

December 13, 1989

## **SUMMARY AND OUTLOOK**

Prepared for the Federal Open Market Committee

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

December 13, 1989

CONFIDENTIAL - FA  
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)	
		11/8/89	12/13/89	11/8/89	12/13/89	11/8/89	12/13/89	11/8/89	12/13/89	11/8/89	12/13/89
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		7.2	7.2	3.0	2.9	4.5	4.5	4.8	4.8	5.2	5.3
1990		5.7	5.7	1.8	1.7	4.0	4.0	3.8	3.9	5.6	5.8
1991		5.7	6.1	1.8	1.9	4.2	4.3	4.4	4.4	6.1	6.2
Quarterly changes:											
1988	Q1 <2>	6.5	6.5	4.0	4.0	3.8	3.8	3.9	3.9	5.7	5.7
	Q2 <2>	8.6	8.6	3.7	3.7	4.8	4.8	4.5	4.5	5.5	5.5
	Q3 <2>	7.5	7.5	3.2	3.2	5.2	5.2	4.5	4.5	5.5	5.5
	Q4 <2>	7.5	7.5	2.7	2.7	4.3	4.3	4.4	4.4	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	6.4	5.3	5.3
	Q3 <2>	5.6	6.1	2.5	2.7	2.9	2.9	2.6	2.6	5.2	5.2
	Q4	4.9	4.5	1.7	.7	3.6	3.8	3.3	3.6	5.3	5.4
1990	Q1	6.4	6.1	2.2	2.1	4.4	4.2	3.7	3.6	5.4	5.6
	Q2	5.4	5.5	1.3	1.2	4.1	4.2	4.1	4.2	5.5	5.8
	Q3	5.4	5.7	1.5	1.6	4.1	4.1	4.2	4.3	5.7	5.9
	Q4	5.2	5.6	1.5	1.6	4.1	4.1	4.3	4.3	5.9	6.0
1991	Q1	6.2	6.6	1.7	1.9	4.7	4.9	4.6	4.6	6.0	6.1
	Q2	5.8	6.1	2.1	2.2	4.1	4.1	4.4	4.4	6.1	6.1
	Q3	5.9	6.2	2.2	2.3	4.0	4.0	4.4	4.4	6.2	6.2
	Q4	5.9	6.2	2.3	2.4	4.0	4.0	4.4	4.4	6.2	6.2
Two-quarter changes: <3>											
1988	Q2 <2>	7.5	7.5	3.9	3.9	4.2	4.2	4.1	4.1	-.4	-.4
	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	5.9	.0	.0
	Q4	5.3	5.3	2.1	1.7	3.2	3.3	2.8	3.0	.0	.1
1990	Q2	5.9	5.8	1.7	1.7	4.3	4.2	3.9	3.9	.2	.4
	Q4	5.3	5.7	1.5	1.6	4.1	4.1	4.3	4.3	.4	.2
1991	Q2	6.0	6.3	1.9	2.0	4.4	4.5	4.5	4.5	.2	.1
	Q4	5.9	6.2	2.2	2.3	4.0	4.0	4.4	4.4	.1	.1
Four-quarter changes: <4>											
1987	Q4 <2>	8.6	8.6	5.4	5.4	4.0	4.0	4.4	4.4	-.9	-.9
1988	Q4 <2>	7.5	7.5	3.4	3.4	4.5	4.5	4.3	4.3	-.6	-.6
1989	Q4	6.4	6.4	2.6	2.4	4.1	4.1	4.4	4.4	.0	.1
1990	Q4	5.6	5.7	1.6	1.6	4.2	4.2	4.1	4.1	.6	.6
1991	Q4	6.0	6.3	2.0	2.2	4.2	4.2	4.4	4.4	.3	.2

&lt;1&gt; For all urban consumers.

&lt;2&gt; Actual.

&lt;3&gt; Percent change from two quarters earlier.

&lt;4&gt; Percent change from four quarters earlier.

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

December 13, 1989

		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	5232.8	5528.9	5864.3
Real GNP	Billions of \$2\$	3279.1	3501.4	3618.7	3717.9	3853.7	4024.4	4141.7	4211.0	4290.3
Real GNP	Percent change*	6.5	5.1	3.6	1.9	5.4	3.4	2.4	1.6	2.2
Gross domestic purchases		8.4	6.4	4.3	2.1	4.6	2.4	2.0	1.5	1.5
Final sales		3.7	4.7	4.6	2.7	3.3	4.4	2.3	1.9	2.1
Private dom. final purchases		7.7	5.6	4.6	2.9	2.7	3.8	2.2	2.1	1.6
Personal consumption expend.		5.4	4.1	4.6	3.8	2.2	3.8	2.4	2.3	1.6
Durables		14.7	10.8	7.0	11.5	-2.0	8.0	.4	3.9	1.3
Nondurables		4.4	2.3	3.3	2.9	1.1	2.1	.9	1.2	.9
Services		3.9	3.5	5.0	2.1	4.4	3.6	4.2	2.6	2.1
Business fixed investment		10.8	13.8	3.7	-5.5	8.5	4.2	4.1	1.2	2.6
Producers' durable equipment		20.9	14.9	4.6	.4	11.1	7.0	5.6	2.3	3.9
Nonresidential structures		-4.8	11.8	1.9	-17.7	1.9	-3.4	-6	-2.4	-2.0
Residential structures		38.1	6.1	5.8	11.6	-4.2	3.2	-5.1	1.2	-1.2
Exports		5.8	5.9	-2.4	10.6	19.1	13.9	7.6	7.0	10.1
Imports		23.8	17.4	4.5	10.0	9.6	5.3	4.5	5.3	5.0
Government purchases		-2.7	7.9	8.6	3.1	2.1	1.8	.5	.3	.5
Federal		-8.1	13.0	13.3	.5	.7	-1.3	-1.8	-1.9	-1.5
Defense		5.1	6.5	7.1	6.0	4.3	-1.9	-3.2	-4.7	-3.0
State and local		1.5	4.4	4.9	5.2	3.1	3.4	2.2	1.8	1.8
Change in business inventories	Billions of \$2\$	-6.4	62.3	9.1	5.6	23.7	27.9	22.1	4.5	14.9
Nonfarm	Billions of \$2\$	-.1	57.8	13.4	8.0	25.8	30.7	18.8	7.2	17.1
Net exports	Billions of \$2\$	-19.9	-84.0	-104.3	-129.7	-115.7	-74.9	-57.4	-54.1	-36.7
Nominal GNP	Percent change*	10.4	8.6	6.6	4.6	8.6	7.5	6.4	5.7	6.3
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	90.2	94.5	97.5	99.5	102.2	105.6	108.6	110.2	111.4
Unemployment rate	Percent	9.6	7.5	7.2	7.0	6.2	5.5	5.3	5.8	6.2
Industrial production index	Percent change*	14.3	6.6	1.7	1.0	5.8	5.0	1.2	1.5	2.7
Capacity utilization rate-mfg.	Percent	73.9	80.5	80.1	79.7	81.1	83.5	83.8	81.5	80.8
Housing starts	Millions	1.70	1.75	1.74	1.81	1.62	1.49	1.40	1.36	1.36
Auto sales	Millions	9.23	10.38	11.06	11.47	10.26	10.69	9.86	9.61	9.50
Domestic	Millions	6.82	7.92	8.22	8.22	7.06	7.55	7.01	6.90	6.90
Foreign	Millions	2.41	2.46	2.84	3.25	3.21	3.14	2.85	2.71	2.60
INCOME AND SAVING										
Nominal personal income	Percent change*	7.8	8.4	6.6	5.8	8.6	7.1	8.1	6.1	6.1
Real disposable income	Percent change*	5.1	4.3	2.7	3.3	3.0	4.0	3.3	1.7	1.4
Personal saving rate	Percent	5.4	6.1	4.4	4.1	3.2	4.2	5.3	5.1	4.9
Corp. profits with IVA & CCAdj	Percent change*	70.1	7.4	9.2	-5.6	12.0	10.4	-18.1	1.8	.7
Profit share of GNP	Percent	6.3	7.1	7.0	6.7	6.6	6.7	5.7	5.1	4.8
Federal govt. surplus/deficit	Billions of \$	-176.0	-169.6	-196.9	-206.9	-161.4	-145.8	-150.1	-130.0	-102.4
State and local govt. surplus		47.5	64.6	65.1	62.8	51.3	49.7	46.0	51.8	64.5
Exc. social insurance funds		4.4	19.8	13.8	5.6	-12.4	-21.4	-32.0	-32.6	-25.8
PRICES AND COSTS										
GNP implicit deflator	Percent change*	3.6	3.4	2.9	2.6	3.0	4.0	3.9	4.0	4.0
GNP fixed-weight price index		3.9	3.7	3.3	2.6	4.0	4.5	4.1	4.2	4.2
Cons. & fixed invest. prices		3.3	3.3	3.4	2.5	4.7	4.2	4.3	4.0	4.3
CPI		3.2	4.2	3.5	1.3	4.4	4.3	4.4	4.1	4.4
Exc. food and energy		4.2	5.0	4.3	3.9	4.2	4.6	4.3	4.4	4.6
ECI hourly compensation		5.7	4.9	3.9	3.2	3.3	4.9	4.7	4.9	4.4
Nonfarm business sector										
Output per hour		3.4	1.5	1.6	1.3	2.4	1.6	.4	.8	1.3
Compensation per hour		3.1	4.2	4.6	5.0	4.0	4.8	5.3	5.6	5.1
Unit labor costs		-.4	2.6	3.0	3.6	1.5	3.1	4.9	4.7	3.8

\* Percent changes are from fourth quarter to fourth quarter.

December 13, 1989

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

		1987				1988				1989	
	Units	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EXPENDITURES											
Nominal GNP	Billions of \$	4388.8	4475.9	4566.6	4665.8	4739.8	4838.5	4926.9	5017.3	5113.1	5201.7
Real GNP	Billions of 82\$	3783.0	3823.5	3872.8	3935.6	3974.8	4010.7	4042.7	4069.4	4106.8	4132.5
Real GNP		5.4	4.4	5.3	6.6	4.0	3.7	3.2	2.7	3.7	2.5
Gross domestic purchases		3.4	4.0	5.4	5.5	.7	3.0	3.4	2.5	1.8	2.1
Final sales		1.1	4.9	6.0	1.4	6.5	5.0	1.6	4.7	3.1	3.1
Private dom. final purchases		-.9	5.9	6.5	-.6	6.0	4.4	3.1	1.7	2.3	2.0
Personal consumption expend.		.1	4.8	4.7	-.7	6.2	2.5	3.3	3.0	2.0	1.9
Durables		-19.9	14.8	15.8	-13.5	21.0	6.4	-3.9	9.9	-1.1	5.5
Nondurables		1.9	.6	1.3	.5	1.7	1.2	5.0	.7	1.3	-2.3
Services		6.0	5.0	3.8	3.0	5.2	2.2	4.5	2.6	3.6	3.8
Business fixed investment		-4.3	14.4	26.7	-.1	9.5	12.3	2.6	-6.5	6.9	8.6
Producers' durable equipment		-2.0	24.1	25.9	-.3	18.2	15.8	2.9	-6.9	9.6	14.8
Nonresidential structures		-10.3	-7.8	29.3	.6	-11.8	2.3	1.6	-5.1	-1.0	-9.5
Residential structures		-5.9	1.0	-11.0	-.4	-5.7	11.2	1.9	6.3	-5.0	-12.3
Exports		12.6	21.4	21.4	21.3	30.5	1.8	9.7	15.5	14.0	13.1
Imports		-3.6	14.5	19.1	9.8	1.2	-2.2	10.2	12.6	-.4	9.3
Government purchases		.3	-.9	4.5	4.5	-8.3	4.1	-3.6	16.7	-3.3	5.4
Federal		-4.9	-4.0	7.4	5.0	-22.3	5.2	-9.5	33.7	-9.4	10.0
Defense		5.1	8.9	9.4	-5.6	-5.4	-.8	-5.5	4.4	-10.6	2.2
State and local		4.6	1.5	2.5	4.0	3.7	3.4	.9	5.7	1.5	2.2
Change in business inventories	Billions of 82\$	18.1	13.3	6.8	56.6	34.3	21.5	37.5	18.3	24.5	19.1
Nonfarm	Billions of 82\$	20.3	14.5	12.9	55.6	28.3	25.4	37.2	31.9	16.9	19.5
Net exports	Billions of 82\$	-118.2	-115.9	-118.9	-109.8	-78.2	-72.6	-74.9	-73.8	-55.0	-51.2
Nominal GNP	Percent change	8.8	8.2	8.4	9.0	6.5	8.6	7.5	7.5	7.9	7.1
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	101.0	101.8	102.5	103.5	104.4	105.2	106.0	106.8	107.7	108.3
Unemployment rate	Percent*	6.6	6.3	6.0	5.9	5.7	5.5	5.5	5.3	5.2	5.3
Industrial production index	Percent change	3.2	4.2	8.8	7.0	3.9	4.6	7.1	4.6	2.1	3.3
Capacity utilization rate-mfg.	Percent*	80.0	80.5	81.4	82.3	82.7	83.2	84.0	84.4	84.4	84.4
Housing starts	Millions	1.78	1.60	1.62	1.53	1.48	1.48	1.47	1.56	1.52	1.35
Auto sales	Millions	9.57	10.19	10.98	10.32	10.76	10.69	10.32	11.00	9.72	10.31
Domestic	Millions	6.77	7.12	7.40	6.93	7.60	7.50	7.20	7.89	6.89	7.30
Foreign	Millions	2.80	3.06	3.58	3.38	3.15	3.19	3.12	3.11	2.82	3.01
INCOME AND SAVING											
Nominal personal income	Percent change	8.7	6.6	6.9	12.5	4.1	8.1	7.2	8.8	13.3	7.9
Real disposable income	Percent change	4.0	-5.8	6.7	7.8	4.6	2.4	4.9	4.3	6.6	.8
Personal saving rate	Percent*	4.3	1.8	2.3	4.3	3.9	3.9	4.3	4.6	5.6	5.4
Corp. profits with IVA & CCAdj	Percent change	7.0	21.2	29.0	-6.0	13.5	9.4	7.1	11.7	-25.3	-10.3
Profit share of GNP	Percent*	6.4	6.6	6.9	6.6	6.7	6.7	6.7	6.8	6.2	5.9
Federal govt. surplus/deficit	Billions of \$	-199.4	-137.7	-143.9	-164.4	-151.8	-141.5	-122.5	-167.6	-147.5	-145.4
State and local govt. surplus		46.3	60.4	50.5	48.0	50.8	52.4	49.8	45.7	48.8	47.5
Exc. social insurance funds		-14.6	-2.5	-14.0	-18.4	-17.5	-17.9	-22.3	-28.1	-26.6	-29.6
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.2	3.8	2.8	2.4	2.0	4.8	4.4	4.7	4.0	4.6
GNP fixed-weight price index		4.3	4.1	3.8	3.8	3.8	4.8	5.2	4.3	4.8	5.0
Cons. & fixed invest. prices		5.5	5.1	3.9	4.3	3.1	4.7	4.4	4.7	4.8	5.9
CPI		5.2	5.1	3.6	3.5	3.9	4.5	4.5	4.4	5.4	6.4
Exc. food and energy		4.2	4.2	3.8	4.4	4.7	4.7	4.0	4.9	5.2	4.1
ECI hourly compensation**		3.3	3.0	3.6	3.5	5.7	5.1	3.7	4.9	4.5	4.8
Nonfarm business sector											
Output per hour		.4	3.2	3.5	2.5	2.8	-1.6	3.3	1.9	-1.3	1.1
Compensation per hour		1.5	2.6	4.7	7.1	2.5	5.4	5.4	5.9	4.9	5.6
Unit labor costs		1.1	-.6	1.2	4.5	-.3	7.1	2.0	3.8	6.2	4.5

\* Not at an annual rate.

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

December 13, 1989

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 \$	5278.9	5337.6	5416.8	5489.6	5566.3	5643.0	5733.7	5819.4	5907.1	5997.1
Real GNP	Billions of 82\$	4160.2	4167.1	4188.7	4201.6	4218.6	4234.9	4254.6	4277.7	4301.6	4327.5
Real GNP		2.7	.7	2.1	1.2	1.6	1.6	1.9	2.2	2.3	2.4
Gross domestic purchases		3.9	.3	1.0	2.1	1.5	1.2	1.4	1.5	1.5	1.5
Final sales		2.5	.5	4.9	.5	1.0	1.4	1.7	2.0	2.2	2.4
Private dom. final purchases		5.1	-.4	4.5	1.5	1.3	1.1	1.3	1.6	1.7	1.8
Personal consumption expend.		6.2	-.3	4.5	2.0	1.5	1.4	1.5	1.6	1.6	1.7
Durables		13.2	-13.8	14.9	1.4	-.5	.6	1.3	1.0	1.3	1.5
Nondurables		5.7	-1.1	1.7	1.3	.9	.9	.8	.9	.9	1.0
Services		4.4	5.0	3.3	2.6	2.6	2.0	2.0	2.2	2.2	2.2
Business fixed investment		4.6	-3.3	4.7	-.3	.0	.4	1.7	2.6	2.9	3.1
Producers' durable equipment		4.4	-5.2	6.2	.5	1.0	1.5	3.0	4.0	4.2	4.4
Nonresidential structures		5.5	3.4	.0	-3.0	-3.2	-3.2	-2.6	-2.2	-1.7	-1.3
Residential structures		-8.4	6.4	4.4	.8	.9	-1.2	-1.8	-1.5	-1.1	-.4
Exports		1.6	2.3	13.2	-.1	6.9	8.2	8.7	10.3	10.8	10.5
Imports		9.5	-.2	4.8	5.3	5.7	5.5	5.1	5.1	5.1	4.5
Government purchases		-2.1	2.3	.8	.2	-.6	.7	.7	.3	.4	.4
Federal		-7.9	1.4	-.8	-2.2	-3.9	-.9	-.9	-1.8	-1.8	-1.4
Defense		7.4	-10.6	-6.8	-5.0	-4.0	-3.1	-3.1	-3.1	-3.0	-2.7
State and local		2.3	2.8	1.9	2.0	1.7	1.8	1.8	1.8	1.8	1.6
Change in business inventories	Billions of 82\$	21.2	23.4	-5.2	2.7	9.3	11.3	13.4	15.0	15.5	15.6
Nonfarm	Billions of 82\$	15.3	23.4	-2.4	5.2	11.9	14.1	15.8	17.5	17.5	17.5
Net exports	Billions of 82\$	-63.6	-59.8	-48.8	-57.6	-56.6	-53.4	-48.7	-41.3	-33.0	-23.7
Nominal GNP	Percent change	6.1	4.5	6.1	5.5	5.7	5.6	6.6	6.1	6.2	6.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	108.9	109.4	109.8	110.2	110.2	110.5	110.9	111.2	111.5	111.9
Unemployment rate	Percent*	5.2	5.4	5.6	5.8	5.9	6.0	6.1	6.1	6.2	6.2
Industrial production index	Percent change	1.3	-1.9	.8	1.2	2.0	2.0	2.0	2.8	3.0	3.2
Capacity utilization rate-mfg.	Percent*	83.9	82.7	82.0	81.6	81.3	81.0	80.8	80.7	80.7	80.8
Housing starts	Millions	1.34	1.39	1.37	1.37	1.36	1.36	1.36	1.36	1.35	1.35
Auto sales	Millions	10.51	8.90	9.80	9.70	9.50	9.45	9.50	9.50	9.50	9.50
Domestic	Millions	7.62	6.23	7.00	6.90	6.85	6.85	6.90	6.90	6.90	6.90
Foreign	Millions	2.88	2.68	2.80	2.80	2.65	2.60	2.60	2.60	2.60	2.60
INCOME AND SAVING											
Nominal personal income	Percent change	5.3	6.0	7.8	5.8	4.9	6.0	7.0	6.2	5.5	5.9
Real disposable income	Percent change	4.7	1.2	4.5	1.3	-.2	1.3	2.6	.9	.8	1.1
Personal saving rate	Percent*	5.0	5.4	5.4	5.2	4.9	4.8	5.1	5.0	4.8	4.7
Corp. profits with IVA & CCAdj	Percent change	-18.7	-17.5	4.5	-4.4	9.2	-1.4	-6.2	-4.3	6.4	7.6
Profit share of GNP	Percent*	5.5	5.2	5.2	5.1	5.1	5.0	4.9	4.7	4.7	4.8
Federal govt. surplus/deficit	Billions of \$	-147.4	-160.1	-145.0	-136.9	-120.2	-117.6	-116.7	-107.8	-95.6	-89.4
State and local govt. surplus		44.3	43.5	49.1	48.6	54.4	55.1	58.0	64.5	66.9	68.8
Exc. social insurance funds		-34.8	-37.1	-33.0	-35.0	-30.7	-31.5	-30.1	-25.1	-24.2	-23.8
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.2	3.8	3.9	4.2	4.0	4.0	4.6	3.8	3.8	3.7
GNP fixed-weight price index		2.9	3.8	4.2	4.2	4.1	4.1	4.9	4.1	4.0	4.0
Cons. & fixed invest. prices		2.4	3.9	3.7	4.1	4.2	4.3	4.4	4.3	4.3	4.3
CPI		2.6	3.6	3.6	4.2	4.3	4.3	4.6	4.4	4.4	4.4
Exc. food and energy		3.5	4.2	4.0	4.4	4.5	4.5	4.8	4.5	4.5	4.5
ECI hourly compensation**		4.7	4.7	5.5	5.3	4.5	4.4	4.7	4.8	4.2	4.1
Nonfarm business sector											
Output per hour		2.5	-.7	.7	.8	.9	.9	1.1	1.4	1.4	1.4
Compensation per hour		5.3	5.3	6.1	5.9	5.2	5.1	5.4	5.5	4.9	4.8
Unit labor costs		2.8	6.0	5.4	5.1	4.3	4.2	4.3	4.0	3.5	3.4

\* Not at an annual rate.

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

CONFIDENTIAL - FR  
CLASS II FOMC

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

December 13, 1989

											Projection			
	1987				1988				1989		1986	1987	1988	1989
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	(fourth quarter to fourth quarter, net change)			
Real GNP	49.4	40.5	49.3	62.8	39.2	35.9	32.0	26.7	37.4	25.7	71.2	202.0	133.8	97.7
Gross domestic purchases	32.2	38.2	52.3	53.7	7.6	30.3	34.3	25.6	18.6	21.9	81.3	176.4	97.8	83.7
Final sales	10.5	45.2	55.9	13.0	61.5	48.7	16.0	45.8	31.3	31.2	99.7	124.6	172.0	92.7
Private dom. final purchases	-7.3	44.6	50.3	-4.7	46.9	35.2	25.4	14.2	19.2	16.8	86.5	82.9	121.7	74.6
Personal consumption expend.	.5	29.4	28.8	-4.2	38.5	16.0	21.3	19.6	13.3	12.7	90.9	54.5	95.4	64.3
Durables	-21.4	13.2	14.5	-14.4	19.0	6.4	-4.1	9.8	-1.2	5.6	41.1	-8.1	31.1	1.9
Nondurables	4.2	1.3	2.8	1.1	3.7	2.6	11.1	1.7	3.0	-5.3	25.2	9.4	19.1	8.0
Services	17.7	15.0	11.4	9.1	15.9	6.9	14.2	8.2	11.5	12.3	24.6	53.2	45.2	54.5
Business fixed investment	-4.8	14.7	27.2	-.1	10.9	14.2	3.2	-8.3	8.3	10.4	-25.2	37.0	20.0	20.2
Producers' durable equipment	-1.6	17.2	19.4	-.3	14.8	13.5	2.7	-6.7	8.6	13.3	1.2	34.7	24.3	20.9
Nonresidential structures	-3.3	-2.4	7.8	.2	-3.9	.7	.5	-1.6	-.3	-3.0	-26.5	2.3	-4.3	-.7
Residential structures	-3.0	.5	-5.7	-.2	-2.8	5.1	.9	3.0	-2.5	-6.3	20.9	-8.4	6.2	-10.0
Change in business inventories	38.9	-4.8	-6.5	49.8	-22.3	-12.8	16.0	-19.2	6.2	-5.4	-28.5	77.4	-38.3	5.1
Nonfarm	31.2	-5.8	-1.6	42.7	-27.3	-2.9	11.8	-5.3	-15.0	2.6	-34.1	66.5	-23.7	-8.5
Farm	7.7	1.0	-4.9	7.1	4.9	-9.9	4.3	-13.9	21.2	-8.1	5.6	10.9	-14.6	13.6
Net exports	17.2	2.3	-3.0	9.1	31.6	5.6	-2.3	1.1	18.8	3.8	-10.1	25.6	36.0	14.0
Exports	12.2	20.8	21.8	22.8	33.3	2.3	12.2	19.5	18.3	17.8	39.1	77.6	67.3	41.8
Imports	-5.0	18.5	24.8	13.7	1.7	-3.3	14.6	18.3	-.6	14.1	49.3	52.0	31.3	27.8
Government purchases	.6	-1.7	8.6	8.6	-17.0	7.9	-7.1	30.5	-6.7	10.6	23.3	16.1	14.3	4.1
Federal	-4.3	-3.4	6.0	4.2	-21.1	4.1	-8.1	24.1	-8.4	8.1	1.8	2.5	-1.0	-6.1
Defense	3.2	5.6	6.0	-3.9	-3.7	-.5	-3.7	2.8	-7.2	1.4	14.4	10.9	-5.1	-8.4
Nondefense	-7.5	-9.0	.0	8.1	-17.4	4.6	-4.4	21.3	-1.2	6.7	-12.6	-8.4	4.1	2.3
State and local	4.9	1.6	2.7	4.4	4.1	3.8	1.0	6.4	1.7	2.5	21.5	13.6	15.3	10.2

CONFIDENTIAL - FR  
CLASS II FOMC

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

December 13, 1989

	Projection										Projection			
	1989		1990				1991				1988	1989	1990	1991
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter)	(fourth quarter)	(fourth quarter)	(fourth quarter, net change)
Real GNP	27.7	6.9	21.6	12.8	17.1	16.3	19.7	23.1	23.9	25.9	133.8	97.7	67.8	92.5
Gross domestic purchases	40.1	3.1	10.7	21.6	16.1	13.0	15.0	15.7	15.6	16.5	97.8	83.7	61.4	62.8
Final sales	25.5	4.7	50.2	4.9	10.5	14.3	17.6	21.5	23.4	25.8	172.0	92.7	79.9	88.2
Private dom. final purchases	42.2	-3.6	37.7	13.2	10.8	9.5	11.4	13.4	14.4	15.5	121.7	74.6	71.3	54.8
Personal consumption expend.	40.4	-2.1	29.8	13.2	10.4	9.6	10.1	10.8	11.2	11.6	95.4	64.3	63.0	43.8
Durables	13.4	-15.9	14.9	1.5	-5	.7	1.4	1.1	1.5	1.6	31.1	1.9	16.6	5.6
Nondurables	12.8	-2.5	3.9	3.0	2.1	2.1	1.9	2.1	2.1	2.3	19.1	8.0	22.0	8.4
Services	14.3	16.4	11.0	8.8	8.8	6.8	6.9	7.6	7.6	7.7	45.2	54.5	35.4	29.8
Business fixed investment	5.8	-4.3	5.9	-.4	.0	.5	2.2	3.3	3.7	4.1	20.0	20.2	6.0	13.3
Producers' durable equipment	4.3	-5.3	5.9	.5	1.0	1.5	3.0	4.0	4.2	4.5	24.3	20.9	8.9	15.6
Nonresidential structures	1.6	1.0	.0	-.9	-1.0	-1.0	-.8	-.7	-.5	-.4	-4.3	-.7	-2.9	-2.3
Residential structures	-4.1	2.9	2.0	.4	.4	-.6	-.9	-.7	-.5	-.2	6.2	-10.0	2.3	-2.3
Change in business inventories	2.1	2.2	-28.6	7.9	6.6	2.0	2.1	1.6	.5	.1	-38.3	5.1	-12.1	4.3
Nonfarm	-4.2	8.1	-25.8	7.6	6.7	2.2	1.7	1.7	.0	.0	-23.7	-8.5	-9.3	3.4
Farm	6.5	-6.0	-2.8	.3	-.1	-.2	.4	-.1	.5	.1	-14.6	13.6	-2.8	.9
Net exports	-12.4	3.8	11.0	-8.8	.9	3.3	4.7	7.4	8.3	9.4	36.0	14.0	6.4	29.7
Exports	2.3	3.4	18.7	-.1	10.3	12.4	13.3	16.1	17.2	17.2	67.3	41.8	41.3	63.8
Imports	14.7	-.4	7.8	8.6	9.4	9.1	8.6	8.7	8.9	7.9	31.3	27.8	34.9	34.1
Government purchases	-4.3	4.5	1.6	.5	-1.3	1.5	1.5	.7	.7	.9	14.3	4.1	2.2	3.7
Federal	-7.0	1.2	-.6	-1.8	-3.3	-.7	-.7	-1.5	-1.5	-1.1	-1.0	-6.1	-6.5	-4.9
Defense	4.6	-7.2	-4.4	-3.2	-2.5	-1.9	-1.9	-1.9	-1.8	-1.6	-5.1	-8.4	-12.0	-7.2
Nondefense	-11.7	8.5	3.8	1.4	-.8	1.2	1.2	.4	.3	.5	4.1	2.3	5.5	2.3
State and local	2.7	3.3	2.2	2.3	2.0	2.2	2.2	2.2	2.2	2.0	15.3	10.2	8.7	8.6

December 13, 1989

FEDERAL SECTOR ACCOUNTS<sup>1</sup>  
(Billions of dollars)

	Fiscal years				1989				1990				1991			
	1988a	1989a	1990	1991	Ia	IIa	IIIa	IV	I	II	III	IV	I	II	III	IV
<b>BUDGET</b>					Not seasonally adjusted											
Budget receipts <sup>2</sup>	908	991	1056	1129	219	308	242	228	241	324	263	249	260	339	281	266
Budget outlays <sup>2</sup>	1063	1143	1186	1243	280	285	288	303	298	297	289	316	306	312	308	321
Surplus/deficit (-) to be financed <sup>2</sup>	-155	-152	-130	-114	-61	23	-46	-75	-56	27	-26	-68	-46	27	-27	-55
(On-budget)	-194	-204	-193	-183	-77	0	-54	-82	-75	4	-40	-77	-66	3	-43	-65
(Off-budget)	39	52	63	69	16	23	7	7	19	23	14	10	20	24	15	9
<b>Means of financing:</b>																
Borrowing	162	140	125	111	38	10	39	64	37	9	15	64	23	6	19	49
Cash decrease	-8	3	6	0	19	-29	3	22	8	-29	5	10	10	-25	5	10
Other <sup>3</sup>	1	8	-1	3	4	-4	5	-11	11	-8	6	-6	13	-8	3	-3
Cash operating balance, end of period	44	41	35	35	15	44	41	19	11	40	35	25	15	40	35	25
<b>NIPA FEDERAL SECTOR</b>					Seasonally adjusted annual rates											
Receipts	958	1032	1100	1185	1036	1053	1043	1056	1096	1114	1134	1152	1178	1197	1215	1235
Expenditures	1103	1184	1240	1295	1184	1199	1191	1216	1241	1251	1254	1270	1295	1305	1311	1325
Purchases	377	404	413	423	399	406	403	408	415	416	414	415	425	426	427	427
Defense	297	302	301	302	299	301	308	302	303	301	299	299	304	303	303	302
Nondefense	80	102	112	121	100	105	95	107	112	115	114	116	122	123	124	125
Other expend.	726	780	827	872	785	793	787	808	826	835	840	855	870	878	884	898
Surplus/deficit	-145	-152	-141	-109	-148	-145	-148	-160	-145	-137	-120	-118	-117	-108	-96	-89
<b>FISCAL INDICATORS<sup>4</sup></b>																
High-employment (HEB) surplus/deficit (-)	-150	-168	-141	-88	-165	-162	-165	-169	-150	-134	-112	-103	-97	-84	-69	-61
Change in HEB, percent of potential GNP	.3	.4	-.5	-1.0	-.3	-.1	.0	.1	-.4	-.3	-.4	-.2	-.1	-.2	-.3	-.1
Fiscal impetus measure (FI), percent	.2 *	-3.5 *	-7.7 *	-3.7 *	-2.7	-.2	.6	-3.0	-4.3	-.6	-1.2	-1.8	-1.2	-.3	-.4	-.3

a--actual

\*--calendar year

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

- Staff projections. The FY90 and FY91 deficits in OMB's Mid-Session Review of the Budget (July) are \$99 billion and \$85 billion, respectively. These estimates incorporate approximately \$29 billion and \$37 billion of cuts from the Gramm-Rudman-Hollings baseline in FY1990 and FY1991, respectively. The FY90 and FY91 baseline deficits in CBO's Economic and Budget Outlook: An Update (August) are \$141 billion and \$144 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.
- Other means of financing are checks issued less checks paid, accrued items; and changes in other financial assets and liabilities, including Post Office surplus/deficit in FY90 and FY91.
- 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.



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

	ANNUAL			1989		1990				1991			
	1989-P	1990-P	1991-P	Q3	Q4-P	Q1	Q2-P	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
<b>1. GNP Exports and Imports 1/</b>													
Current \$, Net	-52.8	-43.9	-33.5	-53.5	-53.1	-38.7	-46.4	-46.3	-44.1	-41.6	-37.0	-31.3	-24.2
Exports of G+S	620.4	662.2	739.0	623.3	626.5	647.9	650.9	665.9	683.9	703.7	726.5	750.7	775.0
Imports of G+S	673.1	706.0	772.5	676.8	679.5	686.6	697.3	712.2	728.0	745.3	763.5	782.0	799.2
Constant 82 \$, Net	-57.4	-54.1	-36.7	-63.6	-59.8	-48.8	-57.6	-56.6	-53.4	-48.7	-41.3	-33.0	-23.7
Exports of G+S	585.1	620.1	672.8	589.8	593.2	611.9	611.8	622.1	634.5	647.8	663.9	681.1	698.3
Imports of G+S	642.4	674.2	709.5	653.4	653.0	660.8	669.4	678.8	687.9	696.5	705.2	714.1	722.0
<b>2. Merchandise Trade Balance 2/</b>	-111.4	-106.2	-105.5	-111.0	-110.7	-98.1	-107.8	-109.6	-109.5	-109.9	-108.1	-104.4	-99.5
Exports	363.7	391.7	436.1	366.3	371.0	386.1	384.1	393.0	403.7	414.6	428.1	443.0	458.6
Agricultural	41.6	42.3	45.8	39.1	40.6	41.2	41.9	42.6	43.5	44.3	45.3	46.3	47.3
Non-Agricultural	322.1	349.4	390.3	327.2	330.4	344.9	342.3	350.4	360.2	370.4	382.8	396.7	411.4
Imports	475.0	498.0	541.6	477.3	481.8	484.2	492.0	502.6	513.1	524.5	536.2	547.4	558.1
Petroleum and Products	50.6	52.0	55.6	53.2	52.1	51.8	51.4	52.0	52.6	53.8	55.0	56.2	57.4
Non-Petroleum	424.4	446.0	486.0	424.1	429.6	432.3	440.6	450.5	460.5	470.7	481.2	491.2	500.7
<b>3. Other Current Account Transactions</b>													
Capital Gains and Losses 3/	-7.8	1.5	1.0	-0.2 <sup>P</sup>	1.6	2.5	1.1	1.1	1.1	1.1	1.0	1.0	1.0
Other D.I. Income, Net	36.3	37.9	42.6	36.3 <sup>P</sup>	36.8	36.8	37.2	38.2	39.4	41.0	42.3	43.1	43.9
Portfolio Income, Net	-37.2	-45.4	-51.0	-38.2 <sup>P</sup>	-41.5	-43.4	-44.7	-46.1	-47.4	-48.7	-50.1	-51.8	-53.6
Other Current Account, Net	4.9	10.0	14.1	6.3 <sup>P</sup>	4.9	9.1	10.5	11.3	9.1	13.0	14.2	15.4	13.8
<b>4. U.S. Current Account Balance</b>													
Including Capital G/L	-115.1	-102.2	-98.8	-106.7 <sup>P</sup>	-109.0	-93.1	-103.7	-104.9	-107.3	-103.4	-100.6	-96.7	-94.4
Excluding Capital G/L	-107.3	-103.7	-99.8	-106.6 <sup>P</sup>	-110.6	-95.6	-104.8	-106.1	-108.4	-104.5	-101.6	-97.7	-95.4
<b>5. Foreign Outlook 4/</b>													
Real GNP--Ten Industrial 5/	3.5	3.0	2.8	3.4	3.6	3.1	2.9	2.7	2.9	2.6	2.8	2.9	2.9
Real GNP--LDC 6/	2.9	3.9	4.0	3.2	3.8	4.3	4.3	4.0	3.8	3.7	4.0	4.4	4.8
Consumer Prices--Ten Ind. 5/	4.1	3.7	3.7	2.4	4.6	2.9	4.7	3.1	3.3	3.6	4.4	3.6	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

December 13, 1989

## **RECENT DEVELOPMENTS**

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Prepared for the Federal Open Market Committee

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

CHANGES IN THE DEFICIT RESULTING FROM THE FY90 RECONCILIATION BILL, 1990-94  
(Billions of dollars)

	Fiscal year				
	1990	1991	1992	1993	1994
	----- change in deficit -----				
Outlays	-11.1	-5.7	-7.2	-6.6	-6.4
130-day sequester	-4.6	-4.7	-4.8	-5.0	-5.3
Other outlays	-6.5	-1.0	-2.4	-1.6	-1.1
Permanent reductions	-1.9	-2.3	-2.4	-2.3	-2.2
One-time reductions	-2.0	0.5	0.1	0.0	0.0
User fees	-0.2	-0.0	-0.0	0.0	0.0
Off-budget items and					
Postal Service reform	-2.6	-0.0	-1.3	-0.0	-0.4
New spending	0.2	0.6	0.8	0.3	0.3
Revenues	-6.1	-4.8	-4.7	-6.3	-7.9
Debt service	-0.6	-1.8	-2.8	-3.9	-5.2
Total	-17.8	-12.2	-14.6	-16.7	-19.5

The extension of the sequester lowers outlays \$4.6 billion, which will reduce new budget authority in defense programs 1.4 percent and in unprotected nondefense programs 1.5 percent. Few other provisions generate permanent reductions in outlays; the major exception is the \$2.2 billion cut in Medicare payments. Among the essentially one-time savings in the bill are the extension of certain lump-sum civil service retirement benefit rules (\$0.7 billion), reductions in farm payments (\$0.6 billion), and increases in user fees (\$0.2 billion).

On the receipts side, the major revenue producers in the reconciliation bill are the temporary extension of certain excise taxes (\$1.4 billion) and a speedup of the collection of payroll taxes (\$2.7 billion). Accounting gimmicks include the shift of the Postal Service to off-budget status to reduce recorded outlays by \$1.8 billion, an increase in payments from the

TREASURY AND AGENCY FINANCING<sup>1</sup>  
(Total for period; billions of dollars)

	1989					
	Q2	Q3	Q4 <sup>p</sup>	Oct.	Nov. <sup>e</sup>	Dec. <sup>p</sup>
<u>Treasury financing</u>						
Total surplus/deficit (-)	22.9	-46.5	-74.9	-26.1	-26.2	-22.6
Means of financing deficit:						
Net cash borrowing from the public	10.1	38.6	64.0	36.7	20.6	6.7
Marketable borrowings/ repayments (-)	5.4	33.4	53.3	28.8	18.7	5.8
Bills	-20.0	9.5	24.5	21.4	5.7	-2.6
Coupons	25.3	23.9	28.8	7.4	13.0	8.3
Nonmarketable <sup>2</sup>	4.7	5.2	10.6	7.8	1.9	.9
Decrease in the cash balance	-29.1	2.8	21.6	-2.5	21.7	2.4
Memo: Cash balance at end of period	43.7	41.0	19.3	43.5	21.7	19.3
Other <sup>3</sup>	-3.9	5.1	-10.7	-8.1	-16.2	13.5
<u>Federally sponsored credit agencies, net cash borrowing<sup>4</sup></u>						
	9.4	1.6	--	--	--	--
FHLBs	3.9	-10.3	--	-2.7	-2.6	--
FHLMC	1.9	1.5	--	-1.6	--	--
FNMA	1.6	5.2	--	.3	--	--
Farm Credit Banks	0.3	1.7	--	.0	--	--
FAC	0.2	.0	.0	.0	.0	.0
SLMA	0.5	2.9	--	--	--	--
FICO	1.1	0.7	.0	.0	.0	.0
REFCORP	--	--	4.5	4.5	.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 \$4.5 billion zero coupon bond issued by the Treasury to REFCORP in October. The discount 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--staff estimate.

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