

Part 1

December 12, 1996

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 12, 1996

SUMMARY AND OUTLOOK

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lower mortgage rates, we anticipate some rebound in starts over the remainder of the quarter--but not one sharp enough to avert a fall in real residential investment on the order of 10 percent at an annual rate.

SUMMARY OF THE NEAR-TERM OUTLOOK
(Percentage change at annual rates except as noted)

	1996:Q3			1996:Q4	
	Nov. GB	BEA prel.	Dec. GB	Nov. GB	Dec. GB
Real GDP	2.5	2.0	2.3	1.8	2.3
Personal consumption expenditures	.4	.6	.6	3.8	3.2
Residential investment	-6.6	-5.9	-5.9	-6.0	-9.8
Business fixed investment	16.2	16.9	16.9	3.6	5.0
<i>Change in billions of chained (1992) dollars</i>					
Inventory investment	33.6	25.7	29.0	-18.1	-7.2
Government outlays for consumption and investment	-1.5	-.8	-.7	-2.4	1.7
Net exports	-18.9	-24.1	-24.5	6.1	6.5

After a tremendous surge this summer, real business fixed investment appears likely to post a more moderate advance in the current quarter. Admittedly, this prediction is largely guesswork at this point, because few data are available beyond October. Through that month, trends in orders and shipments of nondefense capital goods at domestic manufacturers were somewhat divergent--still quite positive for computers and communications equipment but weakening for other, less high-tech machinery. As noted above, business purchases of motor vehicles apparently have been on the soft side thus far this quarter. Private nonresidential construction-put-in-place was up smartly early in the fall, leading us to expect another noticeable increase in the structures component of BFI.

Given the data in hand, inventory investment apparently was a little smaller in the third quarter than initially thought; at the end of the quarter, stocks in most sectors remained at comfortable levels relative to sales. Fragmentary statistics for October show a

possibility that, in fact, people have not responded fully to the increase in wealth or that their response has been overridden by other influences. The truth likely involves a combination of these two possibilities.

SUMMARY OF STAFF PROJECTIONS
(Percentage change, Q4 to Q4, except as noted)

	1996	1997	1998
Real GDP	2.8	2.3	1.9
<i>Previous</i>	2.7	2.2	2.1
Final sales	2.6	2.2	1.9
<i>Previous</i>	2.6	2.2	2.2
PCE	2.7	3.0	2.2
<i>Previous</i>	2.8	2.7	2.4
BFI	9.2	5.1	5.8
<i>Previous</i>	8.7	5.1	5.6
Residential investment	1.5	-1.2	1.0
<i>Previous</i>	2.3	-1.1	1.3
<i>Change in billions of chained (1992) dollars</i>			
Net exports	-47.7	-35.8	-22.0
<i>Previous</i>	-42.6	-24.3	-18.8

A number of hypotheses can be marshaled to explain why the rise in stock market wealth might have generated less spending than is suggested by traditional rules of thumb. For one thing, investors may question whether all of the gains in their portfolios will be permanent, yet may not be inclined to sell because they have been persuaded that they cannot and should not attempt to time the market. Moreover, a greater portion of those shareholdings are now in retirement accounts; psychologically, and in view of tax penalties, owners therefore are probably more reluctant to tap them for spending.

Meanwhile, as we have noted in previous Greenbooks, a number of factors may be offsetting the effect of increased wealth. First, for a segment of the population, especially at the lower part of the income distribution, improved access to credit may have contributed to a surge in purchases of durables and a burdensome accumulation of debt earlier in the expansion; more recently, banks have been granting fewer credit lines to marginally qualified households.

in weekly hours, businesses would need to boost payroll employment at an average rate of about 1-1/4 percent to achieve the rise in output that we are predicting. If productivity gains continue to be disappointing--and are accurately reflecting business realities--pressures on labor resources would likely be more intense than we are predicting and the associated inflation pressures would be greater.

LABOR MARKET PROJECTIONS
(Percent change, Q4 to Q4, unless otherwise noted)

	1996	1997	1998
Output per hour, nonfarm business sector	.8	.9	1.0
<i>Previous</i>	.6	.9	1.0
Nonfarm payroll employment	2.1	1.4	1.1
<i>Previous</i>	2.1	1.3	1.2
Household employment	2.0	1.3	1.0
<i>Previous</i>	2.1	1.1	1.1
Memo:			
Labor force participation rate ¹	66.9	67.0	67.1
<i>Previous</i>	66.8	66.9	66.9
Civilian unemployment rate ¹	5.3	5.2	5.2
<i>Previous</i>	5.2	5.2	5.2

1. Average for the fourth quarter.

This past year, sizable employment gains were accompanied by a pickup in growth of the civilian labor force, and the participation rate has moved up. As has happened in other cyclical expansions, tightness of the labor market and the associated increases in wages and other financial inducements apparently are pulling into the work force persons who previously had been on the sidelines. In contrast to our earlier assumption that the participation rate would remain flat through 1997 and 1998, we have boosted it slightly in this forecast; a projected rate of 67.1 percent in the latter part of 1998 is two-tenths higher than the prediction in the last Greenbook.

Wages and prices. Our thinking about the prospects for wages and prices continues to be heavily influenced by the historical relationship between labor market slack and inflation. What gives us pause in the present circumstances, however, is the striking absence of capacity pressures in manufacturing. We have responded

past year, is expected to be less of a limiting influence moving forward--we are projecting that the noticeable decline in non-oil import prices seen in 1996 will be followed by a much smaller decrease in 1997 and a small rise in 1998.

STAFF INFLATION PROJECTIONS
(Percent change, Q4 to Q4, unless otherwise noted)

	1995	1996	1997	1998
Consumer price index	2.7	3.2	2.7	2.7
<i>Previous</i>	2.7	3.2	2.8	2.8
Food	2.6	4.2	2.8	2.7
<i>Previous</i>	2.6	3.9	2.9	2.8
Energy	-1.7	7.4	.4	.9
<i>Previous</i>	-1.7	7.1	.3	1.0
Excluding food and energy	3.0	2.7	2.8	2.9
<i>Previous</i>	3.0	2.7	3.0	3.0
ECI for compensation of private industry workers ¹	2.6	3.0	3.4	3.6
<i>Previous</i>	2.6	3.0	3.4	3.6
Prices of non-oil merchandise imports	.8	-2.9	-.4	.8
<i>Previous</i>	.8	-2.7	-.1	1.0
Memo:	- - - - percentage points - - -			
Adjustment to the core CPI for methodology changes	.1	.2	.3	.4
<i>Previous</i>	.1	.2	.3	.4

1. December to December.

Like our path for crude oil prices, our forecast of retail energy prices exhibits some changes in timing but otherwise is much the same as the forecast in the last Greenbook. Increases over the very near term are expected to be somewhat larger than we previously were forecasting, but, with oil prices dropping, declines should start showing up later in the winter. We continue to project that a 1996 rise in CPI energy prices of more than 7 percent will be followed by only small increases in 1997 and 1998.

In response to incoming data, our food price forecast for 1996 has been raised a touch, to about 4-1/4 percent. But looking further ahead we continue to anticipate a sharp slowdown. Grain prices are down substantially from the highs of last summer, and signs of price deceleration or outright declines are starting to

ALTERNATIVE FEDERAL FUNDS RATE ASSUMPTIONS
(Percent change, Q4 to Q4, except as noted)

	1996	1997	1998
Real GDP			
Baseline	2.8	2.3	1.9
Higher funds rate	2.8	1.9	1.2
Lower funds rate	2.8	2.7	2.6
Civilian unemployment rate ¹			
Baseline	5.3	5.2	5.2
Higher funds rate	5.3	5.3	5.7
Lower funds rate	5.3	5.1	4.7
CPI			
Baseline	3.2	2.7	2.7
Higher funds rate	3.2	2.6	2.3
Lower funds rate	3.2	2.8	3.1

1. Average for the fourth quarter.

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

December 12, 1996

Interval	Nominal GDP		Real GDP		GDP Chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
	11/06/96	12/12/96	11/06/96	12/12/96	11/06/96	12/12/96	11/06/96	12/12/96	11/06/96	12/12/96
ANNUAL										
1994	5.8	5.8	3.5	3.5	2.3	2.3	2.6	2.6	6.1	6.1
1995	4.6	4.6	2.0	2.0	2.5	2.5	2.8	2.8	5.6	5.6
1996	4.4	4.4	2.4	2.4	2.2	2.2	2.9	2.9	5.4	5.4
1997	4.6	4.7	2.4	2.4	2.5	2.5	2.9	2.8	5.2	5.2
1998	4.3	4.3	2.1	2.1	2.6	2.5	2.8	2.7	5.2	5.2
QUARTERLY										
1995 Q1	3.8	3.8	0.4	0.4	3.3	3.3	2.7	2.7	5.5	5.5
Q2	3.1	3.1	0.7	0.7	2.4	2.4	3.5	3.5	5.7	5.7
Q3	6.0	6.0	3.8	3.8	2.1	2.1	2.1	2.1	5.6	5.6
Q4	2.3	2.3	0.3	0.3	2.1	2.1	2.4	2.4	5.5	5.5
1996 Q1	4.2	4.2	2.0	2.0	2.3	2.3	3.2	3.2	5.6	5.6
Q2	6.5	6.5	4.7	4.7	2.2	2.2	3.9	3.9	5.4	5.4
Q3	4.1	3.7	2.5	2.3	1.9	1.9	2.3	2.3	5.2	5.2
Q4	4.0	4.5	1.8	2.3	2.5	2.5	3.3	3.3	5.2	5.3
1997 Q1	5.4	5.3	2.4	2.1	2.9	3.2	3.1	3.0	5.2	5.2
Q2	4.4	4.5	2.2	2.3	2.4	2.3	2.6	2.3	5.2	5.2
Q3	4.3	4.3	2.2	2.3	2.4	2.3	2.6	2.6	5.2	5.2
Q4	4.1	4.3	2.1	2.2	2.4	2.3	2.9	2.7	5.2	5.2
1998 Q1	4.4	4.5	2.1	2.1	2.7	2.6	2.8	2.7	5.2	5.2
Q2	4.3	4.2	2.1	1.9	2.5	2.5	2.8	2.7	5.2	5.2
Q3	4.3	4.1	2.1	1.9	2.7	2.6	2.8	2.8	5.2	5.2
Q4	4.4	4.2	2.1	1.9	2.7	2.7	2.9	2.8	5.2	5.2
TWO-QUARTER³										
1995 Q2	3.5	3.5	0.6	0.6	2.9	2.9	3.2	3.2	0.1	0.1
Q4	4.1	4.1	2.0	2.0	2.1	2.1	2.2	2.2	-0.2	-0.2
1996 Q2	5.4	5.4	3.3	3.3	2.3	2.2	3.5	3.5	-0.1	-0.1
Q4	4.1	4.1	2.2	2.3	2.2	2.2	2.8	2.8	-0.2	-0.1
1997 Q2	4.9	4.9	2.3	2.2	2.7	2.7	2.9	2.6	0.0	-0.1
Q4	4.2	4.3	2.1	2.3	2.4	2.3	2.7	2.7	0.0	-0.0
1998 Q2	4.4	4.3	2.1	2.0	2.6	2.6	2.8	2.7	-0.0	0.0
Q4	4.4	4.2	2.1	1.9	2.7	2.6	2.9	2.8	-0.0	0.0
FOUR-QUARTER⁴										
1994 Q4	5.9	5.9	3.5	3.5	2.3	2.3	2.6	2.6	-1.0	-1.0
1995 Q4	3.8	3.8	1.3	1.3	2.5	2.5	2.7	2.7	-0.1	-0.1
1996 Q4	4.7	4.7	2.7	2.8	2.2	2.2	3.2	3.2	-0.3	-0.2
1997 Q4	4.5	4.6	2.2	2.3	2.5	2.5	2.8	2.7	0.0	-0.1
1998 Q4	4.4	4.3	2.1	1.9	2.7	2.6	2.8	2.7	-0.0	0.0

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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REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES
(Seasonally adjusted annual rate)

December 12, 1996

Item	Units ¹	- - - Projected - - -								
		1990	1991	1992	1993	1994	1995	1996	1997	1998
EXPENDITURES										
Nominal GDP	Bill. \$	5743.8	5916.7	6244.4	6553.0	6935.7	7253.8	7571.0	7925.5	8268.1
Real GDP	Bill. Ch. \$	6138.7	6079.0	6244.4	6386.4	6608.7	6742.9	6902.1	7067.5	7215.7
Real GDP	% change	-0.2	0.4	3.7	2.2	3.5	1.3	2.8	2.3	1.9
Gross domestic purchases		-0.8	-0.0	4.0	2.9	3.8	1.0	3.4	2.7	2.2
Final sales		0.6	-0.4	3.9	2.0	2.9	1.9	2.6	2.2	1.9
Priv. dom. final purchases		-0.6	-0.8	4.9	3.5	4.0	2.3	3.5	3.2	2.7
Personal cons. expenditures		0.5	-0.2	4.2	2.5	3.1	1.9	2.7	3.0	2.2
Durables		-3.2	-3.1	9.4	7.3	7.0	1.3	6.0	4.9	2.7
Nondurables		-0.5	-1.0	3.4	1.5	3.5	1.1	1.6	2.6	2.0
Services		2.0	0.9	3.6	2.1	2.0	2.4	2.5	2.8	2.2
Business fixed investment		-2.5	-6.0	5.5	8.5	10.1	6.4	9.2	5.1	5.8
Producers' dur. equipment		-2.0	-2.6	9.6	11.5	12.6	6.9	10.9	7.0	7.5
Nonres. structures		-3.5	-12.5	-3.4	1.6	3.6	5.1	4.6	-0.2	0.5
Residential structures		-15.1	1.1	16.9	8.1	5.7	-1.5	1.5	-1.2	1.0
Exports		7.2	8.6	4.1	4.8	9.9	7.4	4.0	6.6	6.4
Imports		0.5	4.1	7.4	10.5	11.8	4.2	9.0	9.4	7.5
Gov't. cons. & investment		2.6	-0.7	1.7	-0.5	0.0	-1.3	2.4	0.7	0.0
Federal		1.6	-3.1	1.3	-5.4	-3.1	-6.7	1.7	-2.5	-4.4
Defense		0.3	-5.3	-1.3	-6.8	-5.7	-6.8	0.7	-2.1	-4.9
State & local		3.3	1.0	2.0	3.1	2.2	2.1	2.6	2.5	2.4
Change in bus. inventories	Bill. Ch. \$	10.4	-3.0	7.3	19.1	58.9	33.1	17.2	30.3	31.9
Nonfarm		7.8	-1.2	1.9	26.4	46.8	37.2	19.4	26.6	27.0
Net exports		-61.9	-22.3	-29.5	-72.0	-105.7	-107.6	-122.6	-155.7	-182.1
Nominal GDP	% change	4.4	3.8	6.3	4.8	5.9	3.8	4.7	4.6	4.3
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	109.4	108.3	108.6	110.7	114.2	117.2	119.5	121.5	122.9
Unemployment rate	%	5.6	6.8	7.5	6.9	6.1	5.6	5.4	5.2	5.2
Industrial prod. index	% change	-0.2	0.2	4.0	3.2	6.6	1.6	4.0	3.1	3.1
Capacity util. rate - mfg.	%	81.3	78.0	79.5	80.6	83.3	83.0	82.0	81.9	81.8
Housing starts	Millions	1.19	1.01	1.20	1.29	1.46	1.35	1.46	1.38	1.36
Light motor vehicle sales		14.05	12.52	12.85	13.87	15.02	14.74	15.01	14.96	14.71
North Amer. produced		10.85	9.74	10.51	11.72	12.88	12.82	13.32	13.19	12.98
Other		3.20	2.77	2.34	2.15	2.13	1.91	1.70	1.77	1.73
INCOME AND SAVING										
Nominal GNP	Bill. \$	5764.9	5932.4	6255.5	6563.5	6931.9	7246.7	7562.1	7910.5	8245.7
Nominal GNP	% change	4.6	3.5	6.2	4.7	5.7	3.9	4.7	4.5	4.2
Nominal personal income		6.4	3.7	7.3	3.6	5.2	5.6	5.5	4.8	4.4
Real disposable income		1.0	0.8	4.0	0.9	2.7	3.1	2.5	2.9	2.1
Personal saving rate	%	5.0	5.7	5.9	4.5	3.8	4.7	4.9	5.2	5.0
Corp. profits, IVA & CCAdj.	% change	6.2	3.9	12.7	19.9	11.3	7.2	5.1	3.0	3.9
Profit share of GNP	%	6.4	6.4	6.4	7.1	7.6	8.1	8.6	8.4	8.3
(excluding FR banks)	%	6.0	6.1	6.1	6.8	7.4	7.8	8.3	8.2	8.0
Federal surpl./deficit	Bill. \$	-154.7	-196.0	-280.9	-255.6	-190.2	-161.7	-125.9	-128.1	-109.6
State & local surpl./def.		80.1	75.8	86.3	94.9	99.7	95.0	92.6	87.0	76.6
Ex. social ins. funds		20.2	11.5	18.3	28.0	36.9	36.8	36.7	32.4	22.8
PRICES AND COSTS										
GDP implicit deflator	% change	4.6	3.4	2.6	2.5	2.3	2.5	1.9	2.3	2.3
GDP chn.-wt. price index		4.7	3.3	2.6	2.5	2.3	2.5	2.2	2.5	2.6
Gross Domestic Purchases										
chn.-wt. price index		5.2	2.7	2.7	2.3	2.4	2.3	2.2	2.2	2.5
CPI		6.3	3.0	3.1	2.7	2.6	2.7	3.2	2.7	2.7
Ex. food and energy		5.3	4.4	3.5	3.1	2.8	3.0	2.7	2.8	2.9
ECI, hourly compensation ²		4.6	4.4	3.5	3.6	3.1	2.6	3.0	3.4	3.6
Nonfarm business sector										
Output per hour		-0.6	2.2	3.6	-0.3	0.3	-0.1	0.8	0.9	1.0
Compensation per Hour		5.8	4.8	4.6	1.8	2.3	3.7	3.7	3.7	3.6
Unit labor cost		6.4	2.5	1.0	2.1	2.0	3.7	3.0	2.9	2.5

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

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

December 12, 1996

Item	Units	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	6776.0	6890.5	6993.1	7083.2	7149.8	7204.9	7309.8	7350.6	7426.8	7545.1
Real GDP	Bill. Ch. \$	6508.5	6587.6	6644.9	6693.9	6701.0	6713.5	6776.4	6780.7	6814.3	6892.6
Real GDP	% change	2.5	4.9	3.5	3.0	0.4	0.7	3.8	0.3	2.0	4.7
Gross domestic purchases		3.5	5.3	3.7	2.5	1.4	0.7	2.6	-0.7	3.0	5.2
Final sales		1.2	3.0	4.2	3.5	0.6	2.1	3.6	1.4	3.0	4.1
Priv. dom. final purchases		3.9	4.4	3.8	4.0	2.3	2.3	3.0	1.4	4.7	4.1
Personal cons. expenditures		2.8	3.5	2.8	3.1	1.0	3.1	2.4	1.1	3.5	3.4
Durables		5.8	4.3	5.6	12.4	-8.9	7.0	9.3	-1.0	8.2	11.4
Nondurables		3.9	3.2	3.8	3.2	2.4	1.8	0.5	-0.4	3.7	1.3
Services		1.6	3.5	1.6	1.2	2.4	3.0	2.0	2.3	2.4	2.7
Business fixed investment		7.3	7.1	13.8	12.2	15.4	3.5	4.9	2.5	11.6	3.8
Producers' dur. equipment		15.5	4.1	19.4	11.9	17.4	3.5	4.3	3.0	13.1	6.7
Nonres. structures		-11.8	15.7	0.2	13.0	9.9	3.4	6.3	1.0	7.7	-3.7
Residential structures		12.8	12.7	-1.8	-0.1	-6.3	-13.4	9.2	6.4	7.4	16.3
Exports		-1.5	15.9	9.7	16.5	2.6	5.9	10.7	10.7	1.8	5.6
Imports		8.2	18.4	10.7	10.3	11.2	4.5	-0.0	1.6	10.6	9.9
Gov't. cons. & investment		-4.3	-0.8	7.0	-1.4	-1.2	0.8	-0.6	-4.3	1.6	7.7
Federal		-11.4	-5.3	11.5	-5.9	-6.5	-1.3	-5.6	-13.2	6.0	9.4
Defense		-17.4	0.7	13.5	-16.1	-7.4	0.6	-7.6	-12.3	4.1	10.0
State & local		0.7	2.2	4.2	1.6	2.3	2.1	2.7	1.5	-0.9	6.7
Change in bus. inventories	Bill. Ch. \$	40.5	74.5	64.5	56.1	54.5	30.5	33.0	14.6	-3.0	7.1
Nonfarm		29.7	54.0	50.5	53.0	57.4	33.7	38.6	19.0	2.9	11.7
Net exports		-99.3	-107.3	-111.7	-104.3	-122.5	-121.4	-101.6	-84.9	-104.0	-114.7
Nominal GDP	% change	5.3	6.9	6.1	5.3	3.8	3.1	6.0	2.3	4.2	6.5
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	112.6	113.7	114.7	115.6	116.5	117.0	117.4	117.9	118.5	119.3
Unemployment rate	%	6.6	6.2	6.0	5.6	5.5	5.7	5.6	5.5	5.6	5.4
Industrial prod. index	% change	8.4	7.0	4.6	6.4	3.9	-1.4	3.2	0.6	3.0	6.7
Capacity util. rate - mfg.	%	82.2	83.2	83.4	84.3	84.3	83.0	82.6	82.0	81.6	82.2
Housing starts	Millions	1.38	1.47	1.46	1.48	1.31	1.29	1.42	1.41	1.47	1.49
Light motor vehicle sales		15.07	14.85	14.99	15.16	14.56	14.44	15.04	14.92	15.18	15.13
North Amer. produced		12.94	12.69	12.79	13.12	12.52	12.46	13.18	13.13	13.49	13.41
Other		2.13	2.16	2.20	2.05	2.04	1.97	1.86	1.79	1.69	1.72
INCOME AND SAVING											
Nominal GNP	Bill. \$	6781.0	6888.3	6987.0	7071.4	7146.8	7202.4	7293.4	7344.3	7426.6	7537.5
Real GNP	% change	5.4	6.5	5.9	4.9	4.3	3.1	5.1	2.8	4.6	6.1
Nominal personal income		-3.4	13.3	4.9	6.7	7.1	4.7	4.9	5.8	4.8	6.8
Real disposable income		-5.4	9.7	2.9	4.2	3.7	0.3	4.3	4.4	2.0	1.3
Personal saving rate	%	2.7	4.0	4.1	4.3	4.9	4.1	4.5	5.2	4.8	4.3
Corp. profits, IVA & CCAdj.	% change	-35.4	82.5	14.8	13.5	-7.4	1.7	40.8	-0.5	23.6	6.8
Profit share of GNP	%	6.8	7.8	7.9	8.1	7.8	7.8	8.4	8.3	8.7	8.7
(excluding FR banks)	%	6.5	7.5	7.7	7.8	7.5	7.5	8.1	8.0	8.4	8.4
Federal surpl./deficit	Bill. \$	-212.7	-169.6	-188.5	-190.1	-172.6	-161.1	-158.5	-154.5	-155.2	-126.7
State & local surpl./def.		94.8	105.2	99.6	99.3	99.0	99.0	93.9	88.1	91.0	101.0
Ex. social ins. funds		29.0	41.1	37.9	39.4	40.2	40.9	35.8	30.5	34.1	44.6
PRICES AND COSTS											
GDP implicit deflator	% change	2.8	1.9	2.5	2.2	3.4	2.4	2.1	2.0	2.2	1.8
GDP chn.-wt. price index		2.9	1.9	2.4	2.1	3.3	2.4	2.1	2.1	2.3	2.2
Gross Domestic Purchases											
chn.-wt. price index		2.4	2.3	3.0	2.0	2.8	2.8	1.6	1.9	2.3	2.1
CPI		1.9	2.8	3.6	2.4	2.7	3.5	2.1	2.4	3.2	3.9
Ex. food and energy		2.9	2.9	3.1	2.3	3.3	3.3	2.8	2.7	2.7	2.7
ECI, hourly compensation ¹		3.0	3.4	3.3	2.3	2.9	2.9	2.6	2.6	2.9	3.2
Nonfarm business sector											
Output per hour		-1.8	1.0	1.7	0.4	-2.3	1.5	1.8	-1.2	1.9	0.6
Compensation per hour		2.9	1.3	1.8	3.3	2.9	4.0	3.7	4.0	3.4	3.9
Unit labor cost		4.9	0.3	0.1	2.9	5.3	2.5	1.9	5.2	1.5	3.3

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

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

December 12, 1996

Item	Units	Projected									
		1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	7614.2	7698.0	7797.8	7883.7	7967.9	8052.7	8141.8	8225.8	8309.1	8395.6
Real GDP	Bill. Ch. \$	6931.4	6970.4	7006.8	7047.4	7088.4	7127.6	7165.0	7199.3	7232.5	7265.9
Real GDP	% change	2.3	2.3	2.1	2.3	2.3	2.2	2.1	1.9	1.9	1.9
Gross domestic purchases		3.6	1.9	2.6	2.7	3.1	2.5	2.3	2.1	2.4	1.9
Final sales		0.5	2.7	1.9	2.5	2.3	2.3	2.0	1.9	1.9	2.0
Priv. dom. final purchases		2.4	2.7	3.3	3.2	3.3	2.9	2.7	2.7	2.7	2.6
Personal cons. expenditures		0.6	3.2	3.4	3.0	3.0	2.5	2.3	2.2	2.1	2.1
Durables		-1.8	6.9	6.4	4.1	5.4	3.6	3.3	2.8	2.3	2.4
Nondurables		0.4	1.2	2.8	2.9	2.6	2.2	2.0	2.0	2.0	2.0
Services		1.3	3.5	3.1	2.8	2.7	2.4	2.3	2.2	2.1	2.1
Business fixed investment		16.9	5.0	4.1	6.3	4.7	5.4	5.6	5.6	6.0	6.0
Producers' dur. equipment		20.4	4.2	6.4	8.3	6.2	7.0	7.3	7.3	7.7	7.8
Nonres. structures		7.5	7.4	-2.3	0.5	0.5	0.6	0.4	0.5	0.5	0.5
Residential structures		-5.9	-9.8	-3.4	-2.8	0.8	0.7	0.5	0.9	1.2	1.3
Exports		-1.3	10.4	6.5	8.0	2.2	9.8	4.6	8.9	2.3	10.0
Imports		9.7	5.9	10.0	9.5	7.4	10.6	5.4	9.4	6.0	9.1
Gov't. cons. & investment		-0.2	0.5	-1.1	1.2	1.5	1.1	-0.3	-0.2	1.2	-0.6
Federal		-3.4	-4.5	-7.0	-1.0	-0.2	-1.6	-5.3	-4.9	-1.1	-6.1
Defense		-5.2	-5.3	-9.9	-1.0	0.3	2.4	-6.3	-6.8	-1.0	-5.3
State & local		1.4	3.6	2.4	2.4	2.5	2.6	2.5	2.5	2.4	2.4
Change in bus. inventories	Bill. Ch. \$	36.0	28.8	31.7	28.9	30.5	30.1	32.3	32.5	32.4	30.5
Nonfarm		36.2	26.9	28.4	25.7	26.8	25.5	27.7	27.8	27.3	25.3
Net exports		-139.2	-132.7	-142.7	-149.1	-162.6	-168.5	-172.4	-177.3	-188.2	-190.4
Nominal GDP	% change	3.7	4.5	5.3	4.5	4.3	4.3	4.5	4.2	4.1	4.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	120.0	120.4	120.8	121.3	121.7	122.1	122.5	122.8	123.1	123.4
Unemployment rate	%	5.2	5.3	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Industrial prod. index	% change	4.4	2.2	4.1	2.8	2.7	2.9	3.3	3.1	2.9	3.2
Capacity util. rate - mfg.	%	82.4	81.8	82.1	82.0	81.9	81.8	81.8	81.8	81.8	81.8
Housing starts	Millions	1.48	1.41	1.40	1.38	1.38	1.37	1.36	1.36	1.36	1.36
Light motor vehicle sales		14.95	14.80	15.03	15.01	14.91	14.89	14.84	14.74	14.67	14.60
North Amer. produced		13.30	13.06	13.27	13.24	13.13	13.11	13.08	13.00	12.95	12.90
Other		1.65	1.73	1.76	1.77	1.78	1.78	1.76	1.74	1.72	1.70
INCOME AND SAVING											
Nominal GNP	Bill. \$	7597.2	7687.3	7786.1	7869.9	7951.9	8034.1	8123.6	8203.3	8285.3	8370.7
Nominal GNP	% change	3.2	4.8	5.2	4.4	4.2	4.2	4.5	4.0	4.1	4.2
Nominal personal income		5.7	4.8	5.7	4.6	4.7	4.2	4.7	4.2	4.1	4.5
Real disposable income		4.9	1.9	4.6	2.6	2.5	1.8	3.5	1.6	1.4	1.8
Personal saving rate	%	5.3	5.1	5.3	5.2	5.1	5.0	5.2	5.1	4.9	4.9
Corp. profits, IVA & CCAdj.	% change	1.4	-8.7	17.5	-0.2	-3.0	-1.2	5.8	3.9	3.1	2.9
Profit share of GNP	%	8.7	8.4	8.6	8.5	8.4	8.2	8.3	8.3	8.2	8.2
(excluding FR banks)	%	8.4	8.1	8.3	8.2	8.1	8.0	8.0	8.0	8.0	8.0
Federal surpl./deficit	Bill. \$	-120.2	-101.6	-131.2	-130.0	-128.5	-122.7	-120.7	-111.9	-105.8	-100.1
State & local surpl./def.		89.3	89.3	91.1	89.5	86.6	80.7	79.3	78.2	76.5	72.2
Ex. social ins. funds		33.9	34.2	36.2	34.8	32.1	26.4	25.2	24.3	22.8	18.7
PRICES AND COSTS											
GDP implicit deflator	% change	1.3	2.2	3.1	2.1	2.0	2.0	2.3	2.2	2.2	2.3
GDP chn.-wt. price index		1.9	2.5	3.2	2.3	2.3	2.3	2.6	2.5	2.6	2.7
Gross Domestic Purchases		1.8	2.6	2.6	1.9	2.1	2.2	2.5	2.4	2.5	2.5
chn.-wt. price index		2.3	3.3	3.0	2.3	2.6	2.7	2.7	2.7	2.8	2.8
CPI		2.4	2.7	2.7	2.8	2.9	2.9	2.8	2.9	2.9	3.0
Ex. food and energy											
ECI, hourly compensation ¹		2.5	3.5	3.4	3.3	3.7	3.5	3.5	3.6	3.6	3.7
Nonfarm business sector		-0.0	0.6	0.4	0.7	1.2	1.2	1.1	1.0	1.0	1.0
Output per hour		3.4	4.0	4.0	3.5	3.7	3.8	3.6	3.6	3.6	3.6
Compensation per hour		3.4	3.3	3.6	2.8	2.5	2.6	2.5	2.6	2.6	2.6
Unit labor cost											

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

December 12, 1996

Item	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	95Q4/ 94Q4	96Q4/ 95Q4	97Q4/ 96Q4
Real GDP	0.3	2.0	4.7	2.3	2.3	2.1	2.3	2.3	2.2	1.3	2.8	2.3
Gross dom. purchases	-0.7	3.1	5.3	3.7	1.9	2.7	2.7	3.1	2.6	1.0	3.5	2.8
Final sales	1.4	3.0	4.1	0.5	2.7	1.9	2.5	2.3	2.3	1.9	2.6	2.2
Priv. dom. final purchases	1.2	3.9	3.4	2.0	2.2	2.7	2.7	2.8	2.4	1.8	2.9	2.6
Personal cons. expenditures	0.7	2.4	2.3	0.4	2.2	2.3	2.0	2.1	1.7	1.3	1.8	2.0
Durables	-0.1	0.7	0.9	-0.2	0.6	0.6	0.4	0.5	0.3	0.1	0.5	0.4
Nondurables	-0.1	0.7	0.3	0.1	0.2	0.6	0.6	0.5	0.5	0.2	0.3	0.5
Services	0.8	0.9	1.1	0.5	1.3	1.2	1.1	1.0	0.9	0.9	0.9	1.1
Business fixed investment	0.2	1.1	0.4	1.7	0.6	0.5	0.7	0.5	0.6	0.7	1.0	0.6
Producers' dur. equip.	0.2	0.9	0.5	1.6	0.4	0.5	0.7	0.5	0.6	0.5	0.9	0.6
Nonres. structures	0.0	0.2	-0.1	0.2	0.2	-0.1	0.0	0.0	0.0	0.1	0.1	-0.0
Residential structures	0.2	0.3	0.6	-0.2	-0.4	-0.1	-0.1	0.0	0.0	-0.1	0.1	-0.0
Net exports	0.9	-1.1	-0.6	-1.4	0.4	-0.6	-0.4	-0.8	-0.3	0.3	-0.7	-0.5
Exports	1.1	0.2	0.6	-0.2	1.2	0.8	0.9	0.3	1.2	0.8	0.5	0.8
Imports	-0.2	-1.3	-1.2	1.3	0.8	1.3	1.3	1.0	1.5	0.5	1.2	1.3
Government cons. & invest.	-0.8	0.3	1.4	-0.0	0.1	-0.2	0.2	0.3	0.2	-0.3	0.4	0.1
Federal	-0.9	0.4	0.6	-0.2	-0.3	-0.5	-0.1	-0.0	-0.1	-0.5	0.1	-0.2
Defense	-0.6	0.2	0.4	-0.2	-0.2	-0.5	-0.0	0.0	0.1	-0.3	0.0	-0.1
Nondefense	-0.3	0.2	0.2	0.0	-0.1	-0.0	-0.0	-0.0	-0.2	-0.2	0.1	-0.1
State and local	0.2	-0.1	0.8	0.2	0.4	0.3	0.3	0.3	0.3	0.2	0.3	0.3
Change in bus. inventories	-1.0	-1.0	0.5	1.7	-0.4	0.2	-0.2	0.1	-0.0	-0.6	0.2	0.0
Nonfarm	-1.2	-0.9	0.5	1.4	-0.5	0.1	-0.2	0.1	-0.1	-0.5	0.1	-0.0
Farm	0.1	-0.1	0.1	0.3	0.1	0.1	0.0	0.0	0.1	-0.1	0.1	0.0
GDP residual	-0.0	0.0	-0.0	0.1	-0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.1

Components may not sum to total due to rounding.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

December 12, 1996

Item	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	96Q4/ 95Q4	97Q4/ 96Q4	98Q4/ 97Q4
Real GDP	2.3	2.1	2.3	2.3	2.2	2.1	1.9	1.9	1.9	2.8	2.3	1.9
Gross dom. purchases	1.9	2.7	2.7	3.1	2.6	2.3	2.2	2.5	2.0	3.5	2.8	2.2
Final sales	2.7	1.9	2.5	2.3	2.3	2.0	1.9	1.9	2.0	2.6	2.2	1.9
Priv. dom. final purchases	2.2	2.7	2.7	2.8	2.4	2.3	2.2	2.3	2.2	2.9	2.6	2.2
Personal cons. expenditures	2.2	2.3	2.0	2.1	1.7	1.6	1.5	1.4	1.4	1.8	2.0	1.5
Durables	0.6	0.6	0.4	0.5	0.3	0.3	0.3	0.2	0.2	0.5	0.4	0.2
Nondurables	0.2	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.5	0.4
Services	1.3	1.2	1.1	1.0	0.9	0.9	0.8	0.8	0.8	0.9	1.1	0.8
Business fixed investment	0.6	0.5	0.7	0.5	0.6	0.6	0.6	0.7	0.7	1.0	0.6	0.7
Producers' dur. equip.	0.4	0.5	0.7	0.5	0.6	0.6	0.6	0.7	0.7	0.9	0.6	0.7
Nonres. structures	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	-0.0	0.0
Residential structures	-0.4	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	-0.0	0.0
Net exports	0.4	-0.6	-0.4	-0.8	-0.3	-0.2	-0.3	-0.6	-0.1	-0.7	-0.5	-0.3
Exports	1.2	0.8	0.9	0.3	1.2	0.6	1.1	0.3	1.2	0.5	0.8	0.8
Imports	0.8	1.3	1.3	1.0	1.5	0.8	1.4	0.9	1.4	1.2	1.3	1.1
Government cons. & invest.	0.1	-0.2	0.2	0.3	0.2	-0.1	-0.0	0.2	-0.1	0.4	0.1	0.0
Federal	-0.3	-0.5	-0.1	-0.0	-0.1	-0.3	-0.3	-0.1	-0.4	0.1	-0.2	-0.3
Defense	-0.2	-0.5	-0.0	0.0	0.1	-0.3	-0.3	-0.0	-0.2	0.0	-0.1	-0.2
Nondefense	-0.1	-0.0	-0.0	-0.0	-0.2	-0.1	-0.0	-0.0	-0.2	0.1	-0.1	-0.1
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	0.2	-0.2	0.1	-0.0	0.1	0.0	-0.0	-0.1	0.2	0.0	0.0
Nonfarm	-0.5	0.1	-0.2	0.1	-0.1	0.1	0.0	-0.0	-0.1	0.1	-0.0	-0.0
Farm	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0
GDP residual	-0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.1	-0.0	0.0	0.1	0.0

Components may not sum to total due to rounding.

Item	Fiscal year ⁵				1996				1997				1998			
	1995 ^a	1996 ^a	1997	1998	Q1 ^a	Q2 ^a	Q3 ^b	Q4	Not seasonally adjusted							
UNIFIED BUDGET																
Receipts ¹	1355	1453	1525	1575	322	446	362	353	333	459	379	364	345	474	392	384
Outlays ¹	1519	1560	1637	1692	393	392	395	412	413	405	407	424	420	426	423	435
Surplus/deficit ¹	-164	-107	-112	-117	-72	54	-33	-59	-80	54	-28	-60	-75	48	-31	-51
On-budget	-226	-174	-181	-190	-84	14	-36	-67	-93	13	-34	-69	-88	4	-37	-63
Off-budget	62	67	68	73	12	39	2	8	13	41	6	9	13	44	7	12
Surplus excluding deposit insurance ²	-182	-116	-120	-119	-75	52	-34	-65	-81	53	-29	-60	-75	48	-31	-52
Means of financing																
Borrowing	171	130	126	146	80	-23	39	43	80	-35	37	46	82	-30	47	25
Cash decrease	-2	-6	4	0	-1	-16	-6	13	11	-15	-5	10	10	-15	-5	10
Other ³	-5	-16	-18	-29	-7	-14	0	3	-12	-5	-4	3	-18	-3	-12	16
Cash operating balance, end of period	38	44	40	40	22	38	44	32	20	35	40	30	20	35	40	30
NIPA FEDERAL SECTOR																
Seasonally adjusted, annual rate																
Receipts	1459	1544	1626	1683	1523	1576	1583	1625	1610	1626	1643	1660	1671	1690	1709	1728
Expenditures	1629	1683	1749	1798	1678	1702	1704	1727	1741	1756	1771	1783	1792	1802	1814	1828
Consumption expend.	455	458	461	462	454	463	462	461	459	461	463	463	463	461	463	459
Defense	304	303	302	305	299	307	305	303	301	301	303	306	306	303	304	302
Nondefense	151	155	159	158	155	156	157	157	159	159	160	157	157	158	159	156
Other expenditures	1175	1226	1288	1335	1225	1239	1242	1266	1282	1296	1308	1320	1329	1341	1352	1369
Current account surplus	-171	-139	-123	-115	-155	-127	-120	-102	-131	-130	-128	-123	-121	-112	-106	-100
Gross investment	65	63	62	61	65	66	64	63	61	61	62	63	62	61	61	60
Current and capital account surplus	-236	-202	-185	-177	-220	-193	-184	-165	-192	-191	-190	-186	-182	-172	-166	-160
FISCAL INDICATORS ⁴																
High-employment (HEB) surplus/deficit	-268	-242	-236	-249	-246	-233	-230	-217	-247	-250	-254	-253	-250	-241	-236	-230
Change in HEB, percent of potential GDP	0	-.4	-.1	.2	.1	-.2	0	-.2	.4	0	0	0	0	-.1	-.1	-.1
Fiscal impetus (FI), percent, cal. year	-5.6	-1.7	-3.4	-5.5	1.3	1.8	-.2	-1.5	-1.9	-.2	0	-2.4	-1.9	-1.4	-.4	-2

1. OMB's July 1996 deficit estimates (assuming the enactment of the President's proposals) are \$126 billion in FY97 and \$94 billion in FY98. CBO's April 1996 baseline deficit estimates are \$171 billion in FY97 and \$194 billion in FY98. 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 July 1996 deficit estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are \$134 billion in FY97 and \$96 billion in FY98. CBO's April 1996 baseline deficit estimates, excluding deposit insurance, are \$175 billion in FY97 and \$196 billion in FY98.

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 generated by 1.8 percent real growth and an associated unemployment rate of 6 percent. 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 1995 data for the unified budget come from OMB, fiscal 1996 and 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 ¹
(Percent)

Year	Total	Federal government	Nonfederal					State and local governments	Memo: Nominal GDP
			Total	Total	Households Home mortgages	Consumer credit	Business		
1986	12.1	13.6	11.7	11.4	13.8	9.2	12.2	10.8	5.0
1987	9.2	8.0	9.6	12.2	16.3	5.1	6.7	12.1	7.4
1988	9.0	8.0	9.3	9.6	10.9	8.6	9.7	6.5	7.6
1989	7.6	7.0	7.8	8.7	10.1	6.0	7.5	5.7	6.4
1990	6.6	11.0	5.3	7.9	10.1	2.0	3.1	4.9	4.4
1991	4.4	11.1	2.4	5.0	6.6	-1.7	-1.7	8.2	3.8
1992	4.8	10.9	2.8	5.2	6.1	0.6	0.5	2.0	6.3
1993	5.3	8.3	4.2	6.4	5.5	7.7	1.4	5.7	4.8
1994	5.0	4.7	5.1	8.7	6.7	14.6	3.6	-3.7	5.9
1995	5.5	4.1	6.0	8.2	6.3	14.3	6.2	-4.4	3.8
1996	5.2	3.8	5.7	7.4	7.5	7.3	5.2	-0.7	4.7
1997	4.7	3.4	5.1	5.7	6.3	4.7	5.7	0.1	4.6
1998	4.7	3.2	5.3	5.6	6.1	5.1	5.7	1.7	4.3
Quarter (seasonally adjusted annual rates)									
1995:1	6.4	7.1	6.2	8.2	6.5	13.9	6.9	-4.9	3.8
2	6.5	5.2	6.9	8.2	6.0	15.1	7.6	-0.8	3.1
3	4.3	2.4	4.9	8.8	7.1	14.7	4.4	-10.0	6.0
4	4.3	1.6	5.3	6.8	4.8	10.7	5.3	-1.9	2.3
1996:1	6.3	6.6	6.2	9.2	9.6	11.6	4.5	-1.2	4.2
2	4.9	1.7	6.1	7.7	7.2	7.5	4.8	2.8	6.5
3	4.7	4.3	4.8	6.3	6.4	5.9	6.0	-7.1	3.6
4	4.4	2.5	5.1	5.6	6.2	3.5	5.0	2.7	4.6
1997:1	5.3	5.9	5.0	5.4	6.1	4.1	5.8	-0.3	5.3
2	4.2	1.4	5.2	5.6	6.1	4.5	5.6	1.7	4.5
3	4.4	3.6	4.7	5.6	6.2	4.8	5.5	-3.4	4.3
4	4.5	2.6	5.2	5.7	6.2	5.2	5.3	2.2	4.3

1. Data after 1996: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. On a monthly average basis, total debt grows 5.1 percent in 1996, 4.7 percent in 1997, and 4.8 percent in 1998. Federal debt rises 3.7 percent in 1996, 3.4 percent in 1997, and 3.6 percent in 1998. Nonfederal debt increases 5.6 percent in 1996, 5.1 percent in 1997, and 5.3 percent in 1998.

FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS ¹
(Billions of dollars)

	Calendar year						1996				1997	
	1993	1994	1995	1996	1997	1998	Q1	Q2	Q3	Q4	H1	H2
Net funds raised by domestic nonfinancial sectors												
1 Total	648.3	576.3	646.6	652.5	586.6	638.9	789.3	677.7	572.0	571.1	616.7	556.4
2 Net equity issuance	21.3	-44.9	-73.8	-66.9	-97.9	-86.5	-85.2	-16.0	-98.4	-68.0	-79.0	-116.8
3 Net debt issuance	627.0	621.2	720.4	719.4	684.5	725.4	874.5	693.7	670.4	639.1	695.7	673.2
Borrowing sectors												
Nonfinancial business												
4 Financing gap ²	3.8	2.4	57.7	16.0	44.0	71.0	5.1	2.5	30.4	25.9	36.6	51.4
5 Net equity issuance	21.3	-44.9	-73.8	-66.9	-97.9	-86.5	-85.2	-16.0	-98.4	-68.0	-79.0	-116.8
6 Credit market borrowing	52.7	136.4	241.5	215.2	248.3	261.9	186.2	202.7	255.9	215.9	251.5	245.0
Households												
7 Net borrowing, of which:	255.9	372.4	383.1	372.4	306.6	321.2	461.0	398.4	329.7	300.6	298.6	314.6
8 Home mortgages	153.7	198.1	198.4	253.9	227.7	235.2	322.4	249.5	223.7	220.2	222.7	232.7
9 Consumer credit	61.5	126.3	141.6	82.9	57.5	65.5	131.5	87.8	70.2	42.0	52.5	62.5
10 Debt/DPI (percent) ³	86.6	88.9	91.0	93.5	94.5	95.5	92.9	93.8	94.0	94.4	94.2	94.7
State and local governments												
11 Net borrowing	62.3	-43.4	-48.6	-7.7	0.6	17.8	-12.5	30.1	-76.5	28.2	7.8	-6.7
12 Current surplus ⁴	106.7	103.4	108.4	109.2	107.7	100.6	117.3	111.8	101.0	106.7	109.7	105.6
Federal government												
13 Net borrowing	256.1	155.9	144.4	139.5	129.0	124.6	239.9	62.4	161.3	94.3	137.7	120.3
14 Net borrowing (quarterly, n.s.a.)	256.1	155.9	144.4	139.5	129.0	124.6	80.5	-23.5	39.3	43.1	45.5	83.5
15 Unified deficit (quarterly, n.s.a.)	226.3	185.0	146.3	110.6	113.0	108.1	72.0	-53.7	33.3	59.1	25.5	87.5
16 Funds supplied by depository institutions	140.6	198.2	274.6	220.4	208.9	219.9	177.9	270.0	249.1	184.7	212.3	205.5
Memo: (percent of GDP)												
17 Domestic nonfinancial debt ³	186.4	185.3	186.4	188.2	188.6	189.3	188.4	188.1	188.7	188.7	188.5	188.8
18 Domestic nonfinancial borrowing	9.6	9.0	9.9	9.5	8.6	8.8	11.8	9.2	8.8	8.3	8.9	8.4
19 Federal government ⁵	3.9	2.2	2.0	1.8	1.6	1.5	3.2	0.8	2.1	1.2	1.8	1.5
20 Nonfederal	5.7	6.7	7.9	7.7	7.0	7.3	8.5	8.4	6.7	7.1	7.1	6.9

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1. Data after 1996:Q3 are staff projections.

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

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

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

5. Excludes government-insured mortgage pool securities.

Prices of both exports and non-oil imports extended their recent downtrend through October, with agricultural export prices dropping further and a broad array of import categories registering declines. The price of imported oil rose another 6 percent in October to a level 37 percent above that in October 1995.

Spot oil prices declined ahead of the return of Iraq to the market on December 10 and declined substantially further subsequently. Spot prices had risen considerably in late November, partly because of strike-induced disruptions to French refineries. On balance, the WTI spot price has declined \$0.50 per barrel since the November FOMC meeting and is currently trading at \$23.60 per barrel; the contract for March delivery has declined \$0.60 per barrel to \$22.75.

SUMMARY OF STAFF PROJECTIONS (Percent change from end of previous period)					
	-----Projection-----				
	1996			1997	1998
	H1	Q3	Q4		
Foreign output	2.9	4.3	3.5	3.9	3.7
<i>Previous</i>	3.1	3.5	3.6	3.9	3.6
Real exports	3.7	-1.3	10.4	6.6	6.4
<i>Previous</i>	3.7	0.4	11.7	6.7	6.3
Real imports	10.3	9.6	5.9	9.4	7.5
<i>Previous</i>	10.3	8.7	7.3	8.3	7.2

Outlook

The staff projects that growth of real GDP in our major trading partners (weighted by U.S. nonagricultural export shares) will pick up to a 3-3/4 to 4 percent annual rate during 1997-98. This outlook is little changed from that in the November Greenbook. The projected path of the dollar is higher than it was in November and has led us to mark down the path of real net exports a bit. The effects of some residual seasonality and the CAW/UAW auto strike lead us to expect that real net exports will rise somewhat in the fourth quarter. Beyond the current quarter, however, we see net exports resuming their downtrend and subtracting 0.5 percentage point from the GDP growth rate during 1997, about two-tenths more than we projected in November.

The dollar. We project the foreign exchange value of the dollar in terms of the other G-10 currencies to remain little changed from its recent levels throughout the forecast period. This

SELECTED PRICE INDICATORS
(Percent change from end of previous period except as noted, AR)

	-----Projection-----				
	H1	1996 Q3	Q4	1997	1998
Ag. exports ¹	18.4	-12.99	-11.33	-2.05	4.07
Nonag. exports ¹	-2.4	-2.38	1.28	0.59	1.58
Non-oil imports ¹	-3.4	-3.15	-1.60	-0.42	0.83
Oil imports (Q4 level, \$/b1)	19.52	19.57	21.55	17.00	17.00

1. NIPA chain-weighted basis, including computers and semiconductors.

Prices of non-oil imports and exports. Prices of nonagricultural exports, held down by price declines for computers and semiconductors, should be little changed over the second half of this year and should rise only slightly over the remainder of the forecast period. Prices of agricultural exports are projected to decline moderately through most of next year before turning up in 1998. We anticipate that the prices of non-oil imports will decline about one-half percent during 1997 and then rise only slightly in 1998 as inflation abroad remains very low.

Nominal trade and current account balances. The nominal trade deficit on goods and services is projected to narrow somewhat in the near term from its third-quarter level of \$135 billion and then to widen to \$145 billion by 1998. The balance on net investment income is projected to deteriorate slightly as well. Accordingly, the current account balance should move from a deficit of about \$190 billion in the third quarter to more than \$200 billion in 1998. This projection for 1998 is nearly \$30 billion larger than that in the November forecast, with roughly two-thirds of the deterioration in goods and services and the remainder in investment income and transfers.

Strictly Confidential (FR) Class II-FOMC

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

Measure and Country							---- Projected ----		
	1990	1991	1992	1993	1994	1995	1996	1997	1998
REAL GDP									
Canada	-1.9	0.0	0.5	3.1	4.9	0.7	2.0	3.2	3.1
France	1.5	1.3	0.0	-0.6	4.2	0.4	1.9	2.4	2.1
Germany (1)	6.8	3.3	1.0	-0.4	3.7	1.1	2.2	2.1	2.3
Italy	0.5	1.9	-0.8	-0.0	2.6	2.4	0.5	1.2	1.8
Japan	5.1	2.5	0.1	0.4	0.8	2.6	2.7	2.3	2.2
United Kingdom	-0.7	-1.5	0.3	2.8	4.2	1.9	2.6	3.1	2.4
Average weighted by 1987-89 GDP	2.7	1.6	0.2	0.6	2.8	1.8	2.1	2.3	2.3
Average weighted by share of									
U.S. nonagricultural exports									
Total foreign	2.4	2.5	1.9	3.0	5.0	1.8	3.4	3.9	3.7
Foreign G-7	0.7	0.8	0.3	1.8	3.8	1.3	2.2	2.8	2.7
Developing Countries	6.0	6.1	4.8	5.3	6.9	2.4	5.4	5.8	5.8
CONSUMER PRICES									
Canada	4.9	4.1	1.8	1.8	0.0	2.1	1.8	1.3	1.3
France	3.5	3.0	1.8	2.1	1.6	1.9	1.5	1.7	1.8
Germany (1)	3.0	4.0	3.4	4.2	2.6	1.7	1.4	1.5	1.6
Italy	6.4	6.2	4.8	4.2	3.8	5.8	2.8	2.5	2.8
Japan	3.2	3.2	0.9	1.2	0.8	-0.8	-0.0	1.5	0.2
United Kingdom (2)	9.2	5.7	3.7	2.7	2.2	2.9	3.3	2.7	3.0
Average weighted by 1987-89 GDP	4.7	4.1	2.4	2.5	1.8	1.7	1.5	1.8	1.5
Average weighted by share of									
U.S. non-oil imports	4.3	3.9	1.9	2.0	1.0	1.1	1.2	1.6	1.1

1. West German CPI through 1991, All German thereafter.

2. CPI excluding mortgage interest payments, which is the targeted inflation rate.

Strictly Confidential (FR) Class II-FOMC

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

Measure and Country	1996				Projected 1997				1998			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP												
Canada	1.1	1.2	3.3	2.5	3.5	2.9	3.0	3.2	3.1	3.1	3.1	3.1
France	4.6	-0.6	3.7	0.0	2.5	2.2	2.4	2.3	2.1	2.2	2.2	2.1
Germany (1)	-1.6	6.0	3.3	1.4	2.2	1.9	2.1	2.3	2.3	2.3	2.3	2.3
Italy	1.7	-1.6	2.0	-0.2	1.5	1.5	1.0	1.0	1.5	1.5	2.0	2.0
Japan	8.4	-1.1	0.4	3.3	3.7	1.3	2.1	2.0	2.4	2.3	2.1	2.0
United Kingdom	2.3	1.9	3.1	3.1	3.2	3.2	3.0	2.8	2.6	2.4	2.4	2.2
Average weighted by 1987-89 GDP	3.7	0.6	2.2	1.9	2.9	1.9	2.2	2.2	2.3	2.2	2.3	2.2
Average weighted by share of U.S. nonagricultural exports												
Total foreign	3.9	2.1	4.3	3.5	4.0	3.7	3.8	3.9	3.9	3.8	3.7	3.6
Foreign G-7	2.7	1.0	2.7	2.4	3.3	2.4	2.6	2.7	2.7	2.7	2.7	2.6
Developing Countries	6.9	2.5	6.9	5.4	5.8	5.9	5.8	5.8	5.8	5.8	5.7	5.7
CONSUMER PRICES (2)												
Canada	1.4	1.4	1.4	1.8	1.6	1.3	1.6	1.3	1.3	1.3	1.3	1.3
France	2.1	2.4	1.8	1.5	1.9	1.8	1.7	1.7	1.8	1.8	1.8	1.8
Germany (1)	1.6	1.5	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.6	1.6	1.6
Italy	5.0	4.2	3.4	2.8	2.7	2.8	2.5	2.5	2.8	2.8	2.8	2.8
Japan	-0.3	0.1	0.0	-0.0	0.0	1.5	1.5	1.5	1.5	0.1	0.2	0.2
United Kingdom (3)	2.9	2.8	2.9	3.3	3.2	3.0	2.8	2.7	2.7	2.8	3.0	3.0
Average weighted by 1987-89 GDP	1.7	1.7	1.5	1.5	1.5	1.9	1.8	1.8	1.9	1.4	1.5	1.5
Average weighted by share of U.S. non-oil imports	1.1	1.2	1.1	1.2	1.1	1.6	1.7	1.6	1.6	1.0	1.1	1.1

1. West German CPI through 1991, all German thereafter.

2. Year/Year changes.

3. CPI excluding mortgage interest payments, which is the targeted inflation rate.

Strictly Confidential (FR) Class II-FOMC

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1990	1991	1992	1993	1994	1995	----- 1996	Projected 1997	----- 1998
NIPA REAL EXPORTS and IMPORTS									
	percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	0.6	0.4	-0.4	-0.7	-0.4	0.3	-0.7	-0.5	-0.3
Exports of G&S	0.6	0.8	0.4	0.5	1.0	0.8	0.5	0.8	0.8
Imports of G&S	-0.1	-0.4	-0.8	-1.1	-1.4	-0.5	-1.2	-1.3	-1.1
	percent change, Q4/Q4								
Exports of G&S	7.2	8.6	4.1	4.8	9.9	7.4	4.0	6.6	6.4
Services	8.9	7.1	-0.9	3.9	4.8	5.1	1.2	2.6	2.5
Agricultural Goods	-7.3	10.1	10.4	-5.4	17.1	-3.1	-2.8	2.1	4.1
Computers	12.3	21.7	25.2	22.7	28.8	49.4	30.7	29.9	28.7
Semiconductors	61.5	41.8	64.8	45.1	68.7	29.7	0.2	26.2	26.2
Other Goods 1/	6.0	7.0	2.3	3.6	7.4	5.2	3.8	4.5	3.1
Imports of G&S	0.5	4.0	7.5	10.5	11.8	4.2	9.0	9.4	7.5
Services	5.8	-2.7	1.5	3.6	0.8	4.1	4.8	3.4	2.8
Oil	-15.8	8.1	12.1	10.1	-0.2	0.9	6.9	4.9	4.1
Computers	2.9	35.9	45.1	38.8	37.3	43.8	24.5	27.4	23.9
Semiconductors	60.9	55.3	42.0	44.9	47.4	57.1	-9.9	26.2	26.2
Other Goods 2/	-0.3	2.5	5.4	9.4	12.5	-1.2	9.9	7.8	5.0
	in billions of chained 1992\$								
Net Goods & Services	-61.9	-22.3	-29.5	-72.0	-105.7	-107.6	-122.7	-155.7	-182.1
Exports of G&S	564.4	599.9	639.4	658.3	712.0	775.4	818.8	868.6	923.4
Imports of G&S	626.3	622.2	668.9	730.2	817.6	883.0	941.5	1024.3	1105.5
	in billions of dollars								
US CURRENT ACCOUNT BALANCE	-94.7	-9.5	-62.6	-99.9	-148.4	-148.2	-169.4	-185.6	-206.6
Net Goods & Services (BOP)	-80.3	-29.9	-38.3	-72.0	-104.4	-105.1	-119.1	-131.3	-145.0
Exports of G&S (BOP)	536.8	580.7	617.7	643.0	698.3	786.5	829.7	871.1	927.9
Imports of G&S (BOP)	617.1	610.6	655.9	715.0	802.7	891.6	948.8	1002.4	1072.9
Net Investment Income	20.9	15.8	11.2	9.7	-4.2	-8.0	-9.9	-16.8	-24.1
Direct, Net	55.9	55.6	51.6	55.9	47.4	57.5	61.9	68.0	70.2
Portfolio, Net	-35.0	-39.8	-40.4	-46.2	-51.6	-65.5	-71.7	-84.9	-94.3
Net Transfers	-35.2	4.5	-35.5	-37.6	-39.9	-35.1	-40.4	-37.5	-37.5

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

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

Strictly Confidential (FR) Class II-FOMC

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1993				1994				1995			
	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	-1.1	-0.5	-0.3	0.4	-1.1	0.1	1.2	1.0	-1.1	-0.6	-1.4	0.4
Exports of G&S	-0.2	1.6	1.0	1.7	0.3	0.7	1.2	1.2	0.2	0.7	-0.2	1.2
Imports of G&S	-0.9	-2.1	-1.3	-1.2	-1.4	-0.6	0.0	-0.2	-1.3	-1.3	-1.3	-0.8
	percent change, Q4/Q4											
Exports of G&S	-1.6	15.9	9.7	16.5	2.6	5.9	10.8	10.6	1.8	5.7	-1.3	10.4
Services	0.8	9.7	3.4	5.5	-1.1	4.0	18.7	-0.3	2.7	2.8	-3.8	3.3
Agricultural Goods	-24.4	6.8	43.0	62.9	-0.6	-19.8	16.4	-4.9	9.3	-33.7	9.1	13.0
Computers	24.5	16.6	27.6	48.6	33.0	30.1	79.0	61.0	58.7	21.0	18.3	28.7
Semiconductors	131.4	16.2	45.8	106.7	43.6	19.9	28.8	27.6	-0.0	-20.7	2.6	23.9
Other Goods 1/	-6.6	20.2	6.6	11.1	0.1	7.6	0.6	13.3	-4.2	13.9	-3.7	10.5
Imports of G&S	8.2	18.4	10.7	10.3	11.2	4.5	-0.0	1.6	10.7	10.0	9.6	5.9
Services	1.8	7.5	-1.6	-4.0	21.7	-6.7	5.8	-2.4	13.0	1.3	2.7	2.9
Oil	-8.6	27.2	33.5	-36.2	-2.4	5.3	22.0	-17.2	-22.2	59.9	7.2	-2.2
Computers	45.0	30.9	24.8	49.9	29.6	31.9	64.7	51.8	27.7	23.0	23.7	23.9
Semiconductors	65.3	7.3	43.4	85.8	49.3	61.0	76.4	43.6	4.6	-38.5	-19.0	26.2
Other Goods 2/	7.0	19.9	9.5	14.1	6.9	2.4	-10.9	-2.3	12.1	11.6	12.0	4.3
	in billions of chained 1992\$											
Net Goods & Services	-99.3	-107.3	-111.7	-104.3	-122.5	-121.4	-101.5	-84.9	-104.1	-114.8	-139.2	-132.7
Exports of G&S	677.6	703.1	719.6	747.6	752.3	763.2	783.0	803.1	806.7	817.9	815.1	835.5
Imports of G&S	777.0	810.4	831.3	851.9	874.9	884.6	884.5	888.0	910.8	932.7	954.3	968.2
	in billions of dollars											
US CURRENT ACCOUNT BALANCE	-118.8	-144.1	-160.0	-170.6	-156.2	-163.9	-150.8	-121.7	-139.5	-160.8	-191.8	-185.4
Net Goods & Services (BOP)	-90.8	-103.5	-113.8	-109.4	-118.1	-127.3	-97.3	-77.6	-96.9	-114.3	-135.3	-129.9
Exports of G&S (BOP)	662.3	686.1	708.3	736.5	755.9	778.9	796.8	814.5	820.6	836.0	822.1	840.2
Imports of G&S (BOP)	753.1	789.6	822.1	845.9	874.0	906.2	894.2	892.0	917.5	950.3	957.5	970.1
Net Investment Income	4.7	-2.5	-6.4	-12.4	-3.6	-3.4	-17.4	-7.6	1.0	-9.1	-18.8	-12.6
Direct, Net	49.5	46.0	47.4	46.9	57.4	59.9	51.3	61.3	66.1	59.2	56.3	65.9
Portfolio, Net	-44.8	-48.5	-53.7	-59.3	-61.0	-63.3	-68.7	-68.9	-65.0	-68.3	-75.1	-78.5
Net Transfers	-32.7	-38.0	-39.9	-48.9	-34.6	-33.2	-36.0	-36.6	-43.6	-37.5	-37.7	-43.0

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

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1996				1997				1998			
	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	-1.1	-0.6	-1.4	0.4	-0.6	-0.4	-0.8	-0.3	-0.2	-0.3	-0.6	-0.1
Exports of G&S	0.2	0.7	-0.2	1.2	0.8	0.9	0.3	1.2	0.6	1.1	0.3	1.2
Imports of G&S	-1.3	-1.3	-1.3	-0.8	-1.3	-1.3	-1.0	-1.5	-0.8	-1.4	-0.9	-1.4
	percent change, Q4/Q4											
Exports of G&S	1.8	5.7	-1.3	10.4	6.5	8.0	2.2	9.8	4.6	8.9	2.3	10.0
Services	2.7	2.8	-3.8	3.3	2.1	2.8	2.8	2.7	2.7	2.7	2.4	2.1
Agricultural Goods	9.3	-33.7	9.1	13.0	-4.1	4.4	4.4	4.1	4.0	4.0	4.0	4.1
Computers	58.7	21.0	18.3	28.7	31.1	31.1	28.7	28.7	28.7	28.7	28.7	28.7
Semiconductors	-0.0	-20.7	2.6	23.9	26.2	26.2	26.2	26.2	26.2	26.2	26.2	26.2
Other Goods 1/	-4.2	13.9	-3.7	10.5	5.6	6.6	-3.5	9.8	0.2	7.6	-4.2	9.4
Imports of G&S	10.7	10.0	9.6	5.9	10.0	9.5	7.4	10.6	5.4	9.4	6.0	9.1
Services	13.0	1.3	2.7	2.9	4.1	3.3	3.0	3.1	3.0	2.7	2.8	2.9
Oil	-22.2	59.9	7.2	-2.2	-17.6	44.9	14.8	-11.8	-5.5	32.8	13.8	-17.6
Computers	27.7	23.0	23.7	23.9	28.6	28.6	26.2	26.2	23.9	23.9	23.9	23.9
Semiconductors	4.6	-38.5	-19.0	26.2	26.2	26.2	26.2	26.2	26.2	26.2	26.2	26.2
Other Goods 2/	12.1	11.6	12.0	4.3	10.9	5.1	4.2	11.4	3.0	5.7	1.9	9.5
	in billions of chained 1992\$											
Net Goods & Services	-104.1	-114.8	-139.2	-132.7	-142.7	-149.1	-162.6	-168.5	-172.4	-177.3	-188.2	-190.4
Exports of G&S	806.7	817.9	815.1	835.5	848.8	865.2	869.9	890.6	900.6	920.0	925.3	947.6
Imports of G&S	910.8	932.7	954.3	968.2	991.5	1014.3	1032.6	1059.0	1073.1	1097.3	1113.5	1138.0
	in billions of dollars											
US CURRENT ACCOUNT BALANCE	-139.5	-160.8	-191.8	-185.4	-175.2	-175.8	-188.2	-203.3	-194.2	-201.3	-211.0	-220.2
Net Goods & Services (BOP)	-96.9	-114.3	-135.3	-129.9	-126.7	-125.3	-135.3	-137.9	-139.1	-142.0	-150.3	-148.6
Exports of G&S (BOP)	820.6	836.0	822.1	840.2	852.0	867.3	871.7	893.3	904.1	924.6	929.9	953.1
Imports of G&S (BOP)	917.5	950.3	957.5	970.1	978.7	992.5	1007.0	1031.2	1043.2	1066.6	1080.2	1101.6
Net Investment Income	1.0	-9.1	-18.8	-12.6	-13.5	-15.6	-17.9	-20.4	-20.0	-24.2	-25.7	-26.6
Direct, Net	66.1	59.2	56.3	65.9	67.7	68.1	68.2	68.2	70.7	68.7	69.8	71.6
Portfolio, Net	-65.0	-68.3	-75.1	-78.5	-81.2	-83.6	-86.1	-88.6	-90.7	-92.9	-95.4	-98.2
Net Transfers	-43.6	-37.5	-37.7	-43.0	-35.0	-35.0	-35.0	-45.0	-35.0	-35.0	-35.0	-45.0

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

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

Part 2

December 12, 1996

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

December 12, 1996

RECENT DEVELOPMENTS

3.5 percent during the year-earlier period. Compensation per hour in the nonfinancial corporate sector rose 4.1 percent at an annual rate in the third quarter and 3.7 percent over the past four quarters.

Industrial Production

According to production-worker hours and available physical product data, industrial production increased sharply in November. A large increase in motor vehicle assemblies and related activity after the production disruptions in October paced the advance; a surge in utilities output also contributed importantly.⁴

Motor vehicle assemblies rebounded to an annual rate of 12.1 million units in November, with increases for both autos and trucks. The assembly pace was somewhat below that scheduled at the beginning of the month, in part because GM did not come back from the strike as quickly as it had anticipated. GM also continues to be plagued by start-up problems with new models. Nonetheless, the increase in total assemblies was large enough to make a direct contribution of about 0.3 percentage point to the growth in industrial production, and upstream industries likely added 0.2 percentage point. Schedules call for assemblies of 12.4 million units at an annual rate in December and 12.6 million in the first quarter of 1997.

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

	1996				1997
	Q3	Oct.	Nov.	Dec.	Q1
				---scheduled---	
U.S. production	12.7	11.2	12.1	12.4	12.6
Autos	6.7	5.5	6.3	6.1	6.4
Trucks	6.0	5.7	5.9	6.4	6.2
Days' supply					
Autos	62.3	64.9	67.4		
Light trucks	74.8	65.3	64.2		

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

Manufacturing production-worker hours excluding motor vehicles and parts (FRB seasonals) were unchanged in November. But, together with productivity gains and the available physical output data, they suggest that output in manufacturing excluding motor vehicles and parts grew moderately last month. The movements in hours varied

4. By mid-November, the UAW and CAW had ratified new contracts with each of the Big Three.

TREASURY FINANCING
(Billions of dollars; total for period)

Item	1996				
	Q3	Q4 ^p	Oct.	Nov. ^e	Dec. ^p
Total surplus/deficit (-)	-33.3	-59.1	-40.3	-40.5	21.6
Means of financing deficit					
Net cash borrowing and repayments (-)	39.4	43.1	15.6	44.8	-17.2
Nonmarketable	-1.0	6.8	2.9	2.4	1.6
Marketable	40.3	36.3	12.7	42.4	-18.8
Bills	-12.4	11.9	2.2	38.9	-29.1
Coupons	52.7	24.4	10.5	3.5	10.3
Decrease in cash balance	-6.2	12.7	18.6	-0.7	-5.2
Other	0.1	3.3	6.1	-3.6	0.8
Memo:					
Cash balance, end of period	44.2	31.5	25.6	26.3	31.5

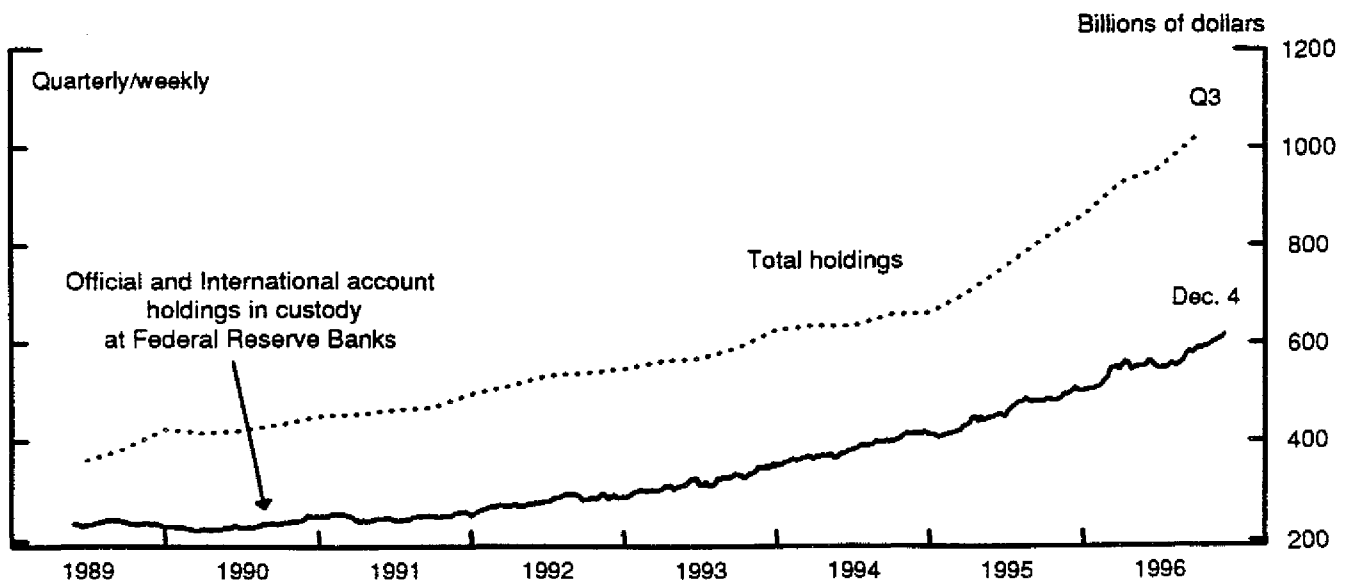
Note. Data reported on a payment basis. Details may not sum to totals because of rounding.

1. Accrued items, checks issued less checks paid, and other transactions.

p Projection.

e Estimate.

Foreign Holdings of Marketable U.S. Treasury Securities



Source: Flow of Funds and New York Federal Reserve Bank.

CONFIDENTIAL (FR)
CLASS III - FOMC

December 13, 1996

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 13, 1996

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

	1996 Apr	1996 May	1996 Jun	1996 Jul	1996 Aug	1996 Sep	1996 Oct	1996 Nov	1996 Dec (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	92.7	89.4	92.4	94.7	95.3	94.7	96.5	99.2	98.9
Current conditions	107.8	105.1	105.4	107.5	107.8	102.0	106.6	107.5	107.1
Expected conditions	83.0	79.2	84.0	86.5	87.3	90.1	89.9	93.9	93.7

Personal financial situation									
Now compared with 12 months ago*	118	114	118	115	119	109	115	121	116
Expected in 12 months*	127	122	128	129	129	130	127	133	134
Expected business conditions									
Next 12 months*	118	110	117	122	120	127	131	137	132
Next 5 years*	88	86	93	97	102	105	103	108	111
Appraisal of buying conditions									
Cars	125	127	137	138	139	134	132	135	134
Large household appliances*	162	159	155	164	161	155	161	158	161
Houses	157	159	153	161	158	149	159	157	154
Willingness to use credit	45	37	54	38	45	40	37	43	46
Willingness to use savings	64	64	66	67	60	62	62	70	69
Expected unemployment change - next 12 months	124	121	123	115	114	112	114	110	114
Expected inflation - next 12 months									
Mean	4.5	4.9	4.2	4.3	4.1	4.3	4.2	4.0	4.0
Median	3.0	3.0	2.9	2.9	3.0	3.2	3.0	3.0	3.0
Expected inflation - next 5 to 10 years									
Mean	4.1	4.8	4.0	4.2	4.6	4.1	4.2	3.7	3.8
Median	3.0	3.2	3.1	3.1	3.2	3.2	3.0	3.0	3.0

* -- 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.

Strictly Confidential <FR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

December 13, 1996

Item	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	96Q4/ 95Q4	97Q4/ 96Q4	98Q4/ 97Q4
Real GDP	2.3	2.1	2.3	2.3	2.2	2.1	1.9	1.9	1.9	2.8	2.3	1.9
Gross dom. purchases	1.9	2.7	2.7	3.1	2.6	2.3	2.2	2.5	2.0	3.5	2.8	2.2
Final sales	2.7	1.9	2.5	2.3	2.3	2.0	1.9	1.9	2.0	2.6	2.2	1.9
Priv. dom. final purchases	2.2	2.7	2.7	2.8	2.4	2.3	2.2	2.3	2.2	2.9	2.6	2.2
Personal cons. expenditures	2.2	2.3	2.0	2.1	1.7	1.6	1.5	1.4	1.4	1.8	2.0	1.5
Durables	0.6	0.6	0.4	0.5	0.3	0.3	0.3	0.2	0.2	0.5	0.4	0.2
Nondurables	0.2	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.5	0.4
Services	1.3	1.2	1.1	1.0	0.9	0.9	0.8	0.8	0.8	0.9	1.1	0.8
Business fixed investment	0.6	0.5	0.7	0.5	0.6	0.6	0.6	0.7	0.7	1.0	0.6	0.7
Producers' dur. equip.	0.4	0.5	0.7	0.5	0.6	0.6	0.6	0.7	0.7	0.9	0.6	0.7
Nonres. structures	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	-0.0	0.0
Residential structures	-0.4	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	-0.0	0.0
Net exports	0.4	-0.6	-0.4	-0.8	-0.3	-0.2	-0.3	-0.6	-0.1	-0.7	-0.5	-0.3
Exports	1.2	0.8	0.9	0.3	1.2	0.6	1.1	0.3	1.2	0.5	0.8	0.8
Imports	-0.8	-1.3	-1.3	-1.0	-1.5	-0.8	-1.4	-0.9	-1.4	-1.2	-1.3	-1.1
Government cons. & invest.	0.1	-0.2	0.2	0.3	0.2	-0.1	-0.0	0.2	-0.1	0.4	0.1	0.0
Federal	-0.3	-0.5	-0.1	-0.0	-0.1	-0.3	-0.3	-0.1	-0.4	0.1	-0.2	-0.3
Defense	-0.2	-0.5	-0.0	0.0	0.1	-0.3	-0.3	-0.0	-0.2	0.0	-0.1	-0.2
Nondefense	-0.1	-0.0	-0.0	-0.0	-0.2	-0.1	-0.0	-0.0	-0.2	0.1	-0.1	-0.1
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	0.2	-0.2	0.1	-0.0	0.1	0.0	-0.0	-0.1	0.2	0.0	0.0
Nonfarm	-0.5	0.1	-0.2	0.1	-0.1	0.1	0.0	-0.0	-0.1	0.1	-0.0	-0.0
Farm	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0
GDP residual	-0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.1	-0.0	0.0	0.1	0.0

Components may not sum to total due to rounding.

Strictly Confidential <FR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

December 13, 1996

Item	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	95Q4/ 94Q4	96Q4/ 95Q4	97Q4/ 96Q4
Real GDP	0.3	2.0	4.7	2.3	2.3	2.1	2.3	2.3	2.2	1.3	2.8	2.3
Gross dom. purchases	-0.7	3.1	5.3	3.7	1.9	2.7	2.7	3.1	2.6	1.0	3.5	2.8
Final sales	1.4	3.0	4.1	0.5	2.7	1.9	2.5	2.3	2.3	1.9	2.6	2.2
Priv. dom. final purchases	1.2	3.9	3.4	2.0	2.2	2.7	2.7	2.8	2.4	1.8	2.9	2.6
Personal cons. expenditures	0.7	2.4	2.3	0.4	2.2	2.3	2.0	2.1	1.7	1.3	1.8	2.0
Durables	-0.1	0.7	0.9	-0.2	0.6	0.6	0.4	0.5	0.3	0.1	0.5	0.4
Nondurables	-0.1	0.7	0.3	0.1	0.2	0.6	0.6	0.5	0.5	0.2	0.3	0.5
Services	0.8	0.9	1.1	0.5	1.3	1.2	1.1	1.0	0.9	0.9	0.9	1.1
Business fixed investment	0.2	1.1	0.4	1.7	0.6	0.5	0.7	0.5	0.6	0.7	1.0	0.6
Producers' dur. equip.	0.2	0.9	0.5	1.6	0.4	0.5	0.7	0.5	0.6	0.5	0.9	0.6
Nonres. structures	0.0	0.2	-0.1	0.2	0.2	-0.1	0.0	0.0	0.0	0.1	0.1	-0.0
Residential structures	0.2	0.3	0.6	-0.2	-0.4	-0.1	-0.1	0.0	0.0	-0.1	0.1	-0.0
Net exports	0.9	-1.1	-0.6	-1.4	0.4	-0.6	-0.4	-0.8	-0.3	0.3	-0.7	-0.5
Exports	1.1	0.2	0.6	-0.2	1.2	0.8	0.9	0.3	1.2	0.8	0.5	0.8
Imports	-0.2	-1.3	-1.2	-1.3	-0.8	-1.3	-1.3	-1.0	-1.5	-0.5	-1.2	-1.3
Government cons. & invest.	-0.8	0.3	1.4	-0.0	0.1	-0.2	0.2	0.3	0.2	-0.3	0.4	0.1
Federal	-0.9	0.4	0.6	-0.2	-0.3	-0.5	-0.1	-0.0	-0.1	-0.5	0.1	-0.2
Defense	-0.6	0.2	0.4	-0.2	-0.2	-0.5	-0.0	0.0	0.1	-0.3	0.0	-0.1
Nondefense	-0.3	0.2	0.2	0.0	-0.1	-0.0	-0.0	-0.0	-0.2	-0.2	0.1	-0.1
State and local	0.2	-0.1	0.8	0.2	0.4	0.3	0.3	0.3	0.3	0.2	0.3	0.3
Change in bus. inventories	-1.0	-1.0	0.5	1.7	-0.4	0.2	-0.2	0.1	-0.0	-0.6	0.2	0.0
Nonfarm	-1.2	-0.9	0.5	1.4	-0.5	0.1	-0.2	0.1	-0.1	-0.5	0.1	-0.0
Farm	0.1	-0.1	0.1	0.3	0.1	0.1	0.0	0.0	0.1	-0.1	0.1	0.0
GDP residual	-0.0	0.0	-0.0	0.1	-0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.1

Components may not sum to total due to rounding.

Item	Fiscal year ⁵				1996				1997				1998			
	1995 ^a	1996 ^a	1997	1998	Q1 ^a	Q2 ^a	Q3 ^b	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
Not seasonally adjusted																
Receipts ¹	1355	1453	1525	1575	322	446	362	353	333	459	379	364	345	474	392	384
Outlays ¹	1519	1560	1637	1692	393	392	395	412	413	405	407	424	420	426	423	435
Surplus/deficit ¹	-164	-107	-112	-117	-72	54	-33	-59	-80	54	-28	-60	-75	48	-31	-51
On-budget	-226	-174	-181	-190	-84	14	-36	-67	-93	13	-34	-69	-88	4	-37	-63
Off-budget	62	67	68	73	12	39	2	8	13	41	6	9	13	44	7	12
Surplus excluding deposit insurance ²	-182	-116	-120	-119	-75	52	-34	-65	-81	53	-29	-60	-75	48	-31	-52
Means of financing																
Borrowing	171	130	126	146	80	-23	39	43	80	-35	37	46	82	-30	47	25
Cash decrease	-2	-6	4	0	-1	-16	-6	13	11	-15	-5	10	10	-15	-5	10
Other ³	-5	-16	-18	-29	-7	-14	0	3	-12	-5	-4	3	-18	-3	-12	16
Cash operating balance, end of period	38	44	40	40	22	38	44	32	20	35	40	30	20	35	40	30
NIPA FEDERAL SECTOR																
Seasonally adjusted, annual rate																
Receipts	1459	1544	1626	1683	1523	1576	1583	1625	1610	1626	1643	1660	1671	1690	1709	1728
Expenditures	1629	1683	1749	1798	1678	1702	1704	1727	1741	1756	1771	1783	1792	1802	1814	1828
Consumption expend.	455	458	461	462	454	463	462	461	459	461	463	463	463	461	463	459
Defense	304	303	302	305	299	307	305	303	301	301	303	306	306	303	304	302
Nondefense	151	155	159	158	155	156	157	157	159	159	160	157	157	158	159	156
Other expenditures	1175	1226	1288	1335	1225	1239	1242	1266	1282	1296	1308	1320	1329	1341	1352	1369
Current account surplus	-171	-139	-123	-115	-155	-127	-120	-102	-131	-130	-128	-123	-121	-112	-106	-100
Gross investment	65	63	62	61	65	66	64	63	61	61	62	63	62	61	61	60
Current and capital account surplus	-236	-202	-185	-177	-220	-193	-184	-165	-192	-191	-190	-186	-182	-172	-166	-160
FISCAL INDICATORS ⁴																
High-employment (HEB) surplus/deficit	-263	-236	-242	-245	-246	-233	-230	-217	-247	-250	-254	-253	-250	-241	-236	-230
Change in HEB, percent of potential GDP	0	-.4	.1	0	.1	-.2	0	-.2	.4	0	0	0	0	-.1	-.1	-.1
Fiscal impetus (FI), percent, cal. year	-5.6	-1.7	-3.4	-5.5	1.3	1.8	-.2	-1.5	-1.9	-.2	0	-2.4	-1.9	-1.4	-.4	-.2

1. OMB's July 1996 deficit estimates (assuming the enactment of the President's proposals) are \$126 billion in FY97 and \$94 billion in FY98. CBO's April 1996 baseline deficit estimates are \$171 billion in FY97 and \$194 billion in FY98. 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 July 1996 deficit estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are \$134 billion in FY97 and \$96 billion in FY98. CBO's April 1996 baseline deficit estimates, excluding deposit insurance, are \$175 billion in FY97 and \$196 billion in FY98.

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 generated by 1.8 percent real growth and an associated unemployment rate of 6 percent. 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 1995 data for the unified budget come from OMB, fiscal 1996 and quarterly data come from the Monthly Treasury Statement and may not sum to OMB fiscal year totals.

a--Actual.

b--Preliminary.