

## **Part 1**

September 29, 1999

# **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

September 29, 1999

## **SUMMARY AND OUTLOOK**

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

Measure	1999:Q2			1999:Q3	
	Aug. GB	BEA <sup>1</sup>	Sept. GB	Aug. GB	Sept. GB
<b>Real GDP</b>	<b>1.9</b>	<b>1.8</b>	<b>1.8</b>	<b>3.5</b>	<b>4.4</b>
Private domestic final purchases	4.8	5.6	5.6	3.2	4.9
Personal consumption expenditures	3.8	4.6	4.6	3.6	3.9
Residential investment	8.0	7.7	7.7	-4.8	-3.9
Business fixed investment	10.4	11.2	11.3	4.5	15.2
Government outlays for consumption and investment	-1.74	-1.7	-1.3	2.8	2.6
	Change, billions of chained (1992) dollars				
Inventory investment	-23.8	-26.5	-28.1	23.8	21.0
Net exports	-20.9	-33.8	-34.9	-22.0	-31.1

1. Preliminary release, published on August 26.

3-3/4 percent rate that we forecast in August. For the current quarter, we have boosted our estimated increase in consumer spending to 4 percent--matching the hefty rise in real disposable income implied by the large increase in hours worked. Not only have sales to consumers of light motor vehicles risen to an astonishing level, but outlays on other durable and nondurable goods have remained relatively brisk. Even assuming sluggish spending on energy goods and services, real PCE excluding new motor vehicles is projected to rise at an annual rate of 3-1/2 percent this quarter.

Housing construction stayed at a high level through August, when single-family starts were at an annual rate of 1.30 million units. Higher mortgage interest rates appear to have damped consumer sentiment about conditions for home buying, and mortgage applications for home purchase have dropped back some. While demand may have topped out now, we think that the considerable backlog of orders and unused permits, as of August, and a low inventory of unsold homes argue for only a slow retreat in new homebuilding and, thus, in spending on residential construction in the near term.

Real business fixed investment appears headed for another double-digit increase in the current quarter--far exceeding our earlier prediction. Although most categories of equipment spending are likely to post solid gains, the most

### The Outlook for Economic Activity beyond the Current Quarter

Real GDP is projected to increase at an annual rate of 4-1/2 percent in the fourth quarter of this year before slowing to less than a 3 percent pace, on average, in

**Projections of Real GDP**  
(Percent change, compound annual rate)

Measure	1999:H1	1999:H2	2000	2001
<b>Real GDP</b>	<b>3.1</b>	<b>4.5</b>	<b>2.9</b>	<b>2.8</b>
Previous	3.1	3.8	2.8	--
Final sales	3.8	3.4	3.0	2.9
Previous	3.8	2.8	2.9	--
PCE	5.6	4.1	3.1	2.8
Previous	5.2	4.1	3.3	--
Residential investment	11.5	-1.3	-4.9	-4.0
Previous	11.6	-4.3	-3.4	--
BFI	9.8	8.0	8.0	8.2
Previous	9.4	4.1	7.4	--
Government purchases	1.4	2.8	3.2	2.5
Previous	1.2	2.6	2.7	--
Exports	-.2	8.6	7.4	9.2
Previous	-.8	6.0	5.3	--
Imports	14.4	12.5	8.5	8.4
Previous	11.5	10.0	7.7	--
Change, billions of chained (1992) dollars				
Inventory change	-16.9	22.3	-11.0	-13.9
Previous	-14.6	20.3	-12.5	--
Net exports	-44.3	-19.5	-43.7	-26.1
Previous	-37.3	-17.7	-52.6	--

2000 and 2001.<sup>5</sup> In these circumstances, we now think it likely that the unemployment rate will edge lower over the next several months, reaching 4 percent, but that it will edge up to 4-1/4 percent in 2001. The changes to the

5. We have altered the timing of our assumed effects of Y2K on real GDP to account for the acceleration of business spending on computing equipment in the current quarter. Excluding Y2K considerations, we assume that real GDP would increase at an annual rate of 4.1 percent in the current quarter, 4.2 percent next quarter, 3.3 percent in the first quarter of 2000, 2.9 percent in the second quarter, and 2.9 percent in the third.

net exports of goods and services than shown in the August Greenbook. Exports are now projected to rise at an annual rate of 7-1/2 percent from late 1999 through 2000--almost 2 percentage points faster than we expected earlier--and to accelerate to a 9-1/4 percent rate in 2001. We continue to anticipate that the rate of increase in imports will drop back from the double-digits that have prevailed this year to a still-rapid 8-1/2 percent rate over the forecast period. On balance, the drag on the rate of increase in real GDP from net exports, which is expected to be 1-1/4 percentage points in 1999, falls to less than 1/2 percentage point in 2000 and shrinks to less than 1/4 percentage point in 2001. (The international developments section contains a more detailed discussion of the outlook for net exports.)

**Labor markets.** The higher GDP that we are now projecting for the second half of this year implies a further decline in the unemployment rate, and we now have it reaching 4 percent by early next year--1/4 percentage point lower than in the August Greenbook. With the rate of increase in real GDP running somewhat below its potential rate for the remainder of the forecast period, we are projecting that the unemployment rate will begin to tick up slightly later next year and reach 4-1/4 percent in the second half of 2001.

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

Measure	1998	1999	2000	2001
Output per hour, nonfarm business	2.6	2.2	2.2	2.1
Previous	2.6	1.9	2.2	--
Nonfarm payroll employment	2.4	2.1	1.4	1.2
Previous	2.4	2.1	1.2	--
Household employment survey	1.3	1.6	1.2	.9
Previous	1.3	1.5	.9	--
Labor force participation rate <sup>1</sup>	67.1	67.1	67.2	67.2
Previous	67.1	67.2	67.1	--
Civilian unemployment rate <sup>1</sup>	4.4	4.1	4.1	4.2
Previous	4.4	4.2	4.3	--

1. Percent, average for the fourth quarter.

Underlying our forecast for the unemployment rate are our projections for trends in labor force participation and productivity growth, which are unchanged from the last forecast. The labor force participation rate has dropped in the past few

September and October of this year.<sup>8</sup> We are assuming that some of this increase represents a shifting forward of increases that we had expected would occur early next year.

Inflation Projections				
(Percent change, Q4 to Q4, except as noted)				
Measure	1998	1999	2000	2001
Consumer price index	1.5	2.7	2.3	2.6
Previous	1.5	2.6	2.3	—
Food	2.2	2.0	2.4	2.6
Previous	2.2	2.0	2.3	—
Energy	-9.2	12.2	-2.3	-0.7
Previous	-9.2	9.9	-1.7	—
Excluding food and energy	2.4	2.1	2.7	2.9
Previous	2.4	2.1	2.6	—
PCE chain-weighted price index	.7	1.9	1.9	2.2
Previous	.8	1.9	1.9	—
Excluding food and energy	1.2	1.4	2.1	2.3
Previous	1.2	1.4	2.0	—
GDP chain-weighted price index	.9	1.4	2.0	2.1
Previous	.9	1.5	1.9	—
ECI for compensation of private industry workers <sup>1</sup>	3.5	3.3	3.9	4.1
Previous	3.5	3.3	3.8	—
Prices of core non-oil merchandise imports	-2.1	.6	2.3	2.1
Previous	-2.1	.4	1.8	—
Percentage points				
MEMO: <i>Adjustments for technical changes to the CPI</i> <sup>2</sup>				
Core CPI	-.2	.0	.0	.0

1. December to December.

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

8. In each of those months, we now expect that higher tobacco prices will add roughly 0.05 percentage point to the change in the core CPI.

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

Measure	1999	2000	2001
<i>Real GDP</i>			
Baseline	3.7	2.9	2.8
Flat funds rate	3.7	3.0	3.4
Tighter policy	3.7	2.6	2.1
15,000 Wilshire	3.7	3.3	3.8
20 percent stock price decline	3.7	1.8	1.9
<i>Civilian unemployment rate<sup>1</sup></i>			
Baseline	4.1	4.1	4.2
Flat funds rate	4.1	4.0	4.0
Tighter policy	4.1	4.1	4.6
15,000 Wilshire	4.1	4.0	3.8
20 percent stock price decline	4.1	4.3	4.9
<i>CPI excluding food and energy</i>			
Baseline	2.1	2.7	2.9
Flat funds rate	2.1	2.8	3.1
Tighter policy	2.1	2.7	2.5
15,000 Wilshire	2.1	2.7	3.0
20 percent stock price decline	2.1	2.7	2.6

1. Average for the fourth quarter.

funds rate”) or that it raises it more aggressively, to 6-1/4 percent by the end of next year (“tighter policy”). In the next two simulations, we have assumed that the stock market resumes its advance, pushing the Wilshire 5000 up to 15,000 by the end of 2001 or that it extends its recent retreat, with the Wilshire index dropping another 20 percent by early next year and then staying there.

Given the inflationary tendencies we have noted above, a stable nominal funds rate would imply falling real short-term interest rates through the projection period. With this additional monetary stimulus, the model suggests that demand growth would be boosted enough to hold the unemployment rate at around 4 percent over the next the next two years. Core CPI inflation would surpass 3 percent in 2001 and would be heading higher from there.

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

September 29, 1999

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>	
	8/18/99	9/29/99	8/18/99	9/29/99	8/18/99	9/29/99	8/18/99	9/29/99	8/18/99	9/29/99
<b>ANNUAL</b>										
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	5.2	5.2	3.8	3.9	1.3	1.3	2.2	2.2	4.2	4.2
2000	4.7	5.0	2.8	3.1	1.8	1.8	2.4	2.6	4.2	4.1
2001		5.1		3.0		2.0		2.5		4.2
<b>QUARTERLY</b>										
1998 Q1	6.4	6.4	5.5	5.5	0.9	0.9	1.0	1.0	4.6	4.6
1998 Q2	2.7	2.7	1.8	1.8	0.9	0.9	1.7	1.7	4.4	4.4
1998 Q3	4.7	4.7	3.7	3.7	1.0	1.0	1.7	1.7	4.5	4.5
1998 Q4	6.9	6.9	6.0	6.0	0.8	0.8	1.7	1.7	4.4	4.4
1999 Q1	6.0	6.0	4.3	4.3	1.6	1.6	1.5	1.5	4.3	4.3
1999 Q2	3.5	3.3	1.9	1.8	1.6	1.6	3.4	3.4	4.3	4.3
1999 Q3	5.0	5.5	3.5	4.4	1.4	1.1	2.5	2.5	4.2	4.2
1999 Q4	5.8	6.1	4.1	4.5	1.6	1.4	2.8	3.3	4.2	4.1
2000 Q1	2.6	3.2	0.4	0.9	2.2	2.3	2.1	2.3	4.2	4.0
2000 Q2	6.3	6.4	4.4	4.5	1.8	1.9	2.2	2.2	4.2	4.0
2000 Q3	5.1	5.2	3.2	3.2	1.9	1.9	2.4	2.3	4.3	4.1
2000 Q4	5.1	4.8	3.1	2.9	1.9	1.9	2.5	2.5	4.3	4.1
2001 Q1		5.2		2.8		2.3		2.5		4.1
2001 Q2		4.8		2.8		2.0		2.6		4.2
2001 Q3		4.9		2.8		2.0		2.6		4.2
2001 Q4		4.9		2.8		2.0		2.6		4.2
<b>TWO-QUARTER<sup>3</sup></b>										
1998 Q2	4.6	4.6	3.7	3.7	0.9	0.9	1.4	1.4	-0.3	-0.3
1998 Q4	5.8	5.8	4.8	4.8	0.9	0.9	1.7	1.7	0.0	0.0
1999 Q2	4.7	4.7	3.1	3.0	1.6	1.6	2.5	2.5	-0.1	-0.1
1999 Q4	5.4	5.8	3.8	4.5	1.5	1.3	2.7	2.9	-0.1	-0.2
2000 Q2	4.4	4.8	2.4	2.7	2.0	2.1	2.2	2.3	-0.0	-0.1
2000 Q4	5.1	5.0	3.1	3.0	1.9	1.9	2.4	2.4	0.1	0.1
2001 Q2		5.0		2.8		2.2		2.6		0.1
2001 Q4		4.9		2.8		2.0		2.6		0.0
<b>FOUR-QUARTER<sup>4</sup></b>										
1997 Q4	5.6	5.6	3.8	3.8	1.7	1.7	1.9	1.9	-0.6	-0.6
1998 Q4	5.2	5.2	4.3	4.3	0.9	0.9	1.5	1.5	-0.3	-0.3
1999 Q4	5.1	5.2	3.4	3.7	1.5	1.4	2.6	2.7	-0.2	-0.3
2000 Q4	4.7	4.9	2.8	2.9	1.9	2.0	2.3	2.3	0.1	0.0
2001 Q4		4.9		2.8		2.1		2.6		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.

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

September 29, 1999

Item	Units <sup>1</sup>	----- Projected -----								
		1993	1994	1995	1996	1997	1998	1999	2000	2001
EXPENDITURES										
Nominal GDP	Bill. \$	6558.1	6947.0	7269.6	7661.6	8110.9	8511.0	8956.0	9402.3	9877.7
Real GDP	Bill. Ch. \$	6389.6	6610.7	6761.7	6994.8	7269.8	7551.9	7849.1	8096.2	8335.2
Real GDP	% change	2.4	3.3	2.1	3.9	3.8	4.3	3.7	2.9	2.8
Gross domestic purchases		3.0	3.6	1.6	4.2	4.4	5.3	4.9	3.2	2.9
Final sales		2.1	2.7	2.7	3.7	3.4	4.6	3.6	3.0	2.9
Priv. dom. final purchases		3.7	3.7	2.9	4.3	4.6	6.5	5.4	3.3	3.1
Personal cons. expenditures		2.7	3.1	2.6	3.3	3.7	5.3	4.9	3.1	2.8
Durables		7.4	6.3	4.5	5.8	7.4	13.2	8.6	3.2	3.6
Nondurables		1.6	3.0	1.7	2.8	2.0	4.7	5.2	2.6	2.1
Services		2.3	2.5	2.6	3.0	3.8	4.0	3.9	3.4	2.9
Business fixed investment		9.9	7.6	7.3	11.7	9.8	11.9	8.9	8.0	8.2
Producers' dur. equipment		12.2	10.2	9.1	11.8	12.7	16.8	11.8	10.3	11.0
Nonres. structures		4.5	1.1	2.7	11.6	2.5	-0.3	1.0	1.6	0.1
Residential structures		7.8	4.2	-1.4	5.4	4.2	12.6	4.9	-4.9	-4.0
Exports		4.6	10.0	10.5	10.3	9.6	1.1	4.1	7.4	9.2
Imports		10.2	12.3	5.6	11.8	14.0	9.7	13.4	8.5	8.4
Gov't. cons. & investment		-1.4	0.1	-0.9	2.1	1.4	1.6	2.1	3.2	2.5
Federal		-6.1	-3.9	-5.6	1.1	-0.6	0.9	-0.3	1.6	0.1
Defense		-6.9	-6.0	-5.0	-0.1	-1.4	-1.3	-2.3	0.3	0.5
State & local		2.0	2.7	2.1	2.8	2.6	2.1	3.4	4.0	3.7
Change in bus. inventories	Bill. Ch. \$	22.1	60.6	27.7	30.0	63.2	57.4	34.0	45.9	40.5
Nonfarm		29.5	49.0	37.7	23.2	58.8	50.1	31.1	44.1	39.2
Net exports		-70.2	-104.6	-96.5	-111.2	-136.1	-238.2	-347.4	-410.3	-444.2
Nominal GDP	% change	5.0	5.8	4.2	5.8	5.6	5.2	5.2	4.9	4.9
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	110.7	114.1	117.2	119.6	122.7	125.8	128.6	130.9	132.3
Unemployment rate	%	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.1	4.2
Industrial prod. index	% change	3.3	6.5	3.5	5.3	6.6	1.9	3.6	2.6	3.1
Capacity util. rate - mfg.	%	80.5	82.5	82.7	81.4	82.0	80.8	79.7	79.7	80.4
Housing starts	Millions	1.29	1.46	1.35	1.48	1.47	1.62	1.66	1.58	1.51
Light motor vehicle sales		13.86	15.01	14.72	15.05	15.02	15.50	16.62	15.81	15.66
North Amer. produced		11.71	12.88	12.82	13.35	13.09	13.47	14.28	13.66	13.57
Other		2.15	2.13	1.90	1.70	1.92	2.04	2.35	2.15	2.09
INCOME AND SAVING										
Nominal GNP	Bill. \$	6576.8	6955.2	7287.1	7674.0	8102.9	8490.5	8933.9	9375.3	9845.4
Nominal GNP	% change	5.1	5.7	4.4	5.6	5.2	5.2	5.2	4.9	4.8
Nominal personal income		4.0	5.2	4.6	5.9	5.4	5.1	5.5	5.2	5.3
Real disposable income		1.2	2.5	2.1	2.7	2.9	3.5	3.2	3.2	3.1
Personal saving rate	%	4.4	3.5	3.4	2.9	2.1	0.5	-1.2	-1.3	-1.0
Corp. profits, IVA & CCAdj.	% change	19.0	14.1	14.6	7.7	7.7	0.1	7.1	3.7	2.4
Profit share of GNP	%	7.5	8.2	9.2	9.8	10.1	9.7	9.7	9.5	9.4
Excluding FR Banks		7.2	7.9	8.9	9.5	9.8	9.4	9.5	9.2	9.1
Federal surpl./deficit	Bill. \$	-250.7	-186.7	-174.4	-110.3	-21.1	72.8	148.4	164.7	207.0
State & local surpl./def.		87.4	96.8	111.7	122.6	134.1	150.2	170.7	181.4	178.5
Ex. social ins. funds		19.7	27.9	37.0	52.2	66.0	82.5	102.9	113.6	110.7
Gross natl. saving rate	%	14.4	15.5	16.3	16.6	17.4	17.3	16.9	16.8	17.1
Net natl. saving rate		3.7	4.7	5.8	6.3	7.3	7.3	7.1	7.1	7.5
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.6	2.5	2.1	1.8	1.7	0.9	1.4	2.0	2.1
Gross Domestic Purchases										
chn.-wt. price index		2.3	2.5	2.0	1.8	1.3	0.4	1.7	1.7	1.9
CPI		2.7	2.6	2.7	3.1	1.9	1.5	2.7	2.3	2.6
Ex. food and energy		3.1	2.8	3.1	2.6	2.2	2.4	2.1	2.7	2.9
ECI, hourly compensation <sup>2</sup>		3.6	3.1	2.6	3.1	3.4	3.5	3.3	3.9	4.1
Nonfarm business sector										
Output per hour		-0.4	0.1	1.2	2.0	1.6	2.6	2.2	2.2	2.1
Compensation per Hour		1.6	2.1	2.9	3.6	3.7	4.1	4.5	4.4	4.5
Unit labor cost		2.0	2.0	1.6	1.6	2.1	1.5	2.3	2.2	2.5

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

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

September 29, 1999

Item	Units	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	7955.0	8063.4	8170.8	8254.5	8384.2	8440.6	8537.9	8681.2	8808.7	8881.1
Real GDP	Bill. Ch. \$	7166.7	7236.5	7311.2	7364.6	7464.7	7498.6	7566.5	7677.7	7759.6	7793.7
Real GDP	% change	4.2	4.0	4.2	3.0	5.5	1.8	3.7	6.0	4.3	1.8
Gross domestic purchases		5.5	4.4	4.6	3.2	7.8	3.9	4.2	5.4	6.6	3.1
Final sales		2.9	2.7	5.8	2.1	4.3	4.6	2.8	6.6	4.6	3.1
Priv. dom. final purchases		4.6	3.3	7.5	2.9	8.5	7.4	3.7	6.5	7.4	5.6
Personal cons. expenditures		4.3	1.6	6.2	2.8	6.1	6.1	4.1	5.0	6.7	4.6
Durables		12.3	-1.5	16.8	3.1	15.8	11.2	2.4	24.5	12.9	9.7
Nondurables		3.6	-0.2	5.1	-0.4	7.4	5.3	2.1	4.2	9.5	2.9
Services		3.1	3.2	4.7	4.3	3.5	5.4	5.4	1.7	4.1	4.3
Business fixed investment		7.0	14.0	17.0	1.8	22.2	12.8	-0.7	14.6	8.5	11.3
Producers' dur. equipment		8.3	22.8	18.8	2.2	34.3	18.8	-1.0	17.8	9.5	16.0
Nonres. structures		3.9	-6.2	12.4	0.9	-4.9	-2.3	0.2	6.0	5.7	-1.2
Residential structures		3.1	6.1	-0.4	8.2	15.6	15.0	9.9	10.0	15.4	7.7
Exports		8.3	15.5	10.6	4.4	-2.8	-7.7	-2.8	19.7	-5.1	4.9
Imports		18.6	17.9	13.5	6.3	15.7	9.3	2.3	12.0	13.5	15.2
Gov't. cons. & investment		2.1	2.1	1.4	0.1	-1.9	3.7	1.5	3.3	4.2	-1.3
Federal		-2.7	3.6	-1.2	-2.1	-8.8	7.3	-1.4	7.3	-1.9	-3.5
Defense		-9.9	9.1	-1.8	-2.0	-18.5	9.9	4.3	1.3	-6.6	-3.4
State & local		4.9	1.3	2.9	1.3	2.1	1.8	3.1	1.3	7.7	-0.3
Change in bus. inventories	Bill. Ch. \$	56.3	79.0	51.0	66.5	91.4	38.2	55.7	44.2	38.7	10.6
Nonfarm		56.2	72.1	44.0	62.7	85.9	29.9	47.0	37.5	35.1	7.9
Net exports		-121.5	-131.6	-142.4	-149.0	-198.5	-245.2	-259.0	-250.0	-303.6	-338.6
Nominal GDP	% change	7.2	5.6	5.4	4.2	6.4	2.7	4.7	6.9	6.0	3.3
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	121.4	122.3	123.0	123.9	124.8	125.5	126.1	126.9	127.6	128.2
Unemployment rate	%	5.2	5.0	4.9	4.7	4.6	4.4	4.5	4.4	4.3	4.3
Industrial prod. index	% change	6.6	6.0	7.2	6.6	1.6	2.8	0.9	2.2	1.3	3.8
Capacity util. rate - mfg.	%	81.6	81.7	82.1	82.5	81.8	81.2	80.2	80.1	79.5	79.5
Housing starts	Millions	1.46	1.47	1.46	1.52	1.59	1.57	1.64	1.70	1.77	1.62
Light motor vehicle sales		15.32	14.54	15.19	15.02	15.08	16.07	14.55	16.31	16.22	16.73
North Amer. produced		13.41	12.68	13.20	13.08	13.13	14.07	12.54	14.11	13.95	14.31
Other		1.92	1.86	1.99	1.94	1.95	1.99	2.01	2.20	2.27	2.42
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	7952.4	8062.3	8162.0	8234.9	8369.4	8421.8	8510.9	8660.0	8788.4	8860.6
Nominal GNP	% change	6.5	5.6	5.0	3.6	6.7	2.5	4.3	7.2	6.1	3.3
Nominal personal income		7.3	4.7	4.7	5.0	5.9	4.5	4.5	5.5	5.1	5.2
Real disposable income		3.3	2.9	2.4	2.9	4.0	2.6	3.2	4.3	3.5	2.4
Personal saving rate	%	2.4	2.6	1.7	1.7	1.2	0.4	0.2	0.0	-0.7	-1.3
Corp. profits, IVA & CCAdj.	% change	18.1	11.1	13.1	-9.2	4.2	-4.1	3.2	-2.5	25.0	-3.9
Profit share of GNP	%	10.0	10.1	10.3	10.0	9.9	9.7	9.7	9.5	9.9	9.7
Excluding FR Banks		9.7	9.8	10.0	9.7	9.6	9.5	9.4	9.2	9.6	9.4
Federal surpl./deficit	Bill. \$	-51.2	-34.8	-0.3	2.2	58.8	74.4	92.0	65.8	122.7	139.6
State & local surpl./def.		128.4	130.1	136.6	141.4	140.2	141.3	148.7	170.5	169.7	170.3
Ex. social ins. funds		59.8	61.6	68.7	73.8	72.7	73.6	81.3	102.6	101.9	102.3
Gross natl. saving rate	%	17.0	17.6	17.5	17.3	17.7	17.2	17.3	16.9	17.2	16.8
Net natl. saving rate		7.0	7.6	7.5	7.3	7.8	7.2	7.3	7.0	7.4	6.9
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	2.8	1.7	1.2	1.1	0.9	0.9	1.0	0.8	1.6	1.6
Gross Domestic Purchases		2.2	0.9	1.1	1.0	-0.2	0.4	0.7	0.9	1.2	2.2
chn.-wt. price index		2.5	1.3	1.8	2.0	1.0	1.7	1.7	1.7	1.5	3.4
CPI		2.2	2.9	1.4	2.4	2.4	2.6	2.3	2.1	1.6	2.5
Ex. food and energy											
ECI, hourly compensation <sup>1</sup>		2.5	3.7	3.4	4.3	3.0	3.6	4.1	2.9	1.4	4.6
Nonfarm business sector											
Output per hour		0.0	1.7	3.5	1.0	3.2	0.4	2.7	4.1	3.6	0.5
Compensation per hour		3.8	2.3	3.7	5.2	4.6	3.9	4.1	3.8	4.4	5.1
Unit labor cost		3.8	0.5	0.2	4.1	1.4	3.5	1.3	-0.4	0.8	4.6

1. Private-industry workers.

Strictly Confidential <FR>  
Class II POMC

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

September 29, 1999

Item	Units	----- Projected -----									
		1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	9000.4	9133.7	9206.8	9350.6	9469.8	9582.2	9704.1	9818.0	9935.0	10053.8
Real GDP	Bill. Ch. \$	7877.8	7965.4	7984.2	8071.7	8135.3	8193.6	8249.9	8306.4	8363.3	8421.4
Real GDP	% change	4.4	4.5	0.9	4.5	3.2	2.9	2.8	2.8	2.8	2.8
Gross domestic purchases		5.5	4.7	1.2	5.3	3.5	2.7	3.1	3.0	2.9	2.5
Final sales		3.4	3.4	1.9	3.7	3.1	3.3	2.7	2.8	2.9	3.3
Priv. dom. final purchases		4.9	3.7	1.6	4.8	3.5	3.4	3.2	3.2	3.1	3.1
Personal cons. expenditures		3.9	4.3	1.7	4.5	3.2	3.0	2.9	2.8	2.7	2.7
Durables		7.5	4.5	2.5	2.8	3.7	3.8	3.3	3.9	3.8	3.5
Nondurables		3.2	5.4	-1.2	5.9	3.1	2.5	2.2	2.1	2.1	2.1
Services		3.5	3.6	3.0	4.2	3.2	3.1	3.1	2.9	2.8	2.8
Business fixed investment		15.2	1.2	4.1	10.6	8.6	9.0	8.2	8.1	8.4	8.1
Producers' dur. equipment		21.1	1.5	5.0	13.4	11.2	11.7	11.1	11.0	11.2	10.8
Nonres. structures		-0.7	0.5	1.5	2.7	1.3	1.1	0.1	-0.2	0.2	0.2
Residential structures		-3.9	1.2	-5.6	-4.6	-4.2	-5.0	-3.6	-3.5	-4.4	-4.4
Exports		9.6	7.7	1.6	8.2	8.3	11.9	5.9	9.3	9.2	12.3
Imports		17.2	8.0	3.3	14.0	9.1	8.0	7.6	9.6	8.5	7.8
Gov't. cons. & investment		2.6	2.9	4.7	3.9	2.6	1.6	2.3	2.5	2.6	2.5
Federal		2.5	1.8	6.1	3.4	-0.2	-2.9	-0.6	0.3	0.4	0.5
Defense		4.1	-2.9	0.5	-1.1	1.2	0.4	0.2	0.6	0.6	0.6
State & local		3.0	3.5	4.0	4.1	4.1	4.0	3.8	3.7	3.7	3.6
Change in bus. inventories	Bill. Ch. \$	31.6	55.2	35.3	50.8	53.2	44.2	45.5	44.7	41.5	30.4
Nonfarm		28.8	52.8	33.6	48.9	51.3	42.4	44.1	43.3	40.2	29.2
Net exports		-369.7	-377.6	-384.9	-412.0	-423.1	-423.3	-433.5	-444.5	-451.5	-447.4
Nominal GDP	% change	5.5	6.1	3.2	6.4	5.2	4.8	5.2	4.8	4.9	4.9
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	128.9	129.6	130.2	130.9	131.0	131.4	131.7	132.1	132.5	132.9
Unemployment rate	%	4.2	4.1	4.0	4.0	4.1	4.1	4.1	4.2	4.2	4.2
Industrial prod. index	% change	4.4	4.9	-1.8	4.6	4.1	3.6	3.3	3.0	3.1	3.2
Capacity util. rate - mfg.	%	79.7	80.1	79.2	79.6	79.9	80.1	80.2	80.3	80.4	80.5
Housing starts	Millions	1.65	1.61	1.60	1.59	1.58	1.56	1.54	1.52	1.50	1.47
Light motor vehicle sales		17.16	16.38	16.02	15.81	15.75	15.67	15.62	15.64	15.68	15.68
North Amer. produced		14.76	14.08	13.79	13.65	13.63	13.58	13.53	13.55	13.59	13.59
Other		2.39	2.30	2.23	2.16	2.12	2.09	2.09	2.09	2.09	2.09
INCOME AND SAVING											
Nominal GNP	Bill. \$	8977.5	9109.0	9178.8	9322.9	9443.6	9556.0	9673.9	9786.4	9902.2	10018.9
Nominal GNP	% change	5.4	6.0	3.1	6.4	5.3	4.8	5.0	4.7	4.8	4.8
Nominal personal income		5.6	6.0	4.9	6.0	4.9	4.9	6.1	5.1	4.9	5.0
Real disposable income		4.0	3.1	3.7	3.8	2.5	2.6	5.0	2.6	2.3	2.5
Personal saving rate	%	-1.3	-1.5	-1.1	-1.2	-1.4	-1.5	-0.9	-1.0	-1.1	-1.1
Corp. profits, IVA & CCAdj.	% change	6.0	3.2	-10.8	11.8	9.8	5.8	-0.6	2.9	3.9	3.6
Profit share of GNP	%	9.7	9.7	9.3	9.4	9.5	9.6	9.4	9.4	9.4	9.3
Excluding FR Banks		9.5	9.4	9.0	9.2	9.3	9.3	9.2	9.1	9.1	9.1
Federal surpl./deficit	Bill. \$	167.2	164.3	137.6	155.1	177.1	189.2	184.3	200.4	219.5	223.9
State & local surpl./def.		165.9	177.2	177.9	182.1	184.1	181.6	178.1	177.8	178.6	179.7
Ex. social ins. funds		98.1	109.4	110.1	114.3	116.3	113.8	110.3	110.0	110.8	111.9
Gross natl. saving rate	%	16.9	16.7	16.7	16.8	16.9	16.9	17.0	17.1	17.2	17.1
Net natl. saving rate		7.1	6.9	6.8	7.0	7.2	7.2	7.4	7.5	7.6	7.5
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.1	1.4	2.3	1.9	1.9	1.9	2.3	2.0	2.0	2.0
Gross Domestic Purchases		1.4	2.0	2.1	1.6	1.6	1.7	2.2	1.8	1.8	1.8
chn.-wt. price index		2.5	3.3	2.3	2.2	2.3	2.5	2.5	2.6	2.6	2.6
CPI		1.7	2.6	2.6	2.7	2.8	2.8	2.8	2.9	2.9	2.9
Ex. food and energy											
ECI, hourly compensation <sup>1</sup>		3.6	3.6	4.1	3.9	3.9	3.9	4.3	4.1	4.0	4.0
Nonfarm business sector											
Output per hour		2.2	2.4	0.2	3.4	2.7	2.4	2.1	2.1	2.1	2.1
Compensation per hour		4.2	4.3	4.5	4.3	4.4	4.4	4.9	4.5	4.4	4.4
Unit labor cost		2.0	1.9	4.3	0.9	1.7	2.0	2.8	2.4	2.4	2.3

1. Private-industry workers.

Item	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	97Q4/ 96Q4	98Q4/ 97Q4	99Q4/ 98Q4
Real GDP	4.2	3.0	5.5	1.8	3.7	6.0	4.3	1.8	4.4	3.8	4.3	3.7
Gross dom. purchases	4.7	3.2	7.9	4.0	4.3	5.5	6.7	3.1	5.6	4.4	5.4	5.0
Final sales	5.7	2.1	4.3	4.6	2.8	6.6	4.6	3.1	3.4	3.3	4.5	3.6
Priv. dom. final purchases	6.1	2.4	7.0	6.1	3.1	5.4	6.2	4.7	4.1	3.8	5.4	4.5
Personal cons. expenditures	4.2	1.9	4.1	4.1	2.8	3.5	4.6	3.1	2.7	2.5	3.6	3.3
Durables	1.3	0.3	1.2	0.9	0.2	1.9	1.1	0.8	0.6	0.6	1.1	0.7
Nondurables	1.0	-0.1	1.4	1.0	0.4	0.8	1.8	0.6	0.6	0.4	0.9	1.0
Services	1.9	1.7	1.4	2.1	2.2	0.7	1.7	1.7	1.4	1.5	1.6	1.6
Business fixed investment	1.7	0.2	2.2	1.4	-0.1	1.5	0.9	1.2	1.6	1.0	1.2	1.0
Producers' dur. equip.	1.3	0.1	2.4	1.4	-0.1	1.4	0.8	1.2	1.6	0.9	1.3	0.9
Nonres. structures	0.4	0.0	-0.2	-0.1	0.0	0.2	0.2	-0.0	-0.0	0.1	-0.0	0.0
Residential structures	-0.0	0.3	0.6	0.6	0.4	0.4	0.7	0.3	-0.2	0.2	0.5	0.2
Net exports	-0.5	-0.3	-2.2	-2.1	-0.6	0.5	-2.2	-1.4	-1.2	-0.6	-1.1	-1.3
Exports	1.2	0.5	-0.3	-0.9	-0.3	2.0	-0.6	0.5	1.0	1.1	0.1	0.5
Imports	-1.7	-0.8	-1.9	-1.2	-0.3	-1.5	-1.7	-1.9	-2.2	-1.7	-1.2	-1.8
Government cons. & invest.	0.3	0.0	-0.3	0.6	0.3	0.6	0.7	-0.2	0.5	0.3	0.3	0.4
Federal	-0.1	-0.1	-0.6	0.4	-0.1	0.4	-0.1	-0.2	0.2	-0.0	0.1	-0.0
Defense	-0.1	-0.1	-0.8	0.4	0.2	0.1	-0.2	-0.1	0.2	-0.1	-0.1	-0.1
Nondefense	0.0	-0.1	0.3	0.1	-0.3	0.4	0.1	-0.1	-0.0	0.0	0.1	0.1
State and local	0.3	0.2	0.2	0.2	0.4	0.2	0.8	-0.0	0.3	0.3	0.2	0.4
Change in bus. inventories	-1.4	0.9	1.2	-2.7	0.9	-0.5	-0.3	-1.3	1.0	0.5	-0.3	0.1
Nonfarm	-1.5	1.0	1.2	-2.8	0.9	-0.5	-0.1	-1.3	1.0	0.5	-0.3	0.2
Farm	0.1	-0.1	0.0	0.1	0.0	-0.1	-0.1	-0.0	-0.0	0.0	0.0	-0.1

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

Item	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	99Q4/ 98Q4	00Q4/ 99Q4	01Q4/ 00Q4
Real GDP	4.5	0.9	4.5	3.2	2.9	2.8	2.8	2.8	2.8	3.7	2.9	2.8
Gross dom. purchases	4.8	1.2	5.5	3.6	2.7	3.2	3.1	3.0	2.6	5.0	3.3	3.0
Final sales	3.4	1.9	3.7	3.1	3.3	2.7	2.8	2.9	3.3	3.6	3.0	2.9
Priv. dom. final purchases	3.1	1.4	4.1	3.0	2.9	2.7	2.7	2.6	2.6	4.5	2.8	2.7
Personal cons. expenditures	2.9	1.2	3.1	2.2	2.1	2.0	1.9	1.9	1.9	3.3	2.2	1.9
Durables	0.4	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.7	0.3	0.3
Nondurables	1.1	-0.2	1.2	0.6	0.5	0.4	0.4	0.4	0.4	1.0	0.5	0.4
Services	1.5	1.2	1.7	1.3	1.3	1.2	1.2	1.2	1.2	1.6	1.4	1.2
Business fixed investment	0.1	0.5	1.1	0.9	1.0	0.9	0.9	0.9	0.9	1.0	0.9	0.9
Producers' dur. equip.	0.1	0.4	1.1	0.9	1.0	0.9	0.9	0.9	0.9	0.9	0.8	0.9
Nonres. structures	0.0	0.0	0.1	0.0	0.0	0.0	-0.0	0.0	0.0	0.0	0.0	0.0
Residential structures	0.1	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	0.2	-0.2	-0.2
Net exports	-0.3	-0.3	-1.0	-0.4	0.2	-0.4	-0.4	-0.2	0.2	-1.3	-0.4	-0.2
Exports	0.8	0.2	0.9	0.9	1.3	0.7	1.0	1.0	1.4	0.5	0.8	1.0
Imports	-1.1	-0.5	-1.9	-1.3	-1.1	-1.1	-1.4	-1.2	-1.1	-1.8	-1.2	-1.2
Government cons. & invest.	0.5	0.8	0.7	0.5	0.3	0.4	0.4	0.4	0.4	0.4	0.6	0.4
Federal	0.1	0.4	0.2	-0.0	-0.2	-0.0	0.0	0.0	0.0	-0.0	0.1	0.0
Defense	-0.1	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0
Nondefense	0.2	0.3	0.2	-0.1	-0.2	-0.0	-0.0	-0.0	0.0	0.1	0.1	-0.0
State and local	0.4	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.5	0.4
Change in bus. inventories	1.1	-0.9	0.7	0.1	-0.4	0.1	-0.0	-0.1	-0.5	0.1	-0.1	-0.2
Nonfarm	1.1	-0.9	0.7	0.1	-0.4	0.1	-0.0	-0.1	-0.5	0.2	-0.1	-0.2
Farm	-0.0	-0.0	0.0	0.0	0.0	-0.0	0.0	0.0	0.0	-0.1	-0.0	-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>1</sup>				1999				2000				2001			
	1998 <sup>a</sup>	1999	2000	2001	Q1 <sup>a</sup>	Q2 <sup>p</sup>	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget</b>					Not seasonally adjusted											
Receipts <sup>2</sup>	1722	1828	1927	2024	401	564	449	438	427	598	464	453	453	625	493	483
Outlays <sup>2</sup>	1653	1703	1767	1825	396	421	419	445	450	439	433	459	465	456	445	467
Surplus/deficit <sup>2</sup>	69	125	160	199	6	143	31	-8	-24	160	32	-5	-13	169	48	16
On-budget	-30	-3	11	37	-49	88	15	-49	-50	96	14	-50	-42	101	28	-30
Off-budget	99	128	149	162	55	55	16	41	26	64	18	44	29	68	20	46
Surplus excluding deposit insurance	65	120	156	195	5	142	30	-9	-25	159	31	-6	-14	168	47	15
<b>Means of financing</b>																
Borrowing	-51	-91	-170	-196	7	-108	-23	27	-36	-128	-34	-3	-3	-138	-52	-11
Cash decrease	5	-16	15	0	-4	-31	-2	-25	60	-25	5	10	10	-25	5	10
Other <sup>3</sup>	-23	-18	-5	-3	-9	-4	-6	6	-7	-7	-3	-2	6	-6	-9	-15
<b>Cash operating balance, end of period</b>	39	55	40	40	22	53	55	80	20	45	40	30	20	45	40	30
<b>NIPA federal sector</b>					Seasonally adjusted annual rates											
Receipts	1818	1928	2038	2135	1915	1947	1981	2012	2013	2048	2079	2105	2118	2144	2173	2200
Expenditures	1761	1804	1879	1936	1792	1806	1814	1848	1876	1893	1902	1915	1933	1943	1953	1976
Consumption expenditures	458	472	497	513	472	470	476	479	499	506	506	503	514	516	518	520
Defense	301	304	311	321	304	300	306	305	313	313	314	315	322	323	325	326
Nondefense	157	168	186	191	168	170	169	174	186	193	192	188	192	192	193	194
Other expenditures	1303	1332	1382	1424	1320	1337	1338	1369	1377	1387	1396	1412	1420	1428	1435	1456
Current account surplus	57	124	158	198	123	141	167	164	138	155	177	189	184	200	219	224
Gross investment	60	63	63	64	65	63	62	62	64	63	64	64	64	64	64	64
Current and capital account surplus	-3	62	95	134	58	78	105	102	74	92	113	125	120	137	156	160
<b>Fiscal indicators<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-99	-65	-48	-8	-71	-49	-29	-44	-62	-52	-33	-21	-24	-5	16	23
Change in HEB, percent of potential GDP	-.9	-.4	-.2	-.4	-.5	-.3	-.2	.2	.2	-.1	-.2	-.1	0	-.2	-.2	-.1
Fiscal impetus (FI) percent, calendar year	-1	4	5	.1	1	-1	.8	2	2	1	.5	-.8	-.3	.2	.2	.5

1. 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.

2. OMB's June 1999 surplus estimates (assuming the enactment of the President's proposals) are \$99 billion in FY1999 and \$143 billion in FY2000. CBO's July 1999 baseline surplus estimates are \$120 billion in FY1999 and \$161 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 FY1990.

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 3.3 percent beginning 1998:Q1. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. 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.

a--Actual p--Preliminary

Strictly Confidential Class II FOMC  
September 29, 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>									
1991	4.3	11.1	2.2	4.5	6.1	-1.3	-1.6	8.6	3.8
1992	4.6	10.9	2.6	4.5	5.3	0.8	0.8	2.2	6.3
1993	4.9	8.3	3.8	5.4	4.5	7.3	1.4	6.0	5.0
1994	4.6	4.7	4.6	7.7	6.0	14.5	3.9	-4.0	5.8
1995	5.5	4.1	6.0	7.9	5.7	14.1	7.0	-4.6	4.2
1996	5.4	4.0	5.9	7.4	7.3	7.9	6.0	-0.6	5.8
1997	5.4	0.6	7.1	6.4	6.6	4.3	8.4	5.3	5.6
1998	6.7	-1.4	9.4	8.7	9.7	5.4	10.7	7.2	5.2
1999	6.0	-2.6	8.6	8.8	9.9	6.3	9.4	3.7	5.2
2000	4.6	-5.5	7.4	7.5	8.6	4.2	8.1	2.9	4.9
2001	4.3	-5.9	6.7	7.0	7.9	3.7	7.2	2.7	4.9
<i>Quarter</i>									
1998:3	5.7	-3.0	8.4	8.3	9.5	6.1	9.1	6.0	4.7
4	6.7	-1.4	9.2	9.1	10.6	5.3	9.9	6.4	6.9
1999:1	7.7	-2.0	10.6	9.4	10.0	9.5	12.6	7.3	6.0
2	5.2	-3.0	7.6	8.5	10.0	3.9	7.7	2.9	3.3
3	5.9	-2.7	8.3	8.5	9.2	6.1	9.1	3.7	5.5
4	4.8	-2.7	6.8	7.7	9.1	5.1	7.1	0.7	6.1
2000:1	4.6	-6.5	7.6	7.7	8.8	4.8	8.4	3.4	3.2
2	4.7	-5.2	7.3	7.6	8.6	4.2	7.9	2.7	6.4
3	4.7	-4.2	7.0	7.2	8.2	3.9	7.6	2.7	5.2
4	4.1	-6.4	6.7	6.8	7.8	3.7	7.5	2.7	4.8

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1999:Q2 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2. On a monthly average basis, total debt is projected to grow 6.2 percent in 1999 and 4.7 percent in 2000.

3. On a monthly average basis, federal debt is projected to grow -2.4 percent in 1999 and -5.0 percent in 2000.

4. On a monthly average basis, nonfederal debt is projected to grow 8.9 percent in 1999 and 7.4 percent in 2000.

Strictly Confidential Class II FOMC  
September 29, 1999

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

Category					Seasonally adjusted annual rates									
	Calendar year				1998		1999				2000			
	1998	1999	2000	2001	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	755.5	810.7	725.4	736.4	590.8	581.6	1182.4	511.6	899.5	649.3	661.7	753.5	785.4	701.2
2 Net equity issuance	-267.0	-168.9	-75.0	-40.0	-308.4	-491.3	-65.7	-354.0	-90.0	-166.0	-140.0	-72.0	-48.0	-40.0
3 Net debt issuance	1022.5	979.6	800.4	776.4	899.2	1072.8	1248.1	865.6	989.5	815.3	801.7	825.5	833.4	741.2
<i>Borrowing sectors</i>														
<i>Nonfinancial business</i>														
4 Financing gap <sup>1</sup>	88.6	119.8	158.1	185.0	67.8	105.3	76.2	117.0	134.3	151.6	143.1	164.5	164.2	160.5
5 Net equity issuance	-267.0	-168.9	-75.0	-40.0	-308.4	-491.3	-65.7	-354.0	-90.0	-166.0	-140.0	-72.0	-48.0	-40.0
6 Credit market borrowing	524.5	511.9	480.4	464.6	470.7	524.6	682.6	431.1	517.6	416.4	501.1	480.1	469.1	471.1
<i>Households</i>														
7 Net borrowing <sup>2</sup>	470.3	519.4	483.8	480.7	471.9	527.3	553.3	511.0	525.3	488.0	494.8	498.1	480.4	462.0
8 Home mortgages	358.2	401.3	383.5	384.5	365.3	419.0	405.2	414.5	391.2	394.2	392.2	391.2	381.2	369.2
9 Consumer credit	67.6	83.8	59.7	54.6	79.6	69.9	126.6	53.2	84.0	71.3	67.9	60.2	56.5	54.1
10 Debt/DPI (percent) <sup>3</sup>	94.0	97.4	100.0	101.7	94.4	95.2	96.3	97.2	98.0	98.6	99.2	99.7	100.4	101.0
<i>State and local governments</i>														
11 Net borrowing	80.3	44.6	36.4	34.4	70.0	75.1	87.4	35.7	46.0	9.3	42.4	34.4	34.4	34.4
12 Current surplus <sup>4</sup>	174.0	200.5	212.0	213.1	178.1	199.9	199.9	202.4	193.6	206.1	208.0	212.4	214.5	213.2
<i>Federal government</i>														
13 Net borrowing	-52.6	-96.2	-200.1	-203.3	-113.5	-54.1	-75.2	-112.2	-99.3	-98.3	-236.5	-187.0	-150.5	-226.2
14 Net borrowing (quarterly, n.s.a.)	-52.6	-96.2	-200.1	-203.3	-28.8	32.1	7.5	-108.0	-23.0	27.3	-35.7	-127.9	-33.8	-2.7
15 Unified deficit (quarterly, n.s.a.)	-55.2	-171.7	-162.6	-219.9	-3.0	54.5	-5.8	-143.1	-30.6	7.7	23.6	-159.8	-31.7	5.3
<i>Depository institutions</i>														
16 Funds supplied	360.5	318.0	295.6	269.9	289.0	660.7	209.3	258.5	444.7	359.4	288.9	300.9	296.9	295.9
<i>Memo (percentage of GDP)</i>														
17 Domestic nonfinancial debt <sup>5</sup>	185.3	187.3	187.9	186.8	186.3	186.0	186.6	188.1	188.2	187.9	188.6	187.9	187.7	187.6
18 Domestic nonfinancial borrowing	12.0	10.9	8.5	7.9	10.5	12.4	14.2	9.7	11.0	8.9	8.7	8.8	8.8	7.7
19 Federal government <sup>6</sup>	-0.6	-1.1	-2.1	-2.1	-1.3	-0.6	-0.9	-1.3	-1.1	-1.1	-2.6	-2.0	-1.6	-2.4
20 Nonfederal	12.6	12.0	10.6	9.9	11.9	13.0	15.0	11.0	12.1	10.0	11.3	10.8	10.4	10.1

Note. Data after 1999:Q2 are staff projections.

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

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

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

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

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

6. Excludes government-insured mortgage pool securities.

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

Measure	1998	Projection				
		1999			2000	2001
		H1	Q3	Q4		
Foreign output	0.9	4.0	3.0	3.6	3.1	3.6
<i>August GB</i>	<i>0.9</i>	<i>3.4</i>	<i>2.6</i>	<i>3.4</i>	<i>3.0</i>	
Real exports	1.1	-0.2	9.6	7.7	7.4	9.2
<i>August GB</i>	<i>1.1</i>	<i>-0.8</i>	<i>4.8</i>	<i>7.2</i>	<i>5.3</i>	
Real imports	9.7	14.4	17.2	8.0	8.5	8.4
<i>August GB</i>	<i>9.7</i>	<i>11.5</i>	<i>10.6</i>	<i>9.5</i>	<i>7.7</i>	

NOTE. Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2; and for quarters, from previous quarter. In this table, foreign aggregates in the current forecast and August Greenbook forecast are calculated using recently revised weights.

Declines in U.S. real net exports are expected to subtract 3/4 percentage point from U.S. real GDP growth in the second half of 1999, 1/2 percentage point in 2000, and 1/4 percentage point in 2001, as a rebound in exports and slower import growth moderate the negative contribution of the external sector.

**The dollar.** During the forecast period the nominal exchange value of the dollar against the major international currencies is projected to depreciate somewhat from its current level. We continue to assume that the dollar will edge lower against the euro, in response both to the growing current account deficit in the United States and expanding surplus in the euro area and to an expected pickup in European growth. The dollar also is expected to resume a modest trend decline against the Canadian dollar, which should gain some near-term support from the continuing recovery of commodity prices. We project the dollar to change little on average against the yen from its recent level through the first half of 2000 and then to depreciate slowly over the remainder of the forecast period. We believe that in the near term concerns over the fragility of economic recovery in Japan, along with a continued accommodative stance by the Bank of Japan, will help support the dollar. Over the longer term, the dollar remains vulnerable to a downward correction against the yen owing in part to the persistent large current account imbalances of the two countries.

The real exchange value of the dollar against the currencies of a wider group of U.S. trading partners, as measured by the staff's broad index, is projected to depreciate moderately over the forecast period. U.S. consumer price inflation,

### Selected Trade Prices

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

Trade category	1998		Projection			
		1999			2000	2001
		H1	Q3	Q4		
<i>Exports</i>						
Nonagricultural (core)	-1.9	0.4	1.8	2.3	1.3	1.5
Agricultural	-9.8	-9.3	-4.9	2.0	2.4	2.4
<i>Imports</i>						
Non-oil (core)	-2.0	-0.5	1.0	2.7	2.3	2.1
Oil (level, dollars per barrel)	11.40	14.70	18.17	21.65	17.59	16.07

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 non-agricultural exports.** Prices of core imports are projected to increase at an annual rate of 1 percent in the third quarter and about 2-3/4 percent in the fourth quarter -- about 1/4 and 1 percentage point faster, respectively, than projected in the August Greenbook. These higher rates raise the projected increase of core prices for this year to 0.7 percent (Q4/Q4), compared with 0.4 percent in the August Greenbook. Core import prices are forecast to rise about 2-1/4 percent next year, and 2 percent in 2001. This projection is about 1/2 percentage point more than that projected in the August Greenbook and reflects mainly the weaker path for the dollar. Core export prices are projected to move up at a rate of 1-1/4 to 1-1/2 percent during the forecast period.

**Nominal trade and current account balances.** The nominal trade deficit for goods and services is projected to widen substantially from an annual rate of \$259 billion in the second quarter of 1999 to \$335 billion in the fourth quarter of 2000 and to \$340 billion by the end of 2001. The deficit for net investment income also is expected to widen somewhat over the forecast period. Accordingly, the current account deficit, which was \$220 billion (2.6 percent of GDP) in 1998, is projected to rise to \$405 billion in 2000 (4.3 percent of GDP) and to \$420 billion in 2001 (also 4.3 percent of GDP). The previous peak level of the current-account-deficit-to-GDP ratio was 3.5 percent in 1987.

**Unchanged U.S. dollar.** One of the most noteworthy changes in our latest forecast is a downward revision to the future path of the dollar. Rather than remaining flat, as was projected for the August Greenbook, we are projecting now that the real weighted-average dollar will move down about 4-1/2 percent from its third-quarter level by the end of the forecast horizon in 2001:Q4. To highlight the implications of the change in our assumptions, we have considered the implications of an alternative scenario in which the dollar, instead, remains unchanged at its third-quarter level. As may be seen in the summary table below, with an unchanged dollar (and assuming no change in U.S. monetary policy), both U.S. real GDP growth and CPI inflation would be slightly lower in both 2000 and 2001.

**Impact of Unchanged Dollar Alternative**  
(Percent change, Q4 to Q4)

Measure	1999	2000	2001
<i>U.S. real GDP</i>			
Baseline	3.7	2.9	2.8
Alternative	3.7	2.7	2.6
<i>U.S. CPI excluding food and energy</i>			
Baseline	2.1	2.7	2.9
Alternative	2.0	2.5	2.7

NOTE. Simulation assumes nominal federal funds rate unchanged from baseline.

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

Measure and country	1993	1994	1995	1996	1997	1998	-----Projected-----		
							1999	2000	2001
REAL GDP (1)									
-----									
Total foreign	3.1	5.1	2.3	4.3	4.1	0.9	3.7	3.1	3.6
Industrial Countries	1.9	3.9	1.9	2.9	3.2	1.8	3.0	2.3	2.5
of which:									
Canada	2.9	5.5	1.4	2.4	4.4	2.8	3.6	2.7	2.7
Japan	0.5	0.9	2.5	5.1	-0.8	-3.0	2.4	0.7	1.2
United Kingdom	3.2	4.6	1.9	2.9	3.4	1.6	2.7	2.4	2.5
Euro-11	-0.0	2.9	1.5	1.6	2.9	1.9	2.3	2.5	2.7
Germany	-0.2	2.8	1.0	1.3	1.4	1.2	2.1	2.5	2.7
Developing Countries	5.0	7.0	2.9	6.4	5.2	-0.3	4.8	4.2	5.1
Asia	7.6	8.9	7.2	6.9	4.9	-1.7	7.3	5.0	6.9
Korea	6.3	9.4	7.2	6.8	3.7	-5.3	10.9	5.9	7.0
China	6.1	16.3	12.6	9.2	8.2	9.5	3.4	5.4	7.9
Latin America	2.7	5.5	-4.1	6.4	6.3	1.0	3.0	3.7	4.0
Mexico	1.9	5.1	-7.3	7.5	7.2	2.9	4.3	4.3	4.4
Brazil	4.5	9.8	-1.9	5.5	2.2	-1.6	2.8	2.2	3.0
CONSUMER PRICES (2)									
-----									
Industrial Countries	2.1	1.1	1.3	1.5	1.6	1.0	1.1	1.3	1.3
of which:									
Canada	1.8	-0.0	2.1	2.0	1.0	1.1	2.2	2.1	1.8
Japan	1.2	0.8	-0.8	0.1	2.1	0.7	-1.0	-0.3	0.0
United Kingdom (3)	2.7	2.2	2.9	3.2	2.8	2.6	2.2	2.3	2.5
Euro-11 (4)	NA	NA	NA	2.0	1.4	0.9	1.8	1.5	1.6
Germany	4.3	2.6	1.5	1.4	2.1	0.4	1.0	1.3	1.6
Developing Countries	24.7	23.0	17.0	11.2	6.9	9.1	5.5	6.1	6.2
Asia	7.7	10.7	6.4	4.8	2.8	4.5	0.8	3.3	3.8
Korea	5.5	5.8	4.4	5.1	5.1	6.0	1.9	3.7	4.9
China	17.1	26.9	11.1	7.0	1.0	-1.1	-0.1	2.4	3.6
Latin America	74.2	54.3	42.2	26.0	15.8	15.6	13.5	11.4	10.2
Mexico	8.6	6.9	48.8	28.1	17.2	17.6	14.8	12.2	11.2
Brazil	2287.6	1216.3	23.1	10.8	5.3	1.8	7.8	6.3	3.9

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	1999				Projected 2000				2001			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	----- Quarterly changes at an annual rate -----											
Total foreign	3.5	4.5	3.0	3.6	1.2	4.0	3.6	3.6	3.5	3.6	3.6	3.6
Industrial Countries	3.7	2.6	2.6	3.0	0.3	3.6	2.9	2.6	2.5	2.5	2.5	2.5
of which:												
Canada	4.2	3.3	3.2	3.6	0.4	4.2	3.4	2.8	2.7	2.7	2.7	2.7
Japan	8.1	0.9	0.2	0.6	-0.7	1.5	1.0	1.2	1.2	1.2	1.2	1.2
United Kingdom	0.9	2.6	3.3	3.9	0.6	3.8	2.6	2.5	2.5	2.4	2.5	2.4
Euro-11	1.8	1.8	2.8	2.8	0.5	3.8	3.1	2.8	2.7	2.7	2.7	2.7
Germany	1.8	0.2	3.6	3.0	0.7	3.4	3.1	3.0	2.7	2.7	2.7	2.7
Developing Countries	3.3	7.5	3.7	4.6	2.6	4.5	4.7	5.0	5.0	5.1	5.2	5.1
Asia	6.3	12.1	5.2	5.8	2.4	5.2	5.9	6.4	6.6	6.8	7.0	7.1
Korea	14.7	15.4	7.5	6.2	4.0	6.7	6.0	7.0	7.0	7.0	7.0	7.0
China	2.2	1.1	4.7	5.5	2.2	5.2	7.0	7.3	7.8	8.0	8.0	8.0
Latin America	1.0	4.6	2.7	3.9	2.9	4.1	3.9	3.9	3.7	4.0	4.1	4.1
Mexico	1.3	7.7	3.6	4.7	4.0	4.7	4.2	4.3	4.2	4.3	4.4	4.5
Brazil	3.1	3.8	1.2	3.1	0.6	2.8	2.7	2.8	2.7	3.0	3.2	3.2
CONSUMER PRICES (2)	----- Four-quarter changes -----											
Industrial Countries	0.6	0.9	1.2	1.1	1.3	1.3	1.3	1.3	1.4	1.4	1.3	1.3
of which:												
Canada	0.8	1.6	2.0	2.2	2.2	2.2	2.1	2.1	2.0	1.9	1.8	1.8
Japan	-0.2	-0.4	-0.1	-1.0	-0.5	-0.5	-0.4	-0.3	0.0	0.0	0.0	0.0
United Kingdom (3)	2.6	2.3	2.2	2.2	2.2	2.2	2.3	2.3	2.4	2.4	2.5	2.5
Euro-11 (4)	0.9	1.0	1.5	1.8	1.6	1.6	1.5	1.5	1.5	1.5	1.6	1.6
Germany	0.3	0.5	0.7	1.0	1.1	1.1	1.2	1.3	1.4	1.5	1.6	1.6
Developing Countries	8.2	7.0	6.1	5.5	5.5	5.7	6.0	6.1	6.0	6.1	6.2	6.2
Asia	2.6	0.8	0.3	0.8	1.5	2.4	3.1	3.3	3.3	3.5	3.6	3.8
Korea	0.7	0.6	0.7	1.9	2.8	3.4	4.3	3.7	3.8	4.1	4.4	4.9
China	-1.4	-2.2	-1.2	-0.1	0.8	1.6	2.1	2.4	3.0	3.6	3.6	3.6
Latin America	16.4	15.7	14.7	13.5	12.3	11.5	11.2	11.4	11.2	11.0	10.9	10.2
Mexico	18.6	17.9	16.5	14.8	13.3	12.4	12.0	12.2	12.1	12.0	11.9	11.2
Brazil	2.3	3.3	5.6	7.8	7.4	7.0	6.6	6.3	5.7	5.1	4.5	3.9

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

	1993	1994	1995	1996	1997	1998	----- 1999	Projected 2000	----- 2001
<b>NIPA REAL EXPORTS and IMPORTS</b>									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.6	-0.4	0.5	-0.3	-0.6	-1.1	-1.3	-0.4	-0.2
Exports of G&S	0.5	1.0	1.1	1.2	1.1	0.1	0.5	0.8	1.0
Imports of G&S	-1.1	-1.4	-0.7	-1.4	-1.7	-1.2	-1.8	-1.2	-1.2
Percentage change, Q4/Q4									
Exports of G&S	4.6	10.0	10.5	10.3	9.6	1.1	4.1	7.4	9.2
Services	4.1	6.0	9.8	7.5	1.5	-0.6	3.8	4.3	4.4
Agricultural Goods	-5.5	16.6	-4.3	4.8	2.8	-1.2	-3.9	2.2	2.3
Computers	23.7	32.0	55.5	35.9	40.7	6.4	29.4	43.6	41.0
Semiconductors	32.9	66.9	79.6	46.2	21.0	7.8	37.0	39.9	36.0
Other Goods 1/	3.6	7.0	5.8	8.0	11.6	1.3	0.9	3.9	6.6
Imports of G&S	10.2	12.3	5.6	11.8	14.0	9.7	13.4	8.5	8.4
Services	3.2	1.4	6.1	5.5	12.4	2.4	9.6	3.2	3.4
Oil	10.1	-0.2	2.4	7.9	4.0	5.9	6.8	3.0	2.5
Computers	39.3	44.8	48.1	24.4	30.3	28.3	49.8	46.4	41.2
Semiconductors	34.2	54.5	92.4	57.6	32.7	-7.8	34.6	43.7	41.2
Other Goods 2/	9.5	12.2	-1.1	10.4	13.0	11.0	11.1	5.6	5.2
Billions of chained 1992 dollars									
Net Goods & Services	-70.2	-104.6	-96.5	-111.2	-136.1	-238.2	-347.4	-410.3	-444.2
Exports of G&S	658.2	712.4	792.6	860.0	970.0	984.7	1021.9	1089.6	1186.6
Imports of G&S	728.4	817.0	889.0	971.2	1106.1	1222.9	1369.3	1499.9	1630.9
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-85.3	-121.7	-113.6	-129.3	-143.5	-220.6	-337.5	-405.1	-422.2
Current Acct as Percent of GDP	-1.3	-1.7	-1.6	-1.7	-1.8	-2.6	-3.8	-4.3	-4.3
Net Goods & Services (BOP)	-69.9	-98.4	-97.5	-104.3	-104.7	-164.3	-271.5	-333.2	-344.9
Investment Income, Net	26.9	20.3	23.9	21.8	8.2	-7.0	-13.6	-18.6	-23.9
Direct, Net	58.6	54.4	63.8	67.7	69.2	59.4	61.0	74.1	91.9
Portfolio, Net	-31.7	-34.1	-39.9	-46.0	-61.0	-66.4	-74.6	-92.7	-115.8
Other Income & Transfers, Net	-42.2	-43.6	-39.9	-46.7	-46.9	-49.3	-52.4	-53.3	-53.3

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1996				1997				1998			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	Percentage point contribution to GDP growth											
Net Goods & Services	-1.1	-1.0	-1.4	2.4	-1.3	-0.4	-0.5	-0.3	-2.3	-2.1	-0.6	0.5
Exports of G&S	0.4	0.6	0.2	3.2	0.9	1.7	1.2	0.5	-0.3	-0.9	-0.3	2.0
Imports of G&S	-1.5	-1.6	-1.6	-0.9	-2.2	-2.2	-1.7	-0.8	-1.9	-1.2	-0.3	-1.5
	Percentage change from previous period, SAAR											
Exports of G&S	3.7	5.8	2.1	32.0	8.3	15.5	10.6	4.4	-2.8	-7.7	-2.8	19.7
Services	-4.0	10.3	-9.9	39.8	-6.7	11.8	5.9	-4.0	-1.2	1.7	-10.4	8.3
Agricultural Goods	22.6	-32.8	-1.6	48.7	-16.1	-7.8	8.7	32.8	-9.9	-23.4	-14.5	61.3
Computers	57.6	24.7	27.7	35.9	70.2	78.7	41.9	-9.2	-15.5	8.7	20.6	15.7
Semiconductors	23.8	29.7	30.2	118.6	41.3	17.3	32.3	-2.2	-2.0	-14.3	23.9	29.9
Other Goods 1/	0.1	6.0	5.7	21.3	13.8	15.6	9.2	8.0	-1.6	-11.0	-1.2	21.9
Imports of G&S	13.1	13.5	13.6	7.0	18.6	17.9	13.5	6.3	15.7	9.3	2.3	12.0
Services	9.2	4.3	9.9	-1.1	17.8	10.6	15.8	5.8	9.3	-0.6	-0.6	2.0
Oil	-9.8	68.9	3.5	-14.0	-8.2	37.0	6.0	-12.2	8.8	41.4	-5.7	-13.2
Computers	22.5	22.9	18.8	33.8	54.5	39.0	30.6	2.9	38.8	22.4	9.8	45.3
Semiconductors	38.7	8.9	50.1	172.1	89.0	16.0	20.3	17.6	9.9	-27.8	-3.0	-6.4
Other Goods 2/	13.9	10.5	13.4	4.1	16.2	16.1	11.8	8.1	16.1	10.8	3.5	13.9
	Billions of chained 1992 dollars, SAAR											
Net Goods & Services	-95.5	-113.5	-140.1	-95.9	-121.5	-131.6	-142.4	-149.0	-198.5	-245.2	-259.0	-250.0
Exports of G&S	833.6	845.5	849.9	911.1	929.4	963.6	988.1	998.8	991.9	972.1	965.3	1009.6
Imports of G&S	929.1	958.9	990.0	1007.0	1050.9	1095.2	1130.5	1147.8	1190.4	1217.3	1224.3	1259.6
	Billions of dollars, SAAR											
US CURRENT ACCOUNT BALANCE	-107.0	-125.8	-153.3	-131.1	-139.6	-125.9	-142.5	-165.9	-172.1	-209.6	-253.9	-246.7
Current Account as % of GDP	-1.4	-1.6	-2.0	-1.7	-1.8	-1.6	-1.7	-2.0	-2.1	-2.5	-3.0	-2.8
Net Goods & Services (BOP)	-89.4	-105.9	-125.9	-96.1	-106.4	-96.8	-102.9	-112.8	-133.4	-167.8	-182.9	-173.1
Investment Income, Net	30.4	21.3	15.1	20.2	9.0	13.7	5.8	4.2	6.1	2.9	-22.5	-14.3
Direct, Net	68.5	64.3	63.6	74.5	66.4	74.7	69.2	66.6	67.3	64.7	47.3	58.2
Portfolio, Net	-38.2	-43.0	-48.5	-54.3	-57.4	-60.9	-63.4	-62.4	-61.3	-61.8	-69.9	-72.5
Other Inc. & Transfers, Net	-48.0	-41.2	-42.5	-55.2	-42.1	-42.9	-45.4	-57.3	-44.8	-44.7	-48.5	-59.3

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1999				Projected 2000				2001			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>NIPA REAL EXPORTS and IMPORTS</b>												
Percentage point contribution to GDP growth												
Net Goods & Services	-2.3	-1.4	-1.2	-0.3	-0.3	-1.0	-0.4	0.2	-0.4	-0.4	-0.2	0.2
Exports of G&S	-0.6	0.5	1.0	0.8	0.2	0.9	0.9	1.3	0.7	1.0	1.0	1.4
Imports of G&S	-1.7	-1.9	-2.2	-1.1	-0.5	-1.9	-1.3	-1.1	-1.1	-1.4	-1.2	-1.1
Percentage change from previous period, SAAR												
Exports of G&S	-5.1	4.9	9.6	7.7	1.6	8.2	8.3	11.9	5.9	9.3	9.2	12.3
Services	4.3	4.0	2.5	4.5	2.3	5.3	4.7	4.9	4.6	4.7	4.3	4.2
Agricultural Goods	-37.5	28.7	8.3	-1.9	2.1	2.1	2.2	2.2	2.2	2.3	2.3	2.3
Computers	0.2	50.2	47.5	26.2	35.9	46.2	46.2	46.2	41.0	41.0	41.0	41.0
Semiconductors	34.2	39.4	49.1	26.2	36.0	41.2	41.2	41.2	36.0	36.0	36.0	36.0
Other Goods 1/	-8.8	-1.8	7.9	7.3	-4.1	4.5	4.9	11.0	1.0	6.7	6.7	12.2
Imports of G&S	13.5	15.2	17.2	8.0	3.3	14.0	9.1	8.0	7.6	9.6	8.5	7.8
Services	11.8	7.2	13.3	6.0	0.9	4.7	4.0	3.3	3.4	3.2	3.6	3.6
Oil	7.0	25.3	-5.6	2.8	-20.6	43.0	5.4	-5.9	-8.7	31.3	3.6	-11.1
Computers	43.7	78.8	55.1	26.2	36.0	57.3	46.4	46.4	41.2	41.2	41.2	41.2
Semiconductors	17.5	62.1	34.0	28.6	36.0	46.4	46.4	46.4	41.2	41.2	41.2	41.2
Other Goods 2/	11.6	10.1	16.4	6.5	2.5	8.9	5.9	5.2	5.2	5.1	5.2	5.2
Billions of chained 1992 dollars, SAAR												
Net Goods & Services	-303.6	-338.6	-369.7	-377.6	-384.9	-412.0	-423.1	-421.3	-433.5	-444.5	-451.5	-447.4
Exports of G&S	996.5	1008.4	1031.7	1051.0	1055.2	1076.1	1097.8	1129.2	1145.5	1171.1	1197.3	1232.6
Imports of G&S	1300.1	1347.0	1401.4	1428.6	1440.1	1488.0	1521.0	1550.5	1579.0	1615.7	1648.8	1680.0
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-274.6	-321.8	-360.1	-393.7	-389.8	-407.6	-409.3	-413.7	-414.3	-421.9	-424.2	-428.2
Current Account as % of GDP	-3.1	-3.6	-4.0	-4.3	-4.2	-4.4	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3
Net Goods & Services (BOP)	-215.9	-259.1	-295.0	-315.8	-319.7	-337.7	-341.0	-334.4	-342.1	-348.2	-349.3	-340.2
Investment Income, Net	-11.8	-12.0	-14.4	-16.3	-19.5	-19.3	-17.7	-17.7	-21.7	-23.2	-24.3	-26.5
Direct, Net	59.3	56.4	63.0	65.1	65.4	70.2	77.3	83.5	85.0	89.1	94.3	99.0
Portfolio, Net	-71.1	-68.5	-77.5	-81.4	-84.9	-89.5	-95.0	-101.2	-106.7	-112.2	-118.6	-125.5
Other Inc. & Transfers, Net	-46.9	-50.6	-50.6	-61.6	-50.6	-50.6	-50.6	-61.6	-50.6	-50.6	-50.6	-61.6

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

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

## **Part 2**

September 29, 1999

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

Confidential (FR) Class III FOMC

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September 29, 1999

## **RECENT DEVELOPMENTS**

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

**GROSS ISSUANCE OF SECURITIES BY U.S. CORPORATIONS**  
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1997	1998	1999			
			H1	Q3 <sup>e</sup>	Aug.	Sept. <sup>e</sup>
<b>All U.S. corporations</b>	<b>77.4</b>	<b>94.0</b>	<b>102.7</b>	<b>82.4</b>	<b>74.0</b>	<b>76.0</b>
Stocks <sup>1</sup>	9.8	10.6	10.1	9.3	7.5	8.0
Bonds	67.6	83.5	92.6	73.1	66.5	69.0
<b>Nonfinancial corporations</b>						
Stocks <sup>1</sup>	5.0	6.2	7.6	7.9	6.1	6.5
Initial public offerings	1.8	2.2	2.8	3.4	2.6	3.2
Seasoned offerings	3.2	4.0	4.8	4.5	3.5	3.3
Bonds	18.6	25.7	28.7	24.7	21.9	24.0
By rating, sold in U.S. <sup>2</sup>						
Investment grade	8.4	14.1	16.1	16.4	16.8	17.0
Speculative grade	8.2	10.2	9.2	4.7	3.1	4.5
Public	1.5	1.8	1.4	1.0	.3	1.5
Rule 144A	6.7	8.4	7.8	3.7	2.7	3.0
Other (Sold Abroad/Unrated)	1.9	1.3	3.4	2.8	1.9	2.5
<b>Financial corporations</b>						
Stocks <sup>1</sup>	4.8	4.4	2.4	1.4	1.4	1.5
Bonds	49.1	57.8	63.9	49.1	44.6	45.0
<b>Memo:</b>						
Net issuance of commercial paper, nonfinancial corporations <sup>3</sup>	1.1	2.3	2.8	2.5	6.2	-4.0
Change in C&I loans at commercial banks <sup>3</sup>	6.1	7.3	2.4	6.6	13.4	.5

Note. Components may not sum to totals because of rounding. These data include speculative-grade bonds issued privately under Rule 144A. All other private placements are excluded. Total reflects gross proceeds rather than par value of original discount bonds.

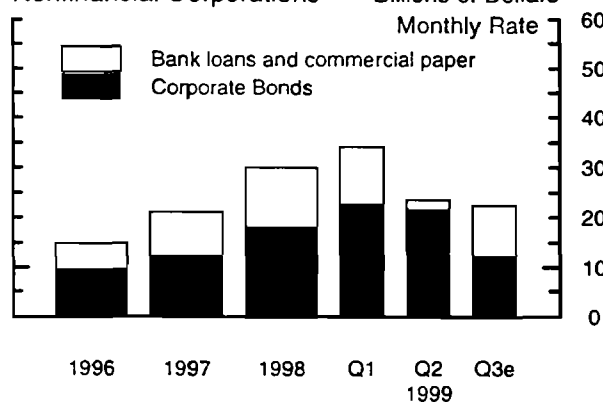
1. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings.

2. Bonds categorized according to Moody's bond ratings, or to Standard & Poor's if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.

3. End-of-period basis. Seasonally adjusted.

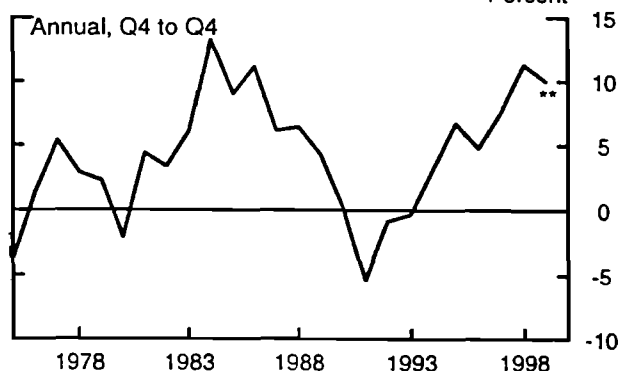
e Staff estimate.

**Major Components of Net Borrowing by Nonfinancial Corporations**



Calculated on a period end basis. Bank loans include CLOs.

**Real Debt Growth of Nonfinancial Corporations\***



\*Nominal debt growth less growth in GDP chain-weight price index.

\*\*Through Q3 estimate, at annual rate.

**Commercial Bank Credit**  
(Percent change; seasonally adjusted annual rate)

Type of credit	1998	1999					Level, Sep 1999 p (billions of \$)
		Q2	Q3 p	Jul	Aug	Sep p	
1. Bank credit: Reported	11.0	0.3	5.2	-0.6	9.5	8	4,609
2.           Adjusted <sup>1</sup>	10.2	2.2	5.6	1.0	9.2	5	4,521
3. Securities: Reported	14.0	-2.9	14.6	17.1	15.7	12	1,251
4.           Adjusted <sup>1</sup>	11.1	4.6	17.0	24.8	14.8	3	1,163
5.   U.S. government	5.9	4.3	6.4	2.8	8.3	-6	816
6.   Other <sup>2</sup>	32.4	-16.9	31.5	46.6	30.5	46	436
7. Loans <sup>3</sup>	9.9	1.5	1.9	-7.0	7.3	6	3,358
8.   Business	11.8	2.6	4.9	1.7	10.1	9	979
9.   Real estate	6.5	3.6	5.7	1.2	10.7	8	1,389
10.   Home equity	0.0	6.7	-19.7	-67.1	8.6	9	99
11.   Other	7.1	3.3	7.8	6.8	10.9	8	1,290
12. Consumer: Reported	-1.5	-2.9	-9.3	-19.5	-0.7	6	486
13.           Adjusted <sup>4</sup>	6.0	1.3	5.3	4.6	8.0	13	774
14.   Other <sup>5</sup>	30.0	-2.0	-3.5	-32.7	-0.2	-6	504

Note. Adjusted for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates shown are percentage changes in consecutive levels, annualized but not compounded.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FASB 115).

2. Includes securities of corporations, state and local governments, and foreign governments and any trading account assets that are not U.S. government securities.

3. Excludes interbank loans.

4. Includes an estimate of outstanding loans securitized by commercial banks.

5. Includes security loans, loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

p Preliminary.

CONFIDENTIAL (FR)  
CLASS III - FOMC

October 1, 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

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

	1999 Jan.	1999 Feb.	1999 Mar.	1999 Apr.	1999 May	1999 June	1999 July	1999 Aug.	1999 Sept. (f)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	103.9	108.1	105.7	104.6	106.8	107.3	106.0	104.5	107.2
Current conditions	116.8	115.0	116.3	115.9	121.1	118.9	116.5	114.1	115.9
Expected conditions	95.7	103.6	99.0	97.4	97.6	99.8	99.2	98.4	101.5
-----									
Personal financial situation									
Now compared with 12 months ago*	133	133	130	134	133	133	132	132	132
Expected in 12 months*	132	138	134	136	135	133	135	139	135
Expected business conditions									
Next 12 months*	143	152	141	141	144	147	147	140	150
Next 5 years*	110	127	123	115	114	122	118	118	124
Appraisal of buying conditions									
Cars	157	153	152	150	151	150	153	148	145
Large household appliances*	170	166	172	167	182	176	171	165	169
Houses	176	178	167	168	171	168	167	153	149
Willingness to use credit	47	53	51	49	52	53	49	50	47
Willingness to use savings	75	81	80	73	75	88	73	65	62
Expected unemployment change - next 12 months	115	108	113	109	110	102	109	113	110
Prob. household will lose a job - next 5 years	21	20	21	23	22	20	24	21	20
Expected inflation - next 12 months									
Mean	3.0	2.8	3.1	3.0	3.2	3.1	3.0	3.2	3.2
Median	2.7	2.5	2.7	2.7	2.8	2.5	2.7	2.8	2.7
Expected inflation - next 5 to 10 years									
Mean	3.5	3.3	3.0	3.0	3.5	3.3	3.3	3.3	3.5
Median	3.0	2.8	2.7	2.8	2.9	2.8	2.9	2.8	2.9

\* -- 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.

### Production of Domestic Autos and Trucks

(Millions of units at an annual rate except as noted; FRB seasonal basis)

Item	1999					
	Q2	Q3 <sup>1</sup>	Q4 <sup>1</sup>	Aug.	Sept. <sup>1</sup>	Oct. <sup>1</sup>
U.S. production	13.1	13.1	13.1	13.7	13.2	13.7
Autos	5.6	5.6	5.8	5.7	5.8	6.1
Trucks	7.5	7.5	7.3	8.0	7.4	7.7
Days' supply						
Autos	57.0	n.a.	n.a.	47.5	n.a.	n.a.
Light trucks <sup>2</sup>	64.9	n.a.	n.a.	67.1	n.a.	n.a.

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

1. Production rates are manufacturers' schedules.

2. Excludes medium and heavy (class 4-8) trucks.

n.a. Not available.

### Sales of New Homes

Sales of new homes rose 2.9 percent in August to an annual rate of 983,000 units just shy of the all-time high posted in November 1998. However, the level of sales was revised down 3-1/4 percent in June and 2-1/2 percent in July.<sup>3</sup> The average sales pace during the first two months of the current quarter was 969,000 units, up 5.4 percent from the pace during the first half of the year. The inventory of new homes for sale rose 1.6 percent last month to 313,000 units; this level would provide 3.9 months' supply at the August sales pace--in the middle of the range during the past year.

The median price of new homes sold fell 2.6 percent during the twelve months ended in August while the average price rose 6.3 percent. In August, the difference in the two prices was unusually large: The median price of new homes was \$150,800, about three-fourths as large as the average price of \$198,300. According to an analyst at the Census, the divergence last month was the result of an unusual number of sales of very expensive homes.

3. Sales of new homes are only actually measured after a permit for construction of the unit has been issued. In its monthly estimates, the Census uses a mechanical procedure to estimate the number of homes sold before a permit is issued (so-called pre-sales). In subsequent months, as permits for these homes are issued, the imputation is largely replaced with actual sales. This procedure overestimated pre-sales in June and July and may have overestimated sales again in August.