

Part 1

December 16, 1998

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

Strictly Confidential (FR) Class II FOMC

December 16, 1998

SUMMARY AND OUTLOOK

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	1998:Q3		1998:Q4	
	Nov. GB	Dec. GB	Nov. GB	Dec. GB
Real GDP	3.6	3.8	2.1	3.1
Private domestic final purchases	3.6	3.8	4.3	5.5
Personal consumption	3.9	4.1	3.8	4.1
Residential investment	7.7	9.4	5.1	10.5
Business fixed investment	-.5	-.3	7.3	12.2
Government outlays for consumption and investment	1.6	1.8	4.2	2.8
	Change, billions of chained (1992) dollars			
Inventory investment	27.2	17.7	-25.2	-24.2
Net exports	-20.8	-12.8	-21.0	-16.8

this quarter almost certainly will be up substantially from that of the third quarter. The strong retail sales figures for October and November suggest that spending on other goods also has posted a sizable gain this quarter. We are guessing that spending on services has decelerated, partly because the abnormally mild weather has held down outlays on energy services. All told, real personal consumption expenditures look to be on a track to repeat the 4 percent-plus gain of the third quarter.

Housing continues to be another area of strength. All the indicators of demand for single-family homes have remained at elevated levels, and starts have been spectacular in the past couple of months, bolstered by large backlogs of orders and good weather. In response to these developments, we have raised our current-quarter forecast of real residential investment spending to about 10-1/2 percent at an annual rate, more than double what we estimated last month.

Many cross-currents have been evident over the past few months in the indicators of business fixed investment, but for this quarter at least, they seem to be pointing to a hefty gain overall. We are projecting that total BFI will rise at an annual rate of more than 12 percent after having declined slightly in the third quarter; in the last Greenbook, we posited a fourth-quarter gain of just over 7 percent. Based on orders and shipments data through October, outlays for computers and other high-tech equipment seem to be headed for substantial increases. Investment in transportation

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

Measure	1998:H2	1999:H1	1999:H2	2000
Real GDP	3.5	2.1	2.0	2.3
Previous	2.9	1.4	1.7	2.3
Final sales	3.6	2.1	1.8	2.2
Previous	2.8	1.7	1.7	2.1
PCE	4.1	3.0	2.4	2.5
Previous	3.8	2.7	2.2	2.4
Residential investment	10.0	.1	-2.5	-.6
Previous	6.4	-1.6	-1.8	.4
BFI	5.7	4.5	3.7	5.1
Previous	3.3	4.6	2.8	5.4
Government purchases	2.3	1.3	1.2	1.5
Previous	2.8	1.0	1.5	1.4
Exports	-.2	1.6	3.4	4.8
Previous	-1.9	1.5	3.2	4.7
Imports	4.8	6.6	5.3	6.2
Previous	5.4	6.9	5.4	6.5
Change, billions of chained (1992) dollars				
Inventory change	-6.5	-.5	8.3	3.4
Previous	2.0	-13.5	2.9	10.7
Net exports	-29.5	-32.7	-16.6	-34.4
Previous	-41.7	-35.1	-19.0	-39.8

consumer demand will be damped further by diminishing job and income gains. Household debt burdens are high, but we do not foresee debt-service strains becoming widespread; and although lenders may become a bit more cautious with respect to consumer credit, borrowing should remain pretty easy for all but the most marginal of households.

Spending on consumer durables might be expected to be restrained by another factor as well: Large gains in spending over the past few years have added substantially to the stocks of both vehicles and household equipment, and the urgency to add further to these stocks probably is not great. This past year's jump in consumer purchases of light vehicles was prompted, in part, by the attractive pricing offered by manufacturers fighting aggressively for market share; sustaining sales at so

The Outlook for the Labor Market

(Percent change, Q4 to Q4, except as noted)

Measure	1997	1998	1999	2000
Output per hour, nonfarm business	1.7	1.8	1.3	1.9
Previous	1.7	1.7	1.0	2.0
Nonfarm payroll employment	2.7	2.3	1.3	.8
Previous	2.7	2.2	.8	.9
Employment, household survey	2.1	1.2	.8	.5
Previous	2.1	1.0	.5	.6
Labor force participation rate ¹	67.1	67.1	67.0	66.9
Previous	67.1	67.0	66.9	66.8
Civilian unemployment rate ¹	4.7	4.5	4.7	4.9
Previous	4.7	4.6	5.0	5.3

1. Percent, average for the fourth quarter.

Labor markets. The changes to our labor market forecast are relatively straightforward: Part of the added output growth in the current forecast translates into higher productivity. The remainder shows up mainly in added employment growth that causes the unemployment rate to remain lower than we previously were forecasting; it ends up slightly under 5 percent in the fourth quarter of 2000 instead of rising to 5-1/4 percent.

Employment growth in our forecast remains a good bit slower than it has been in recent years. The tightness of the labor market may cause firms to hesitate before letting a good worker go at the first hint of a slackening in sales, but as profit margins continue to erode, the need to trim costs will be reflected in reduced hirings and in increased layoffs and firings; the recent downsizing announcements by some large corporations underscore the point. We are predicting that a deceleration of job growth will become clearly evident in the first half of 1999 and that the net rise in jobs next year will amount to 1-1/2 million, just a bit more than half of this year's increase. A still smaller rise is projected for 2000--slightly over 1 million. Some "cyclical" variations in productivity growth accompany this employment forecast: In 1999, when output is slowing, growth of output per hour falls below its estimated trend of 1.8 percent; in 2000, productivity growth picks up again as output rises a little more rapidly and Y2K work is completed.

Staff Inflation Projections

(Percent change, Q4 to Q4, except as noted)

Measure	1997	1998	1999	2000
Consumer price index	1.9	1.6	2.3	2.2
Previous	1.9	1.5	2.2	2.1
Food	1.7	2.3	1.3	1.8
Previous	1.7	2.0	1.4	1.7
Energy	-1.0	-9.0	3.7	1.1
Previous	-1.0	-8.6	3.7	1.4
Excluding food and energy	2.2	2.4	2.3	2.3
Previous	2.2	2.4	2.2	2.2
PCE chain-weighted price index	1.5	.8	1.7	1.7
Previous	1.5	.8	1.6	1.6
Excluding food and energy	1.6	1.2	1.7	1.7
Previous	1.6	1.2	1.6	1.6
GDP chain-weighted price index	1.7	.9	1.5	1.7
Previous	1.7	.9	1.5	1.6
ECI for compensation of private industry workers ¹	3.4	3.6	3.3	3.3
Previous	3.4	3.5	3.1	3.1
Prices of core non-oil merchandise imports	-.7	-2.0	1.5	1.4
Previous	-.7	-2.2	1.1	1.2
Percentage points				
MEMO: <i>Adjustments for technical changes to the CPI²</i>				
Core CPI	.2	.4	.6	.6

1. December to December.

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

technical changes slated for the start of next year.³ In the near term, prices will be damped by the falling costs of raw materials and intermediate supplies (including the wide range of petroleum-related inputs). These downward pressures actually look a bit

3. Some gyrations in the monthly indexes will be caused in the near term by the announced big increases in tobacco prices, although those may be muted to a degree by rebates. We had anticipated relatively large increases in these prices previously, so the effects in the current forecast are mainly matters of timing.

roughly 10 percent below the baseline over the ensuing year and a half. This drop in share prices trims GDP growth by somewhere between 1/4 to 1/2 percentage point in both 1999 and 2000. Unemployment rises slightly more than in the baseline, and inflation is a touch lower. In the second, more bullish stock price scenario, the market rises at a pace about in line with the growth of nominal disposable income. Under this scenario, growth is a few tenths stronger, the unemployment rate is a couple of tenths lower by the end of 2000, and inflation is a bit higher.

The final alternative hypothesizes a reversal of the recent Fed easing, with the funds rate moving back up to 5-1/2 percent by next spring--and holding there through the end of 2000. This scenario trims GDP growth about 1/4 percentage point in 1999 and about 3/4 percentage point in 2000. The unemployment rate ends up in the fourth quarter of 2000 about 1/2 percentage point above the forecast in the baseline. Inflation in 1999 differs little from the baseline, but it is 1/2 percentage point lower in 2000. The incremental economic consequences of an additional 75 basis points of easing, to a 4 percent funds rate by the spring, would be essentially symmetrical to those shown for the tightening.

Alternative Federal Funds Rate and Stock Market Assumptions

(Percent change, Q4 to Q4, except as noted)

Measure	1999	2000
<i>Real GDP</i>		
Baseline	2.1	2.3
Lower stock prices	1.8	1.9
Higher stock prices	2.3	2.7
Higher funds rate	1.8	1.5
<i>Civilian unemployment rate¹</i>		
Baseline	4.7	4.9
Lower stock prices	4.8	5.1
Higher stock prices	4.6	4.7
Higher funds rate	4.8	5.4
<i>CPI excluding food and energy</i>		
Baseline	2.3	2.3
Lower stock prices	2.3	2.2
Higher stock prices	2.3	2.4
Higher funds rate	2.2	1.8

1. Average for the fourth quarter.

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Class II FOMC

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

December 16, 1998

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
	11/12/98	12/16/98	11/12/98	12/16/98	11/12/98	12/16/98	11/12/98	12/16/98	11/12/98	12/16/98
ANNUAL										
1996	5.4	5.4	3.4	3.4	1.9	1.9	3.0	3.0	5.4	5.4
1997	5.9	5.9	3.9	3.9	1.9	1.9	2.3	2.3	4.9	4.9
1998	4.7	4.8	3.6	3.7	1.0	1.0	1.6	1.6	4.5	4.5
1999	3.2	3.8	1.9	2.5	1.3	1.3	2.1	2.2	4.8	4.5
2000	3.5	3.6	1.9	2.0	1.6	1.6	2.1	2.2	5.2	4.8
QUARTERLY										
1997	Q1	7.2	7.2	4.2	4.2	2.8	2.8	2.0	5.3	5.3
	Q2	5.6	5.6	4.0	4.0	1.7	1.7	1.5	4.9	4.9
	Q3	5.4	5.4	4.2	4.2	1.2	1.2	1.8	4.9	4.9
	Q4	4.2	4.2	3.0	3.0	1.1	1.1	2.3	4.7	4.7
1998	Q1	6.4	6.4	5.5	5.5	0.9	0.9	0.5	4.7	4.7
	Q2	2.7	2.7	1.8	1.8	0.9	0.9	2.0	4.4	4.4
	Q3	4.5	4.7	3.6	3.8	0.8	0.8	1.7	4.6	4.6
	Q4	3.2	4.2	2.1	3.1	1.1	1.0	1.8	4.6	4.5
1999	Q1	3.1	4.5	1.4	2.5	1.7	1.9	2.2	4.6	4.4
	Q2	2.8	3.0	1.4	1.7	1.3	1.3	2.4	4.7	4.5
	Q3	3.0	3.2	1.5	1.8	1.5	1.4	2.2	4.8	4.6
	Q4	3.4	3.6	1.9	2.2	1.4	1.4	2.2	5.0	4.7
2000	Q1	2.9	2.9	0.9	0.9	1.9	2.0	2.1	5.1	4.8
	Q2	4.4	4.5	2.9	2.8	1.5	1.6	2.1	5.2	4.8
	Q3	4.2	4.3	2.6	2.6	1.5	1.6	2.1	5.2	4.9
	Q4	4.3	4.3	2.7	2.7	1.5	1.6	2.1	5.3	4.9
TWO-QUARTER³										
1997	Q2	6.4	6.4	4.1	4.1	2.2	2.2	1.8	1.8	-0.4
	Q4	4.8	4.8	3.6	3.6	1.2	1.2	2.0	2.0	-0.2
1998	Q2	4.6	4.6	3.7	3.7	0.9	0.9	1.2	1.2	-0.3
	Q4	3.9	4.4	2.9	3.5	1.0	0.9	1.8	1.9	0.2
1999	Q2	2.9	3.7	1.4	2.1	1.5	1.6	2.2	0.1	-0.0
	Q4	3.2	3.4	1.7	2.0	1.4	1.4	2.1	0.3	0.2
2000	Q2	3.6	3.7	1.9	1.9	1.7	1.8	2.1	2.2	0.2
	Q4	4.2	4.3	2.6	2.6	1.5	1.6	2.1	2.2	0.1
FOUR-QUARTER⁴										
1996	Q4	5.8	5.8	3.9	3.9	1.8	1.8	3.2	3.2	-0.3
1997	Q4	5.6	5.6	3.8	3.8	1.7	1.7	1.9	1.9	-0.6
1998	Q4	4.2	4.5	3.3	3.6	0.9	0.9	1.5	1.6	-0.1
1999	Q4	3.1	3.6	1.6	2.1	1.5	1.5	2.2	2.3	0.4
2000	Q4	3.9	4.0	2.3	2.3	1.6	1.7	2.1	2.2	0.3

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)

December 16, 1998

Item	Units ¹	--- Projected ---									
		1992	1993	1994	1995	1996	1997	1998	1999	2000	
EXPENDITURES											
Nominal GDP	Bill. \$	6244.4	6558.1	6947.0	7269.6	7661.6	8110.9	8496.6	8821.6	9143.2	
Real GDP	Bill. Ch. \$	6244.4	6389.6	6610.7	6761.7	6994.8	7269.8	7539.9	7726.6	7881.8	
Real GDP	% change	3.6	2.4	3.3	2.1	3.9	3.8	3.6	2.1	2.3	
Gross domestic purchases		4.0	3.0	3.6	1.6	4.2	4.4	4.9	2.5	2.5	
Final sales		3.9	2.1	2.7	2.7	3.7	3.4	4.1	2.0	2.1	
Priv. dom. final purchases		4.9	3.7	3.7	2.9	4.4	4.5	6.3	2.7	2.7	
Personal cons. expenditures		4.2	2.7	3.1	2.6	3.3	3.7	5.1	2.7	2.5	
Durables		9.4	7.4	6.3	4.5	5.8	7.4	10.9	2.2	4.3	
Nondurables		3.4	1.6	3.0	1.7	2.8	2.0	4.5	2.3	1.9	
Services		3.6	2.3	2.5	2.6	3.0	3.8	4.2	3.0	2.5	
Business fixed investment		5.5	9.9	7.6	7.3	11.7	9.8	11.4	4.1	5.1	
Producers' dur. equipment		9.6	12.2	10.2	9.1	11.8	12.7	17.2	6.5	6.7	
Nonres. structures		-3.4	4.5	1.1	2.7	11.6	2.5	-3.1	-2.8	0.4	
Residential structures		16.9	7.8	4.2	-1.4	5.4	4.2	12.6	-1.2	-0.6	
Exports		4.1	4.6	10.0	10.5	10.3	9.6	-2.8	2.5	4.8	
Imports		7.4	10.2	12.3	5.6	11.8	14.0	8.5	5.9	6.2	
Gov't. cons. & investment		1.7	-1.4	0.1	-0.9	2.1	1.4	1.6	1.3	1.5	
Federal		1.3	-6.1	-3.9	-5.6	1.1	-0.6	0.0	-1.5	-0.8	
Defense		-1.3	-6.9	-6.0	-5.0	-0.1	-1.4	-2.5	-2.0	-0.9	
State & local		2.0	2.0	2.7	2.1	2.8	2.6	2.4	2.7	2.6	
Change in bus. inventories	Bill. Ch. \$	7.0	22.1	60.6	27.7	30.0	63.2	54.3	33.2	37.1	
Nonfarm		2.0	29.5	49.0	37.7	23.2	58.8	46.8	28.7	34.9	
Net exports		-29.5	-70.2	-104.6	-96.5	-111.2	-136.1	-244.1	-309.9	-346.8	
Nominal GDP	% change	6.3	5.0	5.8	4.2	5.8	5.6	4.5	3.6	4.0	
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	108.6	110.7	114.1	117.2	119.6	122.7	125.8	127.9	129.1	
Unemployment rate	%	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.5	4.8	
Industrial prod. index	% change	3.6	3.3	6.5	3.5	5.3	6.6	1.7	2.0	2.5	
Capacity util. rate - mfg.	%	79.5	80.5	82.5	82.7	81.4	82.0	80.8	79.3	79.3	
Housing starts	Millions	1.20	1.29	1.46	1.35	1.48	1.47	1.62	1.56	1.52	
Light motor vehicle sales		12.85	13.86	15.01	14.72	15.05	15.03	15.33	15.04	14.56	
North Amer. produced		10.51	11.71	12.88	12.82	13.35	13.11	13.33	13.04	12.64	
Other		2.34	2.15	2.13	1.90	1.70	1.92	2.00	2.00	1.92	
INCOME AND SAVING											
Nominal GNP	Bill. \$	6255.5	6576.8	6955.2	7287.1	7674.0	8102.9	8475.2	8787.6	9097.3	
Nominal GNP	% change	6.2	5.1	5.7	4.4	5.6	5.2	4.4	3.4	3.9	
Nominal personal income		7.2	4.0	5.2	4.6	5.9	5.4	4.9	3.8	4.0	
Real disposable income		4.0	1.2	2.5	2.1	2.7	2.9	3.3	2.6	2.3	
Personal saving rate	%	5.7	4.4	3.5	3.4	2.9	2.1	0.5	0.2	0.2	
Corp. profits, IVA & CCAdj.	% change	11.3	19.0	14.1	14.6	7.7	7.7	0.3	-3.4	1.9	
Profit share of GNP	%	6.8	7.5	8.2	9.2	9.8	10.1	9.7	9.2	8.7	
Excluding FR Banks		6.6	7.2	7.9	8.9	9.5	9.8	9.4	8.9	8.4	
Federal surpl./deficit	Bill. \$	-280.9	-250.7	-186.7	-174.4	-110.3	-21.1	76.3	76.2	86.4	
State & local surpl./def.		86.3	87.4	96.8	111.7	122.6	134.1	149.0	156.2	162.2	
Ex. social ins. funds		16.3	19.7	27.9	37.0	52.2	66.0	81.5	88.7	94.7	
Gross natl. saving rate	%	14.5	14.4	15.5	16.3	16.6	17.4	17.3	16.7	16.3	
Net natl. saving rate		3.7	3.7	4.7	5.8	6.3	7.3	7.4	6.7	6.4	
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.6	2.6	2.5	2.1	1.8	1.7	0.9	1.5	1.7	
Gross Domestic Purchases chn.-wt. price index		2.7	2.3	2.5	2.0	1.8	1.3	0.4	1.5	1.6	
CPI		3.1	2.7	2.7	2.6	3.2	1.9	1.6	2.3	2.2	
Ex. food and energy		3.5	3.1	2.8	3.1	2.6	2.2	2.4	2.3	2.3	
ECI, hourly compensation ²		3.5	3.6	3.1	2.6	3.1	3.4	3.6	3.3	3.3	
Nonfarm business sector		3.5	-0.4	0.1	1.2	2.1	1.7	1.8	1.3	1.9	
Output per hour		4.5	1.6	2.1	2.8	3.7	3.9	4.1	3.5	3.4	
Compensation per Hour		1.0	2.0	2.0	1.6	1.6	2.1	2.2	2.2	1.5	
Unit labor cost											

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

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

December 16, 1998

Item	Units	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	7495.3	7629.2	7703.4	7818.4	7955.0	8063.4	8170.8	8254.5	8384.2	8440.6
Real GDP	Bill. Ch. \$	6882.0	6983.9	7020.0	7093.1	7166.7	7236.5	7311.2	7364.6	7464.7	7498.6
Real GDP	% change	3.3	6.1	2.1	4.2	4.2	4.0	4.2	3.0	5.5	1.8
Gross domestic purchases		4.5	7.0	3.4	1.8	5.5	4.4	4.6	3.2	7.8	3.9
Final sales		3.6	5.4	0.9	5.1	2.9	2.7	5.8	2.1	4.3	4.6
Priv. dom. final purchases		5.1	6.2	3.1	3.3	4.6	3.3	7.2	2.9	8.5	7.4
Personal cons. expenditures		3.7	4.7	1.8	2.9	4.3	1.6	6.2	2.8	6.1	6.1
Durables		5.8	12.7	-1.9	7.2	12.3	-1.5	16.8	3.1	15.8	11.2
Nondurables		2.2	4.8	1.2	2.9	3.6	-0.2	5.1	-0.4	7.4	5.3
Services		4.0	3.0	3.0	2.0	3.1	3.2	4.7	4.3	3.5	5.4
Business fixed investment		13.1	11.0	14.2	8.8	7.0	14.0	17.0	1.8	22.2	12.8
Producers' dur. equipment		15.7	12.3	16.2	3.2	8.3	22.8	18.8	2.2	34.3	18.8
Nonres. structures		6.4	7.4	8.9	24.5	3.9	-6.2	12.4	0.9	-4.9	-2.3
Residential structures		9.3	19.5	-1.7	-3.9	3.1	6.1	-0.4	8.2	15.6	15.0
Exports		3.7	5.8	2.1	32.0	8.3	15.5	10.6	4.4	-2.8	-7.7
Imports		13.1	13.5	13.6	7.0	18.6	17.9	13.5	6.3	15.7	9.3
Gov't. cons. & investment		3.2	7.1	-1.6	0.0	2.1	2.1	1.4	0.1	-1.9	3.7
Federal		8.0	8.1	-4.7	-6.3	-2.7	3.6	-1.2	-2.1	-8.8	7.3
Defense		7.2	8.1	-6.3	-8.3	-9.9	9.1	-1.8	-2.0	-18.5	9.9
State & local		0.5	6.5	0.3	3.8	4.9	1.3	2.9	1.3	2.1	1.8
Change in bus. inventories	Bill. Ch. \$	14.4	26.1	47.5	32.1	56.3	79.0	51.0	66.5	91.4	38.2
Nonfarm		10.4	15.2	38.6	28.7	56.2	72.1	44.0	62.7	85.9	29.9
Net exports		-95.5	-113.5	-140.1	-95.9	-121.5	-131.6	-142.4	-149.0	-198.5	-245.2
Nominal GDP	% change	5.7	7.3	3.9	6.1	7.2	5.6	5.4	4.2	6.4	2.7
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	118.5	119.3	120.0	120.7	121.5	122.3	123.0	123.9	124.8	125.5
Unemployment rate	%	5.6	5.4	5.3	5.3	5.3	4.9	4.9	4.7	4.7	4.4
Industrial prod. index	% change	2.8	9.6	5.5	3.5	6.6	6.0	7.2	6.6	1.6	3.8
Capacity util. rate - mfg.	%	80.9	81.6	81.8	81.3	81.6	81.7	82.1	82.5	81.8	81.2
Housing starts	Millions	1.47	1.49	1.49	1.42	1.47	1.46	1.45	1.53	1.58	1.57
Light motor vehicle sales		15.10	15.18	15.00	14.91	15.32	14.54	15.19	15.07	15.02	16.08
North Amer. produced		13.44	13.46	13.33	13.16	13.41	12.68	13.20	13.13	13.07	14.09
Other		1.66	1.72	1.68	1.76	1.92	1.86	1.99	1.94	1.95	1.99
INCOME AND SAVING											
Nominal GNP	Bill. \$	7515.0	7643.3	7708.6	7829.0	7952.4	8062.3	8162.0	8234.9	8369.4	8421.8
Nominal GNP	% change	5.6	7.0	3.5	6.4	6.5	5.6	5.0	3.6	6.7	2.5
Nominal personal income		6.6	6.9	5.5	4.6	7.3	4.7	4.7	5.0	5.9	4.5
Real disposable income		2.9	2.1	4.4	1.3	3.3	2.9	2.4	2.9	4.0	2.6
Personal saving rate	%	3.2	2.6	3.1	2.6	2.4	2.6	1.7	1.7	1.2	0.4
Corp. profits, IVA & CCAdj.	% change	16.9	6.9	3.8	3.5	18.1	11.1	13.1	-9.2	4.2	-4.1
Profit share of GNP	%	9.8	9.8	9.8	9.7	10.0	10.1	10.3	10.0	9.9	9.7
Excluding FR Banks		9.5	9.5	9.5	9.5	9.7	9.8	10.0	9.7	9.6	9.5
Federal surpl./deficit	Bill. \$	-150.1	-112.6	-100.1	-78.3	-51.2	-34.8	-0.3	2.2	58.8	74.4
State & local surpl./def.		117.3	129.1	122.3	121.7	128.4	130.1	136.6	141.4	140.2	141.3
Ex. social ins. funds		45.3	58.2	52.5	52.9	59.8	61.6	68.7	73.8	72.7	73.6
Gross natl. saving rate	%	16.4	16.4	16.8	16.7	17.0	17.6	17.5	17.3	17.7	17.2
Net natl. saving rate	%	6.0	6.2	6.6	6.5	7.0	7.6	7.5	7.3	7.8	7.2
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.2	1.4	1.8	1.6	2.8	1.7	1.2	1.1	0.9	0.9
Gross Domestic Purchases chn.-wt. price index		2.1	1.4	1.5	2.1	2.2	0.9	1.1	1.0	-0.2	0.4
CPI		3.2	3.7	2.6	3.3	2.0	1.5	1.8	2.3	0.5	2.0
Ex. food and energy		2.5	2.5	2.7	2.7	2.2	2.6	1.9	2.1	2.4	2.6
ECI, hourly compensation ¹		2.5	3.5	2.8	2.8	2.5	3.7	3.4	4.3	2.7	3.6
Nonfarm business sector											
Output per hour		4.1	3.0	0.0	1.2	0.5	1.8	3.6	0.9	3.5	0.3
Compensation per hour		2.6	5.2	3.7	3.3	4.0	2.6	3.9	4.9	4.6	4.0
Unit labor cost		-1.5	2.2	3.7	2.1	3.6	0.7	0.3	4.0	1.1	3.7

1. Private-industry workers.

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

December 16, 1998

Item	Units	Projected											
		1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4		
EXPENDITURES													
Nominal GDP	Bill. \$	8537.1	8624.6	8719.1	8783.0	8852.6	8931.8	8996.6	9095.8	9191.6	9288.6		
Real GDP	Bill. Ch. \$	7568.7	7627.6	7674.3	7706.5	7741.2	7784.1	7802.1	7857.0	7908.1	7960.0		
Real GDP	% change	3.8	3.1	2.5	1.7	1.8	2.2	0.9	2.8	2.6	2.7		
Gross domestic purchases		4.3	3.8	3.0	2.4	2.2	2.4	1.2	3.2	2.9	2.7		
Final sales		2.9	4.4	2.5	1.7	1.8	1.8	1.6	2.4	2.3	2.7		
Priv. dom. final purchases		3.8	5.5	3.4	2.7	2.4	2.2	1.8	2.9	3.0	3.1		
Personal cons. expenditures		4.1	4.1	3.1	2.9	2.5	2.3	1.9	2.9	2.6	2.7		
Durables		2.3	14.7	0.6	4.1	2.0	2.1	2.2	4.5	5.1	5.5		
Nondurables		2.1	3.4	2.9	2.3	2.2	1.9	1.9	1.9	1.9	1.9		
Services		5.4	2.4	3.7	2.9	2.7	2.5	1.8	3.1	2.5	2.5		
Business fixed investment		-0.3	12.2	4.6	4.3	4.6	2.9	2.7	4.2	6.5	6.8		
Producers' dur. equipment		-0.7	19.2	8.1	6.8	6.8	4.5	4.0	5.6	8.5	8.6		
Hours. structures		0.7	-5.7	-4.9	-2.8	-1.8	-1.7	-1.0	0.2	0.8	1.6		
Residential structures		9.4	10.5	4.7	-4.3	-3.3	-1.7	-1.7	-1.3	-0.4	0.9		
Exports		-3.0	2.7	1.1	2.2	3.1	3.8	3.2	4.5	5.6	5.9		
Imports		1.8	7.8	5.7	7.5	5.9	4.6	4.6	7.3	7.3	5.7		
Gov't. cons. & investment		1.8	2.8	1.6	1.1	1.3	1.1	1.7	2.4	1.1	0.7		
Federal		-1.3	3.7	-0.6	-1.9	-1.4	-2.0	-0.1	1.9	-2.0	-3.0		
Defense		4.3	-3.5	-1.4	-2.6	-2.0	-1.9	-2.0	-1.6	-0.9	1.0		
State & local		3.4	2.5	2.8	2.7	2.7	2.7	2.6	2.6	2.7	2.6		
Change in bus. inventories	Bill. Ch. \$	55.9	31.7	31.5	31.2	30.7	39.5	26.6	36.5	42.6	42.9		
Nonfarm		47.6	23.8	24.9	26.2	26.9	36.9	24.4	34.2	40.3	40.8		
Net exports		-257.9	-274.7	-289.6	-307.4	-318.4	-324.0	-331.3	-343.7	-354.0	-358.4		
Nominal GDP	% change	4.7	4.2	4.5	3.0	3.2	3.6	2.9	4.5	4.3	4.3		
EMPLOYMENT AND PRODUCTION													
Nonfarm Payroll employment	Millions	126.1	126.8	127.3	127.8	128.1	128.4	128.7	129.1	129.2	129.4		
Unemployment rate	%	4.6	4.5	4.4	4.5	4.6	4.7	4.8	4.8	4.9	4.9		
Industrial prod. index	% change	0.9	1.4	1.5	1.7	1.7	2.9	0.2	2.9	3.4	3.6		
Capacity util. rate - mfg.	%	80.3	79.8	79.5	79.3	79.2	79.3	78.9	79.1	79.4	79.7		
Housing starts	Millions	1.63	1.69	1.60	1.56	1.55	1.54	1.53	1.52	1.52	1.52		
Light motor vehicle sales		14.55	15.69	15.28	15.19	14.96	14.73	14.48	14.50	14.57	14.69		
North Amer. produced		12.55	13.62	13.27	13.15	12.97	12.77	12.57	12.59	12.65	12.76		
Other		2.01	2.07	2.01	2.04	1.99	1.96	1.91	1.91	1.92	1.93		
INCOME AND SAVING													
Nominal GNP	Bill. \$	8510.2	8599.4	8689.0	8751.2	8817.7	8892.6	8953.0	9052.7	9145.0	9238.5		
Nominal GNP	% change	4.3	4.3	4.2	2.9	3.1	3.4	2.7	4.5	4.1	4.2		
Nominal personal income		4.3	4.9	4.5	3.4	3.8	3.5	4.5	4.2	3.6	3.6		
Real disposable income		3.1	3.5	5.4	1.4	1.9	1.6	3.8	2.2	1.6	1.6		
Personal saving rate	%	0.2	0.0	0.6	0.3	0.1	-0.0	0.5	0.3	0.1	-0.2		
Corp. profits, IVA & CCAdj.	% change	3.1	-1.6	-1.7	-5.7	-3.8	-2.5	-14.7	9.5	8.5	6.5		
Profit share of GNP	%	9.7	9.6	9.4	9.2	9.1	8.9	8.5	8.6	8.7	8.8		
Excluding FR Banks	%	9.4	9.3	9.2	9.0	8.8	8.7	8.3	8.4	8.5	8.5		
Federal surpl./deficit	Bill. \$	91.0	80.9	64.4	74.2	80.5	85.7	70.5	79.9	93.9	101.3		
State & local surpl./def.		149.9	164.6	157.2	157.3	155.6	154.9	161.0	161.8	162.5	163.3		
Ex. social ins. funds		82.5	97.1	89.7	89.8	88.1	87.4	93.5	94.3	95.0	95.8		
Gross natl. saving rate	%	17.3	17.1	17.0	16.8	16.6	16.4	16.4	16.4	16.4	16.3		
Net natl. saving rate		7.3	7.1	7.1	6.8	6.6	6.4	6.3	6.4	6.4	6.4		
PRICES AND COSTS													
GDP chn.-wt. price index	% change	0.8	1.0	1.9	1.3	1.4	1.4	2.0	1.6	1.6	1.6		
Gross Domestic Purchases chn.-wt. price index		0.5	1.0	1.7	1.4	1.4	1.4	1.9	1.5	1.5	1.5		
CPI		1.7	2.0	2.3	2.4	2.2	2.2	2.2	2.2	2.2	2.2		
Ex. food and energy		2.3	2.5	3.0	2.1	2.1	2.1	2.3	2.3	2.3	2.3		
ECI, hourly compensation ¹		4.4	3.6	3.3	3.3	3.2	3.2	3.2	3.2	3.2	3.6		
Nonfarm business sector		2.7	0.8	1.5	1.0	1.2	1.5	-0.0	2.6	2.5	2.5		
Output per hour		4.0	3.6	3.8	3.4	3.4	3.5	3.2	3.2	3.6	3.6		
Compensation per hour		1.3	2.8	2.3	2.4	2.2	1.9	3.5	0.6	0.7	1.1		
Unit labor cost													

1. Private-industry workers.

Strictly Confidential <PR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

December 16, 1998

Item	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	96Q4/ 95Q4	97Q4/ 96Q4	98Q4/ 97Q4
Real GDP	2.1	4.2	4.2	4.0	4.2	3.0	5.3	1.8	3.8	3.9	3.8	3.6
Gross dom. purchases	3.5	1.9	5.5	4.4	4.7	3.2	7.9	4.0	4.4	4.2	4.4	5.0
Final sales	0.9	5.1	2.9	2.7	5.7	2.1	4.3	4.6	2.9	3.7	3.3	4.0
Priv. dom. final purchases	2.5	2.7	3.8	2.7	5.9	2.4	7.0	6.1	3.2	3.6	3.7	5.2
Personal cons. expenditures	1.3	2.0	2.9	1.1	4.2	1.9	4.1	4.1	2.8	2.2	2.5	3.4
Durables	-0.2	0.6	1.0	-0.1	1.3	0.3	1.2	0.9	0.2	0.5	0.6	0.9
Nondurables	0.2	0.6	0.7	-0.0	1.0	-0.1	1.4	1.0	0.4	0.6	0.4	0.9
Services	1.2	0.8	1.2	1.3	1.9	1.7	1.4	2.1	2.2	1.2	1.5	1.7
Business fixed investment	1.4	0.9	0.7	1.4	1.7	0.2	2.2	1.4	-0.0	1.2	1.0	1.2
Producers' dur. equip.	1.1	0.2	0.6	1.6	1.3	0.1	2.4	1.4	-0.1	0.8	0.9	1.3
Nonres. structures	0.2	0.6	0.1	-0.2	0.4	0.0	-0.2	-0.1	0.0	0.3	0.1	-0.1
Residential structures	-0.1	-0.2	0.1	0.2	-0.0	0.3	0.6	0.6	0.4	0.2	0.2	0.5
Net exports	-1.3	2.4	-1.2	-0.5	-0.5	-0.3	-2.2	-2.1	-0.6	-0.3	-0.6	-1.6
Exports	0.2	3.2	1.0	1.8	1.2	0.5	-0.3	-0.9	-0.3	1.2	1.1	-0.3
Imports	-1.6	-0.9	-2.2	-2.2	-1.7	-0.8	-1.9	-1.2	-0.2	-1.4	-1.7	-1.1
Government cons. & invest.	-0.3	0.0	0.4	0.4	0.3	0.0	-0.3	0.6	0.3	0.4	0.3	0.3
Federal	-0.3	-0.4	-0.2	0.2	-0.1	-0.1	-0.6	0.4	-0.1	0.1	-0.0	0.0
Defense	-0.3	-0.6	-0.5	0.4	-0.1	-0.1	-0.8	0.4	0.2	-0.0	-0.1	-0.1
Nondefense	0.0	0.0	0.3	-0.2	0.0	-0.1	0.3	0.1	-0.3	0.1	0.0	0.1
State and local	0.0	0.4	0.6	0.2	0.3	0.2	0.2	0.2	0.4	0.3	0.3	0.3
Change in bus. inventories	1.2	-0.8	1.3	1.3	-1.4	0.9	1.2	-2.7	0.9	0.2	0.5	-0.5
Nonfarm	1.3	-0.5	1.5	0.9	-1.5	1.0	1.2	-2.8	0.9	0.1	0.5	-0.5
Farm	-0.1	-0.3	-0.2	0.4	0.1	-0.1	0.0	0.1	0.0	0.0	0.0	0.1

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

Strictly Confidential <PR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

December 16, 1998

Item	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	98Q4/ 97Q4	99Q4/ 98Q4	00Q4/ 99Q4
Real GDP												
Gross dom. purchases	3.1	2.5	1.7	1.8	2.2	0.9	2.8	2.6	2.7	3.5	2.1	2.3
	3.9	3.1	2.4	2.2	2.4	1.2	3.3	3.0	2.8	5.0	2.5	2.6
Final sales	4.4	2.5	1.7	1.8	1.8	1.5	2.4	2.3	2.6	4.0	2.0	2.2
Priv. dom. final purchases	4.6	2.8	2.2	2.1	1.8	1.5	2.4	2.5	2.6	5.2	2.2	2.3
Personal cons. expenditures	2.8	2.1	2.0	1.7	1.6	1.3	2.0	1.8	1.9	3.4	1.8	1.8
Durables	1.2	0.1	0.3	0.2	0.2	0.2	0.4	0.4	0.4	0.9	0.2	0.4
Nondurables	0.7	0.6	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.9	0.5	0.4
Services	1.0	1.5	1.2	1.1	1.0	0.7	1.3	1.0	1.0	1.7	1.2	1.0
Business fixed investment	1.3	0.5	0.5	0.5	0.3	0.3	0.5	0.7	0.7	1.2	0.4	0.5
Producers' dur. equip.	1.4	0.6	0.5	0.5	0.4	0.3	0.4	0.7	0.7	1.3	0.5	0.5
Nonres. structures	-0.2	-0.1	-0.1	-0.1	-0.0	-0.0	0.0	0.0	0.0	-0.1	-0.1	0.0
Residential structures	0.4	0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.0	0.0	0.5	-0.1	-0.0
Nat exports	-0.7	-0.6	-0.7	-0.4	-0.2	-0.3	-0.5	-0.4	-0.1	-1.4	-0.5	-0.3
Exports	0.3	0.1	0.2	0.3	0.4	0.3	0.5	0.6	0.6	-0.3	0.3	0.5
Imports	-1.0	-0.7	-1.0	-0.8	-0.6	-0.6	-0.9	-1.0	-0.8	-1.1	-0.8	-0.8
Government cons. & invest.	0.5	0.3	0.2	0.2	0.2	0.3	0.4	0.2	0.1	0.3	0.2	0.3
Federal	0.2	-0.0	-0.1	-0.1	-0.1	-0.0	0.1	-0.1	-0.2	0.0	-0.1	-0.0
Defense	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.0	0.0	-0.1	-0.1	-0.0
Nondefense	0.4	0.0	-0.0	-0.0	-0.0	0.1	0.2	-0.1	-0.2	0.1	-0.0	-0.0
State and local	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Change in bus. inventories	-1.2	-0.0	-0.0	-0.0	0.4	-0.6	0.5	0.3	0.0	-0.5	0.1	0.0
Nonfarm	-1.2	0.1	0.1	0.0	0.5	-0.6	0.5	0.3	0.0	-0.5	0.2	0.0
Farm	0.0	-0.1	-0.1	-0.1	-0.1	-0.0	-0.0	-0.0	-0.0	0.1	-0.1	-0.0

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

Strictly Confidential (FR)
Class II FOMC

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

December 16, 1998

Item	Fiscal year ⁵				1998				1999				2000			
	1997 ^a	1998 ^a	1999	2000	Q1 ^a	Q2 ^a	Q3 ^a	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
Receipts ¹	1579	1721	1787	1848	378	544	412	408	404	541	433	425	417	559	446	433
Outlays ¹	1601	1651	1706	1747	409	407	409	463	396	421	425	441	448	432	427	445
Surplus/deficit ¹	-22	70	81	101	-30	137	3	-55	8	120	8	-16	-30	127	19	-12
On-budget	-103	-29	-43	-34	-51	87	1	-57	-47	67	-5	-55	-54	70	6	-54
Off-budget	81	99	124	134	21	50	2	2	55	53	13	39	24	58	14	42
Surplus excluding deposit insurance ²	-36	66	77	97	-31	136	2	-56	7	119	7	-16	-31	127	18	-13
Means of financing																
Borrowing	38	-51	-71	-105	26	-82	-29	30	0	-101	0	5	20	-100	-30	-3
Cash decrease	1	5	-1	0	4	-45	33	18	0	-15	-5	10	10	-25	5	20
Other ³	-17	-24	-9	4	0	-10	-8	6	-8	-5	-3	1	1	-3	6	-5
Cash operating balance, end of period	44	39	40	40	28	72	39	21	20	35	40	30	20	45	40	20
NIPA FEDERAL SECTOR																
Receipts	1687	1818	1885	1931	1809	1838	1858	1879	1875	1886	1899	1913	1916	1937	1958	1978
Expenditures	1728	1761	1809	1848	1750	1764	1765	1797	1810	1811	1818	1827	1846	1857	1863	1876
Consumption expend.	458	458	470	479	451	464	458	464	473	471	471	470	481	485	483	480
Defense	306	301	304	306	293	303	303	301	306	304	304	303	308	307	307	308
Nondefense	152	157	166	173	158	161	155	163	167	167	167	167	173	177	176	171
Other expenditures	1270	1302	1340	1369	1299	1300	1307	1333	1338	1340	1347	1357	1365	1372	1380	1397
Current account surplus	-41	57	75	83	59	74	93	81	65	74	81	86	71	80	94	102
Gross investment	61	60	59	58	61	57	61	60	59	59	58	58	58	58	57	58
Current and capital account surplus	-102	-2	16	25	-2	18	33	21	5	16	22	28	13	23	37	44
FISCAL INDICATORS⁴																
High-employment (HEB) surplus/deficit	-163	-101	-91	-59	-102	-85	-75	-92	-106	-90	-77	-67	-69	-59	-42	-33
Change in HEB, percent of potential GDP	-.8	-.8	-.1	-.4	-.5	-.2	-.1	.2	.2	-.2	-.2	-.1	0	-.1	-.2	-.1
Fiscal impetus (FI), percent, cal. year	-2.1	-2	1.5	-1.2	-2.1	1.1	.3	-.1	2.3	-.6	-1.3	.3	.5	-.5	-.7	

1. OMB's May 1998 surplus estimates (assuming the enactment of the President's proposals) are \$39 billion in FY98, \$54 billion in FY99, and \$61 billion in FY00. CBO's August 1998 baseline surplus estimates are \$63 billion in FY98, \$80 billion in FY99 and \$79 billion in FY00. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's May 1998 surplus estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are \$35 billion in FY98, \$51 billion in FY99 and \$58 billion in FY00, and CBO's August baseline estimates are \$59 billion in FY98, \$76 billion in FY99 and \$76 billion in FY00.

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

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

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

a--Actual.

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

Period ¹	Total ²	Federal government ³	Nonfederal						Memo: Nominal GDP	
			Total ⁴	Households			Business	State and local governments		
				Total	Home mortgages	Consumer credit				
<i>Year</i>										
1990	6.4	11.0	5.2	7.5	9.6	1.5	3.1	5.0	4.4	
1991	4.3	11.1	2.3	4.7	6.4	-1.3	-1.7	8.6	3.8	
1992	4.6	10.9	2.6	4.3	5.2	0.5	0.8	2.2	6.3	
1993	5.0	8.3	3.8	5.3	4.3	7.6	1.6	6.0	5.0	
1994	4.6	4.7	4.6	7.5	5.8	14.5	4.0	-4.0	5.8	
1995	5.4	4.1	5.8	7.7	5.5	14.1	6.7	-4.6	4.2	
1996	5.3	4.0	5.8	7.7	8.0	7.9	5.2	-0.6	5.8	
1997	5.3	0.6	7.0	6.9	7.5	4.3	7.5	5.3	5.6	
1998	6.2	-1.4	8.8	8.6	9.2	6.0	9.5	6.6	4.5	
1999	4.8	-2.6	7.1	7.7	8.3	4.8	6.7	5.5	3.6	
2000	3.9	-3.1	5.8	5.7	6.3	2.6	6.1	4.9	4.0	
<i>Quarter</i>										
1997:3	5.6	0.8	7.3	6.8	9.1	4.1	7.9	6.7	5.4	
4	6.4	1.1	8.2	7.3	8.2	3.0	9.1	8.4	4.2	
1998:1	6.1	-0.8	8.3	7.9	8.4	4.5	8.8	8.4	6.4	
2	6.1	-1.9	8.7	8.4	9.1	5.1	9.4	6.9	2.7	
3	5.9	-3.6	9.0	8.3	9.1	6.8	10.4	6.3	4.7	
4	6.3	0.5	8.0	8.7	8.9	7.2	8.2	4.1	4.2	
1999:1	4.9	-4.0	7.6	8.4	9.0	5.7	7.1	6.0	4.5	
2	4.7	-2.5	6.8	7.5	8.0	5.5	6.4	5.1	3.0	
3	4.8	-1.5	6.6	7.1	7.9	4.1	6.4	5.2	3.2	
4	4.5	-2.5	6.4	6.7	7.5	3.4	6.3	5.6	3.6	

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1998: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 is projected to grow 6.3 percent in 1998 and 5.0 percent in 1999.

3. On a monthly average basis, federal debt is projected to grow -1.2 percent in 1998 and -2.2 percent in 1999.

4. On a monthly average basis, nonfederal debt is projected to grow 8.8 percent in 1998 and 7.2 percent in 1999.

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

Category					Seasonally adjusted annual rates									
	Calendar year				1997		1998				1999			
	1997	1998	1999	2000	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	655.1	692.1	679.8	592.8	705.6	811.8	782.9	809.3	708.8	467.5	690.4	678.1	679.3	671.3
2 Net equity issuance	-114.4	-254.9	-98.5	-63.4	-124.0	-143.3	-139.2	-128.7	-221.8	-530.0	-105.6	-94.6	-116.8	-76.8
3 Net debt issuance	769.6	947.0	778.2	656.2	829.6	955.1	922.1	938.0	930.6	997.5	796.0	772.7	796.1	748.1
<i>Borrowing sectors</i>														
Nonfinancial business														
4 Financing gap ¹	74.3	104.5	121.3	152.1	51.3	83.3	119.1	97.2	106.3	95.7	103.8	115.4	124.9	141.1
5 Net equity issuance	-114.4	-254.9	-98.5	-63.4	-124.0	-143.3	-139.2	-128.7	-221.8	-530.0	-105.6	-94.6	-116.8	-76.8
6 Credit market borrowing	334.8	455.5	350.9	341.1	363.8	427.1	420.6	460.2	521.6	419.5	370.8	342.7	345.7	344.7
Households														
7 Net borrowing ²	355.6	472.5	457.8	366.2	362.9	394.9	437.2	469.8	472.7	510.3	504.2	460.4	442.4	424.4
8 Home mortgages	261.9	345.7	342.5	278.9	327.5	302.0	316.1	351.7	356.2	358.7	369.7	334.7	338.8	326.6
9 Consumer credit	52.5	76.3	63.8	36.9	50.3	37.8	57.3	65.1	88.2	94.8	76.4	74.8	56.5	47.3
10 Debt/DPI (percent) ³	91.8	95.2	98.3	100.8	92.0	92.7	93.6	94.7	95.7	96.6	96.9	98.1	99.0	99.9
State and local governments														
11 Net borrowing	56.1	73.5	66.2	61.9	72.6	92.3	94.3	78.9	72.7	48.0	71.2	61.2	63.2	69.2
12 Current surplus ⁴	135.6	185.6	191.8	202.7	117.6	171.5	179.1	169.4	192.6	201.2	194.4	185.1	194.0	194.0
Federal government														
13 Net borrowing	23.1	-54.4	-96.7	-113.0	30.3	40.8	-30.0	-70.9	-136.5	19.7	-150.1	-91.5	-55.1	-90.1
14 Net borrowing (quarterly, n.s.a.)	23.1	-54.4	-96.7	-113.0	10.6	33.7	25.9	-81.8	-28.8	30.3	-0.2	-100.9	-0.4	4.9
15 Unified deficit (quarterly, n.s.a.)	2.4	-54.9	-120.5	-104.3	10.9	39.7	30.2	-136.9	-3.0	54.9	-7.9	-120.0	-8.3	15.6
Depository institutions														
16 Funds supplied	336.3	291.7	293.5	267.4	204.4	470.7	319.5	147.0	301.1	399.3	322.5	298.1	278.7	274.4
Memo (percentage of GDP)														
17 Domestic nonfinancial debt ⁵	182.8	184.6	187.6	188.8	182.0	182.8	182.8	184.3	185.0	185.9	186.4	187.3	188.1	188.5
18 Domestic nonfinancial borrowing	9.5	11.1	8.8	7.2	10.2	11.6	11.0	11.1	10.9	11.6	9.1	8.8	9.0	8.4
19 Federal government ⁶	0.3	-0.6	-1.1	-1.2	0.4	0.5	-0.4	-0.8	-1.6	0.2	-1.7	-1.0	-0.6	-1.0
20 Nonfederal	9.2	11.8	9.9	8.4	9.8	11.1	11.4	12.0	12.5	11.3	10.9	9.8	9.6	9.4

Note. Data after 1998: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	Projection					
	1998			1999		2000
	H1	Q3	Q4	H1	H2	
Foreign output	.0	1.1	.3	1.2	2.0	2.3
<i>November</i>	.0	.2	-.0	.9	1.9	2.2
Real exports	-5.3	-3.0	2.7	1.6	3.4	4.8
<i>November</i>	-5.3	-3.7	-.1	1.5	3.2	4.7
Real imports	12.5	1.8	7.8	6.6	5.3	6.2
<i>November</i>	12.5	3.8	6.9	6.9	5.4	6.5

The dollar. We project that the trade-weighted exchange value of the dollar against the major foreign currencies will decline from current levels, as growing current account surpluses in Japan and the euro area and a growing current account deficit in the United States begin to generate pressures for exchange rate adjustments. External imbalances are projected to affect the dollar's rate against the yen only with a lag, however. Further deterioration in economic activity in Japan and limited progress in resolving banking sector problems are expected to weigh on the yen for some time. Because of the offsetting nature of these effects in the near term, we project the dollar to average about current levels against the yen before declining late in the forecast period. We continue to forecast that the dollar will decline against the Canadian dollar as global recovery and firmer commodity prices help the Canadian dollar regain some of the ground it has lost during 1998.

Our forecast calls for the real exchange value of the dollar against a broad group of 35 currencies to edge down over the forecast period; real dollar depreciation against the major currencies, most Asian emerging-market currencies, and the Mexican peso is nearly offset by appreciation against South American currencies and the Chinese renminbi. The renminbi, which has remained essentially unchanged against the dollar in nominal terms over the past year and a half, is projected to undergo some adjustment later in the forecast period, as Chinese authorities begin to allow some modest depreciation. The dollar is projected to rise against the Brazilian *real* in nominal and price-adjusted terms as macroeconomic policy adjustments and external financial assistance allow Brazil to

project that the oil import price will be about \$11.55 per barrel in the fourth quarter of 1998, slightly less than in the third quarter. We assume that OPEC production will hold at current levels through 1999. Combined with increased consumption as world activity expands, this supply outcome should support somewhat higher oil prices. We expect oil import prices to increase steadily in 1999 from around \$10.50 per barrel in the first quarter to about \$13.30 per barrel in the fourth quarter. For 2000, we predict an oil import price of \$13.50 per barrel.

Selected Trade Prices

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

Trade category	Projection					
	1998			1999		2000
	H1	Q3	Q4	H1	H2	
<i>Exports</i>						
Nonagricultural (core)	-2.1	-2.4	-1.5	1.7	1.9	1.4
Agricultural	-11.0	-8.2	-1.8	0.0	2.0	2.1
<i>Imports</i>						
Non-oil (core)	-2.6	-3.3	.5	1.6	1.4	1.4
Oil (level, dollars per barrel)	12.51	11.60	11.54	11.86	13.28	13.50

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.

Prices of non-oil imports and exports. The slowdown in global growth continues to put downward pressure on the prices of traded goods. However recent and projected depreciation of the dollar is expected to push up commodity prices (expressed in dollars) and U.S. import and export prices. After falling almost 14 percent in the first three quarters of this year, commodity prices are expected to be about flat in the fourth quarter and to increase 3-1/4 percent in 1999 and somewhat less in 2000. We expect core import prices to follow a similar pattern. After falling for the last two years core import price inflation is expected to increase to 1-1/2 percent (s.a.a.r.) in the first half of 1999 before slowing to 1-1/4 percent by the second half of 2000 as the effects of the dollar's recent sharp depreciation wane. Nonagricultural export prices for core goods are expected to fall at a 1-1/2 percent annual rate in the fourth quarter. Prices of core export goods are expected to rise in 1999

about the sustainability of the U.S. net external asset position the dollar could depreciate sharply. To illustrate the implications of such an outcome we have simulated the effect of additional across the board depreciation of the dollar relative to its baseline path that reaches 10 percent at the end of 1999 and is held at that level through 2000. Note that this simulation assumes that the direct impact of the shift in the demand for U.S. dollar assets falls only on the exchange rate and not U.S. interest rates or stock prices. The results of this simulation are shown in the table below. Under the assumption that U.S. monetary policy does not respond to this sharp depreciation of the dollar U.S. GDP and inflation rise noticeably, particularly in 2000.

Impact of Alternative Assumptions*		
	(Percent change, Q4 to Q4)	
Measure	1999	2000
<i>U.S. Real GDP</i>		
Baseline	2.0	2.3
Pessimistic Brazil**	1.4	1.5
Dollar depreciation	2.2	3.2
<i>U.S. CPI ex. food and energy</i>		
Baseline	2.3	2.3
Pessimistic Brazil**	2.2	1.9
Dollar depreciation	2.5	2.8

*All simulations assume fixed Federal Funds rate.

** Assumes U.S. stock market falls an additional 10 percent.

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

Measure and country	-----Projected----									
	1992	1993	1994	1995	1996	1997	1998	1999	2000	
REAL GDP (1)										
Total foreign	2.2	3.3	5.1	2.0	4.1	4.1	0.4	1.6	2.3	
Industrial Countries of which:	0.6	1.8	4.0	1.7	2.6	3.3	1.6	1.7	1.9	
Canada	0.9	2.9	5.5	1.1	1.7	4.4	2.3	2.3	2.4	
Japan	0.1	0.5	0.9	2.5	5.1	-0.8	-2.7	-0.7	-0.2	
United Kingdom	0.7	3.2	4.6	1.9	2.6	4.0	1.5	1.0	2.1	
Euro-11	0.1	-0.1	3.4	1.3	1.9	3.1	2.5	2.3	2.2	
Germany	0.9	-0.2	3.4	0.0	2.1	2.3	2.6	2.2	2.2	
Developing Countries	4.6	5.5	6.7	2.6	6.3	5.1	-1.2	1.3	2.7	
Asia	6.7	8.3	8.3	6.8	7.0	5.0	-3.9	1.5	3.2	
Korea	2.4	8.1	9.5	7.3	7.1	3.9	-7.9	0.6	3.1	
China	14.6	13.1	12.1	10.0	9.4	7.9	7.1	6.3	6.8	
Latin America	3.1	2.6	5.7	-4.1	6.2	5.9	1.5	1.1	2.4	
Mexico	2.8	1.9	5.2	-7.0	7.1	6.7	3.3	2.6	2.7	
Brazil	0.1	4.4	9.6	-1.5	5.0	1.6	-1.0	-3.3	-0.3	
CONSUMER PRICES (2)										
Industrial Countries of which:	2.0	2.1	1.1	1.3	1.5	1.6	1.0	0.7	1.1	
Canada	1.8	1.8	-0.0	2.1	2.0	1.0	1.1	1.3	1.5	
Japan	0.9	1.2	0.8	-0.8	0.1	2.1	0.3	-1.0	0.0	
United Kingdom (3)	3.7	2.7	2.2	2.9	3.2	2.8	2.5	2.4	2.5	
Euro-11 (4)	NA	NA	NA	2.7	2.0	1.4	1.2	1.4	1.4	
Germany	3.4	4.2	2.6	1.7	1.4	1.8	0.7	1.0	1.1	
Developing Countries	21.7	24.8	23.0	17.0	11.2	6.9	8.8	7.6	7.0	
Asia	5.5	7.7	10.7	6.4	4.8	2.8	4.8	3.0	3.9	
Korea	4.7	5.5	5.8	4.4	5.1	5.0	6.2	5.9	4.9	
China	8.2	17.1	26.9	11.1	7.0	1.0	-0.8	0.2	3.6	
Latin America	72.4	74.5	54.6	42.2	26.0	15.6	15.4	15.0	12.1	
Mexico	13.2	8.6	6.9	48.8	28.1	17.2	17.2	16.5	13.2	
Brazil	1150.1	2321.7	1237.1	22.5	10.5	4.2	2.9	2.4	2.4	

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

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

Measure and country	1998				Projected				2000			
					1999							
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)												
Total foreign	-0.8	0.7	1.3	0.3	1.0	1.3	1.7	2.2	1.6	2.3	2.5	2.7
Industrial Countries of which:	2.0	1.1	1.4	1.8	1.5	1.6	1.8	2.1	1.3	2.0	2.2	2.3
Canada	3.1	1.4	1.8	3.0	2.2	2.2	2.2	2.7	1.8	2.4	2.6	2.8
Japan	-4.8	-2.9	-2.6	-0.5	-1.5	-0.7	-0.2	-0.2	-1.4	-0.2	0.3	0.6
United Kingdom	3.1	1.9	1.5	-0.6	0.5	0.8	1.1	1.5	1.5	2.0	2.4	2.4
Euro-11	3.3	2.1	2.8	1.8	2.0	2.2	2.3	2.5	1.7	2.4	2.4	2.4
Germany	5.9	0.2	3.5	0.9	1.5	2.3	2.3	2.6	1.7	2.3	2.4	2.4
Developing Countries	-4.6	0.2	1.3	-1.8	0.4	0.9	1.7	2.4	2.1	2.7	3.0	3.1
Asia	-10.2	-3.8	0.7	-2.0	0.3	1.1	1.9	2.8	2.3	3.1	3.6	3.9
Korea	-22.8	-5.1	2.3	-4.1	-1.0	0.5	1.0	2.1	1.8	2.6	3.5	4.5
China	7.3	6.2	10.7	4.5	5.2	6.5	6.5	7.0	6.3	7.0	7.0	7.0
Latin America	1.1	4.9	2.4	-2.2	0.4	0.6	1.5	2.0	1.9	2.5	2.5	2.5
Mexico	1.0	6.1	7.7	-1.6	2.4	2.4	2.8	2.8	2.4	2.8	2.8	2.8
Brazil	2.1	5.4	-5.9	-5.0	-5.0	-4.0	-3.0	-1.0	-1.0	0.0	0.0	0.0
CONSUMER PRICES (2)												
Industrial Countries of which:	1.4	1.1	0.8	1.0	0.7	0.6	0.6	0.7	0.9	0.9	1.1	1.1
Canada	1.0	1.0	0.9	1.1	1.2	1.2	1.3	1.3	1.4	1.4	1.5	1.5
Japan	2.1	0.6	-0.1	0.3	-0.7	-1.3	-1.5	-1.0	-0.7	-0.5	0.0	0.0
United Kingdom (3)	2.5	3.0	2.6	2.5	2.5	2.4	2.4	2.4	2.5	2.4	2.5	2.5
Euro-11 (4)	1.2	1.5	1.2	1.2	1.2	1.2	1.3	1.4	1.4	1.4	1.4	1.4
Germany	1.2	1.3	0.8	0.7	0.8	0.9	0.9	1.0	1.0	1.1	1.1	1.1
Developing Countries	7.3	7.6	8.0	8.8	8.0	8.2	8.2	7.6	7.3	7.0	6.9	7.0
Asia	4.2	4.6	4.6	4.8	3.6	3.4	3.1	3.0	3.1	3.3	3.5	3.9
Korea	8.9	8.2	7.0	6.2	2.5	3.8	5.3	5.9	5.5	5.1	4.9	4.9
China	0.4	-0.9	-1.4	-0.8	-0.1	1.3	1.3	0.2	0.6	1.4	2.4	3.6
Latin America	14.1	14.2	14.3	15.4	14.7	15.3	16.0	15.0	13.8	13.0	12.3	12.1
Mexico	15.3	15.1	15.6	17.2	16.4	17.4	18.0	16.5	15.2	14.2	13.5	13.2
Brazil	4.4	4.5	3.6	2.9	1.7	0.8	1.7	2.4	2.4	2.4	2.4	2.4

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

Strictly Confidential (FR)
Class II FOMC

December 16, 1998

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1992	1993	1994	1995	1996	1997	1998	Projected 1999	2000
NIPA REAL EXPORTS and IMPORTS									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.4	-0.6	-0.4	0.5	-0.3	-0.6	-1.4	-0.5	-0.3
Exports of G&S	0.4	0.5	1.0	1.1	1.2	1.1	-0.3	0.3	0.5
Imports of G&S	-0.8	-1.1	-1.4	-0.7	-1.4	-1.7	-1.1	-0.8	-0.8
Percentage change, Q4/Q4									
Exports of G&S	4.1	4.6	10.0	10.5	10.3	9.6	-2.8	2.5	4.8
Services	-0.9	4.1	6.0	9.8	7.5	1.5	-2.8	2.5	2.0
Agricultural Goods	10.4	-5.5	16.6	-4.3	4.8	2.8	-10.8	-1.7	0.2
Computers	25.2	23.7	32.0	55.5	35.9	40.7	8.7	26.6	28.3
Semiconductors	64.8	32.9	66.9	79.6	46.2	21.0	6.5	20.7	23.6
Other Goods 1/	2.3	3.6	7.0	5.8	8.0	11.6	-3.4	-0.1	3.6
Imports of G&S	7.4	10.2	12.3	5.6	11.8	14.0	8.5	5.9	6.2
Services	1.4	3.2	1.4	6.1	5.5	12.4	1.7	1.9	3.0
Oil	12.1	10.1	-0.2	2.4	7.9	4.0	4.4	3.2	5.3
Computers	45.1	39.3	44.8	48.1	24.4	30.3	24.6	28.2	28.0
Semiconductors	42.0	34.2	54.5	92.4	57.6	32.7	-4.0	26.2	26.2
Other Goods 2/	5.4	9.5	12.2	-1.2	10.4	13.0	9.7	4.5	4.5
Billions of chained 1992 dollars									
Net Goods & Services	-29.5	-70.2	-104.6	-96.5	-111.2	-136.1	-244.1	-309.9	-346.8
Exports of G&S	639.4	658.2	712.4	792.6	860.0	970.0	975.0	983.8	1022.7
Imports of G&S	669.0	728.4	817.0	889.0	971.2	1106.1	1219.1	1293.7	1369.5
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-51.4	-86.1	-123.8	-115.3	-134.9	-155.2	-231.8	-299.4	-341.7
Net Goods & Services (BOP)	-38.7	-71.9	-100.9	-99.9	-108.6	-110.2	-174.2	-228.7	-259.0
Exports of G&S (BOP)	617.3	643.2	703.8	795.6	850.8	937.6	922.0	921.6	959.9
Imports of G&S (BOP)	656.0	715.2	804.7	895.5	959.3	1047.8	1096.2	1150.2	1219.0
Net Investment Income	22.5	23.9	16.5	19.3	14.2	-5.3	-16.1	-29.0	-40.9
Direct, Net	51.6	55.7	51.8	63.0	66.2	63.7	58.0	51.3	56.4
Portfolio, Net	-29.1	-31.7	-35.3	-43.7	-51.9	-69.1	-74.2	-80.4	-97.3
Net Transfers	-35.2	-38.1	-39.4	-34.6	-40.6	-39.7	-41.5	-41.8	-41.8

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

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

Strictly Confidential (FR)
Class II FOMC

December 16, 1998

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1995				1996				1997			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-0.2	-0.3	1.6	0.7	-1.1	-1.0	-1.4	2.4	-1.3	-0.4	-0.5	-0.3
Exports of G&S	1.0	0.6	1.9	1.1	0.4	0.6	0.2	3.2	0.9	1.7	1.2	0.5
Imports of G&S	-1.2	-0.9	-0.3	-0.4	-1.5	-1.6	-1.6	-0.9	-2.2	-2.2	-1.7	-0.8
Percentage change from previous period, SAAR												
Exports of G&S	9.2	5.4	17.8	10.2	3.7	5.8	2.1	32.0	8.3	15.5	10.6	4.4
Services	9.1	2.9	21.7	6.4	-4.0	10.3	-9.9	39.8	-6.7	11.8	5.9	-4.0
Agricultural Goo	1.8	-13.4	5.0	-9.4	22.6	-32.8	-1.6	48.7	-16.1	-7.8	8.7	32.8
Computers	36.4	33.8	86.6	71.6	57.6	24.7	27.7	35.9	70.2	78.7	41.9	-9.2
Semiconductors	72.0	100.8	96.2	53.6	23.8	29.7	30.2	118.6	41.3	17.3	32.3	-2.2
Other Goods 1/	4.3	1.4	9.4	8.1	0.1	6.0	5.7	21.3	13.8	15.6	9.2	8.0
Imports of G&S	9.8	7.2	2.0	3.5	13.1	13.5	13.6	7.0	18.6	17.9	13.5	6.3
Services	20.5	-3.3	3.1	5.5	9.2	4.3	9.9	-1.1	17.8	10.6	15.8	5.8
Oil	-11.4	15.4	31.4	-18.2	-9.8	68.9	3.5	-14.0	-8.2	37.0	6.0	-12.2
Computers	15.4	51.6	62.7	69.3	22.5	22.9	18.8	33.8	54.5	39.0	30.6	2.9
Semiconductors	37.1	105.5	128.2	113.3	38.7	8.9	50.1	172.1	89.0	16.0	20.3	17.6
Other Goods 2/	7.2	1.5	-8.8	-3.8	13.9	10.5	13.5	4.2	16.2	16.1	11.8	8.1
Billions of chained 1992 dollars, SAAR												
Net Goods & Services	-109.5	-114.7	-86.8	-74.8	-95.5	-113.5	-140.1	-95.9	-121.5	-131.6	-142.4	-149.0
Exports of G&S	763.9	774.0	806.3	826.1	833.6	845.5	849.9	911.1	929.4	963.6	988.1	998.8
Imports of G&S	873.4	888.7	893.1	900.9	929.1	958.9	990.0	1007.0	1050.9	1095.2	1130.5	1147.8
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-123.7	-134.2	-115.5	-87.7	-112.9	-132.0	-161.6	-133.2	-148.0	-140.4	-152.4	-180.2
Net Goods & Services (BOP)	-109.3	-125.8	-90.0	-74.5	-92.4	-112.8	-132.3	-96.8	-112.5	-106.1	-108.4	-113.8
Exports of G&S (BOP)	765.4	782.0	809.7	825.6	833.6	845.3	837.5	886.7	904.7	936.1	951.7	957.8
Imports of G&S (BOP)	874.7	907.7	899.7	900.1	926.0	958.2	969.8	983.5	1017.3	1042.1	1060.1	1071.7
Net Investment Income	20.1	24.0	10.2	22.7	21.4	15.9	6.9	12.7	0.1	1.8	-6.2	-17.0
Direct, Net	59.9	67.2	56.5	68.3	64.8	64.4	61.9	73.6	64.2	69.6	65.5	55.6
Portfolio, Net	-39.8	-43.2	-46.2	-45.5	-43.3	-48.5	-55.0	-60.9	-64.2	-67.8	-71.7	-72.6
Net Transfers	-34.5	-32.4	-35.8	-35.9	-41.9	-35.1	-36.2	-49.1	-35.5	-36.1	-37.8	-49.3

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

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1998				1999				Projected				2000																			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4																
	NIPA REAL EXPORTS and IMPORTS																															
Percentage point contribution to GDP growth																																
Net Goods & Services -2.3 -2.1 -0.6 -0.7 -0.6 -0.7 -0.4 -0.2 -0.3 -0.5 -0.4 -0.1 Exports of G&S -0.3 -0.9 -0.3 0.3 0.1 0.2 0.3 0.4 0.3 0.5 0.6 0.6 Imports of G&S -1.9 -1.2 -0.2 -1.0 -0.7 -1.0 -0.8 -0.6 -0.6 -0.9 -1.0 -0.8																																
Percentage change from previous period, SAAR																																
Exports of G&S -2.8 -7.7 -3.0 2.7 1.1 2.2 3.1 3.8 3.2 4.5 5.6 5.9 Services -1.2 1.7 -10.4 -1.0 3.2 3.0 1.8 2.0 1.0 2.0 2.3 2.8 Agricultural Goods -9.9 -23.4 -14.1 7.1 3.5 -12.1 0.9 1.8 -6.8 -2.7 8.2 2.6 Computers -15.5 8.7 20.5 26.2 26.2 26.2 26.7 27.2 27.7 28.2 28.6 28.6 Semiconductors -2.0 -18.7 30.6 23.9 19.3 20.4 21.6 21.6 22.7 23.9 23.9 23.9 Other Goods 1/ -1.6 -11.0 -1.6 1.1 -3.3 0.2 0.9 1.9 2.0 3.4 4.1 4.7																																
Imports of G&S 15.7 9.3 1.8 7.8 5.7 7.5 5.9 4.6 4.6 7.3 7.3 5.7 Services 9.3 -0.6 -0.6 -1.1 0.6 1.3 2.5 3.0 1.7 3.8 3.4 3.3 Oil 8.8 41.4 -10.2 -14.1 -12.1 41.6 10.4 -17.6 0.2 29.7 13.4 -16.7 Computers 38.8 22.4 10.3 28.6 29.6 29.6 27.4 26.2 26.2 28.6 28.6 28.6 Semiconductors 9.9 -28.0 -8.3 17.0 26.2 26.2 26.2 26.2 26.2 26.2 26.2 26.2 Other Goods 2/ 16.1 10.7 2.9 9.4 5.3 4.8 3.9 4.1 3.1 4.2 5.4 5.3																																
Billions of chained 1992 dollars, SAAR																																
Net Goods & Services -198.5 -245.2 -257.9 -274.7 -289.6 -307.4 -318.4 -324.0 -331.3 -343.7 -354.0 -358.4 Exports of G&S 991.9 972.1 964.8 971.2 973.7 979.1 986.6 995.8 1003.6 1014.8 1028.8 1043.6 Imports of G&S 1190.4 1217.3 1222.7 1245.9 1263.3 1286.4 1305.0 1319.8 1334.9 1358.5 1382.8 1401.9																																
Billions of dollars, SAAR																																
US CURRENT ACCOUNT BALANCE -186.9 -226.8 -245.2 -268.3 -271.9 -292.9 -305.9 -327.0 -325.9 -334.6 -344.9 -361.2 Net Goods & Services (BOP) -140.0 -175.5 -183.0 -198.2 -207.8 -227.0 -236.9 -242.8 -248.3 -257.5 -264.3 -266.1 Exports of G&S (BOP) 946.2 922.3 909.3 910.2 910.2 916.8 925.0 934.1 941.8 952.4 965.7 979.8 Imports of G&S (BOP) 1086.2 1097.8 1092.3 1108.4 1118.1 1143.9 1162.0 1177.0 1190.0 1209.9 1230.0 1245.9 Net Investment Income -9.0 -13.5 -21.8 -20.1 -25.1 -26.9 -29.9 -34.2 -38.6 -38.1 -41.6 -45.1 Direct, Net 62.4 60.7 54.7 54.3 49.7 50.9 52.1 52.7 52.6 56.9 57.7 58.3 Portfolio, Net -71.3 -74.2 -76.6 -74.5 -74.8 -77.7 -82.0 -86.9 -91.2 -95.0 -99.4 -103.4 Net Transfers -37.9 -37.8 -40.3 -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

December 16, 1998

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

Confidential (FR) Class III FOMC

December 16, 1998

RECENT DEVELOPMENTS

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

Elsewhere, manufacturing production remained weak in November, with widespread declines in the production of business equipment and business supplies. Furthermore, materials output continued to trend down; in particular, production of iron and steel plummeted. In contrast, consumer goods production rose, mostly owing to increases in the production of appliances, food, and chemicals. The output of construction supplies advanced briskly for a second month.

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

Item	1998					1999
	Oct.	Nov.	Dec. ¹	Q3	Q4 ¹	Q1 ¹
U.S. production	13.0	12.9	12.7	11.4	12.8	12.7
Autos	6.1	5.8	5.8	5.6	5.9	5.7
Trucks	6.9	7.1	6.9	5.8	7.0	7.0

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

1. Production rates are manufacturers' schedules.

Looking beyond November, most indicators point to continued softness in the manufacturing sector. The October and November readings in the National Association of Purchasing Management (NAPM) index of new orders were the lowest since early 1996, and the Dun and Bradstreet index edged down in October, after having fallen sharply in September. In addition, the staff's series of real adjusted durable goods orders turned down in October, following a sizable gain in the third quarter--and that prior increase was concentrated in categories with long production cycles and thus is expected to provide only a small boost to industrial production over the near term. On the other hand, anecdotal evidence from the Beige Book and the Board staff's contacts with industrial firms sent more mixed signals: Producers of computers, lumber, building materials, aerospace equipment, trucks, and office supplies reported strong orders in recent months, while manufacturers of steel, chemicals, and paper indicated that business is quite weak.

THE GROWTH AND FLOW OF MONETARY AND CREDIT AGGREGATES
(Q4 to Q4 averages, seasonally adjusted unless otherwise noted)

Growth rates or flows	1994	1995	1996	1997	1998¹	Memo: 1998 Q4 levels (billions of dollars) ¹
Growth rates (percent)						
Domestic nonfinancial debt - total	4.9	5.4	5.3	5.0	6.3	16,040.6
Federal	5.7	4.4	3.8	0.7	-1.2	3,748.4
Nonfederal	4.6	5.7	5.9	6.6	8.8	12,292.2
Depository credit	4.9	5.8	4.2	6.6	8.3	5,644.1
Bank credit ²	5.7	7.2	4.4	8.6	10.2	4,383.7
Thrift credit	2.6	1.6	3.6	0.7	2.2	1,260.4
M1	2.5	-1.6	-4.5	-1.2	1.6	1,085.6
Sweep-adjusted M1 ³	3.4	1.6	5.2	6.0	5.7	1,390.5
M2	0.6	3.9	4.6	5.7	8.7	4,373.3
M3	1.7	6.1	6.8	8.8	10.8	5,902.0
Memo: Nominal gross domestic product	5.8	4.2	5.8	5.6	4.5	8,624.6
Flows (\$ billions, December to December)						
Currency	32.1	18.1	22.5	30.6	34.3	456.6
M1 Transactions deposits	-11.8	-40.5	-67.9	-37.2	-19.6	621.0
Sweep-adjusted transactions deposits ³	-2.0	4.1	44.3	46.3	37.0	n.a.
Nontransactions M2	-5.3	170.3	220.6	227.2	344.6	3,287.8
M2 Savings, MMDAs, and small time deposits	-34.7	100.4	152.8	146.6	187.0	2,537.1
Retail MMMFs	29.4	69.9	67.9	80.4	157.8	750.7
Non-M2 component	59.2	113.8	160.6	225.4	222.2	1,528.6
Institution-only MMMFs	-9.5	50.8	56.4	65.9	137.8	497.7
M3 Large time deposits	29.8	56.2	71.7	81.6	44.7	612.4
Total RPs and Eurodollars, net (NSA)	37.2	6.0	31.7	77.2	38.7	415.8

1. Preliminary estimates. For debt aggregates, based on data through October 1998. For credit and monetary aggregates, based on data through November 1998. Figure for nominal GDP is staff projection.

2. Adjusted for the estimated effects of mark-to-market accounting rules.

3. Sweep figures used to adjust this series are the estimated national total of transaction account balances initially swept into MMDAs by new sweep programs, on the basis of monthly averages of daily data.