

## **Part 1**

November 6, 1997

# **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

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## **SUMMARY AND OUTLOOK**

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we had anticipated then--reinforcing the impression of a greater underlying thrust in domestic demand.

We have raised our forecast of GDP growth in the fourth quarter from 3 percent to 3-1/2 percent. Of course, with scarcely any data in hand for the current quarter, this figure really is pure projection. Friday's labor market report for October should provide a hint as to whether we are on the right track. We expect some solid numbers for employment growth--although the smaller job gains in August and September against a similar backdrop of low initial claims for unemployment insurance and robust hiring plans suggest that labor supply limits may be becoming a more significant constraint.

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

Measure	1997:Q3			1997:Q4	
	Sept. GB	BEA advance	Nov. GB	Sept. GB	Nov. GB
<b>Real GDP</b>	<b>2.8</b>	<b>3.5</b>	<b>3.5</b>	<b>3.0</b>	<b>3.5</b>
Private domestic final purchases	5.9	7.2	6.9	3.7	3.7
Personal consumption expenditures	4.1	5.7	5.7	3.4	3.0
Residential investment	-4.6	2.8	1.9	1.3	5.2
Business fixed investment	22.9	18.7	16.8	6.6	8.0
Government outlays for consumption and investment	-.1	1.0	1.0	.9	.8
Change, billions of chained (1992) dollars					
Inventory investment	-19.4	-26.1	-22.2	-12.5	-2.3
Net exports	-20.0	-23.4	-23.8	7.9	5.6

Private domestic final sales are projected to increase at an annual rate of 3-3/4 percent this quarter--a hefty pace, but one down substantially from last quarter's outsized 7 percent gain. Even though the downshift in stockbuilding this summer was faster than we had anticipated, the rate of increase in nonfarm inventories in last quarter's advance GDP estimate was still quite strong. Nonetheless, with current

bottlenecks from developing in the goods sector and help keep the rise in prices gradual. Overall, after adding back in the estimated effects of the technical changes in the CPI, the acceleration in GDP prices cumulates to a bit less than 1/2 percentage point between 1997 and 1999; the pickup in core CPI inflation is somewhat larger.

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

Measure	1997:H1	1997:H2	1998	1999
<b>Real GDP</b>	<b>4.1</b>	<b>3.5</b>	<b>2.2</b>	<b>1.5</b>
Previous	4.3	2.9	2.3	1.5
Final sales	2.8	4.2	2.5	1.7
Previous	3.0	3.8	2.5	1.6
PCE	3.1	4.3	3.2	1.8
Previous	3.2	3.8	2.8	1.7
Residential investment	5.3	3.6	-2.5	-1.2
Previous	5.4	-1.7	-2.6	-2.2
BFI	9.2	12.3	7.5	5.8
Previous	9.6	14.5	7.9	5.6
Government purchases	1.3	.9	.6	.8
Previous	1.4	.4	.7	.7
Change, billions of chained (1992) dollars				
Inventory change	44.7	-24.5	-21.4	-19.0
Previous	43.8	-31.8	-15.2	-11.2
Net exports	-31.0	-18.2	-45.4	-29.1
Previous	-27.3	-12.1	-30.0	-22.4

**Consumer spending.** Real PCE growth is expected to come in at 3-3/4 percent this year. We believe that consumer spending has received an important boost from the massive gains in stock market wealth, reflected in the forecast of a 1/2 percentage point decline in the saving rate between 1996 and 1997. The gains in wealth probably also have contributed to the extraordinary level of consumer confidence.

Real PCE is projected to rise about 3-1/4 percent in 1998 and 1-3/4 percent in 1999. Income trends are expected to soften as more moderate demands from the business sector and the continued decline in net exports slow growth in employment.

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

Measure	1996	1997	1998	1999
Output per hour, nonfarm business	1.2	2.3	.7	.9
Previous	1.2	1.8	1.0	.9
Nonfarm payroll employment	2.1	2.3	1.6	.8
Previous	2.1	2.3	1.7	.8
Household employment survey	2.1	2.0	1.4	.6
Previous	2.1	2.2	1.5	.7
Labor force participation rate <sup>1</sup>	66.9	67.1	67.2	67.2
Previous	66.9	67.2	67.4	67.3
Civilian unemployment rate <sup>1</sup>	5.3	4.8	4.7	5.1
Previous	5.3	4.7	4.5	4.9

1. Percent, average for the fourth quarter.

**Labor markets.** The above-trend growth in output over the next few quarters is projected to edge the unemployment rate down from its 4.9 percent average in the third quarter of 1997 to 4.6 percent by mid-1998. As growth slips below potential, the unemployment rate is projected to move up, edging above the 5 percent mark by the end of the forecast period. Despite little change in the forecast for GDP, the unemployment rate is a little higher throughout the next two years than in the September Greenbook. This change largely reflects the incorporation of a somewhat higher productivity growth trend into our forecast for potential output.

Labor productivity increased more than we had expected in the third quarter, and we now look for output per hour to rise an impressive 2-1/4 percent in 1997. Productivity is projected to decelerate over the next two years, with a rise in output per hour of 3/4 percent in 1998 and about 1 percent in 1999. The drop largely reflects the typical lags in firms' adjustments of employment and hours to swings in the pace of output growth.

This overall productivity growth forecast is not substantially different from that in the September Greenbook. We have, however, attempted to refine our view of the trend/cycle relationship that underlies the projected path of labor productivity. One way to think about the pattern of slow productivity growth in the early 1990s and subsequent pickup in mid-decade is to view the unevenness as mere variations around an extension of the 1 percent or so trend-line that can be drawn through the cycle of

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

Measure	1996	1997	1998	1999
Consumer price index	3.2	2.0	2.2	2.5
Previous	3.2	2.1	2.3	2.7
Food	4.2	1.8	2.1	2.4
Previous	4.2	1.8	2.2	2.5
Energy	7.6	-1.2	.4	2.0
Previous	7.6	-1.5	.0	2.2
Excluding food and energy	2.6	2.3	2.4	2.5
Previous	2.6	2.4	2.6	2.8
PCE chain-weighted price index	2.7	1.6	2.0	2.2
Previous	2.7	1.7	2.2	2.5
Excluding food and energy	2.3	1.7	2.1	2.3
Previous	2.3	1.8	2.3	2.5
GDP chain-weighted price index	2.3	1.8	2.0	2.1
Previous	2.3	1.9	2.1	2.2
ECI for compensation of private industry workers <sup>1</sup>	3.1	3.2	3.2	3.4
Previous	3.1	3.1	3.2	3.3
Prices of core non-oil merchandise imports	-.8	-1.2	-.3	.8
Previous	-.7	-.5	.6	1.9
Percentage points				
<i>MEMO: Adjustments for technical changes to the CPI<sup>2</sup></i>				
Core CPI	.2	.2	.4	.6
Core PCE	.1	.1	.1	.3
GDP chain price index	.0	.1	.1	.2

1. December to December.

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

The recent report on the Employment Cost Index for September seems to point toward less optimism about inflation prospects. The twelve-month change in compensation for private industry came in at 3.2 percent, a couple of tenths above our

6. (...continued)

Difficulties in the merging of the Union Pacific and Southern Pacific rail lines are at least part of the story. This should be a temporary phenomenon, with only modest price implications.

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

Measure	1996	1997	1998	1999
<i>Real GDP</i>				
Baseline	3.2	3.8	2.2	1.5
No further change	3.2	3.8	2.4	1.9
Tighter policy	3.2	3.8	1.8	1.0
Higher stock market	3.2	3.8	2.5	2.1
<i>Civilian unemployment rate<sup>1</sup></i>				
Baseline	5.3	4.8	4.7	5.1
No further change	5.3	4.8	4.6	4.8
Tighter policy	5.3	4.8	4.9	5.5
Higher stock market	5.3	4.7	4.6	4.8
<i>CPI excluding food and energy</i>				
Baseline	2.6	2.3	2.4	2.5
No further change	2.6	2.3	2.5	2.9
Tighter policy	2.6	2.3	2.2	2.1
Higher stock market	2.6	2.3	2.4	2.6

1. Average for the fourth quarter.

We also have run an alternative that holds the value of equities relative to disposable personal income constant over the forecast period; this contrasts with the large decline in the wealth-to-income ratio in the baseline forecast. The federal funds rate is maintained at the baseline assumptions. In this scenario, output growth is boosted 1/3 percentage point in 1998 and twice that amount in 1999. Although the unemployment rate is in the neighborhood of 4-3/4 percent by the end of the forecast period, inflation is only a touch higher than in the baseline. The effect on prices is small because, according to the model, inflation expectations remain low; in essence, households and businesses have come to expect that monetary policy will respond to prevent an acceleration in prices. It is only in 1999 that the public begins to revise their expectations in light of the lack of response of the nominal funds rate to the stronger economy, and inflation would pick up more noticeably if the simulation were extended to 2000.

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

November 6, 1997

	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>		
Interval	09/24/97	11/06/97	09/24/97	11/06/97	09/24/97	11/06/97	09/24/97	11/06/97	09/24/97	11/06/97	
ANNUAL											
1995	4.6	4.6	2.0	2.0	2.5	2.5	2.8	2.8	5.6	5.6	
1996	5.1	5.1	2.8	2.8	2.3	2.3	3.0	3.0	5.4	5.4	
1997	5.8	5.9	3.7	3.8	2.0	2.0	2.4	2.4	4.9	5.0	
1998	4.8	4.8	2.7	2.8	2.0	1.9	2.2	2.1	4.5	4.6	
1999	3.8	3.8	1.6	1.6	2.2	2.1	2.6	2.4	4.7	4.9	
QUARTERLY											
1996	Q1	4.7	4.7	1.8	1.8	2.8	2.8	3.2	3.2	5.6	5.6
	Q2	7.7	7.7	6.0	6.0	1.9	1.9	3.4	3.4	5.4	5.4
	Q3	3.6	3.6	1.0	1.0	2.7	2.7	2.8	2.8	5.3	5.3
	Q4	6.2	6.2	4.3	4.3	1.9	1.9	3.3	3.3	5.3	5.3
1997	Q1	7.4	7.4	4.9	4.9	2.4	2.4	2.3	2.3	5.3	5.3
	Q2	5.2	5.2	3.6	3.3	1.6	1.8	1.0	1.0	4.9	4.9
	Q3	4.5	4.9	2.8	3.5	1.5	1.4	2.1	2.0	4.8	4.9
	Q4	5.0	5.4	3.0	3.5	2.0	1.7	2.7	2.4	4.7	4.8
1998	Q1	5.3	5.0	3.0	2.7	2.2	2.2	2.1	2.0	4.6	4.7
	Q2	4.8	4.5	2.6	2.5	2.1	2.0	2.3	2.2	4.5	4.6
	Q3	4.0	4.0	1.9	2.0	2.0	2.0	2.4	2.3	4.5	4.6
	Q4	3.6	3.7	1.5	1.7	2.0	2.0	2.5	2.4	4.5	4.7
1999	Q1	3.9	3.8	1.5	1.5	2.4	2.3	2.7	2.5	4.6	4.7
	Q2	3.6	3.6	1.4	1.5	2.1	2.1	2.8	2.5	4.7	4.8
	Q3	3.6	3.6	1.4	1.4	2.1	2.1	2.7	2.5	4.8	5.0
	Q4	3.7	3.5	1.5	1.4	2.1	2.1	2.7	2.5	4.9	5.1
TWO-QUARTER <sup>3</sup>											
1996	Q2	6.2	6.2	3.8	3.8	2.3	2.3	3.4	3.4	-0.2	-0.2
	Q4	4.9	4.9	2.7	2.7	2.3	2.3	3.0	3.0	-0.1	-0.1
1997	Q2	6.3	6.3	4.3	4.1	2.0	2.1	1.7	1.7	-0.4	-0.4
	Q4	4.8	5.1	2.9	3.5	1.7	1.6	2.4	2.2	-0.2	-0.1
1998	Q2	5.0	4.7	2.8	2.6	2.1	2.1	2.2	2.1	-0.2	-0.2
	Q4	3.8	3.8	1.7	1.8	2.0	2.0	2.5	2.4	0.0	0.1
1999	Q2	3.7	3.7	1.4	1.5	2.3	2.2	2.8	2.5	0.2	0.1
	Q4	3.6	3.6	1.5	1.4	2.1	2.1	2.7	2.5	0.2	0.3
FOUR-QUARTER <sup>4</sup>											
1995	Q4	4.0	4.0	1.6	1.6	2.4	2.4	2.6	2.6	0.0	0.0
1996	Q4	5.6	5.6	3.2	3.2	2.3	2.3	3.2	3.2	-0.3	-0.3
1997	Q4	5.5	5.7	3.6	3.8	1.9	1.8	2.1	2.0	-0.6	-0.5
1998	Q4	4.4	4.3	2.3	2.2	2.1	2.0	2.3	2.2	-0.2	-0.1
1999	Q4	3.7	3.6	1.5	1.5	2.2	2.1	2.7	2.5	0.4	0.4

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)

November 6, 1997

Item	Units <sup>1</sup>	- - - Projected - - -								
		1991	1992	1993	1994	1995	1996	1997	1998	1999
EXPENDITURES										
Nominal GDP	Bill. \$	5916.7	6244.4	6558.1	6947.0	7265.4	7636.0	8084.4	8469.2	8788.2
Real GDP	Bill. Ch. \$	6079.4	6244.4	6389.6	6610.7	6742.1	6928.4	7191.1	7390.6	7511.0
Real GDP	% change	0.4	3.6	2.4	3.3	1.6	3.2	3.8	2.2	1.5
Gross domestic purchases		0.0	4.0	3.0	3.6	1.2	3.6	4.3	2.6	1.7
Final sales		-0.4	3.9	2.1	2.7	2.2	3.1	3.5	2.5	1.7
Priv. dom. final purchases		-0.8	4.9	3.7	3.7	2.5	3.8	4.6	3.5	2.2
Personal cons. expenditures		-0.2	4.2	2.7	3.1	2.2	2.7	3.7	3.2	1.8
Durables		-3.1	9.4	7.4	6.3	3.0	3.9	6.5	5.0	1.8
Nondurables		-1.0	3.4	1.6	3.0	1.0	1.8	2.2	3.1	1.8
Services		0.9	3.6	2.3	2.5	2.7	2.8	3.9	2.9	1.9
Business fixed investment		-6.0	5.5	9.9	7.6	6.5	11.7	10.8	7.5	5.8
Producers' dur. equipment		-2.6	9.6	12.2	10.2	8.3	12.2	15.6	9.2	6.6
Nonres. structures		-12.5	-3.4	4.5	1.1	2.0	10.3	-1.1	3.1	3.3
Residential structures		1.1	16.9	7.8	4.2	-1.9	3.9	4.4	-2.5	-1.2
Exports		8.6	4.1	4.6	10.0	10.3	9.3	12.2	7.2	6.6
Imports		4.1	7.4	10.2	12.3	5.6	11.8	15.8	10.2	7.8
Gov't. cons. & investment		-0.7	1.7	-1.4	0.1	-1.4	2.0	1.1	0.6	0.8
Federal		-3.1	1.3	-6.1	-3.9	-6.0	1.5	-0.7	-2.5	-2.0
Defense		-5.3	-1.3	-6.9	-6.0	-5.9	1.1	-2.1	-4.1	-2.3
State & local		1.0	2.0	2.0	2.7	1.4	2.2	2.1	2.3	2.3
Change in bus. inventories	Bill. Ch. \$	-3.0	7.0	22.1	60.6	27.3	25.0	62.4	43.0	23.7
Nonfarm		-1.2	2.0	29.5	49.0	35.7	22.5	54.8	37.8	19.8
Net exports		-22.3	-29.5	-70.2	-104.6	-98.8	-114.4	-144.5	-187.0	-223.1
Nominal GDP	% change	3.8	6.3	5.0	5.8	4.0	5.6	5.7	4.3	3.6
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	108.3	108.6	110.7	114.1	117.2	119.5	122.2	124.6	125.8
Unemployment rate	%	6.8	7.5	6.9	6.1	5.6	5.4	5.0	4.6	4.9
Industrial prod. index	% change	-0.0	3.9	3.0	5.7	1.8	3.9	5.3	2.3	1.3
Capacity util. rate - mfg.	%	78.0	79.5	80.8	83.1	83.1	82.1	82.9	82.8	81.9
Housing starts	Millions	1.01	1.20	1.29	1.46	1.35	1.48	1.45	1.41	1.38
Light motor vehicle sales		12.52	12.85	13.87	15.02	14.73	15.05	15.02	14.92	14.53
North Amer. produced		9.74	10.51	11.71	12.88	12.82	13.34	13.09	13.09	12.76
Other		2.77	2.34	2.15	2.13	1.90	1.71	1.93	1.83	1.77
INCOME AND SAVING										
Nominal GNP	Bill. \$	5932.4	6255.5	6576.8	6955.2	7270.6	7637.7	8062.6	8433.2	8741.6
Nominal GNP	% change	3.5	6.2	5.1	5.7	4.1	5.5	5.3	4.1	3.5
Nominal personal income		3.7	7.3	4.2	5.1	5.2	5.8	5.7	4.6	4.1
Real disposable income		0.8	4.0	1.5	2.4	2.4	2.0	3.4	2.7	2.0
Personal saving rate	%	6.0	6.2	5.1	4.2	4.8	4.3	3.8	3.5	3.6
Corp. profits, IVA & CCAdj.	% change	4.5	11.3	19.0	14.1	11.0	9.1	9.5	-1.6	-1.6
Profit share of GNP	%	6.9	6.8	7.5	8.2	8.9	9.6	10.0	9.7	9.1
Excluding FR Banks	%	6.6	6.6	7.2	7.9	8.6	9.3	9.7	9.4	8.9
Federal surpl./deficit	Bill. \$	-196.0	-280.9	-250.7	-186.7	-174.4	-110.5	-30.3	-5.8	-20.1
State & local surpl./def.		75.8	86.3	87.4	96.8	103.1	105.3	109.1	114.1	121.0
Ex. social ins. funds		11.5	18.3	19.7	27.9	32.5	34.1	37.7	42.7	39.4
PRICES AND COSTS										
GDP implicit deflator	% change	3.4	2.6	2.6	2.5	2.4	2.2	1.9	2.0	2.1
GDP chn.-wt. price index		3.3	2.6	2.6	2.5	2.4	2.3	1.8	2.0	2.1
Gross Domestic Purchases		2.7	2.7	2.3	2.5	2.3	2.3	1.4	1.9	2.1
chn.-wt. price index		3.0	3.1	2.7	2.7	2.6	3.2	2.0	2.2	2.5
CPI		4.4	3.5	3.1	2.8	3.0	2.6	2.3	2.4	2.5
Ex. food and energy		4.4	3.5	3.1	2.8	3.0	2.6	2.3	2.4	2.5
ECI, hourly compensation <sup>2</sup>		4.4	3.5	3.6	3.1	2.6	3.1	3.2	3.2	3.4
Nonfarm business sector										
Output per hour		2.2	3.5	-0.2	-0.1	0.4	1.2	2.3	0.7	0.9
Compensation per Hour		4.8	4.5	1.8	1.9	2.8	3.3	4.0	3.5	3.6
Unit labor cost		2.5	1.0	2.0	2.0	2.4	2.1	1.6	2.8	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)

November 6, 1997

Item	Units	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	7168.9	7209.5	7301.3	7381.9	7467.5	7607.7	7676.0	7792.9	7933.6	8034.3
Real GDP	Bill. Ch. \$	6703.7	6708.8	6759.2	6796.5	6826.4	6926.0	6943.8	7017.4	7101.6	7159.6
Real GDP	% change	0.9	0.3	3.0	2.2	1.8	6.0	1.0	4.3	4.9	3.3
Gross domestic purchases		1.3	0.2	1.9	1.3	3.1	6.5	2.4	2.5	5.9	3.7
Final sales		1.8	1.9	3.3	2.0	2.6	5.2	0.2	4.5	3.0	2.5
Priv. dom. final purchases		2.5	2.2	2.7	2.5	4.4	5.5	2.1	3.2	5.1	2.9
Personal cons. expenditures		1.5	2.9	2.6	1.8	3.1	3.7	0.5	3.3	5.3	0.9
Durables		-3.0	3.9	9.3	2.0	4.8	9.7	-1.9	3.5	14.1	-5.4
Nondurables		1.7	0.9	0.7	0.7	1.7	2.6	0.6	2.1	4.7	-2.1
Services		2.4	3.7	2.2	2.3	3.5	3.1	1.0	3.9	3.9	3.9
Business fixed investment		14.2	5.7	1.6	4.9	11.7	13.0	16.5	5.9	4.1	14.6
Producers' dur. equipment		16.1	6.2	2.0	9.4	13.1	14.9	19.1	2.6	6.7	23.0
Nonres. structures		9.5	4.3	0.7	-5.8	8.2	7.9	10.0	15.3	-2.1	-4.7
Residential structures		-7.0	-15.5	8.4	8.5	8.3	17.9	-4.5	-4.3	3.3	7.4
Exports		7.2	9.3	13.5	11.5	1.7	9.6	1.9	25.5	9.9	18.4
Imports		10.0	7.7	2.3	2.4	13.1	14.1	13.2	6.8	17.9	20.5
Gov't. cons. & investment		0.6	-0.1	-0.7	-5.4	1.8	7.2	-1.1	0.1	-0.4	3.1
Federal		-1.1	-4.5	-1.3	-16.4	7.5	8.8	-4.2	-5.2	-5.8	6.6
Defense		-1.1	-1.6	-4.0	-15.9	6.1	11.0	-4.6	-7.1	-11.8	7.5
State & local		1.7	2.6	-0.4	1.9	-1.4	6.3	0.7	3.3	2.7	1.2
Change in bus. inventories	Bill. Ch. \$	48.5	21.6	17.0	22.2	8.0	21.3	37.9	32.9	63.7	77.6
Nonfarm		54.7	34.0	29.6	24.4	14.5	17.3	31.6	26.5	58.3	70.1
Net exports		-113.5	-112.8	-92.9	-76.1	-100.8	-112.6	-138.9	-105.6	-126.3	-136.6
Nominal GDP	% change	4.2	2.3	5.2	4.5	4.7	7.7	3.6	6.2	7.4	5.2
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	116.5	116.9	117.4	117.9	118.5	119.2	119.9	120.5	121.1	121.9
Unemployment rate	%	5.5	5.6	5.7	5.6	5.6	5.4	5.3	5.3	5.3	4.9
Industrial prod. index	% change	3.9	-0.7	3.2	0.8	1.6	6.2	3.3	4.5	4.4	4.3
Capacity util. rate - mfg.	%	84.2	83.1	82.9	82.3	81.7	82.1	82.3	82.3	82.5	82.5
Housing starts	Millions	1.32	1.29	1.42	1.41	1.46	1.50	1.49	1.42	1.47	1.46
Light motor vehicle sales		14.67	14.42	14.86	14.96	15.04	15.13	15.08	14.95	15.26	14.51
North Amer. produced		12.66	12.46	13.00	13.18	13.38	13.43	13.38	13.18	13.34	12.67
Other		2.01	1.96	1.86	1.78	1.66	1.70	1.70	1.76	1.92	1.85
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	7175.1	7220.6	7298.3	7388.5	7475.3	7610.5	7669.1	7796.1	7919.2	8013.6
Nominal GNP	% change	4.5	2.6	4.4	5.0	4.8	7.4	3.1	6.8	6.5	4.9
Nominal personal income		7.4	4.1	4.3	5.1	6.8	6.6	5.1	4.8	8.0	5.0
Real disposable income		4.5	0.2	2.6	2.5	3.5	1.1	2.7	0.7	4.6	3.1
Personal saving rate	%	5.3	4.6	4.5	4.6	4.7	4.1	4.5	3.9	3.7	4.2
Corp. profits, IVA & CCAdj.	% change	-2.9	10.0	31.7	7.9	20.0	12.1	0.6	4.5	18.1	8.2
Profit share of GNP	%	8.5	8.7	9.2	9.3	9.6	9.7	9.6	9.6	9.8	9.9
Excluding FR Banks	%	8.2	8.4	8.9	9.0	9.3	9.4	9.4	9.3	9.6	9.6
Federal surpl./deficit	Bill. \$	-191.5	-179.5	-176.5	-150.2	-153.6	-111.6	-99.5	-77.1	-55.5	-36.8
State & local surpl./def.		107.7	105.6	101.1	97.8	104.1	114.4	102.6	100.4	104.7	104.9
Ex. social ins. funds		37.7	35.3	30.3	26.8	33.2	43.1	31.1	28.9	33.5	33.3
<b>PRICES AND COSTS</b>											
GDP implicit deflator	% change	3.3	2.0	2.1	2.2	2.9	1.7	2.6	1.9	2.4	1.8
GDP chn.-wt. price index		3.3	2.1	2.0	2.1	2.8	1.9	2.7	1.9	2.4	1.8
Gross Domestic Purchases		3.0	2.5	1.7	1.9	2.7	1.8	2.4	2.4	1.9	0.8
chn.-wt. price index		2.7	3.5	2.1	2.6	3.2	3.4	2.8	3.3	2.3	1.0
CPI		3.3	3.3	2.8	2.7	2.7	2.7	2.4	2.7	2.2	2.9
Ex. food and energy		2.9	2.6	2.6	2.9	2.5	3.5	2.8	2.8	2.5	3.4
ECI, hourly compensation <sup>1</sup>		2.9	2.6	2.6	2.9	2.5	3.5	2.8	2.8	2.5	3.4
Nonfarm business sector		-1.6	0.8	1.1	1.6	1.9	2.2	-1.0	1.8	1.4	2.7
Output per hour		2.6	3.1	2.7	2.9	2.8	4.4	2.9	3.3	4.5	3.2
Compensation per hour		4.2	2.3	1.6	1.3	0.9	2.1	3.9	1.5	3.1	0.5

1. Private-industry workers.

Strictly Confidential <FR>  
Class II FOMC

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

November 6, 1997

Item	Units	----- Projected -----									
		1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	8131.3	8238.3	8339.0	8431.3	8514.9	8591.7	8672.9	8749.4	8826.5	8903.7
Real GDP	Bill. Ch. \$	7220.7	7282.3	7331.2	7376.0	7412.4	7442.9	7470.4	7498.0	7524.3	7551.4
Real GDP	% change	3.5	3.5	2.7	2.5	2.0	1.7	1.5	1.5	1.4	1.4
Gross domestic purchases		4.6	3.1	3.1	3.0	3.1	1.4	1.9	1.7	2.1	1.1
Final sales		4.7	3.6	3.0	2.8	1.7	2.5	1.5	1.9	1.3	2.2
Priv. dom. final purchases		6.9	3.7	4.3	3.7	3.1	2.7	2.3	2.2	2.1	2.1
Personal cons. expenditures		5.7	3.0	3.7	3.5	3.0	2.5	2.0	1.9	1.7	1.7
Durables		16.7	2.0	6.5	5.9	5.0	2.8	2.7	2.0	1.1	1.5
Nondurables		4.7	1.8	3.8	3.3	2.8	2.5	2.0	1.8	1.6	1.6
Services		4.1	3.8	3.1	3.1	2.7	2.5	1.9	1.9	1.9	1.8
Business fixed investment		16.8	8.0	10.6	7.2	6.1	6.3	6.5	6.1	5.2	5.2
Producers' dur. equipment		22.4	11.2	13.4	8.7	7.2	7.5	7.7	7.1	5.9	5.9
Nonres. structures		2.9	-0.2	3.2	3.2	3.1	3.0	3.3	3.3	3.3	3.3
Residential structures		1.9	5.2	-0.9	-1.7	-3.1	-4.2	-3.5	-2.4	0.2	1.0
Exports		5.5	15.3	7.2	9.1	1.9	10.8	4.3	8.6	3.0	10.5
Imports		14.1	10.9	10.1	12.4	10.3	7.9	7.2	9.2	7.8	7.1
Gov't. cons. & investment		1.0	0.8	-1.0	1.3	1.6	0.4	0.1	1.1	1.4	0.5
Federal		-1.2	-2.0	-6.6	-0.6	0.4	-3.0	-3.9	-1.1	-0.2	-2.7
Defense		1.1	-4.1	-10.7	-1.5	0.0	-3.9	-5.3	-1.0	0.5	-3.5
State & local		2.2	2.4	2.3	2.3	2.3	2.3	2.3	2.2	2.2	2.3
Change in bus. inventories	Bill. Ch. \$	55.4	53.1	49.1	43.1	48.0	31.7	31.3	24.2	26.5	12.7
Nonfarm		46.4	44.4	42.3	37.8	43.6	27.8	27.4	20.4	22.7	8.9
Net exports		-160.4	-154.8	-165.5	-178.4	-203.7	-200.2	-211.3	-217.3	-234.4	-229.3
Nominal GDP	% change	4.9	5.4	5.0	4.5	4.0	3.7	3.8	3.6	3.6	3.5
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	122.5	123.2	123.8	124.4	124.9	125.2	125.5	125.8	125.9	126.2
Unemployment rate	%	4.9	4.8	4.7	4.6	4.6	4.7	4.7	4.8	5.0	5.1
Industrial prod. index	% change	7.0	5.7	3.7	2.6	1.7	1.0	1.5	1.4	0.9	1.4
Capacity util. rate - mfg.	%	83.2	83.4	83.2	83.0	82.7	82.2	82.1	82.0	81.8	81.7
Housing starts	Millions	1.45	1.43	1.43	1.42	1.40	1.39	1.37	1.37	1.38	1.38
Light motor vehicle sales		15.34	14.98	15.04	14.99	14.88	14.75	14.65	14.55	14.47	14.44
North Amer. produced		13.31	13.03	13.18	13.15	13.06	12.95	12.87	12.78	12.71	12.67
Other		2.03	1.94	1.86	1.84	1.82	1.80	1.78	1.77	1.76	1.77
INCOME AND SAVING											
Nominal GNP	Bill. \$	8107.6	8209.9	8308.2	8397.9	8476.8	8550.0	8629.9	8705.4	8778.9	8852.4
Nominal GNP	% change	4.8	5.1	4.9	4.4	3.8	3.5	3.8	3.5	3.4	3.4
Nominal personal income		4.8	5.3	5.7	4.5	4.3	3.9	5.1	3.8	3.7	3.7
Real disposable income		2.9	3.1	5.2	2.2	1.9	1.6	4.4	1.3	1.1	1.3
Personal saving rate	%	3.5	3.6	3.9	3.6	3.4	3.2	3.8	3.6	3.5	3.4
Corp. profits, IVA & CCAdj.	% change	11.3	1.0	1.2	0.1	-3.5	-3.9	-3.0	-1.3	-0.6	-1.5
Profit share of GNP	%	10.1	10.0	9.9	9.8	9.6	9.4	9.3	9.2	9.1	9.0
Excluding FR Banks	%	9.8	9.7	9.6	9.5	9.3	9.2	9.0	8.9	8.8	8.7
Federal surpl./deficit	Bill. \$	-20.7	-8.1	-14.0	-4.3	1.1	-6.0	-23.2	-18.8	-15.3	-23.1
State & local surpl./def.		113.2	113.6	114.3	114.4	113.5	114.3	113.2	111.7	110.1	108.9
Ex. social ins. funds		41.8	42.2	42.9	42.9	42.0	42.8	41.6	40.1	38.5	37.3
PRICES AND COSTS											
GDP implicit deflator	% change	1.4	1.9	2.2	2.0	2.0	2.0	2.3	2.1	2.1	2.1
GDP chn.-wt. price index		1.4	1.7	2.2	2.0	2.0	2.0	2.3	2.1	2.1	2.1
Gross Domestic Purchases		1.2	1.5	1.8	1.8	1.9	1.9	2.2	2.0	2.0	2.0
chn.-wt. price index		2.0	2.4	2.0	2.2	2.3	2.4	2.5	2.5	2.5	2.5
CPI		1.7	2.4	2.4	2.4	2.4	2.5	2.5	2.5	2.5	2.6
Ex. food and energy											
ECI, hourly compensation <sup>1</sup>		3.4	3.5	3.3	3.2	3.3	3.2	3.0	3.5	3.6	3.6
Nonfarm business sector											
Output per hour		3.0	1.8	0.8	0.7	0.5	0.6	0.6	0.9	1.1	1.2
Compensation per hour		4.3	3.7	3.6	3.5	3.5	3.6	3.6	3.6	3.7	3.7
Unit labor cost		1.3	1.8	2.7	2.8	3.0	2.9	3.0	2.7	2.5	2.5

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

November 6, 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	4.9	3.3	3.5	3.5	2.7	2.5	2.0	1.7	3.2	3.8	2.2
Gross dom. purchases	2.5	6.0	3.7	4.6	3.1	3.2	3.0	3.1	1.4	3.6	4.3	2.7
Final sales	4.5	3.0	2.5	4.7	3.6	2.9	2.8	1.7	2.5	3.1	3.4	2.5
Priv. dom. final purchases	2.7	4.2	2.4	5.6	3.1	3.6	3.1	2.6	2.2	3.1	3.8	2.9
Personal cons. expenditures	2.2	3.6	0.6	3.8	2.0	2.5	2.4	2.0	1.7	1.8	2.5	2.2
Durables	0.3	1.1	-0.5	1.3	0.2	0.5	0.5	0.4	0.2	0.3	0.5	0.4
Nondurables	0.4	0.9	-0.4	0.9	0.3	0.7	0.6	0.5	0.5	0.4	0.4	0.6
Services	1.5	1.5	1.5	1.6	1.5	1.3	1.3	1.1	1.0	1.1	1.6	1.2
Business fixed investment	0.6	0.4	1.4	1.7	0.8	1.1	0.8	0.7	0.7	1.1	1.1	0.8
Producers' dur. equip.	0.2	0.5	1.6	1.6	0.8	1.0	0.7	0.6	0.6	0.9	1.1	0.7
Nonres. structures	0.4	-0.1	-0.1	0.1	-0.0	0.1	0.1	0.1	0.1	0.3	-0.0	0.1
Residential structures	-0.2	0.1	0.3	0.1	0.2	-0.0	-0.1	-0.1	-0.2	0.2	0.2	-0.1
Net exports	1.8	-1.0	-0.4	-1.1	0.3	-0.4	-0.5	-1.1	0.2	-0.4	-0.6	-0.5
Exports	2.7	1.1	2.0	0.6	1.7	0.8	1.1	0.2	1.3	1.0	1.4	0.9
Imports	-0.8	-2.1	-2.5	-1.8	-1.4	-1.3	-1.6	-1.3	-1.0	-1.4	-1.9	-1.3
Government cons. & invest.	0.0	-0.1	0.6	0.2	0.1	-0.2	0.2	0.3	0.1	0.4	0.2	0.1
Federal	-0.4	-0.4	0.4	-0.1	-0.1	-0.4	-0.0	0.0	-0.2	0.1	-0.0	-0.2
Defense	-0.3	-0.6	0.3	0.0	-0.2	-0.5	-0.1	0.0	-0.2	0.0	-0.1	-0.2
Nondefense	0.0	0.2	0.1	-0.1	0.1	0.0	0.0	0.0	-0.0	0.1	0.0	0.0
State and local	0.4	0.3	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3
Change in bus. inventories	-0.2	1.8	0.8	-1.1	-0.1	-0.2	-0.3	0.3	-0.9	0.1	0.3	-0.3
Nonfarm	-0.2	1.8	0.7	-1.2	-0.1	-0.1	-0.2	0.3	-0.8	0.0	0.2	-0.2
Farm	-0.1	0.0	0.1	0.1	-0.0	-0.1	-0.1	-0.0	-0.0	0.1	0.0	-0.1

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

Item	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	97Q4/ 96Q4	98Q4/ 97Q4	99Q4/ 98Q4
Real GDP	3.5	2.7	2.5	2.0	1.7	1.5	1.5	1.4	1.4	3.8	2.2	1.5
Gross dom. purchases	3.1	3.2	3.0	3.1	1.4	1.9	1.7	2.1	1.2	4.3	2.7	1.7
Final sales	3.6	2.9	2.8	1.7	2.5	1.5	1.9	1.3	2.2	3.4	2.5	1.7
Priv. dom. final purchases	3.1	3.6	3.1	2.6	2.2	1.9	1.9	1.7	1.8	3.8	2.9	1.8
Personal cons. expenditures	2.0	2.5	2.4	2.0	1.7	1.4	1.3	1.2	1.2	2.5	2.2	1.3
Durables	0.2	0.5	0.5	0.4	0.2	0.2	0.2	0.1	0.1	0.5	0.4	0.1
Nondurables	0.3	0.7	0.6	0.5	0.5	0.4	0.4	0.3	0.3	0.4	0.6	0.3
Services	1.5	1.3	1.3	1.1	1.0	0.8	0.8	0.8	0.7	1.6	1.2	0.8
Business fixed investment	0.8	1.1	0.8	0.7	0.7	0.7	0.7	0.6	0.6	1.1	0.8	0.6
Producers' dur. equip.	0.8	1.0	0.7	0.6	0.6	0.6	0.6	0.5	0.5	1.1	0.7	0.5
Nonres. structures	-0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-0.0	0.1	0.1
Residential structures	0.2	-0.0	-0.1	-0.1	-0.2	-0.1	-0.1	0.0	0.0	0.2	-0.1	-0.0
Net exports	0.3	-0.4	-0.5	-1.1	0.2	-0.4	-0.2	-0.7	0.3	-0.6	-0.5	-0.3
Exports	1.7	0.8	1.1	0.2	1.3	0.5	1.0	0.4	1.3	1.4	0.9	0.8
Imports	-1.4	-1.3	-1.6	-1.3	-1.0	-1.0	-1.2	-1.1	-1.0	-1.9	-1.3	-1.1
Government cons. & invest.	0.1	-0.2	0.2	0.3	0.1	0.0	0.2	0.2	0.1	0.2	0.1	0.1
Federal	-0.1	-0.4	-0.0	0.0	-0.2	-0.2	-0.1	-0.0	-0.2	-0.0	-0.2	-0.1
Defense	-0.2	-0.5	-0.1	0.0	-0.2	-0.2	-0.0	0.0	-0.1	-0.1	-0.2	-0.1
Nondefense	0.1	0.0	0.0	0.0	-0.0	-0.0	-0.0	-0.0	-0.0	0.0	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	-0.1	-0.2	-0.3	0.3	-0.9	-0.0	-0.4	0.1	-0.7	0.3	-0.3	-0.2
Nonfarm	-0.1	-0.1	-0.2	0.3	-0.8	-0.0	-0.4	0.1	-0.7	0.2	-0.2	-0.2
Farm	-0.0	-0.1	-0.1	-0.0	-0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0

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

Item	Fiscal year <sup>5</sup>				1997				1998				1999			
	1996 <sup>a</sup>	1997	1998	1999	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
Not seasonally adjusted																
Receipts <sup>1</sup>	1453	1579	1654	1716	349	496	387	372	368	516	398	392	373	529	422	392
Outlays <sup>1</sup>	1560	1602	1681	1741	401	396	399	425	419	416	420	470	406	430	436	450
Surplus/deficit <sup>1</sup>	-107	-23	-26	-25	-52	100	-12	-53	-51	100	-22	-77	-32	99	-15	-57
On-budget	-174	-103	-118	-130	-69	61	-19	-76	-66	54	-31	-72	-81	48	-25	-85
Off-budget	67	81	92	105	17	39	8	23	14	46	9	-5	48	51	11	27
Surplus excluding deposit insurance <sup>2</sup>	-116	-37	-31	-29	-56	97	-13	-54	-52	99	-24	-78	-33	98	-15	-58
Means of financing																
Borrowing	130	38	41	38	48	-69	11	38	47	-82	38	44	46	-81	29	41
Cash decrease	-6	1	4	0	-1	-18	8	15	10	-16	-5	20	0	-15	-5	10
Other <sup>3</sup>	-16	-16	-18	-12	5	-13	-7	0	-6	-3	-10	14	-14	-3	-10	6
Cash operating balance, end of period	44	44	40	40	33	51	44	29	19	35	40	20	20	35	40	30
NIPA FEDERAL SECTOR																
Seasonally adjusted annual rate																
Receipts	1550	1690	1783	1829	1675	1709	1735	1764	1770	1790	1808	1819	1818	1832	1848	1859
Expenditures	1679	1738	1789	1845	1731	1746	1756	1772	1784	1794	1807	1825	1841	1851	1863	1882
Consumption expend.	447	460	465	471	458	464	465	462	465	466	469	467	471	472	473	472
Defense	302	309	307	308	306	311	312	307	307	307	308	307	308	309	310	309
Nondefense	145	151	158	162	152	153	153	154	158	159	160	161	163	163	163	163
Other expenditures	1232	1278	1324	1374	1273	1282	1291	1310	1319	1328	1338	1350	1370	1380	1390	1410
Current account surplus	-129	-48	-6	-16	-56	-37	-21	-8	-14	-4	1	-6	-23	-19	-15	-23
Gross investment	69	61	59	57	58	62	60	63	58	58	58	58	57	57	57	57
Current and capital account surplus	-197	-109	-66	-73	-114	-99	-81	-71	-72	-62	-57	-64	-80	-76	-73	-80
FISCAL INDICATORS <sup>4</sup>																
High-employment (HEB) surplus/deficit	-220	-170	-159	-155	-170	-167	-160	-159	-164	-159	-154	-157	-166	-155	-144	-143
Change in HEB, percent of potential GDP	-.6	-.7	-.1	0	-.2	0	-.1	0	.1	-.1	-.1	0	.1	-.1	-.1	0
Fiscal impetus (FI), percent, cal. year	-2.3	-1.8	-2.1	-1.4	-1.1	1.5	.3	-1.7	-.6	-.4	0	-1.8	1	-.6	-.4	-1.5

1. OMB's September 1997 deficit estimates (assuming the enactment of the President's proposals) are \$58 billion in FY98 and \$57 billion in FY99. CBO's September 1997 baseline deficit estimates are \$57 billion in FY98 and \$52 billion in FY99. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's September 1997 deficit estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are \$63 billion in FY98 and \$59 billion in FY99. CBO's September 1997 baseline deficit estimates, excluding deposit insurance, are \$61 billion in FY98 and \$56 billion in FY99.

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

4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Real potential GDP growth is assumed to rise from 2.2 percent in 1996 to 2.5 percent in 1999, reflecting CPI modifications. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1992) dollars, scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.

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

a--Actual.

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November 6, 1997

Change in Debt of the Domestic Nonfinancial Sectors  
(Percent)

Period <sup>1</sup>	Total <sup>2</sup>	Federal government <sup>3</sup>	Nonfederal						Memo: Nominal GDP
			Total <sup>4</sup>	Households			Business	State and local governments	
				Total	Home mortgages	Consumer credit			
<i>Year</i>									
1987	9.2	8.0	9.6	12.0	15.9	5.1	6.9	12.1	7.4
1988	8.9	8.0	9.2	9.5	10.7	8.6	9.8	6.5	7.6
1989	7.6	7.0	7.8	8.5	9.9	6.0	7.7	5.7	6.4
1990	6.5	11.0	5.3	7.5	9.6	1.9	3.3	5.1	4.4
1991	4.3	11.1	2.3	4.9	6.6	-1.7	-1.8	8.4	3.8
1992	4.8	10.9	2.8	5.1	6.0	0.5	0.6	2.0	6.3-
1993	5.2	8.3	4.1	6.2	5.3	7.7	1.5	5.7	5.0
1994	4.8	4.7	4.8	8.2	6.4	14.5	3.7	-4.0	5.8
1995	5.3	4.1	5.8	7.8	6.0	14.2	6.2	-3.8	4.0
1996	5.2	4.0	5.6	7.4	7.9	7.6	4.7	1.2	5.6
1997	4.6	0.7	6.0	6.1	6.4	5.4	6.1	5.3	5.7
1998	4.9	1.2	6.1	5.7	6.2	5.1	7.0	4.5	4.3
1999	4.4	0.9	5.5	5.0	5.8	3.7	6.5	3.7	3.6
<i>Quarter</i>									
1997:1	4.7	2.1	5.6	6.4	6.5	7.1	5.3	3.2	7.4
2	3.7	-2.6	5.9	5.5	5.4	4.2	6.0	7.7	5.2
3	4.6	1.1	5.8	6.0	6.6	4.4	6.1	3.9	4.9
4	5.2	2.2	6.2	5.9	6.5	5.4	6.6	5.9	5.4
1998:1	4.9	1.9	5.9	5.7	6.2	5.4	6.6	3.8	5.0
2	3.8	-3.5	6.3	5.6	6.1	5.2	6.7	7.7	4.5
3	5.4	3.8	5.9	5.5	5.9	4.9	7.0	3.6	4.0
4	5.1	2.7	5.9	5.4	5.9	4.6	7.2	2.5	3.7

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1997: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.

2. On a monthly average basis, total debt grew 4.5 percent in 1997, 4.9 percent in 1998, and 4.5 percent in 1999.

3. On a monthly average basis, federal debt rose 0.7 percent in 1997, 1.2 percent in 1998, and 1.2 percent in 1999.

4. On a monthly average basis, nonfederal debt increased 5.8 percent in 1997, 6.2 percent in 1998, and 5.6 percent in 1999.

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

Category					Seasonally adjusted annual rates							
	Calendar year				1997				1998			
	1996	1997	1998	1999	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>												
1 Total	651.1	588.9	626.8	611.3	600.0	461.1	590.1	704.7	647.5	485.7	702.7	671.4
2 Net equity issuance	-64.2	-83.4	-116.0	-91.0	-86.2	-83.6	-92.4	-71.2	-94.0	-102.0	-138.0	-130.0
3 Net debt issuance	715.3	672.3	742.8	702.3	686.2	544.7	682.5	775.9	741.5	587.7	840.7	801.4
<i>Borrowing sectors</i>												
<i>Nonfinancial business</i>												
4 Financing gap <sup>1</sup>	8.4	55.8	101.1	136.3	36.1	82.6	42.3	62.1	89.8	95.4	110.5	108.6
5 Net equity issuance	-64.2	-83.4	-116.0	-91.0	-86.2	-83.6	-92.4	-71.2	-94.0	-102.0	-138.0	-130.0
6 Credit market borrowing	193.9	269.1	327.5	325.5	234.5	266.4	273.0	302.6	306.8	315.3	335.5	352.5
<i>Households</i>												
7 Net borrowing <sup>2</sup>	363.8	318.2	317.3	296.6	335.5	291.1	324.6	321.7	319.7	318.9	316.6	314.3
8 Home mortgages	263.9	229.7	235.8	235.4	233.0	195.9	244.0	245.8	237.4	235.9	234.3	235.4
9 Consumer credit	86.3	65.2	65.7	50.3	85.9	52.4	55.0	67.6	69.1	68.0	64.5	61.3
10 Debt/DPI (percent) <sup>3</sup>	90.5	91.9	92.6	93.4	91.3	91.8	92.1	92.3	92.1	92.4	92.8	93.2
<i>State and local governments</i>												
11 Net borrowing	12.7	57.5	51.3	44.6	35.0	84.2	44.0	66.8	44.0	88.4	42.8	30.0
12 Current surplus <sup>4</sup>	126.1	124.1	124.3	120.3	115.8	123.7	130.5	126.4	124.9	124.8	123.5	124.2
<i>Federal government</i>												
13 Net borrowing	145.0	27.5	46.7	35.6	81.2	-97.1	40.9	84.8	71.1	-134.9	145.9	104.7
14 Net borrowing (quarterly, n.s.a.)	145.0	27.5	46.7	35.6	48.0	-69.2	10.6	38.0	47.2	-81.9	37.6	43.7
15 Unified deficit (quarterly, n.s.a.)	110.9	16.4	50.7	5.5	52.0	-100.1	11.5	53.0	51.2	-100.3	22.5	77.3
<i>Depository institutions</i>												
16 Funds supplied	233.2	255.9	275.8	275.7	330.6	370.2	166.4	156.7	262.0	267.0	272.8	301.4
<i>Memo (percentage of GDP)</i>												
17 Domestic nonfinancial debt <sup>5</sup>	185.2	183.5	183.6	185.1	183.9	183.5	183.2	183.0	183.1	183.0	183.3	184.1
18 Domestic nonfinancial borrowing	9.4	8.3	8.8	8.0	8.6	6.8	8.4	9.4	8.9	7.0	9.9	9.3
19 Federal government <sup>6</sup>	1.9	0.3	0.6	0.4	1.0	-1.2	0.5	1.0	0.9	-1.6	1.7	1.2
20 Nonfederal	7.5	8.0	8.2	7.6	7.6	8.0	7.9	8.4	8.0	8.6	8.2	8.1

Note. Data after 1997:Q2 are staff projections.

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

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

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

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

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

6. Excludes government-insured mortgage pool securities.

fighting between Kurdish factions in northern Iraq, and continued problems between Iraqi defense agencies and U.N. inspectors contributed to the increase in prices. WTI has been trading in the \$20-\$21 per barrel range in recent days.

### Outlook

We project that the growth of total foreign real GDP (weighted by U.S. export shares) will slow from an average rate of 3-3/4 percent during the first three quarters of 1997 to 3-1/4 percent in the fourth quarter and to 3 percent next year, before picking up again in 1999. The near-term slowing is primarily because of a sharp deceleration among Asian developing countries as a result of the turmoil in financial markets. We anticipate that offsetting influences will keep the dollar from moving appreciably from its recent level against other G-10 currencies. However, the net appreciation of the dollar over the past year will continue to depress real net exports. Although the growth projected for U.S. real income remains less than that of foreign real income, we continue to expect that imports will expand faster than exports. As a consequence, our outlook has net exports subtracting 1/2 percentage point from annual real GDP in 1998 and 1/3 percentage point in 1999. Developments directly associated with financial market turbulence in Asia have depressed the growth in real net exports over the forecast period, especially during the year ahead; these effects are partly offset by stimulus resulting from the recent decline in the dollar against European currencies.

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

Measure	1997			1998	1999
	H1	Q3	Q4		
Foreign output	3.8	4.0	3.3	2.8	3.5
Previous	3.8	4.0	4.0	3.9	3.6
Real exports	14.1	5.5	15.3	7.2	6.6
Previous	14.9	4.9	14.7	7.6	6.1
Real imports	19.2	14.1	10.9	10.2	7.8
Previous	19.2	12.0	9.6	9.2	7.0

**Effects of turmoil in emerging financial markets.** Rising interest rates, fiscal contraction, financial-sector weakness, and the likely disruption of investment in many emerging markets in Asia have led us to revise down the average rate of GDP growth for Asian developing countries through the end of 1998 by nearly 4 percentage points

Prices should then rise to \$21.00 per barrel (consistent with an import price of \$18.50 per barrel) by the end of 1999 as consumption demand grows and supply is restrained by difficulties non-OPEC producers face bringing new fields on line within their planned time frame.

**Prices of non-oil imports and exports.** The prices of non-oil imports of core goods are expected to begin rising over the forecast period at a rate that will increase over time. The projected acceleration in core import prices results in part from the switch from dollar appreciation earlier this year to a flat dollar over the period ahead. In addition, projected declines in non-oil commodity prices through 1998 hold down core import prices in the near term but not in late 1998 and 1999. Prices of core nonagricultural exports are also projected to decline in the near term and to rise subsequently at an increasing rate in line with comparable U.S. domestic prices.

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

Trade category	1997: H1	Projection			
		1997		1998	1999
		Q3	Q4		
<i>Exports</i>					
Nonagricultural (core)	.9	.8	-.9	.8	1.4
Agricultural	.1	-6.3	-7.9	-3.6	2.2
<i>Imports</i>					
Non-oil (core)	-1.3	.3	-2.6	-.3	.8
Oil (level, dollars per barrel)	18.00	17.50	17.90	17.19	18.50

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

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

**Nominal trade and current account balances.** The nominal trade deficit on goods and services is expected to widen from \$107 billion in the second quarter of 1997 to \$155 billion at the end of 1999. The deficit on net investment income is projected to increase by \$30 billion over that same interval. We project that the current account deficit will average \$170 billion, or 2.1 percent of GDP, this year but will widen to \$235 billion, or 2.7 percent of GDP, in 1999.

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

Measure and country							----- Projected -----		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
REAL GDP									
Canada	0.0	0.5	3.1	4.9	0.7	2.3	4.3	2.9	2.3
Japan	2.5	0.1	0.4	0.8	2.6	3.0	-0.2	2.0	2.3
United Kingdom	-1.6	0.4	2.7	4.9	2.0	2.9	3.5	1.7	1.6
EU-11 Average (1)	2.1	0.1	-0.1	3.5	1.4	1.9	2.9	2.5	3.0
of which:									
France	1.3	-0.0	-0.5	4.2	0.3	2.2	2.8	2.3	2.5
Germany (2)	3.3	0.9	-0.2	3.4	0.7	2.1	2.8	2.4	3.2
Italy	1.9	-0.8	0.1	2.7	2.3	0.3	2.5	2.2	3.0
Foreign G-7 Average weighted by 1991 GDP	1.7	0.2	0.6	2.8	1.7	2.3	1.9	2.2	2.5
Average weighted by share of U.S. nonagricultural exports									
Total foreign	2.9	1.9	3.2	5.1	2.0	4.1	3.7	2.8	3.5
Foreign G-7	0.8	0.3	1.8	3.9	1.3	2.4	3.0	2.5	2.3
Developing Countries	6.4	5.1	5.9	7.0	2.6	6.7	4.7	3.2	5.4
CONSUMER PRICES									
Canada	4.1	1.8	1.8	0.0	2.1	2.0	1.8	2.0	2.0
Japan	3.2	0.9	1.2	0.8	-0.8	0.1	2.0	0.6	0.8
United Kingdom (3)	5.7	3.7	2.7	2.2	2.9	3.2	2.6	2.8	2.9
EU-11 Average (4)	NA	NA	NA	NA	2.7	2.0	1.6	2.0	2.1
of which:									
France	3.0	1.8	2.1	1.6	1.9	1.7	1.4	1.8	1.9
Germany (2)	4.0	3.4	4.2	2.6	1.7	1.4	2.0	2.1	2.2
Italy	6.1	4.9	4.1	3.8	5.9	2.7	1.8	2.0	2.5
Foreign G-7 Average weighted by 1991 GDP	4.1	2.4	2.5	1.8	1.6	1.5	1.9	1.6	1.8
Average weighted by share of U.S. non-oil imports	3.9	1.9	2.0	1.0	1.1	1.3	1.9	1.5	1.6

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

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

Measure and country	1997				Projected 1998				1999			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>REAL GDP</b>												
Canada	3.7	4.9	4.8	3.8	3.2	3.0	2.8	2.6	2.5	2.5	2.3	2.1
Japan	5.7	-11.2	2.4	3.2	2.1	1.9	2.0	2.0	2.3	2.3	2.3	2.3
United Kingdom	3.4	4.0	4.0	2.6	1.9	1.8	1.7	1.6	1.8	1.6	1.6	1.5
EU-11 Average (1)	0.9	4.8	3.3	2.4	2.4	2.4	2.5	2.5	3.0	2.9	3.1	2.9
of which:												
France	1.3	4.1	3.7	2.2	2.2	2.2	2.4	2.5	2.5	2.5	2.5	2.5
Germany	1.2	4.1	3.4	2.3	2.4	2.3	2.5	2.5	3.2	3.2	3.3	3.2
Italy	-1.1	6.7	2.5	2.0	2.1	2.1	2.3	2.3	2.6	2.6	3.5	3.5
Foreign G-7 Average weighted by 1991 GDP	2.8	-0.8	3.2	2.7	2.2	2.1	2.2	2.2	2.5	2.5	2.6	2.5
Average weighted by share of U.S. nonagricultural exports												
Total foreign	3.3	4.3	4.0	3.3	2.7	2.7	2.8	3.0	3.5	3.5	3.5	3.6
Foreign G-7	3.6	1.2	4.0	3.3	2.6	2.5	2.4	2.3	2.4	2.4	2.3	2.2
Developing Countries	3.8	7.7	4.2	3.4	2.6	3.0	3.2	3.8	4.9	5.3	5.5	5.9
<b>CONSUMER PRICES (2)</b>												
Canada	2.1	1.6	1.7	1.8	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0
Japan	0.0	1.5	1.7	2.0	2.0	0.5	0.2	0.6	0.8	0.8	0.8	0.8
United Kingdom (3)	2.9	2.6	2.8	2.6	2.6	2.7	2.7	2.8	2.8	2.9	2.9	2.9
EU-11 Average (4)	1.7	1.2	1.5	1.6	1.9	1.8	2.0	2.0	2.1	2.1	2.2	2.1
of which:												
France	1.5	0.9	1.3	1.4	1.6	1.5	1.8	1.8	1.9	1.9	1.9	1.9
Germany	1.7	1.6	1.9	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.2	2.2
Italy	2.4	1.6	1.5	1.8	2.0	2.0	2.1	2.0	2.3	2.3	2.5	2.5
Foreign G-7 Average weighted by 1991 GDP	1.4	1.6	1.8	1.9	2.0	1.5	1.5	1.6	1.7	1.8	1.8	1.8
Average weighted by share of U.S. non-oil imports	1.3	1.6	1.8	1.9	2.0	1.4	1.4	1.5	1.6	1.6	1.6	1.6

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1991	1992	1993	1994	1995	1996	----- 1997	Projected 1998	----- 1999
<hr/>									
NIPA REAL EXPORTS and IMPORTS	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	0.4	-0.4	-0.6	-0.4	0.4	-0.4	-0.6	-0.5	-0.3
Exports of G&S	0.8	0.4	0.5	1.0	1.1	1.0	1.4	0.9	0.8
Imports of G&S	-0.4	-0.8	-1.1	-1.4	-0.7	-1.4	-1.9	-1.3	-1.1
Percentage change, Q4/Q4									
Exports of G&S	8.6	4.1	4.6	10.0	10.3	9.3	12.2	7.2	6.6
Services	7.1	-0.9	4.1	6.0	9.0	4.7	3.4	2.3	2.8
Agricultural Goods	10.1	10.4	-5.5	16.6	-3.4	5.7	1.7	0.5	2.4
Computers	21.7	25.2	23.7	32.0	55.7	33.8	71.0	45.8	42.6
Semiconductors	41.8	64.8	32.9	66.9	80.4	45.9	33.8	41.2	41.2
Other Goods 1/	7.0	2.3	3.6	6.9	5.7	7.6	12.4	4.6	2.2
Imports of G&S	4.1	7.4	10.2	12.3	5.6	11.8	15.8	10.2	7.8
Services	-2.7	1.4	3.2	1.4	7.3	5.0	11.3	2.8	2.3
Oil	8.1	12.1	10.1	-0.2	1.5	8.3	0.8	3.2	1.7
Computers	35.9	45.1	39.3	44.8	46.2	23.6	59.5	40.5	38.6
Semiconductors	55.3	42.0	34.2	54.5	92.7	57.9	44.9	41.2	41.2
Other Goods 2/	2.5	5.4	9.5	12.2	-1.2	10.5	13.5	8.1	4.4
Billions of chained 1992 dollars									
Net Goods & Services	-22.3	-29.5	-70.2	-104.6	-98.8	-114.4	-144.5	-187.0	-223.1
Exports of G&S	599.9	639.4	658.2	712.4	791.2	857.0	967.9	1055.0	1123.6
Imports of G&S	622.2	669.0	728.4	817.0	890.1	971.5	1112.4	1241.9	1346.7
<hr/>									
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-4.5	-55.4	-90.5	-133.5	-129.1	-148.2	-169.3	-198.5	-233.5
Net Goods & Services (BOP)	-29.9	-38.3	-72.0	-104.4	-101.9	-111.0	-114.1	-127.4	-151.9
Exports of G&S (BOP)	580.7	617.7	643.0	699.7	794.6	848.8	935.2	1004.6	1068.8
Imports of G&S (BOP)	610.6	655.9	715.0	804.1	896.5	959.9	1049.2	1132.0	1220.7
Net Investment Income	20.3	18.0	19.7	9.7	6.8	2.8	-15.3	-29.4	-39.9
Direct, Net	55.6	51.6	55.7	50.8	60.0	66.8	68.4	67.4	72.7
Portfolio, Net	-35.4	-33.6	-36.0	-41.0	-53.2	-63.9	-83.7	-96.8	-112.6
Net Transfers	5.1	-35.2	-38.1	-38.8	-34.0	-40.0	-40.0	-41.8	-41.8

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1994				1995				1996			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.0	-0.3	-0.4	0.3	-0.4	0.1	1.2	1.0	-1.3	-0.6	-1.4	1.8
Exports of G&S	-0.2	1.7	1.1	1.5	0.8	1.0	1.4	1.3	0.2	1.1	0.2	2.6
Imports of G&S	-0.8	-2.0	-1.5	-1.2	-1.2	-0.9	-0.3	-0.3	-1.5	-1.7	-1.6	-0.8
Percentage change from previous period, SAAR												
Exports of G&S	-1.8	17.7	10.6	14.7	7.2	9.3	13.5	11.5	1.7	9.6	1.9	25.5
Services	2.4	12.9	2.0	6.9	6.0	3.8	20.3	6.6	-3.8	9.7	0.3	13.5
Agricultural Goods	-25.2	8.1	45.3	57.2	-1.3	-17.5	19.7	-10.7	12.5	-34.3	13.1	49.2
Computers	21.4	24.3	35.5	48.4	34.9	41.0	89.6	63.1	46.2	31.8	29.2	28.7
Semiconductors	111.8	23.4	65.9	79.1	72.0	97.0	100.3	56.2	19.9	28.3	37.6	113.8
Other Goods 1/	-6.8	20.3	7.4	8.6	2.9	8.2	1.0	11.0	-1.2	13.3	-3.1	23.9
Imports of G&S	7.6	19.0	13.1	9.9	10.0	7.7	2.3	2.4	13.1	14.1	13.2	6.8
Services	2.7	4.1	-0.4	-0.9	24.4	-4.0	8.4	2.2	14.6	2.7	1.2	2.1
Oil	-8.6	27.2	33.5	-36.2	-8.1	12.5	28.0	-19.7	-7.6	67.2	10.6	-19.6
Computers	32.9	48.3	42.3	57.0	8.1	57.3	65.8	61.8	6.4	30.7	26.9	32.0
Semiconductors	60.7	23.7	74.4	64.3	29.6	108.0	157.1	98.8	30.4	10.3	75.5	146.4
Other Goods 2/	6.9	19.6	10.3	12.5	7.3	2.2	-10.0	-3.6	14.5	11.1	12.2	4.3
Billions of chained 1992 dollars												
Net Goods & Services	-97.6	-103.9	-111.1	-105.9	-113.5	-112.8	-92.9	-76.1	-100.8	-112.6	-138.9	-105.6
Exports of G&S	676.0	704.1	722.1	747.3	760.4	777.4	802.4	824.6	828.2	847.4	851.4	901.1
Imports of G&S	773.6	808.0	833.2	853.2	873.9	890.3	895.4	900.7	929.0	960.0	990.2	1006.6
Billions of dollars												
US CURRENT ACCOUNT BALANCE	-104.6	-128.0	-145.5	-156.1	-138.8	-142.8	-132.5	-102.2	-131.5	-142.3	-171.3	-147.5
Net Goods & Services (BOP)	-90.6	-101.5	-114.0	-111.6	-113.2	-123.2	-95.5	-75.5	-98.2	-111.1	-130.1	-104.8
Exports of G&S (BOP)	662.5	688.4	710.9	736.8	761.5	785.9	806.4	824.6	828.4	848.6	840.3	878.0
Imports of G&S (BOP)	753.1	789.9	824.9	848.4	874.7	909.1	901.9	900.1	926.6	959.7	970.4	982.8
Net Investment Income	17.9	10.6	7.2	3.3	8.2	12.9	-1.6	7.8	8.2	3.5	-5.5	5.0
Direct, Net	51.7	48.9	51.0	51.5	57.6	64.1	53.9	64.5	66.2	64.2	60.3	76.4
Portfolio, Net	-33.8	-38.3	-43.8	-48.2	-49.4	-51.3	-55.5	-56.7	-57.9	-60.7	-65.7	-71.4
Net Transfers	-31.9	-37.1	-38.7	-47.7	-33.8	-32.5	-35.4	-34.5	-41.6	-34.8	-35.8	-47.7

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

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

November 6, 1997

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	----- Projected -----											
	1997				1998				1999			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.0	-0.4	-1.1	0.3	-0.4	-0.5	-1.1	0.2	-0.4	-0.2	-0.7	0.3
Exports of G&S	1.1	2.0	0.6	1.7	0.8	1.1	0.2	1.3	0.5	1.0	0.4	1.3
Imports of G&S	-2.1	-2.5	-1.8	-1.4	-1.3	-1.6	-1.3	-1.0	-1.0	-1.2	-1.1	-1.0
Percentage change from previous period, SAAR												
Exports of G&S	9.9	18.4	5.5	15.3	7.2	9.1	1.9	10.8	4.3	8.6	3.0	10.5
Services	3.7	3.2	5.5	1.1	1.0	2.2	2.7	3.1	3.2	2.8	2.5	2.6
Agricultural Goods	-27.6	-4.2	13.1	36.6	-6.5	-3.3	4.4	8.3	2.3	-5.2	4.5	8.4
Computers	72.3	84.3	70.9	57.4	49.1	46.4	43.8	43.8	43.2	42.7	42.2	42.2
Semiconductors	39.0	15.7	41.2	41.2	41.2	41.2	41.2	41.2	41.2	41.2	41.2	41.2
Other Goods 1/	12.4	25.0	-2.0	15.7	6.0	8.4	-5.0	9.5	-1.6	6.8	-4.2	8.4
Imports of G&S	17.9	20.5	14.1	10.9	10.1	12.4	10.3	7.9	7.2	9.2	7.8	7.1
Services	24.2	8.9	6.7	6.1	4.1	2.7	2.3	2.1	2.3	2.3	2.3	2.2
Oil	-10.8	44.5	0.3	-20.3	-16.1	44.0	10.7	-15.4	-11.3	26.1	2.7	-6.8
Computers	51.3	71.1	58.9	57.4	43.8	39.9	39.9	38.6	38.6	38.6	38.6	38.6
Semiconductors	71.2	19.3	50.1	43.8	41.2	41.2	41.2	41.2	41.2	41.2	41.2	41.2
Other Goods 2/	15.3	17.1	12.0	10.0	9.5	8.5	7.7	6.6	4.9	4.6	4.2	3.9
Billions of chained 1992 dollars												
Net Goods & Services	-126.3	-136.6	-160.4	-154.8	-165.5	-178.4	-203.7	-200.2	-211.3	-217.3	-234.4	-229.3
Exports of G&S	922.7	962.5	975.5	1010.9	1028.6	1051.2	1056.3	1083.8	1095.2	1118.1	1126.3	1154.9
Imports of G&S	1048.9	1099.1	1135.9	1165.7	1194.1	1229.6	1260.0	1284.0	1306.5	1335.4	1360.7	1384.2
Billions of dollars												
US CURRENT ACCOUNT BALANCE	-159.9	-156.9	-177.9	-182.5	-176.0	-185.3	-211.8	-221.0	-220.0	-224.5	-241.2	-248.3
Net Goods & Services (BOP)	-117.2	-106.6	-121.7	-110.7	-112.8	-119.5	-141.3	-135.9	-144.6	-148.1	-161.2	-153.6
Exports of G&S (BOP)	897.0	936.2	939.3	968.2	981.2	1001.1	1004.8	1031.3	1042.0	1064.0	1071.2	1098.0
Imports of G&S (BOP)	1014.2	1042.8	1061.0	1078.9	1093.9	1120.6	1146.1	1167.3	1186.6	1212.1	1232.4	1251.6
Net Investment Income	-8.0	-14.1	-17.2	-21.8	-24.2	-26.8	-31.5	-35.1	-36.4	-37.5	-41.0	-44.7
Direct, Net	69.3	69.5	68.2	66.7	67.1	67.4	67.0	68.2	69.2	72.4	73.7	75.2
Portfolio, Net	-77.3	-83.6	-85.3	-88.5	-91.3	-94.2	-98.5	-103.3	-105.6	-109.9	-114.8	-120.0
Net Transfers	-34.7	-36.3	-39.0	-50.0	-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**

November 5, 1997

# **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

November 5, 1997

## **RECENT DEVELOPMENTS**

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

most recent peak in January 1995. The staff's current estimates show a marked acceleration in the growth of manufacturing capacity over the past three years, from a bit over 2 percent, on average, in the early 1990s, to around 4-1/4 percent recently.<sup>4</sup> This pickup has tempered the rise in utilization.

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

	1997					
	Aug.	Sept.	Oct.	Q2	Q3	Q4
U.S. production	12.4	12.6	12.6 <sup>e</sup>	11.5	12.0	Sched. 12.6
Autos	6.1	6.1	6.0	5.7	6.0	6.0
Trucks	6.3	6.5	6.6	5.8	6.0	6.6
Days' supply						
Autos	55.0	56.9	60.2	60.6	56.9	...
Light trucks	70.5	71.9	75.9	78.6	71.2	...

Note. Components may not sum to totals because of rounding.  
e--Staff estimates based on weekly production data.

Production of motor vehicles and parts has been a volatile component of industrial production throughout 1997, in large part because of labor disputes. Nearly all local issues at GM have now been resolved, however, so that assemblies should begin to track industry fundamentals more closely. At the end of October, days' supply of light trucks was somewhat high at 76 days, while days' supply of autos was about 60 days. At present, industry schedules call for a 4 percent increase in motor vehicle assemblies in the fourth quarter.

By major market group, the production of consumer durable goods fell 0.1 percent in September, reflecting a drop in household appliance production, after a surge in August. The output of consumer nondurable goods rose 1.0 percent, owing mainly to increases in energy use and chemical products. Production of business equipment was flat in September, as continued strength in information processing equipment and aircraft production was offset by declines in industrial equipment (most notably construction equipment) and other equipment (especially farm machinery and

4. The annual revision to industrial production and capacity utilization will be published later this month. The revisions to capacity utilization will incorporate information from the most recent Survey of Plant Capacity, which will report year-end utilization rates for 1995 and 1996.

BROAD MEASURES OF INFLATION  
(Four-quarter percent change)

	1994 Q3	1995 Q3	1996 Q3	1997 Q3
<u>Product prices</u>				
GDP chain price index	2.5	2.5	2.4	1.9
Nonfarm business chain-type price index <sup>1</sup>	2.6	2.1	1.7	1.6
<u>Expenditure prices</u>				
Gross domestic purchases chain-type price index	2.5	2.4	2.2	1.6
Less food and energy	2.5	2.6	2.0	1.6
PCE chain-type price index	2.7	2.4	2.4	1.9
Less food and energy	2.8	2.7	2.1	1.8
CPI	2.9	2.6	3.0	2.2
Less food and energy	2.9	3.0	2.7	2.3
Median CPI	2.9	3.1	3.0	2.8
1. Excluding housing				

SURVEYS OF (CPI) INFLATION EXPECTATIONS  
(Percent)

	Actual inflation <sup>1</sup>	University of Michigan (1-year) Mean <sup>2</sup>	(1-year) Median <sup>3</sup>	Conference Board (1-year)	Professional forecasters (10-year) <sup>4</sup>
1995-Q1	2.8	4.1	3.1	4.2	3.3
Q2	3.1	4.1	3.1	4.2	3.4
Q3	2.6	3.9	2.9	4.0	3.2
Q4	2.7	3.6	2.8	3.9	3.0
1996-Q1	2.7	3.9	2.9	4.1	3.0
Q2	2.8	4.5	3.0	4.3	3.0
Q3	2.9	4.2	3.0	4.3	3.0
Q4	3.2	4.0	3.0	4.2	3.0
1997-Q1	2.9	3.8	2.9	4.2	3.0
Q2	2.3	3.6	2.9	4.0	2.9
Q3	2.2	3.4	2.7	4.0	3.0
Jul	2.2	3.4	2.7	4.0	
Aug.	2.2	3.3	2.7	3.9	
Sept.	2.2	3.5	2.8	4.1	3.0
Oct.		3.2	2.8	4.1	

1. CPI; percent change from the same period in the preceding year.
2. Average increase for responses to the question: By about what percent do you expect prices (CPI) to go up, on the average, during the next 12 months?
3. Median increase for responses to the question above.
4. Compiled by the Federal Reserve Bank of Philadelphia.