

## **Part 1**

May 16, 1996

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

Prepared for the Federal Open Market Committee

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

May 16, 1996

## **SUMMARY AND OUTLOOK**

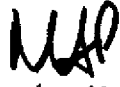
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# BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

## DIVISION OF RESEARCH AND STATISTICS

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**Date:** May 16, 1996  
**To:** Greenbook Part 1 readers  
**From:** Mike Prell   
**Subject:** Changes in the May edition

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In this edition of Part 1, we have eliminated the former domestic financial section and integrated some of that material into what formerly was the domestic nonfinancial section and is now titled "Domestic Developments." In the process, we think we have eliminated some unproductive redundancy that existed among the old Part 1 and Part 2 financial sections and the Bluebook. We undertook this change with the notion that we would reverse course if we found it didn't work; we're satisfied at this point, but please let me know if you feel otherwise.

Incidentally, we are also seeking to lighten your load by streamlining Part 2 a bit, leaving out some less essential material. We hope that we have not left out anything to which you had become attached. Again, let me know if you have any problems with what has been done.

stands at around \$21; it is expected to drift down to \$19.50 by the end of the third quarter and to remain around that level through 1997, about \$1 higher than in our previous forecast.

#### Recent Developments and the Prospects for the Current Quarter

Updating BEA's advance first-quarter estimate as best as we can in light of the more recent source data, real GDP appears to have grown a bit less than the published figure of 2.8 percent--perhaps in the vicinity of 2-1/2 percent. The important March figure on the U.S. trade balance is still to come. But the key point almost certainly will remain the same: The economy achieved a quite respectable gain in the face of the January blizzard and the March GM strike. Moreover, that growth involved a hefty gain in household and business spending, while inventories were little changed in the aggregate.

#### REAL GDP AND SELECTED COMPONENTS IN THE NEAR TERM

		1996:Q1			1996:Q2	
		March	BEA	May	March	May
	1995:Q4	GB	Adv	GB	GB	GB
		Percentage change at annual rate				
Real GDP	.5	1.5	2.8	2.5	3.4	3.5
Final sales	1.6	2.2	3.3	3.6	2.1	2.6
Priv. domestic	1.5	2.9	4.7	5.0	2.5	3.3
Government	-4.1	.7	1.8	1.8	.7	1.4
		Level, billions of chained (1992) dollars				
Inventory invest.	16.5	-2.7	7.9	-0.8	20.0	13.5
Net exports	-96.6	-102.0	-111.0	-112.3	-104.9	-118.6

Coming off that first-quarter performance, the odds favor another solid advance in the current period. Our point estimate for GDP growth is 3.5 percent, but the paucity of data makes the assessment very tentative. A reason for caution is the ambiguity of recent labor market data. According to the published figures, aggregate hours of private production workers last month were substantially above the first-quarter average; however, after making a crude adjustment for the effects of the blizzard on the January reading, we estimate that hours in April were little changed from the first-quarter average. On the other hand, the lower level of initial claims of late points to appreciable employment growth.

are no major forces in view that would push the economy persistently away from trend growth.

It is, of course, arguable that the updrift in inflation that we have forecast does itself signal an imbalance that could have adverse consequences for the economy. We have not assumed a monetary policy tightening to curb the acceleration in prices. To be sure, some of the predicted pickup in inflation is the result of what might be one-time shocks. However, preventing those impulses from embedding themselves in expectations and otherwise worsening the ongoing inflation trend presumably would require some temporary weakening of activity. The econometric simulations reported at the end of the section go some way in addressing that policy issue.

SUMMARY OF STAFF PROJECTIONS  
(Percentage change at annual rate except as noted)

	1995	1996		1997
		H1	H2	
Real GDP	1.3	3.0	2.0	2.2
<i>Previous</i>	1.2	2.4	2.0	2.0
Private domestic final purchases <sup>1</sup>	2.4	4.2	2.5	2.6
<i>Previous</i>	2.4	2.7	2.4	2.5
Civilian unemployment rate (percent) <sup>2</sup>	5.5	5.5	5.5	5.5
<i>Previous</i>	5.5	5.6	5.6	5.6

Note. Percentage change from final quarter of previous period to final quarter of period indicated except as noted.

1. Personal consumption expenditures plus business fixed investment plus residential investment.

2. Average level for the final quarter of period indicated.

Consumer spending. Consumer spending appears to be back on track after a weak performance in late 1995; we expect it to grow at about a 2-1/2 percent rate over the next year-and-a-half. This spending path would essentially mirror the trend in income, and the saving rate would average 4-1/2 percent in both 1996 and 1997, the same as in 1995.

Outlays for durables should be the strongest component of spending, extending the longstanding uptrend in the share of durables in total real PCE. Declining relative prices and the availability of innovative products will continue to lift demand for home electronic equipment and software products, especially. However, we see little prospect for further growth in sales of light motor vehicles. Indeed, the 14-3/4 million unit pace we are

is expected to rise only marginally, and unemployment is projected to remain around its current 5-1/2 percent level.

Wages and prices. The general theme of the inflation forecast is the same as that in the March Greenbook--namely, with resource utilization projected to remain near current levels, wages and prices are likely to show some tendency to accelerate. However, with the shade higher level of economic activity in the current forecast and the recent adverse developments in the food and energy sectors, we have nudged up the projected inflation rates.

SUMMARY OF STAFF INFLATION PROJECTIONS  
(Percentage change at annual rate)

	1995	1996			1997
		Q1	Q2	H2	
Employment cost index for compensation of private industry workers <sup>1</sup>	2.8	2.9	2.9	3.4	3.5
<i>Previous</i>	2.8	2.9	3.0	3.1	3.3
Consumer price index <sup>2</sup>	2.7	3.2	4.2	3.1	3.2
<i>Previous</i>	2.7	3.2	3.4	2.9	3.0
Food	2.6	1.8	4.3	4.8	4.0
<i>Previous</i>	2.6	1.3	3.3	3.8	3.0
Energy	-1.7	12.9	21.7	-1.2	1.5
<i>Previous</i>	-1.5	13.9	12.0	.1	1.7
Excluding food and energy	3.0	2.7	2.7	3.1	3.2
<i>Previous</i>	3.1	2.7	2.8	3.0	3.1

1. Percentage change from final month of previous period to final month of period indicated.

2. Percentage change from final quarter of previous period to final quarter of period indicated.

The increase in hourly compensation in the first quarter, as measured by the employment cost index for private industry, was 2.9 percent at an annual rate, a rise consistent with our expectations and about the same as the increase in 1995. Nonetheless, we continue to anticipate that the tightness of the labor market--and some pickup in consumer price inflation--will be reflected in greater compensation increases in the quarters ahead.<sup>4</sup> Indeed, with the CPI now expected to rise a bit more

4. We have not incorporated the private health insurance reform legislation being considered by the Congress. The provisions that limit the ability of insurers to cancel policies or restrict coverage of pre-existing conditions, for example, could affect (Footnote continues on next page)

from baseline start at 10 basis points in the current quarter and increase to 50 basis points in the third quarter and to 100 basis points in the fourth quarter and beyond. In the lower-rate scenario, real GDP growth is little different this year and 0.6 percentage point higher in 1997. The unemployment rate is reduced 0.2 percentage point by the end of 1997, and core CPI inflation is 0.2 percentage point higher than in the baseline forecast. The effects of the tighter policy scenario are symmetric.

ALTERNATIVE FEDERAL FUNDS RATE ASSUMPTIONS  
(Percentage change, Q4 to Q4, except as noted)

	1996	1997
Real GDP		
Baseline	2.5	2.2
Lower funds rate	2.6	2.8
Higher funds rate	2.4	1.6
Civilian unemployment rate (percent) <sup>1</sup>		
Baseline	5.5	5.5
Lower funds rate	5.5	5.3
Higher funds rate	5.5	5.7
CPI excluding food and energy		
Baseline	2.9	3.2
Lower funds rate	2.9	3.4
Higher funds rate	2.9	3.0

1. Average for the fourth quarter.

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

May 16, 1996

Interval	Nominal GDP		Real GDP		GDP Chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>	
	03/21/96	05/16/96	03/21/96	05/16/96	03/21/96	05/16/96	03/21/96	05/16/96	03/21/96	05/16/96
<b>ANNUAL</b>										
1993	4.9	4.9	2.2	2.2	2.6	2.6	3.0	3.0	6.8	6.8
1994	5.8	5.8	3.5	3.5	2.3	2.3	2.6	2.6	6.1	6.1
1995	4.5	4.5	2.0	2.0	2.5	2.5	2.8	2.8	5.6	5.6
1996	4.3	4.4	1.9	2.2	2.7	2.5	2.9	3.1	5.6	5.5
1997	4.8	4.7	2.1	2.2	2.8	2.9	3.0	3.3	5.6	5.5
<b>QUARTERLY</b>										
1994 Q1	5.4	5.4	2.5	2.5	2.8	2.8	1.9	1.9	6.6	6.6
Q2	6.8	6.8	4.8	4.8	1.9	1.9	2.8	2.8	6.2	6.2
Q3	6.1	6.1	3.6	3.6	2.4	2.4	3.6	3.6	6.0	6.0
Q4	5.4	5.4	3.2	3.2	2.2	2.2	2.4	2.4	5.6	5.6
1995 Q1	3.9	3.9	0.6	0.6	3.3	3.3	2.7	2.7	5.5	5.5
Q2	2.8	2.8	0.5	0.5	2.5	2.5	3.5	3.5	5.7	5.7
Q3	5.8	5.8	3.6	3.6	2.2	2.2	2.1	2.1	5.6	5.6
Q4	2.1	2.3	0.3	0.5	2.1	2.2	2.4	2.4	5.5	5.5
1996 Q1	4.5	4.8	1.5	2.5	3.6	2.5	3.2	3.2	5.6	5.6
Q2	5.9	5.6	3.4	3.5	2.4	2.5	3.4	4.2	5.6	5.5
Q3	4.4	4.7	1.8	2.0	2.8	3.2	2.9	3.1	5.6	5.5
Q4	4.9	4.5	2.3	1.9	2.7	2.9	2.9	3.0	5.6	5.5
1997 Q1	4.9	5.0	2.1	2.3	3.1	3.1	3.0	3.3	5.6	5.5
Q2	4.8	4.6	2.1	2.1	2.8	2.8	3.0	3.3	5.6	5.5
Q3	4.3	4.3	1.8	1.8	2.9	2.9	3.0	3.2	5.6	5.5
Q4	5.1	4.9	2.3	2.4	2.9	2.9	3.0	3.2	5.6	5.5
<b>TWO-QUARTER<sup>3</sup></b>										
1994 Q2	6.1	6.1	3.7	3.7	2.3	2.3	2.3	2.3	-0.4	-0.4
Q4	5.7	5.7	3.4	3.4	2.3	2.3	2.9	2.9	-0.6	-0.6
1995 Q2	3.3	3.3	0.5	0.5	2.9	2.9	3.2	3.2	0.1	0.1
Q4	3.9	4.0	1.9	2.0	2.3	2.2	2.2	2.2	-0.2	-0.2
1996 Q2	5.2	5.2	2.4	3.0	3.0	2.5	3.3	3.7	0.1	-0.0
Q4	4.6	4.6	2.1	2.0	2.8	3.1	2.9	3.1	0.0	0.0
1997 Q2	4.9	4.8	2.1	2.2	3.0	3.0	3.0	3.3	0.0	0.0
Q4	4.7	4.6	2.0	2.1	2.9	2.9	3.0	3.2	0.0	-0.0
<b>FOUR-QUARTER<sup>4</sup></b>										
1993 Q4	4.7	4.7	2.2	2.2	2.5	2.5	2.7	2.7	-0.8	-0.8
1994 Q4	5.9	5.9	3.5	3.5	2.3	2.3	2.6	2.6	-1.0	-1.0
1995 Q4	3.6	3.7	1.2	1.3	2.5	2.6	2.7	2.7	-0.1	-0.1
1996 Q4	4.9	4.9	2.2	2.5	2.9	2.8	3.1	3.4	0.1	-0.0
1997 Q4	4.8	4.7	2.0	2.2	2.9	2.9	3.0	3.2	-0.0	-0.0

1. For all urban consumers.

2. Level, except as noted.

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

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



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

May 16, 1996

Item	Units <sup>1</sup>	- Projected -								
		1989	1990	1991	1992	1993	1994	1995	1996	1997
EXPENDITURES										
Nominal GDP	Bill. \$	5438.7	5743.8	5916.7	6244.4	6550.2	6931.4	7245.8	7567.6	7926.6
Real GDP	Bill. Ch. \$	6060.4	6138.7	6079.0	6244.4	6383.8	6604.2	6739.0	6887.9	7037.2
Real GDP	% change	2.4	-0.2	0.4	3.7	2.2	3.5	1.3	2.5	2.2
Gross domestic purchases		1.7	-0.8	-0.0	4.0	2.8	3.7	1.1	2.9	2.2
Final sales		2.3	0.6	-0.4	3.9	2.0	3.0	1.9	2.4	2.1
Priv. dom. final purchases		1.4	-0.6	-0.8	4.9	3.5	4.0	2.4	3.3	2.6
Personal cons. expenditures		1.6	0.5	-0.2	4.2	2.5	3.0	2.0	2.9	2.5
Durables		-0.1	-3.2	-3.1	9.4	7.3	7.0	1.8	5.3	4.4
Nondurables		1.6	-0.5	-1.0	3.4	1.5	3.6	1.1	2.6	2.1
Services		2.1	2.0	0.9	3.6	2.1	1.9	2.6	2.5	2.2
Business fixed investment		2.8	-2.5	-6.0	5.5	8.5	10.1	6.7	6.8	4.4
Producers' dur. equipment		2.3	-2.0	-2.6	9.6	11.5	12.6	7.3	8.1	5.6
Nonres. structures		3.7	-3.5	-12.6	-3.4	1.6	3.6	5.0	3.1	0.6
Residential structures		-7.0	-15.1	1.0	16.9	8.1	5.7	-1.4	1.0	-0.9
Exports		10.8	7.2	8.6	4.1	5.0	10.2	6.5	6.8	8.4
Imports		2.6	0.5	4.1	7.4	11.4	11.6	4.6	9.7	7.9
Gov't. cons. & investment		2.5	2.6	-0.7	1.7	-0.5	0.1	-1.3	0.4	0.4
Federal		0.8	1.6	-3.1	1.3	-5.5	-3.1	-6.6	-2.3	-3.4
Defense		-1.0	0.2	-5.3	-1.3	-6.9	-5.6	-6.6	-2.3	-3.3
State & local		3.9	3.3	1.0	2.0	3.1	2.2	2.1	2.0	2.5
Change in bus. inventories	Bill. Ch. \$	33.3	10.4	-3.0	7.3	19.1	58.9	33.7	15.3	25.8
Nonfarm		33.5	7.7	-1.2	1.9	26.4	46.8	37.4	16.2	23.0
Net exports		-82.7	-61.9	-22.3	-29.5	-74.4	-108.1	-114.2	-122.7	-132.5
Nominal GDP	% change	6.4	4.4	3.8	6.3	4.7	5.9	3.7	4.9	4.7
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	107.9	109.4	108.3	108.6	110.7	114.0	116.6	118.3	119.7
Unemployment rate	%	5.3	5.6	6.9	7.5	6.8	6.1	5.6	5.5	5.5
Industrial prod. index	% change	-0.1	-0.2	0.2	4.0	3.2	6.6	1.6	3.5	3.2
Capacity util. rate - mfg.	%	83.2	81.3	78.0	79.5	80.6	83.3	83.0	81.7	81.7
Housing starts	Millions	1.38	1.19	1.01	1.20	1.29	1.46	1.35	1.43	1.36
Light motor vehicle sales		14.66	14.05	12.52	12.85	13.87	15.02	14.74	14.85	14.79
North Amer. produced		11.20	10.85	9.74	10.51	11.72	12.88	12.82	13.14	13.03
Other		3.46	3.20	2.77	2.34	2.15	2.13	1.91	1.70	1.76
INCOME AND SAVING										
Nominal GNP	Bill. \$	5452.8	5764.9	5932.4	6255.5	6560.0	6922.4	7237.5	7556.3	7906.0
Nominal GNP	% change	6.5	4.6	3.5	6.2	4.6	5.7	3.9	4.7	4.6
Nominal personal income		6.8	6.4	3.7	7.3	3.6	5.1	5.4	5.5	5.2
Real disposable income		1.6	1.0	0.8	4.0	0.9	2.6	3.0	2.4	2.5
Personal saving rate	%	4.8	5.0	5.7	5.9	4.5	3.8	4.5	4.5	4.5
Corp. profits, IVA & CCAdj.	% change	-9.9	6.2	3.9	12.7	19.9	10.9	8.7	4.0	3.0
Profit share of GNP	%	6.5	6.4	6.4	6.4	7.1	7.6	8.1	8.5	8.3
Federal surpl./deficit	Bill. \$	-113.4	-154.7	-196.0	-280.9	-254.7	-189.9	-162.6	-132.8	-134.0
State & local surpl./def.		95.1	80.1	75.8	86.3	94.9	99.7	95.0	88.5	88.8
Ex. social ins. funds		34.9	20.2	11.5	18.3	28.0	36.9	36.8	32.0	33.3
PRICES AND COSTS										
GDP implicit deflator	% change	3.9	4.6	3.4	2.6	2.5	2.3	2.4	2.4	2.5
GDP chn.-wt. price index		3.9	4.6	3.4	2.6	2.5	2.3	2.6	2.8	2.9
Gross Domestic Purchases										
chn.-wt. price index		4.1	5.2	2.7	2.6	2.3	2.4	2.4	2.6	2.8
CPI		4.6	6.3	3.0	3.1	2.7	2.6	2.7	3.4	3.2
Ex. food and energy		4.4	5.3	4.4	3.5	3.1	2.8	3.0	2.9	3.2
ECI, hourly compensation <sup>2</sup>		4.8	4.6	4.4	3.5	3.6	3.1	2.8	3.1	3.5
Nonfarm business sector										
Output per hour		0.1	-0.6	2.1	3.7	-0.5	0.7	0.7	1.3	1.1
Compensation per Hour		2.8	5.9	4.8	4.6	1.7	2.5	4.1	3.8	4.0
Unit labor cost		2.7	6.5	2.6	0.9	2.2	1.8	3.4	2.4	3.0

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

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

May 16, 1996

Item	Units	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	6442.8	6503.2	6571.3	6683.7	6772.8	6885.0	6987.6	7080.0	7147.8	7196.5
Real GDP	Bill. Ch. \$	6327.0	6353.7	6390.4	6463.9	6504.6	6581.5	6639.5	6691.3	6701.6	6709.4
Real GDP	% change	-0.0	1.7	2.3	4.7	2.5	4.8	3.6	3.2	0.6	0.5
Gross domestic purchases		0.9	2.4	3.7	4.4	3.4	5.4	3.6	2.7	1.4	0.9
Final sales		-0.8	1.5	2.3	4.9	1.2	2.8	4.2	3.6	0.7	1.8
Priv. dom. final purchases		1.4	2.8	4.4	5.4	3.7	4.5	3.6	4.1	2.1	2.6
Personal cons. expenditures		0.7	2.7	3.8	2.8	2.7	3.6	2.5	3.3	0.8	3.4
Durables		0.8	11.2	7.3	10.2	5.8	4.3	5.6	12.6	-8.7	7.0
Nondurables		-0.9	2.4	2.9	1.7	3.8	3.2	4.0	3.2	2.4	1.9
Services		1.6	1.3	3.6	1.9	1.4	3.6	1.2	1.4	2.1	3.4
Business fixed investment		6.0	6.3	4.6	17.6	7.3	7.1	13.7	12.2	15.3	3.6
Producers' dur. equipment		7.1	11.4	6.3	21.7	15.6	4.1	19.3	11.9	17.4	3.7
Nonres. structures		3.5	-5.3	0.8	7.5	-11.8	15.7	0.2	13.0	9.9	3.4
Residential structures		2.0	-5.1	13.2	24.4	12.8	12.7	-1.9	0.0	-6.4	-13.3
Exports		0.4	7.9	-7.9	21.5	-0.6	14.8	12.2	15.3	2.6	4.6
Imports		9.6	14.5	4.9	17.0	7.6	19.0	11.0	9.2	8.7	7.7
Gov't. cons. & investment		-4.7	0.2	1.0	1.5	-4.2	-0.8	7.0	-1.4	-1.1	0.9
Federal		-13.0	-4.9	-3.0	-0.7	-11.2	-5.2	11.5	-5.9	-6.2	-1.2
Defense		-15.6	-5.2	-5.7	-0.5	-17.0	0.8	13.2	-16.0	-7.0	1.0
State & local		1.7	3.9	3.7	3.0	0.7	2.2	4.2	1.6	2.3	2.1
Change in bus. inventories	Bill. Ch. \$	18.5	20.8	19.5	17.4	40.1	74.1	64.0	57.3	54.5	30.6
Nonfarm		26.0	26.7	30.9	22.1	29.8	54.1	50.1	53.3	58.1	33.8
Net exports		-55.2	-67.0	-89.1	-86.2	-101.3	-112.2	-113.3	-105.8	-119.0	-126.8
Nominal GDP	% change	3.8	3.8	4.3	7.0	5.4	6.8	6.1	5.4	3.9	2.8
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	109.7	110.4	111.0	111.8	112.7	113.6	114.5	115.3	116.1	116.4
Unemployment rate	%	7.2	7.1	6.8	6.6	6.6	6.2	6.0	5.6	5.5	5.7
Industrial prod. index	% change	3.7	0.5	3.2	5.5	8.4	7.0	4.6	6.4	3.9	-1.4
Capacity util. rate - mfg.	%	80.6	80.3	80.4	81.1	82.2	83.2	83.4	84.3	84.3	83.0
Housing starts	Millions	1.17	1.27	1.30	1.43	1.38	1.47	1.46	1.48	1.31	1.29
Light motor vehicle sales		13.04	14.12	13.82	14.51	15.07	14.85	14.99	15.16	14.56	14.44
North Amer. produced		10.87	11.87	11.69	12.45	12.94	12.69	12.79	13.12	12.52	12.46
Other		2.17	2.25	2.14	2.06	2.13	2.16	2.20	2.05	2.04	1.97
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	6458.4	6512.3	6584.8	6684.5	6773.6	6876.3	6977.6	7062.2	7140.5	7187.0
Nominal GNP	% change	4.3	3.4	4.5	6.2	5.4	6.2	6.0	4.9	4.5	2.6
Nominal personal income		-4.8	8.5	3.1	8.1	-3.3	13.6	4.2	6.5	7.1	4.5
Real disposable income		-7.1	4.8	1.4	4.9	-5.3	10.1	2.1	4.0	3.6	0.0
Personal saving rate	%	4.3	4.8	4.3	4.7	2.8	4.2	4.1	4.2	4.8	4.0
Corp. profits, IVA & CCAdj.	% change	-1.2	22.9	19.7	42.2	-37.5	84.7	14.5	14.6	-6.4	1.1
Profit share of GNP	%	6.6	6.9	7.1	7.7	6.7	7.7	7.9	8.1	7.8	7.8
Federal surpl./deficit	Bill. \$	-283.7	-249.2	-253.5	-232.4	-212.9	-169.9	-186.3	-190.4	-173.3	-160.5
State & local surpl./def.		80.5	89.1	94.9	115.0	94.8	105.2	99.6	99.3	99.0	99.0
Ex. social ins. funds		13.3	22.0	28.1	48.5	29.0	41.1	37.9	39.4	40.2	40.9
<b>PRICES AND COSTS</b>											
GDP implicit deflator	% change	3.8	2.1	1.9	2.2	2.8	1.9	2.4	2.2	3.2	2.3
GDP chn.-wt. price index		3.8	2.2	1.8	2.3	2.8	1.9	2.4	2.2	3.3	2.5
Gross Domestic Purchases											
chn.-wt. price index		3.1	2.4	1.3	2.2	2.3	2.3	3.0	2.1	2.9	2.9
CPI		3.1	2.8	1.7	3.4	1.9	2.8	3.6	2.4	2.7	3.5
Ex. food and energy		3.5	3.5	2.4	2.9	2.9	2.9	3.1	2.3	3.3	3.3
ECI, hourly compensation <sup>1</sup>		4.2	3.5	3.4	3.4	3.0	3.4	3.3	2.3	2.9	2.9
Nonfarm business sector											
Output per hour		-3.9	-1.7	2.1	1.6	-2.5	1.9	2.6	0.9	-1.1	3.0
Compensation per hour		1.0	2.7	2.0	1.1	3.3	2.1	1.2	3.3	3.7	5.4
Unit labor cost		5.1	4.5	-0.1	-0.5	5.9	0.2	-1.4	2.4	4.9	2.3

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)

May 16, 1996

Item	Units	----- Projected -----									
		1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	7298.5	7340.4	7426.9	7528.5	7615.1	7699.9	7794.2	7882.9	7967.0	8062.4
Real GDP	Bill. Ch. \$	6768.3	6776.5	6819.2	6877.4	6910.8	6944.2	6983.3	7019.7	7051.8	7093.9
Real GDP	% change	3.6	0.5	2.5	3.5	2.0	1.9	2.3	2.1	1.8	2.4
Gross domestic purchases		2.8	-0.5	3.4	3.8	2.6	1.8	2.1	2.2	2.3	2.2
Final sales		3.4	1.6	3.6	2.6	1.3	1.9	2.2	2.1	1.8	2.5
Priv. dom. final purchases		3.3	1.6	5.0	3.3	2.8	2.3	2.5	2.6	2.6	2.6
Personal cons. expenditures		2.8	1.2	3.9	2.5	2.7	2.6	2.6	2.4	2.4	2.4
Durables		9.3	0.3	8.3	3.0	5.4	4.7	4.8	4.2	4.3	4.2
Nondurables		0.5	-0.3	4.1	2.5	1.9	2.1	2.1	2.1	2.1	2.1
Services		2.6	2.2	2.9	2.3	2.5	2.3	2.3	2.2	2.2	2.2
Business fixed investment		5.2	3.1	11.9	6.0	5.3	4.0	4.2	4.3	4.5	4.5
Producers' dur. equipment		4.9	4.0	14.2	6.8	6.3	5.2	5.5	5.5	5.6	5.7
Nonres. structures		6.2	0.9	5.8	3.7	2.3	0.6	0.3	0.6	1.0	0.6
Residential structures		9.2	6.4	5.0	9.4	-1.9	-7.5	-3.5	-0.3	0.1	0.2
Exports		8.0	11.0	4.4	10.5	2.1	10.6	6.8	10.6	5.0	11.4
Imports		1.0	1.3	11.3	12.1	7.0	8.7	5.0	10.2	7.8	8.7
Gov't. cons. & investment		-0.7	-4.1	1.8	1.4	-1.5	-0.1	0.1	0.5	0.5	0.6
Federal		-5.9	-12.8	6.7	-6.1	-5.3	-4.1	-4.0	-3.1	-3.1	-3.2
Defense		-8.1	-12.0	7.4	-6.5	-5.2	-4.5	-4.4	-2.9	-2.9	-3.0
State & local		2.7	1.5	-1.0	6.0	0.7	2.2	2.4	2.5	2.5	2.7
Change in bus. inventories	Bill. Ch. \$	33.2	16.5	-0.8	13.5	24.1	24.4	25.3	25.5	26.5	25.7
Nonfarm		38.3	19.5	4.1	15.5	23.1	22.0	22.6	22.8	23.7	22.8
Net exports		-114.3	-96.6	-112.3	-118.6	-130.5	-129.4	-127.3	-129.5	-138.0	-135.3
Nominal GDP	% change	5.8	2.3	4.8	5.6	4.7	4.5	5.0	4.6	4.3	4.9
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	116.8	117.2	117.7	118.2	118.5	118.8	119.2	119.5	119.9	120.2
Unemployment rate	%	5.6	5.5	5.6	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Industrial prod. index	% change	3.2	0.6	2.5	5.0	3.2	3.4	3.5	3.1	2.6	3.5
Capacity util. rate - mfg.	%	82.6	82.0	81.6	81.9	81.7	81.5	81.7	81.7	81.6	81.7
Housing starts	Millions	1.42	1.41	1.47	1.48	1.40	1.36	1.36	1.36	1.35	1.35
Light motor vehicle sales		15.04	14.92	15.17	14.75	14.75	14.71	14.75	14.77	14.80	14.82
North Amer. produced		13.18	13.13	13.48	13.10	13.02	12.98	13.00	13.02	13.04	13.06
Other		1.86	1.79	1.69	1.66	1.73	1.73	1.75	1.75	1.76	1.76
INCOME AND SAVING											
Nominal GNP	Bill. \$	7283.0	7339.6	7423.3	7516.8	7603.7	7681.4	7778.3	7861.3	7948.0	8036.4
Nominal GNP	% change	5.4	3.1	4.6	5.1	4.7	4.2	5.1	4.3	4.5	4.5
Nominal personal income		5.0	5.2	5.1	6.7	5.3	4.8	5.7	5.0	5.0	5.1
Real disposable income		4.5	3.8	2.7	1.2	3.8	1.8	3.8	2.0	2.1	2.1
Personal saving rate	%	4.4	4.9	4.6	4.3	4.6	4.4	4.7	4.6	4.5	4.4
Corp. profits, IVA & CCAdj.	% change	44.2	2.4	21.0	-4.2	0.7	0.3	5.5	-0.1	3.7	2.8
Profit share of GNP	%	8.4	8.4	8.7	8.5	8.5	8.4	8.4	8.3	8.3	8.2
Federal surpl./deficit	Bill. \$	-161.6	-154.9	-156.3	-118.8	-126.4	-129.6	-136.1	-133.3	-129.9	-136.7
State & local surpl./def.		93.9	88.1	86.4	88.3	90.0	89.2	90.0	90.1	87.6	87.6
Ex. social ins. funds		35.8	30.5	29.5	31.7	33.7	33.2	34.2	34.5	32.2	32.4
PRICES AND COSTS											
GDP implicit deflator	% change	2.2	1.8	2.3	2.1	2.7	2.5	2.7	2.5	2.5	2.4
GDP chn.-wt. price index		2.2	2.2	2.5	2.5	3.2	2.9	3.1	2.8	2.9	2.9
Gross Domestic Purchases											
chn.-wt. price index		1.7	2.1	2.5	2.5	2.8	2.7	3.0	2.8	2.8	2.8
CPI		2.1	2.4	3.2	4.2	3.1	3.0	3.3	3.3	3.2	3.2
Ex. food and energy		2.8	2.7	2.7	2.7	3.1	3.1	3.2	3.2	3.2	3.2
ECI, hourly compensation <sup>1</sup>		2.6	3.2	2.9	2.9	3.3	3.4	3.4	3.5	3.5	3.5
Nonfarm business sector											
Output per hour		1.7	-1.0	2.5	0.9	0.8	0.9	1.3	1.0	0.6	1.4
Compensation per hour		4.3	2.8	3.3	3.9	4.0	4.0	4.2	4.1	3.9	3.9
Unit labor cost		2.5	3.8	0.8	3.0	3.2	3.1	2.9	3.1	3.3	2.5

1. Private-industry workers.

Item	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	95Q4/ 94Q4	96Q4/ 95Q4	97Q4/ 96Q4
Real GDP	0.5	2.5	3.5	2.0	1.9	2.3	2.1	1.8	2.4	1.3	2.5	2.2
Gross dom. purchases	-0.5	3.4	3.8	2.7	1.9	2.2	2.2	2.3	2.2	1.1	2.9	2.2
Final sales	1.6	3.5	2.6	1.3	1.9	2.2	2.1	1.8	2.5	1.9	2.3	2.1
Priv. dom. final purchases	1.3	4.1	2.7	2.3	1.9	2.1	2.1	2.2	2.2	2.0	2.8	2.1
Personal cons. expenditures	0.8	2.7	1.7	1.8	1.7	1.7	1.7	1.7	1.7	1.4	2.0	1.7
Durables	0.0	0.7	0.3	0.5	0.4	0.4	0.4	0.4	0.4	0.2	0.5	0.4
Nondurables	-0.1	0.8	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.2	0.6	0.4
Services	0.9	1.1	0.9	0.9	0.9	0.9	0.8	0.8	0.8	1.0	1.0	0.9
Business fixed investment	0.3	1.2	0.6	0.6	0.4	0.5	0.5	0.5	0.5	0.7	0.7	0.5
Producers' dur. equip.	0.3	1.1	0.5	0.5	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.5
Nonres. structures	0.0	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0
Residential structures	0.2	0.2	0.4	-0.1	-0.3	-0.1	-0.0	0.0	0.0	-0.1	0.0	-0.0
Net exports	1.0	-0.9	-0.4	-0.7	0.1	0.1	-0.1	-0.5	0.2	0.1	-0.5	-0.1
Exports	1.2	0.5	1.2	0.2	1.2	0.8	1.3	0.6	1.4	0.7	0.8	1.0
Imports	0.2	1.4	1.6	0.9	1.2	0.7	1.4	1.1	1.2	0.6	1.3	1.1
Government cons. & invest.	-0.8	0.3	0.3	-0.3	-0.0	0.0	0.1	0.1	0.1	-0.2	0.1	0.1
Federal	-0.9	0.4	-0.4	-0.4	-0.3	-0.3	-0.2	-0.2	-0.2	-0.5	-0.2	-0.2
Defense	-0.6	0.3	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.3	-0.1	-0.1
Nondefense	-0.4	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1
State and local	0.2	-0.1	0.7	0.1	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.3
Change in bus. inventories	-1.1	-1.0	0.8	0.6	0.0	0.1	0.0	0.1	-0.0	-0.6	0.1	0.0
Nonfarm	-1.1	-0.9	0.7	0.4	-0.1	0.0	0.0	0.1	-0.1	-0.5	0.0	0.0
Farm	0.1	-0.1	0.2	0.2	0.1	0.0	0.0	0.0	0.0	-0.1	0.1	0.0
GDP residual	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	0.0

Components may not sum to total due to rounding.

Item	Fiscal year <sup>5</sup>				1995				1996				1997			
	1994 <sup>a</sup>	1995 <sup>a</sup>	1996	1997	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4 <sup>a</sup>	Q1 <sup>b</sup>	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
					Not seasonally adjusted											
Receipts <sup>1</sup>	1258	1355	1452	1496	307	404	333	324	321	448	359	346	324	452	375	355
Outlays <sup>1</sup>	1461	1519	1574	1655	380	381	373	380	394	396	404	412	415	412	415	432
Surplus/deficit <sup>1</sup>	-203	-164	-121	-158	-73	23	-40	-56	-72	52	-45	-66	-92	40	-40	-76
On-budget	-259	-226	-190	-220	-85	-11	-43	-69	-84	12	-49	-71	-104	1	-45	-80
Off-budget	56	62	68	61	12	34	2	14	12	40	3	5	12	39	5	4
Surplus excluding deposit insurance <sup>2</sup>	-210	-181	-131	-162	-79	18	-42	-59	-75	49	-47	-67	-93	39	-41	-77
Means of financing																
Borrowing	185	171	134	175	66	26	20	33	80	-37	57	60	64	6	45	55
Cash decrease	17	-2	-6	-16	8	-42	23	17	-1	-14	-8	9	20	-45	0	25
Other <sup>3</sup>	1	-6	-7	-1	-1	-7	-2	5	-7	-1	-4	-3	8	-1	-5	-3
Cash operating balance, end of period	36	38	44	60	18	61	38	20	22	36	44	35	15	60	60	35
NIPA FEDERAL SECTOR																
					Seasonally adjusted, annual rate											
Receipts	1354	1459	1537	1609	1449	1483	1487	1495	1519	1566	1569	1586	1599	1617	1635	1654
Expenditures	1554	1630	1676	1741	1623	1644	1648	1650	1676	1684	1695	1715	1735	1749	1764	1790
Consumption expend.	450	455	450	443	455	456	453	451	456	448	444	442	444	443	442	441
Defense	307	304	300	297	303	305	301	300	303	299	297	296	297	297	297	297
Nondefense	143	151	150	146	152	151	152	151	153	149	147	146	147	146	145	144
Other expenditures	1104	1175	1226	1298	1168	1188	1195	1198	1219	1236	1250	1273	1291	1306	1322	1349
Current account surplus	-200	-171	-139	-132	-173	-161	-162	-155	-156	-119	-126	-129	-136	-133	-129	-136
Gross investment	67	65	61	61	65	67	63	56	63	62	61	61	61	60	60	60
Current and capital account surplus	-267	-237	-200	-192	-238	-227	-225	-211	-219	-180	-187	-190	-196	-193	-190	-196
FISCAL INDICATORS <sup>4</sup>																
High-employment (HEB) surplus/deficit	-268	-267	-240	-234	-265	-248	-253	-235	-255	-217	-225	-231	-240	-239	-237	-247
Change in HEB, percent of potential GDP	-.7	0	-.4	-.1	-.3	-.2	.1	-.2	.3	-.5	.1	.1	.1	0	0	.1
Fiscal impetus (FI), percent, cal. year	-6.3	-5.5	-6.4	-4.8	-1.9	-.8	-1.7	-3.6	1.1	-4.3	-.5	-1.1	-1.2	-1	-1	-1

1. OMB's March 1996 baseline deficit estimates (assuming the enactment of the President's proposals) are \$146 billion in FY96 and \$140 billion in FY97. CBO's April 1996 baseline deficit estimates are \$144 billion in FY96 and \$171 billion in FY97. 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 March 1996 baseline deficit estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are \$159 billion in FY96 and \$144 billion in FY97. CBO's April 1996 baseline deficit estimates, excluding deposit insurance spending, are \$154 billion in FY96 and \$176 billion in FY97.

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

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

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

a--Actual.  
b--Preliminary.

CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS <sup>1</sup>  
(Percent)

	Nonfederal							MEMO Nominal GDP
	Total	Federal govt.	Total	Households		Business	State and local govt.	
Year				Total	Home mtg.	Cons. credit		
1986	12.2	13.6	11.8	11.5	13.8	9.6	12.2	5.0
1987	9.2	8.0	9.6	12.1	16.3	5.0	6.7	7.4
1988	8.8	8.0	9.1	9.3	10.9	7.2	9.7	7.6
1989	7.6	7.0	7.8	8.8	10.1	6.2	7.5	6.4
1990	6.6	11.0	5.3	7.9	10.1	2.0	3.1	4.4
1991	4.4	11.1	2.4	5.0	6.6	-1.8	-1.7	3.8
1992	4.8	10.9	2.8	5.3	6.1	0.9	0.5	6.3
1993	5.3	8.3	4.2	6.1	5.4	7.3	1.6	4.7
1994	4.9	4.7	5.0	8.4	6.6	14.0	3.8	5.9
1995	5.4	4.1	5.9	8.1	6.5	13.3	6.4	3.7
1996	4.7	4.4	4.8	6.6	6.1	9.1	4.7	4.9
1997	4.5	4.5	4.6	5.9	5.9	6.6	4.6	4.7
Quarter (seasonally adjusted annual rates)								
1995:1	6.7	7.6	6.3	7.4	5.8	13.6	8.1	3.9
2	6.6	5.7	6.9	8.3	6.3	15.5	7.6	2.8
3	3.9	1.8	4.6	8.3	7.5	10.4	4.4	5.8
4	4.2	1.2	5.3	7.3	5.9	11.2	5.0	2.3
1996:1	6.1	7.9	5.4	7.0	6.2	10.1	5.6	4.8
2	3.7	-0.2	5.1	6.5	6.0	9.0	4.4	5.6
3	4.4	5.8	3.9	6.1	5.9	8.4	4.2	4.7
4	4.4	4.0	4.5	6.0	5.9	7.8	4.4	4.5
1997:1	5.1	6.9	4.4	5.9	5.9	6.6	4.4	5.0
2	4.2	3.2	4.5	5.8	5.8	6.5	4.5	4.6
3	4.3	4.2	4.4	5.7	5.7	6.4	4.5	4.3
4	4.3	3.2	4.6	5.6	5.6	6.3	4.5	4.9

1. Data after 1995:Q4 are staff projections. Changes are measured from end of the preceding period to end of period indicated except annual nominal GDP growth, which is Q4 to Q4. On a monthly average basis, total debt grows 5.5 percent in 1995, 4.6 percent in 1996, and 4.6 percent in 1997. Federal debt rises 4.4 percent in 1995, 3.8 percent in 1996, and 4.7 percent in 1997. Nonfederal debt increases 5.9 percent in 1995, 4.9 percent in 1996, and 4.5 percent in 1997.

**FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS <sup>1</sup>**  
(Billions of dollars)

	Calendar year				1995		1996				1997	
	1994	1995	1996	1997	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
	Seasonally Adjusted Annual Rates											
Net funds raised by domestic nonfinancial sectors												
1 Total	572.1	640.7	572.8	591.2	430.8	501.2	728.8	462.4	543.9	556.3	606.5	575.8
2 Net equity issuance	-44.9	-76.0	-79.7	-68.7	-98.8	-77.2	-115.2	-56.4	-76.8	-70.4	-72.6	-64.8
3 Net debt issuance	617.0	716.7	652.5	659.9	529.6	578.4	844.0	518.8	620.7	626.7	679.1	640.6
Borrowing sectors												
Nonfinancial business												
4 Financing gap <sup>2</sup>	4.1	60.1	21.2	44.2	66.5	11.2	-3.9	18.8	32.4	37.4	39.0	49.5
5 Net equity issuance	-44.9	-76.0	-79.7	-68.7	-98.8	-77.2	-115.2	-56.4	-76.8	-70.4	-72.6	-64.8
6 Credit market borrowing	144.3	250.8	196.8	199.5	178.3	205.5	232.4	185.0	181.4	188.2	196.0	202.9
Households												
7 Net borrowing, of which:	360.3	373.1	329.1	313.2	401.8	356.5	350.9	331.2	317.8	316.6	313.9	312.6
8 Home mortgages	196.7	207.1	206.3	210.6	246.0	196.3	209.0	204.2	205.0	207.0	211.3	210.0
9 Consumer credit	121.2	130.8	101.5	80.5	109.6	121.8	112.8	102.7	97.7	92.7	80.5	80.5
10 Debt/DPI (percent) <sup>3</sup>	88.7	90.8	92.7	93.3	91.2	91.8	92.3	92.8	92.8	93.1	93.1	93.5
State and local governments												
11 Net borrowing	-43.4	-51.5	-34.4	-22.2	-116.2	-26.1	-28.2	11.2	-92.0	-28.4	-24.7	-19.7
12 Current surplus <sup>4</sup>	107.4	104.4	104.4	110.6	106.9	87.9	100.8	103.2	106.5	107.1	110.3	110.8
U.S. government												
13 Net borrowing	155.9	144.4	161.0	169.4	65.8	42.4	288.9	-8.6	213.5	150.3	193.9	144.9
14 Net borrowing (quarterly, nsa)	155.9	144.4	161.0	169.4	19.9	33.3	80.5	-37.0	57.1	60.4	69.8	99.6
15 Unified deficit (quarterly, nsa)	185.2	146.4	131.6	168.3	40.2	55.9	72.3	-52.3	45.2	66.4	52.0	116.3
16 Funds supplied by depository institutions	198.3	284.0	200.9	211.7	284.5	155.2	196.5	190.7	200.7	215.7	215.7	207.7
MEMO: (percent of GDP)												
17 Domestic nonfinancial debt <sup>3</sup>	185.4	186.6	187.7	187.5	187.3	188.1	188.3	188.0	187.7	187.7	187.5	187.5
18 Domestic nonfinancial borrowing	8.9	9.9	8.6	8.3	7.3	7.9	11.4	6.9	8.2	8.1	8.7	8.0
19 U.S. government <sup>5</sup>	2.2	2.0	2.1	2.1	0.9	0.6	3.9	-0.1	2.8	2.0	2.5	1.8
20 Private	6.7	7.9	6.5	6.2	6.4	7.3	7.5	7.0	5.3	6.2	6.2	6.2

1. Data after 1995:Q4 are staff projections.

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

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

4. NIPA surplus less retirement funds plus consumption of fixed capital.

5. Excludes government-insured mortgage pool securities.

the second half of last year, and are projected to expand at a slower but still substantial pace over the remainder of the forecast period. Real semiconductor exports are projected to rebound from a decline during the first quarter. The quantities of other goods exports (excluding agricultural products) are projected to bounce back in the current quarter from their decline in the first quarter, in part a make-up of automobile shipments following the resolution of the GM strike, and to average about 3 percent annual growth this year and next. The projected recovery in economic activity abroad underlies the sustained growth in these exports.

QUANTITIES OF GOODS AND SERVICES  
(Percent change from end of previous period, SAAR)

	1995	-----Projection-----			1997
		Q1	Q2	H2	
Exports of G&S	6.5	4.4	10.5	6.2	8.4
Services	1.6	7.9	4.1	2.8	3.1
Computers	48.0	66.0	26.3	26.2	31.1
Semiconductors	30.0	-9.7	21.6	23.5	31.1
Other goods <sup>1</sup>	2.5	-4.8	13.8	1.5	2.8
Imports of G&S	4.6	11.3	12.1	7.8	7.9
Services	3.9	16.6	9.4	2.6	2.5
Oil	-0.5	-0.7	30.1	12.0	2.2
Computers	43.5	28.6	26.3	22.9	21.6
Semiconductors	57.9	-16.8	21.5	26.1	31.0
Other goods <sup>2</sup>	-3.0	11.6	7.7	4.2	4.5

Note: NIPA basis, chained (1992) dollars.

1. Merchandise exports excluding agriculture, computers and semiconductors.

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

Real imports of goods and services are projected to have bounced back sharply in the first quarter from their weakness during the second half of last year. Real import growth is expected to slow a bit from the first-quarter pace but to remain moderately strong during the second half of this year and 1997. Imported computers are projected to grow rapidly over the forecast period in real terms, as are imported semiconductors. Imports of other non-oil goods are projected to decelerate from their double-digit growth in the first-quarter and to expand in line with U.S. real GDP over



the remainder of the forecast period. These imports are boosted a bit late this year and in 1997 by the lagged effects of the stronger dollar. We expect the quantity of oil imports to rise sharply this quarter, after several quarters of no net growth, and then to expand over the remainder of the forecast period, as consumption increases, inventories are rebuilt, and U.S. production declines.

Oil prices. Although spot oil prices have partially retraced their recent spike, the projected prices of imported oil have been revised up \$2.49 per barrel for the second quarter (to \$19.82/b) and \$1.63 per barrel for the third quarter (to \$17.83/b). Our long-run projections for WTI and the oil import unit value are \$19.50/b and \$17.00/b, respectively. This long-run outlook incorporates the assumption that in 1997 Iraqi sales of oil will take place under UN direction.

Prices of non-oil imports and exports. Prices of non-oil imports are projected to increase only slightly during 1996-1997 as foreign inflation remains low. Prices of nonagricultural exports (including computers and semiconductors) are projected to change little on balance this year and then to rise somewhat next year.

SELECTED PRICE INDICATORS  
(Percent change from end of previous period except as noted, AR)

	1995	-----Projection-----			1997
		Q1	Q2	H2	
Nonag. exports <sup>1</sup>	1.6	-2.0	1.6	0.4	1.5
Non-oil imports <sup>1</sup>	1.0	-0.4	0.0	1.0	0.8
Oil imports (Q4 level, \$/bbl)	16.02	17.50	19.82	16.88	17.00

1. NIPA chain-weighted basis, including computers and semiconductors.

Nominal trade and current account balances. The nominal trade balance on goods and services is expected to widen somewhat over the forecast period, from its first-quarter rate of about \$105 billion to \$120 billion in the fourth quarter of 1997. While net earnings from direct investment are projected to continue to expand, that gain will be more than offset by an increasing deficit on portfolio income. Accordingly, the current account balance is projected to deteriorate over 1996-97, reaching about \$175 billion in 1997, 2-1/4 percent of GDP.

May 16, 1996

REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1994-97  
(Percent; quarterly change at an annual rate except as noted)

Measure and country	1994	1995	Projected		1995			Projected			
			1996	1997	Q2	Q3	Q4	1996			
								Q1	Q2	Q3	Q4
REAL GDP											
-----											
Canada	5.4	0.6	2.5	2.7	-0.8	1.2	0.8	2.1	2.8	2.7	2.6
France	4.1	0.3	2.1	2.6	0.2	0.2	-1.7	1.6	1.1	3.1	2.8
Germany	3.7	1.0	1.5	2.3	4.4	0.4	-1.6	-1.1	2.6	2.3	2.3
Italy	2.6	2.3	2.5	2.2	-0.2	7.6	-3.6	0.6	2.5	3.5	3.3
Japan	0.4	2.2	3.1	2.4	2.6	2.3	3.6	3.1	3.2	2.9	3.1
United Kingdom	4.1	1.9	2.1	2.5	2.0	2.0	2.0	1.6	2.0	2.2	2.5
Average, weighted by 1987-89 GDP	2.7	1.6	2.4	2.4	1.8	2.3	0.5	1.5	2.5	2.8	2.8
Average, weighted by share of											
U.S. nonagricultural exports											
Total foreign	4.8	1.8	3.5	3.7	NA	NA	NA	NA	NA	NA	NA
Foreign G-7	3.9	1.2	2.5	2.5	0.8	1.7	1.0	1.8	2.6	2.7	2.7
Developing countries	6.0	3.2	4.9	5.8	NA	NA	NA	NA	NA	NA	NA
CONSUMER PRICES(1)											
-----											
Canada	0.0	2.1	1.6	1.8	3.1	0.9	0.1	1.7	1.6	1.6	1.6
France	1.6	1.9	1.7	1.9	2.1	1.2	2.3	2.9	1.9	0.5	1.8
Western Germany	2.5	1.6	1.6	1.8	2.2	1.5	-0.5	2.5	2.5	1.8	-0.2
Italy	3.8	5.9	4.1	3.7	8.0	4.1	5.1	2.9	5.5	3.7	4.3
Japan	0.8	-0.8	-0.0	1.0	0.7	-1.0	-0.5	-0.4	0.7	-0.2	-0.1
United Kingdom(2)	2.2	2.9	2.7	2.8	6.4	0.8	1.4	3.0	5.8	0.8	1.4
Average, weighted by 1987-89 GDP	1.7	1.7	1.6	1.9	3.1	0.8	1.0	1.7	2.6	1.1	1.1
Average, weighted by share of											
U.S. non-oil imports	1.0	1.1	1.2	1.6	2.4	0.4	0.2	1.2	1.8	0.9	0.9

Note. Annual values are measured from Q4 to Q4.

1. Not seasonally adjusted.

2. CPI excluding mortgage interest payments, which is the targeted inflation rate. Previously the CPI including mortgage interest payments was shown.

U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT  
(Billions of dollars, seasonally adjusted annual rates)

	1993				1994				1995		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1992	1993	1994
NIPA Real Net Exports (Chained 1992 dollars)	-55.2	-67.0	-89.1	-86.2	-101.3	-112.2	-113.3	-105.8	-119.0	-126.8	-29.5	-74.4	-108.2
Exports of G&S	649.8	662.3	648.9	681.4	680.4	704.3	724.8	751.0	755.8	764.3	639.4	660.6	715.1
Goods	454.2	465.8	453.3	484.6	481.5	501.8	518.3	543.9	548.9	557.7	448.7	464.5	511.4
Agricultural	43.8	43.9	41.0	43.4	40.7	41.0	44.8	51.2	51.3	48.2	44.1	43.0	44.4
Computers	32.3	33.1	35.9	38.6	40.7	41.8	44.9	49.6	52.9	55.7	28.7	35.0	44.2
Semiconductors	20.6	22.3	25.5	28.2	33.5	35.4	39.5	47.2	50.7	53.3	16.0	24.1	38.9
Other Goods	357.5	366.5	350.9	374.4	366.6	383.6	389.1	395.9	394.0	400.5	359.9	362.3	383.8
Services	195.5	196.5	195.6	197.0	199.0	202.7	206.8	207.7	207.6	207.4	190.8	196.2	204.1
Imports of G&S	705.1	729.4	738.1	767.6	781.7	816.5	838.1	856.8	874.9	891.2	668.9	735.1	823.3
Goods	577.3	598.6	605.1	629.1	643.0	676.5	698.1	718.6	732.8	750.5	544.9	602.5	684.0
Oil	53.7	57.9	56.9	58.3	57.0	60.6	64.6	58.2	56.5	57.4	51.4	56.7	60.1
Computers	38.9	42.3	46.5	49.9	53.9	57.3	61.8	68.3	71.7	76.3	31.7	44.4	60.3
Semiconductors	19.2	21.2	22.4	25.0	27.3	28.5	31.6	36.9	39.4	45.3	15.5	22.0	31.1
Other Goods	465.5	477.2	479.3	495.9	504.8	530.1	540.1	555.2	565.2	571.5	446.3	479.5	532.6
Services	127.8	130.8	133.0	138.5	138.8	140.2	140.2	138.5	142.4	141.1	124.1	132.5	139.4
Memo: (Percent change 1/)													
Exports of G&S	0.4	7.9	-7.9	21.6	-0.6	14.8	12.2	15.3	2.6	4.6	4.1	5.0	10.2
Agricultural	-17.8	0.9	-23.9	25.6	-22.7	3.0	42.6	70.6	0.8	-22.1	10.6	-5.7	18.0
Computers	12.0	10.3	38.4	33.7	23.6	11.3	33.1	48.9	29.4	22.9	25.1	22.9	28.5
Semiconductors	34.4	39.3	68.4	50.1	100.8	23.7	55.5	103.3	33.5	22.1	64.8	47.5	67.4
Other Goods	-7.4	10.4	-15.9	29.6	-8.1	20.0	5.8	7.2	-1.9	6.8	2.6	2.7	5.7
Services	16.4	2.1	-1.8	2.9	4.1	7.6	8.3	1.8	-0.2	-0.4	-0.8	4.7	5.4
Imports of G&S	9.6	14.5	4.9	17.0	7.6	19.0	11.0	9.2	8.7	7.7	7.4	11.4	11.6
Oil	5.4	35.2	-6.7	10.2	-8.6	27.8	29.1	-34.1	-11.2	6.5	12.1	10.0	-0.2
Computers	41.0	39.8	46.0	32.6	36.1	27.7	35.3	49.2	21.4	28.2	45.1	39.8	36.9
Semiconductors	61.1	48.4	24.9	53.3	42.8	18.4	51.6	87.1	29.9	74.4	42.0	46.3	48.0
Other Goods	8.5	10.4	1.8	14.7	7.4	21.6	7.7	11.6	7.4	4.5	5.5	8.8	11.9
Services	1.3	9.7	6.9	17.6	0.9	4.1	0.0	-4.8	11.7	-3.6	1.4	8.7	0.0
Current Account Balance	-69.5	-97.4	-108.1	-124.7	-121.1	-151.9	-158.9	-173.1	-153.8	-172.6	-61.5	-99.9	-151.2
Goods & Serv (BOP), net	-54.3	-75.2	-88.0	-82.0	-92.1	-107.7	-115.2	-109.9	-115.6	-133.4	-39.5	-74.8	-106.2
Goods (BOP), net	-115.8	-134.4	-146.4	-133.9	-146.0	-166.0	-178.5	-174.0	-177.8	-194.6	-96.1	-132.6	-166.1
Services (BOP), net	61.5	59.2	58.5	51.9	53.9	58.3	63.3	64.1	62.2	61.3	56.6	57.8	59.9
Investment Income, net	14.8	8.3	12.8	0.1	0.5	-9.1	-10.1	-18.3	-8.1	-10.7	10.1	9.0	-9.3
Direct, net	61.1	55.3	59.2	49.7	46.2	43.9	44.6	45.7	57.0	58.7	51.6	56.3	45.1
Portfolio, net	-46.2	-47.0	-46.5	-49.6	-45.7	-53.0	-54.7	-64.0	-65.1	-69.5	-41.5	-47.3	-54.4
Unilateral Transfers, net	-30.1	-30.4	-32.9	-42.9	-29.5	-35.1	-33.5	-45.0	-30.1	-28.5	-32.1	-34.1	-35.8

1/ Percent change (AR) from previous period; percent changes for annual data are calculated Q4/Q4.

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OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT  
(Billions of dollars, seasonally adjusted annual rates)

	Projection										Projection		
	1995		1996				1997				ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1995	1996	1997
NIPA Real Net Exports (Chained 1992 dollars)	-114.3	-96.6	-112.3	-118.6	-130.5	-129.4	-127.3	-129.5	-138.0	-135.3	-114.2	-122.7	-132.5
Exports of G&S	779.1	799.8	808.4	828.8	833.0	854.3	868.5	890.6	901.5	926.2	774.8	831.1	896.7
Goods	570.7	589.8	594.3	612.6	615.6	635.2	647.4	667.8	677.1	700.3	566.8	614.4	673.2
Agricultural	50.0	49.4	50.5	47.6	47.9	49.1	49.2	49.5	49.9	50.2	49.7	48.8	49.7
Computers	65.2	73.4	83.3	88.3	93.6	99.2	106.2	113.6	121.6	130.1	61.8	91.1	117.9
Semiconductors	57.0	61.3	59.8	62.8	65.9	69.8	74.7	80.0	85.6	91.6	55.6	64.6	83.0
Other Goods	398.5	405.7	400.8	413.9	408.2	417.0	417.3	424.7	420.0	428.5	399.7	410.0	422.6
Services	209.4	211.1	215.2	217.3	218.5	220.3	222.1	223.9	225.6	227.0	208.9	217.8	224.7
Imports of G&S	893.4	896.4	920.6	947.4	963.5	983.8	995.8	1020.2	1039.6	1061.5	889.0	953.8	1029.2
Goods	752.2	752.8	771.4	794.8	809.9	829.2	840.4	864.2	882.5	903.1	747.1	801.3	872.6
Oil	60.7	57.9	57.8	61.7	66.6	65.3	62.8	68.2	71.1	66.7	58.1	62.8	67.2
Computers	88.0	98.0	104.4	110.6	116.7	122.6	128.7	135.1	141.9	149.0	83.5	113.6	138.7
Semiconductors	53.0	58.3	55.7	58.5	62.0	65.7	70.3	75.2	80.5	86.1	49.0	60.5	78.0
Other Goods	550.5	538.6	553.5	563.9	564.7	575.7	578.7	585.7	589.0	601.3	556.4	564.4	588.7
Services	141.6	143.9	149.5	152.9	153.9	154.9	155.7	156.3	157.3	158.7	142.2	152.8	157.0
Memo: (Percent change 1/)													
Exports of G&S	8.0	11.1	4.4	10.5	2.1	10.6	6.8	10.6	5.0	11.4	6.5	6.8	8.4
Agricultural	15.8	-4.7	9.2	-21.3	2.6	10.4	0.8	2.5	3.3	2.4	-3.5	-0.7	2.2
Computers	87.7	60.6	66.0	26.3	26.3	26.3	31.1	31.1	31.1	31.1	48.0	35.2	31.1
Semiconductors	31.3	33.3	-9.7	21.6	21.6	26.3	31.1	31.1	31.1	31.1	30.0	13.9	31.1
Other Goods	-2.0	7.5	-4.8	13.8	-5.4	8.9	0.3	7.3	-4.4	8.3	2.5	2.8	2.8
Services	3.9	3.3	7.9	4.1	2.2	3.2	3.4	3.3	3.0	2.5	1.6	4.3	3.1
Imports of G&S	1.0	1.3	11.3	12.1	7.0	8.7	5.0	10.2	7.8	8.7	4.6	9.7	7.9
Oil	25.1	-17.2	-0.7	30.1	35.1	-7.6	-14.3	38.8	18.6	-22.7	-0.5	12.7	2.2
Computers	76.9	53.8	28.6	26.3	23.9	21.6	21.6	21.6	21.6	21.6	43.5	25.1	21.6
Semiconductors	86.9	46.8	-16.8	21.5	26.2	26.2	31.0	31.0	31.1	31.1	57.9	12.7	31.0
Other Goods	-13.9	-8.4	11.6	7.7	0.5	8.0	2.1	4.9	2.3	8.6	-3.0	6.9	4.5
Services	1.4	6.7	16.6	9.4	2.6	2.5	2.0	1.7	2.6	3.6	3.9	7.6	2.5
Current Account Balance	-161.0	-124.6	-151.3	-157.4	-162.7	-175.9	-161.6	-170.1	-176.8	-191.6	-153.0	-161.8	-175.0
Goods & Serv (BOP), net	-109.2	-87.8	-104.1	-111.5	-117.1	-112.8	-111.4	-114.3	-123.6	-120.9	-111.5	-111.4	-117.5
Goods (BOP), net	-173.3	-152.5	-168.9	-176.5	-183.1	-180.1	-180.7	-185.6	-196.5	-194.9	-174.6	-177.1	-189.4
Services (BOP), net	64.1	64.6	64.8	65.0	66.0	67.3	69.3	71.3	72.9	74.0	63.0	65.8	71.9
Investment Income, net	-20.7	-6.1	-8.8	-16.9	-16.6	-23.7	-21.2	-26.8	-24.2	-31.2	-11.4	-16.5	-25.9
Direct, net	52.7	68.1	64.2	61.7	60.6	59.9	62.1	62.0	62.8	62.9	59.1	61.6	62.4
Portfolio, net	-73.4	-74.2	-73.0	-78.6	-77.2	-83.6	-83.3	-88.8	-87.0	-94.1	-70.5	-78.1	-88.3
Unilateral Transfers, net	-31.1	-30.7	-38.4	-29.0	-29.0	-39.5	-29.0	-29.0	-29.0	-39.5	-30.1	-34.0	-31.6

1/ Percent change (AR) from previous period; percent changes for annual data are calculated Q4/Q4.

## **Part 2**

May 16, 1996

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

Prepared for the Federal Open Market Committee

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

May 16, 1996

## **RECENT DEVELOPMENTS**

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

preventing the companies from supplying as many of the more popular models as they might like.

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

	1996				
	Feb.	Mar.	Apr.	Q1	Q2
U.S. production	12.0	9.9	12.2	11.0	Sched. 12.2
Autos	6.1	4.7	6.3	5.5	6.4
Trucks	5.9	5.2	5.9	5.6	5.8
Days' supply					
Autos	62.8	54.4	60.3 <sup>e</sup>	...	...
Light trucks	64.6	66.3	70.7 <sup>e</sup>	...	...

Note: Components may not sum to totals because of rounding.  
e Estimated.

Current and prospective indicators of industrial activity more broadly have been mixed; on the whole, however, they appear to point to sustained expansion of production. New orders for durable goods, adjusted for inflation and excluding orders that are not closely related to near-term activity, fell 0.9 percent in March, but this decline reversed only about half of the sizable rise reported over the two previous months. The orders and production components of the National Purchasing Managers' indexes firmed in April, though they were at levels suggesting only slow expansion of the manufacturing sector in the near term. An increasingly positive element in the outlook is that aircraft production is swinging back in a positive direction. Schedules for Boeing, which produces the vast majority of domestic commercial jet aircraft, suggest that total commercial jet aircraft production will increase about 40 percent over this year and the next, after posting large declines in 1994-95.

The 1995 estimates of capacity growth in manufacturing have been revised downward slightly and those for 1996 revised upward in response to new information from the *Investment Plans Survey* and more detailed, revised utilization rates from the *Census Survey of Plant Capacity* for 1993 and 1994. The revised estimates still show sizable gains in factory productive potential in 1995-96--on the order of 4 percent; increases have been particularly large in the computer and semiconductor industries. Utilization rates for the total industrial sector have been fluctuating with the monthly ups and downs in production; the rate in April, 83.0 percent, was

## CBO BUDGET AND ECONOMIC PROJECTIONS

	1996	1997	1998	1999	2000	2001	2002
Budget projections (Billions of dollars; fiscal years)							
Outlays	1572	1654	1737	1828	1925	2016	2125
Receipts	1428	1483	1544	1609	1681	1758	1840
Deficit	144	171	194	219	244	259	285
Economic projections assuming current policy (Calendar years)							
-----Percentage change, year over year-----							
Nominal GDP	4.6	4.7	4.8	4.9	4.9	4.9	4.9
Real GDP	2.0	1.9	2.0	2.1	2.1	2.1	2.1
CPI-U	2.8	3.1	3.0	2.9	2.9	2.9	3.0
-----Percent, annual average-----							
Unemployment rate	5.8	6.0	6.0	6.0	6.0	6.0	6.0
Yield on selected Treasuries							
Three-month	4.9	4.8	4.8	4.8	4.8	4.8	4.8
Ten-year	6.1	6.4	6.4	6.4	6.4	6.4	6.4

Note. The projections assume that revenues and outlays for major benefit programs evolve according to laws in effect at the time the projections are made. Discretionary spending is adjusted for inflation up to the statutory caps that are in effect through 1998. General purpose discretionary spending is assumed to equal the cap in 1998 and to grow from that level at the rate of inflation in later years. The projections include social security and the Postal Service, which are off-budget.

Source. The Economic and Budget Outlook, Fiscal Years 1997-2006. Congressional Budget Office, April 17, 1996.



TREASURY FINANCING  
(Billions of dollars; total for period)

Item	1996				
	Q1	Q2 <sup>P</sup>	Apr. <sup>e</sup>	May <sup>P</sup>	Jun. <sup>P</sup>
Total surplus/deficit (-)	-72.3	52.3	67.5	-48.9	33.7
Means of financing deficit					
Net cash borrowing and repayments (-)	80.5	-37.0	-39.2	17.3	-15.1
Nonmarketable	2.6	1.6	0.6	1.8	-0.8
Marketable	77.9	-38.6	-39.8	15.5	-14.3
Bills	51.8	-50.8	-45.9	9.4	-14.3
Coupons	26.1	12.2	6.1	6.1	0.0
Decrease in cash balance	-1.4	-14.5	-26.4	39.7	-27.7
Other <sup>1</sup>	-6.8	-0.8	-1.9	-8.0	9.1
Memo:					
Cash balance, end of period	21.9	36.4	48.3	8.6	36.4

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

p Projection.

e Estimate.

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

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

Agency	1995	1996			
	Q4	Q1	Jan.	Feb.	Mar.
FHLBs	6.3	-3.9	-8.5	-1.3	5.8
FHLMC	8.4	4.3	0.9	2.9	0.5
FNMA	22.0	7.6	-1.5	6.5	2.7
Farm Credit Banks	1.6	2.0	1.3	-1.1	1.9
SLMA	-4.1	-1.8	0.1	1.8	-3.8

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

n.a. Not available.

CONFIDENTIAL (FR)  
CLASS III FOMC

May 17 1996

SUPPLEMENT  
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

May 17, 1996

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

	1995 Sep	1995 Oct	1995 Nov	1995 Dec	1996 Jan	1996 Feb	1996 Mar	1996 Apr	1996 May (p)
<b>Indexes of consumer sentiment (Feb. 1966=100)</b>									
Composite of current and expected conditions	88.9	90.2	88.2	91.0	89.3	88.5	93.7	92.7	89.9
Current conditions	104.6	104.8	101.3	102.4	105.8	105.2	105.4	107.8	104.7
Expected conditions	78.8	80.8	79.7	83.7	78.7	77.8	86.2	83.0	80.5
<b>Personal financial situation</b>									
Now compared with 12 months ago*	112	111	108	112	115	111	112	118	113
Expected in 12 months*	120	120	123	126	131	120	130	127	124
<b>Expected business conditions</b>									
Next 12 months*	109	112	111	115	104	109	125	118	112
Next 5 years*	87	91	85	95	80	83	91	88	87
<b>Appraisal of buying conditions</b>									
Cars	135	125	130	133	122	129	134	125	129
Large household appliances*	160	161	154	153	159	161	161	162	158
Houses	166	151	148	157	152	163	168	157	159
Willingness to use credit	47	40	43	45	36	40	47	45	35
Willingness to use savings	62	63	62	70	65	65	71	64	68
Expected unemployment change - next 12 months	126	133	124	122	135	131	123	124	117
Expected inflation - next 12 months	4.0	3.6	3.8	3.3	4.0	3.6	4.2	4.5	5.0
Expected inflation - next 5 to 10 years	4.4	3.7	4.0	3.9	4.2	4.2	4.3	4.1	4.8

\* -- 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.