

March 21, 1990

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

inventories. As shown in the table below, BEA adjusted down by \$13 billion its estimate of the fourth-quarter accumulation of nonfarm stocks excluding autos. Thus, in our view, a good part of the inventory correction previously expected to occur this quarter likely was accomplished by the end of last year. Accordingly, the contribution to current-quarter GNP growth from investment in nonfarm inventories excluding autos (the "swing" in the table) has been revised up from a negative \$17-1/2 billion to a positive \$6-1/4 billion. This swing is influenced heavily by movements in oil inventories in the fourth and first quarters; oil stocks are estimated to have been drawn down late last year with the weather-related surge in energy demand and to have been rebuilt this quarter. Removing oil (and autos held by dealers) from total nonfarm stocks, the negative inventory swing in the current quarter is now expected to be only half as large as that projected in the January Greenbook.

STAFF PROJECTION OF INVENTORY INVESTMENT IN THE CURRENT QUARTER
(Billions of 1982 dollars, seasonally adjusted annual rate)

	<u>Inventory Investment</u>		Swing from
	1989:Q4	1990:Q1	Q4 to Q1
			-----Projection-----
Total nonfarm, excl. retail autos	15.0	21.2	6.2
(Previous)	28.1	10.5	-17.6
Oil ¹	-9.0	12.6	21.6
(Previous)	-6.0	6.2	12.2
All other ¹	24.0	8.6	-15.4
(Previous)	34.1	4.3	-29.8

1. The staff estimates the breakdown between oil and other inventories based on data from the Department of Energy.

Although special factors have markedly affected growth in particular sectors this quarter, their combined influence on total activity appears to

be relatively small, as best as we can judge (see table below). The resumption of full-capacity output at Boeing after the strike last fall is more than offset by the depressed rate of motor vehicle production, which shows up in the forecast mainly as a drawdown of inventories. Considerably more uncertainty surrounds our estimate of the effect on GNP of the unseasonably warm weather during much of the first quarter; our best guess is that the weather had little net effect on GNP growth, as the surge in construction activity is estimated to have been offset by reduced domestic production of energy. Excluding these special factors, the staff projects that real GNP will advance 2.4 percent in the current quarter, up from the 1.8 percent pace estimated for the fourth quarter.

SUMMARY OF NEAR-TERM GNP PROJECTION
(Contributions to growth, percentage points)

	1989:Q4	1990:Q1	1990:Q2
		-----Projection-----	
Real GNP	.9	2.0	2.6
Motor vehicles	-.4	-1.3	1.4
Boeing strike	-.6	.6	.0
Weather	.1	.3	-.2
GNP excl. these factors	1.8	2.4	1.4

As noted above, the inflation forecast for the current quarter has been revised upward. The change reflects, in part, an even larger surge in food and energy prices than had been anticipated at the time of the January Greenbook. But, in addition, the CPI reports for January and February indicated fairly large price hikes for various other goods and services, and our projection of the CPI excluding food and energy was adjusted up 1-1/2 percentage points to show a 5-3/4 percent rate of increase for the quarter.

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CONFIDENTIAL - FR
CLASS II FOMC

STAFF GNP PROJECTIONS

Percent changes, annual rate

		Nominal GNP		Real GNP		GNP fixed-weight price index		Consumer Price Index <1>		Unemployment rate (percent)	
		1/31/90	3/21/90	1/31/90	3/21/90	1/31/90	3/21/90	1/31/90	3/21/90	1/31/90	3/21/90
Annual changes:											
1987	<2>	6.9	6.9	3.7	3.7	3.6	3.6	3.7	3.7	6.2	6.2
1988	<2>	7.9	7.9	4.4	4.4	4.2	4.2	4.1	4.1	5.5	5.5
1989	<2>	7.2	7.2	2.9	3.0	4.5	4.5	4.8	4.8	5.3	5.3
1990		5.6	6.2	1.6	2.0	4.1	4.4	4.3	4.8	5.7	5.5
1991		6.3	6.1	2.1	1.9	4.3	4.3	4.4	4.4	6.1	5.9
Quarterly changes:											
1988	Q1 <2>	6.5	6.5	4.0	4.0	3.8	3.8	3.9	3.5	5.7	5.7
	Q2 <2>	8.6	8.6	3.7	3.7	4.8	4.8	4.5	4.2	5.5	5.5
	Q3 <2>	7.5	7.5	3.2	3.2	5.2	5.2	4.5	5.2	5.5	5.5
	Q4 <2>	7.5	7.5	2.7	2.7	4.3	4.3	4.4	4.1	5.3	5.3
1989	Q1 <2>	7.9	7.9	3.7	3.7	4.8	4.8	5.4	5.4	5.2	5.2
	Q2 <2>	7.1	7.1	2.5	2.5	5.0	5.0	6.4	6.0	5.3	5.3
	Q3 <2>	6.2	6.2	3.0	3.0	2.9	2.9	2.6	2.9	5.3	5.3
	Q4 <2>	4.3	4.4	.5	.9	3.8	3.6	3.9	3.9	5.3	5.3
1990	Q1	5.2	7.6	.7	2.0	5.0	6.3	5.6	7.7	5.5	5.3
	Q2	6.3	6.1	2.6	2.6	3.7	3.7	3.7	3.0	5.6	5.4
	Q3	5.8	5.9	1.6	1.7	4.1	3.9	4.2	4.2	5.8	5.6
	Q4	5.6	5.9	1.7	1.7	4.1	4.2	4.3	4.5	5.9	5.7
1991	Q1	6.8	6.2	2.1	1.7	4.9	4.7	4.6	4.7	6.0	5.8
	Q2	6.4	6.0	2.3	1.8	4.2	4.3	4.5	4.5	6.0	5.9
	Q3	6.4	6.3	2.4	2.2	4.1	4.2	4.5	4.5	6.1	6.0
	Q4	6.5	6.2	2.5	2.2	4.1	4.2	4.5	4.5	6.1	6.0
Two-quarter changes: <3>											
1988	Q2 <2>	7.5	7.5	3.9	3.9	4.2	4.2	4.1	3.9	-.3	-.3
	Q4 <2>	7.5	7.5	2.9	2.9	4.8	4.8	4.6	4.6	-.2	-.2
1989	Q2 <2>	7.5	7.5	3.1	3.1	5.0	5.0	5.9	5.7	.0	.0
	Q4 <2>	5.3	5.3	1.7	1.9	3.3	3.3	3.2	3.4	.0	.0
1990	Q2	5.7	6.8	1.6	2.3	4.3	5.0	4.6	5.3	.3	.1
	Q4	5.7	5.9	1.6	1.7	4.1	4.1	4.2	4.3	.3	.3
1991	Q2	6.6	6.1	2.2	1.8	4.6	4.5	4.6	4.6	.1	.2
	Q4	6.4	6.3	2.5	2.2	4.1	4.2	4.5	4.5	.1	.1
Four-quarter changes: <4>											
1987	Q4 <2>	8.6	8.6	5.4	5.4	4.0	4.0	4.4	4.5	-1.0	-1.0
1988	Q4 <2>	7.5	7.5	3.4	3.4	4.5	4.5	4.3	4.3	-.5	-.5
1989	Q4 <2>	6.4	6.4	2.4	2.5	4.1	4.1	4.5	4.6	.0	.0
1990	Q4	5.7	6.4	1.6	2.0	4.2	4.5	4.4	4.8	.6	.4
1991	Q4	6.5	6.2	2.3	2.0	4.3	4.4	4.5	4.6	.2	.3

For all urban consumers.

<2> Actual.

<3> Percent change from two quarters earlier.

<4> Percent change from four quarters earlier.

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

										Projection	
	Units	1983	1984	1985	1986	1987	1988	1989	1990	1991	
EXPENDITURES											
Nominal GNP	Billions of \$	3405.7	3772.2	4014.9	4231.6	4524.3	4880.6	5233.3	5557.1	5895.0	
Real GNP	Billions of 82\$	3279.1	3501.4	3618.7	3717.9	3853.7	4024.4	4143.7	4226.5	4305.1	
Real GNP	Percent change*	6.5	5.1	3.6	1.9	5.4	3.4	2.5	2.0	2.0	
Gross domestic purchases		8.4	6.4	4.3	2.1	4.6	2.4	1.9	1.7	1.2	
Final sales		3.7	4.7	4.6	2.7	3.3	4.4	2.4	2.3	1.9	
Private dom. final purchases		7.7	5.6	4.6	2.9	2.7	3.8	2.1	2.2	1.3	
Personal consumption expend.		5.4	4.1	4.6	3.8	2.2	3.8	2.5	2.3	1.5	
Durables		14.7	10.8	7.0	11.5	-2.0	8.0	-1.1	3.9	1.3	
Nondurables		4.4	2.3	3.3	2.9	1.1	2.1	1.1	.3	.7	
Services		3.9	3.5	5.0	2.1	4.4	3.6	4.3	3.1	2.1	
Business fixed investment		10.8	13.8	3.7	-5.5	8.5	4.2	3.4	2.4	1.5	
Producers' durable equipment		20.9	14.9	4.6	.4	11.1	7.0	4.8	4.4	3.3	
Nonresidential structures		-4.8	11.8	1.9	-17.7	1.9	-3.4	-8	-4.0	-5.1	
Residential structures		38.1	6.1	5.8	11.6	-4.2	3.2	-6.9	1.3	-1.6	
Exports		5.8	5.9	-2.4	10.6	19.1	13.9	9.8	8.3	9.1	
Imports		23.8	17.4	4.5	10.0	9.6	5.3	4.5	6.1	3.9	
Government purchases		-2.7	7.9	8.6	3.1	2.1	1.8	.2	1.2	.5	
Federal		-8.1	13.0	13.3	.5	.7	-3	-3.5	.2	-1.3	
Defense		5.1	6.5	7.1	6.0	4.3	-1.9	-2.3	-3.9	-3.3	
State and local		1.5	4.4	4.9	5.2	3.1	3.4	2.9	1.9	1.8	
Change in business inventories	Billions of 82\$	-6.4	62.3	9.1	5.6	23.7	27.9	22.9	8.2	14.5	
Nonfarm	Billions of 82\$	-1	57.8	13.4	8.0	25.8	30.7	18.7	9.8	14.2	
Net exports	Billions of 82\$	-19.9	-84.0	-104.3	-129.7	-115.7	-74.9	-52.9	-40.5	-19.2	
Nominal GNP	Percent change*	10.4	8.6	6.6	4.6	8.6	7.5	6.4	6.4	6.2	
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	90.2	94.5	97.5	99.5	102.2	105.6	108.6	110.8	111.8	
Unemployment rate	Percent	9.6	7.5	7.2	7.0	6.2	5.5	5.3	5.5	5.9	
Industrial production index	Percent change*	14.3	6.6	1.7	1.0	5.8	5.0	1.6	1.3	2.0	
Capacity utilization rate-mfg.	Percent	73.9	80.5	80.1	79.7	81.1	83.5	83.9	82.0	81.2	
Housing starts	Millions	1.70	1.75	1.74	1.81	1.62	1.49	1.37	1.36	1.30	
Auto sales	Millions	9.19	10.35	11.03	11.45	10.23	10.65	9.89	9.51	9.41	
Domestic	Millions	6.82	7.92	8.22	8.22	7.06	7.55	7.06	6.88	6.91	
Foreign	Millions	2.37	2.43	2.82	3.23	3.18	3.10	2.83	2.63	2.50	
INCOME AND SAVING											
Nominal personal income	Percent change*	7.8	8.4	6.6	5.8	8.6	7.1	8.4	6.9	6.3	
Real disposable income	Percent change*	5.1	4.3	2.7	3.3	3.0	4.0	3.6	1.6	1.3	
Personal saving rate	Percent	5.4	6.1	4.4	4.1	3.2	4.2	5.4	5.4	5.1	
Corp. profits with IVA & CCAdj	Percent change*	70.1	7.4	9.2	-5.6	12.0	10.4	-18.4	1.1	.9	
Profit share of GNP	Percent	6.3	7.1	7.0	6.7	6.6	6.7	5.7	5.0	4.7	
Federal govt. surplus/deficit	Billions of \$	-176.0	-169.6	-196.9	-206.9	-161.4	-145.8	-148.5	-131.2	-106.5	
State and local govt. surplus		47.5	64.6	65.1	62.8	51.3	49.7	44.3	45.4	62.5	
Exc. social insurance funds		4.4	19.8	13.8	5.6	-12.4	-21.4	-33.8	-38.9	-27.8	
PRICES AND COSTS											
GNP implicit deflator	Percent change*	3.6	3.4	2.9	2.6	3.0	4.0	3.7	4.3	4.1	
GNP fixed-weight price index		3.9	3.7	3.3	2.6	4.0	4.5	4.1	4.5	4.4	
Cons. & fixed invest. prices		3.3	3.3	3.4	2.5	4.7	4.2	4.4	4.6	4.4	
CPI		3.2	4.2	3.5	1.3	4.5	4.3	4.6	4.8	4.6	
Exc. food and energy		4.2	5.0	4.3	3.9	4.3	4.5	4.3	4.8	4.7	
ECI hourly compensation		5.7	4.9	3.9	3.2	3.3	4.9	4.8	5.1	4.6	
Nonfarm business sector											
Output per hour		3.4	1.5	1.6	1.3	2.4	1.6	.6	.7	1.4	
Compensation per hour		3.1	4.2	4.6	5.0	4.0	4.8	5.4	5.5	5.3	
Unit labor costs		-4	2.6	3.0	3.6	1.5	3.1	4.8	4.8	3.9	

* Percent changes are from fourth quarter to fourth quarter.

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

	Units	Projection									
		1989		1990				1991			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of \$	5281.0	5337.6	5436.1	5517.3	5596.9	5677.9	5763.8	5848.1	5938.7	6029.3
Real GNP	Billions of 82\$	4162.9	4172.4	4193.0	4219.9	4237.6	4255.4	4273.3	4292.6	4315.7	4339.0
Real GNP	Percent change	3.0	.9	2.0	2.6	1.7	1.7	1.7	1.8	2.2	2.2
Gross domestic purchases		3.5	.1	1.4	2.2	1.9	1.3	1.1	1.1	1.3	1.3
Final sales		2.7	.5	4.4	2.3	.9	1.6	1.8	1.7	2.1	2.2
Private dom. final purchases		4.7	-.7	3.7	2.2	1.6	1.4	1.1	1.1	1.4	1.5
Personal consumption expend.		5.6	.4	1.7	3.3	2.3	1.8	1.4	1.5	1.5	1.5
Durables		11.3	-14.2	14.9	-1.4	2.0	.9	.6	1.3	1.4	1.8
Nondurables		5.0	.3	-3.6	2.8	1.2	.9	.7	.6	.6	.8
Services		4.3	5.6	1.6	5.3	3.0	2.6	2.2	2.1	2.1	1.8
Business fixed investment		5.2	-6.4	9.7	-.4	.2	.3	.3	1.5	2.0	2.1
Producers' durable equipment		4.6	-8.4	10.8	2.5	2.2	2.2	2.0	3.4	3.9	4.0
Nonresidential structures		8.0	.0	6.4	-9.7	-6.1	-5.9	-5.5	-5.1	-4.9	-4.7
Residential structures		-9.2	-.6	17.5	-6.2	-4.0	-.5	-1.8	-4.5	-.8	.9
Exports		3.9	8.6	14.0	4.2	6.5	8.5	9.0	8.6	9.5	9.4
Imports		7.4	2.0	9.3	1.9	7.8	5.7	4.5	4.0	3.5	3.7
Government purchases		-2.4	1.3	4.3	.9	-.7	.3	1.4	.3	.2	.1
Federal		-8.4	-4.9	7.5	-.5	-4.0	-1.9	.7	-1.8	-2.0	-2.1
Defense		6.9	-6.7	-2.0	-5.8	-4.4	-3.2	-3.7	-3.1	-2.9	-3.3
State and local		2.2	5.9	2.0	1.9	1.7	1.8	1.8	1.8	1.8	1.6
Change in business inventories	Billions of 82\$	21.9	26.2	1.6	4.5	12.6	13.9	12.9	14.5	15.2	15.5
Nonfarm	Billions of 82\$	16.2	22.3	4.5	6.6	13.4	14.7	13.1	14.6	14.6	14.6
Net exports	Billions of 82\$	-57.1	-48.2	-42.6	-39.2	-41.9	-38.2	-31.6	-24.5	-15.0	-5.6
Nominal GNP	Percent change	6.2	4.4	7.6	6.1	5.9	5.9	6.2	6.0	6.3	6.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	108.9	109.4	110.2	110.9	110.9	111.1	111.4	111.6	111.9	112.2
Unemployment rate	Percent*	5.3	5.3	5.3	5.4	5.6	5.7	5.8	5.9	6.0	6.0
Industrial production index	Percent change	1.3	-.1	-1.4	3.2	1.8	1.8	1.7	2.0	2.1	2.3
Capacity utilization rate-mfg.	Percent*	84.0	83.0	82.3	82.2	81.9	81.7	81.4	81.3	81.1	81.0
Housing starts	Millions	1.34	1.34	1.47	1.34	1.32	1.32	1.31	1.30	1.30	1.30
Auto sales	Millions	10.18	9.09	9.75	9.40	9.45	9.45	9.40	9.40	9.40	9.45
Domestic	Millions	7.36	6.56	7.01	6.75	6.85	6.90	6.90	6.90	6.90	6.95
Foreign	Millions	2.83	2.54	2.74	2.65	2.60	2.55	2.50	2.50	2.50	2.50
INCOME AND SAVING											
Nominal personal income	Percent change	5.2	7.5	9.4	6.7	5.6	6.0	7.2	6.0	5.5	6.5
Real disposable income	Percent change	4.4	2.7	2.1	2.5	.9	.9	2.3	.9	.4	1.4
Personal saving rate	Percent*	5.1	5.7	5.8	5.6	5.3	5.1	5.3	5.2	5.0	5.0
Corp. profits with IVA & CCAdj	Percent change	-15.4	-21.8	3.6	-8.0	6.5	3.0	-6.4	-4.6	12.8	2.9
Profit share of GNP	Percent*	5.6	5.2	5.2	5.0	5.0	4.9	4.8	4.7	4.7	4.7
Federal govt. surplus/deficit	Billions of \$	-144.7	-156.5	-146.1	-138.7	-122.4	-117.6	-119.3	-112.2	-99.1	-95.4
State and local govt. surplus		44.9	35.8	41.1	43.8	46.2	50.4	53.9	61.0	65.0	69.9
Exc. social insurance funds		-34.3	-44.7	-40.9	-39.7	-38.8	-36.1	-34.1	-28.5	-26.0	-22.6
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.2	3.2	5.6	3.4	4.1	4.2	4.4	4.1	4.1	4.0
GNP fixed-weight price index		2.9	3.6	6.3	3.7	3.9	4.2	4.7	4.3	4.2	4.2
Cons. & fixed invest. prices		2.3	4.4	6.8	3.3	4.0	4.4	4.5	4.4	4.4	4.4
CPI		2.9	3.9	7.7	3.0	4.2	4.5	4.7	4.5	4.5	4.5
Exc. food and energy		3.8	4.4	5.8	4.1	4.7	4.7	4.9	4.7	4.6	4.6
ECI hourly compensation**		4.9	4.7	5.6	5.4	4.7	4.6	4.9	5.0	4.4	4.3
Nonfarm business sector											
Output per hour		2.4	.2	-.7	1.3	1.0	1.1	1.2	1.3	1.5	1.5
Compensation per hour		5.3	6.0	5.3	6.2	5.3	5.3	5.6	5.7	5.1	5.0
Unit labor costs		2.8	5.8	6.0	4.8	4.3	4.2	4.3	4.3	3.5	3.4

* Not at an annual rate.

** Private industry workers; seasonally adjusted by Board staff.

CONFIDENTIAL - FR
CLASS II FCMC

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

March 21, 1990

	Projection										Projection			
	1989		1990				1991				1988	1989	1990	1991
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	30.4	9.5	20.6	26.9	17.7	17.8	17.8	19.3	23.1	23.3	133.8	103.0	83.0	83.5
Gross domestic purchases	36.3	.6	15.1	23.5	20.3	14.2	11.2	12.2	13.6	13.9	97.8	77.4	73.1	51.0
Final sales	27.5	5.2	45.2	24.0	9.6	16.5	18.8	17.7	22.4	23.0	172.0	95.2	95.3	81.9
Private dom. final purchases	38.4	-6.3	31.2	18.7	13.7	12.3	9.5	9.9	12.4	13.4	121.7	68.1	75.8	45.1
Personal consumption expend.	36.4	2.5	11.7	22.3	15.3	12.1	9.9	10.1	10.2	10.2	95.4	64.9	61.4	40.4
Durables	11.5	-16.4	14.8	-1.5	2.2	1.0	.7	1.4	1.5	2.0	31.1	-.5	16.5	5.6
Nondurables	11.1	.8	-8.5	6.3	2.8	2.1	1.6	1.4	1.4	1.9	19.1	9.6	2.7	6.2
Services	13.9	18.2	5.2	17.5	10.3	9.1	7.6	7.3	7.3	6.4	45.2	55.9	42.1	28.6
Business fixed investment	6.5	-8.5	12.0	-.6	.3	.4	.4	1.9	2.5	2.8	20.0	16.7	12.1	7.6
Producers' durable equipment	4.4	-8.6	10.1	2.5	2.2	2.2	2.0	3.4	4.0	4.1	24.3	17.7	17.0	13.5
Nonresidential structures	2.3	.0	1.9	-3.1	-1.9	-1.8	-1.6	-1.5	-1.4	-1.3	-4.3	-1.0	-4.9	-5.8
Residential structures	-4.5	-.3	7.6	-3.1	-1.9	-.2	-.8	-2.1	-.4	.4	6.2	-13.6	2.3	-2.9
Change in business inventories	2.8	4.3	-24.6	2.9	8.1	1.3	-1.0	1.6	.7	.3	-38.3	7.9	-12.3	1.6
Nonfarm	-3.3	6.1	-17.8	2.1	6.8	1.3	-1.6	1.5	.0	.0	-23.7	-9.6	-7.6	-.1
Farm	6.1	-1.7	-6.8	.8	1.3	.0	.6	.1	.7	.3	-14.6	17.5	-4.7	1.7
Net exports	-5.9	8.9	5.6	3.4	-2.6	3.7	6.6	7.1	9.5	9.3	36.0	25.6	10.0	32.6
Exports	5.6	12.3	20.2	6.5	10.1	13.2	14.2	14.0	15.6	15.9	67.3	54.0	50.0	59.7
Imports	11.5	3.3	14.7	3.1	12.7	9.6	7.6	6.8	6.1	6.6	31.3	28.3	40.1	27.2
Government purchases	-5.0	2.6	8.5	1.9	-1.5	.6	2.8	.7	.5	.3	14.3	1.5	9.5	4.3
Federal	-7.5	-4.2	6.1	-.4	-3.5	-1.6	.6	-1.5	-1.7	-1.7	-1.0	-12.0	.6	-4.3
Defense	4.3	-4.5	-1.3	-3.6	-2.8	-2.0	-2.3	-1.9	-1.8	-2.0	-5.1	-6.0	-9.9	-8.0
Nondefense	-11.8	.3	7.4	3.4	-.7	.4	2.9	.4	.1	.3	4.1	-6.0	10.5	3.7
State and local	2.5	6.8	2.4	2.3	2.0	2.2	2.2	2.2	2.2	2.0	15.3	13.5	8.9	8.6

March 21, 1990

FEDERAL GOVERNMENT ACCOUNTS¹
(Billions of dollars)

	Fiscal years				1989				1990				1991			
	1988a	1989a	1990	1991	Ia	IIa	IIIa	IVa	I	II	III	IV	I	II	III	IV
BUDGET					Not seasonally adjusted											
Budget receipts ²	908	991	1055	1133	219	308	242	229	238	324	265	252	257	341	283	267
Budget outlays ²	1063	1143	1223	1281	280	285	288	298	306	308	311	326	316	322	318	332
Surplus/deficit (-) ²	-155	-152	-168	-148	-61	23	-46	-70	-68	16	-46	-74	-59	19	-35	-65
(On-budget)	-194	-204	-231	-218	-77	0	-54	-76	-87	-7	-61	-84	-79	-5	-50	-74
(Off-budget)	39	52	63	70	16	23	7	6	19	23	14	10	21	24	16	10
Surplus excluding RTC working capital ³	-155	-152	-140	-121	-61	23	-46	-70	-65	26	-31	-67	-52	26	-28	-62
Means of financing:																
Borrowing	162	140	169	146	38	10	39	63	61	15	30	74	32	13	26	62
Cash decrease	-8	3	6	0	19	-29	3	14	6	-24	10	10	10	-25	5	10
Other ⁴	1	8	-7	2	4	-4	5	-8	1	-7	6	-10	16	-8	3	-7
Cash operating balance, end of period	44	41	35	35	15	44	41	27	21	45	35	25	15	40	35	25
NIPA FEDERAL SECTOR					Seasonally adjusted annual rates											
Receipts	958	1032	1102	1190	1036	1053	1043	1054	1098	1118	1138	1158	1183	1200	1220	1240
Expenditures	1103	1183	1243	1302	1184	1199	1188	1211	1244	1257	1260	1276	1302	1312	1316	1336
Purchases	377	404	412	423	399	406	403	404	413	416	415	415	424	425	426	426
Defense	297	302	303	303	299	301	308	301	305	303	302	301	304	304	303	303
Nondefense	80	101	109	120	100	105	95	103	108	113	113	114	120	121	123	123
Other expend.	726	780	831	880	785	793	785	807	831	840	846	860	878	887	893	909
Surplus/deficit	-145	-151	-141	-112	-148	-145	-145	-156	-146	-139	-122	-118	-119	-112	-99	-95
FISCAL INDICATORS⁵																
High-employment (HEB) surplus/deficit (-)	-150	-167	-148	-101	-165	-162	-162	-168	-155	-146	-124	-114	-110	-97	-81	-74
Change in HEB, percent of potential GNP	.3	.4	-.4	-.9	-.3	-.1	.0	.1	-.2	-.2	-.4	-.2	-.1	-.2	-.3	-.1
Fiscal impetus measure (FI), percent	.2 *	-3.4 *	-6.5 *	-3.2 *	-2.7	-.2	.5	-2.3	-3.8	-.3	-1.1	-1.9	-.7	-.4	-.4	-.5

a--actual

*--calendar year

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

- Staff projections. The FY90 and FY91 deficits in OMB's FY1991 Budget (January 1990) are \$124 billion and \$63 billion, respectively. These estimates incorporate approximately \$39 billion of cuts from the adjusted Gramm-Rudman-Hollings baseline in FY1991. CBO's FY90 and FY91 baseline deficits (March 1990) are \$159 billion and \$161 billion, respectively.
- Budget receipts, outlays, and surplus/deficit include social security (OASDI) receipts, outlays and surplus, respectively. The OASDI surplus is excluded from the "on-budget" deficit and shown separately as "off-budget", as classified under current law.
- The Administration's deficit projections exclude RTC working capital. CBO's March deficit estimates, excluding RTC working capital, are \$140 billion and \$136 billion in 1990 and 1991, respectively.
- Other means of financing are checks issued less checks paid, accrued items; and changes in other financial assets and liabilities.
- HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate and 2.7% potential output growth. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.

March 20, 1990

Outlook for U.S. Net Exports and Related Items
(Billions of Dollars, Seasonally Adjusted Annual Rates)

	ANNUAL			1989		1990				1991			
	1989	1990-P	1991-P	-Q3	-Q4	Q1-P	-Q2-P	-Q3-P	-Q4-P	Q1-P	-Q2-P	-Q3-P	-Q4-P
1. GNP Exports and Imports 1/													
Current \$, Net	-47.7	-36.8	-16.9	-45.1	-41.2	-37.9	-36.2	-38.0	-35.2	-29.6	-22.8	-12.7	-2.5
Exports of G+S	625.3	687.4	764.7	628.5	641.0	667.1	677.7	692.8	712.0	732.8	752.9	775.3	797.9
Imports of G+S	673.0	724.2	781.6	673.6	682.2	704.9	713.9	730.8	747.2	762.4	775.7	788.0	800.4
Constant 82 \$, Net	-52.9	-40.6	-19.3	-57.1	-48.2	-42.7	-39.3	-42.0	-38.3	-31.7	-24.6	-15.1	-5.7
Exports of G+S	588.9	638.8	691.9	593.1	605.4	625.6	632.1	642.2	655.4	669.6	683.6	699.2	715.2
Imports of G+S	641.8	679.3	711.1	650.2	653.5	668.2	671.3	684.0	693.6	701.2	708.1	714.2	720.8
2. Merchandise Trade Balance 2/	-113.2	-109.0	-100.3	-114.2	-115.2	-107.8	-107.5	-110.8	-110.0	-107.8	-103.9	-98.0	-91.3
Exports	361.9	402.4	450.3	362.8	368.5	390.5	396.6	405.5	416.8	428.6	441.9	457.0	473.6
Agricultural	41.4	42.5	44.5	38.7	40.4	42.7	41.9	42.1	43.5	43.7	44.2	44.6	45.4
Non-Agricultural	320.4	359.8	405.8	324.0	328.1	347.9	354.7	363.4	373.3	384.8	397.8	412.5	428.2
Imports	475.1	511.4	550.5	477.0	483.7	498.4	504.1	516.3	526.9	536.3	545.8	555.0	565.0
Petroleum and Products	50.2	61.3	65.4	52.1	51.9	65.1	57.5	60.3	62.4	63.3	64.7	66.0	67.7
Non-Petroleum	424.9	450.1	485.1	424.9	431.8	433.3	446.6	456.0	464.5	473.0	481.1	489.1	497.3
3. Other Current Account Transactions													
Capital Gains and Losses 3/	-2.1	3.2	1.2	10.4	16.0	9.1	1.8	1.0	0.9	1.2	1.2	1.2	1.2
Other D.I. Income, Net	38.3	44.1	48.5	36.1	45.8	43.7	43.7	44.1	44.7	46.4	47.7	49.4	50.5
Portfolio Income, Net	-35.1	-38.9	-44.5	-35.1	-34.8	-37.1	-38.2	-39.4	-40.9	-42.3	-43.8	-45.3	-46.6
Other Current Account, Net	6.3	11.4	17.7	11.2	5.9	10.3	11.3	12.7	11.2	15.7	17.1	19.4	18.6
4. U.S. Current Account Balance													
Including Capital G/L	-105.9	-89.3	-77.4	-91.6	-82.3	-81.9	-88.9	-92.5	-94.0	-86.8	-81.7	-73.3	-67.7
Excluding Capital G/L	-103.7	-92.5	-78.6	-102.1	-98.3	-90.9	-90.7	-93.4	-94.9	-88.0	-82.9	-74.5	-68.9
5. Foreign Outlook 4/													
Real GNP--Ten Industrial 5/	3.5	3.1	3.4	2.7	3.7	3.0	3.2	3.4	3.9	3.4	3.3	3.2	3.5
Real GNP--LDC 6/	3.1	3.7	4.3	3.2	3.6	3.8	3.9	4.0	4.0	4.1	4.5	4.9	5.3
Consumer Prices--Ten Ind. 5/	4.0	4.0	3.9	2.3	4.4	4.0	4.7	3.5	3.7	3.7	4.9	3.3	3.7

1/ National Income and Product Account data.

2/ International accounts basis.

3/ The net of gains (+) or losses (-) on foreign-currency denominated assets due to their revaluation at current exchange rates and other valuation adjustments.

4/ Percent change, annual rates.

5/ Weighted by multilateral trade-weights of G-10 countries plus Switzerland; prices are not seasonally adjusted.

6/ Weighted by share in LDC GNP.

P/ Projected

March 21, 1990

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee

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

In addition, \$9.5 billion in REFCORP borrowing was recorded as an offsetting receipt (negative outlay) in the unified budget.

The major sources of outlay growth were social security and Medicare outlays and net interest payments. In addition, spending in the education, science, health, and justice functions (areas that the President has identified as domestic priorities) was more than 10 percent above a year earlier. Expenditures for disaster relief, foreign military sales financing, federal employee retirement, and low-income support programs also rose rapidly.

FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS
(Billions of dollars,
except where otherwise noted)

	October-January		Net change	Percent change
	FY1989	FY1990		
Outlays	375.7	388.1	12.4	3.3
National defense	99.5	95.7	-3.8	-3.8
Net interest	55.4	58.5	3.1	7.6
OASDI	74.3	79.2	4.9	6.6
Medicare	26.0	30.7	4.7	18.1
Deposit insurance	9.2	4.8	-4.4	-47.9
Agriculture	9.3	5.1	-4.2	-45.2
"Priority" nondefense domestic ¹	35.2	39.0	3.8	10.7
Other	67.8	75.1	7.3	10.8
Receipts	310.9	328.3	17.4	5.6
Personal income taxes	149.4	163.4	14.0	9.4
Social insurance contributions	105.3	109.8	4.5	4.3
Corporate income taxes, net	28.7	25.1	-3.6	-12.5
Other	27.5	30.0	2.5	9.1
Deficit	64.8	59.8	-5.0	-7.7

1. The sum of four functions that include areas of priority initiative spending targeted by President Bush: general science, space and technology; education, training, employment and social services; health; and administration of justice.

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

	1987	1988	1989	1989		1990		
	Year	Year	Year	Q3	Q4	Jan. ^P	Feb. ^P	Mar. ^e
Corporate securities - total ¹	24.08	22.23	19.60	16.20	22.60	14.29	14.43	17.30
Public offerings in U.S.	21.89	20.21	17.56	14.75	20.71	12.28	12.98	15.00
Stocks--total ²	4.45	3.53	2.69	3.12	3.96	2.28	2.98	2.00
Nonfinancial	2.32	1.14	1.09	1.06	1.37	1.19	2.09	1.50
Utility	.57	.24	.29	.36	.33	.11	.63	.40
Industrial	1.75	.90	.80	.70	1.04	1.08	1.46	1.10
Financial	2.12	2.39	1.60	2.06	2.59	1.09	.89	.50
Bonds--total ¹	17.44	16.68	14.87	11.63	16.75	10.00	10.00	13.00
Nonfinancial	6.61	6.08	6.14	5.09	7.42	3.20	3.50	4.00
Utility	2.02	1.77	1.72	1.50	2.70	.85	.95	1.50
Industrial	4.59	4.31	4.42	3.59	4.72	2.35	2.55	2.50
Financial ³	10.83	10.60	8.73	6.54	9.33	6.80	6.50	9.00
By quality ³								
Aaa and Aa	3.26	2.68	3.26	2.99	3.31	1.89	4.24	3.00
A and Baa	5.20	5.47	5.50	4.39	6.06	2.85	2.80	5.00
Less than Baa	2.77	2.54	2.39	1.90	1.94	.33	.20	.00
No rating (or unknown)	.07	.04	.03	.01	.02	.01	.01	.05
Memo items:								
Equity-based bonds ⁴	.87	.28	.52	.60	.78	.09	.05	.05
Mortgage-backed bonds	5.19	4.69	1.61	1.23	1.27	1.80	.50	2.00
Other asset-backed	.95	1.26	2.08	1.11	4.15	3.12	2.25	2.95
Variable-rate notes	1.88	1.19	.99	.25	1.01	2.21	.20	.50
Bonds sold abroad - total	2.03	1.93	1.88	1.15	1.60	2.00	1.00	2.00
Nonfinancial	.94	.74	.48	.29	.25	.50	.30	1.00
Financial	1.09	1.19	1.40	.86	1.35	1.50	.70	1.00
Stocks sold abroad - total	.16	.09	.16	.30	.29	.01	.45	.30
Nonfinancial	.12	.08	.12	.29	.16	.01	.18	.12
Financial	.04	.01	.04	.01	.13	.00	.26	.18

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 \$20.4 billion in 1989.
 3. Bonds categorized according to Moody's bond ratings, or to Standard and Poors' if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.
 4. Includes bonds convertible into equity and bonds with warrants that entitle the holder to purchase equity in the future.
- p--preliminary. e--staff estimate.

TREASURY AND AGENCY FINANCING¹
(Total for period; billions of dollars)

	1989			1990		
	Q3	Q4	Q1 ^P	Jan.	Feb. ^P	Mar. ^P
<u>Treasury financing</u>						
Total surplus/deficit (-)	-46.5	-69.7	-68.4	9.9	-35.6	-42.7
Means of financing deficit:						
Net cash borrowing						
from the public	38.6	63.3	60.8	15.8	16.5	28.5
Marketable borrowings/						
repayments (-)	33.4	52.8	50.8	11.1	16.4	23.3
Bills	9.5	24.0	22.1	4.7	2.4	15.0
Coupons	23.9	28.8	28.7	6.4	14.0	8.3
Nonmarketable ²	5.2	10.5	10.0	4.7	.1	5.2
Decrease in the cash						
balance	2.8	14.1	6.3	-18.2	25.5	-1.0
Memo: Cash balance						
at end of period	41.0	26.9	20.6	45.1	19.6	20.6
Other ³	5.1	-7.6	1.3	-7.6	-6.3	15.2
<u>Federally sponsored credit</u>						
agencies, net cash						
borrowing ⁴	1.5	4.2	--	--	--	--
FHLBs	-10.3	-7.5	--	-2.4	--	--
FHLMC	1.5	.1	--	--	--	--
FNMA	5.2	4.6	--	-.9	--	--
Farm Credit Banks	1.6	.8	--	.9	--	--
FAC	0.0	0.0	0.0	0.0	0.0	0.0
SLMA	2.9	1.6	--	--	--	--
FICO	0.7	0.0	0.0	0.0	0.0	0.0
REFCORP	--	4.5	5.0	5.0	0.0	0.0

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

2. Includes proceeds from securities issued by federal agencies under special financing authorities (primarily FSLIC) and the face value of the zero coupon bonds issued to REFCORP. The discount from face value is offset in other means of finance.

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

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

p--projected.

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

rationale that these agencies should reimburse the federal government for the borrowing advantages they enjoy as a result of their special relationship with the government, did not generate much comment. Elsewhere in the budget document, there was an unusually explicit acknowledgement of the widespread belief that government assistance would be provided if these agencies were unable to support their debt. This acknowledgement, however, did not have any noticeable impact in the market.

Municipal Securities

Gross issuance of long-term municipal securities continued sluggish in February and the first half of March. Refunding volume has been noticeably weak thus far in 1990, as the backup in yields since the first of the year has contributed to a reduction in issuance to about one-fifth of its 1989 pace. New capital issuance also has fallen below last year's monthly average. Largely reflecting a single offering by Puerto Rico, short-term offerings picked up in February; they should strengthen further in coming

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

	1988	1989	1989			1990		
	Year	Year	Q2	Q3	Q4	Jan.	Feb.	Mar. ^f
Total offerings ¹	11.73	11.90	13.14	12.78	12.47	7.40	6.14	--
Total tax-exempt	11.41	11.65	12.95	12.58	12.13	7.28	6.14	9.50
Long-term	9.54	9.47	9.56	9.79	10.76	6.69	5.04	7.50
Refundings ²	2.90	2.47	2.20	2.83	2.35	0.43	0.50	--
New capital	6.64	7.01	7.36	6.97	8.41	6.26	4.54	--
Short-term ³	1.87	2.17	3.39	2.78	1.37	.58	1.10	2.00
Total taxable	.32	.25	.19	.20	.34	.13	.00	--

f--forecast.

1. Includes issues for public and private purposes; also includes taxable issues.

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

3. Does not include tax-exempt commercial paper.

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

	1987	1988	1989	1989		1990		
	Year	Year	Year	Q3	Q4	Jan. ^P	Feb. ^P	Mar. ^e
Corporate securities - total ¹	24.08	22.23	19.60	16.20	22.60	14.29	14.43	17.30
Public offerings in U.S.	21.89	20.21	17.56	14.75	20.71	12.28	12.98	15.00
Stocks--total ²	4.45	3.53	2.69	3.12	3.96	2.28	2.98	2.00
Nonfinancial	2.32	1.14	1.09	1.06	1.37	1.19	2.09	1.50
Utility	.57	.24	.29	.36	.33	.11	.63	.40
Industrial	1.75	.90	.80	.70	1.04	1.08	1.46	1.10
Financial	2.12	2.39	1.60	2.06	2.59	1.09	.89	.50
Bonds--total ¹	17.44	16.68	14.87	11.63	16.75	10.00	10.00	13.00
Nonfinancial	6.61	6.08	6.14	5.09	7.42	3.20	3.50	4.00
Utility	2.02	1.77	1.72	1.50	2.70	.85	.95	1.50
Industrial	4.59	4.31	4.42	3.59	4.72	2.35	2.55	2.50
Financial ³	10.83	10.60	8.73	6.54	9.33	6.80	6.50	9.00
By quality ³								
Aaa and Aa	3.26	2.68	3.26	2.99	3.31	1.89	4.24	3.00
A and Baa	5.20	5.47	5.50	4.39	6.06	2.85	2.80	5.00
Less than Baa	2.77	2.54	2.39	1.90	1.94	.33	.20	.00
No rating (or unknown)	.07	.04	.03	.01	.02	.01	.01	.05
Memo items:								
Equity-based bonds ⁴	.87	.28	.52	.60	.78	.09	.05	.05
Mortgage-backed bonds	5.19	4.69	1.61	1.23	1.27	1.80	.50	2.00
Other asset-backed	.95	1.26	2.08	1.11	4.15	3.12	2.25	2.95
Variable-rate notes	1.88	1.19	.99	.25	1.01	2.21	.20	.50
Bonds sold abroad - total	2.03	1.93	1.88	1.15	1.60	2.00	1.00	2.00
Nonfinancial	.94	.74	.48	.29	.25	.50	.30	1.00
Financial	1.09	1.19	1.40	.86	1.35	1.50	.70	1.00
Stocks sold abroad - total	.16	.09	.16	.30	.29	.01	.45	.30
Nonfinancial	.12	.08	.12	.29	.16	.01	.18	.12
Financial	.04	.01	.04	.01	.13	.00	.26	.18

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 \$20.4 billion in 1989.
 3. Bonds categorized according to Moody's bond ratings, or to Standard and Poors' if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.
 4. Includes bonds convertible into equity and bonds with warrants that entitle the holder to purchase equity in the future.
- p--preliminary. e--staff estimate.

rationale that these agencies should reimburse the federal government for the borrowing advantages they enjoy as a result of their special relationship with the government, did not generate much comment. Elsewhere in the budget document, there was an unusually explicit acknowledgement of the widespread belief that government assistance would be provided if these agencies were unable to support their debt. This acknowledgement, however, did not have any noticeable impact in the market.

Municipal Securities

Gross issuance of long-term municipal securities continued sluggish in February and the first half of March. Refunding volume has been noticeably weak thus far in 1990, as the backup in yields since the first of the year has contributed to a reduction in issuance to about one-fifth of its 1989 pace. New capital issuance also has fallen below last year's monthly average. Largely reflecting a single offering by Puerto Rico, short-term offerings picked up in February; they should strengthen further in coming

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

	<u>1988</u>	<u>1989</u>	<u>1989</u>			<u>1990</u>		
	<u>Year</u>	<u>Year</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u> ^f
Total offerings ¹	11.73	11.90	13.14	12.78	12.47	7.40	6.14	--
Total tax-exempt	11.41	11.65	12.95	12.58	12.13	7.28	6.14	9.50
Long-term	9.54	9.47	9.56	9.79	10.76	6.69	5.04	7.50
Refundings ²	2.90	2.47	2.20	2.83	2.35	0.43	0.50	--
New capital	6.64	7.01	7.36	6.97	8.41	6.26	4.54	--
Short-term ³	1.87	2.17	3.39	2.78	1.37	.58	1.10	2.00
Total taxable	.32	.25	.19	.20	.34	.13	.00	--

f--forecast.

1. Includes issues for public and private purposes; also includes taxable issues.

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

3. Does not include tax-exempt commercial paper.