	186.1	171.7	191.3	74.0	71.3	-24.4	46.5	78.3	101.2	-34.9	45.2	79.8				
Funds supplied by depository institutions																
16	197.7	226.9	226.4	197.4	285.5	207.1	205.6	209.5	221.7	225.7	226.7	231.7				
MEMO: (percent of GDP)																
17 Dom. nonfinancial debt ³	188.1	187.9	188.3	188.3	188.7	189.1	189.2	189.3	189.8	189.7	189.5	189.4				
18 Dom. nonfinancial borrowing	9.2	9.5	8.9	9.5	10.9	8.3	8.5	10.1	10.9	8.3	8.3	8.2				
19 U.S. government ⁵	2.3	2.6	2.6	2.2	3.9	1.2	1.7	3.5	4.4	2.0	2.1	2.0				
20 Private	6.9	6.9	6.3	7.3	7.0	7.1	6.8	6.6	6.5	6.4	6.3	6.3				

1. Data after 1994:4 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.

especially fixed investment in most of our major export markets in Europe and Asia will further support the expansion of exports. Notwithstanding this acceleration, the projected growth of exports is noticeably lower than the rate of expansion in 1994. Some of this slower export growth can be attributed to the projected slowing of growth abroad. More importantly, export growth in 1994 exceeded what could be explained by historical relationships. To the extent that these relationships may have changed, there is some risk that export growth will exceed our predictions again in 1995 and 1996.

QUANTITIES OF GOODS AND SERVICES*
(percent change from end of previous period, saar)

	1994	-----Projection-----			1996	
		1995		H2		
		Q1	Q2			
Exports of G&S	11.6	-0.6	6.6	7.3	9.3	
of which:						
Services	4.6	-4.3	7.8	6.6	5.1	
Computers	29.5	16.8	26.1	26.1	26.2	
Other goods ¹	10.3	-2.9	3.8	3.8	6.5	
Imports of G&S	13.8	5.9	6.9	5.3	6.5	
of which:						
Services	1.4	11.5	-0.6	1.1	2.8	
Oil -1.7	10.7	25.9	9.4	0.1		
Computers	36.3	2.8	31.1	22.8	20.4	
Other goods ²	14.0	7.4	1.2	1.3	4.0	

* NIPA basis, 1987 dollars.

1. Nonagricultural exports of goods excluding computers

2. Non-oil imports of goods excluding computers

We expect non-oil imports other than computers to decelerate sharply for the balance of 1995 as a result of the combined effects of the depreciation of the dollar and the substantial slowing of growth in U.S. domestic demand. These factors are expected to reduce the growth of non-oil imports excluding computers substantially for the balance of 1995; these imports should resume expanding somewhat faster than GDP during 1996. Imports of computers are projected to bounce back in the

over the forecast period, in line with the slowing in U.S. domestic prices of tradable goods.

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

	1994	-----Projection---			1996
		Q1	Q2	H2	
US domestic prices ¹	3.5	5.5	5.7	2.9	2.2
Nonag. exports ²	4.9	9.5	5.8	3.2	2.3
Non-oil imports ²	3.9	3.5	6.5	4.6	2.3
Oil imports (Q4 level, \$b1)	15.41	16.02	17.15	16.13	16.00

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

Nominal trade and current account balances. The nominal trade deficit on goods and services is expected to widen through mid-1995 and then to narrow over the rest of the forecast period. The deficit on net investment income is projected to increase. As a consequence, the current account deficit will increase this year to about \$190 billion and will remain about that rate next year, approximately 2-1/2 percent of GDP.

STRICTLY CONFIDENTIAL - FR
CLASS II FOMC

May 17, 1995

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

Measure and country	Projected											
	Projected				1994			1995				
	1993	1994	1995	1996	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
REAL GDP												
Canada	3.2	5.6	2.6	2.6	6.6	5.6	5.9	3.2	2.1	2.3	2.6	
France	-1.0	3.7	2.8	3.4	5.1	3.3	2.6	1.8	3.2	3.2	3.2	
Germany	-0.1	4.0	2.6	2.9	4.2	4.4	4.0	2.2	2.5	2.8	2.9	
W. Germany	-0.5	3.3	2.0	2.4	3.6	4.2	3.0	1.2	2.2	2.4	2.4	
Italy	-0.2	2.7	3.3	3.5	4.0	5.4	0.1	2.0	3.3	3.8	4.0	
Japan	-0.5	0.9	2.2	3.1	0.7	3.5	-3.4	0.7	2.8	2.8	2.5	
United Kingdom	2.6	4.2	3.0	2.7	5.6	3.7	3.1	3.1	2.9	3.0	3.0	
Average, weighted by 1987-89 GDP	0.3	2.9	2.6	3.1	3.5	4.1	0.8	1.8	2.8	3.0	3.0	
Average, weighted by share of U.S. nonagricultural exports												
Total foreign	2.8	4.3	2.9	3.5	NA	NA	NA	NA	NA	NA	NA	
Foreign G-7	1.6	4.1	2.6	2.8	4.8	4.6	3.0	2.4	2.5	2.7	2.8	
Developing countries	5.5	5.1	3.3	4.9	NA	NA	NA	NA	NA	NA	NA	
CONSUMER PRICES(1)												
Canada	1.8	0.0	3.0	2.4	-1.4	2.2	1.3	4.2	3.5	2.4	2.0	
France	2.1	1.6	1.6	1.5	2.5	0.6	1.7	2.2	1.1	1.5	1.4	
Western Germany	3.7	2.8	2.4	2.5	2.7	1.4	1.3	3.8	2.3	1.8	1.7	
Italy	4.1	3.8	5.8	6.0	3.4	3.0	4.7	6.1	8.2	3.4	5.6	
Japan	1.2	0.8	-0.5	-0.5	1.3	-0.9	2.1	-2.3	0.7	0.0	-0.1	
United Kingdom	1.6	2.6	3.7	3.8	7.4	0.1	2.6	3.6	7.6	1.2	2.4	
Average, weighted by 1987-89 GDP	2.2	1.8	2.0	2.0	2.6	0.6	2.3	1.9	3.3	1.3	1.7	
Average, weighted by share of U.S. non-oil imports	1.9	1.1	1.7	1.5	1.1	0.7	1.9	1.5	2.6	1.3	1.3	

Note. Annual values are measured from Q4 to Q4.
1. Not seasonally adjusted.

Strictly Confidential (FR) Class II-FOMC

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

(Billions of dollars, seasonally adjusted annual rates)

	1992				1993				1994		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1991	1992	1993
NIPA Real Net Exports of Goods & Services (87\$)	-17.9	-34.1	-38.9	-38.5	-57.6	-69.3	86.3	-82.2	-104.0	-111.8	-19.5	32.3	-73.9
Exports of G&S Goods	571.0	573.1	580.5	590.7	589.2	600.2	595.3	625.2	619.6	643.9	542.6	578.8	602.5
Agricultural	416.0	421.5	427.4	441.1	433.9	443.3	438.5	468.1	464.4	484.6	397.1	426.5	445.9
Computers	38.9	38.4	40.5	41.3	39.1	39.3	36.9	39.1	36.6	37.5	35.5	39.8	38.6
Other Goods Services	47.1	52.3	56.2	60.1	60.9	62.9	68.5	74.0	76.9	79.3	41.4	53.9	66.6
Other Goods Services	330.0	330.8	330.7	339.8	333.9	341.1	333.1	355.1	350.9	367.8	320.2	332.8	340.8
Services	154.9	151.6	153.1	149.6	155.3	156.9	156.7	157.1	155.2	159.2	145.5	152.3	156.5
Imports of G&S Goods	588.8	607.1	619.4	629.3	646.8	669.6	681.6	707.4	723.6	755.6	562.1	611.1	676.3
Oil	489.5	509.7	521.7	530.2	546.6	567.4	577.1	599.9	615.2	648.3	464.4	512.8	572.8
Computers	47.2	51.6	53.1	52.8	53.4	57.7	56.7	58.1	56.5	60.3	49.2	51.2	56.5
Other Goods Services	51.2	57.5	64.7	68.4	73.3	80.0	87.8	94.6	99.7	106.9	41.6	60.5	83.9
Services	391.1	400.6	403.9	409.0	419.9	429.7	432.6	447.2	458.9	481.0	373.7	401.2	432.4
Memo: (Percent change 1/)	99.3	97.4	97.7	99.0	100.1	102.2	104.5	107.6	108.5	107.4	97.7	98.3	103.6
Exports of G&S Agricultural	6.1	1.5	5.3	7.2	-1.0	7.7	-3.2	21.7	-3.5	16.6	8.1	5.0	5.8
Computers	13.4	-5.0	23.7	8.1	-19.7	2.1	-22.3	26.1	-23.2	10.2	10.9	9.5	-5.3
Other Goods Services	24.4	52.0	33.3	30.8	5.4	13.8	40.7	36.2	16.6	13.1	26.7	34.8	23.1
Services	3.1	1.0	-0.1	11.5	-6.8	8.9	-9.1	29.2	-4.6	20.7	7.2	3.8	4.5
Imports of G&S Oil	6.6	13.0	8.4	6.5	11.6	14.9	7.4	16.0	9.5	18.9	4.0	8.6	12.4
Computers	0.9	42.8	12.1	-2.2	4.6	36.3	-6.8	10.2	-10.6	29.7	8.3	12.1	10.0
Other Goods Services	53.5	59.1	60.3	24.9	31.9	41.9	45.1	34.8	23.4	32.2	45.6	48.7	38.3
Services	2.4	10.1	3.3	5.1	11.1	9.7	2.7	14.2	10.9	20.7	2.9	5.2	9.3
Current Account Balance	7.2	-7.4	1.2	5.4	4.5	8.7	9.3	12.4	3.4	-4.0	-6.2	1.4	8.7
Goods & Serv (BOP), net	-33.4	-66.2	-74.4	-97.5	-79.4	-102.4	-111.4	-122.3	129.0	-151.3	-6.9	67.9	-103.9
Goods (BOP), net	-15.5	-41.5	-51.1	-53.4	-57.7	-76.3	-89.0	-79.9	-97.3	-106.6	-28.5	-40.4	-75.7
Services (BOP), net	-72.3	-97.3	-109.4	-105.3	-116.8	-134.9	-145.9	-132.7	-148.2	-166.9	-74.1	-96.1	-132.6
Investment Income, net	9.7	6.5	4.9	-2.9	7.4	2.7	8.1	-2.4	-3.3	-11.3	14.8	4.5	4.0
Direct, net	50.8	51.0	47.1	42.0	54.6	50.8	55.9	48.4	45.8	43.4	55.4	47.7	52.4
Portfolio, net	-41.1	-44.5	-42.2	-44.9	-47.2	-48.1	-47.8	-50.8	-49.1	-54.7	-40.5	-43.2	-48.5
Unilateral Transfers, net	-27.7	-31.1	-28.2	-41.2	-29.1	-28.8	-30.5	-40.1	-28.4	-33.5	6.7	-32.0	-32.1

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

Strictly Confidential (FR) Class II-FOMC

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

	Projection												Projection		
	1994				1995				1996				ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1994	1995	1996		
NIPA Real Net Exports of Goods & Services (87\$)	-117.0	-107.1	-119.7	-122.4	-120.3	-117.2	-114.2	-112.1	-109.7	-104.6	-110.0	-119.9	-110.2		
Exports of G&S Goods	666.5	697.9	696.9	708.1	720.2	735.0	750.6	767.8	785.1	803.1	657.0	715.0	776.7		
Agricultural	505.1	533.6	534.4	542.5	551.8	564.0	577.5	592.4	607.6	623.4	496.9	548.2	600.2		
Computers	40.7	45.9	45.9	44.3	43.8	44.6	45.2	45.8	46.4	47.0	40.2	44.7	46.1		
Other Goods	85.9	95.8	99.6	105.6	111.9	118.6	125.7	133.2	141.2	149.7	84.5	108.9	137.5		
Services	378.5	391.8	389.9	392.6	396.1	400.8	406.6	413.4	420.0	426.7	372.2	394.6	416.7		
Imports of G&S Goods	161.3	164.3	162.5	165.6	168.4	171.1	173.1	175.4	177.5	179.7	160.0	166.9	176.4		
Oil	783.5	805.0	816.6	830.4	840.4	852.2	864.8	879.9	894.8	907.8	766.9	834.9	886.8		
Computers	674.6	695.9	704.5	718.5	728.5	739.7	751.5	766.0	780.0	792.1	658.5	722.8	772.4		
Other Goods	64.3	57.1	55.5	58.8	61.7	61.5	60.9	62.3	63.3	61.5	59.6	59.4	62.0		
Services	115.4	128.9	129.8	138.9	146.6	153.9	161.6	169.7	177.3	185.3	112.7	142.3	173.5		
Memo: (Percent change 1/)	494.9	510.0	519.2	520.8	520.3	524.3	529.1	534.0	539.4	545.3	486.2	521.2	536.9		
Exports of G&S	108.9	109.1	112.1	111.9	111.9	112.5	113.3	113.9	114.8	115.7	108.5	112.1	114.4		
Agricultural	14.8	20.2	-0.6	6.6	7.0	8.5	8.8	9.5	9.3	9.5	11.6	5.3	9.3		
Computers	38.8	61.8	0.0	-12.9	-4.7	7.7	5.4	5.3	5.2	5.0	17.4	-2.8	5.2		
Other Goods	37.7	54.7	16.8	26.1	26.2	26.2	26.2	26.2	26.2	26.2	29.5	23.8	26.2		
Services	12.2	14.8	-2.9	3.8	3.7	4.8	5.9	6.9	6.5	6.6	10.3	2.3	6.5		
Imports of G&S	5.4	7.6	-4.3	7.8	6.8	6.6	4.9	5.3	4.9	5.1	4.6	4.1	5.1		
Oil	15.6	11.4	5.9	6.9	4.9	5.7	6.0	7.1	7.0	5.9	13.8	5.9	6.5		
Computers	29.3	-37.8	-10.7	25.9	21.2	-1.3	-3.6	9.7	6.1	-10.5	-1.7	7.7	0.1		
Other Goods	35.8	55.7	2.8	31.1	23.9	21.6	21.6	21.6	19.3	19.3	36.3	19.4	20.4		
Services	12.1	12.8	7.4	1.2	-0.4	3.1	3.6	3.8	4.1	4.4	14.0	2.8	4.0		
Current Account Balance	5.7	0.7	11.5	-0.6	-0.2	2.3	2.7	2.1	3.3	3.0	1.4	3.2	2.8		
Goods & Serv (BOP), net	-163.4	-179.9	-181.6	-193.5	-190.5	-203.2	-188.5	-190.8	-184.9	-197.9	-155.9	-192.2	-190.5		
Goods (BOP), net	-115.0	-107.5	-120.5	-127.6	-126.1	-119.5	-114.1	-111.0	-107.7	-102.0	-106.6	-123.4	-108.7		
Services (BOP), net	-178.5	-172.7	-181.5	-191.8	-194.2	-190.8	-187.8	-187.2	-186.3	-183.2	-166.6	-189.6	-186.1		
Investment Income, net	-56.9	-65.7	-67.6	-75.1	-74.5	-83.3	-84.9	-91.6	-90.4	-98.4	-56.6	-75.1	-91.3		
Unilateral Transfers, net	-32.3	-42.3	-32.0	-32.0	-32.0	-42.5	-32.5	-32.5	-32.5	-43.0	-34.1	-34.6	-35.1		

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

Part 2

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

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

May 17, 1995

RECENT DEVELOPMENTS

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

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

	Fiscal year to date					
	Mar. 1994	Mar. 1995	FY1994	FY1995	Dollar change	Percent change
Outlays	125.4	142.5	726.6	758.4	31.8	4.4
Deposit insurance (DI)	-.8	-1.3	-6.7	-10.9	-4.2	62.3
Outlays excluding DI	126.3	143.7	733.3	769.3	36.0	4.9
National defense	24.5	26.5	139.7	134.1	-5.7	-4.0
Net interest	16.6	19.7	99.1	113.5	14.4	14.5
Social security	26.5	27.8	156.0	163.7	7.7	4.9
Medicare and health	23.6	26.0	123.5	133.4	9.9	8.0
Income security	20.5	24.7	113.1	112.4	-.7	-.6
Education	2.5	4.7	21.0	26.9	5.9	28.0
Other	12.0	14.3	80.9	85.4	4.5	5.6
Receipts	93.1	92.5	576.4	614.4	38.0	6.6
Personal income taxes	29.9	26.8	262.0	274.8	12.8	4.9
Social insurance taxes	37.0	39.4	209.4	224.9	15.5	7.4
Corporate income taxes	15.6	14.9	53.7	57.1	3.4	6.3
Other	10.7	11.4	51.4	58.1	6.6	12.9
Deficit(+)	32.3	49.9	150.1	144.0	-6.1	-4.1
Excluding DI	33.2	51.2	156.9	154.9	-1.9	-1.2

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

defense were relatively high in March, but much of the increase can be explained by differences in payment schedules between this March and last.⁶ For the fiscal year to date, outlays for income security were about the same as a year earlier, while defense spending was down 4 percent.

Both the Senate and the House budget committees have passed budget resolutions that contain sizable spending cuts in fiscal 1996 and aim to balance the budget by fiscal 2002. Official CBO scoring for the bills has not been released, but estimates provided by the Senate Budget Committee for its plan show a path of steady deficit reduction that results exclusively from spending cuts. By contrast, the House Budget Committee plan includes the tax cut passed by the full House earlier this year; it shows a smaller improvement in the deficit from fiscal 1996 to fiscal 1999 and sharper decreases thereafter. Floor debate on these bills is scheduled to begin this week.

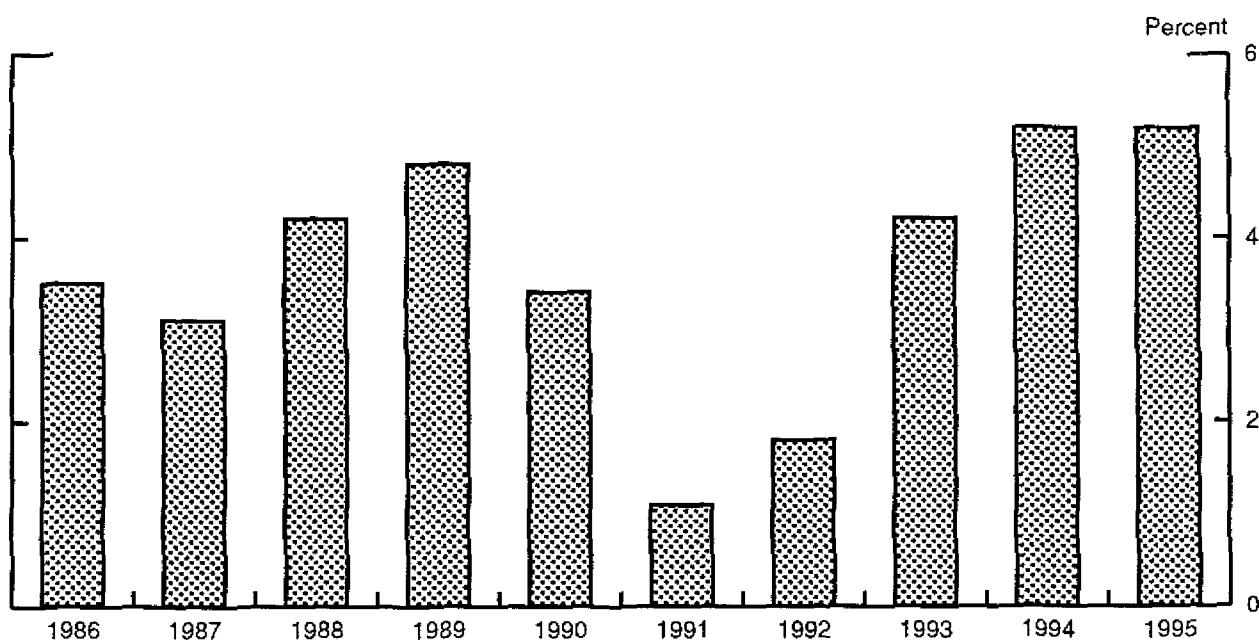
PROJECTIONS OF THE FEDERAL BUDGET DEFICIT

	<u>Fiscal years</u>						
	1996	1997	1998	1999	2000	2001	2002
-----Billions of dollars-----							
Senate Budget Committee	157	128	97	86	74	29	-2
House Budget Committee	156	175	140	134	108	61	-1
CBO March baseline	210	230	232	266	299	316	349

6. Because April 1 fell on a Saturday, outlays of \$5.7 billion were accelerated into March (\$2.6 billion for military active duty, \$1.4 billion for veterans benefits, and \$1.7 billion for supplemental security income benefits). Because a similar event occurred in September and October of 1994, such payment shifts have only a small net effect on the data for the fiscal year-to-date. The extra payment date for refunds this March also boosted spending slightly because the refundable portion of the EITC is counted as an outlay for income security.

Year-End Balances of State General Funds

(Percent of fiscal year expenditures)



Note. The 1995 value is a NASBO estimate.

Source. NASBO.

TREASURY FINANCING
(Billions of dollars; total for period)

Item	1995				
	Q1	Q2 ^P	Apr. ^e	May ^P	June ^P
Total surplus/deficit (-)	-71.3	24.4	48.3	-42.5	18.7
Means of financing deficit					
Net cash borrowing and repayments (-)	66.0	-1.7	-28.6	38.9	-12.1
Nonmarketable	-8.5	.4	-.3	1.7	-1.0
Marketable	74.4	-2.1	-28.3	37.3	-11.1
Bills	22.6	-34.7	-21.3	11.0	-24.4
Coupons	51.8	32.6	-7.0	26.3	13.3
Decrease in cash balance	8.5	-16.1	-20.0	18.8	-14.9
Other ¹	-3.1	-6.6	.3	-15.2	8.3
Memo:					
Cash balance, end of period	18.1	34.2	38.1	19.2	34.2

Note. Data reported on a payment basis. Details may not sum to totals because of rounding.

p Projected.

e Estimate.

1. Accrued items, checks issued less checks paid, and other transactions.

NET CASH BORROWING OF GOVERNMENT-SPONSORED ENTERPRISES
(Billions of dollars)

Agency	1994		1995		
	Q4	Q1	Jan.	Feb.	Mar.
FHLBs	34.5	4.5	2.0	-2.1	4.5
FHLMC	9.3	8.4	1.8	6.4	.3
FNMA	17.9	1.4	-6.8	5.3	2.9
Farm Credit Banks	-1.2	.8	2.4	-1.7	.1
SLMA	.6	1.2	n.a.	n.a.	n.a.

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

n.a. Not available.