

## **Part 1**

December 11, 1997

---

## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

---

### **Summary and Outlook**

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

Strictly Confidential (FR) Class II FOMC

---

December 11, 1997

## **SUMMARY AND OUTLOOK**

---

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

weak, and despite solid uptrends in orders, the increase in spending on producers' durable equipment should slow in the current quarter. Similarly, an October decline in construction put-in-place points to a fourth-quarter dropoff in real business outlays for nonresidential structures. Overall, real BFI is expected to increase at an annual rate of about 7-1/2 percent this quarter.

**Summary of the Near-Term Outlook**  
(Percent change at annual rate except as noted)

Measure	1997:Q3			1997:Q4	
	Nov. GB	BEA prelim.	Dec. GB	Nov. GB	Dec. GB
<b>Real GDP</b>	<b>3.5</b>	<b>3.3</b>	<b>3.4</b>	<b>3.5</b>	<b>3.9</b>
Private domestic final purchases	6.9	7.2	7.1	3.7	4.2
Personal consumption expenditures	5.7	5.8	5.7	3.0	3.5
Residential investment	1.9	3.7	3.8	5.2	8.4
Business fixed investment	16.8	18.1	17.4	8.0	7.5
Government outlays for consumption and investment	1.0	1.1	1.2	.8	1.1
Change, billions of chained (1992) dollars					
Inventory investment	-22.2	-28.1	-25.8	-2.3	11.6
Net exports	-23.8	-26.3	-25.3	5.6	-9.6

Both single-family and multifamily starts came in higher in October than we had anticipated. Although the key single-family component dropped back from the elevated September level, the decline was surprisingly moderate--and permits actually rose. Meanwhile, indicators of single-family housing demand remain impressively robust, including a high volume of applications to finance home purchases, upbeat ratings of new home sales by builders, and very positive consumer attitudes toward home-buying conditions. In this light, we have revised up our projection of housing activity in the fourth quarter, and we anticipate that residential construction expenditures will increase at an 8-1/2 percent annual rate.

Among other components of final demand, net exports are expected to fall \$9-1/2 billion in the fourth quarter; the lesser decline than that registered in the third quarter reflects, in important part, the residual seasonality in this component of GDP. Given the sizable gain in industrial production that appears to be under way (we are predicting that factory output will be up around 6 percent, annual rate), we expect a

last Greenbook, edging up two tenths from its current level by the end of 1998 before rising to about 5-1/4 percent by the end of the forecast period. The tightness of the labor market points to continuing upward pressure on real compensation, but recent and prospective favorable price performance should help to restrain nominal pay increases. Firms certainly still seem to be focused on containing costs as the route to profitability; and in the manufacturing sector, generally healthy supplies of plant capacity, lower energy costs, and strong competition from imports appear likely to put a damper on goods price inflation. All told, both the core and the overall CPIs are projected to register only mild accelerations, adjusted for technical changes in the index.

**Summary of Staff Projections**  
(Percent change, compound annual rate)

Measure	1997	1998	1999
<b>Real GDP</b>	<b>3.9</b>	<b>1.7</b>	<b>1.4</b>
Previous	3.8	2.2	1.5
<b>Final sales</b>	<b>3.4</b>	<b>2.2</b>	<b>1.5</b>
Previous	3.5	2.5	1.7
<b>PCE</b>	<b>3.8</b>	<b>3.4</b>	<b>1.7</b>
Previous	3.7	3.2	1.8
<b>Residential investment</b>	<b>5.7</b>	<b>-1.6</b>	<b>-1.0</b>
Previous	4.4	-2.5	-1.2
<b>BFI</b>	<b>10.8</b>	<b>7.6</b>	<b>5.6</b>
Previous	10.8	7.5	5.8
<b>Government purchases</b>	<b>1.2</b>	<b>.4</b>	<b>.9</b>
Previous	1.1	.6	.8
Change, billions of chained (1992) dollars			
<b>Inventory change</b>	<b>30.5</b>	<b>-40.8</b>	<b>-11.1</b>
Previous	20.2	-21.5	-19.0
<b>Net exports</b>	<b>-65.9</b>	<b>-85.1</b>	<b>-40.5</b>
Previous	-49.2	-45.4	-29.1

**Consumer spending.** After rising 3-3/4 percent this year, real PCE is projected to increase 3-1/2 percent in 1998 and 1-3/4 percent in 1999. In part, this slowing reflects an expected slackening of income growth, as business investment and exports lose steam and generate fewer new jobs. In addition, household wealth is projected to become a less positive factor for real consumption than it has been over

**Net exports.** We have marked down our projection of net exports, largely because of our more pessimistic view of prospects for the Asian economies. We now think that exports will rise just 3-3/4 percent in 1998 and 5-3/4 percent in the following year. On the import side, weaker growth in domestic demand in the next two years brings down the pace of increase in imports to 7-3/4 percent by 1999, about half the rate of growth expected this year. Overall, anticipated declines in net exports reduce real GDP growth nearly 1 percentage point in 1998 and about 1/3 percentage point in 1999. (A more detailed discussion of the outlook for the external sector is contained in the *International Developments* section.)

**The Outlook for the Labor Market**  
(Percent change, Q4 to Q4, except as noted)

Measure	1996	1997	1998	1999
Output per hour, nonfarm business	1.2	2.4	.7	1.3
Previous	1.2	2.3	.7	.9
Nonfarm payroll employment	2.1	2.5	1.1	.6
Previous	2.1	2.3	1.6	.8
Household employment survey	2.1	2.1	1.0	.5
Previous	2.1	2.0	1.4	.6
Labor force participation rate <sup>1</sup>	66.9	67.0	67.1	67.1
Previous	66.9	67.1	67.2	67.2
Civilian unemployment rate <sup>1</sup>	5.3	4.6	4.8	5.3
Previous	5.3	4.8	4.7	5.1

I. Percent, average for the fourth quarter.

**Labor markets.** The BLS has estimated that output per hour in the nonfarm business sector jumped about 4 percent at an annual rate in the third quarter--an even larger gain than we had expected in the November Greenbook. As discussed in Part 2, the third-quarter productivity figure was boosted by an unusual plunge in hours of self-employed and unpaid family workers, and the unwinding of this factor should damp productivity growth in coming quarters. More fundamentally, the projected deceleration of output next year leads us to expect a slackening in productivity growth; we foresee an increase of just 3/4 percent in output per hour in 1998. By 1999, we

**Staff Inflation Projections**  
 (Percent change, Q4 to Q4, except as noted)

Measure	1996	1997	1998	1999
Consumer price index	3.2	1.9	1.8	2.2
Previous	3.2	2.0	2.2	2.5
Food	4.2	1.9	1.9	2.1
Previous	4.2	1.8	2.1	2.4
Energy	7.6	-.9	-1.8	1.7
Previous	7.6	-1.2	.4	2.0
Excluding food and energy	2.6	2.2	2.1	2.2
Previous	2.6	2.3	2.4	2.5
PCE chain-weighted price index	2.7	1.6	1.6	2.0
Previous	2.7	1.6	2.0	2.2
Excluding food and energy	2.3	1.7	1.8	2.0
Previous	2.3	1.7	2.1	2.3
GDP chain-weighted price index	2.3	1.9	1.8	1.9
Previous	2.3	1.8	2.0	2.1
ECI for compensation of private industry workers <sup>1</sup>	3.1	3.2	3.1	3.1
Previous	3.1	3.2	3.2	3.4
Prices of core non-oil merchandise imports	-.8	-1.8	-1.9	.8
Previous	-.8	-1.2	-.3	.8
Percentage points				
<b>MEMO: Adjustments for technical changes to the CPI<sup>2</sup></b>				
Core CPI	.2	.2	.4	.6
Core PCE	.1	.1	.1	.3
GDP chain price index	.0	.1	.1	.2

1. December to December.

2. Adjustments are calculated relative to the methodological structure of the CPI in 1994.

Apart from the more favorable forecast of labor costs and lower capacity utilization estimates, this changed outlook for next year reflects the sizable near-term revisions to the path for core non-oil import prices and some pass-through of the rapid drop in energy prices to production and transportation costs. By 1999, core import prices and energy prices are rising again, and core CPI inflation ticks up to 2.2 percent. Of course, these very modest figures for inflation represent what we think BLS will

### Alternative Simulations

Our alternative simulations show the implications of different assumptions about the federal funds rate. In the first simulation, the funds rate rises 25 basis points per quarter over the course of 1998, cumulating to an increase of 100 basis points; the higher level is then maintained throughout 1999. Under this assumption, growth of real GDP in 1998 is 0.3 percentage point less than in the baseline forecast, and in 1999 it is 0.7 percentage point less than in the baseline. The unemployment rate at the end of 1999 is 1/2 percentage point higher than in the baseline forecast. The additional slack reduces CPI inflation by a small amount in 1998 and a more substantial amount in 1999. The second simulation assumes that the funds rate is lowered 100 basis points during 1998 and then held steady in 1999. Economic effects of this alternative are symmetric.

**Alternative Federal Funds Rate  
and Stock Market Assumptions**  
(Percent change, Q4 to Q4, except as noted)

Measure	1996	1997	1998	1999
<i>Real GDP</i>				
Baseline	3.2	3.9	1.7	1.4
Higher funds rate	3.2	3.9	1.4	.7
Lower funds rate	3.2	3.9	2.0	2.1
No stock price decline	3.2	3.9	1.9	1.8
<i>Civilian unemployment rate</i> <sup>1</sup>				
Baseline	5.3	4.6	4.8	5.3
Higher funds rate	5.3	4.6	4.9	5.8
Lower funds rate	5.3	4.6	4.7	4.8
No stock price decline	5.3	4.6	4.7	5.1
<i>CPI excluding food and energy</i>				
Baseline	2.6	2.2	2.1	2.2
Higher funds rate	2.6	2.2	2.0	1.8
Lower funds rate	2.6	2.2	2.2	2.6
No stock price decline	2.6	2.2	2.1	2.3

1. Average for the fourth quarter.

We have also run a simulation that holds the value of equities constant relative to income over the forecast period, in contrast to the decline in the wealth-to-income ratio in the baseline forecast. In this alternative, the federal funds rate is maintained at 5-1/2 percent. Relative to the baseline, real GDP growth is boosted about 0.2 percentage point in 1998 and 0.4 percentage point in 1999. Even though the unemployment rate in this alternative simulation is lower than in the baseline, the

Strictly Confidential <PR>  
Class II FOMCSTAFF PROJECTIONS OF CHANGES IN GDP, PRICES, AND UNEMPLOYMENT  
(Percent, annual rate)

December 11, 1997

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>	
	11/06/97	12/11/97	11/06/97	12/11/97	11/06/97	12/11/97	11/06/97	12/11/97	11/06/97	12/11/97
<b>ANNUAL</b>										
1995	4.6	4.6	2.0	2.0	2.5	2.5	2.8	2.8	5.6	5.6
1996	5.1	5.1	2.8	2.8	2.3	2.3	3.0	3.0	5.4	5.4
1997	5.9	5.9	3.8	3.8	2.0	2.1	2.4	2.4	5.0	4.9
1998	4.8	4.4	2.8	2.4	1.9	1.8	2.1	1.8	4.6	4.7
1999	3.8	3.2	1.6	1.4	2.1	1.8	2.4	2.1	4.9	5.1
<b>QUARTERLY</b>										
1996	Q1	4.7	4.7	1.8	1.8	2.8	2.8	3.2	5.6	5.6
	Q2	7.7	7.7	6.0	6.0	1.9	1.9	3.4	5.4	5.4
	Q3	3.6	3.6	1.0	1.0	2.7	2.7	2.8	5.3	5.3
	Q4	6.2	6.2	4.3	4.3	1.9	1.9	3.3	5.3	5.3
1997	Q1	7.4	7.4	4.9	4.9	2.4	2.4	2.3	5.3	5.3
	Q2	5.2	5.2	3.3	3.3	1.8	1.8	1.0	4.9	4.9
	Q3	4.9	4.9	3.5	3.4	1.4	1.5	2.0	4.9	4.9
	Q4	5.4	6.1	3.5	3.9	1.7	1.9	2.4	4.8	4.6
1998	Q1	5.0	4.2	2.7	2.0	2.2	2.2	2.0	4.7	4.6
	Q2	4.5	3.4	2.5	1.7	2.0	1.7	2.2	4.6	4.6
	Q3	4.0	3.3	2.0	1.6	2.0	1.6	2.3	4.6	4.7
	Q4	3.7	3.2	1.7	1.4	2.0	1.8	2.4	4.7	4.8
1999	Q1	3.8	3.3	1.5	1.2	2.3	2.0	2.5	4.7	4.9
	Q2	3.6	3.1	1.5	1.3	2.1	1.8	2.5	4.8	5.1
	Q3	3.6	3.3	1.4	1.4	2.1	1.8	2.5	5.0	5.2
	Q4	3.5	3.4	1.4	1.5	2.1	1.9	2.5	5.1	5.3
<b>TWO-QUARTER<sup>3</sup></b>										
1996	Q2	6.2	6.2	3.8	3.8	2.3	2.3	3.4	3.4	-0.2
	Q4	4.9	4.9	2.7	2.7	2.3	2.3	3.0	3.0	-0.1
1997	Q2	6.3	6.3	4.1	4.1	2.1	2.1	1.7	1.7	-0.4
	Q4	5.1	5.5	3.5	3.6	1.6	1.7	2.2	2.1	-0.3
1998	Q2	4.7	3.8	2.6	1.8	2.1	2.0	2.1	1.6	-0.2
	Q4	3.8	3.2	1.8	1.5	2.0	1.7	2.4	2.0	0.1
1999	Q2	3.7	3.2	1.5	1.2	2.2	1.9	2.5	2.2	0.1
	Q4	3.6	3.4	1.4	1.5	2.1	1.9	2.5	2.2	0.3
<b>FOUR-QUARTER<sup>4</sup></b>										
1995	Q4	4.0	4.0	1.6	1.6	2.4	2.4	2.6	2.6	0.0
1996	Q4	5.6	5.6	3.2	3.2	2.3	2.3	3.2	3.2	-0.3
1997	Q4	5.7	5.9	3.8	3.9	1.8	1.9	2.0	1.9	-0.5
1998	Q4	4.3	3.5	2.2	1.7	2.0	1.8	2.2	1.8	-0.1
1999	Q4	3.6	3.3	1.5	1.4	2.1	1.9	2.5	2.2	0.4

1. For all urban consumers.

2. Level, except as noted.

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

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

Strictly Confidential <PR>  
Class II FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES  
(Seasonally adjusted annual rate)

December 11, 1997

Item	Units <sup>1</sup>	- - - Projected - - -									
		1991	1992	1993	1994	1995	1996	1997	1998	1999	
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	5916.7	6244.4	6558.1	6947.0	7265.4	7636.0	8087.2	8440.1	8714.0	
Real GDP	Bill. Ch. \$	6079.4	6244.4	6389.6	6610.7	6742.1	6928.4	7192.0	7367.3	7468.6	
Real GDP	% change	0.4	3.6	2.4	3.3	1.6	3.2	3.9	1.7	1.4	
Gross domestic purchases		0.0	4.0	3.0	3.6	1.2	3.6	4.6	2.5	1.7	
Final sales		-0.4	3.9	2.1	2.7	2.2	3.1	3.4	2.2	1.5	
Priv. dom. final purchases		-0.8	4.9	3.7	3.7	2.5	3.8	4.8	3.7	2.1	
Personal cons. expenditures		-0.2	4.2	2.7	3.1	2.2	2.7	3.8	3.4	1.7	
Durables		-3.1	9.4	7.4	6.3	3.0	3.9	6.9	4.9	2.2	
Nondurables		-1.0	3.4	1.6	3.0	1.0	1.8	2.0	2.9	1.6	
Services		0.9	3.6	2.3	2.5	2.7	2.8	4.1	3.3	1.6	
Business fixed investment		-6.0	5.5	9.9	7.6	6.5	11.7	10.8	7.6	5.6	
Producers' dur. equipment		-2.6	9.6	12.2	10.2	8.3	12.2	15.6	9.3	6.4	
Nonres. structures		-12.5	-3.4	4.5	1.1	2.0	10.3	-1.2	2.9	3.2	
Residential structures		1.1	16.9	7.8	4.2	-1.9	3.9	5.7	-1.6	-1.0	
Exports		8.6	4.1	4.6	10.0	10.3	9.3	10.5	3.8	5.8	
Imports		4.1	7.4	10.2	12.3	5.6	11.8	15.9	10.5	7.8	
Gov't. cons. & investment		-0.7	1.7	-1.4	0.1	-1.4	2.0	1.2	0.4	0.9	
Federal		-3.1	1.3	-6.1	-3.9	-6.0	1.5	0.0	-3.1	-1.8	
Defense		-5.3	-1.3	-6.9	-6.0	-5.9	1.1	-1.0	-5.0	-2.2	
State & local		1.0	2.0	2.0	2.7	1.4	2.2	1.9	2.4	2.3	
Change in bus. inventories	Bill. Ch. \$	-3.0	7.0	22.1	60.6	27.3	25.0	64.1	40.0	18.9	
Nonfarm		-1.2	2.0	29.5	49.0	35.7	22.5	56.5	34.9	15.0	
Net exports		-22.3	-29.5	-70.2	-104.6	-98.8	-114.4	-149.1	-228.7	-287.3	
Nominal GDP	% change	3.8	6.3	5.0	5.8	4.0	5.6	5.9	3.5	3.3	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	108.3	108.6	110.7	114.1	117.2	119.5	122.2	124.4	125.3	
Unemployment rate	%	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.7	5.1	
Industrial prod. index	% change	-0.0	3.7	3.3	6.5	3.3	4.2	5.6	1.0	1.3	
Capacity util. rate - mfg.	%	77.9	79.4	80.5	82.5	82.8	81.4	81.6	80.5	79.6	
Housing starts	Millions	1.01	1.20	1.29	1.46	1.35	1.48	1.46	1.43	1.39	
Light motor vehicle sales		12.52	12.85	13.87	15.02	14.73	15.05	15.05	14.74	14.47	
North Amer. produced		9.74	10.51	11.71	12.88	12.82	13.34	13.11	12.94	12.74	
Other		2.77	2.34	2.15	2.13	1.90	1.71	1.94	1.80	1.73	
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	5932.4	6255.5	6576.8	6955.2	7270.6	7637.7	8067.2	8407.6	8673.9	
Nominal GNP	% change	3.5	6.2	5.1	5.7	4.1	5.5	5.5	3.4	3.2	
Nominal personal income		3.7	7.3	4.2	5.1	5.2	5.8	5.9	4.0	3.7	
Real disposable income		0.8	4.0	1.5	2.4	2.4	2.0	3.5	2.6	1.9	
Personal saving rate	%	6.0	6.2	5.1	4.2	4.8	4.3	3.7	3.3	3.3	
Corp. profits, IVA & CCAdj.	% change	4.5	11.3	19.0	14.1	11.0	9.1	12.1	-2.7	-0.9	
Profit share of GNP	%	6.9	6.8	7.5	8.2	8.9	9.6	10.1	9.8	9.3	
Excluding FR Banks	%	6.6	6.6	7.2	7.9	8.6	9.3	9.8	9.6	9.0	
Federal surpl./deficit	Bill. \$	-196.0	-280.9	-250.7	-186.7	-174.4	-110.5	-26.7	-6.0	-23.0	
State & local surpl./def.		75.8	86.3	87.4	96.8	103.1	105.3	110.0	116.4	111.1	
Ex. social ins. funds		11.5	18.3	19.7	27.9	32.5	34.1	38.6	44.9	39.5	
Gross natl. saving rate	%	15.7	14.5	14.4	15.5	16.0	16.6	17.3	17.0	16.4	
Net natl. saving rate	%	4.8	3.7	3.7	4.7	5.5	6.4	7.3	7.1	6.3	
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	3.3	2.6	2.6	2.5	2.4	2.3	1.9	1.8	1.9	
Gross Domestic Purchases chn.-wt. price index		2.7	2.7	2.3	2.5	2.3	2.3	1.4	1.5	1.8	
CPI		3.0	3.1	2.7	2.7	2.6	3.2	1.9	1.8	2.2	
Ex. food and energy		4.4	3.5	3.1	2.8	3.0	2.6	2.2	2.1	2.2	
ECI, hourly compensation <sup>2</sup>		4.4	3.5	3.6	3.1	2.6	3.1	3.2	3.1	3.1	
Nonfarm business sector		2.2	3.5	-0.2	-0.1	0.4	1.2	2.4	0.7	1.3	
Output per hour		4.0	4.5	1.8	1.9	2.8	3.3	3.9	3.4	3.4	
Compensation per Hour		2.5	1.0	2.0	2.0	2.4	2.1	1.5	2.8	2.1	
Unit labor cost		2.5	1.0	2.0	2.0	2.4	2.1	1.5	2.8	2.1	

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

Strictly Confidential <PR>  
Class II FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES  
(Seasonally adjusted, annual rate except as noted)

December 11, 1997

Item	Units	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	7168.9	7209.5	7301.3	7381.9	7467.5	7607.7	7676.0	7792.9	7933.6	8034.3
Real GDP	Bill. Ch. \$	6703.7	6708.8	6759.2	6796.5	6826.4	6926.0	6943.8	7017.4	7101.6	7159.6
Real GDP	% change	0.9	0.3	3.0	2.2	1.8	6.0	1.0	4.3	4.9	3.3
Gross domestic purchases		1.3	0.2	1.9	1.3	3.1	6.5	2.4	2.5	5.9	3.7
Final sales		1.8	1.9	3.3	2.0	2.6	5.2	0.2	4.5	3.0	2.5
priv. dom. final purchases		2.5	2.2	2.7	2.5	4.4	5.5	2.1	3.2	5.1	2.9
Personal cons. expenditures		1.5	2.9	2.6	1.8	3.1	3.7	0.5	3.3	5.3	0.9
Durables		-3.0	3.9	9.3	2.0	4.8	9.7	-1.9	3.5	14.1	-5.4
Nondurables		1.7	0.9	0.7	0.7	1.7	2.6	0.6	2.1	4.7	-2.1
Services		2.4	3.7	2.2	2.3	3.5	3.1	1.0	3.9	3.9	3.9
Business fixed investment		14.2	5.7	1.6	4.9	11.7	13.0	16.5	5.9	4.1	14.6
Producers' dur. equipment		16.1	6.2	2.0	9.4	13.1	14.9	19.1	2.6	6.7	23.0
Nonres. structures		9.5	4.3	0.7	-5.8	8.2	7.9	10.0	15.3	-2.1	-4.7
Residential structures		-7.0	-15.5	8.4	8.5	8.3	17.9	-4.5	-4.3	3.3	7.4
Exports		7.2	9.3	13.5	11.5	1.7	9.6	1.9	25.5	9.9	18.4
Imports		10.0	7.7	2.3	2.4	13.1	14.1	13.2	6.8	17.9	20.5
Gov't. cons. & investment		0.6	-0.1	-0.7	-5.4	1.8	7.2	-1.1	0.1	-0.4	3.1
Federal		-1.1	-4.5	-1.3	-16.4	7.5	8.8	-4.2	-5.2	-5.8	6.6
Defense		-1.1	-1.6	-4.0	-15.9	6.1	11.0	-4.6	-7.1	-11.8	7.5
State & local		1.7	2.6	-0.4	1.9	-1.4	6.3	0.7	3.3	2.7	1.2
Change in bus. inventories	Bill. Ch. \$	48.5	21.6	17.0	22.2	8.0	21.3	37.9	32.9	63.7	77.6
Nonfarm		54.7	34.0	29.6	24.4	14.5	17.3	31.6	26.5	58.3	70.1
Net exports		-113.5	-112.8	-92.9	-76.1	-100.8	-112.6	-138.9	-105.6	-126.3	-136.6
Nominal GDP	% change	4.2	2.3	5.2	4.5	4.7	7.7	3.6	6.2	7.4	5.2
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	116.5	116.9	117.4	117.9	118.5	119.2	119.9	120.5	121.1	121.9
Unemployment rate	%	5.5	5.6	5.7	5.6	5.6	5.4	5.3	5.3	5.3	4.9
Industrial prod. index	% change	5.9	1.6	4.5	1.1	2.0	7.5	3.6	3.8	5.2	4.6
Capacity util. rate - mfg.	%	83.8	82.9	82.6	81.8	81.0	81.6	81.5	81.4	81.6	81.5
Housing starts	Millions	1.32	1.29	1.42	1.41	1.46	1.50	1.49	1.42	1.47	1.46
Light motor vehicle sales		14.67	14.42	14.86	14.96	15.04	15.13	15.08	14.95	15.26	14.51
North Amer. produced		12.66	12.46	13.00	13.18	13.38	13.43	13.38	13.18	13.34	12.67
Other		2.01	1.96	1.86	1.78	1.66	1.70	1.70	1.76	1.92	1.85
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	7175.1	7220.6	7298.3	7388.5	7475.3	7610.5	7669.1	7796.1	7919.2	8013.6
Nominal GNP	% change	4.5	2.6	4.4	5.0	4.8	7.4	3.1	6.8	6.5	4.9
Nominal personal income		7.4	4.1	4.3	5.1	6.8	6.6	5.1	4.8	8.0	5.0
Real disposable income		4.5	0.2	2.6	2.5	3.5	1.1	2.7	0.7	4.6	3.1
Personal saving rate	%	5.3	4.6	4.5	4.6	4.7	4.1	4.5	3.9	3.7	4.2
Corp. profits, IVA & CCAdj.	% change	-2.9	10.0	31.7	7.9	20.0	12.1	0.6	4.5	18.1	8.2
Profit share of GNP	%	8.5	8.7	9.2	9.3	9.6	9.7	9.6	9.6	9.8	9.9
Excluding FR Banks		8.2	8.4	8.9	9.0	9.3	9.4	9.4	9.3	9.6	9.6
Federal surpl./deficit	Bill. \$	-191.5	-179.5	-176.5	-150.2	-153.6	-111.6	-99.5	-77.1	-55.5	-36.8
State & local surpl./def.		107.7	105.6	101.1	97.8	104.1	114.4	102.6	100.4	104.7	104.9
Ex. social ins. funds		37.7	35.3	30.3	26.8	33.2	43.1	31.1	28.9	33.5	33.3
Gross natl. saving rate	%	15.8	15.7	16.0	16.6	16.3	16.5	16.9	16.7	16.8	17.4
Net natl. saving rate	%	5.4	5.1	5.5	6.0	6.0	6.4	6.7	6.6	6.7	7.4
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	3.3	2.1	2.0	2.1	2.8	1.9	2.7	1.9	2.4	1.8
Gross Domestic Purchases chn.-wt. price index		3.0	2.5	1.7	1.9	2.7	1.8	2.4	2.4	1.9	0.8
CPI		2.7	3.5	2.1	2.6	3.2	3.4	2.8	3.3	2.3	1.0
Ex. food and energy		3.3	3.3	2.8	2.7	2.7	2.7	2.4	2.7	2.2	2.9
RCI, hourly compensation <sup>1</sup>		2.9	2.6	2.6	2.9	2.5	3.5	2.8	2.8	2.5	3.4
Nonfarm business sector											
Output per hour		-1.6	0.8	1.1	1.6	1.9	2.2	-1.0	1.8	1.4	2.4
Compensation per hour		2.6	3.1	2.7	2.9	2.8	4.4	2.9	3.3	4.5	3.3
Unit labor cost		4.2	2.3	1.6	1.3	0.9	2.1	3.9	1.5	3.1	0.9

1. Private-industry workers.

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

December 11, 1997

Item	Units	Projected									
		1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	8130.2	8250.7	8336.8	8407.3	8474.8	8541.7	8610.2	8677.0	8747.6	8821.1
Real GDP	Bill. Ch. \$	7218.9	7288.1	7323.5	7354.2	7382.8	7408.8	7430.4	7454.3	7480.7	7508.9
Real GDP	% change	3.4	3.9	2.0	1.7	1.6	1.4	1.2	1.3	1.4	1.5
Gross domestic purchases		4.5	4.2	2.9	2.6	3.0	1.6	1.8	1.5	2.1	1.4
Final sales		4.8	3.3	2.2	2.7	1.7	2.2	1.0	1.7	1.2	2.1
Priv. dom. final purchases		7.1	4.2	4.2	4.2	3.5	2.8	2.0	2.1	1.9	2.2
Personal cons. expenditures		5.7	3.5	4.1	3.8	3.2	2.5	1.7	1.6	1.7	1.7
Durables		17.8	2.6	4.5	6.4	4.9	3.9	1.9	1.9	2.3	2.5
Nondurables		4.3	1.2	4.1	3.0	2.5	2.0	1.9	1.6	1.4	1.4
Services		4.1	4.7	3.9	3.8	3.2	2.5	1.6	1.6	1.7	1.6
Business fixed investment		17.4	7.5	7.3	9.3	7.6	6.3	5.3	6.2	4.7	6.0
Producers' dur. equipment		21.6	12.0	9.1	11.5	9.3	7.5	6.1	7.3	5.2	7.1
Nonres. structures		6.8	-4.2	2.4	3.2	3.2	3.0	3.3	3.3	3.2	3.2
Residential structures		3.8	8.4	-0.7	-2.4	-1.4	-1.9	-1.5	-0.8	-1.2	-0.4
Exports		4.7	9.3	3.6	6.0	-1.2	6.9	2.8	8.0	2.8	9.7
Imports		13.9	11.6	11.0	12.7	10.4	7.9	7.6	8.7	7.6	7.2
Gov't. cons. & investment		1.2	1.1	-1.6	0.7	1.7	0.9	0.1	1.2	1.5	0.6
Federal		-1.0	0.7	-8.7	-2.3	0.4	-1.7	-3.8	-0.9	-0.0	-2.6
Defense		1.3	0.2	-13.7	-3.9	0.1	-2.0	-5.2	-0.8	0.7	-3.3
State & local		2.4	1.4	2.5	2.4	2.3	2.3	2.3	2.3	2.3	2.3
Change in bus. inventories	Bill. Ch. \$	51.8	63.4	59.2	40.6	37.6	22.6	25.4	16.9	21.7	11.4
Nonfarm		42.8	54.6	52.3	35.3	33.2	18.7	21.5	13.1	17.9	7.7
Net exports		-161.9	-171.5	-193.7	-215.3	-249.2	-256.5	-273.4	-280.7	-298.3	-297.0
Nominal GDP	% change	4.9	6.1	4.2	3.4	3.3	3.2	3.3	3.1	3.3	3.4
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	122.6	123.4	124.0	124.3	124.6	124.8	125.0	125.2	125.4	125.5
Unemployment rate	%	4.9	4.6	4.6	4.6	4.7	4.8	4.9	5.1	5.2	5.3
Industrial prod. index	% change	6.2	6.2	2.2	0.8	0.3	0.7	1.1	1.1	1.2	1.7
Capacity util. rate - mfg.	%	81.6	81.8	81.2	80.6	80.2	79.9	79.8	79.7	79.5	79.4
Housing starts	Millions	1.46	1.47	1.45	1.43	1.42	1.41	1.39	1.39	1.38	1.38
Light motor vehicle sales		15.34	15.07	14.83	14.79	14.71	14.61	14.50	14.46	14.45	14.45
North Amer. produced		13.31	13.11	13.01	12.95	12.94	12.86	12.77	12.73	12.72	12.72
Other		2.03	1.96	1.82	1.84	1.77	1.75	1.73	1.73	1.73	1.73
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	8109.2	8226.7	8308.5	8376.6	8441.0	8504.1	8572.7	8637.7	8707.4	8777.7
Nominal GNP	% change	4.9	5.9	4.0	3.3	3.1	3.0	3.3	3.1	3.3	3.3
Nominal personal income		4.7	5.9	4.8	3.9	3.8	3.5	4.4	3.6	3.5	3.4
Real disposable income		2.6	3.8	5.2	2.1	1.7	1.5	3.8	1.4	1.2	1.3
Personal saving rate	%	3.5	3.6	3.9	3.5	3.1	2.9	3.4	3.3	3.2	3.1
Corp. profits, IVA & CCAdj.	% change	19.6	3.2	-1.2	-2.6	-3.9	-3.2	-4.1	-1.3	0.7	1.2
Profit share of GNP	%	10.3	10.2	10.1	9.9	9.7	9.6	9.4	9.3	9.2	
Excluding FR Banks		10.0	9.9	9.8	9.6	9.5	9.3	9.2	9.1	9.0	9.0
Federal surpl./deficit	Bill. \$	-11.4	-3.3	-11.7	-4.3	-0.1	-8.0	-24.9	-22.4	-19.1	-25.8
State & local surpl./def.		111.5	118.9	117.2	116.8	115.4	115.9	113.8	111.7	110.0	108.9
Ex. social ins. funds		40.1	47.5	45.8	45.3	43.9	44.4	42.2	40.1	38.4	37.3
Gross natl. saving rate	%	17.4	17.5	17.5	17.2	16.9	16.5	16.6	16.5	16.4	16.2
Net natl. saving rate		7.4	7.7	7.6	7.3	6.9	6.5	6.5	6.4	6.3	6.1
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	1.5	1.9	2.2	1.7	1.6	1.8	2.0	1.8	1.8	1.9
Gross Domestic Purchases chn.-wt. price index		1.3	1.4	1.3	1.3	1.6	1.7	2.0	1.7	1.8	1.8
CPI		2.0	2.2	1.5	1.6	2.0	2.1	2.2	2.2	2.2	2.2
Ex. food and energy		1.7	2.2	2.0	2.0	2.2	2.2	2.2	2.2	2.2	2.2
ECI, hourly compensation <sup>1</sup>		3.4	3.8	3.2	3.1	3.1	3.1	2.8	3.2	3.2	3.3
Nonfarm business sector											
Output per hour		4.2	1.5	-0.0	0.9	0.9	0.9	1.0	1.2	1.3	1.5
Compensation per hour		3.9	3.9	3.6	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Unit labor co.t		-0.3	2.4	3.6	2.5	2.5	2.5	2.4	2.2	2.1	1.9

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

December 11, 1997

Item	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	95Q4/ 94Q4	96Q4/ 95Q4	97Q4/ 96Q4
Real GDP	3.0	2.2	1.8	6.0	1.0	4.3	4.9	3.3	3.4	1.6	3.2	3.9
Gross dom. purchases	1.9	1.3	3.1	6.6	2.4	2.5	6.0	3.7	4.6	1.2	3.6	4.6
Final sales	3.3	1.9	2.6	5.2	0.2	4.5	3.0	2.5	4.7	2.2	3.1	3.4
Priv. con. final purchases	2.3	2.0	3.6	4.5	1.8	2.7	4.2	2.4	5.8	2.0	3.1	3.9
Personal cons. expenditures	1.8	1.2	2.1	2.5	0.4	2.2	3.6	0.6	3.8	1.5	1.8	2.6
Durables	0.7	0.2	0.4	0.8	-0.2	0.3	1.1	-0.5	1.3	0.2	0.3	0.6
Nondurables	0.1	0.1	0.4	0.5	0.1	0.4	0.9	-0.4	0.8	0.2	0.4	0.4
Services	0.9	0.9	1.4	1.2	0.4	1.5	1.5	1.5	1.6	1.0	1.1	1.7
Business fixed investment	0.2	0.5	1.1	1.3	1.6	0.6	0.4	1.4	1.7	0.6	1.1	1.1
Producers' dur. equip.	0.1	0.6	0.9	1.0	1.3	0.2	0.5	1.6	1.5	0.6	0.9	1.1
Nonres. structures	0.0	-0.2	0.2	0.2	0.3	0.4	-0.1	-0.1	0.2	0.1	0.3	-0.0
Residential structures	0.3	0.3	0.3	0.7	-0.2	-0.2	0.1	0.3	0.2	-0.1	0.2	0.2
Net exports	1.1	1.0	-1.3	-0.6	-1.4	1.8	-1.0	-0.4	-1.2	0.4	-0.4	-0.8
Exports	1.4	1.2	0.2	1.1	0.2	2.7	1.1	2.0	0.5	1.1	1.0	1.2
Imports	-0.2	-0.3	-1.5	-1.7	-1.6	-0.8	-2.1	-2.5	-1.7	-0.7	-1.4	-2.0
Government cons. & invest.	-0.1	-1.0	0.3	1.3	-0.2	0.0	-0.1	0.6	0.2	-0.3	0.4	0.2
Federal	-0.1	-1.2	0.5	0.6	-0.3	-0.4	-0.4	0.4	-0.1	-0.4	0.1	0.0
Defense	-0.2	-0.8	0.3	0.5	-0.2	-0.3	-0.6	0.3	0.1	-0.3	0.0	-0.0
Nondefense	0.1	-0.4	0.2	0.1	-0.1	0.0	0.2	0.1	-0.1	-0.2	0.1	0.0
State and local	0.0	0.2	-0.2	0.7	0.1	0.4	0.3	0.1	0.3	0.2	0.3	0.2
Change in bus. inventories	-0.2	0.3	-0.8	0.7	0.8	-0.2	1.8	0.8	-1.3	-0.6	0.1	0.4
Nonfarm	-0.2	-0.3	-0.6	0.1	0.8	-0.2	1.8	0.7	-1.4	-0.5	0.0	0.4
Farm	0.0	0.6	-0.2	0.5	0.1	-0.1	0.0	0.1	0.1	-0.1	0.1	0.0

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

Strictly Confidential <FR>  
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

December 11, 1997

Item	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	97Q4/ 96Q4	98Q4/ 97Q4	99Q4/ 98Q4
Real GDP	3.9	2.0	1.7	1.6	1.4	1.2	1.3	1.4	1.5	3.9	1.7	1.4
Gross dom. purchases	4.3	2.9	2.6	3.1	1.7	1.9	1.5	2.1	1.4	4.6	2.6	1.7
Final sales	3.3	2.2	2.7	1.7	2.2	1.0	1.7	1.2	2.1	3.4	2.2	1.5
Priv. dom. final purchases	3.5	3.5	3.5	2.9	2.3	1.7	1.8	1.6	1.8	3.9	3.0	1.7
Personal cons. expenditures	2.3	2.7	2.6	2.2	1.7	1.2	1.1	1.2	1.2	2.6	2.3	1.2
Durables	0.2	0.4	0.5	0.4	0.3	0.2	0.2	0.2	0.2	0.6	0.4	0.2
Nondurables	0.2	0.8	0.6	0.5	0.4	0.4	0.3	0.3	0.3	0.4	0.6	0.3
Services	1.9	1.6	1.5	1.3	1.0	0.7	0.7	0.7	0.7	1.7	1.4	0.7
Business fixed investment	0.8	0.8	1.0	0.8	0.7	0.6	0.7	0.5	0.7	1.1	0.8	0.6
Producers' dur. equip.	0.9	0.7	0.9	0.7	0.6	0.5	0.6	0.4	0.6	1.1	0.7	0.5
Nonres. structures	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-0.0	0.1	0.1
Residential structures	0.3	-0.0	-0.1	-0.1	-0.1	-0.1	-0.0	-0.0	-0.0	0.2	-0.1	-0.0
Net exports	-0.4	-1.0	-0.9	-1.5	-0.3	-0.7	-0.2	-0.7	0.1	-0.8	-0.9	-0.4
Exports	1.1	0.4	0.7	-0.1	0.8	0.3	0.9	0.3	1.1	1.2	0.4	0.7
Imports	-1.5	-1.4	-1.6	-1.3	-1.0	-1.0	-1.2	-1.0	-1.0	-2.0	-1.3	-1.0
Government cons. & invest.	0.2	-0.3	0.1	0.3	0.2	0.0	0.2	0.3	0.1	0.2	0.1	0.2
Federal	0.0	-0.6	-0.1	0.0	-0.1	-0.2	-0.1	-0.0	-0.2	0.0	-0.2	-0.1
Defense	0.0	-0.6	-0.2	0.0	-0.1	-0.2	-0.0	0.0	-0.1	-0.0	-0.2	-0.1
Nondefense	0.0	0.0	0.0	0.0	-0.0	-0.0	-0.0	-0.0	-0.0	0.0	0.0	-0.0
State and local	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.3
Change in bus. inventories	0.6	-0.2	-1.0	-0.2	-0.8	0.1	-0.4	0.3	-0.5	0.4	-0.5	-0.1
Nonfarm	0.6	-0.1	-0.9	-0.1	-0.8	0.1	-0.4	0.3	-0.5	0.4	-0.5	-0.1
Farm	-0.0	-0.1	-0.1	-0.0	-0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0

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

STAFF PROJECTIONS OF FEDERAL SECTOR ACCOUNTS AND RELATED ITEMS  
(Billions of dollars except as noted)

December 11, 1997

Item	Fiscal year <sup>5</sup>				1997				1998				1999			
	1996 <sup>a</sup>	1997 <sup>b</sup>	1998	1999	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>b</sup>	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>UNIFIED BUDGET</b>																
Receipts <sup>1</sup>	1453	1579	1663	1713	349	496	387	378	369	519	397	391	372	531	419	389
Outlays <sup>1</sup>	1560	1601	1671	1726	401	396	399	424	417	413	417	466	401	427	431	446
Surplus/deficit <sup>1</sup>	-107	-22	-8	-14	-52	100	-11	-46	-48	106	-20	-75	-29	103	-12	-57
On-budget	-174	-103	-97	-114	-69	61	-19	-71	-62	62	-26	-73	-76	55	-20	-86
Off-budget	67	81	89	100	17	39	8	24	13	45	6	-2	46	48	8	30
Surplus excluding deposit insurance <sup>2</sup>	-116	-37	-13	-17	-56	97	-13	-47	-49	105	-21	-76	-30	102	-13	-57
Means of financing																
Borrowing	130	38	28	29	48	-69	11	30	50	-88	36	42	43	-84	28	42
Cash decrease	-6	1	4	0	-1	-18	8	17	5	-13	-5	20	0	-15	-5	10
Other <sup>3</sup>	-16	-16	-19	-15	5	-13	-7	-1	-6	-2	-11	13	-14	-4	-10	5
Cash operating balance, end of period	44	44	40	40	33	51	44	27	22	35	40	20	20	35	40	30
<b>NIPA FEDERAL SECTOR</b>																
Receipts	1550	1692	1782	1815	1675	1709	1742	1773	1771	1786	1799	1809	1805	1817	1830	1842
Expenditures	1679	1737	1787	1834	1731	1746	1754	1776	1783	1790	1799	1817	1830	1839	1850	1868
Consumption expend.	447	460	465	469	458	464	465	464	465	464	466	466	470	470	472	471
Defense	302	309	308	308	306	311	312	310	308	306	307	306	307	308	309	308
Nondefense	145	151	157	162	152	153	153	154	157	158	160	160	162	162	162	163
Other expenditures	1232	1277	1322	1364	1273	1282	1289	1312	1318	1326	1333	1350	1360	1369	1378	1397
Current account surplus	-129	-45	-5	-19	-56	-37	-11	-3	-12	-4	0	-8	-25	-22	-19	-26
Gross investment	69	61	60	58	58	62	61	64	58	58	58	58	57	57	58	57
Current and capital account surplus	-197	-106	-65	-76	-114	-99	-72	-67	-70	-62	-58	-66	-82	-80	-77	-83
<b>FISCAL INDICATORS<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-220	-168	-155	-141	-170	-167	-150	-159	-163	-153	-144	-145	-151	-140	-128	-126
Change in HEB, percent of potential GDP	-.6	-.7	-.2	-.2	-.2	0	-.2	.1	0	-.1	-.1	0	-.1	-.1	0	0
Fiscal impetus (FI), percent, cal. year	-2.3	-1.6	-2.2	-1.2	-1.1	1.5	.2	-.7	-.1.2	-.8	.1	-1.5	1	-.5	-.3	-1.4

1. OMB's September 1997 deficit estimates (assuming the enactment of the President's proposals) are \$58 billion in FY98 and \$57 billion in FY99. CBO's September 1997 baseline deficit estimates are \$57 billion in FY98 and \$52 billion in FY99. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's September 1997 deficit estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are \$63 billion in FY98 and \$59 billion in FY99. CBO's September 1997 baseline deficit estimates, excluding deposit insurance, are \$61 billion in FY98 and \$56 billion in FY99.

3. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.

4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Real potential GDP growth is assumed to rise from 2.2 percent in 1996 to 2.5 percent in 1999, reflecting CPI modifications. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1992) dollars, scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.

5. Fiscal year data for the unified budget come from OMB; quarterly data come from the Monthly Treasury Statement and may not sum to OMB fiscal year totals.

a--Actual.

b--Preliminary.

Strictly Confidential Class II FOMC  
December 11, 1997

Change in Debt of the Domestic Nonfinancial Sectors  
(Percent)

Period <sup>1</sup>	Total <sup>2</sup>	Federal government <sup>3</sup>	Total <sup>4</sup>	Nonfederal				Business	State and local governments	Memo: Nominal GDP
				Total	Home mortgages	Consumer credit				
<i>Year</i>										
1987	9.2	8.0	9.6	11.9	15.9	4.6	6.9	12.1	7.4	
1988	8.8	8.0	9.1	9.1	10.7	6.3	9.8	6.5	7.6	
1989	7.6	7.0	7.8	8.5	9.9	6.0	7.7	5.7	6.4	
1990	6.5	11.0	5.3	7.5	9.6	1.5	3.3	5.1	4.4	
1991	4.3	11.1	2.3	4.9	6.6	-1.3	-1.8	8.4	3.8	
1992	4.8	10.9	2.8	5.1	6.0	0.5	0.6	2.0	6.3	
1993	5.2	8.3	4.1	6.2	5.3	7.6	1.5	5.7	5.0	
1994	4.8	4.7	4.8	8.2	6.4	14.5	3.7	-4.0	5.8	
1995	5.3	4.1	5.8	7.8	6.0	14.1	6.2	-3.8	4.0	
1996	5.2	4.0	5.6	7.4	7.9	7.9	4.6	1.2	5.6	
1997	4.5	0.5	5.9	5.6	6.2	4.8	6.4	5.0	5.9	
1998	5.0	0.9	6.3	6.0	6.6	5.0	7.1	4.9	3.5	
1999	4.6	0.8	5.8	5.4	6.1	3.8	6.5	4.8	3.3	
<i>Quarter</i>										
1997:1	4.8	2.1	5.7	6.4	6.6	5.7	5.5	3.2	7.4	
2	3.8	-2.6	6.1	5.5	5.8	4.7	6.3	7.7	5.2	
3	4.4	1.1	5.5	4.5	5.8	3.4	6.8	4.6	4.8	
4	4.7	1.4	5.8	5.7	6.1	5.0	6.4	4.3	6.1	
1998:1	5.1	2.1	6.1	5.8	6.3	5.1	6.7	4.7	4.2	
2	3.5	-4.5	6.1	5.9	6.3	5.1	6.8	4.8	3.4	
3	5.6	3.6	6.3	6.0	6.5	5.0	7.0	4.8	3.3	
4	5.4	2.5	6.3	6.0	6.5	4.6	7.0	4.8	3.2	

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1997:Q3 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2. On a monthly average basis, total debt grew 4.4 percent in 1997, 4.9 percent in 1998, and 4.6 percent in 1999.

3. On a monthly average basis, federal debt rose 0.6 percent in 1997, 0.9 percent in 1998, and 1.0 percent in 1999.

4. On a monthly average basis, nonfederal debt increased 5.8 percent in 1997, 6.3 percent in 1998, and 5.8 percent in 1999.

Flow of Funds Projections: Highlights  
(Billions of dollars except as noted)

Category					Seasonally adjusted annual rates							
	Calendar year				1997				1998			
	1996	1997	1998	1999	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>												
1 Total	650.0	583.9	648.5	636.2	612.9	472.4	586.2	664.3	680.3	425.7	753.3	734.6
2 Net equity issuance	-64.2	-68.2	-107.1	-89.2	-78.8	-90.4	-60.4	-43.2	-92.4	-108.4	-117.2	-110.4
3 Net debt issuance	714.2	652.1	755.6	725.4	691.7	562.8	646.6	707.5	772.7	534.1	870.5	845.0
<i>Borrowing sectors</i>												
Nonfinancial business												
4 Financing gap <sup>1</sup>	7.6	52.8	87.6	122.5	35.2	80.3	32.0	63.7	82.1	82.0	92.8	93.5
5 Net equity issuance	-64.2	-68.2	-107.1	-89.2	-78.8	-90.4	-60.4	-43.2	-92.4	-108.4	-117.2	-110.4
6 Credit market borrowing	193.7	281.5	329.3	324.2	242.3	280.6	308.4	294.9	313.3	323.8	337.2	342.9
Households												
7 Net borrowing <sup>2</sup>	362.9	296.3	335.4	315.3	333.3	295.1	245.9	310.9	323.9	329.1	339.8	348.8
8 Home mortgages	264.2	223.7	250.8	249.2	236.3	211.5	216.2	230.8	242.4	245.9	254.3	260.4
9 Consumer credit	88.8	58.2	64.0	50.3	69.6	57.8	42.7	62.6	65.1	65.0	64.5	61.3
10 Debt/DPI (percent) <sup>3</sup>	90.5	91.6	92.6	94.1	91.3	91.7	91.9	91.9	91.8	92.3	92.8	93.4
State and local governments												
11 Net borrowing	12.7	54.7	55.4	56.9	35.0	84.2	51.3	48.2	53.9	54.9	55.9	56.9
12 Current surplus <sup>4</sup>	126.1	112.4	126.4	120.3	115.9	84.9	117.4	131.6	127.7	127.0	125.4	125.7
Federal government												
13 Net borrowing	145.0	19.7	35.5	29.0	81.2	-97.1	40.9	53.6	81.6	-173.6	137.6	96.5
14 Net borrowing (quarterly, n.s.a.)	145.0	19.7	35.5	29.0	48.0	-69.2	10.6	30.2	49.9	-91.5	35.6	41.6
15 Unified deficit (quarterly, n.s.a.)	110.9	9.4	37.1	-4.7	52.0	-100.1	11.3	46.3	48.4	-106.3	19.8	75.1
Depository institutions												
16 Funds supplied	233.2	261.1	286.7	284.2	321.2	358.7	177.9	186.7	289.0	288.0	268.8	301.2
Memo (percentage of GDP)												
17 Domestic nonfinancial debt <sup>5</sup>	185.2	183.3	184.0	186.7	183.8	183.5	183.2	182.5	182.9	183.3	183.9	185.0
18 Domestic nonfinancial borrowing	9.4	8.1	9.0	8.3	8.7	7.0	8.0	8.6	9.3	6.4	10.3	9.9
19 Federal government <sup>6</sup>	1.9	0.2	0.4	0.3	1.0	-1.2	0.5	0.6	1.0	-2.1	1.6	1.1
20 Nonfederal	7.5	7.8	8.5	8.0	7.7	8.2	7.5	7.9	8.3	8.4	8.6	8.8

Note. Data after 1997:Q3 are staff projections.

1. For corporations: Excess of capital expenditures over U.S. internal funds.

2. Includes change in liabilities not shown in lines 8 and 9.

3. Average debt levels in the period (computed as the average of period-end debt positions) divided by disposable personal income.

4. NIPA surplus less changes in retirement fund assets plus consumption of fixed capital.

5. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.

6. Excludes government-insured mortgage pool securities.

respectively, from GDP growth, somewhat more drag on output than expected in the previous Greenbook.<sup>3</sup>

**Summary of Staff Projections**  
(Percentage change from end of previous period)

Measure	1997			1998	1999
	H1	Q3	Q4		
Foreign output	4.2	4.8	3.0	2.5	3.2
November	3.8	4.0	3.3	2.8	3.5
September	3.8	4.0	4.1	3.9	3.7
Real exports	14.1	4.7	9.3	3.8	5.8
November	14.1	5.5	15.3	7.2	6.6
September	14.9	4.9	14.7	7.6	6.1
Real imports	19.2	13.9	11.6	10.5	7.8
November	19.2	14.1	10.9	10.2	7.8
September	19.2	12.0	9.6	9.2	7.0

**The dollar.** In light of the deepening economic and financial problems faced by Japan, Korea, and other east Asian countries and the appreciation of the dollar over the intermeeting period, we have revised upward our projection of the dollar's foreign exchange value over the forecast period. The dollar is projected to remain near current levels against the mark and other continental European currencies but to decline against the Canadian dollar, as policy tightening returns that currency to the middle of its recent trading range. Sluggish growth in Japan, financial system difficulties, and competitive pressures from other Asian countries are forecast to weigh on the yen throughout the forecast period, although it is projected to strengthen somewhat in 1999. Against the currencies of Korea, Indonesia, Malaysia, and Thailand, the dollar is forecast to remain at current--substantially appreciated--levels in nominal terms, but future price-level increases in these Asian countries should erode some of the dollar's appreciation in real terms during the forecast period. On balance, the U.S. trade-weighted average value of the dollar against twenty key currencies (the G-10 currencies plus ten developing-country currencies) is projected to be nearly 3-1/2

---

3. Compared with the September Greenbook forecast: Total foreign GDP growth in this forecast is 1-1/2 percentage points lower in 1998 and 1/2 percentage point lower in 1999. The dollar is slightly stronger, less than 1 percent, in the current forecast. As a result, real net exports subtract an additional 0.6 percentage point and 0.2 percentage point from GDP growth in 1998 and 1999, respectively.

of Mexico. However, the lower projected level of oil prices will depress onshore oil production in the lower 48 states, leading to a decline in liftings in 1999.

**Selected Trade Prices**  
 (Percentage change from end of previous period  
 except as noted; seasonally adjusted)

Trade category	Projection				
	1997			1998	1999
	H1	Q3	Q4		
<i>Exports</i>					
Nonagricultural (core)	0.9	0.8	-1.3	-0.7	1.1
Agricultural	0.1	-6.7	0.9	-3.7	1.9
<i>Imports</i>					
Non-oil (core)	-1.3	0.2	-4.9	-1.9	0.8
Oil (level, dollars per barrel)	18.00	17.57	17.81	15.00	16.00

NOTE. Prices for exports and non-oil imports of goods, excluding computers and semiconductors, are on a NIPA chain-weighted basis.

The price of imported oil for multiquarter periods is the price for the final quarter of the period.

**Oil prices.** We have lowered our projected path for the price of imported oil by roughly \$2 per barrel since the November Greenbook. We project that import prices will fall to \$15.88 per barrel during the first quarter of next year because of anticipated increases in production of 0.75 mb/d by Saudi Arabia, Kuwait, and the United Arab Emirates beginning in January. After declining a bit more during the middle of next year, we project the WTI spot price and the oil import unit value to rise to \$18.50/b and \$16.00/b, respectively, by the end of 1999.

While we see a relatively weak oil market in 1998--an unexpectedly large increase in OPEC production that may well crowd out half of the industry's plans for a 1.0 mb/d increase in non-OPEC production--we see the oil market beginning to tighten during 1999. Absent any further surprises from OPEC (or increased production rates allocated to Iraq under the oil-for-food plan), the market will tighten because non-OPEC producers are having difficulty bringing new fields under development into production within their planned time frame.

The increase in oil production anticipated in January by the three key Persian Gulf oil producers may lead to more volatile oil prices in the forecast period as well. The 0.75 mb/d increase in production reduces the excess capacity in the industry by

Strictly Confidential (FR)  
Class II FOMC

December 11, 1997

OUTLOOK FOR FOREIGN REAL GDP AND CONSUMER PRICES: SELECTED COUNTRIES  
(Percent, Q4 to Q4)

Measure and country	---- Projected ----								
	1991	1992	1993	1994	1995	1996	1997	1998	1999
<b>REAL GDP</b>									
Canada	0.0	0.5	3.1	4.9	0.7	2.3	4.3	3.1	2.5
Japan	2.5	0.1	0.5	0.8	2.4	3.4	0.5	1.5	1.8
United Kingdom	-1.6	0.4	2.7	4.9	2.0	2.9	3.6	1.6	1.8
EU-11 Average (1)	2.1	0.1	-0.1	3.5	1.4	2.0	2.8	2.6	2.9
of which:									
France	1.3	-0.0	-0.5	4.2	0.3	2.2	2.9	2.3	2.5
Germany (2)	3.3	0.9	-0.2	3.4	0.7	2.1	2.8	2.4	3.0
Italy	1.9	-0.8	0.1	2.7	2.3	0.3	2.2	2.2	3.0
Foreign G-7 Average weighted by 1991 GDP	1.7	0.2	0.6	2.9	1.6	2.4	2.2	2.0	2.3
<b>Average weighted by share of U.S. nonagricultural exports</b>									
Total foreign	3.0	1.9	3.3	5.1	1.9	4.1	4.0	2.5	3.2
Foreign G-7	0.8	0.3	1.8	3.9	1.3	2.5	3.2	2.4	2.3
Developing Countries	6.5	5.1	6.3	7.0	2.6	6.7	5.4	2.4	4.3
<b>CONSUMER PRICES</b>									
Canada	4.1	1.8	1.8	0.0	2.1	2.0	1.6	2.0	2.0
Japan	3.2	0.9	1.2	0.8	-0.8	0.1	2.0	0.0	0.0
United Kingdom (3)	5.7	3.7	2.7	2.2	2.9	3.2	2.8	2.8	3.0
EU-11 Average (4)	NA	NA	NA	NA	2.7	2.0	1.5	1.9	2.1
of which:									
France	3.0	1.8	2.1	1.6	1.9	1.7	1.2	1.8	1.9
Germany (2)	4.0	3.4	4.2	2.6	1.7	1.4	1.9	2.0	2.1
Italy	6.1	4.9	4.1	3.8	5.9	2.7	1.7	2.0	2.5
Foreign G-7 Average weighted by 1991 GDP	4.1	2.4	2.5	1.8	1.6	1.5	1.9	1.4	1.5
<b>Average weighted by share of U.S. non-oil imports</b>									
	3.9	1.9	2.0	1.0	1.1	1.3	1.9	1.3	1.3

1. Includes all of the European Union countries except the United Kingdom, Denmark, Sweden, and Greece; weighted by GDP.  
 2. West German data through 1991; all Germany thereafter.  
 3. CPI excluding mortgage interest payments which is the targeted inflation rate.  
 4. Harmonized CPI's for the EU-11, weighted by shares in final consumption of households converted to a common currency using estimated PPP exchange rates.

Strictly Confidential (FR)  
Class II FOMC

December 11, 1997

OUTLOOK FOR FOREIGN REAL GDP AND CONSUMER PRICES: SELECTED COUNTRIES  
(Percent, quarterly change at an annual rate)

Measure and country	1997				Projected				1999			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>REAL GDP</b>												
Canada	3.7	4.9	4.8	3.8	3.3	3.0	3.1	2.8	2.6	2.7	2.5	2.3
Japan	8.3	-10.6	3.1	2.4	1.5	1.5	1.5	1.5	1.8	1.8	1.8	1.8
United Kingdom	3.4	4.0	3.6	3.3	2.0	1.6	1.5	1.5	1.6	1.6	1.9	2.0
EU-11 Average (1)	1.2	4.7	2.9	2.5	2.5	2.6	2.6	2.5	2.9	2.8	3.0	2.8
of which:												
France	1.2	4.5	3.7	2.2	2.2	2.2	2.4	2.5	2.5	2.5	2.5	2.5
Germany	1.2	4.1	3.2	2.7	2.3	2.3	2.5	2.6	3.0	2.9	3.0	2.9
Italy	-1.1	6.7	1.6	2.0	2.1	2.1	2.3	2.3	2.6	2.6	3.5	3.5
Foreign G-7 Average weighted by 1991 GDP	3.6	-0.6	3.2	2.6	2.0	2.0	2.0	2.0	2.3	2.2	2.4	2.4
Average weighted by share of U.S. nonagricultural exports												
Total foreign	3.8	4.5	4.8	3.0	2.4	2.4	2.5	2.7	2.9	3.1	3.3	3.4
Foreign G-7	4.1	1.4	4.0	3.2	2.6	2.4	2.5	2.3	2.3	2.4	2.3	2.3
Developing Countries	4.2	8.4	6.6	2.6	1.7	2.2	2.5	3.2	3.6	4.1	4.5	4.9
<b>CONSUMER PRICES (2)</b>												
Canada	2.1	1.6	1.7	1.6	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0
Japan	0.0	1.5	1.7	2.0	2.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0
United Kingdom (3)	2.9	2.6	2.8	2.8	2.8	2.8	2.9	2.8	2.8	3.0	3.0	3.0
EU-11 Average (4)	1.7	1.2	1.5	1.5	1.8	1.8	2.0	1.9	2.0	2.1	2.1	2.1
of which:												
France	1.5	0.9	1.3	1.2	1.4	1.5	1.8	1.8	1.9	1.9	1.9	1.9
Germany	1.7	1.6	1.9	1.9	1.9	1.9	2.0	2.0	2.0	2.1	2.1	2.1
Italy	2.4	1.6	1.5	1.7	2.0	2.0	2.1	2.0	2.3	2.3	2.5	2.5
Foreign G-7 Average weighted by 1991 GDP	1.4	1.6	1.8	1.9	2.0	1.5	1.4	1.4	1.5	1.5	1.5	1.5
Average weighted by share of U.S. non-oil imports	1.3	1.6	1.8	1.9	2.0	1.4	1.3	1.3	1.3	1.3	1.3	1.3

1. Includes all of the European Union countries except the United Kingdom, Denmark, Sweden, and Greece; weighted by GDP.
2. Percent change from same period a year earlier.
3. CPI excluding mortgage interest payments which is the targeted inflation rate.
4. Harmonized CPI's for the EU-11, weighted by shares in final consumption of households converted to a common currency using estimated PPP exchange rates.

Strictly Confidential (FR)  
Class II FOMC

December 11, 1997

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1991	1992	1993	1994	1995	1996	1997	Projected 1998	Projected 1999
<b>NIPA REAL EXPORTS and IMPORTS</b>									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	0.4	-0.4	-0.6	-0.4	0.4	-0.4	-0.8	-0.9	-0.4
Exports of G&S	0.8	0.4	0.5	1.0	1.1	1.0	1.2	0.4	0.7
Imports of G&S	-0.4	-0.8	-1.1	-1.4	-0.7	-1.4	-2.0	-1.3	-1.0
Percentage change, Q4/Q4									
Exports of G&S	8.6	4.1	4.6	10.0	10.3	9.3	10.5	3.8	5.8
Services	7.1	-0.9	4.1	6.0	9.0	4.7	2.9	-0.4	3.2
Agricultural Goods	10.1	10.4	-5.5	16.6	-3.4	5.7	2.5	-2.1	1.9
Computers	21.7	25.2	23.7	32.0	55.7	33.8	64.2	43.5	42.5
Semiconductors	41.8	64.8	32.9	66.9	80.4	45.9	32.6	38.6	38.6
Other Goods 1/	7.0	2.3	3.6	6.9	5.7	7.6	10.0	0.4	0.6
Imports of G&S	4.1	7.4	10.2	12.3	5.6	11.8	15.9	10.5	7.8
Services	-2.7	1.4	3.2	1.4	7.3	5.0	12.7	3.6	1.7
Oil	8.1	12.1	10.1	-0.2	1.5	8.3	3.4	2.3	3.0
Computers	35.9	45.1	39.3	44.8	46.2	23.6	53.6	39.6	38.1
Semiconductors	55.3	42.0	34.2	54.5	92.7	57.9	42.3	38.6	38.6
Other Goods 2/	2.5	5.4	9.5	12.2	-1.2	10.5	13.7	8.7	4.6
Billions of chained 1992 dollars									
Net Goods & Services	-22.3	-29.5	-70.2	-104.6	-98.8	-114.4	-149.1	-228.7	-287.3
Exports of G&S	599.9	639.4	658.2	712.4	791.2	857.0	963.5	1018.0	1065.1
Imports of G&S	622.2	669.0	728.4	817.0	890.1	971.5	1112.6	1246.7	1352.4
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-5.7	-56.4	-90.8	-133.5	-129.1	-148.2	-165.5	-209.3	-262.5
Net Goods & Services (BOP)	-31.0	-39.2	-72.3	-104.4	-101.9	-111.0	-113.6	-142.7	-188.4
Exports of G&S (BOP)	581.2	617.5	643.5	699.6	794.6	848.8	933.2	966.3	1004.1
Imports of G&S (BOP)	612.2	656.7	715.8	804.1	896.5	959.9	1046.8	1109.0	1192.6
Net Investment Income	20.3	18.0	19.7	9.7	6.8	2.8	-12.6	-24.8	-32.3
Direct, Net	55.6	51.6	55.7	50.8	60.0	66.8	70.2	68.8	76.6
Portfolio, Net	-35.4	-33.6	-36.0	-41.0	-53.2	-63.9	-82.8	-93.5	-108.9
Net Transfers	5.1	-35.2	-38.1	-38.8	-34.0	-40.0	-39.3	-41.8	-41.8

1. Merchandise exports excluding agricultural products, computers, and semiconductors.

2. Merchandise imports excluding oil, computers, and semiconductors.

Strictly Confidential (FR)  
Class II FOMC

December 11, 1997

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1994				1995				1996			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>NIPA REAL EXPORTS and IMPORTS</b>												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.0	-0.3	-0.4	0.3	-0.4	0.1	1.2	1.0	-1.3	-0.6	-1.4	1.8
Exports of G&S	-0.2	1.7	1.1	1.5	0.8	1.0	1.4	1.3	0.2	1.1	0.2	2.6
Imports of G&S	-0.8	-2.0	-1.5	-1.2	-1.2	-0.9	-0.3	-0.3	-1.5	-1.7	-1.6	-0.8
Percentage change from previous period, SAAR												
Exports of G&S	-1.8	17.7	10.6	14.7	7.2	9.3	13.5	11.5	1.7	9.6	1.9	25.5
Services	2.4	12.9	2.0	6.9	6.0	3.8	20.3	6.6	-3.8	9.7	0.3	13.5
Agricultural Goods	-25.2	8.1	45.3	57.2	-1.3	-17.5	19.7	-10.7	12.5	-34.3	13.1	49.2
Computers	21.4	24.3	35.5	48.4	34.9	41.0	89.6	63.1	46.2	31.8	29.2	28.7
Semiconductors	111.8	23.4	65.9	79.1	72.0	97.0	100.3	56.2	19.9	28.3	37.6	113.8
Other Goods 1/	-6.8	20.3	7.4	8.6	2.9	8.2	1.0	11.0	-1.2	13.3	-3.1	23.9
Imports of G&S	7.6	19.0	13.1	9.9	10.0	7.7	2.3	2.4	13.1	14.1	13.2	6.8
Services	2.7	4.1	-0.4	-0.9	24.4	-4.0	8.4	2.2	14.6	2.7	1.2	2.1
Oil	-8.6	27.2	33.5	-36.2	-8.1	12.5	28.0	-19.7	-7.6	67.2	10.6	-19.6
Computers	32.9	48.3	42.3	57.0	8.1	57.3	65.8	61.8	6.4	30.7	26.9	32.0
Semiconductors	60.7	23.7	74.4	64.3	29.6	108.0	157.1	98.8	30.4	10.3	75.5	146.4
Other Goods 2/	6.9	19.6	10.3	12.5	7.3	2.2	-10.0	-3.6	14.5	11.1	12.2	4.3
Billions of chained 1992 dollars												
Net Goods & Services	-97.6	-103.9	-111.1	-105.9	-113.5	-112.8	-92.9	-76.1	-100.8	-112.6	-138.9	-105.6
Exports of G&S	676.0	704.1	722.1	747.3	760.4	777.4	802.4	824.6	828.2	847.4	851.4	901.1
Imports of G&S	773.6	808.0	833.2	853.2	873.9	890.3	895.4	900.7	929.0	960.0	990.2	1006.6
Billions of dollars												
US CURRENT ACCOUNT BALANCE	-104.6	-128.0	-145.4	-156.1	-138.8	-142.8	-132.5	-102.2	-131.5	-142.3	-171.3	-147.5
Net Goods & Services (BOP)	-90.6	-101.5	-114.0	-111.7	-113.2	-123.2	-95.5	-75.5	-98.1	-111.1	-130.1	-104.8
Exports of G&S (BOP)	662.5	688.4	710.9	736.8	761.5	785.9	806.4	824.6	828.4	848.6	840.3	878.0
Imports of G&S (BOP)	753.1	789.9	824.9	848.4	874.7	909.1	901.9	900.1	926.6	959.7	970.4	982.8
Net Investment Income	17.9	10.6	7.2	3.3	8.2	12.9	-1.6	7.8	8.2	3.5	-5.5	5.0
Direct, Net	51.7	48.9	51.0	51.5	57.6	64.1	53.9	64.5	66.2	64.2	60.3	76.4
Portfolio, Net	-33.8	-38.3	-43.8	-48.2	-49.4	-51.3	-55.5	-56.7	-57.9	-60.7	-65.7	-71.4
Net Transfers	-31.9	-37.1	-38.7	-47.7	-33.8	-32.5	-35.4	-34.5	-41.6	-34.8	-35.8	-47.7

1. Merchandise exports excluding agricultural products, computers, and semiconductors.

2. Merchandise imports excluding oil, computers, and semiconductors.

Strictly Confidential (FR)  
Class II FOMC

December 11, 1997

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1997				1998				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-1.0	-0.4	-1.2	-0.4	-1.0	-0.9	-1.5	-0.3	-0.7	-0.2	-0.7	0.1
<b>NIPA REAL EXPORTS and IMPORTS</b>												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.0	-0.4	-1.2	-0.4	-1.0	-0.9	-1.5	-0.3	-0.7	-0.2	-0.7	0.1
Exports of G&S	1.1	2.0	0.5	1.1	0.4	0.7	-0.1	0.8	0.3	0.9	0.3	1.1
Imports of G&S	-2.1	-2.5	-1.7	-1.5	-1.4	-1.6	-1.3	-1.0	-1.0	-1.2	-1.0	-1.0
Percentage change from previous period, SAAR												
Exports of G&S	9.9	18.4	4.7	9.3	3.6	6.0	-1.2	6.9	2.8	8.0	2.8	9.7
Services	3.7	3.2	7.0	-2.1	-4.8	-0.9	1.4	2.7	3.3	3.3	3.2	3.1
Agricultural Goods	-27.6	-4.2	20.9	31.3	-13.0	-2.5	7.9	0.5	-5.6	-1.0	10.3	4.4
Computers	72.3	84.3	59.4	43.8	43.8	43.8	43.3	43.3	42.7	42.7	42.2	42.2
Semiconductors	39.0	15.7	38.7	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6
Other Goods 1/	12.4	25.0	-4.0	8.4	4.2	4.8	-10.0	3.6	-3.5	5.0	-5.6	7.1
Imports of G&S	17.9	20.5	13.9	11.6	11.0	12.7	10.4	7.9	7.6	8.7	7.6	7.2
Services	24.2	8.9	9.4	8.8	7.1	4.2	2.0	1.4	1.5	1.6	1.7	1.9
Oil	-10.8	44.5	5.1	-15.7	-19.4	41.7	12.0	-14.5	-6.2	23.7	2.7	-5.6
Computers	51.3	71.1	52.4	41.2	41.2	39.9	38.6	38.6	38.1	38.1	38.1	38.1
Semiconductors	71.2	19.3	44.8	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6
Other Goods 2/	15.3	17.1	11.2	11.3	10.9	9.0	8.1	6.8	5.4	4.5	4.4	4.1
Billions of chained 1992 dollars												
Net Goods & Services	-126.3	-136.6	-161.9	-171.5	-193.7	-215.3	-249.2	-256.5	-273.4	-280.7	-298.3	-297.0
Exports of G&S	922.7	962.5	973.5	995.5	1004.2	1019.0	1015.9	1032.9	1040.0	1060.2	1067.5	1092.5
Imports of G&S	1048.9	1099.1	1135.4	1166.9	1197.9	1234.3	1265.1	1289.4	1313.3	1340.9	1365.8	1389.6
Billions of dollars												
US CURRENT ACCOUNT BALANCE	-159.9	-151.4	-168.6	-182.2	-177.5	-190.9	-224.6	-244.1	-248.0	-253.7	-269.3	-279.0
Net Goods & Services (BOP)	-117.2	-102.6	-118.5	-116.0	-118.0	-129.0	-159.6	-164.3	-179.2	-183.2	-197.9	-193.4
Exports of G&S (BOP)	897.0	939.0	940.0	957.0	959.2	968.0	961.5	976.3	982.1	1000.2	1005.9	1028.3
Imports of G&S (BOP)	1014.2	1041.5	1058.5	1073.0	1077.2	1097.1	1121.1	1140.6	1161.3	1183.4	1203.8	1221.7
Net Investment Income	-8.0	-13.0	-13.3	-16.2	-20.5	-22.8	-26.0	-29.8	-29.8	-31.5	-32.4	-35.6
Direct, Net	69.3	70.9	69.5	71.1	69.1	68.7	68.5	68.8	72.9	75.5	78.4	79.6
Portfolio, Net	-77.3	-83.9	-82.8	-87.3	-89.5	-91.6	-94.5	-98.5	-102.6	-106.9	-110.9	-115.1
Net Transfers	-34.7	-35.8	-36.8	-50.0	-39.0	-39.0	-39.0	-50.0	-39.0	-39.0	-39.0	-50.0

1. Merchandise exports excluding agricultural products, computers, and semiconductors.

2. Merchandise imports excluding oil, computers, and semiconductors.

## **Part 2**

December 11, 1997

---

## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

---

### **Recent Developments**

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

Confidential (FR) Class III FOMC

---

December 11, 1997

## **RECENT DEVELOPMENTS**

---

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

for which weekly physical product data are available, appliances, steel, and lumber production showed small gains while petroleum refining fell in November.

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

	1997				
	Oct.	Nov.	Dec.	Q3	Q4
U.S. production			Sched.		Sched.
Autos	12.4	13.0	12.2	11.9	12.5
Trucks	5.9	6.1	5.8	6.0	5.9
	6.5	6.9	6.4	5.9	6.6
Days' supply					
Autos	61.2	63.6	--	56.8	--
Light trucks	74.4	68.9	--	71.9	--

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

Production worker hours in the commercial aircraft industry (FRB seasonals) rose 2.4 percent in November, rebounding from October's 0.6 percent decline. October's falloff coincided with Boeing's shutdown of segments of the 747 production line because of parts shortages and other production difficulties. In November, the 747 line was brought back up, but the 737 production line was interrupted, also largely because of parts shortages. Both lines were up in early December, and Boeing plans to increase its assembly rate through the second quarter of next year.

Indicators of future production continue to point to a deceleration in IP in the months ahead: One important contributor will be the scheduled slowdown in motor vehicle production. The staff's estimate of real adjusted durable goods orders fell 2.2 percent in October, but this decrease followed a very strong third quarter; on balance, the recent orders picture points to moderate growth in the near term. Both the National Association of Purchasing Managers and the Dun and Bradstreet Manufacturing Survey indexes of new orders are off a bit from earlier highs, but they remain at favorable levels.

The staff recently published the annual revision of industrial production and capacity utilization. The revision incorporated information from the 1995 Annual Survey of Manufactures and the 1996 Survey of Plant Capacity, as well as updated monthly source data and new information on prices. The cumulative revision places the level of the production index in 1997:Q3 about 3 percent above the

**BROAD MEASURES OF INFLATION**  
**(Four-quarter percent change)**

	1994 Q3	1995 Q3	1996 Q3	1997 Q3
<b>Product prices</b>				
GDP chain price index	2.5	2.5	2.4	1.9
Nonfarm business chain-type price index <sup>1</sup>	2.6	2.1	1.7	1.6
<b>Expenditure prices</b>				
Gross domestic purchases chain-type price index	2.5	2.4	2.2	1.6
Less food and energy	2.5	2.6	2.0	1.6
PCE chain-type price index	2.7	2.4	2.4	1.9
Less food and energy	2.8	2.7	2.1	1.9
CPI	2.9	2.6	3.0	2.2
Less food and energy	2.9	3.0	2.7	2.3
Median CPI	2.9	3.1	3.0	2.8

1. Excluding housing

**SURVEYS OF (CPI) INFLATION EXPECTATIONS**  
**(Percent)**

	Actual inflation <sup>1</sup>	University of Michigan (1-year) Mean <sup>2</sup>	(1-year) Median <sup>3</sup>	Conference Board (1-year)	Professional forecasters (10-year) <sup>4</sup>
1996-Q1	2.7	3.9	2.9	4.1	3.0
Q2	2.8	4.5	3.0	4.3	3.0
Q3	2.9	4.2	3.0	4.3	3.0
Q4	3.2	4.0	3.0	4.2	3.0
1997-Q1	2.9	3.8	2.9	4.2	3.0
Q2	2.3	3.6	2.9	4.0	2.9
Q3	2.2	3.4	2.7	4.0	3.0
Q4					2.7
Jul	2.2	3.4	2.7	4.0	
Aug.	2.2	3.3	2.7	3.9	
Sept.	2.2	3.5	2.8	4.1	3.0
Oct.	2.1	3.2	2.8	4.1	
Nov.		3.4	2.9	4.1	
Dec.					2.7

1. CPI; percent change from the same period in the preceding year.  
 2. Average increase for responses to the question: By about what percent do you expect prices (CPI) to go up, on the average, during the next 12 months?  
 3. Median increase for responses to the question above.  
 4. Compiled by the Federal Reserve Bank of Philadelphia.

TREASURY FINANCING  
(Billions of dollars: total for period)

Item	1997					
	Q1	Q2	Q3	Sept.	Oct.	Nov. <sup>e</sup>
Total surplus / deficit (-)	-52.0	100.1	-11.3	49.6	-35.6	--
<b>Means of financing deficit</b>						
Net borrowing and repayments (-)	48.0	-69.2	10.6	-18.3	6.3	28.7
Nonmarketable	4.0	1.9	4.1	3.3	7.2	3.3
Marketable	44.0	-71.1	6.5	-21.6	-0.9	25.4
Bills	7.9	-81.4	-2.2	-20.1	1.1	16.3
Coupons	36.1	10.3	8.7	-1.5	-2.1	9.1
Decrease in cash balance	- .7	-17.8	7.6	-31.5	23.4	0.5
Other <sup>1</sup>	4.6	-13.1	-7.0	0.3	5.9	--
<b>Memo:</b>						
Cash balance, end of period	33.5	51.3	43.6	43.6	20.3	19.8

Note. Details may not sum to totals because of rounding.

1. Direct loan financing, accrued items, checks issued less checks paid, and other transactions.

e Estimated.

**NET CASH BORROWING OF GOVERNMENT-SPONSORED ENTERPRISES**  
(Billions of dollars)

Agency	1997				
	Q2	Q3	Aug.	Sept.	Oct.
FHLBs	23.6	5.2	0.2	3.0	-7.1
FHLMC	8.3	-1.9	4.2	-5.6	12.4
FNMA	9.3	12.5	-0.5	9.9	-19.9
Farm Credit Banks	1.2	-0.5	-0.8	0.5	-0.5
SLMA	1.7	-4.3	-0.3	-4.7	n.a.

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

CONFIDENTIAL (FR)  
CLASS III - FOMC

December 12, 1997

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

December 12, 1997

UNIVERSITY OF MICHIGAN SURVEY RESEARCH CENTER: SURVEY OF CONSUMER ATTITUDES  
 (Not seasonally adjusted)

	1997 Apr	1997 May	1997 Jun	1997 Jul	1997 Aug	1997 Sep	1997 Oct	1997 Nov	1997 (p) Dec
<b>Indexes of consumer sentiment (Feb. 1966=100)</b>									
Composite of current and expected conditions	101.4	103.2	104.5	107.1	104.4	106.0	105.6	107.2	103.0
Current conditions	115.2	113.5	113.2	114.0	110.7	114.1	109.8	114.9	111.0
Expected conditions	92.5	96.6	98.9	102.6	100.3	100.7	102.8	102.3	97.9
<hr/>									
<b>Personal financial situation</b>									
Now compared with 12 months ago*	132	122	126	130	121	127	124	130	121
Expected in 12 months*	130	138	131	133	138	138	136	138	138
<b>Expected business conditions</b>									
Next 12 months*	130	142	147	151	150	149	154	151	145
Next 5 years*	113	109	121	130	116	119	125	123	111
<b>Appraisal of buying conditions</b>									
Cars	136	150	154	136	139	143	141	140	135
Large household appliances*	167	173	168	166	167	170	161	169	167
Houses	153	160	160	165	166	172	164	163	160
<b>Willingness to use credit</b>									
Willingness to use savings	41	49	43	49	48	50	37	46	41
<b>Expected unemployment change - next 12 months</b>									
	113	109	108	104	107	103	100	108	112
<b>Expected inflation - next 12 months</b>									
Mean	3.7	3.7	3.5	3.4	3.3	3.5	3.2	3.4	3.5
Median	3.0	2.9	2.8	2.7	2.7	2.8	2.8	2.9	2.9
<b>Expected inflation - next 5 to 10 years</b>									
Mean	3.6	3.8	3.9	3.4	3.8	3.6	3.6	3.8	4.1
Median	2.9	3.0	3.1	2.9	3.0	3.1	3.0	3.1	3.2

\* -- Indicates the question is one of the five equally-weighted components of the index of sentiment.

(p) -- Preliminary

(f) -- Final

Note: Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall, plus 100.