

August 14, 1991

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

about half of the steep decline that occurred between last September and February. Vehicle production should contribute almost 1-1/2 percentage points to real GNP growth in the current quarter, about the same as in the second quarter. Outside of motor vehicles--and the supplier industries--manufacturing activity has been mixed in recent months; however, even that situation is a significant improvement from what we saw through the winter. Lean inventories and lengthening delivery times probably have spurred orders and output in some materials-producing and other industries.

A distinct increase in residential construction activity is also providing impetus to the recovery. The strengthening in homebuilding has occurred entirely in the single-family sector, where the improvement in starts through June should translate into a sizable increase in real construction spending this quarter. A jump in sales of existing and new homes in June was consistent with readings on affordability and buying sentiment, and the recent easing of mortgage rates increases the probability of further expansion in single-family building.

CURRENT-QUARTER PROJECTIONS
(Percent change from preceding period; annual rate)

	1991		
	Q1	Q2	Q3
	-----actual-----		
Real GNP	-2.8	.4	2.9
(previous)	-2.8	.2	4.8
Real PCE	-1.5	3.6	2.1
(previous)	-1.5	3.3	2.2
Real disposable personal income	-1.5	1.2	1.0
(previous)	-1.5	2.2	1.3
Industrial production	-9.7	1.7	6.1
(previous)	-9.6	.0	7.2

purchases, and little net lift to demand from the foreign sector, final sales rise only gradually in comparison with prior upswings.

PROJECTIONS OF REAL GNP AND FINAL SALES
(Percent change; annual rate)

	1991			1992		
	Q2	Q3	Q4	Q1	Q2	H2
Real GNP	.4	2.9	3.6	3.9	3.1	2.7
Final sales ex. CCC	-.6	2.6	1.6	2.1	2.3	2.7

The forecast continues to show a slowing in wage and price inflation over the projection period. The unemployment rate is expected to remain near its current level of 6-3/4 percent through the end of this year and to edge down only to 6-1/2 percent by the end of 1992. Given this slack in labor markets and the ample availability of industrial capacity, inflation as measured by the CPI excluding food and energy is projected to move down to around 4 percent over the second half of this year, compared with the 5 percent pace seen in the first half. In 1992, consumer prices decelerate further, to about 3-1/2 percent in the second half.

STAFF INFLATION PROJECTIONS
(Percent change; annual rate)

	1991				1992	
	Q1	Q2	Q3	Q4	H1	H2
Consumer price index	3.6	2.1	3.3	4.1	3.8	3.5
CPI ex. food and energy	6.8	3.5	4.2	3.9	4.0	3.5
ECI hourly compensation	4.6	4.9	4.4	4.3	4.2	4.0
Civilian unemployment rate (percent)	6.5	6.8	6.8	6.8	6.5*	6.4*

*Final quarter of period.

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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)	
		6/26/91	8/14/91	6/26/91	8/14/91	6/26/91	8/14/91	6/26/91	8/14/91	6/26/91	8/14/91
Annual changes:											
1989	<2>	6.7	6.7	2.5	2.5	4.5	4.5	4.8	4.8	5.3	5.3
1990	<2>	5.1	5.1	1.0	1.0	4.6	4.6	5.4	5.4	5.5	5.5
1991		3.9	3.6	.1	-.1	4.2	4.0	4.4	4.3	6.7	6.7
1992		6.6	6.5	3.2	3.1	3.6	3.6	3.7	3.7	6.4	6.5
1993			5.8		2.9		3.3		3.4		6.2
Quarterly changes:											
1990	Q1 <2>	6.7	6.7	1.7	1.7	6.6	6.6	7.5	7.5	5.3	5.3
	Q2 <2>	5.1	5.1	.4	.4	3.9	3.9	3.8	3.8	5.3	5.3
	Q3 <2>	5.3	5.3	1.4	1.4	4.2	4.2	7.0	7.0	5.6	5.6
	Q4 <2>	.9	.9	-1.6	-1.6	4.7	4.7	6.9	6.9	5.9	5.9
1991	Q1 <2>	2.5	2.2	-2.6	-2.8	5.1	5.2	3.6	3.6	6.5	6.5
	Q2 <2>	3.3	4.6	.2	.4	3.1	3.0	2.2	2.1	6.8	6.8
	Q3	8.1	4.9	4.8	2.9	3.6	2.5	4.0	3.3	6.8	6.8
	Q4	7.6	7.0	4.1	3.6	3.5	3.9	3.8	4.1	6.6	6.8
1992	Q1	7.3	7.9	3.3	3.9	4.1	4.3	4.1	4.1	6.5	6.6
	Q2	6.0	6.6	2.7	3.1	3.5	3.5	3.6	3.6	6.4	6.5
	Q3	5.6	5.8	2.6	2.8	3.3	3.3	3.5	3.6	6.4	6.5
	Q4	5.5	5.5	2.5	2.7	3.3	3.2	3.5	3.5	6.3	6.4
1993	Q1		6.4		3.0		3.8		3.4		6.3
	Q2		5.5		2.8		3.1		3.3		6.2
	Q3		5.5		2.9		2.9		3.2		6.1
	Q4		5.2		2.7		2.9		3.1		6.0
Two-quarter changes: <3>											
1990	Q2 <2>	5.9	5.9	1.1	1.1	5.3	5.3	5.6	5.6	.0	.0
	Q4 <2>	3.1	3.1	-.1	-.1	4.4	4.4	6.9	6.9	.6	.6
1991	Q2 <2>	2.9	3.4	-1.2	-1.2	4.2	4.1	2.9	2.8	.9	.9
	Q4	7.8	5.9	4.4	3.2	3.5	3.2	3.9	3.7	-.2	.0
1992	Q2	6.6	7.2	3.0	3.5	3.8	3.9	3.8	3.9	-.2	-.3
	Q4	5.6	5.7	2.5	2.7	3.3	3.2	3.5	3.5	-.1	-.1
1993	Q2		6.0		2.9		3.4		3.4		-.2
	Q4		5.4		2.8		2.9		3.2		-.2
Four-quarter changes: <4>											
1989	Q4 <2>	5.6	5.6	1.8	1.8	4.0	4.0	4.6	4.6	.0	.0
1990	Q4 <2>	4.5	4.5	.5	.5	4.8	4.8	6.3	6.3	.6	.6
1991	Q4	5.3	4.7	1.6	1.0	3.9	3.7	3.4	3.2	.7	.9
1992	Q4	6.1	6.4	2.8	3.1	3.5	3.6	3.7	3.7	-.3	-.4
1993	Q4		5.7		2.9		3.2		3.3		-.4

<1> 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	1985	1986	1987	1988	1989	1990	1991	1992	1993
EXPENDITURES										
Nominal GNP	Billions of \$	4014.9	4231.6	4515.6	4873.7	5200.8	5465.1	5662.9	6029.2	6379.9
Real GNP	Billions of 82\$	3618.7	3717.9	3845.3	4016.9	4117.7	4157.3	4151.4	4280.9	4403.0
Real GNP	Percent change*	3.6	1.9	5.0	3.5	1.8	.5	1.0	3.1	2.9
Gross domestic purchases		4.3	2.1	4.2	2.6	1.1	-.5	1.1	3.3	2.9
Final sales		4.6	2.7	3.1	4.5	1.7	1.6	.2	2.5	2.5
Private dom. final purchases		4.6	2.9	2.5	4.0	1.2	-.1	.5	3.6	3.4
Personal consumption expend.		4.6	3.8	2.3	4.1	1.2	.1	1.6	2.9	2.6
Durables		7.0	11.5	-1.2	9.3	-1.4	-1.8	1.3	3.9	2.8
Nondurables		3.3	2.9	1.3	2.4	.6	-2.4	.7	2.1	2.0
Services		5.0	2.1	4.1	3.7	2.4	2.5	2.3	3.0	2.9
Business fixed investment		3.7	-5.5	6.1	5.3	4.5	2.2	-5.1	6.0	6.3
Producers' durable equipment		4.6	.4	8.2	8.2	5.4	4.6	-3.4	9.1	8.1
Nonresidential structures		1.9	-17.7	.8	-2.7	1.7	-5.4	-11.3	-5.7	-1.6
Residential structures		5.8	11.6	-2.2	-1	-7.1	-10.2	.1	7.8	7.5
Exports		-2.4	10.6	19.8	14.0	10.1	5.8	4.5	6.2	6.0
Imports		4.5	10.0	10.4	5.5	4.5	-.5	4.8	7.3	6.2
Government purchases		8.6	3.1	2.0	1.1	.3	3.8	-.6	-1.1	.9
Federal		13.3	.5	1.5	-1.6	-2.8	5.2	-.9	-4.8	-2.2
Defense		7.1	6.0	4.0	-1.8	-2.1	4.0	-3.7	-8.1	-4.5
State and local		4.9	5.2	2.3	3.1	2.6	2.7	-.3	1.6	3.0
Change in business inventories	Billions of 82\$	9.1	5.6	22.8	23.6	23.8	-3.6	-13.1	32.0	34.8
Nonfarm	Billions of 82\$	13.4	8.0	28.7	26.5	18.7	-5.1	-11.4	31.9	33.2
Net exports	Billions of 82\$	-104.3	-129.7	-118.5	-75.9	-54.1	-33.8	-8.7	-17.0	-21.1
Nominal GNP	Percent change*	6.6	4.6	8.2	7.8	5.6	4.5	4.7	6.4	5.7
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	97.5	99.5	102.2	105.5	108.3	110.0	109.0	110.5	112.3
Unemployment rate	Percent	7.2	7.0	6.2	5.5	5.3	5.5	6.7	6.5	6.2
Industrial production index	Percent change*	1.9	1.4	6.5	4.5	1.1	.3	.6	4.9	3.3
Capacity utilization rate-mfg.	Percent	79.5	79.0	81.4	83.9	83.9	82.3	78.3	79.8	80.3
Housing starts	Millions	1.74	1.81	1.62	1.49	1.38	1.19	1.01	1.15	1.25
Auto sales	Millions	11.03	11.44	10.23	10.65	9.89	9.53	8.63	9.20	9.44
Domestic	Millions	8.22	8.22	7.06	7.55	7.06	6.92	6.29	6.68	6.86
Foreign	Millions	2.82	3.22	3.18	3.10	2.83	2.61	2.35	2.53	2.57
INCOME AND SAVING										
Nominal personal income	Percent change*	6.6	5.8	8.1	7.6	6.8	5.6	4.0	6.9	6.3
Real disposable income	Percent change*	2.7	3.3	2.7	4.3	1.7	-.4	1.0	3.0	3.0
Personal saving rate	Percent	4.4	4.1	2.9	4.2	4.6	4.6	3.8	3.9	4.4
Corp. profits with IVA & CCAdj	Percent change*	9.2	-5.6	17.4	8.2	-16.8	-.7	8.1	9.3	3.9
Profit share of GNP	Percent	7.0	6.7	6.8	6.9	6.0	5.5	5.3	5.6	5.5
Federal govt. surplus/deficit	Billions of \$	-196.9	-206.9	-158.2	-141.7	-134.3	-166.0	-169.1	-188.2	-191.5
State and local govt. surplus		65.1	62.8	51.0	46.5	46.4	35.4	43.0	71.5	81.9
Exc. social insurance funds		13.8	5.6	-8.3	-16.4	-19.9	-34.0	-29.2	-4.2	2.7
PRICES AND COSTS										
GNP implicit deflator	Percent change*	2.9	2.6	3.0	4.1	3.7	4.0	3.6	3.2	2.7
GNP fixed-weight price index		3.3	2.6	3.8	4.6	4.0	4.8	3.7	3.6	3.2
Cons. & fixed invest. prices		3.4	2.5	4.5	4.3	4.3	5.3	3.2	3.4	3.0
CPI		3.5	1.3	4.5	4.3	4.6	6.3	3.2	3.7	3.3
Exc. food and energy		4.3	3.9	4.3	4.5	4.3	5.3	4.5	3.8	3.3
ECI hourly compensation		3.9	3.2	3.3	4.8	4.8	4.6	4.5	4.1	3.8
Nonfarm business sector										
Output per hour		1.6	1.3	2.3	1.8	-1.4	-.1	1.8	1.6	1.3
Compensation per hour		4.6	4.9	3.8	4.2	2.5	4.6	4.5	4.3	3.9
Unit labor costs		3.0	3.6	1.5	2.3	4.0	4.7	2.7	2.7	2.6

* 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)

		1989				1990				1991	
	Units	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EXPENDITURES											
Nominal GNP	Billions of \$	5101.3	5174.0	5238.6	5289.3	5375.4	5443.3	5514.6	5527.3	5557.7	5620.5
Real GNP	Billions of \$2\$	4095.7	4112.2	4129.7	4133.2	4150.6	4155.1	4170.0	4153.4	4124.1	4128.4
Real GNP	Percent Change	3.6	1.6	1.7	.3	1.7	.4	1.4	-1.6	-2.8	.4
Gross domestic purchases		1.2	1.8	2.8	-1.2	.5	1.3	1.6	-5.1	-4.3	2.9
Final sales		2.4	1.7	1.8	.9	3.8	-.7	1.9	1.4	-2.9	.1
Private dom. final purchases		.8	1.4	4.1	-1.5	2.4	-1.2	2.3	-3.8	-5.1	2.7
Personal consumption expend.		-.3	1.3	4.6	-.8	1.1	.2	2.7	-3.4	-1.5	3.6
Durables		-6.0	5.6	9.6	-13.0	14.4	-9.5	2.6	-12.3	-11.7	5.2
Nondurables		.6	-1.7	3.9	-.2	-3.2	-1.9	2.3	-6.5	-1.8	1.0
Services		.9	2.1	3.5	3.1	.1	5.1	3.0	1.8	2.1	4.8
Business fixed investment		8.9	6.9	6.3	-3.8	5.0	-4.7	8.9	.1	-16.3	-2.3
Producers' durable equipment		9.5	12.2	6.1	-5.2	5.7	-3.3	10.2	6.3	-18.4	-1.6
Nonresidential structures		7.5	-8.2	7.1	1.3	2.3	-9.0	5.1	-18.2	-9.0	-4.5
Residential structures		-3.6	-11.3	-7.6	-5.5	15.1	-11.2	-19.8	-20.6	-25.3	3.7
Exports		15.8	12.4	-.5	13.5	11.2	-5.0	6.9	11.0	.5	3.7
Imports		-2.3	12.8	6.4	1.7	2.5	.7	7.6	-11.8	-8.8	21.2
Government purchases		-3.3	4.0	-2.4	3.0	2.9	6.2	1.2	4.7	-1.3	2.1
Federal		-9.1	7.0	-7.9	-.4	.4	16.4	.1	4.6	-.5	5.0
Defense		-10.9	3.2	7.2	-7.0	-1.7	3.3	2.7	12.1	2.7	-9.2
State and local		1.3	1.8	1.8	5.6	4.8	-.6	2.0	4.9	-1.9	.0
Change in business inventories	Billions of \$2\$	26.1	25.5	24.6	18.9	-2.2	9.5	4.7	-26.4	-25.0	-21.2
Nonfarm	Billions of \$2\$	16.4	21.5	21.7	15.3	-8.2	11.6	4.7	-28.5	-28.1	-16.3
Net exports	Billions of \$2\$	-51.1	-53.3	-64.1	-47.9	-35.4	-44.6	-46.5	-8.8	7.1	-18.6
Nominal GNP	Percent change	7.5	5.8	5.1	3.9	6.7	5.1	5.3	.9	2.2	4.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	107.6	108.1	108.5	109.0	109.7	110.2	110.2	109.8	109.2	108.8
Unemployment rate	Percent*	5.2	5.3	5.3	5.3	5.3	5.3	5.6	5.9	6.5	6.8
Industrial production index	Percent change	2.7	2.8	-1.2	.2	.6	4.2	3.9	-7.0	-9.7	1.7
Capacity utilization rate-mfg.	Percent*	84.7	84.5	83.7	82.9	82.7	82.8	82.9	80.8	78.0	77.8
Housing starts	Millions	1.46	1.36	1.35	1.35	1.43	1.20	1.13	1.04	.92	1.00
Auto sales	Millions	10.03	10.26	10.20	9.09	10.01	9.53	9.68	8.93	8.25	8.46
Domestic	Millions	7.08	7.26	7.36	6.56	7.11	6.78	7.21	6.59	6.00	6.10
Foreign	Millions	2.95	3.00	2.84	2.53	2.90	2.75	2.47	2.34	2.25	2.36
INCOME AND SAVING											
Nominal personal income	Percent change	11.6	5.8	3.7	6.2	8.6	5.3	5.0	3.5	1.5	3.7
Real disposable income	Percent change	4.2	-1.2	2.7	1.2	2.5	.3	-.7	-3.5	-1.5	1.2
Personal saving rate	Percent*	5.2	4.6	4.1	4.6	4.9	5.0	4.2	4.2	4.2	3.7
Corp. profits with IVA & CCAdj	Percent change	-23.2	-7.0	-17.1	-19.1	8.4	13.9	-7.5	-14.8	-3.7	10.8
Profit share of GNP	Percent*	6.4	6.2	5.9	5.5	5.5	5.6	5.5	5.2	5.1	5.2
Federal govt. surplus/deficit	Billions of \$	-132.6	-122.7	-131.7	-150.1	-168.3	-166.0	-145.7	-184.3	-126.9	-173.9
State and local govt. surplus		48.9	50.3	48.1	38.5	38.1	38.6	39.3	25.7	30.0	39.5
Exc. social insurance funds		-16.2	-15.6	-18.7	-29.1	-30.2	-30.4	-30.5	-44.8	-41.0	-32.1
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.9	3.9	3.2	3.8	4.8	4.7	3.7	2.8	5.2	3.9
GNP fixed-weight price index		4.9	4.6	3.1	3.8	6.6	3.9	4.2	4.7	5.2	3.0
Cons. & fixed invest. prices		5.0	5.3	2.3	4.6	6.8	2.6	5.4	6.4	3.1	2.6
CPI		5.1	6.0	3.3	3.9	7.5	3.8	7.0	6.9	3.6	2.1
Exc. food and energy		4.9	4.2	3.8	4.7	5.9	4.9	6.1	4.2	6.8	3.5
ECI hourly compensation**		4.2	4.9	5.3	4.4	5.6	5.1	4.3	3.8	4.6	4.9
Nonfarm business sector											
Output per hour		-2.8	.1	-.7	-2.2	-1.1	1.2	.6	-.8	.0	1.9
Compensation per hour		3.1	2.2	2.3	2.6	4.0	5.9	5.0	3.7	4.2	4.5
Unit labor costs		6.0	2.0	3.0	5.0	5.2	4.7	4.4	4.6	4.2	2.6

* Not at an annual rate.

** Private industry workers

August 14, 1991

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

	Units	Projection									
		1991		1992				1993			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of \$	5688.2	5785.1	5895.4	5989.7	6074.9	6156.7	6253.3	6337.4	6423.2	6505.8
Real GNP	Billions of 82\$	4158.3	4194.9	4235.1	4267.1	4296.6	4324.9	4357.4	4387.2	4418.8	4448.5
Real GNP	Percent Change	2.9	3.6	3.9	3.1	2.8	2.7	3.0	2.8	2.9	2.7
Gross domestic purchases		2.2	3.5	4.0	3.4	2.9	2.8	3.0	2.8	2.9	2.8
Final sales		2.1	1.6	2.1	2.3	2.8	2.7	2.9	2.9	3.0	2.7
Private dom. final purchases		2.2	2.3	3.2	3.5	3.8	3.7	3.5	3.4	3.4	3.2
Personal consumption expend.		2.1	2.1	2.8	3.0	2.9	2.8	2.7	2.6	2.6	2.5
Durables		6.8	6.1	4.2	4.1	3.9	3.5	2.9	2.9	2.9	2.4
Nondurables		2.4	1.1	2.1	2.2	2.2	2.1	2.1	2.0	2.0	1.9
Services		.6	1.6	2.9	3.1	3.1	3.0	3.0	2.9	2.9	2.9
Business fixed investment		-2.2	1.3	4.1	5.2	7.2	7.6	6.5	6.2	6.3	6.3
Producers' durable equipment		2.4	5.9	7.9	8.5	10.0	10.0	8.5	8.0	8.0	8.0
Nonresidential structures		-17.2	-14.0	-9.4	-7.1	-3.8	-2.2	-1.9	-1.7	-1.5	-1.3
Residential structures		18.8	9.1	6.9	7.9	8.8	7.8	8.6	8.3	7.6	5.6
Exports		6.9	7.0	6.5	6.0	5.8	6.3	5.7	6.4	5.8	6.2
Imports		2.4	6.8	7.5	7.8	6.6	7.3	5.5	6.8	5.7	6.8
Government purchases		-1.5	-1.5	-1.5	-1.2	-1.0	-.7	.2	.9	1.2	1.3
Federal		-3.3	-4.7	-5.0	-4.9	-4.7	-4.6	-2.8	-1.8	-2.1	-2.1
Defense		.0	-7.7	-8.2	-8.2	-7.9	-7.9	-5.3	-4.1	-4.3	-4.3
State and local		-.1	.9	1.1	1.5	1.7	2.0	2.3	2.8	3.4	3.6
Change in business inventories	Billions of 82\$	-13.2	7.1	25.4	33.7	34.4	34.3	35.7	34.9	34.3	34.2
Nonfarm	Billions of 82\$	-10.0	8.9	25.7	33.8	34.0	33.9	34.0	33.3	32.7	32.7
Net exports	Billions of 82\$	-11.7	-11.6	-13.3	-16.5	-18.1	-20.0	-20.0	-21.0	-21.0	-22.4
Nominal GNP	Percent change	4.9	7.0	7.9	6.6	5.8	5.5	6.4	5.5	5.5	5.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	108.9	109.2	109.8	110.3	110.7	111.1	111.6	112.1	112.5	113.0
Unemployment rate	Percent*	6.8	6.8	6.6	6.5	6.5	6.4	6.3	6.2	6.1	6.0
Industrial production index	Percent change	6.1	5.0	6.1	5.3	4.2	4.0	3.4	3.3	3.3	3.3
Capacity utilization rate-mfg.	Percent*	78.4	78.8	79.4	79.8	80.0	80.1	80.2	80.2	80.3	80.4
Housing starts	Millions	1.05	1.08	1.11	1.14	1.16	1.20	1.22	1.25	1.27	1.30
Auto sales	Millions	8.91	8.93	9.10	9.17	9.24	9.30	9.36	9.42	9.48	9.48
Domestic	Millions	6.54	6.50	6.60	6.65	6.70	6.75	6.80	6.85	6.90	6.90
Foreign	Millions	2.36	2.43	2.50	2.52	2.54	2.55	2.56	2.57	2.58	2.58
INCOME AND SAVING											
Nominal personal income	Percent change	3.7	7.4	8.5	6.5	6.0	6.6	7.9	5.9	5.6	5.9
Real disposable income	Percent change	1.0	3.1	4.1	2.4	2.4	3.1	5.7	2.1	1.9	2.3
Personal saving rate	Percent*	3.5	3.7	4.0	3.9	3.8	3.9	4.6	4.5	4.3	4.3
Corp. profits with IVA & CCAdj	Percent change	11.5	14.7	21.1	10.4	1.5	5.1	5.5	1.1	3.0	6.3
Profit share of GNP	Percent*	5.3	5.4	5.6	5.6	5.5	5.5	5.5	5.5	5.4	5.5
Federal govt. surplus/deficit	Billions of \$	-172.3	-203.2	-202.8	-189.7	-178.8	-181.6	-204.7	-195.4	-183.0	-182.8
State and local govt. surplus		49.4	53.0	63.0	69.6	75.4	77.9	80.7	81.1	82.3	83.7
Exc. social insurance funds		-23.1	-20.4	-11.3	-5.6	-.7	.9	2.8	2.3	2.6	3.1
PRICES AND COSTS											
GNP implicit deflator	Percent change	2.0	3.3	3.8	3.4	2.9	2.8	3.3	2.7	2.5	2.5
GNP fixed-weight price index		2.5	3.9	4.3	3.5	3.3	3.2	3.8	3.1	2.9	2.9
Cons. & fixed invest. prices		2.8	4.1	3.7	3.4	3.3	3.2	3.1	3.0	2.9	2.9
CPI		3.3	4.1	4.1	3.6	3.6	3.5	3.4	3.3	3.2	3.1
Exc. food and energy		4.2	3.9	4.2	3.8	3.6	3.5	3.4	3.3	3.2	3.1
ECI hourly compensation**		4.4	4.3	4.2	4.1	4.0	4.0	3.9	3.8	3.7	3.7
Nonfarm business sector											
Output per hour		3.4	1.8	1.8	1.7	1.5	1.4	1.3	1.3	1.3	1.3
Compensation per hour		4.7	4.6	4.8	4.3	4.2	4.1	4.4	3.9	3.7	3.7
Unit labor costs		1.2	2.8	2.9	2.6	2.7	2.7	3.1	2.6	2.4	2.4

* Not at an annual rate.

** Private industry workers

CONFIDENTIAL - FR
CLASS II FOMC

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

August 14, 1991

											Proj.			
	1989				1990				1991		1988	1989	1990	1991
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	(fourth quarter to fourth quarter, net change)			
Real GNP	36.4	16.5	17.5	3.5	17.4	4.5	14.9	-16.6	-29.3	4.3	138.6	73.9	20.2	41.5
Gross domestic purchases	11.8	10.7	28.3	-12.7	4.9	13.7	16.8	-54.3	-45.2	30.0	103.0	46.1	-18.9	44.2
Final sales	24.4	17.0	18.5	9.3	38.4	-7.2	19.7	14.5	-30.8	.6	172.9	69.2	65.4	8.0
Private dom. final purchases	6.5	11.4	34.1	-12.9	20.2	-10.3	19.1	-32.8	-44.0	22.0	128.7	39.1	-3.8	15.3
Personal consumption expend.	-2.1	8.6	30.0	-5.4	7.4	1.5	18.0	-23.2	-9.9	23.5	104.6	31.1	3.7	41.9
Durables	-6.6	5.8	9.9	-15.0	14.5	-10.8	2.7	-13.9	-12.7	5.1	36.4	-5.9	-7.5	5.4
Nondurables	1.4	-3.9	8.8	-.4	-7.4	-4.4	5.2	-15.2	-4.1	2.2	21.9	5.9	-21.8	6.0
Services	3.0	6.7	11.3	10.0	.4	16.6	10.0	5.9	7.0	16.1	46.4	31.0	32.9	30.7
Business fixed investment	10.5	8.4	7.8	-4.9	6.2	-6.2	10.9	.1	-22.6	-2.9	24.3	21.8	11.0	-26.7
Producers' durable equipment	8.4	10.9	5.7	-5.2	5.4	-3.3	9.5	6.1	-20.0	-1.5	27.7	19.8	17.7	-13.7
Nonresidential structures	2.2	-2.6	2.1	.4	.7	-2.9	1.5	-6.0	-2.7	-1.3	-3.4	2.1	-6.7	-13.1
Residential structures	-1.8	-5.7	-3.7	-2.6	6.5	-5.5	-9.8	-9.7	-11.5	1.4	-.2	-13.8	-18.5	.1
Change in business inventories	12.1	-.6	-.9	-5.7	-21.1	11.7	-4.8	-31.1	1.4	3.8	-34.4	4.9	-45.3	33.5
Nonfarm	-10.8	5.1	.2	-6.4	-23.5	19.8	-6.9	-33.2	.4	11.8	-28.2	-11.9	-43.8	37.4
Farm	22.9	-5.7	-1.1	.7	2.4	-8.1	2.1	2.1	1.0	-8.1	-6.3	16.8	-1.5	-3.9
Net exports	24.6	-2.2	-10.8	16.2	12.5	-9.2	-1.9	37.7	15.9	-25.7	35.6	27.8	39.1	-2.8
Exports	20.8	17.1	-.7	19.1	16.5	-8.0	10.4	16.7	.8	5.9	68.3	56.3	35.6	29.0
Imports	-3.7	19.2	10.1	2.8	4.1	1.2	12.3	-21.0	-15.0	31.6	32.7	28.4	-3.4	31.8
Government purchases	-6.7	7.8	-4.8	6.0	5.7	12.3	2.5	9.6	-2.7	4.3	8.6	2.3	30.1	-4.6
Federal	-8.1	5.7	-6.9	-.3	.3	12.9	.1	3.9	-.4	4.3	-5.4	-9.6	17.2	-3.3
Defense	-7.4	2.0	4.5	-4.7	-1.1	2.1	1.7	7.5	1.8	-6.4	-4.9	-5.6	10.2	-9.8
Nondefense	-.8	3.8	-11.4	4.4	1.4	10.8	-1.6	-3.6	-2.2	10.7	-.5	-4.0	7.0	6.5
State and local	1.5	2.1	2.1	6.3	5.5	-.7	2.4	5.7	-2.3	.0	13.9	12.0	12.9	-1.3

August 14, 1991

CONFIDENTIAL - FR
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS
(Net changes, billions of 1982 dollars)

	Projection										Projection			
	1991		1992				1993				1990	1991	1992	1993
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	29.9	36.6	40.2	32.0	29.5	28.3	32.5	29.8	31.7	29.7	20.2	41.5	130.0	123.6
Gross domestic purchases	23.0	36.5	41.9	35.3	31.1	30.2	32.4	30.8	31.7	31.2	-18.9	44.2	138.5	126.1
Final sales	21.9	16.3	21.9	23.7	28.8	28.4	31.1	30.6	32.3	29.8	65.4	8.0	102.8	123.7
Private dom. final purchases	18.1	19.3	26.7	29.5	32.4	31.8	30.5	29.7	29.9	28.6	-3.8	15.3	120.4	118.7
Personal consumption expend.	14.1	14.2	19.0	20.0	19.9	19.1	18.6	18.1	18.2	17.6	3.7	41.9	78.0	72.5
Durables	6.7	6.2	4.3	4.3	4.2	3.8	3.2	3.1	3.2	2.7	-7.5	5.4	16.5	12.1
Nondurables	5.4	2.3	4.7	5.0	5.0	4.8	4.8	4.6	4.6	4.4	-21.8	6.0	19.5	18.5
Services	2.1	5.5	10.0	10.7	10.8	10.5	10.6	10.3	10.4	10.5	32.9	30.7	42.0	41.8
Business fixed investment	-2.8	1.6	5.0	6.3	8.8	9.5	8.3	8.0	8.2	8.4	11.0	-26.7	29.6	33.0
Producers' durable equipment	2.3	5.5	7.5	8.2	9.8	10.0	8.8	8.4	8.6	8.8	17.7	-13.7	35.4	34.5
Nonresidential structures	-5.2	-4.0	-2.5	-1.8	-9	-5	-5	-4	-4	-3	-6.7	-13.1	-5.9	-1.6
Residential structures	6.7	3.5	2.7	3.2	3.6	3.3	3.7	3.6	3.4	2.5	-18.5	.1	12.8	13.2
Change in business inventories	8.0	20.3	18.3	8.3	.7	-.1	1.4	-.8	-.6	-.1	-45.3	33.5	27.2	-.1
Nonfarm	6.3	18.9	16.8	8.1	.2	-.1	.1	-.7	-.6	.0	-43.8	37.4	25.0	-1.2
Farm	1.8	1.4	1.5	.2	.5	.0	1.3	-.1	.0	-.1	-1.5	-3.9	2.2	1.1
Net exports	6.9	.1	-1.7	-3.2	-1.6	-1.9	.0	-1.0	.0	-1.5	39.1	-2.8	-8.4	-2.4
Exports	11.0	11.3	10.8	10.1	9.9	10.9	10.0	11.3	10.6	11.3	35.6	29.0	41.8	43.2
Imports	4.0	11.2	12.5	13.4	11.5	12.8	10.0	12.3	10.6	12.8	-3.4	31.8	50.2	45.7
Government purchases	-3.1	-3.1	-3.1	-2.5	-2.0	-1.5	.5	1.9	2.4	2.7	30.1	-4.6	-9.1	7.5
Federal	-3.0	-4.2	-4.4	-4.3	-4.0	-3.9	-2.3	-1.5	-1.7	-1.7	17.2	-3.3	-16.6	-7.2
Defense	.0	-5.2	-5.4	-5.3	-5.0	-4.9	-3.2	-2.4	-2.5	-2.5	10.2	-9.8	-20.6	-10.6
Nondefense	-3.0	1.0	1.0	1.0	1.0	1.0	.9	.9	.8	.8	7.0	6.5	4.0	3.4
State and local	-.1	1.1	1.3	1.8	2.0	2.4	2.8	3.4	4.1	4.4	12.9	-1.3	7.5	14.7

August 14, 1991

FEDERAL SECTOR ACCOUNTS¹
(Billions of dollars)

	Fiscal years				1991				1992				1993			
	1990a	1991	1992	1993	Ia	IIa	III	IV	I	II	III	IV	I	II	III	IV
BUDGET					Not seasonally adjusted											
Budget receipts ²	1031	1060	1147	1219	233	307	270	257	256	348	286	278	268	364	309	289
Budget outlays ²	1252	1330	1490	1509	299	333	363	383	368	373	366	393	375	372	369	385
Surplus/deficit (-) ²	-220	-270	-343	-290	-66	-25	-93	-126	-112	-25	-80	-115	-107	-9	-60	-96
(On-budget)	-277	-328	-405	-358	-80	-50	-101	-137	-124	-57	-88	-127	-118	-44	-70	-123
(Off-budget)	57	58	63	68	15	24	9	11	12	32	8	12	11	35	10	27
Surplus excluding deposit insurance ³	-162	-202	-227	-223	-63	-11	-55	-96	-82	5	-55	-92	-89	5	-47	-89
Means of financing:																
Borrowing	263	296	332	289	56	43	98	91	113	51	77	107	95	30	57	88
Cash decrease	1	-10	10	0	0	-12	-6	38	-3	-20	-5	10	10	-15	-5	10
Other ⁴	-44	-17	1	2	9	-6	1	-2	2	-6	8	-2	2	-6	8	-2
Cash operating balance, end of period	40	50	40	40	32	44	50	12	15	35	40	30	20	35	40	30
WIPA FEDERAL SECTOR					Seasonally adjusted annual rates											
Receipts	1092	1143	1227	1304	1135	1147	1164	1189	1220	1242	1259	1279	1293	1312	1332	1354
Expenditures	1249	1308	1421	1495	1261	1321	1337	1392	1423	1431	1438	1460	1497	1507	1514	1536
Purchases	415	444	444	443	444	447	447	444	447	444	441	438	445	445	445	444
Defense	307	327	316	304	331	325	326	320	319	314	309	304	306	304	302	299
Nondefense	107	117	128	139	113	121	121	123	128	130	132	134	139	141	143	145
Other expend.	835	864	977	1052	818	875	890	949	976	987	997	1022	1052	1062	1070	1092
Surplus/deficit	-158	-164	-194	-191	-127	-174	-172	-203	-203	-190	-179	-182	-205	-195	-183	-183
FISCAL INDICATORS⁵																
High-employment (HEB) surplus/deficit (-)	-150	-101	-127	-137	-63	-98	-97	-130	-136	-126	-117	-122	-149	-143	-134	-136
Change in HEB, percent of potential GNP	0	-.9	.5	.2	-1.5	.6	0	.6	.1	-.2	-.1	.1	.4	-.1	-.1	0
Fiscal impetus measure (FI), percent	-3.3 *	-3.1 *	-5.3 *	-3.5 *	-3.8	-.6	.2	-1.3	-2.7	-1.2	-1.1	-.9	-1.5	-.4	-.4	-.4
a---actual				*---calendar year												

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

- Staff projections. OMB's July deficit estimates are \$282 billion in FY1991 and \$348 billion in FY1992. CBO's March deficit estimates are \$309 billion in FY1991 and \$294 billion in FY1992.
- Budget receipts, outlays, and surplus/deficit include social security (OASDI) receipts, outlays and surplus, respectively. The OASDI surplus is excluded from the "on-budget" deficit and shown separately as "off-budget", as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY1990.
- OMB's July deficit estimates, excluding deposit insurance spending, are \$199 billion in FY1991 and \$230 billion in FY1992. CBO's March deficit estimates, excluding deposit insurance spending, are \$205 billion in FY1991 and \$196 billion in FY1992.
- Other means of financing are checks issued less checks paid, accrued items; and changes in other financial assets and liabilities.
- HEB is the WIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate and 2.3% potential output growth in the forecast period. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.

Confidential FR Class II
August 14, 1991

GROWTH RATES OF DEBT BY SECTOR¹
(Period-end to period-end)

-----Domestic Nonfinancial Sectors-----								-----Memo-----		
-----Households-----								State & local govts.	Private financial assets ³	Nominal GNP ⁴
Total ²	U.S. govt. ²	Non- federal	Total	Home mtgs.	Cons. credit	Business				
Annual (percent)										
1982	9.3	19.4	6.9	5.4	4.5	4.4	7.8	9.1	10.3	3.1
1983	11.5	18.8	9.6	11.4	11.0	12.6	8.3	7.1	11.8	10.4
1984	14.4	16.9	13.7	12.9	11.7	18.7	15.6	7.9	13.4	8.6
1985	14.2	16.2	13.6	14.1	11.9	15.9	11.4	23.7	12.0	6.6
1986	12.3	13.4	12.0	12.8	14.9	9.6	12.0	7.6	9.1	4.6
1987	9.0	8.0	9.3	11.6	14.0	5.1	7.0	9.6	7.8	8.2
1988	9.1	8.0	9.5	10.9	12.2	7.2	8.2	8.2	8.7	7.8
1989	7.5	7.2	7.5	8.9	10.5	5.3	6.7	4.9	7.4	5.6
1990	6.5	12.0	4.9	7.3	9.1	1.8	2.9	2.3	4.4	4.5
1991	5.7	11.2	3.9	5.8	7.9	-1.2	2.0	3.0	4.5	4.7
1992	7.2	12.2	5.4	6.8	8.4	2.6	4.3	3.0	4.4	6.4
Quarterly (percent-SAAR)										
1989 -- Q1	8.2	7.0	8.6	9.2	10.6	5.1	8.4	6.6	7.5	7.5
Q2	7.2	4.6	7.9	8.0	9.7	4.9	8.3	5.4	8.0	5.8
Q3	7.2	8.0	6.9	8.7	10.2	4.8	5.6	4.6	8.4	5.1
Q4	6.4	8.3	5.9	8.5	9.6	5.7	3.8	2.6	4.6	3.9
1990 -- Q1	8.2	10.9	7.5	10.4	12.1	3.8	5.5	1.4	7.4	6.7
Q2	6.1	9.7	5.0	7.4	9.4	0.4	2.9	2.8	5.1	5.1
Q3	6.4	11.8	4.7	5.9	7.1	2.6	3.4	4.5	3.7	5.3
Q4	4.6	13.2	1.9	4.2	5.8	0.3	-0.2	0.5	1.0	0.9
1991 -- Q1	4.5	8.0	3.4	5.0	7.1	-2.9	2.0	1.1	5.8	2.5
Q2	4.6	9.2	3.1	5.6	7.8	-2.4	0.1	4.0	3.3	4.3
Q3	7.0	15.1	4.4	6.1	8.0	-0.0	2.6	3.7	4.7	4.9
Q4	6.2	10.7	4.6	6.1	8.0	0.6	3.3	2.8	3.9	7.0
1992 -- Q1	7.6	14.9	5.1	6.4	7.8	2.5	4.0	3.0	5.6	7.9
Q2	6.4	9.4	5.3	6.6	8.1	2.5	4.2	3.0	3.2	6.6
Q3	6.7	10.6	5.4	6.7	8.1	2.7	4.3	2.9	3.9	5.8
Q4	7.2	11.8	5.5	7.0	8.5	2.7	4.3	2.9	4.5	5.5

1. Published data through 1991:1; projections for other periods.
2. Deposit insurance activity adds roughly .8 percentage points to total debt and about 3 percentage points to federal debt growth in both 1991 and 1992.
3. Sometimes referred to as the "Kaufman debt proxy"; includes liquid assets and credit market instruments.
4. Annual figures are Q4 to Q4.

FLOW OF FUNDS PROJECTION HIGHLIGHTS¹
(Billions of dollars, seasonally adjusted annual rates)

	1989	Calendar year 1990	1991	1992	----1990----	-----1991-----	-----1992-----					
					Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
Net funds raised by domestic												
1 nonfinancial sectors	554.0	578.2	596.5	784.9	581.7	421.6	457.7	499.8	766.0	662.4	773.3	796.6
2 Net equity issuance	-124.2	-63.0	-4.0	-15.0	-74.0	-61.0	-17.0	11.0	5.0	-15.0	-15.0	-15.0
3 Net debt issuance	678.2	641.2	600.5	799.9	655.7	482.6	474.7	488.8	761.0	677.4	788.3	811.6
Borrowing sectors												
Nonfinancial business												
4 Financing gap ²	33.9	37.1	-1.8	41.0	50.9	33.1	-17.5	-3.8	1.1	13.1	33.9	48.1
5 Net equity issuance	-124.2	-63.0	-4.0	-15.0	-74.0	-61.0	-17.0	11.0	5.0	-15.0	-15.0	-15.0
6 Credit market borrowing	211.9	99.8	69.8	152.8	119.4	-8.3	70.3	2.3	91.4	115.1	147.8	157.7
Households												
7 Net borrowing, of which:	285.0	254.3	224.4	278.6	221.7	159.4	192.6	218.5	240.8	245.5	267.6	289.6
8 Home mortgages	221.6	214.1	211.1	240.0	183.7	150.9	189.3	209.9	220.0	225.0	230.0	250.0
9 Consumer credit	39.1	14.3	-9.7	20.8	21.3	2.5	-23.6	-19.6	-0.3	4.8	19.8	21.9
10 Debt/DPI (percent) ³	89.8	93.1	96.9	96.9	95.9	96.1	96.9	97.3	97.9	97.6	96.6	97.0
State and local governments												
11 Net borrowing	29.6	14.6	19.2	20.1	28.5	3.1	7.1	26.2	24.5	18.9	20.2	20.0
12 Current surplus ⁴	-25.7	-30.9	-21.2	8.3	-35.7	-36.8	-37.9	-23.0	-14.6	-9.2	3.7	13.0
U.S. government												
13 Net borrowing from public	151.6	272.5	287.2	348.5	286.1	328.4	204.7	241.8	404.2	297.9	352.7	344.3
14 Net borrowing from public ⁵	151.6	272.5	287.2	348.5	68.4	98.7	55.8	43.0	97.8	90.6	164.0	184.5
15 Unified budget deficit ⁵	155.0	236.1	309.7	331.9	57.9	86.2	65.6	25.7	92.6	125.8	137.2	194.7
Funds supplied by												
16 depository institutions	92.8	-22.1	-59.1	-19.0	-60.6	-92.8	-10.0	-108.9	-67.2	-50.3	-28.4	-9.6
Memoranda: As percent of GNP:												
17 Dom. nonfinancial debt ³	181.7	186.3	191.7	191.7	189.3	191.1	192.0	192.2	193.2	192.9	191.1	192.3
18 Dom. nonfinancial borrowing	13.0	11.7	10.6	13.3	11.9	8.7	8.5	8.7	13.4	11.7	13.3	13.3
19 U.S. government ⁶	2.9	5.0	5.1	5.8	5.2	5.9	3.7	4.3	7.1	5.2	5.9	5.6
20 Private	10.1	6.7	5.5	7.5	6.7	2.8	4.9	4.4	6.3	6.6	7.3	7.6

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1. Published data through 1991:1; projections for other periods.
2. For corporations: excess of capital expenditures over U.S. internal funds.
3. Annuals are average debt levels in the year (computed as the average of year-end debt positions) divided by annual GNP.

4. NIPA surplus, net of retirement funds.
5. Quarterly data at quarterly rates, nsa.
6. Excludes gov't-insured mortgage pool securities.

the growth rate for total export volume over the projection period. Agricultural exports are expected to strengthen somewhat in the second half of this year, largely because of the recent provision of credit guarantees to the Soviet Union, but to remain sluggish over the rest of the forecast period.

After increasing rapidly in the second quarter, the quantity of non-oil imports is projected to rise at about a 7-1/2 percent annual rate in the second half of the year and then to expand slightly more rapidly next year. The U.S. economic recovery and recent declines in the relative price of imports associated with the rise in the dollar are expected to stimulate demand for imports. Constant-dollar imports of computers are expected to grow especially rapidly and will add several percentage points to the growth rate for total non-oil imports. After increasing rapidly over the past two quarters, because of stockbuilding behavior, oil imports are projected to increase at a more moderate rate on average over the forecast period as oil consumption rebounds and U.S. production resumes its secular decline.

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

	1990	1991			1992
		Q1	Q2	H2	
Nonagricultural exports	8.6	6.6	14.9	8.8	9.1
Agricultural exports	-6.1	13.1	-22.2	12.8	-1.4
Non-oil imports	1.4	-10.0	17.5	7.4	8.9
Oil imports	-12.3	23.4	83.6	0.4	9.1

* GNP basis, 1982 dollars.

Oil Prices. The outlook for oil prices in the near term has been raised somewhat since the June forecast, reflecting the market's concern

over potentially tight supply conditions during the winter. The forecast now incorporates the assumption that oil import prices will rise to more than \$19 per barrel by the end of this year, before returning to a flat \$18-per-barrel path by the middle of next year (a level consistent with a posted price of \$19.25 per barrel for West Texas Intermediate crude).

Prices of Exports and Non-oil Imports. The fixed-weight price index for U.S. nonagricultural exports is projected to increase only slightly in the near term, reflecting recent and projected moderate increases in domestic producer prices. Export prices are expected to expand a bit faster next year. Non-oil import prices are projected to increase moderately in the current quarter and to rise only somewhat faster during the remainder of the forecast period; the rise in the dollar through the middle of this year should continue to depress the growth in import prices, outweighing the effects of the slight decline in the dollar from recent highs.

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

	1990	1991		--- Projection ---	
		Q1	Q2	H2	1992
PPI (export-share wts.)	4.8	-1.9	-3.8	1.6	2.1
Nonagric exports (Fx-Wt)	4.0	-1.0	-1.8	0.5	1.9
Non-oil imports (Fx-Wt)	2.9	4.0	-2.7	1.5	2.5
Oil imports (\$/barrel)	20.57	20.33	17.45	18.94	18.22

Nominal Trade and Current Account Balances. The merchandise trade deficit is estimated to have narrowed further in the second quarter, to just over \$60 billion (annual rate), as a result of sluggish imports and expanding exports. Thereafter, the deficit is projected to widen gradually, returning to a level of close to \$70 billion next year. Excluding the

effects of transfer payments associated with the Gulf War, the current account deficit this year is projected to be roughly \$40 billion, or about \$25 billion less than the trade deficit. In 1992, the projected current account deficit fluctuates narrowly as a slight widening of the trade deficit is expected to be partly offset by net improvements in the nontrade portions of the current account (other than transfers), resulting in a current account deficit of about \$40 billion at the end of the projection period.

NOMINAL EXTERNAL BALANCES
(Billions of dollars, SAAR)

	1990	----- Projection -----			
		1991	1991	1992	1992
		Q1	Q2	H2	
Trade Balance	-108.1	-73.5	-61.5	-64.2	-70.3
Current Account excl. Gulf War Cash Grants	-87.8	-49.9	-37.7	-37.0	-37.2
Gulf War Cash Grants	4.3	90.8	46.4	18.0	0.0
Current Account	-92.1	40.9	8.7	-19.0	-37.2

Within the nontrade portions of the current account, net service receipts are expected to expand steadily over the forecast period. Net investment income receipts are expected to decline from a level in the first quarter that had been pushed to abnormal heights by a transitory surge in the earnings of U.S. oil companies abroad. Through the forecast period, increases in net investment income receipts are projected to make a small positive contribution to narrowing the current account deficit, as they did in 1990.

With respect to transfer payments, total cash grants from foreign governments to support Operation Desert Storm are expected to amount

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REAL GNP AND CONSUMER PRICES, SELECTED COUNTRIES, 1989-93
(Percent change from fourth quarter to fourth quarter)

Measure and country	1989	1990	Projection		
			1991	1992	1993
REAL GNP					
Canada	2.9	-1.1	-0.7	2.7	3.1
France	3.9	1.9	1.3	2.3	2.7
Western Germany	3.2	5.3	2.5	2.9	3.1
Italy	2.9	1.0	1.6	2.4	2.6
Japan	4.8	4.8	3.6	3.6	3.8
United Kingdom	1.3	-1.3	-0.1	2.0	2.1
Average, weighted by 1987-89 GNP	3.5	2.5	1.9	2.8	3.1
Average, weighted by share of					
U.S. nonagricultural exports					
Total foreign	3.7	2.0	2.0	3.3	3.6
G-6	3.2	0.9	0.8	2.8	3.1
Developing countries	5.0	4.8	5.5	5.6	6.1
CONSUMER PRICES					
Canada	5.2	4.9	5.2	3.4	3.6
France	3.6	3.6	2.7	3.3	3.4
Western Germany	3.0	3.0	4.3	3.0	2.9
Italy	6.6	6.3	6.2	5.2	5.1
Japan	2.9	3.5	3.1	3.0	2.7
United Kingdom	7.6	10.0	4.7	4.6	4.1
Average, weighted by 1987-89 GNP	4.4	4.9	4.1	3.6	3.5
Average, weighted by share of					
U.S. non-oil imports	4.2	4.5	4.2	3.4	3.3

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

	ANNUAL			1991				1992				1993
	1991-P	1992-P	1993-P	Q1	Q2	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P	Q4-P
1. GNP Real Net Exports (82#)	-8.6	-16.9	-21.0	7.1	-18.6	-11.6	-11.5	-13.2	-16.4	-18.0	-19.9	-22.3
a. Exports of G+S	660.8	702.3	744.5	648.0	653.9	664.9	676.2	687.0	697.1	707.0	717.9	761.2
Merchandise	458.3	498.5	536.1	441.4	453.3	465.0	473.5	484.2	493.9	503.2	512.6	550.8
Services	202.6	203.9	208.5	206.7	200.7	200.1	202.7	202.9	203.3	204.0	205.5	210.5
b. Imports of G+S	669.5	719.2	765.6	641.0	672.6	676.6	687.8	700.3	713.6	725.1	737.9	783.6
Merchandise	530.6	580.5	626.2	501.7	533.2	538.5	549.0	562.2	575.1	586.8	597.9	643.2
Oil	98.5	108.3	117.4	87.8	102.2	101.5	102.4	104.8	107.1	109.5	111.7	120.9
Non-oil	432.2	472.2	508.8	414.0	431.0	437.0	446.6	457.4	467.9	477.3	486.1	522.2
Services	138.9	138.8	139.4	139.2	139.4	138.1	138.8	138.1	138.6	138.3	140.1	140.4
Memo:												
Percent Changes (AR) 1/												
Exports G+S	4.5	6.2	6.0	0.5	3.7	6.9	7.0	6.5	6.0	5.8	6.3	6.2
of which: Merchandise	9.2	8.2	7.5	7.2	11.2	10.7	7.6	9.3	8.3	7.7	7.7	7.6
Imports G+S	4.8	7.3	6.2	-8.8	21.2	2.4	6.8	7.5	7.8	6.6	7.3	6.8
of which: Non-oil Merch.	5.1	8.9	7.4	-10.0	17.5	5.7	9.0	10.0	9.6	8.3	7.6	7.1
2. U.S. Current Account Balance	2.9	-37.2	-39.1	40.9	8.7	0.2	-38.1	-34.7	-35.9	-36.4	-41.8	-42.2
a. Merchandise Trade, net	-65.8	-70.3	-78.0	-73.5	-61.5	-62.2	-66.1	-68.0	-69.3	-71.0	-72.7	-80.4
Exports	422.0	461.8	495.6	403.4	418.5	428.6	437.5	447.9	457.7	466.5	475.1	508.5
Agricultural	40.1	41.8	43.2	39.7	38.6	41.3	40.7	41.4	41.9	41.8	42.2	44.1
Nonagricultural	381.9	420.0	452.3	363.7	379.8	387.4	396.8	406.4	415.8	424.7	432.9	464.4
Imports	487.8	532.1	573.6	476.9	479.9	490.8	503.6	515.9	526.9	537.6	547.8	588.9
Oil	55.1	58.9	63.2	52.6	52.8	56.4	58.4	58.8	58.1	58.7	60.0	65.1
Non-oil	432.7	473.2	510.4	424.3	427.1	434.4	445.2	457.2	468.8	478.9	487.8	523.7
b. Other Current Account	68.7	33.1	38.9	114.3	70.2	62.4	28.0	33.4	33.4	34.6	30.9	38.2
Investment Income, net	11.1	8.1	9.6	18.6	10.0	8.0	7.9	9.1	8.5	8.4	6.4	9.5
Direct, net	50.4	43.6	46.5	60.6	51.7	44.5	44.7	43.8	43.8	43.3	43.5	47.8
Portfolio, net	-39.2	-35.5	-36.9	-42.0	-41.7	-36.5	-36.8	-34.7	-35.3	-35.0	-37.2	-38.2
of which: Gov't Payments	37.1	36.5	38.8	38.5	37.3	36.7	35.8	35.7	36.1	36.7	37.4	39.4
Military Transactions, net	-5.6	-2.1	-1.3	-8.7	-6.8	-4.8	-2.0	-2.4	-2.8	-2.0	-1.2	-1.6
Other Services, net	39.2	44.8	48.3	36.7	37.6	40.2	42.2	43.7	44.7	45.2	45.8	50.3
Unilateral Transfers, net	24.0	-17.8	-17.8	67.8	29.4	19.0	-20.0	-17.0	-17.0	-17.0	-20.0	-20.0

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

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RECENT DEVELOPMENTS

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

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

	1991				
	Q2	Q3 ^P	July ^e	Aug. ^P	Sept. ^P
<u>Treasury financing</u>					
Total surplus/deficit (-)	-25.7	-92.6	-43.0	-46.5	-3.1
Means of financing deficit:					
Net cash borrowing from the public	43.1	97.8	34.6	33.0	30.2
Marketable borrowings/ repayments (-)	38.6	100.6	39.6	30.8	30.1
Bills	-11.7	42.9	16.5	13.4	13.0
Coupons	50.3	57.7	23.2	17.5	17.1
Nonmarketable ²	4.5	-2.8	-5.0	2.1	.1
Decrease in the cash balance	-11.6	-5.5	7.3	15.1	-27.9
Memo: Cash balance at end of period	44.2	49.7	36.9	21.8	49.7
³ Other	-5.8	.3	1.1	-1.6	.8
<u>Federally sponsored credit agencies, net cash borrowing</u>					
	-7.1	--	--	--	--
FHLBs	-6.5	--	--	--	--
FHLMC	-2.6	--	--	--	--
FNMA	1.7	--	--	--	--
Farm Credit Banks	-.2	--	--	--	--
SLMA	.5	--	--	--	--

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 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.

e--estimated.

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