

Colby Economic Outlook

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The CEO Returns!

After a one-year absence, the *Colby Economic Outlook* returns with short-term projections for the U.S. economy. Each year, during the Fall semester, students in the senior seminar in economic forecasting at Colby College study methods for data analysis and forecasting and contribute to the maintenance and update of the Colby Quarterly Econometric Model of the U.S. economy under the direction of Michael Donihue, Assistant Professor of Economics.

In this issue of the *CEO* we examine a national economy struggling to grow in the face of tight monetary and fiscal policies and consumers increasingly concerned about future job prospects and credit obligations. The budget train wreck in Washington has turned into a game of chicken with neither side willing to give ground for fear of losing political advantage. The resulting inability of members of Congress and the Administration to act responsibly in hammering out a budget agreement has led not only to increased uncertainty in domestic financial markets, but has begun to undermine the credibility of our economic policies abroad.

Shadows in Our Crystal Ball

The current economic expansion is now 57 months old. Ignoring empirical evidence to the contrary, some analysts believe that the expansion is due to run out of steam simply because it has lasted so long. But despite the headwinds of uncertainty among consumers

and investors, and the budget mess in Washington, our baseline projection for the next eight quarters is for a continuation of economic growth, albeit at a somewhat slower pace.

Trying to predict the future during times of increased uncertainty is always a difficult task for forecasters. Trying to make forecasts without data is just about impossible. The shutdown of the Federal government has disrupted the flow of economic data and has made producing this year's edition of the *CEO* difficult to say the least. Adding to this difficulty is the forthcoming rebenchmarking of the National Income and Product Accounts which will redefine the way we measure aggregate economic activity in this country--essentially rewriting history as we now know it. As a result, our forecasts for real GDP and its components are based in units which will be substantially different from those reported in the popular press early next year. Although the numbers may differ, we believe the underlying story will be the same.

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The Fed Keeps the Economy on Course

Preliminary estimates put real GDP growth for the third quarter of 1995 at 4.2%. Given the current state of affairs in Washington, its unclear when these estimates will be revised and reported on the new basis. Our view of the next two years, however, is that one more cut in short-term interest rates this month by the Federal Reserve will enable the economy to maintain a course at, or near, its so-called "potential" rate of growth through 1997.

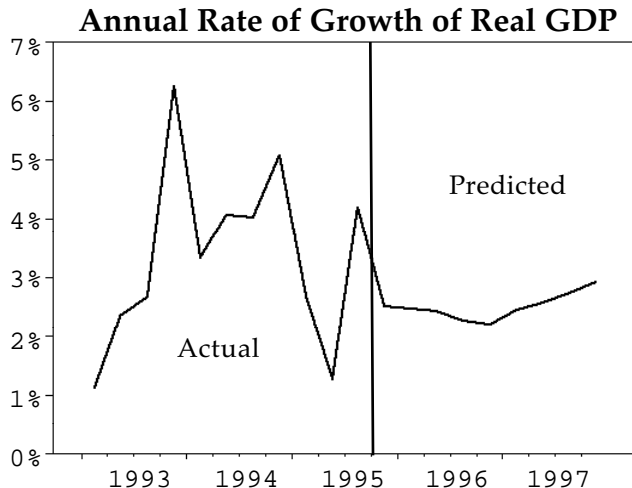
Our forecast is for real GDP (measured in 1987 dollars) to grow at an annual rate of 2.5% in the current quarter, ending the year with 3.3% more real output than in 1994. Growth is forecast to slow somewhat next year as consumer spending rises by 2.5% and investment accounts for less than 1% of what will amount to 2.6% real GDP growth in 1996. In the final year of the forecast horizon, we predict that real GDP will grow by 2.5%.

Net exports will contribute positively to growth in both 1996 and 1997 according to our projections as the trade deficit shrinks from \$123 billion this year (1987 dollars) to \$114 billion in 1996 and \$107 billion in 1997.

The bond markets responded favorably to the budget initiatives put in place by Congress and the newly-elected Clinton Administration in 1993, and recent efforts to forge a compromise plan to balance the Federal budget by the end of the century appear to have had an impact in lowering interest rates during 1995. Since the beginning of the year, mortgage interest rates have fallen by nearly half a percentage point. Lower interest rates should help offset the negative impacts of a

reduction in consumer confidence and tight fiscal policies. We predict that residential fixed investment will recover in 1996, increasing by 4.2%. Lower interest rates will also help support our forecast of a 5.2% increase in inflation-adjusted expenditures on consumer durables for 1996.

We predict that this year consumer prices will once again rise by less than 3%, continuing the remarkable story of sustained economic growth without an increase in inflation. With workers virtually powerless to make demands for higher wages stick and a projection for slower economic growth next year, consumer prices are forecast to rise by just 2.3% in 1996 and



Contributions To Real GDP Growth			
	1995	1996	1997
Gross Domestic Product	3.30%	2.59%	2.49%
Consumer Expenditures	2.00%	1.70%	1.49%
Durable Goods	0.59%	0.53%	0.31%
Nondurable Goods	0.45%	0.31%	0.33%
Services	0.96%	0.86%	0.86%
Investment	1.54%	0.84%	0.87%
Fixed Investment	1.79%	1.16%	0.88%
Nonresidential	1.82%	0.99%	0.91%
Residential	-0.04%	0.17%	-0.03%
Chg. in Bus. Inventories	-0.25%	-0.33%	-0.01%
Government Purchases	0.01%	-0.12%	0.01%
Net Exports	-0.25%	0.18%	0.11%
Exports	1.32%	1.10%	1.02%
Imports	1.57%	0.93%	0.91%

2.5% in 1997.



We predict that the Federal Reserve will reduce its target rate on federal funds by 25 basis points at this month's FOMC meeting in response to recent reports of softening in retail sales, the absence of inflationary pressures, and in anticipation of an eventual deal to balance the Federal budget. Short-term interest rates are forecast to remain roughly constant throughout 1996. Long-term rates are forecast to show modest declines during the next 2 years.

The exchange value of the dollar is forecast to appreciate over the entire forecast horizon. This, in addition to forecasted increases in income in this country account for our prediction that real imports will grow by 6% next year. Real exports are forecast to grow at a stronger 8.3% rate in 1996.

Employment growth is forecast to slow somewhat during 1996, increasing by just 1%. However, the unemployment rate is forecast to remain at about 5.6% throughout the forecast horizon.

Total productivity is forecast to grow at about 2% in 1996 and slightly slower in 1997.

Forecast Accuracy: 1993 & 1994

Performing evaluations of past forecast accuracy is a crucial step in the process of constantly improving and fine tuning the model used to generate the forecasts. Errors from the December 1993 *CEO* were influenced largely by unexpected growth in nonresidential investment and imports, as shown in the accompanying table.

Forecasts of interest rates, both 3 Month T-bills and Aaa corporate bond rates, were so accurate for 1993 because all but the last 2 months of data were known at the time the forecasts were made. Interest rates rose much more rapidly, and unemployment stayed lower, than we anticipated for 1994.

We did not anticipate the sharp drop in the value of the dollar which occurred in 1994, and consumers were substantially more optimistic than originally projected.

Forecasts of money supply, the exchange value of the dollar,

and unemployment were all quite accurate throughout the four quarter horizon.

Forecast Errors		
For the December 1993 <i>Colby Economic Outlook</i>		
(Actual - Predicted Rates of Growth)		
	1993	1994
Real GDP	0.3	0.8
Personal Consumption Exp.	0.0	1.3
Durable Goods	1.8	5.1
Nondurable Goods	-0.4	0.0
Services	-0.2	-0.7
Gross Domestic Investment	2.3	5.3
Nonresidential	1.5	6.6
Residential	1.0	3.4
Government Purchases	-0.1	-2.0
Exports	1.6	5.0
Imports	1.4	10.1
Disposable Income	-0.2	0.4
CPI Inflation	0.0	-0.4
(Actual - Predicted Percentage Points)		
Civilian. Unemployment Rate	0.0	-0.2
3 Month T-Bill Rate	0.0	0.8
Aaa Corporate Bond Rate	0.0	0.9
(Actual - Predicted Percentage Error)		
Exchange Value of the \$	0.0	-5.7
Consumer Sentiment Index	0.6	6.2
Money Supply: M2	0.8	0.4

The *Colby Economic Outlook* is a product of the senior seminar in economic forecasting offered by the Department of Economics at Colby College under the direction of Professor Michael Donihue. The conclusions expressed in this newsletter represent the views of the authors and do not necessarily represent the opinions or recommendations of the faculty and staff at Colby College.

COLBY ECONOMIC OUTLOOK FOR THE U.S. ECONOMY, 1995:Q4 - 1997:Q4

15-Dec-95

Variable	Units	Actual Forecast												Percent Change		
		95:Q3	95:Q4	96:Q1	96:Q2	96:Q3	96:Q4	97:Q1	97:Q2	97:Q3	97:Q4	94-95	95-96	96-97		
Gross Domestic Product	(Bill '87 \$'s)	5544.5	5579.4	5613.8	5648.0	5680.1	5711.5	5746.6	5783.4	5822.8	5865.2	3.3%	2.6%	2.5%		
Annual Rate of Growth		4.2%	2.5%	2.5%	2.5%	2.3%	2.2%	2.5%	2.6%	2.8%	2.9%					
Personal Consumption Expenditures	(Bill '87 \$'s)	3701.1	3726.2	3748.7	3770.5	3791.0	3810.3	3831.1	3852.8	3875.5	3899.1	3.0%	2.5%	2.2%		
Durable Goods	(Bill '87 \$'s)	570.4	578.8	585.8	591.4	595.7	598.6	602.7	607.4	612.9	618.7	5.9%	5.2%	3.0%		
Non-durable Goods	(Bill '87 \$'s)	1133.7	1139.5	1143.8	1148.5	1153.0	1157.5	1162.1	1166.7	1171.5	1176.3	2.2%	1.5%	1.6%		
Services	(Bill '87 \$'s)	1997.0	2008.0	2019.1	2030.6	2042.3	2054.2	2066.3	2078.6	2091.2	2104.0	2.6%	2.4%	2.4%		
Gross Private Domestic Investment	(Bill '87 \$'s)	1041.3	1050.7	1063.0	1074.9	1085.9	1096.3	1108.1	1121.0	1135.7	1152.9	8.6%	4.5%	4.6%		
Fixed Investment	(Bill '87 \$'s)	1006.0	1032.9	1045.8	1058.2	1069.5	1080.2	1092.2	1105.2	1119.8	1136.9	10.6%	6.4%	4.7%		
Nonresidential	(Bill '87 \$'s)	779.0	793.3	806.3	818.7	830.8	842.5	855.0	868.0	882.6	899.0	14.5%	7.1%	6.3%		
Residential	(Bill '87 \$'s)	227.0	239.6	239.5	239.5	238.7	237.7	237.2	237.1	237.2	237.9	-0.9%	4.2%	-0.6%		
Change in Business Inventories	(Bill '87 \$'s)	35.3	17.7	17.2	16.7	16.4	16.1	15.9	15.8	15.9	16.0	-28%	-52%	-4%		
Government Purchases of Goods & Services	(Bill '87 \$'s)	928.0	924.0	919.9	917.2	915.1	914.6	915.4	916.6	918.0	919.8	0.1%	-0.7%	0.1%		
Net Exports of Good & Services	(Bill '87 \$'s)	-125.9	-121.5	-117.7	-114.5	-111.9	-109.7	-108.0	-106.9	-106.5	-106.6	12%	-7.9%	-5.7%		
Exports of Goods & Services	(Bill '87 \$'s)	735.9	751.3	766.4	781.2	795.9	810.5	825.0	839.3	853.5	867.6	10.8%	8.3%	7.3%		
Imports of Goods & Services	(Bill '87 \$'s)	861.8	872.9	884.1	895.8	907.8	920.2	933.0	946.3	960.0	974.2	10.9%	6.0%	5.7%		
Gross Domestic Product	(Bill \$'s)	7113.3	7200.1	7280.5	7360.9	7443.0	7524.7	7611.6	7701.3	7794.3	7891.0	5.1%	4.5%	4.7%		
Personal Consumption Expenditures	(Bill \$'s)	4898.1	4959.3	5021.6	5084.5	5146.1	5206.8	5270.0	5334.7	5401.3	5469.4	5.3%	5.0%	5.0%		
Durable Goods	(Bill \$'s)	632.4	643.3	652.6	660.2	666.7	671.8	678.2	685.2	693.2	701.5	6.1%	5.6%	4.0%		
Non-durable Goods	(Bill \$'s)	1449.1	1462.9	1476.8	1491.9	1506.1	1520.8	1536.1	1551.7	1567.8	1584.2	3.8%	3.5%	4.1%		
Services	(Bill \$'s)	2816.6	2853.0	2892.2	2932.5	2973.2	3014.2	3055.7	3097.7	3140.4	3183.7	5.8%	5.6%	5.6%		
Gross Private Domestic Investment	(Bill \$'s)	1113.4	1121.6	1132.5	1143.1	1152.7	1161.8	1172.6	1184.5	1198.2	1214.3	7.4%	3.5%	3.9%		
Fixed Investment	(Bill \$'s)	1074.5	1101.2	1112.8	1123.9	1133.8	1143.3	1154.2	1166.1	1179.8	1195.7	9.3%	5.3%	4.0%		
Nonresidential	(Bill \$'s)	788.0	796.8	806.5	815.5	824.4	833.0	842.4	852.3	863.7	876.5	12.2%	4.8%	4.7%		
Residential	(Bill \$'s)	286.5	304.4	306.3	308.4	309.4	310.3	311.8	313.8	316.1	319.2	2.1%	6.8%	2.1%		
Change in Business Inventories	(Bill \$'s)	38.9	20.3	19.7	19.2	18.8	18.5	18.4	18.3	18.4	18.6	-28%	-49%	-3%		
Government Purchases of Goods & Services	(Bill \$'s)	1220.1	1223.0	1223.3	1224.0	1226.8	1230.8	1236.4	1242.8	1249.3	1256.1	3.2%	1.1%	1.6%		
Net Exports of Good & Services	(Bill \$'s)	-118.3	-103.8	-96.9	-90.7	-82.6	-74.8	-67.5	-60.7	-54.5	-48.9	17%	-25%	-33%		
Exports of Goods & Services	(Bill \$'s)	802.0	821.5	841.5	862.6	883.6	904.7	925.7	946.7	967.6	988.5	11.3%	9.1%	9.6%		
Imports of Goods & Services	(Bill \$'s)	920.3	925.2	938.4	953.3	966.2	979.5	993.2	1007.4	1022.1	1037.4	11.9%	4.9%	5.8%		

(a) Exogenously Determined

COLBY ECONOMIC OUTLOOK FOR THE U.S. ECONOMY, 1995:Q4 - 1997:Q4

15-Dec-95

Variable	Units	Actual Forecast												Percent Change		
		95:Q3	95:Q4	96:Q1	96:Q2	96:Q3	96:Q4	97:Q1	97:Q2	97:Q3	97:Q4	94-95	95-96	96-97		
Inflation: GDP Deflator	(%/A.R.)	14.59	2.37	2.01	1.98	2.19	2.19	2.16	2.15	2.11	2.05	1.7%	1.9%	2.1%		
Consumer Price Index	(%/A.R.)	2.03	2.12	2.23	2.34	2.42	2.50	2.55	2.59	2.63	2.65	2.8%	2.3%	2.5%		
Personal Consumption Deflator	(%/A.R.)	0.91	2.41	2.63	2.69	2.68	2.71	2.68	2.66	2.64	2.62	2.2%	2.4%	2.7%		
Consumer Durables Deflator	(%/A.R.)	-3.18	0.89	0.89	0.86	1.06	1.07	1.05	1.03	1.02	1.00	0.2%	0.3%	1.0%		
Nondurable Consumption Deflator	(%/A.R.)	0.63	1.85	2.31	2.43	2.27	2.35	2.43	2.49	2.52	2.55	1.6%	2.0%	2.4%		
Consumer Services Deflator	(%/A.R.)	2.30	3.11	3.30	3.31	3.27	3.22	3.17	3.13	3.10	3.07	3.1%	3.1%	3.2%		
Medical Care Services Deflator	(%/A.R.)	2.12	3.12	3.53	3.67	3.71	3.68	3.64	3.59	3.53	3.47	3.7%	3.3%	3.6%		
CPI for Medical Care	(%/A.R.)	4.01	4.02	4.00	3.97	3.95	3.93	3.91	3.89	3.87	3.86	4.5%	3.9%	3.9%		
Nonfarm Business GDP Deflator	(%/A.R.)	0.00	1.18	1.21	1.09	1.41	1.47	1.53	1.45	1.51	1.31	1.3%	1.1%	1.4%		
Retail Gasoline Prices (All Types)	(\$/Gal.)	1.23	1.22	1.23	1.24	1.23	1.23	1.23	1.24	1.25	1.26	3.7%	1.2%	1.0%		
Business Inventories	(Bill '87 \$s)	1081.7	1099.4	1116.6	1133.3	1149.6	1165.7	1181.6	1197.5	1213.4	1229.4	4.7%	5.7%	5.6%		
Real Disposable Income	(Bill '87 \$s)	3981.2	4009.9	4031.6	4059.2	4083.2	4107.1	4132.6	4158.9	4186.5	4215.3	3.5%	2.5%	2.5%		
Average Home Mortgage Rate	(%)	7.74	7.73	7.71	7.71	7.72	7.74	7.73	7.71	7.70	7.70	5.7%	-2.2%	-0.1%		
Aaa Corporate Bond Rate	(%)	7.43	7.08	7.03	6.96	6.93	6.82	6.75	6.71	6.72	6.71	-4.4%	-8.9%	-3.0%		
New Privately-Owned Housing Units Started	(Millions)	1.40	1.36	1.42	1.43	1.43	1.43	1.44	1.45	1.46	1.47	-7.4%	6.7%	1.9%		
30 Year Treasury Bond Rate	(%)	6.71	6.36	6.34	6.30	6.30	6.20	6.15	6.13	6.16	6.16	-6.2%	-9.2%	-2.1%		
10 Year Treasury Bond Rate	(%)	6.32	5.96	5.99	5.98	6.01	5.92	5.87	5.86	5.92	5.92	-6.8%	-9.4%	-1.3%		
5 Year Treasury Bond Rate	(%)	6.08	5.71	5.80	5.84	5.93	5.88	5.89	5.93	6.05	6.10	-4.3%	-8.4%	2.3%		
3 Month Treasury Bill Rate	(%)	5.37	5.30	5.30	5.32	5.33	5.34	5.37	5.38	5.41	5.44	29.5%	-3.3%	1.5%		
Effective Rate on Federal Funds	(%)	5.80	5.73	5.64	5.56	5.52	5.50	5.51	5.52	5.56	5.59	39.0%	-4.9%	-0.2%		
Average Foreign Interest Rate	(%)	4.93	4.94	4.95	4.98	5.02	5.06	5.10	5.15	5.19	5.24	0.8%	-1.0%	3.4%		
Trade-Weighted Exchange Value of the U.S. \$	(3/73=100)	84.06	84.72	84.86	85.30	86.03	86.72	87.55	88.55	89.61	90.67	-7.6%	1.6%	3.9%		
Euro-Dollar Deposit Rate	(%)	5.78	5.79	5.81	5.89	5.94	6.01	6.08	6.14	6.21	6.28	28.5%	-0.4%	4.4%		
Money Supply (M2)	(Bill \$s)	3739.5	3800.1	3852.9	3900.8	3944.7	3985.4	4024.4	4062.2	4099.5	4136.7	2.9%	5.7%	4.1%		

(a) Exogenously Determined

COLBY ECONOMIC OUTLOOK FOR THE U.S. ECONOMY, 1995:Q4 - 1997:Q4

15-Dec-95

Variable	Units	Actual Forecast												Percent Change		
		95:Q3	95:Q4	96:Q1	96:Q2	96:Q3	96:Q4	97:Q1	97:Q2	97:Q3	97:Q4	94-95	95-96	96-97		
Index of Consumer Sentiment	(Feb '66=100)	93.2	90.2	91.1	92.3	93.0	92.6	92.7	93.1	93.9	94.1	0.1%	-0.1%	1.3%		
Health Services Expenditures	(Bill '87 \$'s)	490.7	493.2	495.9	498.8	501.6	504.5	507.4	510.3	513.2	516.2	2.3%	2.1%	2.3%		
Total Automobile Sales	(Millions)	9.15	9.22	9.38	9.45	9.51	9.52	9.58	9.65	9.75	9.86	-2.7%	5.3%	2.6%		
Domestic Automobile Sales	(Millions)	7.39	7.41	7.50	7.51	7.50	7.44	7.44	7.44	7.47	7.50	-1.3%	4.2%	-0.3%		
Import Automobile Sales	(Millions)	1.76	1.82	1.88	1.94	2.01	2.07	2.14	2.21	2.28	2.36	-8.0%	9.7%	13.9%		
Civilian Unemployment Rate	(%)	5.63	5.60	5.61	5.59	5.62	5.66	5.69	5.72	5.72	5.70	-7.7%	0.1%	1.5%		
Health Services Employment	(Millions)	9.30	9.37	9.45	9.53	9.62	9.71	9.80	9.89	9.98	10.08	3.0%	3.4%	3.8%		
Total Employment	(Millions)	124.96	125.25	125.53	125.94	126.42	126.94	127.50	128.09	128.72	129.38	1.5%	1.0%	1.8%		
Civilian Labor Force	(Millions)	132.44	132.67	132.99	133.40	133.95	134.56	135.19	135.86	136.53	137.20	1.0%	1.0%	1.8%		
Female Labor Force Participation Rate	(%)	59.07	59.18	59.31	59.42	59.53	59.65	59.76	59.87	59.99	60.11	0.4%	0.8%	0.8%		
Productivity: Nonfarm Output/Hour	(1982=100)	121.30	122.00	122.34	123.08	123.58	124.08	124.62	125.17	125.74	126.33	2.9%	2.0%	1.8%		
Average Hourly Earnings	(\$/hour)	11.50	11.59	11.66	11.73	11.80	11.87	11.94	12.02	12.10	12.18	3.0%	2.7%	2.5%		
Compensation of Employees	(Bill \$'s)	4230.9	4275.3	4317.2	4356.9	4395.1	4432.3	4469.8	4507.7	4546.8	4586.8	5.2%	3.9%	3.5%		
Newspaper Index of Help Wanted Advertising	(1967=100)	128.7	130.9	132.2	134.4	136.4	137.9	139.5	141.2	143.1	145.4	1.6%	4.4%	5.2%		
Stock Prices: Dow Jones Industrial Average	(Index)	4690.7	4976.6	5067.7	5160.5	5255.1	5351.4	5449.4	5549.3	5651.0	5754.6	18.7%	15.7%	7.5%		
The Federal Budget		Forecast												Fiscal Year		
Federal Government Purchases (a)	(Bill \$'s)	434.0	432.0	430.0	424.0	422.0	421.0	425.0	425.5	424.0	421.0	-1.3%	-1.6%	-0.7%		
+ Federal Government Transfer Payments	(Bill \$'s)	722.9	739.0	754.0	768.1	781.7	794.8	807.5	819.8	831.9	843.9	5.2%	6.9%	6.9%		
+ Net Interest Paid	(Bill \$'s)	221.0	221.1	219.5	218.5	217.9	217.6	217.7	218.1	219.1	220.4	14.2%	2.9%	-0.5%		
+ Other Federal Government Expenditures (a)	(Bill \$'s)	234.4	239.5	240.0	238.5	231.5	243.0	244.5	244.0	237.0	244.0	3.9%	0.6%	2.0%		
- Federal Government Receipts	(Bill \$'s)	1481.4	1492.7	1505.1	1519.2	1533.9	1549.2	1565.0	1582.4	1601.1	1620.8	7.1%	4.2%	4.1%		
= Federal Government Budget Deficit	(Bill \$'s)	130.9	138.8	138.4	129.9	119.2	127.2	129.6	125.0	110.9	108.4	-18%	-192%	-6.4%		

(a) Exogenously Determined

Input Assumptions: Endogenous Variables with Nonzero Intercept Adjustments

	95:Q4	96:Q1	96:Q2	96:Q3	96:Q4	97:Q1	97:Q2	97:Q3	97:Q4
Personal Consumption Exp. - Durable Goods	(Bill '87 \$'s)	8	6	4	2	0	0	0	0
Personal Consumption Exp. - Medical Services	(b)	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Personal Consumption - Nonmedical Services	(Bill '87 \$'s)	-3	-3	-3	-3	-3	-3	-3	-3
Index of Consumer Sentiment	(Feb '66=100)	-6	0	0	0	0	0	0	0
Domestic Automobile Sales	(c)	0.006	0.006	0.01	0.01	0.01	0.01	0.01	0.01
Retail Gasoline Prices (All Types)	(¢/Gal.)	0	0	-0.5	-1	-1	-1	-1	-1
Nonresidential Fixed Investment	(b)	-5	-4	-4	-3	-3	-2	-1	0
Residential Fixed Investment	(Bill '87 \$'s)	10	0	0	0	0	0	0	0
New Privately-Owned Housing Units Started	(Millions)	-0.1	0.06	0.02	0.02	0.02	0.02	0.02	0.02
Business Inventories	(Bill '87 \$'s)	10	5	5	5	5	5	5	5
Stock Prices: Dow Jones Industrial Average	(Index)	200	0	0	0	0	0	0	0
Average Home Mortgage Rate	(%)	-0.1	-0.05	-0.03	-0.01	0	0	0	0
Aaa Corporate Bond Rate	(%)	-0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
10 Year Treasury Bond Rate	(%)	0.02	0.02	0.01	0.01	0	0	0	0
5 Year Treasury Bond Rate	(%)	-0.02	0.1	0.08	0.08	0.08	0.08	0.08	0.08
3 Month Treasury Bill Rate	(%)	-0.14	0	0	0	0	0	0	0
Effective Rate on Federal Funds	(%)	0.16	0.14	0.15	0.18	0.2	0.2	0.2	0.2
Government Purchases of Goods & Services	(Bill '87 \$'s)	-10	-8	-7	-7	-6	-5	-5	-5
Federal Government Transfer Payments	(Bill \$'s)	10	10	10	10	10	10	10	10
Net Interest Paid	(Bill \$'s)	-3	-5	-5	-5	-5	-5	-5	-5
Federal Government Receipts	(Bill \$'s)	5	4	3	2	1	0	0	0
Civilian Unemployment Rate	(%)	0	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Total Employment	(Millions)	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Implicit Price Deflator: Exports	(c)	-0.005	-0.004	-0.003	-0.003	-0.003	-0.003	-0.003	-0.003
Exports of Goods & Services	(b)	4	4	4	4	4	4	4	4

(b) The forecasting equation for this variable was estimated in terms of the first differences.

(c) The forecasting equation for this variable was estimated in terms of the natural logarithm.

(a) Exogenously Determined

Input Assumptions: Forecast Paths for the Exogenous Variables in the Colby Model

Variable	Units	Actual Forecast												Percent Change			
		95:Q3	95:Q4	96:Q1	96:Q2	96:Q3	96:Q4	97:Q1	97:Q2	97:Q3	97:Q4	94-95	95-96	96-97			
Discount Rate	(%)	5.3	5.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	44.6%	-3.8%	0.0%	
Rest of World Federal Govt. Expenditures	(Bill \$'s)	12.7	21.0	10.0	11.0	14.0	19.0	12.0	10.0	11.5	19.0	19.0	19.0	-6.9%	-8.5%	-2.8%	
Rest of World Transfer Payments	(Bill \$'s)	11.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.1%	24.7%	0.0%	
Rest of World Factor Income Payments	(Bill \$'s)	237.1	244.9	250.8	257.9	264.3	271.4	278.4	285.8	293.3	301.1	301.1	301.1	30.5%	12.0%	10.9%	
Industrial Production: Canada	(1987=100)	114.2	114.7	115.2	115.6	116.1	116.5	116.9	117.4	117.8	118.2	118.2	118.2	4.2%	1.5%	1.5%	
Industrial Production: Japan	(1987=100)	114.9	113.8	113.2	113.0	113.0	113.2	113.5	113.8	114.2	114.6	114.6	114.6	2.5%	-2.2%	0.8%	
Industrial Production: US Manufacturing	(1987=100)	124.3	125.1	125.9	126.7	127.5	128.3	129.1	129.9	130.7	131.5	131.5	131.5	3.7%	2.4%	2.5%	
Industrial Production: OECD, Europe	(1987=100)	116.0	116.5	116.9	117.2	117.5	117.9	118.2	118.5	118.8	119.1	119.1	119.1	3.6%	1.8%	1.0%	
Capacity Utilization Rate: Total Industry	(%)	83.65	83.56	82.926	82.38	82.058	81.731	81.437	81.279	81.218	81.212	81.212	81.212	0.0%	-2.0%	-1.2%	
Capacity Utilization Rate: Manufacturing	(%)	82.67	82.62	82.35	82.14	82.04	81.99	81.97	81.98	82.005	82.041	82.041	82.041	-0.2%	-1.2%	-0.2%	
Avg. Refiners' Price of Crude Oil	(\$'s/Barrel)	16.78	15.25	15.50	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	8.3%	-5.6%	0.8%	
Rest of World Export Prices	(Index)	87.13	87.57	86.97	86.85	87.10	87.20	87.30	87.49	87.68	87.86	87.86	87.86	-7.6%	-1.3%	0.6%	

(a) Exogenously Determined