

Part 1

August 16, 2000

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

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

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

Measure	2000:Q2			2000:Q3	
	June GB	BEA ¹	Aug. GB	June GB	Aug. GB
Real GDP	4.1	5.2	4.9	3.8	3.2
Private domestic final purchases	4.2	5.2	4.7	4.3	4.6
Personal consumption expenditures	3.2	3.0	2.9	4.0	4.2
Residential investment	-2.9	3.9	1.1	-6.8	-16.1
Business fixed investment	12.7	19.1	15.1	10.3	14.3
Government outlays for consumption and investment	3.8	6.0	5.4	3.1	.3
MEMO					
Real GDP adjusted for defense spending anomaly	3.6	4.7	4.4	3.8	3.2
	Contribution to growth, percentage points				
Inventory investment	.7	1.0	1.5	.6	-.3
Net exports	-.8	-1.5	-1.5	-1.0	-.6

1. Advance release, published July 28.

vehicles but a fairly brisk gain in outlays for other goods. On balance, our reading of these and other household indicators is that consumer spending is likely to pick up somewhat this quarter but not regain the exceptional strength it had shown in late 1999 and early 2000. In contrast, residential investment appears likely to record a sizable decline this quarter. Single-family housing starts have come down considerably over the past few months, and residential investment should track the pattern of starts, albeit with a lag.

Business fixed investment will almost surely be very strong again this quarter, mainly because high-tech spending continues to move ahead at a phenomenal pace. However, we are looking for some moderation of expansion, on balance, in the other equipment sectors after an exceptionally strong first half. The forecast of investment in structures is a wild card, owing to the erratic nature of the data; our forecast allows for a gain of about 2-3/4 percent at an annual rate this quarter.

We expect the government sector to contribute only slightly to growth this quarter. At the federal level, expenditures on consumption and investment grew quite rapidly in the second quarter. However, we are anticipating a dropback in

Projections of Real GDP
(Percent change, Q4 to Q4, except as noted)

Measure	2000		2001
	H1	H2	
Real GDP	4.8	3.5	4.1
Previous	4.8	3.8	3.5
Final sales	5.0	3.9	4.2
Previous	5.3	3.7	3.7
PCE	5.2	4.0	3.5
Previous	5.3	3.8	3.2
Residential investment	2.1	-12.8	-5.4
Previous	1.7	-5.8	-5.5
BFI	18.0	12.9	11.7
Previous	19.1	11.3	10.1
Government purchases	2.1	1.8	3.3
Previous	1.2	3.1	3.5
Exports	6.9	7.6	8.3
Previous	8.7	6.9	8.5
Imports	14.6	7.9	8.0
Previous	13.5	9.5	8.0
MEMO			
Real GDP adjusted for defense spending anomaly	5.0	3.5	4.1
	Contribution to growth, percentage points		
Inventory change	-.1	-.4	-.1
Previous	-.5	.1	-.1
Net exports	-1.2	-.3	-.3
Previous	-.9	-.6	-.2

Household demand. We continue to anticipate that the household sector will account for the bulk of the predicted deceleration in domestic demand. The forecast has growth of real personal consumption expenditures slowing from a gain of 5-1/2 percent in 1999 to 4-1/2 percent this year and about 3-1/2 percent in 2001. As in the last Greenbook, this slowdown in consumption growth is related in large part to our assumption that stock prices will be moving sideways

Decomposition of Structural Labor Productivity

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

Measure	1999	2000	2001
Structural labor productivity	3.2	3.5	3.7
<i>Contributions¹</i>			
Capital deepening	1.8	2.0	2.2
Labor quality	.3	.3	.3
Multifactor productivity	1.1	1.2	1.2

1. Percentage points.

growth trend in multifactor productivity is projected to edge up a bit from an estimated 1.1 percent in 1999 to 1.2 percent in 2000 and 2001.¹

Along with the rethinking of our assumptions about structural productivity, our revised labor market forecast still contains some cyclical elements that cause reported growth of productivity to depart from what we perceive to be the longer-term trend. In the near term, even as the economy slows, businesses will likely continue to add workers in response to the sizable gains in output in recent quarters. Moreover, although growth of output next year is expected to be somewhat less than potential, employers may remain hesitant either to lay off current workers or to slow recruiting by very much, given the difficulties they have had in the recent past in finding new hires and keeping employees on board. For a time, observed productivity growth therefore drops below the rate of structural advance.

Labor market. The gains in payroll employment that we are predicting, although not as large as those of recent years, are sizable--2-1/4 million additional jobs during 2000 and almost 2 million more in 2001. At this rate of hiring, the unemployment rate is likely to move up only a bit from its recent level; it averages 4.0 percent in 2000 and 4.2 percent in 2001.

The labor force participation rate fell again in July, and the rise earlier this year has been more than fully reversed. Consequently, the inference we had drawn about an apparent pickup in participation no longer seems to be accurate, and we have gone back to the position that the participation rate still is moving

1. All references to the decomposition of labor productivity into capital deepening, multifactor productivity, and labor quality for the period since 1997 are staff estimates. The Bureau of Labor Statistics updates its official estimates of multifactor productivity growth once a year. Current BLS estimates extend only through 1997. Revised estimates that will extend through 1998 are to be released sometime this fall, but a release date has not been announced.

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

Measure	1999	2000	2001
Output per hour, nonfarm business	4.1	3.1	3.2
Previous	3.7	2.8	2.6
Nonfarm payroll employment	2.2	1.7	1.4
Previous	2.2	2.0	1.4
Household employment survey	1.5	1.0	.9
Previous	1.5	1.4	.9
Labor force participation rate ¹	67.0	67.1	67.1
Previous	67.0	67.3	67.3
Civilian unemployment rate ¹	4.1	4.0	4.3
Previous	4.1	3.9	4.1
MEMO			
Output per hour, nonfarm business, adjusted for defense spending anomaly	4.0	3.2	3.2

1 Percent, average for the fourth quarter.

sideways along the average of recent years. From a below-trend reading in July, the rate ticks back up a little in the very near term and then holds at 67.1 percent through the end of the forecast period.

Wages and prices. The second-quarter rise in the employment cost index for hourly compensation did not match the outsized increase of the first quarter. However, it exceeded the number we had written in our previous forecast by nearly 1 percentage point. We allowed the surprise to feed through into our predicted increase for the year as a whole and on top of that raised our forecast of the increases in coming quarters by a small amount. All told, the ECI now is projected to rise 4.7 percent over the four quarters of this year, and a slightly larger rise is predicted for 2001.²

The measure of hourly compensation from the productivity and cost release also exhibits acceleration in our forecast, but the acceleration is projected to come

2. As in other recent Greenbooks, we have allowed for a two-step increase in the minimum wage, one coming in October of this year and a second in October of 2001. Taking account both of the workers directly affected and of those whose wages are bumped up to maintain wage differentials, the increases add 0.1 percentage point to the rise in hourly compensation this year and 0.2 percentage point next year.

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

Measure	1999	2000	2001
PCE chain-weighted price index	2.0	2.3	1.9
Previous	2.0	2.6	2.0
Excluding food and energy	1.5	1.8	2.1
Previous	1.5	2.1	2.3
Consumer price index	2.6	3.1	2.3
Previous	2.6	3.2	2.2
Food	1.9	2.5	2.5
Previous	1.9	2.6	2.7
Energy	11.2	9.9	-2.1
Previous	11.2	11.5	-4.9
Excluding food and energy	2.1	2.5	2.6
Previous	2.1	2.6	2.8
GDP chain-weighted price index	1.6	2.2	1.9
Previous	1.6	2.3	1.9
ECI for compensation of private industry workers ¹	3.4	4.7	4.8
Previous	3.4	4.4	4.6
NFB compensation per hour	4.8	4.9	5.5
Previous	4.3	4.7	5.4
Prices of core non-oil merchandise imports	.4	2.2	3.1
Previous	.2	1.8	3.0

1. December to December

next year rather than this year. We would not make much of this difference, as the two compensation measures often show considerably different patterns of annual change. With productivity expected to slow cyclically in coming quarters, we expect unit labor costs to begin exhibiting moderate increases. Businesses probably will absorb some of the cost increases, but they also are likely to pass a portion on to consumers, especially if increases in import prices reduce competitive pressures in the product markets, as we are expecting.

These developments bring about a gradual uptrend in core inflation. The chain-type price index for PCE excluding food and energy is projected to rise about

monetary policy on its opportunity cost. In 2001, higher opportunity costs are expected to trim M2 growth to a lesser extent, but with nominal GDP slowing, growth in the aggregate is projected to remain near this year's level.

Alternative Simulations

We have developed four alternative simulations using the FRB/US econometric model. Two of them derive from alternative assumptions about monetary policy, and the other two are based on alternative assumptions about stock prices. In the first monetary policy alternative, the interest rate on federal funds holds steady at its current level through the end of 2001. In the second, the tightening of policy comes sooner than in the baseline and takes the funds rate to a higher level; the rate would reach 8 percent by the end of the first quarter of next year and remain at that level thereafter.

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

Measure	2000	2001
<i>Real GDP</i>		
Baseline	4.2	4.1
Flat funds rate	4.2	4.3
Tighter policy	4.2	3.4
Stock market correction	4.0	3.5
Continued stock market gains	4.2	4.4
<i>Civilian unemployment rate</i> ¹		
Baseline	4.0	4.3
Flat funds rate	4.0	4.2
Tighter policy	4.0	4.6
Stock market correction	4.0	4.5
Continued stock market gains	4.0	4.2
<i>PCE prices excluding food and energy</i>		
Baseline	1.8	2.1
Flat funds rate	1.8	2.1
Tighter policy	1.8	1.8
Stock market correction	1.8	2.1
Continued stock market gains	1.8	2.1

1. Average for the fourth quarter.

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

August 16, 2000

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
	06/21/00	08/16/00	06/21/00	08/16/00	06/21/00	08/16/00	06/21/00	08/16/00	06/21/00	08/16/00
ANNUAL										
1997	6.2	6.5	4.2	4.4	1.9	1.9	2.3	2.3	4.9	4.9
1998	5.5	5.7	4.3	4.4	1.2	1.3	1.6	1.6	4.5	4.5
1999	5.7	5.8	4.1	4.2	1.4	1.5	2.2	2.2	4.2	4.2
2000	7.3	7.3	5.0	5.1	2.2	2.1	3.3	3.2	4.0	4.0
2001	5.7	5.8	3.7	3.9	2.0	1.8	2.3	2.3	4.1	4.2
QUARTERLY										
1998 Q1	7.7	7.6	6.9	6.5	0.9	1.0	1.0	1.0	4.7	4.7
Q2	3.4	4.1	2.2	2.9	1.1	1.1	1.7	1.7	4.4	4.4
Q3	5.4	5.0	3.8	3.4	1.3	1.5	1.7	1.7	4.5	4.5
Q4	7.0	6.8	5.9	5.6	0.8	1.1	1.7	1.7	4.4	4.4
1999 Q1	5.7	5.9	3.7	3.5	2.0	2.2	1.7	1.7	4.3	4.3
Q2	3.3	3.9	1.9	2.5	1.3	1.4	3.2	3.2	4.3	4.3
Q3	6.8	6.7	5.7	5.7	1.1	1.1	2.4	2.4	4.2	4.2
Q4	9.4	9.7	7.3	8.3	2.0	1.6	2.9	2.9	4.1	4.1
2000 Q1	8.4	8.3	5.5	4.8	2.7	3.3	4.1	4.1	4.1	4.1
Q2	6.8	7.7	4.1	4.9	2.6	2.5	3.6	3.6	4.0	4.0
Q3	6.2	4.8	3.8	3.2	2.3	1.5	3.7	2.6	3.9	4.0
Q4	5.6	5.4	3.8	3.8	1.7	1.6	1.6	2.0	3.9	4.0
2001 Q1	5.6	6.1	3.5	3.9	2.0	2.2	1.9	2.2	4.0	4.1
Q2	5.5	5.8	3.5	4.0	1.8	1.7	2.3	2.2	4.0	4.1
Q3	5.4	6.0	3.5	4.1	1.8	1.8	2.3	2.3	4.1	4.2
Q4	5.5	6.1	3.5	4.2	1.9	1.8	2.5	2.4	4.1	4.3
TWO-QUARTER³										
1998 Q2	5.5	5.8	4.5	4.7	1.0	1.1	1.3	1.3	-0.3	-0.3
Q4	6.2	5.9	4.9	4.5	1.1	1.3	1.7	1.7	0.0	0.0
1999 Q2	4.5	4.9	2.8	3.0	1.7	1.8	2.5	2.5	-0.1	-0.1
Q4	8.1	8.2	6.5	7.0	1.5	1.3	2.7	2.7	-0.2	-0.2
2000 Q2	7.6	8.0	4.8	4.8	2.7	2.9	3.8	3.8	-0.1	-0.1
Q4	5.9	5.1	3.8	3.5	2.0	1.5	2.6	2.3	-0.1	0.0
2001 Q2	5.5	6.0	3.5	3.9	1.9	1.9	2.1	2.2	0.1	0.1
Q4	5.5	6.0	3.5	4.2	1.9	1.8	2.4	2.3	0.1	0.2
FOUR-QUARTER⁴										
1997 Q4	5.9	6.2	4.1	4.3	1.8	1.8	1.9	1.9	-0.6	-0.6
1998 Q4	5.9	5.9	4.7	4.6	1.0	1.2	1.5	1.5	-0.3	-0.3
1999 Q4	6.3	6.5	4.6	5.0	1.6	1.6	2.6	2.6	-0.3	-0.3
2000 Q4	6.7	6.6	4.3	4.2	2.3	2.2	3.2	3.1	-0.2	-0.1
2001 Q4	5.5	6.0	3.5	4.1	1.9	1.9	2.2	2.3	0.2	0.2

1. For all urban consumers.

2. Level, except as noted.

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

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

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

August 16, 2000

		--Projected--								
Item	Units ¹	1993	1994	1995	1996	1997	1998	1999	2000	2001
EXPENDITURES										
Nominal GDP	Bill. \$	6642.3	7054.3	7400.5	7813.2	8318.4	8790.2	9299.2	9981.6	10565.5
Real GDP	Bill. Ch. \$	7062.6	7347.7	7543.8	7813.2	8159.5	8515.7	8875.8	9332.7	9697.6
Real GDP	% change	2.5	4.1	2.2	4.1	4.3	4.6	5.0	4.2	4.1
Gross domestic purchases		3.1	4.3	1.7	4.3	5.0	5.7	5.9	4.8	4.2
Final sales		2.6	3.2	2.9	3.9	3.9	4.6	4.8	4.5	4.2
Priv. dom. final purchases		4.2	4.3	3.2	4.4	5.1	6.4	6.1	5.8	4.5
Personal cons. expenditures		3.4	3.6	2.8	3.1	4.1	5.0	5.6	4.6	3.5
Durables		9.3	6.4	3.7	5.0	8.8	12.6	11.1	7.1	4.1
Nondurables		2.6	4.1	2.5	3.2	2.5	5.0	5.9	4.3	3.4
Services		2.6	2.7	2.7	2.7	3.9	3.4	4.2	4.3	3.5
Business fixed investment		8.7	9.2	7.5	12.1	11.8	12.9	10.1	15.4	11.7
Equipment & Software		11.5	12.0	8.9	11.8	13.7	15.8	14.1	18.4	14.4
Nonres. structures		1.2	1.1	3.3	12.8	6.5	4.9	-1.7	6.1	2.5
Residential structures		7.8	4.0	-1.5	5.6	3.5	10.3	2.8	-5.6	-5.4
Exports		4.8	10.5	9.7	9.8	8.5	2.2	4.3	7.2	8.3
Imports		10.5	12.2	5.0	11.2	14.3	11.2	12.0	11.2	8.0
Gov't. cons. & investment		-0.8	0.2	-0.8	2.7	2.4	2.6	4.4	2.0	3.3
Federal		-5.3	-3.7	-5.3	2.0	0.1	0.8	4.8	-1.1	1.7
Defense		-6.4	-5.9	-4.7	0.8	-1.4	-1.0	4.6	-3.0	1.4
State & local		2.5	2.8	2.1	3.0	3.7	3.6	4.2	3.6	4.2
Change in bus. inventories	Bill. Ch. \$	20.0	66.8	30.4	30.0	63.8	80.2	45.3	60.9	56.2
Nonfarm		28.6	53.6	42.6	22.1	60.6	76.7	44.9	55.5	53.5
Net exports		-59.1	-86.5	-78.4	-89.0	-113.3	-221.0	-322.4	-414.8	-461.0
Nominal GDP	% change	5.0	6.2	4.3	6.0	6.2	5.9	6.5	6.6	6.0
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	110.7	114.1	117.2	119.6	122.7	125.8	128.8	131.5	133.2
Unemployment rate	%	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.2
Industrial prod. index	% change	3.4	6.4	3.5	5.3	6.8	2.9	4.2	5.8	4.3
Capacity util. rate - mfg.	%	80.5	82.5	82.6	81.5	82.4	80.9	79.8	81.4	82.1
Housing starts	Millions	1.29	1.46	1.35	1.48	1.47	1.62	1.67	1.59	1.47
Light motor vehicle sales		13.87	15.01	14.77	15.05	15.06	15.45	16.76	17.31	16.53
North Amer. produced		11.72	12.88	12.87	13.34	13.12	13.43	14.28	14.53	14.01
Other		2.15	2.13	1.90	1.70	1.93	2.02	2.48	2.78	2.52
INCOME AND SAVING										
Nominal GNP	Bill. \$	6666.7	7071.1	7420.9	7831.2	8325.4	8786.7	9288.2	9966.1	10542.4
Nominal GNP	% change	4.9	6.2	4.4	5.9	6.0	5.7	6.5	6.5	5.9
Nominal personal income		3.7	5.1	4.3	5.9	6.3	6.3	5.6	6.2	6.2
Real disposable income		1.3	2.9	1.7	2.6	3.8	4.6	3.1	3.3	4.3
Personal saving rate	%	7.1	6.1	5.6	4.8	4.2	4.2	2.2	0.2	0.8
Corp. profits, IVA & CCAAdj.	% change	18.0	12.3	11.3	11.4	9.9	-5.8	11.2	8.3	3.5
Profit share of GNP	%	7.7	8.1	9.0	9.6	10.0	9.3	9.2	9.7	9.4
Excluding FR Banks		7.4	7.9	8.7	9.4	9.7	9.0	8.9	9.4	9.1
Federal surpl./deficit	Bill. \$	-274.1	-212.3	-192.0	-136.8	-53.3	49.0	124.4	243.8	274.5
State & local surpl./def.		1.5	8.6	15.3	21.4	31.0	41.7	50.0	52.8	51.2
Ex. social ins. funds		-2.7	4.0	11.4	18.7	29.9	41.3	50.4	53.2	51.1
Gross natl. saving rate	%	15.6	16.3	16.9	17.2	18.0	18.8	18.5	18.5	19.0
Net natl. saving rate		3.8	4.3	5.1	5.7	6.7	7.5	6.8	6.8	7.2
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.4	2.1	2.1	1.9	1.8	1.2	1.6	2.2	1.9
Gross Domestic Purchases										
chn.-wt. price index		2.2	2.1	2.1	1.9	1.4	0.8	1.9	2.3	1.8
PCE chn.-wt. price index		2.1	2.1	2.1	2.3	1.5	1.1	2.0	2.3	1.9
Ex. food and energy		2.4	2.3	2.3	1.8	1.7	1.6	1.5	1.8	2.1
CPI		2.7	2.6	2.7	3.1	1.9	1.5	2.6	3.1	2.3
Ex. food and energy		3.1	2.8	3.0	2.6	2.2	2.4	2.1	2.5	2.6
ECI, hourly compensation ²		3.6	3.1	2.6	3.1	3.4	3.5	3.4	4.7	4.8
Nonfarm business sector										
Output per hour		-0.2	1.1	1.1	2.3	2.1	2.9	4.1	3.1	3.2
Compensation per Hour		1.4	2.2	2.7	3.1	3.2	5.3	4.8	4.9	5.5
Unit labor cost		1.6	1.0	1.5	0.8	1.1	2.3	0.7	1.6	2.3

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

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

August 16, 2000

Item	Units	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	8124.2	8279.8	8390.9	8478.6	8634.7	8722.0	8829.1	8974.9	9104.5	9191.5
Real GDP	Bill. Ch. \$	8016.4	8131.9	8216.6	8272.9	8404.9	8465.6	8537.6	8654.5	8730.0	8783.2
Real GDP	% change	4.4	5.9	4.2	2.8	6.5	2.9	3.4	5.6	3.5	2.5
Gross domestic purchases		5.3	6.1	5.1	3.6	8.1	4.8	4.4	5.4	4.9	3.8
Final sales		3.5	3.9	6.2	2.0	4.1	5.6	2.9	5.9	4.5	4.0
Priv. dom. final purchases		5.2	3.7	8.1	3.5	7.2	7.5	4.4	6.3	6.4	6.2
Personal cons. expenditures		4.5	1.9	6.6	3.3	4.8	5.8	4.3	4.9	5.7	5.6
Durables		10.5	-3.1	23.1	6.3	9.4	13.9	4.1	23.9	8.6	15.0
Nondurables		3.0	0.7	6.0	0.6	4.7	5.8	4.3	5.2	7.8	3.8
Services		4.2	3.5	3.9	4.2	4.0	4.3	4.3	1.3	4.1	4.6
Business fixed investment		10.9	14.0	19.1	3.9	20.1	15.6	3.5	13.2	9.5	9.6
Equipment & Software		12.4	20.4	20.0	2.9	24.6	16.1	6.5	16.7	14.1	15.2
Nonres. structures		6.4	-2.9	16.3	7.0	7.9	14.1	-4.7	3.3	-3.4	-6.2
Residential structures		0.9	5.1	2.1	5.8	9.6	12.6	10.3	8.9	8.2	5.9
Exports		7.5	17.6	10.6	-0.8	1.0	-3.0	-3.2	15.1	-7.9	5.8
Imports		15.3	18.8	17.3	6.4	14.2	13.1	5.5	12.2	4.5	16.2
Gov't. cons. & investment		1.1	6.4	2.2	0.1	-1.0	7.3	1.4	2.8	3.7	0.8
Federal		-4.4	10.4	-1.1	-3.7	-9.1	12.9	-3.2	3.7	-2.2	2.0
Defense		-12.5	10.5	0.1	-2.2	-17.7	13.1	5.8	-2.4	-3.1	-2.3
State & local		4.4	4.2	4.1	2.3	3.8	4.4	4.0	2.3	7.0	0.1
Change in bus. inventories	Bill. Ch. \$	49.3	88.3	51.3	66.1	117.3	60.9	73.1	69.4	48.1	13.1
Nonfarm		50.4	88.3	42.4	61.3	109.7	62.5	79.2	63.5	49.2	14.1
Net exports		-94.0	-100.6	-119.6	-139.2	-175.3	-219.8	-244.1	-244.9	-279.8	-314.6
Nominal GDP	% change	7.3	7.9	5.5	4.2	7.6	4.1	5.0	6.8	5.9	3.9
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	121.4	122.3	123.0	124.0	124.7	125.5	126.2	127.0	127.8	128.4
Unemployment rate	%	5.3	5.0	4.8	4.7	4.7	4.4	4.5	4.4	4.3	4.3
Industrial prod. index	% change	6.5	6.7	6.9	6.9	2.4	3.0	2.9	3.3	2.0	4.7
Capacity util. rate - mfg.	%	81.9	82.2	82.5	82.7	82.0	81.0	80.3	80.2	79.6	79.6
Housing starts	Millions	1.43	1.48	1.46	1.53	1.56	1.57	1.63	1.72	1.76	1.59
Light motor vehicle sales		15.33	14.56	15.25	15.11	15.00	16.01	14.55	16.24	16.18	16.79
North Amer. produced		13.41	12.70	13.22	13.16	13.07	14.04	12.53	14.07	13.87	14.34
Other		1.92	1.86	2.02	1.94	1.93	1.97	2.02	2.17	2.31	2.45
INCOME AND SAVING											
Nominal GNP	Bill. \$	8131.8	8291.8	8397.7	8480.4	8640.3	8725.0	8814.9	8966.6	9097.2	9181.8
Nominal GNP	% change	6.9	8.1	5.2	4.0	7.8	4.0	4.2	7.1	6.0	3.8
Nominal personal income		7.0	5.2	5.9	7.0	7.7	6.2	5.9	5.7	4.3	5.4
Real disposable income		3.0	3.5	3.9	4.9	6.6	4.5	3.6	3.6	2.9	2.8
Personal saving rate	%	4.2	4.6	3.9	4.2	4.6	4.3	4.1	3.8	3.1	2.5
Corp. profits, IVA & CCAdj.	% change	12.2	14.3	16.8	-2.6	-12.6	-5.0	2.0	-7.0	26.5	-6.9
Profit share of GNP	%	9.8	10.0	10.2	10.1	9.5	9.3	9.3	9.0	9.4	9.1
Excluding FR Banks		9.5	9.7	9.9	9.8	9.3	9.0	9.0	8.7	9.1	8.8
Federal surpl./deficit	Bill. \$	-86.5	-68.0	-33.7	-25.0	25.9	41.9	71.9	56.4	89.7	117.5
State & local surpl./def.		23.5	26.6	35.5	38.3	38.1	33.4	37.5	57.7	47.9	38.0
Ex. social ins. funds		21.9	25.4	34.7	37.6	37.5	32.9	37.2	57.6	48.1	38.3
Gross natl. saving rate	%	17.5	18.0	18.2	18.5	18.9	18.7	19.0	18.7	18.9	18.4
Net natl. saving rate		6.1	6.7	6.9	7.1	7.7	7.4	7.6	7.2	7.3	6.7
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.9	1.9	1.2	1.4	1.0	1.1	1.5	1.1	2.2	1.4
Gross Domestic Purchases		2.4	0.8	1.0	1.3	0.1	0.8	1.1	1.2	1.9	2.0
chn.-wt. price index		2.4	1.1	1.2	1.3	0.4	1.2	1.4	1.5	1.7	2.3
PCE chn.-wt. price index		2.3	2.3	1.1	1.2	1.2	1.8	1.8	1.7	1.8	1.3
Ex. food and energy		2.5	1.3	1.8	2.0	1.0	1.7	1.7	1.7	1.7	3.2
CPI		2.2	2.6	1.7	2.1	2.8	2.3	2.3	2.1	1.8	2.1
Ex. food and energy		2.8	3.4	3.0	4.6	3.0	3.3	4.4	2.6	1.7	4.3
ECI, hourly compensation ¹		2.8	3.4	3.0	4.6	3.0	3.3	4.4	2.6	1.7	4.3
Nonfarm business sector		0.7	3.9	3.2	0.6	4.5	1.6	1.8	3.6	2.6	0.6
Output per hour		2.0	1.1	3.8	6.1	6.1	5.3	5.2	4.5	4.5	5.0
Compensation per hour		1.3	-2.7	0.6	5.5	1.5	3.6	3.3	0.8	1.8	4.3
Unit labor cost											

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

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

August 16, 2000

Item	Units	Projected									
		1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	9340.9	9559.7	9752.7	9934.6	10052.8	10186.2	10338.8	10486.0	10638.9	10798.2
Real GDP	Bill. Ch. \$	8905.8	9084.1	9191.8	9301.6	9374.9	9462.5	9552.4	9646.8	9744.7	9846.3
Real GDP	% change	5.7	8.3	4.8	4.9	3.2	3.8	3.9	4.0	4.1	4.2
Gross domestic purchases		6.6	8.4	5.6	6.2	3.6	3.7	4.2	4.3	4.2	3.9
Final sales		4.5	6.4	6.7	3.4	3.5	4.3	3.9	4.0	4.2	4.5
Priv. dom. final purchases		5.6	6.2	9.3	4.7	4.6	4.4	4.4	4.6	4.5	4.4
Personal cons. expenditures		5.0	5.9	7.6	2.9	4.2	3.9	3.7	3.6	3.4	3.4
Durables		8.0	13.0	23.6	-4.6	6.9	4.2	4.2	4.0	4.0	4.2
Nondurables		4.9	7.4	6.0	3.6	3.6	3.9	3.5	3.4	3.3	3.3
Services		4.5	3.8	5.2	4.2	3.9	3.8	3.7	3.6	3.3	3.3
Business fixed investment		11.8	9.5	21.0	15.1	14.3	11.6	12.0	11.9	11.8	11.1
Equipment & Software		18.0	9.5	20.6	21.0	18.0	14.0	14.6	14.6	14.6	13.8
Nonres. structures		-6.2	9.7	22.3	-2.5	2.7	3.5	3.3	2.7	2.2	1.7
Residential structures		-3.1	0.5	3.2	1.1	-16.1	-9.5	-8.7	-4.2	-4.0	-4.6
Exports		10.2	10.3	6.3	7.4	7.0	8.3	4.9	8.2	8.4	11.9
Imports		16.9	10.7	12.0	17.3	9.1	6.6	7.2	9.4	7.7	7.8
Gov't. cons. & investment		4.8	8.5	-1.1	5.4	0.3	3.4	3.3	3.3	3.3	3.4
Federal		6.9	13.2	-14.2	17.5	-6.6	1.8	1.5	1.4	1.8	2.0
Defense		12.3	12.6	-19.8	17.3	-7.1	1.3	1.1	1.0	1.5	1.8
State & local		3.7	6.1	6.6	-0.4	4.2	4.2	4.2	4.2	4.1	4.1
Change in bus. inventories	Bill. Ch. \$	39.1	80.9	36.6	76.6	71.8	58.8	58.3	58.5	57.2	50.9
Nonfarm		43.5	73.0	33.0	70.3	65.8	52.7	54.4	55.7	54.8	49.1
Net exports		-342.6	-352.5	-376.8	-416.6	-431.6	-434.2	-447.9	-461.6	-468.5	-465.8
Nominal GDP	% change	6.7	9.7	8.3	7.7	4.8	5.4	6.1	5.8	6.0	6.1
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	129.1	129.8	130.6	131.5	131.6	132.1	132.5	133.0	133.5	133.9
Unemployment rate	%	4.2	4.1	4.1	4.0	4.0	4.0	4.1	4.1	4.2	4.3
Industrial prod. index	% change	4.8	5.3	6.5	7.3	5.0	4.5	4.3	4.5	4.3	4.0
Capacity util. rate - mfg.	%	79.7	80.3	80.8	81.4	81.7	81.7	81.8	82.0	82.2	82.4
Housing starts	Millions	1.66	1.69	1.73	1.60	1.53	1.52	1.50	1.48	1.46	1.45
Light motor vehicle sales		17.08	17.00	18.20	17.24	16.96	16.83	16.68	16.56	16.49	16.38
North Amer. produced		14.61	14.31	15.32	14.36	14.21	14.23	14.11	14.04	14.00	13.90
Other		2.47	2.69	2.88	2.88	2.75	2.60	2.57	2.52	2.49	2.48
INCOME AND SAVING											
Nominal GNP	Bill. \$	9327.3	9546.3	9745.0	9916.2	10035.5	10167.5	10320.7	10464.8	10614.4	10769.5
Nominal GNP	% change	6.5	9.7	8.6	7.2	4.9	5.4	6.2	5.7	5.8	6.0
Nominal personal income		5.2	7.6	6.9	6.4	6.5	5.0	7.1	5.9	5.8	5.9
Real disposable income		2.2	4.5	1.9	3.2	4.8	3.4	6.3	3.7	3.5	3.6
Personal saving rate	%	1.8	1.5	0.2	0.2	0.3	0.2	0.8	0.8	0.8	0.9
Corp. profits, IVA & CCAdj.	% change	2.5	26.6	20.7	16.6	-0.9	-1.4	3.4	2.7	4.1	3.8
Profit share of GNP	%	9.0	9.4	9.6	9.8	9.7	9.5	9.5	9.4	9.3	9.3
Excluding FR Banks		8.8	9.1	9.3	9.6	9.4	9.3	9.2	9.1	9.1	9.1
Federal surpl./deficit	Bill. \$	147.3	143.3	235.8	239.5	242.3	257.6	242.1	263.7	289.4	302.7
State & local surpl./def.		47.4	66.6	52.0	54.7	50.8	53.7	54.1	52.5	48.9	49.1
Ex. social ins. funds		47.9	67.2	52.5	55.1	51.1	53.9	54.2	52.5	48.8	48.9
Gross natl. saving rate	%	18.4	18.3	18.2	18.5	18.6	18.5	18.8	18.9	19.1	19.2
Net natl. saving rate		6.5	6.6	6.6	6.9	6.8	6.8	7.0	7.1	7.3	7.4
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.1	1.6	3.3	2.5	1.5	1.6	2.2	1.7	1.8	1.8
Gross Domestic Purchases											
chn.-wt. price index		1.7	1.9	3.8	2.2	1.6	1.7	2.0	1.6	1.7	1.7
PCE chn.-wt. price index		1.9	2.2	3.5	2.3	1.5	1.7	1.9	1.9	1.9	2.0
Ex. food and energy		1.3	1.7	2.2	1.7	1.3	2.0	2.0	2.0	2.1	2.1
CPI		2.4	2.9	4.1	3.6	2.6	2.0	2.2	2.2	2.3	2.4
Ex. food and energy		2.1	2.3	2.3	2.8	2.5	2.6	2.6	2.6	2.7	2.7
ECI, hourly compensation ¹		3.7	4.0	5.9	4.4	4.0	4.5	4.7	4.7	4.8	4.9
Nonfarm business sector											
Output per hour		5.2	8.0	1.9	5.3	3.0	2.4	2.9	3.1	3.3	3.4
Compensation per hour		5.5	4.2	3.9	5.2	4.8	5.3	5.6	5.4	5.4	5.6
Unit labor cost		0.3	-3.5	1.9	-0.1	1.8	2.9	2.7	2.3	2.1	2.2

1. Private-industry workers.

Item	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	97Q4/ 96Q4	98Q4/ 97Q4	99Q4/ 98Q4
Real GDP	4.2	2.8	6.5	2.9	3.4	5.6	3.5	2.5	5.7	4.3	4.6	5.0
Gross dom. purchases	5.1	3.7	8.2	4.9	4.5	5.5	5.0	3.8	6.8	5.1	5.8	6.0
Final sales	6.1	2.0	4.2	5.4	2.9	5.8	4.4	3.9	4.5	3.9	4.6	4.8
Priv. dom. final purchases	6.6	2.9	5.9	6.2	3.7	5.3	5.3	5.2	4.7	4.2	5.3	5.1
Personal cons. expenditures	4.3	2.2	3.2	3.8	2.8	3.3	3.7	3.7	3.4	2.7	3.3	3.7
Durables	1.6	0.5	0.7	1.0	0.3	1.7	0.7	1.1	0.6	0.7	1.0	0.9
Nondurables	1.2	0.1	0.9	1.1	0.8	1.0	1.5	0.8	1.0	0.5	1.0	1.2
Services	1.5	1.6	1.6	1.7	1.7	0.5	1.6	1.8	1.8	1.5	1.4	1.7
Business fixed investment	2.1	0.5	2.3	1.8	0.4	1.6	1.2	1.2	1.5	1.4	1.5	1.3
Equipment & Software	1.7	0.3	2.1	1.4	0.6	1.5	1.3	1.4	1.7	1.2	1.4	1.3
Nonres. structures	0.5	0.2	0.3	0.4	-0.2	0.1	-0.1	-0.2	-0.2	0.2	0.2	-0.1
Residential structures	0.1	0.2	0.4	0.5	0.4	0.4	0.3	0.3	-0.1	0.1	0.4	0.1
Net exports	-0.8	-0.9	-1.6	-1.9	-1.0	0.1	-1.4	-1.4	-1.1	-0.8	-1.1	-1.1
Exports	1.2	-0.1	0.1	-0.3	-0.4	1.5	-0.9	0.6	1.1	1.0	0.3	0.5
Imports	-2.0	-0.8	-1.7	-1.6	-0.7	-1.5	-0.6	-2.0	-2.1	-1.7	-1.4	-1.5
Government cons. & invest.	0.4	0.0	-0.2	1.2	0.3	0.5	0.6	0.1	0.8	0.4	0.5	0.8
Federal	-0.1	-0.2	-0.6	0.8	-0.2	0.2	-0.1	0.1	0.4	0.0	0.0	0.3
Defense	0.0	-0.1	-0.8	0.5	0.2	-0.1	-0.1	-0.1	0.5	-0.1	-0.0	0.2
Nondefense	-0.1	-0.2	0.2	0.3	-0.4	0.3	-0.0	0.2	-0.1	0.1	0.1	0.1
State and local	0.5	0.3	0.4	0.5	0.5	0.3	0.8	0.0	0.4	0.4	0.4	0.5
Change in bus. inventories	-1.8	0.7	2.4	-2.5	0.6	-0.2	-0.9	-1.4	1.2	0.4	0.0	0.2
Nonfarm	-2.2	0.9	2.3	-2.1	0.8	-0.7	-0.6	-1.4	1.3	0.4	0.0	0.1
Farm	0.4	-0.2	0.1	-0.4	-0.2	0.5	-0.3	0.0	-0.1	0.0	0.0	0.1

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

August 16, 2000

Item	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	99Q4/ 98Q4	00Q4/ 99Q4	01Q4/ 00Q4
Real GDP	8.3	4.8	4.9	3.2	3.8	3.9	4.0	4.1	4.2	5.0	4.2	4.1
Gross dom. purchases	8.6	5.8	6.5	3.8	3.9	4.4	4.5	4.4	4.1	6.0	4.9	4.3
Final sales	6.5	6.6	3.4	3.4	4.3	3.9	4.0	4.2	4.5	4.8	4.4	4.1
Priv. dom. final purchases	5.2	7.9	4.0	4.0	3.8	3.8	3.9	3.8	3.7	5.1	4.9	3.8
Personal cons. expenditures	4.1	5.0	2.0	2.8	2.6	2.5	2.4	2.3	2.3	3.7	3.1	2.4
Durables	1.0	1.8	-0.4	0.5	0.3	0.3	0.3	0.3	0.3	0.9	0.6	0.3
Nondurables	1.5	1.2	0.7	0.7	0.8	0.7	0.7	0.7	0.7	1.2	0.9	0.7
Services	1.6	2.0	1.6	1.5	1.5	1.5	1.4	1.3	1.3	1.7	1.7	1.4
Business fixed investment	1.2	2.5	1.9	1.9	1.6	1.6	1.6	1.7	1.6	1.3	2.0	1.6
Equipment & Software	0.9	1.9	2.0	1.8	1.5	1.5	1.6	1.6	1.5	1.3	1.8	1.6
Nonres. structures	0.3	0.6	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	-0.1	0.2	0.1
Residential structures	0.0	0.1	0.0	-0.7	-0.4	-0.4	-0.2	-0.2	-0.2	0.1	-0.2	-0.2
Net exports	-0.4	-0.9	-1.5	-0.6	-0.1	-0.5	-0.5	-0.2	0.1	-1.1	-0.8	-0.3
Exports	1.1	0.7	0.8	0.7	0.9	0.5	0.9	0.9	1.3	0.5	0.8	0.9
Imports	-1.5	-1.6	-2.3	-1.3	-1.0	-1.0	-1.4	-1.1	-1.2	-1.5	-1.6	-1.2
Government cons. & invest.	1.5	-0.2	0.9	0.1	0.6	0.6	0.6	0.6	0.6	0.8	0.3	0.6
Federal	0.8	-0.9	1.0	-0.4	0.1	0.1	0.1	0.1	0.1	0.3	-0.1	0.1
Defense	0.5	-0.9	0.6	-0.3	0.0	0.0	0.0	0.1	0.1	0.2	-0.1	0.1
Nondefense	0.3	-0.1	0.4	-0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0
State and local	0.7	0.8	-0.0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.5
Change in bus. inventories	1.8	-1.8	1.5	-0.3	-0.5	-0.0	0.0	-0.1	-0.2	0.2	-0.3	-0.1
Nonfarm	1.3	-1.6	1.5	-0.2	-0.5	0.1	0.0	-0.0	-0.2	0.1	-0.2	-0.0
Farm	0.5	-0.2	-0.0	-0.1	-0.0	-0.1	-0.0	-0.0	-0.0	0.1	-0.1	-0.0

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

Staff Projections of Federal Sector Accounts and Related Items
(Billions of dollars except as noted)

Item	Fiscal year ¹				1999				2000				2001			
	1998 ^a	1999 ^a	2000	2001	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1 ^a	Q2 ^a	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts ²	1722	1827	2018	2114	402	564	449	444	434	656	485	480	467	655	512	516
Outlays ²	1653	1703	1788	1839	396	421	419	464	449	444	432	459	469	463	447	479
Surplus/deficit ²	69	125	230	275	6	143	30	-21	-15	212	53	20	-2	192	64	37
On-budget	-30	1	76	109	-49	88	21	-64	-45	147	37	-27	-30	120	45	-13
Off-budget	99	124	154	166	55	55	9	43	30	65	17	47	28	72	20	51
Surplus excluding deposit insurance	65	119	227	274	5	142	29	-20	-18	211	53	20	-2	192	64	37
Means of financing																
Borrowing	-51	-89	-225	-280	7	-108	-20	48	-27	-190	-56	-42	-14	-155	-69	-62
Cash decrease	5	-18	-5	16	-4	-31	-3	-27	39	-13	-4	30	11	-30	5	20
Other ³	-23	-18	-0	-11	-9	-4	-6	-0	4	-10	6	-9	5	-7	-0	5
Cash operating balance, end of period	39	56	61	45	22	53	56	83	45	57	61	31	20	50	45	25
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	1725	1837	2023	2138	1817	1850	1890	1941	2012	2056	2083	2103	2117	2149	2184	2219
Expenditures	1696	1735	1807	1875	1728	1732	1743	1798	1776	1815	1841	1846	1875	1886	1894	1916
Consumption expenditures	453	464	490	507	465	460	471	487	479	500	495	496	508	511	514	518
Defense	300	306	321	331	306	302	312	325	311	326	323	325	332	333	335	338
Nondefense	153	158	169	176	159	158	159	162	168	174	172	171	176	177	179	180
Other spending	1244	1270	1317	1368	1263	1272	1272	1311	1297	1315	1346	1350	1368	1375	1380	1398
Current account surplus	29	103	216	263	90	118	147	143	236	241	242	258	242	264	289	303
Gross investment	86	94	104	108	90	98	99	105	101	105	103	107	108	109	110	111
Current and capital account surplus	-57	9	112	155	0	19	48	39	134	137	139	151	134	155	180	192
Fiscal indicators⁴																
High-employment (HEB) surplus/deficit	-130	-70	4	58	-79	-54	-33	-62	28	22	27	45	36	61	89	105
Change in HEB, percent of potential GDP	-1	-8	-8	-5	-4	-3	-2	3	-1	1	-0	-2	1	-2	-3	-1
Fiscal impetus (FI) percent, calendar year	-1	5	3	5	2	-1	2	3	-4	5	-6	1	2	4	4	9

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

2. OMB's Mid-Session Review baseline surplus estimates are \$224 billion in FY2000 and \$239 billion in FY2001. CBO's July 2000 baseline surplus estimates, assuming discretionary spending grows with inflation beginning in FY 2001, are \$232 billion in FY2000 and \$268 billion in FY2001. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget surplus and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY1990.

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

4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1996) dollars, scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate aggregate demand restraint.

a--Actual p--Preliminary

Strictly Confidential (FR)
Class II FOMC

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

August 16, 2000

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>									
1991	4.3	11.1	2.2	4.5	6.1	-1.3	-1.6	8.6	4.0
1992	4.6	10.9	2.6	4.5	5.3	0.8	0.8	2.2	6.4
1993	4.9	8.3	3.7	5.3	4.4	7.3	1.4	6.0	5.0
1994	4.6	4.7	4.5	7.6	5.9	14.5	3.8	-4.0	6.2
1995	5.5	4.1	6.0	7.9	5.7	14.1	6.8	-4.6	4.3
1996	5.3	4.0	5.8	7.3	7.2	7.9	5.8	-0.6	6.0
1997	5.6	0.6	7.3	6.5	6.8	4.3	8.7	5.3	6.2
1998	6.8	-1.4	9.5	8.8	9.9	5.4	10.9	7.2	5.9
1999	6.9	-1.9	9.5	9.2	10.1	7.1	11.0	4.4	6.5
2000	4.7	-8.6	8.3	7.7	7.6	9.2	10.4	0.9	6.6
2001	4.7	-8.9	7.8	6.9	7.5	5.7	10.1	0.9	6.0
<i>Quarter</i>									
1999:3	7.0	-2.2	9.6	9.7	11.0	5.5	10.6	4.6	6.7
4	6.5	-0.4	8.4	8.1	8.6	7.8	10.0	2.5	9.7
2000:1	5.5	-5.5	8.4	7.8	7.0	10.0	10.6	1.2	8.3
2	4.6	-11.9	8.9	7.9	7.7	9.7	11.6	1.1	7.7
3	4.5	-6.8	7.2	7.5	7.6	8.4	8.5	-0.7	4.8
4	4.1	-11.1	7.7	7.0	7.4	7.5	9.5	2.1	5.4
2001:1	5.4	-4.5	7.7	6.9	7.3	6.8	9.7	0.9	6.1
2	4.7	-8.9	7.6	6.7	7.2	5.9	9.8	0.9	5.8
3	4.7	-9.0	7.6	6.6	7.3	5.2	9.8	0.9	6.0
4	3.8	-14.6	7.5	6.5	7.3	4.6	9.6	0.9	6.1

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2000:Q1 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 5.3 percent in 2000 and 4.7 percent in 2001.

3. On a monthly average basis, federal debt is projected to grow -6.5 percent in 2000 and -8.7 percent in 2001.

4. On a monthly average basis, nonfederal debt is projected to grow 8.4 percent in 2000 and 7.8 percent in 2001.

2.6.3 FOF

Category					Seasonally adjusted annual rates									
	Calendar year				1999		2000				2001			
	1998	1999	2000	2001	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	771.1	976.9	738.3	780.1	1052.5	1068.7	1019.4	572.3	707.3	654.2	909.9	779.8	798.3	632.3
2 Net equity issuance	-267.0	-143.5	-90.3	-84.0	-128.4	-55.0	62.8	-248.0	-92.0	-84.0	-84.0	-84.0	-84.0	-84.0
3 Net debt issuance	1038.1	1120.4	828.6	864.1	1180.9	1123.7	956.6	820.3	799.3	738.2	993.9	863.8	882.3	716.3
<i>Borrowing sectors</i>														
<i>Nonfinancial business</i>														
4 Financing gap ¹	163.0	169.9	231.3	324.4	176.4	204.8	188.8	217.7	253.1	265.6	291.4	315.5	335.7	354.9
5 Net equity issuance	-267.0	-143.5	-90.3	-84.0	-128.4	-55.0	62.8	-248.0	-92.0	-84.0	-84.0	-84.0	-84.0	-84.0
6 Credit market borrowing	533.5	595.7	631.6	675.0	606.0	591.4	643.4	722.5	543.0	617.4	650.6	672.6	685.6	691.2
<i>Households</i>														
7 Net borrowing ²	476.9	543.1	500.6	478.5	601.0	515.7	502.7	517.4	505.4	477.0	481.7	476.6	477.3	478.6
8 Home mortgages	364.8	411.2	341.2	360.2	469.8	376.3	314.3	349.2	353.2	348.2	351.2	353.2	363.2	373.2
9 Consumer credit	67.6	94.4	131.1	89.2	76.2	109.5	143.1	141.3	125.3	114.9	105.6	93.5	83.2	74.5
10 Deb/DPI (percent) ³	89.9	93.3	95.7	96.6	93.9	94.5	95.1	95.6	95.9	96.5	96.2	96.5	96.8	97.1
<i>State and local governments</i>														
11 Net borrowing	80.3	52.8	11.5	11.4	57.0	31.0	14.6	14.2	-9.4	26.5	11.4	11.4	11.4	11.4
12 Current surplus ⁴	141.3	156.8	169.1	176.4	155.1	176.5	164.7	170.1	168.3	173.3	175.9	176.6	175.2	177.7
<i>Federal government</i>														
13 Net borrowing	-52.6	-71.2	-315.0	-300.8	-83.1	-14.3	-204.0	-433.8	-239.7	-382.7	-149.8	-296.7	-291.9	-464.9
14 Net borrowing (quarterly, n.s.a.)	-52.6	-71.2	-315.0	-300.8	-19.0	48.3	-27.5	-189.6	-56.1	-41.9	-14.0	-155.3	-69.2	-62.4
15 Unified deficit (quarterly, n.s.a.)	-54.4	-158.3	-271.0	-291.9	-30.1	20.6	15.0	-212.2	-53.4	-20.4	2.1	-192.2	-64.4	-37.4
<i>Depository institutions</i>														
16 Funds supplied	360.5	404.4	511.8	357.3	526.0	628.9	466.3	569.7	512.5	498.9	362.8	359.3	349.3	357.9
<i>Memo (percentage of GDP)</i>														
17 Domestic nonfinancial debt ⁵	179.5	181.5	179.0	177.1	182.1	181.1	180.2	179.1	179.0	178.6	178.0	177.7	177.2	176.5
18 Domestic nonfinancial borrowing	11.8	12.0	8.3	8.2	12.6	11.8	9.8	8.3	8.0	7.2	9.6	8.2	8.3	6.6
19 Federal government ⁶	-0.6	-0.8	-3.2	-2.8	-0.9	-0.1	-2.1	-4.4	-2.4	-3.8	-1.4	-2.8	-2.7	-4.3
20 Nonfederal	12.4	12.8	11.5	11.0	13.5	11.9	11.9	12.6	10.3	11.0	11.1	11.1	11.0	10.9

Note. Data after 2000:Q1 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.

International Developments

Overview

Evidence that has emerged since the June Greenbook remains consistent with a generally favorable picture of the foreign outlook. Growth abroad is now estimated to have averaged 5-3/4 percent during the first half of the year, somewhat stronger than projected in our previous forecast. While the expansion of activity has been particularly rapid in developing countries, generally strong growth also appears to have been recorded in industrial countries, even beleaguered Japan. We expect total foreign growth to settle in around 4 percent for the remainder of this year and next year, not much different from that in the previous Greenbook, as growth in Japan fades once again and as central banks abroad continue to tighten monetary policy to contain inflationary pressures. The upward revision to our first-half estimate, coupled with the unchanged forecast for the pace of growth going forward, implies that foreign activity runs on a slightly higher track throughout the forecast period than was the case in the June Greenbook.

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

Measure	1999	Projection		
		2000		2001
		H1	H2	
Foreign output	4.5	5.7	4.1	4.0
<i>June GB</i>	4.4	5.2	4.1	3.9
Foreign CPI	2.6	2.0	3.8	3.3
<i>June GB</i>	2.6	1.7	3.7	3.3

NOTE. Changes for years are measured as Q4/Q4, for half-years, Q2/Q4 or Q4/Q2.

We have revised our oil price projection upward roughly \$2 per barrel over the forecast period, in line with the movement of futures prices. While additional world supply has come on line, strong demand is keeping oil prices elevated. Still, we expect these upward pressures on oil prices to attenuate somewhat, allowing the price of West Texas intermediate (WTI) to ease to about \$25 per barrel by the end of next year, roughly in line with the path of futures prices.

Notwithstanding the high level of oil prices and the strong pace of foreign activity, inflation abroad has generally remained muted. Our projection calls for only a moderate pickup in the average foreign inflation rate to about 3-1/2 percent over the forecast period.

per barrel by the end of next year, a path consistent with quotes in futures markets.

Prices of imported core goods rose at about an annual rate of 1-1/2 percent in the first half of the year. This rate of increase is expected to move up to about 3 percent over the forecast period, largely because of the projected depreciation of the dollar. Prices of exported core goods are expected to decelerate as the run-up in prices of industrial supplies (which include petroleum products and petrochemicals) slows.

Selected Trade Prices

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

Trade category	1999 Q4	2000 Q1	Projection		
			2000		2001
			Q2	H2	
<i>Exports</i>					
Nonagricultural (core)	2.9	3.2	2.3	1.6	1.0
Agricultural	1.1	-3.0	3.6	0.7-	7.4
<i>Imports</i>					
Non-oil (core)	1.4	1.5	1.6	2.8	3.1
Oil (level, dollars per barrel)	22.08	26.03	26.12	27.76	23.21

NOTE. Prices for nonagricultural exports and non-oil imports of goods, both excluding computers and semiconductors, are on a NIPA chain-weighted basis. The price of imported oil for multi-quarter periods is the price for the final quarter of the period. Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2; and for quarters, from previous quarter.

U.S. international transactions. The growth of real exports of goods and services slowed in the first quarter, but the resolution of the Boeing strike contributed to a rebound in the second quarter. We project that export growth will increase somewhat further over the forecast period. Given the dollar's projected depreciation, relative prices are expected to shift from imparting slight restraint on the growth of core exports during this year to stimulating their growth at rising rates next year. An expected acceleration of service exports also should contribute to a strengthening of total export growth.

The pace of real imports of goods and services is projected to decelerate over the forecast period, with growth slowing from an estimated 15 percent annual rate in the first half of this year to 8 percent next year. Imports of core goods are projected to decelerate as well, partly as the result of the projected moderation of U.S. real GDP growth. In addition, we expect that relative price

movements, which have been strongly boosting the growth of core imports in recent quarters, will change to a slightly restraining factor next year, given the dollar's projected depreciation. The quantity of imported oil should expand moderately over the next six quarters.

Our expectation of further increases in real export growth, coupled with the forecast slowing of real import growth, results in a projection that the arithmetic contribution of net exports to U.S. growth should narrow from a negative 1.2 percentage points in the first half of this year to about zero in the second half of next year.

**Summary of Staff Projections
for Goods and Services**
(Percent change, seasonally adjusted annual rate)

Measure	1999	Projection		
		2000		2001
		H1	H2	
Real exports	4.3	6.9	7.6	8.3
<i>June GB</i>	4.8	8.0	6.8	8.5
Real imports	12.0	14.6	7.9	8.0
<i>June GB</i>	12.6	12.5	9.8	8.0

NOTE. Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2.

The U.S. current account deficit is projected to rise from 3-1/2 percent of GDP in 1999 to 4-1/2 percent this year and to 4-3/4 percent (or about \$510 billion) next year. Much of the forecast increase in the deficit reflects a further decline in the goods and services balance, but the net outflow of investment income should also increase notably as large current account deficits translate into increases in the U.S. net liability position.

Alternative Simulation: A Stronger Dollar

Since the beginning of the year, the dollar's broad real foreign exchange value has increased nearly 5 percent. In the alternative scenario presented in the table below, we have used the staff global model to assess the effects of a continued appreciation of the U.S. dollar, rather than the moderate depreciation assumed in the baseline forecast. In particular, the alternative scenario assumes that the dollar rises steadily over the forecast period, reaching a level about 8 percent above its value in the second quarter of this year, in contrast to the 4 percent net depreciation embedded in the baseline. In this alternative scenario, the U.S.

federal funds rate is assumed unchanged from its baseline path. The effects on U.S. GDP growth and price inflation are negligible for this year. However, the shock reduces both U.S. growth and price inflation about 1/2 percentage point next year.

Impact of Alternative Assumptions

(Percent change, Q4 to Q4)

Measure	2000	2001
<i>U.S. real GDP</i>		
Baseline	4.2	4.1
Stronger dollar ¹	4.2	3.6
<i>U.S. PCE deflator excluding food and energy</i>		
Baseline	1.8	2.1
Stronger dollar ¹	1.8	1.7

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

1. Assumes dollar rises roughly 12 percent above baseline by 2001:Q4.

August 16, 2000

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

Measure and country	Projected-----								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
REAL GDP (1)									

Total foreign	3.2	5.1	2.3	4.2	4.1	1.0	4.5	4.9	4.0
Industrial Countries	1.9	4.0	1.9	2.9	3.5	1.9	3.5	3.8	3.2
of which:									
Canada	2.9	5.5	1.4	2.4	4.8	3.2	4.9	3.9	3.6
Japan	0.5	0.9	2.5	5.2	-0.5	-3.1	-0.2	3.9	1.2
United Kingdom	3.2	4.6	1.9	2.9	3.5	2.0	2.8	2.9	2.7
Euro-11	0.1	3.0	1.7	1.7	3.0	2.0	3.1	3.8	3.4
Germany	-0.3	2.9	1.1	1.4	1.5	1.1	2.3	3.5	3.2
Developing Countries	5.1	6.8	3.0	6.3	5.0	-0.3	5.8	6.5	5.3
Asia	7.9	8.8	7.3	6.8	4.6	-1.8	8.3	7.5	6.5
Korea	7.2	9.2	7.4	6.1	3.1	-4.6	14.0	7.3	6.5
China	6.1	16.3	12.6	9.2	8.2	9.5	6.2	7.6	8.0
Latin America	2.6	5.4	-3.8	6.3	6.1	1.0	3.9	6.0	4.5
Mexico	1.9	5.2	-7.1	7.2	6.8	2.7	5.3	7.4	5.0
Brazil	4.4	9.7	-1.5	5.1	2.0	-2.0	3.8	3.0	3.2
CONSUMER PRICES (2)									

Industrial Countries	2.1	1.1	1.3	1.4	1.5	1.0	1.1	1.4	1.4
of which:									
Canada	1.8	-0.0	2.1	2.0	1.0	1.1	2.4	2.1	2.3
Japan	1.2	0.8	-0.8	0.1	2.0	0.8	-1.3	-0.5	-0.4
United Kingdom (3)	2.7	2.2	2.9	3.2	2.7	2.5	2.2	2.2	2.4
Euro-11 (4)	NA	NA	NA	2.0	1.5	0.8	1.5	2.1	1.5
Germany	4.2	2.7	1.4	1.3	1.5	0.3	1.1	1.6	1.0
Developing Countries	24.7	22.7	17.0	11.0	6.9	9.0	4.7	4.9	6.0
Asia	7.7	10.5	6.4	4.7	2.9	4.4	0.3	2.5	4.4
Korea	5.5	5.8	4.4	5.0	5.0	5.9	1.3	2.4	3.7
China	17.3	26.9	11.0	6.8	0.9	-1.2	-0.9	1.9	4.7
Latin America	73.9	54.0	42.1	25.9	15.6	15.5	12.6	8.7	8.7
Mexico	8.6	7.0	48.9	28.2	17.2	17.5	13.6	9.2	9.2
Brazil	2272.4	1196.9	21.5	9.6	4.7	1.6	8.3	5.3	5.1

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

OUTLOOK FOR FOREIGN REAL GDP AND CONSUMER PRICES: SELECTED COUNTRIES
(Percent changes)

Measure and country	1999				2000				Projected 2001			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	----- Quarterly changes at an annual rate -----											
Total foreign	3.7	5.1	4.5	4.6	7.1	4.5	4.1	4.0	4.0	4.0	4.0	4.0
Industrial Countries	3.8	3.3	4.0	3.0	5.1	3.7	3.4	3.2	3.1	3.1	3.2	3.2
of which:												
Canada	4.8	3.3	6.5	5.1	4.9	3.5	3.5	3.5	3.5	3.5	3.7	3.7
Japan	6.3	3.9	-3.9	-6.4	10.3	3.0	2.0	0.6	0.9	1.1	1.3	1.4
United Kingdom	1.3	3.2	4.1	2.8	2.0	3.6	3.0	2.9	2.8	2.8	2.6	2.5
Euro-11	2.6	2.4	3.8	3.5	3.8	4.0	3.8	3.7	3.5	3.4	3.3	3.2
Germany	2.8	0.5	3.1	2.9	2.7	4.1	3.6	3.7	3.4	3.2	3.2	3.2
Developing Countries	3.5	7.8	5.4	6.8	10.1	5.6	5.1	5.3	5.2	5.2	5.3	5.3
Asia	7.3	11.1	5.6	9.2	12.5	5.1	6.1	6.6	6.4	6.4	6.6	6.6
Korea	13.0	17.5	14.0	11.7	7.3	7.5	7.5	7.0	6.5	6.5	6.5	6.5
China	2.2	1.1	11.4	10.6	9.6	1.9	9.0	10.0	7.0	7.0	9.0	9.0
Latin America	0.1	5.2	6.0	4.5	8.9	6.6	4.4	4.4	4.5	4.5	4.4	4.5
Mexico	0.6	8.2	9.4	3.3	11.3	8.7	4.9	4.9	5.0	5.0	5.0	5.0
Brazil	8.2	1.7	-3.7	9.4	5.0	0.9	3.0	3.0	3.0	3.0	3.0	3.7
CONSUMER PRICES (2)	----- Four-quarter changes -----											
Industrial Countries	0.7	0.9	1.3	1.1	1.5	1.4	1.5	1.4	1.3	1.3	1.3	1.4
of which:												
Canada	0.8	1.6	2.2	2.4	2.7	2.4	2.2	2.1	2.0	1.9	2.2	2.3
Japan	-0.2	-0.4	0.1	-1.3	-0.8	-1.0	-0.7	-0.5	-0.5	-0.4	-0.4	-0.4
United Kingdom (3)	2.6	2.3	2.2	2.2	2.1	2.1	2.1	2.2	2.2	2.3	2.3	2.4
Euro-11 (4)	0.9	1.0	1.1	1.5	2.1	2.1	2.4	2.1	1.7	1.6	1.5	1.5
Germany	0.3	0.5	0.7	1.1	2.0	1.7	2.0	1.6	1.2	1.2	1.0	1.0
Developing Countries	8.2	7.0	5.9	4.7	3.9	3.8	4.3	4.9	5.7	6.5	6.2	6.0
Asia	2.6	0.9	0.1	0.3	0.5	0.8	1.8	2.5	3.5	4.8	4.6	4.4
Korea	0.7	0.6	0.7	1.3	1.5	1.5	2.7	2.4	4.1	4.7	3.8	3.7
China	-1.5	-2.1	-1.1	-0.9	0.1	0.1	0.8	1.9	2.7	5.2	5.0	4.7
Latin America	16.4	15.8	14.7	12.6	10.0	9.1	8.7	8.7	9.3	9.4	9.0	8.7
Mexico	18.6	18.0	16.5	13.6	10.6	9.6	9.0	9.2	9.9	9.8	9.5	9.2
Brazil	2.0	3.4	5.7	8.3	7.8	6.6	6.6	5.3	5.9	7.0	5.9	5.1

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1993	1994	1995	1996	1997	1998	1999	Projected 2000	Projected 2001
NIPA REAL EXPORTS and IMPORTS									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.6	-0.3	0.4	-0.2	-0.8	-1.1	-1.1	-0.8	-0.3
Exports of G&S	0.5	1.0	1.0	1.1	1.0	0.3	0.5	0.8	0.9
Imports of G&S	-1.1	-1.3	-0.6	-1.3	-1.7	-1.4	-1.5	-1.6	-1.2
Percentage change, Q4/Q4									
Exports of G&S	4.8	10.5	9.7	9.8	8.5	2.2	4.3	7.2	8.3
Services	6.0	8.2	8.8	8.9	1.4	2.8	0.2	2.9	5.1
Agricultural Goods	-5.4	16.3	-4.0	3.8	1.0	-0.3	-0.5	4.3	-1.8
Computers	16.9	27.4	39.1	21.6	25.8	7.0	13.3	38.2	36.0
Semiconductors	31.1	66.9	79.6	44.6	21.3	9.3	34.4	35.9	41.2
Other Goods 1/	3.5	6.9	5.7	7.8	10.9	1.3	4.1	4.9	4.9
Imports of G&S	10.5	12.2	5.0	11.2	14.3	11.2	12.0	11.2	8.0
Services	6.7	1.8	5.5	5.3	14.0	9.5	2.1	10.3	3.3
Oil	10.1	-0.2	2.4	7.8	3.9	4.6	-3.9	13.3	3.5
Computers	30.5	39.0	35.0	17.8	33.0	26.7	25.0	25.4	29.9
Semiconductors	33.6	54.5	92.4	56.7	32.9	-7.3	34.0	31.2	41.2
Other Goods 2/	9.4	12.3	-1.2	10.4	12.7	11.6	13.8	9.1	6.0
Billions of chained 1996 dollars									
Net Goods & Services	-59.1	-86.5	-78.4	-89.0	-113.3	-221.0	-322.4	-414.8	-461.0
Exports of G&S	672.7	732.8	808.2	874.2	981.5	1003.6	1033.0	1114.5	1197.5
Imports of G&S	731.8	819.4	886.6	963.1	1094.8	1224.6	1355.3	1529.3	1658.4
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-82.7	-118.6	-109.5	-123.3	-140.5	-217.1	-331.5	-454.5	-509.1
Current Acct as Percent of GDP	-1.2	-1.7	-1.5	-1.6	-1.7	-2.5	-3.6	-4.5	-4.8
Net Goods & Services (BOP)	-69.0	-97.0	-96.0	-102.1	-105.9	-166.9	-265.0	-378.7	-424.4
Investment Income, Net	27.6	21.1	25.0	23.4	11.1	-1.0	-13.1	-19.1	-26.7
Direct, Net	59.3	55.2	64.9	69.4	71.9	67.7	62.7	74.9	91.1
Portfolio, Net	-31.7	-34.1	-39.9	-46.0	-60.9	-68.8	-75.8	-94.0	-117.8
Other Income & Transfers, Net	-41.3	-42.7	-38.6	-44.6	-45.7	-49.2	-53.4	-56.7	-58.0

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

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1996				1997				1998			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	Percentage point contribution to GDP growth											
Net Goods & Services	-1.0	-0.8	-1.3	2.1	-1.0	-0.3	-0.9	-0.9	-1.6	-1.9	-1.0	0.1
Exports of G&S	0.3	0.7	0.4	2.9	0.8	1.9	1.2	-0.1	0.1	-0.3	-0.4	1.5
Imports of G&S	-1.3	-1.6	-1.7	-0.8	-1.8	-2.2	-2.1	-0.8	-1.7	-1.6	-0.7	-1.5
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	2.3	6.7	3.3	28.7	7.5	17.6	10.6	-0.8	1.0	-3.0	-3.2	15.1
Services	-4.0	12.9	-7.4	39.8	-5.8	9.4	6.0	-3.3	5.2	6.4	-10.0	10.8
Agricultural Goods	15.2	-25.5	-4.1	40.9	-19.4	6.7	12.0	7.9	-2.7	-13.8	-12.5	34.7
Computers	41.0	4.8	17.3	26.1	60.0	44.5	25.7	-14.0	-7.5	7.6	14.7	14.7
Semiconductors	24.2	35.2	24.2	110.0	50.3	22.1	19.6	-1.4	2.1	-13.6	18.9	35.9
Other Goods 1/	-0.5	7.1	7.8	17.7	12.2	20.6	10.8	0.9	-0.1	-6.5	-1.3	14.3
Imports of G&S	10.8	13.3	14.4	6.3	15.3	18.8	17.3	6.4	14.2	13.1	5.5	12.2
Services	5.6	4.1	11.8	0.0	20.0	5.6	23.1	8.3	20.0	6.7	9.8	2.2
Oil	-10.0	68.2	4.9	-15.0	-7.5	36.8	5.7	-12.9	6.4	41.2	2.1	-22.0
Computers	11.0	21.1	18.8	20.8	46.6	45.8	32.4	10.5	32.5	22.6	10.6	43.2
Semiconductors	30.0	18.9	58.4	146.3	78.1	26.0	31.6	5.6	2.0	-22.9	0.1	-6.1
Other Goods 2/	13.5	10.2	13.8	4.6	11.7	17.1	14.8	7.5	12.7	14.0	4.5	15.6
	Billions of chained 1996 dollars, s.a.a.r.											
Net Goods & Services	-75.0	-90.4	-115.9	-74.6	-94.0	-100.6	-119.6	-139.2	-175.3	-219.7	-244.1	-244.9
Exports of G&S	846.1	860.1	867.0	923.5	940.3	979.2	1004.2	1002.1	1004.5	996.8	988.8	1024.1
Imports of G&S	921.1	950.4	982.9	998.1	1034.3	1079.8	1123.8	1141.2	1179.8	1216.6	1232.9	1269.0
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-101.1	-119.5	-146.6	-126.1	-137.5	-119.9	-133.6	-171.1	-169.6	-205.9	-245.2	-247.9
Current Account as % of GDP	-1.3	-1.5	-1.9	-1.6	-1.7	-1.4	-1.6	-2.0	-2.0	-2.4	-2.8	-2.8
Net Goods & Services (BOP)	-87.0	-103.2	-123.1	-95.2	-108.2	-94.3	-101.1	-120.1	-134.5	-166.4	-185.3	-181.4
Investment Income, Net	32.2	23.2	16.8	21.5	11.5	16.3	10.7	5.7	9.1	6.0	-12.1	-7.3
Direct, Net	70.4	66.2	65.3	75.8	68.9	76.6	74.1	68.1	74.9	72.4	59.0	64.7
Portfolio, Net	-38.2	-43.0	-48.5	-54.3	-57.4	-60.3	-63.4	-62.4	-65.7	-66.4	-71.1	-71.9
Other Inc. & Transfers, Net	-46.4	-39.5	-40.3	-52.4	-40.8	-41.9	-43.2	-56.7	-44.3	-45.5	-47.8	-59.2

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1999				2000				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.4	-1.4	-1.1	-0.4	-0.9	-1.5	-0.6	-0.1	-0.5	-0.5	-0.2	0.1
Exports of G&S	-0.9	0.6	1.0	1.1	0.7	0.8	0.7	0.9	0.5	0.9	0.9	1.3
Imports of G&S	-0.6	-2.0	-2.1	-1.4	-1.6	-2.3	-1.3	-1.0	-1.0	-1.4	-1.1	-1.2
Percentage change from previous period, s.a.a.r.												
Exports of G&S	-7.9	5.8	10.2	10.3	6.3	7.4	7.0	8.3	4.9	8.2	8.4	11.9
Services	-3.8	2.8	-2.5	4.6	6.9	0.9	0.8	3.3	4.8	5.4	5.4	5.0
Agricultural Goods	-33.4	33.1	38.0	-19.9	25.3	-4.0	7.3	-8.5	1.3	1.1	-4.7	-4.5
Computers	5.2	26.7	22.2	1.2	44.6	36.2	36.0	36.0	36.0	36.0	36.0	36.0
Semiconductors	38.7	39.1	37.8	22.5	20.7	41.7	41.2	41.2	41.2	41.2	41.2	41.2
Other Goods 1/	-11.1	1.4	11.9	16.3	0.7	7.0	4.9	7.1	-0.7	4.3	5.0	11.2
Imports of G&S	4.5	16.2	16.9	10.7	12.0	17.3	9.1	6.6	7.2	9.4	7.7	7.8
Services	-7.7	2.5	6.3	8.2	16.6	16.6	5.0	3.6	2.5	3.0	3.6	4.0
Oil	2.4	29.4	-5.8	-31.5	30.3	37.3	4.1	-11.4	-4.7	26.6	-0.6	-4.4
Computers	28.8	48.5	14.8	11.2	2.8	40.1	31.1	31.1	29.9	29.9	29.9	29.9
Semiconductors	17.8	53.8	24.1	43.3	20.7	23.2	41.2	41.2	41.2	41.2	41.2	41.2
Other Goods 2/	5.0	14.6	21.5	14.9	9.7	13.2	7.6	6.2	6.1	5.9	5.9	6.1
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-279.8	-314.6	-342.6	-352.5	-376.8	-416.6	-431.6	-434.2	-447.9	-461.6	-468.5	-465.8
Exports of G&S	1003.3	1017.6	1042.6	1068.4	1084.8	1104.4	1123.2	1145.7	1159.6	1182.5	1206.6	1241.1
Imports of G&S	1283.1	1332.2	1385.2	1420.9	1461.7	1521.1	1554.7	1579.9	1607.5	1644.2	1675.1	1706.9
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-266.5	-315.9	-358.6	-384.9	-409.2	-448.9	-471.1	-488.8	-489.7	-505.7	-515.0	-526.1
Current Account as % of GDP	-2.9	-3.4	-3.8	-4.0	-4.2	-4.5	-4.7	-4.8	-4.7	-4.8	-4.8	-4.9
Net Goods & Services (BOP)	-210.7	-253.2	-290.9	-305.1	-344.7	-372.9	-395.7	-401.5	-413.1	-425.4	-431.5	-427.7
Investment Income, Net	-7.1	-11.3	-16.8	-17.3	-11.3	-22.0	-20.9	-22.3	-21.7	-24.7	-28.1	-32.3
Direct, Net	64.1	58.8	62.8	65.1	70.7	71.7	76.8	80.4	86.0	89.2	93.2	96.1
Portfolio, Net	-71.2	-70.0	-79.6	-82.4	-82.0	-93.7	-97.7	-102.7	-107.7	-114.0	-121.3	-128.5
Other Inc. & Transfers, Net	-48.7	-51.5	-51.0	-62.5	-53.2	-54.0	-54.5	-65.0	-55.0	-55.5	-55.5	-66.0

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

Part 2

August 16, 2000

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

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

August 16, 2000

Recent Developments

Prepared for the Federal Open Market Committee
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problems related to model changeovers.⁵ Current schedules show a bounceback in production that would leave assemblies at a 13.2 million unit annual rate for the third quarter as a whole, down only 1/4 million units from the second-quarter pace. Nonetheless, the third-quarter rate is off 1/2 million units from the schedules initially announced in May. Medium and heavy truck production tumbled in June, and recovered only a fraction of its loss in July. Elsewhere in the transportation sector, production of aircraft and parts turned up moderately in July after falling at an annual rate of 9-1/2 percent in the second quarter.⁶

Production of Domestic Autos and Trucks

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

Item	2000						
	Q1	Q2	Q3 ¹	June	July	Aug. ¹	Sept. ¹
U.S. production	13.1	13.4	13.2	13.4	12.4	13.4	13.9
Autos	5.6	5.8	5.8	5.7	5.5	5.8	5.9
Trucks	7.5	7.6	7.5	7.7	6.9	7.5	8.0
Days' supply							
Autos	51.6	55.0	n.a.	55.0	55.6	n.a.	n.a.
Light trucks ²	64.7	78.1	n.a.	78.1	78.7	n.a.	n.a.

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

1. Production rates reflect actual July data and manufacturers' schedules for August and September.

2. Excludes medium and heavy (classes 3-8) trucks.

n.a. Not available.

Production of other types of non-high-tech business equipment and parts was robust in the first half of the year and rose 1.1 percent in July. Conditions appear ripe for further expansion. Led by a surge in bookings for engines and turbines, new orders jumped 5-1/2 percent in June; even excluding these items, which tend to have long lead times ahead of shipments, orders were up 1-1/4 percent. Moreover, orders backlogs for this aggregate have moved up from lows posted at the end of last year, and the inventory-shipments ratio for the category has been dropping rapidly since the beginning of 1999.

Output in most remaining categories of non-energy industrial production (largely consumer goods, business and construction supplies, and materials) rose

5. However, according to **confidential** conversations with industry contacts, a minor production problem with one new model has surfaced in August.

6. Boeing's recently announced increase in the production of 737s is not expected to materially affect output until the fourth quarter of this year.

ADMINISTRATION BUDGET AND ECONOMIC PROJECTIONS

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<hr/>											
Budget projections (Fiscal years)											
	----- Billions of dollars -----										
Current services surplus	224	239	279	295	324	360	422	479	532	595	670
On-budget ¹	76	79	104	104	120	134	184	223	260	307	364
Off-budget	148	160	175	191	204	226	238	256	272	288	306
Surplus under proposed budget ²	211	248	249	261	281	295	335	379	415	449	501
	----- Percent of GDP -----										
Current services surplus	2.3	2.3	2.6	2.6	2.7	2.9	3.2	3.5	3.7	3.9	4.2
On-budget ¹	0.8	0.8	1.0	1.0	1.1	1.2	1.5	1.7	2.0	2.2	2.5
Off-budget	1.5	1.6	1.6	1.6	1.6	1.7	1.7	1.7	1.7	1.7	1.7
<hr/>											
Economic assumptions (Calendar years)											
	----- Percent change, Q4 to Q4 -----										
Nominal GDP	6.0	5.3	5.1	4.9	5.0	4.9	5.0	5.0	4.9	4.9	4.8
Real GDP	3.9	3.2	3.1	2.9	2.9	2.8	2.9	2.9	2.8	2.8	2.8
CPI-U	3.2	2.5	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
	----- Percent, annual average -----										
Unemployment rate	4.1	4.1	4.3	4.5	4.7	4.8	5.0	5.1	5.1	5.1	5.1
Treasury yields											
Three-month	5.8	6.2	5.9	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Ten-year	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3

Note. The on-budget surplus excludes the social security surplus and the Postal Service (which are off-budget). The current services baseline assumes that budget authority for discretionary spending grows at the rate of inflation after 2000.

1. Includes Medicare Hospital Insurance trust fund which the Administration proposes to move off-budget.

2. Includes Reserve for America.

Source. Office of Management and Budget, Mid-Session Review of the 2001 Budget, June 2000.

CBO BUDGET AND ECONOMIC PROJECTIONS

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Budget projections assuming constant real discretionary spending (Fiscal years)											
	----- Billions of dollars -----										
Total surplus	232	268	312	345	369	402	469	523	565	625	685
On-budget	84	102	126	143	154	169	222	260	288	332	377
Off-budget	149	165	186	202	215	232	247	263	278	293	307
	----- Percent of GDP -----										
Total surplus	2.4	2.6	2.9	3.0	3.1	3.2	3.6	3.9	4.0	4.2	4.4
On-budget	0.9	1.0	1.2	1.3	1.3	1.4	1.7	1.9	2.0	2.2	2.4
Off-budget	1.5	1.6	1.7	1.8	1.8	1.9	1.9	1.9	2.0	2.0	2.0

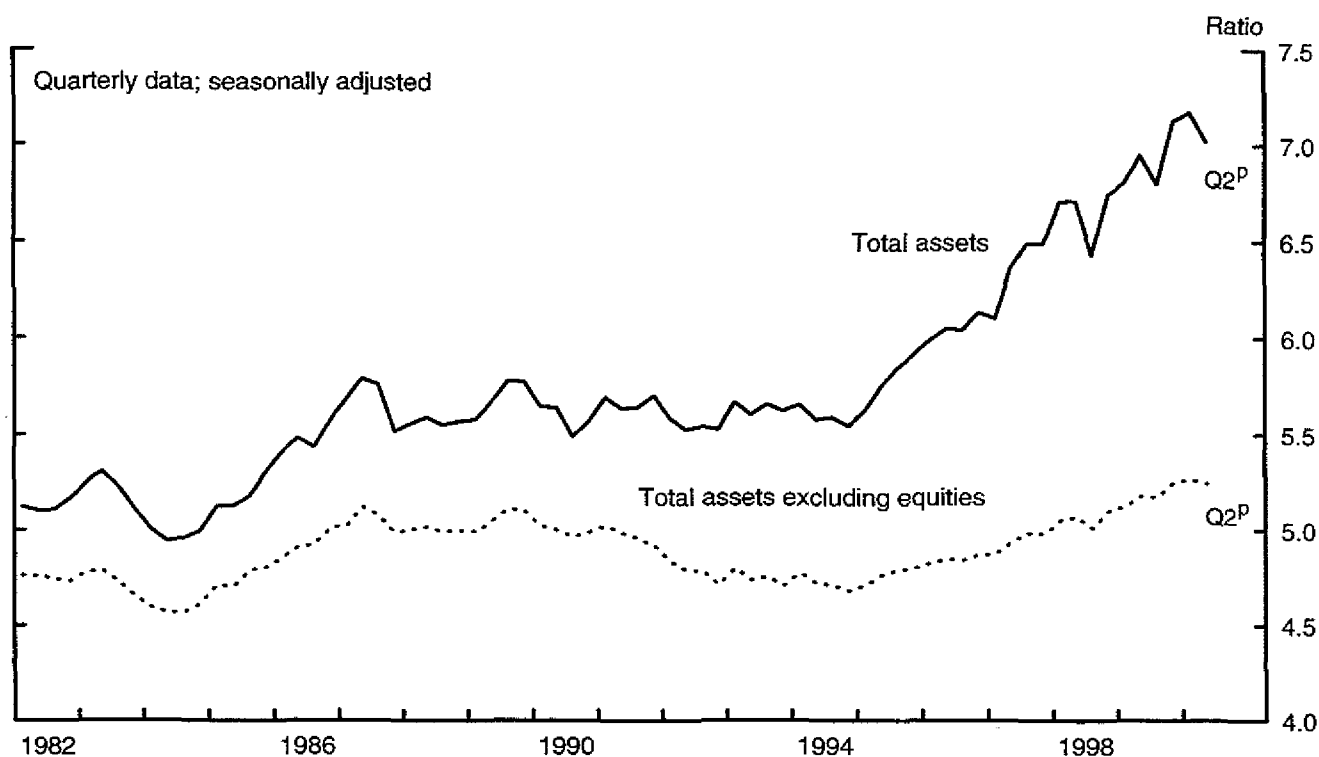
**Economic assumptions
(Calendar years)**

	----- Percent change, year over year -----										
Nominal GDP	7.0	5.3	4.9	4.6	4.5	4.5	4.6	4.6	4.6	4.7	4.7
Real GDP	4.9	3.1	2.7	2.6	2.6	2.7	2.7	2.7	2.7	2.8	2.9
CPI-U	3.1	2.7	2.9	2.7	2.5	2.5	2.5	2.5	2.5	2.5	2.5
	----- Percent, annual average -----										
Unemployment rate	3.9	3.8	4.1	4.4	4.7	4.9	5.0	5.1	5.2	5.2	5.2
Treasury yields											
Three-month	5.9	6.7	5.5	4.9	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Ten-year	6.5	6.8	6.3	5.8	5.7	5.7	5.7	5.7	5.7	5.7	5.7

Note. The on-budget surplus excludes the social security surplus and the Postal Service (which are off-budget). The constant real discretionary baseline assumes that budget authority for discretionary spending grows at the rate of inflation after 2000.

Source. Congressional Budget Office, The Economic and Budget Outlook: An Update July 2000.

Household Assets Relative to Disposable Income



p. Staff projection.

Net Flows into Long-Term Mutual Funds (Excluding reinvested dividends; billions of dollars, monthly rates.)

	1997	1998	1999	2000				Assets June
				Q1	Q2	June	July ^e	
Total long-term funds	22.7	20.2	14.2	29.2	18.6	20.6	15.2	5,463
Equity funds	19.0	13.2	15.7	44.5	24.4	22.4	15.8	4,321
Domestic	15.8	12.6	14.8	32.3	21.1	20.7	14.1	3,697
Capital appreciation	7.9	7.1	13.5	46.5	22.2	23.3	18.5	2,410
Total return	7.9	5.5	1.4	-14.2	-1.1	-2.5	-4.3	1,288
International	3.1	0.6	0.9	12.1	3.3	1.6	1.7	624
Hybrid funds	1.4	0.9	-1.0	-5.9	-2.0	-2.2	-1.7	351
Bond funds	2.4	6.2	-0.5	-9.4	-3.8	0.5	1.1	791
International	-0.1	-0.1	-0.2	-0.2	-0.2	0.0	0.1	22
High-yield	1.4	1.1	-0.2	-1.7	-0.5	1.4	-0.5	106
Other taxable	1.0	3.9	1.0	-4.5	-1.2	0.2	0.3	399
Municipals	0.1	1.3	-1.0	-3.0	-1.9	-1.1	1.2	264

e. Staff estimates based on confidential ICI weekly data.

Source. Investment Company Institute (ICI).

August 18, 2000

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

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

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

	1999 Dec.	2000 Jan.	2000 Feb.	2000 Mar.	2000 Apr.	2000 May	2000 June	2000 July	2000 Aug (p)
<hr/>									
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	105.4	112.0	111.3	107.1	109.2	110.7	106.4	108.3	107.8
Current conditions	112.2	117.3	116.8	115.4	117.8	119.9	115.1	114.2	112.9
Expected conditions	101.1	108.6	107.8	101.7	103.7	104.8	100.8	104.5	104.5
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Personal financial situation									
Now compared with 12 months ago*	133	135	132	135	130	138	129	130	125
Expected in 12 months*	132	141	138	136	137	137	137	139	140
Expected business conditions									
Next 12 months*	150	165	161	146	152	153	146	148	152
Next 5 years*	125	133	136	128	130	133	123	135	130
Appraisal of buying conditions									
Cars	141	144	153	134	148	145	138	141	149
Large household appliances*	158	169	172	165	176	173	170	167	168
Houses	154	152	153	150	151	136	128	136	138
Willingness to use credit									
Willingness to use savings	50	51	48	52	54	45	49	44	49
Willingness to use savings									
	70	85	75	67	70	65	79	70	70
Expected unemployment change - next 12 months									
	105	104	106	109	109	104	112	111	110
Prob. household will lose a job - next 5 years									
	19	19	21	20	19	18	21	23	21
Expected inflation - next 12 months									
Mean	3.6	3.5	3.5	3.8	3.5	3.5	3.4	3.7	3.3
Median	3.0	3.0	2.9	3.2	3.2	3.0	2.9	3.0	2.7
Expected inflation - next 5 to 10 years									
Mean	3.2	3.5	3.3	3.8	3.2	3.4	3.3	3.2	3.4
Median	2.9	3.0	2.9	3.1	2.8	2.9	2.8	2.8	2.9

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

(p) -- Preliminary

(f) -- Final

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