

## **Part 1**

January 28, 1998

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## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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### **Summary and Outlook**

Strictly Confidential (FR) Class II FOMC

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January 28, 1998

## **SUMMARY AND OUTLOOK**

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

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

Measure	1997:Q4		1998:Q1	
	Dec. GB	Jan. GB	Dec. GB	Jan. GB
<b>Real GDP</b>	<b>3.9</b>	<b>3.9</b>	<b>2.0</b>	<b>2.7</b>
Private domestic final purchases	4.2	2.7	4.2	5.4
Personal consumption expenditures	3.5	2.9	4.1	4.7
Residential investment	8.4	8.1	.7	1.7
Business fixed investment	7.5	-.4	7.3	11.7
Government outlays for consumption and investment	1.1	.9	-1.6	-1.1
	Change, billions of chained (1992) dollars			
Inventory investment	11.6	17.9	-4.2	-3.1
Net exports	-9.6	10.8	-22.2	-30.2

a different conclusion while we both await further data to fill the gaps in the statistical puzzle.

Turning to the current quarter, we are forecasting that GDP growth will slow considerably, to around a 2-3/4 percent rate. At this point, we have practically no hard data for the period. Perhaps the most solid indicator is initial claims for unemployment insurance--and it can be a pretty shaky guide at this time of the year, because of huge seasonal swings. But, for what it is worth, claims have remained low enough to suggest that payroll employment growth will continue to look fairly hefty in the January labor market report. We are anticipating a notable slowing of employment gains by the end of the quarter.

Sketching out the ingredients in our first-quarter GDP forecast, we expect net exports to more than account for the fall-off in growth, subtracting nearly 1-1/2 percentage points of growth this quarter after having added about 1/2 point in the fourth quarter. To be sure, not all of that 2-point swing reflects weakness abroad--the residual seasonality in the trade data accounts for a portion of it--but we do think that the slowdown in Asia will begin to take a more noticeable toll of final demand this quarter. The decline in the Purchasing Managers' index for new export orders in December suggests that the slowdown in foreign demand has already begun. Anecdotal reports from

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

Measure	1997	1998	1999
<b>Real GDP</b>	<b>3.8</b>	<b>1.7</b>	<b>1.9</b>
Previous	3.9	1.7	1.4
Final sales	3.3	2.4	1.8
Previous	3.4	2.2	1.5
PCE	3.7	3.5	2.1
Previous	3.8	3.4	1.7
Residential investment	5.4	.6	-.3
Previous	5.7	-1.6	-1.0
BFI	9.1	7.7	5.4
Previous	10.8	7.6	5.6
Government purchases	1.1	.6	.9
Previous	1.2	.4	.9
Exports	10.5	.5	4.1
Previous	10.5	3.8	5.8
Imports	14.1	7.9	6.5
Previous	15.9	10.5	7.8
Change, billions of chained (1992) dollars			
Inventory change	32.5	-52.3	12.2
Previous	30.5	-40.8	-11.1
Net exports	-47.7	-86.2	-40.0
Previous	-65.9	-85.1	-40.5

By next year, however, the lagged effects of last year's stock market advance are expected to be counterbalanced by those of this year's projected downturn. We are projecting that real PCE growth will run only about 2 percent over the four quarters of 1999, matching the expansion of disposable income. This slowdown probably will be widespread, but we are looking for especially large effects among durable goods items, which tend to be quite cyclical, and many discretionary services.

**Residential investment.** For many of the same reasons as apply for consumption spending, the demand for single-family housing ought to be maintained in the coming months at its recent high level. Although slower income growth and the declining stock market ultimately will restrain activity, low mortgage rates should provide some buoyancy

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

Measure	1996	1997	1998	1999
Output per hour, nonfarm business	1.2	2.3	.8	1.5
Previous	1.2	2.4	.7	1.3
Nonfarm payroll employment	2.1	2.5	1.3	.8
Previous	2.1	2.5	1.1	.6
Household employment survey	2.1	2.1	1.0	.7
Previous	2.1	2.1	1.0	.5
Labor force participation rate <sup>1</sup>	66.9	67.1	67.1	67.1
Previous	66.9	67.0	67.1	67.1
Civilian unemployment rate <sup>1</sup>	5.3	4.7	4.8	5.2
Previous	5.3	4.6	4.8	5.3

1. Percent, average for the fourth quarter.

our December forecast. Our projection of productivity growth for 1998-99 also is little changed from December. As before, one might argue that there is some upside risk to this path: Although we have factored in the effects of high investment on capital-labor ratios, it is conceivable that firms are also reaping some benefits of improved technology and management techniques in enhanced "total factor productivity." On the other side, however, is the possibility that Year-2000 reprogramming efforts will eat significantly into productivity in the next couple of years. The wide range of estimates of the dimension of outlays for this purpose does not inspire great confidence, but we have the impression that a considerable amount of labor is being diverted from more productive uses to the revamping of existing code or other related activities. Even if one discounts considerably the numbers one hears, it is not difficult to envision productivity losses running to a couple of tenths of a percent in both 1998 and 1999. Under the circumstances, we feel our projection balances reasonably the risks in the outlook for output per hour.<sup>2</sup>

Given our projection of employment growth, we expect that the unemployment rate will bottom out at just over 4-1/2 percent in the first part of this year and then trend

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2. We have made no change to our previous assumptions that the trend rate of productivity growth increased from 0.8 percent in the first half of the decade to 1.2 percent in the second half *on a consistently measured basis*. As published, technical changes to the CPI that lower measured inflation and so raise measured real output growth would boost the estimate of trend productivity growth to 1.3 percent in 1998 and 1.5 percent in 1999.

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

Measure	1996	1997	1998	1999
Consumer price index	3.2	1.9	1.6	2.0
Previous	3.2	1.9	1.8	2.2
Food	4.2	1.7	1.3	1.8
Previous	4.2	1.9	1.9	2.1
Energy	7.6	-1.0	-3.0	2.5
Previous	7.6	-.9	-1.8	1.7
Excluding food and energy	2.6	2.2	2.1	2.0
Previous	2.6	2.2	2.1	2.2
PCE chain-weighted price index	2.7	1.6	1.6	1.9
Previous	2.7	1.6	1.6	2.0
Excluding food and energy	2.3	1.7	1.9	1.8
Previous	2.3	1.7	1.8	2.0
GDP chain-weighted price index	2.3	1.9	1.7	1.7
Previous	2.3	1.9	1.8	1.9
ECI for compensation of private industry workers <sup>1</sup>	3.1	3.4	3.2	3.1
Previous	3.1	3.2	3.1	3.1
Prices of core non-oil merchandise imports	.7	-1.6	-1.5	1.1
Previous	.7	-1.8	-1.9	.8
Percentage points				
MEMO: Adjustments for technical changes to the CPI <sup>2</sup>				
Core CPI	.2	.2	.4	.6
Core PCE	.1	.1	.1	.3
GDP chain price index	.0	.1	.1	.2

1. December to December.

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

NAIRU somewhere in the vicinity of 5-1/2 percent; thus, the projected level of joblessness would imply, other things equal, a further pickup in compensation gains. However, we think that this force will be more than offset by the moderating influence on wages of falling CPI inflation. Also, wage growth has been boosted in the past two years by increases in the minimum wage. We do expect benefits costs to accelerate during the

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

Measure	1996	1997	1998	1999
<i>Real GDP</i>				
Baseline	3.2	3.8	1.7	1.9
Higher funds rate	3.2	3.8	1.4	1.1
Lower funds rate	3.2	3.8	2.0	2.7
No stock price decline	3.2	3.8	1.9	2.3
<i>Civilian unemployment rate<sup>1</sup></i>				
Baseline	5.3	4.7	4.8	5.2
Higher funds rate	5.3	4.7	4.9	5.7
Lower funds rate	5.3	4.7	4.7	4.7
No stock price decline	5.3	4.7	4.7	5.0
<i>CPI excluding food and energy</i>				
Baseline	2.6	2.2	2.1	2.0
Higher funds rate	2.6	2.2	2.0	1.5
Lower funds rate	2.6	2.2	2.2	2.5
No stock price decline	2.6	2.2	2.1	2.1

1. Average for the fourth quarter.

1999, 1/2 point higher than in the baseline projection, and core consumer price inflation comes in 1/2 percentage point lower than baseline in 1999.

The second simulation reduces the funds rate a cumulative 100 basis points this year; the effects of this simulation are symmetric to those of the first.

Our third alternative simulation assumes that the value of equities remains constant relative to disposable personal income; this contrasts with the substantial decline in the wealth-to-income ratio in the baseline forecast. The federal funds rate is maintained at 5-1/2 percent. In this scenario, real GDP growth is boosted by two-tenths of a percentage point in 1998 and about four tenths of a point in 1999; the unemployment rate is down 1/4 percentage point by the end of 1999.<sup>4</sup> The effect on the CPI is slight, not only because of the small unemployment rate effect, but also because expectations of long-term inflation remain low. In the FRB/US model, these expectations are quite sluggish unless there is a significant change in the stance of monetary policy; in essence, people have come to expect that policymakers will move to prevent an acceleration in prices.

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4. To carry out this simulation, we adjusted the FRB/US model to boost the speed with which changes in wealth influence personal consumption expenditures, matching that used in the judgmental projection; this provides a closer estimate of what the staff projection would look like under this alternative stock-market scenario. (Without such an adjustment, the FRB/US model would have projected a large portion of these effects to be delayed until 2000.)

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

January 28, 1998

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>	
	12/11/97	01/28/98	12/11/97	01/28/98	12/11/97	01/28/98	12/11/97	01/28/98	12/11/97	01/28/98
<b>ANNUAL</b>										
1995	4.6	4.6	2.0	2.0	2.5	2.5	2.8	2.8	5.6	5.6
1996	5.1	5.1	2.8	2.8	2.3	2.3	3.0	3.0	5.4	5.4
1997	5.9	5.9	3.8	3.8	2.1	2.1	2.4	2.3	4.9	4.9
1998	4.4	4.2	2.4	2.5	1.8	1.7	1.8	1.5	4.7	4.7
1999	3.2	3.5	1.4	1.7	1.8	1.7	2.1	2.1	5.1	5.0
<b>QUARTERLY</b>										
1996 Q1	4.7	4.7	1.8	1.8	2.8	2.8	3.2	3.2	5.6	5.6
Q2	7.7	7.7	6.0	6.0	1.9	1.9	3.4	3.4	5.4	5.4
Q3	3.6	3.6	1.0	1.0	2.7	2.7	2.8	2.8	5.3	5.3
Q4	6.2	6.2	4.3	4.3	1.9	1.9	3.3	3.3	5.3	5.3
1997 Q1	7.4	7.4	4.9	4.9	2.4	2.4	2.3	2.3	5.3	5.3
Q2	5.2	5.2	3.3	3.3	1.8	1.8	1.0	1.0	4.9	4.9
Q3	4.9	4.6	3.4	3.1	1.5	1.4	2.0	2.0	4.9	4.9
Q4	6.1	5.9	3.9	3.9	1.9	1.9	2.2	2.3	4.6	4.7
1998 Q1	4.2	4.4	2.0	2.7	2.2	1.8	1.5	0.5	4.6	4.6
Q2	3.4	2.6	1.7	1.0	1.7	1.6	1.6	1.7	4.6	4.7
Q3	3.3	3.1	1.6	1.5	1.6	1.6	2.0	2.1	4.7	4.7
Q4	3.2	3.4	1.4	1.7	1.8	1.7	2.1	2.2	4.8	4.8
1999 Q1	3.3	3.7	1.2	1.8	2.0	1.9	2.2	2.1	4.9	4.9
Q2	3.1	3.5	1.3	1.9	1.8	1.6	2.2	2.0	5.1	5.0
Q3	3.3	3.7	1.4	2.0	1.8	1.7	2.2	2.0	5.2	5.1
Q4	3.4	3.8	1.5	2.1	1.9	1.7	2.2	2.0	5.3	5.2
<b>TWO-QUARTER<sup>3</sup></b>										
1996 Q2	6.2	6.2	3.8	3.8	2.3	2.3	3.4	3.4	-0.2	-0.2
Q4	4.9	4.9	2.7	2.7	2.3	2.3	3.0	3.0	-0.1	-0.1
1997 Q2	6.3	6.3	4.1	4.1	2.1	2.1	1.7	1.7	-0.4	-0.4
Q4	5.5	5.2	3.6	3.5	1.7	1.7	2.1	2.1	-0.3	-0.2
1998 Q2	3.8	3.5	1.8	1.8	2.0	1.7	1.6	1.1	0.0	-0.0
Q4	3.2	3.3	1.5	1.6	1.7	1.7	2.0	2.1	0.2	0.1
1999 Q2	3.2	3.6	1.2	1.8	1.9	1.8	2.2	2.1	0.3	0.2
Q4	3.4	3.7	1.5	2.0	1.9	1.7	2.2	2.0	0.3	0.2
<b>FOUR-QUARTER<sup>4</sup></b>										
1995 Q4	4.0	4.0	1.6	1.6	2.4	2.4	2.6	2.6	0.0	0.0
1996 Q4	5.6	5.6	3.2	3.2	2.3	2.3	3.2	3.2	-0.3	-0.3
1997 Q4	5.9	5.8	3.9	3.8	1.9	1.9	1.9	1.9	-0.7	-0.6
1998 Q4	3.5	3.4	1.7	1.7	1.8	1.7	1.8	1.6	0.2	0.1
1999 Q4	3.3	3.7	1.4	1.9	1.9	1.7	2.2	2.0	0.5	0.4

1. For all urban consumers.

2. Level, except as noted.

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

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

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

January 28, 1998

Item	Units <sup>1</sup>	--- Projected ---									
		1991	1992	1993	1994	1995	1996	1997	1998	1999	
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	5916.7	6244.4	6558.1	6947.0	7265.4	7636.0	8083.4	8421.2	8714.0	
Real GDP	Bill. Ch. \$	6079.4	6244.4	6389.6	6610.7	6742.1	6928.4	7189.8	7366.2	7492.9	
Real GDP	% change	0.4	3.6	2.4	3.3	1.6	3.2	3.8	1.7	1.9	
Gross domestic purchases		0.0	4.0	3.0	3.6	1.2	3.6	4.3	2.6	2.3	
Final sales		-0.4	3.9	2.1	2.7	2.2	3.1	3.3	2.4	1.8	
Priv. dom. final purchases		-0.8	4.9	3.7	3.7	2.5	3.8	4.4	3.9	2.4	
Personal cons. expenditures		-0.2	4.2	2.7	3.1	2.2	2.7	3.7	3.5	2.1	
Durables		-3.1	9.4	7.4	6.3	3.0	3.9	6.7	5.8	2.7	
Nondurables		-1.0	3.4	1.6	3.0	1.0	1.8	1.8	2.9	1.7	
Services		0.9	3.6	2.3	2.5	2.7	2.8	4.0	3.4	2.1	
Business fixed investment		-6.0	5.5	9.9	7.6	6.5	11.7	9.1	7.7	5.4	
Producers' dur. equipment		-2.6	9.6	12.2	10.2	8.3	12.2	12.9	9.2	6.4	
Nonres. structures		-12.5	-3.4	4.5	1.1	2.0	10.3	-0.2	3.9	2.9	
Residential structures		1.1	16.9	7.8	4.2	-1.9	3.9	5.4	0.6	-0.3	
Exports		8.6	4.1	4.6	10.0	10.3	9.3	10.5	0.5	4.1	
Imports		4.1	7.4	10.2	12.3	5.6	11.8	14.1	7.9	6.5	
Gov't. cons. & investment		-0.7	1.7	-1.4	0.1	-1.4	2.0	1.1	0.6	0.9	
Federal		-3.1	1.3	-6.1	-3.9	-6.0	1.5	-0.3	-2.5	-1.8	
Defense		-5.3	-1.3	-6.9	-6.0	-5.9	1.1	-1.1	-4.4	-2.1	
State & local		1.0	2.0	2.0	2.7	1.4	2.2	2.0	2.4	2.3	
Change in bus. inventories	Bill. Ch. \$	-3.0	7.0	22.1	60.6	27.3	25.0	63.6	36.2	26.9	
Nonfarm		-1.2	2.0	29.5	49.0	35.7	22.5	55.8	30.1	22.3	
Net exports		-22.3	-29.5	-70.2	-104.6	-98.8	-114.4	-145.0	-218.5	-271.1	
Nominal GDP	% change	3.8	6.3	5.0	5.8	4.0	5.6	5.8	3.4	3.7	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	108.3	108.6	110.7	114.1	117.2	119.5	122.3	124.6	125.7	
Unemployment rate	%	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.7	5.0	
Industrial prod. index	% change	-0.0	3.7	3.3	6.5	3.3	4.2	5.8	0.7	2.2	
Capacity util. rate - mfg.	%	77.9	79.4	80.5	82.5	82.8	81.4	81.7	80.5	78.7	
Housing starts	Millions	1.01	1.20	1.29	1.46	1.35	1.48	1.48	1.47	1.44	
Light motor vehicle sales		12.52	12.85	13.87	15.02	14.73	15.05	15.11	14.88	14.52	
North Amer. produced		9.74	10.51	11.71	12.88	12.82	13.34	13.12	13.05	12.79	
Other		2.77	2.34	2.15	2.13	1.90	1.71	1.93	1.84	1.73	
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	5932.4	6255.5	6576.8	6955.2	7270.6	7637.7	8063.1	8386.1	8669.2	
Nominal GNP	% change	3.5	6.2	5.1	5.7	4.1	5.5	5.6	3.2	3.6	
Nominal personal income		3.7	7.3	4.2	5.1	5.2	5.8	6.0	3.8	3.8	
Real disposable income		0.8	4.0	1.5	2.4	3.4	2.0	3.7	2.5	2.1	
Personal saving rate	%	6.0	6.2	5.1	4.2	4.8	4.3	3.8	3.5	3.3	
Corp. profits, IVA & CCAdj.	% change	4.5	11.3	19.0	14.1	11.0	9.1	11.2	-3.9	1.1	
Profit share of GNP	%	6.9	6.8	7.5	8.2	8.9	9.6	10.0	9.7	9.2	
Excluding FR Banks	%	6.6	6.6	7.2	7.9	8.6	9.3	9.7	9.4	9.0	
Federal surpl./deficit	Bill. \$	-196.0	-280.9	-250.7	-186.7	-174.6	-110.5	-26.6	-9.4	-17.4	
State & local surpl./def.		75.8	86.3	87.4	96.8	103.1	105.3	109.9	119.1	115.6	
Ex. social ins. funds		11.5	18.3	19.7	27.9	32.5	34.1	38.5	47.6	44.0	
Gross natl. saving rate	%	15.7	14.5	14.4	15.5	16.0	16.6	17.4	17.1	16.5	
Net natl. saving rate	%	4.8	3.7	3.7	4.7	5.5	6.4	7.4	7.1	6.4	
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	3.3	2.6	2.6	2.5	2.4	2.3	1.9	1.7	1.7	
Gross Domestic Purchases chnn.-wt. price index		2.7	2.7	2.3	2.5	2.3	2.3	1.4	1.4	1.7	
CPI		3.0	3.1	2.7	2.7	2.6	3.2	1.9	1.6	2.0	
Ex. food and energy		4.4	3.5	3.1	2.8	3.0	2.6	2.2	2.1	2.0	
ECL, hourly compensation <sup>2</sup>		4.4	3.5	3.6	3.1	2.6	3.1	3.4	3.2	3.1	
Nonfarm business sector		2.2	3.5	-0.2	-0.1	0.4	1.2	2.3	0.8	1.5	
Output per hour		4.8	4.5	1.8	1.9	2.8	3.3	4.1	3.4	3.2	
Compensation per Hour		2.5	1.0	2.0	2.0	2.4	2.1	1.7	2.6	1.7	
Unit labor cost											

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

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

January 28, 1998

Item	Units	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	7168.9	7209.5	7301.3	7381.9	7467.5	7607.7	7676.0	7792.9	7933.6	8034.3
Real GDP	Bill. Ch. \$	6703.7	6708.8	6759.2	6796.5	6826.4	6926.0	6943.8	7017.4	7101.6	7159.6
Real GDP	% change	0.9	0.3	3.0	2.2	1.8	6.0	1.0	4.3	4.9	3.3
Gross domestic purchases		1.3	0.2	1.9	1.3	3.1	6.5	2.4	2.5	5.9	3.7
Final sales		1.8	1.9	3.3	2.0	2.6	5.2	0.2	4.5	3.0	2.5
Priv. dom. final purchases		2.5	2.2	2.7	2.5	4.4	5.5	2.1	3.2	5.1	2.9
Personal cons. expenditures		1.5	2.9	2.6	1.8	3.1	3.7	0.5	3.3	5.3	0.9
Durables		-3.0	3.9	9.3	2.0	4.8	9.7	-1.9	3.5	14.1	-5.4
Nondurables		1.7	0.9	0.7	0.7	1.7	2.6	0.6	2.1	4.7	-2.1
Services		2.4	3.7	2.2	2.3	3.5	3.1	1.0	3.9	3.9	3.9
Business fixed investment		14.2	5.7	1.6	4.9	11.7	13.0	16.5	5.9	4.1	14.6
Producers' dur. equipment		16.1	6.2	2.0	9.4	13.1	14.9	19.1	2.6	6.7	23.0
Nonres. structures		9.5	4.3	0.7	-5.6	8.2	7.9	10.0	15.3	-2.1	-4.7
Residential structures		-7.0	-15.5	8.4	8.5	8.3	17.9	-4.5	-4.3	3.3	7.4
Exports		7.2	9.3	13.5	11.5	1.7	9.6	1.9	25.5	9.9	18.4
Imports		10.0	7.7	2.3	2.4	13.1	14.1	13.2	6.8	17.9	20.5
Gov't. cons. & investment		0.6	-0.1	-0.7	-5.4	1.8	7.2	-1.1	0.1	-0.4	3.1
Federal		-1.1	-4.5	-1.3	-16.4	7.5	8.8	-4.2	-5.2	-5.8	6.6
Defense		-1.1	-1.6	-4.0	-15.9	6.1	11.0	-4.6	-7.1	-11.8	7.5
State & local		1.7	2.6	-0.4	1.9	-1.4	6.3	0.7	3.3	2.7	1.2
Change in bus. inventories	Bill. Ch. \$	48.5	21.6	17.0	22.2	8.0	21.3	37.9	32.9	63.7	77.6
Nonfarm		54.7	34.0	29.6	24.4	14.5	17.3	31.6	26.5	58.3	78.1
Net exports		-113.5	-112.8	-92.9	-76.1	-100.8	-112.6	-138.9	-105.6	-126.3	-136.6
Nominal GDP	% change	4.2	2.3	5.2	4.5	4.7	7.7	3.6	6.2	7.4	5.2
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	116.5	116.9	117.4	117.9	118.5	119.2	119.9	120.5	121.1	121.9
Unemployment rate	%	5.5	5.7	5.7	5.6	5.6	5.4	5.3	5.3	5.3	4.9
Industrial prod. index	% change	5.9	1.6	4.5	1.1	2.0	7.5	3.6	3.8	5.2	4.6
Capacity util. rate - mfg.	%	83.8	82.9	82.6	81.8	81.0	81.6	81.5	81.4	81.6	81.5
Housing starts	Millions	1.32	1.29	1.42	1.41	1.46	1.50	1.49	1.42	1.47	1.46
Light motor vehicle sales		14.67	14.42	14.86	14.96	15.04	15.13	15.08	14.95	15.26	14.51
North Amer. produced		12.66	12.46	13.00	13.18	13.38	13.43	13.38	13.18	13.34	12.67
Other		2.01	1.96	1.86	1.78	1.66	1.70	1.70	1.76	1.92	1.85
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	7175.1	7220.6	7298.3	7388.5	7475.3	7610.5	7669.1	7796.1	7919.2	8013.6
Nominal GNP	% change	4.5	2.6	4.4	5.0	4.8	7.4	3.1	6.8	6.5	4.9
Nominal personal income		7.4	4.1	4.3	5.1	6.8	6.6	5.1	4.8	8.0	5.0
Real disposable income		4.5	0.2	2.6	2.5	3.5	1.1	2.7	0.7	4.6	3.1
Personal saving rate	%	5.3	4.6	4.5	4.6	4.7	4.1	4.5	3.9	3.7	4.2
Corp. profits, IVA & CCAdj.	% change	-2.9	10.0	31.7	7.9	20.0	12.1	0.6	4.5	18.1	8.2
Profit share of GNP	%	8.5	8.7	9.2	9.3	9.6	9.7	9.6	9.6	9.8	9.9
Excluding FR Banks	%	8.2	8.4	8.9	9.0	9.3	9.4	9.4	9.3	9.6	9.6
Federal surpl./deficit	Bill. \$	-191.5	-179.5	-176.5	-150.2	-153.6	-111.6	-99.5	-77.1	-55.5	-36.8
State & local surpl./def.		107.7	105.6	101.1	97.8	104.1	114.6	102.6	100.4	104.7	104.9
Ex. social ins. funds		37.7	35.3	30.3	26.8	33.2	43.1	31.1	28.9	33.5	33.3
Gross natl. saving rate	%	15.8	15.7	16.0	16.6	16.3	16.5	16.9	16.7	16.8	17.6
Net natl. saving rate	%	5.4	5.1	5.5	6.0	6.0	6.4	6.7	6.6	6.7	7.4
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	3.3	2.1	2.0	2.1	2.8	1.9	2.7	1.9	2.4	1.8
Gross Domestic Purchases chn.-wt. price index		3.0	2.5	1.7	1.9	2.7	1.8	2.4	2.4	1.9	0.8
CPI		2.7	3.5	2.1	2.6	3.2	3.4	2.8	3.3	2.3	1.0
Ex. food and energy		3.3	3.3	2.8	2.7	2.7	2.7	2.4	2.7	2.2	2.9
ECI, hourly compensation <sup>1</sup>		2.9	2.6	2.6	2.9	2.5	3.5	2.8	2.8	2.5	3.4
Nonfarm business sector											
Output per hour		-1.6	0.8	1.1	1.6	1.9	2.2	-1.0	1.8	1.4	2.4
Compensation per hour		2.6	3.1	2.7	2.9	2.8	4.4	2.9	3.3	4.5	3.3
Unit labor cost		4.2	2.3	1.6	1.3	0.9	2.1	3.9	1.5	3.1	0.9

1. Private-industry workers.

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

January 28, 1998

Item	Units	Projected											
		1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4		
<b>EXPENDITURES</b>													
Nominal GDP	Bill. \$	8124.3	8241.5	8330.1	8384.7	8449.3	8520.7	8598.8	8673.1	8751.2	8832.9		
Real GDP	Bill. Ch. \$	7214.0	7283.9	7331.8	7349.8	7376.4	7407.0	7439.4	7473.7	7510.0	7548.3		
Real GDP	% change	3.1	3.9	2.7	1.0	1.5	1.7	1.8	1.9	2.0	2.1		
Gross domestic purchases		4.3	3.3	4.0	2.2	2.6	1.6	2.4	2.1	2.7	1.8		
Final sales		4.7	3.0	2.8	2.3	1.9	2.6	1.2	1.9	1.4	2.5		
Priv. dom. final purchases		7.1	2.7	5.4	3.9	3.6	2.8	2.3	2.3	2.4	2.5		
Personal cons. expenditures		5.6	2.9	4.7	3.8	3.2	2.5	2.0	2.0	2.1	2.1		
Durables		18.4	1.5	11.8	4.3	4.2	3.2	2.2	2.5	3.0	3.1		
Nondurables		4.3	0.3	3.9	3.2	2.6	2.0	1.9	1.7	1.7	1.7		
Services		3.9	4.5	3.7	4.0	3.3	2.6	2.0	2.1	2.1	2.1		
Business fixed investment		19.2	-0.4	11.7	6.2	7.1	6.0	5.1	5.1	5.5	6.1		
Producers' dur. equipment		24.1	-0.3	13.9	7.3	8.6	7.1	6.0	5.9	6.5	7.3		
Nonres. structures		6.7	-0.5	6.0	3.4	3.2	3.1	2.9	2.9	2.9	2.9		
Residential structures		2.7	8.1	1.7	0.8	0.2	-0.1	-0.4	0.2	-0.8	-0.4		
Exports		4.4	9.5	-3.1	0.0	-2.2	7.5	0.9	6.3	0.9	8.5		
Imports		14.6	4.1	8.1	10.0	7.7	6.0	6.3	7.9	6.7	5.3		
Gov't. cons. & investment		1.1	0.9	-1.1	1.4	1.0	1.1	-0.1	1.5	1.0	1.1		
Federal		-1.1	-0.5	-7.2	-0.2	-1.3	-1.1	-4.6	-0.1	-1.3	-1.2		
Defense		1.2	-0.2	-12.8	-0.8	-2.5	-1.0	-6.4	0.5	-1.3	-1.3		
State & local		2.3	1.7	2.5	2.3	2.3	2.3	2.3	2.3	2.3	2.3		
Change in bus. inventories	Bill. Ch. \$	47.5	65.5	62.3	38.9	30.5	13.1	24.3	23.6	34.3	25.4		
Nonfarm		38.3	56.4	53.8	32.4	25.5	8.7	19.7	19.1	29.7	20.8		
Net exports		-164.1	-153.2	-183.4	-211.6	-239.4	-239.4	-256.3	-265.1	-283.7	-279.5		
Nominal GDP	% change	4.6	5.9	4.4	2.6	3.1	3.4	3.7	3.5	3.7	3.8		
<b>EMPLOYMENT AND PRODUCTION</b>													
Nonfarm payroll employment	Millions	122.6	123.5	124.2	124.5	124.8	125.0	125.3	125.5	125.8	126.0		
Unemployment rate	%	4.9	4.7	4.6	4.7	4.7	4.8	4.9	5.0	5.1	5.2		
Industrial prod. index	% change	6.0	7.4	3.0	-1.2	0.1	1.1	2.1	1.9	2.2	2.5		
Capacity util. rate - mfg.	%	81.6	82.2	82.0	80.7	79.9	79.3	79.0	78.7	78.6	78.6		
Housing starts	Millions	1.46	1.53	1.48	1.48	1.47	1.46	1.45	1.45	1.43	1.43		
Light motor vehicle sales		15.34	15.30	15.14	14.91	14.79	14.70	14.59	14.50	14.49	14.49		
North Amer. produced		13.31	13.17	13.20	13.06	12.98	12.94	12.86	12.77	12.76	12.76		
Other		2.03	1.94	1.94	1.85	1.81	1.76	1.73	1.73	1.73	1.73		
<b>INCOME AND SAVING</b>													
Nominal GNP	Bill. \$	8103.5	8216.2	8300.0	8352.3	8412.8	8479.4	8557.4	8629.6	8706.1	8783.8		
Nominal GNP	% change	4.6	5.7	4.1	2.5	2.9	3.2	3.7	3.4	3.6	3.6		
Nominal personal income		4.6	6.3	4.8	3.4	3.5	3.3	4.6	3.6	3.5	3.5		
Real disposable income		2.6	4.6	5.9	1.6	1.3	1.2	4.1	1.4	1.4	1.6		
Personal saving rate	%	3.5	3.9	4.2	3.7	3.3	3.0	3.5	3.3	3.2	3.1		
Corp. profits, IVA & CCAdj.	% change	17.2	2.2	-1.5	-7.4	-4.8	-1.7	-1.6	1.0	2.6	2.5		
Profit share of GNP	%	10.2	10.1	10.0	9.7	9.5	9.4	9.3	9.2	9.2	9.2		
Excluding FR Banks		9.9	9.9	9.7	9.5	9.3	9.2	9.0	9.0	9.0	9.0		
Federal surpl./deficit	Bill. \$	-10.8	-3.1	-11.1	-10.2	-4.9	-11.6	-22.9	-18.6	-11.3	-16.7		
State & local surpl./def.		111.4	118.4	120.6	119.2	117.8	118.6	117.2	115.8	114.8	114.4		
Ex. social ins. funds		40.0	47.0	49.2	47.7	46.3	47.1	45.6	44.2	43.2	42.8		
Gross natl. saving rate	%	17.4	17.7	17.7	17.2	16.9	16.5	16.6	16.5	16.5	16.3		
Net natl. saving rate		7.5	7.9	7.9	7.3	6.8	6.4	6.6	6.4	6.4	6.2		
<b>PRICES AND COSTS</b>													
GDP chn.-wt. price index	% change	1.4	1.9	1.8	1.6	1.6	1.7	1.9	1.6	1.7	1.7		
Gross Domestic Purchases chn.-wt. price index		1.3	1.5	0.7	1.4	1.7	1.8	1.9	1.7	1.7	1.6		
CPI		2.0	2.3	0.5	1.7	2.1	2.2	2.1	2.0	2.0	2.0		
Ex. food and energy		1.7	2.1	2.0	2.0	2.1	2.2	2.0	2.0	2.0	2.0		
ECI, hourly compensation <sup>1</sup>		3.4	4.9	3.3	3.2	3.2	3.2	3.0	3.2	3.2	3.2		
Nonfarm business sector		4.1	1.3	0.6	0.4	0.9	1.2	1.3	1.4	1.5	1.6		
Output per hour		3.9	4.7	3.6	3.4	3.3	3.2	3.2	3.2	3.2	3.2		
Compensation per hour		-0.2	3.3	2.9	3.0	2.4	2.1	1.9	1.8	1.7	1.6		
Unit labor cost													

1. Private-industry workers.

Strictly Confidential <FR>  
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

January 28, 1998

Item	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	95Q4/ 94Q4	96Q4/ 95Q4	97Q4/ 96Q4
Real GDP	3.0	2.2	1.8	6.0	1.0	4.3	4.9	3.3	3.1	1.6	3.2	3.8
Gross dom. purchases	1.9	1.3	3.1	6.6	2.4	2.5	6.0	3.7	4.4	1.2	3.6	4.3
Final sales	3.3	1.9	2.6	5.2	0.2	4.5	3.0	2.5	4.7	2.2	3.1	3.3
Priv. dom. final purchases	2.3	2.0	3.6	4.5	1.7	2.7	4.2	2.4	5.8	2.0	3.1	3.6
Personal cons. expenditures	1.8	1.2	2.1	2.5	0.4	2.2	3.6	0.6	3.8	1.5	1.8	2.5
Durables	0.7	0.2	0.4	0.8	-0.2	0.3	1.1	-0.5	1.4	0.2	0.3	0.5
Nondurables	0.1	0.1	0.4	0.5	0.1	0.4	0.9	-0.4	0.8	0.2	0.4	0.4
Services	0.9	0.9	1.4	1.2	0.4	1.5	1.5	1.5	1.5	1.0	1.1	1.6
Business fixed investment	0.2	0.5	1.1	1.3	1.6	0.6	0.4	1.4	1.9	0.6	1.1	0.9
Producers' dur. equip.	0.1	0.6	0.9	1.0	1.3	0.2	0.5	1.6	1.7	0.6	0.9	0.9
Nonres. structures	0.0	-0.2	0.3	0.2	0.3	0.4	-0.1	-0.1	0.2	0.1	0.3	-0.0
Residential structures	0.3	0.3	0.3	0.7	-0.2	-0.2	0.1	0.3	0.1	-0.1	0.2	0.2
Net exports	1.1	1.0	-1.3	-0.6	-1.4	1.8	-1.0	-0.4	-1.3	0.4	-0.4	-0.5
Exports	1.4	1.2	0.2	1.1	0.2	2.7	1.1	2.0	0.5	1.1	1.0	1.2
Imports	-0.2	-0.3	-1.5	-1.7	-1.6	-0.8	-2.1	-2.5	-1.7	-0.7	-1.4	-1.7
Government cons. & invest.	-0.1	-1.0	0.3	1.3	-0.2	0.0	-0.1	0.6	0.2	-0.3	0.4	0.2
Federal	-0.1	-1.2	0.5	0.6	-0.3	-0.4	-0.4	0.4	-0.1	-0.4	0.1	-0.0
Defense	-0.2	-0.8	0.3	0.5	-0.2	-0.3	-0.6	0.3	0.1	-0.3	0.0	-0.0
Nondefense	0.1	-0.4	0.2	0.1	-0.1	0.0	0.2	0.1	-0.1	-0.2	0.1	0.0
State and local	0.0	0.2	-0.2	0.7	0.1	0.4	0.3	0.1	0.3	0.2	0.3	0.2
Change in bus. inventories	-0.2	0.3	-0.8	0.7	0.8	-0.2	1.8	0.8	-1.6	-0.6	0.1	0.4
Nonfarm	-0.2	-0.3	-0.6	0.1	0.8	-0.2	1.8	0.7	-1.7	-0.5	0.0	0.4
Farm	0.0	0.6	-0.2	0.5	0.1	-0.1	0.0	0.1	0.1	-0.1	0.1	0.0

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

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Strictly Confidential <NR>  
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

January 28, 1998

Item	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	97Q4/ 96Q4	98Q4/ 97Q4	99Q4/ 98Q4
Real GDP	3.9	2.7	1.0	1.5	1.7	1.8	1.9	2.0	2.1	3.8	1.7	1.9
Gross dom. purchases	3.4	4.1	2.2	2.7	1.6	2.5	2.2	2.7	1.8	4.3	2.6	2.3
Final sales	3.0	2.8	2.2	1.9	2.6	1.2	1.9	1.4	2.5	3.3	2.4	1.7
Priv. dom. final purchases	2.2	4.4	3.2	3.0	2.3	1.9	2.0	2.1	3.6	3.2	2.0	
Personal cons. expenditures	2.0	3.2	2.5	2.2	1.7	1.4	1.4	1.4	2.5	2.4	1.4	
Durables	0.1	0.9	0.3	0.3	0.3	0.2	0.2	0.2	0.5	0.5	0.2	
Nondurables	0.1	0.7	0.6	0.5	0.4	0.4	0.3	0.3	0.4	0.6	0.3	
Services	1.8	1.5	1.6	1.4	1.0	0.8	0.9	0.9	1.6	1.4	0.9	
Business fixed investment	-0.0	1.2	0.6	0.7	0.6	0.5	0.5	0.6	0.6	0.9	0.8	0.6
Producers' dur. equip.	-0.0	1.0	0.6	0.7	0.5	0.5	0.5	0.6	0.9	0.9	0.7	0.5
Nonres. structures	-0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1	-0.0	0.1	0.1	0.1
Residential structures	0.3	0.1	0.0	0.0	-0.0	-0.0	-0.0	-0.0	0.2	0.0	-0.0	
Net exports	0.6	-1.4	-1.2	-1.2	0.1	-0.7	-0.3	-0.8	0.2	-0.5	-0.9	-0.4
Exports	1.1	-0.4	0.0	-0.3	0.8	0.1	0.7	0.1	0.9	1.2	0.1	0.5
Imports	-0.5	-1.0	-1.2	-1.0	-0.8	-0.8	-1.0	-0.9	-0.7	-1.7	-1.0	-0.8
Government cons. & invest.	0.2	-0.2	0.3	0.2	0.2	-0.0	0.3	0.2	0.2	0.2	0.1	0.2
Federal	-0.0	-0.5	-0.0	-0.1	-0.1	-0.3	-0.0	-0.1	-0.1	-0.0	-0.2	-0.1
Defense	-0.0	-0.6	-0.0	-0.1	-0.0	-0.3	0.0	-0.1	-0.1	-0.0	-0.2	-0.1
Nondefense	-0.0	0.1	0.0	0.0	-0.0	-0.0	-0.0	-0.0	0.0	0.0	0.0	-0.0
State and local	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.3
Change in bus. inventories	0.9	-0.2	-1.2	-0.4	-0.9	0.6	-0.0	0.6	-0.5	0.4	-0.7	0.2
Nonfarm	1.0	-0.1	-1.1	-0.4	-0.9	0.6	-0.0	0.6	-0.5	0.4	-0.6	0.2
Farm	-0.0	-0.0	-0.1	-0.1	-0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0

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

Item	Fiscal year <sup>5</sup>				1997				1998				1999			
	1996 <sup>a</sup>	1997 <sup>a</sup>	1998	1999	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>UNIFIED BUDGET</b>																
Receipts <sup>1</sup>	1453	1579	1671	1719	349	496	387	386	371	517	397	397	372	529	421	399
Outlays <sup>1</sup>	1560	1601	1672	1718	401	396	398	426	415	413	417	464	399	425	430	442
Surplus/deficit <sup>1</sup>	-107	-22	0	1	-52	100	-11	-40	-45	104	-20	-67	-27	104	-9	-43
On-budget	-174	-103	-92	-108	-69	61	-19	-66	-58	59	-26	-66	-75	53	-20	-76
Off-budget	67	81	91	109	17	39	8	26	14	45	7	-1	48	51	11	33
Surplus excluding deposit insurance <sup>2</sup>	-116	-36	-5	-3	-56	97	-12	-41	-46	102	-21	-68	-28	103	-10	-44
Means of financing																
Borrowing	130	38	28	14	48	-69	11	34	43	-82	33	33	41	-85	25	28
Cash decrease	-6	1	4	0	-1	-18	8	12	12	-17	-3	20	0	-15	-5	10
Other <sup>3</sup>	-16	-17	-32	-15	5	-13	-7	-6	-11	-4	-11	13	-14	-4	-10	5
Cash operating balance, end of period	44	44	40	40	33	51	44	32	20	37	40	20	20	35	40	30
<b>NIPA FEDERAL SECTOR</b>																
Receipts	1550	1692	1779	1813	1675	1709	1742	1772	1770	1779	1792	1802	1801	1816	1832	1846
Expenditures	1679	1737	1786	1829	1731	1746	1753	1776	1781	1790	1797	1814	1824	1834	1843	1862
Consumption expend.	447	460	465	469	458	464	465	464	464	466	466	467	469	470	471	471
Defense	302	309	308	308	306	311	312	310	307	307	307	307	307	308	308	308
Nondefense	145	151	157	162	152	153	153	154	157	158	160	160	162	162	162	162
Other expenditures	1232	1277	1321	1360	1273	1282	1288	1312	1317	1324	1330	1347	1355	1364	1373	1392
Current account surplus	-129	-45	-7	-16	-56	-37	-11	-3	-11	-10	-5	-12	-23	-19	-11	-17
Gross investment	69	61	60	58	58	62	61	65	59	59	59	59	57	58	58	58
Current and capital account surplus	-197	-106	-68	-74	-114	-99	-72	-68	-70	-69	-54	-70	-80	-76	-69	-74
<b>FISCAL INDICATORS<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-220	-167	-157	-144	-170	-167	-149	-158	-164	-158	-148	-149	-152	-143	-132	-133
Change in HEB, percent of potential GDP	-.6	-.7	-.1	-.2	-.2	0	-.2	.1	.1	-.1	-.1	0	0	-.1	-.1	0
Fiscal impetus (FI), percent, cal. year	-2.3	-1.7	-1.8	-1.3	-1.1	1.5	.2	-.9	-.8	-.3	-.4	-1.4	.8	-.3	-.6	-1.1

1. OMB's September 1997 deficit estimates (assuming the enactment of the President's proposals) are \$58 billion in FY98 and \$57 billion in FY99. CBO's January 1998 baseline deficit estimates are \$5 billion in FY98 and \$2 billion in FY99. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's September 1997 deficit estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are \$63 billion in FY98 and \$59 billion in FY99. CBO's January 1998 baseline deficit estimates, excluding deposit insurance, are \$11 billion in FY98 and \$6 billion in FY99.

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

4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Real potential GDP growth is assumed to rise from 2.2 percent in 1996 to 2.5 percent in 1999, reflecting CPI modifications. 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.

--Actual.

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**Change in Debt of the Domestic Nonfinancial Sectors  
(Percent)**

Period <sup>1</sup>	Total <sup>2</sup>	Federal government <sup>3</sup>	Total <sup>4</sup>	Nonfederal				Business	State and local governments	Memo: Nominal GDP			
				Households									
				Total	Home mortgages	Consumer credit							
<i>Year</i>													
1989	7.6	7.0	7.8	8.5	9.9	6.0	7.7	5.7	6.4				
1990	6.5	11.0	5.3	7.5	9.6	1.5	3.3	5.1	4.4				
1991	4.3	11.1	2.3	5.0	6.6	-1.3	-1.8	8.4	3.8				
1992	4.8	10.9	2.8	5.1	6.0	0.5	0.6	2.0	6.3				
1993	5.2	8.3	4.1	6.2	5.3	7.6	1.5	5.7	5.0				
1994	4.8	4.7	4.8	8.2	6.4	14.5	3.7	-4.0	5.8				
1995	5.3	4.1	5.8	7.8	5.9	14.1	6.2	-3.8	4.0				
1996	5.2	4.0	5.7	7.6	8.1	7.9	4.6	1.2	5.6				
1997	4.8	0.6	6.2	6.2	7.1	4.7	6.4	5.7	5.8				
1998	5.2	0.7	6.7	6.6	7.6	4.5	7.3	5.1	3.4				
1999	4.6	0.2	6.0	5.8	6.9	3.2	6.6	5.1	3.7				
<i>Quarter</i>													
1997:3	4.7	1.1	5.9	5.5	7.2	3.4	6.8	4.6	4.6				
4	5.3	1.8	6.5	6.5	7.4	4.8	6.4	6.9	5.9				
1998:1	5.3	1.5	6.6	6.5	7.5	4.7	7.1	5.0	4.4				
2	4.0	-3.6	6.6	6.4	7.4	4.5	7.1	5.0	2.6				
3	5.8	3.4	6.5	6.4	7.3	4.4	7.1	5.0	3.1				
4	5.3	1.6	6.5	6.4	7.3	4.1	6.9	5.0	3.4				
1999:1	5.0	1.2	6.1	6.0	7.1	3.8	6.6	5.1	3.7				
2	3.6	-3.8	6.0	5.7	6.8	3.3	6.5	5.1	3.5				
3	5.0	2.5	5.8	5.5	6.6	2.9	6.4	5.0	3.7				
4	4.6	1.1	5.7	5.4	6.5	2.6	6.3	4.9	3.8				

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1997:Q3 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2. On a monthly average basis, total debt grew 4.6 percent in 1997, 5.2 percent in 1998, and 4.8 percent in 1999.

3. On a monthly average basis, federal debt rose 0.6 percent in 1997, 0.8 percent in 1998, and .5 percent in 1999.

4. On a monthly average basis, nonfederal debt increased 6.0 percent in 1997, 6.7 percent in 1998, and 6.1 percent in 1999.

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

Category					Seasonally adjusted annual rates									
	Calendar year				1997		1998				1999			
	1996	1997	1998	1999	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	658.9	612.6	678.2	644.9	637.8	705.9	709.5	503.2	776.3	723.9	685.3	482.5	729.0	682.8
2 Net equity issuance	-64.2	-79.9	-114.1	-98.6	-60.4	-90.0	-100.4	-120.4	-121.2	-114.4	-107.6	-106.8	-94.0	-86.0
3 Net debt issuance	723.1	692.5	792.3	743.5	698.2	795.9	809.9	623.6	897.5	838.3	792.9	589.3	823.0	768.8
<i>Borrowing sectors</i>														
Nonfinancial business														
4 Financing gap <sup>1</sup>	7.6	46.4	76.0	111.5	24.6	45.5	78.7	73.3	78.7	73.1	102.0	105.7	121.3	116.9
5 Net equity issuance	-64.2	-79.9	-114.1	-98.6	-60.4	-90.0	-100.4	-120.4	-121.2	-114.4	-107.6	-106.8	-94.0	-86.0
6 Credit market borrowing	193.7	281.0	338.5	329.1	308.4	292.9	333.5	338.0	342.4	340.1	328.1	328.1	330.1	330.1
Households														
7 Net borrowing <sup>2</sup>	371.8	326.3	367.6	343.6	297.5	357.9	363.6	363.8	367.0	376.0	357.6	346.6	336.6	333.6
8 Home mortgages	273.0	254.5	292.5	287.2	267.8	280.8	288.4	291.9	291.8	297.9	293.4	288.4	283.4	283.4
9 Consumer credit	88.8	57.4	57.0	42.3	42.7	59.6	59.1	58.0	56.5	54.3	50.0	44.0	39.0	36.0
10 Debt/DPI (percent) <sup>3</sup>	90.7	92.1	93.6	95.6	92.4	92.5	92.5	93.3	94.0	94.7	94.8	95.4	96.0	96.4
State and local governments														
11 Net borrowing	12.7	62.1	58.4	61.9	51.3	77.8	56.9	57.9	58.9	59.9	61.9	61.9	61.9	61.9
12 Current surplus <sup>4</sup>	126.1	109.8	129.1	124.8	117.5	121.1	131.1	129.4	127.8	128.4	126.7	125.1	123.9	123.3
Federal government														
13 Net borrowing	145.0	23.1	27.9	9.0	40.9	67.3	56.0	-136.0	129.3	62.4	45.4	-147.2	94.5	43.3
14 Net borrowing (quarterly, n.s.a.)	145.0	23.1	27.9	9.0	10.6	33.7	43.4	-82.2	33.5	33.1	40.8	-85.0	24.8	28.3
15 Unified deficit (quarterly, n.s.a.)	110.9	2.4	27.2	-24.7	10.9	39.7	44.6	-103.5	19.5	66.6	26.8	-104.2	9.3	43.3
Depository institutions														
16 Funds supplied	233.2	285.1	284.7	273.9	177.9	282.7	317.7	274.7	259.5	286.9	273.9	273.9	273.9	273.9
Memo (percentage of GDP)														
17 Domestic nonfinancial debt <sup>5</sup>	185.3	183.8	185.3	187.8	183.6	183.3	183.7	184.7	185.5	186.5	187.2	187.6	187.9	188.4
18 Domestic nonfinancial borrowing	9.5	8.6	9.4	8.5	8.6	9.7	9.7	7.4	10.6	9.8	9.2	6.8	9.4	8.7
19 Federal government <sup>6</sup>	1.9	0.3	0.3	0.1	0.5	0.8	0.7	-1.6	1.5	0.7	0.5	-1.7	1.1	0.5
20 Nonfederal	7.6	8.3	9.1	8.4	8.1	8.8	9.1	9.1	9.1	9.1	8.7	8.5	8.3	8.2

Note. Data after 1997:Q3 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**  
 (Percentage change from end of previous period)

Measure	1997			1998	1999
	H1	Q3	Q4		
Foreign output	4.4	4.6	1.9	2.1	2.9
December	4.2	4.8	3.0	2.5	3.2
September	3.8	4.0	4.1	3.9	3.7
Real exports	14.1	4.4	9.5	0.5	4.1
December	14.1	4.7	9.3	3.8	5.8
September	14.9	4.9	14.7	7.6	6.1
Real imports	19.2	14.6	4.1	7.9	6.5
December	19.2	13.9	11.6	10.5	7.8
September	19.2	12.0	9.6	9.2	7.0

**The dollar.** On balance, the average real value of the dollar, weighted by shares in non-oil imports and measured relative to the currencies of a broad set of our trading partners, is projected to decline 3-1/4 percent over the forecast period from its current level. This projected path for the dollar is about 3-1/4 percent higher than in December, reflecting movements over the intermeeting period. We expect the dollar to decline somewhat against the yen as concern grows about the magnitude of Japan's external surplus. It is also expected to decline against the Canadian dollar, as a slight additional policy tightening returns that currency to the middle of its recent trading range. The dollar is projected to remain near current levels against the mark and other continental European currencies. Against other key Asian currencies, the dollar is forecast to remain at current--substantially appreciated--levels in nominal terms, but inflation in these Asian countries is expected to erode some of the dollar's appreciation in real terms over the projection period.

**Foreign G-7 countries.** Real GDP in the foreign G-7 countries, weighted by shares in U.S. nonagricultural exports, is expected to slow from 2-3/4 percent (annual rate) on average in the fourth quarter of 1997 to 2-1/4 percent this year and in 1999. A slower pace of activity in the fourth quarter than was projected in the December Greenbook reflects weaker-than-expected data for the United Kingdom and a significant weakening in the growth estimate for Japan. Growth during 1998 is a touch lower in this forecast than it was in the December Greenbook, owing to the effects on the foreign G-7 countries of additional mark-downs in the outlook for Asian developing countries.

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

Trade category	1997: H1	Projection			
		1997		1998	1999
		Q3	Q4		
<i>Exports</i>					
Nonagricultural (core)		.9	.9	-.9	-1.0
Agricultural		.1	-6.7	-1.6	-2.9
<i>Imports</i>					
Non-oil (core)		-1.3	.2	-4.1	-1.5
Oil (level, dollars per barrel)		18.00	17.58	17.61	14.39
					16.00

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

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

**Oil prices.** We have lowered our forecast for the price of imported oil over the near term a bit more than \$1 per barrel since the December Greenbook. We expect import prices to average about \$14.25 per barrel during the first quarter of this year owing to the increase in production of 0.75 mb/d by Saudi Arabia, Kuwait, and the United Arab Emirates that began earlier this month. After declining somewhat through the middle of 1998, spot and import prices should rise to \$18.50/b and \$16.00/b, respectively, by the end of 1999.

We see a relatively weak oil market in 1998--an unexpectedly large increase in OPEC production that may well crowd out at least half of the planned 1.0 mb/d increase in non-OPEC production--but we still see it beginning to tighten during 1999. Absent any further surprises from OPEC, the market will tighten because non-OPEC producers are having difficulty bringing new fields that are under development into production within their planned time frame.

The step-up in oil production since the beginning of this year may contribute to greater volatility in oil prices over the forecast period. The 0.75 mb/d increase in production reduces industry excess capacity by nearly one-third, limiting the ability of the three Persian Gulf producers to increase output over the short run to offset possible supply shocks to the market from other regions.

**Prices of non-oil imports and exports.** Prices of non-oil imports of core goods are projected to decline through the second quarter of this year before reversing

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

Measure and country	---- Projected ----								
	1991	1992	1993	1994	1995	1996	1997	1998	1999
<b>REAL GDP</b>									
-----									
Canada	-0.3	0.9	3.1	4.5	0.8	2.0	4.3	3.0	2.6
Japan	2.5	0.1	0.5	0.8	2.4	3.4	0.3	1.3	1.5
United Kingdom	-1.6	0.4	2.7	4.9	2.0	3.0	3.1	1.7	1.9
EU-11 Average (1)	2.1	0.1	-0.1	3.5	1.4	2.0	2.9	2.5	2.9
of which:									
France	1.4	-0.0	-0.7	4.3	0.3	2.3	2.9	2.1	2.5
Germany (2)	3.3	0.9	-0.2	3.4	0.7	2.1	2.8	2.1	2.9
Italy	1.9	-0.8	0.1	2.7	2.4	0.2	2.3	1.9	2.9
Foreign G-7 Average weighted by 1991 GDP	1.7	0.2	0.6	2.8	1.6	2.4	2.1	1.8	2.2
Average weighted by share of U.S. nonagricultural exports									
Total foreign	3.2	2.2	3.6	5.2	1.8	4.2	3.7	2.1	2.9
Foreign G-7	0.8	0.5	1.9	3.7	1.3	2.4	3.0	2.3	2.3
Developing Countries	6.6	5.2	6.3	7.1	2.7	6.8	5.0	1.5	3.6
<b>CONSUMER PRICES</b>									
-----									
Canada	4.1	1.8	1.8	0.0	2.1	2.0	1.0	1.6	1.8
Japan	3.2	0.9	1.2	0.8	-0.8	0.1	2.0	-0.0	0.0
United Kingdom (3)	5.7	3.7	2.7	2.2	2.9	3.2	2.8	2.8	2.9
EU-11 Average (4)	NA	NA	NA	NA	2.7	2.0	1.4	2.1	2.1
of which:									
France	3.0	1.8	2.1	1.6	1.9	1.7	1.2	1.5	1.6
Germany (2)	4.0	3.4	4.2	2.6	1.7	1.4	1.8	2.5	2.1
Italy	6.1	4.9	4.1	3.8	5.9	2.7	1.6	2.1	2.5
Foreign G-7 Average weighted by 1991 GDP	4.1	2.4	2.5	1.8	1.6	1.5	1.8	1.4	1.5
Average weighted by share of U.S. non-oil imports	3.9	1.9	2.0	1.0	1.1	1.3	1.7	1.2	1.2

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

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

Measure and country	1997				1998				Projected				1999	
	Q1		Q2		Q1		Q2		Q3		Q4			
<b>REAL GDP</b>														
Canada	4.1	5.4	4.1	3.5	2.9	3.2	2.9	2.9	2.6	2.7	2.6	2.6		
Japan	8.3	-10.6	3.1	1.5	2.3	1.2	1.0	0.8	0.8	1.7	1.7	1.7	1.7	
United Kingdom	2.7	4.3	3.4	2.1	2.5	1.5	1.4	1.4	1.7	1.8	2.0	2.0		
EU-11 Average (1)	1.3	5.0	2.8	2.4	2.4	2.4	2.6	2.6	2.8	2.8	3.0	3.0		
of which:														
France	1.3	4.4	3.5	2.5	1.9	2.0	2.2	2.1	2.4	2.5	2.6	2.6		
Germany	1.2	4.1	3.2	2.7	2.0	2.1	2.2	2.3	2.8	2.8	3.0	2.9		
Italy	-0.8	7.6	1.8	1.0	1.8	1.8	2.0	2.0	2.5	2.5	3.3	3.3		
Foreign G-7 Average weighted by 1991 GDP	3.6	-0.4	3.1	2.0	2.2	1.7	1.7	1.7	1.9	2.2	2.4	2.4		
Average weighted by share of U.S. nonagricultural exports														
Total foreign	3.8	4.8	4.6	1.8	2.0	2.0	2.0	2.3	2.5	2.8	3.0	3.1		
Foreign G-7	4.3	1.5	3.6	2.7	2.6	2.4	2.2	2.2	2.1	2.4	2.4	2.4		
Developing Countries	4.1	8.3	6.4	1.4	0.8	1.3	1.5	2.3	3.0	3.4	3.8	4.2		
<b>CONSUMER PRICES (2)</b>														
Canada	2.1	1.6	1.7	1.0	1.3	1.4	1.5	1.6	1.7	1.7	1.8	1.8		
Japan	0.0	1.5	1.7	2.0	2.0	0.5	0.0	-0.0	0.0	0.0	0.0	0.0		
United Kingdom (3)	2.9	2.6	2.8	2.8	2.7	2.7	2.8	2.8	2.9	3.0	3.0	2.9		
EU-11 Average (4)	1.7	1.2	1.5	1.4	1.7	1.9	2.0	2.1	2.1	2.0	2.1	2.1		
of which:														
France	1.5	0.9	1.3	1.2	1.2	1.2	1.3	1.5	1.6	1.6	1.6	1.6		
Germany	1.7	1.6	1.9	1.8	1.9	2.2	2.5	2.5	2.5	2.1	2.1	2.1		
Italy	2.4	1.6	1.5	1.6	2.0	2.0	2.1	2.1	2.3	2.3	2.5	2.5		
Foreign G-7 Average weighted by 1991 GDP	1.4	1.6	1.8	1.8	1.9	1.5	1.4	1.4	1.5	1.4	1.5	1.5		
Average weighted by share of U.S. non-oil imports	1.3	1.6	1.8	1.7	1.8	1.2	1.1	1.2	1.2	1.2	1.2	1.2		

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

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OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1991	1992	1993	1994	1995	1996	1997	Projected 1998	1999
<b>NIPA REAL EXPORTS and IMPORTS</b>									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	0.4	-0.4	-0.6	-0.4	0.4	-0.4	-0.5	-0.9	-0.4
Exports of G&S	0.8	0.4	0.5	1.0	1.1	1.0	1.2	0.1	0.5
Imports of G&S	-0.4	-0.8	-1.1	-1.4	-0.7	-1.4	-1.7	-1.0	-0.8
Percentage change, Q4/Q4									
Exports of G&S	8.6	4.1	4.6	10.0	10.3	9.3	10.5	0.5	4.1
Services	7.1	-0.9	4.1	6.0	9.0	4.7	3.3	-0.5	3.1
Agricultural Goods	10.1	10.4	-5.5	16.6	-3.4	5.7	2.5	-1.9	1.9
Computers	21.7	25.2	23.7	32.0	55.7	33.8	50.9	21.4	29.3
Semiconductors	41.8	64.8	32.9	66.9	80.4	45.9	18.3	21.8	33.1
Other Goods 1/	7.0	2.3	3.6	6.9	5.7	7.6	11.6	-1.7	0.9
Imports of G&S	4.1	7.4	10.2	12.3	5.6	11.8	14.1	7.9	6.5
Services	-2.7	1.4	3.2	1.4	7.3	5.0	12.6	3.3	2.4
Oil	8.1	12.1	10.1	-0.2	1.5	8.3	-0.0	6.2	2.1
Computers	35.9	45.1	39.3	44.8	46.2	23.6	42.1	20.6	26.2
Semiconductors	55.3	42.0	34.2	54.5	92.7	57.9	30.4	22.1	32.3
Other Goods 2/	2.5	5.4	9.5	12.2	-1.2	10.5	12.8	7.5	5.1
Billions of chained 1992 dollars									
Net Goods & Services	-22.3	-29.5	-70.2	-104.6	-98.8	-114.4	-145.0	-218.5	-271.1
Exports of G&S	599.9	639.4	658.2	712.4	791.2	857.0	963.4	989.5	1020.5
Imports of G&S	622.2	669.0	728.4	817.0	890.1	971.5	1108.5	1208.0	1291.6
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-5.7	-56.4	-90.8	-133.5	-129.1	-148.2	-162.2	-205.3	-262.8
Net Goods & Services (BOP)	-31.0	-39.2	-72.3	-104.4	-101.9	-111.0	-109.8	-135.9	-183.7
Exports of G&S (BOP)	581.2	617.5	643.5	699.6	794.6	848.8	933.3	936.3	961.0
Imports of G&S (BOP)	612.2	656.7	715.8	804.1	896.5	959.9	1043.1	1072.2	1144.7
Net Investment Income	20.3	18.0	19.7	9.7	6.8	2.8	-13.0	-27.7	-37.4
Direct, Net	55.6	51.6	55.7	50.8	60.0	66.8	69.7	64.9	69.8
Portfolio, Net	-35.4	-33.6	-36.0	-41.0	-53.2	-63.9	-82.7	-92.5	-107.2
Net Transfers	5.1	-35.2	-38.1	-38.8	-34.0	-40.0	-39.3	-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

	1994				1995				1996			
	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	-1.0	-0.3	-0.4	0.3	-0.4	0.1	1.2	1.0	-1.3	-0.6	-1.4	1.8
Exports of G&S	-0.2	1.7	1.1	1.5	0.8	1.0	1.4	1.3	0.2	1.1	0.2	2.6
Imports of G&S	-0.8	-2.0	-1.5	-1.2	-1.2	-0.9	-0.3	-0.3	-1.5	-1.7	-1.6	-0.8
Percentage change from previous period, SAAR												
Exports of G&S	-1.8	17.7	10.6	14.7	7.2	9.3	13.5	11.5	1.7	9.6	1.9	25.5
Services	2.4	12.9	2.0	6.9	6.0	3.8	20.3	6.6	-3.8	9.7	0.3	13.5
Agricultural Goods	-25.2	8.1	45.3	57.2	-1.3	-17.5	19.7	-10.7	12.5	-34.3	13.1	49.2
Computers	21.4	24.3	35.5	48.4	34.9	41.0	89.6	63.1	46.2	31.8	29.2	28.7
Semiconductors	111.8	23.4	65.9	79.1	72.0	97.0	100.3	56.2	19.9	28.3	37.6	13.8
Other Goods 1/	-6.8	20.3	7.4	8.6	2.9	8.2	1.0	11.0	-1.2	13.2	-3.1	23.9
Imports of G&S	7.6	19.0	13.1	9.9	10.0	7.7	2.3	2.4	13.1	14.1	13.2	6.8
Services	2.7	4.1	-0.4	-0.9	24.4	-4.0	8.4	2.2	14.6	2.7	1.2	2.1
Oil	-8.6	27.2	33.5	-36.2	-8.1	12.5	28.0	-19.7	-7.6	67.2	10.6	-19.6
Computers	32.9	48.3	42.3	57.0	8.1	57.3	65.8	61.8	6.4	30.7	26.9	32.0
Semiconductors	60.7	23.7	74.4	64.3	29.6	108.0	157.1	98.8	30.4	10.3	75.5	146.4
Other Goods 2/	6.9	19.6	10.3	12.5	7.3	2.2	-10.0	-3.6	14.5	11.0	12.2	4.3
Billions of chained 1992 dollars												
Net Goods & Services	-97.6	-103.9	-111.1	-105.9	-113.5	-112.8	-92.9	-76.1	-100.8	-112.6	-138.9	-105.6
Exports of G&S	676.0	704.1	722.1	747.3	760.4	777.4	802.4	824.6	828.2	847.4	851.4	901.1
Imports of G&S	773.6	808.0	833.2	853.2	873.9	890.3	895.4	900.7	929.0	960.0	990.2	1006.6
Billions of dollars												
US CURRENT ACCOUNT BALANCE	-104.6	-128.0	-145.4	-156.1	-138.8	-142.8	-132.5	-102.2	-131.5	-142.3	-171.3	-147.5
Net Goods & Services (BOP)	-90.6	-101.5	-114.0	-111.7	-113.2	-123.2	-95.5	-75.5	-98.1	-111.1	-130.1	-104.8
Exports of G&S (BOP)	662.5	688.4	710.9	736.8	761.5	785.9	806.4	824.6	828.4	848.6	840.3	878.0
Imports of G&S (BOP)	753.1	789.9	824.9	848.4	874.7	909.1	901.9	926.6	959.7	970.4	982.8	
Net Investment Income	17.9	10.6	7.2	3.3	8.2	12.9	-1.6	7.8	8.2	3.5	-5.5	5.0
Direct, Net	51.7	48.9	51.0	51.5	57.6	64.1	53.9	64.5	66.2	64.2	60.3	76.4
Portfolio, Net	-33.8	-38.3	-43.8	-48.2	-49.4	-51.3	-55.5	-56.7	-57.9	-60.7	-65.7	-71.4
Net Transfers	-31.9	-37.1	-38.7	-47.7	-33.8	-32.5	-35.4	-34.5	-41.6	-34.8	-35.8	-47.7

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

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

Strictly Confidential (FR)  
Class II FOMC

January 28, 1998

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1997				1998				Projected				1999																			
	Q1	Q2	Q3	Q4	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      -1.0      -0.4      -1.3      0.6      -1.4      -1.2      -1.2      0.1      -0.7      -0.3      -0.8      0.2 Exports of G&S            1.1      2.0      0.5      1.1      -0.4      0.0      -0.3      0.8      0.1      0.7      0.1      0.9 Imports of G&S           -2.1      -2.5      -1.8      -0.5      -1.0      -1.2      -1.0      -0.8      -0.8      -1.0      -0.9      -0.7																																
Percentage change from previous period, SAAR																																
Exports of G&S            9.9      18.4      4.4      9.5      -3.1      0.0      -2.2      7.5      0.9      6.3      0.9      8.5 Services                    3.7      3.2      7.2      -0.8      -4.1      0.1      0.4      1.9      2.7      3.3      3.1      3.3 Agricultural Goods        -27.6      -4.2      20.6      31.7      -12.9      -2.3      8.0      0.7      -5.4      -1.0      10.3      4.4 Computers                  72.3      84.3      61.5      1.0      4.1      26.2      28.6      28.6      28.6      28.6      29.9      29.9 Semiconductors            39.0      15.7      38.8      -12.2      -3.0      28.6      32.3      33.1      33.1      33.1      33.1      33.1 Other Goods 1/            12.4      25.0      -4.6      15.6      -2.0      -3.4      -8.8      8.0      -3.6      5.1      -5.5      8.3																																
Imports of G&S           17.9      20.5      14.6      4.1      8.1      10.0      7.7      6.0      6.3      7.9      6.7      5.3 Services                   24.2      8.9      10.1      7.9      6.9      2.7      1.9      1.8      2.3      2.3      2.4      2.6 Oil                        -10.8      44.5      6.3      -27.2      -2.6      41.5      9.5      -15.7      -9.3      31.2      7.4      -14.8 Computers                51.3      71.1      53.0      3.0      7.2      23.9      26.2      26.2      26.2      26.2      26.2      26.2 Semiconductors           71.2      19.3      44.3      -2.0      -0.8      28.6      31.8      32.3      32.3      32.3      32.3      32.3 Other Goods 2/           15.3      17.1      11.8      7.3      9.9      7.8      6.4      6.1      5.7      5.1      4.9      4.8																																
Billions of chained 1992 dollars																																
Net Goods & Services    -126.3    -136.6    -164.1    -153.2    -183.4    -211.6    -239.4    -239.4    -256.3    -265.1    -283.7    -279.5 Exports of G&S           922.7    962.5    973.0    995.4    987.7    987.7    982.3    1000.3    1002.5    1017.9    1020.3    1041.4 Imports of G&S           1048.9    1099.1    1137.1    1148.7    1171.2    1199.4    1221.7    1239.7    1258.8    1283.0    1303.9    1320.8																																
Billions of dollars																																
JS CURRENT ACCOUNT BALANCE    -159.9    -151.4    -170.2    -167.1    -168.9    -191.4    -222.5    -238.5    -243.1    -253.7    -272.7    -281.6 Net Goods & Services (BOP) -117.2    -102.6    -120.1    -99.3    -107.1    -127.4    -154.4    -154.5    -170.1    -178.6    -196.0    -189.9 Exports of G&S (BOP)       897.0    939.0    939.4    957.7    940.4    935.0    926.7    943.1    944.8    958.9    960.5    979.9 Imports of G&S (BOP)       1014.2    1041.5    1059.5    1057.0    1047.5    1062.5    1081.1    1097.6    1114.9    1137.5    1156.5    1169.7																																
Net Investment Income      -8.0      -13.0      -13.3      -17.9      -22.7      -25.0      -29.1      -34.0      -34.0      -36.1      -37.6      -41.7 Direct, Net                69.3      70.9      69.5      69.0      66.2      65.7      64.3      63.3      67.1      69.2      71.4      71.6 Portfolio, Net           -77.3      -83.9      -82.8      -86.9      -88.9      -90.7      -93.4      -97.3      -101.1      -105.2      -109.0      -113.3																																
Net Transfers             -34.7      -35.8      -36.8      -50.0      -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**

January 28, 1998

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## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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### **Recent Developments**

Confidential (FR) Class III FOMC

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January 28, 1998

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## **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

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

	1997		1998		1997		1998	
	Nov.	Dec.	Jan.		Q3	Q4	Q1	
U.S. production	13.0	12.5	12.7	Sched.	11.9	12.6	12.1	Sched.
Autos	6.1	5.8	6.0		6.0	5.9	5.6	
Trucks	6.9	6.7	6.7		5.9	6.7	6.5	
Days' supply								
Autos	64.0	60.0	--		56.8	60.0	--	
Light trucks	68.9	73.0	--		71.9	70.6	--	

Note. Components may not sum to totals because of rounding.  
Days' supply estimates use sales figures adjusted for shifts  
in reporting periods.

Several other factors also suggest that growth in industrial production is likely to moderate in the first quarter. The staff's estimate of real adjusted durable goods orders was little changed in the fourth quarter, after having increased 4.4 percent in the third quarter. In December, the new orders index from the National Association of Purchasing Managers (NAPM) fell to its lowest level in more than a year. In contrast, the monthly new orders index by Dun and Bradstreet remained more optimistic.<sup>3</sup>

Signs of slowing export demand have begun to appear. The NAPM index of new export orders fell in December to its lowest level since January 1996. Also, anecdotal reports, including the Beige Book, suggest that some manufacturers are seeing weaker demand from Asia, although the dimensions of that weakening, to date, remain unclear. Export demand has been an important contributor to the strength in output over the past two years: as shown in the accompanying chart, we estimate that the growth in exports from the first quarter of 1996 through the third quarter of 1997 contributed 6.2 percentage points to the 12.6 percent rise in durable manufacturing production over that period.<sup>4</sup> Export growth was a less important source of growth in nondurable manufacturing.

3. Dun and Bradstreet also publishes a quarterly report. Manufacturers in this survey also lowered their expectations for new orders in the first quarter of this year relative to the fourth quarter of 1997; nonetheless, this index also is still at a relatively optimistic level.

4. Exports figures are converted to an IP basis by deflating nominal exports by BLS export price indexes, and multiplying the resulting real export figures by an adjustment factor based on the ratio of IP to shipments in 1992.

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

	October-December			12 months ending in Dec.		
	1996	1997	Percent change	1996	1997	Percent change
Outlays	405.2	426.1	5.1	1585.6	1621.8	2.3
Deposit insurance	-6.4	-0.9	n.a.	-12.1	-8.8	n.a.
Spectrum auction	-3.6	-0.2	n.a.	-4.0	-7.5	n.a.
Other	415.2	427.1	2.9	1601.6	1638.1	2.3
Receipts	346.0	386.4	11.7	1474.6	1619.4	9.8
Deficit (+)	59.2	39.7	n.a.	110.9	2.4	n.a.
Adjusted for payment timing shifts <sup>1</sup> and excluding deposit insurance and spectrum auction						
Outlays	407.6	419.3	2.9	1601.3	1637.9	2.3
National defense	68.2	69.1	1.3	271.3	271.0	-0.1
Net interest	61.6	62.9	2.0	243.1	245.3	0.9
Social security	88.4	92.1	4.2	353.6	369.0	4.4
Medicare	45.9	48.8	6.2	180.3	192.8	6.9
Medicaid	23.7	25.6	8.2	93.6	97.5	4.1
Other health	7.3	7.3	-0.2	28.0	27.9	-0.4
Income security	53.0	52.8	-0.5	228.8	230.1	0.6
Other	59.5	60.7	2.0	202.6	204.3	0.8
Receipts	346.0	386.4	11.7	1474.6	1619.4	9.8
Individual income and payroll taxes	269.8	296.2	9.8	1152.1	1266.2	9.9
Withheld + FICA	261.7	287.3	9.8	1001.2	1080.1	7.9
Nonwithheld + SECA	12.5	13.6	8.9	240.2	279.9	16.5
Refunds (-)	4.5	4.7	5.2	89.3	93.8	5.0
Corporate	42.2	51.2	21.5	172.1	191.3	11.2
Other	34.1	39.0	14.4	150.5	161.8	7.5
Deficit (+)	61.6	32.9	n.a.	126.7	18.6	n.a.

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

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

n.a.--Not applicable

## CBO BUDGET AND ECONOMIC PROJECTIONS

	1998	1999	2000	2001	2002	2007	2008
Budget Projections (billions of dollars; fiscal years)							
Deficit, Sept. 1997	57	52	48	36	-32	-86	n.a.
Changes							
Policy	-1	0	0	-3	3	0	n.a.
Economic	-22	-28	-18	-15	-9	-1	n.a.
Technical	-29	-22	-26	-32	-32	-42	n.a.
Deficit, Jan. 1998	5	2	3	-14	-69	-129	-138
Economic assumptions (calendar years)							
-----Percentage change, year over year-----							
Real GDP	2.7	2.0	1.9	2.0	2.1	2.2	2.1
GDP price index	2.0	2.2	2.3	2.4	2.4	2.5	2.5
CPI-U	2.2	2.5	2.7	2.8	2.8	2.8	2.8
-----Percent, annual average-----							
Unemployment rate	4.8	5.1	5.4	5.6	5.8	5.9	5.9
Yield on selected Treasuries							
Three-month	5.3	5.2	4.8	4.7	4.7	4.7	4.7
Ten-year	6.0	6.1	6.0	5.9	5.9	5.9	5.9

Note. The projections assume that revenues and mandatory outlays evolve according to laws in effect at the time the projections were made. Discretionary spending is assumed to equal the statutory caps in 1998 through 2002 and to grow at the rate of inflation in succeeding years. The projections include social security and the Postal Service, which are off-budget.

Source. Congressional Budget Office, "Economic and Budget Outlook for Fiscal Years 1999-2008," January 28, 1998.

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

Type of security	1996	1997	1997				1998
			Q3	Q4	Nov.	Dec.	
All U.S. corporations	58.4	69.6	76.7	71.5	65.4	68.6	63.1
Stocks <sup>1</sup>	10.2	9.7	8.6	11.4	12.4	7.7	5.5
Bonds	48.2	59.8	68.0	60.1	52.9	60.8	57.6
<u>Nonfinancial corporations</u>							
Stocks <sup>1</sup>	6.7	4.9	5.0	5.4	6.9	2.4	2.0
Initial public offerings	2.9	1.8	1.8	2.4	3.6	.8	.5
Seasoned offerings	3.8	3.1	3.3	3.0	3.3	1.6	1.5
Bonds	12.5	17.2	21.5	16.6	13.2	11.9	23.2
By rating, sold in U.S. <sup>2</sup>							
Investment grade	6.3	7.4	9.9	6.8	5.5	5.8	15.6
Speculative grade	4.8	7.9	9.1	7.3	7.4	5.4	5.6
Public	2.3	1.5	1.0	.8	1.0	.7	1.4
Rule 144A	2.5	6.4	8.1	6.5	6.4	4.7	4.2
<u>Financial corporations</u>							
Stocks <sup>1</sup>	3.5	4.8	3.6	6.0	5.6	5.3	3.5
Bonds	35.8	42.6	46.5	43.6	39.7	48.9	34.4
<u>MEMO:</u>							
Net issuance of nonfinancial commercial paper (end-of-period basis)	-.1	8.0	.8	1.13	5.8	-4.9	n.a.
Change in C&I loans at commercial banks (end-of-period basis)	5.6	6.5	7.8	7.2	10.8	10.9	n.a.

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.

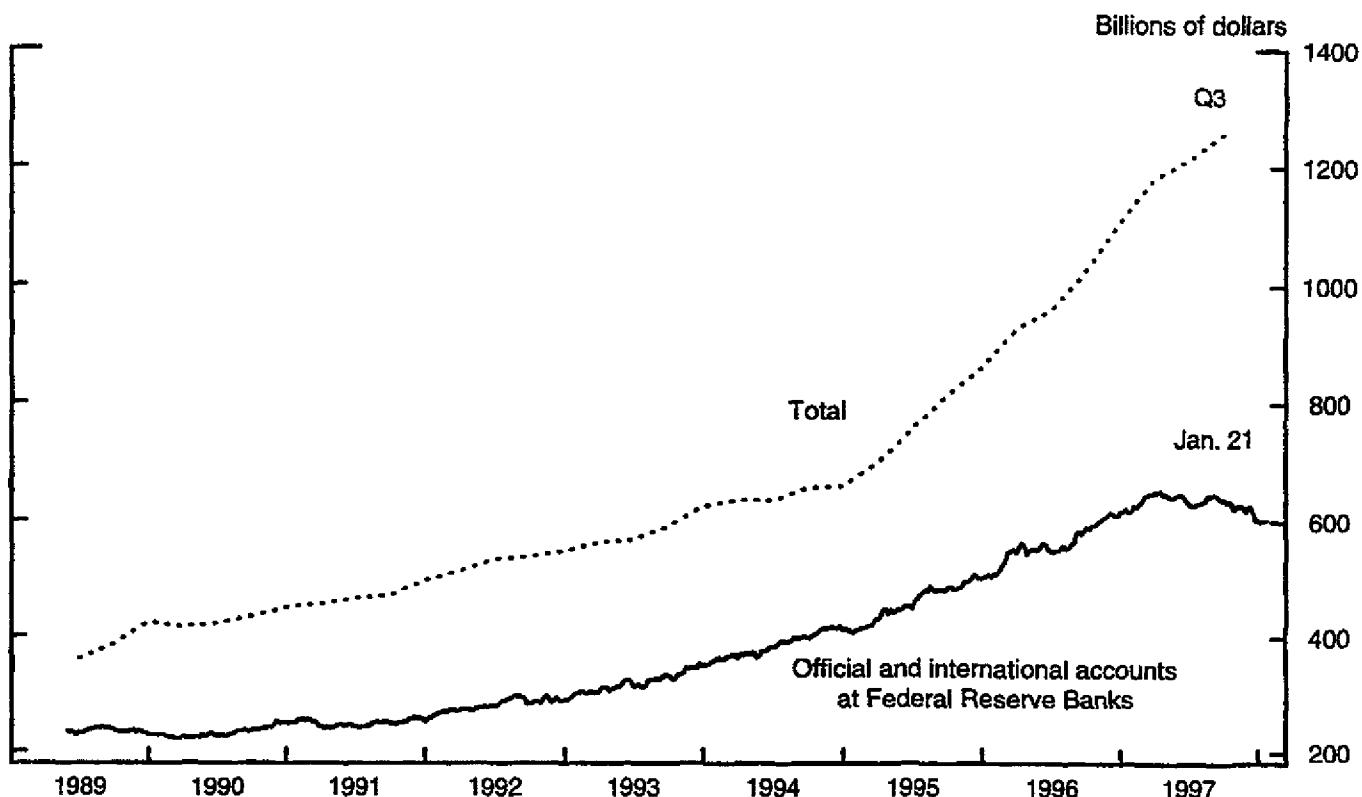
1. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings.

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.

a Staff estimate based on data through January 26, 1998.

n.a. Not available.

### Foreign Holdings of Marketable U.S. Treasury Securities



Source. Flow of funds accounts and Federal Reserve Bank of New York.

#### GROSS OFFERINGS OF MUNICIPAL SECURITIES (Billions of dollars; monthly rates, not seasonally adjusted)

	1995	1996	1997	1997				1998
				Q3	Q4	Nov.	Dec.	Jan. <sup>e</sup>
Total tax-exempt	15.4	17.9	20.8	24.1	24.6	24.1	24.3	17.7
Long-term	12.1	14.3	17.1	18.3	21.1	20.2	21.3	16.5
Refundings <sup>1</sup>	3.6	4.9	6.4	8.8	8.0	7.2	7.9	5.5
New capital	8.5	9.4	10.7	9.5	13.1	13.0	13.5	11.1
Short-term	3.3	3.6	3.7	5.8	3.5	3.9	2.9	1.2
Total taxable	0.7	0.8	1.0	0.8	0.9	0.9	0.8	0.8

Note. Includes issues for public and private purposes.

1. Includes all refunding bonds, not just advance refundings.

e Staff estimate based on data through January 26, 1998.

CONFIDENTIAL (FR)  
CLASS II - FOMC

January 30, 1998

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

Erratum

On page 3 of Part 1, the characterization of our projected federal budget was incorrect. Our economic projection leads us to expect that the federal budget will be about in balance in fiscal years 1998 and 1999.

January 30, 1998

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

	1997 May	1997 Jun	1997 Jul	1997 Aug	1997 Sep	1997 Oct	1997 Nov	1997 Dec	1998 Jan (f)
<b>Indexes of consumer sentiment (Feb. 1966=100)</b>									
Composite of current and expected conditions	103.2	104.5	107.1	104.4	106.0	105.6	107.2	102.1	106.6
Current conditions	113.5	113.2	114.0	110.7	114.1	109.8	114.9	111.4	113.5
Expected conditions	96.6	98.9	102.6	100.3	100.7	102.8	102.3	96.1	102.2
<hr/>									
Personal financial situation									
Now compared with 12 months ago*	122	126	130	121	127	124	130	123	124
Expected in 12 months*	138	131	133	138	138	136	138	136	141
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Expected business conditions									
Next 12 months*	142	147	151	150	149	154	151	142	148
Next 5 years*	109	121	130	116	119	125	123	109	123
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Appraisal of buying conditions									
Cars	150	154	136	139	143	141	140	135	145
Large household appliances*	173	168	166	167	170	161	169	166	171
Houses	160	160	165	166	172	164	163	161	172
<hr/>									
Willingness to use credit									
Willingness to use savings	49	43	49	48	50	37	46	39	55
Willingness to use savings	71	73	68	70	57	69	69	75	74
<hr/>									
Expected unemployment change - next 12 months									
	109	108	104	107	103	100	108	114	106
<hr/>									
Expected inflation - next 12 months									
Mean	3.7	3.5	3.4	3.3	3.5	3.2	3.4	3.4	2.8
Median	2.9	2.8	2.7	2.7	2.8	2.8	2.9	2.8	2.3
<hr/>									
Expected inflation - next 5 to 10 years									
Mean	3.8	3.9	3.4	3.8	3.6	3.6	3.8	3.9	3.4
Median	3.0	3.1	2.9	3.0	3.1	3.0	3.1	3.1	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.