

June 30, 1993

SUMMARY AND OUTLOOK

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

Overview

Currently available data suggest that real GDP growth in the second quarter has been in the 2 to 3 percent range, a little faster than projected in the May Greenbook. However, the uncertainty attending that assessment is extraordinary. The labor market data through May suggest the possibility of a far more positive outcome, while recent spending indicators point only to a moderate pickup from the 0.7 percent GDP gain of the first quarter.

STAFF PROJECTION OF REAL GDP--SELECTED COMPONENTS
(Percent change, at annual rates, except as noted)

	1993			1993	1994
	Q1	Q2	H2		
Real GDP	.7	2.5	2.3	2.0	2.6
<i>Previous</i>	1.8	2.0	2.5	2.2	2.7
Civilian unemployment rate ¹	7.0	7.0	6.9	6.9	6.8
<i>Previous</i>	7.0	7.0	7.0	7.0	6.7
CPI inflation	3.7	3.1	3.2	3.3	3.1
<i>Previous</i>	3.7	2.9	2.9	3.1	3.1

1. Averages for final quarter of period shown.

Looking ahead, we see no clear grounds for anticipating that the pace of expansion over the next year and a half will differ greatly from the 2-1/2 percent average pace of the past year and a half. To be sure, the current and prospective financial environment--characterized by the assumed maintenance of low short-term interest rates, by improving credit supplies, and by healthier balance sheets in both the business and household sectors--appears conducive to substantial growth in domestic demand. Moreover, we are anticipating that the slow improvement of the foreign industrial economies taken as a group will provide a modest boost to U.S. exports. However, ongoing fiscal restraint and the public's

sources to fund asset growth. As a result, M2 and M3 are projected to finish the year somewhat below the bottoms of their target ranges and to accelerate only modestly in 1994.

The staff's assumptions regarding fiscal policy have been altered to reflect a plausible compromise between the packages passed by the House and the Senate. The increase in marginal tax rates on high-income individuals is assumed to be phased in over 1993 and 1994; previously, we had assumed that the tax increase would be fully effective in 1993. With respect to the energy tax, we anticipate that the eventual outcome will adhere to the Senate's earlier starting date but will include a somewhat larger and broader tax than the Senate's 4.3 cent levy on transportation fuels. Details aside, the prospect is still for fiscal policy to remain moderately restrictive over the forecast period. The unified deficit excluding deposit insurance is expected to drop from \$299 billion in FY1993 to \$260 billion in FY1994, little different from that in the May Greenbook.

COMPOSITION OF ASSUMED DEFICIT REDUCTION IN FY1994
(Billions of dollars)

	<u>FY1994</u>
Total deficit reduction	37
Outlays	4
Medicare	3
Other	1
Receipts	33
Personal income taxes	17
Corporate income taxes	4
Social insurance	3
Energy taxes	8
Other taxes	1

The trade-weighted exchange value of the dollar has risen about 3 percent since the last FOMC meeting and is projected to continue drifting upward over the forecast period--and to remain a little

are created will be filled by new entrants and re-entrants to the labor force, drawn in by the increase in job opportunities.²

STAFF LABOR MARKET PROJECTIONS
(Percent change, Q4 TO Q4, except as noted)

	1992	1993	1994
Output per hour, nonfarm business	2.9	.5	1.5
<i>Previous</i>	3.1	1.3	1.4
Nonfarm payroll employment	.8	1.9	1.8
<i>Previous</i>	.5	1.4	1.9
Civilian unemployment rate ¹	7.3	6.9	6.8
<i>Previous</i>	7.3	7.0	6.7

1. Average for the fourth quarter.

Wages and prices. Despite the considerable slack expected in labor and product markets through 1994, we are projecting only a slight deceleration in wages and prices over this period. A key factor underlying our projection is the behavior of this year's wage and price data, which, even allowing for the distortions in the PPI and CPI caused by seasonal adjustment problems, have not shown the deceleration that we would have expected given recent levels of the unemployment rate.

One possible explanation is that there is less slack in the labor market than is suggested by the recent behavior of the unemployment rate. This could occur, for example, if defense downsizing and other restructuring efforts have created unusual labor market mismatches--either across regions or occupations. However, we can find little hard evidence of a significant increase in structural unemployment; for example, the Conference Board's

2. We have raised our projection of the labor force participation rate throughout the forecast period in response to the higher rate indicated by the recent data, which, in our view, brought participation more in line with what we would have expected given the employment gains of the past year. However, because the May increase in the labor force was accompanied by a large increase in employment, this adjustment to the participation rate does not have a measurable effect on the unemployment rate.

index of help-wanted advertising has not increased relative to the unemployment rate.

Another explanation may be that rising capacity utilization rates, which according to revised estimates are higher than we had thought, have put upward pressure on prices for some goods; this influence may have been exacerbated in the case of steel by the levies associated with the prospective tariffs on imports. More broadly, however, we may have underestimated efforts by firms to increase profit margins in the wake of the runup in activity late last year. And while the slowing of the expansion this year may produce some reversal of these "speed" effects, we cannot rule out the possibility that even the moderate pace of growth in the projection will sustain some pressures. In addition, inflation expectations have turned up surprisingly and may be exacerbating wage-price pressures. Here, too, whether the impulse can be maintained is open to question; our forecast anticipates some calming of these fears.

STAFF INFLATION PROJECTIONS
(Percent change, Q4 TO Q4, except as noted)

	1992	1993	1994
Consumer price index	3.1	3.3	3.1
<i>Previous</i>	3.1	3.1	3.1
Excluding food and energy	3.4	3.3	3.1
<i>Previous</i>	3.4	3.3	3.0
ECI for compensation of private industry workers ¹	3.5	3.4	3.3
<i>Previous</i>	3.5	3.3	3.3

1. December to December.

While the uncertainties are considerable, on balance, the downward pressures associated with the projected levels of slack should lead to some further disinflation. Increases in the employment cost index are projected to edge down from 3-1/2 percent

reflect the evidence now available for the first part of the year: In particular, the weaker-than-expected growth in real GDP in the first quarter, poor productivity performance, and less-favorable developments in the wage and price data. The staff forecast also now incorporates a contractionary fiscal package, with a price-increasing energy tax late in the year.

CHANGES IN STAFF PROJECTIONS SINCE JANUARY
(Percent change at annual rates, except where noted)

	1993				1993 ¹
	Q1	Q2	Q3	Q4	
Nominal GDP					
June 1993	4.3	5.2	4.4	5.5	4.8
January 1993	6.2	5.1	5.1	5.1	5.4
FOMC ²					5-1/2 to 6
Real GDP					
June 1993	.7	2.5	2.2	2.5	2.0
January 1993	2.7	2.9	2.9	2.9	2.8
FOMC ²					3 to 3-1/4
Consumer price index					
June 1993	3.7	3.1	2.4	4.0	3.3
January 1993	2.4	2.8	2.7	2.6	2.6
FOMC ²					2-1/2 to 2-3/4
Unemployment rate³					
June 1993	7.0	7.0	7.0	6.9	
January 1993	7.2	7.2	7.1	7.0	
FOMC ²					6-3/4 to 7

1. Percentage change, fourth quarter to fourth quarter.

2. Central tendency forecast in the February 1993 Humphrey-Hawkins report.

3. Level.

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

June 30, 1993

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index ¹		Unemployment rate (level except as noted)	
	5/14/93	6/30/93	5/14/93	6/30/93	5/14/93	6/30/93	5/14/93	6/30/93	5/14/93	6/30/93
ANNUAL										
1990 ²	5.2	5.2	.8	.8	4.6	4.6	5.4	5.4	5.5	5.5
1991 ²	2.8	2.8	-1.2	-1.2	4.0	4.0	4.2	4.2	6.7	6.7
1992 ²	4.8	4.8	2.1	2.1	2.9	2.9	3.0	3.0	7.4	7.4
1993	5.2	5.2	2.7	2.5	3.0	3.2	3.2	3.2	7.0	7.0
1994	5.0	5.1	2.6	2.5	2.6	2.8	3.0	3.3	6.8	6.9
QUARTERLY										
1991 Q1 ²	1.8	1.8	-3.0	-3.0	4.9	4.9	3.6	3.6	6.5	6.5
Q2 ²	5.2	5.2	1.7	1.7	3.5	3.5	2.1	2.1	6.7	6.7
Q3 ²	4.0	4.0	1.2	1.2	2.9	2.9	2.7	2.7	6.7	6.7
Q4 ²	2.8	2.8	.6	.6	2.4	2.4	3.3	3.3	7.0	7.0
1992 Q1 ²	6.2	6.2	2.9	2.9	3.4	3.4	3.5	3.5	7.3	7.3
Q2 ²	4.3	4.3	-1.5	1.5	2.9	2.9	2.9	2.9	7.5	7.5
Q3 ²	5.3	5.3	3.4	3.4	2.2	2.2	2.9	2.9	7.5	7.5
Q4 ²	7.1	7.1	4.7	4.7	3.4	3.4	3.2	3.2	7.3	7.3
1993 Q1 ²	5.2	4.3	1.8	.7	4.2	4.3	3.7	3.7	7.0	7.0
Q2	4.2	5.2	2.0	2.5	2.5	2.6	2.9	3.1	7.0	7.0
Q3	4.7	4.4	2.5	2.2	2.5	2.4	2.7	2.4	7.0	7.0
Q4	5.0	5.5	2.6	2.5	2.7	3.3	3.1	4.0	7.0	6.9
4 Q1	5.1	5.1	2.7	2.5	2.7	2.9	3.1	3.5	6.9	6.9
Q2	5.1	5.1	2.7	2.6	2.6	2.8	3.0	3.1	6.8	6.9
Q3	5.2	4.9	2.7	2.6	2.8	2.6	3.3	2.9	6.7	6.8
Q4	4.9	4.9	2.7	2.7	2.6	2.6	2.9	2.9	6.7	6.8
TWO-QUARTER³										
1991 Q2 ²	3.5	3.5	.7	.7	4.2	4.2	3.0	3.0	.7	.7
Q4 ²	3.4	3.4	.9	.9	2.6	2.6	3.0	3.0	.3	.3
1992 Q2 ²	5.2	5.2	2.2	2.2	3.2	3.2	3.2	3.2	.5	.5
Q4 ²	6.2	6.2	4.1	4.1	2.8	2.8	2.9	2.9	.2	.2
1993 Q2	4.7	4.7	1.9	1.6	3.2	3.4	3.4	3.4	.3	.3
Q4	4.9	4.9	2.5	2.3	2.6	2.8	2.9	3.2	.0	.1
1994 Q2	5.1	5.1	2.7	2.5	2.7	2.9	3.0	3.3	.2	.0
Q4	5.1	4.9	2.7	2.6	2.7	2.6	3.1	2.9	.1	.1
FOUR-QUARTER⁴										
1990 Q4 ²	4.1	4.1	.5	.5	4.7	4.7	6.2	6.2	.6	.6
1991 Q4 ²	3.5	3.5	.1	.1	3.4	3.4	3.0	3.0	1.0	1.0
1992 Q4 ²	5.7	5.7	3.1	3.1	3.0	3.0	3.1	3.1	.3	.3
1993 Q4	4.8	4.8	2.2	2.0	2.9	3.1	3.1	3.3	-.3	.4
1994 Q4	5.1	5.0	2.7	2.6	2.7	2.7	3.1	3.1	-.3	.1

1. For all urban consumers.

2. Actual.

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

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

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Class II FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES
(Seasonally adjusted annual rate)

June 30, 1993

Item	Unit ¹	Projected									
		1986	1987	1988	1989	1990	1991	1992	1993	1994	
EXPENDITURES											
Nominal GDP	Bill. \$	4268.6	4539.9	4900.4	5250.8	5522.2	5677.5	5950.7	6259.0	6575.7	
Real GDP	Bill. 87\$	4404.5	4540.0	4718.6	4838.0	4877.5	4821.0	4922.6	5044.4	5169.9	
Real GDP	% change	2.2	4.5	3.3	1.6	.5	.1	3.1	2.0	2.6	
Gross domestic purchases		2.1	3.9	2.5	.9	-1.2	.2	3.7	2.5	2.9	
Final sales		3.3	2.7	4.2	1.5	.6	.6	3.1	1.8	2.4	
Private dom. final purch.		3.0	1.9	4.2	.5	.8	.9	4.5	3.3	3.3	
Personal cons. expend.		4.0	2.1	4.2	1.2	.2	.0	3.4	2.2	2.3	
Durables		12.5	-2.6	8.5	-.5	-2.3	-2.5	9.2	3.8	4.3	
Nondurables		3.3	1.4	3.2	1.2	.7	-1.5	3.3	.6	1.4	
Services		2.5	3.7	3.7	1.7	1.3	1.6	2.2	2.7	2.4	
Business fixed invest.		-5.7	3.0	5.5	-.4	-1.4	-7.0	7.9	10.2	8.3	
Producers' dur. equip.		.7	2.4	9.1	-1.7	-.2	-3.5	12.6	13.4	9.7	
Nonres. structures		-14.1	4.4	-1.2	2.3	-3.7	-14.3	-3.0	1.4	3.8	
Res. structures		11.1	-3.1	.9	-7.7	-14.7	.1	14.1	3.5	6.2	
Exports		9.9	12.6	13.5	11.3	7.2	7.4	4.8	2.7	6.0	
Imports		6.7	4.7	3.6	2.6	.1	4.8	9.5	7.1	7.8	
Government purchases		4.1	3.3	.2	2.0	2.8	-.6	.4	-1.6	.2	
Federal		3.8	3.7	-3.4	-.6	3.0	-2.3	.8	-5.5	-3.8	
Defense		3.7	4.5	-3.2	-1.5	1.5	-5.2	-2.2	-9.0	-6.8	
State and local		4.4	2.9	2.9	4.0	2.7	.7	1.3	1.0	2.1	
Change in bus. invent.	Bill. 87\$	8.6	26.3	19.9	29.8	6.2	-9.3	5.0	22.5	23.5	
Nonfarm		10.6	32.7	26.9	29.9	3.7	-9.6	2.6	22.8	23.6	
Net exports		-155.1	-143.0	-104.0	-73.7	-51.8	-21.8	-41.8	-75.7	-89.4	
Nominal GDP	% change	4.7	8.0	7.7	6.0	4.1	3.5	5.7	4.8	5.0	
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	99.3	102.0	105.2	107.9	109.4	108.3	108.5	110.2	111.9	
Unemployment rate	%	7.0	6.2	5.5	5.3	5.5	6.7	7.4	7.0	6.9	
Industrial prod. index	% change	1.5	6.3	3.2	-.1	-.2	-.3	3.2	3.1	3.2	
Capacity util. rate-mfg.	%	79.1	81.6	83.6	83.1	81.1	77.8	78.8	80.8	81.5	
Housing starts	Millions	1.81	1.62	1.49	1.38	1.19	1.01	1.20	1.24	1.37	
Auto sales in U.S.		11.45	10.24	10.63	9.91	9.51	8.39	8.35	8.85	9.24	
North American produced		8.22	7.07	7.54	7.08	6.91	6.14	6.25	6.79	7.25	
Other		3.24	3.18	3.10	2.83	2.60	2.25	2.10	2.06	1.99	
INCOME AND SAVING											
Nominal GNP	Bill. \$	4277.8	4544.5	4908.2	5266.8	5542.9	5694.9	5962.0	6272.7	6588.0	
Nominal GNP	% change	4.4	8.1	7.8	6.1	4.2	3.1	5.6	4.9	5.0	
Nominal personal income		5.5	7.4	7.1	6.5	6.3	3.3	5.2	5.4	5.6	
Real disposable income		2.8	2.1	3.2	1.1	.9	.5	2.5	2.2	2.0	
Personal saving rate	%	6.0	4.3	4.4	4.1	4.4	4.8	4.8	4.6	4.1	
Corp. profits, IVA&CCAdj	% change	-7.1	29.7	10.2	-6.3	-3.0	.9	23.5	2.4	3.9	
Profit share of GNP	%	6.4	7.0	7.4	6.9	6.5	6.1	6.6	7.0	6.8	
Federal surpl./def.	Bill. \$	-201.1	-151.8	-136.6	-122.3	-166.2	-210.4	-298.0	-256.9	-203.1	
State/local surpl./def.		54.3	40.1	38.4	44.8	30.1	17.1	15.5	15.1	29.9	
Ex. social ins. funds		1.5	-14.7	-18.4	-17.5	-32.9	-43.1	-42.1	-40.0	-24.1	
PRICES AND COSTS											
GDP implicit deflator	% change	2.6	3.3	4.2	4.4	4.5	3.4	2.5	2.8	2.4	
GDP fixed-wt. price index		2.6	3.4	4.2	4.4	4.7	3.4	3.0	3.1	2.7	
Gross domestic purchases		2.3	3.9	4.1	4.4	5.3	2.8	2.8	3.1	2.7	
fixed-wt. price index		1.3	4.5	4.3	4.6	6.2	3.0	3.1	3.3	3.1	
CPI		3.9	4.3	4.5	4.4	5.2	4.5	3.4	3.3	3.1	
Ex. food and energy											
hourly compensation ²		3.2	3.3	4.8	4.8	4.6	4.4	3.5	3.4	3.3	
Nonfarm business sector		1.3	1.9	.5	-1.4	.2	1.3	2.8	.5	1.5	
Output per hour		4.7	3.9	3.8	3.1	6.0	4.1	3.4	3.5	3.4	
Compensation per hour		3.4	1.9	3.3	4.6	6.2	2.8	.6	3.1	1.8	

1. Percent changes are from fourth quarter to fourth quarter. 2. Private-industry workers.

Strictly Confidential (FR)
Class II POMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES
(Seasonally adjusted, annual rate except as noted)

June 30, 1993

Item	Units	Projected									
		1992		1993				1994			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. \$	5978.5	6081.8	6145.8	6223.6	6291.0	6375.5	6455.9	6536.8	6615.3	6694.6
Real GDP	Bill. 87\$	4933.7	4990.8	4999.9	5030.9	5058.0	5088.8	5120.5	5153.1	5185.8	5220.1
Real GDP	% change	3.4	4.7	.7	2.5	2.2	2.5	2.5	2.6	2.6	2.7
Gross domestic purchases		4.1	4.4	2.4	3.3	1.7	2.7	2.7	3.1	3.0	2.7
Final sales		2.8	5.2	-1.2	3.1	3.3	2.1	2.4	2.2	2.2	2.8
Private dom. final purch.		3.5	6.6	2.3	4.2	3.4	3.3	3.3	3.3	3.3	3.4
Personal cons. expend.		3.7	5.1	.8	3.2	2.8	2.0	2.1	2.3	2.4	2.5
Durables		9.4	14.0	.8	11.1	2.6	2.9	3.2	4.5	4.5	5.0
Nondurables		2.5	6.8	-2.7	1.7	2.3	1.2	1.3	1.4	1.4	1.4
Services		3.1	2.1	3.2	2.2	3.1	2.3	2.3	2.3	2.5	2.5
Business fixed invest.		3.1	9.7	13.1	12.8	7.3	7.6	8.1	8.3	8.3	8.3
Producers' dur. equip.		9.5	14.5	18.3	18.3	8.3	9.3	9.9	9.9	9.7	9.6
Nonres. structures		-11.3	-1.9	.0	-1.5	4.4	2.7	3.1	3.7	4.2	4.4
Res. structures		.2	25.1	1.4	-2.5	2.9	12.9	10.3	6.4	3.5	4.6
Exports		9.2	8.9	-2.8	3.4	5.2	5.3	5.7	5.8	6.1	6.4
Imports		14.8	5.7	11.2	9.5	.9	6.9	6.8	9.5	9.0	5.8
Government purchases		3.8	-2.6	-7.1	2.7	-.1	-1.7	.4	.1	.1	.1
Federal		7.5	-4.7	-17.9	5.4	-2.8	-5.3	-4.4	-3.6	-3.5	-3.7
Defense		8.3	-3.5	-25.9	7.4	-5.3	-8.9	-7.7	-6.6	-6.4	-6.3
State and local		1.4	-1.1	.5	1.1	1.6	.6	2.1	2.0	2.0	2.4
Change in bus. invent.	Bill. 87\$	15.0	9.8	33.5	26.4	13.0	17.2	18.3	23.1	27.3	25.2
Nonfarm		9.6	5.6	30.5	24.5	15.4	20.7	18.8	22.6	27.7	25.2
Net exports		-52.7	-49.0	-70.3	-80.4	-74.4	-77.9	-80.9	-88.0	-94.2	-94.7
Nominal GDP	% change	5.3	7.1	4.3	5.2	4.4	5.5	5.1	5.1	4.9	4.9
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.6	108.9	109.4	109.9	110.4	110.8	111.3	111.7	112.1	112.6
Unemployment rate ¹	%	7.5	7.3	7.0	7.0	7.0	6.9	6.9	6.9	6.8	6.8
Industrial prod. index	% change	.8	6.7	5.5	1.8	1.8	3.2	3.2	3.2	3.2	3.2
Capacity util. rate-mfg ¹	%	78.7	79.6	80.5	80.7	80.9	81.1	81.3	81.5	81.5	81.6
Housing starts	Millions	1.18	1.25	1.16	1.22	1.28	1.31	1.34	1.36	1.39	1.41
Auto sales in U.S.		8.21	8.38	8.29	9.02	9.05	9.04	9.04	9.19	9.29	9.44
North American produced		6.24	6.37	6.31	6.88	6.95	7.00	7.05	7.20	7.30	7.45
Other		1.97	2.01	1.97	2.14	2.10	2.04	1.99	1.99	1.99	1.99
INCOME AND SAVING											
Nominal GNP	Bill. \$	5992.0	6086.8	6160.5	6238.9	6305.9	6385.7	6470.3	6547.2	6629.3	6705.3
Nominal GNP	% change	5.7	6.5	4.9	5.2	4.4	5.2	5.4	4.8	5.1	4.7
Nominal personal income		2.7	8.0	6.1	4.0	5.3	6.2	6.2	5.3	5.0	6.1
Real disposable income		-.5	4.3	2.7	1.4	2.5	2.1	1.0	1.8	2.5	3.0
Personal saving rate ¹	%	4.6	4.4	4.9	4.5	4.4	4.4	4.2	4.0	4.1	4.2
Corp. profits, IVA&CCAdj	% change	-13.9	72.1	1.0	16.4	-9.2	2.9	6.1	3.8	5.1	.6
Profit share of GNP ¹	%	6.2	7.0	7.0	7.2	6.9	6.9	6.9	6.9	6.9	6.8
Federal govt. surpl./def.	Bill. \$	-304.4	-295.5	-272.1	-259.8	-252.0	-243.7	-211.0	-199.8	-198.6	-202.8
State/local surpl./def.		9.2	18.3	10.1	11.4	19.5	19.5	23.0	26.2	35.5	34.9
Ex. social ins. funds		-48.0	-38.1	-45.5	-43.9	-35.5	-35.2	-31.5	-28.0	-18.3	-18.6
PRICES AND COSTS											
GDP implicit deflator	% change	1.8	2.3	3.5	2.6	2.2	2.9	2.6	2.5	2.3	2.2
GDP fixed-wt. price index		2.2	3.4	4.3	2.6	2.4	3.3	2.9	2.8	2.6	2.6
Gross domestic purchases		2.5	2.9	3.5	2.8	2.4	3.5	2.9	2.8	2.6	2.6
fixed-wt. price index		2.9	3.2	3.7	3.1	2.4	4.0	3.5	3.1	2.9	2.9
CPI		2.7	3.6	4.1	3.4	2.8	2.9	3.5	3.1	3.0	3.0
ex. food and energy		3.2	3.5	4.2	2.9	3.3	3.3	3.3	3.3	3.3	3.2
hourly compensation ²		3.2	3.5	4.2	2.9	3.3	3.3	3.3	3.3	3.3	3.2
Nonfarm business sector		2.7	3.2	-1.6	-1.0	2.6	1.9	1.4	1.7	1.6	1.5
Output per hour		3.5	3.9	3.3	3.8	3.6	3.5	3.7	3.4	3.3	3.3
Compensation per hour		.7	.6	5.0	4.8	1.0	1.6	2.3	1.7	1.7	1.8
Unit labor cost											

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)

June 30, 1993

Item	Projected										Projected			
	1992		1993				1994				1991	1992	1993	1994
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GDP	41.3	57.1	9.1	31.0	27.1	30.8	31.8	32.5	32.7	34.3	4.7	152.3	98.0	131.3
Gross domestic purchases	50.1	53.4	30.4	41.2	21.0	34.3	34.8	39.7	38.9	34.7	-7.5	180.8	126.9	148.1
Final sales	34.1	62.3	-14.7	38.2	40.6	26.5	30.7	27.8	28.5	36.3	-29.7	150.1	90.6	123.3
Private dom. final purch.	34.1	64.8	23.8	42.1	34.8	34.1	34.7	35.2	35.0	36.6	-36.5	174.9	134.8	141.4
Personal cons. expend.	29.9	41.5	6.6	26.6	23.3	17.2	17.9	19.8	20.9	21.6	1.0	110.9	73.7	80.2
Durables	9.8	14.6	.9	12.1	3.0	3.3	3.7	5.2	5.3	5.9	-10.5	38.3	17.5	20.1
Nondurables	6.4	17.4	-7.2	4.5	6.0	3.2	3.5	3.8	3.8	3.8	-16.0	33.8	6.5	14.8
Services	13.7	9.6	14.6	10.0	14.3	10.7	10.8	10.8	11.8	11.9	27.6	38.8	49.6	45.3
Business fixed invest.	4.0	12.2	16.6	16.8	10.0	10.6	11.5	12.0	12.3	12.5	-37.2	38.8	54.0	48.3
Producers' dur. equip.	8.4	12.9	16.6	17.3	8.5	9.6	10.4	10.7	10.7	10.9	-12.4	43.2	52.0	42.7
Nonres. structures	-4.4	.7	.0	.5	1.6	1.0	1.1	1.3	1.5	1.6	-24.8	-4.4	2.0	5.6
Res. structures	.1	11.0	.7	-1.3	1.4	6.3	5.2	3.4	1.9	2.5	.2	25.0	7.1	12.9
Change in bus. invent.	7.2	-5.2	23.7	-7.1	-13.5	4.2	1.1	4.8	4.2	-2.0	34.3	2.3	7.4	8.0
Nonfarm	3.6	-4.0	24.9	-6.0	-9.2	5.3	-1.9	3.8	5.1	-2.4	37.4	-6.2	15.1	4.5
Farm	3.5	-1.1	-1.2	-1.1	-4.3	-1.1	3.0	1.0	.9	.4	-3.0	8.4	-7.7	3.5
Net exports	-8.8	3.7	-21.3	-10.1	6.1	-3.5	-3.0	-7.1	-6.2	.5	12.2	-28.5	-28.9	-16.8
Exports	12.5	12.4	-4.1	4.9	7.5	7.8	8.4	8.7	9.3	9.8	38.8	26.9	16.1	36.2
Imports	21.3	8.7	17.2	15.1	1.5	11.3	11.4	15.9	15.4	10.3	26.5	55.5	45.0	53.0
Government purchases	8.8	-6.2	-17.2	6.2	.3	-4.0	-1.0	.3	.3	.2	-5.4	3.7	-15.3	-1.4
Federal	6.8	-4.5	-18.0	4.7	-2.6	-4.9	-4.0	-3.2	-3.1	-3.2	-9.1	-3.2	-20.8	-13.5
Defense	5.3	-2.4	-19.1	4.4	-3.4	-5.7	-4.8	-4.0	-3.8	-3.7	-14.8	-6.0	-23.8	-16.3
Nondefense	1.5	-2.2	1.2	.3	.8	.8	.8	.7	.5	.5	5.7	2.7	3.1	2.8
State and local	2.0	-1.6	.7	1.5	2.3	.9	3.0	2.9	2.8	3.4	3.7	7.0	5.4	12.1

1. Annual changes are from Q4 to Q4.

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Strictly
Class II F...

STAFF PROJECTIONS OF FEDERAL
(Billions of dollars except as noted)

June 30, 1993

Item	Fiscal year				1992				1993				1994			
	1991*	1992*	1993	1994	Q1*	Q2*	Q3*	Q4*	Q1*	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
Receipts ¹	1054	1091	1148	1233	239	321	275	265	262	328	293	275	278	372	307	290
Outlays ¹	1324	1381	1430	1501	354	350	338	386	325	350	370	374	374	374	380	388
surplus/deficit ¹	-269	-390	-282	-268	-116	-28	-62	-120	-62	-22	-77	-98	-96	-1	-73	-98
On-budget	-322	-340	-336	-331	-121	-60	-62	-108	-90	-57	-81	-113	-105	-38	-75	-114
Off-budget	52	50	54	63	6	31	-1	-13	27	35	3	14	9	37	2	15
Surplus excluding deposit insurance ²	-203	-287	-299	-260	-105	-25	-69	-128	-68	-29	-73	-95	-95	2	-72	-95
Means of financing																
Borrowing	293	311	256	275	83	62	77	81	60	61	54	95	81	39	60	88
Cash decrease	-1	-17	20	-1	29	-27	-12	29	8	-39	21	9	10	-30	10	10
Other ³	-23	-4	7	-7	4	-7	-3	10	-6	0	3	-6	4	-7	3	1
Cash operating balance, end of period	41	59	39	40	20	47	59	30	22	60	39	30	20	50	40	30
NIPA FEDERAL SECTOR																
Receipts	1118	1144	1223	1325	1143	1150	1155	1193	1214	1236	1248	1273	1327	1347	1353	1370
Expenditures	1313	1433	1492	1538	1433	1453	1460	1489	1486	1496	1500	1516	1538	1547	1552	1573
Purchases	447	446	447	441	445	445	455	452	441	448	448	444	441	439	438	436
Defense	326	315	310	297	314	312	320	318	304	311	308	303	299	295	292	289
Nondefense	121	132	137	143	131	133	136	133	137	138	139	141	142	144	145	147
Other expenditures	866	987	1045	1098	988	1008	1005	1037	1045	1047	1053	1072	1096	1107	1114	1137
Surplus/deficit	-194	-289	-270	-213	-289	-303	-304	-296	-272	-260	-252	-244	-211	-200	-199	-203
FISCAL INDICATORS⁴																
High-employment (HEB) surplus/deficit	-153	-218	-206	-150	-221	-229	-232	-232	-207	-196	-187	-179	-146	-136	-137	-144
Change in HEB, percent of potential GDP	-.4	1.1	-.2	-.9	.5	.1	0	0	-.4	-.2	-.1	-.1	-.5	-.2	0	.1
Fiscal impetus (FI), percent, cal. year	-3.8	-3.9	-4.9	-6.6	-2.6	-.1	1.3	-1.2	-5.5	2	0	-2.8	-3.3	-1.6	-1	-1.3

1. OMB's April deficit estimates, including the President's proposals, are \$322 billion in FY93 and \$264 billion in FY94. CBO's preliminary deficit estimates of the President's proposals are \$308 billion in FY93 and \$268 billion in FY94. 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 April deficit estimates, excluding deposit insurance spending, are \$319 billion in FY93 and \$256 billion in FY94. CBO's preliminary deficit estimates, excluding deposit insurance spending, are \$315 billion in FY93 and \$263 billion in FY94.

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 2.2 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.

--Actual.

Confidential FR Class II
June 30, 1993

CHANGE IN DEBT OF THE DOI C NONFINANCIAL SECTORS¹
(Pe. bt)

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	-Nonfederal-								-MEMO-	
	-Households-								Private financial assets	Nominal GDP
Total ²	Federal govt	Total	Total	Home mtg.	Cons. credit	Business	State and local govt			
Year										
1980	9.4	11.8	8.9	8.7	11.1	0.7	10.2	3.6	9.7	9.9
1981	9.8	11.6	9.4	7.9	7.6	4.8	11.6	5.2	10.6	9.3
1982	9.4	19.7	7.0	5.6	4.8	4.4	7.8	9.3	10.4	3.2
1983	11.7	18.9	9.9	11.6	11.3	12.6	8.3	9.7	11.7	11.0
1984	14.5	16.9	13.8	13.2	12.0	18.7	15.4	9.1	13.0	9.1
1985	15.0	16.5	14.5	14.3	12.2	15.8	11.5	31.3	13.1	7.0
1986	12.9	13.6	12.7	14.1	17.3	9.6	11.9	10.5	9.1	4.7
1987	9.2	8.0	9.6	11.5	13.7	5.0	7.1	13.4	8.4	8.0
1988	9.1	8.0	9.4	11.1	12.5	7.2	8.3	7.0	8.4	7.7
1989	8.0	7.0	8.2	9.6	11.3	5.6	6.9	8.4	7.1	6.0
1990	6.6	11.0	5.3	7.2	9.0	2.2	3.3	5.9	4.5	4.1
1991	4.3	11.1	2.2	4.2	5.4	-1.6	-0.4	4.5	0.9	3.5
1992	5.1	10.9	3.2	5.6	7.0	1.2	0.0	5.2	1.3	5.7
1993	5.1	8.8	3.9	5.8	6.2	4.7	1.2	5.5	0.3	4.8
1994	5.2	8.0	4.1	6.2	6.3	6.6	1.5	4.4	0.7	5.0
Quarter (seasonally adjusted annual rates)										
1992:1	6.0	13.3	3.6	5.9	7.9	-0.2	0.7	5.1	5.3	6.2
2	4.9	12.3	2.4	3.9	4.8	-1.9	-0.4	6.9	-0.7	4.3
3	4.2	6.5	3.4	5.9	7.3	1.2	0.1	5.4	-2.1	5.3
4	5.0	10.0	3.2	6.4	7.2	5.7	-0.4	3.0	2.6	7.1
1993:1	4.6	8.9	3.0	5.4	5.9	3.4	-0.5	6.2	-1.0	4.3
2	6.2	10.8	4.6	5.6	6.0	4.8	2.9	6.3	1.2	5.2
3	3.7	3.3	3.9	6.0	6.4	4.6	1.3	4.3	-0.4	4.4
4	5.7	11.0	3.8	5.7	5.9	5.5	1.3	4.7	1.2	5.5
1994:1	5.7	10.8	3.8	5.7	5.9	5.7	1.5	4.2	0.5	5.1
2	4.9	7.3	4.0	6.0	6.0	6.5	1.4	4.5	1.4	5.1
3	4.0	3.7	4.1	6.2	6.2	6.6	1.6	4.1	0.2	4.9
4	5.6	9.2	4.3	6.3	6.3	7.1	1.7	4.7	0.8	4.9

- Data after 1993:1 are staff projections. Year-to-year change in nominal GDP measured from the fourth quarter of the preceding year to the fourth quarter of the year indicated; other changes measured from end of preceding period to end of period indicated.
- Deposit insurance outlays raised total debt growth roughly 0.4 percentage point in 1991; it had little effect on debt growth in 1992 and is not anticipated to affect debt growth significantly in 1993 or 1994. On a quarterly average basis, total debt growth is projected to be 5.1 in 1993 and 5.1 percent in 1994.

Confidential - R Class II
June 30, 19

FLOW OF FUNDS PROJECTIONS HIGHLIGHTS¹
(Billions of dollars)

	1991	1992	1993	1994	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-----Seasonally Adjusted Annual Rates-----												
Net funds raised by domestic nonfinancial sectors												
1 Total	479.2	601.1	634.1	658.1	566.2	774.4	475.0	720.7	728.1	635.8	527.2	741.2
2 Net equity issuance	18.3	26.8	26.8	17.5	27.0	30.0	25.0	25.0	20.0	18.0	16.0	16.0
3 Net debt issuance	461.0	574.4	607.3	640.6	539.2	744.4	450.0	695.7	708.1	617.8	511.2	725.2
Borrowing sectors												
Nonfinancial business												
4 Financing gap ²	-4.3	-30.0	12.6	42.4	17.7	5.1	7.9	19.8	27.9	39.3	50.0	52.4
5 Net equity issuance	18.3	26.8	26.8	17.5	27.0	30.0	25.0	25.0	20.0	18.0	16.0	16.0
6 Credit market borrowing	-15.9	0.8	44.7	55.9	-18.4	103.9	47.1	46.1	53.9	50.6	58.1	61.1
Households												
7 Net borrowing, of which:	160.2	222.6	240.8	272.7	224.1	238.5	255.0	245.7	251.6	268.9	281.2	289.2
8 Home mortgages	139.5	190.6	180.7	195.0	172.1	177.0	194.4	179.4	184.2	189.9	199.6	206.4
9 Consumer credit	-13.1	9.3	37.7	56.3	27.8	39.0	38.0	46.0	48.0	56.0	58.0	63.0
10 Debt/DPI (percent) ³	91.8	91.5	92.0	92.8	92.2	92.5	92.8	92.7	93.1	93.4	93.6	93.7
State and local governments												
11 Net borrowing	38.5	47.0	52.1	44.2	58.8	61.2	42.3	46.2	41.6	45.6	41.5	48.1
12 Current surplus ⁴	-39.6	-42.9	-38.0	-29.5	-41.5	-39.8	-32.4	-38.4	-35.3	-33.0	-24.3	-25.6
U.S. government												
13 Net borrowing	278.2	304.0	269.7	267.7	274.7	340.8	105.6	357.7	361.1	252.7	130.4	326.7
14 Net borrowing; quarterly, nsa	278.2	304.0	269.7	267.7	59.8	60.8	53.6	95.5	81.4	38.8	59.8	87.7
15 Unified deficit; quarterly, nsa	266.8	326.8	259.8	267.9	62.4	22.0	77.2	98.3	95.6	1.3	72.6	98.5
Funds supplied by depository institutions												
16 Dom. nonfinancial debt ³	-60.9	30.2	117.1	115.8	117.0	140.6	108.1	102.8	123.5	86.4	110.5	142.6
MEMO: (percent of GDP)												
17 Dom. nonfinancial borrowing	193.6	193.5	193.4	193.6	194.2	194.8	194.5	194.6	195.0	194.9	194.5	194.9
18 U.S. government ⁵	8.1	9.7	9.7	9.7	8.8	12.0	7.2	10.9	11.0	9.5	7.7	10.8
19 Private	4.9	5.1	4.3	4.1	4.5	5.5	1.7	5.6	5.6	3.9	2.0	4.9
20 Excludes government-insured mortgage pool securities.	3.2	4.5	5.4	5.7	4.3	6.5	5.5	5.3	5.4	5.6	5.8	6.0

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1. Data after 1993:1 are staff projections.
2. For corporations: Excess of capital expenditures over U.S. internal funds.
3. Annuals are average debt levels in the year (computed as the average of year-end debt positions) divided by nominal GDP.
4. NIPA surplus, net of retirement funds.
5. Excludes government-insured mortgage pool securities.

TRADE QUANTITIES^{*}
(Percent change from preceding period shown, s.a.a.r.)

	1992		Projection				1994
	Q3	Q4	Q1	Q2	Q3	Q4	Q4
Exports							
Total	12.7	13.7	-6.6	4.1	6.8	6.2	6.8
Agricultural	58.7	-5.6	-20.3	-3.1	1.1	-0.1	3.0
Computers	35.4	33.5	-2.8	8.2	21.5	23.4	27.6
Other nonag.	5.1	13.2	-5.4	4.4	5.1	4.2	3.4
Imports							
Total	15.5	6.8	12.4	10.8	0.9	7.7	8.7
Oil	13.2	-3.0	6.3	20.7	0.1	-7.5	4.9
Computers	81.2	19.0	32.8	33.0	26.4	24.0	25.1
Other non-oil	8.3	6.2	10.1	6.2	-3.2	6.8	5.8

* GDP basis, 1987 dollars.

After declining in the first quarter, the quantity of merchandise exports is projected to have resumed expanding in the second quarter and to grow at about a 6-3/4 percent annual rate over the next year and a half. This rate of expansion is half a percentage point less than in the previous forecast, largely because of the higher dollar. Recent USDA data indicate further declines in shipments of corn and soybeans during the second quarter, and growth in total agricultural exports is likely to be slow over the remainder of the forecast period, with little increase in exports of the major crops. Exports of computers are expected to return to a double-digit pace, after a lull in the first half of this year, as economic activity abroad picks up.

The quantity of imports (excluding oil and computers) grew substantially faster over the first four months of 1993 than would have been predicted by the growth of U.S. domestic expenditures. Some of this growth may have reflected orders placed late in 1993 when domestic demand appeared to be growing strongly. Accordingly, we project those imports to decline somewhat over the next several

months and then to resume expanding over the rest of the forecast period in line with the growth of U.S. demand and the higher dollar. Imports of computers are expected to increase at about the same rapid pace in real terms as domestic expenditures on computers.

The quantity of oil imports is projected to have risen in the second quarter as stocks were rebuilt. Over the rest of the forecast period, imports are likely to remain on an upward trend as U.S. oil production declines.

Oil prices. From the time of the last Greenbook through early June, the spot price of West Texas intermediate crude (WTI) fluctuated in a relatively narrow band around \$20.00 per barrel. More recently, oil prices have fallen since Kuwait decided not to participate in OPEC's third-quarter quota allocations, and spot WTI now stands at just over \$19.00 per barrel. As a result of the recent price declines, we have lowered our near-term oil price projection. For the second and third quarters the import unit value is, on average, almost \$1.00 per barrel below the May Greenbook path. Beyond the third quarter, the import price is assumed to return to \$18.00 per barrel as world oil demand increases and production in Kuwait begins to level off.

SELECTED PRICE INDICATORS
(Percent change from preceding period shown, except as noted, a.r.)

	1992		Projection				1994
	Q3	Q4	Q1	Q2	Q3	Q4	
PPI (exp. wts.)	3.1	-1.6	1.8	1.9	1.6	2.5	2.0
Nonag. exports*	3.2	0.5	1.2	0.8	1.4	2.1	1.8
Non-oil imports*	4.7	1.0	-2.3	1.9	1.7	2.4	2.2
Oil imports (level, \$/bl)	18.50	17.90	16.40	17.00	16.80	18.00	18.00

* Excluding computers.

June 30, 1993

STRICTLY CONFIDENTIAL - FR
CLASS II FOMCREAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1990-94
(Percent change from fourth quarter to fourth quarter)

Measure and country	1990	1991	1992	Projection	
				1993	1994
REAL GDP					
Canada	-1.6	-0.1	0.8	3.2	3.2
France	1.8	1.2	0.7	-0.5	2.0
Western Germany	5.8	2.0	0.4	-2.9	1.6
Italy	1.6	1.4	-0.3	0.4	1.7
Japan	4.7	3.0	0.0	1.3	2.7
United Kingdom	-1.0	-1.7	0.2	1.9	2.5
Average, weighted by 1987-89 GDP	2.6	1.4	0.2	0.5	2.3
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	2.0	1.6	1.2	2.2	3.0
G-6	0.8	0.7	0.5	1.7	2.7
Developing countries	5.0	4.9	3.8	4.3	4.6
CONSUMER PRICES					
Canada	4.9	4.1	1.8	2.0	1.7
France	3.6	2.9	1.8	2.6	1.9
Western Germany	3.0	3.9	3.7	3.6	2.4
Italy	6.3	6.1	4.8	5.7	4.6
Japan	3.2	3.2	0.9	1.2	1.2
United Kingdom	10.0	4.2	3.1	2.6	4.0
Average, weighted by 1987-89 GDP	4.8	3.9	2.4	2.7	2.4
Average, weighted by share of U.S. non-oil imports	4.4	3.8	1.9	2.1	1.9

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U.S. CURRENT ACCOUNT AND REAL NET EXPORTS

(Billions of dollars, seasonally adjusted annual rates)

	1990				1991				1992		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1989	1990	1991
GDP Net Exports of Goods and Services (B7\$)	-58.4	-56.9	-59.3	-32.7	-17.9	-17.4	-31.6	-20.5	-21.5	-43.9	-73.7	-51.8	-21.8
Exports of G+S Merchandise Services	500.2	508.7	508.4	522.6	515.9	536.1	544.2	561.4	565.4	563.4	471.8	510.0	539.4
Imports of G+S Merchandise Services	363.5	368.7	366.7	375.3	377.4	390.1	395.2	407.3	408.1	408.0	343.8	368.6	392.5
Imports of G+S Merchandise Oil	458.3	464.5	465.7	452.7	438.9	454.9	477.9	482.2	488.0	507.8	450.4	460.3	463.5
Imports of G+S Merchandise Non-oil Services	55.9	55.6	53.3	43.5	44.2	51.5	52.4	46.5	46.7	50.9	51.3	52.1	48.7
Imports of G+S Merchandise Services	402.4	408.9	412.4	409.1	394.7	403.4	425.5	435.7	441.3	456.8	399.1	408.2	414.8
Imports of G+S Merchandise Services	100.3	101.2	102.0	102.6	94.9	98.5	97.9	99.6	98.8	99.5	95.1	101.5	97.7
Memo: (Percent change 1/)													
Exports of G+S of which: Goods	10.7	7.0	-0.2	11.6	-5.0	16.6	6.2	13.3	2.9	-1.4	11.5	7.3	7.8
Imports of G+S of which: Non-oil Goods	10.2	5.8	-2.2	9.7	2.3	14.2	5.3	12.8	0.8	-0.1	10.6	5.9	8.6
Imports of G+S of which: Non-oil Goods	2.6	5.1	1.5	-8.5	-14.6	15.6	17.1	4.2	3.5	14.7	2.7	0.2	5.6
Imports of G+S of which: Non-oil Goods	-4.4	6.6	3.5	-3.2	-13.4	9.1	23.8	9.9	5.2	14.8	3.2	0.6	7.4
Current Account Balance	-89.3	-83.1	-100.2	-94.7	37.6	7.1	-47.4	-30.6	-26.7	-73.0	-101.6	-91.9	-8.3
Merchandise Trade, net	-108.9	-99.0	-115.8	-112.4	-75.2	-65.3	-78.6	-76.2	-71.1	-99.2	-115.2	-109.0	-73.8
Exports Agricultural	381.1	389.3	385.7	401.0	405.3	416.8	415.1	430.5	433.4	433.2	362.1	389.3	416.9
Exports Nonagricultural	63.1	41.5	38.7	37.4	39.5	38.5	39.7	42.8	43.3	42.6	42.2	40.2	40.1
Imports Oil	338.0	347.9	347.0	363.6	365.8	378.3	375.4	387.7	390.0	390.6	319.9	349.1	376.8
Imports Non-oil	490.0	488.3	501.5	513.4	480.5	482.1	493.6	506.7	504.4	532.4	477.4	498.3	490.7
Imports Non-oil	63.2	51.3	61.8	72.9	52.4	52.3	53.0	49.4	41.9	52.4	50.9	62.3	51.8
Imports Non-oil	426.9	437.0	439.7	440.6	428.1	429.8	440.7	457.4	462.5	480.0	426.4	436.0	439.0
Other Current Account	0.9	-1.1	0.7	-13.2	89.7	60.7	24.6	34.8	26.6	22.6	-1.2	-3.2	52.5
Invest. Income, net	18.7	16.9	14.9	30.9	23.1	11.6	6.5	10.9	17.7	3.6	14.8	20.3	13.0
Direct, net	54.4	56.7	52.4	61.4	60.3	52.8	45.1	52.8	57.6	47.6	48.9	56.2	52.8
Portfolio, net	-35.7	-39.8	-37.5	-30.5	-37.2	-41.1	-38.6	-42.0	-39.9	-44.0	-34.0	-35.9	-39.7
Military, net	-7.6	-6.5	-6.3	-10.9	-10.1	-5.6	-4.7	-3.0	-2.3	-2.9	-6.7	-7.8	-5.9
Other Services, net	35.3	36.2	36.7	45.7	43.4	50.8	55.6	57.2	58.5	57.5	31.6	38.5	51.7
Transfers, net	-26.9	-30.7	-29.7	-48.0	56.4	15.5	-26.3	-19.4	-29.6	-32.0	-26.1	-33.8	6.6

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

Strictly Confidential (FR) Class II-FOMC

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OUTLOOK FOR U.S. CURRENT ACCOUNT AND REAL NET EXPORTS

(Billions of dollars, seasonally adjusted annual rates)

	Projection												Projection		
	1992				1993				1994				ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1992	1993	1994		
GDP Net Exports of Goods and Services (B7\$)	-52.7	-49.0	-70.3	-80.4	-74.4	-77.9	-80.9	-88.0	-94.2	-94.7	-41.8	-75.7	-89.4		
Exports of G+S Merchandise Services	575.9	588.3	584.2	589.1	596.7	604.4	612.8	621.6	630.8	640.6	573.3	593.6	626.5		
Imports of G+S Merchandise Oil Non-oil Services	420.4	434.1	426.7	431.1	438.2	444.9	451.9	459.2	466.9	475.1	417.7	435.2	463.3		
Imports of G+S Merchandise Oil Non-oil Services	155.5	154.2	157.5	158.1	158.5	159.5	160.9	162.4	163.9	165.6	155.6	158.4	163.2		
Imports of G+S Merchandise Oil Non-oil Services	628.6	637.3	654.5	669.6	671.1	682.3	693.7	709.6	725.0	735.3	615.0	669.4	715.9		
Imports of G+S Merchandise Oil Non-oil Services	526.4	535.1	551.0	565.3	566.6	577.2	587.9	602.9	617.6	627.2	514.3	565.0	608.9		
Imports of G+S Merchandise Oil Non-oil Services	52.5	52.1	52.9	55.4	55.5	54.4	53.3	56.4	59.1	57.1	50.6	54.5	56.5		
Imports of G+S Merchandise Oil Non-oil Services	473.9	483.0	498.1	509.9	511.2	522.9	534.6	546.5	558.4	570.1	463.7	510.5	552.4		
Imports of G+S Merchandise Oil Non-oil Services	102.2	102.2	103.5	104.3	104.4	105.1	105.8	106.6	107.4	108.1	100.7	104.3	107.0		
Memo: (Percent change 1/)															
Exports of G+S of which: Goods	9.2	8.9	-2.8	3.4	5.2	5.3	5.7	5.8	6.1	6.4	4.9	2.8	6.0		
Imports of G+S of which: Non-oil Goods	12.7	13.7	-6.6	4.1	6.8	6.2	6.4	6.6	6.9	7.2	6.8	2.6	6.8		
Imports of G+S of which: Non-oil Goods	14.8	5.7	11.2	9.5	0.9	6.9	6.8	9.5	9.0	5.8	9.7	7.1	7.8		
Imports of G+S of which: Non-oil Goods	15.8	7.9	13.1	9.8	1.0	9.5	9.3	9.2	9.0	8.7	10.9	8.4	9.0		
Current Account Balance	-71.1	-94.7	-89.0	-99.1	-90.1	-103.5	-98.2	-108.2	-110.0	-115.8	-66.4	-95.4	-108.0		
Merchandise Trade, net	-110.4	-103.8	-116.3	-128.1	-119.8	-127.4	-130.6	-138.2	-145.2	-146.7	-96.1	-122.9	-140.2		
Exports Agricultural Nonagricultural	438.0	456.0	446.5	450.8	453.0	459.8	466.6	473.1	479.7	486.1	440.1	452.5	476.4		
Exports Agricultural Nonagricultural	44.7	45.5	43.4	42.4	42.2	42.3	42.9	43.5	44.1	44.6	44.0	42.6	43.8		
Exports Agricultural Nonagricultural	393.3	410.4	403.1	408.4	410.8	417.5	423.7	429.6	435.6	441.5	396.1	410.0	432.6		
Imports Oil Non-oil	548.4	559.8	562.8	578.9	572.9	587.3	597.2	611.3	624.9	632.8	536.3	575.5	616.6		
Imports Oil Non-oil	57.2	54.9	51.0	55.2	54.7	57.3	56.2	59.5	62.3	60.1	51.6	54.5	59.5		
Imports Oil Non-oil	491.2	505.0	511.8	523.7	518.2	529.9	541.0	551.8	562.6	572.7	484.7	520.9	557.0		
Other Current Account	32.5	12.3	26.2	27.3	28.5	27.3	31.7	33.2	34.7	33.9	23.5	27.3	33.4		
Invest. Income, net	6.8	-3.2	1.1	1.7	1.2	-3.4	0.8	-3.2	0.4	-2.9	6.2	0.2	-1.2		
Direct, net	47.1	40.8	46.5	46.2	43.0	42.5	43.5	43.2	44.1	45.0	48.3	44.5	43.9		
Portfolio, net	-40.3	-44.0	-45.4	-44.5	-41.8	-45.8	-42.7	-46.4	-43.6	-47.9	-42.0	-44.4	-45.2		
Military, net	-2.5	-3.3	-1.5	-1.5	-1.5	-1.1	-0.6	-0.2	0.2	0.6	-2.8	-1.4	0.0		
Other Services, net	63.6	57.1	60.0	60.6	61.8	63.0	64.1	65.2	66.3	67.9	59.2	61.4	65.9		
Transfers, net	-28.6	-41.4	-32.3	-31.8	-31.8	-34.6	-31.8	-31.8	-31.8	-34.6	-32.9	-32.6	-32.5		

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

June 30, 1993

RECENT DEVELOPMENTS

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

remained in a very high range. Production plans for the third quarter show assemblies holding close to their second-quarter average.

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

	1993					
	Apr.	May	June	July	Aug.	Sept.
U.S. production	11.1	10.7	10.5	10.7	11.5	10.9
Autos	6.3	6.0	6.0	6.2	6.7	6.2
Trucks	4.8	4.7	4.5	4.5	4.7	4.7
Light trucks	4.6	4.4	4.2	4.2	4.4	4.4
Days' supply ²				----- scheduled -----		
Autos	72.5	71.1				
Light trucks	69.6	68.2				

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

2. BEA seasonal basis, end of month.

Automobile manufacturers appear to have ample flexibility to increase production of cars; annual assembly capacity for cars in the United States presently amounts to about 8.2 million units, about 2 million units above the production rates of recent months. By contrast, truck makers have been operating much closer to capacity, as sales growth for light trucks has greatly outstripped growth in sales of cars over the past two years. U.S. capacity for light trucks is slated to move up a bit further in the 1994 model year, to 5.3 million units, about 3/4 million units above recent output levels.

MODEL-YEAR ASSEMBLY CAPACITY
FOR U.S. AUTOS AND LIGHT TRUCKS
(Millions of units)

	1992	1993	1994
Total light vehicles	13.07	13.34	13.35
Autos	8.11	8.18	8.10
Light trucks	4.96	5.17	5.25

Source: FRB staff compilation from industry sources.

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

	1992			1993			
	1991	1992	Q4	Q1	Apr. ^P	May ^P	June ^e
Corporate securities - total	32.14	40.81	38.33	55.94	43.12	43.51	51.40
Public offerings in U.S.	29.35	38.01	36.12	51.62	39.25	40.70	47.40
Stocks--total	5.44	6.54	5.84	8.04	6.25	8.70	9.40
Nonfinancial	3.72	4.03	3.13	4.39	3.67	5.39	4.80
Utility	.42	.87	.44	.63	.69	1.14	1.20
Industrial	3.30	3.16	2.69	3.76	2.98	4.25	3.60
Financial	1.72	2.51	2.71	3.66	2.58	3.31	4.60
Bonds	23.91	31.47	30.29	43.58	33.00	32.00	38.00
Nonfinancial	9.52	12.81	10.42	19.85	16.50	12.60	19.00
Utility	2.99	5.33	3.36	9.16	8.00	5.50	8.50
Industrial	6.54	7.47	7.06	10.73	8.50	7.10	10.50
Financial	14.39	18.67	19.87	23.73	16.50	19.40	19.00
By quality							
Aaa and Aa	3.72	3.73	3.26	5.50	3.78	4.80	5.75
A and Baa	12.09	14.50	11.88	20.84	17.45	12.66	21.83
Less than Baa	1.03	3.10	3.23	4.92	4.01	3.96	4.70
No rating (or unknown)	.02	.08	.16	.05	.03	.08	.09
Memo items:							
Equity-based bonds	.63	.62	.68	.49	.33	.46	1.52
Mortgage-backed bonds	2.99	6.07	6.05	8.04	4.43	5.43	1.47
Other asset-backed	4.07	4.00	5.70	4.23	3.30	5.07	4.16
Variable-rate notes	.84	1.89	2.47	2.04	2.35	2.58	2.25
Bonds sold abroad - total	2.33	2.30	1.95	3.79	3.50	2.50	3.30
Nonfinancial	1.00	.84	.63	.64	1.80	.80	1.00
Financial	1.33	1.46	1.32	3.15	1.70	1.70	2.30
Stocks sold abroad - total	.46	.50	.25	.53	.37	.31	.70
Nonfinancial	.38	.39	.19	.37	.30	.28	.30
Financial	.08	.11	.06	.16	.07	.03	.40

p preliminary.

e staff estimate.

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

2. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings. Such swaps totaled \$15 billion in 1991.

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

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

Because issuance this year has greatly reduced the stock of bonds likely to be refunded at current bond rates, many municipal bond dealers expect the pace of refundings to moderate in coming months unless interest rates drop significantly.

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

	1992			1993			June ^f
	1991	1992	Q4	Q1	Apr.	May ^p	
Total offerings ¹	16.68	21.78	19.88	22.67	23.38	27.13	38.00
Total tax-exempt	16.26	21.21	19.34	22.23	23.19	26.21	37.00
Long-term	12.87	17.93	18.27	21.08	18.66	25.82	25.50
Refundings ²	3.12	7.91	8.34	14.34	13.28	16.43	17.00
New capital	9.75	10.02	9.93	6.74	5.38	9.39	8.50
Short-term	3.39	3.28	1.07	1.15	4.53	.39	11.50
Total taxable	.42	.57	.54	.44	.19	.92	1.00

p preliminary.

f forecast.

1. Includes issues for public and private purposes.

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

The heavy volume of long-term issuance has been accommodated without raising tax-exempt bond yields relative to Treasury rates, in part because investor demand has remained strong in light of the expected increase in personal income tax rates. Investors have also recently stepped up bond purchases in advance of the estimated \$10 billion to \$12 billion of bond redemptions scheduled for July 1. These redemptions, amounting to about 1 percent of the outstanding stock of municipal bonds, represent previously refunded bonds now nearing their first call dates. The redemption of a similar amount last year caught many investors unprepared, and in the ensuing

(Footnote continued from previous page)

reduces the interest savings from advance refunding outstanding bonds and, on the margin, discourages refinancings. The movement in municipal and Treasury rates in May and June, however, reduced the negative arbitrage.

CONFIDENTIAL (FR)
CLASS III FOMC

July 2, 1993

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

composite index is small relative to the deterioration seen in the first five months of 1993; the index still stands well below its recent peak in December. Among the questions not included in the composite index, consumers' average appraisal of car-buying conditions remained flat at a relatively high level after posting gains in the previous three months, and respondents' expectations of the change in unemployment worsened slightly. Expected inflation over the next twelve months rose another 0.4 percentage point to 4.8 percent, but average expected inflation over the next five years declined by half a percentage point to 5.2 percent.

Business Fixed Investment

Updates of the table on page II-22 and the chart on page II-24 of the Greenbook are attached. They show revised data through May on private nonresidential construction put in place.

Erratum

The sentence on p. I-11 of the Greenbook, which describes the staff projection of productivity should read: "On balance, we expect productivity. . . to rise at a 1-3/4 percent annual rate, on average, over the period from 1993:Q3 to 1994:Q4. . ."