

Part 1

March 19, 1997

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

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

Strictly Confidential (FR) Class II FOMC

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SUMMARY AND OUTLOOK

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forces are expected to curb domestic demand growth to a degree over time. Finally, on the supply side, we have anticipated that inflationary pressures will be muted by continued above-trend growth in the labor force and ample expansion of factory capacity.

Summary of the Staff Forecast
(Percent change, Q4 to Q4, except as noted)

Measure	1996	1997	1998
Real GDP	3.2	2.8	2.1
Previous	3.1	2.3	2.1
Gross domestic purchases	3.4	3.5	2.4
Previous	3.3	2.9	2.2
Consumer price index	3.2	2.5	3.0
Previous	3.1	2.6	3.0
Excluding food and energy	2.6	2.8	3.2
Previous	2.6	2.8	3.2
Unemployment rate ¹	5.3	5.0	4.9
Previous	5.3	5.1	5.0

1. Percent, end of period.

As always, there is a considerable range of uncertainty attending our forecast. We have warned previously of the potential for a sustained boom in domestic demand, supported by a strong stock market and aggressive lending. Recent developments have done nothing to undermine that assessment. On the other hand, we cannot rule out the possibility that various influences will prove even more favorable for the prospects for low inflation than we have anticipated. The dollar could break out into still higher territory on the basis of optimism about U.S. growth prospects relative to the economic struggles in continental Europe, for example; there may be some room for the labor force to increase more rapidly than we have projected, although this would involve hiring less qualified workers; and it may be that the recent performance of prices and profits is signaling the emergence of a better productivity trend, perhaps based on the realization of greater efficiencies from the investments that have been made in new technologies. We would emphasize, however, that unless aggregate demand flags to a greater degree than we are anticipating or there are some positive supply shocks, the thrust of our baseline forecast is that pressures on domestic resources will manifest themselves in a rising inflation rate over the next few years.

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

Measure	1996:Q4		1997:Q1	
	Jan. GB	Mar. GB	Jan. GB	Mar. GB
Real GDP	3.5	4.3	1.7	3.4
Consumer spending	3.0	3.6	3.5	5.0
Business fixed investment	2.7	5.4	6.0	7.6
Residential structures	-8.3	-.3	-6.6	.9
Government spending	1.5	-.4	-2.0	1.2
Change in billions of chained (1992) dollars				
Inventory investment	-5.0	-17.0	7.0	8.2
Net exports	29.4	39.3	-23.1	-27.1

Economic activity abroad accelerated at the end of last year, and we are projecting foreign real GDP to rise around 4 percent in 1997 and 1998--similar to the pace in 1996. Oil prices have declined more sharply than expected in the first quarter, reflecting unseasonably warm weather in many parts of the Northern hemisphere and some increase in world supply. The spot price of WTI will average about \$22.50 per barrel in the first quarter--\$1.50 less than in the January Greenbook. The price is expected to edge below \$20 in the second quarter and to remain near \$19.50 per barrel over the balance of the forecast period.

Recent Developments and the Outlook for the Current Quarter

Our point prediction for real GDP growth in the current quarter is 3-1/2 percent at an annual rate--down from the 4-1/4 percent growth that we now estimate for the fourth quarter. The recent behavior of the labor market certainly appears to be indicating a continuation of a strong output trend. Most notably, private payrolls expanded briskly in the first two months of the year, even after making allowances for the possible distortions of the reported figures resulting from weather and seasonal adjustment problems. And the low level of initial claims for jobless benefits suggests that the strength in hiring has carried into March.

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

Measure	1995	1996	1997	1998
Output per hour, nonfarm business	-.1	1.0	.9	.8
Previous	-.1	.8	.8	.8
Nonfarm payroll employment	2.0	2.2	2.1	1.4
Previous	2.0	2.2	1.7	1.4
Labor force participation rate ¹	66.5	66.9	67.1	67.2
Previous	66.5	66.9	67.1	67.2
Unemployment rate	5.6	5.3	5.0	4.9
Previous	5.6	5.3	5.1	5.0

1. Percent, average for the fourth quarter.

underlying productivity growth trend of just over 1 percent per year (0.9 percent on a pure chain-weighted basis) going forward.

Under these assumptions, productivity grows slightly below trend in 1997 and 1998--a typical pattern late in a business cycle expansion. While we do not think that there has been a "stocking up" of workers who will be unneeded as output decelerates, there have been numerous reports of declining worker quality and the need for remedial training programs.

Wages and prices. With the unemployment rate falling still further, we expect the growth in ECI hourly compensation to pick up gradually over the forecast period--rising from 3.1 percent in 1996 to 3.5 percent in 1997 and 3.7 percent in 1998. To date, the tightness in labor markets has shown through most clearly in wages and salaries, which accelerated considerably last year. We expect a further pickup in wage inflation over the next two years, but the projected increases in the size of compensation gains also include bigger increments in benefits costs--particularly in the medical insurance area.

The year-to-year pattern of compensation increases reflects a couple of factors likely to influence wages especially. The first is last year's faster CPI increase, which probably has not shown through fully as yet, given the tendency of many employers to look backward in granting annual wage adjustments. The rise in the federal minimum wage this summer will give a further modest boost to wage rates, with the impulse largely showing up by year-end. Our expectation that the CPI will decelerate this year (as food and energy prices ease) points to smaller cost-of-living catch-ups in 1998.

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

Measure	1995	1996	1997	1998
Consumer price index	2.6	3.2	2.5	3.0
Previous	2.7	3.1	2.6	3.0
Food	2.6	4.2	2.3	2.9
Previous	2.6	4.2	2.4	2.9
Energy	-1.6	7.6	.0	.9
Previous	-1.7	7.4	.8	.6
Excluding food and energy	3.0	2.6	2.8	3.2
Previous	3.0	2.6	2.8	3.2
GDP chain price index	2.5	2.1	2.5	2.8
Previous	2.5	2.2	2.6	2.8
ECI for compensation of private industry workers ¹	2.6	3.1	3.5	3.7
Previous	2.6	3.1	3.5	3.7
Prices of non-oil merchandise imports	.8	-2.8	-.3	.2
Previous	.8	-3.0	-1.0	1.9
Percentage points				
MEMO				
Adjustment to the core CPI for technical changes	.1	.2	.3	.4

1. December to December.

On the benefits side, the anecdotal evidence suggests that some employers are using insurance or other nonwage inducements in their efforts to attract and retain workers. In addition, there are indications that the underwriting cycle is turning in the medical insurance business, with premiums firming after a period of aggressive competition. The boom in the stock market has reduced the funding requirements of many firms with defined benefit pension plans, but defined contribution plans are becoming more prevalent, and employer contributions would in any event tend to rise automatically with wages and salaries--as would some other benefit costs.

We also are projecting a substantial deterioration in the underlying rate of price inflation over the next year or so. In the near term, the appreciation of the dollar will continue to hold down inflation both by reducing the cost of imported consumer goods and by increasing competitive pressures on domestic producers. In addition,

on large time deposits and other managed liabilities to fund asset growth, M3 growth is expected to exceed that of M2 through 1998.

Alternative Simulations

We have run two alternative model simulations, based on different paths for the federal funds rate. In the first, the federal funds rate is held at 5-1/4 percent next year. Real short-term interest rates decline under this assumption, giving a slight boost to activity. Real GDP grows almost 1/4 percentage point faster than in the baseline, and the unemployment rate falls to 4.8 percent. Given the lags involved, there is no effect on inflation in 1998, but the higher levels of resource utilization would cause some added deterioration in inflation performance beyond the forecast horizon.

Alternative Federal Funds Rate Assumptions
(Percent change, Q4 to Q4, except as noted)

Measure	1996	1997	1998
<i>Real GDP</i>			
Baseline	3.2	2.8	2.1
No change	3.2	2.8	2.3
Tighter policy	3.2	2.5	1.2
<i>Civilian unemployment rate¹</i>			
Baseline	5.3	5.0	4.9
No change	5.3	5.0	4.8
Tighter policy	5.3	5.1	5.4
<i>CPI</i>			
Baseline	3.2	2.5	3.0
No change	3.2	2.5	3.0
Tighter policy	3.2	2.4	2.6

1. Average for the fourth quarter.

In the second alternative, the federal funds rate raised to 6-1/2 percent by the end of the year and remains at that level through 1998. In this scenario, real GDP growth is about 1/4 percentage point lower than the baseline in 1997 and 1 percentage point less in 1998. The unemployment rate only falls to 5.1 percent by the end of this year and moves back up to almost 5-1/2 percent by the end of 1998. The rate of increase in consumer prices is just 0.1 percentage point lower in 1997 but almost 1/2 percentage point less than baseline in 1998. On this trajectory, the economy would begin to develop enough slack during 1999 to set the stage for a resumption of a disinflationary trend; some trimming of the funds rate might in turn be required to restore growth to a moderate track.

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

March 19, 1997

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
	01/29/97	03/19/97	01/29/97	03/19/97	01/29/97	03/19/97	01/29/97	03/19/97	01/29/97	03/19/97
ANNUAL										
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	4.5	4.5	2.4	2.5	2.2	2.1	2.9	2.9	5.4	5.4
1997	4.9	5.4	2.5	3.2	2.6	2.4	2.8	2.7	5.1	5.1
1998	4.6	4.6	2.2	2.3	2.6	2.6	2.8	2.8	5.0	4.9
QUARTERLY										
1995	Q1	3.8	3.8	0.4	0.4	3.3	3.3	2.7	5.5	5.5
	Q2	3.1	3.1	0.7	0.7	2.4	2.4	3.5	5.6	5.6
	Q3	6.0	6.0	3.8	3.8	2.1	2.1	2.1	5.7	5.7
	Q4	2.3	2.3	0.3	0.3	2.1	2.1	2.4	5.6	5.6
1996	Q1	4.2	4.2	2.0	2.0	2.3	2.3	3.2	5.6	5.6
	Q2	6.5	6.5	4.7	4.7	2.2	2.2	3.9	5.4	5.4
	Q3	3.8	3.8	2.1	2.1	2.0	2.0	2.3	5.3	5.3
	Q4	5.9	5.5	3.5	4.3	2.5	1.8	3.1	5.3	5.3
1997	Q1	4.6	6.4	1.7	3.4	3.2	3.1	2.5	5.2	5.3
	Q2	4.9	5.3	2.4	2.9	2.7	2.5	2.1	5.1	5.1
	Q3	4.4	4.5	2.4	2.5	2.2	2.2	2.6	5.1	5.0
	Q4	4.6	4.4	2.4	2.4	2.3	2.2	2.8	5.1	5.0
1998	Q1	4.6	4.8	2.2	2.3	2.8	2.7	2.9	5.1	4.9
	Q2	4.5	4.6	2.1	2.1	2.7	2.8	2.9	5.0	4.9
	Q3	4.5	4.6	2.1	2.0	2.8	2.9	3.0	5.0	4.9
	Q4	4.7	4.6	2.0	2.0	2.9	2.9	3.1	5.0	4.9
TWO-QUARTER³										
1995	Q2	3.5	3.5	0.6	0.6	2.9	2.9	3.2	0.0	0.0
	Q4	4.1	4.1	2.0	2.0	2.1	2.1	2.2	0.0	0.0
1996	Q2	5.4	5.4	3.3	3.3	2.2	2.2	3.5	-0.2	-0.2
	Q4	4.9	4.6	2.8	3.2	2.2	1.9	2.7	-0.1	-0.1
1997	Q2	4.8	5.9	2.1	3.1	2.9	2.8	2.7	-0.2	-0.2
	Q4	4.5	4.4	2.4	2.5	2.3	2.2	2.6	-0.0	-0.1
1998	Q2	4.6	4.7	2.1	2.2	2.7	2.8	2.9	-0.1	-0.1
	Q4	4.6	4.6	2.1	2.0	2.8	2.9	3.1	-0.0	-0.0
FOUR-QUARTER⁴										
1994	Q4	5.9	5.9	3.5	3.5	2.3	2.3	2.6	-1.0	-1.0
1995	Q4	3.8	3.8	1.3	1.3	2.5	2.5	2.7	0.0	0.0
1996	Q4	5.1	5.0	3.1	3.2	2.2	2.1	3.1	-0.3	-0.3
1997	Q4	4.6	5.2	2.3	2.8	2.6	2.5	2.6	-0.2	-0.3
1998	Q4	4.6	4.7	2.1	2.1	2.8	2.8	3.0	-0.1	-0.1

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)

March 19, 1997

Item	Units ¹	--- 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	7576.6	7982.0	8352.4	
Real GDP	Bill. Ch. \$	6138.7	6079.0	6244.4	6386.4	6608.7	6742.9	6909.1	7130.8	7294.1	
Real GDP	% change	-0.2	0.4	3.7	2.2	3.5	1.3	3.2	2.8	2.1	
Gross domestic purchases		-0.8	-0.0	4.0	2.9	3.8	1.0	3.4	3.5	2.4	
Final sales		0.6	-0.4	3.9	2.0	2.9	1.9	3.2	2.7	2.0	
Priv. dom. final purchases		-0.6	-0.8	4.9	3.5	4.0	2.3	3.7	3.9	2.8	
Personal cons. expenditures		0.5	-0.2	4.2	2.5	3.1	1.9	2.7	3.5	2.5	
Durables		-3.2	-3.1	9.4	7.3	7.0	1.3	5.3	6.6	3.7	
Nondurables		-0.5	-1.0	3.4	1.5	3.5	1.1	1.8	3.5	2.4	
Services		2.0	0.9	3.6	2.1	2.0	2.4	2.7	2.8	2.3	
Business fixed investment		-2.5	-6.0	5.5	8.5	10.1	6.4	9.5	7.3	5.7	
Producers' dur. equipment		-2.0	-2.6	9.6	11.5	12.6	6.9	9.7	7.6	6.2	
Nonres. structures		-3.5	-12.5	-3.4	1.6	3.6	5.1	8.6	6.5	4.4	
Residential structures		-15.1	1.1	16.9	8.1	5.7	-1.5	4.2	-0.2	-1.2	
Exports		7.2	8.6	4.1	4.8	9.9	7.4	7.5	6.1	6.5	
Imports		0.5	4.1	7.4	10.5	11.8	4.2	8.3	11.0	7.8	
Gov't. cons. & investment		2.6	-0.7	1.7	-0.5	0.0	-1.3	2.0	1.0	0.2	
Federal		1.6	-3.1	1.3	-5.4	-3.1	-6.7	1.6	-1.5	-3.8	
Defense		0.3	-5.3	-1.3	-6.8	-5.7	-6.8	0.1	-1.4	-4.1	
State & local		3.3	1.0	2.0	3.1	2.2	2.1	2.2	2.6	2.4	
Change in bus. inventories	Bill. Ch. \$	10.4	-3.0	7.3	19.1	58.9	33.1	14.0	30.8	33.3	
Nonfarm		7.8	-1.2	1.9	26.4	46.8	37.2	17.2	30.3	31.4	
Net exports		-61.9	-22.3	-29.5	-72.0	-105.7	-107.6	-113.6	-141.6	-167.6	
Nominal GDP	% change	4.4	3.8	6.3	4.8	5.9	3.8	5.0	5.2	4.7	
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	109.4	108.3	108.6	110.7	114.2	117.2	119.5	122.2	124.1	
Unemployment rate	%	5.6	6.8	7.5	6.9	6.1	5.6	5.4	5.1	4.9	
Industrial prod. index	% change	-0.6	-0.0	3.9	3.0	5.7	1.8	3.9	3.4	2.2	
Capacity util. rate - mfg.	%	81.4	78.0	79.5	80.8	83.1	83.1	82.1	82.3	82.3	
Housing starts	Millions	1.19	1.01	1.20	1.29	1.46	1.35	1.47	1.41	1.34	
Light motor vehicle sales		14.05	12.52	12.85	13.87	15.02	14.77	15.03	15.05	14.91	
North Amer. produced		10.85	9.74	10.51	11.72	12.88	12.85	13.32	13.20	13.14	
Other		3.20	2.77	2.34	2.15	2.13	1.91	1.70	1.85	1.77	
INCOME AND SAVING											
Nominal GNP	Bill. \$	5764.9	5932.4	6255.5	6563.5	6931.9	7246.7	7567.7	7962.0	8321.2	
Nominal GNP	% change	4.6	3.5	6.2	4.7	5.7	3.9	4.9	5.0	4.5	
Nominal personal income		6.4	3.7	7.3	3.6	5.2	5.6	5.7	5.1	5.1	
Real disposable income		1.0	0.8	4.0	0.9	2.7	3.1	2.7	3.2	2.5	
Personal saving rate	%	5.0	5.7	5.9	4.5	3.8	4.7	4.9	5.0	4.9	
Corp. profits, IVA & CCAdj.	% change	6.2	3.9	12.7	19.9	11.3	7.2	7.6	4.5	2.2	
Profit share of GNP	%	6.4	6.4	6.4	7.1	7.6	8.1	8.7	8.7	8.4	
Excluding FR Banks	%	6.0	6.1	6.1	6.8	7.4	7.8	8.4	8.5	8.2	
Federal surpl./deficit	Bill. \$	-154.7	-196.0	-280.9	-255.6	-190.2	-161.7	-125.8	-119.3	-124.2	
State & local surpl./def.		80.1	75.8	86.3	94.9	99.7	95.0	92.9	92.9	87.6	
Ex. social ins. funds		20.2	11.5	18.3	28.0	36.9	36.8	37.2	39.5	35.0	
PRICES AND COSTS											
GDP implicit deflator	% change	4.6	3.4	2.6	2.5	2.3	2.5	1.7	2.3	2.5	
GDP chn.-wt. price index		4.7	3.3	2.6	2.5	2.3	2.5	2.1	2.5	2.8	
Gross Domestic Purchases chn.-wt. price index		5.2	2.7	2.7	2.3	2.4	2.3	2.2	2.2	2.7	
CPI		6.3	3.0	3.1	2.7	2.7	2.6	3.2	2.5	3.0	
Ex. food and energy		5.3	4.4	3.5	3.1	2.8	3.0	2.6	2.8	3.2	
ECI, hourly compensation ²		4.6	4.4	3.5	3.6	3.1	2.6	3.1	3.5	3.7	
Nonfarm business sector		-0.6	2.2	3.6	-0.3	0.3	-0.1	1.0	0.9	0.8	
Output per hour		5.8	4.8	4.6	1.8	2.3	3.7	3.6	3.6	3.7	
Compensation per Hour		6.4	2.5	1.0	2.1	2.0	3.7	2.6	2.7	2.9	
Unit labor cost											

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

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

March 19, 1997

Item	Units	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	6776.0	6890.5	6993.1	7083.2	7149.8	7204.9	7309.8	7350.6	7426.8	7545.1
Real GDP	Bill. Ch. \$	6508.5	6587.6	6644.9	6693.9	6701.0	6713.5	6776.4	6780.7	6814.3	6892.6
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	4.1
Priv. dom. final purchases		3.9	4.4	3.8	4.0	2.3	2.3	3.0	1.4	4.7	4.1
Personal cons. expenditures		2.8	3.5	2.8	3.1	1.0	3.1	2.4	1.1	3.5	3.4
Durables		5.8	4.3	5.6	12.4	-8.9	7.0	9.3	-1.0	8.2	11.4
Nondurables		3.9	3.2	3.8	3.2	2.4	1.8	0.5	-0.4	3.7	1.3
Services		1.6	3.5	1.6	1.2	2.4	3.0	2.0	2.3	2.4	2.7
Business fixed investment		7.3	7.1	13.8	12.2	15.4	3.5	4.9	2.5	11.6	3.8
Producers' dur. equipment		15.5	4.1	19.4	11.9	17.4	3.5	4.3	3.0	13.1	6.7
Nonres. structures		-11.8	15.7	0.2	13.0	9.9	3.4	6.3	1.0	7.7	-3.7
Residential structures		12.8	12.7	-1.8	-0.1	-6.3	-13.4	9.2	6.4	7.4	16.3
Exports		-1.5	15.9	9.7	16.5	2.6	5.9	10.7	10.7	1.8	5.6
Imports		8.2	18.4	10.7	10.3	11.2	4.5	-0.0	1.6	10.6	9.9
Gov't. cons. & investment		-4.3	-0.8	7.0	-1.4	-1.2	0.8	-0.6	-4.3	1.6	7.7
Federal		-11.4	-5.3	11.5	-5.9	-6.5	-1.4	-5.6	-13.2	6.0	9.4
Defense		-17.4	0.7	13.5	-16.1	-7.4	0.6	-7.6	-12.3	4.1	10.0
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	7.1
Nonfarm		29.7	54.0	50.5	53.0	57.4	33.7	38.6	19.0	2.9	11.7
Net exports		-99.3	-107.3	-111.7	-104.3	-122.5	-121.4	-101.6	-84.9	-104.0	-114.7
Nominal GDP	% change	5.3	6.9	6.1	5.3	3.8	3.1	6.0	2.3	4.2	6.5
EMPLOYMENT AND PRODUCTION											
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	5.6	5.7	5.6	5.6	5.4
Industrial prod. index	% change	6.2	6.7	4.4	5.6	3.9	-0.7	3.2	0.8	1.6	6.2
Capacity util. rate - mfg.	%	82.0	83.0	83.3	84.0	84.2	83.1	82.9	82.3	81.7	82.1
Housing starts	Millions	1.39	1.47	1.45	1.47	1.32	1.29	1.42	1.41	1.46	1.50
Light motor vehicle sales		15.05	14.86	14.95	15.20	14.72	14.42	14.94	14.98	15.19	15.02
North Amer. produced		12.92	12.71	12.74	13.15	12.68	12.46	13.08	13.20	13.51	13.32
Other		2.13	2.15	2.21	2.05	2.04	1.96	1.86	1.79	1.68	1.70
INCOME AND SAVING											
Nominal GNP	Bill. \$	6781.0	6888.3	6987.0	7071.4	7146.8	7202.4	7293.4	7344.3	7426.6	7537.5
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	6.8
Real disposable income		-5.4	9.7	2.9	4.2	3.7	0.3	4.3	4.4	2.0	1.3
Personal saving rate	%	2.7	4.0	4.1	4.3	4.9	4.1	4.5	5.2	4.8	4.3
Corp. profits, IVA & CCAdj.	% change	-35.4	82.5	14.8	13.5	-7.4	1.7	40.8	-0.5	23.6	6.8
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	-126.7
State & local surpl./def.		94.8	105.2	99.6	99.3	99.0	99.0	93.9	88.1	91.0	101.0
Ex. social ins. funds		29.0	41.1	37.9	39.4	40.2	40.9	35.8	30.5	34.1	44.6
PRICES AND COSTS											
GDP implicit deflator	% change	2.8	1.9	2.5	2.2	3.4	2.4	2.1	2.0	2.2	1.8
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 ¹		3.0	3.4	3.3	2.3	2.9	2.9	2.6	2.6	2.9	3.2
Nonfarm business sector		-1.8	1.0	1.7	0.4	-2.3	1.5	1.8	-1.2	1.9	0.6
Output per hour		2.9	1.3	1.8	3.3	2.9	4.0	3.7	4.0	3.4	3.9
Compensation per hour		4.9	0.3	0.1	2.9	5.3	2.5	1.9	5.2	1.5	3.3
Unit labor cost											

1. Private-industry workers.

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

March 19, 1997

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. \$	7616.3	7718.3	7839.7	7941.9	8029.8	8116.5	8211.7	8305.2	8398.9	8494.0		
Real GDP	Bill. Ch. \$	6928.4	7001.0	7060.3	7110.1	7154.8	7198.1	7238.9	7277.1	7312.4	7348.2		
Real GDP	% change	2.1	4.3	3.4	2.9	2.5	2.4	2.3	2.1	2.0	2.0		
Gross domestic purchases		3.3	2.0	4.9	3.5	3.4	2.3	2.6	2.3	2.7	1.8		
Final sales		0.5	5.3	2.9	2.5	2.3	2.9	2.1	2.1	1.7	2.2		
Priv. dom. final purchases		2.3	3.7	5.2	3.8	3.5	3.1	2.8	2.8	2.8	2.7		
Personal cons. expenditures		0.5	3.6	5.0	3.2	3.2	2.7	2.5	2.5	2.5	2.5		
Durables		-2.6	4.6	12.9	4.8	5.1	3.7	3.8	3.8	3.5	3.5		
Nondurables		0.4	1.7	4.9	3.2	3.2	2.7	2.3	2.3	2.4	2.4		
Services		1.3	4.3	3.3	2.9	2.7	2.5	2.3	2.3	2.3	2.3		
Business fixed investment		17.5	5.4	7.6	7.7	7.0	6.9	6.2	6.0	5.5	5.0		
Producers' dur. equipment		20.9	-0.5	7.5	7.8	7.5	7.6	6.9	6.6	5.9	5.3		
Nonres. structures		8.4	23.8	8.1	7.1	5.8	5.0	4.5	4.6	4.4	4.2		
Residential structures		-5.2	-0.3	0.9	1.7	-1.8	-1.6	-1.4	-1.5	-1.2	-0.8		
Exports		-0.9	25.1	4.3	6.7	2.1	11.4	4.1	9.6	1.4	11.2		
Imports		9.3	3.3	16.0	10.9	8.0	9.2	5.8	9.9	6.6	8.9		
Gov't. cons. & investment		-0.6	-0.4	1.2	0.2	1.4	1.4	0.4	-0.2	1.2	-0.8		
Federal		-3.5	-4.9	-1.2	-3.7	-0.6	-0.6	-3.0	-4.9	-1.0	-6.5		
Defense		-5.5	-7.1	0.0	-5.0	-0.4	-0.3	-2.8	-6.7	-0.9	-5.9		
State & local		1.1	2.0	2.7	2.4	2.5	2.6	2.4	2.5	2.3	2.4		
Change in bus. inventories	Bill. Ch. \$	34.5	17.4	25.6	32.0	36.6	28.9	31.5	32.3	36.7	32.7		
Nonfarm		34.6	19.5	26.0	31.7	35.8	27.8	30.0	30.5	34.6	30.6		
Net exports		-137.4	-98.2	-125.2	-137.2	-152.5	-151.4	-157.2	-161.6	-176.4	-175.0		
Nominal GDP	% change	3.8	5.5	6.4	5.3	4.5	4.4	4.8	4.6	4.6	4.6		
EMPLOYMENT AND PRODUCTION													
Nonfarm payroll employment	Millions	120.0	120.5	121.3	122.0	122.5	123.0	123.5	123.9	124.3	124.7		
Unemployment rate	%	5.3	5.3	5.3	5.1	5.0	5.0	4.9	4.9	4.9	4.9		
Industrial prod. index	% change	3.3	4.5	3.5	3.5	3.3	3.2	2.6	2.3	1.7	2.3		
Capacity util. rate - mfg.	%	82.3	82.3	82.3	82.3	82.3	82.3	82.3	82.3	82.3	82.3		
Housing starts	Millions	1.49	1.42	1.45	1.42	1.39	1.39	1.37	1.35	1.33	1.32		
Light motor vehicle sales		15.07	14.82	15.27	14.99	15.01	14.94	14.92	14.91	14.91	14.91		
North Amer. produced		13.38	13.07	13.36	13.13	13.16	13.15	13.14	13.14	13.14	13.14		
Other		1.69	1.75	1.91	1.86	1.85	1.79	1.78	1.77	1.77	1.77		
INCOME AND SAVING													
Nominal GNP	Bill. \$	7598.9	7707.6	7824.5	7924.2	8008.0	8091.4	8187.0	8275.3	8365.3	8457.2		
Nominal GNP	% change	3.3	5.8	6.2	5.2	4.3	4.2	4.8	4.4	4.4	4.5		
Nominal personal income		5.7	5.4	6.2	5.0	4.6	4.9	5.4	4.8	4.7	5.3		
Real disposable income		4.8	2.5	5.2	3.0	2.4	2.3	4.1	1.8	1.7	2.3		
Personal saving rate	%	5.3	5.1	5.1	5.1	4.9	4.8	5.1	5.0	4.8	4.7		
Corp. profits, IVA & CCAdj.	% change	3.3	-1.8	27.2	1.1	-2.5	-4.8	4.2	2.0	2.4	0.1		
Profit share of GNP	%	8.7	8.5	8.9	8.8	8.7	8.5	8.5	8.4	8.4	8.3		
Excluding FR Banks	%	8.4	8.3	8.7	8.6	8.4	8.2	8.2	8.2	8.1	8.1		
Federal surpl./deficit	Bill. \$	-120.8	-100.5	-128.3	-118.2	-111.5	-119.1	-134.6	-125.5	-119.5	-117.5		
State & local surpl./def.		89.2	90.3	96.0	94.0	91.7	90.0	89.1	88.7	88.0	84.5		
Ex. social ins. funds		33.8	36.3	42.3	40.5	38.4	36.9	36.2	36.0	35.5	32.2		
PRICES AND COSTS													
GDP implicit deflator	% change	1.7	1.3	2.9	2.4	1.9	1.9	2.4	2.5	2.6	2.6		
GDP chn.-wt. price index		2.0	1.8	3.1	2.5	2.2	2.2	2.7	2.8	2.9	2.9		
Gross Domestic Purchases chn.-wt. price index		1.9	2.4	2.4	1.9	2.1	2.3	2.7	2.6	2.7	2.7		
CPI		2.3	3.1	2.5	2.1	2.6	2.9	2.9	2.9	3.0	3.1		
Ex. food and energy		2.4	2.7	2.2	2.7	3.0	3.1	3.2	3.2	3.2	3.3		
ECI, hourly compensation ¹		2.5	3.1	3.4	3.3	3.7	3.6	3.7	3.7	3.8	3.8		
Nonfarm business sector		0.0	1.5	0.8	0.8	1.0	1.0	1.0	0.9	0.7	0.7		
Output per hour		3.3	3.6	3.6	3.4	3.6	3.9	3.7	3.7	3.7	3.7		
Compensation per hour		3.3	2.1	2.7	2.6	2.6	2.8	2.7	2.8	3.0	3.0		
Unit labor cost		3.3	2.1	2.7	2.6	2.6	2.8	2.7	2.8	3.0	3.0		

1. Private-industry workers.

Strictly Confidential <PR>
Class II POMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

March 19, 1997

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	4.3	3.4	2.9	2.5	2.4	2.3	2.1	2.0	2.0	3.2	2.8	2.1
Gross dom. purchases	2.0	5.0	3.5	3.4	2.4	2.6	2.4	2.8	1.9	3.4	3.6	2.4
Final sales	5.3	2.9	2.5	2.3	2.9	2.1	2.1	1.7	2.2	3.2	2.6	2.0
Priv. dom. final purchases	3.1	4.3	3.1	2.9	2.6	2.4	2.4	2.3	2.3	3.1	3.2	2.3
Personal cons. expenditures	2.4	3.3	2.2	2.1	1.8	1.7	1.7	1.7	1.7	1.9	2.4	1.7
Durables	0.4	1.1	0.4	0.5	0.3	0.3	0.3	0.3	0.3	0.5	0.6	0.3
Nondurables	0.4	1.0	0.7	0.7	0.6	0.5	0.5	0.5	0.5	0.4	0.7	0.5
Services	1.6	1.2	1.1	1.0	0.9	0.9	0.9	0.9	0.9	1.0	1.1	0.9
Business fixed investment	0.6	0.8	0.9	0.8	0.8	0.7	0.7	0.7	0.6	1.0	0.8	0.7
Producers' dur. equip.	-0.0	0.6	0.7	0.6	0.7	0.6	0.6	0.5	0.5	0.8	0.6	0.5
Nonres. structures	0.6	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1
Residential structures	-0.0	0.0	0.1	-0.1	-0.1	-0.1	-0.1	-0.0	-0.0	0.2	-0.0	-0.0
Net exports	2.3	-1.5	-0.7	-0.9	0.1	-0.3	-0.2	-0.8	0.1	-0.2	-0.8	-0.3
Exports	2.7	0.5	0.8	0.3	1.4	0.5	1.2	0.2	1.4	0.9	0.7	0.8
Imports	-0.4	-2.1	-1.5	-1.1	-1.3	-0.8	-1.4	-1.0	-1.3	-1.1	-1.5	-1.2
Government cons. & invest.	-0.1	0.2	0.0	0.2	0.3	0.1	-0.0	0.2	-0.1	0.4	0.2	0.0
Federal	-0.3	-0.1	-0.2	-0.0	-0.0	-0.2	-0.3	-0.1	-0.4	0.1	-0.1	-0.2
Defense	-0.3	0.0	-0.2	-0.0	-0.0	-0.1	-0.3	-0.0	-0.2	0.0	-0.1	-0.2
Nondefense	-0.0	-0.1	-0.0	-0.0	-0.0	-0.1	-0.0	-0.0	-0.2	0.1	-0.0	-0.1
State and local	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Change in bus. inventories	-1.0	0.5	0.4	0.3	-0.4	0.1	0.0	0.2	-0.2	0.0	0.2	0.1
Nonfarm	-0.9	0.4	0.3	0.2	-0.4	0.1	0.0	0.2	-0.2	0.0	0.1	0.0
Farm	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP residual	0.0	0.1	0.0	0.0	-0.0	0.0	0.0	0.0	-0.0	0.0	0.0	0.0

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

Strictly Confidential (FR)
Class II FOMC

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

March 19, 1997

Item	Fiscal year ⁵				1996				1997				1998			
	1995 ^a	1996 ^a	1997	1998	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^b	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
Receipts ¹	1352	1453	1532	1575	322	446	362	346	344	460	382	365	350	467	393	382
Outlays ¹	1516	1560	1633	1694	393	392	395	405	414	407	407	427	420	424	423	479
Surplus/deficit ¹	-164	-107	-101	-119	-72	54	-33	-59	-70	54	-26	-62	-70	43	-30	-97
On-budget	-226	-174	-178	-194	-84	14	-35	-77	-83	13	-31	-72	-83	-1	-37	-109
Off-budget	62	67	77	75	12	39	2	18	14	40	6	10	13	45	7	12
Surplus excluding deposit insurance ²	-182	-116	-112	-124	-75	52	-34	-66	-71	52	-27	-63	-71	42	-32	-98
Means of financing																
Borrowing	171	130	104	138	80	-23	39	49	45	-33	42	50	69	-24	43	77
Cash decrease	-2	-6	4	0	-1	-16	-6	11	14	-17	-4	10	10	-15	-5	10
Other ³	-5	-16	-7	-19	-7	-14	0	-1	10	-4	-12	2	-9	-4	-8	10
Cash operating balance, end of period	38	44	40	40	22	38	44	33	19	36	40	30	20	35	40	30
NIPA FEDERAL SECTOR																
Receipts	1459	1544	1635	1688	1523	1576	1582	1623	1619	1639	1658	1674	1672	1693	1714	1734
Expenditures	1629	1683	1749	1813	1678	1702	1703	1724	1747	1757	1769	1793	1806	1818	1833	1851
Consumption expend.	455	457	461	466	454	464	461	457	462	461	463	465	467	466	467	463
Defense	304	303	303	305	299	307	305	304	302	303	304	306	304	304	302	
Nondefense	151	155	158	162	155	156	157	153	159	159	160	161	161	162	163	161
Other expenditures	1175	1226	1288	1346	1225	1239	1241	1267	1285	1296	1306	1328	1339	1353	1366	1388
Current account surplus	-171	-139	-115	-125	-155	-127	-121	-100	-128	-118	-112	-119	-115	-125	-119	-117
Gross investment	65	63	62	62	65	66	64	61	62	62	62	62	61	61	61	60
Current and capital account surplus	-236	-202	-176	-186	-220	-193	-185	-162	-191	-180	-174	-181	-197	-187	-181	-178
FISCAL INDICATORS⁴																
High-employment (HEB) surplus/deficit	-257	-229	-237	-265	-239	-226	-221	-211	-248	-245	-245	-257	-275	-267	-262	-261
Change in HEB, percent of potential GDP	-.1	-.4	.1	.4	.1	-.2	-.1	-.1	.5	0	0	.2	.2	-.1	-.1	0
Fiscal impetus (FI), percent, cal. year	-5.6	-2	-2.5	-3.2	1.3	1.8	-.4	-2.2	.4	-1.6	-.1	-1.4	.1	-1.4	-.4	-2.4

1. OMB's February 1997 deficit estimates (assuming the enactment of the President's proposals) are \$126 billion in FY97 and \$121 billion in FY98. CBO's March 1997 baseline deficit estimates are \$115 billion in FY97 and \$122 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 February 1997 deficit estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are \$138 billion in FY97 and \$125 billion in FY98. CBO's March 1997 baseline deficit estimates, excluding deposit insurance, are \$128 billion in FY97 and \$126 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 OMB fiscal year totals.

a--Actual.
b--Preliminary.

Confidential FR Class II
March 19, 1997

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

Period ¹	Total ²	Federal government ³	Total ⁴	Nonfederal				Business	State and local governments	Memo: Nominal GDP
				Total	Households	Home mortgages	Consumer credit			
Year										
1986	12.1	13.6	11.7	11.4	13.8	9.2	12.2	10.8	5.0	
1987	9.2	8.0	9.6	12.2	16.3	5.1	6.7	12.1	7.4	
1988	9.0	8.0	9.3	9.6	10.9	8.6	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	4.5	11.1	2.5	5.2	6.8	-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	6.4	5.5	7.7	1.5	5.7	4.8	
1994	5.0	4.7	5.1	8.7	6.7	14.6	3.5	-3.4	5.9	
1995	5.5	4.1	5.9	8.2	6.2	14.3	6.0	-3.5	3.8	
1996	5.4	4.0	5.9	7.8	8.3	8.3	4.7	1.2	5.0	
1997	5.1	2.8	5.9	6.3	6.9	6.0	6.3	2.0	5.2	
1998	5.3	4.3	5.6	5.8	6.1	6.0	6.3	2.1	4.7	
Quarter										
1995:1	6.4	7.1	6.2	8.3	6.6	13.9	6.7	-4.0	3.8	
2	6.5	5.2	7.0	8.2	6.1	15.1	7.4	0.0	3.1	
3	4.2	2.4	4.8	8.5	6.8	14.7	4.2	-9.2	6.0	
4	4.3	1.6	5.3	6.7	4.8	10.7	5.2	-1.1	2.3	
1996:1	6.4	6.6	6.3	9.3	9.9	10.8	4.3	-0.3	4.2	
2	5.2	1.7	6.5	8.4	8.4	7.8	4.6	4.1	6.5	
3	5.1	4.3	5.3	7.1	7.2	8.3	5.9	-5.7	3.8	
4	4.4	3.1	4.9	5.5	6.5	5.5	3.6	6.9	5.5	
1997:1	4.7	2.2	5.6	6.2	6.9	5.9	6.0	0.6	6.4	
2	5.2	1.6	6.4	6.4	6.8	5.9	6.6	5.8	5.3	
3	5.0	4.2	5.3	6.2	6.7	5.9	6.0	-1.7	4.5	
4	5.1	3.0	5.8	6.0	6.4	5.9	6.1	3.1	4.4	

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1996: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 grows 5.4 percent in 1996, 5.0 percent in 1997, and 5.2 percent in 1998.

3. On a monthly average basis, federal debt rises 3.8 percent in 1996, 2.8 percent in 1997, and 3.8 percent in 1998.

4. On a monthly average basis, nonfederal debt increases 6.0 percent in 1996, 5.7 percent in 1997, and 5.6 percent in 1998.

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

Category	Calendar year				1996		1997				1998	
	1995	1996	1997	1998	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
Seasonally adjusted annual rates												
<i>Net funds raised by domestic nonfinancial sectors</i>												
1 Total	645.6	663.8	649.8	730.6	586.2	571.0	602.4	682.1	649.1	665.7	715.0	746.1
2 Net equity issuance	-74.2	-82.6	-94.4	-82.6	-138.8	-72.0	-88.0	-82.0	-104.8	-102.8	-77.6	-87.6
3 Net debt issuance	719.8	746.4	744.2	813.1	725.0	643.0	690.4	764.1	753.9	768.5	792.6	833.7
<i>Borrowing sectors</i>												
Nonfinancial business												
4 Financing gap ¹	57.7	14.5	44.8	83.4	29.9	20.5	24.6	39.4	54.7	60.3	75.3	91.5
5 Net equity issuance	-74.2	-82.6	-94.4	-82.6	-138.8	-72.0	-88.0	-82.0	-104.8	-102.8	-77.6	-87.6
6 Credit market borrowing	233.8	193.9	272.6	288.3	249.5	155.5	261.7	288.1	266.0	274.6	281.8	294.7
Households												
7 Net borrowing	381.1	394.3	345.1	336.2	375.7	297.1	338.9	351.0	346.8	343.7	333.7	338.7
8 Home mortgages	197.7	278.7	250.9	237.2	255.8	234.7	252.2	252.2	252.2	247.2	237.2	237.2
9 Consumer credit	141.6	94.4	73.8	77.5	98.0	66.2	72.4	73.3	74.3	75.0	76.5	78.5
10 Debt/DPI (percent) ²	91.2	93.7	94.9	95.8	94.4	94.7	94.4	94.7	95.1	95.5	95.5	96.1
State and local governments												
11 Net borrowing	-39.6	13.3	21.4	23.5	-61.6	73.9	6.2	63.4	-18.6	34.6	33.0	14.0
12 Current surplus ³	108.4	116.0	109.5	110.8	113.9	111.2	102.5	96.7	124.7	114.1	111.6	109.9
Federal government												
13 Net borrowing	144.4	145.0	105.1	165.2	161.3	116.5	83.6	61.6	159.7	115.6	144.1	186.3
14 Net borrowing (quarterly, n.s.a.)	144.4	145.0	105.1	165.2	39.3	48.7	45.5	-32.5	42.1	50.1	45.0	120.2
15 Unified deficit (quarterly, n.s.a.)	146.3	110.6	103.9	154.4	33.0	59.3	69.9	-53.6	25.7	62.0	27.0	127.4
16 Funds supplied by depository institutions	274.6	233.4	263.9	264.4	265.2	220.5	239.8	271.4	260.4	284.2	261.2	267.7
Memo (percentage of GDP)												
17 Domestic nonfinancial debt ⁴	186.6	188.3	188.1	189.0	188.9	188.6	187.8	187.7	188.0	188.3	188.7	189.3
18 Domestic nonfinancial borrowing	9.9	9.9	9.3	9.7	9.5	8.3	8.8	9.6	9.4	9.5	9.6	9.9
19 Federal government ⁵	2.0	1.9	1.3	2.0	2.1	1.5	1.1	0.8	2.0	1.4	1.7	2.2
20 Nonfederal	7.9	7.9	8.0	7.8	7.4	6.8	7.7	8.8	7.4	8.0	7.9	7.7

Note. Data after 1996:Q4 are staff projections.

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

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

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

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

5. Excludes government-insured mortgage pool securities.

contributes to increased growth of U.S. imports. With the upward revision to the staff forecast for near-term growth in U.S. GDP also raising imports, real import growth should exceed that for real exports both this year and next. As a consequence, real net exports make a negative contribution to GDP growth of about 3/4 percentage point in 1997 and 1/3 percentage point in 1998, a projection somewhat larger than in the January Greenbook.

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

Measure	1996: Q4	1997			1998
		Q1	Q2	H2	
Foreign output	4.7	3.9	4.1	3.9	3.8
Previous	3.7	3.9	3.8	4.0	3.8
Real exports	25.1	4.3	6.7	6.6	6.5
Previous	22.6	1.8	7.3	6.6	7.1
Real imports	3.3	16.0	10.9	8.6	7.8
Previous	5.7	11.6	9.9	8.9	7.2

The Dollar. Over the forecast period, the dollar will be influenced by a number of crosscurrents. We project the dollar will remain around recent high levels in the near term. Uncertainty about the prospects for EMU in Europe could provide some support for the dollar over the forecast period.¹ Later in the forecast period, as the focus of market attention shifts to widening U.S. current account deficits, the dollar will tend to weaken. With Japanese external surpluses again increasing, the decline in the dollar is expected to be largely in terms of the yen. In 1998, the assumed tightening of U.S. monetary policy will limit the downward movement of the dollar. 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. Growth of real GDP in the foreign G-7 countries is projected to average 3 percent this year and 2-3/4 percent next year. Upward revisions

1. The current timetable calls for decisions to be made in the spring of 1998 about which EU countries will initially proceed to Stage Three of EMU. However, there is a risk that the start of Stage Three will be delayed beyond January 1, 1999, if key EU countries, particularly Germany and France, fail to achieve satisfactory budget outcomes. Developments that appear to threaten the process of reaching these decisions or to increase the risk that a weak and politically fragmented European System of Central Banks will come into being in 1999 could encourage safe-haven flows of funds into dollar assets.

We expect the quantity of oil imports to rise this quarter as stocks are rebuilt. Oil imports are projected to increase during the remainder of the forecast period, as consumption expands with the increase in U.S. economic activity, and U.S. production declines.

Oil prices. The projected price of imported oil has been revised down by about \$0.90/b in the first and second quarters, reflecting the decline in spot prices. The projected spot price of WTI and the oil import unit value return to \$19.50/b and \$17.00/b, respectively, by the end of 1997. We have revised down these estimates from our January forecast because of the staff's projection of a higher path for the foreign exchange value of the U.S. dollar.

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

Trade category	Projection				
	1996: Q4	1997			1998
		Q1	Q2	H2	
<i>Exports</i>					
Nonagricultural	-0.8	-0.9	-1.4	0.4	1.3
Agricultural	-27.8	-0.1	2.0	2.0	2.0
<i>Imports</i>					
Non-oil	-1.4	-4.9	-0.6	2.2	0.2
Oil (level, dollars per barrel)	22.31	21.28	17.77	17.08	17.00

NOTE. Prices for exports and non-oil imports of goods, including 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 nonagricultural exports are projected to decline somewhat during the first half of this year and then to rise slowly over the remainder of the forecast period in line with comparable U.S. producer prices. Prices of agricultural exports are expected to be about flat in the current quarter and to rise slowly thereafter. Prices of non-oil imports should drop significantly in the current quarter and be about flat next quarter, reflecting the appreciation of the dollar. With the dollar projected to have about reached its peak and commodity prices exerting some temporary upward pressure, non-oil import prices should resume rising during the second half of this year. In 1998, the effects of some retracing of the increase in commodity prices helps to restrain the increase in import prices.

Strictly Confidential (FR)

Class II FOMC

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

March 19, 1997

Measure and country	--Projected--								
	1990	1991	1992	1993	1994	1995	1996	1997	1998
REAL GDP									

Canada	-1.9	0.0	0.5	3.1	4.9	0.7	2.3	3.4	3.0
France	1.5	1.3	0.1	-0.6	4.2	0.4	2.1	2.8	2.4
Germany (1)	6.8	3.3	1.0	-0.2	3.4	0.8	2.2	2.5	2.3
Italy	0.7	1.9	-0.8	-0.0	2.6	2.3	0.5	1.5	2.1
Japan	5.1	2.5	0.1	0.4	0.8	2.6	3.1	2.2	2.4
United Kingdom	-0.7	-1.5	0.3	2.8	4.2	1.9	2.7	3.0	2.3
Average weighted by 1987-89 GDP	2.8	2.8	0.2	0.7	2.8	1.7	2.3	2.5	2.4
Average weighted by share of U.S. nonagricultural exports									
Total foreign	2.5	2.9	1.9	3.2	5.0	1.7	4.0	4.0	3.8
Foreign G-7	0.7	1.5	0.3	1.8	3.8	1.3	2.4	2.9	2.7
Developing Countries	6.2	6.4	5.1	6.0	7.0	2.1	6.7	5.9	5.9
CONSUMER PRICES									

Canada	4.9	4.1	1.8	1.8	0.0	2.1	2.0	1.5	1.4
France	3.5	3.0	1.8	2.1	1.6	1.9	1.7	1.6	1.8
Germany (1)	3.0	4.0	3.4	4.2	2.6	1.7	1.4	1.6	1.6
Italy	6.4	6.2	4.8	4.2	3.8	5.8	2.7	2.3	2.3
Japan	3.2	3.2	0.9	1.2	0.8	-0.8	0.1	1.4	0.2
United Kingdom (2)	9.2	5.7	3.7	2.7	2.2	2.9	3.2	2.7	3.0
Average weighted by 1987-89 GDP	4.7	4.4	2.4	2.5	1.8	1.7	1.5	1.8	1.4
Average weighted by share of U.S. non-oil imports									
	4.3	4.1	1.9	2.0	1.0	1.1	1.3	1.6	1.1

1. West German data through 1991, all Germany thereafter.

2. CPI excluding mortgage interest payments which is the targeted inflation rate.

Strictly Confidential (FR)
Class II FOMC

March 19, 1997

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

Measure and country	1996				1997				Projected				101	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
REAL GDP														
Canada	1.4	1.4	3.3	2.9	3.5	3.5	3.4	3.3	3.1	3.1	3.0	3.0		
France	5.1	-0.5	3.1	0.6	0.8	4.5	3.1	2.7	2.6	2.4	2.3	2.3		
Germany	-0.4	6.1	3.0	0.3	0.1	6.0	2.1	2.0	2.3	2.3	2.3	2.3		
Italy	1.8	-1.6	2.4	-0.4	1.0	1.4	1.8	1.8	2.0	2.0	2.2	2.2		
Japan	8.4	-1.1	1.3	3.9	3.6	1.4	1.9	2.0	2.2	2.4	2.5	2.4		
United Kingdom	2.4	2.2	2.7	3.4	3.1	3.2	3.0	2.8	2.4	2.4	2.3	2.1		
Average weighted by 1987-89 GDP	4.1	0.7	2.3	2.1	2.2	3.0	2.4	2.3	2.3	2.4	2.4	2.4		
Average weighted by share of U.S. nonagricultural exports														
Total foreign	4.7	1.8	4.7	4.7	3.9	4.1	3.9	3.9	3.9	3.9	3.8	3.7		
Foreign G-7	3.0	1.2	2.8	2.7	2.9	3.2	2.9	2.8	2.7	2.7	2.7	2.6		
Developing Countries	8.8	1.6	8.1	8.5	5.8	5.9	5.9	5.9	6.0	5.9	5.8	5.8		
CONSUMER PRICES (1)														
Canada	1.4	1.4	1.4	2.0	2.2	1.7	1.9	1.5	1.3	1.3	1.4	1.4		
France	2.1	2.4	1.8	1.7	1.7	1.4	1.6	1.6	1.7	1.7	1.8	1.8		
Germany	1.6	1.5	1.4	1.4	1.8	1.7	1.7	1.6	1.6	1.6	1.6	1.6		
Italy	5.0	4.2	3.4	2.7	2.5	2.5	2.3	2.3	2.3	2.3	2.3	2.3		
Japan	-0.3	0.1	0.0	0.1	0.0	1.5	1.5	1.4	1.5	0.1	0.2	0.2		
United Kingdom (2)	2.9	2.8	2.9	3.2	3.2	3.0	2.8	2.7	2.7	2.8	3.0	3.0		
Average weighted by 1987-89 GDP	1.7	1.7	1.5	1.5	1.5	1.9	1.9	1.8	1.8	1.4	1.4	1.4		
Average weighted by share of U.S. non-oil imports														
	1.1	1.2	1.1	1.3	1.3	1.8	1.8	1.6	1.6	1.0	1.1	1.1		

1. Percent change from same period a year earlier.

2. CPI excluding mortgage interest payments which is the targeted inflation rate.

Strictly Confidential (FR)
Class II FOMC

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

March 19, 1997

	1990	1991	1992	1993	1994	1995	1996	-- Projected --	
								1997	1998
NIPA REAL EXPORTS and IMPORTS									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	0.6	0.4	-0.4	-0.7	-0.4	0.3	-0.2	-0.8	-0.3
Exports of G&S	0.6	0.8	0.4	0.5	1.0	0.8	0.9	0.7	0.8
Imports of G&S	-0.0	-0.4	-0.8	-1.1	-1.4	-0.5	-1.1	-1.5	-1.2
Percentage change, Q4/Q4									
Exports of G&S	7.2	8.6	4.1	4.8	9.9	7.4	7.5	6.1	6.5
Services	8.9	7.1	-0.9	3.9	4.8	5.1	2.9	2.5	3.1
Agricultural Goods	-7.3	10.1	10.4	-5.4	17.1	-3.1	4.0	-4.9	4.1
Computers	12.3	21.7	25.2	22.7	28.8	49.4	32.5	34.1	32.3
Semiconductors	61.5	41.8	64.8	45.1	68.7	29.7	4.2	23.9	26.3
Other Goods 1/	6.0	7.0	2.3	3.6	7.4	5.3	8.0	4.2	2.4
Imports of G&S	0.5	4.1	7.4	10.5	11.8	4.2	8.3	11.0	7.8
Services	5.8	-2.7	1.5	3.6	0.8	4.1	4.8	5.5	2.9
Oil	-15.8	8.1	12.1	10.1	-0.2	0.9	-1.5	9.1	4.2
Computers	2.9	35.9	45.1	38.8	37.3	43.8	23.8	28.1	25.1
Semiconductors	60.9	55.3	42.0	44.9	47.4	57.1	-13.6	29.9	28.7
Other Goods 2/	-0.3	2.5	5.4	9.5	12.5	-1.2	10.0	9.2	5.2
Billions of chained 1992 dollars									
Net Goods & Services	-61.9	-22.3	-29.5	-72.0	-105.7	-107.6	-113.6	-141.6	-167.6
Exports of G&S	564.4	599.9	639.4	658.2	712.0	775.4	826.0	891.4	949.0
Imports of G&S	626.3	622.2	668.9	730.3	817.6	883.0	939.5	1033.0	1116.5
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-94.7	-9.5	-62.6	-99.9	-148.4	-148.2	-165.1	-187.2	-215.8
Net Goods & Services (BOP)	-80.3	-29.9	-38.3	-72.0	-104.4	-105.1	-114.2	-126.5	-143.8
Exports of G&S (BOP)	536.8	580.7	617.7	643.0	698.3	786.5	835.6	884.4	939.6
Imports of G&S (BOP)	617.1	610.6	655.9	715.0	802.7	891.6	949.8	1010.9	1083.4
Net Investment Income	20.9	15.8	11.2	9.7	-4.2	-8.0	-8.4	-19.0	-30.3
Direct, Net	55.9	55.6	51.6	55.9	47.4	57.5	64.4	70.4	73.1
Portfolio, Net	-35.0	-39.8	-40.4	-46.2	-51.6	-65.5	-72.9	-89.4	-103.4
Net Transfers	-35.2	4.5	-35.5	-37.6	-39.9	-35.1	-42.5	-41.8	-41.8

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

Strictly Confidential (FR)
Class II FOMC

March 19, 1997

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1993				1994				1995			
	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	-1.1	-0.5	-0.3	0.4	-1.1	0.1	1.2	1.0	-1.1	-0.6	-1.3	2.3
Exports of G&S	-0.2	1.6	1.0	1.7	0.3	0.7	1.2	1.2	0.2	0.7	-0.1	2.7
Imports of G&S	-0.9	-2.1	-1.3	-1.2	-1.4	-0.6	0.0	-0.2	-1.3	-1.3	-1.2	-0.4
Percentage change from previous period, SAAR												
Exports of G&S	-1.6	15.9	9.7	16.5	2.6	5.9	10.7	10.7	1.8	5.6	-0.9	25.1
Services	0.8	9.7	3.4	5.5	-1.1	4.0	18.7	-0.3	2.7	2.8	-3.8	10.1
Agricultural Goods	-24.4	6.8	43.0	62.9	-0.6	-19.8	16.4	-4.9	9.3	-33.7	8.7	48.4
Computers	24.5	16.6	27.6	48.6	33.0	30.1	79.0	61.0	58.7	21.0	18.3	35.7
Semiconductors	131.4	16.2	45.8	106.7	43.6	19.9	28.8	27.6	-0.0	-20.7	2.6	44.9
Other Goods 1/	-6.6	20.2	6.6	11.0	0.0	7.6	0.7	13.4	-4.1	14.0	-2.7	27.9
Imports of G&S	8.2	18.4	10.7	10.3	11.2	4.5	-0.0	1.6	10.6	9.9	9.3	3.3
Services	1.8	7.5	-1.6	-4.0	21.7	-6.7	5.8	-2.4	13.0	1.3	2.6	2.8
Oil	-8.6	27.2	33.5	-36.2	-2.4	5.3	22.0	-17.2	-22.2	59.9	7.0	-29.4
Computers	45.0	30.9	24.8	49.9	29.6	31.9	64.7	51.8	27.7	23.0	22.2	22.2
Semiconductors	65.3	7.3	43.4	85.8	49.3	61.0	76.4	43.6	4.6	-38.5	-19.0	6.9
Other Goods 2/	7.0	19.9	9.5	14.1	6.9	2.4	-10.8	-2.2	12.2	11.6	11.8	4.5
Billions of chained 1992 dollars												
Net Goods & Services	-99.3	-107.3	-111.7	-104.3	-122.5	-121.4	-101.6	-84.9	-104.0	-114.7	-137.4	-98.2
Exports of G&S	677.6	703.1	719.6	747.6	752.3	763.2	783.0	803.1	806.7	817.9	816.1	863.2
Imports of G&S	777.0	810.4	831.3	851.9	874.9	884.6	884.5	888.0	910.7	932.6	953.5	961.3
Billions of dollars												
US CURRENT ACCOUNT BALANCE	-118.8	-144.1	-160.0	-170.6	-156.2	-163.9	-150.8	-121.7	-141.1	-162.4	-191.4	-165.5
Net Goods & Services (BOP)	-90.8	-103.5	-113.8	-109.4	-118.1	-127.3	-97.3	-77.6	-98.5	-115.8	-137.1	-105.4
Exports of G&S (BOP)	662.3	686.1	708.3	736.5	755.9	778.9	796.8	814.5	820.4	835.9	822.8	863.1
Imports of G&S (BOP)	753.1	789.6	822.1	845.9	874.0	906.2	894.2	892.0	918.9	951.7	960.0	968.5
Net Investment Income	4.7	-2.5	-6.4	-12.4	-3.6	-3.4	-17.4	-7.6	1.2	-8.9	-16.4	-9.7
Direct, Net	49.5	46.0	47.4	46.9	57.4	59.9	51.3	61.3	66.3	59.5	58.9	73.0
Portfolio, Net	-44.8	-48.5	-53.7	-59.3	-61.0	-63.3	-68.7	-68.9	-65.1	-68.4	-75.3	-82.7
Net Transfers	-32.7	-38.0	-39.9	-48.9	-34.6	-33.2	-36.0	-36.6	-43.8	-37.7	-37.9	-50.5

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

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

Strictly Confidential (FR)
Class II FOMC

March 19, 1997

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	Projected								1998			
	1996				1997							
	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	-1.1	-0.6	-1.3	2.3	-1.5	-0.7	-0.9	0.1	-0.3	-0.2	-0.8	0.1
Exports of G&S	0.2	0.7	-0.1	2.7	0.5	0.8	0.3	1.4	0.5	1.2	0.2	1.4
Imports of G&S	-1.3	-1.3	-1.2	-0.4	-2.1	-1.5	-1.1	-1.3	-0.8	-1.4	-1.0	-1.3
Percentage change from previous period, SAAR												
Exports of G&S	1.8	5.6	-0.9	25.1	4.3	6.7	2.1	11.4	4.1	9.6	1.4	11.2
Services	2.7	2.8	-3.8	10.1	4.2	0.6	1.7	3.3	4.3	3.6	2.6	1.9
Agricultural Goods	9.3	-33.7	8.7	48.4	-33.7	-6.7	19.9	10.5	3.4	3.3	4.9	4.8
Computers	58.7	21.0	18.3	35.7	38.6	33.5	32.3	32.3	32.3	32.3	32.3	32.3
Semiconductors	-0.0	-20.7	2.6	44.9	23.9	23.9	23.9	23.9	26.3	26.3	26.3	26.3
Other Goods 1/	-4.1	14.0	-2.7	27.9	4.4	6.6	-4.9	11.4	-1.8	8.1	-6.8	11.1
Imports of G&S	10.6	9.9	9.3	3.3	16.0	10.9	8.0	9.2	5.8	9.9	6.6	8.9
Services	13.0	1.3	2.6	2.8	9.3	5.8	4.2	2.8	2.6	2.7	3.0	3.3
Oil	-22.2	59.9	7.0	-29.4	22.6	32.9	15.7	-24.9	4.6	40.5	14.7	-30.0
Computers	27.7	23.0	22.2	22.2	33.6	26.3	26.3	26.3	25.1	25.1	25.1	25.1
Semiconductors	4.6	-38.5	-19.0	6.9	33.6	28.7	28.7	28.7	28.7	28.7	28.7	28.7
Other Goods 2/	12.2	11.6	11.8	4.5	14.0	7.5	4.7	10.8	2.5	5.8	2.4	10.2
Billions of chained 1992 dollars												
Net Goods & Services	-104.0	-114.7	-137.4	-98.2	-125.2	-137.2	-152.5	-151.4	-157.2	-161.6	-176.4	-175.0
Exports of G&S	806.7	817.9	816.1	863.2	872.3	886.6	891.2	915.6	924.8	946.3	949.5	975.1
Imports of G&S	910.7	932.6	953.5	961.3	997.5	1023.8	1043.7	1067.0	1082.0	1108.0	1125.9	1150.1
Billions of dollars												
US CURRENT ACCOUNT BALANCE	-141.1	-162.4	-191.4	-165.5	-173.3	-174.6	-192.9	-207.9	-201.5	-208.2	-222.7	-230.9
Net Goods & Services (BOP)	-98.5	-115.8	-137.1	-105.4	-120.0	-118.9	-133.1	-133.9	-138.7	-140.3	-151.1	-145.1
Exports of G&S (BOP)	820.4	835.9	822.8	863.1	868.9	879.3	882.6	907.0	916.1	937.8	939.7	965.0
Imports of G&S (BOP)	918.9	951.7	960.0	968.5	988.9	998.2	1015.7	1040.8	1054.8	1078.1	1090.8	1110.1
Net Investment Income	1.2	-8.9	-16.4	-9.7	-14.2	-16.8	-20.8	-24.1	-23.8	-28.9	-32.6	-35.8
Direct, Net	66.3	59.5	58.9	73.0	70.8	70.8	69.9	70.0	73.5	72.0	72.9	74.1
Portfolio, Net	-65.1	-68.4	-75.3	-82.7	-85.0	-87.5	-90.7	-94.1	-97.3	-100.9	-105.5	-109.9
Net Transfers	-43.8	-37.7	-37.9	-50.5	-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.

Part 2

March 19, 1997

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

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

Confidential (FR) Class III FOMC

March 19, 1997

RECENT DEVELOPMENTS

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

The output of motor vehicles and parts rose further in February, to a level more than 8 percent above the strike-related low in October. Assemblies of light vehicles, at 12.4 million units (annual rate), raised the days' supply at the end of the month (based on February sales) only to a still comfortable 64 days. Looking ahead, schedules call for production to be well maintained over the remainder of the first half at an annual rate of slightly more than 12 million units.

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

	1996		1997			
	Nov.	Dec.	Jan.	Feb.	Mar.	Q2
--scheduled--						
U.S. production	12.0	12.1	12.3	12.4	12.2	12.1
Autos	6.1	5.8	6.0	6.1	5.8	5.9
Trucks	5.8	6.3	6.4	6.3	6.4	6.2
Days' supply						
Autos	67.3	61.2	56.0	59.6	---	---
Light trucks	67.2	67.5	70.8	69.4	---	---

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

The output of aircraft and parts, an area of ongoing strength, rose further in February, with a sharp 3 percent gain in the production of commercial aircraft. Underpinned by the strength in orders, mainly from foreign airlines, Boeing's current schedule calls for raising the output of completed planes from twenty-six per month this quarter to forty planes a month by the fourth quarter of this year--the company's highest ever monthly production rate. This planned increase would be consistent with growth of total commercial aircraft output of more than 50 percent this year.

By major market group (excluding energy items), the output of consumer goods advanced 1/2 percent in February, boosted by a snap-back in the production of goods for the home, mainly appliances and carpeting. The output of business equipment rose 1.1 percent further in February, with all major categories posting gains. The output of construction supplies, which was weak around the turn of the year, rebounded in February and has, on balance, remained at the high level reached last summer. The output of durable materials rose sharply, a result not only of a 2 percent advance in semiconductor output but also of a rebound in the production of

FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS
 (Unified basis; billions of dollars except as noted)

	Fiscal year to date totals					
	January				Dollar change	Percent change
	1996	1997	1996	1997		
Outlays						
Deposit insurance (DI)	123.5	137.4	503.4	542.7	39.3	7.8
Spectrum auction (SA)	-1.2	-.4	-3.9	-6.9	-3.0	75.5
Other	.0	.0	.0	-3.6	-3.6	N.A.
Receipts	124.7	137.8	507.3	553.2	45.8	9.0
Deficit (+)	143.0	150.7	467.1	496.7	29.6	6.3
	Adjusted for payment timing shifts ¹ and excluding DI and spectrum auction					
Outlays						
National defense	131.8	137.8	514.4	546.0	31.6	6.1
Net interest	22.1	22.1	86.8	90.3	3.5	4.0
Social security	20.8	21.1	80.3	82.7	2.4	3.0
Medicare	28.7	30.4	113.2	118.7	5.6	4.9
Medicaid	15.5	16.3	57.0	62.5	5.6	9.8
Other health	6.7	8.3	28.8	32.0	3.2	11.1
Income security	1.9	2.5	8.4	9.8	1.4	16.7
Other	19.3	19.6	71.5	72.5	1.0	1.4
	16.8	17.6	68.4	77.4	9.0	13.2
Receipts						
Individual	143.0	150.7	467.1	496.7	29.6	6.3
Withheld	86.2	87.2	230.7	246.5	15.8	6.8
Nonwithheld	55.4	55.4	192.8	204.0	11.2	5.8
Refunds (-)	31.2	33.6	42.3	48.8	6.5	15.4
Social insurance taxes	.3	1.8	4.4	6.2	1.9	43.3
Corporate	42.2	48.8	150.3	165.5	15.3	10.2
Other	5.2	4.8	47.1	47.0	-.1	-.2
	9.5	9.9	39.1	37.7	-1.4	-3.5
Deficit(+)	-11.2	-12.9	47.2	49.3	2.0	4.2

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

1. A shift in payment timing occurs when the first of the month falls on a weekend or holiday. The monthly and fiscal year to date outlays for defense, Medicare, income security, and "other" have been adjusted to account for this shift.

OMB ESTIMATES OF THE PRESIDENT'S BUDGET PROPOSALS
(Fiscal years, billions of dollars)

	1997	1998	1999	2000	2001	2002
1. Current services deficit ¹	128	120	140	128	109	101
2. Cuts resulting from FY98 cap ² (including debt service)	--	-5	-13	-10	-10	-10
3. Capped baseline deficit ³	128	114	127	118	99	91
4. Basic policies (including debt service)	-2	7	-10	-30	-63	-108
5. Resulting deficit	126	121	117	87	36	-17

1. Assumes that discretionary spending grows with inflation from the 1997 level on. Based on economic projections that include the fiscal dividend.

2. Reductions in 1998 necessary to meet OBRA cap; savings thereafter from lower discretionary spending base.

3. Assumes that discretionary spending is equal to the OBRA cap in fiscal 1998 and grows with inflation thereafter.

CBO ESTIMATES OF THE PRESIDENT'S BUDGET PROPOSALS
(Fiscal years, billions of dollars)

	1997	1998	1999	2000	2001	2002
1. Baseline deficit ¹	115	121	145	159	142	153
2. Basic policies	1	24	-2	-24	-47	-84
3. Deficit with basic policies	116	145	142	135	95	69
4. Alternative policies ²	--	--	--	2	-17	-69
5. Resulting deficit ²	116	145	142	137	78	0

1. Assumes that discretionary spending is equal to the OBRA cap in fiscal 1998 and grows with inflation thereafter. Based on economic projections that include the fiscal dividend.

2. Deficit effects of the budget's trigger mechanism. The \$2 billion increase in the deficit in 2000 reflects a revenue loss from timing effects in anticipation of the sunsetting of tax reductions.

TREASURY FINANCING
(Billions of dollars; total for period)

Item	1996			1997		
	Q3	Q4	Q1 ^p	Jan.	Feb. ^e	Mar. ^p
Total surplus/deficit (-)	-33.0	-59.3	-69.9	13.4	-50.7	-32.5
Means of financing deficit						
Net cash borrowing and repayments (-)	39.4	48.7	45.5	-16.8	36.2	26.0
Nonmarketable	-1.0	7.4	4.1	1.5	0.2	2.5
Marketable	40.3	41.3	41.4	-18.2	36.0	23.5
Bills	-12.4	16.2	5.0	-14.8	-0.4	20.2
Coupons	52.7	25.1	36.3	-3.4	36.4	3.3
Decrease in cash balance	-6.2	11.4	14.3	-3.8	21.4	-3.3
Other ¹	-0.2	-0.8	10.1	7.2	-6.8	9.7
Memo:						
Cash balance, end of period	44.2	32.8	18.5	36.6	15.2	18.5

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.

e Estimate.

p Projection.

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

Agency	1996			1997	
	Q3	Q4	Nov.	Dec.	Jan.
FHLBs	5.7	8.5	-1.0	10.5	-6.3
FHLMC	3.6	10.0	9.7	-1.2	6.2
FNMA	10.8	12.1	3.3	6.9	2.0
Farm Credit Banks	-2.1	-0.1	0.1	0.3	7.6
SLMA	0.2	-0.2	-0.2	-2.2	n.a.

Note. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
n.a. Not available.