

## **Part 1**

May 13, 1999

# **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

May 13, 1999

## **SUMMARY AND OUTLOOK**

---

than vehicles probably will rise at less than half the phenomenal 12 percent annual rate of the first quarter.

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

Measure	1999:Q1		1999:Q2	
	Mar. GB	May GB	Mar. GB	May GB
<b>Real GDP</b>	3.4	4.1	3.2	3.4
Private domestic final purchases	6.7	7.5	4.1	4.7
Personal consumption expenditures	6.0	6.8	4.1	4.2
Residential investment	11.6	15.6	-1.3	1.3
Business fixed investment	9.1	8.2	6.7	9.2
Government outlays for consumption and investment	1.4	4.7	2.0	.3
	Change, billions of chained (1992) dollars			
Inventory investment	-7.7	-7.4	13.6	16.7
Net exports	-45.7	-58.3	-31.3	-35.1

Indicators of housing activity are hinting at a pullback from the torrid pace seen through the winter. Permits for new construction fell in March, and we are predicting that starts, too, will be turning down--partly because of capacity constraints that are likely to become more evident with the seasonal pickup in construction. Residential investment expenditures are expected to increase little in the current quarter after having risen at an annual rate of more than 15 percent last period.

Real business fixed investment increased at an annual rate of about 8 percent in the first quarter--a large advance but considerably slower than the 12 percent gain in 1998. We are forecasting a second-quarter rise of about 9 percent. Based partly on positive trends in orders at domestic manufacturers of capital goods, we expect investment in equipment to pick up a little this quarter; outlays for structures may soften, however, after having received a boost from mild weather this winter.

Government purchases rose 4-3/4 percent at an annual rate in the first quarter, as a steep increase in state and local expenditures more than offset a small drop in federal purchases. Growth of state and local construction outlays probably will be slow in the near term, with good weather having permitted a speedup of road

On the supply side, productivity growth that is faster than we previously were projecting helps firms to meet the bigger gain in aggregate demand without a commensurate addition to their workforces. Consequently, the unemployment rate runs only slightly lower, on average, in this forecast. This additional

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

Measure	1997	1998	1999	2000
<b>Real GDP</b>	3.8	4.3	3.5	2.6
Previous	3.8	4.2	3.0	2.2
Final sales	3.4	4.6	3.2	2.8
Previous	3.4	4.5	2.9	2.3
PCE	3.7	5.3	5.0	3.3
Previous	3.7	5.2	4.6	2.7
Residential investment	4.2	12.6	2.4	-2.3
Previous	4.2	12.7	.3	-3.0
BFI	9.8	11.9	6.1	7.4
Previous	9.8	12.2	6.1	6.5
Government purchases	1.4	1.6	1.9	2.2
Previous	1.4	1.6	1.6	2.0
Exports	9.6	1.1	.4	4.3
Previous	9.6	.9	-.5	4.0
Imports	14.0	9.7	10.5	8.1
Previous	14.0	9.7	8.4	6.9
Change, billions of chained (1992) dollars				
Inventory change	34.4	-22.3	25.6	-15.1
Previous	34.4	-18.7	5.6	-13.8
Net exports	-53.1	-101.0	-127.8	-68.5
Previous	-53.1	-102.4	-111.0	-54.5

tightness of the labor market normally would add a little to the projected rate of inflation, but the new productivity pattern and recent favorable wage and price news have more than offset that consideration.

addition to, or perhaps in conjunction with, the contribution of this capital deepening, gains in multifactor productivity (MFP) have increased substantially, by our estimate. Given that MFP is the unexplained residual in the growth accounting framework, its behavior is difficult to forecast with great conviction, but we believe that the evidence of ongoing changes in business organization and operations argues for a somewhat more positive view of the prospects for structural improvements in efficiency than was implicit in our previous projections.

In response, we have raised our forecast of the labor-productivity gains this year and next to about 2-1/4 percent, up about 1/2 percentage point in both cases from the previous forecast. Y2K developments could introduce a considerable amount of volatility into the productivity data in coming quarters, and we have tried to anticipate those effects to some degree; the effects should mainly be transitory. Y2K effects aside, the projected increases in productivity this year and next are less than was achieved in recent quarters because, as demand growth slows, firms do not scale back their hiring efforts commensurately in the short run.

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

Measure	1997	1998	1999	2000
Output per hour, nonfarm business	1.5	2.7	2.2	2.2
Previous	1.5	2.7	1.8	1.7
Nonfarm payroll employment	2.7	2.3	2.1	1.1
Previous	2.7	2.3	2.0	1.0
Employment, household survey	2.1	1.3	1.7	.8
Previous	2.1	1.3	1.7	.6
Labor force participation rate <sup>1</sup>	67.1	67.1	67.2	67.2
Previous	67.1	67.1	67.2	67.2
Civilian unemployment rate <sup>1</sup>	4.7	4.4	4.0	4.2
Previous	4.7	4.4	4.2	4.5

1. Percent, average for the fourth quarter.

Indeed, we think that employment will continue to expand briskly for a while longer. Many businesses undoubtedly have been operating with fewer workers than they would like, and that should keep hiring rolling ahead until a weakening in the growth of sales and profitability has become clearly discernible. We are predicting that the monthly growth of payrolls will remain

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

Measure	1997	1998	1999	2000
Consumer price index	1.9	1.5	2.3	2.1
Previous	1.9	1.5	2.2	2.4
Food	1.7	2.2	1.6	1.8
Previous	1.7	2.2	1.9	2.0
Energy	-1.2	-9.2	7.1	.4
Previous	-1.2	-9.2	5.2	1.5
Excluding food and energy	2.2	2.4	2.0	2.3
Previous	2.2	2.4	2.1	2.5
PCE chain-weighted price index	1.5	.7	1.6	1.5
Previous	1.5	.7	1.6	1.8
Excluding food and energy	1.6	1.2	1.3	1.6
Previous	1.6	1.2	1.4	1.8
GDP chain-weighted price index	1.7	.9	1.5	1.7
Previous	1.7	.9	1.5	1.9
ECI for compensation of private industry workers <sup>1</sup>	3.4	3.5	3.0	3.4
Previous	3.4	3.5	3.4	3.5
Prices of core non-oil merchandise imports	-.7	-2.1	.1	.9
Previous	-.7	-2.0	.5	1.0
Percentage points				
MEMO: <i>Adjustments for technical changes to the CPI</i> <sup>2</sup>				
Core CPI	.2	.4	.6	.6

1. December to December.

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

### Money and Credit Flows

Domestic nonfinancial debt expanded at a 5-1/2 percent annual rate in the first quarter, down from the average 6-1/4 percent pace in 1998. Federal debt ran off last quarter, but business and household borrowing, despite some moderation, remained quite robust. We expect that the growth of credit demands from households and businesses will subside somewhat over the projection period, while the contraction in federal debt should intensify.

changes in monetary policy. The inflationary implications of the stronger stock market would start to become more evident in 2001, however.

The third alternative has the Wilshire index falling 25 percent in the next couple of months and flattening out thereafter. The decline is assumed to be prompted by an abrupt upward shift in the equity premium. In this scenario, GDP growth is considerably lower than in the baseline forecast both this year and next, and the unemployment rate reaches a level of 4-3/4 percent in the fourth quarter of next year. Inflation next year is lower than in the baseline but only slightly--again because of lagging expectation adjustments. We have not, in this simulation, made allowance for financial repercussions of a stock market decline beyond what the model would generate endogenously. However, the international developments section contains a simulation in which the drop in stock prices is part of a broader retreat of investors from U.S. markets.

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

Measure	1999	2000
<i>Real GDP</i>		
Baseline	3.5	2.6
Tighter monetary policy	3.3	1.5
15,000 Wilshire	3.6	3.7
25 percent stock price decline	2.7	1.3
<i>Civilian unemployment rate<sup>1</sup></i>		
Baseline	4.0	4.2
Tighter monetary policy	4.0	4.7
15,000 Wilshire	4.0	3.9
25 percent stock price decline	4.2	4.8
<i>CPI excluding food and energy</i>		
Baseline	2.0	2.3
Tighter monetary policy	2.0	1.9
15,000 Wilshire	2.0	2.3
25 percent stock price decline	2.0	2.1

1. Average for the fourth quarter.

Strictly Confidential <FR>  
Class II FOMC

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

May 13, 1999

		Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>	
Interval		03/24/99	05/13/99	03/24/99	05/13/99	03/24/99	05/13/99	03/24/99	05/13/99	03/24/99	05/13/99
ANNUAL											
1996		5.4	5.4	3.4	3.4	1.9	1.9	3.0	3.0	5.4	5.4
1997		5.9	5.9	3.9	3.9	1.9	1.9	2.3	2.3	4.9	4.9
1998		4.9	4.9	3.9	3.9	1.0	1.0	1.6	1.6	4.5	4.5
1999		4.9	5.2	3.6	3.9	1.3	1.2	2.0	2.1	4.2	4.2
2000		4.1	4.3	2.3	2.6	1.7	1.6	2.4	2.2	4.4	4.2
QUARTERLY											
1997 Q1		7.2	7.2	4.2	4.2	2.8	2.8	2.0	2.0	5.2	5.2
Q2		5.6	5.6	4.0	4.0	1.7	1.7	1.5	1.5	5.0	5.0
Q3		5.4	5.4	4.2	4.2	1.2	1.2	1.8	1.8	4.9	4.9
Q4		4.2	4.2	3.0	3.0	1.1	1.1	2.3	2.3	4.7	4.7
1998 Q1		6.4	6.4	5.5	5.5	0.9	0.9	0.5	0.5	4.6	4.6
Q2		2.7	2.7	1.8	1.8	0.9	0.9	2.0	2.0	4.4	4.4
Q3		4.7	4.7	3.7	3.7	1.0	1.0	1.7	1.7	4.5	4.5
Q4		6.8	6.9	5.9	6.0	0.8	0.8	2.0	2.0	4.4	4.4
1999 Q1		5.1	5.6	3.4	4.1	1.6	1.5	1.6	1.5	4.3	4.3
Q2		4.6	4.8	3.2	3.4	1.4	1.4	2.8	3.5	4.2	4.2
Q3		3.8	4.3	2.3	2.8	1.5	1.5	2.3	2.3	4.2	4.1
Q4		4.5	5.3	3.0	3.7	1.4	1.5	2.2	2.1	4.2	4.0
2000 Q1		2.8	1.9	0.7	0.1	2.1	1.8	2.3	1.7	4.3	4.1
Q2		5.4	5.9	3.6	4.2	1.7	1.6	2.4	2.2	4.3	4.1
Q3		4.0	4.8	2.2	3.1	1.8	1.6	2.4	2.3	4.4	4.2
Q4		4.1	4.6	2.2	3.0	1.8	1.6	2.4	2.3	4.5	4.2
TWO-QUARTER <sup>3</sup>											
1997 Q2		6.4	6.4	4.1	4.1	2.2	2.2	1.9	1.9	-0.3	-0.3
Q4		4.8	4.8	3.6	3.6	1.2	1.2	1.9	1.9	-0.3	-0.3
1998 Q2		4.6	4.6	3.7	3.7	0.9	0.9	1.4	1.4	-0.3	-0.3
Q4		5.7	5.8	4.8	4.8	0.9	0.9	1.7	1.7	0.0	0.0
1999 Q2		4.9	5.2	3.3	3.7	1.5	1.4	2.2	2.5	-0.2	-0.2
Q4		4.2	4.8	2.7	3.3	1.5	1.5	2.3	2.2	-0.0	-0.2
2000 Q2		4.1	3.9	2.1	2.1	1.9	1.7	2.3	1.9	0.1	0.1
Q4		4.0	4.7	2.2	3.0	1.8	1.6	2.4	2.3	0.2	0.1
FOUR-QUARTER <sup>4</sup>											
1996 Q4		5.8	5.8	3.9	3.9	1.8	1.8	3.1	3.1	-0.3	-0.3
1997 Q4		5.6	5.6	3.8	3.8	1.7	1.7	1.9	1.9	-0.6	-0.6
1998 Q4		5.1	5.2	4.2	4.3	0.9	0.9	1.5	1.5	-0.3	-0.3
1999 Q4		4.5	5.0	3.0	3.5	1.5	1.5	2.2	2.3	-0.2	-0.4
2000 Q4		4.1	4.3	2.2	2.6	1.9	1.7	2.4	2.1	0.3	0.2

1. For all urban consumers.

2. Level, except as noted.

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

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



Strictly Confidential <FR>  
Class II FOMC

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

May 13, 1999

		- Projected -								
Item	Units <sup>1</sup>	1992	1993	1994	1995	1996	1997	1998	1999	2000
EXPENDITURES										
Nominal GDP	Bill. \$	6244.4	6558.1	6947.0	7269.6	7661.6	8110.9	8511.0	8953.7	9336.8
Real GDP	Bill. Ch. \$	6244.4	6389.6	6610.7	6761.7	6994.8	7269.8	7551.9	7849.0	8055.0
Real GDP	% change	3.6	2.4	3.3	2.1	3.9	3.8	4.3	3.5	2.6
Gross domestic purchases		4.0	3.0	3.6	1.6	4.2	4.4	5.3	4.7	3.1
Final sales		3.9	2.1	2.7	2.7	3.7	3.4	4.6	3.2	2.8
Priv. dom. final purchases		4.9	3.7	3.7	2.9	4.3	4.6	6.5	5.0	3.5
Personal cons. expenditures		4.2	2.7	3.1	2.6	3.3	3.7	5.3	5.0	3.3
Durables		9.4	7.4	6.3	4.5	5.8	7.4	13.2	8.1	4.5
Nondurables		3.4	1.6	3.0	1.7	2.8	2.0	4.7	5.7	2.9
Services		3.6	2.3	2.5	2.6	3.0	3.8	4.0	4.0	3.3
Business fixed investment		5.5	9.9	7.6	7.3	11.7	9.8	11.9	6.1	7.4
Producers' dur. equipment		9.6	12.2	10.2	9.1	11.8	12.7	16.8	8.0	9.7
Nonres. structures		-3.4	4.5	1.1	2.7	11.6	2.5	-0.3	0.8	0.8
Residential structures		16.9	7.8	4.2	-1.4	5.4	4.2	12.6	2.4	-2.3
Exports		4.1	4.6	10.0	10.5	10.3	9.6	1.1	0.4	4.3
Imports		7.4	10.2	12.3	5.6	11.8	14.0	9.7	10.5	8.1
Gov't. cons. & investment		1.7	-1.4	0.1	-0.9	2.1	1.4	1.6	1.9	2.2
Federal		1.3	-6.1	-3.9	-5.6	1.1	-0.6	0.9	-1.5	-0.5
Defense		-1.3	-6.9	-6.0	-5.0	-0.1	-1.4	-1.3	-2.1	-0.6
State & local		2.0	2.0	2.7	2.1	2.8	2.6	2.1	3.8	3.7
Change in bus. inventories	Bill. Ch. \$	7.0	22.1	60.6	27.7	30.0	63.2	57.4	54.4	46.2
Nonfarm		2.0	29.5	49.0	37.7	23.2	58.8	50.1	50.9	44.9
Net exports		-29.5	-70.2	-104.6	-96.5	-111.2	-136.1	-238.2	-349.7	-425.6
Nominal GDP	% change	6.3	5.0	5.8	4.2	5.8	5.6	5.2	5.0	4.3
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	108.6	110.7	114.1	117.2	119.6	122.7	125.8	128.5	130.4
Unemployment rate	%	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.2
Industrial prod. index	% change	3.6	3.3	6.5	3.5	5.3	6.6	1.9	3.9	2.3
Capacity util. rate - mfg.	%	79.5	80.5	82.5	82.7	81.4	82.0	80.8	80.0	79.9
Housing starts	Millions	1.20	1.29	1.46	1.35	1.48	1.47	1.62	1.69	1.60
Light motor vehicle sales		12.85	13.86	15.01	14.72	15.05	15.02	15.50	15.85	15.29
North Amer. produced		10.51	11.71	12.88	12.82	13.35	13.09	13.47	13.63	13.25
Other		2.34	2.15	2.13	1.90	1.70	1.92	2.04	2.22	2.04
INCOME AND SAVING										
Nominal GNP	Bill. \$	6255.5	6576.8	6955.2	7287.1	7674.0	8102.9	8490.5	8916.5	9282.6
Nominal GNP	% change	6.2	5.1	5.7	4.4	5.6	5.2	5.2	4.7	4.1
Nominal personal income		7.2	4.0	5.2	4.6	5.9	5.4	5.1	5.2	4.8
Real disposable income		4.0	1.2	2.5	2.1	2.7	2.9	3.5	3.5	3.2
Personal saving rate	%	5.7	4.4	3.5	3.4	2.9	2.1	0.5	-0.9	-1.2
Corp. profits, IVA & CCAdj.	% change	11.3	19.0	14.1	14.6	7.7	7.7	0.1	4.5	0.1
Profit share of GNP	%	6.8	7.5	8.2	9.2	9.8	10.1	9.7	9.6	9.0
Excluding FR Banks		6.6	7.2	7.9	8.9	9.5	9.8	9.4	9.4	8.8
Federal surpl./deficit	Bill. \$	-280.9	-250.7	-186.7	-174.4	-110.3	-21.1	72.8	145.1	182.5
State & local surpl./def.		86.3	87.4	96.8	111.7	122.6	134.1	150.2	167.5	174.5
Ex. social ins. funds		18.3	19.7	27.9	37.0	52.2	66.0	82.5	99.6	106.6
Gross natl. saving rate	%	14.5	14.4	15.5	16.3	16.6	17.4	17.3	17.0	16.5
Net natl. saving rate		3.7	3.7	4.7	5.8	6.3	7.3	7.3	7.1	6.7
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.6	2.6	2.5	2.1	1.8	1.7	0.9	1.5	1.7
Gross Domestic Purchases										
chn.-wt. price index		2.7	2.3	2.5	2.0	1.8	1.3	0.4	1.4	1.5
CPI		3.1	2.7	2.6	2.7	3.1	1.9	1.5	2.3	2.1
Ex. food and energy		3.5	3.1	2.8	3.1	2.6	2.2	2.4	2.0	2.3
ECI, hourly compensation <sup>2</sup>		3.5	3.6	3.1	2.6	3.1	3.4	3.5	3.0	3.4
Nonfarm business sector										
Output per hour		3.5	-0.4	0.1	1.3	2.0	1.5	2.7	2.2	2.2
Compensation per Hour		4.5	1.6	2.1	2.9	3.6	3.7	4.2	3.8	4.0
Unit labor cost		1.0	2.0	2.0	1.6	1.6	2.1	1.5	1.6	1.8

1. Changes are from fourth quarter to fourth quarter.

2. 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)

May 13, 1999

Item	Units	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	7495.3	7629.2	7703.4	7818.4	7955.0	8063.4	8170.8	8254.5	8384.2	8440.6
Real GDP	Bill. Ch. \$	6882.0	6983.9	7020.0	7093.1	7166.7	7236.5	7311.2	7364.6	7464.7	7498.6
Real GDP	% change	3.3	6.1	2.1	4.2	4.2	4.0	4.2	3.0	5.5	1.8
Gross domestic purchases		4.5	7.0	3.4	1.8	5.5	4.4	4.6	3.2	7.8	3.9
Final sales		3.6	5.4	0.9	5.1	2.9	2.7	5.8	2.1	4.3	4.6
Priv. dom. final purchases		5.1	6.2	2.8	3.3	4.6	3.3	7.5	2.9	8.5	7.4
Personal cons. expenditures		3.7	4.7	1.8	2.9	4.3	1.6	6.2	2.8	6.1	6.1
Durables		5.8	12.7	-1.9	7.2	12.3	-1.5	16.8	3.1	15.8	11.2
Nondurables		2.2	4.8	1.2	2.9	3.6	-0.2	5.1	-0.4	7.4	5.3
Services		4.0	3.0	3.0	2.0	3.1	3.2	4.7	4.3	3.5	5.4
Business fixed investment		13.1	11.0	14.2	8.8	7.0	14.0	17.0	1.8	22.2	12.8
Producers' dur. equipment		15.7	12.3	16.2	3.2	8.3	22.8	18.8	2.2	34.3	18.8
Nonres. structures		6.4	7.4	8.9	24.5	3.9	-6.2	12.4	0.9	-4.9	-2.3
Residential structures		9.3	19.5	-1.7	-3.9	3.1	6.1	-0.4	8.2	15.6	15.0
Exports		3.7	5.8	2.1	32.0	8.3	15.5	10.6	4.4	-2.8	-7.7
Imports		13.1	13.5	13.6	7.0	18.6	17.9	13.5	6.3	15.7	9.3
Gov't. cons. & investment		3.2	7.1	-1.6	0.0	2.1	2.1	1.4	0.1	-1.9	3.7
Federal		8.0	8.1	-4.7	-6.3	-2.7	3.6	-1.2	-2.1	-8.8	7.3
Defense		7.2	8.1	-6.3	-8.3	-9.9	9.1	-1.8	-2.0	-18.5	9.9
State & local		0.5	6.5	0.3	3.8	4.9	1.3	2.9	1.3	2.1	1.8
Change in bus. inventories	Bill. Ch. \$	14.4	26.1	47.5	32.1	56.3	79.0	51.0	66.5	91.4	38.2
Nonfarm		10.4	15.2	38.6	28.7	56.2	72.1	44.0	62.7	85.9	29.9
Net exports		-95.5	-113.5	-140.1	-95.9	-121.5	-131.6	-142.4	-149.0	-198.5	-245.2
Nominal GDP	% change	5.7	7.3	3.9	6.1	7.2	5.6	5.4	4.2	6.4	2.7
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	118.5	119.3	120.0	120.7	121.5	122.3	123.0	123.9	124.8	125.5
Unemployment rate	%	5.5	5.5	5.3	5.3	5.2	5.0	4.9	4.7	4.6	4.4
Industrial prod. index	% change	2.8	9.6	5.5	3.5	6.6	6.0	7.2	6.6	1.6	2.8
Capacity util. rate - mfg.	%	80.9	81.6	81.8	81.3	81.6	81.7	82.1	82.5	81.8	81.2
Housing starts	Millions	1.46	1.50	1.50	1.42	1.46	1.47	1.46	1.52	1.59	1.57
Light motor vehicle sales		15.10	15.18	15.00	14.91	15.32	14.54	15.19	15.02	15.08	16.07
North Amer. produced		13.44	13.46	13.33	13.16	13.41	12.68	13.20	13.08	13.13	14.07
Other		1.66	1.72	1.68	1.76	1.92	1.86	1.99	1.94	1.95	1.99
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	7515.0	7643.3	7708.6	7829.0	7952.4	8062.3	8162.0	8234.9	8369.4	8421.8
Nominal GNP	% change	5.6	7.0	3.5	6.4	6.5	5.6	5.0	3.6	6.7	2.5
Nominal personal income		6.6	6.9	5.5	4.6	7.3	4.7	4.7	5.0	5.9	4.5
Real disposable income		2.9	2.1	4.4	1.3	3.3	2.9	2.4	2.9	4.0	2.6
Personal saving rate	%	3.2	2.6	3.1	2.6	2.4	2.6	1.7	1.7	1.2	0.4
Corp. profits, IVA & CCAdj.	% change	16.9	6.9	3.8	3.5	18.1	11.1	13.1	-9.2	4.2	-4.1
Profit share of GNP	%	9.8	9.8	9.8	9.7	10.0	10.1	10.3	10.0	9.9	9.7
Excluding FR Banks		9.5	9.5	9.5	9.5	9.7	9.8	10.0	9.7	9.6	9.5
Federal surpl./deficit	Bill. \$	-150.1	-112.6	-100.1	-78.3	-51.2	-34.8	-0.3	2.2	58.8	74.4
State & local surpl./def.		117.3	129.1	122.3	121.7	128.4	130.1	136.6	141.4	140.2	141.3
Ex. social ins. funds		45.3	58.2	52.5	52.9	59.8	61.6	68.7	73.8	72.7	73.6
Gross natl. saving rate	%	16.4	16.4	16.8	16.7	17.0	17.6	17.5	17.3	17.7	17.2
Net natl. saving rate		6.0	6.2	6.6	6.5	7.0	7.6	7.5	7.3	7.8	7.2
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	2.2	1.4	1.8	1.6	2.8	1.7	1.2	1.1	0.9	0.9
Gross Domestic Purchases											
chn.-wt. price index		2.1	1.4	1.5	2.1	2.2	0.9	1.1	1.0	-0.2	0.4
CPI		3.2	3.7	2.6	3.3	2.0	1.5	1.8	2.3	0.5	2.0
Ex. food and energy		2.5	2.5	2.7	2.7	2.2	2.6	1.9	2.1	2.4	2.6
ECI, hourly compensation <sup>1</sup>		2.5	3.5	2.8	2.8	2.5	3.7	3.4	4.3	3.0	3.6
Nonfarm business sector											
Output per hour		4.2	3.0	-0.1	1.0	0.1	1.6	3.4	0.9	3.6	0.3
Compensation per hour		2.7	5.2	3.6	3.1	3.7	2.4	3.8	4.9	4.7	4.1
Unit labor cost		-1.5	2.2	3.7	2.1	3.5	0.7	0.3	4.0	1.1	3.7

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)

May 13, 1999

		----- Projected -----									
Item	Units	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	8537.9	8681.2	8800.4	8903.2	8996.9	9114.3	9157.0	9288.8	9397.2	9504.2
Real GDP	Bill. Ch. \$	7566.5	7677.7	7755.7	7819.9	7873.9	7946.5	7947.6	8030.1	8091.2	8150.9
Real GDP	% change	3.7	6.0	4.1	3.4	2.8	3.7	0.1	4.2	3.1	3.0
Gross domestic purchases		4.2	5.4	6.6	4.7	3.7	3.9	0.7	5.1	3.7	3.0
Final sales		2.8	6.6	4.5	2.6	2.6	3.2	1.9	3.4	2.8	2.9
Priv. dom. final purchases		3.7	6.5	7.5	4.7	4.0	3.9	2.5	4.6	3.7	3.3
Personal cons. expenditures		4.1	5.0	6.8	4.2	4.4	4.5	2.6	4.4	3.4	3.0
Durables		2.4	24.5	12.5	7.6	5.7	6.7	4.8	4.6	4.5	4.1
Nondurables		2.1	4.2	9.2	3.0	5.2	5.6	1.0	4.8	3.4	2.4
Services		5.4	1.7	4.5	4.1	3.7	3.5	2.9	4.1	3.1	3.0
Business fixed investment		-0.7	14.6	8.2	9.2	5.1	2.1	4.0	8.7	8.6	8.2
Producers' dur. equipment		-1.0	17.8	9.8	13.2	7.1	2.4	5.4	11.5	11.4	10.8
Nonres. structures		0.2	6.0	3.7	-1.4	-0.4	1.3	0.0	1.3	0.7	1.0
Residential structures		9.9	10.0	15.6	1.3	-4.9	-1.3	-2.1	-2.1	-2.4	-2.7
Exports		-2.8	19.7	-7.7	0.5	2.9	6.6	-1.6	5.1	5.5	8.5
Imports		2.3	12.0	12.7	11.7	10.2	7.4	3.6	11.9	9.5	7.5
Gov't. cons. & investment		1.5	3.3	4.7	0.3	1.8	1.1	2.7	3.0	2.0	1.3
Federal		-1.4	7.3	-0.7	-0.8	-1.1	-3.2	0.7	1.8	-1.3	-3.3
Defense		4.3	1.3	-4.2	1.5	-1.7	-4.0	-1.7	-0.9	0.0	0.4
State & local		3.1	1.3	7.7	1.1	3.3	3.4	3.7	3.6	3.7	3.7
Change in bus. inventories	Bill. Ch. \$	55.7	44.2	36.9	53.6	57.6	69.8	29.4	47.4	53.2	54.7
Nonfarm		47.0	37.5	32.0	49.3	54.5	67.8	28.2	46.0	51.8	53.4
Net exports		-259.0	-250.0	-308.3	-343.5	-369.3	-377.9	-394.1	-421.3	-440.7	-446.3
Nominal GDP	% change	4.7	6.9	5.6	4.8	4.3	5.3	1.9	5.9	4.8	4.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	126.1	126.8	127.6	128.1	128.7	129.4	129.8	130.5	130.6	130.9
Unemployment rate	%	4.5	4.4	4.3	4.2	4.1	4.0	4.1	4.1	4.2	4.2
Industrial prod. index	% change	0.9	2.2	0.7	5.2	4.5	5.1	-2.3	4.1	3.9	3.7
Capacity util. rate - mfg.	%	80.2	80.1	79.5	79.8	80.1	80.5	79.5	79.8	80.0	80.3
Housing starts	Millions	1.64	1.70	1.79	1.66	1.66	1.64	1.63	1.61	1.60	1.57
Light motor vehicle sales		14.55	16.31	16.22	15.99	15.67	15.52	15.40	15.30	15.25	15.21
North Amer. produced		12.54	14.11	13.95	13.70	13.47	13.39	13.32	13.25	13.23	13.21
Other		2.01	2.20	2.27	2.29	2.20	2.13	2.08	2.05	2.02	2.00
INCOME AND SAVING											
Nominal GNP	Bill. \$	8510.9	8660.0	8770.4	8868.4	8957.4	9069.8	9108.5	9237.0	9341.5	9443.6
Nominal GNP	% change	4.3	7.2	5.2	4.5	4.1	5.1	1.7	5.8	4.6	4.4
Nominal personal income		4.5	5.5	5.2	5.6	4.7	5.4	4.7	5.1	4.6	4.6
Real disposable income		3.2	4.3	4.4	3.5	2.6	3.4	4.2	3.2	2.6	2.7
Personal saving rate	%	0.2	0.0	-0.6	-0.7	-1.1	-1.3	-0.9	-1.2	-1.3	-1.3
Corp. profits, IVA & CCAdj.	% change	3.2	-2.5	22.9	-2.2	-2.3	1.5	-20.4	12.4	6.4	5.3
Profit share of GNP	%	9.7	9.5	9.9	9.7	9.6	9.5	8.9	9.0	9.1	9.1
Excluding FR Banks		9.4	9.2	9.6	9.4	9.3	9.2	8.6	8.8	8.8	8.8
Federal surpl./deficit	Bill. \$	92.0	65.8	114.5	134.8	157.8	173.4	152.8	175.2	195.4	206.6
State & local surpl./def.		148.7	170.5	169.0	163.5	164.6	173.0	172.4	174.7	175.6	175.5
Ex. social ins. funds		81.3	102.6	101.1	95.6	96.7	105.1	104.5	106.8	107.7	107.6
Gross natl. saving rate	%	17.3	16.9	17.2	17.0	16.8	16.7	16.4	16.5	16.6	16.6
Net natl. saving rate		7.3	7.0	7.3	7.1	7.0	6.9	6.5	6.7	6.8	6.9
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.0	0.8	1.5	1.4	1.5	1.5	1.8	1.6	1.6	1.6
Gross Domestic Purchases											
chn.-wt. price index		0.7	0.9	1.0	1.8	1.4	1.4	1.6	1.4	1.4	1.4
CPI		1.7	2.0	1.5	3.5	2.3	2.1	1.7	2.2	2.3	2.3
Ex. food and energy		2.3	2.3	1.6	1.8	2.3	2.3	1.9	2.5	2.5	2.5
ECI, hourly compensation <sup>1</sup>		4.1	2.9	1.4	3.6	3.3	3.6	3.4	3.4	3.4	3.6
Nonfarm business sector											
Output per hour		2.5	4.3	3.5	2.4	1.3	1.6	0.1	3.4	2.7	2.5
Compensation per hour		3.9	4.0	4.3	3.4	3.7	4.0	4.1	3.9	3.9	4.1
Unit labor cost		1.4	-0.4	0.8	1.0	2.4	2.4	4.0	0.5	1.2	1.6

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

May 13, 1999

Item	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	96Q4/ 95Q4	97Q4/ 96Q4	98Q4/ 97Q4
Real GDP	2.1	4.2	4.2	4.0	4.2	3.0	5.5	1.8	3.7	3.9	3.8	4.3
Gross dom. purchases	3.5	1.9	5.5	4.4	4.7	3.2	7.9	4.0	4.3	4.2	4.4	5.4
Final sales	0.9	5.1	2.9	2.7	5.7	2.1	4.3	4.6	2.8	3.7	3.3	4.5
Priv. dom. final purchases	2.3	2.7	3.8	2.7	6.1	2.4	7.0	6.1	3.1	3.6	3.8	5.4
Personal cons. expenditures	1.3	2.0	2.9	1.1	4.2	1.9	4.1	4.1	2.8	2.2	2.5	3.6
Durables	-0.2	0.6	1.0	-0.1	1.3	0.3	1.2	0.9	0.2	0.5	0.6	1.1
Nondurables	0.2	0.6	0.7	-0.0	1.0	-0.1	1.4	1.0	0.4	0.6	0.4	0.9
Services	1.2	0.8	1.2	1.3	1.9	1.7	1.4	2.1	2.2	1.2	1.5	1.6
Business fixed investment	1.4	0.9	0.7	1.4	1.7	0.2	2.2	1.4	-0.1	1.2	1.0	1.2
Producers' dur. equip.	1.1	0.2	0.6	1.6	1.3	0.1	2.4	1.4	-0.1	0.8	0.9	1.3
Nonres. structures	0.2	0.6	0.1	-0.2	0.4	0.0	-0.2	-0.1	0.0	0.3	0.1	-0.0
Residential structures	-0.1	-0.2	0.1	0.2	-0.0	0.3	0.6	0.6	0.4	0.2	0.2	0.5
Net exports	-1.3	2.4	-1.2	-0.5	-0.5	-0.3	-2.2	-2.1	-0.6	-0.3	-0.6	-1.1
Exports	0.2	3.2	1.0	1.8	1.2	0.5	-0.3	-0.9	-0.3	1.2	1.1	0.1
Imports	-1.6	-0.9	-2.2	-2.2	-1.7	-0.8	-1.9	-1.2	-0.3	-1.4	-1.7	-1.2
Government cons. & invest.	-0.3	0.0	0.4	0.4	0.3	0.0	-0.3	0.6	0.3	0.4	0.3	0.3
Federal	-0.3	-0.4	-0.2	0.2	-0.1	-0.1	-0.6	0.4	-0.1	0.1	-0.0	0.1
Defense	-0.3	-0.4	-0.5	0.4	-0.1	-0.1	-0.8	0.4	0.2	-0.0	-0.1	-0.1
Nondefense	0.0	0.0	0.3	-0.2	0.0	-0.1	0.3	0.1	-0.3	0.1	0.0	0.1
State and local	0.0	0.4	0.6	0.2	0.3	0.2	0.2	0.2	0.4	0.3	0.3	0.2
Change in bus. inventories	1.2	-0.8	1.3	1.3	-1.4	0.9	1.2	-2.7	0.9	0.2	0.5	-0.3
Nonfarm	1.3	-0.5	1.5	0.9	-1.5	1.0	1.2	-2.8	0.9	0.1	0.5	-0.3
Farm	-0.1	-0.3	-0.2	0.4	0.1	-0.1	0.0	0.1	0.0	0.0	0.0	0.0

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

May 13, 1999

Item	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	98Q4/ 97Q4	99Q4/ 98Q4	00Q4/ 99Q4
Real GDP	6.0	4.1	3.4	2.8	3.7	0.1	4.2	3.1	3.0	4.3	3.5	2.6
Gross dom. purchases	5.5	6.7	4.8	3.8	4.0	0.7	5.3	3.8	3.1	5.4	4.8	3.2
Final sales	6.6	4.5	2.6	2.6	3.2	1.9	3.4	2.8	2.9	4.5	3.2	2.7
Priv. dom. final purchases	5.4	6.2	4.0	3.3	3.3	2.1	3.9	3.2	2.8	5.4	4.2	3.0
Personal cons. expenditures	3.5	4.6	2.9	3.0	3.1	1.8	3.0	2.3	2.1	3.6	3.4	2.3
Durables	1.9	1.0	0.6	0.5	0.6	0.4	0.4	0.4	0.3	1.1	0.7	0.4
Nondurables	0.9	1.7	0.6	1.0	1.1	0.2	0.9	0.7	0.5	0.9	1.1	0.6
Services	0.8	1.8	1.7	1.5	1.4	1.2	1.7	1.3	1.2	1.6	1.6	1.3
Business fixed investment	1.5	0.9	1.0	0.6	0.2	0.4	0.9	0.9	0.9	1.2	0.7	0.8
Producers' dur. equip.	1.3	0.8	1.0	0.6	0.2	0.4	0.9	0.9	0.9	1.3	0.6	0.8
Nonres. structures	0.2	0.1	-0.0	-0.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	0.0
Residential structures	0.4	0.7	0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	0.5	0.1	-0.1
Net exports	0.5	-2.5	-1.4	-1.0	-0.3	-0.7	-1.0	-0.7	-0.1	-1.1	-1.3	-0.6
Exports	2.0	-0.9	0.1	0.3	0.7	-0.2	0.5	0.6	0.9	0.1	0.0	0.5
Imports	-1.5	-1.6	-1.5	-1.3	-1.0	-0.5	-1.6	-1.3	-1.0	-1.2	-1.4	-1.1
Government cons. & invest.	0.6	0.8	0.1	0.3	0.2	0.5	0.5	0.3	0.2	0.3	0.3	0.4
Federal	0.5	-0.0	-0.0	-0.1	-0.2	0.0	0.1	-0.1	-0.2	0.1	-0.1	-0.0
Defense	0.1	-0.2	0.1	-0.1	-0.2	-0.1	-0.0	0.0	0.0	-0.1	-0.1	-0.0
Nondefense	0.4	0.1	-0.1	-0.0	-0.0	0.1	0.1	-0.1	-0.2	0.1	-0.0	-0.0
State and local	0.1	0.8	0.1	0.4	0.4	0.4	0.4	0.4	0.4	0.2	0.4	0.4
Change in bus. inventories	-0.5	-0.3	0.8	0.2	0.6	-1.8	0.8	0.3	0.1	-0.3	0.3	-0.2
Nonfarm	-0.5	-0.3	0.8	0.2	0.6	-1.8	0.8	0.3	0.1	-0.3	0.4	-0.2
Farm	-0.1	-0.1	-0.0	-0.1	-0.1	-0.0	-0.0	-0.0	-0.0	0.0	-0.1	-0.0

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

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

Item	Fiscal Year <sup>5</sup>				1998				1999				2000			
	1997a	1998a	1999	2000	Q1a	Q2a	Q3a	Q4a	Q1b	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET	-----								Not seasonally adjusted				-----			
Receipts <sup>1</sup>	1579	1722	1840	1924	378	544	412	413	401	582	444	433	428	600	464	451
Outlays <sup>1</sup>	1601	1653	1705	1736	409	407	409	468	396	422	419	440	444	432	420	451
Surplus/Deficit <sup>1</sup>	-22	69	135	188	-30	137	3	-55	5	161	25	-8	-17	168	44	0
On-budget	-103	-30	6	43	-53	87	3	-58	-50	105	9	-47	-41	106	25	-42
Off-budget	81	99	129	145	22	50	-0	3	55	55	16	40	25	62	19	42
Surplus excluding deposit insurance <sup>2</sup>	-36	65	130	184	-31	136	2	-57	4	159	24	-9	-18	167	43	-1
Means of financing																
Borrowing	38	-51	-105	-183	26	-82	-29	32	7	-117	-27	-8	11	-136	-51	-13
Cash decrease	1	5	-7	6	4	-45	33	21	-4	-35	11	16	10	-25	5	20
Other <sup>3</sup>	-17	-23	-24	-10	0	-10	-8	1	-8	-8	-8	-0	-4	-7	2	-7
Cash operating balance, end of period	44	39	46	40	28	72	39	18	22	57	46	30	20	45	40	20
NIPA FEDERAL SECTOR	-----								Seasonally adjusted annual rates				-----			
Receipts	1687	1818	1922	2020	1809	1838	1859	1870	1911	1941	1965	1998	1996	2029	2056	2082
Expenditures	1728	1761	1803	1846	1750	1764	1767	1805	1794	1806	1808	1825	1844	1854	1861	1876
Consumption expend.	458	458	475	487	451	464	459	471	475	478	478	476	488	492	492	488
Defense	306	301	309	313	293	303	303	307	307	310	310	308	314	314	315	316
Nondefense	152	157	167	174	158	161	156	164	168	168	168	168	174	179	177	173
Other expenditures	1270	1303	1328	1359	1299	1300	1308	1334	1319	1328	1329	1349	1356	1362	1369	1387
Current account surplus	-41	57	119	174	-59	-74	-92	-66	-117	-135	-158	-173	-153	-175	-195	-207
Gross investment	61	60	61	59	61	57	61	60	64	60	60	59	59	58	59	59
Current and capital account surplus	-102	-3	58	115	2	-18	-31	-6	-53	-75	-98	-114	-93	-117	-137	-148
FISCAL INDICATORS <sup>4</sup>																
High-employment (HEB) surplus/deficit	-163	-99	-70	-15	-101	-81	-70	-112	-74	-58	-37	-27	-30	-12	10	22
Change in HEB, percent of potential GDP	-0.9	-0.9	-0.4	-0.7	-0.5	-0.3	-0.1	0.5	-0.5	-0.2	-0.3	-0.1	0.0	-0.2	-0.2	-0.1
Fiscal impetus (FI) percent, cal. year	-2.1	-1.7	2.4	-0.7	-2.1	1.1	0.4	0.9	1.7	-0.1	-0.5	-0.7	0.1	0.4	-0.3	-0.7

1. OMB's February 1999 surplus estimates (assuming the enactment of the President's proposals) are \$79 billion in FY99 and \$103 billion in FY2000. CBO's March 1999 baseline surplus estimates are \$111 billion in FY99 and \$133 billion in FY2000. 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. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.

3. 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 3.3 percent beginning 1998:Q1. 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.

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

a--Actual b--Preliminary

Strictly Confidential Class II FOMC  
May 13, 1999

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>									
1990	6.4	11.0	5.2	7.5	9.6	1.5	3.1	5.0	4.4
1991	4.3	11.1	2.3	4.7	6.4	-1.3	-1.7	8.6	3.8
1992	4.6	10.9	2.6	4.3	5.2	0.5	0.8	2.2	6.3
1993	5.0	8.3	3.8	5.3	4.3	7.6	1.5	6.0	5.0
1994	4.6	4.7	4.6	7.6	5.8	14.5	4.1	-4.0	5.8
1995	5.4	4.1	5.9	7.8	5.6	14.1	6.7	-4.6	4.2
1996	5.2	4.0	5.7	7.5	7.7	7.9	5.3	-0.6	5.8
1997	5.1	0.6	6.7	6.5	6.8	4.3	7.3	5.3	5.6
1998	6.3	-1.4	8.8	8.9	9.9	5.4	9.2	7.2	5.2
1999	5.1	-3.9	7.8	8.7	9.5	6.2	7.5	5.2	5.0
2000	4.3	-5.2	6.8	7.4	8.0	4.5	6.6	4.8	4.3
<i>Quarter</i>									
1998:3	5.5	-3.6	8.4	7.9	9.0	6.4	9.3	6.2	4.7
4	7.1	0.7	9.0	10.2	11.1	5.1	8.3	6.4	6.9
1999:1	5.6	-3.2	8.3	9.6	10.3	7.7	7.4	5.9	5.6
2	4.9	-4.2	7.6	8.4	9.2	6.1	7.3	4.9	4.8
3	4.9	-4.4	7.5	8.1	8.9	5.6	7.5	4.9	4.3
4	4.6	-3.9	7.0	7.6	8.4	5.0	6.8	4.7	5.3
2000:1	5.1	-2.9	7.2	7.7	8.2	4.9	7.2	4.8	1.9
2	3.9	-6.4	6.6	7.3	7.9	4.5	6.2	4.6	5.9
3	3.7	-7.3	6.5	7.0	7.5	4.3	6.3	4.9	4.8
4	4.2	-4.7	6.4	6.8	7.4	4.0	6.3	4.6	4.6

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1998:Q4 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 estimated to have grown 6.2 percent in 1998 and is projected to grow 5.4 percent in 1999 and 4.3 percent in 2000.

3. On a monthly average basis, federal debt is estimated to have grown -1.2 percent in 1998 and is projected to grow -3.3 percent in 1999 and -5.1 percent in 2000.

4. On a monthly average basis, nonfederal debt is estimated to have grown 8.6 percent in 1998 and is projected to grow 8.0 percent in 1999 and 6.9 percent in 2000.

Strictly Confidential Class II FOMC  
May 13, 1999

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

Category					Seasonally adjusted annual rates									
	Calendar year				1998		1999				2000			
	1997	1998	1999	2000	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	622.4	688.2	696.0	625.0	547.1	643.9	863.8	764.3	594.5	561.4	690.9	570.8	570.4	668.0
2 Net equity issuance	-114.4	-262.8	-129.8	-99.0	-308.4	-474.4	-47.3	-44.0	-212.0	-216.0	-166.0	-98.0	-70.0	-62.0
3 Net debt issuance	736.9	950.9	825.8	724.0	855.5	1118.3	911.1	808.3	806.5	777.4	856.9	668.8	640.4	730.0
<i>Borrowing sectors</i>														
<i>Nonfinancial business</i>														
4 Financing gap <sup>1</sup>	62.7	85.9	117.7	154.4	67.5	95.0	71.2	114.0	135.3	150.2	133.0	151.3	162.2	170.9
5 Net equity issuance	-114.4	-262.8	-129.8	-99.0	-308.4	-474.4	-47.3	-44.0	-212.0	-216.0	-166.0	-98.0	-70.0	-62.0
6 Credit market borrowing	324.1	438.2	389.0	372.6	466.6	423.3	385.0	390.7	403.7	376.7	403.1	355.1	364.1	368.1
<i>Households</i>														
7 Net borrowing <sup>2</sup>	333.6	485.0	519.2	479.3	452.7	592.7	574.1	515.3	504.0	483.7	498.4	484.8	469.8	464.2
8 Home mortgages	236.7	368.9	391.9	359.6	353.2	444.6	423.1	387.4	384.9	372.2	368.9	363.3	353.3	352.7
9 Consumer credit	52.5	67.9	83.2	63.8	83.4	66.6	102.9	83.0	77.0	70.0	69.0	65.0	62.0	59.0
10 Debt/DPI (percent) <sup>3</sup>	91.5	94.8	98.2	101.1	95.0	95.9	97.0	97.9	98.9	99.6	100.2	100.8	101.6	102.2
<i>State and local governments</i>														
11 Net borrowing	56.1	80.3	62.6	60.8	72.6	75.4	71.3	59.5	60.5	59.0	60.8	58.8	62.8	60.8
12 Current surplus <sup>4</sup>	135.6	182.4	199.1	207.4	182.7	198.2	200.3	189.3	199.0	207.9	205.8	207.7	207.8	208.4
<i>Federal government</i>														
13 Net borrowing	23.1	-52.6	-144.9	-188.6	-136.5	26.9	-119.2	-157.1	-161.6	-141.9	-105.4	-229.8	-256.2	-163.1
14 Net borrowing (quarterly, n.s.a.)	23.1	-52.6	-144.9	-188.6	-28.8	32.1	7.5	-117.4	-27.1	-8.0	11.0	-135.5	-50.7	-13.3
15 Unified deficit (quarterly, n.s.a.)	2.4	-54.7	-182.7	-195.6	-3.0	55.0	-5.1	-160.6	-24.7	7.8	16.6	-167.9	-44.2	-0.1
<i>Depository institutions</i>														
16 Funds supplied	336.3	364.3	236.4	286.1	296.9	683.9	162.6	235.6	276.2	270.9	282.4	289.4	285.4	287.4
<i>Memo (percentage of GDP)</i>														
17 Domestic nonfinancial debt <sup>5</sup>	182.6	183.9	184.7	185.5	184.4	184.2	184.6	184.8	185.2	185.0	186.3	185.7	185.3	185.0
18 Domestic nonfinancial borrowing	9.1	11.2	9.2	7.8	10.0	12.9	10.4	9.1	9.0	8.5	9.4	7.2	6.8	7.7
19 Federal government <sup>6</sup>	0.3	-0.6	-1.6	-2.0	-1.6	0.3	-1.4	-1.8	-1.8	-1.6	-1.2	-2.5	-2.7	-1.7
20 Nonfederal	8.8	11.8	10.8	9.8	11.6	12.6	11.7	10.8	10.8	10.1	10.5	9.7	9.5	9.4

Note. Data after 1998:Q4 are staff projections.

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

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

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

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

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

6. Excludes government-insured mortgage pool securities.



## Summary of Staff Projections

(Percent change, annual rate)

Measure	1998	Projection			
		1999			2000
		Q1	Q2	H2	
Foreign output	0.6	1.4	1.7	2.8	2.5
<i>March GB</i>	0.5	0.8	1.1	1.7	2.4
Real exports	1.1	-7.7	0.5	4.7	4.3
<i>March GB</i>	0.9	-7.6	-0.1	3.0	4.0
Real imports	9.7	12.7	11.7	8.8	8.1
<i>March GB</i>	9.7	8.6	10.0	7.5	6.9

NOTE. Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2; and for quarters, from previous quarter.

**The dollar.** We project that during the forecast period the nominal exchange value of the dollar against the major international currencies will decline moderately from its current level. In part, this decline reflects our view, unchanged from previous Greenbooks, that growing current account imbalances among the major currency regions will eventually begin to exert some downward pressure on the dollar. In keeping with this view, the dollar is forecast to decline moderately against the euro.<sup>1</sup> Against the yen, the dollar is expected to change little on balance, as current account pressures are counterbalanced by easy monetary policy in Japan and our expectations that market participants are likely to be disappointed by the pace of recovery and restructuring in Japan. Rising commodity prices are expected to provide a bit more support to the Canadian dollar. On balance, the path forecast for the dollar

1. While concern over the conflict in the Balkans appears to have buffeted the euro in recent weeks, we view these developments as having only temporary effects on the value of the currency. The assumption underlying our baseline forecast is an outcome in which the air campaign gives way to a peacekeeping operation sometime later this year. The fiscal and economic effects of this scenario are not significant. There is a possibility, however, that the conflict will widen into a ground war, entailing the introduction of a significant number of U.S. and European ground troops in an operation lasting well into next year. Although we perceive this risk to be relatively small at this juncture, and have not conducted a separate simulation exercise to calibrate the effects of such an outcome, the Congressional Budget Office estimates that the cost of a ground campaign (with 27,000 soldiers on the ground) would be about \$300 million per month. There might also be effects on consumer and business confidence that would influence economic activity in Europe and possibly the United States, but these effects are even more difficult to calibrate.

inventories will also add support to oil prices over the next two years. The forecast assumes that OPEC will make about half of its pledged cuts during the second half of 1999. The price of imported oil is now expected to increase from around \$10.30 per barrel in the first quarter of 1999 to a high of more than \$15.00 per barrel in the third quarter. Thereafter, the price of imported oil should move down toward \$14.75 per barrel as production from non-OPEC and OPEC countries increases more rapidly than consumption.

### Selected Trade Prices

(Percent change except as noted; seasonally adjusted annual rate)

Trade category	1998	Projection			
		1999			2000
		Q1	Q2	H2	
<i>Exports</i>					
Nonagricultural (core)	-1.9	-0.2	2.1	0.9	1.1
Agricultural	-9.8	-7.9	-2.1	1.1	2.0
<i>Imports</i>					
Non-oil (core)	-2.0	0.0	-0.9	0.6	0.9
Oil (level, dollars per barrel)	11.38	10.32	14.44	15.13	14.75

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

Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2; and for quarters, from previous quarter.

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

**Prices of non-oil imports and exports.** Core import prices are projected to decline slightly in the second quarter before turning up in the second half of the year, as commodity prices pick up with the rebound in foreign activity and the lagged effects of earlier dollar gains dissipate. Core export prices are forecast to rise moderately over the forecast period.

**Nominal trade and current account balances.** The nominal trade deficit for goods and services is projected to widen substantially during the forecast period, from \$173 billion in the fourth quarter of 1998 to more than \$330 billion in the fourth quarter of 2000. The deficit for net investment income is also expected to widen this year and next. Accordingly, the current account deficit, which was \$234 billion in 1998, is projected to rise to about \$425 billion in 2000, more than 4-1/2 percent of projected GDP.

**Impact of Alternative Assumptions**

(Percent change, Q4 to Q4)

Measure	1999	2000
<i>U.S. real GDP</i>		
Baseline	3.5	2.6
Stronger foreign recovery and weaker dollar <sup>1</sup>	3.7	4.0
U.S. stock market correction and weaker dollar <sup>2</sup>	3.1	2.8
<i>U.S. CPI excluding food and energy</i>		
Baseline	2.0	2.3
Stronger foreign recovery and weaker dollar <sup>1</sup>	2.2	3.0
U.S. stock market correction and weaker dollar <sup>2</sup>	2.4	2.9

NOTE. All simulations assume federal funds rate unchanged from baseline.

1. Assumes dollar path 10 percent below baseline.

2. Assumes dollar path 12-1/2 percent below baseline.

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

Measure and country	1992	1993	1994	1995	1996	1997	1998	-Projected-	
								1999	2000
REAL GDP (1)									
-----									
Total foreign	2.1	3.2	5.2	2.0	4.2	4.1	0.6	2.2	2.5
Industrial Countries	0.6	1.8	4.1	1.7	2.6	3.3	1.7	2.2	1.9
of which:									
Canada	0.9	2.9	5.5	1.1	1.7	4.4	2.8	3.2	2.6
Japan	0.1	0.5	0.9	2.5	5.1	-0.8	-3.0	-0.4	-0.3
United Kingdom	0.7	3.2	4.6	1.9	2.6	3.9	1.1	1.8	2.1
Euro-11	0.1	0.0	3.4	1.2	1.9	3.2	2.3	2.3	2.1
Germany	0.9	-0.2	3.4	0.1	2.1	2.3	1.8	2.0	2.1
Developing Countries	4.5	5.3	6.9	2.6	6.4	5.2	-0.9	2.1	3.3
Asia	6.7	7.8	8.8	6.9	7.0	4.9	-2.5	2.6	3.6
Korea	2.4	8.1	9.5	7.2	7.0	3.7	-5.3	5.0	5.0
China	14.6	6.3	16.3	12.6	9.2	8.2	9.5	5.1	6.0
Latin America	2.8	2.8	5.6	-4.1	6.4	6.3	0.8	1.6	3.1
Mexico	2.5	1.9	5.1	-7.3	7.5	7.2	2.9	2.9	3.4
Brazil	0.1	4.4	9.6	-1.5	5.0	2.0	-1.9	-1.5	1.8
CONSUMER PRICES (2)									
-----									
Industrial Countries	2.0	2.1	1.1	1.3	1.5	1.6	1.0	0.7	1.0
of which:									
Canada	1.8	1.8	-0.0	2.1	2.0	1.0	1.1	1.6	1.8
Japan	0.9	1.2	0.8	-0.8	0.1	2.1	0.7	-1.6	-1.1
United Kingdom (3)	3.7	2.7	2.2	2.9	3.2	2.8	2.6	2.4	2.5
Euro-11 (4)	NA	NA	NA	2.7	2.0	1.4	0.9	1.7	1.5
Germany	3.4	4.2	2.6	1.5	1.5	2.1	0.4	1.3	1.3
Developing Countries	21.7	24.8	23.1	17.0	11.2	6.9	8.9	6.1	6.6
Asia	5.5	7.7	10.7	6.4	4.8	2.8	4.6	1.7	3.8
Korea	4.7	5.5	5.8	4.4	5.1	5.1	6.0	1.7	2.6
China	8.2	17.1	26.9	11.1	7.0	1.0	-1.1	0.4	2.6
Latin America	72.4	74.5	54.6	42.2	26.0	15.6	15.6	14.4	11.8
Mexico	13.2	8.6	6.9	48.8	28.1	17.2	17.6	15.3	12.6
Brazil	1150.1	2321.7	1237.1	22.5	10.5	4.2	2.7	10.4	6.5

1. Foreign GDP aggregates calculated using shares of U.S. non-agricultural exports.
2. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.
3. CPI excluding mortgage interest payments, which is the targeted inflation rate.
4. Harmonized CPI's, 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 changes)

Measure and country	1998				1999				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	----- Quarterly changes at an annual rate -----											
Total foreign	-0.4	0.4	1.0	1.3	1.4	1.7	2.3	3.3	0.2	3.7	3.2	3.0
Industrial Countries	2.0	1.1	1.6	2.1	1.8	2.0	2.1	3.0	-0.6	3.4	2.6	2.3
of which:												
Canada	3.2	1.5	1.7	4.6	3.3	3.0	2.8	3.8	-0.1	4.2	3.4	3.0
Japan	-4.8	-2.9	-1.2	-3.2	-1.5	-0.4	-0.2	0.3	-2.8	1.2	0.1	0.2
United Kingdom	1.7	1.2	1.1	0.3	0.4	1.5	2.1	3.2	-0.2	3.1	2.9	2.4
Euro-11	3.0	2.5	2.6	1.1	1.8	1.9	2.3	3.2	-0.2	3.5	2.7	2.5
Germany	5.3	-0.1	3.6	-1.5	1.1	1.5	2.3	3.2	0.2	3.3	2.6	2.5
Developing Countries	-3.7	-0.5	0.3	0.3	0.9	1.4	2.5	3.7	1.4	4.1	4.0	4.0
Asia	-10.3	-3.2	0.7	3.3	1.9	1.9	2.6	4.0	1.2	4.1	4.4	4.6
Korea	-22.1	-3.5	1.6	5.3	4.5	4.5	5.0	5.8	3.0	5.8	5.3	5.8
China	7.0	6.5	11.0	13.8	2.2	6.8	5.0	6.5	3.0	6.0	7.5	7.5
Latin America	4.2	2.3	0.1	-3.4	-0.8	1.0	2.7	3.8	1.4	4.3	3.6	3.0
Mexico	5.1	2.6	3.8	0.1	1.2	2.4	3.7	4.4	2.0	4.5	3.9	3.0
Brazil	0.0	5.4	-6.1	-6.4	-4.0	-4.0	0.0	2.3	0.0	3.0	2.3	2.0
CONSUMER PRICES (2)	----- Four-quarter changes -----											
Industrial Countries	1.5	1.1	0.8	1.0	0.6	0.8	0.9	0.7	0.9	0.9	0.9	1.0
of which:												
Canada	1.0	1.0	0.9	1.1	0.8	1.3	1.5	1.6	1.6	1.6	1.6	1.8
Japan	2.1	0.6	-0.1	0.7	-0.2	-0.7	-0.8	-1.6	-1.3	-1.3	-1.2	-1.1
United Kingdom (3)	2.5	3.0	2.6	2.6	2.6	2.4	2.4	2.4	2.5	2.4	2.5	2.5
Euro-11 (4)	1.2	1.4	1.2	0.9	0.9	1.5	1.6	1.7	1.7	1.6	1.5	1.5
Germany	1.2	1.4	0.7	0.4	0.3	1.0	1.3	1.3	1.3	1.3	1.3	1.3
Developing Countries	7.4	7.6	8.0	8.9	7.9	7.0	6.5	6.1	6.2	6.7	6.7	6.6
Asia	4.2	4.7	4.6	4.6	2.6	1.4	1.3	1.7	2.5	3.3	3.6	3.8
Korea	8.9	8.2	7.0	6.0	0.7	1.0	1.5	1.7	2.3	2.3	2.5	2.6
China	0.4	-0.9	-1.4	-1.1	-1.4	-1.2	-0.3	0.4	1.0	1.6	2.1	2.6
Latin America	14.1	14.2	14.3	15.6	16.4	15.8	15.3	14.4	12.8	12.8	12.6	11.8
Mexico	15.3	15.1	15.6	17.6	18.6	18.1	16.9	15.3	13.3	13.5	13.5	12.6
Brazil	4.4	4.5	3.6	2.7	3.0	4.5	7.5	10.4	10.0	8.5	7.4	6.5

1. Foreign GDP aggregates calculated using shares of U.S. non-agricultural exports.
2. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.
3. CPI excluding mortgage interest payments, which is the targeted inflation rate.
4. Harmonized CPI's, weighted by shares in final consumption of households converted to a common currency using estimated PPP exchange rates.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1992	1993	1994	1995	1996	1997	1998	Projected 1999	2000
<b>NIPA REAL EXPORTS and IMPORTS</b>									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.4	-0.6	-0.4	0.5	-0.3	-0.6	-1.1	-1.3	-0.6
Exports of G&S	0.4	0.5	1.0	1.1	1.2	1.1	0.1	0.0	0.5
Imports of G&S	-0.8	-1.1	-1.4	-0.7	-1.4	-1.7	-1.2	-1.4	-1.1
Percentage change, Q4/Q4									
Exports of G&S	4.1	4.6	10.0	10.5	10.3	9.6	1.1	0.4	4.3
Services	-0.9	4.1	6.0	9.8	7.5	1.5	-0.6	1.0	1.7
Agricultural Goods	10.4	-5.5	16.6	-4.3	4.8	2.8	-1.2	-11.6	0.3
Computers	25.2	23.7	32.0	55.5	35.9	40.7	6.4	19.5	29.6
Semiconductors	64.8	32.9	66.9	79.6	46.2	21.0	9.4	23.8	23.6
Other Goods 1/	2.3	3.6	7.0	5.8	8.0	11.6	1.2	-1.8	2.4
Imports of G&S	7.4	10.2	12.3	5.6	11.8	14.0	9.7	10.5	8.1
Services	1.4	3.2	1.4	6.1	5.5	12.4	2.4	5.5	3.8
Oil	12.1	10.1	-0.2	2.4	7.9	4.0	5.9	6.2	5.8
Computers	45.1	39.3	44.8	48.1	24.4	30.3	28.3	36.9	34.8
Semiconductors	42.0	34.2	54.5	92.4	57.6	32.7	-7.6	29.3	27.4
Other Goods 2/	5.4	9.5	12.2	-1.1	10.4	13.0	10.9	9.0	6.0
Billions of chained 1992 dollars									
Net Goods & Services	-29.5	-70.2	-104.6	-96.5	-111.2	-136.1	-238.2	-349.7	-425.6
Exports of G&S	639.4	658.2	712.4	792.6	860.0	970.0	984.7	998.0	1031.7
Imports of G&S	669.0	728.4	817.0	889.0	971.2	1106.1	1222.9	1347.8	1457.3
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-51.4	-86.1	-123.8	-115.3	-134.9	-155.2	-233.6	-353.4	-427.5
Net Goods & Services (BOP)	-38.7	-71.9	-100.9	-99.9	-108.6	-110.2	-169.3	-263.6	-320.8
Exports of G&S (BOP)	617.3	643.2	703.8	795.6	850.8	937.6	931.0	934.0	969.5
Imports of G&S (BOP)	656.0	715.2	804.7	895.5	959.3	1047.8	1100.3	1197.6	1290.3
Net Investment Income	22.5	23.9	16.5	19.3	14.2	-5.3	-22.5	-47.0	-64.0
Direct, Net	51.6	55.7	51.8	63.0	66.2	63.7	54.6	41.8	42.9
Portfolio, Net	-29.1	-31.7	-35.3	-43.7	-51.9	-69.1	-77.1	-88.8	-106.9
Net Transfers	-35.2	-38.1	-39.4	-34.6	-40.6	-39.7	-41.9	-42.8	-42.8

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1995				1996				1997			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-0.2	-0.3	1.6	0.7	-1.1	-1.0	-1.4	2.4	-1.3	-0.4	-0.5	-0.3
Exports of G&S	1.0	0.6	1.9	1.1	0.4	0.6	0.2	3.2	0.9	1.7	1.2	0.5
Imports of G&S	-1.2	-0.9	-0.3	-0.4	-1.5	-1.6	-1.6	-0.9	-2.2	-2.2	-1.7	-0.8
Percentage change from previous period, SAAR												
Exports of G&S	9.2	5.4	17.8	10.2	3.7	5.8	2.1	32.0	8.3	15.5	10.6	4.4
Services	9.1	2.9	21.7	6.4	-4.0	10.3	-9.9	39.8	-6.7	11.8	5.9	-4.0
Agricultural Goods	1.8	-13.4	5.0	-9.4	22.6	-32.8	-1.6	48.7	-16.1	-7.8	8.7	32.8
Computers	36.4	33.8	86.6	71.6	57.6	24.7	27.7	35.9	70.2	78.7	41.9	-9.2
Semiconductors	72.0	100.8	96.2	53.6	23.8	29.7	30.2	118.6	41.3	17.3	32.3	-2.2
Other Goods 1/	4.3	1.4	9.4	8.1	0.1	6.0	5.7	21.3	13.8	15.6	9.2	8.0
Imports of G&S	9.8	7.2	2.0	3.5	13.1	13.5	13.6	7.0	18.6	17.9	13.5	6.3
Services	20.5	-3.3	3.1	5.5	9.2	4.3	9.9	-1.1	17.8	10.6	15.8	5.8
Oil	-11.4	15.4	31.4	-18.2	-9.8	68.9	3.5	-14.0	-8.2	37.0	6.0	-12.2
Computers	15.4	51.6	62.7	69.3	22.5	22.9	18.8	33.8	54.5	39.0	30.6	2.9
Semiconductors	37.1	105.5	128.2	113.3	38.7	8.9	50.1	172.1	89.0	16.0	20.3	17.6
Other Goods 2/	7.2	1.5	-8.8	-3.8	13.9	10.5	13.4	4.1	16.2	16.1	11.8	8.1
Billions of chained 1992 dollars, SAAR												
Net Goods & Services	-109.5	-114.7	-86.8	-74.8	-95.5	-113.5	-140.1	-95.9	-121.5	-131.6	-142.4	-149.0
Exports of G&S	763.9	774.0	806.3	826.1	833.6	845.5	849.9	911.1	929.4	963.6	988.1	998.8
Imports of G&S	873.4	888.7	893.1	900.9	929.1	958.9	990.0	1007.0	1050.9	1095.2	1130.5	1147.8
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-123.7	-134.2	-115.5	-87.7	-112.9	-132.0	-161.6	-133.2	-148.0	-140.4	-152.4	-180.2
Net Goods & Services (BOP)	-109.3	-125.8	-90.0	-74.5	-92.4	-112.8	-132.3	-96.8	-112.5	-106.1	-108.4	-113.8
Exports of G&S (BOP)	765.4	782.0	809.7	825.6	833.6	845.3	837.5	886.7	904.7	936.1	951.7	957.8
Imports of G&S (BOP)	874.7	907.7	899.7	900.1	926.0	958.2	969.8	983.5	1017.3	1042.1	1060.1	1071.7
Net Investment Income	20.1	24.0	10.2	22.7	21.4	15.9	6.9	12.7	0.1	1.8	-6.2	-17.0
Direct, Net	59.9	67.2	56.5	68.3	64.8	64.4	61.9	73.6	64.2	69.6	65.5	55.6
Portfolio, Net	-39.8	-43.2	-46.2	-45.5	-43.3	-48.5	-55.0	-60.9	-64.2	-67.8	-71.7	-72.6
Net Transfers	-34.5	-32.4	-35.8	-35.9	-41.9	-35.1	-36.2	-49.1	-35.5	-36.1	-37.8	-49.3

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

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1998				1999				Projected 2000			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-2.3	-2.1	-0.6	0.5	-2.5	-1.4	-1.0	-0.3	-0.7	-1.0	-0.7	-0.1
Exports of G&S	-0.3	-0.9	-0.3	2.0	-0.9	0.1	0.3	0.7	-0.2	0.5	0.6	0.9
Imports of G&S	-1.9	-1.2	-0.3	-1.5	-1.6	-1.5	-1.3	-1.0	-0.5	-1.6	-1.3	-1.0
Percentage change from previous period, SAAR												
Exports of G&S	-2.8	-7.7	-2.8	19.7	-7.7	0.5	2.9	6.6	-1.6	5.1	5.5	8.5
Services	-1.2	1.7	-10.4	8.3	1.8	-0.1	0.5	1.6	-0.7	3.1	2.3	2.3
Agricultural Goods	-9.9	-23.4	-14.5	61.3	-31.1	-21.7	11.3	1.8	-6.8	-2.6	8.4	2.8
Computers	-15.5	8.7	20.6	15.7	2.2	26.2	26.2	25.1	27.4	29.9	29.9	31.1
Semiconductors	-2.0	-19.7	29.7	40.3	30.6	21.6	21.6	21.6	22.7	23.9	23.9	23.9
Other Goods 1/	-1.6	-11.0	-1.2	21.4	-12.9	-0.5	0.3	7.1	-5.7	3.4	3.5	9.1
Imports of G&S	15.7	9.3	2.3	12.0	12.7	11.7	10.2	7.4	3.6	11.9	9.5	7.5
Services	9.3	-0.6	-0.6	2.0	5.8	6.1	4.9	5.1	0.8	5.6	4.5	4.2
Oil	8.8	41.4	-5.7	-13.2	10.1	24.7	18.8	-22.2	2.3	26.4	11.9	-13.5
Computers	38.8	22.4	9.8	45.3	62.0	38.6	31.1	19.3	26.3	38.6	38.6	36.1
Semiconductors	9.9	-28.8	-10.5	3.8	33.6	31.1	26.2	26.2	26.7	27.2	27.7	28.2
Other Goods 2/	16.1	10.8	3.5	13.8	9.9	9.1	8.3	8.8	1.4	9.3	7.1	6.5
Billions of chained 1992 dollars, SAAR												
Net Goods & Services	-198.5	-245.2	-259.0	-250.1	-308.3	-343.5	-369.3	-377.9	-394.1	-421.3	-440.7	-446.3
Exports of G&S	991.9	972.1	965.3	1009.6	989.6	990.8	997.8	1013.9	1009.9	1022.7	1036.5	1057.8
Imports of G&S	1190.4	1217.3	1224.3	1259.6	1297.9	1334.3	1367.2	1391.8	1404.0	1444.0	1477.2	1504.1
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-188.1	-227.9	-262.8	-255.7	-300.2	-346.2	-374.0	-393.3	-396.9	-421.0	-437.9	-454.3
Net Goods & Services (BOP)	-141.5	-176.9	-186.0	-172.7	-220.4	-261.6	-284.7	-287.9	-298.6	-319.3	-332.4	-332.9
Exports of G&S (BOP)	944.8	921.0	909.4	948.9	923.5	927.1	934.8	950.6	947.1	960.3	974.5	996.2
Imports of G&S (BOP)	1086.3	1097.9	1095.4	1121.6	1143.9	1188.6	1219.4	1238.5	1245.7	1279.6	1306.9	1329.0
Net Investment Income	-8.9	-13.4	-36.7	-31.0	-39.8	-44.6	-49.3	-54.3	-58.3	-61.7	-65.6	-70.5
Direct, Net	62.5	60.9	44.5	50.7	43.4	42.0	41.9	39.9	39.7	41.4	44.3	46.2
Portfolio, Net	-71.4	-74.2	-81.1	-81.8	-83.2	-86.7	-91.3	-94.3	-97.9	-103.1	-109.9	-116.6
Net Transfers	-37.7	-37.6	-40.1	-52.0	-40.0	-40.0	-40.0	-51.0	-40.0	-40.0	-40.0	-51.0

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



## **Part 2**

May 13, 1999

# **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

May 13, 1999

## **RECENT DEVELOPMENTS**

---

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

Item	1998	1999				
	Q4	Q1	Q2 <sup>1</sup>	Mar.	Apr.	May <sup>1</sup>
U.S. production	12.9	12.7	13.0	12.6	12.9	13.2
Autos	5.9	5.5	5.6	5.5	5.6	5.7
Trucks	7.0	7.2	7.4	7.0	7.2	7.5
Days' supply <sup>2</sup>						
Autos	52.6	60.3	n.a.	60.3	58.7	n.a.
Light trucks	57.7	61.4	n.a.	61.4	65.6	n.a.

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

1. Production rates are manufacturers' schedules.

2. Quarterly data are for last month of quarter.

n.a. Not available.

**New Orders for Durable Goods**  
(Percent change from preceding period; seasonally adjusted)

Component	MEMO Share, 1998:H2 (percent)	1998	1999			
		Q4	Q1	Jan.	Feb.	Mar.
Total durable goods	100	.6	3.8	3.1	-3.9	2.9
Adjusted durable goods <sup>1</sup>	70	.0	2.0	-.9	-1.5	2.4
Computers	6	.6	-1.1	-4.9	-.7	2.2
Nondefense capital goods excluding aircraft and computers	18	-2.4	4.7	-3.5	.8	4.8
Other	46	.8	1.3	.6	-2.5	1.5
MEMO						
Real adjusted orders <sup>2</sup>	...	.9	3.2	-.5	-1.3	2.8

1. Orders excluding defense capital goods, nondefense aircraft, and motor vehicle parts.

2. Nominal adjusted durable goods orders were split into three components: computers, electronic components, and all other. The components were deflated and then aggregated in a chain-weighted fashion.

... Not applicable.

CONFIDENTIAL (FR)  
CLASS III - FOMC

May 14, 1999

SUPPLEMENT  
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

May 14, 1999

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

	1998 Sept.	1998 Oct.	1998 Nov.	1998 Dec.	1999 Jan.	1999 Feb.	1999 Mar.	1999 Apr.	1999 May
Indexes of consumer sentiment (Feb. 1966=100)									(p)
Composite of current and expected conditions	100.9	97.4	102.7	100.5	103.9	108.1	105.7	104.6	106.4
Current conditions	111.7	112.8	115.9	113.9	116.8	115.0	116.3	115.9	123.1
Expected conditions	93.9	87.5	94.3	91.9	95.7	103.6	99.0	97.4	95.6
-----									
Personal financial situation									
Now compared with 12 months ago*									
Expected in 12 months*	126	131	130	128	133	133	130	134	136
	131	133	130	133	132	138	134	136	133
Expected business conditions									
Next 12 months*	130	118	136	130	143	152	141	141	139
Next 5 years*	117	101	113	107	110	127	123	115	114
Appraisal of buying conditions									
Cars	142	153	155	151	157	153	152	150	157
Large household appliances*	164	162	171	168	170	166	172	167	184
Houses	166	178	173	182	176	178	167	168	176
Willingness to use credit	53	53	53	52	47	53	51	49	56
Willingness to use savings	65	70	77	69	75	81	80	73	72
Expected unemployment change - next 12 months	112	121	119	124	115	108	113	109	112
Prob. household will lose a job - next 5 years	22	21	22	19	21	20	21	23	23
Expected inflation - next 12 months									
Mean	2.7	2.6	2.7	2.8	3.0	2.8	3.1	3.0	2.9
Median	2.3	2.5	2.3	2.5	2.7	2.5	2.7	2.7	2.7
Expected inflation - next 5 to 10 years									
Mean	3.4	3.2	3.1	3.2	3.5	3.3	3.0	3.0	3.1
Median	2.9	2.8	2.8	2.9	3.0	2.8	2.7	2.8	2.8

\* -- 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.