

Part 1

September 23, 1998

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

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SUMMARY AND OUTLOOK

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

| Measure | 1998:Q2 | | 1998:Q3 | | 1998:Q4 | |
|--|---|-------------|------------|-------------|------------|-------------|
| | BEA prel. | Sept. GB | Aug. GB | Sept. GB | Aug. GB | Sept. GB |
| Real GDP | 1.6 | 1.9 | 2.2 | 2.6 | 2.5 | 2.6 |
| Private domestic final purchases | 7.6 | 7.4 | 3.3 | 3.4 | 4.2 | 4.9 |
| Personal consumption | 5.8 | 5.9 | 3.6 | 3.5 | 3.1 | 3.4 |
| Residential investment | 14.8 | 15.5 | 8.5 | 10.9 | 2.7 | 5.3 |
| Business fixed investment | 12.6 | 12.7 | -6 | .3 | 12.2 | 14.2 |
| Government outlays for consumption and investment | 3.6 | 3.6 | 1.4 | 2.1 | 2.7 | 1.5 |
| | Change, billions of chained (1992) dollars | | | | | |
| - Inventory investment | -52.3 | -51.6 | 7.6 | 6.7 | -8.2 | -7.9 |
| Net exports | -47.8 | -45.9 | -26.1 | -20.7 | -26.0 | -30.2 |

anticipate a further drag from net exports, although it is only half as large as during the first two quarters of the year. We continue to anticipate that, while auto dealers will be restocking, other nonfarm businesses will be offsetting that impulse to produce by slowing their inventory investment from the unsustainable pace of the first half.

Real PCE is projected to rise at an annual rate of 3-1/2 percent in the third and fourth quarters, versus 6 percent in the first half. For the current quarter, the story is basically the drop-off in sales of new light motor vehicles owing to tight supplies and a payback after the spring incentive programs ended; retail trade figures through August point to another large increase in spending on other goods, and outlays for services have likely remained on a strong uptrend. Although anecdotes of individuals backing away from some discretionary purchases have already surfaced, we doubt that the turmoil in financial markets and the apparent ebbing in consumer confidence have much affected consumer demand in the aggregate to date. As we move through the next few months, however, the decline in household wealth and the deterioration in sentiment will likely hold spending in closer alignment with income trends than was the case earlier this year.

Housing demand--buoyed by gains in employment, income, and wealth and by the lowest interest rates on fixed-rate mortgages since 1993--also was robust this summer. Housing starts jumped in July, as single-family starts climbed to an annual rate of 1.30 million units and multifamily starts surged to more than 400,000 units.

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

| Measure | 1998:H2 | 1999:H1 | 1999:H2 | 2000 |
|--|------------|-----------|------------|------------|
| Real GDP | 2.6 | .9 | 1.6 | 2.4 |
| Previous | 2.3 | 1.3 | 2.0 | ... |
| Final sales | 2.7 | 1.2 | 1.6 | 2.2 |
| Previous | 2.4 | 1.5 | 2.1 | ... |
| PCE | 3.4 | 2.5 | 2.2 | 2.4 |
| Previous | 3.3 | 2.5 | 2.6 | ... |
| Residential investment | 8.0 | -6.1 | -1.5 | 1.4 |
| Previous | 5.5 | -4.1 | -3.2 | ... |
| BFI | 7.0 | 4.3 | 3.0 | 5.4 |
| Previous | 5.6 | 4.9 | 4.8 | ... |
| Government purchases | 1.8 | 1.0 | 1.3 | 1.5 |
| Previous | 2.0 | 1.0 | 1.3 | ... |
| Exports | -2.3 | .1 | 2.6 | 4.7 |
| Previous | -1.4 | 1.9 | 4.1 | ... |
| Imports | 6.6 | 6.8 | 5.3 | 6.6 |
| Previous | 7.5 | 7.3 | 5.7 | ... |
| Change, billions of chained (1992) dollars | | | | |
| Inventory change | -1.2 | -14.9 | .3 | 14.8 |
| Previous | -.6 | -10.0 | -3.9 | ... |
| Net exports | -50.9 | -41.9 | -21.7 | -41.7 |
| Previous | -52.1 | -36.2 | -17.0 | ... |

... Not applicable.

and despite sharply reduced expansion of manufacturing capacity, the utilization rate is anticipated to be noticeably below where it is now. In that environment, inflation in 2000 is expected to be unchanged from its pace in 1999.

Consumer spending. Clearly, one of the key elements in the outlook is our assessment of the prospects for the stock market and of the impact of declining share values on household spending patterns. We continue to believe that the outsized increase in consumer demand relative to income over the past few years was largely a result of the rise in household net worth, in which the stunning rise of share prices was the major driver. With the recent sharp decline in those prices, the ratio of net worth to income has dropped appreciably, and the additional stimulus from the “wealth

the dollar enhances U.S. competitiveness. Demand for imports is now expected to be weaker in 1999 in light of the slower projected growth of domestic activity. On net, the decline in real net exports next year is anticipated to subtract almost 3/4 percentage point from the increase in real GDP, less than half of its negative contribution this year. In 2000, the drag diminishes to less than 1/2 percentage point. (A more detailed discussion is contained in the *International Developments* section.)

Labor markets. Firms, confronted with pressures on their profit margins, undoubtedly are continuing to push for gains in efficiency, and we continue to believe that the underlying trend in labor productivity will be growing 1-3/4 percent a year over the projection period. However, as noted above, many businesses have been scrambling for workers, and they may continue to hire even as increases in output tail off in the period ahead. Consequently, we expect that labor productivity will rise at something less than the underlying trend pace during the current half-year and then lag still more during much of 1999, when economic activity turns distinctly subpar. In 2000, as output picks up and Year 2000 fixes are less of a drain, productivity should accelerate considerably; that year's gain is projected to be 2 percent.

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

| Measure | 1997 | 1998 | 1999 | 2000 |
|---|------|------|------|------|
| Output per hour, nonfarm business | 1.7 | 1.5 | 1.0 | 2.0 |
| Previous | 1.7 | 1.1 | 1.3 | ... |
| Nonfarm payroll employment | 2.7 | 2.3 | .7 | .9 |
| Previous | 2.7 | 2.2 | .8 | ... |
| Household employment survey | 2.1 | .9 | .3 | .6 |
| Previous | 2.1 | .9 | .4 | ... |
| Labor force participation rate ¹ | 67.1 | 66.9 | 66.8 | 66.8 |
| Previous | 67.1 | 67.0 | 66.9 | ... |
| Civilian unemployment rate ¹ | 4.7 | 4.5 | 5.2 | 5.4 |
| Previous | 4.7 | 4.6 | 5.1 | ... |

1. Percent, average for the fourth quarter.

... Not applicable.

This pattern of labor productivity implies that variations in the growth of labor demand will be more muted than those in the growth of output. Nonetheless, net hiring is projected to be meager by the middle of next year before picking up as

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

| Measure | 1997 | 1998 | 1999 | 2000 |
|--|-------------------|------|------|------|
| Consumer price index | 1.9 | 1.6 | 2.1 | 2.0 |
| Previous | 1.9 | 1.5 | 2.1 | ... |
| Food | 1.7 | 1.8 | 1.3 | 1.5 |
| Previous | 1.7 | 1.7 | 1.3 | ... |
| Energy | -1.0 | -8.0 | 4.1 | 1.6 |
| Previous | -1.0 | -7.2 | 3.9 | ... |
| Excluding food and energy | 2.2 | 2.3 | 2.1 | 2.1 |
| Previous | 2.2 | 2.3 | 2.1 | ... |
| PCE chain-weighted price index | 1.5 | .9 | 1.6 | 1.5 |
| Previous | 1.5 | .9 | 1.6 | ... |
| Excluding food and energy | 1.6 | 1.3 | 1.5 | 1.5 |
| Previous | 1.6 | 1.3 | 1.5 | ... |
| GDP chain-weighted price index | 1.7 | 1.0 | 1.5 | 1.5 |
| Previous | 1.7 | 1.1 | 1.5 | ... |
| ECI for compensation of private industry workers ¹ | 3.4 | 3.4 | 3.2 | 2.9 |
| Previous | 3.4 | 3.4 | 3.2 | ... |
| Prices of core non-oil merchandise imports | -.7 | -2.7 | .6 | 1.4 |
| Previous | -.7 | -2.9 | 1.1 | ... |
| | Percentage points | | | |
| MEMO: <i>Adjustments for technical changes to the CPI</i> ² | | | | |
| Core CPI | .2 | .4 | .6 | .6 |

1. December to December.

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

... Not applicable.

2.3 percent rate we expect will be recorded this year. The overall CPI is forecast to accelerate next year. Energy prices increase 4 percent, after having fallen 8 percent this year, and prices of non-oil imports turn upward. On a reported basis, the CPI inflation rate for 1999 is projected to be 2.1 percent, 1/2 percentage point more than this year, despite the technical changes in the index. We are also looking for pickups in inflation as measured by GDP-related indexes from current rates, but with numbers in those cases generally being in the lower, 1 to 1-1/2 percent, range.

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

| Measure | 1998 | 1999 | 2000 |
|--|------|------|------|
| <i>Real GDP</i> | | | |
| Baseline | 3.2 | 1.3 | 2.4 |
| Unchanged funds rate | 3.2 | .8 | 1.6 |
| Weaker stock prices | 3.2 | 1.0 | 2.0 |
| Constant stock market wealth- to-income ratio | 3.2 | 1.7 | 2.9 |
| <i>Civilian unemployment rate¹</i> | | | |
| Baseline | 4.5 | 5.2 | 5.4 |
| Unchanged funds rate | 4.5 | 5.4 | 5.9 |
| Weaker stock prices | 4.5 | 5.3 | 5.6 |
| Constant stock market wealth- to-income ratio | 4.5 | 5.1 | 5.1 |
| <i>CPI excluding food and energy</i> | | | |
| Baseline | 2.3 | 2.1 | 2.1 |
| Unchanged funds rate | 2.3 | 2.0 | 1.6 |
| Weaker stock prices | 2.3 | 2.1 | 2.0 |
| Constant stock market wealth- to-income ratio | 2.3 | 2.1 | 2.2 |

1. Average for the fourth quarter.

point lower in 2000--enough so that the unemployment rate would be approaching 6 percent by the end of the projection period. Inflation would be considerably lower--turning back downward in 2000--with the effects of the added slack being reinforced by a firmer dollar and a perception on the part of the public that the Federal Reserve was emphasizing the pursuit of price stability.

The second and third alternatives consider different paths for the stock market. The baseline for this Greenbook assumes that after having dropped a bit below the recent lows in the near term, share prices recover about 5 percent by early 2000. The second alternative takes the more pessimistic view that stock values drop about 10 percent below the recent low by the second quarter of next year and then move up only slightly in 2000 (essentially paralleling the baseline path). In this scenario, which we believe is quite plausible, sticking with the baseline interest rate path would result in 1/4 percentage point slower real GDP growth in 1999; the shortfall widens to almost 1/2 percentage point in 2000. The payoff in the form of lower inflation is relatively modest because, in the model's view, the public's perceptions of Federal Reserve objectives for inflation are little altered.

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Class II FOMC

STAFF PROJECTIONS OF CHANGES IN GDP, PRICES, AND UNEMPLOYMENT
(Percent, annual rate)

September 23, 1998

| | | Nominal GDP | | Real GDP | | GDP chain-weighted price index | | Consumer price index ¹ | | Unemployment rate ² | |
|---------------------------|----|-------------|----------|----------|----------|--------------------------------|----------|-----------------------------------|----------|--------------------------------|----------|
| Interval | | 08/13/98 | 09/23/98 | 08/13/98 | 09/23/98 | 08/13/98 | 09/23/98 | 08/13/98 | 09/23/98 | 08/13/98 | 09/23/98 |
| ANNUAL | | | | | | | | | | | |
| 1996 | | 5.4 | 5.4 | 3.4 | 3.4 | 1.9 | 1.9 | 3.0 | 3.0 | 5.4 | 5.4 |
| 1997 | | 5.9 | 5.9 | 3.9 | 3.9 | 1.9 | 1.9 | 2.3 | 2.3 | 4.9 | 4.9 |
| 1998 | | 4.5 | 4.6 | 3.4 | 3.5 | 1.1 | 1.1 | 1.6 | 1.6 | 4.6 | 4.5 |
| 1999 | | 3.2 | 3.0 | 1.7 | 1.6 | 1.4 | 1.4 | 2.1 | 2.1 | 4.9 | 4.9 |
| 2000 | | | 3.4 | | 1.9 | | 1.5 | | 2.0 | | 5.4 |
| QUARTERLY | | | | | | | | | | | |
| 1997 | Q1 | 7.2 | 7.2 | 4.2 | 4.2 | 2.8 | 2.8 | 2.0 | 2.0 | 5.3 | 5.3 |
| | Q2 | 5.6 | 5.6 | 4.0 | 4.0 | 1.7 | 1.7 | 1.5 | 1.5 | 4.9 | 4.9 |
| | Q3 | 5.4 | 5.4 | 4.2 | 4.2 | 1.2 | 1.2 | 1.8 | 1.8 | 4.9 | 4.9 |
| | Q4 | 4.2 | 4.2 | 3.0 | 3.0 | 1.1 | 1.1 | 2.3 | 2.3 | 4.7 | 4.7 |
| 1998 | Q1 | 6.4 | 6.4 | 5.5 | 5.5 | 0.9 | 0.9 | 0.5 | 0.5 | 4.7 | 4.7 |
| | Q2 | 2.2 | 2.7 | 1.3 | 1.9 | 0.9 | 0.8 | 2.0 | 2.0 | 4.4 | 4.4 |
| | Q3 | 3.6 | 4.2 | 2.2 | 2.6 | 1.4 | 1.5 | 1.7 | 1.9 | 4.5 | 4.5 |
| | Q4 | 3.9 | 3.6 | 2.5 | 2.6 | 1.4 | 1.0 | 2.0 | 1.9 | 4.6 | 4.5 |
| 1999 | Q1 | 3.0 | 2.7 | 1.2 | 0.9 | 1.7 | 1.8 | 2.4 | 2.4 | 4.7 | 4.7 |
| | Q2 | 2.8 | 2.3 | 1.4 | 0.9 | 1.4 | 1.4 | 2.1 | 2.1 | 4.9 | 4.8 |
| | Q3 | 3.2 | 2.8 | 1.8 | 1.4 | 1.4 | 1.4 | 2.0 | 2.0 | 5.0 | 5.0 |
| | Q4 | 3.6 | 3.3 | 2.2 | 1.9 | 1.4 | 1.4 | 2.0 | 2.0 | 5.1 | 5.2 |
| 2000 | Q1 | | 2.9 | | 1.3 | | 1.6 | | 2.0 | | 5.3 |
| | Q2 | | 4.3 | | 2.9 | | 1.4 | | 2.0 | | 5.4 |
| | Q3 | | 4.1 | | 2.7 | | 1.4 | | 2.0 | | 5.4 |
| | Q4 | | 4.2 | | 2.7 | | 1.5 | | 2.0 | | 5.4 |
| TWO-QUARTER ³ | | | | | | | | | | | |
| 1997 | Q2 | 6.4 | 6.4 | 4.1 | 4.1 | 2.2 | 2.2 | 1.8 | 1.8 | -0.4 | -0.4 |
| | Q4 | 4.8 | 4.8 | 3.6 | 3.6 | 1.2 | 1.2 | 2.0 | 2.0 | -0.2 | -0.2 |
| 1998 | Q2 | 4.3 | 4.5 | 3.4 | 3.7 | 0.9 | 0.8 | 1.2 | 1.2 | -0.3 | -0.3 |
| | Q4 | 3.8 | 3.9 | 2.3 | 2.6 | 1.4 | 1.3 | 1.9 | 1.9 | 0.3 | 0.1 |
| 1999 | Q2 | 2.9 | 2.5 | 1.3 | 0.9 | 1.6 | 1.6 | 2.2 | 2.2 | 0.3 | 0.3 |
| | Q4 | 3.4 | 3.0 | 2.0 | 1.6 | 1.4 | 1.4 | 2.0 | 2.0 | 0.3 | 0.3 |
| 2000 | Q2 | | 3.6 | | 2.1 | | 1.5 | | 2.0 | | 0.2 |
| | Q4 | | 4.2 | | 2.7 | | 1.4 | | 2.0 | | 0.1 |
| FOUR-QUARTER ⁴ | | | | | | | | | | | |
| 1996 | Q4 | 5.8 | 5.8 | 3.9 | 3.9 | 1.8 | 1.8 | 3.2 | 3.2 | -0.3 | -0.3 |
| 1997 | Q4 | 5.6 | 5.6 | 3.8 | 3.8 | 1.7 | 1.7 | 1.9 | 1.9 | -0.6 | -0.6 |
| 1998 | Q4 | 4.0 | 4.2 | 2.9 | 3.2 | 1.1 | 1.0 | 1.5 | 1.6 | -0.1 | -0.2 |
| 1999 | Q4 | 3.1 | 2.8 | 1.7 | 1.3 | 1.5 | 1.5 | 2.1 | 2.1 | 0.5 | 0.6 |
| 2000 | Q4 | | 3.9 | | 2.4 | | 1.5 | | 2.0 | | 0.3 |

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.

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Class II FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES
(Seasonally adjusted annual rate)

September 23, 1998

| Item | Units ¹ | - - - Projected - - - | | | | | | | | |
|---------------------------------------|--------------------|-----------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| | | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
| EXPENDITURES | | | | | | | | | | |
| Nominal GDP | Bill. \$ | 6244.4 | 6558.1 | 6947.0 | 7269.6 | 7661.6 | 8110.9 | 8488.1 | 8743.6 | 9043.2 |
| Real GDP | Bill. Ch. \$ | 6244.4 | 6389.6 | 6610.7 | 6761.7 | 6994.8 | 7269.8 | 7527.5 | 7648.7 | 7797.4 |
| Real GDP | % change | 3.6 | 2.4 | 3.3 | 2.1 | 3.9 | 3.8 | 3.2 | 1.3 | 2.4 |
| Gross domestic purchases | | 4.0 | 3.0 | 3.6 | 1.6 | 4.2 | 4.4 | 4.8 | 1.9 | 2.7 |
| Final sales | | 3.9 | 2.1 | 2.7 | 2.7 | 3.7 | 3.4 | 3.5 | 1.4 | 2.2 |
| Priv. dom. final purchases | | 4.9 | 3.7 | 3.7 | 2.9 | 4.4 | 4.5 | 6.0 | 2.2 | 2.7 |
| Personal cons. expenditures | | 4.2 | 2.7 | 3.1 | 2.6 | 3.3 | 3.7 | 4.7 | 2.4 | 2.4 |
| Durables | | 9.4 | 7.4 | 6.3 | 4.5 | 5.8 | 7.4 | 7.5 | 3.2 | 4.5 |
| Nondurables | | 3.4 | 1.6 | 3.0 | 1.7 | 2.8 | 2.0 | 4.6 | 1.7 | 1.8 |
| Services | | 3.6 | 2.3 | 2.5 | 2.6 | 3.0 | 3.8 | 4.2 | 2.5 | 2.3 |
| Business fixed investment | | 5.5 | 9.9 | 7.6 | 7.3 | 11.7 | 9.8 | 12.1 | 3.6 | 5.4 |
| Producers' dur. equipment | | 9.6 | 12.2 | 10.2 | 9.1 | 11.8 | 12.7 | 17.6 | 5.1 | 7.3 |
| Nonres. structures | | -3.4 | 4.5 | 1.1 | 2.7 | 11.6 | 2.5 | -1.8 | -0.3 | 0.0 |
| Residential structures | | 16.9 | 7.8 | 4.2 | -1.4 | 5.4 | 4.2 | 11.7 | -3.8 | 1.4 |
| Exports | | 4.1 | 4.6 | 10.0 | 10.5 | 10.3 | 9.6 | -3.8 | 1.3 | 4.7 |
| Imports | | 7.4 | 10.2 | 12.3 | 5.6 | 11.8 | 14.0 | 9.5 | 6.1 | 6.6 |
| Gov't. cons. & investment | | 1.7 | -1.4 | 0.1 | -0.9 | 2.1 | 1.4 | 1.3 | 1.2 | 1.5 |
| Federal | | 1.3 | -6.1 | -3.9 | -5.6 | 1.1 | -0.6 | -1.1 | -1.7 | -0.8 |
| Defense | | -1.3 | -6.9 | -6.0 | -5.0 | -0.1 | -1.4 | -3.5 | -2.1 | -0.7 |
| State & local | | 2.0 | 2.0 | 2.7 | 2.1 | 2.8 | 2.6 | 2.6 | 2.7 | 2.6 |
| Change in bus. inventories | Bill. Ch. \$ | 7.0 | 22.1 | 60.6 | 27.7 | 30.0 | 63.2 | 54.1 | 24.8 | 33.2 |
| Nonfarm | | 2.0 | 29.5 | 49.0 | 37.7 | 23.2 | 58.8 | 46.2 | 19.8 | 30.5 |
| Net exports | | -29.5 | -70.2 | -104.6 | -96.5 | -111.2 | -136.1 | -250.9 | -341.2 | -386.0 |
| Nominal GDP | % change | 6.3 | 5.0 | 5.8 | 4.2 | 5.8 | 5.6 | 4.2 | 2.8 | 3.9 |
| EMPLOYMENT AND PRODUCTION | | | | | | | | | | |
| Nonfarm payroll employment | Millions | 108.6 | 110.7 | 114.1 | 117.2 | 119.6 | 122.7 | 125.8 | 127.3 | 128.4 |
| Unemployment rate | % | 7.5 | 6.9 | 6.1 | 5.6 | 5.4 | 4.9 | 4.5 | 4.9 | 5.4 |
| Industrial prod. index | % change | 3.7 | 3.3 | 6.5 | 3.3 | 4.2 | 5.8 | 1.9 | 0.4 | 2.8 |
| Capacity util. rate - mfg. | % | 79.4 | 80.5 | 82.5 | 82.8 | 81.4 | 81.7 | 80.5 | 78.6 | 78.7 |
| Housing starts | Millions | 1.20 | 1.29 | 1.46 | 1.35 | 1.48 | 1.47 | 1.59 | 1.48 | 1.50 |
| Light motor vehicle sales | | 12.85 | 13.86 | 15.01 | 14.72 | 15.05 | 15.03 | 15.13 | 14.55 | 14.41 |
| North Amer. produced | | 10.51 | 11.71 | 12.88 | 12.82 | 13.35 | 13.11 | 13.14 | 12.66 | 12.58 |
| Other | | 2.34 | 2.15 | 2.13 | 1.90 | 1.70 | 1.92 | 1.99 | 1.89 | 1.83 |
| INCOME AND SAVING | | | | | | | | | | |
| Nominal GNP | Bill. \$ | 6255.5 | 6576.8 | 6955.2 | 7287.1 | 7674.0 | 8102.9 | 8465.2 | 8704.1 | 8993.1 |
| Nominal GNP | % change | 6.2 | 5.1 | 5.7 | 4.4 | 5.6 | 5.2 | 4.1 | 2.6 | 3.8 |
| Nominal personal income | | 7.2 | 4.0 | 5.2 | 4.6 | 5.9 | 5.4 | 4.9 | 3.1 | 3.7 |
| Real disposable income | | 4.0 | 1.2 | 2.5 | 2.1 | 2.7 | 2.9 | 3.3 | 2.2 | 2.3 |
| Personal saving rate | % | 5.7 | 4.4 | 3.5 | 3.4 | 2.9 | 2.1 | 0.7 | 0.5 | 0.5 |
| Corp. profits, IVA & CCAdj. | % change | 11.3 | 19.0 | 14.1 | 14.6 | 7.7 | 7.7 | -1.7 | -5.5 | 4.0 |
| Profit share of GNP | % | 6.8 | 7.5 | 8.2 | 9.2 | 9.8 | 10.1 | 9.7 | 8.9 | 8.6 |
| Excluding FR Banks | | 6.6 | 7.2 | 7.9 | 8.9 | 9.5 | 9.8 | 9.4 | 8.6 | 8.3 |
| Federal surpl./deficit | Bill. \$ | -280.9 | -250.7 | -186.7 | -174.4 | -110.3 | -21.1 | 71.3 | 45.7 | 50.0 |
| State & local surpl./def. | | 86.3 | 87.4 | 96.8 | 111.7 | 122.6 | 134.1 | 143.7 | 149.0 | 145.9 |
| Ex. social ins. funds | | 18.3 | 19.7 | 27.9 | 37.0 | 52.2 | 66.0 | 76.1 | 81.3 | 78.2 |
| Gross natl. saving rate | % | 14.5 | 14.4 | 15.5 | 16.3 | 16.6 | 17.4 | 17.3 | 16.3 | 16.0 |
| Net natl. saving rate | | 3.7 | 3.7 | 4.7 | 5.8 | 6.3 | 7.3 | 7.3 | 6.2 | 5.9 |
| PRICES AND COSTS | | | | | | | | | | |
| GDP chn.-wt. price index | % change | 2.6 | 2.6 | 2.5 | 2.1 | 1.8 | 1.7 | 1.0 | 1.5 | 1.5 |
| Gross Domestic Purchases | | 2.7 | 2.3 | 2.5 | 2.0 | 1.8 | 1.3 | 0.5 | 1.4 | 1.4 |
| chn.-wt. price index | | 3.1 | 2.7 | 2.7 | 2.6 | 3.2 | 1.9 | 1.6 | 2.1 | 2.0 |
| CPI | | 3.5 | 3.1 | 2.8 | 3.1 | 2.6 | 2.2 | 2.3 | 2.1 | 2.1 |
| Ex. food and energy | | | | | | | | | | |
| ECI, hourly compensation ² | | 3.5 | 3.6 | 3.1 | 2.6 | 3.1 | 3.4 | 3.4 | 3.2 | 2.9 |
| Nonfarm business sector | | | | | | | | | | |
| Output per hour | | 3.5 | -0.4 | 0.1 | 1.2 | 2.1 | 1.7 | 1.5 | 1.0 | 2.0 |
| Compensation per Hour | | 4.5 | 1.6 | 2.1 | 2.8 | 3.7 | 3.9 | 4.0 | 3.2 | 2.9 |
| Unit labor cost | | 1.0 | 2.0 | 2.0 | 1.6 | 1.6 | 2.1 | 2.5 | 2.2 | 0.9 |

1. Changes are from fourth quarter to fourth quarter.
 2. Private-industry workers.

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Class II FOMC

REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES
(Seasonally adjusted, annual rate except as noted)

September 23, 1998

| Item | Units | 1996 Q1 | 1996 Q2 | 1996 Q3 | 1996 Q4 | 1997 Q1 | 1997 Q2 | 1997 Q3 | 1997 Q4 | 1998 Q1 | 1998 Q2 |
|---------------------------------------|--------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| EXPENDITURES | | | | | | | | | | | |
| Nominal GDP | Bill. \$ | 7495.3 | 7629.2 | 7703.4 | 7818.4 | 7955.0 | 8063.4 | 8170.8 | 8254.5 | 8384.2 | 8439.6 |
| Real GDP | Bill. Ch. \$ | 6882.0 | 6983.9 | 7020.0 | 7093.1 | 7166.7 | 7236.5 | 7311.2 | 7364.6 | 7464.7 | 7499.6 |
| Real GDP | % change | 3.3 | 6.1 | 2.1 | 4.2 | 4.2 | 4.0 | 4.2 | 3.0 | 5.5 | 1.9 |
| Gross domestic purchases | | 4.5 | 7.0 | 3.4 | 1.8 | 5.5 | 4.4 | 4.6 | 3.2 | 7.8 | 4.0 |
| Final sales | | 3.6 | 5.4 | 0.9 | 5.1 | 2.9 | 2.7 | 5.8 | 2.1 | 4.3 | 4.5 |
| Priv. dom. final purchases | | 5.1 | 6.1 | 3.1 | 3.3 | 4.6 | 3.3 | 7.2 | 2.9 | 8.5 | 7.4 |
| Personal cons. expenditures | | 3.7 | 4.7 | 1.8 | 2.9 | 4.3 | 1.6 | 6.2 | 2.8 | 6.1 | 5.9 |
| Durables | | 5.8 | 12.7 | -1.9 | 7.2 | 12.3 | -1.5 | 16.8 | 3.1 | 15.8 | 11.2 |
| Nondurables | | 2.2 | 4.8 | 1.2 | 2.9 | 3.6 | -0.2 | 5.1 | -0.4 | 7.4 | 5.2 |
| Services | | 4.0 | 3.0 | 3.0 | 2.0 | 3.1 | 3.2 | 4.7 | 4.3 | 3.5 | 5.2 |
| Business fixed investment | | 13.1 | 11.0 | 14.2 | 8.8 | 7.0 | 14.0 | 17.0 | 1.8 | 22.2 | 12.7 |
| Producers' dur. equipment | | 15.7 | 12.3 | 16.2 | 3.2 | 8.3 | 22.8 | 18.8 | 2.2 | 34.3 | 18.2 |
| Nonres. structures | | 6.4 | 7.4 | 8.9 | 24.5 | 3.9 | -6.2 | 12.4 | 0.9 | -4.9 | -1.1 |
| Residential structures | | 9.3 | 19.5 | -1.7 | -3.9 | 3.1 | 6.1 | -0.4 | 8.2 | 15.6 | 15.5 |
| Exports | | 3.7 | 5.8 | 2.1 | 32.0 | 8.3 | 15.5 | 10.6 | 4.4 | -2.8 | -7.6 |
| Imports | | 13.1 | 13.5 | 13.6 | 7.0 | 18.6 | 17.9 | 13.5 | 6.3 | 15.7 | 9.2 |
| Gov't. cons. & investment | | 3.2 | 7.1 | -1.6 | 0.0 | 2.1 | 2.1 | 1.4 | 0.1 | -1.9 | 3.6 |
| Federal | | 8.0 | 8.1 | -4.7 | -6.3 | -2.7 | 3.6 | -1.2 | -2.1 | -8.8 | 6.7 |
| Defense | | 7.2 | 8.1 | -6.3 | -8.3 | -9.9 | 9.1 | -1.8 | -2.0 | -18.5 | 9.5 |
| State & local | | 0.5 | 6.5 | 0.3 | 3.8 | 4.9 | 1.3 | 2.9 | 1.3 | 2.1 | 2.1 |
| Change in bus. inventories | Bill. Ch. \$ | 14.4 | 26.1 | 47.5 | 32.1 | 56.3 | 79.0 | 51.0 | 66.5 | 91.4 | 39.8 |
| Nonfarm | | 10.4 | 15.2 | 38.6 | 28.7 | 56.2 | 72.1 | 44.0 | 62.7 | 85.9 | 31.3 |
| Net exports | | -95.5 | -113.5 | -140.1 | -95.9 | -121.5 | -131.6 | -142.4 | -149.0 | -198.5 | -244.4 |
| Nominal GDP | % change | 5.7 | 7.3 | 3.9 | 6.1 | 7.2 | 5.6 | 5.4 | 4.2 | 6.4 | 2.7 |
| EMPLOYMENT AND PRODUCTION | | | | | | | | | | | |
| Nonfarm payroll employment | Millions | 118.5 | 119.3 | 120.0 | 120.7 | 121.5 | 122.3 | 123.0 | 123.9 | 124.8 | 125.5 |
| Unemployment rate | % | 5.6 | 5.4 | 5.3 | 5.3 | 5.3 | 4.9 | 4.9 | 4.7 | 4.7 | 4.4 |
| Industrial prod. index | % change | 2.0 | 7.5 | 3.6 | 3.8 | 5.2 | 4.6 | 6.0 | 7.2 | 1.2 | 1.7 |
| Capacity util. rate - mfg. | % | 81.0 | 81.6 | 81.5 | 81.4 | 81.6 | 81.5 | 81.6 | 82.2 | 81.6 | 80.8 |
| Housing starts | Millions | 1.47 | 1.49 | 1.49 | 1.42 | 1.47 | 1.46 | 1.45 | 1.53 | 1.58 | 1.57 |
| Light motor vehicle sales | | 15.10 | 15.18 | 15.00 | 14.91 | 15.32 | 14.54 | 15.19 | 15.07 | 15.02 | 16.08 |
| North Amer. produced | | 13.44 | 13.46 | 13.33 | 13.16 | 13.41 | 12.68 | 13.20 | 13.13 | 13.07 | 14.09 |
| Other | | 1.66 | 1.72 | 1.68 | 1.76 | 1.92 | 1.86 | 1.99 | 1.94 | 1.95 | 1.99 |
| INCOME AND SAVING | | | | | | | | | | | |
| Nominal GNP | Bill. \$ | 7515.0 | 7643.3 | 7708.6 | 7829.0 | 7952.4 | 8062.3 | 8162.0 | 8234.9 | 8369.4 | 8421.0 |
| Nominal GNP | % change | 5.6 | 7.0 | 3.5 | 6.4 | 6.5 | 5.6 | 5.0 | 3.6 | 6.7 | 2.5 |
| Nominal personal income | | 6.6 | 6.9 | 5.5 | 4.6 | 7.3 | 4.7 | 4.7 | 5.0 | 5.9 | 4.5 |
| Real disposable income | | 2.9 | 2.1 | 4.4 | 1.3 | 3.3 | 2.9 | 2.4 | 2.9 | 4.0 | 2.9 |
| Personal saving rate | % | 3.2 | 2.6 | 3.1 | 2.6 | 2.4 | 2.6 | 1.7 | 1.7 | 1.2 | 0.5 |
| Corp. profits, IVA & CCAdj. | % change | 16.9 | 6.9 | 3.8 | 3.5 | 18.1 | 11.1 | 13.1 | -9.2 | 4.2 | -3.5 |
| Profit share of GNP | % | 9.8 | 9.8 | 9.8 | 9.7 | 10.0 | 10.1 | 10.3 | 10.0 | 9.9 | 9.8 |
| Excluding FR Banks | % | 9.5 | 9.5 | 9.5 | 9.5 | 9.7 | 9.8 | 10.0 | 9.7 | 9.6 | 9.5 |
| Federal surpl./deficit | Bill. \$ | -150.1 | -112.6 | -100.1 | -78.3 | -51.2 | -34.8 | -0.3 | 2.2 | 58.8 | 73.3 |
| State & local surpl./def. | | 117.3 | 129.1 | 122.3 | 121.7 | 128.4 | 130.1 | 136.6 | 141.4 | 140.2 | 135.0 |
| Ex. social ins. funds | | 45.3 | 58.2 | 52.5 | 52.9 | 59.8 | 61.6 | 68.7 | 73.8 | 72.7 | 67.3 |
| Gross natl. saving rate | % | 16.4 | 16.4 | 16.8 | 16.7 | 17.0 | 17.6 | 17.5 | 17.3 | 17.7 | 17.2 |
| Net natl. saving rate | | 6.0 | 6.2 | 6.6 | 6.5 | 7.0 | 7.6 | 7.5 | 7.3 | 7.8 | 7.2 |
| PRICES AND COSTS | | | | | | | | | | | |
| GDP chn.-wt. price index | % change | 2.2 | 1.4 | 1.8 | 1.6 | 2.8 | 1.7 | 1.2 | 1.1 | 0.9 | 0.8 |
| Gross Domestic Purchases | | 2.1 | 1.4 | 1.5 | 2.1 | 2.2 | 0.9 | 1.1 | 1.0 | -0.2 | 0.4 |
| chn.-wt. price index | | 3.2 | 3.7 | 2.6 | 3.3 | 2.0 | 1.5 | 1.8 | 2.3 | 0.5 | 2.0 |
| CPI | | 2.5 | 2.5 | 2.7 | 2.7 | 2.2 | 2.6 | 1.9 | 2.1 | 2.4 | 2.7 |
| Ex. food and energy | | 2.5 | 2.5 | 2.7 | 2.7 | 2.2 | 2.6 | 1.9 | 2.1 | 2.4 | 2.7 |
| ECI, hourly compensation ¹ | | 2.5 | 3.5 | 2.8 | 2.8 | 2.5 | 3.7 | 3.4 | 4.3 | 2.7 | 3.6 |
| Nonfarm business sector | | 4.1 | 3.0 | 0.0 | 1.2 | 0.5 | 1.8 | 3.6 | 0.9 | 3.5 | 0.6 |
| Output per hour | | 2.6 | 5.2 | 3.7 | 3.3 | 4.0 | 2.6 | 3.9 | 4.9 | 4.6 | 4.0 |
| Compensation per hour | | -1.5 | 2.2 | 3.7 | 2.1 | 3.6 | 0.7 | 0.3 | 4.0 | 1.1 | 3.4 |
| Unit labor cost | | -1.5 | 2.2 | 3.7 | 2.1 | 3.6 | 0.7 | 0.3 | 4.0 | 1.1 | 3.4 |

1. Private-industry workers.

Strictly Confidential <PR>
Class II POMC

REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES
(Seasonally adjusted, annual rate except as noted)

September 23, 1998

| Item | Units | ----- Projected ----- | | | | | | | | | |
|---------------------------------------|--------------|-----------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | | 1998 Q3 | 1998 Q4 | 1999 Q1 | 1999 Q2 | 1999 Q3 | 1999 Q4 | 2000 Q1 | 2000 Q2 | 2000 Q3 | 2000 Q4 |
| EXPENDITURES | | | | | | | | | | | |
| Nominal GDP | Bill. \$ | 8526.0 | 8602.3 | 8659.1 | 8708.2 | 8768.2 | 8839.0 | 8903.3 | 8997.6 | 9089.5 | 9182.5 |
| Real GDP | Bill. Ch. \$ | 7548.4 | 7597.2 | 7614.1 | 7630.6 | 7657.1 | 7693.0 | 7717.7 | 7772.7 | 7823.9 | 7875.5 |
| Real GDP | % change | 2.6 | 2.6 | 0.9 | 0.9 | 1.4 | 1.9 | 1.3 | 2.9 | 2.7 | 2.7 |
| Gross domestic purchases | | 3.5 | 3.9 | 1.8 | 1.6 | 1.9 | 2.2 | 1.6 | 3.3 | 3.1 | 2.8 |
| Final sales | | 2.3 | 3.0 | 1.3 | 1.2 | 1.5 | 1.7 | 1.4 | 2.3 | 2.3 | 2.7 |
| Priv. dom. final purchases | | 3.4 | 4.9 | 2.7 | 2.0 | 2.1 | 2.2 | 2.0 | 3.0 | 3.0 | 2.9 |
| Personal cons. expenditures | | 3.5 | 3.4 | 2.7 | 2.4 | 2.2 | 2.2 | 1.8 | 2.8 | 2.5 | 2.5 |
| Durables | | -3.7 | 7.7 | 3.6 | 3.3 | 2.7 | 3.2 | 3.2 | 5.5 | 4.6 | 4.8 |
| Nondurables | | 3.6 | 2.2 | 1.8 | 1.7 | 1.8 | 1.7 | 1.7 | 1.7 | 1.9 | 1.9 |
| Services | | 5.0 | 3.1 | 3.0 | 2.6 | 2.4 | 2.3 | 1.6 | 2.8 | 2.3 | 2.3 |
| Business fixed investment | | 0.3 | 14.2 | 5.1 | 3.4 | 3.4 | 2.7 | 3.7 | 5.1 | 6.7 | 6.1 |
| Producers' dur. equipment | | 0.8 | 19.7 | 7.3 | 4.7 | 4.6 | 3.7 | 5.3 | 6.9 | 9.0 | 8.2 |
| Nonres. structures | | -1.2 | -0.1 | -0.9 | -0.1 | -0.1 | -0.1 | -0.7 | -0.0 | 0.4 | 0.4 |
| Residential structures | | 10.9 | 5.3 | -3.9 | -8.2 | -3.1 | 0.1 | 1.2 | 1.3 | 1.6 | 1.6 |
| Exports | | -1.7 | -2.8 | -0.8 | 0.9 | 2.3 | 2.9 | 3.8 | 4.6 | 5.0 | 5.3 |
| Imports | | 5.5 | 7.7 | 6.8 | 6.9 | 5.9 | 4.7 | 5.5 | 7.6 | 7.6 | 5.6 |
| Gov't. cons. & investment | | 2.1 | 1.5 | 0.2 | 1.9 | 1.6 | 1.1 | 0.2 | 1.7 | 1.4 | 2.6 |
| Federal | | -0.2 | -1.7 | -4.6 | 0.3 | -0.7 | -1.9 | -4.4 | -0.1 | -1.0 | 2.4 |
| Defense | | -0.7 | -2.0 | -6.5 | 0.5 | -1.0 | -1.5 | -6.3 | 0.4 | -1.1 | 4.3 |
| State & local | | 3.2 | 3.3 | 2.8 | 2.7 | 2.7 | 2.7 | 2.6 | 2.6 | 2.6 | 2.6 |
| Change in bus. inventories | Bill. Ch. \$ | 46.5 | 38.6 | 30.4 | 23.7 | 20.9 | 24.0 | 21.2 | 32.4 | 40.1 | 38.9 |
| Nonfarm | | 37.5 | 29.9 | 23.1 | 18.1 | 16.7 | 21.1 | 18.5 | 29.7 | 37.4 | 36.3 |
| Net exports | | -265.1 | -295.3 | -318.0 | -337.2 | -350.5 | -358.9 | -367.7 | -381.4 | -394.5 | -400.6 |
| Nominal GDP | % change | 4.2 | 3.6 | 2.7 | 2.3 | 2.8 | 3.3 | 2.9 | 4.3 | 4.1 | 4.2 |
| EMPLOYMENT AND PRODUCTION | | | | | | | | | | | |
| Nonfarm payroll employment | Millions | 126.1 | 126.7 | 126.9 | 127.2 | 127.4 | 127.6 | 127.9 | 128.5 | 128.5 | 128.8 |
| Unemployment rate | % | 4.5 | 4.5 | 4.7 | 4.8 | 5.0 | 5.2 | 5.3 | 5.4 | 5.4 | 5.4 |
| Industrial prod. index | % change | 1.0 | 3.6 | -0.6 | -0.7 | 0.8 | 2.3 | 1.0 | 3.5 | 3.4 | 3.2 |
| Capacity util. rate - mfg. | % | 79.9 | 79.8 | 79.1 | 78.6 | 78.3 | 78.4 | 78.2 | 78.6 | 78.9 | 79.1 |
| Housing starts | Millions | 1.63 | 1.57 | 1.50 | 1.46 | 1.47 | 1.48 | 1.50 | 1.50 | 1.50 | 1.50 |
| Light motor vehicle sales | | 14.37 | 15.04 | 14.76 | 14.63 | 14.45 | 14.34 | 14.20 | 14.41 | 14.46 | 14.55 |
| North Amer. produced | | 12.34 | 13.07 | 12.85 | 12.72 | 12.57 | 12.50 | 12.41 | 12.58 | 12.61 | 12.70 |
| Other | | 2.04 | 1.97 | 1.91 | 1.91 | 1.88 | 1.84 | 1.79 | 1.83 | 1.85 | 1.85 |
| INCOME AND SAVING | | | | | | | | | | | |
| Nominal GNP | Bill. \$ | 8497.6 | 8573.0 | 8625.8 | 8671.2 | 8726.2 | 8793.4 | 8857.1 | 8949.3 | 9037.1 | 9128.7 |
| Nominal GNP | % change | 3.7 | 3.6 | 2.5 | 2.1 | 2.6 | 3.1 | 2.9 | 4.2 | 4.0 | 4.1 |
| Nominal personal income | | 5.1 | 4.1 | 2.7 | 3.0 | 3.4 | 3.2 | 4.5 | 3.4 | 3.5 | 3.5 |
| Real disposable income | | 3.7 | 2.5 | 4.1 | 1.3 | 1.7 | 1.5 | 4.2 | 1.6 | 1.7 | 1.7 |
| Personal saving rate | % | 0.6 | 0.4 | 0.8 | 0.5 | 0.4 | 0.2 | 0.8 | 0.5 | 0.4 | 0.2 |
| Corp. profits, IVA & CCAdj. | % change | -5.6 | -1.6 | -7.8 | -7.7 | -5.2 | -1.0 | -9.8 | 10.6 | 8.1 | 8.5 |
| Profit share of GNP | % | 9.5 | 9.4 | 9.2 | 8.9 | 8.8 | 8.7 | 8.4 | 8.5 | 8.6 | 8.7 |
| Excluding FR Banks | | 9.3 | 9.2 | 8.9 | 8.7 | 8.5 | 8.4 | 8.1 | 8.3 | 8.4 | 8.4 |
| Federal surpl./deficit | Bill. \$ | 80.5 | 72.5 | 44.6 | 44.7 | 48.1 | 45.4 | 36.3 | 48.2 | 59.0 | 56.7 |
| State & local surpl./def. | | 146.5 | 153.2 | 152.6 | 149.5 | 146.3 | 147.7 | 145.2 | 145.9 | 146.0 | 146.5 |
| Ex. social ins. funds | | 78.9 | 85.5 | 84.9 | 81.8 | 78.6 | 80.0 | 77.5 | 78.2 | 78.3 | 78.8 |
| Gross natl. saving rate | % | 17.3 | 17.0 | 16.7 | 16.4 | 16.2 | 15.9 | 16.0 | 16.0 | 16.0 | 15.9 |
| Net natl. saving rate | | 7.3 | 7.0 | 6.7 | 6.3 | 6.0 | 5.8 | 5.8 | 5.9 | 5.9 | 5.8 |
| PRICES AND COSTS | | | | | | | | | | | |
| GDP chn.-wt. price index | % change | 1.5 | 1.0 | 1.8 | 1.4 | 1.4 | 1.4 | 1.6 | 1.4 | 1.4 | 1.5 |
| Gross Domestic Purchases | | 0.8 | 1.0 | 1.6 | 1.3 | 1.2 | 1.3 | 1.6 | 1.4 | 1.4 | 1.4 |
| chn.-wt. price index | | 1.9 | 1.9 | 2.4 | 2.1 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| CPI | | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 |
| Ex. food and energy | | | | | | | | | | | |
| ECL, hourly compensation ¹ | | 3.7 | 3.7 | 3.2 | 3.2 | 3.1 | 3.1 | 2.9 | 2.9 | 2.9 | 2.9 |
| Nonfarm business sector | | 0.8 | 1.4 | 1.0 | 0.8 | 0.9 | 1.5 | 1.1 | 2.7 | 2.2 | 2.0 |
| Output per hour | | 3.8 | 3.7 | 3.6 | 3.2 | 3.1 | 3.1 | 3.3 | 2.8 | 2.8 | 2.8 |
| Compensation per hour | | 3.0 | 2.3 | 2.6 | 2.4 | 2.2 | 1.6 | 2.2 | 0.1 | 0.6 | 0.8 |
| Unit labor cost | | | | | | | | | | | |

1. Private-industry workers.

| Item | 1996 Q3 | 1996 Q4 | 1997 Q1 | 1997 Q2 | 1997 Q3 | 1997 Q4 | 1998 Q1 | 1998 Q2 | 1998 Q3 | 96Q4/ 95Q4 | 97Q4/ 96Q4 | 98Q4/ 97Q4 |
|-----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|---------------|---------------|---------------|
| Real GDP | 2.1 | 4.2 | 4.2 | 4.0 | 4.2 | 3.0 | 5.5 | 1.9 | 2.6 | 3.9 | 3.8 | 3.2 |
| Gross dom. purchases | 3.5 | 1.9 | 5.5 | 4.4 | 4.7 | 3.2 | 7.9 | 4.1 | 3.6 | 4.2 | 4.4 | 4.8 |
| Final sales | 0.9 | 5.1 | 2.9 | 2.7 | 5.7 | 2.1 | 4.3 | 4.5 | 2.3 | 3.7 | 3.3 | 3.5 |
| Priv. dom. final purchases | 2.5 | 2.7 | 3.8 | 2.7 | 5.9 | 2.4 | 7.0 | 6.1 | 2.9 | 3.6 | 3.7 | 5.0 |
| Personal cons. expenditures | 1.3 | 2.0 | 2.9 | 1.1 | 4.2 | 1.9 | 4.1 | 4.0 | 2.4 | 2.2 | 2.5 | 3.2 |
| Durables | -0.2 | 0.6 | 1.0 | -0.1 | 1.3 | 0.3 | 1.2 | 0.9 | -0.3 | 0.5 | 0.6 | 0.6 |
| Nondurables | 0.2 | 0.6 | 0.7 | 0.0 | 1.0 | -0.1 | 1.4 | 1.0 | 0.7 | 0.6 | 0.4 | 0.9 |
| Services | 1.2 | 0.8 | 1.2 | 1.3 | 1.9 | 1.7 | 1.4 | 2.0 | 2.0 | 1.2 | 1.5 | 1.7 |
| Business fixed investment | 1.4 | 0.9 | 0.7 | 1.4 | 1.7 | 0.2 | 2.2 | 1.3 | 0.0 | 1.2 | 1.0 | 1.3 |
| Producers' dur. equip. | 1.1 | 0.2 | 0.6 | 1.6 | 1.3 | 0.1 | 2.4 | 1.4 | 0.1 | 0.8 | 0.9 | 1.3 |
| Nonres. structures | 0.2 | 0.6 | 0.1 | -0.2 | 0.4 | 0.0 | -0.2 | -0.0 | -0.0 | 0.3 | 0.1 | -0.1 |
| Residential structures | -0.1 | -0.2 | 0.1 | 0.2 | 0.0 | 0.3 | 0.6 | 0.6 | 0.5 | 0.2 | 0.2 | 0.5 |
| Net exports | -1.3 | 2.4 | -1.2 | -0.5 | -0.5 | -0.3 | -2.2 | -2.1 | -0.9 | -0.3 | -0.6 | -1.7 |
| Exports | 0.2 | 3.2 | 1.0 | 1.8 | 1.2 | 0.5 | -0.3 | -0.9 | -0.2 | 1.2 | 1.1 | -0.4 |
| Imports | -1.6 | -0.9 | -2.2 | -2.2 | -1.7 | -0.8 | -1.9 | -1.2 | -0.7 | -1.4 | -1.7 | -1.2 |
| Government cons. & invest. | -0.3 | 0.0 | 0.4 | 0.4 | 0.3 | 0.0 | -0.3 | 0.6 | 0.4 | 0.4 | 0.3 | 0.2 |
| Federal | -0.3 | -0.4 | -0.2 | 0.2 | -0.1 | -0.1 | -0.6 | 0.4 | -0.0 | 0.1 | -0.0 | -0.1 |
| Defense | -0.3 | -0.4 | -0.5 | 0.4 | -0.1 | -0.1 | -0.8 | 0.4 | -0.0 | -0.0 | -0.1 | -0.1 |
| Nondefense | 0.0 | 0.0 | 0.3 | -0.2 | 0.0 | -0.1 | 0.3 | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 |
| State and local | 0.0 | 0.4 | 0.6 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.4 | 0.3 | 0.3 | 0.3 |
| Change in bus. inventories | 1.2 | -0.8 | 1.3 | 1.3 | -1.4 | 0.9 | 1.2 | -2.5 | 0.3 | 0.2 | 0.5 | -0.4 |
| Nonfarm | 1.3 | -0.5 | 1.5 | 0.9 | -1.5 | 1.0 | 1.2 | -2.7 | 0.3 | 0.1 | 0.5 | -0.4 |
| Farm | -0.1 | -0.3 | -0.2 | 0.4 | 0.1 | -0.1 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | 0.1 |

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

| Item | 1998 Q4 | 1999 Q1 | 1999 Q2 | 1999 Q3 | 1999 Q4 | 2000 Q1 | 2000 Q2 | 2000 Q3 | 2000 Q4 | 98Q4/ 97Q4 | 99Q4/ 98Q4 | 00Q4/ 99Q4 |
|-----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|---------------|---------------|---------------|
| Real GDP | 2.6 | 0.9 | 0.9 | 1.4 | 1.9 | 1.3 | 2.9 | 2.7 | 2.7 | 3.2 | 1.3 | 2.4 |
| Gross dom. purchases | 3.9 | 1.9 | 1.7 | 1.9 | 2.2 | 1.6 | 3.4 | 3.1 | 2.9 | 4.8 | 1.9 | 2.7 |
| Final sales | 3.0 | 1.3 | 1.2 | 1.5 | 1.7 | 1.4 | 2.3 | 2.3 | 2.7 | 3.5 | 1.4 | 2.2 |
| Priv. dom. final purchases | 4.1 | 2.2 | 1.7 | 1.8 | 1.9 | 1.7 | 2.5 | 2.5 | 2.5 | 5.0 | 1.9 | 2.3 |
| Personal cons. expenditures | 2.3 | 1.8 | 1.7 | 1.5 | 1.6 | 1.2 | 1.9 | 1.7 | 1.7 | 3.2 | 1.6 | 1.7 |
| Durables | 0.6 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.6 | 0.3 | 0.4 |
| Nondurables | 0.4 | 0.3 | 0.3 | 0.4 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | 0.9 | 0.3 | 0.4 |
| Services | 1.3 | 1.2 | 1.0 | 1.0 | 0.9 | 0.6 | 1.1 | 1.0 | 1.0 | 1.7 | 1.0 | 0.9 |
| Business fixed investment | 1.5 | 0.6 | 0.4 | 0.4 | 0.3 | 0.4 | 0.6 | 0.7 | 0.7 | 1.3 | 0.4 | 0.6 |
| Producers' dur. equip. | 1.5 | 0.6 | 0.4 | 0.4 | 0.3 | 0.4 | 0.6 | 0.7 | 0.7 | 1.3 | 0.4 | 0.6 |
| Nonres. structures | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | 0.0 | 0.0 | -0.1 | -0.0 | 0.0 |
| Residential structures | 0.2 | -0.2 | -0.4 | -0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.5 | -0.2 | 0.1 |
| Net exports | -1.3 | -1.0 | -0.8 | -0.5 | -0.3 | -0.3 | -0.5 | -0.5 | -0.2 | -1.7 | -0.6 | -0.4 |
| Exports | -0.3 | -0.1 | 0.1 | 0.2 | 0.3 | 0.4 | 0.5 | 0.5 | 0.6 | -0.4 | 0.1 | 0.5 |
| Imports | -1.0 | -0.9 | -0.9 | -0.8 | -0.6 | -0.7 | -1.0 | -1.0 | -0.8 | -1.2 | -0.8 | -0.9 |
| Government cons. & invest. | 0.3 | 0.0 | 0.3 | 0.3 | 0.2 | 0.0 | 0.3 | 0.2 | 0.4 | 0.2 | 0.2 | 0.3 |
| Federal | -0.1 | -0.3 | 0.0 | -0.0 | -0.1 | -0.3 | -0.0 | -0.1 | 0.1 | -0.1 | -0.1 | -0.0 |
| Defense | -0.1 | -0.3 | 0.0 | -0.0 | -0.1 | -0.2 | 0.0 | -0.0 | 0.2 | -0.1 | -0.1 | -0.0 |
| Nondefense | -0.0 | -0.0 | 0.0 | 0.0 | -0.1 | -0.0 | -0.0 | -0.0 | -0.0 | 0.1 | -0.0 | -0.0 |
| State and local | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Change in bus. inventories | -0.4 | -0.4 | -0.3 | -0.1 | 0.2 | -0.1 | 0.5 | 0.4 | -0.1 | -0.4 | -0.2 | 0.2 |
| Nonfarm | -0.4 | -0.3 | -0.2 | -0.1 | 0.2 | -0.1 | 0.5 | 0.4 | -0.1 | -0.4 | -0.1 | 0.2 |
| Farm | 0.0 | -0.1 | -0.1 | -0.1 | -0.1 | -0.0 | -0.0 | -0.0 | -0.0 | 0.1 | -0.1 | -0.0 |

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

| Item | Fiscal year ⁵ | | | | 1998 | | | | 1999 | | | | 2000 | | | |
|--|--------------------------|------|------|------|-----------------|-----------------|------|------|------|------|------|------|------|------|------|------|
| | 1997 ^a | 1998 | 1999 | 2000 | Q1 ^a | Q2 ^a | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| UNIFIED BUDGET | | | | | | | | | | | | | | | | |
| Not seasonally adjusted | | | | | | | | | | | | | | | | |
| Receipts ¹ | 1579 | 1721 | 1770 | 1806 | 378 | 544 | 412 | 411 | 388 | 541 | 431 | 412 | 407 | 549 | 438 | 419 |
| Outlays ¹ | 1601 | 1653 | 1714 | 1754 | 409 | 407 | 411 | 472 | 397 | 421 | 425 | 443 | 448 | 432 | 431 | 453 |
| Surplus/deficit ¹ | -22 | 68 | 56 | 52 | -30 | 137 | 1 | -61 | -8 | 120 | 6 | -30 | -41 | 117 | 7 | -34 |
| On-budget | -103 | -37 | -62 | -74 | -51 | 87 | -7 | -60 | -62 | 66 | -6 | -65 | -64 | 60 | -5 | -69 |
| Off-budget | 81 | 105 | 119 | 126 | 21 | 50 | 8 | -1 | 54 | 53 | 12 | 35 | 23 | 56 | 11 | 34 |
| Surplus excluding deposit insurance ² | -36 | 63 | 52 | 48 | -31 | 136 | -1 | -62 | -9 | 119 | 5 | -31 | -42 | 116 | 6 | -35 |
| Means of financing | | | | | | | | | | | | | | | | |
| Borrowing | 38 | -54 | -36 | -56 | 26 | -82 | -32 | 42 | 25 | -105 | 2 | 20 | 31 | -89 | -17 | 19 |
| Cash decrease | 1 | 12 | -8 | 0 | 4 | -45 | 40 | 11 | -4 | -10 | -5 | 10 | 10 | -25 | 5 | 20 |
| Other ³ | -17 | -25 | -12 | 4 | 0 | -10 | -9 | 8 | -13 | -5 | -3 | 1 | 1 | -3 | 6 | -5 |
| Cash operating balance, end of period | 44 | 32 | 40 | 40 | 28 | 72 | 32 | 21 | 25 | 35 | 40 | 30 | 20 | 45 | 40 | 20 |
| NIPA FEDERAL SECTOR | | | | | | | | | | | | | | | | |
| Seasonally adjusted annual rate | | | | | | | | | | | | | | | | |
| Receipts | 1687 | 1820 | 1869 | 1899 | 1809 | 1837 | 1870 | 1886 | 1854 | 1862 | 1873 | 1884 | 1883 | 1904 | 1924 | 1942 |
| Expenditures | 1728 | 1767 | 1816 | 1852 | 1750 | 1764 | 1789 | 1814 | 1809 | 1817 | 1825 | 1839 | 1847 | 1856 | 1865 | 1885 |
| Consumption expend. | 458 | 459 | 464 | 468 | 451 | 464 | 461 | 461 | 463 | 465 | 466 | 465 | 468 | 469 | 469 | 473 |
| Defense | 306 | 301 | 301 | 302 | 293 | 303 | 301 | 301 | 301 | 302 | 302 | 301 | 301 | 302 | 302 | 306 |
| Nondefense | 152 | 158 | 163 | 166 | 158 | 161 | 160 | 160 | 163 | 163 | 164 | 164 | 166 | 167 | 167 | 167 |
| Other expenditures | 1270 | 1308 | 1353 | 1384 | 1299 | 1300 | 1328 | 1353 | 1346 | 1352 | 1359 | 1374 | 1380 | 1387 | 1396 | 1412 |
| Current account surplus | -41 | 54 | 52 | 47 | 59 | 73 | 80 | 72 | 45 | 45 | 48 | 45 | 36 | 48 | 59 | 57 |
| Gross investment | 61 | 59 | 59 | 57 | 61 | 56 | 60 | 60 | 59 | 59 | 59 | 58 | 57 | 57 | 57 | 58 |
| Current and capital account surplus | -102 | -6 | -6 | -10 | -2 | 17 | 20 | 13 | -14 | -14 | -10 | -13 | -21 | -9 | 2 | -1 |
| FISCAL INDICATORS ⁴ | | | | | | | | | | | | | | | | |
| High-employment (HEB) surplus/deficit | -163 | -103 | -90 | -55 | -102 | -87 | -83 | -91 | -103 | -90 | -75 | -68 | -65 | -50 | -37 | -39 |
| Change in HEB, percent of potential GDP | -.8 | -.8 | -.2 | -.4 | -.5 | -.2 | 0 | .1 | .1 | -.1 | -.2 | -.1 | 0 | -.2 | -.2 | 0 |
| Fiscal impetus (FI), percent, cal. year | -2.1 | -1.8 | .2 | -2.3 | -2.1 | 1 | 1.7 | -1.5 | 1 | -.2 | -.5 | -1.2 | -1.1 | 0 | -.2 | .6 |

1. OMB's May 1998 surplus estimates (assuming the enactment of the President's proposals) are \$39 billion in FY98 and \$54 billion in FY99. CBO's August 1998 baseline surplus estimates are \$63 billion in FY98 and \$80 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 May 1998 surplus estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are \$35 billion in FY98 and \$51 billion in FY99 and CBO's August baseline estimates are \$59 billion in FY98 and \$76 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 be 2.8 percent beginning 1995:Q3. 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.

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

| Period ¹ | Total ² | Federal government ³ | Nonfederal | | | | | | Memo: Nominal GDP |
|---------------------|--------------------|------------------------------------|--------------------|------------|-------------------|--------------------|----------|--------------------------------|-------------------------|
| | | | Total ⁴ | Households | | | Business | State and local governments | |
| | | | | Total | Home mortgages | Consumer credit | | | |
| <i>Year</i> | | | | | | | | | |
| 1990 | 6.4 | 11.0 | 5.2 | 7.5 | 9.6 | 1.5 | 3.1 | 5.0 | 4.4 |
| 1991 | 4.3 | 11.1 | 2.3 | 4.7 | 6.4 | -1.3 | -1.7 | 8.6 | 3.8 |
| 1992 | 4.6 | 10.9 | 2.6 | 4.3 | 5.2 | 0.5 | 0.8 | 2.2 | 6.3 |
| 1993 | 5.0 | 8.3 | 3.8 | 5.3 | 4.3 | 7.6 | 1.6 | 6.0 | 5.0 |
| 1994 | 4.6 | 4.7 | 4.6 | 7.5 | 5.8 | 14.5 | 4.0 | -4.0 | 5.8 |
| 1995 | 5.4 | 4.1 | 5.9 | 7.8 | 5.5 | 14.1 | 6.6 | -4.6 | 4.2 |
| 1996 | 5.3 | 4.0 | 5.8 | 7.8 | 8.0 | 7.9 | 5.1 | -0.6 | 5.8 |
| 1997 | 5.3 | 0.6 | 7.0 | 6.8 | 7.5 | 4.3 | 7.6 | 5.3 | 5.6 |
| 1998 | 5.6 | -1.2 | 7.8 | 8.0 | 8.9 | 3.8 | 8.3 | 4.8 | 4.2 |
| 1999 | 3.6 | -1.6 | 5.2 | 5.5 | 6.3 | 1.8 | 5.1 | 4.3 | 2.8 |
| 2000 | 3.4 | -1.5 | 4.8 | 4.9 | 5.3 | 1.9 | 4.9 | 3.8 | 3.9 |
| <i>Quarter</i> | | | | | | | | | |
| 1997:3 | 5.6 | 0.8 | 7.3 | 6.9 | 9.1 | 4.1 | 7.8 | 6.7 | 5.4 |
| 4 | 6.4 | 1.1 | 8.2 | 7.3 | 8.2 | 3.0 | 9.1 | 8.4 | 4.2 |
| 1998:1 | 6.0 | -0.8 | 8.3 | 7.9 | 8.6 | 4.1 | 8.8 | 8.4 | 6.4 |
| 2 | 6.1 | -1.8 | 8.6 | 8.5 | 9.3 | 4.6 | 9.5 | 5.7 | 2.7 |
| 3 | 4.6 | -3.9 | 7.3 | 7.5 | 8.7 | 3.1 | 8.1 | 2.5 | 4.2 |
| 4 | 5.1 | 1.8 | 6.1 | 7.0 | 8.0 | 3.4 | 6.0 | 2.5 | 3.6 |
| 1999:1 | 4.1 | -1.3 | 5.7 | 6.2 | 7.1 | 2.3 | 5.3 | 4.6 | 2.7 |
| 2 | 3.3 | -2.8 | 5.2 | 5.6 | 6.3 | 2.0 | 4.9 | 4.4 | 2.3 |
| 3 | 3.5 | -1.2 | 4.9 | 5.0 | 5.7 | 1.5 | 4.9 | 4.1 | 2.8 |
| 4 | 3.4 | -0.9 | 4.7 | 4.8 | 5.5 | 1.4 | 4.8 | 3.9 | 3.3 |

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1998:Q2 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 is projected to grow 5.7 percent in 1998 and 3.8 percent in 1999.

3. On a monthly average basis, federal debt is projected to grow -1.2 percent in 1998 and -1.2 percent in 1999.

4. On a monthly average basis, nonfederal debt is projected to grow 8.1 percent in 1998 and 5.4 percent in 1999.

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

| Category | Calendar year | | | | Seasonally adjusted annual rates | | | | | | | | | |
|--|---------------|--------|-------|-------|----------------------------------|--------|--------|--------|--------|--------|-------|--------|-------|-------|
| | | | | | 1997 | | 1998 | | | | 1999 | | | |
| | 1997 | 1998 | 1999 | 2000 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| <i>Net funds raised by domestic nonfinancial sectors</i> | | | | | | | | | | | | | | |
| 1 Total | 653.7 | 601.5 | 518.4 | 546.3 | 705.6 | 810.8 | 781.1 | 805.8 | 534.1 | 284.9 | 563.2 | 467.3 | 514.1 | 529.0 |
| 2 Net equity issuance | -114.6 | -242.8 | -64.0 | -14.0 | -124.0 | -144.1 | -138.0 | -129.2 | -182.0 | -522.0 | -88.0 | -72.0 | -56.0 | -40.0 |
| 3 Net debt issuance | 768.4 | 844.3 | 582.4 | 560.3 | 829.6 | 954.9 | 919.1 | 935.0 | 716.1 | 806.9 | 651.2 | 539.3 | 570.1 | 569.0 |
| <i>Borrowing sectors</i> | | | | | | | | | | | | | | |
| <i>Nonfinancial business</i> | | | | | | | | | | | | | | |
| 4 Financing gap ¹ | 73.8 | 111.0 | 136.7 | 163.3 | 50.8 | 82.8 | 118.5 | 103.0 | 98.4 | 124.3 | 127.8 | 133.1 | 139.5 | 146.6 |
| 5 Net equity issuance | -114.6 | -242.8 | -64.0 | -14.0 | -124.0 | -144.1 | -138.0 | -129.2 | -182.0 | -522.0 | -88.0 | -72.0 | -56.0 | -40.0 |
| 6 Credit market borrowing | 337.6 | 398.2 | 262.6 | 264.6 | 358.4 | 425.7 | 420.2 | 463.0 | 404.8 | 304.6 | 275.1 | 257.1 | 260.7 | 257.7 |
| <i>Households</i> | | | | | | | | | | | | | | |
| 7 Net borrowing ² | 351.6 | 437.8 | 327.5 | 305.4 | 368.3 | 396.2 | 435.9 | 476.7 | 431.2 | 407.7 | 371.4 | 336.5 | 306.1 | 296.3 |
| 8 Home mortgages | 261.3 | 336.0 | 258.2 | 232.1 | 326.9 | 302.0 | 322.2 | 359.1 | 341.2 | 321.7 | 289.7 | 263.7 | 243.7 | 235.7 |
| 9 Consumer credit | 52.5 | 48.7 | 23.7 | 25.9 | 50.3 | 37.8 | 51.7 | 58.6 | 40.1 | 44.2 | 30.6 | 26.9 | 19.3 | 18.1 |
| 10 Debt/DPI (percent) ³ | 91.9 | 94.9 | 97.2 | 98.5 | 92.1 | 92.8 | 93.6 | 94.7 | 95.4 | 96.2 | 96.4 | 97.2 | 97.7 | 98.1 |
| <i>State and local governments</i> | | | | | | | | | | | | | | |
| 11 Net borrowing | 56.1 | 54.2 | 50.5 | 46.8 | 72.6 | 92.3 | 94.3 | 64.9 | 28.8 | 28.8 | 53.8 | 51.8 | 49.8 | 46.8 |
| 12 Current surplus ⁴ | 135.6 | 181.8 | 185.0 | 186.9 | 117.6 | 171.5 | 179.1 | 175.1 | 182.9 | 190.1 | 190.2 | 177.6 | 185.0 | 187.1 |
| <i>Federal government</i> | | | | | | | | | | | | | | |
| 13 Net borrowing | 23.1 | -45.9 | -58.3 | -56.5 | 30.3 | 40.8 | -31.3 | -69.6 | -148.7 | 65.8 | -49.0 | -106.0 | -46.4 | -31.7 |
| 14 Net borrowing (quarterly, n.s.a.) | 23.1 | -45.9 | -58.3 | -56.5 | 10.6 | 33.7 | 25.6 | -81.5 | -31.8 | 41.8 | 25.0 | -104.6 | 1.7 | 19.5 |
| 15 Unified deficit (quarterly, n.s.a.) | 2.4 | -46.6 | -87.2 | -47.7 | 10.9 | 39.7 | 30.2 | -136.9 | -0.9 | 61.1 | 8.3 | -119.6 | -6.1 | 30.2 |
| <i>Depository institutions</i> | | | | | | | | | | | | | | |
| 16 Funds supplied | 336.9 | 259.3 | 221.0 | 230.7 | 204.4 | 472.9 | 323.4 | 160.9 | 303.7 | 249.3 | 220.3 | 211.9 | 222.3 | 229.5 |
| <i>Memo (percentage of GDP)</i> | | | | | | | | | | | | | | |
| 17 Domestic nonfinancial debt ⁵ | 182.8 | 184.2 | 186.9 | 187.1 | 182.0 | 182.8 | 182.8 | 184.3 | 184.9 | 185.4 | 186.3 | 187.0 | 187.3 | 187.4 |
| 18 Domestic nonfinancial borrowing | 9.5 | 9.9 | 6.7 | 6.2 | 10.2 | 11.6 | 11.0 | 11.1 | 8.4 | 9.4 | 7.5 | 6.2 | 6.5 | 6.4 |
| 19 Federal government ⁶ | 0.3 | -0.5 | -0.7 | -0.6 | 0.4 | 0.5 | -0.4 | -0.8 | -1.7 | 0.8 | -0.6 | -1.2 | -0.5 | -0.4 |
| 20 Nonfederal | 9.2 | 10.5 | 7.3 | 6.8 | 9.8 | 11.1 | 11.3 | 11.9 | 10.1 | 8.6 | 8.1 | 7.4 | 7.0 | 6.8 |

Note. Data after 1998:Q2 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.

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

| Measure | 1997 | Projection | | | | |
|----------------|------|------------|------|------|------|------|
| | | 1998 | | | 1999 | 2000 |
| | | H1 | Q3 | Q4 | | |
| Foreign output | 4.0 | .2 | -.4 | -.1 | 1.4 | 2.5 |
| <i>August</i> | 3.9 | -0.1 | .5 | 1.1 | 2.1 | |
| Real exports | 9.6 | -5.2 | -1.7 | -2.8 | 1.3 | 4.7 |
| <i>August</i> | 9.6 | -5.8 | -2.3 | -.5 | 3.0 | |
| Real imports | 14.0 | 12.4 | 5.5 | 7.7 | 6.1 | 6.6 |
| <i>August</i> | 14.0 | 13.9 | 6.9 | 8.2 | 6.5 | |

The dollar. We project that the trade-weighted exchange value of the dollar against the major foreign currencies will remain near its current level in coming weeks as market expectations are met for an easing in the very near term by the Federal Reserve. We assume that further cuts in U.S. short-term interest rates and, over time, growing concern about the U.S. external deficit, will cause the dollar to fall at an annual rate of about 4 percent against the euro during 1999 and 2000. The dollar should also decline, though more moderately, against the Canadian dollar as that currency regains some of the ground it has lost in recent months with the gradual pickup in global activity. There is considerable uncertainty about factors that will affect the dollar/yen exchange rate. We expect declining U.S. interest rates and growing concerns about diverging external balances in the United States and Japan to put downward pressure on the dollar. At the same time, chronic macroeconomic and financial sector problems in Japan will weigh on the yen. As a result, we are projecting the dollar to remain little changed against the yen while recognizing that the risk for large movements in either direction are substantial.

At the same time, our forecast has the real exchange value of the dollar little changed against emerging market currencies on average as increases in terms of Latin American currencies are offset by decreases against Asian currencies. We assume that the Mexican peso will decline significantly in the near term and that the Brazilian *real* will depreciate substantially in real terms over the forecast period as Brazil's currency peg succumbs to market pressures. We again project that Chinese authorities will allow some decline in the renminbi later next year and that the Argentine and Hong Kong currency pegs will hold. The projected appreciation of Asian currencies in real terms reflects inflation

half of 1999. As the effects of past appreciation of the dollar wane, and the dollar begins to depreciate, import prices should begin to rise slowly over the rest of the forecast period. Nonagricultural export prices for core goods are projected to decline slightly further in the second half of 1998 but to begin rising very slowly over the remainder of the forecast period, in line with comparable domestic prices.

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

| Trade category | 1997 | Projection | | | | |
|---------------------------------|-------|------------|-------|-------|-------|-------|
| | | 1998 | | | 1999 | 2000 |
| | | H1 | Q3 | Q4 | | |
| <i>Exports</i> | | | | | | |
| Nonagricultural (core) | .5 | -2.0 | -.8 | .1 | 1.2 | 1.3 |
| Agricultural | -3.2 | -10.9 | -11.5 | -11.4 | 1.7 | 2.0 |
| <i>Imports</i> | | | | | | |
| Non-oil (core) | -.7 | -2.6 | -3.8 | -1.8 | 0.6 | 1.4 |
| Oil (level, dollars per barrel) | 17.72 | 12.51 | 11.64 | 12.75 | 13.50 | 14.00 |

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.

Nominal trade and current account balances. The nominal trade deficit on goods and services is projected to widen significantly further over the forecast period, from about \$175 billion in the second quarter of this year to nearly \$290 billion in the fourth quarter of 2000. The deficit on net investment income also is projected to widen over the forecast period. As a result, the current account deficit is expected to grow from about \$225 billion in the second quarter (2¾ percent of GDP) to an average of more than \$360 billion for the year 2000 (4 percent of GDP, noticeably above the previous peak for this ratio that was reached in 1987).

Risks

The risks surrounding the international outlook are substantial and, if anything, have widened further as a result of recent events. We consider two alternative scenarios that highlight the potential implications of these risks for U.S. GDP and inflation. The first, labeled “pessimistic scenario” combines several somewhat interrelated developments abroad that could cause U.S. GDP to fall more than in our current baseline forecast. The

above baseline but remains well below longer-term trend rates. The effect on Europe is small. U.S. GDP growth rises $\frac{3}{4}$ percentage point above baseline in 1999 and $\frac{1}{2}$ percentage point in 2000. Consumer price inflation rises by roughly $\frac{1}{2}$ percentage point during 1999 and 2000. Most of the effect on U.S. growth and inflation results directly from the decline in the dollar. If, in addition the U.S. stock market were to rebound strongly to these developments, the effects on U.S. GDP would be greater.

Alternative International Scenarios

(Percent change, Q4 to Q4)

| Measure | 1998 | 1999 | 2000 |
|-------------------------------------|------|------|------|
| <i>U.S. Real GDP</i> | | | |
| Baseline | 3.2 | 1.2 | 2.4 |
| Pessimistic | 3.2 | 0.8 | 2.1 |
| Pessimistic + Stock Market* | 3.2 | 0.5 | 1.8 |
| Optimistic | 3.3 | 2.0 | 2.8 |
| <i>U.S. CPI ex. food and energy</i> | | | |
| Baseline | 2.3 | 2.1 | 2.1 |
| Pessimistic | 2.3 | 1.9 | 1.9 |
| Pessimistic + Stock Market* | 2.3 | 1.9 | 1.8 |
| Optimistic | 2.3 | 2.7 | 2.6 |

* U.S. stock market falls an additional 10 percent.

September 23, 1998

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

| Measure and country | | | | | | | -----Projected----- | | |
|--|------|------|------|------|------|------|---------------------|------|------|
| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
| REAL GDP | | | | | | | | | |
| Canada | 0.9 | 3.1 | 4.5 | 0.8 | 2.0 | 4.0 | 2.5 | 2.2 | 2.5 |
| Japan | 0.1 | 0.5 | 0.8 | 2.4 | 3.4 | -0.4 | -2.6 | 0.9 | 0.6 |
| United Kingdom | 0.4 | 2.7 | 4.9 | 2.0 | 2.9 | 2.9 | 1.5 | 1.7 | 2.3 |
| Euro-11 Average (1) | 0.1 | -0.1 | 3.4 | 1.3 | 1.9 | 3.0 | 2.5 | 2.3 | 2.4 |
| of which: | | | | | | | | | |
| France | -0.1 | -0.5 | 4.1 | 0.3 | 2.4 | 3.0 | 2.2 | 1.9 | 2.0 |
| Germany (2) | 0.9 | -0.2 | 3.4 | 0.0 | 2.1 | 2.3 | 2.3 | 2.0 | 2.2 |
| Italy | -0.8 | 0.1 | 2.5 | 2.6 | -0.2 | 2.8 | 1.4 | 2.0 | 2.3 |
| Foreign G-7 Average weighted by 1991 GDP | 0.2 | 0.6 | 2.8 | 1.5 | 2.3 | 1.8 | 0.4 | 1.6 | 1.7 |
| Average weighted by share of U.S. nonagricultural exports | | | | | | | | | |
| Total foreign | 2.3 | 3.4 | 5.0 | 1.8 | 4.1 | 4.0 | -0.2 | 1.4 | 2.5 |
| Foreign G-7 | 0.5 | 1.9 | 3.6 | 1.2 | 2.3 | 2.8 | 1.3 | 1.8 | 2.1 |
| Developing Countries | 5.2 | 6.1 | 7.2 | 2.5 | 6.8 | 5.4 | -2.9 | 0.8 | 2.9 |
| CONSUMER PRICES | | | | | | | | | |
| Canada | 1.8 | 1.8 | -0.0 | 2.1 | 2.0 | 1.0 | 1.3 | 1.6 | 1.5 |
| Japan | 0.9 | 1.2 | 0.8 | -0.8 | 0.1 | 2.1 | -1.0 | -0.3 | 0.1 |
| United Kingdom (3) | 3.7 | 2.7 | 2.2 | 2.9 | 3.2 | 2.8 | 2.6 | 3.0 | 2.7 |
| Euro-11 Average (4) | NA | NA | NA | 2.7 | 2.0 | 1.4 | 1.3 | 1.5 | 1.5 |
| of which: | | | | | | | | | |
| France | 1.8 | 2.1 | 1.6 | 1.9 | 1.7 | 1.2 | 0.9 | 1.0 | 1.0 |
| Germany (2) | 3.4 | 4.2 | 2.6 | 1.7 | 1.4 | 1.8 | 0.8 | 1.2 | 1.5 |
| Italy | 4.9 | 4.1 | 3.8 | 5.9 | 2.7 | 1.6 | 1.7 | 1.8 | 1.8 |
| Foreign G-7 Average weighted by 1991 GDP | 2.4 | 2.5 | 1.8 | 1.6 | 1.5 | 1.8 | 0.6 | 1.0 | 1.2 |
| Average weighted by share of U.S. non-oil imports | 1.9 | 2.0 | 1.0 | 1.1 | 1.3 | 1.7 | 0.4 | 0.9 | 1.0 |

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

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

| Measure and country | 1998 | | | | Projected 1999 | | | | 2000 | | | |
|--|------|------|------|------|----------------|------|------|------|------|-----|-----|-----|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| REAL GDP | | | | | | | | | | | | |
| Canada | 3.4 | 1.8 | 2.5 | 2.3 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.4 | 2.6 | 2.8 |
| Japan | -5.2 | -3.3 | -2.7 | 0.8 | 0.8 | 1.1 | 0.9 | 0.7 | 0.3 | 0.5 | 0.7 | 0.9 |
| United Kingdom | 2.2 | 2.0 | 0.9 | 1.0 | 1.4 | 1.6 | 1.8 | 2.0 | 2.1 | 2.3 | 2.5 | 2.5 |
| Euro-11 Average (1) | 3.3 | 2.1 | 2.5 | 2.0 | 2.3 | 2.3 | 2.3 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 |
| of which: | | | | | | | | | | | | |
| France | 2.5 | 2.8 | 1.8 | 1.8 | 1.8 | 1.8 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Germany | 5.9 | 0.4 | 1.3 | 1.6 | 1.8 | 2.0 | 2.0 | 2.1 | 2.1 | 2.2 | 2.3 | 2.3 |
| Italy | -0.5 | 1.7 | 3.5 | 1.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.3 | 2.3 | 2.3 | 2.3 |
| Foreign G-7 Average weighted by 1991 GDP | 0.1 | -0.0 | 0.4 | 1.3 | 1.5 | 1.6 | 1.6 | 1.6 | 1.5 | 1.6 | 1.8 | 1.8 |
| Average weighted by share of U.S. nonagricultural exports | | | | | | | | | | | | |
| Total foreign | -0.8 | 0.4 | -0.4 | -0.1 | 0.5 | 1.3 | 1.8 | 2.1 | 2.2 | 2.4 | 2.6 | 2.7 |
| Foreign G-7 | 1.6 | 0.7 | 1.2 | 1.7 | 1.8 | 1.9 | 1.9 | 1.9 | 1.8 | 2.0 | 2.1 | 2.3 |
| Developing Countries | -4.7 | -1.1 | -3.0 | -2.6 | -1.2 | 0.6 | 1.6 | 2.3 | 2.5 | 2.7 | 3.0 | 3.2 |
| CONSUMER PRICES (2) | | | | | | | | | | | | |
| Canada | 1.0 | 1.0 | 1.1 | 1.3 | 1.5 | 1.6 | 1.6 | 1.6 | 1.5 | 1.5 | 1.5 | 1.5 |
| Japan | 2.1 | 0.6 | 0.0 | -1.0 | -1.0 | -1.0 | -0.7 | -0.3 | 0.0 | 0.0 | 0.1 | 0.1 |
| United Kingdom (3) | 2.5 | 3.0 | 2.6 | 2.6 | 2.9 | 2.9 | 3.0 | 3.0 | 2.9 | 2.8 | 2.8 | 2.7 |
| Euro-11 Average (4) | 1.2 | 1.5 | 1.4 | 1.3 | 1.4 | 1.3 | 1.3 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| of which: | | | | | | | | | | | | |
| France | 0.7 | 1.0 | 1.0 | 0.9 | 0.9 | 0.9 | 0.9 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Germany | 1.2 | 1.3 | 0.8 | 0.8 | 0.9 | 1.0 | 1.1 | 1.2 | 1.3 | 1.4 | 1.5 | 1.5 |
| Italy | 1.7 | 1.8 | 1.8 | 1.7 | 1.7 | 1.7 | 1.7 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| Foreign G-7 Average weighted by 1991 GDP | 1.6 | 1.3 | 1.0 | 0.6 | 0.7 | 0.7 | 0.8 | 1.0 | 1.1 | 1.1 | 1.2 | 1.2 |
| Average weighted by share of U.S. non-oil imports | 1.6 | 1.1 | 0.8 | 0.4 | 0.5 | 0.6 | 0.7 | 0.9 | 1.0 | 1.0 | 1.0 | 1.0 |

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 Euro-11, weighted by shares in final consumption of households converted to a common currency using estimated PPP exchange rates.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | ----- 1998 | Projected 1999 | ----- 2000 |
|--|-------|-------|--------|--------|--------|--------|---------------|-------------------|---------------|
| NIPA REAL EXPORTS and IMPORTS | | | | | | | | | |
| Percentage point contribution to GDP growth, Q4/Q4 | | | | | | | | | |
| Net Goods & Services | -0.4 | -0.6 | -0.4 | 0.5 | -0.3 | -0.6 | -1.7 | -0.6 | -0.4 |
| Exports of G&S | 0.4 | 0.5 | 1.0 | 1.1 | 1.2 | 1.1 | -0.4 | 0.1 | 0.5 |
| Imports of G&S | -0.8 | -1.1 | -1.4 | -0.7 | -1.4 | -1.7 | -1.2 | -0.8 | -0.9 |
| Percentage change, Q4/Q4 | | | | | | | | | |
| Exports of G&S | 4.1 | 4.6 | 10.0 | 10.5 | 10.3 | 9.6 | -3.8 | 1.3 | 4.7 |
| Services | -0.9 | 4.1 | 6.0 | 9.8 | 7.5 | 1.5 | -1.1 | 1.7 | 3.0 |
| Agricultural Goods | 10.4 | -5.5 | 16.6 | -4.3 | 4.8 | 2.8 | -5.3 | 1.5 | 1.5 |
| Computers | 25.2 | 23.7 | 32.0 | 55.5 | 35.9 | 40.7 | 9.0 | 26.6 | 28.3 |
| Semiconductors | 64.8 | 32.9 | 66.9 | 79.6 | 46.2 | 21.0 | -0.8 | 16.9 | 21.3 |
| Other Goods 1/ | 2.3 | 3.6 | 7.0 | 5.8 | 8.0 | 11.6 | -6.2 | -1.9 | 2.9 |
| Imports of G&S | 7.4 | 10.2 | 12.3 | 5.6 | 11.8 | 14.0 | 9.5 | 6.1 | 6.6 |
| Services | 1.4 | 3.2 | 1.4 | 6.1 | 5.5 | 12.4 | 2.5 | 1.3 | 2.7 |
| Oil | 12.1 | 10.1 | -0.2 | 2.4 | 7.9 | 4.0 | 1.0 | 3.2 | 6.1 |
| Computers | 45.1 | 39.3 | 44.8 | 48.1 | 24.4 | 30.3 | 31.1 | 30.2 | 29.9 |
| Semiconductors | 42.0 | 34.2 | 54.5 | 92.4 | 57.6 | 32.7 | -7.3 | 21.8 | 25.3 |
| Other Goods 2/ | 5.4 | 9.5 | 12.2 | -1.2 | 10.4 | 13.0 | 10.7 | 4.8 | 4.8 |
| Billions of chained 1992 dollars | | | | | | | | | |
| Net Goods & Services | -29.5 | -70.2 | -104.6 | -96.5 | -111.2 | -136.1 | -250.9 | -341.2 | -386.0 |
| Exports of G&S | 639.4 | 658.2 | 712.4 | 792.6 | 860.0 | 970.0 | 973.4 | 965.3 | 1000.6 |
| Imports of G&S | 669.0 | 728.4 | 817.0 | 889.0 | 971.2 | 1106.1 | 1224.3 | 1306.5 | 1386.7 |
| Billions of dollars | | | | | | | | | |
| US CURRENT ACCOUNT BALANCE | -51.4 | -86.1 | -123.8 | -115.3 | -134.9 | -155.2 | -233.7 | -319.0 | -364.1 |
| Net Goods & Services (BOP) | -38.7 | -71.9 | -100.9 | -99.9 | -108.6 | -110.2 | -175.4 | -243.2 | -277.6 |
| Exports of G&S (BOP) | 617.3 | 643.2 | 703.8 | 795.6 | 850.8 | 937.6 | 920.7 | 905.4 | 938.8 |
| Imports of G&S (BOP) | 656.0 | 715.2 | 804.7 | 895.5 | 959.3 | 1047.8 | 1096.1 | 1148.6 | 1216.4 |
| Net Investment Income | 22.5 | 23.9 | 16.5 | 19.3 | 14.2 | -5.3 | -17.2 | -34.1 | -44.8 |
| Direct, Net | 51.6 | 55.7 | 51.8 | 63.0 | 66.2 | 63.7 | 57.5 | 49.2 | 55.9 |
| Portfolio, Net | -29.1 | -31.7 | -35.3 | -43.7 | -51.9 | -69.1 | -74.8 | -83.2 | -100.7 |
| Net Transfers | -35.2 | -38.1 | -39.4 | -34.6 | -40.6 | -39.7 | -41.1 | -41.8 | -41.8 |

1. Merchandise exports excluding agricultural products, computers, and semiconductors.
2. Merchandise imports excluding oil, computers, and semiconductors.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

| | 1995 | | | | 1996 | | | | 1997 | | | |
|--------------------------------------|--|--------|--------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| NIPA REAL EXPORTS and IMPORTS | | | | | | | | | | | | |
| | Percentage point contribution to GDP growth | | | | | | | | | | | |
| Net Goods & Services | -0.2 | -0.3 | 1.6 | 0.7 | -1.1 | -1.0 | -1.4 | 2.4 | -1.3 | -0.4 | -0.5 | -0.3 |
| Exports of G&S | 1.0 | 0.6 | 1.9 | 1.1 | 0.4 | 0.6 | 0.2 | 3.2 | 0.9 | 1.7 | 1.2 | 0.5 |
| Imports of G&S | -1.2 | -0.9 | -0.3 | -0.4 | -1.5 | -1.6 | -1.6 | -0.9 | -2.2 | -2.2 | -1.7 | -0.8 |
| | Percentage change from previous period, SAAR | | | | | | | | | | | |
| Exports of G&S | 9.2 | 5.4 | 17.8 | 10.2 | 3.7 | 5.8 | 2.1 | 32.0 | 8.3 | 15.5 | 10.6 | 4.4 |
| Services | 9.1 | 2.9 | 21.7 | 6.4 | -4.0 | 10.3 | -9.9 | 39.8 | -6.7 | 11.8 | 5.9 | -4.0 |
| Agricultural Goods | 1.8 | -13.4 | 5.0 | -9.4 | 22.6 | -32.8 | -1.6 | 48.7 | -16.1 | -7.8 | 8.7 | 32.8 |
| Computers | 36.4 | 33.8 | 86.6 | 71.6 | 57.6 | 24.7 | 27.7 | 35.9 | 70.2 | 78.7 | 41.9 | -9.2 |
| Semiconductors | 72.0 | 100.8 | 96.2 | 53.6 | 23.8 | 29.7 | 30.2 | 118.6 | 41.3 | 17.3 | 32.3 | -2.2 |
| Other Goods 1/ | 4.3 | 1.4 | 9.4 | 8.1 | 0.1 | 6.0 | 5.7 | 21.3 | 13.8 | 15.6 | 9.2 | 8.0 |
| Imports of G&S | 9.8 | 7.2 | 2.0 | 3.5 | 13.1 | 13.5 | 13.6 | 7.0 | 18.6 | 17.9 | 13.5 | 6.3 |
| Services | 20.5 | -3.3 | 3.1 | 5.5 | 9.2 | 4.3 | 9.9 | -1.1 | 17.8 | 10.6 | 15.8 | 5.8 |
| Oil | -11.4 | 15.4 | 31.4 | -18.2 | -9.8 | 68.9 | 3.5 | -14.0 | -8.2 | 37.0 | 6.0 | -12.2 |
| Computers | 15.4 | 51.6 | 62.7 | 69.3 | 22.5 | 22.9 | 18.8 | 33.8 | 54.5 | 39.0 | 30.6 | 2.9 |
| Semiconductors | 37.1 | 105.5 | 128.2 | 113.3 | 38.7 | 8.9 | 50.1 | 172.1 | 89.0 | 16.0 | 20.3 | 17.6 |
| Other Goods 2/ | 7.2 | 1.5 | -8.8 | -3.8 | 13.9 | 10.5 | 13.5 | 4.2 | 16.2 | 16.1 | 11.8 | 8.1 |
| | Billions of chained 1992 dollars, SAAR | | | | | | | | | | | |
| Net Goods & Services | -109.5 | -114.7 | -86.8 | -74.8 | -95.5 | -113.5 | -140.1 | -95.9 | -121.5 | -131.6 | -142.4 | -149.0 |
| Exports of G&S | 763.9 | 774.0 | 806.3 | 826.1 | 833.6 | 845.5 | 849.9 | 911.1 | 929.4 | 963.6 | 988.1 | 998.8 |
| Imports of G&S | 873.4 | 888.7 | 893.1 | 900.9 | 929.1 | 958.9 | 990.0 | 1007.0 | 1050.9 | 1095.2 | 1130.5 | 1147.8 |
| | Billions of dollars, SAAR | | | | | | | | | | | |
| US CURRENT ACCOUNT BALANCE | -123.7 | -134.2 | -115.5 | -87.7 | -112.9 | -132.0 | -161.6 | -133.2 | -148.0 | -140.4 | -152.4 | -180.2 |
| Net Goods & Services (BOP) | -109.3 | -125.8 | -90.0 | -74.5 | -92.4 | -112.8 | -132.3 | -96.8 | -112.5 | -106.1 | -108.4 | -113.8 |
| Exports of G&S (BOP) | 765.4 | 782.0 | 809.7 | 825.6 | 833.6 | 845.3 | 837.5 | 886.7 | 904.7 | 936.1 | 951.7 | 957.8 |
| Imports of G&S (BOP) | 874.7 | 907.7 | 899.7 | 900.1 | 926.0 | 958.2 | 969.8 | 983.5 | 1017.3 | 1042.1 | 1060.1 | 1071.7 |
| Net Investment Income | 20.1 | 24.0 | 10.2 | 22.7 | 21.4 | 15.9 | 6.9 | 12.7 | 0.1 | 1.8 | -6.2 | -17.0 |
| Direct, Net | 59.9 | 67.2 | 56.5 | 68.3 | 64.8 | 64.4 | 61.9 | 73.6 | 64.2 | 69.6 | 65.5 | 55.6 |
| Portfolio, Net | -39.8 | -43.2 | -46.2 | -45.5 | -43.3 | -48.5 | -55.0 | -60.9 | -64.2 | -67.8 | -71.7 | -72.6 |
| Net Transfers | -34.5 | -32.4 | -35.8 | -35.9 | -41.9 | -35.1 | -36.2 | -49.1 | -35.5 | -36.1 | -37.8 | -49.3 |

1. Merchandise exports excluding agricultural products, computers, and semiconductors.
2. Merchandise imports excluding oil, computers, and semiconductors.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

| | Projected | | | | | | | | | | | |
|--|-----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 1998 | | | | 1999 | | | | 2000 | | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| NIPA REAL EXPORTS and IMPORTS | | | | | | | | | | | | |
| Percentage point contribution to GDP growth | | | | | | | | | | | | |
| Net Goods & Services | -2.3 | -2.1 | -0.9 | -1.3 | -1.0 | -0.8 | -0.5 | -0.3 | -0.3 | -0.5 | -0.5 | -0.2 |
| Exports of G&S | -0.3 | -0.9 | -0.2 | -0.3 | -0.1 | 0.1 | 0.2 | 0.3 | 0.4 | 0.5 | 0.5 | 0.6 |
| Imports of G&S | -1.9 | -1.2 | -0.7 | -1.0 | -0.9 | -0.9 | -0.8 | -0.6 | -0.7 | -1.0 | -1.0 | -0.8 |
| Percentage change from previous period, SAAR | | | | | | | | | | | | |
| Exports of G&S | -2.8 | -7.6 | -1.7 | -2.8 | -0.8 | 0.9 | 2.3 | 2.9 | 3.8 | 4.6 | 5.0 | 5.3 |
| Services | -1.2 | 2.0 | -2.8 | -2.2 | 0.1 | 1.7 | 2.5 | 2.4 | 2.5 | 3.2 | 3.1 | 3.1 |
| Agricultural Goods | -9.9 | -23.5 | 14.7 | 1.6 | 1.6 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Computers | -15.5 | 8.9 | 21.5 | 26.2 | 26.2 | 26.2 | 26.7 | 27.2 | 27.7 | 28.2 | 28.6 | 28.6 |
| Semiconductors | -2.0 | -18.2 | 7.4 | 12.6 | 14.8 | 15.9 | 17.9 | 19.3 | 20.4 | 21.6 | 21.6 | 21.6 |
| Other Goods 1/ | -1.6 | -11.1 | -5.0 | -6.8 | -4.6 | -2.5 | -0.8 | 0.3 | 1.7 | 2.6 | 3.5 | 4.0 |
| Imports of G&S | 15.7 | 9.2 | 5.5 | 7.7 | 6.8 | 6.9 | 5.9 | 4.7 | 5.5 | 7.6 | 7.6 | 5.6 |
| Services | 9.3 | -0.5 | -0.1 | 1.6 | 1.0 | 0.3 | 1.5 | 2.2 | 1.6 | 3.3 | 3.0 | 3.0 |
| Oil | 8.8 | 40.8 | -13.2 | -21.7 | -6.3 | 35.0 | 9.6 | -18.3 | 7.0 | 25.6 | 14.3 | -17.6 |
| Computers | 38.8 | 22.9 | 29.6 | 33.5 | 33.5 | 31.1 | 28.6 | 27.4 | 26.2 | 31.1 | 31.1 | 31.1 |
| Semiconductors | 9.9 | -29.5 | -18.5 | 17.0 | 19.3 | 21.6 | 22.7 | 23.9 | 25.3 | 25.3 | 25.3 | 25.3 |
| Other Goods 2/ | 16.1 | 10.6 | 7.4 | 8.9 | 6.4 | 4.2 | 4.1 | 4.5 | 3.7 | 4.8 | 5.5 | 5.2 |
| Billions of chained 1992 dollars, SAAR | | | | | | | | | | | | |
| Net Goods & Services | -198.5 | -244.4 | -265.1 | -295.3 | -318.0 | -337.2 | -350.5 | -358.9 | -367.7 | -381.4 | -394.5 | -400.6 |
| Exports of G&S | 991.9 | 972.4 | 968.1 | 961.2 | 959.3 | 961.5 | 966.8 | 973.8 | 982.9 | 994.0 | 1006.2 | 1019.4 |
| Imports of G&S | 1190.4 | 1216.8 | 1233.3 | 1256.5 | 1277.3 | 1298.6 | 1317.4 | 1332.7 | 1350.5 | 1375.4 | 1400.7 | 1420.1 |
| Billions of dollars, SAAR | | | | | | | | | | | | |
| US CURRENT ACCOUNT BALANCE | -186.9 | -224.5 | -242.3 | -281.0 | -293.0 | -311.2 | -325.6 | -346.1 | -343.0 | -357.0 | -370.4 | -386.0 |
| Net Goods & Services (BOP) | -140.0 | -174.3 | -180.3 | -207.1 | -226.2 | -240.6 | -250.1 | -255.9 | -263.2 | -275.0 | -284.4 | -287.6 |
| Exports of G&S (BOP) | 946.2 | 921.1 | 913.6 | 901.9 | 900.2 | 901.9 | 906.7 | 912.9 | 921.9 | 932.5 | 944.2 | 956.7 |
| Imports of G&S (BOP) | 1086.2 | 1095.4 | 1093.9 | 1108.9 | 1126.4 | 1142.4 | 1156.7 | 1168.9 | 1185.1 | 1207.5 | 1228.7 | 1244.3 |
| Net Investment Income | -9.0 | -13.0 | -23.0 | -23.9 | -27.8 | -31.6 | -36.6 | -40.2 | -40.8 | -42.9 | -46.9 | -48.4 |
| Direct, Net | 62.4 | 61.0 | 53.7 | 53.1 | 49.9 | 49.1 | 48.2 | 49.5 | 53.4 | 55.5 | 56.1 | 58.8 |
| Portfolio, Net | -71.3 | -74.0 | -76.7 | -77.0 | -77.8 | -80.7 | -84.8 | -89.7 | -94.2 | -98.4 | -103.0 | -107.3 |
| Net Transfers | -37.9 | -37.3 | -39.0 | -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

September 23, 1998

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

September 23, 1998

RECENT DEVELOPMENTS

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

industries (including steel; chemicals; miscellaneous manufacturing; and stone, clay, and glass) experienced negative swings in net exports in the first half of the year.⁶

Production of Domestic Autos and Trucks
(Millions of units at an annual rate; FRB seasonal basis)

| Item | 1998 | | | | | |
|------------------------------|------|-------------------|--------------------|------|-----------------|-----------------|
| | July | Aug. ¹ | Sept. ² | Q2 | Q3 ² | Q4 ² |
| U.S. production | 8.2 | 13.2 | 12.6 | 11.6 | 11.4 | 12.6 |
| Autos | 3.9 | 6.3 | 6.3 | 5.3 | 5.5 | 5.7 |
| Trucks | 4.3 | 6.9 | 6.3 | 6.4 | 5.9 | 7.0 |
| Domestic stocks ³ | | | | | | |
| Autos | 1.1 | 1.2 | n.a. | 1.1 | n.a. | n.a. |
| Light trucks | 1.3 | 1.3 | n.a. | 1.4 | n.a. | n.a. |

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

1. Production rates are latest estimates from Ward's Automotive Communications.

2. Production rates are manufacturers' schedules.

3. Quarterly data are for last month of quarter.

n.a. Not available.

Since the first quarter, producers have largely been able to avoid inventory imbalances, despite the softening demand, by slowing production accordingly.⁷

The production of non-auto durable consumer goods slid in August, held down by a reduction in appliance production, and the output of nondurable consumer goods, which has been weak all year, pulled back a bit further. The production of business equipment also fell, as strength in information processing and aircraft production was outweighed by lower output of industrial and other equipment. Within industrial equipment, mining and oil and gas machinery continued to recede in response to soft oil prices, and special industrial machinery--which includes semiconductor manufacturing equipment--declined further. The output of farm machinery fell in August as well, because of weakening farm income. One bright spot has been

6. The Beige Book and staff discussions with industry contacts continue to point to reduced exports to Asia and increased foreign competition for a variety of industries. In addition, National Association of Purchasing Management surveys indicate that the percentage of manufacturers reporting declines in export orders minus the percentage reporting increases has been positive and increasing all year.

7. One noteworthy exception is the troubled chemical industry, for which inventory-sales ratios have risen substantially; domestic output of chemicals has dropped only modestly despite a loss of market share to a flood of imports. In contrast, producers in the electrical machinery industry have liquidated inventories since April, as output has not kept pace with thriving demand.

ITALIAN ECONOMIC INDICATORS
(Percent change from previous period except where noted, SA)

| | 1997 | 1998 | | | | | |
|-----------------------------------|-------|-------|-------|-------|-------|-------|-------|
| | Q4 | Q1 | Q2 | June | July | Aug | Sep |
| Industrial Production | 1.3 | -0.1 | -0.2 | -2.2 | 0.9 | n.a. | n.a. |
| Cap. Utilization ¹ (%) | 79.0 | 78.2 | 79.5 | ... | ... | ... | ... |
| Unemployment Rate (%) | 12.1 | 12.1 | 12.3 | ... | ... | ... | ... |
| Consumer Confidence ² | 115.3 | 118.6 | 122.7 | 123.3 | 118.9 | 117.0 | 115.2 |
| Bus. Sentiment ³ (%) | 17.0 | 32.0 | 11.7 | 3.0 | 8.0 | n.a. | n.a. |
| Consumer Prices ⁴ | 1.6 | 1.7 | 1.8 | 1.8 | 1.8 | 1.9 | 1.8 |

1. NSA.

2. Level of index, NSA.

3. Percent of manufacturing firms having a favorable view of business conditions minus those with an unfavorable outlook.

4. Percent change from previous year.

Inflation remains low and stable. Data from eleven cities indicate that consumer price inflation was 1.8 percent in September, unchanged from its second-quarter average.

On September 12, Treasury Minister Ciampi announced that the government's 1999 budget would not be revised despite less optimistic growth projections this year. (The government forecasts a 2½ percent (yr/yr) increase in real GDP this year, although most consensus forecasters now view that figure as unattainable.) With next year's budget, the government hopes to improve fiscal balances by \$7.7 billion equivalent (approximately ½ percent of GDP), about two-thirds of which will come from spending cuts and one-third from new revenue. Prime Minister Prodi aims to present the 1999 budget to parliament on September 29. The parliament will have until the end of the year to ratify the government's proposal.

In the **United Kingdom**, real GDP expanded 2 percent (SAAR) in the second quarter, little changed from the pace in the first quarter. Consumption expenditures increased 3 percent, somewhat weaker than in the first quarter and well below the average quarterly increase last year. Investment spending declined, after surging the previous quarter. Net exports subtracted from growth as imports grew more rapidly than exports, and inventory accumulation contributed 1 percentage point to growth.

Indicators for the third quarter are limited but suggest that growth has been slowing. Industrial production picked up somewhat in July, but manufacturing output