

Part 1

May 14, 1998

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

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

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SUMMARY AND OUTLOOK

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assumed to be roughly 3 percent below its level in the first quarter of 1998; this depreciation is a shade less than that in the March Greenbook.

To date, the cuts in production engineered in March by the world's major oil exporters have held; nonetheless, oil prices have moved down somewhat, on net, since March Greenbook. At \$15.65 per barrel, our assumption for the average spot price of West Texas intermediate crude this quarter is \$0.85 below that in our previous projection. We are assuming that the spot WTI price will move to \$16.50 by next quarter and remain near this level over the course of the projection period.

Recent Developments and the Outlook for the Current Quarter

Although the international trade figures for March are not yet available and many source data for the first quarter are still subject to revision, the information in hand suggests that real GDP growth could be revised up about 1 percentage point from the 4.2 percent annual rate published in BEA's advance estimate.¹ Growth last quarter was held down by a large decline in net exports, but domestic final sales increased at a 6 percent annual rate. Recent data suggest that a pickup in the pace of inventory accumulation boosted GDP growth about 1-1/2 percentage points--considerably more than anticipated in the advance estimate.

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

Measure	1998:Q1		1998:Q2	
	Mar. GB	May GB	Mar. GB	May GB
Real GDP	3.1	5.2	2.1	2.5
Private domestic final purchases	6.2	8.0	4.7	6.1
Personal consumption expenditures	5.3	5.8	4.2	5.2
Residential investment	14.2	17.6	0.8	12.7
Business fixed investment	9.3	17.7	9.6	9.0
Government outlays for consumption and investment	.0	-2.8	1.1	3.7
	Change, billions of chained (1992) dollars			
Inventory investment	-7.5	29.0	-18.7	-45.3
Net exports	-35.2	-48.8	-24.1	-17.7

1. Unless otherwise indicated, the references to data for the first quarter of 1998 will be the staff's current estimates of the revised NIPA figures.

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

Measure	1997	1998	1999
Real GDP	3.7	2.8	2.3
Previous	3.8	2.3	2.2
Final sales	3.1	3.5	2.3
Previous	3.2	3.0	2.1
PCE	3.6	4.6	2.6
Previous	3.7	4.0	2.4
Residential investment	5.6	6.2	-2.4
Previous	5.7	3.0	-1.8
BFI	9.0	10.0	6.9
Previous	8.6	9.5	6.2
Government purchases	1.0	.8	.9
Previous	1.0	.8	.9
Exports	10.2	1.2	5.0
Previous	10.2	1.3	4.8
Imports	14.4	9.2	7.0
Previous	14.5	9.1	6.7
Change, billions of chained (1992) dollars			
Inventory change	41.1	-52.2	0.2
Previous	39.1	-52.7	6.6
Net exports	-53.6	-94.1	-37.7
Previous	-54.1	-91.9	-35.4

Consumer spending. We expect that growth in personal consumption expenditures will remain impressive through most of this year, with spending fueled by further strong gains in income and by the lagged effects of earlier increases in stock market wealth. For 1998 as a whole, real PCE is projected to increase 4-1/2 percent, 1/2 percentage point more than in our March forecast. Sales should remain strong for many categories of goods, among them electronics, where prices continue to fall rapidly, and household furnishings, where the rise in home sales will be providing a lift. We also expect that the demand for services will be robust; many reports suggest that consumers are applying appreciable portions of their added income and wealth to the purchase of recreational and personal services. The motor vehicle sector may prove something of an exception to this pattern of strength, however.

Reflecting strong U.S. activity and the lagged effects of the dollar's appreciation, real imports are projected to rise 9-1/4 percent in 1998 and then slow to a 7 percent gain in 1999. All told, net exports are projected to reduce real U.S. GDP growth by about 1 percentage point in 1998 and 1/3 percentage point in 1999, virtually the same as forecast in the March Greenbook. (A more detailed discussion of the outlook for net exports is contained in the *International Developments* section.)

Labor markets. The large drop in the unemployment rate last month seems outsized to us, and, even though we see no smoking guns in the details, we have leaned toward the notion that some of the decline is simply an artifact of the statistical noise inherent in the data. Accordingly, we are assuming that the unemployment rate will back up some over the remainder of the quarter. With output growth running below potential in late 1998 and early 1999, the unemployment rate is projected to move up to 4-3/4 percent by the middle of next year. In both 1998 and 1999, the unemployment rate is a tenth of a percentage point lower than in our previous forecast.

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

Measure	1997	1998	1999
Output per hour, nonfarm business ¹	2.3	1.0	1.6
Previous	2.4	.3	1.4
Nonfarm payroll employment	2.5	1.7	1.2
Previous	2.5	2.0	1.0
Household employment survey	2.1	1.3	.9
Previous	2.1	1.3	.8
Labor force participation rate ²	67.1	67.2	67.2
Previous	67.1	67.2	67.2
Civilian unemployment rate ²	4.7	4.5	4.8
Previous	4.7	4.7	4.9

1. Corrected by FRB staff for length-of-pay-period problem.

2. Percent, average for the fourth quarter.

We have revised our view of the underlying trend in labor productivity, again, partly in light of the recently released BLS estimates of multifactor productivity. Most important, these data suggest that the educational and job experience composition of the workforce and the gains in total factor productivity were more positive than we had assumed. Accordingly, we have revised our estimate of the growth in trend labor productivity since mid-1995 up to 1-1/2 percent per year (on a consistently measured

state of California point to a marked acceleration in health insurance premiums over the forecast period.

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

Measure	1997	1998	1999
Consumer price index	1.9	1.6	2.1
Previous	1.9	1.7	2.2
Food	1.7	1.3	1.7
Previous	1.7	1.5	1.8
Energy	-1.0	-4.4	1.1
Previous	-1.0	-4.6	1.2
Excluding food and energy	2.2	2.2	2.2
Previous	2.2	2.3	2.3
PCE chain-weighted price index	1.5	1.4	1.8
Previous	1.5	1.5	2.0
Excluding food and energy	1.5	1.7	1.8
Previous	1.6	1.9	2.1
GDP chain-weighted price index	1.8	1.5	1.7
Previous	1.8	1.6	1.8
ECI for compensation of private industry workers ¹	3.4	3.4	3.4
Previous	3.4	3.4	3.3
Prices of core non-oil merchandise imports	- .8	-1.7	1.3
Previous	- .8	-1.5	1.8
	Percentage points		
MEMO: <i>Adjustments for technical changes to the CPI</i> ²			
Core CPI	.2	.4	.7
Core PCE	.1	.1	.4
GDP chain price index	.1	.1	.2

1. December to December.

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

Trend unit labor costs are somewhat more favorable in this projection than in the last, as the upward adjustment to the productivity trend more than offsets the slightly higher compensation path. Broad measures of business output prices are projected to rise somewhat less than trend unit labor costs, on average, over the

forecast, once adjustment is made for technical changes in the index. The second, symmetric, alternative assumes a decline of 25 basis points per quarter in the funds rate between now and the first quarter of 1999; under this alternative, the unemployment rate remains in the neighborhood of 4-1/2 percent throughout the projection period, and core consumer price inflation picks up to a bit above 2-1/2 percent by 1999.

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

Measure	1997	1998	1999
<i>Real GDP</i>			
Baseline	3.7	2.8	2.3
Higher funds rate	3.7	2.6	1.5
Lower funds rate	3.7	3.0	3.1
No stock price decline	3.7	2.9	2.6
<i>Civilian unemployment rate¹</i>			
Baseline	4.7	4.5	4.8
Higher funds rate	4.7	4.6	5.2
Lower funds rate	4.7	4.4	4.4
No stock price decline	4.7	4.5	4.7
<i>CPI excluding food and energy</i>			
Baseline	2.2	2.2	2.2
Higher funds rate	2.2	2.2	1.8
Lower funds rate	2.2	2.2	2.6
No stock price decline	2.2	2.2	2.2

1. Average for the fourth quarter.

The third alternative assumes that we are yet again wrong about the stock market. Instead of the modest decline in equity prices assumed in the baseline forecast, this alternative assumes that the stock market rises at the same pace as disposable income--still a marked deceleration from the recent trends. Under this scenario, real GDP growth is boosted to roughly 3 percent in 1998 and 2-1/2 percent in 1999. The higher growth path lowers the unemployment rate by a tenth of a percentage point by the end of 1999; consumer price inflation is essentially the same as in the baseline projection. As we have noted before, the effect on prices under this alternative is small because the unemployment rate change is minor and because, in the FRB/US model, inflation expectations move slowly in the absence of a significant change in the stance of monetary policy. Furthermore, because of the higher baseline

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

May 14, 1998

Interval		Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
		03/25/98	05/14/98	03/25/98	05/14/98	03/25/98	05/14/98	03/25/98	05/14/98	03/25/98	05/14/98
ANNUAL											
1995		4.6	4.6	2.0	2.0	2.5	2.5	2.8	2.8	5.6	5.6
1996		5.1	5.1	2.8	2.8	2.3	2.3	3.0	3.0	5.4	5.4
1997		5.8	5.8	3.8	3.8	2.0	2.0	2.3	2.3	4.9	4.9
1998		4.4	4.8	2.8	3.4	1.5	1.4	1.6	1.6	4.6	4.5
1999		3.9	3.8	2.1	2.1	1.8	1.7	2.2	2.1	4.8	4.7
QUARTERLY											
1996	Q1	4.7	4.7	1.8	1.8	2.8	2.8	3.2	3.2	5.6	5.6
	Q2	7.7	7.7	6.0	6.0	1.9	1.9	3.7	3.7	5.4	5.4
	Q3	3.6	3.6	1.0	1.0	2.7	2.7	2.6	2.6	5.3	5.3
	Q4	6.2	6.2	4.3	4.3	1.9	1.9	3.3	3.3	5.3	5.3
1997	Q1	7.4	7.4	4.9	4.9	2.4	2.4	2.0	2.0	5.3	5.3
	Q2	5.2	5.2	3.3	3.3	1.8	1.8	1.5	1.5	4.9	4.9
	Q3	4.6	4.6	3.1	3.1	1.4	1.4	1.8	1.8	4.9	4.9
	Q4	5.4	5.2	3.9	3.7	1.5	1.4	2.3	2.3	4.7	4.7
1998	Q1	4.5	6.1	3.1	5.2	1.4	0.9	0.5	0.5	4.6	4.7
	Q2	3.6	4.2	2.1	2.5	1.5	1.6	1.5	1.6	4.6	4.4
	Q3	3.8	3.6	2.0	1.8	1.8	1.7	2.3	2.3	4.6	4.5
	Q4	3.8	3.5	2.0	1.8	1.8	1.7	2.2	2.1	4.7	4.5
1999	Q1	4.1	4.0	2.0	2.0	2.0	1.9	2.2	2.1	4.7	4.6
	Q2	3.8	3.8	2.1	2.2	1.7	1.6	2.2	2.1	4.8	4.7
	Q3	4.0	4.0	2.2	2.3	1.7	1.6	2.2	2.1	4.8	4.7
	Q4	4.1	4.1	2.3	2.4	1.7	1.6	2.2	2.1	4.9	4.8
TWO-QUARTER ³											
1996	Q2	6.2	6.2	3.8	3.8	2.3	2.3	3.5	3.5	-0.2	-0.2
	Q4	4.9	4.9	2.7	2.7	2.3	2.3	2.9	2.9	-0.1	-0.1
1997	Q2	6.3	6.3	4.1	4.1	2.1	2.1	1.8	1.8	-0.4	-0.4
	Q4	5.0	4.9	3.5	3.4	1.4	1.4	2.0	2.0	-0.2	-0.2
1998	Q2	4.1	5.1	2.6	3.9	1.4	1.3	1.0	1.1	-0.1	-0.3
	Q4	3.8	3.5	2.0	1.8	1.8	1.7	2.3	2.2	0.1	0.1
1999	Q2	3.9	3.9	2.0	2.1	1.9	1.7	2.2	2.1	0.2	0.2
	Q4	4.1	4.0	2.3	2.4	1.7	1.6	2.2	2.1	0.1	0.1
FOUR-QUARTER ⁴											
1995	Q4	4.0	4.0	1.6	1.6	2.4	2.4	2.6	2.6	0.0	0.0
1996	Q4	5.6	5.6	3.2	3.2	2.3	2.3	3.2	3.2	-0.3	-0.3
1997	Q4	5.6	5.6	3.8	3.7	1.8	1.8	1.9	1.9	-0.6	-0.6
1998	Q4	3.9	4.3	2.3	2.8	1.6	1.5	1.7	1.6	-0.0	-0.2
1999	Q4	4.0	4.0	2.2	2.3	1.8	1.7	2.2	2.1	0.2	0.3

1. For all urban consumers.

2. Level, except as noted.

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

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

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

May 14, 1998

Item	Units ¹	- Projected -								
		1991	1992	1993	1994	1995	1996	1997	1998	1999
EXPENDITURES										
Nominal GDP	Bill. \$	5916.7	6244.4	6558.1	6947.0	7265.4	7636.0	8079.9	8470.4	8794.7
Real GDP	Bill. Ch. \$	6079.4	6244.4	6389.6	6610.7	6742.1	6928.4	7188.8	7432.8	7588.6
Real GDP	% change	0.4	3.6	2.4	3.3	1.6	3.2	3.7	2.8	2.3
Gross domestic purchases		0.0	4.0	3.0	3.6	1.2	3.6	4.3	3.8	2.6
Final sales		-0.4	3.9	2.1	2.7	2.2	3.1	3.1	3.5	2.3
Priv. dom. final purchases		-0.8	4.9	3.7	3.7	2.5	3.8	4.3	5.3	2.9
Personal cons. expenditures		-0.2	4.2	2.7	3.1	2.2	2.7	3.6	4.6	2.6
Durables		-3.1	9.4	7.4	6.3	3.0	3.9	6.8	7.1	3.4
Nondurables		-1.0	3.4	1.6	3.0	1.0	1.8	1.4	4.4	1.7
Services		0.9	3.6	2.3	2.5	2.7	2.8	4.0	4.1	2.9
Business fixed investment		-6.0	5.5	9.9	7.6	6.5	11.7	9.0	10.0	6.9
Producers' dur. equipment		-2.6	9.6	12.2	10.2	8.3	12.2	12.9	14.4	8.3
Nonres. structures		-12.5	-3.4	4.5	1.1	2.0	10.3	-0.7	-1.6	2.9
Residential structures		1.1	16.9	7.8	4.2	-1.9	3.9	5.6	6.2	-2.4
Exports		8.6	4.1	4.6	10.0	10.3	9.3	10.2	1.2	5.0
Imports		4.1	7.4	10.2	12.3	5.6	11.8	14.4	9.2	7.0
Gov't. cons. & investment		-0.7	1.7	-1.4	0.1	-1.4	2.0	1.0	0.8	0.9
Federal		-3.1	1.3	-6.1	-3.9	-6.0	1.5	-0.7	-1.5	-1.9
Defense		-5.3	-1.3	-6.9	-6.0	-5.9	1.1	-0.8	-3.9	-2.4
State & local		1.0	2.0	2.0	2.7	1.4	2.2	2.0	2.2	2.4
Change in bus. inventories	Bill. Ch. \$	-3.0	7.0	22.1	60.6	27.3	25.0	65.7	57.0	29.5
Nonfarm		-1.2	2.0	29.5	49.0	35.7	22.5	57.8	48.8	22.8
Net exports		-22.3	-29.5	-70.2	-104.6	-98.8	-114.4	-146.5	-235.3	-284.5
Nominal GDP	% change	3.8	6.3	5.0	5.8	4.0	5.6	5.6	4.3	4.0
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	108.3	108.6	110.7	114.1	117.2	119.5	122.3	125.1	126.5
Unemployment rate	%	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.7
Industrial prod. index	% change	-0.0	3.7	3.3	6.5	3.3	4.2	5.8	1.8	2.3
Capacity util. rate - mfg.	%	77.9	79.4	80.5	82.5	82.8	81.4	81.7	80.7	79.7
Housing starts	Millions	1.01	1.20	1.29	1.46	1.35	1.48	1.47	1.56	1.45
Light motor vehicle sales		12.52	12.85	13.87	15.02	14.73	15.05	15.06	15.01	14.66
North Amer. produced		9.74	10.51	11.71	12.88	12.82	13.34	13.12	13.12	12.87
Other		2.77	2.34	2.15	2.13	1.90	1.71	1.94	1.89	1.79
INCOME AND SAVING										
Nominal GNP	Bill. \$	5932.4	6255.5	6576.8	6955.2	7270.6	7637.7	8060.1	8429.2	8746.4
Nominal GNP	% change	3.5	6.2	5.1	5.7	4.1	5.5	5.2	4.1	3.9
Nominal personal income		3.7	7.3	4.2	5.1	5.2	5.8	6.0	4.5	4.1
Real disposable income		0.8	4.0	1.5	2.4	2.4	2.0	3.7	2.5	2.9
Personal saving rate	%	6.0	6.2	5.1	4.2	4.8	4.3	3.9	2.9	2.7
Corp. profits, IVA & CCAdj.	% change	4.5	11.3	19.0	14.1	11.0	9.1	9.4	-3.4	2.5
Profit share of GNP	%	6.9	6.8	7.5	8.2	8.9	9.6	10.0	9.5	9.2
Excluding FR Banks		6.6	6.6	7.2	7.9	8.6	9.3	9.7	9.3	8.9
Federal surpl./deficit	Bill. \$	-196.0	-280.9	-250.7	-186.7	-174.4	-110.5	-28.8	48.9	29.3
State & local surpl./def.		75.8	86.3	87.4	96.8	103.1	105.3	107.8	115.3	119.0
Ex. social ins. funds		11.5	18.3	19.7	27.9	32.5	34.1	36.3	43.5	47.1
Gross natl. saving rate	%	15.7	14.5	14.4	15.5	16.0	16.6	17.3	17.1	16.5
Net natl. saving rate		4.8	3.7	3.7	4.7	5.5	6.4	7.3	7.2	6.5
PRICES AND COSTS										
GDP chn.-wt. price index	% change	3.3	2.6	2.6	2.5	2.4	2.3	1.8	1.5	1.7
Gross Domestic Purchases		2.7	2.7	2.3	2.5	2.3	2.3	1.3	1.1	1.6
chn.-wt. price index		3.0	3.1	2.7	2.7	2.6	3.2	1.9	1.6	2.1
CPI		4.4	3.5	3.1	2.8	3.1	2.6	2.2	2.2	2.2
Ex. food and energy		4.4	3.5	3.1	2.8	3.1	2.6	2.2	2.2	2.2
ECI, hourly compensation ²		4.4	3.5	3.6	3.1	2.6	3.1	3.4	3.4	3.4
Nonfarm business sector		2.2	3.5	-0.2	-0.1	0.6	1.7	2.1	1.0	1.6
Output per hour		4.8	4.5	1.8	1.9	3.1	3.9	4.1	3.8	3.4
Compensation per Hour		2.5	1.0	2.0	2.0	2.4	2.2	2.0	2.7	1.8
Unit labor cost		2.5	1.0	2.0	2.0	2.4	2.2	2.0	2.7	1.8

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 14, 1998

Item	Units	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	7168.9	7209.5	7301.3	7381.9	7467.5	7607.7	7676.0	7792.9	7933.6	8034.3
Real GDP	Bill. Ch. \$	6703.7	6708.8	6759.2	6796.5	6826.4	6926.0	6943.8	7017.4	7101.6	7159.6
Real GDP	% change	0.9	0.3	3.0	2.2	1.8	6.0	1.0	4.3	4.9	3.3
Gross domestic purchases		1.3	0.2	1.9	1.3	3.1	6.5	2.4	2.5	5.9	3.7
Final sales		1.8	1.9	3.3	2.0	2.6	5.2	0.2	4.5	3.0	2.5
Priv. dom. final purchases		2.5	2.2	2.8	2.5	4.4	5.5	2.1	3.2	5.1	2.9
Personal cons. expenditures		1.5	2.9	2.6	1.8	3.1	3.7	0.5	3.3	5.3	0.9
Durables		-3.0	3.9	9.3	2.0	4.8	9.7	-2.9	3.5	14.1	-5.4
Nondurables		1.7	0.9	0.7	0.7	1.7	2.6	0.6	2.1	4.7	-2.1
Services		2.4	3.7	2.2	2.3	3.5	3.1	1.0	3.9	3.9	3.9
Business fixed investment		14.2	5.7	1.6	4.9	11.7	13.0	16.5	5.9	4.1	14.6
Producers' dur. equipment		16.1	6.2	2.0	9.4	13.1	14.9	19.1	2.6	6.7	23.0
Nonres. structures		9.5	4.3	0.7	-5.8	8.2	7.9	10.0	15.3	-2.1	-4.7
Residential structures		-7.0	-15.5	8.4	8.5	8.3	17.9	-4.5	-4.3	3.3	7.4
Exports		7.2	9.3	13.5	11.5	1.7	9.6	1.9	25.5	9.9	18.4
Imports		10.0	7.7	2.3	2.4	13.1	14.1	13.2	6.8	17.9	20.5
Gov't. cons. & investment		0.6	-0.1	-0.7	-5.4	1.8	7.2	-1.1	0.1	-0.4	3.1
Federal		-1.1	-4.5	-1.3	-16.4	7.5	8.8	-4.2	-5.2	-5.8	6.6
Defense		-1.1	-1.6	-4.0	-15.9	6.1	11.0	-4.6	-7.1	-11.8	7.5
State & local		1.7	2.6	-0.4	1.9	-1.4	6.3	0.7	3.3	2.7	1.2
Change in bus. inventories	Bill. Ch. \$	48.5	21.6	17.0	22.2	8.0	21.3	37.9	32.9	63.7	77.6
Nonfarm		54.7	34.0	29.6	24.4	14.5	17.3	31.6	26.5	58.3	70.1
Net exports		-113.5	-112.8	-92.9	-76.1	-100.8	-112.6	-138.9	-105.6	-126.3	-136.6
Nominal GDP	% change	4.2	2.3	5.2	4.5	4.7	7.7	3.6	6.2	7.4	5.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	116.5	116.9	117.4	117.9	118.5	119.2	119.9	120.5	121.1	121.9
Unemployment rate	%	5.5	5.7	5.7	5.6	5.6	5.4	5.3	5.3	5.3	4.9
Industrial prod. index	% change	5.9	1.6	4.5	1.1	2.0	7.5	3.6	3.8	5.2	4.6
Capacity util. rate - mfg.	%	83.8	82.9	82.6	81.8	81.0	81.6	81.5	81.4	81.6	81.5
Housing starts	Millions	1.32	1.29	1.42	1.42	1.47	1.49	1.49	1.42	1.47	1.46
Light motor vehicle sales		14.67	14.42	14.86	14.96	15.04	15.13	15.08	14.95	15.26	14.51
North Amer. produced		12.66	12.46	13.00	13.18	13.38	13.43	13.38	13.18	13.34	12.67
Other		2.01	1.96	1.86	1.78	1.66	1.70	1.70	1.76	1.92	1.85
INCOME AND SAVING											
Nominal GNP	Bill. \$	7175.1	7220.6	7298.3	7388.5	7475.3	7610.5	7669.1	7796.1	7919.2	8013.6
Real GNP	% change	4.5	2.6	4.4	5.0	4.8	7.4	3.1	6.8	6.5	4.9
Nominal personal income		7.4	4.1	4.3	5.1	6.8	6.6	5.1	4.8	8.0	5.0
Real disposable income		4.5	0.2	2.6	2.5	3.5	1.1	2.7	0.7	4.6	3.1
Personal saving rate	%	5.3	4.6	4.5	4.6	4.7	4.1	4.5	3.9	3.7	4.2
Corp. profits, IVA & CC&Mj.	% change	-2.9	10.0	31.7	7.9	20.0	12.1	0.6	4.5	18.1	8.2
Profit share of GNP	%	8.5	8.7	9.2	9.3	9.6	9.7	9.6	9.6	9.8	9.9
Excluding FR Banks		8.2	8.4	8.9	9.0	9.3	9.4	9.4	9.3	9.6	9.6
Federal surpl./deficit	Bill. \$	-191.5	-179.5	-176.5	-150.2	-153.6	-111.6	-99.5	-77.1	-55.5	-36.8
State & local surpl./def.		107.7	105.6	101.1	97.8	104.1	114.4	102.6	100.4	104.7	104.9
Ex. social ins. funds		37.7	35.3	30.3	26.8	33.2	43.1	31.1	28.9	33.5	33.3
Gross natl. saving rate	%	15.8	15.7	16.0	16.6	16.3	16.5	16.9	16.7	16.8	17.4
Net natl. saving rate		5.4	5.1	5.5	6.0	6.0	6.4	6.7	6.6	6.7	7.4
PRICES AND COSTS											
GDP chn.-wt. price index	% change	3.3	2.1	2.0	2.1	2.8	1.9	2.7	1.9	2.4	1.8
Gross Domestic Purchases		3.0	2.5	1.7	1.9	2.7	1.8	2.4	2.4	1.9	0.8
chn.-wt. price index		2.7	3.5	2.1	2.4	3.2	3.7	2.6	3.3	2.0	1.5
CPI		3.3	3.3	2.8	3.0	2.5	2.5	2.7	2.7	2.2	2.6
Ex. food and energy											
ECI, hourly compensation ¹		2.9	2.6	2.6	2.9	2.5	3.5	2.8	2.8	2.5	3.7
Nonfarm business sector											
Output per hour		-1.8	0.8	1.4	2.2	2.8	2.9	-0.7	1.9	1.1	2.3
Compensation per hour		2.3	3.1	3.1	3.7	3.9	5.1	3.3	3.4	4.3	3.2
Unit labor cost		4.2	2.3	1.7	1.4	1.0	2.2	4.0	1.5	3.1	0.9

1. Private-industry workers.

Strictly Confidential <PR>
Class II POMC

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

May 14, 1998

Item	Units	----- Projected -----									
		1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	8124.3	8227.4	8350.8	8436.1	8510.2	8584.5	8668.3	8750.4	8835.6	8924.4
Real GDP	Bill. Ch. \$	7214.0	7280.0	7372.8	7419.1	7452.9	7486.4	7524.0	7565.5	7609.4	7655.4
Real GDP	% change	3.1	3.7	5.2	2.5	1.8	1.8	2.0	2.2	2.3	2.4
Gross domestic purchases		4.3	3.4	7.4	3.3	3.0	1.7	2.7	2.5	3.1	2.0
Final sales		4.7	2.3	3.5	5.0	2.5	3.0	1.5	2.4	2.0	3.1
Priv. dom. final purchases		7.1	2.3	8.0	6.1	4.2	3.2	2.6	2.9	3.0	3.1
Personal cons. expenditures		5.6	2.5	5.8	5.2	4.0	3.2	2.7	2.6	2.6	2.7
Durables		18.4	1.9	17.9	4.8	3.1	3.1	2.8	3.8	3.4	3.6
Nondurables		4.3	-1.2	5.9	5.5	4.0	2.4	1.8	1.7	1.7	1.8
Services		3.9	4.4	3.5	5.1	4.3	3.6	3.0	2.8	2.9	2.9
Business fixed investment		19.2	-0.8	17.7	9.0	7.3	6.4	6.9	6.9	6.8	6.9
Producers' dur. equipment		24.1	-0.3	29.4	13.1	8.7	7.6	8.3	8.3	8.2	8.3
Nonres. structures		6.7	-2.3	-9.8	-2.1	3.3	2.9	2.9	2.9	2.9	3.0
Residential structures		2.7	9.1	17.6	12.7	-0.2	-4.0	-7.8	-3.1	0.4	1.2
Exports		4.4	8.3	-4.3	2.2	-1.5	9.0	1.6	7.0	1.5	10.2
Imports		14.6	5.3	13.8	8.0	8.5	6.7	6.7	8.5	7.2	5.6
Gov't. cons. & investment		1.1	0.3	-2.8	3.7	1.2	1.4	0.1	1.5	1.2	0.7
Federal		-1.1	-2.3	-8.3	5.0	-1.5	-0.9	-4.1	0.0	-0.9	-2.4
Defense		1.2	1.0	-16.7	6.1	-2.7	-0.8	-5.7	-0.0	-1.5	-2.2
State & local		2.3	1.8	0.4	3.0	2.7	2.6	2.4	2.3	2.4	2.4
Change in bus. inventories	Bill. Ch. \$	47.5	74.0	103.0	57.7	45.5	21.8	31.3	28.9	35.9	22.0
Nonfarm		38.3	64.5	92.9	49.0	38.2	15.2	24.6	22.2	29.1	15.4
Net exports		-164.1	-159.1	-208.0	-225.7	-254.4	-253.3	-269.9	-279.0	-298.0	-291.0
Nominal GDP	% change	4.6	5.2	6.1	4.2	3.6	3.5	4.0	3.8	4.0	4.1
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	122.6	123.5	124.4	125.0	125.3	125.6	125.9	126.3	126.7	127.1
Unemployment rate	%	4.9	4.7	4.7	4.4	4.5	4.5	4.6	4.7	4.7	4.8
Industrial prod. index	% change	6.0	7.2	1.0	1.9	1.9	2.4	2.4	2.2	2.3	2.4
Capacity util. rate - mfg.	%	81.6	82.2	81.5	80.7	80.3	80.1	79.9	79.7	79.6	79.6
Housing starts	Millions	1.45	1.53	1.59	1.60	1.56	1.48	1.45	1.45	1.45	1.45
Light motor vehicle sales		15.34	15.10	15.01	15.50	14.82	14.70	14.64	14.66	14.66	14.68
North Amer. produced		13.31	13.14	13.05	13.57	12.97	12.89	12.85	12.87	12.87	12.89
Other		2.03	1.96	1.97	1.93	1.85	1.81	1.79	1.79	1.79	1.79
INCOME AND SAVING											
Nominal GNP	Bill. \$	8103.5	8204.2	8315.3	8396.3	8467.2	8538.1	8623.2	8703.6	8786.5	8872.2
Nominal GNP	% change	4.6	5.1	5.5	4.0	3.4	3.4	4.1	3.8	3.9	4.0
Nominal personal income		4.6	6.3	6.6	3.0	4.3	4.0	4.1	4.0	4.2	4.1
Real disposable income		2.6	4.5	5.2	1.4	1.8	1.8	5.5	2.0	2.1	2.1
Personal saving rate	%	3.5	3.9	3.8	3.0	2.5	2.2	2.8	2.7	2.6	2.5
Corp. profits, IVA & CCAdj.	% change	17.2	-4.4	-3.0	0.5	-6.4	-4.6	2.1	2.5	3.7	2.0
Profit share of GNP	%	10.2	10.0	9.8	9.7	9.4	9.3	9.2	9.2	9.2	9.1
Excluding FR Banks		9.9	9.7	9.5	9.4	9.2	9.0	9.0	8.9	8.9	8.9
Federal surpl./deficit	Bill. \$	-10.8	-12.1	37.7	45.5	58.7	53.6	18.9	25.2	35.6	37.6
State & local surpl./def.		111.4	110.1	109.9	116.7	116.3	118.4	117.7	119.1	118.9	120.3
Ex. social ins. funds		40.0	38.6	38.1	44.9	44.5	46.6	45.8	47.2	47.0	48.4
Gross natl. saving rate	%	17.4	17.5	17.8	17.2	16.9	16.5	16.5	16.5	16.5	16.4
Net natl. saving rate		7.5	7.5	8.0	7.4	6.9	6.5	6.6	6.5	6.5	6.4
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.4	1.4	0.9	1.6	1.7	1.7	1.9	1.6	1.6	1.6
Gross Domestic Purchases		1.3	1.4	0.1	1.0	1.7	1.6	1.8	1.5	1.5	1.5
chn.-wt. price index		1.8	2.3	0.5	1.6	2.3	2.1	2.1	2.1	2.1	2.1
CPI		1.9	2.1	2.4	2.3	2.1	2.1	2.2	2.2	2.2	2.2
Ex. food and energy											
ECI, hourly compensation ¹		3.4	4.3	2.7	3.7	3.7	3.7	3.4	3.4	3.4	3.4
Nonfarm business sector											
Output per hour		3.6	1.4	1.5	1.7	0.1	0.8	1.6	1.7	1.6	1.6
Compensation per hour		3.8	5.2	4.1	3.7	3.7	3.6	3.4	3.4	3.4	3.4
Unit labor cost		0.2	3.8	2.6	2.0	3.6	2.8	1.8	1.7	1.8	1.8

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

May 14, 1998

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

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

May 14, 1998

Item	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	97Q4/ 96Q4	98Q4/ 97Q4	99Q4/ 98Q4
Real GDP	3.7	5.2	2.5	1.8	1.8	2.0	2.2	2.3	2.4	3.7	2.8	2.3
Gross dom. purchases	3.4	7.5	3.3	3.1	1.7	2.7	2.6	3.1	2.1	4.4	3.9	2.6
Final sales	2.3	3.4	4.9	2.5	3.0	1.5	2.3	2.0	3.1	3.1	3.5	2.3
Priv. dom. final purchases	1.9	6.5	5.0	3.5	2.7	2.2	2.4	2.6	2.6	3.6	4.4	2.5
Personal cons. expenditures	1.7	3.9	3.5	2.7	2.2	1.8	1.8	1.8	1.8	2.4	3.1	1.8
Durables	0.2	1.4	0.4	0.3	0.3	0.2	0.3	0.3	0.3	0.5	0.6	0.3
Nondurables	-0.2	1.1	1.0	0.8	0.5	0.4	0.3	0.3	0.3	0.3	0.9	0.3
Services	1.8	1.4	2.0	1.7	1.4	1.2	1.2	1.2	1.2	1.6	1.7	1.2
Business fixed investment	-0.1	1.8	0.9	0.8	0.7	0.7	0.7	0.7	0.7	0.9	1.0	0.7
Producers' dur. equip.	0.0	2.1	1.0	0.7	0.6	0.7	0.7	0.6	0.7	0.9	1.1	0.7
Nonres. structures	-0.1	-0.3	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	-0.0	-0.0	0.1
Residential structures	0.4	0.7	0.5	-0.0	-0.2	-0.3	-0.1	0.0	0.1	0.2	0.3	-0.1
Net exports	0.3	-2.2	-0.8	-1.2	0.1	-0.7	-0.3	-0.8	0.4	-0.6	-1.0	-0.4
Exports	1.0	-0.5	0.3	-0.2	1.0	0.2	0.8	0.2	1.1	1.2	0.1	0.6
Imports	-0.7	-1.7	-1.0	-1.1	-0.9	-0.9	-1.1	-0.9	-0.7	-1.8	-1.2	-0.9
Government cons. & invest.	0.1	-0.5	0.6	0.2	0.2	0.0	0.3	0.2	0.1	0.2	0.1	0.2
Federal	-0.1	-0.5	0.3	-0.1	-0.1	-0.3	0.0	-0.1	-0.1	-0.0	-0.1	-0.1
Defense	0.0	-0.8	0.2	-0.1	-0.0	-0.2	-0.0	-0.1	-0.1	-0.0	-0.2	-0.1
Nondefense	-0.2	0.2	0.1	0.0	-0.0	-0.0	0.0	0.0	-0.1	-0.0	0.1	-0.0
State and local	0.2	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.3
Change in bus. inventories	1.4	1.5	-2.3	-0.6	-1.2	0.5	-0.1	0.3	-0.7	0.5	-0.7	0.0
Nonfarm	1.4	1.5	-2.2	-0.5	-1.2	0.5	-0.1	0.3	-0.7	0.5	-0.6	0.0
Farm	0.0	0.0	-0.0	-0.1	-0.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0

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

Item	Fiscal year ⁵				1997				1998				1999			
	1996 ^a	1997 ^a	1998	1999	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1 ^b	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
					Not seasonally adjusted											
Receipts ¹	1453	1579	1709	1765	349	496	387	386	378	542	402	416	383	537	429	422
Outlays ¹	1561	1601	1657	1721	401	396	398	426	409	408	415	464	400	426	431	441
Surplus/deficit ¹	-107	-22	52	44	-52	100	-11	-40	-30	135	-12	-48	-17	111	-2	-19
On-budget	-174	-103	-46	-73	-69	61	-19	-66	-51	90	-19	-49	-68	58	-14	-56
Off-budget	67	81	98	117	17	39	8	26	21	44	7	1	51	53	12	36
Surplus excluding deposit insurance ²	-116	-36	48	40	-56	97	-12	-41	-31	133	-14	-49	-18	110	-3	-20
Means of financing																
Borrowing	130	38	-43	-45	48	-69	11	34	26	-94	-9	14	25	-93	10	7
Cash decrease	-6	1	3	1	-1	-18	8	12	4	-34	21	21	0	-15	-5	10
Other ³	-16	-17	-12	0	5	-13	-7	-6	0	-6	-1	14	-8	-3	-3	3
Cash operating balance, end of period	44	44	41	40	33	51	44	32	28	62	41	20	20	35	40	30
NIPA FEDERAL SECTOR																
					Seasonally adjusted annual rate											
Receipts	1550	1692	1813	1860	1675	1709	1742	1767	1805	1829	1849	1866	1841	1858	1878	1896
Expenditures	1679	1737	1780	1827	1731	1746	1753	1780	1767	1784	1790	1812	1822	1832	1842	1859
Consumption expend.	447	460	465	470	458	464	465	468	458	466	466	467	469	471	472	471
Defense	302	309	308	309	306	311	312	314	303	309	308	308	308	309	309	309
Nondefense	145	151	156	161	152	153	153	154	156	157	158	159	161	162	163	162
Other expenditures	1232	1277	1316	1357	1273	1282	1288	1311	1309	1318	1324	1346	1352	1361	1370	1388
Current account surplus	-129	-45	32	33	-56	-37	-11	-12	38	45	59	54	19	25	36	38
Gross investment	69	61	59	59	58	62	61	59	59	60	60	60	59	59	59	59
Current and capital account surplus	-197	-106	-27	-26	-114	-99	-72	-71	-21	-15	-1	-6	-40	-34	-23	-21
FISCAL INDICATORS ⁴																
High-employment (HEB) surplus/deficit	-220	-164	-128	-129	-167	-164	-144	-155	-122	-124	-112	-115	-143	-134	-123	-120
Change in HEB, percent of potential GDP	-.7	-.7	-.5	0	-.2	0	-.2	.1	-.4	0	-.2	0	.3	-.1	-.1	0
Fiscal impetus (FI), percent, cal. year	-2.3	-1.9	-1.6	-.4	-1.1	1.5	.2	-1.7	-1.9	2.2	-.4	-1.3	1.1	-.3	-.5	-1.4

1. OMB's February 1998 surplus estimates (assuming the enactment of the President's proposals) are -\$10 billion in FY98 and \$10 billion in FY99. In May 1998, CBO revised its surplus estimates to a range of \$43 billion to \$63 billion for FY98 and a range of \$30 billion to \$40 billion for FY99. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's February 1998 surplus estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are -\$15 billion in FY98 and \$5 billion in FY99.

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

4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Real potential GDP growth is assumed to rise from 2.3 percent in 1996 to 2.5 percent in 1999, reflecting CPI modifications. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1992) dollars, scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.

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

a--Actual.

b--Preliminary.

Strictly Confidential Class II FOMC
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Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

Period ¹	Total ²	Federal government ³	Nonfederal						Memo: Nominal GDP
			Total ⁴	Households			Business	State and local governments	
				Total	Home mortgages	Consumer credit			
<i>Year</i>									
1989	7.3	7.0	7.3	8.5	9.9	6.0	6.7	5.7	6.4
1990	6.4	11.0	5.2	7.5	9.6	1.5	3.1	5.1	4.4
1991	4.3	11.1	2.3	4.8	6.4	-1.3	-1.7	8.4	3.8
1992	4.6	10.9	2.6	4.5	5.2	0.5	0.7	2.0	6.3
1993	5.0	8.3	3.8	5.6	4.3	7.6	1.4	5.7	5.0
1994	4.6	4.7	4.6	7.8	5.8	14.5	3.8	-3.9	5.8
1995	5.4	4.1	5.9	8.1	5.6	14.1	6.3	-4.4	4.0
1996	5.2	4.0	5.7	7.9	7.9	7.9	4.6	0.1	5.6
1997	5.3	0.6	6.9	7.0	7.2	4.4	7.1	5.6	5.6
1998	5.2	-1.7	7.5	7.3	8.1	3.4	8.0	6.5	4.3
1999	4.5	-1.4	6.3	6.5	7.4	3.1	6.5	4.5	4.0
<i>Quarter</i>									
1997:3	4.9	1.1	6.2	6.0	7.0	4.3	7.0	3.8	4.6
4	6.5	1.8	8.1	7.8	8.3	2.5	8.8	6.9	5.2
1998:1	6.6	-0.4	8.9	7.7	8.1	3.5	10.2	9.7	6.1
2	4.2	-4.8	7.1	7.2	8.0	3.3	7.2	7.0	4.2
3	4.7	-1.0	6.6	6.7	7.8	3.4	7.0	4.3	3.6
4	4.9	-0.4	6.6	6.8	7.6	3.4	6.8	4.2	3.5
1999:1	4.8	-0.5	6.4	6.7	7.4	3.4	6.6	4.5	4.0
2	3.7	-4.8	6.3	6.5	7.2	3.3	6.4	4.4	3.8
3	4.9	0.9	6.1	6.2	7.0	2.9	6.3	4.4	4.0
4	4.4	-1.1	5.9	6.1	7.0	2.6	6.1	4.3	4.1

Note. Quarterly data are at seasonally adjusted annual rates.

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

2. On a monthly average basis, total debt is projected to grow 5.4 percent in 1998 and 4.6 percent in 1999.

3. On a monthly average basis, federal debt is projected to grow -1.3 percent in 1998 and -1.0 percent in 1999.

4. On a monthly average basis, nonfederal debt is projected to grow 7.7 percent in 1998 and 6.4 percent in 1999.

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

Category	Calendar year				Seasonally adjusted annual rates								1999			
	1996	1997	1998	1999	1997		1998				1999					
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
<i>Net funds raised by domestic nonfinancial sectors</i>																
1 Total	655.5	649.0	677.8	639.5	639.1	852.0	913.2	546.2	598.9	653.2	676.4	513.3	724.7	643.6		
2 Net equity issuance	-64.2	-109.8	-113.5	-83.0	-83.2	-124.1	-89.6	-102.0	-140.0	-122.4	-90.8	-87.6	-77.6	-76.0		
3 Net debt issuance	719.7	758.8	791.3	722.5	722.3	976.1	1002.8	648.2	738.9	775.6	767.2	600.9	802.3	719.6		
<i>Borrowing sectors</i>																
<i>Nonfinancial business</i>																
4 Financing gap ¹	6.5	44.3	92.7	91.3	25.1	39.1	110.0	89.2	95.3	76.2	83.7	87.5	-97.3	96.8		
5 Net equity issuance	-64.2	-109.8	-113.5	-83.0	-83.2	-124.1	-89.6	-102.0	-140.0	-122.4	-90.8	-87.6	-77.6	-76.0		
6 Credit market borrowing	190.3	311.7	376.0	329.4	317.3	405.9	478.6	344.0	340.4	341.1	333.1	330.1	328.1	326.1		
<i>Households</i>																
7 Net borrowing ²	383.0	364.1	405.5	390.7	322.2	425.8	428.5	406.3	387.0	400.5	400.1	395.1	385.6	382.1		
8 Home mortgages	258.2	251.0	305.0	299.2	254.6	304.8	303.4	307.9	306.8	301.9	302.4	299.4	296.4	298.4		
9 Consumer credit	88.8	53.8	43.5	40.1	53.0	31.5	44.3	42.5	43.5	43.8	44.0	43.0	38.5	35.0		
10 Debt/DPI (percent) ³	89.6	91.6	93.9	96.0	91.8	92.1	92.6	93.7	94.4	95.1	95.0	95.7	96.3	96.9		
<i>State and local governments</i>																
11 Net borrowing	1.3	59.9	72.9	53.9	41.8	77.0	110.0	81.4	50.2	49.9	53.9	53.9	53.9	53.9		
12 Current surplus ⁴	123.2	96.3	94.4	107.2	89.9	94.7	89.2	95.9	95.4	97.2	116.2	107.4	117.1	88.1		
<i>Federal government</i>																
13 Net borrowing	145.0	23.1	-63.1	-51.4	40.9	67.4	-14.3	-183.4	-38.7	-15.9	-19.8	-178.2	34.8	-42.4		
14 Net borrowing (quarterly, n.s.a.)	145.0	23.1	-63.1	-51.4	10.6	33.7	25.9	-94.0	-8.5	13.6	24.5	-92.7	9.9	6.9		
15 Unified deficit (quarterly, n.s.a.)	110.9	2.4	-44.0	-72.8	10.9	39.7	30.2	-134.6	12.4	48.1	16.8	-110.6	1.5	19.5		
<i>Depository institutions</i>																
16 Funds supplied	232.9	332.2	281.4	280.4	183.4	465.5	281.6	221.7	295.5	326.9	278.9	277.9	282.9	281.9		
<i>Memo (percentage of GDP)</i>																
17 Domestic nonfinancial debt ⁵	184.4	183.4	184.1	185.9	182.9	183.2	183.5	184.0	184.5	185.1	185.5	185.7	185.9	186.2		
18 Domestic nonfinancial borrowing	9.4	9.4	9.3	8.2	8.9	11.9	12.0	7.7	8.7	9.0	8.9	6.9	9.1	8.1		
19 Federal government ⁶	1.9	0.3	-0.7	-0.6	0.5	0.8	-0.2	-2.2	-0.5	-0.2	-0.2	-2.0	0.4	-0.5		
20 Nonfederal	7.5	9.1	10.1	8.8	8.4	11.0	12.2	9.9	9.1	9.2	9.1	8.9	8.7	8.5		

Note. Data after 1997:Q4 are staff projections.

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

2. Includes change in liabilities not shown in lines 8 and 9.

3. Average debt levels in the period (computed as the average of period-end debt positions) divided by disposable personal income.

4. NIPA surplus less changes in retirement fund assets plus consumption of fixed capital.

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

6. Excludes government-insured mortgage pool securities.

The staff estimates that in the first quarter, net exports fell substantially more in real terms than in nominal terms because of a sharp decline in import prices.³

Oil import prices fell nearly \$4 dollar per barrel during the first quarter because of increases in OPEC production, weak demand in Asia, relatively warm weather in the northern hemisphere, and the resumption of oil exports by Iraq. After having dropped below \$13 per barrel during March, WTI spot prices have risen and are now trading near \$15 per barrel largely as a result of an agreement among major oil exporters to restrain crude oil production by about 1-1/2 million barrels per day. Non-oil import prices fell 5 percent (annual rate) in the first quarter and somewhat further in April, partly because of the substantial further appreciation of the dollar and partly because of declines in non-oil commodity prices. Nevertheless, over the past several quarters, non-oil import prices have fallen less than historical relationships would have suggested. Export prices fell at a similar rate over the first four months of the year, somewhat more than the prices of comparable domestic goods partly as a consequence of the appreciation of the dollar.

Outlook

We estimate that growth of total foreign real GDP (weighted by shares of U.S. nonagricultural exports) slowed further in the first quarter of 1998 to 1-1/2 percent at

Summary of Staff Projections
(Percentage change from end of previous period,
annual rate)

Measure	1997	Projection			
		1998			1999
		Q1	Q2	H2	
Foreign output	4.0	1.5	2.2	2.5	3.0
<i>March</i>	3.8	1.7	2.1	2.3	2.9
Real exports	10.2	-4.3	2.2	3.6	5.0
<i>March</i>	10.2	-3.5	3.0	2.8	4.8
Real imports	14.4	13.8	8.0	7.6	7.0
<i>March</i>	14.5	9.5	11.1	7.8	6.7

3. A portion of the decline in real net exports in the first quarter can be attributed to residual seasonality in real exports. Of the 4 percent decline in real exports, we estimate that 1 percentage point stemmed from seasonal variation.

region to return to above 4 percent in 1999. Inflation in the region should trend down over the forecast period.

Oil prices. The recent weakness in oil prices has led us to mark down the import price \$1 per barrel, to just under \$13 per barrel for the second quarter. However, we project that the import price will return in the second quarter to nearly \$14 per barrel (consistent with a WTI spot price of \$16.50 per barrel) for the balance of the forecast period. This projection assumes that OPEC and non-OPEC producers will cut back production sufficiently to offset most of the expected rise in Iraqi exports to as much as 2 mb/d by the end of this year. There is considerable risk to this forecast. If producers cannot sustain the lower rate of production, then spot WTI could fall below \$13.00 per barrel in the near term. On the other hand, if Iraqi oil is again withheld from or prevented from coming to the market and other producers restrain output, spot WTI could rise above \$20 per barrel.

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

Trade category	1997	Projection			
		1998			1999
		Q1	Q2	H2	
<i>Exports</i>					
Nonagricultural (core)	.5	-2.4	-2.0	.7	1.2
Agricultural	-3.1	-16.6	-18.4	2.0	2.0
<i>Imports</i>					
Non-oil (core)	-.7	-3.5	-3.3	.0	1.3
Oil (level, dollars per barrel)	17.70	14.01	12.87	13.94	14.00

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

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

Prices of non-oil imports and exports. Prices of imports of non-oil goods other than computers and semiconductors (core imports) are projected to decline through the third quarter of this year before reversing course and increasing at an annual rate of 1 to 1-1/2 percent thereafter. The outlook for core import prices reflects the recent past and projected path of the dollar's exchange value and the waning of the lagged effects of declines in non-oil commodity prices. This projection is about the same as that in

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

Measure and country	--Projected--								
	1991	1992	1993	1994	1995	1996	1997	1998	1999
REAL GDP									

Canada	-0.3	0.9	3.1	4.5	0.8	2.0	4.2	3.2	2.7
Japan	2.5	0.1	0.5	0.8	2.4	3.4	-0.2	1.6	1.1
United Kingdom	-1.6	0.4	2.7	4.9	2.0	2.9	2.9	1.9	1.9
Euro-11 Average (1)	2.1	0.1	-0.1	3.5	1.5	1.9	2.9	2.7	2.9
of which:									
France	1.4	-0.0	-0.7	4.3	0.3	2.3	3.0	2.5	2.7
Germany (2)	3.3	0.9	-0.2	3.4	0.7	2.1	2.3	2.5	3.0
Italy	1.9	-0.8	0.1	2.5	2.6	-0.2	2.8	2.2	2.9
Foreign G-7 Average weighted by 1991 GDP	1.7	0.2	0.6	2.8	1.6	2.3	1.8	2.1	2.2
Average weighted by share of U.S. nonagricultural exports									
Total foreign	3.3	2.3	3.5	5.0	1.9	4.1	4.0	2.1	3.0
Foreign G-7	0.8	0.5	1.9	3.6	1.3	2.3	2.9	2.6	2.3
Developing Countries	6.7	5.2	6.4	7.1	2.6	6.7	5.3	1.3	3.6
CONSUMER PRICES									

Canada	4.1	1.8	1.8	-0.0	2.1	2.0	1.0	1.6	1.8
Japan	3.2	0.9	1.2	0.8	-0.8	0.1	2.1	0.0	0.0
United Kingdom (3)	5.7	3.7	2.7	2.2	2.9	3.2	2.8	2.9	2.8
Euro-11 Average (4)	NA	NA	NA	NA	2.7	2.0	1.4	1.8	1.9
of which:									
France	3.0	1.8	2.1	1.6	1.9	1.7	1.2	1.2	1.6
Germany (2)	4.0	3.4	4.2	2.6	1.7	1.4	1.8	1.9	1.8
Italy	6.1	4.9	4.1	3.8	5.9	2.7	1.6	1.8	2.0
Foreign G-7 Average weighted by 1991 GDP	4.1	2.4	2.5	1.8	1.6	1.5	1.8	1.3	1.3
Average weighted by share of U.S. non-oil imports	3.9	1.9	2.0	1.0	1.1	1.3	1.7	1.1	1.2

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

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

Measure and country	1997				----- Projected -----				----- 1999 -----			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP												
Canada	4.7	5.2	3.9	3.0	2.8	3.6	3.2	3.1	2.8	2.8	2.7	2.7
Japan	8.3	-10.6	3.2	-0.7	-2.1	2.7	3.1	2.7	2.1	0.6	0.9	0.9
United Kingdom	2.1	3.5	3.6	2.5	2.0	1.9	1.9	1.9	1.8	1.9	2.0	2.0
Euro-11 Average (1)	1.5	5.0	3.3	2.0	2.7	2.5	2.8	2.8	2.8	2.8	3.1	3.1
of which:												
France	0.8	4.6	3.5	3.0	2.8	2.5	2.3	2.3	2.6	2.7	2.8	2.8
Germany	1.5	3.8	2.9	1.1	2.8	1.9	2.6	2.7	2.8	2.8	3.2	3.1
Italy	0.1	7.8	2.6	0.7	1.8	2.3	2.4	2.4	2.5	2.5	3.3	3.3
Foreign G-7 Average weighted by 1991 GDP	3.7	-0.5	3.2	1.0	0.9	2.4	2.6	2.5	2.3	1.9	2.2	2.2
Average weighted by share of U.S. nonagricultural exports												
Total foreign	4.7	4.1	4.7	2.4	1.5	2.2	2.3	2.5	2.7	2.8	3.1	3.2
Foreign G-7	4.4	1.6	3.6	2.0	1.7	3.0	2.9	2.8	2.5	2.2	2.3	2.3
Developing Countries	5.5	7.1	6.2	2.6	0.7	1.1	1.4	2.1	3.0	3.5	3.9	4.1
CONSUMER PRICES (2)												
Canada	2.1	1.6	1.7	1.0	1.0	1.2	1.4	1.6	1.7	1.7	1.8	1.8
Japan	0.0	1.5	1.7	2.1	2.1	0.5	0.0	0.0	-0.1	0.0	0.0	0.0
United Kingdom (3)	2.9	2.6	2.8	2.8	2.5	2.9	2.9	2.9	3.1	3.0	2.9	2.8
Euro-11 Average (4)	1.7	1.2	1.5	1.4	1.2	1.6	1.7	1.8	1.9	1.8	1.9	1.9
of which:												
France	1.5	0.9	1.3	1.2	0.7	1.1	1.3	1.2	1.4	1.5	1.6	1.6
Germany	1.7	1.6	1.9	1.8	1.2	1.8	1.8	1.9	1.9	1.8	1.8	1.8
Italy	2.4	1.6	1.5	1.6	1.7	1.8	1.8	1.8	2.1	2.0	2.0	2.0
Foreign G-7 Average weighted by 1991 GDP	1.4	1.6	1.8	1.8	1.6	1.4	1.2	1.3	1.3	1.3	1.3	1.3
Average weighted by share of U.S. non-oil imports	1.3	1.6	1.8	1.7	1.6	1.1	1.0	1.1	1.1	1.1	1.2	1.2

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

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OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1991	1992	1993	1994	1995	1996	1997	-- Projected -- 1998	1999
NIPA REAL EXPORTS and IMPORTS									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	0.4	-0.4	-0.6	-0.4	0.4	-0.4	-0.6	-1.0	-0.4
Exports of G&S	0.8	0.4	0.5	1.0	1.1	1.0	1.2	0.1	0.6
Imports of G&S	-0.4	-0.8	-1.1	-1.4	-0.7	-1.4	-1.8	-1.2	-0.9
Percentage change, Q4/Q4									
Exports of G&S	8.6	4.1	4.6	10.0	10.3	9.3	10.2	1.2	5.0
Services	7.1	-0.9	4.1	6.0	9.0	4.7	2.1	1.0	3.0
Agricultural Goods	10.1	10.4	-5.5	16.6	-3.4	5.7	2.5	-4.9	1.0
Computers	21.7	25.2	23.7	32.0	55.7	33.8	48.0	27.8	31.0
Semiconductors	41.8	64.8	32.9	66.9	80.4	45.9	21.4	19.7	31.7
Other Goods 1/	7.0	2.3	3.6	6.9	5.7	7.7	11.6	-1.2	2.7
Imports of G&S	4.1	7.4	10.2	12.3	5.6	11.8	14.4	9.2	7.0
Services	-2.7	1.4	3.2	1.4	7.3	5.0	10.6	4.8	2.7
Oil	8.1	12.1	10.1	-0.2	1.5	8.3	5.5	0.5	2.4
Computers	35.9	45.1	39.3	44.8	46.2	23.6	44.5	36.0	25.7
Semiconductors	55.3	42.0	34.2	54.5	92.7	57.9	32.6	19.9	32.3
Other Goods 2/	2.5	5.4	9.5	12.2	-1.3	10.6	12.9	8.3	5.7
Billions of chained 1992 dollars									
Net Goods & Services	-22.3	-29.5	-70.2	-104.6	-98.8	-114.4	-46.5	-235.3	-284.5
Exports of G&S	599.9	639.4	658.2	712.4	791.2	857.0	62.7	989.3	1030.2
Imports of G&S	622.2	669.0	728.4	817.0	890.1	971.5	109.2	1224.7	1314.6
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-5.7	-56.4	-90.8	-133.5	-129.1	-148.2	-166.5	-238.7	-282.0
Net Goods & Services (BOP)	-31.0	-39.2	-72.3	-104.4	-101.9	-111.0	-113.7	-159.6	-195.9
Exports of G&S (BOP)	581.2	617.5	643.5	699.6	794.6	848.8	931.4	930.9	963.4
Imports of G&S (BOP)	612.2	656.7	715.8	804.1	896.5	959.9	1045.1	1090.6	1159.2
Net Investment Income	20.3	18.0	19.7	9.7	6.8	2.8	-14.3	-37.3	-44.4
Direct, Net	55.6	51.6	55.7	50.8	60.0	66.8	67.7	54.8	61.2
Portfolio, Net	-35.4	-33.6	-36.0	-41.0	-53.2	-63.9	-82.0	-92.1	-105.7
Net Transfers	5.1	-35.2	-38.1	-38.8	-34.0	-40.0	-38.5	-41.8	-41.8

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1994				1995				1996			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.0	-0.3	-0.4	0.3	-0.4	0.1	1.2	1.0	-1.3	-0.6	-1.4	1.8
Exports of G&S	-0.2	1.7	1.1	1.5	0.8	1.0	1.4	1.3	0.2	1.1	0.2	2.6
Imports of G&S	-0.8	-2.0	-1.5	-1.2	-1.2	-0.9	-0.3	-0.3	-1.5	-1.7	-1.6	-0.8
Percentage change from previous period, SAAR												
Exports of G&S	-1.8	17.7	10.6	14.7	7.2	9.3	13.5	11.5	1.7	9.6	1.9	25.5
Services	2.4	12.9	2.0	6.9	6.0	3.8	20.3	6.6	-3.8	9.7	0.3	13.5
Agricultural Goods	-25.2	8.1	45.3	57.2	-1.3	-17.5	19.7	-10.7	12.5	-34.3	13.1	49.2
Computers	21.4	24.3	35.5	48.4	34.9	41.0	89.6	63.1	46.2	31.8	29.2	28.7
Semiconductors	111.8	23.4	65.9	79.1	72.0	97.0	100.3	56.2	19.9	28.3	37.6	113.8
Other Goods 1/	-6.8	20.3	7.4	8.6	2.9	8.1	0.9	10.9	-1.3	13.2	-2.9	24.2
Imports of G&S	7.6	19.0	13.1	9.9	10.0	7.7	2.3	2.4	13.1	14.1	13.2	6.8
Services	2.7	4.1	-0.4	-0.9	24.4	-4.0	8.4	2.2	14.6	2.7	1.2	2.1
Oil	-8.6	27.2	33.5	-36.2	-8.1	12.5	28.0	-19.7	-7.6	67.2	10.6	-19.6
Computers	32.9	48.3	42.3	57.0	8.1	57.3	65.8	61.8	6.4	30.7	26.9	32.0
Semiconductors	60.7	23.7	74.4	64.3	29.6	108.0	157.1	98.8	30.4	10.3	75.5	146.4
Other Goods 2/	6.8	19.6	10.3	12.5	7.3	2.2	-10.0	-3.7	14.5	11.1	12.4	4.6
Billions of chained 1992 dollars, SAAR												
Net Goods & Services	-97.6	-103.9	-111.1	-105.9	-113.5	-112.8	-92.9	-76.1	-100.8	-112.6	-138.9	-105.6
Exports of G&S	676.0	704.1	722.1	747.3	760.4	777.4	802.4	824.6	828.2	847.4	851.4	901.1
Imports of G&S	773.6	808.0	833.2	853.2	873.9	890.3	895.4	900.7	929.0	960.0	990.2	1006.6
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-104.6	-128.0	-145.4	-156.1	-138.8	-142.8	-132.5	-102.2	-131.5	-142.3	-171.3	-147.5
Net Goods & Services (BOP)	-90.6	-101.5	-114.0	-111.7	-113.2	-123.2	-95.5	-75.5	-98.1	-111.1	-130.1	-104.8
Exports of G&S (BOP)	662.5	688.4	710.9	736.8	761.5	785.9	806.4	824.6	828.4	848.6	840.3	878.0
Imports of G&S (BOP)	753.1	789.9	824.9	848.4	874.7	909.1	901.9	900.1	926.6	959.7	970.4	982.8
Net Investment Income	17.9	10.6	7.2	3.3	8.2	12.9	-1.6	7.8	8.2	3.5	-5.5	5.0
Direct, Net	51.7	48.9	51.0	51.5	57.6	64.1	53.9	64.5	66.2	64.2	60.3	76.4
Portfolio, Net	-33.8	-38.3	-43.8	-48.2	-49.4	-51.3	-55.5	-56.7	-57.9	-60.7	-65.7	-71.4
Net Transfers	-31.9	-37.1	-38.7	-47.7	-33.8	-32.5	-35.4	-34.5	-41.6	-34.8	-35.8	-47.7

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1997				1998				Projected				1999			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS																
Percentage point contribution to GDP growth																
Net Goods & Services	-1.0	-0.4	-1.3	0.3	-2.2	-0.8	-1.2	0.1	-0.7	-0.3	-0.8	0.4				
Exports of G&S	1.1	2.0	0.5	1.0	-0.5	0.3	-0.2	1.0	0.2	0.8	0.2	1.1				
Imports of G&S	-2.1	-2.5	-1.8	-0.7	-1.7	-1.0	-1.1	-0.9	-0.9	-1.1	-0.9	-0.7				
Percentage change from previous period, SAAR																
Exports of G&S	9.9	18.4	4.4	8.3	-4.3	2.2	-1.5	9.0	1.6	7.0	1.5	10.2				
Services	3.7	3.2	7.2	-5.1	0.8	-0.8	1.5	2.6	2.9	3.0	3.0	2.9				
Agricultural Goods	-27.6	-4.2	20.6	31.9	-23.4	-12.8	4.2	17.6	-3.9	-3.9	8.4	4.1				
Computers	72.3	84.3	61.5	-6.5	14.0	31.1	33.5	33.5	31.0	31.0	31.0	31.0				
Semiconductors	39.0	15.7	38.8	-2.6	2.1	21.5	27.4	29.9	31.1	31.6	32.1	32.3				
Other Goods 1/	12.4	25.0	-4.6	15.7	-6.5	2.0	-7.6	8.2	-2.6	6.7	-4.1	11.5				
Imports of G&S	17.9	20.5	14.6	5.3	13.8	8.0	8.5	6.7	6.7	8.5	7.2	5.6				
Services	24.2	8.9	10.1	0.3	18.6	-2.3	2.3	1.6	2.6	2.6	2.7	2.8				
Oil	-10.8	44.5	6.3	-9.5	-7.0	18.9	4.1	-11.3	-9.4	36.2	8.5	-17.9				
Computers	51.3	71.1	53.0	10.0	46.4	38.6	31.1	28.7	27.4	25.1	25.1	25.1				
Semiconductors	71.2	19.3	44.3	5.0	-4.7	28.6	28.6	31.1	32.3	32.3	32.3	32.3				
Other Goods 2/	15.3	17.1	11.8	7.6	13.0	6.5	7.6	6.4	6.1	5.8	5.5	5.4				
Billions of chained 1992 dollars, SAAR																
Net Goods & Services	-126.3	-136.6	-164.1	-159.1	-208.0	-225.7	-254.4	-253.3	-269.9	-279.0	-298.0	-291.0				
Exports of G&S	922.7	962.5	973.0	992.7	981.7	987.2	983.6	1004.9	1008.9	1026.2	1030.1	1055.4				
Imports of G&S	1048.9	1099.1	1137.1	1151.8	1189.7	1212.9	1238.0	1258.1	1278.8	1305.3	1328.1	1346.4				
Billions of dollars, SAAR																
US CURRENT ACCOUNT BALANCE	-159.7	-151.2	-172.5	-182.6	-212.2	-224.2	-253.8	-264.6	-265.2	-273.5	-292.1	-297.4				
Net Goods & Services (BOP)	-117.3	-102.7	-119.6	-115.1	-141.6	-149.3	-175.7	-172.0	-185.0	-191.5	-207.8	-199.1				
Exports of G&S (BOP)	896.3	938.2	938.6	952.3	933.6	927.0	921.8	941.3	944.5	960.2	962.8	986.0				
Imports of G&S (BOP)	1013.6	1040.9	1058.2	1067.4	1075.3	1076.3	1097.4	1113.3	1129.5	1151.7	1170.6	1185.1				
Net Investment Income	-8.1	-13.1	-16.5	-19.4	-31.6	-35.9	-39.2	-42.6	-41.2	-43.0	-45.2	-48.3				
Direct, Net	69.3	70.9	66.1	64.5	56.7	54.5	54.2	53.8	58.5	60.3	62.3	63.8				
Portfolio, Net	-77.4	-84.0	-82.6	-83.9	-88.2	-90.5	-93.3	-96.4	-99.7	-103.3	-107.5	-112.1				
Net Transfers	-34.3	-35.4	-36.3	-48.1	-39.0	-39.0	-39.0	-50.0	-39.0	-39.0	-39.0	-50.0				

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

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESEARCH AND STATISTICS

Date: May 15, 1998
To: Federal Open Market Committee
From: Division of Research and Statistics
Subject: Greenbook Erratum

On page 14 of Part I of the Greenbook, the final sentence in footnote 3 should read: Adjusted for changes in CPI methodology, trend real GDP growth is now estimated at 2.6 percent in 1997 and 1998 and 2.7 percent in 1999.

Part 2

May 14, 1998

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

quarter.³ Some of the slowdown so far this year was attributable to unusually warm weather that damped utility output. More important, manufacturing growth slowed considerably: The staff believes that manufacturing output rose moderately in April following small declines in February and March.

Although motor vehicle assemblies picked up a bit in April, the deceleration in manufacturing so far this year had been exacerbated by the direct and indirect effects of a slower pace of motor vehicle production. Production was boosted temporarily in the latter part of 1997 to make up for shortfalls that occurred last spring and summer; since peaking in November, motor vehicle assemblies have dropped back 0.9 million units, to 12.2 million units at an annual rate in April. Even with this slowdown in production, inventories were a little on the high side in March and April, especially for

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

	1998			1997	1998	
	Feb.	Mar.	Apr.	Q4	Q1	Q2
U.S. production	12.0	11.8	12.2	12.7	12.1	Sched. 12.4
Autos	5.4	5.3	5.5	5.9	5.5	5.6
Trucks	6.6	6.5	6.7	6.7	6.5	6.7
Days' supply						
Autos	62.7	64.5	61.3	60.1	64.5	...
Light trucks	75.2	74.9	74.6	70.6	74.9	...

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

3. The staff estimate of growth in manufacturing production worker hours in April is 2.2 percentage points higher than BLS's estimate because of differences in the April seasonal adjustment factors. The differences arose because the BLS seasonal adjustment procedures assume that Easter affects hours paid only when Good Friday lands in the Sunday-to-Saturday pay period containing the 12th of April. This year, with Easter on April 12, Good Friday preceded the Sunday-to-Saturday pay period of April 12 to 18. In contrast to the BLS's procedures, the staff seasonal adjustment procedure allows for other Easter effects, two of which occurred this year. First, some firms, such as those in the motor vehicle industry, have Monday-to-Sunday pay periods, and Good Friday fell in their survey week. Second, some firms may be affected by a holiday for Easter Monday. On the basis of statistical analysis of changes in the workweek in past years, the staff estimates that the Good Friday and Easter Monday effects reduced actual manufacturing production worker hours in April about 1.6 percent.

TREASURY FINANCING
(Billions of dollars)

Item	1997		1998			
	Q3	Q4	Q1	Feb.	Mar.	Apr. ^e
Total surplus / deficit(-)	-10.9	-39.7	-30.2	-41.7	-13.8	--
Means of financing deficit						
Net borrowing and repayments (-)	10.6	33.7	25.9	30.6	20.1	-59.8
Nonmarketable	4.1	15.8	16.8	5.0	9.6	8.0
Marketable	6.5	17.9	9.0	25.5	10.5	-67.8
Bills	-2.2	14.4	4.5	16.3	14.9	-62.0
Coupons	8.7	3.5	4.6	9.2	-4.4	-5.7
Decrease in cash balance	7.6	11.7	4.3	24.0	-11.4	-60.4
Other ¹	-7.4	-5.7	0.0	-12.8	5.0	--
Memo:						
Cash balance, end of period	43.6	31.9	27.6	16.3	27.6	88.0

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

1. Direct loan financing, accrued items, checks issued less checks paid, and other transactions.

e estimated

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

Agency	1997	1998			
	Q4	Q1	Jan.	Feb.	Mar.
FHLBs	18.7	4.0	-2.5	0.6	5.9
FHLMC	9.2	24.1	12.7	2.2	9.2
FNMA	11.8	11.3	0.8	3.1	7.5
Farm Credit Banks	1.9	-1.2	-2.2	-0.1	1.1
SLMA	-2.8	-1.4	1.7	0.2	-3.3

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

CONFIDENTIAL (FR)
CLASS II - FOMC

May 15, 1998

SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

May 15, 1998

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

	1997 Sep	1997 Oct	1997 Nov	1997 Dec	1998 Jan	1998 Feb	1998 Mar	1998 Apr	1998 May (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	106.0	105.6	107.2	102.1	106.6	110.4	106.5	108.7	105.2
Current conditions	114.1	109.8	114.9	111.4	113.5	120.0	113.7	115.5	111.5
Expected conditions	100.7	102.8	102.3	96.1	102.2	104.2	101.9	104.3	101.1

Personal financial situation									
Now compared with 12 months ago*	127	124	130	123	124	142	128	131	124
Expected in 12 months*	138	136	138	136	141	145	134	138	132
Expected business conditions									
Next 12 months*	149	154	151	142	148	155	158	162	157
Next 5 years*	119	125	123	109	123	121	119	121	118
Appraisal of buying conditions									
Cars	143	141	140	135	145	149	146	145	146
Large household appliances*	170	161	169	166	171	170	167	169	165
Houses	172	164	163	161	172	170	176	178	173
Willingness to use credit	50	37	46	39	55	56	49	51	54
Willingness to use savings	57	69	69	75	74	78	82	70	77
Expected unemployment change - next 12 months	103	100	108	114	106	99	100	97	106
Expected inflation - next 12 months									
Mean	3.5	3.2	3.4	3.4	2.8	2.6	2.9	2.7	3.1
Median	2.8	2.8	2.9	2.8	2.3	2.4	2.5	2.4	2.7
Expected inflation - next 5 to 10 years									
Mean	3.6	3.6	3.8	3.9	3.4	3.2	3.3	3.2	3.0
Median	3.1	3.0	3.1	3.1	2.9	2.9	2.8	2.7	2.8

* -- 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, plus 100.