

## **Part 1**

November 6, 1996

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

Prepared for the Federal Open Market Committee

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

Strictly Confidential (FR) Class II FOMC

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November 6, 1996

## **SUMMARY AND OUTLOOK**

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Certainly, initial claims for jobless benefits suggest an ongoing vitality of labor demand into early November. For the quarter as a whole, production-worker hours are projected to increase 1-1/2 percent (annual rate). This increase, and the recent stability of the unemployment rate, would be consistent with moderate output growth.

SUMMARY OF THE NEAR-TERM OUTLOOK  
(Percent change, annual rate)

	1996:Q3			1996:Q4	
	Sept. GB	BEA Adv.	Nov. GB	Sept. GB	Nov. GB
Real GDP	2.4	2.2	2.5	2.2	1.8
Private domestic final sales	2.4	1.9	2.0	3.4	3.2
<i>Change in billions of chained (1992) dollars</i>					
Inventory investment	24.0	32.5	33.6	-4.7	-18.1
Government outlays for consumption and investment	-8.5	-4.4	-1.5	-2.3	-2.4
Net exports	-8.3	-17.5	-18.9	-3.3	6.1

Strikes by the Canadian Auto Workers (CAW) and United Auto Workers (UAW) against General Motors reduced U.S. light vehicle assemblies by 1.2 million units (annual rate) in October and early November. These work stoppages are now over, but the lost output probably cannot be made up in the current quarter because many of the affected assembly plants had been operating at capacity prior to the strikes. On balance, we estimate that the resultant decline in motor vehicle output will reduce real GDP growth by around 0.3 percentage point in the fourth quarter.

Consumer spending is projected to be the driving force behind a resurgence in final sales this quarter. Income growth has been quite strong this year, the rise in the stock market has boosted

consumption. Confidence is high, and the higher values of the stock market probably have boosted the consumption of some households and could buoy spending in coming quarters, even with the correction built into the forecast. Other segments of the population are likely finding their spending capacity restricted by heavy debt-service burdens, and the tightening of credit card standards that has been under way will put a further damper on spending, albeit a minor one. Still other households probably are earmarking more of their income to retirement saving or to college funds for their children.

SUMMARY OF STAFF REAL GDP PROJECTION FOR 1996-98  
(Percent change, Q4 TO Q4, unless otherwise noted)

	1996	1997	1998
Real GDP	2.7	2.2	2.1
<i>Previous</i>	2.8	2.1	2.1
Real PCE	2.8	2.7	2.4
<i>Previous</i>	2.9	2.7	2.4
Real BFI	8.7	5.1	5.6
<i>Previous</i>	7.6	5.1	5.6
Real residential investment	2.3	-1.1	1.3
<i>Previous</i>	4.1	-2.2	1.0
<i>Change in billions of chained (1992) dollars</i>			
Net exports	-42.6	-24.3	-18.8
<i>Previous</i>	-41.1	-15.6	-18.4

Reflecting these crosscurrents, real PCE is forecast to grow 2-3/4 percent in 1997 and 2-1/2 percent in 1998. Sales of new cars and light trucks have been running at a fairly high level for a while, and underlying stock relationships would not seem to support a sustained further advance. Similarly, with the projected softening in housing activity, we do not foresee large increments to spending on furniture and appliances. In contrast, the growth in

in 1998. The widening of the deficit on real net exports subtracts about 1/3 percentage point from real GDP growth in 1997 and 1998. (A more detailed discussion of the outlook for net exports is contained in the International Developments section.)

Labor markets. Growth in nonfarm payrolls is projected to taper down to about 130,000 per month in early 1997. With the economy growing at about its potential pace and only a slight further increase expected in the labor force participation rate, the unemployment rate is projected to hold steady at 5.2 percent over the forecast period.

STAFF LABOR MARKET PROJECTIONS  
(Percent change, Q4 TO Q4, unless otherwise noted)

	1996	1997	1998
Output per hour, nonfarm business	.6	.9	1.0
<i>Previous</i>	.9	.9	1.0
Nonfarm payroll employment	2.1	1.3	1.2
<i>Previous</i>	2.2	1.2	1.3
Civilian unemployment rate <sup>1</sup>	5.2	5.2	5.2
<i>Previous</i>	5.4	5.4	5.4
Labor force participation rate <sup>1</sup>	66.8	66.9	66.9
<i>Previous</i>	66.8	66.8	66.9

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1. Average for the fourth quarter.

In putting together this forecast, we have assumed that growth in labor productivity will move back to its trend rate of around 1 percent. In doing so, we have heavily discounted its recent poor performance. It is possible that depletion of the supplies of well-qualified workers has now started to take its toll on productivity gains. But we think it more likely that productivity simply has been underestimated. When output is estimated from the "income" side of the accounts, recent productivity growth looks better than the published product-side measure. Furthermore, we find it

The influence of economic slack is more difficult to identify in the CPI forecast because of methodological changes to the index and developments in food and energy markets. After an increase of 2.7 percent in 1996, core CPI inflation is projected to rise to 3 percent in 1997, and it is expected to hold at that level in 1998 as reweighting of the index masks the underlying upward movement in prices induced by excessively tight markets. In addition, a gradual updrift in non-oil import prices is expected to be a marginal addition to inflationary pressures--in contrast to the damping effect of import price declines over the past year.

STAFF INFLATION PROJECTIONS  
(Percent change, Q4 TO Q4, unless otherwise noted)

	1996	1997	1998
Consumer price index	3.2	2.8	2.8
<i>Previous</i>	3.2	3.1	2.9
Food	3.9	2.9	2.8
<i>Previous</i>	4.1	3.7	2.4
Energy	7.1	.3	1.0
<i>Previous</i>	7.6	1.6	1.9
Excluding food and energy	2.7	3.0	3.0
<i>Previous</i>	2.7	3.1	3.1
ECI for compensation of private industry workers <sup>1</sup>	3.0	3.4	3.6
<i>Previous</i>	3.3	3.6	3.8
Memo:			
Core CPI adjusted for methodology changes	2.9	3.3	3.4
<i>Previous</i>	2.9	3.4	3.5

1. December to December.

The overall CPI is projected to decelerate from an increase of 3.2 percent in 1996 to 2-3/4 percent in 1997 and 1998, reflecting favorable developments in food and energy markets. The outlook for energy prices is largely determined by the path of crude oil prices. The recent run-up in crude costs is expected to show up at the pump

and cumulate to 100 basis points by the fourth quarter of 1997; the funds rate is held constant thereafter. The tighter financial conditions reduce the increase in real GDP 0.4 percentage point in 1997 and lower growth 0.6 percentage point in 1998. The unemployment rate is 0.1 percentage point higher than the Greenbook baseline by the fourth quarter of next year and 0.5 percentage point higher by the end of 1998. The additional slack reduces CPI inflation by 0.1 percentage point in 1997 and 0.5 percentage point in 1998. The alternative scenario with lower interest rates has symmetrical effects.

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

	1996	1997	1998
Real GDP			
Baseline	2.7	2.2	2.1
Higher funds rate	2.7	1.8	1.5
Lower funds rate	2.7	2.6	2.7
Civilian unemployment rate <sup>1</sup>			
Baseline	5.2	5.2	5.2
Higher funds rate	5.2	5.3	5.7
Lower funds rate	5.2	5.1	4.7
CPI			
Baseline	3.2	2.8	2.8
Higher funds rate	3.2	2.7	2.3
Lower funds rate	3.2	2.9	3.3

1. Average for the fourth quarter.

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

November 6, 1996

Interval	Nominal GDP		Real GDP		GDP Chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>	
	09/18/96	11/06/96	09/18/96	11/06/96	09/18/96	11/06/96	09/18/96	11/06/96	09/18/96	11/06/96
<b>ANNUAL</b>										
1994	5.8	5.8	3.5	3.5	2.3	2.3	2.6	2.6	6.1	6.1
1995	4.6	4.6	2.0	2.0	2.5	2.5	2.8	2.8	5.6	5.6
1996	4.4	4.4	2.4	2.4	2.2	2.2	3.0	2.9	5.4	5.4
1997	4.7	4.6	2.3	2.4	2.6	2.5	3.1	2.9	5.4	5.2
1998	4.6	4.3	2.1	2.1	2.7	2.6	2.9	2.8	5.4	5.2
<b>QUARTERLY</b>										
1995 Q1	3.8	3.8	0.4	0.4	3.3	3.3	2.7	2.7	5.5	5.5
Q2	3.1	3.1	0.7	0.7	2.4	2.4	3.5	3.5	5.7	5.7
Q3	6.0	6.0	3.8	3.8	2.1	2.1	2.1	2.1	5.6	5.6
Q4	2.3	2.3	0.3	0.3	2.1	2.1	2.4	2.4	5.5	5.5
1996 Q1	4.2	4.2	2.0	2.0	2.3	2.3	3.2	3.2	5.6	5.6
Q2	6.6	6.5	4.7	4.7	2.2	2.2	3.9	3.9	5.4	5.4
Q3	4.2	4.1	2.4	2.5	2.1	1.9	2.4	2.3	5.3	5.2
Q4	4.5	4.0	2.2	1.8	2.6	2.5	3.5	3.3	5.4	5.2
1997 Q1	5.0	5.4	2.1	2.4	3.0	2.9	3.4	3.1	5.4	5.2
Q2	4.6	4.4	2.1	2.2	2.7	2.4	2.9	2.6	5.4	5.2
Q3	4.6	4.3	2.2	2.2	2.6	2.4	2.8	2.6	5.4	5.2
Q4	4.6	4.1	2.2	2.1	2.7	2.4	3.1	2.9	5.4	5.2
1998 Q1	4.7	4.4	2.1	2.1	2.9	2.7	2.9	2.8	5.4	5.2
Q2	4.6	4.3	2.1	2.1	2.7	2.5	2.9	2.8	5.4	5.2
Q3	4.5	4.3	2.1	2.1	2.8	2.7	2.9	2.8	5.4	5.2
Q4	4.6	4.4	2.1	2.1	2.8	2.7	2.9	2.9	5.4	5.2
<b>TWO-QUARTER<sup>3</sup></b>										
1995 Q2	3.5	3.5	0.6	0.6	2.9	2.9	3.2	3.2	0.1	0.1
Q4	4.1	4.1	2.0	2.0	2.1	2.1	2.2	2.2	-0.2	-0.2
1996 Q2	5.4	5.4	3.3	3.3	2.3	2.3	3.5	3.5	-0.1	-0.1
Q4	4.3	4.1	2.3	2.2	2.4	2.2	3.0	2.8	-0.0	-0.2
1997 Q2	4.8	4.9	2.1	2.3	2.8	2.7	3.2	2.9	-0.0	0.0
Q4	4.6	4.2	2.2	2.1	2.6	2.4	3.0	2.7	-0.0	0.0
1998 Q2	4.6	4.4	2.1	2.1	2.8	2.6	2.9	2.8	0.0	-0.0
Q4	4.5	4.4	2.1	2.1	2.8	2.7	2.9	2.9	-0.0	-0.0
<b>FOUR-QUARTER<sup>4</sup></b>										
1994 Q4	5.9	5.9	3.5	3.5	2.3	2.3	2.6	2.6	-1.0	-1.0
1995 Q4	3.8	3.8	1.3	1.3	2.5	2.5	2.7	2.7	-0.1	-0.1
1996 Q4	4.9	4.7	2.8	2.7	2.3	2.2	3.2	3.2	-0.1	-0.3
1997 Q4	4.7	4.5	2.1	2.2	2.7	2.5	3.1	2.8	-0.0	0.0
1998 Q4	4.6	4.4	2.1	2.1	2.8	2.7	2.9	2.8	0.0	-0.0

1. For all urban consumers.

2. Level, except as noted.

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

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



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

November 6, 1996

Item	Units <sup>1</sup>	- - - Projected - - -								
		1990	1991	1992	1993	1994	1995	1996	1997	1998
EXPENDITURES										
Nominal GDP	Bill. \$	5743.8	5916.7	6244.4	6553.0	6935.7	7253.8	7572.4	7922.9	8264.6
Real GDP	Bill. Ch. \$	6138.7	6079.0	6244.4	6386.4	6608.7	6742.9	6901.9	7065.3	7215.5
Real GDP	% change	-0.2	0.4	3.7	2.2	3.5	1.3	2.7	2.2	2.1
Gross domestic purchases		-0.8	-0.0	4.0	2.9	3.8	1.0	3.3	2.5	2.3
Final sales		0.6	-0.4	3.9	2.0	2.9	1.9	2.6	2.2	2.2
Priv. dom. final purchases		-0.6	-0.8	4.9	3.5	4.0	2.3	3.5	2.9	2.9
Personal cons. expenditures		0.5	-0.2	4.2	2.5	3.1	1.9	2.8	2.7	2.4
Durables		-3.2	-3.1	9.4	7.3	7.0	1.3	6.6	4.7	4.4
Nondurables		-0.5	-1.0	3.4	1.5	3.5	1.1	2.0	2.5	1.9
Services		2.0	0.9	3.6	2.1	2.0	2.4	2.3	2.4	2.2
Business fixed investment		-2.5	-6.0	5.5	8.5	10.1	6.4	8.7	5.1	5.6
Producers' dur. equipment		-2.0	-2.6	9.6	11.5	12.6	6.9	10.7	6.7	7.2
Nonres. structures		-3.5	-12.5	-3.4	1.6	3.6	5.1	3.1	0.6	0.7
Residential structures		-15.1	1.1	16.9	8.1	5.7	-1.5	2.3	-1.1	1.3
Exports		7.2	8.6	4.1	4.8	9.9	7.4	4.8	6.7	6.3
Imports		0.5	4.1	7.4	10.5	11.8	4.2	9.1	8.3	7.2
Gov't. cons. & investment		2.6	-0.7	1.7	-0.5	0.0	-1.3	2.0	0.7	0.3
Federal		1.6	-3.1	1.3	-5.4	-3.1	-6.7	1.3	-2.5	-3.6
Defense		0.3	-5.3	-1.3	-6.8	-5.7	-6.8	0.0	-3.2	-4.6
State & local		3.3	1.0	2.0	3.1	2.2	2.1	2.4	2.5	2.4
Change in bus. inventories	Bill. Ch. \$	10.4	-3.0	7.3	19.1	58.9	33.2	16.8	26.1	22.6
Nonfarm		7.8	-1.2	1.9	26.4	46.8	37.2	19.6	22.3	17.4
Net exports		-61.9	-22.3	-29.5	-72.0	-105.7	-107.6	-119.9	-142.1	-163.2
Nominal GDP	% change	4.4	3.8	6.3	4.8	5.9	3.8	4.7	4.5	4.4
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	109.4	108.3	108.6	110.7	114.2	117.2	119.5	121.4	122.8
Unemployment rate	%	5.6	6.8	7.5	6.9	6.1	5.6	5.4	5.2	5.2
Industrial prod. index	% change	-0.2	0.2	4.0	3.2	6.6	1.6	3.8	3.1	3.2
Capacity util. rate - mfg.	%	81.3	78.0	79.5	80.6	83.3	83.0	82.0	81.8	81.6
Housing starts	Millions	1.19	1.01	1.20	1.29	1.46	1.35	1.47	1.42	1.41
Light motor vehicle sales		14.05	12.52	12.85	13.87	15.02	14.74	14.98	14.98	14.80
North Amer. produced		10.85	9.74	10.51	11.72	12.88	12.82	13.29	13.21	13.07
Other		3.20	2.77	2.34	2.15	2.13	1.91	1.69	1.77	1.73
INCOME AND SAVING										
Nominal GNP	Bill. \$	5764.9	5932.4	6255.5	6563.5	6931.9	7246.7	7565.5	7908.3	8243.7
Nominal GNP	% change	4.6	3.5	6.2	4.7	5.7	3.9	4.7	4.4	4.3
Nominal personal income		6.4	3.7	7.3	3.6	5.2	5.6	5.4	4.7	4.7
Real disposable income		1.0	0.8	4.0	0.9	2.7	3.1	2.4	2.7	2.4
Personal saving rate	%	5.0	5.7	5.9	4.5	3.8	4.7	4.8	5.0	5.0
Corp. profits, IVA & CCAdj.	% change	6.2	3.9	12.7	19.9	11.3	7.2	1.7	5.7	2.7
Profit share of GNP	%	6.4	6.4	6.4	7.1	7.6	8.1	8.5	8.3	8.1
(excluding FR banks)	%	6.0	6.1	6.1	6.8	7.4	7.8	8.2	8.0	7.9
Federal surpl./deficit	Bill. \$	-154.7	-196.0	-280.9	-255.6	-190.2	-161.7	-126.8	-112.4	-109.6
State & local surpl./def.		80.1	75.8	86.3	94.9	99.7	95.0	91.9	83.1	75.8
Ex. social ins. funds		20.2	11.5	18.3	28.0	36.9	36.8	35.9	28.5	22.0
PRICES AND COSTS										
GDP implicit deflator	% change	4.6	3.4	2.6	2.5	2.3	2.5	1.9	2.3	2.2
GDP chn.-wt. price index		4.7	3.3	2.6	2.5	2.3	2.5	2.2	2.5	2.7
Gross Domestic Purchases										
chn.-wt. price index		5.2	2.7	2.7	2.3	2.4	2.3	2.2	2.2	2.5
CPI		6.3	3.0	3.1	2.7	2.6	2.7	3.2	2.8	2.8
Ex. food and energy		5.3	4.4	3.5	3.1	2.8	3.0	2.7	3.0	3.0
ECI, hourly compensation <sup>2</sup>		4.6	4.4	3.5	3.6	3.1	2.6	3.0	3.4	3.6
Nonfarm business sector										
Output per hour		-0.6	2.2	3.6	-0.3	0.5	0.3	0.6	0.9	1.0
Compensation per Hour		5.9	4.7	4.6	1.8	2.5	4.1	3.8	3.7	3.6
Unit labor cost		6.5	2.5	1.0	2.1	2.0	3.8	3.3	2.8	2.6

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, 1996

Item	Units	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	6776.0	6890.5	6993.1	7083.2	7149.8	7204.9	7309.8	7350.6	7426.8	7545.1
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	-1.3	-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
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	112.6	113.7	114.7	115.6	116.5	117.0	117.4	117.9	118.5	119.3
Unemployment rate	%	6.6	6.2	6.0	5.6	5.5	5.7	5.6	5.5	5.6	5.4
Industrial prod. index	% change	8.4	7.0	4.6	6.4	3.9	-1.4	3.2	0.6	3.0	6.7
Capacity util. rate - mfg.	%	82.2	83.2	83.4	84.3	84.3	83.0	82.6	82.0	81.6	82.2
Housing starts	Millions	1.38	1.47	1.46	1.48	1.31	1.29	1.42	1.41	1.47	1.49
Light motor vehicle sales		15.07	14.85	14.99	15.16	14.56	14.44	15.04	14.92	15.18	15.13
North Amer. produced		12.94	12.69	12.79	13.12	12.52	12.46	13.18	13.13	13.49	13.41
Other		2.13	2.16	2.20	2.05	2.04	1.97	1.86	1.79	1.69	1.72
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	6781.0	6888.3	6987.0	7071.4	7146.8	7202.4	7293.4	7344.3	7426.6	7537.5
Real 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
<b>PRICES AND COSTS</b>											
GDP implicit deflator	% change	2.8	1.9	2.5	2.2	3.4	2.4	2.1	2.0	2.2	1.8
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 <sup>1</sup>		3.0	3.4	3.3	2.3	2.9	2.9	2.6	2.6	2.9	3.2
Nonfarm business sector											
Output per hour		-2.0	1.0	2.0	0.9	-1.6	2.0	2.0	-1.1	1.8	0.5
Compensation per hour		2.8	1.4	2.1	3.9	3.7	4.6	4.0	4.1	3.3	3.7
Unit labor cost		4.8	0.3	0.1	2.9	5.4	2.6	1.9	5.2	1.5	3.2

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, 1996

Item	Units	Projected									
		1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	7621.1	7696.5	7798.6	7882.0	7965.0	8045.9	8133.9	8220.3	8307.0	8397.4
Real GDP	Bill. Ch. \$	6934.5	6966.3	7008.1	7046.3	7085.4	7121.5	7158.6	7196.5	7234.2	7272.6
Real GDP	% change	2.5	1.8	2.4	2.2	2.2	2.1	2.1	2.1	2.1	2.1
Gross domestic purchases		3.5	1.5	2.6	2.4	2.8	2.2	2.2	2.3	2.6	2.2
Final sales		0.5	2.9	2.4	2.0	2.0	2.4	2.2	2.2	2.1	2.3
Priv. dom. final purchases		2.0	3.2	3.4	2.6	3.0	2.8	2.8	2.9	2.9	2.8
Personal cons. expenditures		0.4	3.8	3.3	2.5	2.6	2.5	2.5	2.5	2.4	2.4
Durables		-0.8	8.1	7.3	2.4	4.6	4.6	4.3	4.4	4.3	4.5
Nondurables		-0.3	3.6	3.3	2.5	2.3	2.0	2.0	2.0	2.0	1.9
Services		1.1	2.9	2.4	2.5	2.4	2.3	2.3	2.3	2.2	2.1
Business fixed investment		16.2	3.6	6.0	4.5	5.1	5.0	5.3	5.6	5.9	5.9
Producers' dur. equipment		19.7	4.1	8.0	5.9	6.5	6.4	6.8	7.1	7.5	7.5
Nonres. structures		6.5	2.4	0.2	0.4	0.9	0.8	0.6	0.7	0.7	0.7
Residential structures		-6.6	-6.0	-2.4	-2.2	-0.4	0.5	1.2	1.3	1.4	1.3
Exports		0.4	11.7	6.5	8.3	2.3	9.7	4.5	8.7	2.3	9.8
Imports		8.8	7.3	7.5	9.3	6.6	9.8	4.9	9.1	5.9	8.9
Gov't. cons. & investment		-0.5	-0.7	-1.1	0.9	1.3	1.5	-0.2	-0.1	1.2	0.3
Federal		-4.0	-5.5	-7.0	-1.7	-0.7	-0.4	-5.0	-4.6	-1.0	-3.7
Defense		-5.1	-7.8	-9.9	-2.0	-0.6	-0.0	-5.9	-6.4	-0.9	-5.1
State & local		1.7	2.2	2.4	2.4	2.5	2.6	2.5	2.5	2.4	2.4
Change in bus. inventories	Bill. Ch. \$	40.7	22.6	23.7	26.5	29.8	24.3	23.5	23.1	23.2	20.5
Nonfarm		42.9	20.7	20.4	23.2	26.0	19.5	18.7	18.1	17.9	14.9
Net exports		-133.6	-127.5	-131.7	-136.7	-148.1	-151.8	-154.5	-158.6	-169.0	-170.6
Nominal GDP	% change	4.1	4.0	5.4	4.4	4.3	4.1	4.4	4.3	4.3	4.4
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	119.9	120.4	120.8	121.2	121.6	121.9	122.3	122.6	123.0	123.4
Unemployment rate	%	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Industrial prod. index	% change	4.4	1.1	3.8	3.0	2.9	2.7	3.2	3.3	3.0	3.4
Capacity util. rate - mfg.	%	82.4	81.7	81.9	81.8	81.8	81.6	81.6	81.6	81.6	81.6
Housing starts	Millions	1.48	1.45	1.43	1.42	1.41	1.41	1.41	1.41	1.41	1.41
Light motor vehicle sales		14.95	14.67	15.21	14.88	14.92	14.93	14.88	14.82	14.77	14.72
North Amer. produced		13.30	12.96	13.45	13.11	13.14	13.15	13.12	13.08	13.05	13.02
Other		1.65	1.71	1.76	1.77	1.78	1.78	1.76	1.74	1.72	1.70
INCOME AND SAVING											
Nominal GNP	Bill. \$	7610.5	7687.5	7787.2	7868.1	7949.6	8028.3	8115.6	8200.3	8285.8	8373.0
Nominal GNP	% change	3.9	4.1	5.3	4.2	4.2	4.0	4.4	4.2	4.2	4.3
Nominal personal income		5.5	4.6	5.5	4.5	4.4	4.3	5.0	4.7	4.5	4.3
Real disposable income		4.7	1.7	3.8	2.6	2.5	2.1	3.5	2.2	2.0	1.8
Personal saving rate	%	5.4	4.9	5.1	5.1	5.0	4.9	5.2	5.1	5.0	4.9
Corp. profits, IVA & CCAdj.	% change	-4.6	-15.0	18.4	3.1	2.4	-0.0	2.4	3.6	3.2	1.7
Profit share of GNP	%	8.5	8.1	8.3	8.3	8.3	8.2	8.2	8.1	8.1	8.1
(excluding FR banks)	%	8.2	7.8	8.1	8.0	8.0	7.9	7.9	7.9	7.9	7.8
Federal surpl./deficit	Bill. \$	-119.9	-105.3	-114.6	-112.3	-107.9	-114.8	-116.7	-110.5	-105.1	-106.2
State & local surpl./def.		89.9	85.5	87.0	84.9	81.3	79.0	77.3	76.4	75.0	74.5
Ex. social ins. funds		34.5	30.4	32.1	30.2	26.8	24.7	23.2	22.5	21.3	21.0
PRICES AND COSTS											
GDP implicit deflator	% change	1.5	2.1	2.9	2.1	2.0	2.0	2.3	2.1	2.1	2.2
GDP chn.-wt. price index		1.9	2.5	2.9	2.4	2.4	2.4	2.7	2.5	2.7	2.7
Gross Domestic Purchases											
chn.-wt. price index		1.8	2.6	2.5	2.1	2.1	2.3	2.6	2.5	2.5	2.6
CPI		2.3	3.3	3.1	2.6	2.6	2.9	2.8	2.8	2.8	2.9
Ex. food and energy		2.4	2.9	2.8	2.9	3.0	3.1	2.9	3.0	3.0	3.1
ECI, hourly compensation <sup>1</sup>		2.5	3.5	3.3	3.3	3.7	3.5	3.5	3.6	3.6	3.7
Nonfarm business sector											
Output per hour		0.0	0.1	0.5	1.1	1.0	1.0	1.0	1.0	1.0	1.1
Compensation per hour		4.3	4.3	3.8	3.6	3.7	3.8	3.6	3.7	3.7	3.7
Unit labor cost		4.3	4.1	3.3	2.4	2.6	2.7	2.5	2.6	2.6	2.5

1. Private-industry workers.

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CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

November 6, 1996

Item	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	95Q4/ 94Q4	96Q4/ 95Q4	97Q4/ 96Q4
Real GDP	0.3	2.0	4.7	2.5	1.8	2.4	2.2	2.2	2.1	1.3	2.7	2.2
Gross dom. purchases	-0.7	3.1	5.3	3.6	1.5	2.7	2.5	2.9	2.3	1.0	3.3	2.6
Final sales	1.4	3.0	4.1	0.5	2.9	2.4	2.0	2.0	2.4	1.9	2.6	2.2
Priv. dom. final purchases	1.2	3.9	3.4	1.7	2.7	2.8	2.1	2.5	2.3	1.8	2.9	2.4
Personal cons. expenditures	0.7	2.4	2.3	0.3	2.6	2.2	1.7	1.8	1.7	1.3	1.9	1.9
Durables	-0.1	0.7	0.9	-0.1	0.7	0.6	0.2	0.4	0.4	0.1	0.6	0.4
Nondurables	-0.1	0.7	0.3	-0.1	0.7	0.7	0.5	0.5	0.4	0.2	0.4	0.5
Services	0.8	0.9	1.1	0.4	1.1	0.9	1.0	0.9	0.9	0.9	0.9	0.9
Business fixed investment	0.2	1.1	0.4	1.7	0.4	0.7	0.5	0.6	0.6	0.7	0.9	0.6
Producers' dur. equip.	0.2	0.9	0.5	1.5	0.3	0.7	0.5	0.6	0.6	0.5	0.9	0.6
Nonres. structures	0.0	0.2	-0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0
Residential structures	0.2	0.3	0.6	-0.3	-0.2	-0.1	-0.1	-0.0	0.0	-0.1	0.1	-0.0
Net exports	0.9	-1.1	-0.6	-1.1	0.3	-0.2	-0.3	-0.6	-0.2	0.3	-0.6	-0.3
Exports	1.1	0.2	0.6	0.1	1.3	0.8	1.0	0.3	1.2	0.8	0.6	0.8
Imports	-0.2	-1.3	-1.2	1.2	1.0	1.0	1.3	0.9	1.4	0.5	1.2	1.2
Government cons. & invest.	-0.8	0.3	1.4	-0.1	-0.1	-0.2	0.2	0.2	0.3	-0.3	0.4	0.1
Federal	-0.9	0.4	0.6	-0.3	-0.4	-0.5	-0.1	-0.0	-0.0	-0.5	0.1	-0.2
Defense	-0.6	0.2	0.4	-0.2	-0.4	-0.5	-0.1	-0.0	-0.0	-0.3	0.0	-0.1
Nondefense	-0.3	0.2	0.2	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.2	0.1	-0.0
State and local	0.2	-0.1	0.8	0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.3
Change in bus. inventories	-1.0	-1.0	0.5	2.0	-1.0	0.1	0.2	0.2	-0.3	-0.6	0.1	0.0
Nonfarm	-1.2	-0.9	0.5	1.8	-1.3	-0.0	0.2	0.2	-0.4	-0.5	0.0	-0.0
Farm	0.1	-0.1	0.1	0.2	0.2	0.1	0.0	0.0	0.1	-0.1	0.1	0.0
GDP residual	-0.0	0.0	-0.0	-0.0	-0.0	0.0	0.0	0.1	0.0	0.0	-0.0	0.0

Components may not sum to total due to rounding.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

November 6, 1996

Item	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	96Q4/ 95Q4	97Q4/ 96Q4	98Q4/ 97Q4
Real GDP	1.8	2.4	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.7	2.2	2.1
Gross dom. purchases	1.5	2.7	2.5	2.9	2.3	2.2	2.4	2.7	2.2	3.3	2.6	2.4
Final sales	2.9	2.4	2.0	2.0	2.4	2.1	2.2	2.1	2.3	2.6	2.2	2.2
Priv. dom. final purchases	2.7	2.8	2.1	2.5	2.3	2.3	2.4	2.5	2.3	2.9	2.4	2.4
Personal cons. expenditures	2.6	2.2	1.7	1.8	1.7	1.7	1.7	1.6	1.6	1.9	1.9	1.7
Durables	0.7	0.6	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.6	0.4	0.4
Nondurables	0.7	0.7	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.4
Services	1.1	0.9	1.0	0.9	0.9	0.9	0.9	0.8	0.8	0.9	0.9	0.9
Business fixed investment	0.4	0.7	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.9	0.6	0.7
Producers' dur. equip.	0.3	0.7	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.9	0.6	0.7
Nonres. structures	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Residential structures	-0.2	-0.1	-0.1	-0.0	0.0	0.0	0.1	0.1	0.0	0.1	-0.0	0.0
Net exports	0.3	-0.2	-0.3	-0.6	-0.2	-0.1	-0.2	-0.6	-0.1	-0.6	-0.3	-0.3
Exports	1.3	0.8	1.0	0.3	1.2	0.6	1.1	0.3	1.2	0.6	0.8	0.8
Imports	1.0	1.0	1.3	0.9	1.4	0.7	1.3	0.9	1.3	1.2	1.2	1.1
Government cons. & invest.	-0.1	-0.2	0.2	0.2	0.3	-0.0	-0.0	0.2	0.0	0.4	0.1	0.1
Federal	-0.4	-0.5	-0.1	-0.0	-0.0	-0.3	-0.3	-0.1	-0.2	0.1	-0.2	-0.2
Defense	-0.4	-0.5	-0.1	-0.0	-0.0	-0.3	-0.3	-0.0	-0.2	0.0	-0.1	-0.2
Nondefense	-0.0	-0.0	-0.0	-0.0	-0.0	-0.1	-0.0	-0.0	-0.0	0.1	-0.0	-0.0
State and local	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Change in bus. inventories	-1.0	0.1	0.2	0.2	-0.3	-0.0	-0.0	0.0	-0.1	0.1	0.0	-0.1
Nonfarm	-1.3	-0.0	0.2	0.2	-0.4	-0.0	-0.0	-0.0	-0.2	0.0	-0.0	-0.1
Farm	0.2	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0
GDP residual	-0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	-0.0	-0.0	0.0	0.0

Components may not sum to total due to rounding.

Item	Fiscal year <sup>5</sup>				1996				1997				1998			
	1995 <sup>a</sup>	1996 <sup>a</sup>	1997	1998	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>b</sup>	Q4	Not seasonally adjusted							
UNIFIED BUDGET																
Receipts <sup>1</sup>	1355	1453	1518	1568	322	446	362	351	333	457	377	365	344	468	391	385
Outlays <sup>1</sup>	1519	1560	1627	1709	393	392	395	406	407	406	408	429	423	430	427	445
Surplus/deficit <sup>1</sup>	-164	-107	-108	-141	-72	54	-33	-55	-73	51	-31	-64	-78	38	-37	-60
On-budget	-226	-174	-178	-214	-84	14	-36	-63	-86	9	-37	-73	-92	-6	-43	-73
Off-budget	62	67	69	74	12	39	2	8	13	42	7	9	13	44	7	12
Surplus excluding deposit insurance <sup>2</sup>	-182	-116	-116	-143	-75	52	-35	-61	-74	50	-32	-64	-79	37	-37	-61
Means of financing																
Borrowing	171	130	122	161	80	-23	39	38	74	-30	40	50	81	-17	47	36
Cash decrease	-2	-6	4	0	-1	-16	-6	14	9	-15	-5	10	10	-15	-5	10
Other <sup>3</sup>	-5	-16	-18	-20	-7	-14	0	2	-10	-6	-4	4	-13	-6	-5	14
Cash operating balance, end of period	38	44	40	40	22	38	44	30	20	35	40	30	20	35	40	30
NIPA FEDERAL SECTOR																
Seasonally adjusted, annual rate																
Receipts	1459	1544	1629	1695	1523	1576	1583	1615	1616	1633	1653	1671	1684	1702	1723	1744
Expenditures	1629	1683	1739	1807	1678	1702	1703	1720	1731	1745	1760	1786	1800	1813	1829	1850
Consumption expend.	455	457	457	460	454	463	461	457	455	456	459	461	461	458	460	459
Defense	304	303	298	299	299	307	304	300	296	297	299	301	300	297	299	297
Nondefense	151	155	159	161	155	156	156	157	158	159	160	160	161	161	162	162
Other expenditures	1175	1226	1282	1347	1225	1239	1243	1264	1276	1289	1302	1325	1339	1354	1368	1391
Current account surplus	-171	-139	-110	-112	-155	-127	-120	-105	-115	-112	-108	-115	-117	-111	-105	-106
Gross investment	65	63	63	62	65	66	64	64	62	62	62	62	62	62	61	61
Current and capital account surplus	-236	-202	-173	-173	-220	-193	-184	-169	-177	-175	-170	-177	-178	-172	-167	-167
FISCAL INDICATORS <sup>4</sup>																
High-employment (HEB) surplus/deficit	-268	-242	-230	-239	-246	-233	-230	-221	-233	-234	-233	-242	-243	-240	-237	-241
Change in HEB, percent of potential GDP	0	-.4	-.2	.1	.1	-.2	0	-.1	.2	0	0	.1	0	0	0	0
Fiscal impetus (FI), percent, cal. year	-5.5	-1.9	-3.8	-3.5	1.3	1.8	-.2	-2.2	-1.9	-.4	-.2	-1	-1.3	-1.2	-.2	-1.1

1. OMB's July 1996 baseline deficit estimates (assuming the enactment of the President's proposals) are \$126 billion in FY97 and \$94 billion in FY98. CBO's April 1996 baseline deficit estimates are \$171 billion in FY97 and \$194 billion in FY98. Budget receipts, outlays, and surplus/deficit include corresponding Social Security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's July 1996 baseline deficit estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are \$134 billion in FY97 and \$96 billion in FY98. CBO's April 1996 baseline deficit estimates, excluding deposit insurance, are \$175 billion in FY97 and \$196 billion in FY98.

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

4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output generated by 1.8 percent real growth and an associated unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes (in chained (1992) dollars), scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.

5. Fiscal 1995 data for the unified budget come from OMB; fiscal 1996 and quarterly data come from the Monthly Treasury Statement and may not sum to OMB fiscal year totals.

a--Actual.

b--Preliminary.

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

Year	Total	Federal government	Nonfederal					State and local governments	Memo: Nominal GDP
			Total	Households	Home mortgages	Consumer credit	Business		
1986	12.2	13.6	11.8	11.5	13.8	9.6	12.2	10.8	5.0
1987	9.2	8.0	9.6	12.1	16.3	5.0	6.7	12.1	7.4
1988	8.8	8.0	9.1	9.3	10.9	7.2	9.7	6.5	7.6
1989	7.6	7.0	7.8	8.7	10.1	6.0	7.5	5.7	6.4
1990	6.6	11.0	5.3	7.9	10.1	2.0	3.1	4.9	4.4
1991	4.4	11.1	2.4	5.0	6.6	-1.7	-1.7	8.2	3.8
1992	4.8	10.9	2.8	5.2	6.1	0.6	0.5	2.0	6.3
1993	5.3	8.3	4.2	6.3	5.4	7.7	1.5	5.7	4.8
1994	4.9	4.7	5.0	8.6	6.5	14.6	3.7	-3.7	5.9
1995	5.5	4.1	6.0	8.2	6.2	14.3	6.2	-4.1	3.8
1996	5.0	3.7	5.5	7.3	7.4	7.6	4.8	-0.8	4.7
1997	4.7	3.5	5.0	5.8	5.9	6.0	5.4	0.1	4.5
1998	4.7	3.8	5.1	5.5	5.8	5.5	5.4	1.7	4.4
Quarter (seasonally adjusted annual rates)									
1995:1	6.4	7.1	6.2	7.9	6.0	13.8	7.3	-4.9	3.8
2	6.5	5.2	7.0	8.5	6.4	15.1	7.3	-0.8	3.1
3	4.3	2.4	5.0	8.6	6.8	14.8	4.6	-9.4	6.0
4	4.3	1.6	5.3	6.9	4.9	10.7	5.1	-1.5	2.3
1996:1	6.3	6.6	6.1	8.7	8.8	11.5	5.0	-1.2	4.2
2	4.9	1.7	6.0	7.6	7.2	7.0	4.7	3.5	6.5
3	4.2	4.3	4.2	6.3	6.7	4.8	4.4	-6.9	4.1
4	4.3	2.0	5.1	5.9	6.1	6.3	5.0	1.5	4.0
1997:1	5.0	5.2	5.0	5.8	5.9	6.0	5.3	-0.3	5.4
2	4.4	1.9	5.2	5.7	5.8	5.9	5.5	1.7	4.4
3	4.5	4.0	4.6	5.6	5.7	5.7	5.3	-3.4	4.3
4	4.5	3.0	5.0	5.5	5.7	5.7	4.9	2.2	4.1

1. Data after 1996:Q2 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4. On a monthly average basis, total debt grows 5.0 percent in 1996, 4.6 percent in 1997, and 4.8 percent in 1998. Federal debt rises 3.6 percent in 1996, 3.3 percent in 1997, and 4.1 percent in 1998. Nonfederal debt increases 5.5 percent in 1996, 5.1 percent in 1997, and 5.0 percent in 1998.

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

	Calendar year						1996				1997	
	1993	1994	1995	1996	1997	1998	Q1	Q2	Q3	Q4	H1	H2
Net funds raised by domestic nonfinancial sectors												
1 Total	649.8	575.5	648.0	623.0	583.6	639.4	763.0	672.6	497.3	558.8	609.0	558.1
2 Net equity issuance	21.3	-44.9	-74.2	-73.1	-96.0	-83.5	-106.8	-16.8	-106.8	-62.0	-80.4	-111.6
3 Net debt issuance	628.5	620.4	722.3	696.1	679.6	722.9	869.8	689.4	604.1	620.8	689.4	669.7
Borrowing sectors												
Nonfinancial business												
4 Financing gap <sup>2</sup>	3.8	3.8	57.7	21.9	48.3	59.5	2.5	-5.7	56.4	34.3	44.6	52.1
5 Net equity issuance	21.3	-44.9	-74.2	-73.1	-96.0	-83.5	-106.8	-16.8	-106.8	-62.0	-80.4	-111.6
6 Credit market borrowing	55.5	139.3	242.9	201.1	233.3	247.0	206.6	199.1	185.3	213.4	235.7	230.9
Households												
7 Net borrowing, of which:	254.6	368.7	380.6	368.5	311.8	311.2	435.9	391.0	331.5	315.6	312.1	311.6
8 Home mortgages	152.1	194.5	195.9	248.5	213.9	220.2	296.3	247.5	235.2	215.2	213.7	214.2
9 Consumer credit	61.5	126.3	141.6	85.7	72.5	70.5	129.7	81.1	57.0	75.0	73.0	72.0
10 Debt/DPI (percent) <sup>3</sup>	86.6	88.9	90.9	93.3	94.6	95.4	92.7	93.6	93.8	94.2	94.3	95.0
State and local governments												
11 Net borrowing	62.3	-43.4	-45.7	-8.4	0.6	17.8	-12.5	36.8	-74.0	16.2	7.8	-6.7
12 Current surplus <sup>4</sup>	109.9	107.4	106.8	106.2	103.7	99.8	99.0	116.8	106.1	102.9	105.3	102.1
Federal government												
13 Net borrowing	256.1	155.9	144.4	134.8	133.9	146.9	239.9	62.4	161.3	75.6	133.8	133.9
14 Net borrowing (quarterly, n.s.a.)	256.1	155.9	144.4	134.8	133.9	146.9	80.5	-23.5	39.3	38.5	43.6	90.3
15 Unified deficit (quarterly, n.s.a.)	226.3	185.0	146.4	107.0	116.9	137.3	72.3	-53.7	33.3	55.1	22.4	94.5
16 Funds supplied by depository institutions	140.4	198.3	274.6	179.2	203.1	220.4	123.9	229.5	193.7	169.7	199.8	206.5
Memo: (percent of GDP)												
17 Domestic nonfinancial debt <sup>3</sup>	186.4	185.3	186.5	188.0	188.3	189.0	188.4	188.1	188.3	188.5	188.2	188.6
18 Domestic nonfinancial borrowing	9.6	8.9	10.0	9.2	8.6	8.7	11.7	9.1	7.9	8.1	8.8	8.4
19 Federal government <sup>5</sup>	3.9	2.2	2.0	1.8	1.7	1.8	3.2	0.8	2.1	1.0	1.7	1.7
20 Nonfederal	5.7	6.7	8.0	7.4	6.9	7.0	8.5	8.3	5.8	7.1	7.1	6.7

1. Data after 1996:Q2 are staff projections.

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

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

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

5. Excludes government-insured mortgage pool securities.



Prices of exports declined in the third quarter, primarily because the prices for agricultural exports reversed most of their sharp increases over the preceding year. Prices of non-oil imports continued their broad-based decline at a somewhat faster pace than during the first half of the year. The price of imported oil fell slightly in the third quarter after its strong increase in the first half of the year. Spot WTI is currently trading just below \$23 per barrel, slightly above the level at the time of the September Greenbook, but nearly \$2 below the level on the day of the September FOMC. Prices were pushed up shortly before the September meeting and further early in the intermeeting period by the resumption of fighting in the Kurdish region of Northern Iraq and by concern about the level of heating oil stocks in the United States and Europe. In the past week, the announcement of a tentative settlement of the dispute among the Kurds resulted in a decline of about \$2 per barrel.

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

	1996			1997	1998
	H1	Q3	Q4		
Foreign output	3.1	3.5	3.6	3.9	3.6
<i>Previous</i>	3.1	3.3	3.7	3.9	3.6
Real exports	3.7	0.4	11.7	6.7	6.3
<i>Previous</i>	3.8	1.3	9.8	7.2	7.9
Real imports	10.3	8.7	7.3	8.3	7.2
<i>Previous</i>	10.3	4.8	10.0	7.9	8.6

Outlook

The staff projects growth of real output in our major trading partners (weighted by U.S. nonagricultural export shares) to pick up to a 3-1/2 to 4 percent annual rate during the fourth quarter and through 1997-98. This outlook is little changed from that in the September Greenbook. The projected path of the dollar is slightly higher than in September and has led us to mark down the path of real net exports a bit. Our forecast for the growth of exports, imports, and net exports also has been revised down as a result of the effects of recent revisions to historical data on our

competitiveness of U.S. exports over the past two years will continue to contribute to export growth through 1997.

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

	-----Projection-----				
	1996			1997	1998
	H1	Q3	Q4		
Exports of G&S	3.7	0.4	11.7	6.7	6.3
Services	2.8	-0.7	7.1	3.2	2.7
Agricultural products	-15.5	25.0	3.5	3.6	3.6
Computers	38.4	21.6	36.1	29.3	28.7
Semiconductors	-11.2	2.1	24.8	21.6	21.6
Other goods	4.4	-3.9	11.2	4.6	3.3
Imports of G&S	10.3	8.7	7.3	8.3	7.2
Services	6.9	5.8	1.3	3.1	2.9
Oil	11.6	-6.9	15.4	3.6	4.1
Computers	25.3	25.3	28.6	24.5	23.9
Semiconductors	-19.8	-22.3	21.6	21.6	21.6
Other goods	11.9	11.4	4.8	7.1	4.9

Note: NIPA basis, chained (1992) dollars.

Growth of real imports of goods and services is projected to slow somewhat over the forecast period from the rapid rate observed earlier this year as the growth of U.S. domestic demand slows. As with exports, the growth of imports of computers should remain robust and that of semiconductors should recover. We expect the auto strike will reduce imports in the fourth quarter by more than exports, and that the shortfalls in both will be largely made up in the first quarter.<sup>3</sup> The quantity of oil imports should rise somewhat this quarter and during the remainder of the forecast period: consumption will rise with the increase in U.S. economic activity and U.S. oil production should continue to trend down, although at a somewhat slower pace than we assumed in the previous Greenbook.

Oil prices. In light of the temporary increase in spot oil prices over the past six weeks, we have raised the projected price of imported oil for the fourth quarter about \$1.50 per barrel, to a

<sup>3</sup> The net effect of the auto strike on trade flows will be to increase the level of real net exports in the fourth quarter by about \$2 billion and to reduce the level in the first quarter by a slightly smaller amount.

little over \$21 per barrel. Thereafter, the import price is projected to return to \$18 per barrel by the second quarter and \$17 per barrel by the fourth quarter of 1997 (a level consistent with \$19.50 per barrel for WTI), in line with our previous projection. We continue to assume that Iraq will begin shipping 800,000 b/d under U.N. auspices next April and that planned increases in oil production during 1998 will be sufficient to hold oil prices about unchanged from their end-1997 levels.

#### SELECTED PRICE INDICATORS

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

	-----Projection-----				
	1996			1997	1998
	H1	Q3	Q4		
Ag. exports <sup>1</sup>	18.3	-18.03	-4.4	1.7	2.4
Nonag. exports <sup>1</sup>	-2.4	-1.5	1.6	0.9	1.7
Non-oil imports <sup>1</sup>	-3.4	-3.1	-0.7	-1.0	1.06
Oil imports (Q4 level, \$/b1)	19.52	19.55	21.22	17.05	17.00

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

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

Nominal trade and current account balances. The nominal trade deficit on goods and services is projected to widen from its second-quarter level of \$112 billion to about \$125 billion in 1998. The balance on net investment income is projected to deteriorate slightly as well. Accordingly, the current account balance should move from a deficit of about \$155 billion in the second quarter to \$165 billion in 1997 and \$180 billion in 1998.

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

Measure and Country	1995	1996	Projected								
			Projected		1996				1997		
			1997	1998	Q1	Q2	Q3	Q4	Q1	Q2	Q3
REAL GDP											
Canada	0.7	2.3	3.0	2.8	1.3	1.3	3.8	2.9	3.7	2.6	2.8
France	0.4	1.6	2.3	2.2	4.6	-1.4	3.0	0.2	2.3	2.2	2.4
Germany	1.1	2.1	2.1	2.3	-1.9	6.1	2.1	2.3	2.0	2.1	2.2
Italy	2.4	0.9	1.3	1.7	1.7	-1.6	2.0	1.6	1.5	1.5	1.0
Japan	2.5	3.2	2.6	2.2	12.2	-2.9	1.4	2.7	4.3	1.7	2.2
United Kingdom	1.7	2.7	2.9	2.3	2.6	2.2	3.0	3.0	3.0	3.0	2.8
Average weighted by 1987-89 GDP	1.7	2.3	2.4	2.2	4.9	-0.0	2.3	2.2	3.0	2.1	2.2
Average weighted by share of											
U.S. nonagricultural exports											
Total foreign	1.7	3.3	3.9	3.6	4.4	1.9	3.5	3.6	4.1	3.7	3.8
Foreign G-7	1.3	2.4	2.7	2.5	3.5	0.7	2.9	2.6	3.4	2.3	2.5
Developing Countries	2.4	5.0	5.9	5.7	6.9	2.6	5.0	5.5	5.9	6.0	6.0
CONSUMER PRICES (1)											
Canada	2.1	1.5	1.3	1.3	1.7	3.1	0.6	0.6	1.0	1.8	1.6
France	1.9	1.6	1.8	1.8	2.9	3.2	-0.9	1.3	4.1	2.8	-1.9
W. Germany	1.6	1.5	1.6	1.7	2.5	1.9	1.6	-0.2	2.6	2.0	1.9
Italy	5.8	2.8	2.5	2.8	2.9	4.9	0.9	2.6	2.5	5.2	-0.3
Japan	-0.8	-0.0	1.7	0.5	-0.3	1.9	-1.2	-0.4	-0.2	8.1	-1.2
United Kingdom (2)	2.9	2.9	2.7	2.8	3.0	6.1	1.1	1.4	1.5	6.4	1.5
Average weighted by 1987-89 GDP	1.7	1.4	1.9	1.6	1.7	3.2	0.1	0.6	1.6	5.2	-0.1
Average weighted by share of											
U.S. non-oil imports	1.1	1.1	1.7	1.2	1.2	2.8	-0.0	0.3	1.0	4.8	0.2

Note: Annual values are measured from Q4 to Q4.

1. Not seasonally adjusted.

2. CPI excluding mortgage interest payments, which is the targeted inflation rate. Previously the CPI including mortgage interest payments was shown.

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OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1990	1991	1992	1993	1994	1995	----- 1996	Projected 1997	----- 1998
<hr/>									
NIPA REAL EXPORTS and IMPORTS									
	percentage point contribution to GDP growth, Q4/Q4								
Net Goods and Services	0.6	0.4	-0.4	-0.7	-0.4	0.3	-0.6	-0.3	-0.3
Exports of Goods and Services	0.6	0.8	0.4	0.5	1.0	0.8	0.6	0.8	0.8
Imports of Goods and Services	-0.1	-0.4	-0.8	-1.1	-1.4	-0.5	-1.2	-1.2	-1.1
	percent change, Q4/Q4								
Exports of Goods and Services	7.2	8.6	4.1	4.8	9.9	7.4	4.8	6.7	6.3
Services	8.9	7.1	-0.9	3.9	4.8	5.1	2.9	3.2	2.7
Agricultural Goods	-7.3	10.1	10.4	-5.4	17.1	-3.0	-1.7	3.6	3.6
Computers	12.3	21.7	25.2	22.7	28.8	49.5	33.5	29.3	28.7
Semiconductors	61.5	41.8	64.8	45.1	68.7	29.7	0.2	21.6	21.6
Other Goods 1/	6.0	7.0	2.3	3.6	7.4	5.2	3.9	4.6	3.3
Imports of Goods and Services	0.5	4.0	7.5	10.5	11.8	4.2	9.1	8.3	7.2
Services	5.8	-2.7	1.5	3.6	0.8	4.1	5.2	3.1	2.8
Oil	-15.8	8.1	12.1	10.1	-0.2	0.9	7.6	3.6	4.1
Computers	2.9	35.9	45.1	38.8	37.3	43.8	26.1	24.5	23.9
Semiconductors	60.9	55.3	42.0	44.9	47.4	57.1	-11.7	21.6	21.6
Other Goods 2/	-0.3	2.5	5.4	9.4	12.5	-1.2	9.9	7.1	4.9
	in billions of chained 1992\$								
Net Goods and Services	-61.9	-22.3	-29.5	-72.0	-105.7	-107.6	-120.0	-142.1	-163.2
Exports of Goods and Services	564.4	599.9	639.4	658.3	712.0	775.4	821.3	875.7	930.5
Imports of Goods and Services	626.3	622.2	668.9	730.3	817.6	883.0	941.3	1017.8	1093.7
	<hr/>								
	in billions of dollars								
US CURRENT ACCOUNT BALANCE	-94.7	-9.5	-62.6	-99.9	-148.4	-148.2	-160.0	-164.3	-178.7
Net Goods + Services (BOP)	-80.3	-29.9	-38.3	-72.0	-104.4	-105.1	-115.1	-118.3	-126.3
Exports of G+S (BOP)	536.8	580.7	617.7	643.0	698.3	786.5	832.3	883.0	941.4
Imports of G+S (BOP)	617.1	610.6	655.9	715.0	802.7	891.6	947.4	1001.3	1067.7
Net Investment Income	20.9	15.8	11.2	9.7	-4.2	-8.0	-5.7	-13.5	-19.9
Direct, Net	55.9	55.6	51.6	55.9	47.4	57.5	65.7	70.3	71.8
Portfolio, Net	-35.0	-39.8	-40.4	-46.2	-51.6	-65.5	-71.4	-83.7	-91.7
Net Transfers	-35.2	4.5	-35.5	-37.6	-39.9	-35.1	-39.2	-32.5	-32.5

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

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

Strictly Confidential (FR) Class II-FOMC

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1994				1995				1996	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
NIPA REAL EXPORTS and IMPORTS										
	percentage point contribution to GDP growth									
Net Goods and Services	-1.1	-0.5	-0.3	0.4	-1.1	0.1	1.2	1.0	-1.1	-0.6
Exports of Goods and Services	-0.2	1.6	1.0	1.7	0.3	0.7	1.2	1.2	0.2	0.7
Imports of Goods and Services	-0.9	-2.1	-1.3	-1.2	-1.4	-0.6	0.0	-0.2	-1.3	-1.3
	percent change, AR									
Exports of Goods and Services	-1.6	15.9	9.7	16.5	2.6	5.9	10.8	10.7	1.8	5.7
Services	0.8	9.7	3.4	5.5	-1.1	4.1	18.6	-0.2	2.7	2.8
Agricultural Goods	-24.4	6.8	43.0	62.9	-0.6	-19.9	16.8	-4.7	8.9	-33.7
Computers	24.5	16.6	27.6	48.6	33.0	29.8	79.9	60.7	58.6	21.0
Semiconductors	131.4	16.2	45.8	106.7	43.6	19.9	28.8	27.6	-0.0	-20.7
Other Goods 1/	-6.6	20.2	6.6	11.1	0.1	7.6	0.6	13.3	-4.2	13.8
Imports of Goods and Services	8.2	18.4	10.7	10.3	11.2	4.5	-0.0	1.6	10.7	10.0
Services	1.8	7.5	-1.6	-4.0	21.7	-6.7	6.0	-2.6	13.0	1.3
Oil	-8.6	27.2	33.5	-36.2	-2.4	5.5	22.1	-17.5	-22.1	59.9
Computers	45.0	30.9	24.8	49.9	29.6	32.2	64.3	51.8	27.7	23.0
Semiconductors	65.3	7.3	43.4	85.8	49.3	61.0	76.4	43.6	4.6	-38.5
Other Goods 2/	7.0	19.9	9.5	14.1	6.9	2.4	-10.9	-2.3	12.1	11.5
	in billions of chained 1992\$, SAAR									
Net Goods and Services	-99.3	-107.3	-111.7	-104.3	-122.5	-121.3	-101.7	-84.9	-104.1	-114.8
Exports of Goods and Services	677.6	703.1	719.6	747.6	752.3	763.3	783.0	803.1	806.7	817.9
Imports of Goods and Services	777.0	810.4	831.3	851.9	874.9	884.6	884.6	888.0	910.8	932.7
	in billions of dollars, SAAR									
US CURRENT ACCOUNT BALANCE	-118.8	-144.1	-160.0	-170.6	-156.2	-163.9	-150.8	-121.7	-139.5	-155.8
Net Goods + Services (BOP)	-90.8	-103.5	-113.8	-109.4	-118.1	-127.3	-97.3	-77.6	-96.9	-112.2
Exports of G+S (BOP)	662.3	686.1	708.3	736.5	755.9	778.9	796.8	814.5	820.6	836.4
Imports of G+S (BOP)	753.1	789.6	822.1	845.9	874.0	906.2	894.2	892.0	917.5	948.6
Net Investment Income	4.7	-2.5	-6.4	-12.4	-3.6	-3.4	-17.4	-7.6	1.0	-6.4
Direct, Net	49.5	46.0	47.4	46.9	57.4	59.9	51.3	61.3	66.1	62.1
Portfolio, Net	-44.8	-48.5	-53.7	-59.3	-61.0	-63.3	-68.7	-68.9	-65.0	-68.6
Net Transfers	-32.7	-38.0	-39.9	-48.9	-34.6	-33.2	-36.0	-36.6	-43.6	-37.2

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

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

## OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	----- Projected -----									
	1996		1997				1998			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<hr/>										
NIPA REAL EXPORTS and IMPORTS	percentage point contribution to GDP growth									
Net Goods and Services	-1.1	0.3	-0.2	-0.3	-0.7	-0.2	-0.1	-0.2	-0.6	-0.1
Exports of Goods and Services	0.1	1.3	0.8	1.0	0.3	1.2	0.6	1.1	0.3	1.2
Imports of Goods and Services	-1.1	-1.0	-1.0	-1.3	-0.9	-1.4	-0.7	-1.3	-0.9	-1.3
	percent change, AR									
Exports of Goods and Services	0.4	11.7	6.5	8.3	2.3	9.7	4.5	8.7	2.3	9.8
Services	-0.7	7.1	3.2	3.5	3.3	2.9	2.9	3.0	2.7	2.4
Agricultural Goods	25.0	3.5	3.6	3.6	3.5	3.6	3.6	3.6	3.6	3.6
Computers	21.6	36.1	31.1	28.7	28.7	28.7	28.7	28.7	28.7	28.7
Semiconductors	2.1	24.8	21.6	21.6	21.6	21.6	21.6	21.6	21.6	21.6
Other Goods 1/	-3.9	11.3	4.5	7.6	-3.2	10.1	0.5	7.8	-4.0	9.6
Imports of Goods and Services	8.7	7.3	7.5	9.3	6.6	9.8	4.9	9.1	5.9	8.9
Services	5.8	1.3	3.7	2.9	2.8	2.8	2.9	2.7	2.7	2.9
Oil	-6.9	15.4	-22.6	47.1	14.8	-11.8	-5.5	32.8	13.8	-17.6
Computers	25.3	28.6	26.2	23.9	23.9	23.9	23.9	23.9	23.9	23.9
Semiconductors	-22.3	21.6	21.6	21.6	21.6	21.6	21.6	21.6	21.6	21.6
Other Goods 2/	11.4	4.8	8.3	5.5	3.7	10.9	2.6	5.7	2.1	9.6
	in billions of chained 1992\$, SAAR									
Net Goods and Services	-133.6	-127.5	-131.7	-136.7	-148.1	-151.8	-154.5	-158.6	-169.0	-170.6
Exports of Goods and Services	818.8	841.7	855.2	872.4	877.3	898.0	908.0	927.2	932.4	954.5
Imports of Goods and Services	952.3	969.2	986.9	1009.1	1025.5	1049.8	1062.5	1085.8	1101.4	1125.1
	in billions of dollars, SAAR									
US CURRENT ACCOUNT BALANCE	-171.1	-173.7	-157.4	-158.2	-164.7	-176.9	-167.6	-172.1	-181.6	-193.3
Net Goods + Services (BOP)	-128.6	-122.8	-117.1	-115.4	-120.3	-120.4	-120.4	-123.2	-131.5	-130.0
Exports of G+S (BOP)	824.8	847.4	861.4	879.2	884.6	906.8	917.7	938.2	943.4	966.5
Imports of G+S (BOP)	953.4	970.3	978.5	994.7	1005.0	1027.1	1038.1	1061.4	1074.9	1096.5
Net Investment Income	-9.6	-7.9	-10.3	-12.8	-14.4	-16.5	-17.2	-18.9	-20.1	-23.3
Direct, Net	64.4	70.0	70.3	69.9	70.5	70.4	71.5	71.6	72.5	71.7
Portfolio, Net	-74.0	-77.8	-80.5	-82.7	-84.8	-86.9	-88.7	-90.5	-92.7	-95.1
Net Transfers	-33.0	-43.0	-30.0	-30.0	-30.0	-40.0	-30.0	-30.0	-30.0	-40.0

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

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

## **Part 2**

November 6, 1996

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

Prepared for the Federal Open Market Committee

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



November 6, 1996

## **RECENT DEVELOPMENTS**

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

	1996				Q4 (Sched.)
	Aug.	Sept.	Oct.	Q3	
U.S. production	12.6	12.1	11.2	12.7	11.7
Autos	6.7	6.5	5.6	6.7	5.9
Trucks	5.9	5.6	5.6	6.0	5.8
Days' supply					
Autos	60.5	62.3	61.2	62.3	...
Light trucks	67.2	75.8	71.5	75.8	...

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

After registering a hefty 12-3/4 million unit annual pace in the third quarter, initial plans for motor vehicle production in the fourth quarter showed assemblies dropping back to a 12.1 million unit annual rate. In October, assemblies evidently ran at only an 11.2 million unit annual rate, with about three-fourths of the decline from the third-quarter pace attributable to the disruptions caused by last month's Canadian Auto Workers strike (see discussion below). On balance, the drop in output of motor vehicles and parts is expected to directly shave 0.3 percentage point off October IP growth.

Production also apparently declined slightly last month outside of the motor vehicles sector. Manufacturing production-worker hours (excluding motor vehicles and parts, FRB seasonals) dropped 0.3 percent in October. Hours in most durable goods industries were down, with the exception of lumber, instruments, and stone, clay, and glass. Among the nondurable goods industries, the picture was mixed, with aggregate hours up in food, leather, textiles, and paper but down in apparel, petroleum, rubber and plastics, and chemicals. In industries for which physical output data are available, the production of steel and lumber declined in October, while output of home appliances posted its first gain in four months. Mining output declined in October; electricity generation edged down but remained in its normal range for the season.

Forward-looking indicators of industrial activity provide further evidence of a slowing in manufacturing production growth in the current quarter. Real adjusted durable goods orders increased 0.7 percent in September, only partially offsetting a 2.5 percent drop in August. The November reading on new orders from the

\$502 billion in fiscal 1997.<sup>12</sup> However, CBO estimates that total discretionary outlays will increase less than \$2 billion in fiscal 1997. This is partly a consequence of a \$3 billion offset to outlays (but not budget authority) resulting from a provision of the omnibus appropriations bill that imposes a special levy on thrift institutions to recapitalize the Savings Association Insurance Fund.<sup>13</sup>

RECENT BUDGET APPROPRIATIONS  
(Billions of dollars, fiscal years)

	1995	1996	1997
<b>Budget authority</b>			
Total	498.1	493.2	502.4
Defense	262.4	264.8	265.8
Nondefense	235.7	228.3	236.6
<b>Outlays</b>			
Total	548.0	535.5	537.2
Defense	270.2	264.2	264.9
Nondefense	277.8	271.4	272.4

Note. Scored by the Congressional Budget Office.

State and Local Governments

Total real state and local government consumption and investment spending now appears to have risen about 1-3/4 percent in the third quarter. Real consumption expenditures were up at a 1.5 percent annual rate after a 5.6 percent jump in the second quarter. The unusual pattern reflects gyrations in real compensation associated with the snowstorms last winter, as many educational employees who lost days during the storm made them up in the second quarter; in the third quarter, the level of compensation returned to trend. Taking into account expected revisions associated with the September construction data, real investment spending probably rose 2-1/2 percent in the third quarter. Employment of state and local government workers, the only data available for the fourth quarter, fell 32,000 in October after a

12. Budget authority in fiscal 1997 is approximately the same as the President's request in the fiscal 1997 budget and is \$5 billion more than planned in the fiscal 1997 congressional budget resolution.

13. To raise SAIF's reserve ratio to the statutorily mandated minimum of 1.25 percent from the June level of 0.55 percent, the legislation calls for a one-time special assessment on most SAIF deposits of 68 basis points. After the assessment, SAIF premiums could then be allowed to fall to a level near that for BIF deposits.

TREASURY FINANCING  
(Billions of dollars; total for period)

Item	1996					
	Q2	Q3	Q4 <sup>P</sup>	Oct. <sup>e</sup>	Nov. <sup>P</sup>	Dec. <sup>P</sup>
Total surplus/deficit (-)	53.7	-33.3	-55.1	-34.0	-40.7	19.7
Means of financing deficit						
Net cash borrowing and repayments (-)	-23.5	39.4	38.5	12.5	40.6	-14.6
Nonmarketable	2.1	-1.0	3.7	3.7	0.0	0.0
Marketable	-25.6	40.3	34.8	-8.8	40.6	-14.6
Bills	-38.3	-12.4	10.4	-1.7	36.5	-24.5
Coupons	12.7	52.7	24.3	10.4	4.0	9.9
Decrease in cash balance	-16.2	-6.2	14.4	18.6	5.0	-9.1
Other <sup>1</sup>	-14.0	0.1	2.2	2.9	-4.8	4.1
Memo:						
Cash balance, end of period	38.0	44.2	29.8	25.6	20.7	29.8

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

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

p Projection.

e Estimate.

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

Agency	1996				
	Q2	Q3	July	Aug.	Sep.
FHLBs	10.0	5.7	1.9	2.7	1.1
FHLMC	19.1	3.6	3.2	2.2	-1.8
FNMA	1.6	10.8	2.1	1.9	6.8
Farm Credit Banks	2.8	-2.1	-1.9	-0.1	-0.1
SLMA	-1.0	0.2	1.3	0.4	-1.5

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