

Part 1

January 29, 1997

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

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

Strictly Confidential (FR) Class II FOMC

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SUMMARY AND OUTLOOK

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

	1996	1997	1998
Real GDP	3.1	2.3	2.1
<i>Previous</i>	2.8	2.3	1.9
Gross domestic purchases	3.3	2.9	2.2
<i>Previous</i>	3.4	2.7	2.2
Consumer price index	3.1	2.6	3.0
<i>Previous</i>	3.2	2.7	2.7
Excluding food and energy	2.6	2.8	3.2
<i>Previous</i>	2.7	2.8	2.9
<i>Level, end of period</i>			
Unemployment rate	5.3	5.1	5.0
<i>Previous</i>	5.3	5.2	5.2

The upward revision to activity is mirrored in higher projected levels of resource utilization. Labor markets, of course, are already tight, and the latest statistics have confirmed the uptilt in compensation increases last year. With the unemployment rate projected to edge down to 5 percent and with the minimum wage jumping again later this year, we see labor cost inflation continuing to escalate. In addition, after a period in which declining prices for non-oil imports have damped inflation, this influence is likely to reverse by next year. More favorable movements in food and energy prices should restrain increases in the overall CPI, but we foresee core CPI inflation increasing from 2.6 percent during 1996 to 3.2 percent during 1998--an acceleration that would be a couple of tenths larger were it not for the effects of technical changes to the index over this period.

Key Background Factors in the Forecast

With this month's revisions, our forecast has edged further in the direction of a more cyclical pattern of inflationary overshooting, which typically has been followed by monetary tightening and then a period of weakness. Though our forecast is still well short of that scenario, we remain concerned that the greater risks may lie on that side.

However, financial market participants seem little afflicted with such concerns. The prevailing view is that, at worst, only the slightest tap on the monetary brakes will be necessary to keep inflation in check in a context of steady, moderate growth. Over

expect it to average \$24 per barrel this quarter, \$3 higher than we projected in December. World supplies have remained tight, in part because demand has been boosted by severe weather in Europe. Pressures on supplies should ease gradually by the spring, however, and the spot price is expected to stabilize at \$20 per barrel--just a shade higher than previously assumed.

Regarding fiscal policy, we are projecting that the unified federal deficit for fiscal year 1997, \$109 billion, will be little changed from the \$107 billion recorded in fiscal 1996. Beyond that, we still anticipate that the Administration and the Congress will agree on a program promising budgetary balance by fiscal 2002. The package will probably contain a number of "gimmicks"--such as unspecified spending cuts and asset sales--but we are assuming that the plan will be credible enough to give a little further lift to the bond markets. For fiscal 1998, we have incorporated deficit-reduction measures totaling about \$20 billion, enough to hold the unified deficit to \$117 billion despite the slowdown in economic growth.

**SUMMARY OF THE NEAR-TERM OUTLOOK FOR REAL GDP
(Percentage change at annual rates, except as noted)**

	1996:Q4		1997:Q1	
	Dec. GB	Jan. GB	Dec. GB	Jan. GB
Real GDP	2.3	3.5	2.1	1.7
Consumer spending	3.2	3.0	3.4	3.5
Business fixed investment	5.0	2.7	4.1	6.0
Residential structures	-9.8	-8.3	-3.4	-6.6
Government spending	0.5	1.5	-1.1	-2.0
<i>Change in billions of chained 1992 dollars</i>				
Inventory investment	-7.2	-5.0	2.8	7.0
Net exports	6.5	29.4	-10.0	-23.1

Recent Developments and Prospects for the Current Quarter

Our forecast of a deceleration of real GDP from a growth rate of 3-1/2 percent last quarter to 1-3/4 percent this quarter rests almost entirely on analytical deduction. We have no hard economic data for January--other than the weekly unemployment insurance figures, which are notoriously unreliable at this time of year.

precipitation; the flooding in the West and the freeze in the Midwest this month have probably delayed the makeup.

Net hiring is expected to slow somewhat this quarter--but much less so than growth of real GDP. The data on initial claims for unemployment insurance, the reports of hiring plans, and households' perceptions of conditions in the labor market suggest that labor demand is holding up quite well; in light of the reported difficulty in finding well-qualified workers, firms may hesitate to trim payrolls. Although the recent spurt in labor force participation could be extended, we think a brief pause is more likely and have allowed the momentum of hiring to show through in a slightly lower jobless rate.

NEAR-TERM OUTLOOK FOR INFLATION AND RESOURCE UTILIZATION
(Percentage change at annual rates, except as noted)

	1996:Q4		1997:Q1	
	Dec. GB	Jan. GB	Dec. GB	Jan. GB
Consumer price index	3.3	3.1	3.0	3.1
Excluding food and energy	2.7	2.7	2.7	2.3
<i>Level (percent)</i>				
Unemployment rate	5.3	5.3	5.2	5.2
Capacity utilization rate (manufacturing)	81.8	82.2	82.1	82.3
<i>Level (dollars per barrel)</i>				
WTI spot crude oil	24.60	24.70	21.00	24.00

Regarding inflation, rapidly rising energy prices last quarter pushed up the overall CPI. With the persistence of higher crude oil costs early this year, we expect another inflationary impulse from energy in the current quarter. Large increases in retail food prices also added to average CPI inflation last quarter; but prices at the crude level decelerated in December and, despite the recent freeze in Florida, continue, on balance, to be reasonably favorable. This suggests that consumer food prices will rise only moderately in the current quarter. At the core level, we see some risk that the higher costs of oil-related inputs and increased compensation rates could lead to a step-up in inflation in the near term. However, goods markets are showing no sign of imminent price acceleration, in part because of competition from imports, and we expect the core CPI to continue increasing only a couple of tenths a month this quarter.

by the economic arguments that output will be revised up to some extent over the 1994-96 period. As a middle ground, we have assumed that the revision will suffice to move the productivity trend for the 1990s up toward 0.9 percent per year, and this is the trend rate of growth that we have carried forward in the current projection. Of course, if our guess is correct, the upcoming NIPA revisions will still leave a gap between gross income and gross output; in the forecast, we have leaned in the direction of having that gap diminish over time, letting measured expenditures rise somewhat faster than income and narrowing the statistical discrepancy over the forecast period.

Our forecast has productivity growing just below trend over the next two years and the unemployment rate declining further. Payroll employment is projected to grow around 1-3/4 percent this year and close to 1-1/2 percent next year--a deceleration from last year's 2-1/4 percent pace; the growth of household employment is only a bit less. Job opportunities are likely to look sufficiently good to continue boosting labor force participation, and welfare reform may reinforce that tendency. We expect the participation rate to move up another 0.3 percentage point during the next two years. On balance, the unemployment rate is projected to decline to 5.1 percent by the end of this year and then to 5.0 percent in 1998.

THE OUTLOOK FOR THE LABOR MARKET
(Percentage change, Q4 to Q4, except as noted)

	1995	1996	1997	1998
Output per hour, nonfarm business sector	.1	.8	.8	.8
<i>Previous</i>	.1	.8	.9	1.0
Nonfarm payroll employment	2.0	2.2	1.7	1.4
<i>Previous</i>	2.0	2.1	1.4	1.1
Household employment	.6	2.1	1.5	1.3
<i>Previous</i>	.6	2.0	1.3	1.0
Labor force participation rate ¹	66.5	66.9	67.1	67.2
<i>Previous</i>	66.5	66.9	67.0	67.1

1. Average level for the fourth quarter.

Wages and prices. The upturn in the employment cost index for private industry compensation, from 2.6 percent in 1995 to 3.1 percent in 1996, confirms that labor markets have become sufficiently tight to generate ongoing upward pressure on labor

the acceleration in core consumer prices over the period. All told, the officially reported core CPI, which rose 2.6 percent during 1996, is projected to be 2.8 percent during 1997 and 3.2 percent during 1998. As we noted earlier, that acceleration is smaller than it would have been in the absence of scheduled technical changes to the core CPI; we estimate that, without those changes, the index would show an additional 0.2 percentage point acceleration between 1996 and 1998 and that in 1998 a comparably measured core CPI would be rising at its fastest pace since 1991.

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

	1995	1996	1997	1998
Consumer price index	2.7	3.1	2.6	3.0
<i>Previous</i>	2.7	3.2	2.7	2.7
Food	2.6	4.2	2.4	2.9
<i>Previous</i>	2.6	4.2	2.8	2.7
Energy	-1.7	7.4	.8	.6
<i>Previous</i>	-1.7	7.4	.4	.9
Excluding food and energy	3.0	2.6	2.8	3.2
<i>Previous</i>	3.0	2.7	2.8	2.9
ECI for compensation of private industry workers ¹	2.6	3.1	3.5	3.7
<i>Previous</i>	2.6	3.0	3.4	3.6
Prices of non-oil merchandise imports	.8	-3.0	-1.0	1.9
<i>Previous</i>	.8	-2.9	-.4	.8
Memo:	----- percentage points -----			
Adjustment to the core CPI for technical changes	.1	.2	.3	.4
<i>Previous</i>	.1	.2	.3	.4

1. December to December.

As in our previous forecast, the overall CPI inflation outlook is more favorable than that for the core CPI because the recent sharp run-up in energy prices begins to reverse this spring. We project that, after rising at a 14-1/4 percent rate in the current quarter, the CPI for energy will drop at a rate of 4 to 5 percent for two quarters before leveling off. Clearly, the possibility that higher energy costs could persist beyond the winter poses an upside risk to our current forecast. Any additional unusual needs for heating oil production would further delay the building of stocks of

1980s, but they are not disappearing. Consequently, we see tax-exempt debt increasing only 2 to 2-1/2 percent a year during 1997 and 1998.

In total, the debt of domestic nonfinancial sectors is projected to grow about 5 percent this year and next, a little less than it grew in 1996 and a little above the pace of nominal GDP expansion. With depositories accounting for about the same share of overall credit flows, and further increasing their reliance on sources of funds in M3, we expect that M3 will continue to grow at a somewhat faster pace than M2.

Alternative Simulations

Our alternative simulations present the consequences of different assumptions about the federal funds rate. In the first simulation, increases in the funds rate begin immediately, and cumulate to 100 basis points by the end of this year. The higher level is maintained throughout 1998. Under this scenario, growth of real GDP this year is 0.4 percentage point less than in the baseline forecast, and during 1998 it is 0.8 percentage point lower than the baseline. The unemployment rate at the end of 1998 is 1/2 percentage point higher than in the baseline forecast. Given the additional slack, CPI inflation in the alternative simulation is fractionally lower during 1997 and 1/2 percentage point lower during 1998 than in the baseline forecast.

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

	1996	1997	1998
Real GDP			
Baseline	3.1	2.3	2.1
Higher funds rate	3.1	1.9	1.3
Lower funds rate	3.1	2.7	2.9
Civilian unemployment rate ¹			
Baseline	5.3	5.1	5.0
Higher funds rate	5.3	5.2	5.5
Lower funds rate	5.3	5.0	4.5
CPI			
Baseline	3.1	2.6	3.0
Higher funds rate	3.1	2.5	2.5
Lower funds rate	3.1	2.7	3.5

1. Average for the fourth quarter.

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Class II FOMCSTAFF PROJECTIONS OF CHANGES IN GDP, PRICES, AND UNEMPLOYMENT
(Percent, annual rate)

January 29, 1997

Interval	Nominal GDP		Real GDP		GDP Chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
	12/11/96	01/29/97	12/11/96	01/29/97	12/11/96	01/29/97	12/11/96	01/29/97	12/11/96	01/29/97
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	4.5	2.4	2.4	2.2	2.2	2.9	2.9	5.4	5.4
1997	4.7	4.9	2.4	2.5	2.5	2.6	2.8	2.8	5.2	5.1
1998	4.3	4.6	2.1	2.2	2.5	2.6	2.7	2.8	5.2	5.0
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	5.6
Q3	6.0	6.0	3.8	3.8	2.1	2.1	2.1	2.1	5.6	5.7
Q4	2.3	2.3	0.3	0.3	2.1	2.1	2.4	2.4	5.5	5.6
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	3.7	3.8	2.3	2.1	1.9	2.0	2.3	2.3	5.2	5.3
Q4	4.5	5.9	2.3	3.5	2.5	2.5	3.3	3.1	5.3	5.3
1997 Q1	5.3	4.6	2.1	1.7	3.2	3.2	3.0	3.1	5.2	5.2
Q2	4.5	4.9	2.3	2.4	2.3	2.7	2.3	2.3	5.2	5.1
Q3	4.3	4.4	2.3	2.4	2.3	2.2	2.6	2.3	5.2	5.1
Q4	4.3	4.6	2.2	2.4	2.3	2.3	2.7	2.8	5.2	5.1
1998 Q1	4.5	4.6	2.1	2.2	2.6	2.8	2.7	2.9	5.2	5.1
Q2	4.2	4.5	1.9	2.1	2.5	2.7	2.7	2.9	5.2	5.0
Q3	4.1	4.5	1.9	2.1	2.6	2.8	2.8	3.0	5.2	5.0
Q4	4.2	4.7	1.9	2.0	2.7	2.9	2.8	3.1	5.2	5.0
TWO-QUARTER³										
1995 Q2	3.5	3.5	0.6	0.6	2.9	2.9	3.2	3.2	0.1	0.0
Q4	4.1	4.1	2.0	2.0	2.1	2.1	2.2	2.2	-0.2	0.0
1996 Q2	5.4	5.4	3.3	3.3	2.2	2.2	3.5	3.5	-0.1	-0.2
Q4	4.1	4.9	2.3	2.8	2.2	2.2	2.8	2.7	-0.1	-0.1
1997 Q2	4.9	4.8	2.2	2.1	2.7	2.9	2.6	2.7	-0.1	-0.2
Q4	4.3	4.5	2.3	2.4	2.3	2.3	2.7	2.6	-0.0	-0.0
1998 Q2	4.3	4.6	2.0	2.1	2.6	2.7	2.7	2.9	0.0	-0.1
Q4	4.2	4.6	1.9	2.1	2.6	2.8	2.8	3.1	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	0.0
1996 Q4	4.7	5.1	2.8	3.1	2.2	2.2	3.2	3.1	-0.2	-0.3
1997 Q4	4.6	4.6	2.3	2.3	2.5	2.6	2.7	2.6	-0.1	-0.2
1998 Q4	4.3	4.6	1.9	2.1	2.6	2.8	2.7	3.0	0.0	-0.1

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)

January 29, 1997

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	7578.8	7950.6	8315.3	
Real GDP	Bill. Ch. \$	6138.7	6079.0	6244.4	6386.4	6608.7	6742.9	6905.9	7081.7	7239.6	
Real GDP	% change	-0.2	0.4	3.7	2.2	3.5	1.3	3.1	2.3	2.1	
Gross domestic purchases		-0.8	-0.0	4.0	2.9	3.8	1.0	3.3	2.9	2.2	
Final sales		0.6	-0.4	3.9	2.0	2.9	1.9	2.9	2.3	2.1	
Priv. dom. final purchases		-0.6	-0.8	4.9	3.5	4.0	2.3	3.3	3.5	2.7	
Personal cons. expenditures		0.5	-0.2	4.2	2.5	3.1	1.9	2.6	3.2	2.3	
Durables		-3.2	-3.1	9.4	7.3	7.0	1.3	5.1	5.3	2.9	
Nondurables		-0.5	-1.0	3.4	1.5	3.5	1.1	1.7	3.0	2.1	
Services		2.0	0.9	3.6	2.1	2.0	2.4	2.5	2.8	2.3	
Business fixed investment		-2.5	-6.0	5.5	8.5	10.1	6.4	8.7	6.2	6.2	
Producers' dur. equipment		-2.0	-2.6	9.6	11.5	12.6	6.9	9.3	6.7	7.1	
Nonres. structures		-3.5	-12.5	-3.4	1.6	3.6	5.1	7.1	5.0	3.5	
Residential structures		-15.1	1.1	16.9	8.1	5.7	-1.5	2.1	-1.7	-0.4	
Exports		7.2	8.6	4.1	4.8	9.9	7.4	6.9	5.6	7.1	
Imports		0.5	4.1	7.4	10.5	11.8	4.2	8.9	9.8	7.2	
Gov't. cons. & investment		2.6	-0.7	1.7	-0.5	0.0	-1.3	2.5	0.4	0.1	
Federal		1.6	-3.1	1.3	-5.4	-3.1	-6.7	2.4	-3.3	-4.1	
Defense		0.3	-5.3	-1.3	-6.8	-5.7	-6.8	1.7	-3.3	-4.4	
State & local		3.3	1.0	2.0	3.1	2.2	2.1	2.5	2.5	2.4	
Change in bus. inventories	Bill. Ch. \$	10.4	-3.0	7.3	19.1	58.9	33.1	17.0	31.3	30.9	
Nonfarm		7.8	-1.2	1.9	26.4	46.8	37.2	19.2	28.5	26.9	
Net exports		-61.9	-22.3	-29.5	-72.0	-105.7	-107.6	-116.0	-145.3	-166.8	
Nominal GDP	% change	4.4	3.8	6.3	4.8	5.9	3.8	5.1	4.6	4.6	
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	109.4	108.3	108.6	110.7	114.2	117.2	119.5	121.8	123.6	
Unemployment rate	%	5.6	6.8	7.5	6.9	6.1	5.6	5.4	5.1	5.0	
Industrial prod. index	% change	-0.6	-0.0	3.9	3.0	5.7	1.8	3.7	2.9	3.0	
Capacity util. rate - mfg.	%	81.4	78.0	79.5	80.8	83.1	83.1	82.1	82.2	82.4	
Housing starts	Millions	1.19	1.01	1.20	1.29	1.46	1.35	1.46	1.38	1.34	
Light motor vehicle sales		14.05	12.52	12.85	13.87	15.02	14.74	14.99	14.94	14.91	
North Amer. produced		10.85	9.74	10.51	11.72	12.88	12.82	13.30	13.18	13.14	
Other		3.20	2.77	2.34	2.15	2.13	1.91	1.69	1.76	1.77	
INCOME AND SAVING											
Nominal GNP	Bill. \$	5764.9	5932.4	6255.5	6563.5	6931.9	7246.7	7569.2	7930.6	8286.4	
Nominal GNP	% change	4.6	3.5	6.2	4.7	5.7	3.9	5.0	4.5	4.5	
Nominal personal income		6.4	3.7	7.3	3.6	5.2	5.6	5.7	4.8	4.9	
Real disposable income		1.0	0.8	4.0	0.9	2.7	3.1	2.7	2.9	2.2	
Personal saving rate	%	5.0	5.7	5.9	4.5	3.8	4.7	4.9	5.1	4.9	
Corp. profits, IVA & CCAdj.	% change	6.2	3.9	12.7	19.9	11.3	7.2	6.7	3.4	1.3	
Profit share of GNP	%	6.4	6.4	6.4	7.1	7.6	8.1	8.6	8.5	8.2	
(excluding FR banks)	%	6.0	6.1	6.1	6.8	7.4	7.8	8.4	8.3	8.0	
Federal surpl./deficit	Bill. \$	-154.7	-196.0	-280.9	-255.6	-190.2	-161.7	-126.9	-127.5	-108.6	
State & local surpl./def.		80.1	75.8	86.3	94.9	99.7	95.0	92.8	88.2	78.9	
Ex. social ins. funds		20.2	11.5	18.3	28.0	36.9	36.8	36.9	33.6	25.1	
PRICES AND COSTS											
GDP implicit deflator	% change	4.6	3.4	2.6	2.5	2.3	2.5	2.0	2.3	2.5	
GDP chn.-wt. price index		4.7	3.3	2.6	2.5	2.3	2.5	2.2	2.6	2.8	
Gross Domestic Purchases chn.-wt. price index		5.2	2.7	2.7	2.3	2.4	2.3	2.2	2.2	2.7	
CPI		6.3	3.0	3.1	2.7	2.6	2.7	3.1	2.6	3.0	
Ex. food and energy		5.3	4.4	3.5	3.1	2.8	3.0	2.6	2.8	3.2	
ECI, hourly compensation ²		4.6	4.4	3.5	3.6	3.1	2.6	3.1	3.5	3.7	
Nonfarm business sector											
Output per hour		-0.6	2.2	3.6	-0.3	0.3	-0.1	0.8	0.8	0.8	
Compensation per Hour		5.8	4.8	4.6	1.8	2.3	3.7	3.8	3.6	3.7	
Unit labor cost		6.4	2.5	1.0	2.1	2.0	3.7	3.0	2.8	2.8	

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

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

January 29, 1997

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	-1.4	-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	5.6	5.7	5.6	5.6	5.4
Industrial prod. index	% change	6.2	6.7	4.4	5.6	3.9	-0.7	3.2	0.8	1.6	6.2
Capacity util. rate - mfg.	%	82.0	83.0	83.3	84.0	84.2	83.1	82.9	82.3	81.7	82.1
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
Nominal 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 FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES
(Seasonally adjusted, annual rate except as noted)

January 29, 1997

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. \$	7616.3	7726.8	7814.0	7908.8	7994.6	8085.1	8177.3	8267.6	8359.9	8456.4
Real GDP	Bill. Ch. \$	6928.4	6988.4	7017.8	7060.3	7102.9	7145.9	7184.0	7221.1	7258.2	7295.0
Real GDP	% change	2.1	3.5	1.7	2.4	2.4	2.4	2.2	2.1	2.1	2.0
Gross domestic purchases		3.3	1.8	3.0	2.9	3.3	2.4	2.4	2.3	2.5	1.6
Final sales		0.5	3.8	1.3	2.9	2.2	2.6	2.0	2.1	2.1	2.4
Priv. dom. final purchases		2.3	2.2	3.6	3.8	3.4	3.0	2.8	2.8	2.8	2.6
Personal cons. expenditures		0.5	3.0	3.5	3.4	3.1	2.7	2.4	2.3	2.2	2.2
Durables		-2.6	3.7	5.9	6.1	4.6	4.4	3.3	3.0	2.9	2.4
Nondurables		0.4	1.6	3.2	3.2	3.1	2.4	2.1	2.1	2.1	2.0
Services		1.3	3.6	3.2	2.9	2.7	2.5	2.3	2.3	2.2	2.2
Business fixed investment		17.5	2.7	6.0	6.9	6.0	6.0	6.0	6.3	6.1	6.3
Producers' dur. equipment		20.9	-2.0	6.2	7.7	6.4	6.5	6.8	7.1	7.2	7.5
Nonres. structures		8.4	17.1	5.6	5.0	5.0	4.5	3.9	4.0	3.1	3.0
Residential structures		-5.2	-8.3	-6.6	1.5	-1.6	0.2	-1.0	-1.0	-0.0	0.3
Exports		-0.9	22.6	1.8	7.3	2.1	11.4	4.3	9.2	2.9	12.3
Imports		9.3	5.7	11.6	9.9	8.2	9.6	5.9	9.5	5.8	7.7
Gov't. cons. & investment		-0.6	1.5	-2.0	1.3	1.7	0.7	-0.2	-0.0	1.3	-0.7
Federal		-3.5	-1.8	-9.4	-0.7	0.1	-2.7	-4.8	-4.5	-0.6	-6.2
Defense		-5.5	-1.3	-13.5	-0.6	0.7	0.7	-5.6	-6.2	-0.3	-5.5
State & local		1.1	3.5	2.6	2.4	2.5	2.6	2.4	2.5	2.3	2.4
Change in bus. inventories	Bill. Ch. \$	34.5	29.5	36.4	28.4	31.8	28.5	31.9	32.3	32.9	26.5
Nonfarm		34.6	27.6	34.3	25.9	28.8	25.2	28.2	28.3	28.6	22.2
Net exports		-137.4	-108.1	-131.2	-139.7	-155.3	-155.2	-160.8	-165.2	-174.0	-167.3
Nominal GDP	% change	3.8	5.9	4.6	4.9	4.4	4.6	4.6	4.5	4.5	4.7
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	120.0	120.5	121.1	121.6	122.1	122.5	122.9	123.3	123.8	124.2
Unemployment rate	%	5.3	5.3	5.2	5.1	5.1	5.1	5.1	5.0	5.0	5.0
Industrial prod. index	% change	3.3	3.8	2.9	3.0	2.6	3.1	3.3	2.9	2.7	3.3
Capacity util. rate - mfg.	%	82.3	82.2	82.3	82.2	82.2	82.2	82.3	82.3	82.4	82.4
Housing starts	Millions	1.49	1.41	1.41	1.37	1.37	1.36	1.34	1.34	1.34	1.34
Light motor vehicle sales		14.95	14.69	14.91	15.01	14.92	14.92	14.91	14.91	14.91	14.91
North Amer. produced		13.30	12.99	13.15	13.25	13.16	13.15	13.14	13.14	13.14	13.14
Other		1.65	1.70	1.76	1.76	1.76	1.77	1.77	1.77	1.77	1.77
INCOME AND SAVING											
Nominal GNP	Bill. \$	7598.9	7714.0	7800.5	7889.9	7972.2	8059.6	8152.0	8238.2	8329.4	8426.0
Nominal GNP	% change	3.3	6.2	4.6	4.7	4.2	4.5	4.7	4.3	4.5	4.7
Nominal personal income		5.7	5.4	5.0	5.0	4.6	4.4	5.1	4.7	4.6	5.1
Real disposable income		4.8	2.6	4.1	2.7	2.7	1.9	3.6	1.7	1.5	2.0
Personal saving rate	%	5.3	5.3	5.4	5.2	5.1	4.9	5.2	5.0	4.8	4.8
Corp. profits, IVA & CCAdj.	% change	3.3	-5.0	14.5	1.3	-0.7	-0.7	2.3	-0.3	2.7	0.3
Profit share of GNP	%	8.7	8.5	8.7	8.6	8.5	8.4	8.3	8.2	8.2	8.1
(excluding FR banks)	%	8.4	8.2	8.4	8.3	8.2	8.1	8.1	8.0	7.9	7.9
Federal surpl./deficit	Bill. \$	-120.8	-104.8	-135.1	-128.9	-126.8	-119.2	-120.1	-111.6	-104.4	-98.4
State & local surpl./def.		89.2	90.1	92.2	90.5	87.9	82.4	81.2	80.2	79.2	75.2
Ex. social ins. funds		33.8	35.0	37.3	35.8	33.4	28.1	27.1	26.3	25.5	21.7
PRICES AND COSTS											
GDP implicit deflator	% change	1.7	2.4	2.8	2.4	1.9	2.1	2.4	2.4	2.4	2.6
GDP chn.-wt. price index		2.0	2.5	3.2	2.7	2.2	2.3	2.8	2.7	2.8	2.9
Gross Domestic Purchases chn.-wt. price index		1.9	2.6	2.7	2.0	1.9	2.3	2.8	2.7	2.7	2.8
CPI		2.3	3.1	3.1	2.3	2.3	2.8	2.9	2.9	3.0	3.1
Ex. food and energy		2.4	2.7	2.3	2.8	3.0	3.1	3.2	3.2	3.2	3.3
ECI, hourly compensation ¹		2.5	3.1	3.5	3.3	3.7	3.6	3.7	3.7	3.8	3.8
Nonfarm business sector		-0.3	0.8	0.1	0.9	1.2	1.1	1.0	0.8	0.8	0.7
Output per hour		3.4	4.5	3.8	3.4	3.6	3.7	3.7	3.7	3.7	3.7
Compensation per hour		3.7	3.6	3.7	2.5	2.4	2.5	2.6	2.8	2.9	3.0
Unit labor cost											

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

January 29, 1997

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	3.5	1.7	2.4	2.4	2.4	2.2	2.1	2.1	2.0	3.1	2.3	2.1
Gross dom. purchases	1.8	3.0	2.9	3.3	2.4	2.5	2.3	2.6	1.7	3.4	2.9	2.3
Final sales	3.6	1.3	2.9	2.2	2.6	1.9	2.1	2.0	2.4	2.9	2.3	2.1
Priv. dom. final purchases	1.8	3.0	3.2	2.8	2.5	2.3	2.3	2.3	2.2	2.7	2.9	2.3
Personal cons. expenditures	2.0	2.4	2.3	2.1	1.8	1.6	1.6	1.5	1.5	1.8	2.1	1.6
Durables	0.3	0.5	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.4	0.5	0.3
Nondurables	0.3	0.7	0.7	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.6	0.4
Services	1.4	1.2	1.1	1.0	1.0	0.9	0.9	0.8	0.8	1.0	1.1	0.9
Business fixed investment	0.3	0.7	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.9	0.7	0.7
Producers' dur. equip.	-0.2	0.5	0.6	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.6	0.6
Nonres. structures	0.4	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Residential structures	-0.3	-0.3	0.1	-0.1	0.0	-0.0	-0.0	-0.0	0.0	0.1	-0.1	-0.0
Net exports	1.7	-1.3	-0.5	-0.9	0.0	-0.3	-0.2	-0.5	0.4	-0.3	-0.7	-0.2
Exports	2.5	0.2	0.9	0.3	1.4	0.5	1.1	0.4	1.5	0.8	0.7	0.9
Imports	-0.8	-1.6	-1.4	-1.1	-1.4	-0.9	-1.4	-0.9	-1.2	-1.2	-1.4	-1.1
Government cons. & invest.	0.3	-0.4	0.2	0.3	0.1	-0.0	-0.0	0.2	-0.1	0.5	0.1	0.0
Federal	-0.1	-0.7	-0.0	0.0	-0.2	-0.3	-0.3	-0.0	-0.4	0.2	-0.2	-0.3
Defense	-0.1	-0.6	-0.0	0.0	0.0	-0.2	-0.3	-0.0	-0.2	0.1	-0.2	-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	-0.3	0.4	-0.5	0.2	-0.2	0.2	0.0	0.0	-0.4	0.2	-0.0	-0.0
Nonfarm	-0.4	0.4	-0.5	0.2	-0.2	0.2	0.0	0.0	-0.4	0.1	-0.0	-0.0
Farm	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
GDP residual	-0.2	0.2	0.0	0.1	-0.0	0.0	0.0	0.1	-0.1	-0.0	0.1	0.0

Components may not sum to total due to rounding.

Strictly Confidential (FR)
Class II FOMC

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

January 29, 1997

Item UNIFIED BUDGET	Fiscal year ⁵				1996				1997				1998			
	1995 ^a	1996 ^a	1997	1998	Q1 ^a	Q2 ^a	Q3 ^a	04	Not seasonally adjusted							
Receipts ¹	1355	1453	1525	1575	322	446	362	346	341	459	380	363	351	469	392	382
Outlays ¹	1519	1560	1634	1692	393	392	395	405	412	408	410	426	419	424	422	471
Surplus/deficit ¹	-164	-107	-109	-117	-72	54	-33	-59	-71	51	-31	-63	-68	45	-30	-89
On-budget	-226	-174	-184	-187	-84	14	-36	-76	-83	11	-36	-72	-81	2	-36	-101
Off-budget	62	67	75	69	12	39	2	18	12	40	5	8	12	43	6	11
Surplus excluding deposit insurance ²	-182	-116	-118	-120	-75	52	-34	-65	-72	51	-32	-64	-69	44	-31	-90
Means of financing																
Borrowing	171	130	118	146	80	-23	39	49	58	-31	43	54	69	-25	48	73
Cash decrease	-2	-6	4	0	-1	-16	-6	11	13	-16	-4	10	10	-15	-5	10
Other ³	-5	-16	-13	-29	-7	-14	0	-1	1	-5	-8	0	-11	-5	-13	6
Cash operating balance, end of period	38	44	40	40	22	38	44	33	20	36	40	30	20	35	40	30
NIPA FEDERAL SECTOR																
Receipts	1459	1544	1625	1684	1523	1576	1582	1625	1606	1626	1645	1663	1672	1691	1711	1731
Expenditures	1629	1683	1749	1798	1678	1702	1703	1730	1741	1755	1772	1782	1792	1802	1815	1829
Consumption expend.	455	457	462	463	454	464	461	463	460	461	464	463	464	462	464	460
Defense	304	303	303	305	299	307	305	306	301	302	304	305	306	303	305	303
Nondefense	151	155	159	158	155	156	157	157	159	160	160	157	158	159	159	157
Other expenditures	1175	1226	1287	1335	1225	1239	1241	1267	1281	1294	1308	1319	1328	1340	1351	1369
Current account surplus	-171	-139	-124	-114	-155	-127	-121	-105	-135	-129	-127	-119	-120	-112	-104	-98
Gross investment	65	63	62	62	65	66	64	64	61	62	62	63	62	61	61	60
Current and capital account surplus	-236	-202	-186	-176	-220	-193	-185	-169	-196	-190	-189	-182	-182	-172	-166	-159
FISCAL INDICATORS ⁴																
High-employment (HEB) surplus/deficit	-263	-237	-245	-249	-247	-233	-231	-222	-251	-251	-254	-253	-253	-247	-244	-241
Change in HEB, percent of potential GDP	0	-.4	.1	.1	.1	-.2	0	-.1	.4	0	0	0	0	-.1	0	0
Fiscal impetus (FI), percent, cal. year	-5.6	-1.6	-3.5	-5.5	1.3	1.8	-.2	-.8	-2.2	-.5	.1	-2.7	-1.8	-1.3	-.3	-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 January 1997 baseline deficit estimates are \$124 billion in FY97 and \$120 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 January 1997 baseline deficit estimates, excluding deposit insurance, are \$136 billion in FY97 and \$124 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.

Confidential FR Class II
January 29, 1997

CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS¹
(Percent)

	Nonfederal									Memo: Nominal GDP	
	Total	Federal government	Total	Households			Business	State and local governments			
				Total	Home mortgages	Consumer credit					
Year											
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	5.3	4.0	5.8	7.6	7.5	8.3	5.2	-0.0	5.1		
1997	4.9	3.3	5.5	5.9	6.3	5.6	5.9	2.1	4.6		
1998	5.2	4.2	5.5	5.7	6.1	5.6	6.1	2.4	4.6		
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	4.8	4.3	4.9	6.5	6.4	6.7	6.0	-7.1	3.8		
4	5.0	3.1	5.7	6.1	6.2	6.3	5.2	5.4	5.9		
1997:1	5.0	3.5	5.5	5.9	6.2	5.5	6.0	1.6	4.6		
2	4.7	1.8	5.7	5.9	6.1	5.5	5.7	4.4	4.9		
3	4.9	4.2	5.1	5.8	6.2	5.5	5.7	-1.1	4.4		
4	4.9	3.3	5.4	5.8	6.2	5.5	5.6	3.3	4.6		

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 5.3 percent in 1996, 4.9 percent in 1997, and 5.1 percent in 1998.
Federal debt rises 3.8 percent in 1996, 3.2 percent in 1997, and 4.0 percent in 1998.
Nonfederal debt increases 5.8 percent in 1996, 5.5 percent in 1997, and 5.5 percent in 1998.

Confidential FR Class II
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FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS¹
(Billions of dollars)

	Calendar year				1996		1997				1998	
	1995	1996	1997	1998	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
Seasonally Adjusted Annual Rates												
Net funds raised by domestic nonfinancial sectors												
1 Total	646.6	669.5	635.0	722.3	551.0	660.1	661.0	618.5	618.3	642.1	700.5	744.1
2 Net equity issuance	-73.8	-73.1	-87.9	-76.4	-129.2	-62.0	-66.0	-74.0	-108.8	-102.8	-73.2	-79.6
3 Net debt issuance	720.4	742.6	722.9	798.7	680.2	722.1	727.0	692.5	727.1	744.9	773.7	823.7
Borrowing sectors												
Nonfinancial business												
4 Financing gap ²	57.7	18.6	44.8	83.7	32.0	34.8	36.2	38.4	50.3	54.5	77.1	90.2
5 Net equity issuance	-73.8	-73.1	-87.9	-76.4	-129.2	-62.0	-66.0	-74.0	-108.8	-102.8	-73.2	-79.6
6 Credit market borrowing	241.5	217.2	255.7	281.6	255.9	224.1	261.2	254.2	254.1	253.2	274.6	288.5
Households												
7 Net borrowing, of which:	383.1	380.9	322.1	326.2	339.5	324.6	316.9	322.0	322.8	326.7	323.7	328.7
8 Home mortgages	198.4	253.9	228.9	235.2	223.7	220.2	225.2	225.2	230.2	235.2	235.2	235.2
9 Consumer credit	141.6	93.8	68.8	72.5	80.0	76.0	67.4	68.3	69.3	70.0	71.5	73.5
10 Debt/DPI (percent) ³	91.0	93.5	94.6	95.5	94.0	94.3	94.1	94.4	94.7	95.1	95.2	95.7
State and local governments												
11 Net borrowing	-48.6	-0.5	22.0	25.7	-76.5	57.0	17.0	47.0	-11.4	35.4	33.1	18.4
12 Current surplus ⁴	108.4	109.4	108.7	102.3	101.1	107.6	110.8	110.3	108.9	104.7	103.6	101.0
Federal government												
13 Net borrowing	144.4	145.0	123.1	165.3	161.3	116.5	131.9	69.3	161.6	129.6	142.3	188.2
14 Net borrowing (quarterly, n.s.a.)	144.4	145.0	123.1	165.3	39.3	48.7	57.6	-30.6	42.6	53.6	44.1	121.1
15 Unified deficit (quarterly, n.s.a.)	146.3	110.3	113.6	143.2	33.3	58.8	71.0	-51.4	30.9	63.2	23.6	119.6
16 Funds supplied by depository institutions	274.6	222.0	230.7	260.4	249.1	191.0	227.8	232.4	226.4	236.2	257.2	263.7
Memo: (percent of GDP)												
17 Domestic nonfinancial debt ³	186.4	188.1	188.5	189.4	188.6	188.1	188.4	188.3	188.5	188.7	189.0	189.6
18 Domestic nonfinancial borrowing	9.9	9.8	9.1	9.6	8.9	9.3	9.3	8.8	9.1	9.2	9.4	9.8
19 Federal government ⁵	2.0	1.9	1.5	2.0	2.1	1.5	1.7	0.9	2.0	1.6	1.7	2.2
20 Nonfederal	7.9	7.9	7.5	7.6	6.8	7.8	7.6	7.9	7.1	7.6	7.7	7.6

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 nonagricultural exports moved up a bit, whereas prices of agricultural exports continued to decline. Prices of non-oil imports decreased slightly, on balance, in the fourth quarter, continuing a downward trend that began in late 1995.

The price of imported oil jumped 7 percent in October and remained at about that higher level through year-end; it rose 37 percent in the twelve months through December. Skirmishes in the Kurdish region of Northern Iraq, strikes in France that have interrupted refinery operations, and concern about the level of heating oil stocks because of extremely cold weather in Europe helped push up spot WTI prices in December. Deliveries of oil from Iraq put downward pressure on prices during January, offsetting the effect of the cold winter. The price of spot WTI remains quite volatile and is varying in the \$23-\$25 per barrel range.

SUMMARY OF STAFF PROJECTIONS
(Percent change from end of previous period)

	1996		1997		1998
	Q4		Q1	Q2	H2
Foreign output	3.7		3.9	3.8	4.0
<i>Previous</i>	3.5		4.0	3.7	3.8
Real exports	22.6		1.8	7.3	6.6
<i>Previous</i>	10.4		6.5	8.0	6.0
Real imports	5.7		11.6	9.9	8.9
<i>Previous</i>	5.9		10.0	9.5	9.0
					7.2
					7.5

Outlook

The staff projects that total output in our major foreign trading partners (weighted by shares in U.S. nonagricultural exports) will grow at an annual rate of nearly 4 percent over the forecast period. The dollar is projected to remain around recent elevated levels in the near term but then to decline. After rising sharply in the fourth quarter of 1996, real exports of goods and services are projected to expand only slightly in the current quarter and then to resume moderate growth. Real imports, which will be supported by steady growth in U.S. real GDP and boosted in the near term by recent dollar appreciation, are projected to grow more rapidly than exports this year and at about the same rate as

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

	-----Projection-----					
	1996		1997		1998	
	Q3	Q4	Q1	Q2	H2	
Ag. exports ¹	-13.0	-10.0	-9.2	-1.6	1.4	4.1
Nonag. exports ¹	-2.3	1.5	0.6	-1.1	0.4	1.6
Non-oil imports ¹	-3.0	-2.2	-4.0	-1.2	0.6	1.9
Oil imports (Q4 level, \$/bbl)	19.57	22.30	22.20	18.65	17.34	17.25

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

Nominal trade and current account balances. The nominal trade deficit on goods and services is estimated to have narrowed in the fourth quarter to \$105 billion from its third-quarter level of \$135 billion. During 1997 and 1998, the trade deficit is projected to resume widening, reaching about \$135 billion in the fourth quarter of 1998. The balance on net investment income is expected to deteriorate further over the forecast period as well, reflecting growing U.S. net indebtedness. As a consequence, while the current account deficit is projected to have narrowed in the fourth quarter, we expect it to widen over the forecast period, bringing the average for 1998 to about \$200 billion or 2.4 percent of GDP.

Alternative Simulation

Our alternative simulation explores the implication of leaving the dollar unchanged at its recent level over the entire forecast period. Federal Reserve policy is assumed to maintain an unchanged federal funds rate. Under this alternative path for the dollar, U.S. real GDP growth and inflation would be no different from the baseline this year. However, with the dollar remaining stronger throughout the forecast period, U.S. real output growth in 1998 would be lessened by 0.2 percentage points and consumer price inflation by 0.1 percentage points.

ALTERNATIVE EXCHANGE RATE PROJECTION
(Percent change, Q4 to Q4)

	1997	1998
Real GDP		
Baseline	2.3	2.1
Unchanged dollar	2.3	1.9
CPI		
Baseline	2.6	3.0
Unchanged dollar	2.6	2.9

Strictly Confidential (FR)
Class II-FOMC

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

Measure and Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	---- Projected ----
REAL GDP										
Canada	-1.9	0.0	0.5	3.1	4.9	0.7	2.1	3.4	3.2	
France	1.5	1.3	0.0	-0.6	4.2	0.4	1.8	2.5	2.3	
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	2.3	0.6	1.1	1.5	
Japan	5.1	2.5	0.1	0.4	0.8	2.6	2.7	1.9	2.3	
United Kingdom	-0.7	-1.5	0.3	2.8	4.2	1.9	2.6	3.0	2.4	
Average weighted by 1987-89 GDP	2.7	2.9	0.2	0.6	2.8	1.7	2.1	2.2	2.3	
Average weighted by share of U.S. nonagricultural exports										
Total foreign	2.4	2.9	1.9	2.9	5.0	1.8	3.5	3.9	3.8	
Foreign G-7	0.6	1.5	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	5.6	6.0	5.9	
CONSUMER PRICES										
Canada	4.9	4.1	1.8	1.8	0.0	2.1	2.0	1.5	1.4	
France	3.5	3.0	1.8	2.1	1.6	1.9	1.7	1.6	1.7	
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	2.7	2.6	2.5	
Japan	3.2	3.2	0.9	1.2	0.8	-0.8	0.1	1.4	0.2	
United Kingdom (2)	9.2	5.7	3.7	2.7	2.2	2.9	3.2	2.7	3.0	
Average weighted by 1987-89 GDP	4.7	4.4	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	4.1	1.9	2.0	1.0	1.1	1.3	1.6	1.1	

1. West German data 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				1998			
					1997							
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP												
Canada	1.1	1.2	3.3	3.0	3.9	3.1	3.3	3.4	3.1	3.1	3.3	3.4
France	4.9	-0.7	3.5	-0.3	1.0	2.8	3.2	3.0	2.5	2.3	2.2	2.1
Germany	-1.6	6.0	3.3	1.4	1.3	2.8	2.1	2.3	2.3	2.3	2.3	2.3
Italy	1.8	-1.6	2.4	-0.2	0.3	1.3	1.5	1.2	1.1	1.6	1.5	2.0
Japan	8.4	-1.1	0.4	3.3	3.0	0.8	2.0	1.8	1.9	2.7	2.4	2.3
United Kingdom	2.4	2.2	2.7	3.0	3.2	3.2	3.0	2.8	2.6	2.4	2.4	2.2
Average weighted by 1987-89 GDP	3.8	0.7	2.2	1.9	2.2	2.0	2.4	2.3	2.2	2.4	2.3	2.3
Average weighted by share of U.S. nonagricultural exports												
Total foreign	3.9	2.2	4.3	3.7	3.9	3.8	4.0	4.0	3.8	3.9	3.8	3.7
Foreign G-7	2.7	1.1	2.6	2.6	3.1	2.5	2.8	2.8	2.6	2.8	2.8	2.8
Developing Countries	6.9	2.8	7.1	5.5	5.9	6.0	6.0	6.0	5.9	5.9	5.8	5.8
CONSUMER PRICES (1)												
Canada	1.4	1.4	1.4	2.0	2.2	1.7	1.9	1.5	1.3	1.3	1.4	1.4
France	2.1	2.4	1.8	1.7	1.9	1.5	1.5	1.6	1.7	1.7	1.7	1.7
Germany	1.6	1.5	1.4	1.4	1.8	1.6	1.5	1.5	1.5	1.6	1.6	1.6
Italy	5.0	4.2	3.4	2.7	2.8	2.8	2.5	2.6	2.5	2.5	2.5	2.5
Japan	-0.3	0.1	0.0	0.1	0.0	1.5	1.5	1.4	1.5	0.1	0.2	0.2
United Kingdom (2)	2.9	2.8	2.9	3.2	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	1.6	1.9	1.9	1.8	1.8	1.4	1.5	1.5
Average weighted by share of U.S. non-oil imports												
	1.1	1.2	1.1	1.3	1.4	1.8	1.8	1.6	1.6	1.0	1.1	1.1

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1. Year/Year changes.

2. 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	Projected 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	-0.3	-0.7	-0.2
Exports of G&S	0.6	0.8	0.4	0.5	1.0	0.8	0.8	0.7	0.9
Imports of G&S	-0.0	-0.4	-0.8	-1.1	-1.4	-0.5	-1.2	-1.4	-1.1
percent change, Q4/Q4									
Exports of G&S	7.2	8.6	4.1	4.8	9.9	7.4	6.9	5.6	7.1
Services	8.9	7.1	-0.9	3.9	4.8	5.1	2.8	2.6	4.3
Agricultural Goods	-7.3	10.1	10.4	-5.4	17.1	-3.1	1.9	-2.6	4.1
Computers	12.3	21.7	25.2	22.7	28.8	49.4	32.0	31.7	29.9
Semiconductors	61.5	41.8	64.8	45.1	68.7	29.7	5.9	23.3	26.2
Other Goods 1/	6.0	7.0	2.3	3.6	7.4	5.3	7.0	3.2	3.3
Imports of G&S	0.5	4.1	7.4	10.5	11.8	4.2	8.9	9.8	7.2
Services	5.8	-2.7	1.5	3.6	0.8	4.1	6.0	3.8	2.3
Oil	-15.8	8.1	12.1	10.1	-0.2	0.9	-0.0	7.8	4.2
Computers	2.9	35.9	45.1	38.8	37.3	43.8	22.4	27.4	23.9
Semiconductors	60.9	55.3	42.0	44.9	47.4	57.1	-13.8	29.9	28.6
Other Goods 2/	-0.3	2.5	5.4	9.4	12.5	-1.2	10.6	8.0	4.6
in billions of chained 1992\$									
Net Goods & Services	-61.9	-22.3	-29.5	-72.0	-105.7	-107.6	-116.0	-145.3	-166.8
Exports of G&S	564.4	599.9	639.4	658.2	712.0	775.4	824.8	882.3	941.7
Imports of G&S	626.3	622.2	668.9	730.3	817.6	883.0	940.9	1027.6	1108.5
in billions of dollars									
US CURRENT ACCOUNT BALANCE	-94.7	-9.5	-62.6	-99.9	-148.4	-148.2	-163.6	-178.9	-201.4
Net Goods & Services (BOP)	-80.3	-29.9	-38.3	-72.0	-104.4	-105.1	-112.8	-119.9	-133.6
Exports of G&S (BOP)	536.8	580.7	617.7	643.0	698.3	786.5	836.3	884.3	944.6
Imports of G&S (BOP)	617.1	610.6	655.9	715.0	802.7	891.6	949.1	1004.2	1078.2
Net Investment Income	20.9	15.8	11.2	9.7	-4.2	-8.0	-10.3	-21.5	-30.3
Direct, Net	55.9	55.6	51.6	55.9	47.4	57.5	61.6	65.8	69.2
Portfolio, Net	-35.0	-39.8	-40.4	-46.2	-51.6	-65.5	-71.9	-87.3	-99.6
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.

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	-1.3	1.7
Exports of G&S	-0.2	1.6	1.0	1.7	0.3	0.7	1.2	1.2	0.2	0.7	-0.1	2.5
Imports of G&S	-0.9	-2.1	-1.3	-1.2	-1.4	-0.6	0.0	-0.2	-1.3	-1.3	-1.2	-0.8
percent change, Q4/Q4												
Exports of G&S	-1.6	15.9	9.7	16.5	2.6	5.9	10.7	10.7	1.8	5.6	-0.9	22.6
Services	0.8	9.7	3.4	5.5	-1.1	4.0	18.7	-0.3	2.7	2.8	-3.8	10.0
Agricultural Goods	-24.4	6.8	43.0	62.9	-0.6	-19.8	16.4	-4.9	9.3	-33.7	8.7	36.9
Computers	24.5	16.6	27.6	48.6	33.0	30.1	79.0	61.0	58.7	21.0	18.3	33.5
Semiconductors	131.4	16.2	45.8	106.7	43.6	19.9	28.8	27.6	-0.0	-20.7	2.6	54.6
Other Goods 1/	-6.6	20.2	6.6	11.1	0.1	7.6	0.6	13.3	-4.2	13.8	-2.8	23.8
Imports of G&S	8.2	18.4	10.7	10.3	11.2	4.5	-0.0	1.6	10.6	9.9	9.3	5.7
Services	1.8	7.5	-1.6	-4.0	21.7	-6.7	5.8	-2.4	13.0	1.3	2.6	7.5
Oil	-8.6	27.2	33.5	-36.2	-2.4	5.3	22.0	-17.2	-22.2	59.9	7.0	-24.9
Computers	45.0	30.9	24.8	49.9	29.6	31.9	64.7	51.8	27.7	23.0	22.2	17.0
Semiconductors	65.3	7.3	43.4	85.8	49.3	61.0	76.4	43.6	4.6	-38.5	-19.0	6.1
Other Goods 2/	7.0	19.9	9.5	14.1	6.9	2.4	-10.9	-2.3	12.1	11.5	11.7	7.0
in billions of chained 1992\$												
Net Goods & Services	-99.3	-107.3	-111.7	-104.3	-122.5	-121.4	-101.6	-84.9	-104.0	-114.7	-137.4	-108.1
Exports of G&S	677.6	703.1	719.6	747.6	752.3	763.2	783.0	803.1	806.7	817.9	816.1	858.7
Imports of G&S	777.0	810.4	831.3	851.9	874.9	884.6	884.5	888.0	910.7	932.6	953.5	966.8
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	-191.3	-162.7
Net Goods & Services (BOP)	-90.8	-103.5	-113.8	-109.4	-118.1	-127.3	-97.3	-77.6	-96.9	-114.3	-134.7	-105.4
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	823.1	865.4
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	957.8	970.9
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	-14.2
Direct, Net	49.5	46.0	47.4	46.9	57.4	59.9	51.3	61.3	66.1	59.2	56.3	65.0
Portfolio, Net	-44.8	-48.5	-53.7	-59.3	-61.0	-63.3	-68.7	-68.9	-65.0	-68.3	-75.1	-79.2
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				Projected				1998			
	Q1	Q2	Q3	Q4	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	-1.3	1.7	-1.3	-0.5	-0.9	0.0	-0.3	-0.2	-0.5	0.4				
Exports of G&S	0.2	0.7	-0.1	2.5	0.2	0.9	0.3	1.4	0.5	1.1	0.4	1.5				
Imports of G&S	-1.3	-1.3	-1.2	-0.8	-1.5	-1.4	-1.1	-1.4	-0.9	-1.4	-0.9	-1.2				
percent change, Q4/Q4																
Exports of G&S	1.8	5.6	-0.9	22.6	1.8	7.3	2.1	11.4	4.3	9.2	2.9	12.3				
Services	2.7	2.8	-3.8	10.0	3.4	1.5	2.2	3.3	4.2	4.7	4.4	4.0				
Agricultural Goods	9.3	-33.7	8.7	36.9	-23.8	4.5	8.5	4.1	4.1	4.1	4.1	4.1				
Computers	58.7	21.0	18.3	33.5	33.5	31.1	31.1	31.1	29.9	29.9	29.9	29.9				
Semiconductors	-0.0	-20.7	2.6	54.6	22.7	22.7	23.9	23.9	26.2	26.2	26.2	26.2				
Other Goods 1/	-4.2	13.8	-2.8	23.8	-0.7	6.2	-4.0	12.2	-1.2	7.1	-4.4	12.5				
Imports of G&S	10.6	9.9	9.3	5.7	11.6	9.9	8.2	9.6	5.9	9.5	5.8	7.7				
Services	13.0	1.3	2.6	7.5	4.7	4.4	3.4	2.9	2.4	2.2	2.3	2.5				
Oil	-22.2	59.9	7.0	-24.9	4.2	49.1	15.7	-24.8	3.7	41.4	14.6	-29.9				
Computers	27.7	23.0	22.2	17.0	33.5	26.2	25.1	25.1	23.9	23.9	23.9	23.9				
Semiconductors	4.6	-38.5	-19.0	6.1	33.5	28.6	28.6	28.6	28.6	28.6	28.6	28.6				
Other Goods 2/	12.1	11.5	11.7	7.0	10.2	5.3	5.2	11.5	2.9	5.4	1.5	8.7				
in billions of chained 1992\$																
Net Goods & Services	-104.0	-114.7	-137.4	-108.1	-131.2	-139.7	-155.3	-155.2	-160.8	-165.2	-174.0	-167.3				
Exports of G&S	806.7	817.9	816.1	858.7	862.6	877.8	882.4	906.5	916.1	936.5	943.3	970.9				
Imports of G&S	910.7	932.6	953.5	966.8	993.7	1017.5	1037.7	1061.7	1076.9	1101.7	1117.3	1138.3				
in billions of dollars																
US CURRENT ACCOUNT BALANCE	-139.5	-160.8	-191.3	-162.7	-169.1	-169.6	-182.6	-194.2	-189.5	-198.5	-208.3	-209.5				
Net Goods & Services (BOP)	-96.9	-114.3	-134.7	-105.4	-119.2	-114.3	-123.8	-122.3	-127.8	-132.7	-141.3	-132.6				
Exports of G&S (BOP)	820.6	836.0	823.1	865.4	867.2	879.9	882.8	907.4	917.6	939.3	946.3	975.3				
Imports of G&S (BOP)	917.5	950.3	957.8	970.9	986.4	994.1	1006.5	1029.7	1045.4	1072.0	1087.6	1107.9				
Net Investment Income	1.0	-9.1	-18.8	-14.2	-14.9	-20.3	-23.8	-27.0	-26.7	-30.8	-32.0	-31.9				
Direct, Net	66.1	59.2	56.3	65.0	68.1	65.3	64.9	64.9	68.2	67.0	69.4	72.4				
Portfolio, Net	-65.0	-68.3	-75.1	-79.2	-83.1	-85.6	-88.7	-91.9	-94.8	-97.9	-101.4	-104.3				
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

January 29, 1997

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

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

Confidential (FR) Class III FOMC

January 29, 1997

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee
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this product-side measure to be more reliable than the preliminary income-side indicators used to construct Gross Domestic Income. Still, there are reasons to suspect that the official output and productivity estimates for the nonfarm business sector are understating gains. As has been noted, for example, the nonfinancial corporate sector--which excludes many of the industries producing difficult-to-measure output and is measured on the income side--has shown consistently stronger productivity growth than the nonfarm business sector.

Industrial Production²

Industrial production increased 0.7 percent in December after a 0.8 percent gain in November. Increases were widespread across manufacturing industries; elsewhere, a steep decline in utilities output, reflecting unseasonably mild weather in December, was partly offset by an upturn in mining. The surge in activity brought IP growth in the fourth quarter to 3.8 percent at an annual rate, 1/2 percentage point above its third-quarter rate. The December surge in manufacturing output boosted the factory operating rate to 82.6 percent, the highest level since September 1995.

The output of motor vehicles and parts was little changed in December, although the composition of production shifted a bit toward trucks. Looking ahead, schedules call for increases in assemblies of both cars and trucks in January, reflecting, in part, a further easing of the lingering production disruptions at GM.

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

	1996			1997	
	Nov.	Dec.	Q4	Jan.	Q1
U.S. production	12.0	12.0	11.7	12.6	12.4
Autos	6.1	5.8	5.8	6.1	6.1
Trucks	5.8	6.3	5.9	6.5	6.3
Days' supply				--- scheduled ---	
Autos	67.3	60.5	60.5	---	---
Light trucks	67.2	67.5	67.5	---	---

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

The production of aircraft and parts moved up 1.8 percent in December, continuing the strong upturn that began a year ago. Reports indicate that the industry has scheduled a steady rate of

2. These data are the revised series released on January 27.

FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS
 (Unified basis; billions of dollars except as noted)

	Fiscal year totals					
	December				Dollar change	Percent change
	1995	1996	1996	1997		
Outlays	133.1	129.1	379.9	404.8	24.9	6.6
Deposit insurance (DI)	-.8	-.7	-2.7	-6.4	-3.7	136.1
Spectrum auction (SA)	.0	-3.6	.0	-3.6	-3.6	N.A.
Other	133.8	133.5	382.6	414.8	32.2	8.4
Receipts	138.3	148.5	324.1	346.0	21.9	6.8
Deficit (+)	-5.3	-19.4	55.7	58.8	3.0	5.4
<hr/> Adjusted for payment timing shifts¹ and excluding DI and spectrum auction <hr/>						
Outlays	126.8	133.5	382.6	407.7	25.1	6.6
National defense	23.3	23.1	64.7	68.2	3.5	5.3
Net interest	19.9	20.0	59.6	61.6	2.1	3.5
Social security	28.5	29.6	84.5	88.4	3.9	4.6
Medicare	13.4	15.2	41.5	46.3	4.8	11.5
Medicaid	6.7	8.3	22.0	23.7	1.6	7.4
Other health	1.9	2.3	6.5	7.3	.9	13.7
Income security	17.6	17.3	52.3	52.9	.7	1.3
Other	15.5	17.8	51.6	59.3	7.7	15.0
Receipts	138.3	148.5	324.1	346.0	21.9	6.8
Individual	53.2	59.4	144.5	159.8	15.2	10.5
Withheld	50.6	52.7	137.5	148.5	11.1	8.1
Nonwithheld	3.2	7.6	11.1	15.2	4.1	36.9
Refunds (-)	.6	.9	4.0	4.5	.4	10.9
Social insurance taxes	37.8	40.7	108.1	116.7	8.7	8.0
Corporate	38.0	39.0	41.9	42.2	.3	.6
Other	9.4	9.4	29.6	27.3	-2.3	-7.7
Deficit(+)	-11.6	-15.0	58.5	61.7	3.2	5.5

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

1. A shift in payment timing occurs when the first of the month falls on a weekend or holiday. The monthly and fiscal year to date outlays for defense, Medicare, income security, and "other" have been adjusted to account for this shift.

CBO BUDGET AND ECONOMIC PROJECTIONS

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Budget projections assuming current policy ¹ (Billions of dollars; fiscal years)												
<u>actual</u>												
Outlays	1560	1632	1687	1781	1877	1948	2049	2145	2252	2381	2492	2611
Receipts	1453	1507	1567	1634	1705	1781	1860	1943	2033	2127	2227	2333
Deficit	107	124	120	147	171	167	188	202	219	254	266	278
memoranda:												
Deficit with fiscal dividend ²	--	124	119	143	158	143	154	160	170	198	203	208
Deficit, CBO May 1996 projections ³	144	171	194	219	244	259	285	311	342	376	403	---
Economic projections assuming current policy ¹ (Calendar years)												
-----Percentage change, year over year-----												
Nominal GDP	4.4	4.6	4.6	4.9	4.8	4.8	4.7	4.7	4.6	4.6	4.6	4.6
Real GDP	2.3	2.3	2.0	2.2	2.1	2.1	2.1	2.0	2.0	2.0	1.9	1.9
CPI-U	2.9	2.9	2.9	3.0	3.0	3.0	3.0	3.0	3.0	3.1	3.1	3.1
-----Percent, annual average-----												
Unemploy. rate	5.4	5.3	5.6	5.8	5.9	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Treasury yields:												
Three-month	5.0	5.0	5.0	4.9	4.7	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Ten-year	6.4	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2

1. These projections assume that revenues and outlays evolve according to laws in effect when the projections were made. Discretionary spending is assumed to equal the cap in 1998 and to grow from that level at the rate of inflation in later years. The budget figures for fiscal 1996 are actual data. The economic estimates for 1996 incorporate published data (as of 11/27/96) for the first three quarters of 1996.

2. These projections use economic assumptions that are consistent with the budget achieving balance in fiscal 2002 and maintaining that balance in subsequent years.

3. CBO projections from its previous long-run forecast in The Economic and Budget Outlook, Fiscal Years 1997-2006, May 1996.

Source. Congressional Budget Office. The Economic and Budget Outlook, Fiscal Years 1998-2007, January 28, 1997.

TREASURY FINANCING
(Billions of dollars; total for period)

Item	1996		1997			
	Q3	Q4	Q1 ^P	Jan. ^P	Feb. ^P	Mar. ^P
Total surplus/deficit (-)	-33.3	-58.8	-71.0	11.7	-53.4	-29.4
Means of financing deficit						
Net cash borrowing and repayments (-)	39.4	48.7	57.6	-19.7	41.7	35.6
Nonmarketable	-1.0	7.4	6.2	2.2	2.0	2.0
Marketable	40.3	41.3	51.3	-21.9	39.7	33.6
Bills	-12.4	16.2	14.2	-18.4	2.3	30.3
Coupons	52.7	25.1	37.2	-3.5	37.4	3.3
Decrease in cash balance	-6.2	11.4	12.9	-2.3	26.6	-11.4
Other ¹	0.1	-1.4	0.5	10.3	-14.9	5.1
Memo:						
Cash balance, end of period	44.2	32.8	19.9	35.1	8.5	19.9

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.

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

Agency	1996				
	Q3	Q4	Oct.	Nov.	Dec.
FHLBs	5.7	8.5	-1.1	-1.0	10.5
FHLMC	3.6	10.0	1.5	9.7	-1.2
FNMA	10.8	12.1	2.0	3.3	6.9
Farm Credit Banks	-2.1	-0.1	-0.4	0.1	0.3
SLMA	0.2	-0.2	2.3	-0.2	-2.2

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

CONFIDENTIAL (FR)
CLASS III - FOMC

January 31, 1997

SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

Consumer Sentiment

Based on the full sample tabulations, the Michigan SRC index of consumer sentiment rose slightly in January, remaining at the upper end of the favorable range that has prevailed since early 1994. Respondents expressed more favorable views of business conditions in the next twelve months, as well as more positive views of buying conditions for large household appliances. Other components of the overall index declined somewhat, but generally remained in very positive ranges. On balance, the upbeat attitudes reversed the slight decline in the overall index registered in the preliminary report.

Among questions not included in the overall index, the results were also upbeat. The index of car buying conditions advanced strongly, and the index of home buying conditions also rose, with more households reporting that now is a good time to buy because "times are good." The expected change in unemployment in the next year moved up, but stayed in the favorable range that has prevailed since last summer.

The median value of expected inflation over the coming year was unchanged at 3 percent, while the mean shifted up 0.2 percentage point to 4.1 percent. The mean and median values of expected inflation over the next five to ten years moved up 0.1 percentage point to 4.0 percent and 3.1 percent, respectively.

Errata

The projections for industrial production (IP) and capacity utilization shown in Part 1 of the Greenbook did not reflect the new aggregation methods. The corrected forecast is shown below:

<u>Interval</u>	IP (percent change, annual rate)	Capacity utilization-mfg. (percent)
<u>Quarterly</u>		
1997-Q1	2.7	82.2
Q2	2.1	82.3
Q3	2.1	82.2
Q4	2.3	82.3
1998-Q1	2.3	82.3
Q2	2.2	82.3
Q3	2.4	82.3
Q4	2.5	82.4
<u>Four-quarter</u>		
1997-Q4	2.3	82.3
1998-Q4	2.4	82.4

January 31, 1997

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

	1996 May	1996 Jun	1996 Jul	1996 Aug	1996 Sep	1996 Oct	1996 Nov	1996 Dec	1997 Jan (f)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	89.4	92.4	94.7	95.3	94.7	96.5	99.2	96.9	97.4
Current conditions	105.1	105.4	107.5	107.8	102.0	106.6	107.5	104.9	106.8
Expected conditions	79.2	84.0	86.5	87.3	90.1	89.9	93.9	91.8	91.3
<hr/>									
Personal financial situation									
Now compared with 12 months ago*	114	118	115	119	109	115	121	117	116
Expected in 12 months*	122	128	129	129	130	127	133	132	128
Expected business conditions									
Next 12 months*	110	117	122	120	127	131	137	130	136
Next 5 years*	86	93	97	102	105	103	108	107	103
Appraisal of buying conditions									
Cars	127	137	138	139	134	132	135	134	141
Large household appliances*	159	155	164	161	155	161	158	155	160
Houses	159	153	161	158	149	159	157	156	162
Willingness to use credit									
Willingness to use savings	37	54	38	45	40	37	43	41	45
64	66	67	60	62	62	70	63	71	
Expected unemployment change - next 12 months									
	121	123	115	114	112	114	110	110	114
Expected inflation - next 12 months									
Mean	4.9	4.2	4.3	4.1	4.3	4.2	4.0	3.9	4.1
Median	3.0	2.9	2.9	3.0	3.2	3.0	3.0	3.0	3.0
Expected inflation - next 5 to 10 years									
Mean	4.8	4.0	4.2	4.6	4.1	4.2	3.7	3.9	4.0
Median	3.2	3.1	3.1	3.2	3.2	3.0	3.0	3.0	3.1

* -- 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.