

March 17, 1994

SUMMARY AND OUTLOOK

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

On balance, real PCE growth is expected to slow to a 2-1/2 percent annual rate this quarter--about half the pace of the fourth quarter.

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

	1993		1994	
	Q3	Q4	Q1	Q2
Real GDP	2.9	7.5	3.2	2.5
<i>Previous</i>	2.9	5.9	4.0	3.0
Memo:				
Contribution of motor vehicle production	-0.9	2.2	1.5	-1.6
<i>Previous</i>	-0.9	2.3	0.9	-0.9
Civilian unemployment rate (percent) ¹	6.7	6.5	6.5	6.6
<i>Previous</i>	6.7	6.5	7.0	6.9
CPI inflation	2.0	3.1	2.1	3.6
<i>Previous</i>	1.4	2.8	3.6	3.6

1. Values for 1993 are from the old CPS.

Construction activity, especially residential building, also has been restrained by bad weather. Even allowing for a substantial rebound of housing starts in March from the depressed rate in January and February, the first-quarter average is expected to be down noticeably from the rate in the fourth quarter. Nevertheless, residential construction expenditures are expected to grow at close to a 10 percent rate reflecting the increase in starts late last year.¹

In contrast to the restraining effects of weather, production of autos and light trucks is likely to add 1-1/2 percentage points to GDP growth in the first quarter. The step-up in production this quarter is transitory, however, and we see it being fully reversed in the second quarter. Motor vehicle inventories had been drawn down to unusually low levels late last year, and part of the bulge

¹ Our estimate of residential construction outlays reflects the fixed monthly pattern that BEA uses to translate single-family housing starts into expenditures. In fact, the actual rate of progress on starts may have been retarded by inclement weather.

refinancings, are not expected to continue over the projection period.

SUMMARY OF STAFF PROJECTIONS FOR 1994-95
(Percent change, Q4 to Q4, unless otherwise noted)

	1993	1994	1995
Real GDP	3.2	2.7	2.3
<i>Previous</i>	2.8	3.0	2.4
Real PCE	3.3	2.3	2.2
<i>Previous</i>	3.1	2.4	2.3
Real BFI	15.0	10.7	9.1
<i>Previous</i>	14.7	11.5	8.7
Civilian unemployment rate (percent) ¹	6.5	6.6	6.6
<i>Previous</i>	6.5	6.8	6.8

1. Average for the fourth quarter. The value for 1993 is from the old CPS.

Residential investment. Although the surge in residential construction at the end of 1993 has been blunted by bad weather in January and February, we expect the "lost" starts to be made up by the end of the second quarter. Mortgage interest rates are expected to average higher in this Greenbook over the projection period, and we have adjusted down somewhat our starts projection through 1995. Nevertheless, with cash flow affordability near a twenty-year high and with the prospects good for continued growth in employment and incomes, housing starts are expected to run only a bit below the 1-1/2 million unit rate recorded in the fourth quarter. Even with the anticipated leveling of starts, the projected total in each of the next two years would be higher than that in any year since 1988, and the expected pace of single-family starts--1-1/4 million units--would be the highest since the late 1970s.

Business fixed investment. After an 18-1/2 percent increase in 1993, real PDE is expected to slow to a growth rate of 12-1/2 percent this year and 10 percent next year. Several factors have

1994 as a whole. However, we have not made a larger adjustment to the inflation outlook in light of the somewhat higher level of resource utilization.

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

	1993	1994	1995
Consumer price index	2.7	3.0	3.1
<i>Previous</i>	2.7	3.3	3.1
Excluding food and energy	3.1	2.9	2.9
<i>Previous</i>	3.1	3.0	2.9
ECI for compensation of private industry workers ¹	3.6	3.6	3.6
<i>Previous</i>	3.6	3.5	3.5

1. December to December.

Looking at the broader contour of the inflation projection, the core CPI is projected to rise slightly less than 3 percent in both 1994 and 1995, compared with an increase of just above 3 percent last year. Although the projection of this measure of inflation for 1995 is the same as in the last Greenbook, our view of the factors shaping the contour of the inflation outlook has changed a bit. In the last Greenbook, we thought that sufficient slack would remain in the economy through next year to cause core inflation to continue to edge down; this time, we appear to be starting from a little lower level of core inflation, but it is accompanied by higher rates of resource utilization that make further declines in inflation less likely.

In contrast to the core CPI, inflation measured by the total CPI is expected to increase to about 3 percent in 1994 and 1995 from 2 3/4 percent in 1993. The pickup reflects the projected firming in crude oil prices and a faster pace of food price inflation as a consequence of crop losses from last year's flood and drought.

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index ¹		Unemployment rate (level except as noted)	
	1/28/94	3/16/94	1/28/94	3/16/94	1/28/94	3/16/94	1/28/94	3/16/94	1/28/94	3/16/94
ANNUAL										
1991 ²	3.2	3.2	-.7	-.7	4.1	4.1	4.2	4.3	6.7	6.7
1992 ²	5.5	5.5	2.6	2.6	3.3	3.3	3.0	3.0	7.4	7.4
1993 ²	5.6	5.6	2.9	3.0	3.1	3.1	3.1	3.0	6.8	6.8
1994	5.8	5.7	3.6	3.6	2.9	2.7	3.0	2.8	6.9	6.6
1995	4.7	4.8	2.4	2.4	2.9	3.0	3.1	3.2	6.8	6.6
QUARTERLY										
1992 Q1 ²	7.4	7.4	3.5	3.5	4.2	4.2	3.5	2.6	7.3	7.3
Q2 ²	5.7	5.7	2.8	2.8	3.4	3.4	2.9	3.5	7.5	7.5
Q3 ²	4.6	4.6	3.4	3.4	2.5	2.5	2.9	2.9	7.5	7.5
Q4 ²	9.2	9.2	5.7	5.7	3.1	3.1	3.2	3.5	7.3	7.3
1993 Q1 ²	4.4	4.4	.8	.8	4.3	4.3	3.7	2.8	7.0	7.0
Q2 ²	4.3	4.3	1.9	1.9	2.8	2.8	2.8	3.1	7.0	7.0
Q3 ²	4.4	4.4	2.9	2.9	2.1	2.1	1.4	2.0	6.7	6.7
Q4 ²	7.4	8.8	5.9	7.5	2.2	2.3	2.8	3.1	6.5	6.5
1994 Q1	7.2	5.7	4.0	3.2	3.7	2.9	3.6	2.1	7.0	6.5
Q2	5.3	5.0	3.0	2.5	2.9	2.9	3.6	3.6	6.9	6.6
Q3	4.7	5.0	2.5	2.7	2.7	2.8	3.0	3.4	6.9	6.8
Q4	4.5	4.7	2.4	2.4	2.6	2.8	2.8	3.0	6.8	6.6
1995 Q1	5.1	5.1	2.4	2.3	3.3	3.4	3.4	3.4	6.8	6.6
Q2	4.6	4.6	2.4	2.3	2.8	2.8	3.1	3.1	6.8	6.6
Q3	4.5	4.4	2.5	2.4	2.7	2.7	2.9	2.9	6.8	6.6
Q4	4.4	4.3	2.5	2.4	2.7	2.7	2.9	2.9	6.8	6.6
TWO-QUARTER³										
1992 Q2 ²	6.6	6.6	3.2	3.2	3.9	3.9	3.2	3.0	.5	.5
Q4 ²	6.9	6.9	4.6	4.6	2.8	2.8	2.9	3.2	-.2	-.2
1993 Q2 ²	4.3	4.3	1.3	1.3	3.4	3.4	3.4	3.1	-.3	-.3
Q4 ²	5.9	6.6	4.4	5.2	2.2	2.2	2.0	2.4	-.5	-.5
1994 Q2	6.2	5.3	3.5	2.8	3.3	2.9	3.6	2.8	.4	.1
Q4	4.6	4.8	2.4	2.5	2.7	2.8	2.9	3.2	-.1	.0
1995 Q2	4.8	4.9	2.4	2.3	3.1	3.1	3.2	3.2	.0	.0
Q4	4.5	4.4	2.5	2.4	2.7	2.7	2.9	2.9	.0	.0
FOUR-QUARTER⁴										
1991 Q4 ²	3.7	3.7	.3	.3	3.6	3.6	3.0	3.0	1.0	1.0
1992 Q4 ²	6.7	6.7	3.9	3.9	3.3	3.3	3.1	3.1	.3	.3
1993 Q4 ²	5.1	5.5	2.8	3.2	2.8	2.8	2.7	2.7	-.8	-.8
1994 Q4	5.4	5.1	3.0	2.7	3.0	2.8	3.3	3.0	.3	.1
1995 Q4	4.6	4.6	2.4	2.3	2.9	2.9	3.1	3.1	.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.

Strictly Confidential (FR)
Class II FOMC

REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES
(Seasonally adjusted annual rate)

March 16, 1994

Item	Unit ¹	Projected								
		1987	1988	1989	1990	1991	1992	1993	1994	1995
EXPENDITURES										
Nominal GDP	Bill. \$	4539.9	4900.4	5250.8	5546.1	5722.9	6038.5	6379.4	6745.1	7066.7
Real GDP	Bill. 87\$	4540.0	4718.6	4838.0	4897.3	4861.4	4986.3	5137.7	5322.6	5449.7
Real GDP	% change	4.5	3.3	1.6	.2	.3	3.9	3.2	2.7	2.3
Gross domestic purchases		3.9	2.5	.9	-.4	-.2	4.3	4.1	3.3	2.7
Final sales		2.7	4.2	1.5	1.2	-.3	3.8	3.1	2.4	2.3
Private dom. final purch.		1.9	4.2	.5	-.1	-.7	5.0	5.0	3.7	3.1
Personal cons. expend.		2.1	4.2	1.2	.7	.0	4.0	3.3	2.3	2.2
Durables		-2.6	8.5	-.5	-.8	-.4	9.7	8.0	2.1	2.4
Nondurables		1.4	3.2	1.2	-.1	-1.3	3.6	1.9	2.1	1.9
Services		3.7	3.7	1.7	1.7	.9	2.8	2.9	2.5	2.2
Business fixed invest.		3.0	5.5	-.4	.7	-6.3	7.4	15.0	10.7	9.1
Producers' dur. equip.		2.4	9.1	-1.7	2.9	-3.3	11.4	18.5	12.4	10.0
Nonres. structures		4.4	-1.2	2.3	-3.9	-12.6	-2.0	5.6	5.3	6.2
Res. structures		-3.1	.9	-7.7	-15.2	1.6	17.6	7.7	5.6	-.8
Exports		12.6	13.5	11.3	6.7	8.4	4.9	4.8	5.0	7.7
Imports		4.7	3.6	2.6	.4	4.2	8.5	11.7	9.4	9.2
Government purchases		3.3	.2	2.0	3.3	-.7	1.1	-.5	.1	.6
Federal		3.7	-3.4	-.6	2.8	-3.7	.4	-6.5	-4.0	-2.8
Defense		4.5	-3.2	-1.5	1.5	-7.3	-1.4	-8.9	-6.0	-4.6
State and local		2.9	2.9	4.0	3.6	1.5	1.6	3.4	2.6	2.5
Change in bus. invent.	Bill. 87\$	26.3	19.9	29.8	5.7	-8.4	6.5	15.5	22.6	28.0
Nonfarm		32.7	26.9	29.9	3.2	-8.6	2.7	20.9	22.5	25.5
Net exports		-143.0	-104.0	-73.7	-54.7	-19.1	-33.6	-76.4	-107.0	-132.2
Nominal GDP	% change	8.0	7.7	6.0	4.7	3.7	6.7	5.5	5.1	4.6
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	102.0	105.2	107.9	109.4	108.3	108.5	110.2	112.3	114.2
Unemployment rate	%	6.2	5.5	5.3	5.5	6.7	7.4	6.8	6.6	6.6
Industrial prod. index	% change	6.3	3.2	-.1	-.2	-.3	3.2	4.3	4.1	3.0
Capacity util. rate-mfg.	%	81.6	83.6	83.1	81.1	77.8	78.6	80.6	82.6	82.7
Housing starts	Millions	1.62	1.49	1.38	1.19	1.01	1.20	1.29	1.44	1.44
Light Motor Vehicle Sales		14.84	15.43	14.53	13.86	12.30	12.83	13.89	14.96	15.28
Auto sales in U.S.		10.24	10.63	9.91	9.50	8.39	8.38	8.71	9.11	9.23
North American prod.		7.07	7.54	7.08	6.90	6.14	6.28	6.74	7.24	7.36
Other		3.18	3.10	2.83	2.60	2.25	2.11	1.97	1.87	1.87
INCOME AND SAVING										
Nominal GNP	Bill. \$	4544.5	4908.2	5266.8	5567.8	5737.1	6045.8	6380.5	6741.8	7058.4
Nominal GNP	% change	8.1	7.8	6.1	4.9	3.3	6.5	5.5	5.0	4.6
Nominal personal income		7.4	7.1	6.5	6.5	3.5	8.1	3.5	5.5	5.3
Real disposable income		2.1	3.2	1.1	1.1	.7	4.9	1.2	2.3	2.2
Personal saving rate	%	4.3	4.4	4.0	4.2	4.8	5.3	4.0	4.0	4.0
Corp. profits, IVA&CCAdj	% change	29.7	10.2	-6.3	2.3	4.4	16.0	14.1	1.1	4.6
Profit share of GNP	%	7.0	7.4	6.9	6.8	6.4	6.7	7.3	7.4	7.4
Federal surpl./def.	Bill. \$	-151.8	-136.6	-122.3	-163.5	-203.4	-276.3	-226.4	-149.6	-141.3
State/local surpl./def.		40.1	38.4	44.8	25.1	7.3	7.2	1.7	2.2	7.5
Ex. social ins. funds		-14.7	-18.4	-17.5	-35.6	-51.2	-52.2	-56.8	-55.1	-48.6
PRICES AND COSTS										
GDP implicit deflator	% change	3.4	4.2	4.3	4.5	3.4	2.8	2.2	2.4	2.2
GDP fixed-wt. price index		3.4	4.2	4.4	4.6	3.6	3.3	2.8	2.8	2.9
Gross domestic purchases										
fixed-wt. price index		3.9	4.1	4.4	5.2	3.1	3.3	2.6	2.8	2.8
CPI		4.5	4.3	4.6	6.3	3.0	3.1	2.7	3.0	3.1
Ex. food and energy		4.3	4.5	4.4	5.3	4.4	3.5	3.1	2.9	2.9
ECI, hourly compensation ²		3.3	4.8	4.8	4.6	4.4	3.5	3.6	3.6	3.6
Nonfarm business sector										
Output per hour		1.9	.5	-1.4	.4	2.2	3.6	1.9	.8	1.2
Compensation per hour		3.9	3.8	3.1	6.2	4.7	5.2	2.8	3.7	3.6
Unit labor cost		1.9	3.3	4.6	5.7	2.5	1.5	.9	2.9	2.3

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

2. Private-industry workers.

Item	Unit	1991				1992				1993	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EXPENDITURES											
Nominal GDP	Bill. \$	5631.7	5697.7	5758.6	5803.7	5908.7	5991.4	6059.5	6194.4	6261.6	6327.6
Real GDP	Bill. 87\$	4837.8	4855.6	4872.6	4879.6	4922.0	4956.5	4998.2	5068.3	5078.2	5102.1
Real GDP	% change	-2.4	1.5	1.4	.6	3.5	2.8	3.4	5.7	.8	1.9
Gross domestic purchases		-3.6	.8	2.4	-.1	3.4	4.7	3.8	5.4	2.5	3.1
Final sales		-2.7	1.9	-.4	-.1	4.5	1.4	3.7	5.8	-.8	3.2
Private dom. final purch.		-5.4	1.1	1.2	.2	4.8	4.3	4.0	7.1	2.5	4.4
Personal cons. expend.		-2.8	1.8	1.3	.0	4.3	1.8	4.2	5.6	.8	3.4
Durables		-11.4	1.6	10.4	-1.0	14.7	.8	10.7	13.2	-1.3	10.8
Nondurables		-3.5	1.1	-.7	-2.0	3.1	1.1	3.0	7.3	-2.1	2.7
Services		-.2	2.2	.3	1.5	2.6	2.4	3.3	2.9	3.1	2.1
Business fixed invest.		-13.2	-2.7	-3.8	-5.1	3.5	15.1	3.8	7.6	14.4	16.6
Producers' dur. equip.		-15.3	.1	5.3	-2.2	2.8	22.0	10.2	11.5	19.9	19.8
Nonres. structures		-8.5	-8.7	-21.3	-11.3	4.9	.3	-10.3	-2.1	.5	8.1
Res. structures		-25.5	1.2	17.3	20.3	16.8	21.8	1.2	32.8	1.5	-9.5
Exports		-.8	19.4	3.0	13.3	4.9	-.6	6.5	8.8	-2.4	3.6
Imports		-11.1	11.7	11.8	6.3	3.8	15.9	9.2	5.6	11.6	13.3
Government purchases		2.8	1.4	-2.0	-4.7	3.0	-1.0	4.1	-1.4	-6.4	4.3
Federal		7.8	-.2	-6.9	-14.2	.0	-3.1	8.7	-3.5	-16.2	2.0
Defense		9.1	-4.4	-12.3	-19.2	-5.5	-5.0	10.5	-4.6	-21.4	.7
State and local		-.5	2.6	1.7	2.2	5.0	.4	1.2	.0	.3	5.6
Change in bus. invent.	Bill. 87\$	-17.4	-22.3	-.9	7.1	-5.0	12.6	9.6	8.7	29.3	13.0
Nonfarm		-18.7	-26.2	.0	10.3	-9.6	7.0	5.8	7.5	29.3	17.1
Net exports		-21.6	-13.3	-25.0	-16.4	-15.2	-38.0	-42.5	-38.8	-59.9	-75.2
Nominal GDP	% change	2.4	4.8	4.3	3.2	7.4	5.7	4.6	9.2	4.4	4.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.6	108.2	108.2	108.1	108.1	108.4	108.6	108.9	109.4	110.0
Unemployment rate ¹	%	6.5	6.7	6.7	7.0	7.3	7.5	7.5	7.3	7.0	7.0
Industrial prod. index	% change	-7.8	1.0	5.7	.3	.3	5.6	.6	6.4	5.2	2.3
Capacity util. rate-mfg. ¹	%	77.5	77.3	78.2	78.1	77.9	78.7	78.5	79.4	80.1	80.3
Housing starts	Millions	.90	1.01	1.04	1.09	1.24	1.15	1.19	1.24	1.15	1.24
Light Motor Vehicle Sales		12.15	12.19	12.60	12.27	12.55	12.86	12.65	13.26	13.30	14.14
Auto sales in U.S.		8.39	8.35	8.55	8.25	8.40	8.45	8.24	8.45	8.35	8.95
North American prod.		6.16	6.05	6.25	6.09	6.15	6.29	6.24	6.43	6.38	6.90
Other		2.24	2.30	2.31	2.16	2.25	2.16	2.00	2.02	1.97	2.06
INCOME AND SAVING											
Nominal GNP	Bill. \$	5656.1	5710.6	5766.2	5815.5	5927.6	5996.3	6067.3	6191.9	6262.1	6327.1
Nominal GNP	% change	1.9	3.9	4.0	3.5	7.9	4.7	4.8	8.5	4.6	4.2
Nominal personal income		2.1	4.2	2.1	5.8	7.5	6.2	3.7	15.5	-5.4	9.3
Real disposable income		-.4	1.9	-.9	2.2	4.2	3.1	1.9	10.6	-7.8	5.8
Personal saving rate ¹	%	4.8	4.9	4.4	4.9	5.0	5.3	4.9	6.0	3.9	4.4
Corp. profits, IVA&CCAdj	% change	7.4	1.6	-12.1	24.0	37.1	1.8	-36.5	104.6	-6.6	26.3
Profit share of GNP ¹	%	6.5	6.5	6.2	6.5	6.9	6.9	6.1	7.1	6.9	7.2
Federal govt. surpl./def.	Bill. \$	-145.2	-206.2	-217.7	-244.7	-270.2	-279.9	-290.7	-264.2	-263.5	-222.6
State/local surpl./def.		6.1	5.5	5.5	12.1	6.1	7.8	1.2	13.5	.8	1.1
Ex. social ins. funds		-52.5	-53.1	-52.9	-46.5	-52.8	-51.8	-58.3	-46.0	-58.2	-57.8
PRICES AND COSTS											
GDP implicit deflator	% change	5.0	3.2	2.9	2.6	3.8	2.8	1.2	3.3	3.6	2.3
GDP fixed-wt. price index		5.1	3.4	3.4	2.7	4.2	3.4	2.5	3.1	4.3	2.8
Gross domestic purchases											
fixed-wt. price index		3.6	2.5	3.1	3.0	3.9	3.3	3.0	2.8	3.5	2.9
CPI		3.0	2.4	3.0	3.3	2.6	3.5	2.9	3.5	2.8	3.1
Ex. food and energy		5.9	3.5	4.6	3.7	3.7	3.6	3.0	3.6	3.5	3.5
ECI, hourly compensation ²		4.6	4.9	4.1	4.0	3.6	3.2	3.2	3.5	3.9	3.8
Nonfarm business sector											
Output per hour		1.9	2.7	.8	3.4	3.8	2.8	3.6	4.2	-1.8	-.4
Compensation per hour		4.4	4.9	4.6	4.9	5.6	4.7	5.9	4.6	2.9	1.9
Unit labor cost		2.5	2.2	3.7	1.5	1.7	1.8	2.2	.4	4.8	2.3

1. Not at an annual rate.

2. Private-industry workers.

Item	Units	Projected									
		1993		1994				1995			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. \$	6395.9	6532.4	6623.7	6704.7	6787.0	6864.8	6950.8	7029.4	7105.3	7181.2
Real GDP	Bill. 87\$	5138.3	5232.1	5273.1	5305.2	5340.2	5371.9	5402.4	5433.6	5465.3	5497.3
Real GDP	% change	2.9	7.5	3.2	2.5	2.7	2.4	2.3	2.3	2.4	2.4
Gross domestic purchases		3.7	7.2	3.8	3.2	3.3	2.9	2.6	2.7	2.8	2.6
Final sales		3.4	6.9	2.4	2.9	2.4	2.0	2.3	2.3	2.3	2.5
Private dom. final purch.		5.1	8.1	4.1	4.2	3.5	3.0	3.0	3.1	3.1	3.1
Personal cons. expend.		4.4	4.6	2.5	2.0	2.4	2.4	2.2	2.2	2.1	2.1
Durables		7.6	15.4	1.9	1.1	2.6	2.7	2.6	2.4	2.3	2.3
Nondurables		3.7	3.6	.9	3.5	2.0	2.0	2.0	2.0	1.9	1.9
Services		3.9	2.4	3.6	1.4	2.5	2.5	2.3	2.3	2.2	2.2
Business fixed invest.		7.4	22.1	11.0	13.0	9.8	8.9	9.0	9.0	9.1	9.3
Producers' dur. equip.		10.0	24.9	13.5	15.6	10.9	9.9	10.1	10.0	10.0	10.0
Nonres. structures		.3	14.2	3.4	5.4	6.7	5.9	5.8	5.7	6.1	7.2
Res. structures		11.9	31.0	9.6	14.4	2.9	-3.7	-2.2	-.2	-.5	-.3
Exports		-.9	20.5	1.8	4.8	6.4	7.2	7.2	7.3	8.0	8.4
Imports		6.0	16.2	6.8	10.0	10.9	10.0	8.4	9.5	10.0	9.2
Government purchases		.3	.1	-1.6	1.0	1.0	.2	.2	.7	.8	.9
Federal		-6.2	-4.7	-7.6	-2.7	-2.6	-3.3	-3.2	-2.9	-2.8	-2.5
Defense		-9.8	-3.5	-10.8	-4.1	-4.0	-5.0	-4.9	-4.6	-4.5	-4.2
State and local		4.5	3.1	2.0	3.1	3.1	2.2	2.1	2.6	2.7	2.7
Change in bus. invent.	Bill. 87\$	6.5	13.4	23.7	18.1	21.8	26.7	27.2	27.8	29.2	27.7
Nonfarm		19.4	17.8	25.7	18.5	20.8	24.9	25.1	25.4	26.6	25.0
Net exports		-86.3	-84.1	-93.1	-103.1	-112.4	-119.3	-123.5	-129.6	-135.8	-140.1
Nominal GDP	% change	4.4	8.8	5.7	5.0	5.0	4.7	5.1	4.6	4.4	4.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	110.4	110.9	111.4	112.0	112.6	113.1	113.6	114.0	114.4	114.7
Unemployment rate ¹	%	6.7	6.5	6.5	6.6	6.8	6.6	6.6	6.6	6.6	6.6
Industrial prod. index	% change	2.8	6.7	8.0	3.0	2.8	2.7	3.0	3.0	3.0	3.0
Capacity util. rate-mfg ¹	%	80.3	81.5	82.5	82.6	82.6	82.7	82.7	82.7	82.7	82.7
Housing starts	Millions	1.31	1.48	1.37	1.52	1.45	1.44	1.44	1.44	1.44	1.44
Light Motor Vehicle Sales		13.56	14.55	15.25	14.76	14.87	14.97	15.09	15.21	15.35	15.47
Auto sales in U.S.		8.60	8.95	9.28	9.02	9.05	9.08	9.14	9.19	9.26	9.31
North American prod.		6.63	7.08	7.34	7.17	7.20	7.23	7.28	7.33	7.38	7.43
Other		1.97	1.87	1.94	1.85	1.85	1.85	1.86	1.86	1.88	1.88
INCOME AND SAVING											
Nominal GNP	Bill. \$	6402.3	6530.6	6623.6	6701.1	6785.1	6857.5	6945.5	7019.9	7098.3	7169.9
Nominal GNP	% change	4.8	8.3	5.8	4.8	5.1	4.3	5.2	4.4	4.5	4.1
Nominal personal income		3.0	7.8	4.8	7.1	4.3	5.8	6.6	4.7	4.6	5.3
Real disposable income		1.6	5.8	2.0	1.5	3.0	2.6	3.2	-.1	3.3	2.4
Personal saving rate ¹	%	3.8	4.1	4.0	3.8	4.0	4.1	4.3	3.7	4.0	4.1
Corp. profits, IVA&CCAdj	% change	9.4	31.1	-10.9	5.6	9.0	1.7	7.0	4.5	2.4	4.6
Profit share of GNP ¹	%	7.3	7.7	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4
Federal govt. surpl./def.	Bill. \$	-212.7	-201.8	-168.7	-134.1	-142.2	-153.4	-153.5	-123.7	-136.5	-151.3
State/local surpl./def.		-1.7	6.2	.6	1.8	3.2	3.2	5.7	4.7	10.0	9.5
Ex. social ins. funds		-60.2	-51.7	-57.1	-55.6	-53.9	-53.6	-50.8	-51.5	-45.9	-46.1
PRICES AND COSTS											
GDP implicit deflator	% change	1.5	1.2	2.5	2.5	2.3	2.2	2.8	2.2	2.0	1.9
GDP fixed-wt. price index		2.1	2.3	2.9	2.9	2.8	2.8	3.4	2.8	2.7	2.7
Gross domestic purchases											
fixed-wt. price index		1.8	2.2	2.4	3.1	3.0	2.7	3.4	2.8	2.6	2.6
CPI		2.0	3.1	2.1	3.6	3.4	3.0	3.4	3.1	2.9	2.9
Ex. food and energy		2.4	2.9	2.6	3.1	2.9	2.9	3.0	2.9	2.9	2.9
ECI, hourly compensation ²		3.4	3.4	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Nonfarm business sector											
Output per hour		4.0	6.1	.9	.6	.8	.9	1.0	1.2	1.3	1.4
Compensation per hour		3.7	2.8	4.0	3.6	3.6	3.5	3.9	3.5	3.5	3.5
Unit labor cost		-.4	-3.1	3.0	3.0	2.8	2.6	2.9	2.3	2.2	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)

March 16, 1994

Item	1991				1992				1993					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1990	1991	1992	1993
Real GDP	-29.4	17.8	17.0	7.0	42.4	34.5	41.7	70.1	9.9	23.9	10.5	12.4	188.7	163.8
Gross domestic purchases	-44.6	9.6	28.6	-1.6	41.1	57.4	46.2	66.4	31.0	39.3	-20.1	-8.0	211.1	209.1
Final sales	-32.8	22.8	-4.5	-1.0	54.4	16.9	44.8	71.0	-10.7	40.2	56.2	-15.5	187.1	159.1
Private dom. final purch.	-54.5	11.1	11.9	1.8	46.3	42.1	39.8	70.6	26.0	45.7	-4.2	-29.7	198.8	209.3
Personal cons. expend.	-23.2	14.2	10.2	.4	34.8	14.5	34.1	46.3	6.6	28.9	23.9	1.6	129.7	111.4
Durables	-12.9	1.7	10.6	-1.1	15.1	.9	11.5	14.4	-1.5	12.3	-3.6	-1.7	41.9	37.7
Nondurables	-9.3	2.9	-1.8	-5.3	8.0	3.0	7.9	18.9	-5.8	7.1	-1.4	-13.5	37.8	20.9
Services	-1.0	9.6	1.4	6.8	11.7	10.6	14.7	13.0	13.9	9.5	28.9	16.8	50.0	52.8
Business fixed invest.	-18.8	-3.6	-5.0	-6.7	4.4	18.3	5.0	9.9	18.6	22.0	3.5	-34.1	37.6	81.5
Producers' dur. equip.	-14.9	.1	4.6	-2.0	2.5	18.2	9.2	10.6	18.4	19.1	10.5	-12.2	40.5	73.3
Nonres. structures	-3.8	-3.8	-9.6	-4.6	1.8	.1	-4.1	-.8	.2	2.9	-7.0	-21.8	-3.0	8.3
Res. structures	-12.5	.5	6.7	8.1	7.1	9.4	.6	14.4	.8	-5.2	-31.7	2.8	31.5	16.3
Change in bus. invent.	3.5	-4.9	21.4	8.0	-12.1	17.6	-3.0	-.9	20.6	-16.3	-45.8	28.0	1.6	4.7
Nonfarm	.0	-7.5	26.2	10.3	-19.9	16.6	-1.2	1.7	21.8	-12.2	-49.9	29.0	-2.8	10.3
Farm	3.4	2.5	-4.7	-2.3	7.8	1.0	-1.8	-2.6	-1.2	-4.1	4.2	-1.1	4.4	-5.6
Net exports	15.2	8.3	-11.7	8.6	1.2	-22.8	-4.5	3.7	-21.1	-15.3	30.6	20.4	-22.4	-45.3
Exports	-1.0	23.5	4.0	17.3	6.8	-.8	9.1	12.3	-3.6	5.2	32.7	43.8	27.4	28.5
Imports	-16.2	15.2	15.7	8.8	5.5	22.0	13.6	8.5	17.6	20.5	2.2	23.5	49.6	73.9
Government purchases	6.5	3.4	-4.7	-11.4	6.9	-2.4	9.5	-3.3	-15.6	9.8	29.8	-6.2	10.7	-4.9
Federal	7.3	-.2	-7.0	-14.5	.0	-2.9	7.8	-3.3	-16.1	1.8	10.4	-14.4	1.6	-24.2
Defense	6.3	-3.3	-9.3	-14.5	-3.7	-3.3	6.5	-3.1	-15.3	.4	4.2	-20.8	-3.6	-23.3
Nondefense	1.0	3.1	2.3	.0	3.7	.4	1.2	-.1	-.9	1.5	6.1	6.4	5.2	-.9
State and local	-.7	3.6	2.3	3.1	6.9	.5	1.7	.0	.5	7.9	19.3	8.3	9.1	19.3

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)

March 16, 1994

Item	Projected										Projected			
	1993		1994				1995							
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1992	1993	1994	1995
Real GDP	36.2	93.8	41.0	32.1	34.9	31.7	30.5	31.2	31.7	32.0	188.7	163.8	139.8	125.4
Gross domestic purchases	47.2	91.6	50.0	42.1	44.2	38.6	34.7	37.3	37.9	36.3	211.1	209.1	175.0	146.2
Final sales	42.7	86.9	30.7	37.7	31.3	26.9	29.9	30.6	30.3	33.5	187.1	159.1	126.5	124.3
Private dom. final purch.	53.2	84.4	43.6	45.4	38.2	33.2	33.8	35.2	34.7	35.6	198.8	209.3	160.4	139.3
Personal cons. expend.	36.9	39.0	22.0	17.5	20.7	20.9	20.0	19.9	19.1	19.2	129.7	111.4	81.2	78.2
Durables	8.9	18.0	2.4	1.4	3.3	3.4	3.3	3.2	3.0	3.0	41.9	37.7	10.6	12.5
Nondurables	9.9	9.7	2.5	9.6	5.5	5.6	5.6	5.6	5.4	5.4	37.8	20.9	23.2	22.0
Services	18.1	11.3	17.1	6.5	11.9	12.0	11.1	11.1	10.7	10.8	50.0	52.8	47.3	43.7
Business fixed invest.	10.5	30.4	16.5	19.9	15.7	14.6	15.1	15.4	15.9	16.6	37.6	81.5	66.6	63.0
Producers' dur. equip.	10.4	25.4	15.1	17.8	13.1	12.2	12.8	13.1	13.4	13.6	40.5	73.3	58.2	52.9
Nonres. structures	.1	5.1	1.3	2.1	2.6	2.3	2.3	2.3	2.5	3.0	-3.0	8.3	8.3	10.2
Res. structures	5.9	14.8	5.3	7.9	1.7	-2.3	-1.4	-.1	-.3	-.2	31.5	16.3	12.7	-2.0
Change in bus. invent.	-6.5	6.9	10.3	-5.6	3.7	4.9	.6	.5	1.4	-1.5	1.6	4.7	13.3	1.1
Nonfarm	2.3	-1.6	7.9	-7.2	2.3	4.1	.3	.2	1.2	-1.6	-2.8	10.3	7.1	.2
Farm	-8.8	8.5	2.4	1.6	1.4	.8	.3	.3	.2	.1	4.4	-5.6	6.2	.9
Net exports	-11.1	2.2	-9.0	-10.0	-9.3	-6.8	-4.2	-6.1	-6.2	-4.3	-22.4	-45.3	-35.2	-20.8
Exports	-1.3	28.2	2.7	7.3	9.9	11.2	11.4	11.9	13.1	14.0	27.4	28.5	31.1	50.4
Imports	9.8	26.0	11.7	17.3	19.2	18.1	15.7	18.0	19.4	18.3	49.6	73.9	66.2	71.2
Government purchases	.6	.3	-3.9	2.3	2.4	.5	.4	1.6	1.8	2.1	10.7	-4.9	1.3	5.9
Federal	-5.7	-4.2	-6.8	-2.3	-2.2	-2.8	-2.7	-2.4	-2.3	-2.1	1.6	-24.2	-14.1	-9.5
Defense	-6.3	-2.1	-6.7	-2.4	-2.3	-2.9	-2.8	-2.6	-2.5	-2.3	-3.6	-23.3	-14.3	-10.2
Nondefense	.7	-2.2	-.1	.1	.1	.1	.1	.2	.2	.2	5.2	-.9	.2	.7
State and local	6.4	4.5	2.9	4.6	4.6	3.3	3.1	4.0	4.1	4.2	9.1	19.3	15.4	15.4

1. Annual changes are from Q4 to Q4.

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

March 17, 1994

Item	Fiscal year				1993				1994				1995			
	1992 ^a	1993 ^a	1994	1995	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^b	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
Not seasonally adjusted																
Receipts ¹	1090	1153	1255	1318	262	331	295	287	284	372	313	297	289	404	327	310
Outlays ¹	1381	1408	1476	1525	324	349	349	379	350	371	375	378	386	378	382	397
Surplus/deficit ¹	-290	-255	-221	-207	-62	-18	-54	-92	-67	0	-62	-81	-97	26	-55	-87
On-budget	-340	-301	-278	-268	-90	-49	-54	-105	-75	-33	-65	-88	-108	-11	-61	-93
Off-budget	50	46	58	62	27	31	0	13	9	33	3	7	11	38	6	6
Surplus excluding deposit insurance ²	-287	-282	-226	-216	-68	-25	-61	-92	-73	2	-63	-82	-101	25	-59	-88
Means of financing																
Borrowing	311	249	224	201	60	61	46	89	38	15	81	59	81	15	46	70
Cash decrease	-17	6	-7	0	8	-39	8	3	25	-14	-21	20	20	-40	0	20
Other ³	-4	0	4	6	-6	-4	0	0	4	-2	3	2	-4	-1	9	-4
Cash operating balance, end of period	59	53	60	60	22	61	53	50	25	39	60	40	20	60	60	40
NIPA FEDERAL SECTOR																
Seasonally adjusted, annual rate																
Receipts	1163	1246	1364	1444	1218	1268	1276	1318	1353	1396	1389	1407	1432	1472	1466	1484
Expenditures	1435	1487	1526	1586	1482	1491	1489	1520	1521	1530	1532	1561	1585	1596	1603	1635
Purchases	445	447	439	439	443	448	444	441	439	438	438	436	441	440	439	438
Defense	313	308	297	292	305	308	302	300	297	295	294	292	293	292	290	289
Nondefense	132	139	142	147	138	140	142	140	142	143	144	144	147	148	149	149
Other expenditures	990	1040	1087	1147	1039	1043	1045	1080	1082	1092	1094	1125	1145	1156	1164	1197
Surplus/deficit	-271	-241	-162	-142	-264	-223	-213	-202	-169	-134	-142	-153	-154	-124	-137	-151
FISCAL INDICATORS ⁴																
High-employment (HEB) surplus/deficit	-212	-193	-142	-127	-215	-173	-165	-174	-150	-118	-127	-139	-139	-108	-121	-135
Change in HEB, percent of potential GDP	.9	-.3	-.8	-.2	0	-.7	-.1	.1	-.4	-.5	.1	.2	0	-.4	.2	.2
Fiscal impetus (FI), percent, cal. year	-4.5	-4.5	-6.9	-5	-4.9	1.3	-.8	-1.3	-3.3	-2.9	-.5	-1	-1.9	-1.6	-.1	-.7

1. OMB's February 1994 deficit estimates are \$235 billion in FY94 and \$176 billion in FY95(excluding health reform). CBO's January 1994 deficit estimates of the budget are \$223 billion in FY94 and \$171 billion in FY95. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's February 1994 deficit estimates, excluding deposit insurance spending, are \$238 billion in FY94 and \$187 billion in FY95. CBO's January 1994 deficit estimates, excluding deposit insurance spending, are \$228 billion in FY94, and \$182 billion in FY95.

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

4. HEB is the NIPA measure in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output generated by 2.4 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--Unified and NIPA data are actuals except for NIPA corporate profit tax total which is a staff projection.

Confidential FR Class II
March 17, 1994

CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS¹
(Percent)

Year	-----Nonfederal-----								-----MEMO-----	
	Total ²	Federal govt.	-----Households-----					State and local govt.	Private financial assets	Nominal GDP
	Total		Total	Home mtg.	Cons. credit	Business				
1981	9.7	11.6	9.3	7.5	7.0	4.8	11.9	5.2	10.3	9.3
1982	9.8	19.7	7.4	5.5	4.7	4.4	8.8	9.3	9.6	3.2
1983	11.9	18.9	10.1	11.1	10.8	12.6	9.3	9.7	12.4	11.0
1984	14.5	16.9	13.8	12.8	11.7	18.7	15.6	9.1	12.6	9.1
1985	15.5	16.5	15.2	15.3	13.2	15.8	12.1	31.3	12.1	7.0
1986	12.3	13.6	11.9	12.0	14.3	9.6	12.2	10.5	7.3	4.7
1987	9.5	8.0	9.9	12.4	14.9	5.0	7.1	13.4	8.4	8.0
1988	8.8	8.0	9.0	10.8	11.8	7.2	7.9	7.0	8.0	7.7
1989	7.8	7.0	8.0	9.0	10.2	6.7	7.0	8.4	5.0	6.0
1990	6.3	11.0	4.9	6.2	7.7	1.7	3.4	6.7	4.3	4.7
1991	4.4	11.1	2.4	4.7	6.7	-1.6	-0.9	7.2	-0.6	3.7
1992	5.2	10.9	3.3	5.7	6.6	1.2	0.1	6.4	0.9	6.7
1993	5.2	8.3	4.0	6.3	6.8	6.1	0.9	6.5	-1.3	5.5
1994	5.3	5.8	5.1	7.3	7.9	8.6	2.7	4.8	0.4	5.1
1995	5.1	6.0	4.8	6.6	7.1	6.9	2.9	4.1	0.7	4.6
Quarter (seasonally adjusted annual rates)										
1993:1	3.4	7.5	2.0	3.3	4.2	2.4	-0.7	7.2	-5.3	4.4
2	5.7	11.1	3.8	5.3	6.1	2.8	1.3	6.8	0.8	4.3
3	4.8	5.5	4.5	7.9	7.8	7.4	0.7	5.1	-2.3	4.4
4	6.3	8.2	5.6	8.2	8.4	11.2	2.5	6.3	1.4	8.8
1994:1	5.0	4.3	5.3	7.7	8.2	8.7	2.6	4.7	0.4	5.7
2	5.0	5.0	5.0	7.0	7.8	8.4	2.7	5.1	-0.1	5.0
3	6.1	9.2	5.0	7.0	7.5	8.2	2.8	4.5	0.9	5.0
4	4.7	4.2	4.9	6.7	7.2	7.9	2.8	4.6	0.5	4.7
1995:1	5.9	8.9	4.7	6.6	7.0	7.1	2.8	4.1	1.1	5.1
2	4.7	4.8	4.7	6.5	6.9	6.9	2.8	4.2	0.6	4.6
3	4.7	4.7	4.7	6.4	6.8	6.6	2.9	3.8	0.6	4.4
4	4.8	5.2	4.6	6.2	6.8	6.4	2.9	4.0	0.7	4.3

1. Data after 1993:4 are staff projections. Year-to-year changes in nominal GDP are measured from the fourth quarter of the preceding year to the fourth quarter of the year indicated; other changes are measured from end of preceding period to end of period indicated.

2. On a quarterly average basis, total debt growth is projected to be 5.5 in 1994 and 5.2 in 1995.

Confidential FR Class II
March 17, 1994

FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS¹
(Billions of dollars)

	Calendar year			1993-	-----1994-----				-----1995-----			
	1993	1994	1995	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-----Seasonally Adjusted Annual Rates-----												
Net funds raised by domestic nonfinancial sectors												
1 Total	629.5	670.4	680.7	795.0	613.8	645.3	803.7	618.9	778.6	640.8	642.5	661.1
2 Net equity issuance	23.0	15.5	15.0	28.0	-4.0	20.0	31.0	15.0	15.0	15.0	15.0	15.0
3 Net debt issuance	606.5	654.9	665.7	767.0	617.8	625.3	772.7	603.9	763.6	625.8	627.5	646.1
Borrowing sectors												
Nonfinancial business												
4 Financing gap ²	21.9	76.3	107.6	24.9	49.8	76.5	84.0	94.7	99.6	104.3	112.1	114.5
5 Net equity issuance	23.0	15.5	15.0	28.0	-4.0	20.0	31.0	15.0	15.0	15.0	15.0	15.0
6 Credit market borrowing	34.5	102.0	109.4	93.2	97.3	100.0	104.0	106.6	105.9	107.0	111.6	113.2
Households												
7 Net borrowing, of which:	251.2	309.0	298.2	338.5	326.8	302.9	306.0	300.3	298.7	298.9	299.3	295.7
8 Home mortgages	187.0	233.0	223.8	242.1	242.0	235.0	230.0	225.0	222.0	223.0	224.0	226.0
9 Consumer credit	49.0	73.5	64.5	93.3	75.0	74.0	73.0	72.0	66.0	65.0	64.0	63.0
10 Debt/DPI (percent) ³	87.2	88.4	89.7	87.8	88.7	89.1	89.3	89.6	89.7	90.6	90.7	90.9
State and local governments												
11 Net borrowing	64.7	50.8	45.5	65.7	49.6	54.6	48.5	50.5	45.5	47.5	43.5	45.5
12 Current surplus ⁴	-59.1	-61.5	-56.6	-65.1	-62.7	-61.4	-60.6	-61.3	-57.5	-59.1	-54.3	-55.4
U.S. government												
13 Net borrowing	256.1	193.2	212.7	269.6	144.1	167.9	314.1	146.6	313.6	172.3	173.1	191.7
14 Net borrowing; quarterly, nsa	256.1	193.2	212.7	89.2	38.3	15.2	80.8	58.9	80.6	15.2	46.4	70.5
15 Unified deficit; quarterly, nsa	226.3	209.5	212.7	92.1	66.7	-0.5	62.3	80.9	97.1	-26.2	55.0	86.9
Funds supplied by												
16 depository institutions	136.6	163.8	178.8	201.0	162.8	141.6	169.0	181.9	178.7	177.2	178.8	180.6
MEMO: (percent of GDP)												
17 Dom. nonfinancial debt ³	188.9	188.0	188.8	189.1	188.9	188.9	189.5	189.5	189.9	190.0	190.2	190.4
18 Dom. nonfinancial borrowing	9.5	9.7	9.4	11.7	9.3	9.3	11.4	8.8	11.0	8.9	8.8	9.0
19 U.S. government ⁵	4.0	2.9	3.0	4.1	2.2	2.5	4.6	2.1	4.5	2.5	2.4	2.7
20 Private	5.5	6.8	6.4	7.6	7.2	6.8	6.8	6.7	6.5	6.5	6.4	6.3

1. Data after 1993:4 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.

U.S. real net exports. U.S. demand for imports is more responsive to income growth than is foreign demand for U.S. exports. Accordingly, with GDP in the United States growing at about the same rate as abroad in 1994, we expect that real net exports of goods and services will decline about \$35 billion over the four quarters of 1994. During 1995, however, the pace of decline in net exports should slow to about \$20 billion as U.S. growth settles down to potential amid a further pickup in the rest of the world.

TRADE QUANTITIES *
(Q4/Q4 percent change)

	<u>1992</u>	<u>1993</u>	<u>--Projection--</u>	
			<u>1994</u>	<u>1995</u>
Merchandise exports				
Total	6.5	5.9	5.5	8.6
Agricultural	8.7	-4.9	-2.8	2.5
Computers	26.7	19.9	30.4	34.8
Other nonag.	3.4	4.9	1.7	2.9
Merchandise imports				
Total	10.1	12.9	10.5	10.3
Oil	12.1	10.8	4.8	4.4
Computers	46.7	35.2	33.6	31.1
Other non oil	5.5	9.5	6.5	5.7

* GDP basis, 1987 dollars.

The quantity of merchandise exports is projected to grow moderately over the remainder of this year and to accelerate in 1995. Growth in the current quarter will be limited following the surge in the fourth quarter of last year. Exports of computers are projected to strengthen significantly this year relative to last and to rise somewhat further in 1995. After the first quarter of this year, other nonagricultural exports are projected to advance at about a 3 percent annual rate through the forecast period. The stimulating effect of increasing growth abroad will be partly offset by the depressing effect of the appreciation of the dollar over the past year or so. The relatively poor U.S. harvest in 1993 is

observed in 1993. Low inflation abroad continues to restrain these prices. The increase in prices of U.S. nonagricultural exports should, over time, move in line with increases in U.S. producer prices.

SELECTED PRICE INDICATORS
(Q4/Q4 percent change except as noted)

	<u>1992</u>	<u>1993</u>	<u>--Projection---</u>	
			<u>1994</u>	<u>1995</u>
PPI (export. wts.)	1.6	0.8	2.2	2.2
Nonag. exports*	1.4	0.6	2.0	2.1
Non-oil imports*	2.3	1.2	1.3	1.4
Oil imports (Q4 level, \$/bl.)	17.89	14.12	15.00	15.00

* Excluding computers.

Nominal trade and current account balances. The merchandise trade deficit is projected to increase from about \$135 billion (a.r.) in the current quarter to about \$170 billion by the end of 1994 and \$190 billion by the end of 1995. Net service receipts will continue to expand, from an annual rate of about \$50 billion this quarter to \$65 billion by the end of 1995. Investment income payments are expected to exceed investment income receipts by a small but increasing margin over the forecast period. As a result of these developments, we expect that the current account deficit will rise to more than \$175 billion by the end of 1995.

March 17, 1994

STRICTLY CONFIDENTIAL - FR
CLASS II FOMC

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

				Projection	
Measure and country	1991	1992	1993	1994	1995
REAL GDP					
Canada	-0.1	0.8	3.0	3.1	3.8
France	1.3	0.7	-0.1	1.3	2.5
Germany	1.3	0.7	-0.5	1.3	2.2
W. Germany	2.7	0.0	-0.8	0.5	2.0
Italy	1.7	-0.2	0.0	1.8	2.1
Japan	3.6	-0.3	0.1	1.4	2.7
United Kingdom	-1.6	0.2	2.6	2.5	2.8
Average, weighted by 1987-89 GDP	1.5	0.2	0.6	1.7	2.6
Average, weighted by share of					
U.S. nonagricultural exports					
Total foreign	1.7	1.2	2.1	2.7	3.5
G-6	0.7	0.4	1.7	2.3	3.2
Developing countries	4.9	3.9	4.2	4.3	5.0
CONSUMER PRICES					

Canada	4.1	1.8	1.8	0.3	1.6
France	2.9	1.8	2.1	1.9	1.7
Western Germany	3.9	3.7	3.7	2.7	2.1
Italy	6.1	4.8	4.1	3.5	2.8
Japan	3.2	0.9	1.2	1.0	0.8
United Kingdom	4.2	3.1	1.6	3.3	3.5
Average, weighted by 1987-89 GDP	3.9	2.4	2.2	2.0	1.9
Average, weighted by share of					
U.S. non-oil imports	3.8	1.9	1.9	1.3	1.6

Strictly Confidential (FR) Class II-FOMC

U.S. CURRENT ACCOUNT AND REAL NET EXPORTS

(Billions of dollars, seasonally adjusted annual rates)

	1991				1992				1993		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1990	1991	1992
GDP Net Exports of Goods and Services (87\$)	-21.6	-13.3	-25.0	-16.4	-15.2	-38.0	-42.5	-38.8	-59.9	-75.2	-54.7	-19.1	-33.6
Exports of G+S	519.4	542.9	546.9	564.2	571.0	570.2	579.3	591.6	588.0	593.2	510.5	543.4	578.0
Merchandise	381.6	396.1	398.2	410.7	414.4	415.9	423.0	437.3	430.2	434.5	368.9	396.7	422.7
Services	137.8	146.8	148.7	153.5	156.6	154.2	156.3	154.3	157.8	158.6	141.6	146.7	155.4
Imports of G+S	541.0	556.2	571.9	580.7	586.2	608.2	621.8	630.3	647.9	668.4	565.1	562.4	611.6
Merchandise	442.1	457.2	474.6	481.7	486.8	509.0	521.6	530.3	545.9	565.7	461.4	463.9	511.9
Oil	44.7	52.0	52.9	47.1	47.3	51.6	53.1	52.8	53.4	57.8	52.1	49.2	51.2
Non-oil	397.5	405.2	421.7	434.7	439.6	457.4	468.5	477.6	492.5	507.9	409.3	414.8	460.8
Services	98.9	99.1	97.3	98.9	99.3	99.2	100.1	100.0	102.0	102.7	103.7	98.5	99.6
Memo: (Percent change 1/)													
Exports of G+S	-0.8	19.4	3.0	13.3	4.9	-0.6	6.5	8.8	-2.4	3.6	6.8	8.7	4.9
of which: Goods	7.7	16.1	2.1	13.2	3.7	1.5	7.0	14.2	-6.3	4.1	5.8	9.8	6.6
Imports of G+S	-11.1	11.7	11.8	6.3	3.8	15.9	9.2	5.6	11.6	13.3	0.6	4.7	8.6
of which: Non-oil Goods	-11.3	8.0	17.3	12.9	4.6	17.2	10.1	8.0	13.1	13.1	0.8	6.7	10.0

Current Account Balance	37.6	7.1	-47.4	-30.6	-26.7	-73.0	-71.1	-94.7	-89.5	-108.9	-91.9	-8.3	-66.4
Merchandise Trade, net	-75.2	-65.3	-78.6	-76.2	-71.1	-99.2	-110.4	-103.8	-117.3	-137.6	-109.0	-73.8	-96.1
Exports	405.3	416.8	415.1	430.5	433.4	433.2	438.0	456.0	445.9	452.3	389.3	416.9	440.1
Agricultural	39.5	38.5	39.7	42.8	43.3	42.6	44.7	45.5	43.3	43.0	40.2	40.1	44.0
Nonagricultural	365.8	378.3	375.4	387.7	390.0	390.6	393.3	410.4	402.6	409.2	349.1	376.8	396.1
Imports	480.5	482.1	493.6	506.7	504.4	532.4	548.4	559.8	563.2	589.9	498.3	490.7	536.3
Oil	52.4	52.3	53.0	49.4	41.9	52.4	57.2	54.9	51.0	57.2	62.3	51.8	51.6
Non-oil	428.1	429.8	440.7	457.4	462.5	480.0	491.2	505.0	512.2	532.6	436.0	439.0	484.7
Other Current Account	89.7	60.7	24.6	34.8	26.6	22.6	32.5	12.3	28.2	28.8	-3.2	52.5	23.5
Invest. Income, net	23.1	11.6	6.5	10.9	17.7	3.6	6.8	-3.2	-0.4	-0.1	20.3	13.0	6.2
Direct, net	60.3	52.8	45.1	52.8	57.6	47.6	47.1	40.8	44.9	46.5	56.2	52.8	48.3
Portfolio, net	-37.2	-41.1	-38.6	-42.0	-39.9	-44.0	-40.3	-44.0	-45.4	-46.6	-35.9	-39.7	-42.0
Military, net	-10.1	-5.6	-4.7	-3.0	-2.3	-2.9	-2.5	-3.3	-0.6	-0.9	-7.8	-5.9	-2.8
Other Services, net	43.4	50.8	55.6	57.2	58.5	57.5	63.6	57.1	59.2	58.9	38.5	51.7	59.2
Transfers, net	56.4	15.5	-26.3	-19.4	-29.6	-32.0	-28.6	-41.4	-30.4	-29.2	-33.8	6.6	-32.9

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. CURRENT ACCOUNT AND REAL NET EXPORTS
(Billions of dollars, seasonally adjusted annual rates)

	Projection										Projection		
	1993		1994				1995				ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1993	1994	1995
GDP Net Exports of Goods and Services (87\$)	-86.3	-84.1	-93.1	-103.1	-112.4	-119.3	-123.5	-129.6	-135.8	-140.1	-76.4	-107.0	-132.2
Exports of G+S	591.9	620.1	622.8	630.1	640.0	651.2	662.6	674.5	687.6	701.6	598.3	636.0	681.6
Merchandise	434.1	463.1	465.1	471.1	479.3	488.6	498.1	507.9	519.0	530.8	440.5	476.0	513.9
Services	157.8	157.0	157.7	159.0	160.6	162.6	164.6	166.5	168.7	170.8	157.8	160.0	167.6
Imports of G+S	678.2	704.2	715.9	733.2	752.4	770.4	786.1	804.1	823.4	841.7	674.7	743.0	813.8
Merchandise	574.9	598.9	610.0	626.4	644.7	662.0	676.9	694.2	712.8	730.3	571.3	635.8	703.5
Oil	56.7	58.5	56.8	57.1	59.6	61.3	61.2	62.5	64.3	64.0	56.6	58.7	63.0
Non-oil	518.2	540.4	553.2	569.4	585.1	600.6	615.7	631.7	648.5	666.2	514.7	577.1	640.5
Services	103.3	105.3	105.9	106.8	107.7	108.5	109.2	109.9	110.7	111.4	103.3	107.2	110.3
Memo: (Percent change 1/)													
Exports of G+S	-0.9	20.5	1.8	4.8	6.4	7.2	7.2	7.3	8.0	8.4	5.2	5.0	7.7
of which: Goods	-0.4	29.5	1.7	5.3	7.2	7.9	8.0	8.2	9.0	9.5	6.7	5.5	8.6
Imports of G+S	6.0	16.2	6.8	10.0	10.9	10.0	8.4	9.5	10.0	9.2	11.8	9.4	9.2
of which: Non-oil													
Goods	8.4	18.3	9.8	12.2	11.5	11.1	10.4	10.8	11.1	11.4	13.2	11.1	10.9
Current Account Balance	-112.4	-126.2	-118.8	-134.9	-143.6	-162.5	-153.6	-161.0	-162.6	-177.9	-109.2	-140.0	-163.8
Merchandise Trade, net	-143.9	-131.1	-136.3	-150.1	-162.0	-168.5	-172.2	-177.7	-183.8	-188.2	-132.5	-154.2	-180.5
Exports	447.7	481.1	472.6	474.7	481.8	488.9	495.8	502.5	509.4	516.4	456.8	479.5	506.0
Agricultural	42.3	45.3	44.1	44.2	44.7	45.5	45.7	46.0	46.5	46.9	43.5	44.6	46.3
Nonagricultural	405.4	435.8	428.5	430.5	437.2	443.4	450.1	456.5	462.9	469.6	413.3	434.9	459.8
Imports	591.6	612.3	608.9	624.9	643.8	657.4	668.0	680.2	693.2	704.6	589.2	633.7	686.5
Oil	50.1	48.0	40.8	45.6	51.7	53.4	53.3	54.5	56.0	55.8	51.6	47.9	54.9
Non-oil	541.5	564.3	568.1	579.3	592.1	603.9	614.7	625.7	637.3	648.8	537.7	585.9	631.6
Other Current Account	25.1	10.6	21.3	22.6	24.2	17.2	27.8	29.9	32.1	25.5	23.2	21.3	28.8
Invest. Income, net	6.5	-5.6	-3.8	-7.5	-5.8	-11.2	-9.2	-13.3	-10.9	-15.2	0.1	-7.1	-12.1
Direct, net	50.2	42.3	42.9	43.0	43.5	43.3	44.1	44.6	45.2	46.0	46.0	43.2	45.0
Portfolio, net	-43.7	-47.9	-46.7	-50.5	-49.3	-54.5	-53.3	-57.9	-56.1	-61.2	-45.9	-50.2	-57.1
Military, net	-0.5	-2.1	-1.6	-1.2	-0.8	-0.2	0.4	0.8	1.2	1.6	-1.0	-0.9	1.0
Other Services, net	55.9	52.8	53.3	54.2	55.4	56.8	58.5	60.2	62.0	64.0	56.7	54.9	61.2
Transfers, net	-30.4	-40.1	-30.4	-30.4	-30.4	-39.4	-31.1	-31.1	-31.1	-40.1	-32.5	-32.6	-33.4

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

March 16, 1994

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee

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

output about 1/2 percentage point in January, but significantly less in February. In particular, output of motor vehicles and steel, which were clearly restrained by weather in January, increased notably in February. Other industries, including furniture, stone, clay, and glass, and apparel, apparently sustained output losses in both months.

Assemblies of motor vehicles rose to a 13.9 million unit annual rate in February--the highest level since the late 1970s; the increase in the output of motor vehicles and parts accounted for about two-thirds of the increase in total manufacturing output. Looking ahead, manufacturers' schedules call for sizable reductions in assemblies of both autos and trucks on a seasonally adjusted basis in the second quarter. Auto producers raised output in the first quarter partly to fill orders from rental car companies that were deferred in the second half of last year and to replenish dealer stocks; sales to rental fleets are expected to return to more normal levels in the second quarter. In the case of trucks, the anticipated reduction in assemblies is entirely a product of the seasonal adjustment process; manufacturers currently are producing near capacity and will continue to do so through the spring.

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

	1993		1994			
	Nov.	Dec.	Jan.	Feb.	Mar.	Q2
					---scheduled---	
U.S. production	12.0	12.5	12.8	13.9	13.2	11.8
Autos	6.6	6.8	7.0	7.6	7.5	6.5
Trucks	5.4	5.7	5.9	6.3	5.8	5.3
Days' supply						
Autos	57.5	59.8	61.2	60.2		
Light trucks	58.2	57.4	55.1	55.7		

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

ADMINISTRATION BUDGET PROJECTIONS
(Billions of dollars)

	Fiscal years					
	1994	1995	1996	1997	1998	1999
TOTAL DEFICIT	235	165	170	186	191	181
Health care reform	0	-11	-3	7	5	-18
Other initiatives	-1	-1	-5	-4	-1	-12
Baseline deficit	236	177	178	184	187	211
Memo: CBO estimates						
Baseline deficit	223	171	166	182	180	204
Health care reform	0	-10	1	20	32	21

ADMINISTRATION ECONOMIC ASSUMPTIONS

	Calendar years					
	1994	1995	1996	1997	1998	1999
-----Percent change, Q4 over Q4-----						
Real GDP	3.0	2.7	2.7	2.6	2.6	2.5
GDP deflator	2.7	2.8	2.9	3.0	3.0	3.0
CPI-U	3.0	3.2	3.3	3.4	3.4	3.4
-----Percent, annual average-----						
Civilian unemployment rate ¹	6.4	6.0	5.8	5.6	5.5	5.5
Interest rates						
3-month Treasury bills	3.4	3.8	4.1	4.4	4.4	4.4
10-year Treasury notes	5.8	5.8	5.8	5.8	5.8	5.8

1. Pre-1994 basis.

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS¹
(Billions of dollars; monthly rates, not seasonally adjusted)

	1992	1993 ^P	-----1993-----		-----1994-----		
			Q3	Q4 ^P	DEC ^P	JAN ^P	FEB ^P
All U.S. corporations	40.83	54.53	58.06	53.44	45.84	51.92	47.06
Stocks ²	7.04	10.32	11.90	12.13	11.18	7.42	9.06
Bonds	33.80	44.21	46.16	41.31	34.66	44.50	38.00
<u>Nonfinancial corporations</u>							
Stocks ²	4.42	5.68	6.21	6.75	6.55	4.77	5.02
Sold in U.S.	4.03	5.08	5.11	6.08	6.13	3.40	4.37
Utility	0.87	1.06	1.02	1.60	1.89	0.36	1.02
Industrial	3.16	4.02	4.09	4.48	4.24	3.04	3.36
Sold abroad	0.39	0.60	1.10	0.67	0.42	1.37	0.65
Bonds	13.67	16.28	15.47	12.49	10.82	14.45	12.50
Sold in U.S.	12.82	15.55	14.54	12.11	10.45	13.50	12.00
Utility	5.33	7.36	7.77	5.21	5.38	6.00	4.50
Industrial	7.49	8.19	6.78	6.90	5.07	7.50	7.50
Sold abroad	0.84	0.73	0.92	0.37	0.37	0.95	0.50
By quality ³							
Aaa and Aa	2.18	2.56	1.86	1.79	1.14	1.55	1.14
A and Baa	7.74	8.70	8.79	5.79	4.65	6.99	6.43
Less than Baa	2.85	4.16	3.65	4.42	4.51	4.97	4.43
Unrated or rating unknown	0.09	0.10	0.14	0.11	0.16	0.00	0.00
<u>Financial corporations</u>							
Stocks ²	2.62	4.61	5.62	5.30	4.61	2.66	3.89
Sold in U.S.	2.51	4.16	4.73	4.73	4.38	2.43	3.34
Sold abroad	0.11	0.45	0.89	0.57	0.23	0.23	0.55
Bonds	20.13	27.93	30.70	28.82	23.84	30.05	25.50
Sold in U.S.	18.67	25.19	27.83	26.33	22.55	26.50	20.00
Sold abroad	1.46	2.74	2.87	2.50	1.29	3.55	5.50
By quality ³							
Aaa and Aa	1.55	1.88	2.81	1.59	1.40	3.39	1.32
A and Baa	6.77	9.06	8.84	9.00	6.54	10.31	6.09
Less than Baa	0.31	0.48	0.55	0.63	0.33	0.40	0.76
Unrated or rating unknown	0.04	0.09	0.08	0.14	0.30	0.01	0.26

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.

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

p Preliminary.

TREASURY FINANCING¹
(Total for period: billions of dollars)

	1993	1994			
	Q4	Q1 ^P	Jan.	Feb. ^P	Mar. ^P
<u>Treasury financing</u>					
Total surplus/deficit (-)	-92.0	-66.7	15.6	-43.7	-38.6
Means of financing deficit:					
Net cash borrowing from the public	89.3	38.3	-6.9	32.6	12.6
Marketable borrowings/ repayments (-)	84.8	39.6	-3.5	31.7	11.4
Bills	56.2	-8.0	-12.3	-1.3	5.6
Coupons	28.5	47.6	8.9	33.0	5.7
Nonmarketable	4.5	-1.3	-3.5	.9	1.2
Decrease in the cash balance	2.8	24.6	-8.1	19.7	13.0
Memo: Cash balance at end of period	49.7	25.2	57.8	38.1	25.2
² Other	-.1	3.9	-.6	-8.6	13.0

1. Data reported on a payment basis, not seasonally adjusted.

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

p--Projected.

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

FEDERALLY SPONSORED CREDIT AGENCIES
Net Cash Borrowing¹
(Billions of dollars)

	1993				1994
	Q1	Q2	Q3	Q4	Jan.
FHLBs	0.5	12.0	5.3	8.9	-2.3
FHLMC	11.6	-5.6	17.1	-2.7	11.2
FNMA	-0.5	10.7	19.3	5.3	1.9
Farm Credit Banks	0.3	0.1	0.0	1.5	-0.5
SLMA, ²	-0.9	0.1	-0.1	1.0	--
FAMC ²	0.0	0.0	0.0	0.1	--

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

2. Federal Agricultural Mortgage Corporation.

CONFIDENTIAL (FR)
CLASS III FOMC

March 18, 1994

SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

March 18, 1994

UNIVERSITY OF MICHIGAN SURVEY RESEARCH CENTER: SURVEY OF CONSUMER ATTITUDES
(Not seasonally adjusted)

	1993 Jul	1993 Aug	1993 Sep	1993 Oct	1993 Nov	1993 Dec	1994 Jan	1994 Feb	1994 Mar (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	77.0	77.3	77.9	82.7	81.2	88.2	94.3	93.2	92.1
Current conditions	96.2	95.1	95.2	98.7	98.2	102.9	106.6	108.3	103.4
Expected conditions	64.7	65.8	66.8	72.5	70.3	78.8	86.4	83.5	84.9

Personal financial situation									
Now compared with 12 months ago*	102	96	104	104	107	113	115	114	108
Expected in 12 months*	112	114	114	119	121	122	123	127	126
Expected business conditions									
Next 12 months*	80	76	77	95	83	107	126	121	121
Next 5 years*	66	73	76	76	77	87	99	88	94
Appraisal of buying conditions									
Cars	141	138	134	132	139	144	148	155	154
Large household appliances*	147	150	143	151	147	153	162	167	160
Houses	171	166	170	170	172	174	174	176	175
Willingness to use credit	42	42	50	43	55	50	50	52	54
Willingness to use savings	65	58	65	58	81	63	70	70	70
Expected unemployment change - next 12 months	130	129	133	137	131	115	104	115	115
Expected inflation - next 12 months	4.4	4.9	4.8	4.0	3.6	3.8	3.5	3.7	4.3
Expected inflation - next 5 to 10 years	5.0	4.6	4.6	4.8	4.5	4.8	4.8	4.7	5.1

* -- Indicates the question is one of the five equally-weighted components of the index of sentiment.

(p) -- Preliminary

(f) -- Final

Note: Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Asterisk (*) indicates the question is one of the five equally-weighted components of the index of sentiment. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall.