

Part 1

August 15, 1996

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

Strictly Confidential (FR) Class II FOMC

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SUMMARY AND OUTLOOK

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production worker hours fell 1.2 percent, returning to the second-quarter average. However, initial claims for unemployment insurance have been quite low of late; this may be at least partly an aberration associated with changing seasonal patterns, but when viewed in the context of anecdotal and survey reports of labor market conditions, it is hard to shake the suspicion that job growth is holding up better than we had anticipated. Indeed, we have written in private payroll increases averaging about 160,000 in August and September--enough, we think, to produce a quarterly gain in private hours on the order of 2 percent at an annual rate. With government output likely to decline from its surprisingly high second-quarter level, such growth in private hours might be expected to translate into a real GDP increase in the 2 percent to 3 percent range. This would also be consistent with unemployment remaining near July's 5.4 percent rate.

SUMMARY OF THE NEAR-TERM OUTLOOK
(Percent change, at annual rates, unless otherwise noted)

	1996:Q2			1996:Q3		
	June GB	BEA adv.	Aug. GB	June GB	Aug. GB	
Real GDP	3.8	4.2	3.7	2.3	2.6	
Private domestic final sales	3.5	3.9	4.2	2.8	2.6	
<i>Change in billions of chained (1992) dollars</i>						
Inventory investment	17.3	13.3	6.6	17.2	25.7	
Government purchases	8.4	21.7	19.6	-9.4	-11.3	
Net exports	-10.7	-17.7	-20.5	-9.1	-6.1	

Growth in consumer spending appears to have hit a lull in the past couple of months. Sales of light vehicles fell noticeably in July, and even with a projected bounceback over the rest of the summer, we expect only a relatively modest increase in expenditures on new cars and trucks for the quarter as a whole. Sluggish retail sales on balance in June and July also point to a moderation in real PCE growth this quarter--perhaps to around a 2-1/2 percent annual rate, versus 3-1/2 percent in the first half.

Real business fixed investment is projected to rise 4-3/4 percent at an annual rate this quarter, up somewhat from the 3-1/2 percent pace we estimate for the second quarter (based on

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

	1996			
	1995	H1	H2	1997
Real GDP	1.3	2.8	2.3	2.1
<i>Previous</i>	1.3	3.0	2.1	2.2
Final sales	1.9	3.2	1.6	2.1
<i>Previous</i>	1.9	3.1	1.7	2.2
PCE	1.9	3.5	2.6	2.5
<i>Previous</i>	2.0	3.2	2.7	2.5
BFI	6.4	7.4	5.2	4.3
<i>Previous</i>	6.7	9.7	4.8	4.2
Residential investment	-1.5	12.1	-2.5	-1.5
<i>Previous</i>	-1.4	6.7	-3.1	-.2
Civilian unemployment rate ¹	5.5	5.4	5.4	5.4
<i>Previous</i>	5.5	5.5	5.5	5.5

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

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

Consumer spending. Consumer expenditures appear to be settling back to a more moderate growth path after spurring earlier this year. Sales of light motor vehicles are projected to run a little under 15 million units at an annual rate through 1997--off somewhat from the pace of the first half. Overall spending on non-auto durables should decelerate considerably from the hectic pace of the first half, although large price declines and the availability of new products likely will continue to boost sales of consumer electronics and related goods. Outlays for nondurable goods and services are projected to continue growing at a pace close to that in the first half of the year. Overall, real PCE is expected to increase at about a 2-1/2 percent annual rate, a pace roughly matching disposable income growth and thus consistent with the saving rate holding in the 4-1/2 to 4-3/4 percent range.

The financial crosscurrents in the consumption picture haven't changed much--and suggest, on net, no major impetus or restraint on demand. A sustained high-employment environment conceivably could make households less worried about maintaining precautionary savings, but concerns about education bills and retirement needs reportedly are causing many people to want to build their nest eggs. Rising loan delinquencies and bankruptcies are signaling a

displace some low-skill workers, there is also likely to be an increase over time in the natural rate of unemployment--probably no more than a tenth of a percentage point by the end of the projection period, though.

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

	1996		1995	1996	1997
	H1	H2			
Employment cost index ¹	3.0	3.6	2.6	3.3	3.7
<i>Previous</i>	2.8	3.2	2.8	3.0	3.3
Consumer price index ²	3.5	2.9	2.7	3.2	3.3
<i>Previous</i>	3.6	2.7	2.7	3.1	3.2
Food	3.0	5.4	2.6	4.2	4.0
<i>Previous</i>	2.8	4.5	2.6	3.7	3.8
Energy	15.6	-3.3	-1.7	5.7	3.3
<i>Previous</i>	16.5	-5.5	-1.7	4.9	3.7
Excluding food and energy	2.7	3.0	3.0	2.9	3.2
<i>Previous</i>	2.7	3.0	3.0	2.9	3.0
PCE chain-weight price index ²	2.7	2.5	2.1	2.6	2.9
<i>Previous</i>	2.9	2.4	2.2	2.6	2.9
Excluding food and energy	1.8	2.3	2.3	2.1	2.7
<i>Previous</i>	2.1	2.6	2.4	2.4	2.7
GDP chain-weight price index ²	2.3	2.7	2.5	2.5	2.9
<i>Previous</i>	2.2	2.7	2.5	2.5	2.8

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.

Unless some greater slack in the economy were to offset the "impact" effects, the minimum wage hike could be expected to have some additional influence on compensation growth to the extent that higher labor costs are passed on to prices, which in turn would likely boost the inflation expectations that become embedded in the wage-bargaining process. Such an offset does not occur in our forecast: To the contrary, the unemployment rate path is a bit lower than in the previous projection. Consequently, at 3-1/4 percent in 1996 and 3-3/4 percent in 1997, our forecast for growth in the ECI for total compensation is about 1/3 percentage point higher than our projection in the June Greenbook.

is reduced 0.2 percentage point. The effects of the easier policy scenario are symmetric.

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

	1996	1997
Real GDP		
Baseline	2.6	2.1
Lower funds rate	2.6	2.8
Higher funds rate	2.6	1.4
Civilian unemployment rate ¹		
Baseline	5.4	5.4
Lower funds rate	5.4	5.1
Higher funds rate	5.4	5.7
CPI		
Baseline	3.2	3.3
Lower funds rate	3.2	3.5
Higher funds rate	3.2	3.1

1. Average for the fourth quarter.

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

August 15, 1996

Interval	Nominal GDP		Real GDP		GDP Chain-weighted price index		Consumer price index ¹		Unemployment rate ²		
	06/26/96	08/15/96	06/26/96	08/15/96	06/26/96	08/15/96	06/26/96	08/15/96	06/26/96	08/15/96	
ANNUAL											
1993		4.9	4.9	2.2	2.3	2.6	2.6	3.0	3.0	6.9	6.9
1994		5.8	5.8	3.5	3.5	2.3	2.3	2.6	2.6	6.1	6.1
1995		4.5	4.6	2.0	2.0	2.5	2.5	2.8	2.8	5.6	5.6
1996		4.3	4.3	2.2	2.2	2.3	2.3	3.0	3.0	5.5	5.5
1997		4.5	4.8	2.2	2.2	2.7	2.8	3.1	3.2	5.5	5.4
QUARTERLY											
1994	Q1	5.4	5.3	2.5	2.5	2.8	2.9	1.9	1.9	6.6	6.6
	Q2	6.8	6.9	4.8	4.9	1.9	1.9	2.8	2.8	6.2	6.2
	Q3	6.1	6.1	3.6	3.5	2.4	2.4	3.6	3.6	6.0	6.0
	Q4	5.4	5.3	3.2	3.0	2.2	2.1	2.4	2.4	5.6	5.6
1995	Q1	3.9	3.8	0.6	0.4	3.3	3.3	2.7	2.7	5.5	5.5
	Q2	2.8	3.1	0.5	0.7	2.5	2.4	3.5	3.5	5.7	5.7
	Q3	5.8	6.0	3.6	3.8	2.2	2.1	2.1	2.1	5.6	5.6
	Q4	2.3	2.3	0.5	0.3	2.2	2.1	2.4	2.4	5.5	5.5
1996	Q1	4.5	4.2	2.2	2.0	2.3	2.3	3.2	3.2	5.6	5.6
	Q2	5.4	5.6	3.8	3.7	2.1	2.2	4.0	3.9	5.5	5.4
	Q3	4.5	4.5	2.3	2.6	2.6	2.3	2.6	2.7	5.5	5.4
	Q4	4.4	4.8	1.9	2.0	2.7	3.0	2.7	3.1	5.5	5.4
1997	Q1	4.4	4.8	2.1	2.0	2.8	3.0	3.2	3.3	5.5	5.4
	Q2	4.6	4.7	2.2	2.1	2.8	2.8	3.4	3.5	5.5	5.4
	Q3	4.4	4.8	2.0	2.2	2.8	2.8	3.1	3.2	5.5	5.4
	Q4	4.6	4.8	2.3	2.2	2.7	2.8	3.0	3.2	5.5	5.4
TWO-QUARTER³											
1994	Q2	6.1	6.1	3.7	3.7	2.4	2.4	2.3	2.3	-0.4	-0.4
	Q4	5.7	5.7	3.4	3.3	2.3	2.2	2.9	2.9	-0.6	-0.6
1995	Q2	3.3	3.5	0.5	0.6	2.9	2.9	3.2	3.2	0.1	0.1
	Q4	4.0	4.1	2.0	2.0	2.2	2.1	2.2	2.2	-0.2	-0.2
1996	Q2	5.0	4.9	3.0	2.8	2.2	2.3	3.6	3.5	0.0	-0.1
	Q4	4.4	4.6	2.1	2.3	2.7	2.7	2.7	2.9	-0.0	0.0
1997	Q2	4.5	4.8	2.1	2.1	2.8	2.9	3.3	3.4	0.0	-0.0
	Q4	4.5	4.8	2.2	2.2	2.7	2.8	3.1	3.2	-0.0	-0.0
FOUR-QUARTER⁴											
1993	Q4	4.7	4.8	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	3.7	3.8	1.3	1.3	2.5	2.5	2.7	2.7	-0.1	-0.1
1996	Q4	4.7	4.8	2.5	2.6	2.5	2.5	3.1	3.2	-0.0	-0.1
1997	Q4	4.5	4.8	2.2	2.1	2.8	2.9	3.2	3.3	-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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Class II FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES
(Seasonally adjusted annual rate)

August 15, 1996

Item	Units ¹	- Projected -									
		1989	1990	1991	1992	1993	1994	1995	1996	1997	
EXPENDITURES											
Nominal GDP	Bill. \$	5438.7	5743.8	5916.7	6244.4	6553.0	6935.7	7253.8	7567.0	7928.7	
Real GDP	Bill. Ch. \$	6060.4	6138.7	6079.0	6244.4	6386.4	6608.7	6742.9	6891.7	7045.8	
Real GDP	% change	2.4	-0.2	0.4	3.7	2.2	3.5	1.3	2.6	2.1	
Gross domestic purchases		1.7	-0.8	-0.0	4.0	2.9	3.8	1.0	3.2	2.2	
Final sales		2.3	0.6	-0.4	3.9	2.0	2.9	1.9	2.4	2.1	
Priv. dom. final purchases		1.4	-0.6	-0.8	4.9	3.5	4.0	2.3	3.6	2.5	
Personal cons. expenditures		1.6	0.5	-0.2	4.2	2.5	3.1	1.9	3.0	2.5	
Durables		-0.1	-3.2	-3.1	9.4	7.3	7.0	1.3	8.1	4.0	
Nondurables		1.6	-0.5	-1.0	3.4	1.5	3.5	1.1	2.4	2.2	
Services		2.1	2.0	0.9	3.6	2.1	2.0	2.4	2.3	2.3	
Business fixed investment		2.8	-2.5	-6.0	5.5	8.5	10.1	6.4	6.3	4.3	
Producers' dur. equipment		2.3	-2.0	-2.6	9.6	11.5	12.6	6.9	7.5	5.5	
Nonres. structures		3.7	-3.5	-12.5	-3.4	1.6	3.6	5.1	3.1	0.6	
Residential structures		-7.0	-15.1	1.1	16.9	8.1	5.7	-1.5	4.5	-1.5	
Exports		10.8	7.2	8.6	4.1	4.8	9.9	7.4	5.1	8.5	
Imports		2.6	0.5	4.1	7.4	10.5	11.8	4.2	10.2	8.1	
Gov't. cons. & investment		2.5	2.6	-0.7	1.7	-0.5	0.0	-1.3	1.1	0.5	
Federal		0.8	1.6	-3.1	1.3	-5.4	-3.1	-6.7	-0.6	-3.1	
Defense		-1.0	0.3	-5.3	-1.3	-6.8	-5.7	-6.8	-1.6	-4.2	
State & local		3.9	3.3	1.0	2.0	3.1	2.2	2.1	2.1	2.5	
Change in bus. inventories	Bill. Ch. \$	33.3	10.4	-3.0	7.3	19.1	58.9	33.1	13.9	27.4	
Nonfarm		33.5	7.8	-1.2	1.9	26.4	46.8	37.2	17.6	25.1	
Net exports		-82.7	-61.9	-22.3	-29.5	-72.0	-105.7	-107.6	-123.4	-138.2	
Nominal GDP	% change	6.4	4.4	3.8	6.3	4.8	5.9	3.8	4.8	4.8	
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	107.9	109.4	108.3	108.6	110.7	114.2	117.2	119.5	121.3	
Unemployment rate	%	5.3	5.6	6.9	7.5	6.9	6.1	5.6	5.5	5.4	
Industrial prod. index	% change	-0.1	-0.2	0.2	4.0	3.2	6.6	1.6	3.3	3.0	
Capacity util. rate - mfg.	%	83.2	81.3	78.0	79.5	80.6	83.3	83.0	81.9	82.0	
Housing starts	Millions	1.38	1.19	1.01	1.20	1.29	1.46	1.35	1.45	1.37	
Light motor vehicle sales		14.66	14.05	12.52	12.85	13.87	15.02	14.74	15.01	14.85	
North Amer. produced		11.20	10.85	9.74	10.51	11.72	12.88	12.82	13.30	13.07	
Other		3.46	3.20	2.77	2.34	2.15	2.13	1.91	1.71	1.77	
INCOME AND SAVING											
Nominal GNP	Bill. \$	5452.8	5764.9	5932.4	6255.5	6563.5	6931.9	7246.7	7557.9	7908.9	
Nominal GNP	% change	6.5	4.6	3.5	6.2	4.7	5.7	3.9	4.7	4.7	
Nominal personal income		6.8	6.4	3.7	7.3	3.6	5.2	5.6	5.2	5.1	
Real disposable income		1.6	1.0	0.8	4.0	0.9	2.7	3.1	2.3	2.5	
Personal saving rate	%	4.8	5.0	5.7	5.9	4.5	3.8	4.7	4.6	4.7	
Corp. profits, IVA & CCAdj.	% change	-9.9	6.2	3.9	12.7	19.9	11.3	7.2	3.4	3.0	
Profit share of GNP	%	6.5	6.4	6.4	6.4	7.1	7.6	8.1	8.4	8.2	
(excluding FR banks)	%	6.2	6.0	6.1	6.1	6.8	7.4	7.8	8.2	7.9	
Federal surpl./deficit	Bill. \$	-113.4	-154.7	-196.0	-280.9	-255.6	-190.2	-161.7	-131.1	-122.9	
State & local surpl./def.		95.1	80.1	75.8	86.3	94.9	99.7	95.0	92.0	86.2	
Ex. social ins. funds		34.9	20.2	11.5	18.3	28.0	36.9	36.8	35.7	30.9	
PRICES AND COSTS											
GDP implicit deflator	% change	3.9	4.6	3.4	2.6	2.5	2.3	2.5	2.1	2.6	
GDP chn.-wt. price index		3.9	4.7	3.3	2.6	2.5	2.3	2.5	2.5	2.9	
Gross Domestic Purchases		4.0	5.2	2.7	2.7	2.3	2.4	2.3	2.3	2.8	
chn.-wt. price index		4.6	6.3	3.0	3.1	2.7	2.6	2.7	3.2	3.3	
CPI		4.4	5.3	4.4	3.5	3.1	2.8	3.0	2.9	3.2	
Ex. food and energy		4.8	4.6	4.4	3.5	3.1	2.8	3.0	2.9	3.2	
ECI, hourly compensation ²		4.8	4.6	4.4	3.5	3.6	3.1	2.6	3.3	3.7	
Nonfarm business sector		0.1	-0.6	2.2	3.6	-0.3	0.5	0.3	0.8	1.0	
Output per hour		2.8	5.9	4.7	4.6	1.8	2.5	4.1	3.8	3.9	
Compensation per Hour		2.7	6.5	2.5	1.0	2.1	2.0	3.8	2.8	2.8	
Unit labor cost											

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

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

August 15, 1996

Item	Units	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	6442.6	6506.2	6574.4	6688.6	6776.0	6890.5	6993.1	7083.2	7149.8	7204.9
Real GDP	Bill. Ch. \$	6326.4	6356.5	6393.4	6469.1	6508.5	6587.6	6644.9	6693.9	6701.0	6713.5
Real GDP	% change	-0.1	1.9	2.3	4.8	2.5	4.9	3.5	3.0	0.4	0.7
Gross domestic purchases		0.9	2.4	3.7	4.4	3.5	5.3	3.7	2.5	1.4	0.7
Final sales		-0.9	1.7	2.3	5.0	1.2	3.0	4.2	3.5	0.6	2.1
Priv. dom. final purchases		1.4	2.8	4.4	5.4	3.9	4.4	3.8	4.0	2.3	2.3
Personal cons. expenditures		0.7	2.7	3.8	2.8	2.8	3.5	2.8	3.1	1.0	3.1
Durables		0.8	11.2	7.3	10.2	5.8	4.3	5.6	12.4	-8.9	7.0
Nondurables		-0.9	2.3	2.9	1.8	3.9	3.2	3.8	3.2	2.4	1.8
Services		1.5	1.3	3.6	1.9	1.6	3.5	1.6	1.2	2.4	3.0
Business fixed investment		6.0	6.3	4.6	17.6	7.3	7.1	13.8	12.2	15.4	3.5
Producers' dur. equipment		7.1	11.4	6.3	21.7	15.5	4.1	19.4	11.9	17.4	3.5
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	-1.8	-0.1	-6.3	-13.4
Exports		-1.3	8.3	-8.5	23.4	-1.5	15.9	9.7	16.5	2.6	5.9
Imports		8.4	12.7	4.1	17.5	8.2	18.4	10.7	10.3	11.2	4.5
Gov't. cons. & investment		-4.6	0.2	1.0	1.5	-4.3	-0.8	7.0	-1.4	-1.2	0.8
Federal		-12.7	-4.9	-2.9	-0.7	-11.4	-5.3	11.5	-5.9	-6.5	-1.4
Defense		-15.2	-5.1	-5.8	-0.5	-17.4	0.7	13.5	-16.1	-7.4	0.6
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	40.5	74.5	64.5	56.1	54.5	30.5
Nonfarm		26.0	26.7	30.9	22.1	29.7	54.0	50.5	53.0	57.4	33.7
Net exports		-56.0	-64.4	-86.2	-81.5	-99.3	-107.3	-111.7	-104.3	-122.5	-121.4
Nominal GDP	% change	3.8	4.0	4.3	7.1	5.3	6.9	6.1	5.3	3.8	3.1
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	109.7	110.3	111.0	111.8	112.6	113.7	114.7	115.6	116.5	117.0
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
INCOME AND SAVING											
Nominal GNP	Bill. \$	6458.6	6516.5	6587.1	6691.9	6781.0	6888.3	6987.0	7071.4	7146.8	7202.4
Nominal GNP	% change	4.3	3.6	4.4	6.5	5.4	6.5	5.9	4.9	4.3	3.1
Nominal personal income		-4.8	8.5	3.1	8.2	-3.4	13.3	4.9	6.7	7.1	4.7
Real disposable income		-7.1	4.9	1.5	5.0	-5.4	9.7	2.9	4.2	3.7	0.3
Personal saving rate	%	4.2	4.8	4.2	4.7	2.7	4.0	4.1	4.3	4.9	4.1
Corp. profits, IVA & CCAdj.	% change	-0.3	20.5	20.9	42.2	-35.4	82.5	14.8	13.5	-7.4	1.7
Profit share of GNP	%	6.6	6.9	7.1	7.7	6.8	7.8	7.9	8.1	7.8	7.8
(excluding FR banks)	%	6.4	6.6	6.9	7.4	6.5	7.5	7.7	7.8	7.5	7.5
Federal surpl./deficit	Bill. \$	-284.5	-250.2	-254.4	-233.3	-212.7	-169.6	-188.5	-190.1	-172.6	-161.1
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
PRICES AND COSTS											
GDP implicit deflator	% change	3.8	2.1	1.9	2.2	2.8	1.9	2.5	2.2	3.4	2.4
GDP chn.-wt. price index		3.8	2.2	1.8	2.3	2.9	1.9	2.4	2.1	3.3	2.4
Gross Domestic Purchases chn.-wt. price index		3.1	2.4	1.3	2.2	2.4	2.3	3.0	2.0	2.8	2.8
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 ¹		4.2	3.5	3.4	3.4	3.0	3.4	3.3	2.3	2.9	2.9
Nonfarm business sector		-3.7	-1.8	1.6	2.7	-2.0	1.0	2.0	0.9	-1.6	2.0
Output per hour		1.3	2.1	1.7	1.9	2.8	1.4	2.1	3.9	3.7	4.6
Compensation per hour		5.2	4.0	0.1	-0.8	4.8	0.3	0.1	2.9	5.4	2.6
Unit labor cost											

1. Private-industry workers.

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

August 15, 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. \$	7309.8	7350.6	7426.8	7528.7	7611.6	7701.0	7791.4	7881.9	7974.1	8067.5		
Real GDP	Bill. Ch. \$	6776.4	6780.7	6814.3	6876.4	6921.2	6955.1	6989.2	7026.2	7064.2	7103.4		
Real GDP	% change	3.8	0.3	2.0	3.7	2.6	2.0	2.0	2.1	2.2	2.2		
Gross domestic purchases		2.6	-0.7	3.0	4.8	2.9	2.2	1.8	2.2	2.7	2.1		
Final sales		3.6	1.4	3.0	3.4	1.1	2.2	2.1	2.0	1.8	2.4		
Priv. dom. final purchases		3.0	1.4	4.7	4.2	2.6	2.9	2.5	2.5	2.6	2.6		
Personal cons. expenditures		2.4	1.1	3.5	3.4	2.4	2.8	2.6	2.5	2.4	2.4		
Durables		9.3	-1.0	8.2	13.0	5.6	6.0	4.3	3.8	3.9	3.8		
Nondurables		0.5	-0.4	3.7	1.9	2.0	2.2	2.3	2.2	2.1	2.1		
Services		2.0	2.3	2.4	2.2	2.0	2.4	2.4	2.3	2.3	2.3		
Business fixed investment		4.9	2.5	11.6	3.4	4.8	5.7	3.8	4.3	4.5	4.4		
Producers' dur. equipment		4.3	3.0	13.1	4.8	5.2	7.3	5.0	5.6	5.8	5.7		
Nonres. structures		6.3	1.0	7.7	-0.1	3.8	1.1	0.5	0.5	0.8	0.8		
Residential structures		9.2	6.4	7.4	17.1	-1.1	-4.0	-4.2	-2.0	-0.4	0.5		
Exports		10.7	10.7	1.8	5.4	3.2	10.2	6.6	10.4	5.1	11.8		
Imports		-0.0	1.6	10.6	14.5	5.5	10.5	4.6	10.1	8.2	9.6		
Gov't. cons. & investment		-0.6	-4.3	1.6	6.4	-3.5	0.2	-0.6	0.6	0.9	0.9		
Federal		-5.6	-13.2	6.0	6.8	-11.0	-3.2	-5.6	-2.8	-2.0	-2.1		
Defense		-7.6	-12.3	4.1	8.0	-12.2	-4.9	-6.4	-4.3	-2.9	-3.2		
State & local		2.7	1.5	-0.9	6.1	1.2	2.2	2.4	2.5	2.5	2.6		
Change in bus. inventories	Bill. Ch. \$	33.0	14.6	-3.0	3.6	29.3	25.7	23.7	25.4	32.0	28.6		
Nonfarm		38.6	19.0	2.9	9.2	32.8	25.5	22.2	23.4	29.5	25.1		
Net exports		-101.6	-84.9	-104.0	-124.5	-130.6	-134.6	-132.1	-134.6	-143.8	-142.5		
Nominal GDP	% change	6.0	2.3	4.2	5.6	4.5	4.8	4.8	4.7	4.8	4.8		
EMPLOYMENT AND PRODUCTION													
Nonfarm payroll employment	Millions	117.4	117.9	118.5	119.3	119.9	120.3	120.7	121.1	121.5	121.8		
Unemployment rate	%	5.6	5.5	5.6	5.4	5.4	5.4	5.4	5.4	5.4	5.4		
Industrial prod. index	% change	3.2	0.6	3.0	6.0	3.0	1.4	3.0	3.0	3.0	3.0		
Capacity util. rate - mfg.	%	82.6	82.0	81.6	82.1	82.0	82.0	82.0	82.0	82.0	82.0		
Housing starts	Millions	1.42	1.41	1.47	1.48	1.43	1.40	1.38	1.37	1.37	1.37		
Light motor vehicle sales		15.04	14.92	15.18	15.13	14.77	14.96	14.80	14.83	14.87	14.88		
North Amer. produced		13.18	13.13	13.49	13.41	13.08	13.21	13.04	13.06	13.09	13.10		
Other		1.86	1.79	1.69	1.72	1.69	1.75	1.76	1.77	1.78	1.78		
INCOME AND SAVING													
Nominal GNP	Bill. \$	7293.4	7344.3	7426.6	7520.0	7598.4	7686.6	7773.9	7863.1	7953.6	8044.9		
Nominal GNP	% change	5.1	2.8	4.6	5.1	4.2	4.7	4.6	4.7	4.7	4.7		
Nominal personal income		4.9	5.8	4.8	6.6	4.9	4.6	5.1	4.9	5.3	4.9		
Real disposable income		4.3	4.4	2.0	1.5	4.2	1.6	3.8	1.8	2.3	1.9		
Personal saving rate	%	4.5	5.2	4.8	4.4	4.8	4.5	4.8	4.7	4.7	4.5		
Corp. profits, IVA & CCAdj.	% change	40.8	-0.5	23.6	-3.4	-4.3	0.2	5.2	4.4	0.6	1.7		
Profit share of GNP (excluding FR banks)	%	8.4	8.3	8.7	8.5	8.3	8.2	8.2	8.2	8.2	8.1		
%	%	8.1	8.0	8.4	8.2	8.0	8.0	8.0	8.0	7.9	7.8		
Federal surpl./deficit	Bill. \$	-158.5	-154.5	-155.2	-132.8	-122.8	-113.6	-127.1	-123.2	-119.3	-122.1		
State & local surpl./def.		93.9	88.1	91.0	99.5	89.8	87.9	87.5	87.3	85.2	84.8		
Ex. social ins. funds		35.8	30.5	34.1	43.1	33.7	32.1	31.9	31.9	30.0	29.8		
PRICES AND COSTS													
GDP implicit deflator	% change	2.1	2.0	2.2	1.8	1.8	2.8	2.7	2.5	2.5	2.5		
GDP chn.-wt. price index		2.1	2.1	2.3	2.2	2.3	3.0	3.0	2.8	2.8	2.8		
Gross Domestic Purchases chn.-wt. price index		1.6	1.9	2.3	2.1	2.2	2.6	2.9	2.8	2.7	2.7		
CPI		2.1	2.4	3.2	3.9	2.7	3.1	3.3	3.5	3.2	3.2		
Ex. food and energy		2.8	2.7	2.7	2.7	3.0	3.0	3.1	3.2	3.2	3.2		
ECI, hourly compensation ¹		2.6	2.6	2.9	3.2	3.3	4.0	3.5	3.5	4.0	3.7		
Nonfarm business sector													
Output per hour		2.0	-1.1	1.8	-0.6	1.3	0.8	0.8	1.0	1.0	1.2		
Compensation per hour		4.0	4.1	3.3	3.7	3.8	4.5	3.9	3.7	4.0	4.0		
Unit labor cost		1.9	5.2	1.5	4.3	2.5	3.7	3.1	2.7	2.9	2.8		

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

August 15, 1996

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												
Gross dom. purchases	0.3	2.0	3.7	2.6	2.0	2.0	2.1	2.2	2.2	1.3	2.6	2.1
	-0.7	3.1	4.9	3.0	2.2	1.8	2.3	2.7	2.2	1.0	3.3	2.2
Final sales	1.4	3.0	3.4	1.1	2.2	2.1	2.0	1.8	2.4	1.9	2.4	2.1
Priv. dom. final purchases	1.2	3.9	3.4	2.1	2.4	2.0	2.1	2.2	2.2	1.8	2.9	2.1
Personal cons. expenditures	0.7	2.4	2.3	1.7	1.9	1.8	1.7	1.7	1.7	1.3	2.1	1.7
Durables	-0.1	0.7	1.1	0.5	0.5	0.4	0.3	0.4	0.3	0.1	0.7	0.4
Nondurables	-0.1	0.7	0.4	0.4	0.5	0.5	0.5	0.4	0.4	0.2	0.5	0.5
Services	0.8	0.9	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Business fixed investment	0.2	1.1	0.4	0.5	0.6	0.4	0.5	0.5	0.5	0.7	0.7	0.5
Producers' dur. equip.	0.2	0.9	0.4	0.4	0.6	0.4	0.5	0.5	0.5	0.5	0.6	0.5
Nonres. structures	0.0	0.2	-0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0
Residential structures	0.2	0.3	0.6	-0.0	-0.2	-0.2	-0.1	-0.0	0.0	-0.1	0.2	-0.1
Net exports	0.9	-1.1	-1.2	-0.4	-0.2	0.1	-0.1	-0.5	0.1	0.3	-0.7	-0.1
Exports	1.1	0.2	0.6	0.4	1.2	0.8	1.2	0.6	1.4	0.8	0.6	1.0
Imports	-0.2	-1.3	1.8	0.7	1.4	0.6	1.4	1.2	1.4	0.5	1.3	1.1
Government cons. & invest.	-0.8	0.3	1.2	-0.7	0.0	-0.1	0.1	0.2	0.2	-0.3	0.2	0.1
Federal	-0.9	0.4	0.5	-0.8	-0.2	-0.4	-0.2	-0.1	-0.1	-0.5	-0.0	-0.2
Defense	-0.6	0.2	0.4	-0.6	-0.2	-0.3	-0.2	-0.1	-0.1	-0.3	-0.1	-0.2
Nondefense	-0.3	0.2	0.1	-0.2	0.0	-0.1	0.0	-0.0	-0.0	-0.2	0.0	-0.0
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	-1.0	-1.0	0.4	1.5	-0.2	-0.1	0.1	0.4	-0.2	-0.6	0.2	0.0
Nonfarm	-1.2	-0.9	0.4	1.4	-0.4	-0.2	0.1	0.3	-0.3	-0.5	0.1	-0.0
Farm	0.1	-0.1	0.0	0.1	0.2	0.1	0.0	0.0	0.1	-0.1	0.1	0.1
GDP residual	-0.0	0.0	-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.

I-21

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

August 15, 1996

Item UNIFIED BUDGET	Fiscal year ⁵				1995				1996				1997				
	1994 ^a	1995 ^a	1996	1997	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1 Not seasonally adjusted								
	Receipts ¹	1258	1355	1452	1507	307	404	333	324	321	445	361	349	328	456	374	365
Outlays ¹	1461	1519	1570	1648	380	381	373	380	394	392	404	414	411	410	413	431	
Surplus/deficit ¹	-203	-164	-118	-141	-73	23	-40	-56	-72	53	-43	-64	-84	46	-38	-65	
On-budget	-259	-226	-181	-208	-85	-11	-43	-69	-84	14	-41	-72	-96	5	-45	-75	
Off-budget	56	62	63	68	12	34	2	14	12	39	-1	8	13	41	6	9	
Surplus excluding deposit insurance ²	-211	-182	-126	-144	-80	18	-42	-59	-75	51	-44	-65	-85	45	-39	-66	
Means of financing																	
Borrowing	185	171	133	156	66	25	20	33	80	-23	43	52	65	-5	43	44	
Cash decrease	17	-2	-6	-16	8	-42	23	17	-1	-16	-6	14	10	-40	0	25	
Other ³	1	-5	-9	1	-1	-7	-2	5	-7	-14	6	-1	8	-1	-5	-3	
Cash operating balance, end of period	36	38	44	60	18	61	38	20	22	38	44	30	20	60	60	35	
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate												
Receipts	1354	1459	1539	1616	1449	1483	1487	1495	1523	1567	1572	1595	1604	1622	1641	1661	
Expenditures	1555	1629	1681	1736	1622	1644	1645	1649	1678	1700	1694	1709	1731	1745	1761	1783	
Consumption expend.	451	455	454	451	455	456	454	451	454	461	451	450	451	451	452	452	
Defense	308	304	301	297	303	305	301	300	299	306	299	297	298	297	297	297	
Nondefense	143	151	153	154	152	151	152	151	155	155	152	153	154	154	155	155	
Other expenditures	1105	1175	1226	1285	1167	1189	1192	1198	1225	1240	1243	1259	1280	1294	1309	1331	
Current account surplus	-201	-171	-141	-121	-173	-161	-158	-155	-155	-133	-123	-114	-114	-127	-123	-119	-122
Gross investment	67	65	62	62	65	67	63	56	65	65	63	64	62	62	62	62	
Current and capital account surplus	-268	-236	-204	-183	-238	-228	-222	-211	-220	-198	-186	-177	-189	-185	-181	-184	
FISCAL INDICATORS ⁴																	
High-employment (HEB) surplus/deficit	-269	-268	-242	-230	-265	-250	-251	-236	-246	-237	-228	-222	-236	-235	-233	-239	
Change in HEB, percent of potential GDP	-.7	0	-.4	-.2	-.3	-.2	0	-.2	.1	-.1	-.1	-.1	.2	0	0	.1	
Fiscal impetus (FI), percent, cal. year	-6.4	-5.6	-3.7	-4.3	-2	-.8	-1.6	-3.7	1.3	1.5	-3.7	-1.6	-.4	-.8	-.6	-1.6	

1. OMB's July 1996 baseline deficit estimates (assuming the enactment of the President's proposals) are \$117 billion in FY96 and \$126 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 July 1996 baseline deficit estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are \$127 billion in FY96 and \$134 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. 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.

Confidential FR Class II
August 15, 1996

CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS¹
(Percent)

	Nonfederal								MEMO
			Households						
	Total	Federal govt.	Total	Total	Home mtg.	Cons. credit	Business	State and local govt.	Nominal GDP
Year									
1986	12.2	13.6	11.8	11.5	13.8	9.6	12.2	10.8	5.0
1987	9.2	8.0	9.6	12.1	16.3	5.0	6.7	12.1	7.4
1988	8.8	8.0	9.1	9.3	10.9	7.2	9.7	6.5	7.6
1989	7.6	7.0	7.8	8.7	10.1	6.0	7.5	5.7	6.4
1990	6.6	11.0	5.3	7.9	10.1	2.0	3.1	4.9	4.4
1991	4.4	11.1	2.4	5.0	6.6	-1.7	-1.7	8.2	3.8
1992	4.8	10.9	2.8	5.2	6.1	0.6	0.5	2.0	6.3
1993	5.3	8.3	4.2	6.2	5.4	7.7	1.6	5.7	4.8
1994	4.9	4.7	5.0	8.5	6.5	14.5	3.8	-3.7	5.9
1995	5.6	4.1	6.1	8.3	6.4	14.5	6.4	-4.1	3.8
1996	4.6	4.2	4.7	6.6	6.3	8.4	4.3	-2.2	4.8
1997	4.6	3.9	4.8	6.2	6.0	7.3	4.7	-2.1	4.8
Quarter (seasonally adjusted annual rates)									
1995:1	6.7	7.6	6.3	7.7	6.0	14.0	7.7	-4.0	3.8
2	6.6	5.7	7.0	8.3	6.4	15.3	7.6	-1.0	3.1
3	4.3	1.8	5.2	9.3	7.9	14.9	4.5	-10.0	6.0
4	4.2	1.2	5.3	6.8	4.9	10.7	5.3	-1.5	2.3
1996:1	6.2	7.9	5.6	7.8	7.7	10.5	4.6	-0.3	4.2
2	3.7	1.2	4.6	6.5	6.4	7.2	3.8	-1.0	5.6
3	4.0	4.2	3.9	5.8	5.4	7.4	4.2	-6.4	4.5
4	4.1	3.1	4.5	5.7	5.3	7.4	4.3	-1.2	4.8
1997:1	5.2	7.1	4.5	5.9	5.6	7.3	4.8	-3.4	4.8
2	4.0	2.1	4.7	6.1	5.9	7.2	4.7	-2.4	4.7
3	4.5	4.1	4.7	6.1	6.0	7.1	4.6	-2.5	4.8
4	4.2	2.1	4.9	6.0	6.0	7.0	4.6	0.1	4.8

1. Data after 1996:Q1 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 5.6 percent in 1995, 4.5 percent in 1996, and 4.5 percent in 1997. Federal debt rises 4.4 percent in 1995, 3.9 percent in 1996, and 3.7 percent in 1997. Nonfederal debt increases 6.1 percent in 1995, 4.7 percent in 1996, and 4.7 percent in 1997.

FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS¹
(Billions of dollars)

	1993	1994	Calendar year		1995	1996	1997	-1995-	Q1	Q2	1996	Q3	Q4	1997	H1	H2
Net funds raised by domestic nonfinancial sectors																
1 Total	649.8	574.0	658.7	564.3	569.5	505.4	759.6	510.1	488.8	498.6	579.3	559.7				
2 Net equity issuance	21.3	-44.9	-74.2	-73.8	-92.1	-72.8	-106.8	-16.8	-78.0	-93.6	-94.6	-89.6				
3 Net debt issuance	628.5	618.9	732.9	638.1	661.6	578.2	866.4	526.9	566.8	592.2	673.9	649.3				
Borrowing sectors																
Nonfinancial business																
4 Financing gap ²	3.8	3.8	57.7	22.8	36.3	13.7	5.3	10.7	41.1	34.0	30.4	42.1				
5 Net equity issuance	21.3	-44.9	-74.2	-73.8	-92.1	-72.8	-106.8	-16.8	-78.0	-93.6	-94.6	-89.6				
6 Credit market borrowing	61.0	144.3	250.6	179.3	206.6	217.4	190.7	160.8	178.8	186.6	208.0	205.2				
Households																
7 Net borrowing, of which:	249.1	362.2	383.5	331.0	329.2	334.5	390.7	330.9	300.3	302.1	321.5	336.9				
8 Home mortgages	152.1	194.5	203.8	213.8	216.0	162.9	259.4	220.0	190.0	186.0	207.6	224.5				
9 Consumer credit	61.5	124.9	142.9	94.9	90.0	118.2	118.8	83.2	87.7	89.7	90.0	90.0				
10 Debt/DPI (percent) ³	86.6	88.7	90.7	92.8	93.8	91.7	92.4	93.0	93.1	93.5	93.5	94.0				
State and local governments																
11 Net borrowing	62.3	-43.4	-45.7	-23.8	-21.5	-16.0	-3.7	-10.4	-68.1	-13.0	-30.2	-12.7				
12 Current surplus ⁴	109.9	107.4	106.8	108.0	107.1	101.5	105.9	114.5	106.1	105.5	107.0	107.2				
U.S. government																
13 Net borrowing	256.1	155.9	144.4	151.6	147.3	42.4	288.7	45.5	155.7	116.4	174.6	120.0				
14 Net borrowing (quarterly, nsa)	256.1	155.9	144.4	151.6	147.3	33.3	80.5	-23.5	42.7	51.9	60.1	87.1				
15 Unified deficit (quarterly, nsa)	226.3	185.0	146.4	126.1	141.6	55.9	72.3	-53.2	42.6	64.4	37.8	103.8				
16 Funds supplied by depository institutions	140.4	198.3	275.0	145.5	210.4	110.8	131.7	147.1	130.7	172.7	205.3	215.5				
MEMO: (percent of GDP)																
17 Domestic nonfinancial debt ³	186.4	185.3	186.5	187.9	187.5	188.1	188.6	188.3	188.1	187.8	187.6	187.4				
18 Domestic nonfinancial borrowing	9.6	8.9	10.1	8.4	8.3	7.9	11.7	7.0	7.4	7.7	8.6	8.1				
19 U.S. government ⁵	3.9	2.2	2.0	2.0	1.9	0.6	3.9	0.6	2.0	1.5	2.2	1.5				
20 Private	5.7	6.7	8.1	6.4	6.5	7.3	7.8	6.4	5.4	6.2	6.4	6.6				

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1. Data after 1996:Q1 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.

annual growth rates of 25 to 30 percent. The quantities of nonagricultural exports other than computers and semiconductors are estimated to have rebounded during the second quarter and are projected to grow at an annual rate of about 3-1/2 percent in the second half of the year; these exports are projected to grow faster in 1997 in response to more robust real GDP growth, on average, in our trading partners.

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

	-----Projection-----				1997
	1996	Q1	Q2	Q3	
Exports of G&S		1.8	5.4	3.2	10.2
Services	2.7	1.4	3.3	3.0	3.4
Computers	58.7	24.0	26.3	26.3	29.9
Semiconductors	0.0	-23.6	12.6	17.0	23.9
Other goods ¹	-7.7	14.7	-1.5	9.2	4.3
Imports of G&S		10.6	14.5	5.5	10.5
Services	13.0	5.0	2.2	2.2	2.8
Oil	-22.2	62.6	6.0	10.2	2.0
Computers	27.7	31.7	31.1	28.6	24.5
Semiconductors	4.6	-28.4	17.0	17.0	23.9
Other goods ²	11.7	15.0	0.7	8.5	5.0

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 estimated to have risen strongly in the first half of 1996 but are projected to moderate somewhat over the forecast period, slowing to an 8 percent annual rate of growth in 1997. Computer imports continue to exhibit very strong rates of growth, whereas semiconductors, which have declined recently, are projected to turn up during the second half of the year. The quantity of non-oil imports other than computers and semiconductors is estimated to have expanded rapidly again in the second quarter. During the remaining half of 1996 and 1997, growth of these imports is projected to slow to about a 5 percent annual pace as growth of U.S. real GDP slows.

After rising extremely sharply in the second quarter, with the rebuilding of stocks, the quantity of oil imports is projected to grow moderately this quarter and over the remainder of the forecast period, as consumption rises with the increase in U.S. economic activity and U.S. production declines.

Oil prices. We assume that under its agreement with the United Nations, Iraq will begin to export some oil in September and will be shipping 800,000 b/d by October. This is roughly one month later than we had assumed in June. Given the later entry of Iraqi oil on the market and the increased political tension in the Middle East, the projected prices of imported oil for the third and fourth quarters have been revised up \$1.41 and \$1.37 per barrel to \$18.39 and \$16.00 per barrel respectively. Our long-run projections for WTI and the oil import unit value are \$19.50/b and \$17.00/b respectively, unchanged from the June Greenbook.

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

	<u>-----Projection-----</u>				<u>1997</u>	
	<u>1996</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	
Ag. exports ¹	9.5	31.0	5.4	-3.9	-2.9	
Nonag. exports ¹	-2.2	-2.5	-1.1	-0.3	1.3	
Non-oil imports ¹	-3.1	-3.3	1.2	0.8	0.3	
Oil imports (Q4 level, \$/bl)	17.53	19.53	18.39	16.00	17.00	

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

Prices of non-oil imports and exports. After declining again in the second quarter, prices of non-oil imports are projected to rise slightly over the remainder of the forecast period as the deflationary effects of past dollar appreciation on import prices wane. Prices of nonagricultural exports are projected to decrease slowly through the end of this year, reflecting primarily materials prices, and to rise only slightly next year. Prices of agricultural exports are projected to increase somewhat further on average this quarter but then to retrace some of their upward movement later this year and during 1997.

Strictly Confidential (FR) Class II-FOMC

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

Measure and Country	Projected											
	Projected				1995			1996			1997	
	1994	1995	1996	1997	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
REAL GDP												
Canada	4.9	0.7	2.2	2.7	0.9	1.2	2.5	2.5	2.6	2.6	2.7	
France	4.2	0.4	2.0	2.4	-1.7	4.8	-1.0	2.2	2.0	2.3	2.4	
Germany	3.7	1.0	1.4	2.3	-0.6	-1.5	2.7	2.3	2.2	2.2	2.4	
Italy	2.6	2.3	1.6	2.2	-4.3	2.0	-1.0	2.8	2.7	2.5	2.3	
Japan	0.4	2.5	4.4	2.5	4.8	12.7	0.4	2.0	2.9	3.7	1.3	
United Kingdom	4.3	1.8	2.1	2.5	1.6	1.6	2.0	2.4	2.5	2.5	2.5	
Average weighted by 1987-89 GDP	2.7	1.7	2.7	2.4	0.9	5.0	0.8	2.3	2.5	2.8	2.1	
Average weighted by share of U.S. nonagricultural exports												
Total foreign	5.0	1.7	3.4	3.8	3.5	4.2	2.6	3.1	3.6	3.8	3.7	
Foreign G-7	3.8	1.2	2.5	2.6	1.3	3.5	1.7	2.4	2.6	2.8	2.3	
Developing Countries	6.9	2.4	5.2	6.0	7.4	6.7	4.1	4.6	5.7	6.0	6.0	
CONSUMER PRICES (1)												
Canada	0.0	2.1	1.6	1.3	0.1	1.7	3.1	1.0	0.4	1.0	1.8	
France	1.6	1.9	1.8	1.9	2.3	2.9	3.2	0.7	0.2	2.1	1.9	
W. Germany	2.5	1.6	1.5	2.0	-0.5	2.5	1.9	1.6	0.0	3.1	2.4	
Italy	3.8	6.0	3.5	3.0	5.1	2.9	5.0	1.4	4.7	2.5	4.4	
Japan	0.8	-0.8	0.4	1.5	-0.5	-0.4	2.5	-0.4	-0.1	-0.4	6.9	
United Kingdom (2)	2.2	2.9	2.5	2.7	1.4	3.0	6.1	0.6	0.5	3.0	6.3	
Average weighted by 1987-89 GDP	1.7	1.7	1.6	2.0	1.0	1.7	3.4	0.6	0.8	1.5	4.5	
Average weighted by share of U.S. non-oil imports												
	1.0	1.1	1.3	1.7	0.2	1.2	3.0	0.5	0.4	1.0	4.2	

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.

Strictly Confidential (FR) Class II-FOMC

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)	-56.0	-64.4	-86.2	-81.5	-99.3	-107.3	-111.7	-104.3	-122.5	-121.4	-29.5	-72.0	-105.7
Exports of G&S Goods	647.1	660.0	645.5	680.3	677.6	703.1	719.6	747.6	752.3	763.2	639.4	658.2	712.0
Agricultural	454.2	465.9	452.7	485.0	481.9	502.9	517.8	543.4	548.8	557.7	448.7	464.5	511.5
Computers	43.8	43.9	41.0	43.5	40.6	41.2	45.1	50.9	50.8	48.1	44.1	43.1	44.4
Semiconductors	32.3	33.4	35.9	38.5	40.7	42.3	45.0	49.6	53.3	56.9	28.8	35.0	44.4
Other Goods	20.8	22.5	25.5	27.7	34.2	35.5	39.0	46.8	51.2	53.6	16.0	24.1	38.9
Services	357.3	366.1	350.3	375.3	366.4	383.9	388.8	396.0	393.4	399.0	359.9	362.3	383.8
Imports of G&S Goods	703.1	724.4	731.7	761.8	777.0	810.4	831.3	851.9	874.9	884.6	668.9	730.3	817.6
Oil	578.4	598.0	604.1	629.8	644.5	675.6	697.1	719.3	735.4	747.7	544.9	602.6	684.1
Computers	53.7	57.9	56.9	58.3	57.0	60.6	65.1	58.2	57.8	58.6	51.4	56.7	60.2
Semiconductors	39.1	42.8	46.2	49.6	54.4	58.2	61.5	68.1	72.6	77.9	31.7	44.4	60.6
Other Goods	19.6	21.2	22.3	24.7	28.0	28.5	31.2	36.5	40.3	45.4	15.5	21.9	31.1
Services	466.0	476.1	478.7	497.2	505.0	528.3	539.2	556.5	564.7	565.9	446.3	479.5	532.3
Memo: (Percent change 1/)	124.7	126.5	127.6	132.0	132.6	135.0	134.5	133.1	139.8	137.4	124.1	127.7	133.8
Exports of G&S Goods	-1.2	8.2	-8.5	23.4	-1.6	15.9	9.7	16.5	2.6	5.9	4.1	4.8	9.9
Agricultural	-17.8	0.9	-23.9	26.7	-24.5	6.8	43.0	62.9	-0.6	-19.8	10.5	-5.4	17.1
Computers	12.0	14.3	33.5	32.3	25.0	16.6	27.6	48.6	33.0	30.1	25.2	22.6	29.0
Semiconductors	40.5	36.2	65.3	40.1	131.4	16.2	45.8	106.7	43.6	19.9	64.8	45.1	68.7
Other Goods	-7.7	10.3	-16.2	31.7	-9.1	20.4	5.2	7.7	-2.6	5.9	2.6	3.0	5.5
Services	9.9	2.7	-2.7	5.9	0.8	9.7	3.4	5.5	-1.1	4.0	-0.9	3.9	4.8
Imports of G&S Goods	8.4	12.7	4.1	17.5	8.2	18.4	10.7	10.3	11.2	4.5	7.4	10.5	11.8
Oil	5.4	35.2	-6.7	10.2	-8.5	27.2	33.5	-36.2	-2.4	5.3	12.2	10.0	-0.2
Computers	43.9	43.6	35.8	32.8	45.0	30.9	24.8	49.9	29.6	31.9	44.9	38.9	37.3
Semiconductors	72.5	39.5	20.6	52.1	65.3	7.3	43.4	85.8	49.3	61.0	42.0	44.9	47.4
Other Goods	9.1	8.9	2.3	16.3	6.4	19.8	8.6	13.4	6.0	0.9	5.5	9.0	11.9
Services	-8.2	5.9	3.5	14.5	1.8	7.5	-1.6	-4.0	21.7	-6.7	1.5	3.6	0.8
Current Account Balance	-72.7	-96.9	-109.7	-120.5	-118.8	-144.1	-160.0	-170.6	-156.2	-163.9	-62.6	-99.9	-148.4
Goods & Serv (BOP), net	-54.2	-72.1	-84.8	-77.0	-90.8	-103.5	-113.8	-109.4	-118.1	-127.3	-38.3	-72.0	-104.4
Goods (BOP), net	-116.8	-133.5	-146.0	-134.1	-147.4	-164.3	-177.7	-175.1	-179.7	-191.7	-96.1	-132.6	-166.1
Services (BOP), net	62.6	61.4	61.2	57.1	56.5	60.8	63.9	65.7	61.6	64.4	57.8	60.6	61.7
Investment Income, net	15.1	9.4	12.0	2.6	4.7	-2.5	-6.4	-12.4	-3.6	-3.4	11.2	9.7	-4.2
Direct, net	61.3	53.6	58.9	49.8	49.5	46.0	47.4	46.9	57.4	59.9	51.6	55.9	47.4
Portfolio, net	-46.2	-44.2	-46.9	-47.3	-44.8	-48.5	-53.7	-59.3	-61.0	-63.3	-40.4	-46.2	-51.6
Unilateral Transfers, net	-33.5	-34.1	-36.9	-46.1	-32.7	-38.0	-39.9	-48.9	-34.6	-33.2	-35.5	-37.6	-39.9

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

Strictly Confidential (FR) Class II-FOMC

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)	-101.6	-84.9	-104.0	-124.5	-130.6	-134.6	-132.1	-134.6	-143.8	-142.5	-107.6	-123.4	-138.3		
Exports of G&S Goods	783.0	803.1	806.7	817.5	824.0	844.2	857.9	879.4	890.5	915.6	775.4	823.1	885.8		
Agricultural	568.1	588.8	590.9	601.0	605.8	624.4	636.2	655.8	665.1	688.6	565.8	605.6	661.4		
Computers	50.0	49.4	50.5	46.1	45.5	47.0	47.6	48.2	48.7	49.3	49.6	47.3	48.5		
Semiconductors	65.9	74.2	83.3	87.9	93.1	98.7	105.2	112.0	119.8	128.2	62.6	90.8	116.3		
Other Goods	57.1	60.7	60.7	56.7	58.4	60.8	63.8	67.0	71.0	75.3	55.6	59.1	69.3		
Services	395.2	404.6	396.5	410.4	408.8	417.9	419.6	428.6	425.5	435.8	398.1	408.4	427.4		
Imports of G&S Goods	215.4	215.3	216.7	217.5	219.2	220.9	222.8	224.8	226.7	228.3	210.4	218.6	225.6		
Oil	745.6	750.0	768.3	797.9	809.8	833.1	843.3	866.5	885.7	908.4	744.7	802.3	876.0		
Computers	61.6	58.7	55.2	62.3	63.2	64.7	61.9	67.3	70.2	66.0	59.2	61.3	66.4		
Semiconductors	88.2	97.9	104.1	111.5	119.3	127.1	134.7	142.1	149.9	158.1	84.1	115.5	146.2		
Other Goods	52.3	57.3	57.9	53.3	55.4	57.6	60.5	63.5	67.3	71.4	48.8	56.0	65.7		
Services	543.5	536.1	551.2	570.8	571.9	583.7	586.2	593.6	598.3	612.9	552.5	569.4	597.8		
Imports of G&S Services	139.4	138.5	142.8	144.5	145.3	146.1	147.1	148.1	149.1	150.3	138.8	144.7	148.6		I.36
Memo: (Percent change 1/)															
Exports of G&S	10.7	10.7	1.8	5.4	3.2	10.2	6.6	10.4	5.1	11.8	7.4	5.1	8.5		
Agricultural	16.4	-4.9	9.3	-30.6	-5.1	14.6	5.0	5.0	4.2	5.0	-3.1	-4.7	4.8		
Computers	79.0	61.0	58.7	24.0	26.3	26.3	28.7	28.7	31.1	31.1	49.4	33.1	29.9		
Semiconductors	28.8	27.6	-0.0	-23.6	12.6	17.0	21.6	21.6	26.2	26.2	29.7	0.1	23.9		
Other Goods	-3.8	9.8	-7.7	14.7	-1.5	9.2	1.6	8.9	-2.9	10.0	2.2	3.3	4.3		
Services	18.7	-0.3	2.7	1.4	3.3	3.0	3.6	3.6	3.4	2.9	5.1	2.6	3.4		
Imports of G&S	-0.0	1.6	10.6	14.5	5.5	10.5	4.6	10.1	8.2	9.6	4.2	10.2	8.1		
Oil	22.0	-17.2	-22.2	62.6	6.0	10.2	-16.2	39.2	18.3	-21.7	0.9	10.2	2.0		
Computers	64.7	51.8	27.7	31.7	31.1	28.6	26.2	23.9	23.9	23.9	43.8	29.8	24.5		
Semiconductors	76.4	43.6	4.6	-28.4	17.0	17.0	21.6	21.6	26.2	26.2	57.1	0.6	23.9		
Other Goods	-14.9	-5.4	11.7	15.0	0.7	8.5	1.7	5.1	3.2	10.1	-3.7	8.9	5.0		
Services	5.8	-2.4	13.0	5.0	2.2	2.2	2.7	2.7	2.8	3.2	4.1	5.5	2.8		
Current Account Balance	-150.8	-121.7	-142.4	-163.8	-169.3	-175.8	-162.0	-166.9	-177.3	-187.3	-148.2	-162.8	-173.4		
Goods & Serv (BOP), net	-97.3	-77.6	-97.4	-120.8	-121.7	-117.1	-113.2	-116.8	-125.5	-123.3	-105.1	-114.3	-119.7		
Goods (BOP), net	-170.2	-152.1	-171.0	-194.0	-196.2	-193.2	-191.1	-196.7	-207.2	-206.5	-173.4	-188.6	-200.4		
Services (BOP), net	72.9	74.5	73.5	73.2	74.4	76.1	78.0	79.9	81.7	83.2	68.4	74.3	80.7		
Investment Income, net	-17.4	-7.6	-1.6	-10.1	-14.6	-15.7	-18.8	-20.2	-21.8	-24.0	-8.0	-10.5	-21.2		
Direct, net	51.3	61.3	63.3	60.7	59.8	62.1	61.7	62.6	63.4	63.8	57.5	61.5	62.9		
Portfolio, net	-68.7	-68.9	-64.8	-70.8	-74.4	-77.8	-80.5	-82.8	-85.3	-87.8	-65.5	-72.0	-84.1		
Unilateral Transfers, net	-36.0	-36.6	-43.4	-33.0	-33.0	-43.0	-30.0	-30.0	-30.0	-40.0	-35.1	-38.1	-32.5		

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

Part 2

August 15, 1996

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

Confidential (FR) Class III FOMC

August 15, 1996

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee
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the UAW, although, not surprisingly, no company has indicated it is pursuing such a strategy.⁴

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

	1996				
	Q2	July	Aug.	Sept.	Q3
-----scheduled-----					
U.S. production	12.2	13.4	12.6	12.9	12.9
Autos	6.5	7.0	6.8	7.0	6.0
Trucks	5.8	6.3	5.8	5.9	6.9
Days' supply					
Autos	58.2	65.8
Light trucks	72.5	78.0

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

Outside of the motor vehicle and parts industry, manufacturing output ticked up 0.1 percent last month, after two months of strong gains. The deceleration stems in large part from an estimated flattening in production of construction supplies and a decline in output of non-auto consumer durables. Production of consumer nondurables, which has not expanded, on balance, in more than a year, was unchanged again in July. Output of business equipment, excluding motor vehicles and office and computing, also fell as production of industrial equipment registered its fifth monthly decline. Production in the materials industries was boosted by the output of motor vehicle parts and semiconductors. Outside of equipment parts, the production of durable goods materials fell while production of nondurable materials inched up after solid gains earlier in the year.

Although the manufacturing utilization rate is estimated to have eased back to 82.3 percent in July, it still stands about 1 percentage point above its 1967-95 average, boosted by sustained high readings for computer equipment, primary metals, and petroleum products. In primary processing industries, the average operating

4. Recent reports have suggested that while General Motors could be the strike target, Chrysler will more likely be hit. The official date for announcing the target is August 22. At this point, if a strike were to occur, it would probably be at the local and not the national level. Even so, the effects on overall output could be significant if the stoppage occurs at a key parts plant. A strike in Canada still remains more likely than a domestic strike. General Motors is the overwhelming favorite in Canada as the target, and if a strike shutting down parts production were to occur there, U.S. output would be crippled as well.

ADMINISTRATION BUDGET AND ECONOMIC PROJECTIONS

	1996	1997	1998	1999	2000	2001	2002
Budget projections (Billions of dollars; fiscal years)							
March Policy Deficit	146	140	98	64	28	-8	-44
<i>Changes</i>							
Technical Receipts	-27	-9	-10	-7	-7	-8	-8
Other	-2	-5	6	-3	-9	-10	-9
July Policy Deficit	117	126	94	55	11	-26	-61
Outlays	1570	1631	1680	1716	1759	1808	1864
Receipts	1453	1505	1586	1661	1748	1834	1925
Economic assumptions (Calendar years)							
-----Percentage change, Q4 to Q4-----							
Nominal GDP	5.0	5.1	5.1	5.1	5.1	5.1	5.1
Real GDP	2.6	2.3	2.3	2.3	2.3	2.3	2.3
CPI-U	3.2	2.8	2.8	2.8	2.8	2.8	2.8
-----Percent, annual average-----							
Unemployment rate	5.6	5.7	5.7	5.7	5.7	5.7	5.7
Yield on selected Treasuries							
Three-month	4.9	4.5	4.3	4.2	4.0	4.0	4.0
Ten-year	6.2	5.6	5.2	5.0	5.0	5.0	5.0

Note. The projections assume that the President's tax and spending proposals are enacted.

Source. Mid-Session Review of the 1997 Budget, Office of Management and Budget, July 16, 1996.

TREASURY FINANCING
(Billions of dollars: total for period)

Item	1996				
	Q2	Q3 ^P	July ^e	Aug. ^p	Sep. ^p
Total surplus/deficit (-)	53.2	-42.6	-27.1	-41.9	26.3
Means of financing deficit					
Net cash borrowing and repayments (-)	-23.5	42.7	27.2	14.6	0.8
Nonmarketable	2.1	-1.5	-2.1	0.9	-0.4
Marketable	-25.6	44.2	29.3	13.7	1.2
Bills	-38.3	-5.4	12.6	-9.7	-8.3
Coupons	12.7	49.6	16.7	23.4	9.5
Decrease in cash balance	-16.2	-6.0	1.3	27.1	-34.4
Other ¹	-13.6	5.9	-1.4	0.1	7.2
Memo:					
Cash balance, end of period	38.0	44.0	36.8	9.6	44.0

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

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

p Projection.

e Estimate.

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

Agency	1996				
	Q1	Q2	Apr.	May	Jun.
FHLBs	-3.9	10.0	3.2	1.0	5.9
FHLMC	4.3	19.1	11.9	5.1	2.1
FNMA	7.6	1.6	-0.5	-1.3	3.3
Farm Credit Banks	2.0	2.8	1.4	0.4	1.0
SLMA	-1.8	-1.0	1.3	-0.3	-2.0

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

n.a. Not available.

CONFIDENTIAL (FR)
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August 16, 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

Note

The staff forecast presented in Part 1 incorporates staff estimates of the likely revisions to the NIPA data where published BEA estimates are not final. A discussion of the staff estimates for 1996:Q2 is found at the beginning of the nonfinancial developments section of Part 2.

August 16, 1996

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

	1995 Dec	1996 Jan	1996 Feb	1996 Mar	1996 Apr	1996 May	1996 Jun	1996 Jul	1996 Aug (P)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	91.0	89.3	88.5	93.7	92.7	89.4	92.4	94.7	94.5
Current conditions	102.4	105.8	105.2	105.4	107.8	105.1	105.4	107.5	107.4
Expected conditions	83.7	78.7	77.8	86.2	83.0	79.2	84.0	86.5	86.3
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Personal financial situation									
Now compared with 12 months ago*	112	115	111	112	118	114	118	115	117
Expected in 12 months*	126	131	120	130	127	122	128	129	134
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Expected business conditions									
Next 12 months*	115	104	109	125	118	110	117	122	116
Next 5 years*	95	80	83	91	88	86	93	97	96
<hr/>									
Appraisal of buying conditions									
Cars	133	122	129	134	125	127	137	138	138
Large household appliances*	153	159	161	161	162	159	155	164	161
Houses	157	152	163	168	157	159	153	161	162
<hr/>									
Willingness to use credit									
Willingness to use savings	45	36	40	47	45	37	54	38	38
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Expected unemployment change - next 12 months									
	122	135	131	123	124	121	123	115	115
<hr/>									
Expected inflation - next 12 months									
Mean	3.3	4.0	3.6	4.2	4.5	4.9	4.2	4.3	4.3
Median	2.7	2.9	2.8	2.9	3.0	3.0	2.9	2.9	3.1
<hr/>									
Expected inflation - next 5 to 10 years									
Mean	3.9	4.2	4.2	4.3	4.1	4.8	4.0	4.2	4.2
Median	3.1	3.1	3.2	3.2	3.0	3.2	3.1	3.1	3.1

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

(p) -- Preliminary

(f) -- Final

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