

## **Part 1**

September 18, 1996

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

Prepared for the Federal Open Market Committee

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

September 18, 1996

## **SUMMARY AND OUTLOOK**

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the bottom line of our knowledge at present is that a sizable drop in real federal purchases still appears likely this quarter.<sup>1</sup>

Apart from the uncertainties related to federal spending, source data for the current quarter are still so incomplete and contradictory as to make impossible precise estimation of the rate of growth in activity. Our best guess is that real GDP growth will be in a range of 2 to 3 percent.

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

	1996:Q2			1996:Q3	
	Aug. GB	BEA prel.	Sept. GB	Aug. GB	Sept. GB
Real GDP	3.7	4.8	4.7	2.6	2.4
Private domestic final sales	4.2	4.1	4.0	2.6	2.4
<i>Change in billions of chained (1992) dollars</i>					
Inventory investment	6.6	10.2	9.0	25.7	24.0
Government outlays for consumption and investment	19.6	25.1	24.9	-11.3	-8.5
Net exports	-20.5	-11.2	-10.4	-6.1	-8.3

The August gain in private payrolls of 173,000, while less than in previous months, was sizable. Moreover, the low level of initial claims into early September and other favorable labor market indicators point to ongoing strength in hiring. All told, aggregate production worker hours will likely be up around 2 percent at an annual rate this quarter; implicit in our output forecast is a

1. We feel reasonably certain at this point that real defense expenditures will decline sharply this quarter. The bigger uncertainty has to do with nondefense purchases. These expenditures exhibited surprising strength over the first half of the year, outpacing by a considerable margin the levels that seemed to be implied by data from the unified budget. Our concern has been that the BEA might force fiscal year NIPA data into compliance with the unified budget data, a step that would require an extraordinary drop in nondefense expenditures in the current quarter. However, the BEA recently told us that they would follow strictly their normal "best change" procedures, leaving any fiscal year inconsistencies that might persist to be ironed out at the time of the next annual revision. We have written down a current-quarter forecast that shows no change in nondefense expenditures for consumption and investment in nominal terms and a moderate decline in real terms.

of the robust increases seen in the first half of the year. Fourth-quarter accumulation of nonfarm inventories is projected to proceed at a somewhat slower pace than in the third quarter; this slowdown is a reflection of a slight decline in stocks of motor vehicles, after a sizable third-quarter rise. Production of vehicles is projected to fall enough to trim about 1/2 percentage point from GDP growth. We have not made allowance in the near-term forecast for strikes by autoworkers; although the tentative agreement between Ford and the United Auto Workers contains provisions that would be difficult for GM to accept, the union also has signaled some willingness to tailor agreements to the particular circumstances of the different companies.

The forecast for 1997 is essentially the same as that in the last Greenbook and has real GDP growing at a pace about in line with potential. The unemployment rate is expected to move up a little over the next couple of months and then flatten out at 5.4 percent. We see the upturn in wage inflation to date as the initial phase of an inflationary process that is likely to quicken--albeit gradually--unless the current tautness is alleviated.

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

	1995	1996		1997
		H1	H2	
Real GDP	1.3	3.3	2.3	2.1
<i>Previous</i>	1.3	2.8	2.3	2.1
Final sales	1.9	3.6	1.7	2.1
<i>Previous</i>	1.9	3.2	1.6	2.1
PCE	1.9	3.4	2.5	2.7
<i>Previous</i>	1.9	3.5	2.6	2.5
BFI	6.4	7.7	7.5	5.1
<i>Previous</i>	6.4	7.4	5.2	4.3
Residential investment	-1.5	11.8	-3.0	-2.2
<i>Previous</i>	-1.5	12.1	-2.5	-1.5
Civilian unemployment rate <sup>1</sup>	5.5	5.4	5.4	5.4
<i>Previous</i>	5.5	5.4	5.4	5.4

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.

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

	1996		1995	1996	1997
	H1	H2			
Employment cost index <sup>1</sup>	3.0	3.6	2.6	3.3	3.6
<i>Previous</i>	3.0	3.6	2.6	3.3	3.7
Consumer price index <sup>2</sup>	3.5	3.0	2.7	3.2	3.1
<i>Previous</i>	3.5	2.9	2.7	3.2	3.3
Food	3.0	5.3	2.6	4.1	3.7
<i>Previous</i>	3.0	5.4	2.6	4.2	4.0
Energy	15.6	.4	-1.7	7.6	1.6
<i>Previous</i>	15.6	-3.3	-1.7	5.7	3.3
Excluding food and energy	2.7	2.7	3.0	2.7	3.1
<i>Previous</i>	2.7	3.0	3.0	2.9	3.2

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.

With energy prices decelerating sharply in 1997 and food price increases slowing a little, the rise in the total CPI next year-- 3.1 percent--is a little less than the increase projected for 1996. However, it remains a bit above the increases of about 2-3/4 percent recorded in each year from 1993 through 1995. Moreover, increases in the CPI are being damped by methodological changes that the BLS has already implemented or will be undertaking; had methodology been held constant since the start of 1995, our 1996 forecast of the rise in the CPI would be about two tenths higher, and our 1997 forecast would be about three-tenths higher.

Money and credit flows. Incoming data on the monetary aggregates and bank credit have run below staff expectations of late, and we foresee no reason for any catch-up over the balance of the year. M2 is now forecast to expand at a pace just below that of nominal GDP, ending the year in the upper portion of its annual range. However, the implied modest uptrend to M2 velocity is not expected to carry beyond 1996. In 1997, M2 is projected to grow in rough alignment with nominal GDP. Such an outcome next year would place the aggregate near the upper end of its provisional range. Growth of M3 is expected to outstrip that of M2 by about 1 percentage point, leaving that aggregate near the upper ends of its annual range for 1996 and its provisional range for 1997.

A first look at the prospects for 1998. This Greenbook extends the projection through 1998. With monetary and fiscal conditions not leaning strongly in one direction or another and foreign growth providing only a moderate lift to demand for U.S. exports, we see little reason at this point to anticipate a significant departure from trend GDP growth. Consequently, labor markets would likely remain on the tight side, and underlying inflation would be expected to creep upward. However, if Mother Nature cooperates, price problems in the food area should have started to fade by 1998. Moreover, the scheduled introduction of a reweighted CPI will go further toward removing some of the upward biases that have been present in that measure in the past--and further complicate comparisons between past and projected inflation rates. We are predicting that the published CPI will slow a bit in 1998 and that the rate of rise in the core CPI will hold steady; but for the updating of weights, we would be forecasting a steady inflation rate for the total and slight acceleration of the core.

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

	1996	1997	1998
Real GDP			
Baseline	2.8	2.1	2.1
Higher funds rate	2.8	1.6	1.5
Lower funds rate	2.8	2.6	2.7
Civilian unemployment rate <sup>1</sup>			
Baseline	5.4	5.4	5.4
Higher funds rate	5.4	5.6	5.9
Lower funds rate	5.4	5.2	4.9
CPI			
Baseline	3.2	3.1	2.9
Higher funds rate	3.2	2.9	2.4
Lower funds rate	3.2	3.3	3.4

1. Average for the fourth quarter.

Alternative simulations. The two alternative scenarios that we have formulated this month depict the implications of changed assumptions regarding the federal funds rate. One scenario has increases in the funds rate starting immediately and cumulating to 100 basis points by the third quarter of 1997, after which the nominal funds rate is held steady. The higher rate holds growth of real GDP below its potential rate in 1997 and 1998; the unemployment

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

September 18, 1996

Interval	Nominal GDP		Real GDP		GDP Chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>	
	08/15/96	09/18/96	08/15/96	09/18/96	08/15/96	09/18/96	08/15/96	09/18/96	08/15/96	09/18/96
<b>ANNUAL</b>										
1994	5.8	5.8	3.5	3.5	2.3	2.3	2.6	2.6	6.1	6.1
1995	4.6	4.6	2.0	2.0	2.5	2.5	2.8	2.8	5.6	5.6
1996	4.3	4.4	2.2	2.4	2.3	2.2	3.0	3.0	5.5	5.4
1997	4.8	4.7	2.2	2.3	2.8	2.6	3.2	3.1	5.4	5.4
1998		4.6		2.1		2.7		2.9		5.4
<b>QUARTERLY</b>										
1995 Q1	3.8	3.8	0.4	0.4	3.3	3.3	2.7	2.7	5.5	5.5
1995 Q2	3.1	3.1	0.7	0.7	2.4	2.4	3.5	3.5	5.7	5.7
1995 Q3	6.0	6.0	3.8	3.8	2.1	2.1	2.1	2.1	5.6	5.6
1995 Q4	2.3	2.3	0.3	0.3	2.1	2.1	2.4	2.4	5.5	5.5
1996 Q1	4.2	4.2	2.0	2.0	2.3	2.3	3.2	3.2	5.6	5.6
1996 Q2	5.6	6.6	3.7	4.7	2.2	2.2	3.9	3.9	5.4	5.4
1996 Q3	4.5	4.2	2.6	2.4	2.3	2.1	2.7	2.4	5.4	5.3
1996 Q4	4.8	4.5	2.0	2.2	3.0	2.6	3.1	3.5	5.4	5.4
1997 Q1	4.8	5.0	2.0	2.1	3.0	3.0	3.3	3.4	5.4	5.4
1997 Q2	4.7	4.6	2.1	2.1	2.8	2.7	3.5	2.9	5.4	5.4
1997 Q3	4.8	4.6	2.2	2.2	2.8	2.6	3.2	2.8	5.4	5.4
1997 Q4	4.8	4.6	2.2	2.2	2.8	2.7	3.2	3.1	5.4	5.4
1998 Q1		4.7		2.1		2.9		2.9		5.4
1998 Q2		4.6		2.1		2.7		2.9		5.4
1998 Q3		4.5		2.1		2.8		2.9		5.4
1998 Q4		4.6		2.1		2.8		2.9		5.4
<b>TWO-QUARTER<sup>3</sup></b>										
1995 Q2	3.5	3.5	0.6	0.6	2.9	2.9	3.2	3.2	0.1	0.1
1995 Q4	4.1	4.1	2.0	2.0	2.1	2.1	2.2	2.2	-0.2	-0.2
1996 Q2	4.9	5.4	2.8	3.3	2.3	2.3	3.5	3.5	-0.1	-0.1
1996 Q4	4.6	4.3	2.3	2.3	2.7	2.4	2.9	3.0	0.0	-0.0
1997 Q2	4.8	4.8	2.1	2.1	2.9	2.8	3.4	3.2	-0.0	-0.0
1997 Q4	4.8	4.6	2.2	2.2	2.8	2.6	3.2	3.0	-0.0	-0.0
1998 Q2		4.6		2.1		2.8		2.9		0.0
1998 Q4		4.5		2.1		2.8		2.9		-0.0
<b>FOUR-QUARTER<sup>4</sup></b>										
1994 Q4	5.9	5.9	3.5	3.5	2.3	2.3	2.6	2.6	-1.0	-1.0
1995 Q4	3.8	3.8	1.3	1.3	2.5	2.5	2.7	2.7	-0.1	-0.1
1996 Q4	4.8	4.9	2.6	2.8	2.5	2.3	3.2	3.2	-0.1	-0.1
1997 Q4	4.8	4.7	2.1	2.1	2.9	2.7	3.3	3.1	0.0	-0.0
1998 Q4		4.6		2.1		2.8		2.9		0.0

1. For all urban consumers.

2. Level, except as noted.

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

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

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

September 18, 1996

Item	Units <sup>1</sup>	- - - Projected - - -								
		1990	1991	1992	1993	1994	1995	1996	1997	1998
EXPENDITURES										
Nominal GDP	Bill. \$	5743.8	5916.7	6244.4	6553.0	6935.7	7253.8	7575.9	7935.7	8301.8
Real GDP	Bill. Ch. \$	6138.7	6079.0	6244.4	6386.4	6608.7	6742.9	6903.3	7064.1	7214.8
Real GDP	% change	-0.2	0.4	3.7	2.2	3.5	1.3	2.8	2.1	2.1
Gross domestic purchases		-0.8	-0.0	4.0	2.9	3.8	1.0	3.4	2.3	2.3
Final sales		0.6	-0.4	3.9	2.0	2.9	1.9	2.7	2.1	2.2
Priv. dom. final purchases		-0.6	-0.8	4.9	3.5	4.0	2.3	3.6	2.7	2.8
Personal cons. expenditures		0.5	-0.2	4.2	2.5	3.1	1.9	2.9	2.7	2.4
Durables		-3.2	-3.1	9.4	7.3	7.0	1.3	6.9	4.5	3.5
Nondurables		-0.5	-1.0	3.4	1.5	3.5	1.1	2.4	2.4	2.2
Services		2.0	0.9	3.6	2.1	2.0	2.4	2.4	2.4	2.2
Business fixed investment		-2.5	-6.0	5.5	8.5	10.1	6.4	7.6	5.1	5.6
Producers' dur. equipment		-2.0	-2.6	9.6	11.5	12.6	6.9	9.9	6.6	7.2
Nonres. structures		-3.5	-12.5	-3.4	1.6	3.6	5.1	1.3	0.7	0.6
Residential structures		-15.1	1.1	16.9	8.1	5.7	-1.5	4.1	-2.2	1.0
Exports		7.2	8.6	4.1	4.8	9.9	7.4	4.6	7.2	7.9
Imports		0.5	4.1	7.4	10.5	11.8	4.2	8.8	7.9	8.6
Gov't. cons. & investment		2.6	-0.7	1.7	-0.5	0.0	-1.3	1.5	0.3	0.7
Federal		1.6	-3.1	1.3	-5.4	-3.1	-6.7	0.6	-3.5	-2.7
Defense		0.3	-5.3	-1.3	-6.8	-5.7	-6.8	-0.9	-4.7	-3.2
State & local		3.3	1.0	2.0	3.1	2.2	2.1	2.1	2.5	2.5
Change in bus. inventories	Bill. Ch. \$	10.4	-3.0	7.3	19.1	58.9	33.1	14.5	27.4	25.0
Nonfarm		7.8	-1.2	1.9	26.4	46.8	37.2	17.6	24.9	21.8
Net exports		-61.9	-22.3	-29.5	-72.0	-105.7	-107.6	-116.8	-134.7	-153.4
Nominal GDP	% change	4.4	3.8	6.3	4.8	5.9	3.8	4.9	4.7	4.6
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	109.4	108.3	108.6	110.7	114.2	117.2	119.6	121.3	122.8
Unemployment rate	%	5.6	6.9	7.5	6.9	6.1	5.6	5.4	5.4	5.4
Industrial prod. index	% change	-0.2	0.2	4.0	3.2	6.6	1.6	4.3	3.3	3.4
Capacity util. rate - mfg.	%	81.3	78.0	79.5	80.6	83.3	83.0	82.0	82.1	82.3
Housing starts	Millions	1.19	1.01	1.20	1.29	1.46	1.35	1.45	1.37	1.37
Light motor vehicle sales		14.05	12.52	12.85	13.87	15.02	14.74	15.07	14.91	14.80
North Amer. produced		10.85	9.74	10.51	11.72	12.88	12.82	13.37	13.14	13.07
Other		3.20	2.77	2.34	2.15	2.13	1.91	1.70	1.77	1.73
INCOME AND SAVING										
Nominal GNP	Bill. \$	5764.9	5932.4	6255.5	6563.5	6931.9	7246.7	7567.3	7917.3	8276.3
Nominal GNP	% change	4.6	3.5	6.2	4.7	5.7	3.9	4.8	4.6	4.5
Nominal personal income		6.4	3.7	7.3	3.6	5.2	5.6	5.3	4.8	4.7
Real disposable income		1.0	0.8	4.0	0.9	2.7	3.1	2.4	2.6	2.1
Personal saving rate	%	5.0	5.7	5.9	4.5	3.8	4.7	4.7	4.8	4.7
Corp. profits, IVA & CCAdj.	% change	6.2	3.9	12.7	19.9	11.3	7.2	4.9	3.3	3.3
Profit share of GNP	%	6.4	6.4	6.4	7.1	7.6	8.1	8.5	8.3	8.2
(excluding FR banks)	%	6.0	6.1	6.1	6.8	7.4	7.8	8.2	8.0	7.9
Federal surpl./deficit	Bill. \$	-154.7	-196.0	-280.9	-255.6	-190.2	-161.7	-135.0	-124.6	-114.2
State & local surpl./def.		80.1	75.8	86.3	94.9	99.7	95.0	93.0	85.7	79.9
Ex. social ins. funds		20.2	11.5	18.3	28.0	36.9	36.8	36.7	30.4	25.4
PRICES AND COSTS										
GDP implicit deflator	% change	4.6	3.4	2.6	2.5	2.3	2.5	2.0	2.5	2.4
GDP chn.-wt. price index		4.7	3.3	2.6	2.5	2.3	2.5	2.3	2.7	2.8
Gross Domestic Purchases		5.2	2.7	2.7	2.3	2.4	2.3	2.3	2.5	2.6
chn.-wt. price index		6.3	3.0	3.1	2.7	2.6	2.7	3.2	3.1	2.9
CPI		5.3	4.4	3.5	3.1	2.8	3.0	2.7	3.1	3.1
Ex. food and energy										
ECI, hourly compensation <sup>2</sup>		4.6	4.4	3.5	3.6	3.1	2.6	3.3	3.6	3.8
Nonfarm business sector										
Output per hour		-0.6	2.2	3.6	-0.3	0.5	0.3	0.9	0.9	1.0
Compensation per Hour		5.9	4.7	4.6	1.8	2.5	4.1	3.8	3.9	3.8
Unit labor cost		6.5	2.5	1.0	2.1	2.0	3.8	3.0	2.9	2.7

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)

September 18, 1996

Item	Units	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	6776.0	6890.5	6993.1	7083.2	7149.8	7204.9	7309.8	7350.6	7426.8	7545.6
Real GDP	Bill. Ch. \$	6508.5	6587.6	6644.9	6693.9	6701.0	6713.5	6776.4	6780.7	6814.3	6892.7
Real GDP	% change	2.5	4.9	3.5	3.0	0.4	0.7	3.8	0.3	2.0	4.7
Gross domestic purchases		3.5	5.3	3.7	2.5	1.4	0.7	2.6	-0.7	3.0	5.2
Final sales		1.2	3.0	4.2	3.5	0.6	2.1	3.6	1.4	3.0	4.2
Priv. dom. final purchases		3.9	4.4	3.8	4.0	2.3	2.3	3.0	1.4	4.7	4.0
Personal cons. expenditures		2.8	3.5	2.8	3.1	1.0	3.1	2.4	1.1	3.5	3.3
Durables		5.8	4.3	5.6	12.4	-8.9	7.0	9.3	-1.0	8.2	11.5
Nondurables		3.9	3.2	3.8	3.2	2.4	1.8	0.5	-0.4	3.7	1.4
Services		1.6	3.5	1.6	1.2	2.4	3.0	2.0	2.3	2.4	2.5
Business fixed investment		7.3	7.1	13.8	12.2	15.4	3.5	4.9	2.5	11.6	4.0
Producers' dur. equipment		15.5	4.1	19.4	11.9	17.4	3.5	4.3	3.0	13.1	6.2
Nonres. structures		-11.8	15.7	0.2	13.0	9.9	3.4	6.3	1.0	7.7	-1.8
Residential structures		12.8	12.7	-1.8	-0.1	-6.3	-13.4	9.2	6.4	7.4	16.5
Exports		-1.5	15.9	9.7	16.5	2.6	5.9	10.7	10.7	1.8	5.8
Imports		8.2	18.4	10.7	10.3	11.2	4.5	-0.0	1.6	10.6	10.0
Gov't. cons. & investment		-4.3	-0.8	7.0	-1.4	-1.2	0.8	-0.6	-4.3	1.6	8.2
Federal		-11.4	-5.3	11.5	-5.9	-6.5	-1.4	-5.6	-13.2	6.0	10.7
Defense		-17.4	0.7	13.5	-16.1	-7.4	0.6	-7.6	-12.3	4.1	11.6
State & local		0.7	2.2	4.2	1.6	2.3	2.1	2.7	1.5	-0.9	6.7
Change in bus. inventories	Bill. Ch. \$	40.5	74.5	64.5	56.1	54.5	30.5	33.0	14.6	-3.0	6.0
Nonfarm		29.7	54.0	50.5	53.0	57.4	33.7	38.6	19.0	2.9	10.6
Net exports		-99.3	-107.3	-111.7	-104.3	-122.5	-121.4	-101.6	-84.9	-104.0	-114.4
Nominal GDP	% change	5.3	6.9	6.1	5.3	3.8	3.1	6.0	2.3	4.2	6.6
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	112.6	113.7	114.7	115.6	116.5	117.0	117.4	117.9	118.5	119.3
Unemployment rate	%	6.6	6.2	6.0	5.6	5.5	5.7	5.6	5.5	5.6	5.4
Industrial prod. index	% change	8.4	7.0	4.6	6.4	3.9	-1.4	3.2	0.6	3.0	6.5
Capacity util. rate - mfg.	%	82.2	83.2	83.4	84.3	84.3	83.0	82.6	82.0	81.6	82.2
Housing starts	Millions	1.38	1.47	1.46	1.48	1.31	1.29	1.42	1.41	1.47	1.49
Light motor vehicle sales		15.07	14.85	14.99	15.16	14.56	14.44	15.04	14.92	15.18	15.13
North Amer. produced		12.94	12.69	12.79	13.12	12.52	12.46	13.18	13.13	13.49	13.41
Other		2.13	2.16	2.20	2.05	2.04	1.97	1.86	1.79	1.69	1.72
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	6781.0	6888.3	6987.0	7071.4	7146.8	7202.4	7293.4	7344.3	7426.6	7537.9
Nominal GNP	% change	5.4	6.5	5.9	4.9	4.3	3.1	5.1	2.8	4.6	6.1
Nominal personal income		-3.4	13.3	4.9	6.7	7.1	4.7	4.9	5.8	4.8	6.7
Real disposable income		-5.4	9.7	2.9	4.2	3.7	0.3	4.3	4.4	2.0	1.5
Personal saving rate	%	2.7	4.0	4.1	4.3	4.9	4.1	4.5	5.2	4.8	4.4
Corp. profits, IVA & CCAdj.	% change	-35.4	82.5	14.8	13.5	-7.4	1.7	40.8	-0.5	23.6	4.4
Profit share of GNP	%	6.8	7.8	7.9	8.1	7.8	7.8	8.4	8.3	8.7	8.7
(excluding FR banks)	%	6.5	7.5	7.7	7.8	7.5	7.5	8.1	8.0	8.4	8.4
Federal surpl./deficit	Bill. \$	-212.7	-169.6	-188.5	-190.1	-172.6	-161.1	-158.5	-154.5	-155.2	-130.9
State & local surpl./def.		94.8	105.2	99.6	99.3	99.0	99.0	93.9	88.1	91.0	100.5
Ex. social ins. funds		29.0	41.1	37.9	39.4	40.2	40.9	35.8	30.5	34.1	44.1
<b>PRICES AND COSTS</b>											
GDP implicit deflator	% change	2.8	1.9	2.5	2.2	3.4	2.4	2.1	2.0	2.2	1.7
GDP chn.-wt. price index		2.9	1.9	2.4	2.1	3.3	2.4	2.1	2.1	2.3	2.2
Gross Domestic Purchases											
chn.-wt. price index		2.4	2.3	3.0	2.0	2.8	2.8	1.6	1.9	2.3	2.1
CPI		1.9	2.8	3.6	2.4	2.7	3.5	2.1	2.4	3.2	3.9
Ex. food and energy		2.9	2.9	3.1	2.3	3.3	3.3	2.8	2.7	2.7	2.7
ECI, hourly compensation <sup>1</sup>		3.0	3.4	3.3	2.3	2.9	2.9	2.6	2.6	2.9	3.2
Nonfarm business sector											
Output per hour		-2.0	1.0	2.0	0.9	-1.6	2.0	2.0	-1.1	1.8	0.6
Compensation per hour		2.8	1.4	2.1	3.9	3.7	4.6	4.0	4.1	3.3	3.7
Unit labor cost		4.8	0.3	0.1	2.9	5.4	2.6	1.9	5.2	1.5	3.1

1. Private-industry workers.

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

September 18, 1996

Item	Units	Projected									
		1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	7623.2	7708.0	7802.0	7890.9	7979.4	8070.4	8163.9	8255.5	8346.9	8441.0
Real GDP	Bill. Ch. \$	6934.0	6972.2	7008.5	7044.5	7082.3	7120.9	7158.3	7195.7	7233.4	7271.8
Real GDP	% change	2.4	2.2	2.1	2.1	2.2	2.2	2.1	2.1	2.1	2.1
Gross domestic purchases		2.8	2.4	2.0	2.3	2.8	2.2	2.2	2.3	2.7	2.1
Final sales		1.0	2.5	2.1	2.1	1.9	2.5	2.2	2.2	1.8	2.5
Priv. dom. final purchases		2.4	3.4	2.7	2.7	2.8	2.8	2.7	2.7	2.8	2.8
Personal cons. expenditures		1.7	3.3	2.8	2.7	2.6	2.5	2.4	2.4	2.4	2.4
Durables		2.3	5.7	5.3	4.6	4.3	3.9	3.5	3.5	3.4	3.5
Nondurables		0.9	3.8	2.4	2.4	2.4	2.3	2.2	2.2	2.2	2.2
Services		1.9	2.6	2.5	2.4	2.3	2.3	2.2	2.2	2.2	2.2
Business fixed investment		8.3	6.7	4.8	5.0	5.3	5.2	5.5	5.4	5.8	5.7
Producers' dur. equipment		11.6	9.1	6.3	6.5	6.8	6.6	7.1	7.0	7.4	7.4
Nonres. structures		-0.3	-0.1	0.5	0.5	0.8	0.9	0.6	0.6	0.6	0.6
Residential structures		-1.4	-4.7	-5.4	-3.8	-0.2	0.9	1.1	1.1	1.0	1.0
Exports		1.3	9.8	5.7	9.5	3.6	10.3	6.2	10.2	4.5	11.0
Imports		4.8	10.0	4.8	10.1	7.9	8.9	6.6	10.4	8.2	9.4
Gov't. cons. & investment		-2.6	-0.7	-0.8	0.4	0.8	0.8	0.5	0.7	0.7	0.7
Federal		-7.6	-5.6	-6.1	-3.2	-2.2	-2.4	-3.2	-2.5	-2.5	-2.5
Defense		-10.1	-7.7	-8.6	-4.2	-2.8	-3.1	-3.2	-3.2	-3.3	-3.2
State & local		0.5	2.3	2.4	2.5	2.5	2.6	2.5	2.5	2.4	2.4
Change in bus. inventories	Bill. Ch. \$	29.9	25.3	25.8	26.1	31.2	26.5	25.1	23.5	28.5	23.0
Nonfarm		32.4	24.6	23.8	24.1	28.7	23.0	21.6	20.0	25.5	20.0
Net exports		-122.8	-126.0	-125.7	-130.0	-141.4	-141.6	-144.7	-148.7	-159.9	-160.1
Nominal GDP	% change	4.2	4.5	5.0	4.6	4.6	4.6	4.7	4.6	4.5	4.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	120.0	120.5	120.8	121.1	121.5	121.9	122.3	122.6	123.0	123.4
Unemployment rate	%	5.3	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Industrial prod. index	% change	4.9	2.9	3.3	3.1	3.2	3.3	3.4	3.3	3.3	3.4
Capacity util. rate - mfg.	%	82.4	82.0	82.1	82.1	82.1	82.2	82.2	82.3	82.4	82.4
Housing starts	Millions	1.43	1.40	1.38	1.37	1.37	1.37	1.37	1.37	1.37	1.37
Light motor vehicle sales		14.99	14.98	14.90	14.88	14.92	14.93	14.88	14.82	14.77	14.72
North Amer. produced		13.34	13.25	13.14	13.11	13.14	13.15	13.12	13.08	13.05	13.02
Other		1.66	1.73	1.76	1.77	1.78	1.78	1.76	1.74	1.72	1.70
INCOME AND SAVING											
Nominal GNP	Bill. \$	7610.0	7694.9	7786.9	7873.2	7959.7	8049.4	8141.2	8231.1	8321.2	8411.8
Nominal GNP	% change	3.9	4.5	4.9	4.5	4.5	4.6	4.6	4.5	4.4	4.4
Nominal personal income		5.0	4.7	5.2	4.7	4.6	4.7	5.1	4.8	4.6	4.5
Real disposable income		4.3	1.7	3.9	2.2	2.3	2.0	3.0	2.0	1.7	1.8
Personal saving rate	%	5.0	4.7	5.0	4.9	4.8	4.7	4.8	4.7	4.6	4.5
Corp. profits, IVA & CCAdj.	% change	-5.2	-0.9	3.8	3.9	2.9	2.6	4.3	3.8	3.3	1.7
Profit share of GNP	%	8.5	8.3	8.3	8.3	8.3	8.2	8.2	8.2	8.2	8.1
(excluding FR banks)	%	8.2	8.1	8.0	8.0	8.0	8.0	8.0	8.0	7.9	7.9
Federal surpl./deficit	Bill. \$	-132.9	-120.9	-131.7	-126.5	-119.2	-121.1	-120.7	-116.9	-108.8	-110.5
State & local surpl./def.		90.8	89.6	88.7	87.3	84.1	82.6	81.3	80.4	79.1	78.8
Ex. social ins. funds		34.7	33.8	33.1	31.9	28.9	27.6	26.5	25.8	24.7	24.6
PRICES AND COSTS											
GDP implicit deflator	% change	1.7	2.3	2.8	2.5	2.3	2.4	2.5	2.4	2.3	2.4
GDP chn.-wt. price index		2.1	2.6	3.0	2.7	2.6	2.7	2.9	2.7	2.8	2.8
Gross Domestic Purchases											
chn.-wt. price index		2.1	2.6	2.8	2.3	2.3	2.5	2.7	2.6	2.6	2.6
CPI		2.4	3.5	3.4	2.9	2.8	3.1	2.9	2.9	2.9	2.9
Ex. food and energy		2.6	2.8	2.9	3.0	3.1	3.2	3.0	3.0	3.1	3.2
ECI, hourly compensation <sup>1</sup>		3.3	3.9	3.5	3.4	3.9	3.6	3.7	3.8	3.8	3.8
Nonfarm business sector											
Output per hour		0.9	0.5	0.9	0.9	0.9	1.0	1.0	1.0	1.1	1.1
Compensation per hour		3.8	4.3	3.9	3.7	3.8	4.0	3.7	3.8	3.8	3.8
Unit labor cost		2.8	3.8	3.0	2.7	2.8	3.0	2.7	2.7	2.7	2.7

1. Private-industry workers.

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CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

September 18, 1996

Item	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	96Q4/ 95Q4	97Q4/ 96Q4	98Q4/ 97Q4
Real GDP	2.2	2.1	2.1	2.2	2.2	2.1	2.1	2.1	2.1	2.8	2.1	2.1
Gross dom. purchases	2.4	2.1	2.3	2.8	2.2	2.3	2.3	2.7	2.1	3.4	2.4	2.4
Final sales	2.5	2.1	2.1	1.9	2.5	2.2	2.2	1.8	2.5	2.7	2.1	2.2
Priv. dom. final purchases	2.8	2.2	2.2	2.4	2.3	2.3	2.3	2.3	2.3	3.0	2.3	2.3
Personal cons. expenditures	2.2	1.9	1.8	1.8	1.7	1.6	1.6	1.6	1.6	2.0	1.8	1.6
Durables	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.6	0.4	0.3
Nondurables	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Services	1.0	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.9	0.9	0.8
Business fixed investment	0.7	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.8	0.6	0.6
Producers' dur. equip.	0.7	0.5	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.8	0.6	0.6
Nonres. structures	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residential structures	-0.2	-0.2	-0.1	-0.0	0.0	0.0	0.0	0.0	0.0	0.2	-0.1	0.0
Net exports	-0.2	0.0	-0.2	-0.6	-0.0	-0.2	-0.2	-0.6	-0.0	-0.6	-0.2	-0.3
Exports	1.1	0.7	1.1	0.4	1.2	0.8	1.3	0.6	1.4	0.5	0.9	1.0
Imports	1.3	0.7	1.4	1.1	1.3	0.9	1.5	1.2	1.4	1.2	1.1	1.3
Government cons. & invest.	-0.1	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.1	0.1
Federal	-0.4	-0.4	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	0.0	-0.2	-0.2
Defense	-0.4	-0.4	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.0	-0.2	-0.1
Nondefense	-0.0	-0.0	-0.0	-0.0	-0.0	-0.1	-0.0	-0.0	-0.0	0.1	-0.0	-0.0
State and local	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.3
Change in bus. inventories	-0.3	0.0	0.0	0.3	-0.3	-0.1	-0.1	0.3	-0.3	0.2	0.0	-0.1
Nonfarm	-0.5	-0.0	0.0	0.3	-0.3	-0.1	-0.1	0.3	-0.3	0.1	-0.0	-0.0
Farm	0.2	0.1	0.0	0.0	0.1	0.0	0.0	-0.0	0.0	0.1	0.0	-0.0
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.

Item	Fiscal year <sup>5</sup>				1996				1997				1998			
	1995 <sup>a</sup>	1996	1997	1998	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4 <sup>a</sup>	Q1 <sup>a</sup>							
	Not seasonally adjusted															
UNIFIED BUDGET																
Receipts <sup>1</sup>	1355	1452	1505	1564	321	445	362	350	326	454	374	365	340	470	389	386
Outlays <sup>1</sup>	1519	1567	1638	1702	394	392	402	411	409	407	410	428	421	428	426	447
Surplus/deficit <sup>1</sup>	-164	-115	-133	-138	-72	53	-40	-61	-83	47	-37	-63	-80	42	-37	-62
On-budget	-226	-181	-201	-211	-84	14	-42	-69	-96	6	-43	-72	-93	-2	-44	-74
Off-budget	62	66	68	73	12	39	1	8	13	41	6	9	13	44	7	12
Surplus excluding deposit insurance <sup>2</sup>	-182	-124	-137	-142	-75	51	-41	-62	-84	46	-38	-64	-81	41	-38	-63
Means of financing																
Borrowing	171	124	144	148	80	-23	34	61	68	-24	39	58	68	-19	40	49
Cash decrease	-2	4	-6	0	-1	-16	4	-6	19	-15	-5	0	20	-15	-5	0
Other <sup>3</sup>	-6	-13	-4	-9	-7	-14	2	6	-5	-8	2	5	-8	-8	2	13
Cash operating balance, end of period	38	34	40	40	22	38	34	39	20	35	40	40	20	35	40	40
NIPA FEDERAL SECTOR																
Seasonally adjusted, annual rate																
Receipts	1459	1542	1615	1691	1523	1573	1576	1599	1602	1620	1641	1662	1680	1699	1721	1742
Expenditures	1629	1685	1740	1808	1678	1704	1709	1719	1734	1746	1760	1783	1801	1816	1830	1853
Consumption expend.	455	458	455	457	454	465	464	455	456	455	455	455	458	458	457	457
Defense	304	304	298	298	299	308	308	299	298	297	297	297	299	299	298	298
Nondefense	151	155	158	159	155	156	156	156	158	158	158	158	159	159	159	159
Other expenditures	1175	1227	1285	1351	1225	1239	1245	1264	1278	1292	1305	1328	1343	1359	1373	1395
Current account surplus	-171	-143	-125	-117	-155	-131	-133	-121	-132	-126	-119	-121	-121	-117	-109	-110
Gross investment	65	62	63	62	65	66	59	64	62	62	62	62	62	62	61	61
Current and capital account surplus	-236	-205	-187	-178	-220	-197	-192	-185	-194	-189	-181	-183	-182	-178	-170	-172
FISCAL INDICATORS <sup>4</sup>																
High-employment (HEB) surplus/deficit	-268	-243	-242	-243	-246	-238	-239	-236	-248	-244	-240	-245	-244	-242	-237	-241
Change in HEB, percent of potential GDP	0	-.4	0	0	.1	-.1	0	0	.2	0	-.1	.1	0	0	-.1	.1
Fiscal impetus (FI), percent, cal. year	-5.6	-2.3	-4.5	-3.4	1.3	2.1	-1.5	-1.9	-1.7	-.8	-.6	-1.6	-.8	-.6	-.6	-.8

1. OMB's July 1996 baseline deficit estimates (assuming the enactment of the President's proposals) are \$117 billion in FY96, \$126 billion in FY97, and \$94 billion in FY98. CBO's August 1996 baseline deficit estimate is \$116 billion in FY96. CBO did not reestimate FY97 and FY98 in August; its April 1996 baseline deficit estimates are \$144 billion in FY96, \$171 billion in FY97, and \$194 billion in FY98. 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, \$134 billion in FY97 and \$96 billion in FY98. CBO's August 1996 baseline deficit estimate, excluding deposit insurance, is \$126 billion in FY96. CBO did not reestimate FY97 and FY98 in August; its April 1996 baseline deficit estimates, excluding deposit insurance, are \$154 billion in FY96, \$176 billion in FY97 and \$196 billion in FY98.

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.

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

Year	Total	Federal government	Nonfederal					State and local governments	Memo: Nominal GDP
			Total	Total	Households Home mortgages	Consumer credit	Business		
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	6.3	5.4	7.7	1.5	5.7	4.8
1994	4.9	4.7	5.0	8.6	6.5	14.6	3.7	-3.7	5.9
1995	5.5	4.1	6.0	8.2	6.2	14.3	6.2	-4.1	3.8
1996	5.0	4.5	5.3	7.2	7.1	8.5	4.6	-1.4	4.9
1997	4.6	3.7	5.0	6.0	5.9	7.3	5.1	-1.1	4.7
1998	4.6	3.5	5.0	5.8	5.8	6.8	5.0	0.5	4.6
Quarter (seasonally adjusted annual rates)									
1995:1	6.4	7.1	6.2	7.9	6.0	13.8	7.3	-4.9	3.8
2	6.5	5.2	7.0	8.5	6.4	15.1	7.3	-0.8	3.1
3	4.3	2.4	5.0	8.6	6.8	14.8	4.6	-9.4	6.0
4	4.3	1.6	5.3	6.9	4.9	10.7	5.1	-1.5	2.3
1996:1	6.3	7.9	6.1	8.7	8.8	11.5	5.0	-1.2	4.2
2	4.9	1.7	6.0	7.6	7.2	7.0	4.7	3.5	6.7
3	3.7	3.8	3.6	6.0	5.9	7.2	3.8	-8.4	4.1
4	4.7	4.4	4.8	5.8	5.7	7.4	4.6	0.6	4.5
1997:1	4.8	4.6	4.8	6.0	6.0	7.3	5.2	-2.9	5.0
2	4.3	2.5	4.9	5.9	5.8	7.2	5.1	-1.7	4.6
3	4.5	3.9	4.7	5.8	5.8	7.1	4.9	-2.8	4.6
4	4.8	3.8	5.2	5.8	5.7	6.9	4.9	2.9	4.6

1. Data after 1996:Q2 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. On a monthly average basis, total debt grows 4.9 percent in 1996, 4.6 percent in 1997, and 4.7 percent in 1998. Federal debt rises 3.6 percent in 1996, 3.8 percent in 1997, and 3.7 percent in 1998. Nonfederal debt increases 5.3 percent in 1996, 4.9 percent in 1997, and 5.0 percent in 1998.

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

	Calendar year		1996		1997							
	1993	1994	1995	1996	1997	1998	Q1	Q2	Q3	Q4	H1	H2
Net funds raised by domestic nonfinancial sectors												
1 Total	649.8	575.5	648.0	616.3	600.5	625.0	763.0	672.6	421.5	608.1	586.2	614.8
2 Net equity issuance	21.3	-44.9	-74.2	-74.3	-77.2	-75.3	-106.8	-16.8	-102.8	-70.8	-74.6	-79.8
3 Net debt issuance	628.5	620.4	722.3	690.6	677.7	700.3	869.8	689.4	524.3	678.9	660.8	694.6
Borrowing sectors												
Nonfinancial business												
4 Financing gap <sup>2</sup>	3.8	3.8	57.7	20.5	42.3	55.6	2.5	1.5	41.9	36.0	37.7	47.0
5 Net equity issuance	21.3	-44.9	-74.2	-74.3	-77.2	-75.3	-106.8	-16.8	-102.8	-70.8	-74.6	-79.8
6 Credit market borrowing	55.5	139.3	242.9	191.2	223.1	227.6	206.6	199.1	160.8	198.1	225.0	221.2
Households												
7 Net borrowing, of which:	254.6	368.7	380.6	363.0	324.8	328.7	435.9	391.0	314.5	310.6	325.1	324.6
8 Home mortgages	152.1	194.5	195.9	237.9	213.7	220.2	296.3	247.5	205.2	202.5	213.2	214.2
9 Consumer credit	61.5	126.3	141.6	96.3	90.0	90.0	129.7	81.1	84.7	89.7	90.0	90.0
10 Debt/DPI (percent) <sup>3</sup>	86.6	88.9	90.9	93.3	94.5	95.5	92.7	93.5	93.7	94.1	94.2	94.8
State and local governments												
11 Net borrowing	62.3	-43.4	-45.7	-15.0	-11.8	5.5	-12.5	36.8	-90.6	6.2	-24.0	0.4
12 Current surplus <sup>4</sup>	109.9	107.4	106.8	107.6	106.6	104.2	99.0	116.9	107.2	107.2	107.6	105.6
Federal government												
13 Net borrowing	256.1	155.9	144.4	163.7	141.6	138.4	288.7	62.4	139.6	163.9	134.7	148.4
14 Net borrowing (quarterly, n.s.a.)	256.1	155.9	144.4	163.7	141.6	138.4	80.5	-23.5	33.9	60.5	44.0	97.5
15 Unified deficit (quarterly, n.s.a.)	226.3	185.0	146.4	120.1	135.5	137.3	72.3	-53.2	40.1	60.9	35.9	99.6
16 Funds supplied by depository institutions	140.4	198.3	274.6	163.4	211.4	216.9	123.9	229.5	126.7	173.7	206.3	216.5
Memo: (percent of GDP)												
17 Domestic nonfinancial debt <sup>3</sup>	186.4	185.3	186.5	187.8	188.0	188.0	188.4	188.0	188.1	188.0	187.9	187.9
18 Domestic nonfinancial borrowing	9.6	8.9	10.0	9.1	8.5	8.4	11.7	9.1	6.9	8.8	8.4	8.7
19 Federal government <sup>5</sup>	3.9	2.2	2.0	2.2	1.8	1.7	3.9	0.8	1.8	2.1	1.7	1.8
20 Nonfederal	5.7	6.7	8.0	7.1	6.8	6.8	8.5	8.3	5.0	6.7	6.7	6.8

1. Data after 1996:Q2 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 changes in retirement fund assets plus consumption of fixed capital.

5. Excludes government-insured mortgage pool securities.

SUMMARY OF STAFF PROJECTIONS  
(Percent change from end of previous period)

	1995	1996		1997
		H1	H2	
Foreign output	1.7	3.1	3.4	3.9
<i>Previous</i>	1.7	3.3	3.4	3.8
Real exports	7.4	3.8	5.5	7.2
<i>Previous</i>	7.4	3.6	6.6	8.5
Real imports	4.2	10.3	7.4	7.9
<i>Previous</i>	4.2	12.5	8.0	8.1

The dollar. Our forecast of the foreign exchange value of the dollar in terms of the other G-10 currencies is unchanged from the flat path in the previous Greenbook. The slight appreciation of the dollar that has taken place since the August FOMC meeting, which reflected, at least in part, market expectations of a near-term tightening by the Federal Reserve, is assumed to unwind when, consistent with the Greenbook assumptions, no such tightening materializes. We expect that the CPI-adjusted value of the dollar in terms of the currencies of key developing countries will depreciate at a moderate rate throughout the forecast period.

Foreign G-7 countries. We project that real GDP in the foreign G-7 countries (weighted by U.S. nonagricultural export shares) will expand at an annual rate of about 2-3/4 percent during the second half of this year and next year and then will decelerate a bit in 1998. Real output growth in Japan is expected to strengthen later this year as consumers spend in anticipation of the planned increase in the consumption tax on April 1, 1997; growth should subsequently slow as the tax takes effect. We expect Japanese net exports to shift from subtracting from output growth to contributing positively during the second half of this year and to continue to do so over the remainder of the forecast period. German real GDP growth is projected to average 2 percent, annual rate, during the second half of 1996 and to increase over the forecast period as investment picks up. In the United Kingdom, we expect that the strength in final domestic demand will hold up over the forecast period whereas inventories will no longer significantly depress growth. In Canada, a positive inventory swing and robust

Growth of real imports of goods and services is projected to slow somewhat during the remainder of this year and next from the very rapid rate observed in the first half of 1996; imports should rebound a bit in 1998. Our outlook for imports of semiconductors has been revised down, as noted. Imports of computers in real terms are projected to remain robust. The quantity of non-oil imports other than computers and semiconductors is projected to grow rapidly, but at declining rates, as U.S. output growth slows. We expect the quantity of oil imports to rise this quarter and during the remainder of the forecast period, as consumption expands with the increase in U.S. economic activity and U.S. production continues to decline.

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

	-----Projection-----				
	H1	1996 Q3	Q4	1997	1998
Exports of G&S	3.8	1.3	9.8	7.2	7.9
Services	2.8	4.6	1.7	3.4	2.4
Computers	37.2	17.0	28.7	28.7	28.7
Semiconductors	-13.1	-13.3	8.2	9.8	16.4
Other goods <sup>1</sup>	3.6	-2.0	10.3	4.3	4.2
Imports of G&S	10.3	4.8	10.0	7.9	8.6
Services	7.2	5.3	-0.6	3.1	3.3
Oil	11.6	11.0	7.2	2.4	6.5
Computers	23.5	26.2	28.6	24.5	23.9
Semiconductors	-19.5	-31.4	6.1	9.8	16.4
Other goods <sup>2</sup>	12.1	4.1	9.9	6.1	5.8

Note: NIPA basis, chained (1992) dollars.

1. Merchandise exports excluding agriculture, computers and semiconductors.

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

Oil prices. In view of the postponement of oil sales by Iraq, we now assume that these sales will begin next April, seven months later than we had assumed in August. We also assume that Iraqi shipments will be limited to 800,000 b/d during the remainder of 1997 but will be unconstrained thereafter. Given the later entry of Iraqi oil on the market and the increased political tension in the Middle East and other key oil-exporting regions, the projected prices of imported oil for the third and fourth quarters have been



revised up a bit less than \$1 and about \$3.50 per barrel respectively. We have increased our projections for 1997:Q1 and Q2 to \$19.50 and \$18.00 per barrel. The oil price path returns to our long-run projections for WTI and the oil import unit value of \$19.50/b and \$17.00/b respectively in 1997:Q3.

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

	-----Projection-----				
	H1	1996 Q3	Q4	1997	1998
Ag. exports	18.3	-8.3	-5.0	-1.5	3.7
Nonag. exports <sup>1</sup>	-2.2	-0.5	0.9	1.0	1.4
Non-oil imports <sup>1</sup>	-3.3	-0.7	-0.1	-0.2	0.4
Oil imports (Q4 level, \$/b1)	19.52	19.25	19.59	17.00	17.00

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

Prices of non-oil imports and exports. Prices of agricultural exports are projected to decline moderately during the fourth quarter and to fall a bit further in 1997 before rising in 1998. Prices of nonagricultural exports are projected to be little changed over the second half of this year and to rise only slightly over the remainder of the forecast period, held down by price declines for computers and semiconductors. We project that the prices of non-oil imports will be about flat over the forecast period as inflation abroad remains very low and the dollar is unchanged.

Nominal trade and current account balances. The nominal trade deficit on goods and services is projected to widen from its second-quarter level of \$111 billion to about \$125 billion by the end of 1998. The balance on net investment income is projected to deteriorate slightly as well. Accordingly, the current account balance should move from a deficit of about \$155 billion in the second quarter to average \$165 billion in 1997 and \$180 billion in 1998, but it should remain about 2-1/4 percent of GDP.

Strictly Confidential (FR) Class II-FOMC

REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1995-98  
(Percent, quarterly change at an annual rate except as noted)

Measure and Country	Projected										
	Projected				1995	1996				1997	
	1995	1996	1997	1998	Q4	Q1	Q2	Q3	Q4	Q1	Q2
REAL GDP											
Canada	0.7	2.5	3.0	2.8	0.9	1.3	1.3	4.1	3.2	3.2	3.2
France	0.4	1.7	2.2	2.1	-1.8	4.5	-1.5	2.2	1.5	2.0	2.3
Germany	1.1	2.0	2.1	2.5	0.0	-1.9	6.1	1.8	2.2	2.1	2.1
Italy	2.3	1.0	2.2	1.8	-4.3	2.0	-2.0	1.5	2.7	2.5	2.3
Japan	2.5	3.2	2.6	2.2	4.8	12.2	-2.9	1.4	2.7	4.3	1.5
United Kingdom	1.9	2.1	2.7	2.3	1.6	1.6	1.5	2.6	2.8	2.8	2.7
Average weighted by 1987-89 GDP	1.7	2.3	2.5	2.3	1.0	4.8	-0.2	2.0	2.5	3.0	2.2
Average weighted by share of											
U.S. nonagricultural exports											
Total foreign	1.7	3.3	3.9	3.6	3.6	4.2	1.9	3.3	3.7	4.0	3.8
Foreign G-7	1.3	2.4	2.7	2.5	1.3	3.4	0.6	2.9	2.8	3.2	2.6
Developing Countries	2.4	5.1	6.0	5.7	7.6	6.9	3.5	4.6	5.7	6.0	6.0
CONSUMER PRICES (1)											
Canada	2.1	1.6	1.3	1.4	0.1	1.7	3.1	0.6	0.8	1.0	1.8
France	1.9	1.8	1.9	1.9	2.3	2.9	3.2	-0.3	1.3	2.1	1.9
W. Germany	1.6	1.5	1.6	1.7	-0.5	2.5	1.9	1.6	-0.1	2.6	2.0
Italy	5.8	3.0	3.0	2.8	5.1	2.9	4.9	0.7	3.5	2.3	6.6
Japan	-0.8	0.3	1.5	0.5	-0.4	-0.3	1.9	-0.0	-0.4	-0.3	6.8
United Kingdom (2)	2.9	2.6	2.7	2.8	1.4	3.0	6.1	0.8	0.6	2.6	6.5
Average weighted by 1987-89 GDP	1.7	1.5	1.9	1.6	1.0	1.7	3.2	0.5	0.7	1.4	4.8
Average weighted by share of											
U.S. non-oil imports	1.1	1.2	1.6	1.3	0.3	1.2	2.8	0.5	0.4	0.9	4.3

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)

	1994				1995				1996		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2-p	1993	1994	1995
NIPA Real Net Exports (Chained 1992 dollars)	-99.3	-107.3	-111.7	-104.3	-122.5	-121.4	-101.6	-84.9	-104.0	-114.4	-72.0	-105.7	-107.6
Exports of G&S	677.6	703.1	719.6	747.6	752.3	763.2	783.0	803.1	806.7	818.2	658.2	712.0	775.4
Goods	481.9	502.9	517.8	543.4	548.8	557.7	568.1	588.8	590.9	600.9	464.5	511.5	565.8
Agricultural	40.6	41.2	45.1	50.9	50.8	48.1	50.0	49.4	50.5	45.5	43.1	44.4	49.6
Computers	40.7	42.3	45.0	49.6	53.3	56.9	65.9	74.2	83.3	86.9	35.0	44.4	62.6
Semiconductors	34.2	35.5	39.0	46.8	51.2	53.6	57.1	60.7	60.7	56.6	24.1	38.9	55.6
Other Goods	366.4	383.9	388.8	396.0	393.4	399.0	395.2	404.6	396.5	411.9	362.3	383.8	398.1
Services	195.9	200.5	202.2	204.9	204.3	206.4	215.4	215.3	216.7	218.3	193.7	200.9	210.4
Imports of G&S	777.0	810.4	831.3	851.9	874.9	884.6	884.5	888.0	910.7	932.6	730.3	817.6	883.0
Goods	644.5	675.6	697.1	719.3	735.4	747.7	745.6	750.0	768.3	789.7	602.6	684.1	744.7
Oil	57.0	60.6	65.1	58.2	57.8	58.6	61.6	58.7	55.2	62.0	56.7	60.2	59.2
Computers	54.4	58.2	61.5	68.1	72.6	77.9	88.2	97.9	104.1	108.8	44.4	60.6	84.1
Semiconductors	28.0	28.5	31.2	36.5	40.3	45.4	52.3	57.3	57.9	51.4	21.9	31.1	48.8
Other Goods	505.0	528.3	539.2	556.5	564.7	565.9	543.5	536.1	551.2	567.5	479.5	532.3	552.5
Services	132.6	135.0	134.5	133.1	139.8	137.4	139.4	138.5	142.8	143.4	127.7	133.8	138.8
Memo: (Percent change 1/)													
Exports of G&S	-1.6	15.9	9.7	16.5	2.6	5.9	10.7	10.7	1.8	5.8	4.8	9.9	7.4
Agricultural	-24.5	6.8	43.0	62.9	-0.6	-19.8	16.4	-4.9	9.3	-34.1	-5.4	17.1	-3.1
Computers	25.0	16.6	27.6	48.6	33.0	30.1	79.0	61.0	58.7	18.6	22.6	29.0	49.4
Semiconductors	131.4	16.2	45.8	106.7	43.6	19.9	28.8	27.6	-0.0	-24.3	45.1	68.7	29.7
Other Goods	-9.1	20.4	5.2	7.7	-2.6	5.9	-3.8	9.8	-7.7	16.5	3.0	5.5	2.2
Services	0.8	9.7	3.4	5.5	-1.1	4.0	18.7	-0.3	2.7	2.9	3.9	4.8	5.1
Imports of G&S	8.2	18.4	10.7	10.3	11.2	4.5	-0.0	1.6	10.6	10.0	10.5	11.8	4.2
Oil	-8.5	27.2	33.5	-36.2	-2.4	5.3	22.0	-17.2	-22.2	59.4	10.0	-0.2	0.9
Computers	45.0	30.9	24.8	49.9	29.6	31.9	64.7	51.8	27.7	19.6	38.9	37.3	43.8
Semiconductors	65.3	7.3	43.4	85.8	49.3	61.0	76.4	43.6	4.6	-38.0	44.9	47.4	57.1
Other Goods	6.4	19.8	8.6	13.4	6.0	0.9	-14.9	-5.4	11.7	12.4	9.0	11.9	-3.7
Services	1.8	7.5	-1.6	-4.0	21.7	-6.7	5.8	-2.4	13.0	1.6	3.6	0.8	4.1
Current Account Balance	-118.8	-144.1	-160.0	-170.6	-156.2	-163.9	-150.8	-121.7	-139.5	-155.1	-99.9	-148.4	-148.2
Goods & Serv (BOP), net	-90.8	-103.5	-113.8	-109.4	-118.1	-127.3	-97.3	-77.6	-96.9	-111.5	-72.0	-104.4	-105.1
Goods (BOP), net	-147.4	-164.3	-177.7	-175.1	-179.7	-191.7	-170.2	-152.1	-170.9	-187.3	-132.6	-166.1	-173.4
Services (BOP), net	56.5	60.8	63.9	65.7	61.6	64.4	72.9	74.5	74.0	75.8	60.6	61.7	68.4
Investment Income, net	4.7	-2.5	-6.4	-12.4	-3.6	-3.4	-17.4	-7.6	1.0	-6.4	9.7	-4.2	-8.0
Direct, net	49.5	46.0	47.4	46.9	57.4	59.9	51.3	61.3	66.1	62.1	55.9	47.4	57.5
Portfolio, net	-44.8	-48.5	-53.7	-59.3	-61.0	-63.3	-68.7	-68.9	-65.0	-68.6	-46.2	-51.6	-65.5
Unilateral Transfers, net	-32.7	-38.0	-39.9	-48.9	-34.6	-33.2	-36.0	-36.6	-43.6	-37.2	-37.6	-39.9	-35.1

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		
	1996		1997				1998				ANNUAL
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1996 1997 1998
NIPA Real Net Exports (Chained 1992 dollars)	-122.8	-126.0	-125.7	-130.0	-141.4	-141.6	-144.7	-148.7	-159.9	-160.1	-116.8 -134.7 -153.4
Exports of G&S	820.9	840.4	852.1	871.6	879.4	901.2	914.9	937.4	947.8	972.8	821.5 876.1 943.2
Goods	601.2	619.8	629.6	647.1	653.1	673.3	685.6	706.7	715.8	739.7	603.2 650.8 711.9
Agricultural	46.3	47.8	48.4	49.1	49.7	50.3	50.9	51.5	52.2	52.7	47.5 49.4 51.8
Computers	90.4	96.3	102.5	109.2	116.3	123.8	131.9	140.5	149.6	159.3	89.2 113.0 145.3
Semiconductors	54.6	55.7	56.8	57.9	59.4	61.2	63.3	65.9	68.5	71.2	56.9 58.8 67.2
Other Goods	409.9	420.1	421.9	430.9	427.7	438.0	439.5	448.8	445.5	456.5	409.6 429.6 447.6
Services	220.7	221.7	223.6	225.7	227.6	229.2	230.6	232.1	233.5	234.6	219.4 226.5 232.7
Imports of G&S	943.7	966.4	977.9	1001.6	1020.8	1042.9	1059.6	1086.2	1107.7	1132.9	938.4 1010.8 1096.6
Goods	798.9	821.9	832.3	855.1	873.1	894.0	909.5	934.9	955.2	979.2	794.7 863.6 944.7
Oil	63.6	64.7	62.2	67.5	70.4	66.3	66.6	71.8	74.8	70.6	61.4 66.6 70.9
Computers	115.4	122.9	130.2	137.4	145.0	152.9	161.3	170.2	179.6	189.4	112.8 141.4 175.1
Semiconductors	46.8	47.5	48.4	49.4	50.6	52.1	53.9	56.1	58.4	60.7	50.9 50.1 57.3
Other Goods	573.1	586.8	591.5	600.8	607.1	622.7	627.6	636.8	642.6	658.5	569.7 605.5 641.4
Services	145.2	145.0	146.0	147.0	148.2	149.4	150.7	151.9	153.1	154.3	144.1 147.7 152.5
Memo: (Percent change 1/)											
Exports of G&S	1.3	9.8	5.7	9.5	3.6	10.3	6.2	10.2	4.5	11.0	4.6 7.2 7.9
Agricultural	7.8	13.0	5.5	5.4	5.0	5.2	5.1	5.0	5.0	4.1	-3.2 5.2 4.8
Computers	17.0	28.7	28.7	28.7	28.7	28.7	28.7	28.7	28.7	28.7	29.8 28.7 28.7
Semiconductors	-13.3	8.2	8.2	8.2	10.4	12.6	14.8	17.0	17.0	17.0	-8.2 9.8 16.4
Other Goods	-2.0	10.3	1.7	8.9	-2.9	10.0	1.3	8.8	-2.9	10.2	3.8 4.3 4.2
Services	4.6	1.7	3.6	3.8	3.4	2.8	2.5	2.6	2.4	2.0	3.0 3.4 2.4
Imports of G&S	4.8	10.0	4.8	10.1	7.9	8.9	6.6	10.4	8.2	9.4	8.8 7.9 8.6
Oil	11.0	7.2	-14.8	39.1	18.3	-21.7	2.3	34.7	17.7	-20.5	10.2 2.4 6.5
Computers	26.2	28.6	26.2	23.9	23.9	23.9	23.9	23.9	23.9	23.9	25.5 24.5 23.9
Semiconductors	-31.4	6.1	8.2	8.2	10.4	12.6	14.8	17.0	17.0	17.0	-17.1 9.8 16.4
Other Goods	4.1	9.9	3.2	6.4	4.3	10.6	3.2	6.0	3.7	10.3	9.5 6.1 5.8
Services	5.3	-0.6	2.9	2.8	3.1	3.4	3.3	3.2	3.2	3.3	4.7 3.1 3.3
Current Account Balance	-162.0	-173.6	-158.9	-158.9	-167.1	-176.0	-168.5	-171.5	-182.6	-193.1	-157.6 -165.2 -178.9
Goods & Serv (BOP), net	-117.1	-118.9	-115.1	-112.6	-118.7	-116.4	-117.1	-118.5	-128.2	-125.3	-111.1 -115.7 -122.2
Goods (BOP), net	-194.1	-197.9	-196.1	-195.3	-203.2	-202.3	-204.3	-206.9	-217.8	-216.0	-187.6 -199.2 -211.3
Services (BOP), net	77.0	79.0	80.9	82.8	84.5	85.9	87.2	88.5	89.7	90.7	76.5 83.5 89.0
Investment Income, net	-11.9	-11.7	-13.8	-16.4	-18.3	-19.7	-21.4	-23.0	-24.4	-27.9	-7.2 -17.0 -24.2
Direct, net	62.0	65.8	66.4	66.0	66.3	67.4	67.6	67.7	68.5	67.4	64.0 66.5 67.8
Portfolio, net	-73.8	-77.5	-80.2	-82.4	-84.7	-87.0	-88.9	-90.7	-92.9	-95.3	-71.2 -83.6 -92.0
Unilateral Transfers, net	-33.0	-43.0	-30.0	-30.0	-30.0	-40.0	-30.0	-30.0	-30.0	-40.0	-39.2 -32.5 -32.5

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

## **Part 2**

September 18, 1996

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

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

September 18, 1996

## **RECENT DEVELOPMENTS**

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Prepared for the Federal Open Market Committee  
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sales, which were flat in July, also moved up in August, but sales of light trucks more than accounted for the gain.

Automakers continued efforts this summer to rebuild inventories in the aftermath of the March strike and to meet the surprising strength in sales. Measured against the average pace of sales in July and August, days' supply of light vehicles in August is estimated to have been at about the usual target level of 65 days. However, days' supply of autos--at about 63 days--was still a little on the lean side, while days' supply of light trucks was about 70 days. Although the strike will have serious implications for fourth-quarter assembly plans, the level of the initial production schedules for the coming quarter--published a few weeks before the strike--was consistent with sales holding near the 15 million unit mark for the rest of the year.

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

	1996				
	July	Aug.	Sept.	Q3	Q4
	-----scheduled-----				
U.S. production	13.4	12.6	13.1	13.0	12.2
Autos	7.0	6.7	7.2	7.0	6.2
Trucks	6.3	5.9	6.0	6.1	6.0
Days' supply <sup>1</sup>					
Autos	59.4	62.8	...	...	...
Light trucks	70.5	69.3	...	...	...

Note: Components may not sum to totals because of rounding.  
1. Based on average sales in July and August.

#### Personal Income and Consumption

Consumer spending slowed noticeably in the middle of the year. Spending on goods other than motor vehicles dropped sharply in June and was flat in July, with the weakness fairly widespread; outlays for services also were little changed, on balance, over this period. Advance estimates of retail sales in August, however, show a moderate upturn that suggests that consumer spending may be moving back to a pace more consistent with the sustained high levels of consumer confidence, further gains in the value of household assets, and continued ready access to credit for most potential borrowers.

The sharpest rebounds in nominal retail sales in August occurred at general merchandisers and apparel stores, which would seem to bear out the anecdotal reports of relatively strong back-to-school sales. Moreover, the CPI for apparel fell in August, which

**TREASURY FINANCING**  
(Billions of dollars; total for period)

Item	1996				
	Q2	Q3 <sup>P</sup>	July	Aug. <sup>e</sup>	Sep. <sup>P</sup>
Total surplus/deficit (-)	53.2	-40.1	-27.1	-41.2	28.2
Means of financing deficit					
Net cash borrowing and repayments (-)	-23.5	33.9	29.1	15.3	-10.5
Nonmarketable	2.1	-1.9	-4.0	1.4	0.8
Marketable	-25.6	35.7	33.1	13.9	-11.3
Bills	-38.3	-15.2	16.2	-8.8	-22.7
Coupons	12.7	51.0	16.9	22.7	11.4
Decrease in cash balance	-16.2	4.2	1.3	23.7	-20.8
Other <sup>1</sup>	-13.6	2.1	-3.3	2.2	3.1
Memo:					
Cash balance, end of period	38.0	33.9	36.8	13.1	33.9

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.

**GROSS OFFERINGS OF MUNICIPAL SECURITIES**  
(Billions of dollars; monthly rates, not seasonally adjusted)

	1993	1994	1995	1996			
				Q1	Q2	Jul.	Aug.
Total tax-exempt	27.2	16.1	14.9	15.4	20.9	18.3	17.0
Long-term	23.3	12.8	12.1	13.7	16.1	11.6	12.7
Refundings <sup>1</sup>	15.7	4.0	3.6	5.5	4.5	2.6	4.8
New capital	7.6	8.8	8.5	8.2	11.6	9.0	7.9
Short-term	3.9	3.3	2.8	1.7	4.8	6.7	4.3
Total taxable	.7	.7	.7	.4	.5	.6	.9

Note. Includes issues for public and private purposes.

1. Includes all refunding bonds, not just advance refundings.