

## **Part 1**

May 15, 1997

# **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

Strictly Confidential (FR) Class II FOMC

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May 15, 1997

## **SUMMARY AND OUTLOOK**

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Consequently, we are predicting a slowing of growth in nonfarm inventory accumulation to 3-1/2 percent at an annual rate in the current quarter; this pace largely reflects desired restocking, although a little unanticipated building may occur at firms whose sales fall short of more buoyant expectations. The slowing of inventory growth from the first-quarter pace subtracts about 3/4 percentage point from growth of real GDP this quarter.

Final sales also are expected to decelerate in the current quarter. Growth of domestic final sales, while still relatively brisk, is likely to fall well short of the unusually rapid pace of the first quarter, and a significant portion of this growth in demand will probably continue to be channeled to foreign producers through strong advances in U.S. imports. We project that the additional deterioration of net exports, much of which is a response to past dollar appreciation, will subtract more than 1/2 percentage point from GDP growth in the second quarter; this drag is more than the external sector exerted on average over the past year.

We are predicting that real personal consumption expenditures will move up at an annual rate of about 2-1/4 percent this quarter. Spending got off to a weak start in April, with a downturn in purchases of light motor vehicles and sluggish sales at non-auto retail stores. This lackluster performance appears to have left the April level of goods expenditures a shade below the average for the first three months of the year in

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

Measure	1997:Q1			1997:Q2	
	Mar. GB	BEA adv.	May GB	Mar. GB	May GB
<b>Real GDP</b>	<b>3.4</b>	<b>5.6</b>	<b>6.0</b>	<b>2.9</b>	<b>1.8</b>
Private domestic final purchases	5.2	7.1	6.7	3.8	3.5
Personal consumption expenditures	5.0	6.4	5.8	3.2	2.2
Residential investment	.9	5.5	6.4	1.7	1.3
Business fixed investment	7.6	11.9	12.2	7.7	12.2
Change, in billions of chained (1992) dollars					
Inventory investment	8.2	29.0	35.2	6.3	-13.3
Government outlays for consumption and investment	3.8	-1.8	-.4	.6	6.3
Net exports	-27.1	-31.9	-30.1	-11.9	-12.5

of stronger growth of real GDP was prompted by the surprising strength in nonwithheld tax receipts, which led us to raise the ongoing level of taxes from that shown in the last forecast. Given the lack of detail in the available data, we can only conjecture about what lies behind the bulge in nonwithheld tax payments. But none of the most likely explanations, such as an understatement of aggregate NIPA income, a shift in the distribution of taxable income to high-bracket households, or a jump in capital gains realizations, seem to point to a big hit to spending. Thus, we have felt reasonably comfortable letting the higher tax payments come mostly out of personal saving.

Our forecast has spending moving up a touch faster than DPI over the 1997-98 period. The two key elements in that story are the effects of the further rise in the wealth-to-income ratio this year and the lagged response of consumer spending to the strength of income in recent quarters. The trends in consumer loan delinquencies and

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

Measure	1997:H1	1997:H2	1998
<b>Real GDP</b>	<b>3.9</b>	<b>2.4</b>	<b>2.0</b>
Previous	3.1	2.5	2.1
<b>Final sales</b>	<b>3.2</b>	<b>2.8</b>	<b>2.0</b>
Previous	2.7	2.6	2.0
<b>PCE</b>	<b>4.0</b>	<b>3.1</b>	<b>2.6</b>
Previous	4.1	2.9	2.5
<b>Residential investment</b>	<b>3.8</b>	<b>-1.8</b>	<b>-1.9</b>
Previous	1.3	-1.7	-1.2
<b>BFI</b>	<b>12.2</b>	<b>8.2</b>	<b>5.6</b>
Previous	7.6	7.0	5.7
<b>Government purchases</b>	<b>.9</b>	<b>1.3</b>	<b>.1</b>
Previous	.7	1.4	.2
<b>Change, in billions of chained (1992) dollars</b>			
<b>Inventory change</b>	<b>21.9</b>	<b>-13.6</b>	<b>-1.0</b>
Previous	14.6	-3.1	3.8
<b>Net exports</b>	<b>-42.6</b>	<b>-11.5</b>	<b>-23.4</b>
Previous	-39.0	-14.3	-23.6

perceived lack of job opportunities, and perhaps some discouragement among middle-aged males displaced by corporate restructuring, resulted in a sag in the participation rate; in the past year, more people have entered the market as job opportunities were seen to be improving. Looking at the composition of the growth in the labor force, we do not think that much of the recent rise has been caused by welfare reform, and because the reforms will still be in their early stages by the end of 1998, we anticipate only a small boost to participation from this source over the next year and a half.

Measured productivity growth got off to a strong start this year, with output per hour in the nonfarm business sector probably up at an annual rate of around 2-1/2 percent in the first quarter. The renewed signs of life in productivity in the past two quarters are encouraging, but a pickup is to be expected in a period of accelerating output, and the gains came after a span of remarkably poor performance. Under the circumstances, we hesitate to revise our assessment of the underlying trend of output per hour despite anecdotes to the effect that businesses have entered a new phase of efficiency improvement. We have raised our forecast of productivity growth for 1997 as a whole to 1-1/4 percent, but we are projecting a dropback to slightly under 1 percent in 1998, in part reflecting the notion that employers are having to hire (and train) less-qualified workers in a period of unusually low unemployment.

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

Measure	1995	1996	1997	1998
Output per hour, nonfarm business	-.1	.9	1.2	.9
Previous	-.1	1.0	.9	.8
Nonfarm payroll	2.0	2.2	1.9	1.3
Previous	2.0	2.2	2.1	1.4
Household employment survey	.6	2.1	2.2	1.2
Previous	.6	2.1	1.9	1.3
Labor force participation rate <sup>1</sup>	66.5	66.9	67.3	67.4
Previous	66.5	66.9	67.1	67.2
Civilian unemployment rate	5.6	5.3	4.8	4.8
Previous	5.6	5.3	5.0	4.9

1. Percent, average for the fourth quarter.

thrust of prices would be more substantial were it not for our expectation that expansion of factory capacity, while slowing next year, will be fast enough to hold utilization rates just above their historical averages.

All told, we continue to see gradual acceleration of core inflation as the most likely outcome for the next year and a half. The CPI excluding food and energy is projected to rise 2-3/4 percent in 1997, a little more than in 1996. Next year brings an additional moderate pickup in this inflation measure; we are predicting that the increase will be a little more than 3 percent on an official basis and 3-1/2 percent if adjustment is made for the technical changes to the CPI since 1994.

We have not made any allowance for big shocks to the economy from the food or energy sectors. After some further decline in the near term, retail energy prices are expected to rise gradually and end 1997 at a somewhat lower level than in the fourth quarter of 1996; in the last Greenbook, we had anticipated a net price change of zero over the year. Next year, stable oil prices and a small increase in the combined

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

Measure	1995	1996	1997	1998
Consumer price index	2.6	3.2	2.4	2.9
Previous	2.6	3.2	2.5	3.0
Food	2.6	4.2	2.1	2.7
Previous	2.6	4.2	2.3	2.9
Energy	-1.7	7.6	-1.3	1.3
Previous	-1.7	7.6	.0	.9
Excluding food and energy	3.0	2.6	2.7	3.1
Previous	3.0	2.6	2.8	3.2
ECI for compensation of private industry workers <sup>1</sup>	2.6	3.1	3.4	3.6
Previous	2.6	3.1	3.5	3.7
Prices of non-oil merchandise imports	.8	-2.9	-.0	.6
Previous	.8	-2.8	-.3	.2
	Percentage points			
MEMO				
Adjustment to the core CPI for technical changes	.1	.2	.3	.4
Previous	.1	.2	.3	.4

1. December to December.

baseline assumption only for the latter half of 1998--and then only mildly--effects on the economy within the forecast period are negligible. Real GDP in 1998 rises just a tenth more than in the baseline forecast, and the effects on unemployment and inflation are imperceptible. Nonetheless, we have reason for showing this simulation: Although our baseline forecast has real GDP growth moderating in 1998, we do not believe that maintenance of a stable nominal funds rate in the face of an upcreep in inflation is likely to create a path for the real rate that is consistent with further output deceleration in 1999. Consequently, the forces necessary to ultimately turn inflation back down would not emerge.

The second alternative involves a more aggressive approach for capping inflation--preemptive, as it were. The fed funds rate is raised 100 basis points further in a series of steps over the remainder of 1997 and then held steady in 1998. Growth of real GDP in 1998 is appreciably smaller in this alternative, the unemployment rate ends up almost half a percentage point higher than it is in the baseline forecast, and acceleration of inflation is forestalled. Given the high real rate prevailing at the end of the period, the disinflationary trends emerging in 1999 might call for some easing of the funds rate during that year to avoid greater restraint on aggregate demand than would be needed to restore a clear downtilt to the inflation rate.

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

Measure	1996	1997	1998
<i>Real GDP</i>			
Baseline	3.1	3.1	2.0
No further change	3.1	3.1	2.1
Tighter policy	3.1	2.9	1.2
<i>Civilian unemployment rate</i> <sup>1</sup>			
Baseline	5.3	4.8	4.8
No further change	5.3	4.8	4.8
Tighter policy	5.3	4.9	5.2
<i>CPI</i>			
Baseline	3.2	2.4	2.9
No further change	3.2	2.4	2.9
Tighter policy	3.2	2.4	2.5

1. Average for the fourth quarter.

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

May 15, 1997

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>	
	03/19/97	05/15/97	03/19/97	05/15/97	03/19/97	05/15/97	03/19/97	05/15/97	03/19/97	05/15/97
<b>ANNUAL</b>										
1994	5.8	5.8	3.5	3.5	2.3	2.3	2.6	2.6	6.1	6.1
1995	4.6	4.6	2.0	2.0	2.5	2.5	2.8	2.8	5.6	5.6
1996	4.5	4.4	2.5	2.4	2.1	2.1	2.9	2.9	5.4	5.4
1997	5.4	5.5	3.2	3.5	2.4	2.3	2.7	2.5	5.1	5.0
1998	4.6	4.4	2.3	2.1	2.6	2.5	2.8	2.8	4.9	4.8
<b>QUARTERLY</b>										
1995 Q1	3.8	3.8	0.4	0.4	3.3	3.3	2.7	2.7	5.5	5.5
Q2	3.1	3.1	0.7	0.7	2.4	2.4	3.5	3.5	5.6	5.6
Q3	6.0	6.0	3.8	3.8	2.1	2.1	2.1	2.1	5.7	5.7
Q4	2.3	2.3	0.3	0.3	2.1	2.1	2.4	2.6	5.6	5.6
1996 Q1	4.2	4.2	2.0	2.0	2.3	2.3	3.2	3.2	5.6	5.6
Q2	6.5	6.5	4.7	4.7	2.2	2.2	3.9	3.4	5.4	5.4
Q3	3.8	3.8	2.1	2.1	2.0	2.0	2.3	2.8	5.3	5.3
Q4	5.5	5.3	4.3	3.8	1.8	1.9	3.1	3.3	5.3	5.3
1997 Q1	6.4	8.1	3.4	6.0	3.1	2.8	2.5	2.3	5.3	5.3
Q2	5.3	3.9	2.9	1.8	2.5	2.1	2.1	1.2	5.1	5.0
Q3	4.5	4.6	2.5	2.5	2.2	2.3	2.6	2.7	5.0	4.9
Q4	4.4	4.5	2.4	2.3	2.2	2.4	2.9	3.1	5.0	4.8
1998 Q1	4.8	4.5	2.3	2.1	2.7	2.6	2.9	2.8	4.9	4.8
Q2	4.6	4.4	2.1	2.0	2.8	2.7	2.9	2.9	4.9	4.8
Q3	4.6	4.3	2.0	1.9	2.9	2.7	3.0	3.0	4.9	4.8
Q4	4.6	4.3	2.0	1.9	2.9	2.7	3.1	3.0	4.9	4.8
<b>TWO-QUARTER<sup>3</sup></b>										
1995 Q2	3.5	3.5	0.6	0.6	2.9	2.9	3.0	3.0	0.0	0.0
Q4	4.1	4.1	2.0	2.0	2.1	2.1	2.3	2.3	0.0	0.0
1996 Q2	5.4	5.4	3.3	3.3	2.2	2.2	3.4	3.4	-0.2	-0.2
Q4	4.6	4.6	3.2	3.0	1.9	2.0	3.0	3.0	-0.1	-0.1
1997 Q2	5.9	6.0	3.1	3.9	2.8	2.5	2.3	1.8	-0.2	-0.3
Q4	4.4	4.6	2.5	2.4	2.2	2.4	2.7	2.9	-0.1	-0.2
1998 Q2	4.7	4.4	2.2	2.1	2.8	2.7	2.9	2.9	-0.1	-0.0
Q4	4.6	4.3	2.0	1.9	2.9	2.7	3.0	3.0	-0.0	0.0
<b>FOUR-QUARTER<sup>4</sup></b>										
1994 Q4	5.9	5.9	3.5	3.5	2.3	2.3	2.7	2.7	-1.0	-1.0
1995 Q4	3.8	3.8	1.3	1.3	2.5	2.5	2.6	2.6	0.0	0.0
1996 Q4	5.0	5.0	3.2	3.1	2.1	2.1	3.2	3.2	-0.3	-0.3
1997 Q4	5.2	5.3	2.8	3.1	2.5	2.4	2.5	2.4	-0.3	-0.5
1998 Q4	4.7	4.4	2.1	2.0	2.8	2.7	3.0	2.9	-0.1	0.0

1. For all urban consumers.

2. Level, except as noted.

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

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



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

May 15, 1997

Item	Units <sup>1</sup>	- Projected -								
		1990	1991	1992	1993	1994	1995	1996	1997	1998
EXPENDITURES										
Nominal GDP	Bill. \$	5743.8	5916.7	6244.4	6553.0	6935.7	7253.8	7576.1	7991.7	8344.8
Real GDP	Bill. Ch. \$	6136.3	6079.4	6244.4	6386.1	6608.4	6742.2	6906.8	7151.5	7303.4
Real GDP	% change	-0.2	0.4	3.6	2.2	3.5	1.3	3.1	3.1	2.0
Gross domestic purchases		-0.8	0.0	4.0	2.9	3.7	1.0	3.3	3.8	2.2
Final sales		0.6	-0.4	3.9	2.0	2.9	1.9	3.1	3.0	2.0
Priv. dom. final purchases		-0.7	-0.8	4.9	3.4	4.0	2.3	3.6	4.3	2.7
Personal cons. expenditures		0.5	-0.2	4.2	2.5	3.1	1.9	2.7	3.6	2.6
Durables		-3.2	-3.1	9.4	7.3	7.0	1.3	5.4	7.2	4.3
Nondurables		-0.5	-1.0	3.4	1.5	3.5	1.1	1.8	3.1	2.3
Services		2.0	0.9	3.6	2.1	2.0	2.4	2.6	2.9	2.2
Business fixed investment		-2.5	-6.0	5.5	8.5	10.1	6.4	9.5	10.2	5.6
Producers' dur. equipment		-2.0	-2.6	9.6	11.5	12.6	6.9	9.7	11.6	6.0
Nonres. structures		-3.5	-12.5	-3.4	1.5	3.7	5.1	9.0	6.5	4.4
Residential structures		-15.1	1.1	16.9	8.1	5.7	-1.5	3.8	1.0	-1.9
Exports		7.2	8.6	4.1	4.8	9.9	7.4	7.4	7.0	6.9
Imports		0.5	4.1	7.4	10.5	11.8	4.2	8.3	11.9	8.1
Gov't. cons. & investment		2.6	-0.7	1.7	-0.5	0.0	-1.3	1.9	1.1	0.1
Federal		1.6	-3.1	1.3	-5.4	-3.1	-6.7	1.5	-1.0	-3.9
Defense		0.3	-5.3	-1.3	-6.8	-5.7	-6.8	0.2	-1.4	-4.2
State & local		3.3	1.0	2.0	3.1	2.2	2.1	2.1	2.4	2.4
Change in bus. inventories	Bill. Ch. \$	10.4	-3.0	7.0	19.0	58.9	32.7	13.6	39.9	30.8
Nonfarm		7.8	-1.2	2.0	26.4	46.8	37.2	17.1	39.0	28.8
Net exports		-61.9	-22.3	-29.5	-72.0	-105.7	-107.6	-113.6	-145.4	-173.3
Nominal GDP	% change	4.4	3.8	6.3	4.8	5.9	3.8	5.0	5.3	4.4
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	109.4	108.3	108.6	110.7	114.2	117.2	119.5	122.0	123.8
Unemployment rate	%	5.6	6.8	7.5	6.9	6.1	5.6	5.4	5.0	4.8
Industrial prod. index	% change	-0.6	-0.0	3.9	3.0	5.7	1.8	3.9	3.9	2.0
Capacity util. rate - mfg.	%	81.4	78.0	79.5	80.8	83.1	83.1	82.1	82.5	82.1
Housing starts	Millions	1.19	1.01	1.20	1.29	1.46	1.35	1.48	1.42	1.35
Light motor vehicle sales		14.05	12.52	12.85	13.87	15.02	14.77	15.03	15.09	14.91
North Amer. produced		10.85	9.74	10.51	11.72	12.88	12.85	13.32	13.20	13.10
Other		3.20	2.77	2.34	2.15	2.13	1.91	1.70	1.90	1.81
INCOME AND SAVING										
Nominal GNP	Bill. \$	5764.9	5932.4	6255.5	6563.5	6931.9	7246.7	7567.1	7969.4	8310.9
Nominal GNP	% change	4.6	3.5	6.2	4.7	5.7	3.9	4.9	5.1	4.3
Nominal personal income		6.4	3.7	7.3	3.6	4.9	5.6	5.7	5.3	4.9
Real disposable income		1.1	0.8	4.0	0.9	2.4	3.1	2.7	3.0	2.7
Personal saving rate	%	5.3	6.0	6.2	4.8	4.0	4.6	4.9	4.8	4.7
Corp. profits, IVA & CCAdj.	% change	5.5	4.5	11.3	18.8	9.6	6.2	6.7	10.0	0.6
Profit share of GNP	%	6.9	6.9	6.8	7.5	8.0	8.3	8.9	9.3	8.9
Excluding FR Banks	%	6.5	6.6	6.6	7.3	7.7	8.0	8.6	9.0	8.6
Federal surpl./deficit	Bill. \$	-154.7	-196.0	-280.9	-255.6	-190.2	-161.7	-127.1	-76.4	-86.3
State & local surpl./def.		80.1	75.8	86.3	94.9	99.7	95.0	93.0	96.0	92.5
Ex. social ins. funds		20.2	11.5	18.3	28.0	36.9	36.8	37.4	43.4	40.7
PRICES AND COSTS										
GDP implicit deflator	% change	4.7	3.4	2.6	2.5	2.4	2.4	1.7	2.1	2.3
GDP chn.-wt. price index		4.7	3.3	2.6	2.5	2.3	2.5	2.1	2.4	2.7
Gross Domestic Purchases		5.2	2.7	2.7	2.3	2.4	2.3	2.2	2.1	2.6
chn.-wt. price index		6.3	3.0	3.1	2.7	2.7	2.6	3.2	2.4	2.9
CPI		5.3	4.4	3.5	3.1	2.8	3.0	2.6	2.7	3.1
Ex. food and energy										
ECI, hourly compensation <sup>2</sup>		4.6	4.4	3.5	3.6	3.1	2.6	3.1	3.4	3.6
Nonfarm business sector										
Output per hour		-0.6	2.2	3.6	-0.3	0.3	-0.1	0.9	1.2	0.9
Compensation per Hour		5.8	4.8	4.6	1.8	2.3	3.7	3.6	3.7	3.8
Unit labor cost		6.4	2.5	1.0	2.1	2.0	3.7	2.6	2.5	2.9

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

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

May 15, 1997

Item	Units	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	6776.1	6890.5	6993.1	7083.2	7149.8	7204.9	7309.8	7350.6	7426.8	7545.1
Real GDP	Bill. Ch. \$	6508.5	6587.4	6644.8	6692.9	6700.2	6712.7	6775.8	6780.2	6813.8	6892.1
Real GDP	% change	2.5	4.9	3.5	2.9	0.4	0.7	3.8	0.3	2.0	4.7
Gross domestic purchases		3.5	5.3	3.7	2.4	1.5	0.7	2.6	-0.7	3.0	5.2
Final sales		1.2	3.0	4.2	3.5	0.6	2.1	3.6	1.4	3.0	4.1
Priv. dom. final purchases		3.8	4.4	3.8	4.0	2.2	2.3	3.1	1.5	4.6	4.0
Personal cons. expenditures		2.8	3.5	2.8	3.1	1.0	3.1	2.4	1.1	3.5	3.4
Durables		5.8	4.3	5.6	12.4	-8.9	7.0	9.3	-1.0	8.2	11.4
Nondurables		3.9	3.2	3.8	3.2	2.4	1.8	0.5	-0.4	3.7	1.3
Services		1.6	3.5	1.6	1.2	2.4	3.0	2.0	2.3	2.4	2.7
Business fixed investment		7.3	7.1	13.8	12.2	15.4	3.5	4.9	2.5	11.6	3.8
Producers' dur. equipment		15.5	4.1	19.4	11.9	17.4	3.5	4.3	3.0	13.1	6.7
Nonres. structures		-11.8	15.7	0.2	13.0	9.9	3.4	6.3	1.0	7.7	-3.7
Residential structures		12.8	12.7	-1.8	-0.1	-6.3	-13.4	9.2	6.4	7.4	16.3
Exports		-1.5	15.9	9.7	16.5	2.6	5.9	10.7	10.7	1.8	5.6
Imports		8.2	18.4	10.7	10.3	11.2	4.5	-0.0	1.6	10.6	9.9
Gov't. cons. & investment		-4.3	-0.8	7.0	-1.4	-1.2	0.8	-0.6	-4.3	1.6	7.7
Federal		-11.4	-5.3	11.5	-5.9	-6.5	-1.4	-5.6	-13.2	6.0	9.4
Defense		-17.4	0.7	13.5	-16.1	-7.4	0.6	-7.6	-12.3	4.1	10.0
State & local		0.7	2.2	4.2	1.6	2.3	2.1	2.7	1.5	-0.9	6.7
Change in bus. inventories	Bill. Ch. \$	40.8	74.7	64.6	55.6	53.7	29.9	33.5	13.7	-3.5	6.7
Nonfarm		29.7	54.0	50.5	53.0	57.4	33.7	38.5	19.0	2.9	11.7
Net exports		-99.3	-107.3	-111.7	-104.4	-122.5	-121.4	-101.6	-84.9	-104.0	-114.7
Nominal GDP	% change	5.3	6.9	6.1	5.3	3.8	3.1	6.0	2.3	4.2	6.5
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	112.6	113.7	114.7	115.6	116.5	117.0	117.4	117.9	118.5	119.3
Unemployment rate	%	6.6	6.2	6.0	5.6	5.5	5.6	5.7	5.6	5.6	5.4
Industrial prod. index	% change	6.2	6.7	4.4	5.6	3.9	-0.7	3.2	0.8	1.6	6.2
Capacity util. rate - mfg.	%	82.0	83.0	83.3	84.0	84.2	83.1	82.9	82.3	81.7	82.1
Housing starts	Millions	1.39	1.47	1.45	1.47	1.32	1.29	1.42	1.41	1.46	1.50
Light motor vehicle sales		15.05	14.86	14.95	15.20	14.72	14.42	14.94	14.98	15.19	15.02
North Amer. produced		12.92	12.71	12.74	13.15	12.68	12.46	13.08	13.20	13.51	13.32
Other		2.13	2.15	2.21	2.05	2.04	1.96	1.86	1.79	1.68	1.70
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	6781.0	6888.3	6986.9	7071.4	7146.8	7202.4	7293.4	7344.3	7426.6	7537.5
Nominal GNP	% change	5.4	6.5	5.9	4.9	4.3	3.1	5.1	2.8	4.6	6.1
Nominal personal income		-2.2	11.2	4.6	6.4	7.2	4.7	4.8	5.7	4.9	6.8
Real disposable income		-4.0	7.4	2.6	3.8	3.7	0.2	4.3	4.3	2.0	1.4
Personal saving rate	%	3.3	4.2	4.1	4.2	4.8	4.1	4.5	5.1	4.8	4.3
Corp. profits, IVA & CCAdj.	% change	-33.6	74.5	12.9	10.4	-7.7	0.6	38.4	-1.1	22.6	6.8
Profit share of GNP	%	7.2	8.1	8.3	8.4	8.1	8.1	8.6	8.6	8.9	8.9
Excluding FR Banks	%	6.9	7.9	8.0	8.1	7.8	7.8	8.3	8.3	8.6	8.6
Federal surpl./deficit	Bill. \$	-212.7	-169.6	-188.5	-190.1	-172.6	-161.1	-158.5	-154.5	-155.2	-126.7
State & local surpl./def.		94.8	105.2	99.6	99.3	99.0	99.0	93.9	88.1	91.0	101.0
Ex. social ins. funds		29.0	41.1	37.9	39.4	40.2	40.9	35.8	30.5	34.1	44.6
<b>PRICES AND COSTS</b>											
GDP implicit deflator	% change	2.8	1.9	2.5	2.3	3.4	2.4	2.1	2.0	2.2	1.8
GDP chn.-wt. price index		2.9	1.9	2.4	2.1	3.3	2.4	2.1	2.1	2.3	2.2
Gross Domestic Purchases											
chn.-wt. price index		2.4	2.3	3.0	2.0	2.8	2.8	1.6	1.9	2.3	2.1
CPI		1.9	2.8	3.6	2.4	2.7	3.5	2.1	2.6	3.2	3.4
Ex. food and energy		2.9	2.9	3.1	2.3	3.3	3.3	2.8	2.7	2.7	2.7
ECI, hourly compensation <sup>1</sup>		3.0	3.4	3.3	2.3	2.9	2.6	2.6	2.9	2.5	3.5
Nonfarm business sector											
Output per hour		-1.8	1.0	1.7	0.4	-2.2	1.5	1.7	-1.2	1.9	0.6
Compensation per hour		2.9	1.3	1.8	3.3	2.9	4.0	3.7	4.0	3.4	3.9
Unit labor cost		4.9	0.3	0.1	2.9	5.3	2.5	1.9	5.2	1.5	3.3

1. Private-industry workers.

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

May 15, 1997

Item	Units	----- Projected -----									
		1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	7616.3	7716.1	7867.9	7942.9	8033.4	8122.4	8211.8	8300.9	8388.4	8478.0
Real GDP	Bill. Ch. \$	6928.1	6993.3	7095.3	7126.7	7171.6	7212.5	7250.2	7286.9	7320.9	7355.8
Real GDP	% change	2.1	3.8	6.0	1.8	2.5	2.3	2.1	2.0	1.9	1.9
Gross domestic purchases		3.3	1.6	7.6	2.4	3.5	1.9	2.7	2.2	2.7	1.4
Final sales		0.5	4.9	3.8	2.6	2.3	3.4	1.8	2.0	1.6	2.7
Priv. dom. final purchases		2.3	3.3	6.7	3.5	3.7	3.2	2.9	2.7	2.6	2.7
Personal cons. expenditures		0.5	3.4	5.8	2.2	3.2	3.0	2.8	2.6	2.5	2.4
Durables		-2.6	5.0	17.7	-1.4	8.0	5.5	4.6	4.3	4.4	3.8
Nondurables		0.4	1.8	5.2	1.7	2.8	2.8	2.6	2.4	2.2	2.2
Services		1.3	3.8	3.6	3.3	2.2	2.4	2.3	2.2	2.1	2.1
Business fixed investment		17.5	5.5	12.2	12.2	9.6	6.9	5.6	5.6	5.7	5.5
Producers' dur. equipment		20.9	-0.9	14.0	13.9	11.0	7.5	6.0	6.0	6.2	5.9
Nonres. structures		8.4	25.8	7.7	7.6	5.7	5.0	4.5	4.5	4.3	4.1
Residential structures		-5.2	-1.8	6.4	1.3	-2.0	-1.6	-2.0	-2.5	-2.7	-0.2
Exports		-0.9	25.0	7.9	7.9	2.1	10.3	4.2	9.4	3.1	11.1
Imports		9.3	3.3	20.8	12.2	9.2	5.9	8.0	9.8	8.8	5.9
Gov't. cons. & investment		-0.6	-0.9	-0.1	2.0	1.3	1.4	-0.0	-0.1	1.2	-0.5
Federal		-3.5	-5.3	-3.5	1.2	-0.9	-0.7	-4.2	-4.6	-1.0	-5.8
Defense		-5.5	-6.9	-10.1	3.9	0.4	1.0	-5.5	-6.0	0.0	-5.1
State & local		1.1	1.9	1.9	2.5	2.5	2.6	2.4	2.4	2.4	2.4
Change in bus. inventories	Bill. Ch. \$	34.1	17.1	52.3	39.0	42.8	25.4	30.8	31.3	36.8	24.4
Nonfarm		34.6	19.3	52.6	38.3	41.3	23.7	28.9	29.2	34.7	22.4
Net exports		-137.4	-98.4	-128.5	-141.0	-159.5	-152.5	-163.9	-168.6	-185.0	-175.8
Nominal GDP	% change	3.8	5.3	8.1	3.9	4.6	4.5	4.5	4.4	4.3	4.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	120.0	120.5	121.2	121.8	122.3	122.8	123.2	123.6	124.0	124.4
Unemployment rate	%	5.3	5.3	5.3	5.0	4.9	4.8	4.8	4.8	4.8	4.8
Industrial prod. index	% change	3.3	4.5	4.7	3.7	4.1	2.9	2.4	2.2	1.6	2.0
Capacity util. rate - mfg.	%	82.3	82.3	82.6	82.5	82.6	82.4	82.3	82.2	82.1	82.0
Housing starts	Millions	1.49	1.42	1.44	1.43	1.42	1.40	1.38	1.36	1.33	1.33
Light motor vehicle sales		15.07	14.82	15.45	14.78	15.11	15.03	14.92	14.91	14.90	14.89
North Amer. produced		13.38	13.07	13.50	12.91	13.22	13.15	13.10	13.10	13.10	13.10
Other		1.69	1.75	1.95	1.87	1.89	1.88	1.82	1.81	1.80	1.79
INCOME AND SAVING											
Nominal GNP	Bill. \$	7598.9	7705.6	7851.1	7923.4	8008.4	8094.8	8184.0	8267.7	8352.3	8439.7
Nominal GNP	% change	3.3	5.7	7.8	3.7	4.4	4.4	4.5	4.2	4.2	4.3
Nominal personal income		5.7	5.4	7.3	4.7	4.6	4.7	5.2	4.5	4.5	5.4
Real disposable income		4.9	2.6	4.6	3.1	2.2	2.0	4.6	1.8	1.7	2.6
Personal saving rate	%	5.3	5.1	4.9	5.0	4.8	4.5	4.9	4.7	4.5	4.5
Corp. profits, IVA & CCAdj.	% change	3.1	-4.2	48.5	-0.4	-0.4	-0.5	1.8	-1.6	-1.4	3.7
Profit share of GNP	%	8.9	8.7	9.4	9.3	9.2	9.1	9.0	8.9	8.8	8.8
Excluding FR Banks	%	8.6	8.4	9.1	9.1	8.9	8.8	8.8	8.7	8.5	8.5
Federal surpl./deficit	Bill. \$	-120.8	-105.9	-84.4	-78.1	-69.1	-73.9	-95.5	-87.4	-83.0	-79.2
State & local surpl./def.		89.2	90.9	96.3	96.9	95.6	95.2	94.5	93.7	92.5	89.5
Ex. social ins. funds		33.8	36.9	43.4	44.2	43.1	42.9	42.4	41.8	40.8	38.0
PRICES AND COSTS											
GDP implicit deflator	% change	1.7	1.5	2.2	2.1	2.0	2.2	2.3	2.3	2.4	2.4
GDP chn.-wt. price index		2.0	1.9	2.8	2.1	2.3	2.4	2.6	2.7	2.7	2.7
Gross Domestic Purchases		1.9	2.6	2.3	1.4	2.3	2.5	2.6	2.5	2.6	2.6
chn.-wt. price index		2.8	3.3	2.3	1.2	2.7	3.1	2.8	2.9	3.0	3.0
CPI		2.4	2.7	2.2	2.9	2.8	3.1	3.1	3.1	3.1	3.1
Ex. food and energy		2.4	2.7	2.2	2.9	2.8	3.1	3.1	3.1	3.1	3.1
ECI, hourly compensation <sup>1</sup>		2.8	2.8	2.5	3.7	3.7	3.7	3.1	3.9	3.8	3.8
Nonfarm business sector											
Output per hour		0.0	1.1	2.6	0.7	0.8	0.9	1.0	0.9	0.8	0.8
Compensation per hour		3.3	3.6	4.7	3.0	3.4	3.9	3.8	3.8	3.8	3.8
Unit labor cost		3.3	2.5	2.0	2.3	2.6	3.0	2.8	2.9	3.0	3.0

1. Private-industry workers.

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CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

May 15, 1997

Item	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	96Q4/ 95Q4	97Q4/ 96Q4	98Q4/ 97Q4
Real GDP	3.8	6.0	1.8	2.5	2.3	2.1	2.0	1.9	1.9	3.1	3.1	2.0
Gross dom. purchases	1.6	7.7	2.4	3.6	1.9	2.7	2.3	2.8	1.4	3.3	3.9	2.3
Final sales	4.9	3.8	2.6	2.3	3.3	1.8	2.0	1.6	2.7	3.1	3.0	2.0
Priv. dom. final purchases	2.8	5.5	2.9	3.1	2.7	2.4	2.3	2.2	2.2	2.9	3.5	2.3
Personal cons. expenditures	2.3	3.9	1.5	2.2	2.0	1.9	1.8	1.7	1.7	1.8	2.4	1.8
Durables	0.4	1.5	-0.1	0.7	0.5	0.4	0.4	0.4	0.4	0.5	0.6	0.4
Nondurables	0.4	1.1	0.4	0.6	0.6	0.3	0.5	0.4	0.4	0.4	0.7	0.5
Services	1.5	1.3	1.2	0.8	0.9	0.9	0.8	0.8	0.8	1.0	1.1	0.8
Business fixed investment	0.6	1.3	1.3	1.1	0.8	0.7	0.7	0.7	0.7	1.0	1.2	0.7
Producers' dur. equip.	-0.1	1.1	1.1	0.9	0.7	0.5	0.5	0.6	0.6	0.8	1.0	0.6
Nonres. structures	0.7	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1
Residential structures	-0.1	0.2	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.0	0.2	0.0	-0.1
Net exports	2.2	-1.7	-0.7	-1.0	0.4	-0.6	-0.3	-0.9	0.5	-0.2	-0.8	-0.3
Exports	2.6	0.9	1.0	0.3	1.3	0.5	1.2	0.4	1.4	0.9	0.9	0.9
Imports	-0.4	-2.7	-1.7	-1.3	-0.9	-1.2	-1.4	-1.3	-0.9	-1.1	-1.6	-1.2
Government cons. & invest.	-0.2	-0.0	0.4	0.2	0.3	-0.0	-0.0	0.2	-0.1	0.4	0.2	0.0
Federal	-0.4	-0.2	0.1	-0.1	-0.0	-0.3	-0.3	-0.1	-0.4	0.1	-0.1	-0.2
Defense	-0.3	-0.5	0.2	0.0	0.0	-0.2	-0.3	0.0	-0.2	0.0	-0.1	-0.2
Nondefense	0.0	0.2	-0.1	-0.1	-0.1	-0.0	-0.0	-0.1	-0.2	0.1	-0.0	-0.1
State and local	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Change in bus. inventories	-1.0	2.0	-0.7	0.2	-1.0	0.3	0.0	0.3	-0.7	0.1	0.1	-0.0
Nonfarm	-0.9	1.9	-0.8	0.2	-1.0	0.3	0.0	0.3	-0.7	0.0	0.1	-0.0
Farm	-0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
GDP residual	-0.5	-0.1	-0.3	-0.3	-0.4	-0.3	-0.3	-0.3	-0.4	-0.3	-0.3	-0.3

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)

May 15, 1997

Item	Fiscal year <sup>5</sup>				1996				1997				1998			
	1995 <sup>a</sup>	1996 <sup>a</sup>	1997	1998	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4 <sup>a</sup>	Q1 <sup>b</sup>	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET	Not seasonally adjusted															
Receipts <sup>1</sup>	1352	1453	1570	1610	322	446	362	346	349	495	380	365	357	490	399	384
Outlays <sup>1</sup>	1516	1560	1627	1687	393	392	395	405	401	409	411	425	419	421	422	476
Surplus/deficit <sup>1</sup>	-164	-107	-57	-77	-72	54	-33	-59	-52	85	-31	-60	-62	68	-24	-91
On-budget	-226	-174	-136	-156	-84	14	-35	-77	-69	45	-35	-72	-75	22	-31	-104
Off-budget	62	67	79	79	12	39	2	18	17	41	4	12	14	47	7	12
Surplus excluding deposit insurance <sup>2</sup>	-182	-116	-69	-82	-75	52	-34	-66	-56	84	-32	-61	-63	67	-25	-92
Means of financing																
Borrowing	171	130	53	96	80	-23	39	49	48	-86	42	45	60	-48	40	68
Cash decrease	-2	-6	4	0	-1	-16	-6	11	-1	-7	0	10	10	-15	-5	10
Other <sup>3</sup>	-5	-16	0	-19	-7	-14	0	-1	5	8	-12	5	-8	-5	-11	13
Cash operating balance, end of period	38	44	40	40	22	38	44	33	33	40	40	30	20	35	40	30
NIPA FEDERAL SECTOR	Seasonally adjusted annual rate															
Receipts	1459	1544	1661	1720	1523	1576	1582	1619	1653	1676	1697	1715	1704	1722	1739	1761
Expenditures	1629	1683	1746	1805	1678	1702	1703	1725	1737	1754	1766	1789	1799	1809	1822	1840
Consumption expend.	455	457	461	464	454	464	461	458	462	461	462	463	465	463	464	460
Defense	304	303	304	306	299	307	305	305	302	303	305	307	307	305	306	305
Nondefense	151	155	157	158	155	156	157	153	159	158	157	157	158	158	158	156
Other expenditures	1175	1226	1285	1341	1225	1239	1241	1268	1276	1293	1304	1326	1334	1346	1358	1379
Current account surplus	-171	-139	-84	-85	-155	-127	-121	-106	-84	-78	-69	-74	-95	-87	-83	-79
Gross investment	65	63	62	64	65	66	64	61	58	63	64	65	64	63	64	63
Current and capital account surplus	-236	-202	-146	-149	-220	-193	-185	-167	-143	-141	-133	-139	-159	-150	-147	-142
FISCAL INDICATORS <sup>4</sup>																
High-employment (HEB) surplus/deficit	-257	-228	-213	-235	-239	-226	-221	-214	-210	-215	-213	-223	-245	-238	-234	-231
Change in HEB, percent of potential GDP	-.1	-.4	-.2	.3	.1	-.2	-.1	-.1	-.1	.1	0	.1	.3	-.1	-.1	0
Fiscal impetus (FI), percent, cal. year	-5.5	-2	-2.5	-1.9	1.3	1.8	-.4	-2.2	-.2	-.7	-.2	-1.3	1	-1.3	-.4	-2.3

1. OMB's February 1997 deficit estimates (assuming the enactment of the President's proposals) are \$126 billion in FY97 and \$121 billion in FY98. CBO's March 1997 baseline deficit estimates are \$115 billion in FY97 and \$122 billion in FY98. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's February 1997 deficit estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are \$138 billion in FY97 and \$125 billion in FY98. CBO's March 1997 baseline deficit estimates, excluding deposit insurance, are \$128 billion in FY97 and \$126 billion in FY98.

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

4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output generated by 1.8 percent real growth and an associated unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1992) dollars, scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.

5. Fiscal 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 15, 1997

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>									
1986	12.1	13.6	11.7	11.4	13.8	9.2	12.2	10.8	5.0
1987	9.2	8.0	9.6	12.2	16.3	5.1	6.7	12.1	7.4
1988	9.0	8.0	9.3	9.6	10.9	8.6	9.7	6.5	7.6
1989	7.6	7.0	7.8	8.7	10.1	6.0	7.5	5.7	6.4
1990	6.6	11.0	5.3	7.9	10.1	2.0	3.1	4.9	4.4
1991	4.5	11.1	2.5	5.2	6.8	-1.7	-1.7	8.2	3.8
1992	4.8	10.9	2.8	5.2	6.1	0.6	0.5	2.0	6.3
1993	5.3	8.3	4.2	6.4	5.5	7.7	1.5	5.7	4.8
1994	5.0	4.7	5.1	8.7	6.7	14.6	3.5	-3.4	5.9
1995	5.5	4.1	5.9	8.2	6.2	14.3	6.0	-3.5	3.8
1996	5.4	4.0	5.9	7.8	8.3	8.3	4.7	1.2	5.0
1997	4.7	1.3	5.9	6.4	6.9	6.1	6.2	1.7	5.3
1998	5.1	3.1	5.7	6.0	6.3	6.0	6.3	1.9	4.4
<i>Quarter</i>									
1995:1	6.4	7.1	6.2	8.3	6.6	13.9	6.7	-4.0	3.8
2	6.5	5.2	7.0	8.2	6.1	15.1	7.4	0.0	3.1
3	4.2	2.4	4.8	8.5	6.8	14.7	4.2	-9.2	6.0
4	4.3	1.6	5.3	6.7	4.8	10.7	5.2	-1.1	2.3
1996:1	6.4	6.6	6.3	9.3	9.9	10.8	4.3	-0.3	4.2
2	5.2	1.7	6.4	8.4	8.4	7.8	4.6	4.1	6.5
3	5.1	4.3	5.3	7.1	7.2	8.3	5.9	-5.7	3.8
4	4.5	3.1	4.9	5.6	6.5	5.5	3.6	6.9	5.3
1997:1	4.9	2.5	5.7	6.5	6.9	6.2	6.0	0.7	8.1
2	3.6	-4.0	6.2	6.3	6.8	5.9	6.5	4.7	3.9
3	4.9	4.3	5.2	6.1	6.7	5.9	5.7	-1.7	4.6
4	5.0	2.5	5.8	6.1	6.6	5.8	6.1	3.1	4.5

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1996: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 grew 5.4 percent in 1996, 4.6 percent in 1997, and 5.0 percent in 1998.

3. On a monthly average basis, federal debt rose 3.8 percent in 1996, 1.4 percent in 1997, and 2.8 percent in 1998.

4. On a monthly average basis, nonfederal debt increased 5.9 percent in 1996, 5.7 percent in 1997, and 5.7 percent in 1998.

Strictly Confidential Class II FOMC  
May 15, 1997

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

Category	Calendar year				Seasonally adjusted annual rates							
					1996		1997				1998	
	1995	1996	1997	1998	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
<i>Net funds raised by domestic nonfinancial sectors</i>												
1 Total	645.6	664.8	590.4	684.2	586.2	575.0	630.6	461.0	627.5	642.3	647.9	720.5
2 Net equity issuance	-74.2	-82.6	-95.6	-90.8	-138.8	-72.0	-84.8	-74.0	-112.8	-110.8	-89.0	-92.6
3 Net debt issuance	719.8	747.4	686.0	775.0	725.0	647.0	715.4	535.0	740.3	753.1	736.9	813.1
<i>Borrowing sectors</i>												
<i>Nonfinancial business</i>												
4 Financing gap <sup>1</sup>	57.7	20.3	51.0	81.6	29.9	43.5	34.6	50.4	62.8	56.1	74.8	88.4
5 Net equity issuance	-74.2	-82.6	-95.6	-90.8	-138.8	-72.0	-84.8	-74.0	-112.8	-110.8	-89.0	-92.6
6 Credit market borrowing	233.8	193.9	269.1	289.3	249.5	155.5	259.1	286.9	253.1	277.3	282.8	295.7
<i>Households</i>												
7 Net borrowing <sup>2</sup>	381.1	395.3	348.8	345.2	375.7	301.1	354.7	349.0	344.8	346.7	342.7	347.7
8 Home mortgages	197.7	278.7	252.2	247.2	255.8	234.7	252.2	252.2	252.2	252.2	247.2	247.2
9 Consumer credit	141.6	94.4	74.7	77.5	98.0	66.2	76.1	73.3	74.3	75.0	76.5	78.5
10 Debt/DPI (percent) <sup>3</sup>	91.2	93.9	95.4	96.4	94.5	94.9	94.8	95.2	95.7	96.1	96.1	96.8
<i>State and local governments</i>												
11 Net borrowing	-39.6	13.3	18.8	20.9	-61.6	73.9	7.8	51.4	-18.6	34.6	34.4	7.4
12 Current surplus <sup>4</sup>	108.4	116.2	118.7	115.6	113.9	112.0	117.7	114.5	123.3	119.2	116.7	114.5
<i>Federal government</i>												
13 Net borrowing	144.4	145.0	49.2	119.6	161.3	116.5	93.7	-152.3	161.0	94.5	77.0	162.3
14 Net borrowing (quarterly, n.s.a.)	144.4	145.0	49.2	119.6	39.3	48.7	48.0	-86.0	42.4	44.8	11.4	108.2
15 Unified deficit (quarterly, n.s.a.)	146.3	110.6	57.4	108.7	33.0	59.3	52.0	-85.3	30.8	59.9	-6.5	115.2
<i>Depository institutions</i>												
16 Funds supplied	274.6	233.4	255.3	267.9	265.2	220.5	213.3	335.4	215.4	257.2	258.1	277.7
<i>Memo (percentage of GDP)</i>												
17 Domestic nonfinancial debt <sup>5</sup>	186.6	188.3	187.5	188.4	189.0	188.7	187.3	187.5	187.3	187.6	187.9	188.6
18 Domestic nonfinancial borrowing	9.9	9.9	8.6	9.3	9.5	8.4	9.1	6.7	9.2	9.3	8.9	9.6
19 Federal government <sup>6</sup>	2.0	1.9	0.6	1.4	2.1	1.5	1.2	-1.9	2.0	1.2	0.9	1.9
20 Nonfederal	7.9	8.0	8.0	7.9	7.4	6.9	7.9	8.7	7.2	8.1	8.0	7.7

Note. Data after 1996: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.

## Outlook

The staff projection is little changed from that in the March Greenbook. Real output in our foreign trading partners (weighted by bilateral shares in U.S. nonagricultural exports) is expected to grow at about a 4 percent rate this year and next. We project the dollar to drift down slightly over the forecast period. We have revised up slightly the growth of real imports and exports, but the downward trajectory of real net exports remains about the same as it was in March. Real net exports subtract about 3/4 percentage point from the annual rate of GDP growth in the current quarter and about half that over the balance of 1997 and in 1998.

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

Measure	1997				1998
	Q1	Q2	Q3	Q4	
Foreign output	4.0	3.9	3.9	3.9	3.9
Previous	3.9	4.1	3.9	3.9	3.8
Real exports	7.9	7.9	2.1	10.3	6.9
Previous	4.3	6.7	2.1	11.4	6.5
Real imports	20.9	12.2	9.2	5.9	8.1
Previous	16.0	10.9	8.0	9.2	7.8

**The dollar.** We project that the foreign exchange value of the dollar in terms of the other G-10 currencies will weaken gradually over the forecast period as widening U.S. current account deficits and Japanese current account surpluses depress the dollar, particularly against the yen. We expect that the CPI-adjusted value of the dollar in terms of the currencies of key developing countries will depreciate at a moderate rate throughout the forecast period.

**Foreign G-7 countries.** Growth of real GDP in the foreign G-7 countries is projected to average about 3 percent at an annual rate during the first half of 1997 and a little less over the rest of the forecast period. Growth rates are projected to be somewhat above potential (except in Italy), but unemployment should nevertheless remain high in continental Europe.

Notwithstanding the difficulty of interpreting recent data in Japan, indicators seem to have been slightly stronger than we had anticipated, and we have added a tenth or two to Japanese GDP growth over the forecast period. We still expect growth to slow in the current quarter in the wake of the consumption tax increase and then to pick up to a 2-1/2 percent rate next year, somewhat less than last year's pace.



year but not next by the appreciation of the dollar. The projected growth of total exports is elevated by the continued rapid expansion of real exports of computers and semiconductors.

The growth of real imports of goods and services should come off its first-quarter highs as the expansion of U.S. domestic demand slows. Nevertheless, import demand will continue to be stimulated for much of this year by recent declines in the relative price of imports stemming from the strong dollar. Imports of computers and semiconductors will slow from the exceptionally rapid expansion seen in the first quarter but are nevertheless expected to continue growing strongly. On balance, we see the growth of total imports slowing from an annual rate of 9 percent during the last three quarters of 1997 to 8 percent in 1998.

We expect the quantity of oil imports to rise strongly this quarter as stocks are rebuilt. Oil imports are projected to increase, albeit more slowly, during the remainder of the forecast period as consumption expands with the increase in U.S. economic activity and as U.S. production declines.

**Selected Trade Prices**  
(Percentage change from end of previous period  
except as noted; seasonally adjusted)

Trade category	Projection				
	1997				1998
	Q1	Q2	Q3	Q4	
<i>Exports</i>					
Nonagricultural	-.8	-2.8	.1	.8	1.1
Agricultural	.7	3.2	2.3	2.0	1.3
<i>Imports</i>					
Non-oil	-2.4	-2.1	1.9	2.5	.6
Oil (level, dollars per barrel)	21.37	17.82	17.22	17.10	17.00

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

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

**Oil prices.** The staff's projection for the price of imported oil is basically the same as in the March Greenbook. We project the WTI spot price and the oil import unit value to be near \$19.50/b and \$17.00/b, respectively, through 1998.

**Prices of non-oil imports and exports.** The appreciation of the dollar through early May has had the beneficial effect of holding down the prices of non-oil imports.

Strictly Confidential (FR)  
Class II FOMC

May 15, 1997

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

Measure and country	--Projected--								
	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>REAL GDP</b>									
Canada	-1.9	0.0	0.5	3.1	4.9	0.7	2.3	3.5	3.2
France	1.2	1.3	0.1	-0.6	4.4	0.3	2.0	2.8	2.4
Germany (1)	6.8	3.3	1.0	-0.2	3.4	0.8	2.2	2.2	2.9
Italy	0.7	1.9	-0.8	0.1	2.7	2.5	0.1	1.5	2.1
Japan	5.1	2.5	0.1	0.4	0.8	2.6	3.1	2.3	2.5
United Kingdom	-0.7	-1.5	0.3	2.8	4.2	1.9	2.6	2.7	2.4
Average weighted by 1987-89 GDP	2.7	2.8	0.2	0.7	2.8	1.7	2.2	2.4	2.5
Average weighted by share of									
U.S. nonagricultural exports									
Total foreign	2.5	2.9	1.9	3.2	5.0	1.7	4.0	3.9	3.9
Foreign G-7	0.6	1.5	0.3	1.8	3.8	1.3	2.4	2.9	2.8
Developing Countries	6.2	6.4	5.1	6.0	7.0	2.1	6.8	5.8	5.8
<b>CONSUMER PRICES</b>									
Canada	4.9	4.1	1.8	1.8	0.0	2.1	2.0	1.4	1.6
France	3.5	3.0	1.8	2.1	1.6	1.9	1.7	1.4	1.9
Germany (1)	3.0	4.0	3.4	4.2	2.6	1.7	1.4	1.6	1.6
Italy	6.4	6.1	4.9	4.1	3.8	5.9	2.7	2.0	2.0
Japan	3.2	3.2	0.9	1.2	0.8	-0.8	0.1	1.5	0.7
United Kingdom (2)	9.2	5.7	3.7	2.7	2.2	2.9	3.2	2.6	2.8
Average weighted by 1987-89 GDP	4.7	2.6	2.4	2.5	1.8	1.7	1.5	1.7	1.6
Average weighted by share of									
U.S. non-oil imports	4.3	2.8	1.9	2.0	1.0	1.1	1.3	1.6	1.4

1. West German data through 1991, all Germany thereafter.

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

Strictly Confidential (FR)  
Class II FOMC

May 15, 1997

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

Measure and country	1996				1997				Projected 1998			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>REAL GDP</b>												
Canada	1.4	1.4	3.3	2.9	3.8	3.4	3.5	3.3	3.2	3.2	3.2	3.1
France	5.3	-0.9	3.1	0.7	0.8	4.5	3.1	2.7	2.6	2.4	2.3	2.3
Germany	-0.4	6.1	3.0	0.3	1.4	3.5	2.0	2.1	2.8	2.9	3.0	2.7
Italy	0.8	-1.5	2.2	-0.9	1.0	1.4	1.8	1.8	2.0	2.0	2.2	2.2
Japan	8.4	-1.1	1.3	3.9	3.4	1.4	2.1	2.3	2.5	2.5	2.6	2.5
United Kingdom	2.5	2.1	2.6	3.4	3.9	2.3	2.4	2.3	2.2	2.4	2.5	2.4
Average weighted by 1987-89 GDP	4.0	0.7	2.3	2.0	2.5	2.5	2.3	2.3	2.5	2.5	2.6	2.5
Average weighted by share of U.S. nonagricultural exports												
Total foreign	4.8	1.8	4.6	4.9	4.0	3.9	3.9	3.9	4.0	3.9	3.9	3.7
Foreign G-7	3.0	1.2	2.7	2.6	3.2	2.9	2.9	2.8	2.8	2.8	2.9	2.8
Developing Countries	9.0	1.6	7.7	9.3	5.7	5.8	5.8	5.8	5.9	5.9	5.8	5.8
<b>CONSUMER PRICES (1)</b>												
Canada	1.4	1.4	1.4	2.0	2.1	1.7	1.8	1.4	1.4	1.5	1.6	1.6
France	2.1	2.4	1.8	1.7	1.5	1.1	1.4	1.4	1.6	1.6	1.8	1.9
Germany	1.6	1.5	1.4	1.4	1.7	1.7	1.7	1.6	1.7	1.6	1.6	1.6
Italy	5.0	4.2	3.5	2.7	2.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Japan	-0.3	0.1	0.0	0.1	0.0	1.3	1.5	1.5	1.7	0.2	0.5	0.7
United Kingdom (2)	2.9	2.8	2.9	3.2	2.9	2.9	2.8	2.6	2.6	2.7	2.8	2.8
Average weighted by 1987-89 GDP	1.7	1.7	1.5	1.5	1.4	1.7	1.8	1.7	1.8	1.3	1.5	1.6
Average weighted by share of U.S. non-oil imports	1.1	1.2	1.1	1.3	1.3	1.6	1.7	1.6	1.7	1.1	1.3	1.4

1. Percent change from same period a year earlier.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1990	1991	1992	1993	1994	1995	---- Projected ----	1996	1997	1998
NIPA REAL EXPORTS and IMPORTS										
Percentage point contribution to GDP growth, Q4/Q4										
Net Goods & Services	0.6	0.4	-0.4	-0.7	-0.4	0.3	-0.2	-0.8	-0.3	-0.3
Exports of G&S	0.6	0.8	0.4	0.5	1.0	0.8	0.9	0.9	0.9	0.9
Imports of G&S	-0.0	-0.4	-0.8	-1.1	-1.4	-0.5	-1.1	-1.6	-1.2	-1.2
Percentage change, Q4/Q4										
Exports of G&S	7.2	8.6	4.1	4.8	9.9	7.4	7.4	7.0	6.9	6.9
Services	8.9	7.1	-0.9	3.9	4.8	5.1	3.0	2.3	3.6	3.6
Agricultural Goods	-7.3	10.1	10.4	-5.4	17.1	-3.0	3.8	-4.5	3.7	3.7
Computers	12.3	21.7	25.2	22.7	28.8	49.5	32.7	44.3	36.0	36.0
Semiconductors	61.5	41.8	64.8	45.1	68.7	29.7	4.9	28.1	27.4	27.4
Other Goods 1/	6.0	7.0	2.3	3.6	7.4	5.3	7.7	4.3	1.8	1.8
Imports of G&S	0.5	4.1	7.4	10.5	11.8	4.2	8.3	11.9	8.1	8.1
Services	5.8	-2.7	1.5	3.6	0.8	4.1	4.7	5.6	2.5	2.5
Oil	-15.8	8.1	12.1	10.1	-0.2	0.9	-1.9	8.5	4.5	4.5
Computers	2.9	35.9	45.1	38.8	37.3	43.8	23.9	40.3	28.7	28.7
Semiconductors	60.9	55.3	42.0	44.9	47.4	57.1	-13.6	47.7	31.1	31.1
Other Goods 2/	-0.3	2.5	5.4	9.5	12.5	-1.2	10.1	8.0	4.4	4.4
Billions of chained 1992 dollars										
Net Goods & Services	-61.9	-22.3	-29.5	-72.0	-105.7	-107.6	-113.6	-145.4	-173.3	-173.3
Exports of G&S	564.4	599.9	639.4	658.2	712.0	775.4	825.9	900.0	958.8	958.8
Imports of G&S	626.3	622.2	668.9	730.2	817.6	883.0	939.5	1045.4	1132.1	1132.1
Billions of dollars										
US CURRENT ACCOUNT BALANCE	-94.7	-9.5	-62.6	-99.9	-148.4	-148.2	-165.3	-195.1	-225.5	-225.5
Net Goods & Services (BOP)	-80.3	-29.9	-38.3	-72.0	-104.4	-105.1	-114.4	-132.0	-150.9	-150.9
Exports of G&S (BOP)	536.8	580.7	617.7	643.0	698.3	786.5	835.3	889.5	937.5	937.5
Imports of G&S (BOP)	617.1	610.6	655.9	715.0	802.7	891.6	949.7	1021.5	1088.4	1088.4
Net Investment Income	20.9	15.8	11.2	9.7	-4.2	-8.0	-8.4	-21.3	-32.9	-32.9
Direct, Net	55.9	55.6	51.6	55.9	47.4	57.5	64.4	68.9	72.4	72.4
Portfolio, Net	-35.0	-39.8	-40.4	-46.2	-51.6	-65.5	-72.9	-90.2	-105.3	-105.3
Net Transfers	-35.2	4.5	-35.5	-37.6	-39.9	-35.1	-42.5	-41.8	-41.8	-41.8

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

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1993				1994				1995			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.1	-0.5	-0.3	0.4	-1.1	0.1	1.2	1.0	-1.1	-0.6	-1.3	2.3
Exports of G&S	-0.2	1.6	1.0	1.7	0.3	0.7	1.2	1.2	0.2	0.7	-0.1	2.7
Imports of G&S	-0.9	-2.1	-1.3	-1.2	-1.4	-0.6	0.0	-0.2	-1.3	-1.3	-1.2	-0.5
Percentage change from previous period, SAAR												
Exports of G&S	-1.6	15.9	9.7	16.5	2.6	5.9	10.7	10.7	1.8	5.7	-0.9	25.0
Services	0.8	9.7	3.4	5.5	-1.1	4.0	18.7	-0.2	2.6	3.0	-4.0	10.8
Agricultural Goods	-24.4	6.8	43.0	62.9	-0.6	-19.8	16.4	-4.5	9.2	-34.1	9.1	48.1
Computers	24.5	16.6	27.6	48.6	33.0	30.1	79.0	61.1	58.8	20.6	18.6	36.7
Semiconductors	131.4	16.2	45.8	106.7	43.6	19.9	28.8	27.6	-0.0	-20.7	2.6	48.8
Other Goods 1/	-6.6	20.2	6.6	11.0	0.0	7.6	0.7	13.4	-4.1	14.1	-2.8	26.7
Imports of G&S	8.2	18.4	10.7	10.3	11.2	4.5	-0.0	1.6	10.6	10.0	9.3	3.3
Services	1.8	7.5	-1.6	-4.0	21.7	-6.7	5.8	-2.4	13.0	1.1	2.5	2.5
Oil	-8.6	27.2	33.5	-36.2	-2.4	5.3	22.0	-17.3	-21.8	59.2	7.3	-30.6
Computers	45.0	30.9	24.8	49.9	29.6	31.9	64.7	51.8	27.8	22.9	22.1	22.9
Semiconductors	65.3	7.3	43.4	85.8	49.3	61.0	76.4	43.6	4.6	-38.5	-19.0	6.8
Other Goods 2/	7.0	19.9	9.5	14.1	6.9	2.4	-10.8	-2.2	12.3	11.7	11.8	4.6
Billions of chained 1992 dollars												
Net Goods & Services	-99.3	-107.3	-111.7	-104.3	-122.5	-121.4	-101.6	-84.9	-104.0	-114.7	-137.4	-98.4
Exports of G&S	677.6	703.1	719.6	747.6	752.3	763.2	783.0	803.1	806.7	817.9	816.1	862.9
Imports of G&S	777.0	810.4	831.3	851.9	874.9	884.6	884.5	888.0	910.7	932.6	953.5	961.3
Billions of dollars												
US CURRENT ACCOUNT BALANCE	-118.8	-144.1	-160.0	-170.6	-156.2	-163.9	-150.8	-121.7	-141.1	-162.4	-191.4	-166.2
Net Goods & Services (BOP)	-90.8	-103.5	-113.8	-109.4	-118.1	-127.3	-97.3	-77.6	-98.5	-115.8	-137.1	-106.1
Exports of G&S (BOP)	662.3	686.1	708.3	736.5	755.9	778.9	796.8	814.5	820.4	835.9	822.9	862.2
Imports of G&S (BOP)	753.1	789.6	822.1	845.9	874.0	906.2	894.2	892.0	918.9	951.7	960.0	968.2
Net Investment Income	4.7	-2.5	-6.4	-12.4	-3.6	-3.4	-17.4	-7.6	1.2	-8.9	-16.4	-9.7
Direct, Net	49.5	46.0	47.4	46.9	57.4	59.9	51.3	61.3	66.3	59.5	58.9	73.0
Portfolio, Net	-44.8	-48.5	-53.7	-59.3	-61.0	-63.3	-68.7	-68.9	-65.1	-68.4	-75.3	-82.7
Net Transfers	-32.7	-38.0	-39.9	-48.9	-34.6	-33.2	-36.0	-36.6	-43.8	-37.7	-37.9	-50.5

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

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1996				1997				Projected 1998			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.1	-0.6	-1.3	2.3	-1.7	-0.7	-1.0	0.4	-0.6	-0.3	-0.9	0.5
Exports of G&S	0.2	0.7	-0.1	2.7	0.9	1.0	0.3	1.2	0.5	1.2	0.4	1.4
Imports of G&S	-1.3	-1.3	-1.2	-0.5	-2.7	-1.7	-1.3	-0.9	-1.2	-1.4	-1.3	-0.9
Percentage change from previous period, SAAR												
Exports of G&S	1.8	5.7	-0.9	25.0	7.9	7.9	2.1	10.3	4.2	9.4	3.1	11.1
Services	2.6	3.0	-4.0	10.8	3.5	1.3	1.9	2.7	3.6	3.8	3.6	3.4
Agricultural Goods	9.2	-34.1	9.1	48.1	-24.7	-13.4	10.8	15.2	3.3	3.3	2.4	5.7
Computers	58.8	20.6	18.6	36.7	82.4	33.5	33.5	33.5	36.0	36.0	36.0	36.0
Semiconductors	-0.0	-20.7	2.6	48.8	33.8	26.3	26.3	26.3	27.4	27.4	27.4	27.4
Other Goods 1/	-4.1	14.1	-2.8	26.7	5.0	8.9	-4.8	8.6	-2.4	6.5	-5.1	8.8
Imports of G&S	10.6	10.0	9.3	3.3	20.9	12.2	9.2	5.9	8.0	9.8	8.8	5.9
Services	13.0	1.1	2.5	2.5	10.6	5.3	4.0	2.7	2.4	2.5	2.4	2.6
Oil	-21.8	59.2	7.3	-30.6	24.1	33.7	14.1	-26.8	6.3	40.8	15.6	-31.2
Computers	27.8	22.9	22.1	22.9	85.4	31.1	26.3	26.3	28.7	28.7	28.7	28.7
Semiconductors	4.6	-38.5	-19.0	6.8	82.0	46.4	36.1	31.1	31.1	31.1	31.1	31.1
Other Goods 2/	12.3	11.7	11.8	4.6	13.3	7.7	5.9	5.2	4.6	4.5	4.4	4.3
Billions of chained 1992 dollars												
Net Goods & Services	-104.0	-114.7	-137.4	-98.4	-128.5	-141.0	-159.5	-152.5	-163.9	-168.6	-185.0	-175.8
Exports of G&S	806.7	817.9	816.1	862.9	879.4	896.4	901.0	923.3	932.8	954.0	961.3	987.0
Imports of G&S	910.7	932.6	953.5	961.3	1007.9	1037.4	1060.5	1075.8	1096.6	1122.5	1146.4	1162.9
Billions of dollars												
US CURRENT ACCOUNT BALANCE	-141.1	-162.4	-191.4	-166.2	-182.2	-181.5	-204.8	-211.7	-211.3	-218.4	-235.6	-236.8
Net Goods & Services (BOP)	-98.5	-115.8	-137.1	-106.1	-127.4	-123.9	-141.7	-135.0	-145.4	-147.1	-161.5	-149.4
Exports of G&S (BOP)	820.4	835.9	822.9	862.2	877.6	886.4	886.1	907.8	915.0	934.4	938.8	961.9
Imports of G&S (BOP)	918.9	951.7	960.0	968.2	1004.9	1010.4	1027.8	1042.8	1060.4	1081.6	1100.3	1111.3
Net Investment Income	1.2	-8.9	-16.4	-9.7	-15.8	-18.6	-24.0	-26.6	-26.9	-32.3	-35.1	-37.3
Direct, Net	66.3	59.5	58.9	73.0	69.5	69.6	67.7	68.9	72.2	70.6	72.4	74.6
Portfolio, Net	-65.1	-68.4	-75.3	-82.7	-85.3	-88.2	-91.8	-95.5	-99.1	-102.8	-107.5	-111.9
Net Transfers	-43.8	-37.7	-37.9	-50.5	-39.0	-39.0	-39.0	-50.0	-39.0	-39.0	-39.0	-50.0

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

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

## **Part 2**

May 15, 1997

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

May 15, 1997

## **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



TREASURY FINANCING  
(Billions of dollars; total for period)

Item	1996		1997			
	Q4	Q1	Q2 <sup>p</sup>	Apr. <sup>e</sup>	May <sup>p</sup>	June <sup>p</sup>
Total surplus/deficit (-)	-59.3	-52.0	85.3	88.4	-45.8	42.8
Means of financing deficit						
Net cash borrowing and repayments (-)	48.7	48.0	-86.0	-40.3	-23.8	-21.9
Nonmarketable	7.4	3.4	-0.4	-0.3	-0.1	0.0
Marketable	41.3	44.6	-85.5	-39.9	-23.7	-21.9
Bills	16.2	8.1	-97.2	-44.2	-26.6	-26.4
Coupons	25.1	36.5	11.6	4.2	2.9	4.5
Decrease in cash balance	11.4	-0.7	-6.9	-55.9	71.8	-22.8
Other <sup>1</sup>	-0.8	4.6	7.6	7.8	-2.2	2.0
Memo:						
Cash balance, end of period	32.8	33.5	40.4	89.4	17.6	40.4

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

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

e Estimate.

p Projection.

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

Agency	1996	1997			
	Q4	Q1	Jan.	Feb.	Mar.
FHLBs	8.5	3.1	-6.3	-1.6	11.0
FHLMC	10.0	-3.4	6.2	-1.6	-7.9
FNMA	12.1	4.9	2.0	-1.3	4.1
Farm Credit Banks	-0.1	0.8	7.6	-7.5	0.8
SLMA	-0.2	-1.7	4.0	-0.1	-5.6

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

CONFIDENTIAL (FR)  
CLASS III - FOMC

May 16, 1997

SUPPLEMENT  
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

May 16, 1997

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

	1996 Sep	1996 Oct	1996 Nov	1996 Dec	1997 Jan	1997 Feb	1997 Mar	1997 Apr	1997 May (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	94.7	96.5	99.2	96.9	97.4	99.7	100.0	101.4	104.6
Current conditions	102.0	106.6	107.5	104.9	106.8	107.2	109.8	115.2	113.9
Expected conditions	90.1	89.9	93.9	91.8	91.3	94.9	93.6	92.5	98.6
-----									
Personal financial situation									
Now compared with 12 months ago*	109	115	121	117	116	114	119	132	125
Expected in 12 months*	130	127	133	132	128	134	134	130	143
Expected business conditions									
Next 12 months*	127	131	137	130	136	135	138	130	145
Next 5 years*	105	103	108	107	103	113	105	113	109
Appraisal of buying conditions									
Cars	134	132	135	134	141	130	135	136	150
Large household appliances*	155	161	158	155	160	164	166	167	171
Houses	149	159	157	156	162	166	155	153	162
Willingness to use credit	40	37	43	41	45	39	37	41	52
Willingness to use savings	62	62	70	63	71	67	66	68	75
Expected unemployment change - next 12 months	112	114	110	110	114	107	112	113	106
Expected inflation - next 12 months									
Mean	4.3	4.2	4.0	3.9	4.1	3.8	3.5	3.7	3.8
Median	3.2	3.0	3.0	3.0	3.0	3.0	2.8	3.0	3.0
Expected inflation - next 5 to 10 years									
Mean	4.1	4.2	3.7	3.9	4.0	3.7	3.6	3.6	3.8
Median	3.2	3.0	3.0	3.0	3.1	3.1	3.0	2.9	3.1

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

(p) -- Preliminary

(f) -- Final

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