

## **Part 1**

August 13, 1998

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

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

August 13, 1998

## **SUMMARY AND OUTLOOK**

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

Measure	1998:Q2			1998:Q3	
	June GB	BEA <sup>1</sup>	Aug. GB	June GB	Aug. GB
<b>Real GDP</b>	2.0	1.4	1.3	2.0	2.2
Private domestic final purchases	6.2	6.9	7.2	4.0	3.3
Personal consumption expenditures	5.2	5.8	5.7	3.8	3.6
Residential investment	12.1	13.2	13.2	-.5	8.5
Business fixed investment	10.2	11.4	14.1	6.8	-.6
Government outlays for consumption and investment	6.1	3.7	3.2	-.7	1.4
	Change, billions of chained (1992) dollars				
Inventory investment	-51.1	-46.7	-48.6	-3.8	7.6
Net exports	-35.0	-54.4	-57.3	-23.3	-26.1

1. Advance.

quarter within hailing distance of the \$37 billion figure in the advance release.<sup>1</sup> Anecdotal reports of desires to trim stocks in some industries and the relatively tepid performance of indicators of manufacturing activity recently (with due allowance for the GM strike) suggest that we may be seeing a considerable further moderation of inventory investment this quarter outside autos.

That inventory adjustment likely will be reflected partly in import volumes, but we believe that exports will continue to decline, at least somewhat, this quarter. Consequently, net exports are expected to fall further, albeit not so sharply as in the first half of the year. We have projected a negative contribution of about 1 percentage point (annual rate) to GDP growth this quarter, less than half the recent magnitude.

Real federal purchases are expected to fall 2-3/4 percent at an annual rate in the third quarter; this decrease is a bit larger than the current trend rate of decline and mostly reflects quarter-to-quarter lumpiness in defense spending. With a projected increase of 3-1/2 percent in the third quarter, purchases by state and local

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1. One of our motivations for building in this offset is that--given our forecast of corporate profits in the second quarter--our estimate of the increase in gross domestic income substantially exceeds that of gross domestic product, raising the possibility of a subsequent upward revision to GDP.

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

Measure	1998:H1	1998:H2	1999
<b>Real GDP</b>	<b>3.4</b>	<b>2.3</b>	<b>1.7</b>
Previous	3.7	1.8	2.0
Final sales	4.1	2.4	1.8
Previous	4.2	2.4	2.1
PCE	5.9	3.3	2.6
Previous	5.7	3.6	2.6
Residential investment	14.4	5.5	-3.6
Previous	14.3	-8	-2.8
BFI	18.1	5.6	4.8
Previous	14.1	6.7	6.1
Government purchases	.6	2.1	1.1
Previous	1.4	.6	.9
Exports	-5.8	-1.4	3.0
Previous	-2.2	1.0	3.8
Imports	13.9	7.5	6.5
Previous	13.0	7.7	6.5
Change, billions of chained (1992) dollars			
Inventory change	-23.7	-.6	-14.0
Previous	-21.4	-20.7	-9.5
Net exports	-106.9	-52.0	-53.2
Previous	-83.8	-41.2	-45.0

decade to a rate in the vicinity of 2-3/4 percent per year.<sup>2</sup> Real GDP is projected to increase appreciably less rapidly than potential next year, implying a slowing of payroll growth and a significant rise in the jobless rate.

Despite this uptilt in unemployment, labor will remain in short supply, and we anticipate fairly hefty increases in real compensation. But, with price increases restrained by falling import prices this year and by below-average factory utilization

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2. Adjusting for the methodological changes made by BEA, this figure is essentially equivalent to the growth rate of potential output used in the last Greenbook. Also, note that, because of these methodological changes, potential output is measured on a consistent basis from 1995 forward.

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

Measure	1997	1998	1999
Output per hour, nonfarm business	1.7	1.1	1.3
Previous	1.8	1.3	1.4
Nonfarm payroll employment	2.7	2.2	.8
Previous	2.7	2.0	.9
Household employment survey	2.1	.9	.4
Previous	2.1	1.4	.5
Labor force participation rate <sup>1</sup>	67.1	67.0	66.9
Previous	67.1	67.1	67.1
Civilian unemployment rate <sup>1</sup>	4.7	4.6	5.1
Previous	4.7	4.4	4.9

1. Percent, average for the fourth quarter.

close to 7 percent (annual rate) over the next six quarters, about the same as anticipated in the June Greenbook. Overall, net exports are now forecast to hold down real GDP growth by something over 1 percentage point in the second half of this year and approximately 1/2 percentage point next year. (A more detailed discussion is contained in the *International Developments* section.)

**Labor markets.** With the benchmark revision of the labor productivity figures now in hand, we have reviewed our assessment of the current trend. We remain as comfortable as ever with our assertion that, while the acceleration of GDP in the past couple of years played a key role in the resurgence of output per hour in the nonfarm business sector, significant structural improvements played a role as well. Therefore, we have retained our assumption that the cyclically adjusted productivity trend is 1-3/4 percent for 1995-1999, up from just over 1-1/4 percent in the first half of the decade.

Over the next six quarters, actual labor productivity should increase at well below its trend pace, as firms adjust employment with a lag to slowing output growth. In addition, productivity growth is expected to be hampered a little as employees are shifted to work on Year 2000 problems.

Parsing out the GM strike effects, we believe that the current underlying pace of payroll employment changes remained near its robust first-half pace through July. We expect hiring to hold up well in the near term, owing to the efforts of some employers to catch up with staffing needs that they have found difficult to fulfill to

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

Measure	1997	1998	1999
Consumer price index	1.9	1.5	2.1
Previous	1.9	1.7	2.2
Food	1.7	1.7	1.3
Previous	1.7	1.4	2.0
Energy	-1.0	-7.2	3.9
Previous	-1.0	-5.3	1.7
Excluding food and energy	2.2	2.3	2.1
Previous	2.2	2.3	2.3
PCE chain-weighted price index	1.5	.9	1.6
Previous	1.5	1.3	1.9
Excluding food and energy	1.6	1.3	1.5
Previous	1.5	1.7	1.9
GDP chain-weighted price index	1.7	1.1	1.5
Previous	1.8	1.5	1.7
ECI for compensation of private industry workers <sup>1</sup>	3.4	3.4	3.2
Previous	3.4	3.6	3.5
Prices of core non-oil merchandise imports	-7	-2.9	1.1
Previous	-8	-2.3	1.6
	Percentage points		
MEMO: <i>Adjustments for technical changes to the CPI</i> <sup>2</sup>			
Core CPI	.2	.4	.6

1. December to December.

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

relative movements almost impossible. Our inspection of the components has not yielded a strong signal about where things might go from here, although there are some hints that erratic changes have tended to pull down the rate of increase in the PCE index recently. However, that is sufficiently conjectural that we did not give it much weight in our projection. Giving primary attention to the macro fundamentals, we arrived at our prediction of a 1-1/2 percent rise in core PCE prices in 1999, leaving a gap between that measure and the core CPI that is still relatively large by historical standards.

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

Measure	1997	1998	1999
<i>Real GDP</i>			
Baseline	3.8	2.9	1.7
Higher funds rate	3.8	2.8	.9
Lower funds rate	3.8	3.0	2.5
Constant stock market wealth-to-income ratio	3.8	3.0	2.2
10 percent lower stock prices	3.8	2.8	1.3
<i>Civilian unemployment rate<sup>1</sup></i>			
Baseline	4.7	4.6	5.1
Higher funds rate	4.7	4.6	5.4
Lower funds rate	4.7	4.6	4.8
Constant stock market wealth-to-income ratio	4.7	4.6	4.9
10 percent lower stock prices	4.7	4.6	5.2
<i>CPI excluding food and energy</i>			
Baseline	2.2	2.3	2.1
Higher funds rate	2.2	2.3	1.8
Lower funds rate	2.2	2.3	2.4
Constant stock market wealth-to-income ratio	2.2	2.3	2.1
10 percent lower stock prices	2.2	2.3	2.1

1. Average for the fourth quarter.

alternative assumes a 100-basis point decline in the funds rate between now and the second quarter of 1999. In this scenario, the unemployment rate reaches only 4-3/4 percent by the end of next year, and core consumer price inflation moves up to 2.4 percent in 1999.

The third alternative assumes that the ratio of stock market wealth to income holds steady over the projection period, rather than declining as we are anticipating in the baseline forecast. In this scenario, real GDP growth is 0.1 percentage point higher than the baseline forecast this year and 0.5 percentage point higher in 1999. The unemployment rate is a bit lower next year in this simulation, while core CPI inflation is little changed. As we have noted before, the effect on prices under this type of alternative is small because the unemployment rate change is modest and because, in

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

August 13, 1998

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>	
	06/24/98	08/13/98	06/24/98	08/13/98	06/24/98	08/13/98	06/24/98	08/13/98	06/24/98	08/13/98
<b>ANNUAL</b>										
1995	4.6	4.6	2.0	2.3	2.5	2.3	2.8	2.8	5.6	5.6
1996	5.1	5.4	2.8	3.4	2.3	1.9	3.0	3.0	5.4	5.4
1997	5.8	5.9	3.8	3.9	2.0	1.9	2.3	2.3	4.9	4.9
1998	4.8	4.5	3.3	3.4	1.4	1.1	1.6	1.6	4.4	4.6
1999	3.5	3.2	1.8	1.7	1.7	1.4	2.2	2.1	4.7	4.9
<b>QUARTERLY</b>										
1996 Q1	4.7	5.7	1.8	3.3	2.8	2.2	3.2	3.2	5.6	5.6
1996 Q2	7.7	7.3	6.0	6.1	1.9	1.4	3.7	3.7	5.4	5.4
1996 Q3	3.6	3.9	1.0	2.1	2.7	1.8	2.6	2.6	5.3	5.3
1996 Q4	6.2	6.1	4.3	4.2	1.9	1.6	3.3	3.3	5.3	5.3
1997 Q1	7.4	7.2	4.9	4.2	2.4	2.8	2.0	2.0	5.3	5.3
1997 Q2	5.2	5.6	3.3	4.0	1.8	1.7	1.5	1.5	4.9	4.9
1997 Q3	4.6	5.4	3.1	4.2	1.4	1.2	1.8	1.8	4.9	4.9
1997 Q4	5.2	4.2	3.7	3.0	1.4	1.1	2.3	2.3	4.7	4.7
1998 Q1	6.5	6.4	5.4	5.5	1.0	0.9	0.5	0.5	4.7	4.7
1998 Q2	3.7	2.2	2.0	1.3	1.7	0.9	2.0	2.0	4.3	4.4
1998 Q3	3.6	3.6	2.0	2.2	1.6	1.4	2.0	1.7	4.3	4.5
1998 Q4	3.4	3.9	1.7	2.5	1.7	1.4	2.2	2.0	4.4	4.6
1999 Q1	3.4	3.0	1.5	1.2	1.9	1.7	2.4	2.4	4.6	4.7
1999 Q2	3.4	2.8	1.8	1.4	1.6	1.4	2.2	2.1	4.7	4.9
1999 Q3	3.9	3.2	2.2	1.8	1.6	1.4	2.2	2.0	4.8	5.0
1999 Q4	4.0	3.6	2.3	2.2	1.7	1.4	2.2	2.0	4.9	5.1
<b>TWO-QUARTER<sup>3</sup></b>										
1996 Q2	6.2	6.5	3.8	4.7	2.3	1.8	3.5	3.5	-0.2	-0.2
1996 Q4	4.9	5.0	2.7	3.2	2.3	1.7	2.9	2.9	-0.1	-0.1
1997 Q2	6.3	6.4	4.1	4.1	2.1	2.2	1.8	1.8	-0.4	-0.4
1997 Q4	4.9	4.8	3.4	3.6	1.4	1.2	2.0	2.0	-0.2	-0.2
1998 Q2	5.1	4.3	3.7	3.4	1.4	0.9	1.3	1.2	-0.4	-0.3
1998 Q4	3.5	3.8	1.8	2.3	1.6	1.4	2.1	1.9	0.1	0.3
1999 Q2	3.4	2.9	1.6	1.3	1.8	1.6	2.3	2.2	0.3	0.3
1999 Q4	4.0	3.4	2.3	2.0	1.6	1.4	2.2	2.0	0.2	0.3
<b>FOUR-QUARTER<sup>4</sup></b>										
1995 Q4	4.0	4.2	1.6	2.1	2.4	2.1	2.6	2.6	0.0	0.0
1996 Q4	5.6	5.8	3.2	3.9	2.3	1.8	3.2	3.2	-0.3	-0.3
1997 Q4	5.6	5.6	3.7	3.8	1.8	1.7	1.9	1.9	-0.6	-0.6
1998 Q4	4.3	4.0	2.7	2.9	1.5	1.1	1.7	1.5	-0.3	-0.1
1999 Q4	3.7	3.1	2.0	1.7	1.7	1.5	2.2	2.1	0.5	0.5

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)

August 13, 1998

Item	Units <sup>1</sup>	- Projected -								
		1991	1992	1993	1994	1995	1996	1997	1998	1999
EXPENDITURES										
Nominal GDP	Bill. \$	5916.7	6244.4	6558.1	6947.0	7269.6	7661.6	8110.9	8476.2	8748.3
Real GDP	Bill. Ch. \$	6079.4	6244.4	6389.6	6610.7	6761.7	6994.8	7269.8	7515.0	7646.3
Real GDP	% change	0.4	3.6	2.4	3.3	2.1	3.9	3.8	2.9	1.7
Gross domestic purchases		0.0	4.0	3.0	3.6	1.6	4.2	4.4	4.6	2.1
Final sales		-0.4	3.9	2.1	2.7	2.7	3.7	3.4	3.2	1.8
Priv. dom. final purchases		-0.8	4.9	3.7	3.7	2.9	4.4	4.5	5.8	2.6
Personal cons. expenditures		-0.2	4.2	2.7	3.1	2.6	3.3	3.7	4.6	2.6
Durables		-3.1	9.4	7.4	6.3	4.5	5.8	7.4	7.9	3.4
Nondurables		-1.0	3.4	1.6	3.0	1.7	2.8	2.0	4.3	1.8
Services		0.9	3.6	2.3	2.5	2.6	3.0	3.8	4.0	2.8
Business fixed investment		-6.0	5.5	9.9	7.6	7.3	11.7	9.8	11.7	4.8
Producers' dur. equipment		-2.6	9.6	12.2	10.2	9.1	11.8	12.7	16.9	5.9
Nonres. structures		-12.6	-3.4	4.5	1.1	2.7	11.6	2.5	-1.4	2.0
Residential structures		1.0	16.9	7.8	4.2	-1.4	5.4	4.2	9.9	-3.6
Exports		8.6	4.1	4.6	10.0	10.5	10.3	9.6	-3.7	3.0
Imports		4.1	7.4	10.2	12.3	5.6	11.8	14.0	10.7	6.5
Gov't. cons. & investment		-0.7	1.7	-1.4	0.1	-0.9	2.1	1.4	1.3	1.1
Federal		-3.1	1.3	-6.1	-3.9	-5.6	1.1	-0.6	-0.9	-1.9
Defense		-5.3	-1.3	-6.9	-6.0	-5.0	-0.1	-1.4	-3.1	-2.4
State & local		1.0	2.0	2.0	2.7	2.1	2.8	2.6	2.6	2.7
Change in bus. inventories	Bill. Ch. \$	-3.0	7.0	22.1	60.6	27.7	30.0	63.2	56.7	31.7
Nonfarm		-1.2	2.1	29.5	49.0	37.7	23.2	58.8	49.2	27.1
Net exports		-22.3	-29.5	-70.2	-104.6	-96.5	-111.2	-136.1	-261.1	-346.8
Nominal GDP	% change	3.8	6.3	5.0	5.8	4.2	5.8	5.6	4.0	3.1
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	108.3	108.6	110.7	114.1	117.2	119.6	122.7	125.8	127.3
Unemployment rate	%	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.6	4.9
Industrial prod. index	% change	-0.0	3.7	3.3	6.5	3.3	4.2	5.8	1.7	1.3
Capacity util. rate - mfg.	%	77.9	79.4	80.5	82.5	82.8	81.4	81.7	80.5	79.4
Housing starts	Millions	1.01	1.20	1.29	1.46	1.35	1.48	1.47	1.57	1.49
Light motor vehicle sales		12.53	12.86	13.88	15.03	14.74	15.06	15.04	15.12	14.79
North Amer. produced		9.74	10.51	11.71	12.88	12.82	13.34	13.11	13.13	12.87
Other		2.78	2.35	2.16	2.14	1.91	1.71	1.94	1.99	1.93
INCOME AND SAVING										
Nominal GNP	Bill. \$	5932.4	6255.5	6576.8	6955.2	7287.1	7674.0	8102.9	8451.8	8707.3
Nominal GNP	% change	3.5	6.2	5.1	5.7	4.4	5.6	5.2	3.9	3.0
Nominal personal income		3.5	7.2	4.0	5.2	4.6	5.9	5.4	4.4	3.5
Real disposable income		0.7	4.0	1.2	2.5	2.1	2.7	2.9	2.8	2.3
Personal saving rate	%	5.6	5.7	4.4	3.5	3.4	2.9	2.1	0.5	0.2
Corp. profits, IVA & CCAdj.	% change	4.5	11.3	19.0	14.1	14.6	7.7	7.7	-1.3	-2.9
Profit share of GNP	%	6.9	6.8	7.5	8.2	9.2	9.8	10.1	9.7	9.0
Excluding FR Banks		6.6	6.6	7.2	7.9	8.9	9.5	9.8	9.4	8.8
Federal surpl./deficit	Bill. \$	-196.0	-280.9	-250.7	-186.7	-174.4	-110.3	-21.1	71.0	50.6
State & local surpl./def.		75.8	86.3	87.4	96.8	111.7	122.6	134.1	142.2	148.9
Ex. social ins. funds		11.5	18.3	19.7	27.9	37.0	52.2	66.0	74.6	81.2
Gross natl. saving rate	%	15.7	14.5	14.4	15.5	16.3	16.6	17.4	17.2	16.2
Net natl. saving rate		4.8	3.7	3.7	4.7	5.8	6.3	7.3	7.2	6.1
PRICES AND COSTS										
GDP chn.-wt. price index	% change	3.3	2.6	2.6	2.5	2.1	1.8	1.7	1.1	1.5
Gross Domestic Purchases		2.7	2.7	2.3	2.5	2.0	1.8	1.3	0.6	1.4
chn.-wt. price index		3.0	3.1	2.7	2.7	2.6	3.2	1.9	1.5	2.1
CPI		4.4	3.5	3.1	2.8	3.1	2.6	2.2	2.3	2.1
Ex. food and energy		4.4	3.5	3.1	2.8	3.1	2.6	2.2	2.3	2.1
ECI, hourly compensation <sup>2</sup>		4.4	3.5	3.6	3.1	2.6	3.1	3.4	3.4	3.2
Nonfarm business sector										
Output per hour		2.2	3.5	-0.4	0.1	1.2	2.1	1.7	1.1	1.3
Compensation per Hour		4.7	4.5	1.6	2.1	2.8	3.7	3.9	3.9	3.2
Unit labor cost		2.5	1.0	2.0	2.0	1.6	1.6	2.1	2.8	2.0

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)

August 13, 1998

Item	Units	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	7170.8	7210.9	7304.8	7391.9	7495.3	7629.2	7703.4	7818.4	7955.0	8063.4
Real GDP	Bill. Ch. \$	6717.5	6724.2	6779.5	6825.8	6882.0	6983.9	7020.0	7093.1	7166.7	7236.5
Real GDP	% change	1.7	0.4	3.3	2.8	3.3	6.1	2.1	4.2	4.2	4.0
Gross domestic purchases		1.9	0.7	1.7	2.0	4.5	7.0	3.4	1.8	5.5	4.4
Final sales		2.2	2.3	3.7	2.5	3.6	5.4	0.9	5.1	2.9	2.7
Priv. dom. final purchases		2.9	2.9	2.7	3.1	5.1	6.2	3.1	3.3	4.6	3.3
Personal cons. expenditures		1.9	3.4	2.6	2.3	3.7	4.7	1.8	2.9	4.3	1.6
Durables		-1.0	5.9	8.3	4.8	5.8	12.7	-1.9	7.2	12.3	-1.5
Nondurables		2.3	1.6	0.7	2.0	2.2	4.8	1.2	2.9	3.6	-0.2
Services		2.3	3.8	2.4	1.9	4.0	3.0	3.0	2.0	3.1	3.2
Business fixed investment		16.1	6.9	0.9	6.1	13.1	11.0	14.2	8.8	7.0	14.0
Producers' dur. equipment		18.1	7.6	1.4	10.1	15.7	12.3	16.2	3.2	8.3	22.8
Nonres. structures		10.7	5.1	-0.4	-3.8	6.4	7.4	8.9	24.5	3.9	-6.2
Residential structures		-8.8	-15.0	10.1	10.6	9.3	19.5	-1.7	-3.9	3.1	6.1
Exports		9.2	5.4	17.8	10.2	3.7	5.8	2.1	32.0	8.3	15.5
Imports		9.8	7.2	2.0	3.5	13.1	13.5	13.6	7.0	18.6	17.9
Gov't. cons. & investment		0.1	1.2	-0.8	-4.1	3.2	7.1	-1.6	0.0	2.1	2.1
Federal		-2.6	-2.0	-2.6	-14.7	8.0	8.1	-4.7	-6.3	-2.7	3.6
Defense		-1.6	0.1	-5.4	-12.5	7.2	8.1	-6.3	-8.3	-9.9	9.1
State & local		1.8	3.2	0.4	2.8	0.5	6.5	0.3	3.8	4.9	1.3
Change in bus. inventories	Bill. Ch. \$	54.3	21.7	14.7	20.1	14.4	26.1	47.5	32.1	56.3	79.0
Nonfarm		62.5	36.7	30.6	20.8	10.4	15.2	38.6	28.7	56.2	72.1
Net exports		-109.5	-114.7	-86.8	-74.8	-95.5	-113.5	-140.1	-95.9	-121.5	-131.6
Nominal GDP	% change	4.3	2.3	5.3	4.9	5.7	7.3	3.9	6.1	7.2	5.6
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	116.5	116.9	117.4	117.9	118.5	119.3	120.0	120.7	121.5	122.3
Unemployment rate	%	5.5	5.7	5.7	5.6	5.6	5.4	5.3	5.3	5.3	4.9
Industrial prod. index	% change	5.9	1.6	4.5	1.1	2.0	7.5	3.6	3.8	5.2	4.6
Capacity util. rate - mfg.	%	83.8	82.9	82.6	81.8	81.0	81.6	81.5	81.4	81.6	81.5
Housing starts	Millions	1.32	1.29	1.42	1.42	1.47	1.49	1.49	1.42	1.47	1.46
Light motor vehicle sales		14.71	14.45	14.78	15.00	15.11	15.17	15.00	14.94	15.32	14.54
North Amer. produced		12.69	12.46	12.93	13.22	13.44	13.45	13.32	13.18	13.40	12.67
Other		2.02	2.00	1.85	1.78	1.67	1.73	1.68	1.77	1.93	1.87
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	7189.3	7233.3	7313.2	7412.6	7515.0	7643.3	7708.6	7829.0	7952.4	8062.3
Nominal GNP	% change	5.3	2.5	4.5	5.5	5.6	7.0	3.5	6.4	6.5	5.6
Nominal personal income		4.7	3.4	4.3	6.1	6.6	6.9	5.5	4.6	7.3	4.7
Real disposable income		2.6	-0.6	2.7	3.9	2.9	2.1	4.4	1.3	3.3	2.9
Personal saving rate	%	4.1	3.1	3.1	3.3	3.2	2.6	3.1	2.6	2.4	2.6
Corp. profits, IVA & CCAdj.	% change	7.7	16.6	30.3	5.4	16.9	6.9	3.8	3.5	18.1	11.1
Profit share of GNP	%	8.8	9.0	9.6	9.5	9.8	9.8	9.8	9.7	10.0	10.1
Excluding FR Banks		8.5	8.7	9.2	9.3	9.5	9.5	9.5	9.5	9.7	9.8
Federal surpl./deficit	Bill. \$	-189.6	-177.9	-176.9	-153.0	-150.1	-112.6	-100.1	-78.3	-51.2	-34.8
State & local surpl./def.		110.4	112.6	113.0	110.7	117.3	129.1	122.3	121.7	128.4	130.1
Ex. social ins. funds		37.6	37.7	37.3	35.5	45.3	58.2	52.5	52.9	59.8	61.6
Gross natl. saving rate	%	16.2	16.0	16.3	16.8	16.4	16.4	16.8	16.7	17.0	17.6
Net natl. saving rate		5.7	5.4	5.7	6.2	6.0	6.2	6.6	6.5	7.0	7.6
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	2.5	2.0	1.9	2.0	2.2	1.4	1.8	1.6	2.8	1.7
Gross Domestic Purchases		2.2	2.4	1.6	1.8	2.1	1.4	1.5	2.1	2.2	0.9
chn.-wt. price index		2.7	3.5	2.1	2.4	3.2	3.7	2.6	3.3	2.0	1.5
CPI		3.3	3.3	2.8	3.0	2.5	2.5	2.7	2.7	2.2	2.6
Ex. food and energy											
ECI, hourly compensation <sup>1</sup>		2.9	2.6	2.6	2.9	2.5	3.5	2.8	2.8	2.5	3.7
Nonfarm business sector											
Output per hour		-0.4	0.9	1.8	2.6	4.1	3.0	0.0	1.2	0.5	1.8
Compensation per hour		2.0	2.8	3.1	3.5	2.6	5.2	3.7	3.3	4.0	2.6
Unit labor cost		2.5	1.8	1.2	0.9	-1.5	2.2	3.7	2.1	3.6	0.7

1. Private-industry workers.

Strictly Confidential <PR>  
Class II FOMC

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

August 13, 1998

Item	Units	----- Projected -----									
		1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	8170.8	8254.5	8384.2	8429.2	8504.8	8586.7	8649.4	8709.0	8778.1	8856.6
Real GDP	Bill. Ch. \$	7311.2	7364.6	7464.7	7489.3	7530.0	7576.1	7598.6	7625.0	7659.6	7702.0
Real GDP	% change	4.2	3.0	5.5	1.3	2.2	2.5	1.2	1.4	1.8	2.2
Gross domestic purchases		4.6	3.2	7.8	4.0	3.3	3.5	1.9	2.1	2.2	2.4
Final sales		5.8	2.1	4.3	3.8	1.8	2.9	1.5	1.6	2.0	2.3
Priv. dom. final purchases		7.2	2.9	8.5	7.2	3.3	4.2	2.6	2.4	2.5	2.7
Personal cons. expenditures		6.2	2.8	6.1	5.7	3.6	3.1	2.6	2.5	2.6	2.7
Durables		16.8	3.1	15.8	10.9	1.0	4.6	3.6	2.4	3.1	4.3
Nondurables		5.1	-0.4	7.4	5.2	2.6	2.1	1.7	1.7	1.8	1.9
Services		4.7	4.3	3.5	4.8	4.6	3.2	2.9	2.9	2.8	2.8
Business fixed investment		17.0	1.8	22.2	14.1	-0.6	12.2	5.3	4.5	4.7	4.8
Producers' dur. equipment		18.8	2.2	34.3	21.3	-1.1	15.8	6.3	5.4	5.8	5.9
Nonres. structures		12.4	0.9	-4.9	-4.1	0.9	2.6	2.4	2.0	1.7	1.7
Residential structures		-0.4	8.2	15.6	13.2	8.5	2.7	-3.7	-4.4	-3.6	-2.8
Exports		10.6	4.4	-2.8	-8.9	-2.3	-0.5	1.2	2.7	3.8	4.4
Imports		13.5	6.3	15.7	12.1	6.9	8.2	6.9	7.6	6.4	5.0
Gov't. cons. & investment		1.4	0.1	-1.9	3.2	1.4	2.7	0.2	1.8	1.5	1.1
Federal		-1.2	-2.1	-8.8	7.0	-2.8	1.6	-4.4	0.0	-0.9	-2.1
Defense		-1.8	-2.0	-18.5	9.4	-4.1	3.0	-6.3	0.0	-1.3	-1.8
State & local		2.9	1.3	2.1	1.3	3.6	3.3	2.8	2.7	2.7	2.7
Change in bus. inventories	Bill. Ch. \$	51.0	66.5	91.4	42.8	50.5	42.2	36.4	32.2	29.8	28.3
Nonfarm		44.0	62.7	85.9	34.6	42.2	34.1	29.7	26.9	25.9	25.8
Net exports		-142.4	-149.0	-198.5	-255.9	-281.9	-307.9	-326.4	-344.1	-355.5	-361.1
Nominal GDP	% change	5.4	4.2	6.4	2.2	3.6	3.9	3.0	2.8	3.2	3.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	123.0	123.9	124.8	125.5	126.1	126.7	127.0	127.2	127.4	127.7
Unemployment rate	%	4.9	4.7	4.7	4.4	4.5	4.6	4.7	4.9	5.0	5.1
Industrial prod. index	% change	6.0	7.2	1.2	1.9	0.1	3.8	1.2	1.3	1.3	1.6
Capacity util. rate - mfg.	%	81.6	82.2	81.6	80.9	79.8	79.8	79.6	79.4	79.3	79.3
Housing starts	Millions	1.45	1.53	1.58	1.56	1.58	1.54	1.51	1.49	1.48	1.47
Light motor vehicle sales		15.21	15.10	15.02	16.07	14.24	15.14	15.03	14.81	14.69	14.64
North Amer. produced		13.21	13.15	13.07	14.06	12.23	13.17	13.08	12.87	12.77	12.75
Other		2.00	1.95	1.96	2.01	2.02	1.97	1.95	1.94	1.92	1.89
INCOME AND SAVING											
Nominal GNP	Bill. \$	8162.0	8234.9	8369.4	8408.0	8475.2	8554.8	8613.7	8669.6	8734.6	8811.2
Nominal GNP	% change	5.0	3.6	6.7	1.9	3.2	3.8	2.8	2.6	3.0	3.6
Nominal personal income		4.7	5.0	5.9	4.2	3.9	3.7	3.6	3.4	3.5	3.4
Real disposable income		2.4	2.9	4.0	2.6	2.6	1.9	4.3	1.7	1.8	1.7
Personal saving rate	%	1.7	1.7	1.2	0.6	0.3	0.1	0.5	0.3	0.1	-0.1
Corp. profits, IVA & CCAdj.	% change	13.1	-9.2	4.2	-1.8	-8.7	1.4	-8.3	-5.6	-0.6	3.2
Profit share of GNP	%	10.3	10.0	9.9	9.8	9.5	9.5	9.2	9.0	8.9	8.9
Excluding FR Banks		10.0	9.7	9.6	9.6	9.3	9.2	8.9	8.8	8.7	8.7
Federal surpl./deficit	Bill. \$	-0.3	2.2	58.8	77.6	76.2	71.3	47.1	48.7	53.9	52.5
State & local surpl./def.		136.6	141.4	140.2	131.8	145.1	151.6	151.4	148.8	146.4	148.9
Ex. social ins. funds		68.7	73.8	72.7	64.1	77.5	83.9	83.7	81.1	78.7	81.2
Gross natl. saving rate	%	17.5	17.3	17.7	17.2	17.0	16.7	16.6	16.3	16.1	15.9
Net natl. saving rate		7.5	7.3	7.8	7.2	7.0	6.7	6.5	6.2	6.0	5.8
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.2	1.1	0.9	0.9	1.4	1.4	1.7	1.4	1.4	1.4
Gross Domestic Purchases		1.1	1.0	-0.2	0.5	0.9	1.1	1.8	1.4	1.3	1.3
chn.-wt. price index		1.8	2.3	0.5	2.0	1.7	2.0	2.4	2.1	2.0	2.0
CPI		1.9	2.1	2.4	2.7	2.0	2.1	2.1	2.1	2.2	2.2
Ex. food and energy											
ECI, hourly compensation <sup>1</sup>		3.4	4.3	2.7	3.6	3.7	3.7	3.2	3.2	3.2	3.2
Nonfarm business sector											
Output per hour		3.6	0.9	3.5	-0.4	0.3	1.1	0.7	1.1	1.5	1.8
Compensation per hour		3.9	4.9	4.6	3.8	3.7	3.7	3.6	3.2	3.2	3.1
Unit labor cost		0.3	4.0	1.1	4.2	3.3	2.5	2.9	2.1	1.6	1.3

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

August 13, 1998

Item	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	95Q4/ 94Q4	96Q4/ 95Q4	97Q4/ 96Q4
Real GDP	3.3	2.8	3.3	6.1	2.1	4.2	4.2	4.0	4.2	2.1	3.9	3.8
Gross dom. purchases	1.7	2.1	4.5	7.1	3.5	1.9	5.5	4.4	4.7	1.6	4.2	4.4
Final sales	3.7	2.5	3.6	5.4	0.9	5.1	2.9	2.7	5.7	2.7	3.7	3.3
Priv. dom. final purchases	2.2	2.6	4.2	5.0	2.5	2.7	3.8	2.7	5.9	2.4	3.6	3.7
Personal cons. expenditures	1.8	1.6	2.5	3.2	1.3	2.0	2.9	1.1	4.2	1.7	2.2	2.5
Durables	0.7	0.4	0.5	1.0	-0.2	0.6	1.0	-0.1	1.3	0.4	0.5	0.6
Nondurables	0.2	0.4	0.4	1.0	0.2	0.6	0.7	0.0	1.0	0.3	0.6	0.4
Services	1.0	0.8	1.6	1.2	1.2	0.8	1.2	1.3	1.8	1.0	1.2	1.5
Business fixed investment	0.1	0.6	1.3	1.1	1.4	0.9	0.7	1.4	1.7	0.7	1.2	1.0
Producers' dur. equip.	0.1	0.7	1.1	0.9	1.1	0.2	0.6	1.6	1.3	0.6	0.8	0.9
Nonres. structures	0.0	-0.1	0.2	0.2	0.2	0.6	0.1	-0.2	0.3	0.1	0.3	0.1
Residential structures	0.4	0.4	0.4	0.7	-0.1	-0.2	0.1	0.2	0.0	-0.1	0.2	0.2
Net exports	1.6	0.7	-1.1	-0.9	-1.3	2.4	-1.2	-0.4	-0.5	0.5	-0.3	-0.6
Exports	1.8	1.1	0.4	0.7	0.2	3.2	0.9	1.8	1.2	1.1	1.2	1.1
Imports	-0.2	-0.4	-1.5	-1.6	-1.6	-0.9	-2.2	-2.2	-1.7	-0.7	-1.4	-1.7
Government cons. & invest.	-0.1	-0.8	0.6	1.3	-0.3	0.0	0.4	0.4	0.2	-0.2	0.4	0.3
Federal	-0.2	-1.1	0.5	0.5	-0.3	-0.4	-0.2	0.2	-0.1	-0.4	0.1	-0.0
Defense	-0.3	-0.6	0.3	0.4	-0.3	-0.4	-0.5	0.4	-0.1	-0.2	-0.0	-0.1
Nondefense	0.1	-0.5	0.2	0.2	0.0	0.0	0.3	-0.1	0.0	-0.2	0.1	0.0
State and local	0.0	0.3	0.1	0.7	0.0	0.4	0.6	0.2	0.3	0.2	0.3	0.3
Change in bus. inventories	-0.4	0.3	-0.3	0.6	1.2	-0.8	1.3	1.3	-1.4	-0.6	0.2	0.5
Nonfarm	-0.4	-0.6	-0.5	0.3	1.3	-0.5	1.5	0.9	-1.5	-0.6	0.1	0.5
Farm	-0.0	0.8	0.2	0.3	-0.1	-0.3	-0.2	0.4	0.1	-0.0	0.0	0.0

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

Strictly Confidential <FR>  
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

August 13, 1998

Item	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	97Q4/ 96Q4	98Q4/ 97Q4	99Q4/ 98Q4
Real GDP	3.0	5.5	1.3	2.2	2.3	1.2	1.4	1.8	2.2	3.8	2.9	1.7
Gross dom. purchases	3.2	7.9	4.1	3.4	3.6	2.0	2.1	2.3	2.4	4.4	4.7	2.2
Final sales	2.1	4.3	3.8	1.8	2.9	1.5	1.6	2.0	2.3	3.3	3.2	1.8
Priv. dom. final purchases	2.4	7.0	6.0	2.7	3.5	2.2	2.0	2.1	2.3	3.7	4.8	2.2
Personal cons. expenditures	1.9	4.1	3.8	2.4	2.1	1.8	1.7	1.8	1.9	2.5	3.1	1.8
Durables	0.3	1.2	0.9	0.1	0.4	0.3	0.2	0.3	0.4	0.6	0.6	0.3
Nondurables	-0.1	1.4	1.0	0.5	0.4	0.3	0.3	0.3	0.4	0.4	0.8	0.3
Services	1.7	1.4	1.9	1.8	1.3	1.2	1.2	1.2	1.2	1.5	1.6	1.2
Business fixed investment	0.2	2.2	1.5	-0.1	1.3	0.6	0.5	0.5	0.5	1.0	1.2	0.5
Producers' dur. equip.	0.1	2.4	1.6	-0.1	1.2	0.5	0.4	0.5	0.5	0.9	1.3	0.5
Nonres. structures	0.0	-0.1	-0.1	0.0	0.1	0.1	0.1	0.1	0.0	0.1	-0.0	0.1
Residential structures	0.3	0.6	0.5	0.4	0.1	-0.2	-0.2	-0.2	-0.1	0.2	0.4	-0.2
Net exports	-0.3	-2.2	-2.6	-1.1	-1.1	-0.8	-0.7	-0.4	-0.2	-0.6	-1.8	-0.5
Exports	0.5	-0.3	-1.1	-0.3	-0.1	0.1	0.3	0.4	0.5	1.1	-0.4	0.3
Imports	-0.8	-1.9	-1.5	-0.9	-1.0	-0.9	-1.0	-0.8	-0.7	-1.7	-1.4	-0.8
Government cons. & invest.	0.0	-0.3	0.6	0.2	0.5	0.0	0.3	0.3	0.2	0.3	0.2	0.2
Federal	-0.1	-0.6	0.4	-0.2	0.1	-0.3	0.0	-0.1	-0.1	-0.0	-0.1	-0.1
Defense	-0.1	-0.8	0.4	-0.2	0.1	-0.3	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Nondefense	-0.1	0.3	0.1	-0.0	-0.0	-0.0	0.0	0.0	-0.1	0.0	0.1	-0.0
State and local	0.2	0.2	0.1	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Change in bus. inventories	0.8	1.2	-2.4	0.4	-0.4	-0.3	-0.2	-0.1	-0.1	0.5	-0.3	-0.2
Nonfarm	1.0	1.2	-2.6	0.4	-0.4	-0.2	-0.1	-0.1	-0.0	0.5	-0.4	-0.1
Farm	-0.1	0.0	0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.1	-0.1

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

Item	Fiscal year <sup>5</sup>				1997				1998				1999			
	1996 <sup>a</sup>	1997 <sup>a</sup>	1998	1999	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4 <sup>a</sup>	Q1 <sup>a</sup>	Q2 <sup>b</sup>	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
					Not seasonally adjusted											
Receipts <sup>1</sup>	1453	1579	1719	1780	349	496	387	386	378	544	410	411	391	548	430	414
Outlays <sup>1</sup>	1561	1601	1652	1718	401	396	398	426	409	407	411	467	399	424	429	445
Surplus/deficit <sup>1</sup>	-107	-22	67	62	-52	100	-11	-40	-30	137	0	-55	-8	124	2	-31
On-budget	-174	-103	-39	-56	-69	61	-19	-66	-51	87	-9	-54	-62	71	-11	-66
Off-budget	67	81	106	118	17	39	8	26	21	50	9	-1	54	53	12	35
Surplus excluding deposit insurance <sup>2</sup>	-116	-36	62	58	-56	97	-12	-41	-31	136	-2	-56	-9	123	1	-32
Means of financing																
Borrowing	130	38	-50	-47	48	-69	11	34	26	-82	-28	34	18	-104	6	21
Cash decrease	-6	1	8	-5	-1	-18	8	12	4	-45	37	15	0	-15	-5	10
Other <sup>3</sup>	-16	-17	-25	-11	5	-13	-7	-6	0	-10	-9	6	-10	-5	-3	1
Cash operating balance, end of period	44	44	35	40	33	51	44	32	28	72	35	20	20	35	40	30
NIPA FEDERAL SECTOR																
					Seasonally adjusted annual rate											
Receipts	1548	1687	1820	1876	1671	1704	1740	1766	1809	1843	1863	1881	1862	1873	1887	1901
Expenditures	1677	1728	1766	1821	1722	1738	1740	1763	1750	1763	1787	1810	1815	1824	1833	1848
Consumption expend.	447	458	459	465	457	465	460	460	451	465	459	462	464	466	466	466
Defense	301	306	300	302	304	310	306	305	293	304	299	302	302	302	302	302
Nondefense	146	152	159	163	153	154	154	155	158	161	160	160	163	163	164	164
Other expenditures	1230	1270	1307	1356	1266	1274	1280	1303	1299	1298	1328	1348	1351	1359	1366	1383
Current account surplus	-129	-45	34	35	-56	-37	-11	-12	48	43	58	56	21	26	35	36
Gross investment	68	61	59	59	60	58	61	60	61	55	59	60	59	59	59	58
Current and capital account surplus	-197	-106	-25	-24	-114	-99	-72	-71	-11	-18	-1	-3	-37	-33	-24	-22
FISCAL INDICATORS <sup>4</sup>																
High-employment (HEB) surplus/deficit	-225	-163	-100	-83	-167	-160	-138	-141	-102	-76	-81	-84	-95	-83	-69	-64
Change in HEB, percent of potential GDP	-.6	-.8	-.8	-.2	-.3	-.1	-.3	0	-.5	-.3	.1	0	.1	-.1	-.2	-.1
Fiscal impetus (FI), percent, cal. year	-2	-2.1	-1.9	.5	-.3	.8	.1	-1.6	-2.1	.8	1.4	-.7	1	-.3	-.5	-1.3

1. OMB's May 1998 surplus estimates (assuming the enactment of the President's proposals) are \$39 billion in FY98 and \$54 billion in FY99. CBO's July 1998 baseline surplus estimates are \$63 billion in FY98 and \$80 billion in FY99. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's May 1998 surplus estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are \$35 billion in FY98 and \$51 billion in FY99 and CBO's July baseline estimates are \$59 billion in FY98 and \$76 billion in FY99.

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

4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Real potential GDP growth is assumed to be 2.8 percent beginning 1995:Q3. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1992) dollars, scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.

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

a--Actual.

b--Preliminary.

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August 13, 1998

Change in Debt of the Domestic Nonfinancial Sectors  
(Percent)

Period <sup>1</sup>	Total <sup>2</sup>	Federal government <sup>3</sup>	Nonfederal						Memo: Nominal GDP
			Total <sup>4</sup>	Households			Business	State and local governments	
				Total	Home mortgages	Consumer credit			
<i>Year</i>									
1989	7.3	7.0	7.3	8.6	9.9	6.0	6.7	5.6	6.4
1990	6.4	11.0	5.2	7.5	9.6	1.5	3.1	5.0	4.4
1991	4.3	11.1	2.3	4.7	6.4	-1.3	-1.7	8.6	3.8
1992	4.6	10.9	2.6	4.3	5.2	0.5	0.7	2.9	6.3
1993	5.0	8.3	3.8	5.2	4.3	7.6	1.4	6.7	5.0
1994	4.6	4.7	4.6	7.5	5.8	14.5	3.7	-2.7	5.8
1995	5.4	4.1	5.9	7.8	5.5	14.1	6.3	-3.1	4.2
1996	5.3	4.0	5.8	7.8	8.0	7.9	4.7	1.3	5.8
1997	5.3	0.6	6.9	6.8	7.5	4.3	7.1	7.0	5.6
1998	5.5	-1.3	7.8	7.4	8.5	3.6	8.3	7.7	4.0
1999	4.2	-1.6	6.0	5.8	6.9	2.1	6.5	5.0	3.1
<i>Quarter</i>									
1997:3	5.3	0.8	6.9	7.2	9.4	4.1	6.9	5.4	5.4
4	6.2	1.1	8.0	7.2	8.2	2.3	8.8	8.3	4.2
1998:1	6.4	-0.8	8.8	8.3	8.9	4.9	8.9	10.3	6.4
2	5.5	-1.9	7.9	7.1	8.3	3.2	8.1	10.8	2.2
3	4.5	-3.5	7.1	6.9	8.0	3.1	8.0	4.5	3.6
4	5.3	0.9	6.6	6.6	7.6	3.0	7.2	4.4	3.9
1999:1	4.3	-2.1	6.2	6.2	7.2	2.5	6.6	5.3	3.0
2	4.0	-2.8	6.0	5.7	6.8	2.1	6.5	5.1	2.8
3	4.3	-0.8	5.8	5.5	6.5	1.9	6.3	4.8	3.2
4	4.2	-0.7	5.6	5.3	6.3	1.8	6.2	4.4	3.6

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1998:Q1 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2. On a monthly average basis, total debt is projected to grow 5.7 percent in 1998 and 4.3 percent in 1999.

3. On a monthly average basis, federal debt is projected to grow -1.0 percent in 1998 and -1.8 percent in 1999.

4. On a monthly average basis, nonfederal debt is projected to grow 8.0 percent in 1998 and 6.1 percent in 1999.

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

Category					Seasonally adjusted annual rates									
	Calendar year				1997		1998				1999			
	1996	1997	1998	1999	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	663.6	649.4	623.3	593.1	703.7	789.2	862.8	723.6	569.3	337.5	591.4	547.0	622.6	611.2
2 Net equity issuance	-64.2	-114.8	-219.7	-87.1	-83.2	-144.1	-109.6	-126.8	-141.2	-501.2	-96.8	-94.0	-79.6	-78.0
3 Net debt issuance	727.8	764.2	843.0	680.2	786.9	933.4	972.4	850.4	710.5	838.7	688.2	641.0	702.2	689.2
<i>Borrowing sectors</i>														
Nonfinancial business														
4 Financing gap <sup>1</sup>	23.0	78.3	108.1	126.7	55.3	87.4	123.1	93.5	104.5	111.4	116.5	125.4	130.9	134.1
5 Net equity issuance	-64.2	-114.8	-219.7	-87.1	-83.2	-144.1	-109.6	-126.8	-141.2	-501.2	-96.8	-94.0	-79.6	-78.0
6 Credit market borrowing	195.8	311.3	390.3	333.4	311.5	405.9	419.6	388.5	391.2	361.9	334.2	337.0	331.2	331.0
Households														
7 Net borrowing <sup>2</sup>	372.7	350.3	409.5	341.8	381.5	388.1	458.3	398.8	395.4	385.7	364.0	341.9	335.5	325.9
8 Home mortgages	261.0	262.3	318.9	280.7	337.8	303.5	333.7	320.0	315.2	306.7	294.7	281.7	276.7	269.7
9 Consumer credit	88.8	52.5	45.4	27.8	50.5	28.8	62.0	40.5	39.9	39.0	33.0	28.1	25.7	24.5
10 Debt/DPI (percent) <sup>3</sup>	89.8	91.8	94.8	97.0	91.9	92.7	93.6	94.5	95.3	96.1	96.2	96.8	97.4	97.9
State and local governments														
11 Net borrowing	14.3	79.5	93.1	65.1	63.6	98.6	124.6	134.0	57.4	56.5	68.8	67.5	64.4	59.9
12 Current surplus <sup>4</sup>	141.4	134.9	158.7	162.1	116.8	170.7	157.8	147.5	161.3	168.3	168.7	156.7	164.9	158.0
Federal government														
13 Net borrowing	145.0	23.1	-49.9	-60.1	30.3	40.8	-30.0	-70.9	-133.5	34.7	-78.7	-105.4	-28.8	-27.5
14 Net borrowing (quarterly, n.s.a.)	145.0	23.1	-49.9	-60.1	10.6	33.7	25.9	-81.8	-28.0	34.0	17.6	-104.4	6.1	20.6
15 Unified deficit (quarterly, n.s.a.)	110.9	2.4	-51.1	-86.4	10.9	39.7	30.2	-136.9	0.2	55.4	8.0	-124.0	-1.7	31.3
<i>Depository institutions</i>														
16 Funds supplied	232.9	336.9	272.7	252.4	188.9	476.0	321.7	215.9	271.9	281.5	259.5	244.3	249.1	256.9
<i>Memo (percentage of GDP)</i>														
17 Domestic nonfinancial debt <sup>5</sup>	183.8	182.8	184.4	187.4	182.1	182.9	182.9	184.6	185.2	185.7	186.6	187.2	187.7	188.0
18 Domestic nonfinancial borrowing	9.5	9.4	9.9	7.8	9.6	11.3	11.6	10.1	8.4	9.8	8.0	7.4	8.0	7.8
19 Federal government <sup>6</sup>	1.9	0.3	-0.6	-0.7	0.4	0.5	-0.4	-0.8	-1.6	0.4	-0.9	-1.2	-0.3	-0.3
20 Nonfederal	7.6	9.1	10.5	8.5	9.3	10.8	12.0	10.9	9.9	9.4	8.9	8.6	8.3	8.1

Note. Data after 1998:Q1 are staff projections.

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

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

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

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

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

6. Excludes government-insured mortgage pool securities.



average in the second quarter, the price of oil imports declined at an annual rate of about 30 percent. The drop in June reflected the effects of the high levels of global oil stocks and the reaction to the announcement of a sharp downward revision in the figures for oil consumption in Asia during 1998:Q1. In July, the price of imported oil fell significantly further. The spot WTI price rose \$0.42 per barrel in July, declined on balance through August 13, and is currently at \$13.45 per barrel. The announcement by OPEC of further planned cuts in crude oil production contributed to the rebound in prices during the intermeeting period.

Non-oil import prices declined during the second quarter at an annual rate of more than 3½ percent, with decreases recorded in all major trade categories. In July, the price of non-oil imports fell sharply. Prices of nonagricultural exports declined at an annual rate of nearly 3 percent in the second quarter and moved down somewhat further in July.

### Outlook

The staff projects that total foreign output (weighted by U.S. nonagricultural export shares), which was about flat during the first half of this year, will resume growing at an annual rate of about ¾ percent during the second half of the year and will accelerate to growth of 2 percent next year. Foreign output was significantly weaker in the second quarter than we had expected, and financial markets abroad remained volatile. In light of these developments, we have revised down foreign growth for industrial and developing countries over the six quarters of the forecast period.

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

Measure	1997	Projection				
		1998				1999
		Q1	Q2	Q3	Q4	
Foreign output	3.9	-0.5	0.2	0.5	1.1	2.1
<i>June</i>	<i>3.8</i>	<i>-0.3</i>	<i>0.8</i>	<i>1.4</i>	<i>1.9</i>	<i>2.6</i>
Real exports	9.6	-2.8	-8.9	-2.3	-0.5	3.0
<i>June</i>	<i>10.2</i>	<i>-1.2</i>	<i>-3.2</i>	<i>0.3</i>	<i>1.7</i>	<i>3.8</i>
Real imports	14.0	15.7	12.1	6.9	8.2	6.5
<i>June</i>	<i>14.4</i>	<i>16.9</i>	<i>9.3</i>	<i>8.1</i>	<i>7.3</i>	<i>6.5</i>

and to remain around that level during 1999. Our outlook for a \$14.33/b oil import unit value in 1999 is consistent with the price of WTI spot crude oil of \$17.00/b.

Although we see a weaker outlook for oil demand (ex ante) this year and next, we are projecting that a group of OPEC and non-OPEC producers will cut back production sufficiently that the market will be able to absorb additional barrels from Iraq at a price for WTI near \$17.00 per barrel next year. There is considerable risk to this forecast. On the one hand, if producers are unable to sustain lower rates of production, the spot WTI price could fall once again below \$13.00 per barrel in the near term. On the other hand, if Iraqi oil is withheld from the market again--especially if this occurs near the end of the year when Iraq is expected to be exporting as much as 2.0 mb/d--spot WTI could rise above \$20 per barrel.

**Prices of non-oil imports and exports.** With the dollar at a higher level currently and throughout the forecast than in the June Greenbook, we now project that non-oil import prices of core goods will decline a bit more during the remainder of this year than we did in June. The restraining effects of past dollar appreciation should fade during the first half of next year, and non-oil commodity prices are expected to flatten. As a consequence, non-oil import prices for core goods should reach a trough around the end of this year and begin rising moderately next year. Nonagricultural export prices for core goods are projected to decline slightly further this quarter but to begin rising very slowly over the remainder of the forecast period, in line with comparable domestic prices.

### Selected Trade Prices

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

Trade category	1997	Projection				
		1998				1999
		Q1	Q2	Q3	Q4	
<i>Exports</i>						
Nonagricultural (core)	0.5	-2.4	-1.7	-2.2	0.3	1.6
Agricultural	-3.2	-16.2	-5.9	-11.5	-4.0	2.1
<i>Imports</i>						
Non-oil (core)	-0.7	-3.3	-1.9	-4.1	-2.3	1.1
Oil (level, dollars per barrel)	17.72	13.89	12.52	11.75	12.20	14.33

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

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

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

Measure and country	1991	1992	1993	1994	1995	1996	1997	Projected	
								1998	1999
<b>REAL GDP</b>									
Canada	-0.3	0.9	3.1	4.5	0.8	2.0	4.0	3.0	2.7
Japan	2.5	0.1	0.5	0.8	2.4	3.4	-0.4	-2.6	0.7
United Kingdom	-1.6	0.4	2.7	4.9	2.0	2.6	3.0	2.0	1.9
Euro-11 Average (1)	2.1	0.1	-0.1	3.4	1.5	1.9	3.0	2.5	2.8
of which:									
France	1.4	-0.1	-0.5	4.1	0.3	2.3	3.1	2.4	2.6
Germany (2)	3.3	0.9	-0.2	3.4	0.7	2.1	2.3	2.5	2.7
Italy	1.9	-0.8	0.1	2.5	2.6	-0.2	2.6	1.6	2.7
Foreign G-7 Average weighted by 1991 GDP	1.7	0.2	0.6	2.8	1.7	2.3	1.8	0.6	1.9
Average weighted by share of U.S. nonagricultural exports									
Total foreign	3.3	2.2	3.4	5.0	1.8	4.1	3.9	0.3	2.1
Foreign G-7	0.8	0.5	1.9	3.6	1.3	2.3	2.8	1.7	2.2
Developing Countries	6.6	5.2	6.1	7.2	2.5	6.8	5.3	-2.2	1.8
<b>CONSUMER PRICES</b>									
Canada	4.1	1.8	1.8	-0.0	2.1	2.0	1.0	1.2	1.6
Japan	3.2	0.9	1.2	0.8	-0.8	0.1	2.1	-1.0	0.0
United Kingdom (3)	5.7	3.7	2.7	2.2	2.9	3.2	2.8	2.5	2.7
Euro-11 Average (4)	NA	NA	NA	NA	2.7	2.0	1.4	1.7	1.8
of which:									
France	3.0	1.8	2.1	1.6	1.9	1.7	1.2	1.3	1.5
Germany (2)	4.0	3.4	4.2	2.6	1.7	1.4	1.8	1.5	1.8
Italy	6.1	4.9	4.1	3.8	5.9	2.7	1.6	1.8	2.0
Foreign G-7 Average weighted by 1991 GDP	4.1	2.4	2.5	1.8	1.6	1.5	1.8	0.8	1.3
Average weighted by share of U.S. non-oil imports	3.9	1.9	2.0	1.0	1.1	1.3	1.7	0.5	1.1

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

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

Measure and country	1997				1998				Projected 1999			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>REAL GDP</b>												
Canada	4.8	4.2	4.3	2.8	3.7	2.8	2.6	3.0	2.8	2.8	2.7	2.7
Japan	8.3	-10.6	3.2	-1.5	-5.3	-5.1	-1.3	1.4	0.7	0.7	0.7	0.7
United Kingdom	2.3	3.5	3.6	2.5	2.2	2.0	1.7	1.8	1.8	1.8	1.9	2.0
Euro-11 Average (1)	1.5	5.0	3.3	2.2	2.6	2.0	3.0	2.6	2.7	2.8	2.8	2.8
of which:												
France	1.0	4.6	3.7	3.0	2.2	2.6	2.3	2.3	2.4	2.6	2.6	2.7
Germany	1.3	3.9	2.9	1.2	3.9	0.6	2.7	3.0	2.7	2.8	2.7	2.7
Italy	0.2	8.0	1.9	0.7	-0.4	1.5	4.0	1.5	2.5	2.5	3.0	3.0
Foreign G-7 Average weighted by 1991 GDP	3.7	-0.5	3.1	0.8	-0.3	-0.6	1.4	2.0	1.9	1.9	2.0	2.0
Average weighted by share of U.S. nonagricultural exports												
Total foreign	5.2	3.7	4.4	2.4	-0.5	0.2	0.5	1.1	1.6	2.1	2.4	2.5
Foreign G-7	4.5	1.1	3.8	1.7	1.5	0.9	1.8	2.5	2.2	2.2	2.2	2.2
Developing Countries	6.5	6.5	5.6	2.7	-4.3	-1.9	-1.6	-0.9	0.5	1.6	2.5	2.7
<b>CONSUMER PRICES (2)</b>												
Canada	2.1	1.6	1.7	1.0	1.0	1.0	1.1	1.2	1.3	1.4	1.5	1.6
Japan	0.0	1.5	1.7	2.1	2.1	0.6	0.0	-1.0	-1.0	-0.5	0.0	0.0
United Kingdom (3)	2.9	2.6	2.8	2.8	2.5	3.0	2.6	2.5	2.6	2.5	2.8	2.7
Euro-11 Average (4)	1.7	1.2	1.5	1.4	1.2	1.4	1.6	1.7	1.8	1.8	1.8	1.8
of which:												
France	1.5	0.9	1.3	1.2	0.7	1.0	1.3	1.3	1.4	1.5	1.5	1.5
Germany	1.7	1.6	1.9	1.8	1.2	1.3	1.4	1.5	1.7	1.8	1.8	1.8
Italy	2.4	1.6	1.5	1.6	1.7	1.8	1.8	1.8	2.0	2.0	2.0	2.0
Foreign G-7 Average weighted by 1991 GDP	1.4	1.6	1.8	1.8	1.6	1.3	1.1	0.8	0.9	1.1	1.3	1.3
Average weighted by share of U.S. non-oil imports	1.3	1.6	1.8	1.7	1.6	1.1	0.8	0.5	0.6	0.8	1.1	1.1

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1991	1992	1993	1994	1995	1996	1997	Projected 1998	1999
<hr/>									
NIPA REAL EXPORTS and IMPORTS	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	0.4	-0.4	-0.6	-0.4	0.5	-0.3	-0.6	-1.8	-0.5
Exports of G&S	0.8	0.4	0.5	1.0	1.1	1.2	1.1	-0.4	0.3
Imports of G&S	-0.4	-0.8	-1.1	-1.4	-0.7	-1.4	-1.7	-1.4	-0.8
Percentage change, Q4/Q4									
Exports of G&S	8.6	4.1	4.6	10.0	10.5	10.3	9.6	-3.7	3.0
Services	7.1	-0.8	4.1	6.0	9.8	7.5	1.5	0.2	3.1
Agricultural Goods	10.1	10.6	-5.5	16.6	-4.3	4.8	2.8	-6.7	1.6
Computers	21.8	25.1	23.7	32.0	55.5	35.9	40.7	3.9	27.0
Semiconductors	41.8	64.8	32.9	66.9	79.6	46.2	21.0	-2.7	26.5
Other Goods 1/	7.0	2.3	3.6	7.0	5.8	8.0	11.6	-6.0	-0.2
Imports of G&S	4.1	7.4	10.2	12.3	5.6	11.8	14.0	10.7	6.5
Services	-2.6	1.4	3.2	1.4	6.1	5.5	12.4	4.2	1.5
Oil	8.2	12.1	10.0	-0.2	2.4	7.9	4.0	1.2	2.2
Computers	35.9	45.1	39.4	44.8	48.1	24.4	30.3	31.6	25.9
Semiconductors	55.3	42.0	34.2	54.5	92.4	57.6	32.7	-0.6	26.8
Other Goods 2/	2.5	5.4	9.4	12.2	-1.2	10.4	13.0	11.6	5.4
Billions of chained 1992 dollars									
Net Goods & Services	-22.3	-29.5	-70.2	-104.6	-96.5	-111.2	-136.1	-261.1	-346.8
Exports of G&S	599.9	639.4	658.2	712.4	792.6	860.0	970.0	971.7	977.0
Imports of G&S	622.2	668.9	728.4	817.0	889.0	971.2	1106.1	1232.8	1323.8
<hr/>									
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-4.4	-51.4	-86.1	-123.8	-115.3	-134.9	-155.2	-246.9	-330.4
Net Goods & Services (BOP)	-30.9	-38.7	-71.9	-100.9	-99.9	-108.6	-110.2	-183.6	-250.0
Exports of G&S (BOP)	581.2	617.3	643.2	703.8	795.6	850.8	937.6	917.7	919.8
Imports of G&S (BOP)	612.2	656.0	715.2	804.7	895.5	959.3	1047.8	1101.3	1169.8
Net Investment Income	21.5	22.5	23.9	16.5	19.3	14.2	-5.3	-22.1	-38.7
Direct, Net	55.6	51.6	55.7	51.8	63.0	66.2	63.7	55.0	50.2
Portfolio, Net	-34.1	-29.1	-31.7	-35.3	-43.7	-51.9	-69.1	-77.1	-88.9
Net Transfers	5.0	-35.2	-38.1	-39.4	-34.6	-40.6	-39.7	-41.2	-41.8

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1994				1995				1996			
	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	-1.0	-0.3	-0.4	0.3	-0.2	-0.3	1.6	0.7	-1.1	-1.0	-1.4	2.4
Exports of G&S	-0.2	1.7	1.1	1.5	1.0	0.6	1.9	1.1	0.4	0.6	0.2	3.2
Imports of G&S	-0.8	-2.0	-1.5	-1.2	-1.2	-0.9	-0.3	-0.4	-1.5	-1.6	-1.6	-0.9
Percentage change from previous period, SAAR												
Exports of G&S	-1.8	17.7	10.6	14.7	9.2	5.4	17.8	10.2	3.7	5.8	2.1	32.0
Services	2.4	12.9	2.0	6.9	9.1	2.9	21.7	6.4	-4.0	10.3	-9.9	39.8
Agricultural Goods	-25.2	8.1	45.3	57.2	1.8	-13.4	5.0	-9.4	22.6	-32.8	-1.6	48.7
Computers	21.4	24.3	35.5	48.4	36.4	33.8	86.6	71.6	57.6	24.7	27.7	35.9
Semiconductors	111.8	23.4	65.9	79.1	72.0	100.8	96.2	53.6	23.8	29.7	30.2	118.6
Other Goods 1/	-6.8	20.3	7.5	8.7	4.3	1.4	9.4	8.1	0.1	6.0	5.7	21.3
Imports of G&S	7.6	19.0	13.1	9.9	9.8	7.2	2.0	3.5	13.1	13.5	13.6	7.0
Services	2.7	4.1	-0.4	-0.9	20.5	-3.3	3.1	5.5	9.2	4.3	9.9	-1.1
Oil	-8.6	27.2	33.5	-36.2	-11.4	15.4	31.4	-18.2	-9.8	68.9	3.5	-14.0
Computers	32.9	48.3	42.3	57.0	15.4	51.6	62.7	69.3	22.5	22.9	18.8	33.8
Semiconductors	60.7	23.7	74.4	64.3	37.1	105.5	128.2	113.3	38.7	8.9	50.1	172.1
Other Goods 2/	6.8	19.6	10.3	12.6	7.2	1.5	-8.8	-3.8	13.9	10.5	13.5	4.2
Billions of chained 1992 dollars, SAAR												
Net Goods & Services	-97.6	-103.9	-111.1	-105.9	-109.5	-114.7	-86.8	-74.8	-95.5	-113.5	-140.1	-95.9
Exports of G&S	676.0	704.1	722.1	747.3	763.9	774.0	806.3	826.1	833.6	845.5	849.9	911.1
Imports of G&S	773.6	808.0	833.2	853.2	873.4	888.7	893.1	900.9	929.1	958.9	990.0	1007.0
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-97.3	-118.5	-135.9	-143.7	-123.7	-134.2	-115.5	-87.7	-112.9	-132.0	-161.6	-133.2
Net Goods & Services (BOP)	-85.9	-97.3	-111.2	-109.2	-109.3	-125.8	-90.0	-74.5	-92.4	-112.8	-132.3	-96.8
Exports of G&S (BOP)	668.0	693.1	714.3	739.9	765.4	782.0	809.7	825.6	833.6	845.3	837.5	886.7
Imports of G&S (BOP)	753.9	790.5	825.5	849.1	874.7	907.7	899.7	900.1	926.0	958.2	969.8	983.5
Net Investment Income	20.8	16.3	14.6	14.2	20.1	24.0	10.2	22.7	21.4	15.9	6.9	12.7
Direct, Net	52.3	49.5	52.2	53.2	59.9	67.2	56.5	68.3	64.8	64.4	61.9	73.6
Portfolio, Net	-31.5	-33.1	-37.5	-39.0	-39.8	-43.2	-46.2	-45.5	-43.3	-48.5	-55.0	-60.9
Net Transfers	-32.1	-37.5	-39.2	-48.7	-34.5	-32.4	-35.8	-35.9	-41.9	-35.1	-36.2	-49.1

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1997				1998				Projected 1999			
	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	-1.3	-0.4	-0.5	-0.3	-2.3	-2.6	-1.1	-1.1	-0.8	-0.7	-0.4	-0.2
Exports of G&S	0.9	1.7	1.2	0.5	-0.3	-1.1	-0.3	-0.1	0.1	0.3	0.4	0.5
Imports of G&S	-2.2	-2.2	-1.7	-0.8	-1.9	-1.5	-0.9	-1.0	-0.9	-1.0	-0.8	-0.7
Percentage change from previous period, SAAR												
Exports of G&S	8.3	15.5	10.6	4.4	-2.8	-8.9	-2.3	-0.5	1.2	2.7	3.8	4.4
Services	-6.7	11.8	5.9	-4.0	-1.2	3.1	-1.1	0.1	1.2	3.2	4.1	3.8
Agricultural Goods	-16.1	-7.8	8.7	32.8	-9.9	-25.7	11.5	1.6	1.6	1.6	1.6	1.6
Computers	70.2	78.7	41.9	-9.2	-15.5	2.6	10.4	21.5	26.2	26.7	27.2	27.7
Semiconductors	41.3	17.3	32.3	-2.2	-2.0	-22.6	-2.0	20.4	24.4	25.8	27.2	28.6
Other Goods 1/	13.8	15.6	9.2	8.0	-1.6	-12.7	-5.1	-4.0	-2.2	-0.8	0.5	1.6
Imports of G&S	18.6	17.9	13.5	6.3	15.7	12.1	6.9	8.2	6.9	7.6	6.4	5.0
Services	17.8	10.6	15.8	5.8	9.3	0.4	3.5	3.7	1.7	0.9	1.3	2.2
Oil	-8.2	37.0	6.0	-12.2	8.8	41.1	-15.9	-18.7	-9.5	36.0	9.2	-18.9
Computers	54.5	39.0	30.6	2.9	38.8	31.7	28.6	27.4	27.4	27.4	25.1	23.9
Semiconductors	89.0	16.0	20.3	17.6	9.9	-26.8	-0.0	21.6	25.1	26.2	27.4	28.6
Other Goods 2/	16.2	16.1	11.8	8.1	16.1	13.8	7.9	9.0	6.8	5.1	4.9	4.9
Billions of chained 1992 dollars, SAAR												
Net Goods & Services	-121.5	-31.6	-142.4	-149.0	-198.5	-255.9	-281.9	-307.9	-326.4	-344.1	-355.5	-361.1
Exports of G&S	929.4	63.6	988.1	998.8	991.9	969.2	963.6	962.3	965.0	971.4	980.4	991.1
Imports of G&S	1050.9	195.2	1130.5	1147.8	1190.4	1225.0	1245.5	1270.2	1291.5	1315.5	1335.9	1352.2
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-148.0	-140.4	-152.4	-180.2	-188.8	-242.0	-262.7	-294.0	-304.6	-324.6	-337.8	-354.7
Net Goods & Services (BOP)	-112.5	-106.1	-108.4	-113.8	-139.4	-184.1	-196.4	-214.5	-232.3	-248.5	-257.6	-261.7
Exports of G&S (BOP)	904.7	936.1	951.7	957.8	945.6	917.8	905.0	902.4	906.8	914.0	923.7	934.8
Imports of G&S (BOP)	1017.3	1042.1	1060.1	1071.7	1085.1	1101.8	1101.4	1116.8	1139.1	1162.5	1181.3	1196.5
Net Investment Income	0.1	1.8	-6.2	-17.0	-12.5	-18.9	-27.3	-29.6	-33.4	-37.1	-41.2	-43.0
Direct, Net	64.2	69.6	65.5	55.6	61.7	56.7	50.8	50.8	49.0	49.3	49.9	52.6
Portfolio, Net	-64.2	-67.8	-71.7	-72.6	-74.2	-75.6	-78.1	-80.4	-82.4	-86.4	-91.0	-95.6
Net Transfers	-35.5	-36.1	-37.8	-49.3	-36.9	-39.0	-39.0	-50.0	-39.0	-39.0	-39.0	-50.0

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

## **Part 2**

August 13, 1998

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

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



August 13, 1998

## **RECENT DEVELOPMENTS**

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Prepared for the Federal Open Market Committee  
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rate).<sup>3</sup> Production in July was depressed by nearly 3-3/4 million units at an annual rate, which likely held IP growth down by roughly an additional 1 percentage point that month.

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

Item	1998					
	June	July <sup>1</sup>	Aug. <sup>2</sup>	Q1	Q2	Q3 <sup>2</sup>
U.S. production	10.3	8.2	12.9	12.1	11.6	11.4
Autos	4.8	3.9	6.2	5.6	5.3	5.5
Trucks	5.6	4.4	6.6	6.6	6.4	5.9
Domestic stocks <sup>3</sup>						
Autos	1.1	n.a.	n.a.	1.4	1.1	n.a.
Light trucks	1.4	n.a.	n.a.	1.6	1.4	n.a.

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

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

2. Production rates are manufacturers' schedules.

3. Quarterly data are for last month of quarter.

n.a. Not available.

Sales of light vehicles soared in June to 16.9 million units at an annual rate--the highest level in more than a decade. The strong sales reflected the generous incentive programs in place during the second quarter, especially the "coupon" programs of the Big Three. The expiration of those programs explains some of the sharp drop in sales to a 13.8 million unit pace in July. Supply shortages at GM--where inventories fell dramatically in June and somewhat further in July--likely also played an important part in the sales weakness. The shortages led GM to limit fleet sales sharply in July (the company has agreements with major fleet customers that allow them to divert cars to retail customers during periods of short supplies), but even so, shortages crimped retail sales substantially last month.

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3. The production loss of 2.1 million units reflects the difference between GM's actual June assemblies and our expectation prior to the strike--which had assumed a small underbuild relative to announced schedules. The GDP effect was calculated by multiplying the lost assemblies for June by the average price of all light vehicles (\$15,200 in 1992 dollars) and converting to an annual rate for the quarter. The resulting \$10.6 billion loss corresponds to a reduction of about 0.6 percentage point (annual rate) in the growth of real GDP. This figure is at the low end of the range suggested by BEA in the advance NIPA release for the second quarter. The BEA estimates incorporated a somewhat larger production loss (2.3 million units) than we did because they compared actual production to announced schedules. In addition, BEA appears to have assumed that more of the losses were in high-value medium and heavy trucks, which seems to us at odds with GM's actual truck production in June.

CBO BUDGET AND ECONOMIC PROJECTIONS<sup>1</sup>

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Budget projections (Billions of dollars; fiscal years)											
Outlays	1654	1721	1769	1817	1840	1918	1988	2073	2126	2211	2303
Receipts	1717	1801	1848	1903	1978	2053	2142	2243	2342	2446	2553
Surplus	63	80	79	86	139	136	154	170	217	236	251
On-budget <sup>2</sup>	-41	-37	-46	-45	1	-10	0	5	44	55	64
Memo:											
Surplus as a share of GDP	0.7	0.9	0.9	0.9	1.4	1.3	1.4	1.5	1.8	1.9	1.9
Economic assumptions (Calendar years)											
-----Percent change, year over year-----											
Nominal GDP	5.0	4.3	4.1	4.0	4.6	4.7	4.6	4.5	4.4	4.4	4.3
Real GDP	3.3	2.1	1.8	1.8	2.4	2.4	2.4	2.3	2.2	2.1	2.1
CPI-U	1.7	2.6	2.7	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5
-----Percent, annual average-----											
Unemployment rate	4.6	4.7	5.1	5.5	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Yield on selected Treasuries											
Three-month	5.1	5.2	4.8	4.6	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Ten-year	5.8	6.1	5.8	5.6	5.4	5.4	5.4	5.4	5.4	5.4	5.4

1. The projections assume that revenues and mandatory outlays evolve according to laws in effect at the time the projections were made. Discretionary spending is assumed to equal the statutory caps in 1999 through 2002 and to grow at the rate of inflation in succeeding years.

2. The on-budget surplus excludes the OASDI surplus and the Postal Service deficit.

Source. Congressional Budget Office, The Economic and Budget Outlook For Fiscal Years 1999-2008: A Preliminary Update, July 15, 1998.

CONFIDENTIAL (FR)  
CLASS II - FOMC

August 14, 1998

SUPPLEMENT  
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

August 14, 1998

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

	1997 Dec	1998 Jan	1998 Feb	1998 Mar	1998 Apr	1998 May	1998 Jun	1998 Jul	1998 Aug (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	102.1	106.6	110.4	106.5	108.7	106.5	105.6	105.2	104.5
Current conditions	111.4	113.5	120.0	113.7	115.5	113.9	115.4	113.3	115.7
Expected conditions	96.1	102.2	104.2	101.9	104.3	101.7	99.3	100.0	97.3
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Personal financial situation									
Now compared with 12 months ago*	123	124	142	128	131	130	130	132	132
Expected in 12 months*	136	141	145	134	138	134	134	139	137
Expected business conditions									
Next 12 months*	142	148	155	158	162	158	150	145	146
Next 5 years*	109	123	121	119	121	118	116	119	109
Appraisal of buying conditions									
Cars	135	145	149	146	145	148	152	139	153
Large household appliances*	166	171	170	167	169	166	170	162	168
Houses	161	172	170	176	178	172	171	169	170
Willingness to use credit	39	55	56	49	51	54	50	54	49
Willingness to use savings	75	74	78	82	70	78	68	82	78
Expected unemployment change - next 12 months	114	106	99	100	97	102	105	111	109
Expected inflation - next 12 months									
Mean	3.4	2.8	2.6	2.9	2.7	3.1	3.2	3.1	2.8
Median	2.8	2.3	2.4	2.5	2.4	2.6	2.7	2.6	2.5
Expected inflation - next 5 to 10 years									
Mean	3.9	3.4	3.2	3.3	3.2	3.3	3.3	3.1	2.9
Median	3.1	2.9	2.9	2.8	2.7	2.8	2.9	2.7	2.6

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

(p) -- Preliminary

(f) -- Final

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