

## **Part 1**

August 14, 1997

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## **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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August 14, 1997

## **SUMMARY AND OUTLOOK**

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On the assumption that the UPS strike will end in the not-too-distant future, we have not anticipated a significant GDP growth effect this quarter. The disruption to shipping is no doubt causing some problems in the production and distribution chain, but the available--admittedly very fragmentary--anecdotal evidence suggests that aggregate effects have been small. Furthermore, a portion of the sales that have been lost to date are likely to be made up quickly.

The strike certainly will leave some imprint on the payroll measures for August, given that this is the reference week for the monthly survey. To this point, however, the labor market indicators would appear consistent with at least moderate growth of activity. The increase in private payrolls in July, at 260,000, was very strong, but aggregate production worker hours were weak. The implied decline in the average workweek seems doubtful, and we are anticipating a considerable snapback in total hours in the ensuing months (perhaps September, rather than August, given the UPS strike). The low level of initial claims in recent weeks certainly suggests a vibrant demand for workers, as do a variety of other market indicators.

We expect that growth of final sales will pick up to a pace of 3-1/2 percent this quarter, lifted by a rebound in personal consumption expenditures. On the heels

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

Measure	1997:Q2			1997:Q3	
	June GB	BEA <sup>a</sup>	Aug. GB	June GB	Aug. GB
<b>Real GDP</b>	<b>2.2</b>	<b>2.2</b>	<b>2.6</b>	<b>2.9</b>	<b>2.2</b>
Private domestic final purchases	3.0	2.7	2.8	4.7	5.0
Personal consumption expenditures	1.4	.8	.8	4.0	4.2
Residential investment	4.4	5.6	7.5	-2.5	-5.0
Business fixed investment	13.0	15.1	15.3	11.3	14.6
Government outlays for consumption and investment	3.1	3.8	3.7	-.3	-.5
Change in billions of chained (1992) dollars					
Inventory investment	-5.6	3.1	7.2	.3	-24.9
Net exports	-11.9	-21.6	-17.9	-17.2	-9.2

a Advance.

As discussed in an appendix in Part 2, the NIPA revisions have resulted in a downward drift in the saving rate that is far more consistent with its historical relation to wealth. In prior Greenbooks, we noted our surprise at the reported rise in the saving rate in the face of a soaring wealth-to-income ratio. The persistence of this pattern in the previous data had led us to speculate that several factors could be limiting or offsetting the wealth effect. We noted that households might have raised their savings accumulation targets in light of perceived greater retirement needs. We also conjectured that responses to those wealth gains accruing in tax-preferred retirement accounts might be especially muted or that the astonishing sharpness of the stock price run-up might be causing investors to be cautious in marking up their permanent incomes. While these stories retain some appeal, the saving rate revisions argue for giving them less weight. Our forecast of the saving rate is now considerably lower

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

Measure	1997:H1	1997:H2	1998
Real GDP	3.7	2.3	2.0
Previous	4.0	2.9	2.1
Final sales	2.5	3.3	2.0
Previous	3.2	3.2	2.1
PCE	3.0	3.7	2.6
Previous	3.5	3.6	2.5
Residential investment	5.4	-1.6	-3.6
Previous	5.1	-1.6	-2.0
BFI	9.6	9.3	5.9
Previous	11.6	9.2	6.3
Government purchases	1.6	.6	.7
Previous	1.6	1.1	.8
Change, billions of chained (1992) dollars			
Inventory change	37.9	-40.6	-.6
Previous	24.4	-12.6	2.5
Net exports	-38.6	-5.6	-37.5
Previous	-33.9	-12.0	-23.8

a year from GDP growth in 1997 and 1998. (A fuller discussion of the prospects for the external sector is contained in the *International Developments* section.)

**Labor Markets.** We had previously been assuming that trend labor productivity in the nonfarm business sector was rising 0.9 percent per year from 1990 to date—a figure higher than justified by the then-published data, but one that we thought might better reconcile various economic phenomena and be confirmed in the NIPA revision. In the event, the upward revision to output per hour was less than we anticipated. This presented us with a difficult analytical question, to which we are supplying a complicated answer. We have decided to assume that the cyclically adjusted trend from 1990 to 1995 was only 0.8 percent, but that it has picked up to 1.0 percent since then. The new data do still show some acceleration of output per hour in the recent period. It is possible that this simply reflects the typical lagged adjustment of hours to a pickup in output growth, but we think it is appropriate to put a more optimistic interpretation on the step-up in productivity improvement. The underlying trend may have steepened a little as a consequence of the capital deepening that has occurred with robust investment and of a possibly more effective use of information technology. It is this reasoning that has led us to raise our estimate of the current trend growth of potential GDP to just over 2 percent.

We expect that actual productivity increases will be a little short of the trend over the remainder of this year and next, because the remaining pool of unemployed labor is less skilled on average than was the case earlier in the expansion. Apart from

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

Measure	1995	1996	1997	1998
Output per hour, nonfarm business	.4	1.2	1.0	.8
Previous	-.1	.9	1.5	.8
Nonfarm payroll	2.0	2.1	2.2	1.4
Previous	2.0	2.1	2.1	1.6
Household employment survey	.6	2.1	2.2	1.3
Previous	.6	2.1	2.3	1.4
Labor force participation rate <sup>1</sup>	66.5	66.9	67.2	67.3
Previous	66.5	66.9	67.3	67.4
Civilian unemployment rate <sup>1</sup>	5.6	5.3	4.7	4.7
Previous	5.6	5.3	4.7	4.6

1. Percent, average for the fourth quarter.

the strikes at GM and UPS as straws in the wind in this regard, but we believe that the significance of these events could be easily overstated.

On the price side, we are projecting an increase in core CPI inflation from 2.4 percent over the year ended July to 2.8 percent over the four quarters of 1998.<sup>3</sup> In part, this increase reflects the expected pressure from accelerating unit labor costs. But some additional impetus to inflation comes from the projected swing in the dollar from appreciation to depreciation, which is reflected in an expected slowing of the rate of decline of non-oil import prices. On the other hand, a 3/4 percentage point decline in

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

Measure	1995	1996	1997	1998
Consumer price index	2.6	3.2	2.1	2.6
Previous	2.6	3.2	2.2	2.8
Food	2.6	4.2	1.5	2.4
Previous	2.6	4.2	1.7	2.6
Energy	-1.6	7.6	-1.6	1.0
Previous	-1.6	7.6	-2.6	1.8
Excluding food and energy	3.0	2.6	2.5	2.8
Previous	3.0	2.6	2.7	3.0
PCE chain-weighted price index	2.2	2.7	1.8	2.4
Previous	2.1	2.5	2.1	2.6
Excluding food and energy	2.4	2.3	2.0	2.5
Previous	2.3	2.0	2.4	2.7
GDP chain-weighted price index	2.4	2.3	2.0	2.3
Previous	2.5	2.1	2.2	2.5
ECI for compensation of private industry workers <sup>1</sup>	2.6	3.1	3.2	3.3
Previous	2.6	3.1	3.3	3.4
Prices of non-oil merchandise imports	.6	-5.9	-3.0	-1.2
Previous	.8	-2.9	-.5	.7

1. December to December.

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3. The acceleration of CPI prices (core and total) in 1998 is tempered 0.1 percentage point by an update of the market basket next year. Starting from 1995, the cumulative effect of technical changes in the index will reduce CPI inflation 0.4 percentage point in 1998.

best news about corporate credit quality likely is behind us, we foresee only a moderate deterioration in business balance sheets. Nonetheless, if stock prices retreat in 1998, as we expect, the cost of equity finance will rise, and the exceptionally narrow spreads now prevailing on junk debt could widen as investors become less complacent about risk-taking.

Over the rest of 1997 and the first half of 1998, growth of M2 is projected to remain close to that of nominal GDP. In the second half of 1998, the assumed increases in the federal funds rate boost velocity, causing M2 to decelerate. The growth of M3 is likely to remain above that of nominal GDP, as institutional money funds continue to attract corporate cash management accounts that previously had been invested directly in non-M3 instruments.

### Alternative Simulations

The alternative simulations this month are based on different paths for the federal funds rate. In the first simulation, the rate is held at its current level through the end of 1998. Because this assumption about the federal funds rate differs from the baseline assumption only for the latter half of 1998--and then only marginally--effects on the

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

Measure	1996	1997	1998
<i>Real GDP</i>			
Baseline	3.2	3.0	2.0
No further change	3.2	3.0	2.1
Tighter policy	3.2	3.0	1.3
<i>Civilian unemployment rate<sup>1</sup></i>			
Baseline	5.3	4.7	4.7
No further change	5.3	4.7	4.7
Tighter policy	5.3	4.7	5.0
<i>CPI excluding food and energy</i>			
Baseline	2.6	2.5	2.8
No further change	2.6	2.5	2.8
Tighter policy	2.6	2.5	2.6

1. Average for the fourth quarter.

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

August 14, 1997

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>	
	06/25/97	08/14/97	06/25/97	08/14/97	06/25/97	08/14/97	06/25/97	08/14/97	06/25/97	08/14/97
<b>ANNUAL</b>										
1994	5.8	5.9	3.5	3.5	2.3	2.4	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	5.1	2.4	2.8	2.1	2.3	3.0	3.0	5.4	5.4
1997	5.5	5.5	3.7	3.4	2.2	2.1	2.4	2.4	4.9	5.0
1998	4.5	4.3	2.4	2.2	2.4	2.2	2.6	2.4	4.6	4.7
<b>QUARTERLY</b>										
1995 Q1	3.8	4.2	0.4	0.9	3.3	3.3	2.7	2.7	5.5	5.5
Q2	3.1	2.3	0.7	0.3	2.4	2.1	3.5	3.5	5.6	5.6
Q3	6.0	5.2	3.8	3.0	2.1	2.0	2.1	2.1	5.7	5.7
Q4	2.3	4.5	0.3	2.2	2.1	2.1	2.6	2.6	5.6	5.6
1996 Q1	4.2	4.7	2.0	1.8	2.3	2.8	3.2	3.2	5.6	5.6
Q2	6.5	7.7	4.7	6.0	2.2	1.9	3.4	3.4	5.4	5.4
Q3	3.8	3.6	2.1	1.0	2.0	2.7	2.8	2.8	5.3	5.3
Q4	5.3	6.2	3.8	4.3	1.9	1.9	3.3	3.3	5.3	5.3
1997 Q1	8.1	7.4	5.8	4.9	2.8	2.4	2.3	2.3	5.3	5.3
Q2	3.9	4.2	2.2	2.6	1.9	1.5	1.1	1.0	4.9	4.9
Q3	4.8	3.9	2.9	2.2	2.1	1.9	2.4	2.2	4.8	4.8
Q4	4.7	4.5	2.8	2.4	2.2	2.1	2.8	2.6	4.7	4.7
1998 Q1	4.6	4.4	2.5	2.3	2.5	2.3	2.7	2.4	4.6	4.7
Q2	4.5	4.4	2.3	2.1	2.5	2.3	2.8	2.5	4.6	4.7
Q3	4.2	4.1	2.0	1.9	2.6	2.3	3.0	2.7	4.6	4.7
Q4	4.0	4.0	1.8	1.7	2.6	2.4	2.9	2.7	4.6	4.7
<b>TWO-QUARTER<sup>3</sup></b>										
1995 Q2	3.5	3.2	0.6	0.6	2.9	2.7	3.0	3.0	0.0	0.0
Q4	4.1	4.8	2.0	2.6	2.1	2.1	2.3	2.3	0.0	0.0
1996 Q2	5.4	6.2	3.3	3.8	2.2	2.3	3.4	3.4	-0.2	-0.2
Q4	4.6	4.9	3.0	2.7	2.0	2.3	3.0	3.0	-0.1	-0.1
1997 Q2	6.0	5.8	4.0	3.7	2.3	2.0	1.8	1.7	-0.4	-0.4
Q4	4.7	4.2	2.9	2.3	2.1	2.0	2.6	2.4	-0.2	-0.2
1998 Q2	4.5	4.4	2.4	2.2	2.5	2.3	2.7	2.5	-0.1	-0.0
Q4	4.1	4.1	1.9	1.8	2.6	2.4	2.9	2.7	-0.0	-0.0
<b>FOUR-QUARTER<sup>4</sup></b>										
1994 Q4	5.9	5.8	3.5	3.3	2.3	2.5	2.7	2.7	-1.0	-1.0
1995 Q4	3.8	4.0	1.3	1.6	2.5	2.4	2.6	2.6	0.0	0.0
1996 Q4	5.0	5.6	3.1	3.2	2.1	2.3	3.2	3.2	-0.3	-0.3
1997 Q4	5.4	5.0	3.4	3.0	2.2	2.0	2.2	2.1	-0.6	-0.6
1998 Q4	4.3	4.2	2.1	2.0	2.5	2.3	2.8	2.6	-0.1	-0.1

1. For all urban consumers.

2. Level, except as noted.

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

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

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

August 14, 1997

Item	Units <sup>1</sup>	- Projected -									
		1990	1991	1992	1993	1994	1995	1996	1997	1998	
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	5743.8	5916.7	6244.4	6558.1	6947.0	7265.4	7636.0	8055.3	8398.9	
Real GDP	Bill. Ch. \$	6136.3	6079.4	6244.4	6389.6	6610.7	6742.1	6928.4	7166.6	7324.4	
Real GDP	% change	-0.2	0.4	3.6	2.4	3.3	1.6	3.2	3.0	2.0	
Gross domestic purchases		-0.8	0.0	4.0	3.0	3.6	1.2	3.6	3.5	2.4	
Final sales		0.6	-0.4	3.9	2.1	2.7	2.2	3.1	3.0	2.0	
Priv. dom. final purchases		-0.7	-0.8	4.9	3.7	3.7	2.5	3.8	4.1	2.8	
Personal cons. expenditures		0.5	-0.2	4.2	2.7	3.1	2.2	2.7	3.4	2.6	
Durables		-3.2	-3.1	9.4	7.4	6.3	3.0	3.9	6.3	4.4	
Nondurables		-0.5	-1.0	3.4	1.6	3.0	1.0	1.8	2.3	2.2	
Services		2.0	0.9	3.6	2.3	2.5	2.7	2.8	3.3	2.4	
Business fixed investment		-2.5	-6.0	5.5	9.9	7.6	6.5	11.7	9.5	5.9	
Producers' dur. equipment		-2.0	-2.6	9.6	12.2	10.2	8.3	12.2	13.0	6.9	
Nonres. structures		-3.5	-12.5	-3.4	4.5	1.1	2.0	10.3	0.6	3.1	
Residential structures		-15.1	1.1	16.9	7.8	4.2	-1.9	3.9	1.9	-2.6	
Exports		7.2	8.6	4.1	4.6	10.0	10.3	9.3	8.7	4.4	
Imports		0.5	4.1	7.4	10.2	12.3	5.6	11.8	12.2	7.2	
Gov't. cons. & investment		2.6	-0.7	1.7	-1.4	0.1	-1.4	2.0	1.1	0.7	
Federal		1.6	-3.1	1.3	-6.1	-3.9	-6.0	1.5	-0.9	-2.1	
Defense		0.3	-5.3	-1.3	-6.9	-6.0	-5.9	1.1	-2.7	-3.5	
State & local		3.3	1.0	2.0	2.0	2.7	1.4	2.2	2.2	2.3	
Change in bus. inventories	Bill. Ch. \$	10.4	-3.0	7.0	22.1	60.6	27.3	25.0	52.7	34.3	
Nonfarm		7.8	-1.2	2.0	29.5	49.0	35.7	22.5	46.9	31.2	
Net exports		-61.9	-22.3	-29.5	-70.2	-104.6	-98.8	-114.4	-143.4	-181.5	
Nominal GDP	% change	4.4	3.8	6.3	5.0	5.8	4.0	5.6	5.0	4.2	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	109.4	108.3	108.6	110.7	114.1	117.2	119.5	122.2	124.3	
Unemployment rate	%	5.6	6.8	7.5	6.9	6.1	5.6	5.4	5.0	4.7	
Industrial prod. index	% change	-0.6	-0.0	3.9	3.0	5.7	1.8	3.9	3.8	1.8	
Capacity util. rate - mfg.	%	81.4	78.0	79.5	80.8	83.1	83.1	82.1	82.3	81.6	
Housing starts	Millions	1.19	1.01	1.20	1.29	1.46	1.35	1.48	1.45	1.42	
Light motor vehicle sales		14.05	12.52	12.85	13.87	15.02	14.73	15.05	14.99	14.87	
North Amer. produced		10.85	9.74	10.51	11.71	12.88	12.82	13.34	13.08	13.04	
Other		3.20	2.77	2.34	2.15	2.13	1.90	1.71	1.90	1.83	
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	5764.9	5932.4	6255.5	6576.8	6955.2	7270.6	7637.7	8037.8	8369.6	
Nominal GNP	% change	4.6	3.5	6.2	5.1	5.7	4.1	5.5	4.6	4.1	
Nominal personal income		6.4	3.7	7.3	4.2	5.1	5.2	5.8	5.4	4.7	
Real disposable income		1.1	0.8	4.0	1.5	2.4	2.4	2.0	2.9	2.5	
Personal saving rate	%	5.3	6.0	6.2	5.1	4.2	4.8	4.3	3.7	3.5	
Corp. profits, IVA & CCAdj.	% change	5.5	4.5	11.3	19.0	14.1	11.0	9.1	4.1	-0.9	
Profit share of GNP	%	6.9	6.9	6.8	7.5	8.2	8.9	9.6	9.8	9.2	
Excluding FR Banks	%	6.5	6.6	6.6	7.2	7.9	8.6	9.3	9.5	9.0	
Federal surpl./deficit	Bill. \$	-154.7	-196.0	-280.9	-250.7	-186.7	-174.4	-110.5	-35.8	-35.2	
State & local surpl./def.		80.1	75.8	86.3	87.4	96.8	103.1	105.3	102.5	105.3	
Ex. social ins. funds		20.2	11.5	18.3	19.7	27.9	32.5	34.1	31.0	33.6	
<b>PRICES AND COSTS</b>											
GDP implicit deflator	% change	4.7	3.4	2.6	2.6	2.5	2.4	2.2	1.9	2.2	
GDP chn.-wt. price index		4.7	3.3	2.6	2.6	2.5	2.4	2.3	2.0	2.3	
Gross Domestic Purchases chn.-wt. price index		5.2	2.7	2.7	2.3	2.5	2.3	2.3	1.6	2.3	
CPI Ex. food and energy		6.3	3.0	3.1	2.7	2.7	2.6	3.2	2.1	2.6	
ECA hourly compensation <sup>2</sup>		5.3	4.4	3.5	3.1	2.8	3.0	2.6	2.5	2.8	
ECI, hourly compensation <sup>2</sup>		4.6	4.4	3.5	3.6	3.1	2.6	3.1	3.2	3.3	
Nonfarm business sector		-0.6	2.2	3.5	-0.2	-0.1	0.4	1.2	1.0	0.8	
Output per hour		5.8	4.8	4.5	1.8	1.9	2.8	3.3	3.6	3.6	
Compensation per Hour		6.4	2.5	1.0	2.0	2.0	2.4	2.1	2.5	2.8	
Unit labor cost											

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

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

August 14, 1997

Item	Units	1994	1994	1994	1994	1995	1995	1995	1995	1996	1996
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	6794.3	6911.4	6986.5	7095.7	7168.9	7209.5	7301.3	7381.9	7467.5	7607.7
Real GDP	Bill. Ch. \$	6524.5	6600.3	6629.5	6688.6	6703.7	6708.8	6759.2	6796.5	6826.4	6926.0
Real GDP	% change	3.0	4.7	1.8	3.6	0.9	0.3	3.0	2.2	1.8	6.0
Gross domestic purchases		4.0	5.0	2.1	3.2	1.3	0.2	1.9	1.3	3.1	6.5
Final sales		1.2	3.4	3.3	2.7	1.8	1.9	3.3	2.0	2.6	5.2
Priv. dom. final purchases		3.7	4.4	2.7	3.8	2.5	2.2	2.8	2.5	4.4	5.5
Personal cons. expenditures		3.8	3.0	2.3	3.2	1.5	2.9	2.6	1.8	3.1	3.7
Durables		6.4	3.8	4.3	11.0	-3.0	3.9	9.3	2.0	4.8	9.7
Nondurables		5.0	2.1	2.2	2.7	1.7	0.9	0.7	0.7	1.7	2.6
Services		2.7	3.3	2.0	1.9	2.4	3.7	2.2	2.3	3.5	3.1
Business fixed investment		0.4	9.9	7.7	12.6	14.2	5.7	1.6	4.9	11.7	13.0
Producers' dur. equipment		7.0	5.9	11.4	16.9	16.1	5.2	2.0	9.4	13.1	14.9
Nonres. structures		-14.8	21.1	-1.1	2.3	9.5	4.3	0.7	-5.8	8.2	7.9
Residential structures		10.0	16.6	-3.1	-5.0	-7.0	-15.5	8.4	8.5	8.3	17.9
Exports		-1.8	17.7	10.6	14.7	7.2	9.3	13.5	11.5	1.7	9.6
Imports		7.6	19.0	13.1	9.9	10.0	7.7	2.3	2.4	13.1	14.1
Gov't. cons. & investment		-4.0	0.4	8.2	-3.8	0.6	-0.1	-0.7	-5.4	1.8	7.2
Federal		-10.7	-4.9	13.3	-11.3	-1.1	-4.5	-1.3	-16.4	7.5	8.8
Defense		-16.7	1.0	13.8	-18.6	-1.1	-1.6	-4.0	-15.9	6.1	11.0
State & local		0.7	4.0	5.1	1.2	1.7	3.6	-0.4	1.9	-1.4	6.3
Change in bus. inventories	Bill. Ch. \$	53.1	75.9	49.7	63.6	48.5	21.6	17.0	22.2	8.0	21.3
Nonfarm		39.6	59.6	38.2	58.7	54.7	34.0	29.6	24.4	14.5	17.3
Net exports		-97.6	-103.9	-111.1	-105.9	-113.5	-112.8	-92.9	-76.1	-100.8	-112.6
Nominal GDP	% change	5.5	7.1	4.4	6.4	4.2	2.3	5.2	4.5	4.7	7.7
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	112.6	113.7	114.7	115.6	116.5	116.9	117.4	117.9	118.5	119.2
Unemployment rate	%	6.6	6.2	6.0	5.6	5.5	5.6	5.7	5.6	5.6	5.4
Industrial prod. index	% change	6.2	6.7	4.4	5.6	3.9	-0.7	3.2	0.8	1.6	6.2
Capacity util. rate - mfg.	%	82.0	83.0	83.3	84.0	84.2	83.1	82.9	82.3	81.7	82.1
Housing starts	Millions	1.39	1.47	1.45	1.47	1.32	1.29	1.42	1.41	1.46	1.50
Light motor vehicle sales		14.95	14.91	14.89	15.31	14.67	14.42	14.86	14.96	15.04	15.13
North Amer. produced		12.84	12.76	12.69	13.24	12.66	12.46	13.00	13.18	13.38	13.43
Other		2.12	2.15	2.20	2.07	2.01	1.96	1.86	1.78	1.66	1.70
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	6811.2	6920.3	6992.3	7096.8	7175.1	7220.6	7298.3	7388.5	7475.3	7610.5
Nominal GNP	% change	5.7	6.6	4.2	6.1	4.5	2.6	4.4	5.0	4.8	7.4
Nominal personal income		-3.0	11.1	5.1	7.6	7.4	4.1	4.3	5.1	6.8	6.6
Real disposable income		-4.7	6.7	2.9	4.9	4.5	0.2	2.6	2.5	3.5	1.1
Personal saving rate	%	3.4	4.2	4.4	4.7	5.3	4.6	4.5	4.6	4.7	4.1
Corp. profits, IVA & CCAdj.	% change	-19.9	45.2	21.6	20.1	-2.9	10.0	31.7	7.9	20.0	12.1
Profit share of GNP	%	7.5	8.1	8.4	8.7	8.5	8.7	9.2	9.3	9.6	9.7
Excluding FR Banks	%	7.3	7.9	8.2	8.4	8.2	8.4	8.9	9.0	9.3	9.4
Federal surpl./deficit	Bill. \$	-209.0	-163.2	-187.6	-186.8	-191.5	-179.5	-176.5	-150.2	-153.6	-111.6
State & local surpl./def.		84.7	94.8	98.4	109.3	107.7	105.6	101.1	97.8	104.1	114.4
Ex. social ins. funds		16.3	25.9	29.4	40.0	37.7	35.3	30.3	26.8	33.2	43.1
<b>PRICES AND COSTS</b>											
GDP implicit deflator	% change	2.4	2.2	2.6	2.7	3.3	2.0	2.1	2.2	2.9	1.7
GDP chn.-wt. price index		2.5	2.2	2.5	2.6	3.3	2.1	2.0	2.1	2.8	1.9
Gross Domestic Purchases chn.-wt. price index		2.0	2.6	3.0	2.5	3.0	2.5	1.7	1.9	2.7	1.8
CPI Ex. food and energy		1.9	2.8	3.6	2.4	2.7	3.5	2.1	2.6	3.2	3.4
ECI, hourly compensation <sup>1</sup>		2.9	2.9	3.1	2.3	3.3	3.3	2.8	2.7	2.7	2.7
Nonfarm business sector		3.0	3.4	3.3	2.3	2.9	2.6	2.6	2.9	2.5	3.5
Output per hour		-1.1	0.6	-1.1	1.3	-1.6	0.8	1.1	1.5	1.9	2.2
Compensation per hour		3.2	0.3	1.3	2.8	2.6	3.1	2.7	2.9	2.8	4.4
Unit labor cost		4.4	-0.2	2.4	1.6	4.2	2.3	1.6	1.3	0.9	2.1

1. Private-industry workers.

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

August 14, 1997

Item	Units	Projected											
		1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4		
<b>EXPENDITURES</b>													
Nominal GDP	Bill. \$	7676.0	7792.9	7933.6	8014.9	8091.9	8180.7	8269.3	8357.8	8442.8	8525.8		
Real GDP	Bill. Ch. \$	6943.8	7017.4	7101.6	7147.6	7187.0	7230.1	7270.7	7308.9	7343.2	7374.8		
Real GDP	% change	1.0	4.3	4.9	2.6	2.2	2.4	2.3	2.1	1.9	1.7		
Gross domestic purchases		2.4	2.5	5.9	3.3	2.6	2.2	3.1	2.4	2.8	1.3		
Final sales		0.2	4.5	3.0	2.2	3.6	3.3	2.1	2.2	1.5	2.3		
Priv. dom. final purchases		2.2	3.2	5.1	2.8	5.0	3.3	3.4	2.9	2.5	2.2		
Personal cons. expenditures		0.5	3.3	5.3	0.8	4.2	3.3	3.1	2.8	2.4	2.1		
Durables		-1.9	3.5	14.1	-5.6	13.0	5.0	5.7	4.8	3.9	3.4		
Nondurables		0.6	2.1	4.7	-2.1	3.8	3.0	2.7	2.3	2.1	1.7		
Services		1.0	3.9	3.9	3.7	2.8	3.1	2.9	2.6	2.3	2.0		
Business fixed investment		16.5	5.9	4.1	15.3	14.6	4.3	6.4	6.1	5.7	5.3		
Producers' dur. equipment		19.1	2.6	6.7	22.5	19.4	4.6	7.6	7.2	6.6	6.2		
Nonres. structures		10.0	15.3	-2.1	-1.4	2.7	3.4	3.2	3.1	3.0	3.0		
Residential structures		-4.5	-4.3	3.3	7.5	-5.0	1.9	-0.0	-2.5	-3.8	-3.9		
Exports		1.9	25.5	9.9	14.0	2.3	8.9	2.2	7.1	0.5	8.2		
Imports		13.2	6.8	17.9	19.9	5.4	6.3	8.4	8.9	7.5	3.9		
Gov't. cons. & investment		-1.1	0.1	-0.4	3.7	-0.5	1.6	0.4	0.5	1.8	0.2		
Federal		-4.2	-5.2	-5.8	8.4	-5.6	-0.1	-3.0	-2.7	0.9	-3.5		
Defense		-4.6	-7.1	-11.8	10.3	-6.3	-1.5	-5.5	-4.7	0.6	-4.2		
State & local		0.7	3.3	2.7	1.1	2.5	2.5	2.3	2.3	2.3	2.3		
Change in bus. inventories	Bill. Ch. \$	37.9	32.9	63.7	70.8	45.9	30.2	34.2	33.1	40.4	29.6		
Nonfarm		31.6	26.5	58.3	64.7	39.7	24.9	29.7	29.8	37.9	27.3		
Net exports		-138.9	-105.6	-126.3	-144.2	-153.4	-149.8	-167.5	-175.4	-195.7	-187.3		
Nominal GDP	% change	3.6	6.2	7.4	4.2	3.9	4.5	4.4	4.4	4.1	4.0		
<b>EMPLOYMENT AND PRODUCTION</b>													
Nonfarm payroll employment	Millions	119.9	120.5	121.1	121.9	122.5	123.1	123.6	124.1	124.6	124.9		
Unemployment rate	%	5.3	5.3	5.3	4.9	4.8	4.7	4.7	4.7	4.7	4.7		
Industrial prod. index	% change	3.3	4.5	4.4	3.7	4.3	2.7	2.1	2.0	1.7	1.7		
Capacity util. rate - mfg.	%	82.3	82.3	82.5	82.4	82.3	82.0	81.9	81.7	81.5	81.3		
Housing starts	Millions	1.49	1.42	1.47	1.44	1.44	1.44	1.44	1.42	1.41	1.39		
Light motor vehicle sales		15.08	14.95	15.26	14.51	15.13	15.05	15.01	14.95	14.82	14.68		
North Amer. produced		13.38	13.18	13.34	12.67	13.16	13.17	13.15	13.11	13.01	12.89		
Other		1.70	1.76	1.92	1.85	1.97	1.88	1.86	1.84	1.81	1.79		
<b>INCOME AND SAVING</b>													
Nominal GNP	Bill. \$	7669.1	7796.1	7919.2	8000.6	8073.1	8158.3	8242.5	8329.6	8411.8	8494.6		
Nominal GNP	% change	3.1	6.8	6.5	4.2	3.7	4.3	4.2	4.3	4.0	4.0		
Nominal personal income		5.1	4.8	8.0	4.1	4.6	5.0	5.8	4.0	4.7	4.4		
Real disposable income		2.7	0.7	4.6	2.1	2.5	2.3	5.0	1.3	1.9	1.8		
Personal saving rate	%	4.5	3.9	3.7	4.0	3.6	3.4	3.9	3.5	3.4	3.4		
Corp. profits, IVA & CCAdj.	% change	0.6	4.5	18.1	8.8	-6.0	-2.8	-2.4	-1.1	-0.3	0.2		
Profit share of GNP	%	9.6	9.6	9.8	10.0	9.7	9.5	9.4	9.3	9.2	9.1		
Excluding FR Banks	%	9.4	9.3	9.6	9.7	9.4	9.3	9.1	9.0	8.9	8.8		
Federal surpl./deficit	Bill. \$	-99.5	-77.1	-55.5	-38.7	-21.3	-27.8	-41.6	-34.3	-30.6	-34.3		
State & local surpl./def.		102.6	100.4	104.7	97.2	102.9	105.2	105.1	105.9	106.1	104.0		
Ex. social ins. funds		31.1	28.9	33.5	25.6	31.3	33.6	33.5	34.2	34.4	32.3		
<b>PRICES AND COSTS</b>													
GDP implicit deflator	% change	2.6	1.9	2.4	1.5	1.6	2.0	2.1	2.2	2.2	2.2		
GDP chn.-wt. price index		2.7	1.9	2.4	1.5	1.9	2.1	2.3	2.3	2.3	2.4		
Gross Domestic Purchases chn.-wt. price index		2.4	2.4	1.9	0.8	1.6	2.1	2.3	2.2	2.3	2.3		
CPI		2.8	3.3	2.3	1.0	2.2	2.6	2.4	2.5	2.7	2.7		
Ex. food and energy		2.4	2.7	2.2	2.9	2.2	2.8	2.7	2.7	2.8	2.8		
ECI, hourly compensation <sup>1</sup>		2.8	2.8	2.5	3.4	3.3	3.5	2.8	3.5	3.6	3.5		
Nonfarm business sector		-1.0	1.8	1.4	1.1	1.0	0.4	1.0	0.8	0.6	0.8		
Output per hour		2.9	3.3	4.5	3.1	3.2	3.5	3.6	3.6	3.6	3.6		
Compensation per hour		3.9	1.5	3.1	1.9	2.2	3.0	2.6	2.8	3.0	2.8		
Unit labor cost													

1. Private-industry workers.

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Class II POMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

August 14, 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												
Gross dom. purchases	4.3 2.5	4.9 6.0	2.6 3.4	2.2 2.7	2.4 2.2	2.3 3.1	2.1 2.5	1.9 2.8	1.7 1.3	3.2 3.6	3.0 3.5	2.0 2.4
Final sales												
Priv. dom. final purchases	4.5 2.7	3.0 4.2	2.2 2.4	3.6 4.1	3.3 2.8	2.0 2.8	2.2 2.4	1.5 2.1	2.3 1.9	3.1 3.1	3.0 3.4	2.0 2.3
Personal cons. expenditures												
Durables	2.2 0.3	3.6 1.1	0.5 -0.5	2.8 1.1	2.2 0.4	2.1 0.5	1.9 0.4	1.6 0.4	1.4 0.4	1.8 0.3	2.3 0.3	1.8 0.4
Nondurables	0.4 1.5	0.9 1.5	-0.4 1.4	0.8 1.1	0.6 1.2	0.5 1.1	0.5 1.0	0.4 0.9	0.4 0.8	0.4 1.1	0.5 1.3	0.5 0.9
Services												
Business fixed investment												
Producers' dur. equip.	0.6 0.2	0.4 0.5	1.7 1.8	1.6 1.7	0.5 0.4	0.8 0.7	0.7 0.7	0.7 0.6	0.7 0.6	1.2 1.0	1.1 1.1	0.7 0.7
Nonres. structures	0.4 -0.2	-0.1 0.1	-0.0 0.3	0.1 -0.2	0.1 0.1	0.1 -0.0	0.1 -0.1	0.1 -0.1	0.1 -0.1	0.3 0.2	0.0 0.1	0.1 -0.1
Residential structures												
Net exports												
Exports	1.8 2.7	-1.0 1.1	-1.0 1.7	-0.5 0.3	0.2 1.2	-1.0 0.3	-0.4 0.9	-1.1 0.1	0.5 1.1	-0.4 1.1	-0.6 1.1	-0.5 0.6
Imports	-0.8 -2.1	-2.1 -2.8	-0.8 -0.8	-1.0 -1.0	-1.3 -1.4	-1.3 -1.4	-1.4 -1.2	-1.2 -0.6	-0.6 -1.6	-1.6 -1.7	-1.7 -1.7	-1.1 -1.1
Government cons. & invest.												
Federal	0.0 -0.4	-0.1 -0.4	0.7 0.5	-0.1 -0.4	0.3 -0.0	0.1 -0.2	0.1 -0.2	0.0 0.1	0.0 -0.2	0.4 0.1	0.2 0.1	0.1 -0.1
Defense	-0.3 0.0	-0.6 0.2	0.4 0.1	-0.3 -0.1	-0.1 0.1	-0.2 0.0	-0.2 0.0	-0.2 0.0	-0.2 0.0	0.0 0.1	-0.1 0.1	-0.1 0.0
Nondefense												
State and local	0.4 0.4	0.3 0.3	0.1 0.1	0.3 0.3	0.3 0.3	0.3 0.3						
Change in bus. inventories												
Nonfarm	-0.2 -0.3	1.8 1.8	0.4 0.4	-1.4 -1.4	-0.9 -0.8	0.2 0.3	-0.1 0.0	0.4 0.4	-0.6 -0.6	0.2 0.0	-0.0 -0.0	-0.0 0.0
Farm	-0.0 -0.0	-0.1 -0.1	0.0 0.0	0.0 -0.0	-0.0 -0.0	-0.0 -0.1	-0.1 -0.0	-0.0 -0.0	-0.0 0.1	-0.0 0.1	-0.0 -0.0	-0.0 -0.0
GDP residual												
	-0.1	-0.2	-0.5	-0.5	-0.7	-0.8	-0.8	-0.9	-1.0	-0.5	-0.5	-0.9

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Note. Components may not sum to totals because of 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>a</sup>	Q4 <sup>a</sup>	Q1 <sup>a</sup>	Q2 <sup>b</sup>	Q3	Q4	Q1	Q2	Q3	Q4
<b>UNIFIED BUDGET</b>																
Receipts <sup>1</sup>	1352	1453	1578	1619	322	446	362	346	349	496	386	357	364	505	393	382
Outlays <sup>1</sup>	1516	1560	1613	1681	393	392	395	405	401	396	411	423	418	420	419	470
Surplus/deficit <sup>1</sup>	-164	-107	-36	-62	-72	54	-33	-59	-52	100	-25	-66	-54	84	-26	-88
On-budget	-226	-174	-112	-144	-84	14	-36	-76	-69	61	-29	-78	-68	37	-36	-101
Off-budget	62	67	77	82	12	39	2	18	17	39	4	13	13	47	10	13
Surplus excluding deposit insurance <sup>2</sup>	-182	-116	-49	-67	-75	52	-35	-65	-56	97	-25	-67	-56	83	-27	-88
Means of financing																
Borrowing	171	130	56	69	80	-23	39	49	48	-69	28	44	50	-66	41	67
Cash decrease	-2	-6	5	0	-1	-16	-6	11	-1	-18	12	9	11	-15	-5	10
Other <sup>3</sup>	-5	-16	-25	-6	-7	-14	0	-1	5	-13	-15	13	-7	-3	-10	11
Cash operating balance, end of period	38	44	40	40	22	38	44	33	33	51	40	31	20	35	40	30
<b>NIPA FEDERAL SECTOR</b>																
Receipts	1443	1550	1688	1758	1526	1584	1599	1642	1675	1706	1728	1746	1745	1761	1780	1795
Expenditures	1626	1679	1736	1792	1680	1695	1698	1719	1731	1745	1749	1774	1786	1795	1811	1829
Consumption expend.	445	447	460	466	445	454	454	454	458	467	460	463	465	465	469	468
Defense	300	302	309	308	298	308	309	308	306	314	308	308	308	307	309	307
Nondefense	145	145	151	158	146	146	145	146	152	153	152	154	157	159	160	161
Other expenditures	1182	1232	1276	1326	1235	1242	1244	1265	1273	1278	1289	1311	1321	1330	1342	1361
Current account surplus	-184	-129	-48	-34	-154	-112	-100	-77	-56	-39	-21	-28	-42	-34	-31	-34
Gross investment	67	69	62	63	72	71	68	64	58	61	64	64	63	62	63	63
Current and capital account surplus	-250	-197	-110	-97	-225	-183	-167	-141	-114	-100	-85	-92	-105	-97	-94	-97
<b>FISCAL INDICATORS<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-265	-223	-177	-187	-241	-218	-202	-189	-178	-175	-166	-178	-193	-188	-187	-190
Change in HEB, percent of potential GDP	.2	-.6	-.6	.1	.1	-.3	-.2	-.2	-.1	0	-.1	.1	.2	-.1	0	0
Fiscal impetus (FI), percent, cal. year	-5.2	-2.3	-2.5	-1.4	2	1.1	-.5	-2.2	-1.1	1.1	-1.1	-.5	.3	-.8	.4	-2.1

1. OMB's February 1997 deficit estimates (assuming the enactment of the President's proposals) are \$126 billion in FY97 and \$121 billion in FY98. CBO's March 1997 baseline deficit estimates are \$115 billion in FY97 and \$122 billion in FY98. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

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

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

4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output generated by 2.0 percent real (chain-weighted) growth and an associated unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1992) dollars, scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.

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

a--Actual.

b--Preliminary.

Strictly Confidential Class II FOMC  
August 14, 1997

Change in Debt of the Domestic Nonfinancial Sectors  
(Percent)

Period <sup>1</sup>	Total <sup>2</sup>	Federal government <sup>3</sup>	Total <sup>4</sup>	Nonfederal					Memo: Nominal GDP	
				Households			Business	State and local governments		
				Total	Home mortgages	Consumer credit				
<i>Year</i>										
1986	12.1	13.6	11.7	11.4	13.8	9.2	12.2	10.8	5.0	
1987	9.2	8.0	9.6	12.2	16.3	5.1	6.7	12.1	7.4	
1988	9.0	8.0	9.3	9.6	10.9	8.6	9.7	6.5	7.6	
1989	7.6	7.0	7.8	8.7	10.1	6.0	7.5	5.7	6.4	
1990	6.6	11.0	5.3	7.9	10.1	2.0	3.1	4.9	4.4	
1991	4.4	11.1	2.4	5.1	6.7	-1.7	-1.8	8.2	3.8	
1992	4.8	10.9	2.8	5.3	6.2	0.6	0.5	2.0	6.3	
1993	5.3	8.3	4.2	6.4	5.5	7.7	1.5	5.7	5.0	
1994	5.0	4.7	5.1	8.7	6.7	14.6	3.5	-3.4	5.8	
1995	5.5	4.1	5.9	8.2	6.2	14.3	6.0	-3.5	4.0	
1996	5.4	4.0	5.9	7.9	8.4	7.6	4.6	1.2	5.6	
1997	4.7	1.3	5.9	6.4	7.2	5.3	6.1	3.0	5.0	
1998	4.8	2.4	5.7	5.7	6.5	4.9	6.0	4.0	4.2	
<i>Quarter</i>										
1996:1	6.4	6.6	6.3	9.4	10.0	11.0	4.3	-0.3	4.7	
2	5.1	1.7	6.2	8.1	8.0	7.7	4.5	4.1	7.7	
3	5.0	4.3	5.2	7.0	7.0	7.5	5.7	-5.7	3.6	
4	4.6	3.1	5.2	6.1	7.5	3.5	3.7	6.7	6.2	
1997:1	5.1	2.5	6.0	7.3	7.4	7.1	5.5	1.9	7.4	
2	4.0	-2.2	6.2	6.0	7.0	3.7	6.0	7.7	4.2	
3	4.6	2.8	5.2	5.9	6.8	5.0	6.1	-1.8	3.9	
4	4.9	2.4	5.7	5.8	6.7	5.0	6.1	3.8	4.5	
1998:1	4.6	2.5	5.3	5.7	6.5	4.9	5.5	2.5	4.4	
2	4.1	-1.3	5.8	5.6	6.4	4.9	5.7	7.5	4.4	
3	5.0	3.8	5.5	5.6	6.3	4.9	6.1	2.1	4.1	
4	5.3	4.6	5.6	5.5	6.2	4.9	6.1	3.5	4.0	

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Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1997:Q1 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 5.3 percent in 1996, 4.7 percent in 1997, and 4.8 percent in 1998.

3. On a monthly average basis, federal debt rose 3.8 percent in 1996, 1.5 percent in 1997, and 2.1 percent in 1998.

4. On a monthly average basis, nonfederal debt increased 5.9 percent in 1996, 5.8 percent in 1997, and 5.7 percent in 1998.

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

Category					Seasonally adjusted annual rates							
	Calendar year				1997				1998			
	1995	1996	1997	1998	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>												
1 Total	661.4	680.6	611.4	673.4	678.3	516.4	617.8	632.8	648.0	558.7	713.4	773.4
2 Net equity issuance	-58.3	-64.2	-80.9	-69.6	-71.2	-76.0	-69.2	-107.2	-61.2	-69.6	-76.4	-71.2
3 Net debt issuance	719.7	744.8	692.3	743.0	749.5	592.4	687.0	740.0	709.2	628.3	789.8	844.6
<i>Borrowing sectors</i>												
Nonfinancial business												
4 Financing gap <sup>1</sup>	22.9	-25.4	-2.5	32.4	-1.0	5.2	-4.4	-9.7	22.2	24.1	41.6	41.9
5 Net equity issuance	-58.3	-64.2	-80.9	-69.6	-71.2	-76.0	-69.2	-107.2	-61.2	-69.6	-76.4	-71.2
6 Credit market borrowing	232.4	190.5	261.5	275.8	237.5	263.2	270.6	274.6	254.1	266.4	289.1	293.6
Households												
7 Net borrowing <sup>2</sup>	381.9	396.4	347.7	330.3	397.3	329.6	331.1	332.8	330.3	328.6	330.8	331.7
8 Home mortgages	198.6	282.3	261.5	255.0	271.5	260.0	256.9	257.7	256.7	255.2	253.6	254.7
9 Consumer credit	141.6	86.3	64.1	63.3	86.1	45.8	61.9	62.6	62.1	62.9	63.7	64.5
10 Debt/DPI (percent) <sup>3</sup>	90.6	93.4	95.5	96.5	94.7	95.5	95.9	96.2	95.9	96.4	96.7	97.0
State and local governments												
11 Net borrowing	-39.0	12.9	32.2	44.6	21.0	84.8	-19.6	42.8	28.4	85.2	24.4	40.4
12 Current surplus <sup>4</sup>	116.5	127.1	117.1	116.1	124.1	105.3	120.6	118.5	116.2	116.8	116.8	114.6
Federal government												
13 Net borrowing	144.4	145.0	50.8	92.2	93.7	-85.2	104.9	89.8	96.4	-51.9	145.5	178.9
14 Net borrowing (quarterly, n.s.a.)	144.4	145.0	50.8	92.2	48.0	-69.2	28.4	43.6	50.3	-66.3	41.3	66.8
15 Unified deficit (quarterly, n.s.a.)	146.3	110.6	42.4	84.2	52.0	-100.0	24.7	65.7	54.5	-84.1	26.1	87.8
Depository institutions												
16 Funds supplied	274.6	233.3	288.2	262.6	315.7	323.2	238.9	275.0	264.9	258.7	261.7	265.1
Memo (percentage of GDP)												
17 Domestic nonfinancial debt <sup>5</sup>	186.2	186.7	185.9	186.8	185.6	185.8	186.0	186.2	186.4	186.4	186.6	187.2
18 Domestic nonfinancial borrowing	9.9	9.8	8.6	8.8	9.4	7.4	8.5	9.0	8.6	7.5	9.4	9.9
19 Federal government <sup>6</sup>	2.0	1.9	0.6	1.1	1.2	-1.1	1.3	1.1	1.2	-0.6	1.7	2.1
20 Nonfederal	7.9	7.9	8.0	7.7	8.3	8.5	7.2	7.9	7.4	8.1	7.6	7.8

Note. Data after 1997:Q1 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.

for U.S. real net exports are more than offset by the implications of a stronger path for the dollar over the forecast period. As a consequence, the negative contribution of real net exports to U.S. real GDP growth is projected to be about 0.5 percent over the forecast period, slightly greater than in the June Greenbook.

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

Measure	1997				1998
	Q1	Q2	Q3	Q4	
Foreign output	3.3	4.2	4.1	4.1	3.9
Previous	3.3	4.6	4.0	4.1	3.9
Real exports	9.9	14.0	2.3	8.9	4.4
Previous	10.7	13.8	4.0	11.3	7.3
Real imports	17.9	19.9	5.4	6.3	7.2
Previous	19.7	17.3	10.4	7.6	8.5

**The dollar.** We have raised the path of the dollar relative to that in the June Greenbook in light of the recent appreciation. We continue to assume that a growing U.S. current account deficit will lead to downward pressure on the dollar during the forecast period, though we remain agnostic about the timing and extent of those pressures. The dollar is expected to decline slightly against the mark and the other currencies of the ERM. For these currencies, the risk premium associated with the approach of the start of a common currency in the European Monetary Union is expected to offset much of the negative effects on the dollar of the projected widening of the U.S. current account deficit. The dollar is expected to depreciate significantly against the yen, as concerns about Japan's growing external surpluses are expected to be particularly acute. On average, we expect the dollar to depreciate somewhat from recent elevated levels over the remainder of the forecast period in terms of the G-10 countries. The dollar is also expected to depreciate against the currencies of key developing countries, resulting in an average rate of decline in terms of the G-18 index for the dollar that is somewhat more than that for the G-10 index.

**Foreign G-7 countries.** We project that real output in the foreign G-7 countries (weighted by U.S. nonagricultural export shares) will grow at an annual rate of about 3 percent during the second half of this year and then slow a bit to 2-3/4 percent next year. This pattern reflects our expectation that the near-term strength in some of these countries, particularly Canada and the United Kingdom, will moderate

depreciation. Non-oil import prices should also be restrained during the remainder of this year and next by declines in non-oil global commodity prices as the recent runup in these prices (primarily coffee, foodstuffs and metals prices) is reversed. Prices of nonagricultural exports are forecast to continue declining at a gradually slowing rate over the forecast period. Falling computer and semiconductor prices should contribute to declines in the prices of both nonagricultural exports and non-oil imports.

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

Trade category	Projection				
	1997				1998
	Q1	Q2	Q3	Q4	
<i>Exports</i>					
Nonagricultural	-2.5	-2.5	-3.4	-2.7	-1.4
Agricultural	2.0	-21.8	-7.7	2.0	2.0
<i>Imports</i>					
Non-oil	-4.2	-4.3	-3.2	-0.4	-1.2
Oil (level, dollars per barrel)	21.31	17.90	16.90	16.11	17.00

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

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

**Nominal trade and current account balances.** The nominal trade balance is projected to widen on net over the forecast period from about \$118 billion in the second quarter of this year to \$145 billion in the final quarter of next year. The balance on net investment income is expected to deteriorate through the end of next year as well. Accordingly, the current account deficit, which was \$148 billion in 1996, is projected to reach \$210 billion in 1998, about 2-1/2 percent of GDP.

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Class II FOMC

August 14, 1997

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

Measure and country	--Projected--								
	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>REAL GDP</b>									
Canada	-1.9	0.0	0.5	3.1	4.9	0.7	2.3	3.9	3.1
France	1.4	1.3	0.0	-0.6	4.3	0.3	2.1	2.6	2.5
Germany (1)	6.8	3.3	1.0	-0.2	3.4	0.8	2.2	2.4	2.8
Italy	0.7	1.9	-0.8	0.1	2.7	2.3	0.2	1.7	2.4
Japan	5.1	2.5	0.1	0.4	0.8	2.6	3.0	1.7	2.5
United Kingdom	-0.7	-1.6	0.4	2.7	4.9	2.0	2.9	3.1	1.9
Average weighted by 1991 GDP	3.0	1.7	0.2	0.6	2.9	1.7	2.3	2.3	2.5
Average weighted by share of U.S. nonagricultural exports									
Total foreign	2.5	2.9	1.9	3.2	5.1	1.7	4.0	3.9	3.9
Foreign G-7	0.7	0.8	0.3	1.8	3.9	1.3	2.4	3.0	2.8
Developing Countries	6.2	6.4	5.1	6.0	7.0	2.1	6.8	5.6	5.9
<b>CONSUMER PRICES</b>									
Canada	4.9	4.1	1.8	1.8	0.0	2.1	2.0	1.9	2.0
France	3.5	3.0	1.8	2.1	1.6	1.9	1.7	1.4	1.9
Germany (1)	3.0	4.0	3.4	4.2	2.6	1.7	1.4	1.8	1.8
Italy	6.4	6.1	4.9	4.1	3.8	5.9	2.7	1.8	2.0
Japan	3.2	3.2	0.9	1.2	0.8	-0.8	0.1	1.8	0.6
United Kingdom (2)	9.2	5.7	3.7	2.7	2.2	2.9	3.2	2.4	2.9
Average weighted by 1991 GDP	4.5	4.1	2.4	2.5	1.8	1.6	1.5	1.8	1.6
Average weighted by share of U.S. non-oil imports	4.3	3.9	1.9	2.0	1.0	1.1	1.3	1.8	1.5

1.33

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

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

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

Measure and country	1996				1997				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>REAL GDP</b>												
Canada	1.4	1.4	3.3	2.9	3.4	4.4	3.9	3.6	3.4	3.3	3.1	2.8
France	5.1	-0.6	3.3	0.9	1.0	4.2	2.7	2.4	2.6	2.4	2.5	2.4
Germany	-0.4	6.1	3.0	0.3	1.8	3.3	2.0	2.4	2.7	2.9	2.8	2.7
Italy	1.7	-1.8	2.9	-1.9	-0.7	3.4	2.0	2.0	2.3	2.3	2.5	2.5
Japan	8.4	-1.1	1.3	3.8	6.6	-4.5	2.3	2.5	2.7	2.5	2.4	2.4
United Kingdom	2.3	2.6	2.2	4.4	3.3	3.6	2.8	2.6	2.2	2.0	1.9	1.7
Average weighted by 1987-89 GDP	4.0	0.9	2.4	1.9	3.2	0.9	2.5	2.5	2.6	2.5	2.5	2.4
Average weighted by share of U.S. nonagricultural exports												
Total foreign	4.7	1.9	4.6	4.9	3.3	4.2	4.1	4.1	4.0	4.0	3.9	3.9
Foreign G-7	3.0	1.2	2.7	2.7	3.6	2.3	3.1	3.0	2.9	2.8	2.7	2.6
Developing Countries	8.9	1.6	7.7	9.2	3.9	6.8	5.8	5.9	5.9	6.0	5.8	5.9
<b>CONSUMER PRICES (1)</b>												
Canada	1.4	1.4	1.4	2.0	2.1	1.6	1.9	1.9	1.9	2.1	2.0	2.0
France	2.1	2.4	1.8	1.7	1.5	0.9	1.3	1.4	1.6	1.7	1.8	1.9
Germany	1.6	1.5	1.4	1.4	1.7	1.6	1.8	1.8	1.8	1.8	1.8	1.8
Italy	5.0	4.2	3.5	2.7	2.4	1.6	1.8	1.8	2.0	2.0	2.0	2.0
Japan	-0.3	0.1	0.0	0.1	0.0	1.5	1.8	1.8	2.0	0.2	0.4	0.6
United Kingdom (2)	2.9	2.8	2.9	3.2	2.9	2.6	2.8	2.4	2.4	2.5	2.7	2.9
Average weighted by 1987-89 GDP	1.6	1.7	1.5	1.5	1.4	1.6	1.9	1.8	1.9	1.4	1.5	1.6
Average weighted by share of U.S. non-oil imports	1.1	1.2	1.1	1.3	1.3	1.6	1.9	1.8	2.0	1.3	1.4	1.5

1. Percent change from same period a year earlier.

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

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OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1990	1991	1992	1993	1994	1995	1996	-- Projected --
								1997 1998
<b>NIPA REAL EXPORTS and IMPORTS</b>								
Net Goods & Services	0.6	0.4	-0.4	-0.6	-0.4	0.4	-0.4	-0.6 -0.5
Exports of G&S	0.6	0.8	0.4	0.5	1.1	1.2	1.1	1.1 0.6
Imports of G&S	-0.0	-0.4	-0.8	-1.1	-1.4	-0.7	-1.6	-1.7 -1.1
Percentage point contribution to GDP growth, Q4/Q4								
Exports of G&S	7.2	8.6	4.1	4.6	10.0	10.3	9.3	8.7 4.4
Services	8.9	7.1	-0.9	4.1	6.0	9.0	4.7	1.3 4.0
Agricultural Goods	-7.3	10.1	10.4	-5.5	16.6	-3.4	5.7	-1.1 2.4
Computers	12.3	21.7	25.2	23.7	32.0	55.7	33.8	57.1 37.3
Semiconductors	61.5	41.8	64.8	32.9	66.9	80.4	45.9	26.1 27.9
Other Goods 1/	6.0	7.0	2.3	3.6	6.9	5.7	7.6	9.1 0.6
Percentage change, Q4/Q4								
Exports of G&S	0.5	4.1	7.4	10.2	12.3	5.6	11.8	12.2 7.2
Services	5.8	-2.7	1.4	3.2	1.4	7.3	5.0	9.9 2.4
Oil	-15.8	8.1	12.1	10.1	-0.2	1.5	8.3	-6.5 7.5
Computers	2.9	35.9	45.1	39.3	44.8	46.2	23.6	52.8 36.0
Semiconductors	60.9	55.3	42.0	34.2	54.5	92.7	57.9	33.8 27.4
Other Goods 2/	-0.3	2.5	5.4	9.5	12.2	-1.2	10.5	10.4 4.9
Billions of chained 1992 dollars								
Net Goods & Services	-61.9	-22.3	-29.5	-70.2	-104.6	-98.8	-114.4	-143.4 -181.5
Exports of G&S	564.4	599.9	639.4	658.2	712.4	791.2	857.0	953.6 1003.1
Imports of G&S	626.3	622.2	669.0	728.4	817.0	890.1	971.5	1097.0 1184.5
Billions of dollars								
US CURRENT ACCOUNT BALANCE	-91.0	-4.5	-55.4	-90.5	-133.5	-129.1	-148.2	-172.7 -210.2
Net Goods & Services (BOP)	-80.3	-29.9	-38.3	-72.0	-104.4	-101.9	-111.0	-116.3 -140.9
Exports of G&S (BOP)	536.8	580.7	617.7	643.0	699.7	794.6	848.8	920.4 959.8
Imports of G&S (BOP)	617.1	610.6	655.9	715.0	804.1	896.5	959.9	1036.7 1100.7
Net Investment Income	23.9	20.3	18.0	19.7	9.7	6.8	2.8	-15.7 -27.6
Direct, Net	55.9	55.6	51.6	55.7	50.8	60.0	66.8	65.6 68.1
Portfolio, Net	-31.9	-35.4	-33.6	-36.0	-41.0	-53.2	-63.9	-81.4 -95.7
Net Transfers	-34.6	5.1	-35.2	-38.1	-38.8	-34.0	-40.0	-40.7 -41.8

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

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

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OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1993				1994				1995			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>NIPA REAL EXPORTS and IMPORTS</b>												
Percentage point contribution to GDP growth												
Net Goods & Services	-0.9	-0.5	-1.3	0.2	-1.1	-0.4	-0.4	0.3	-0.5	0.0	1.2	1.0
Exports of G&S	-0.1	0.8	-0.9	2.1	-0.2	1.7	1.1	1.5	0.8	1.0	1.5	1.3
Imports of G&S	-0.8	-1.3	-0.4	-1.9	-0.9	-2.1	-1.5	-1.2	-1.2	-1.0	-0.3	-0.3
Percentage change from previous period, SAAR												
Exports of G&S	-1.2	8.2	-8.1	21.9	-1.8	17.7	10.6	14.7	7.2	9.3	13.5	11.5
Services	10.8	3.7	-1.3	3.4	2.4	12.9	2.0	6.9	6.0	3.8	20.3	6.6
Agricultural Goods	-17.7	1.0	-24.1	26.5	-25.2	8.1	45.3	57.2	-1.3	-17.5	19.7	-10.7
Computers	10.0	15.2	38.1	33.5	21.4	24.3	35.5	48.4	34.9	41.0	89.6	63.1
Semiconductors	41.2	21.6	53.5	18.4	111.8	23.4	65.9	79.1	72.0	97.0	100.3	56.2
Other Goods 1/	-7.4	10.3	-14.5	31.9	-6.8	20.3	7.4	8.6	2.9	8.2	1.0	11.0
Imports of G&S	7.6	12.4	3.8	17.7	7.6	19.0	13.1	9.9	10.0	7.7	2.3	2.4
Services	-12.2	5.3	4.7	17.1	2.7	4.1	-0.4	-0.9	24.4	-4.0	8.4	2.2
Oil	5.2	36.0	-7.0	10.4	-8.6	27.2	33.5	-36.2	-8.1	12.5	28.0	-19.7
Computers	43.8	44.3	38.3	31.3	32.9	48.3	42.3	57.0	8.1	57.3	65.8	61.8
Semiconductors	79.3	25.6	-1.3	46.1	60.7	23.7	74.4	64.3	29.6	108.0	157.1	98.8
Other Goods 2/	9.5	9.3	2.9	16.7	6.9	19.6	10.3	12.5	7.3	2.2	-10.0	-3.6
Billions of chained 1992 dollars												
Net Goods & Services	-54.7	-62.6	-83.1	-80.5	-97.6	-103.9	-111.1	-105.9	-113.5	-112.8	-92.9	-76.1
Exports of G&S	647.2	660.1	646.3	679.1	676.0	704.1	722.1	747.3	760.4	777.4	802.4	824.6
Imports of G&S	701.9	722.7	729.4	759.7	773.6	808.0	833.2	853.2	873.9	890.3	895.4	900.7
Billions of dollars												
US CURRENT ACCOUNT BALANCE	-63.8	-89.1	-99.2	-109.9	-104.6	-128.0	-145.5	-156.1	-138.8	-142.8	-132.5	-102.2
Net Goods & Services (BOP)	-54.2	-72.1	-84.8	-77.0	-90.6	-101.5	-114.0	-111.6	-113.2	-123.2	-95.5	-75.5
Exports of G&S (BOP)	631.8	642.7	631.8	665.5	662.5	688.4	710.9	736.8	761.5	785.9	806.4	824.6
Imports of G&S (BOP)	686.1	714.8	716.6	742.5	753.1	789.9	824.9	848.4	874.7	909.1	901.9	900.1
Net Investment Income	24.4	17.1	23.0	14.2	17.9	10.6	7.2	3.3	8.2	12.9	-1.6	7.8
Direct, Net	61.0	53.9	58.6	49.2	51.7	48.9	51.0	51.5	57.6	64.1	53.9	64.5
Portfolio, Net	-36.6	-36.8	-35.6	-35.0	-33.8	-38.3	-43.8	-48.2	-49.4	-51.3	-55.5	-56.7
Net Transfers	-34.0	-34.0	-37.4	-47.1	-31.9	-37.1	-38.7	-47.7	-33.8	-32.5	-35.4	-34.5

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

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

Strictly Confidential (FR)  
Class II FOMC

August 14, 1997

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1996				1997				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>NIPA REAL EXPORTS and IMPORTS</b>												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.5	-0.7	-1.5	1.9	-1.2	-1.0	-0.5	0.2	-1.0	-0.4	-1.1	0.5
Exports of G&S	0.2	1.1	0.2	2.9	1.2	1.7	0.3	1.2	0.3	0.9	0.1	1.1
Imports of G&S	-1.7	-1.8	-1.7	-0.9	-2.4	-2.7	-0.8	-1.0	-1.3	-1.4	-1.2	-0.6
Percentage change from previous period, SAAR												
Exports of G&S	1.7	9.6	1.9	25.5	9.9	14.0	2.3	8.9	2.2	7.1	0.5	8.2
Services	-3.8	9.7	0.3	13.5	3.7	0.5	-0.7	1.8	3.5	4.2	4.2	4.1
Agricultural Goods	12.5	-34.3	13.1	49.2	-27.6	18.1	2.4	9.3	3.3	1.6	1.7	3.2
Computers	46.2	31.8	29.2	28.7	72.3	73.7	44.3	41.2	37.3	37.3	37.3	37.3
Semiconductors	19.9	28.3	37.6	113.8	39.0	13.3	26.2	27.2	27.9	27.9	27.9	27.9
Other Goods 1/	-1.2	13.2	-3.1	23.9	12.4	16.7	-0.9	8.8	-3.0	5.2	-6.2	7.0
Imports of G&S	13.1	14.1	13.2	6.8	17.9	19.9	5.4	6.3	8.4	8.9	7.5	3.9
Services	14.6	2.7	1.2	2.1	24.2	7.5	4.8	4.1	3.0	2.1	2.2	2.2
Oil	-7.6	67.2	10.6	-19.6	-10.8	30.8	-2.3	-32.9	19.3	39.6	15.4	-30.5
Computers	6.4	30.7	26.9	32.0	51.3	81.0	43.8	38.6	36.0	36.0	36.0	36.0
Semiconductors	30.4	10.3	75.5	146.4	71.2	7.1	33.5	31.1	27.4	27.4	27.4	27.4
Other Goods 2/	14.5	11.0	12.2	4.3	15.3	18.0	1.9	7.1	5.6	5.1	4.7	4.1
Billions of chained 1992 dollars												
Net Goods & Services	-100.8	-112.6	-138.9	-105.6	-126.3	-144.2	-153.4	-149.8	-167.5	-175.4	-195.7	-187.3
Exports of G&S	828.2	847.4	851.4	901.1	922.7	953.4	958.8	979.5	984.7	1001.7	1002.9	1022.9
Imports of G&S	929.0	960.0	990.2	1006.6	1048.9	1097.6	1112.2	1129.3	1152.3	1177.1	1198.6	1210.2
Billions of dollars												
US CURRENT ACCOUNT BALANCE	-131.5	-142.3	-171.3	-147.5	-163.8	-169.2	-174.3	-183.7	-194.2	-200.6	-222.2	-223.9
Net Goods & Services (BOP)	-98.2	-111.1	-130.1	-104.8	-116.5	-117.6	-118.3	-113.0	-130.2	-135.1	-153.9	-144.4
Exports of G&S (BOP)	828.4	848.6	840.3	878.0	898.1	926.1	919.7	937.7	941.9	958.3	959.7	979.4
Imports of G&S (BOP)	926.6	959.7	970.4	982.8	1014.5	1043.6	1038.0	1050.7	1072.0	1093.4	1113.6	1123.9
Net Investment Income	8.2	3.5	-5.5	5.0	-12.6	-12.6	-17.0	-20.7	-25.1	-26.5	-29.3	-29.5
Direct, Net	66.2	64.2	60.3	76.4	65.0	66.4	65.9	65.3	64.2	66.5	68.6	73.2
Portfolio, Net	-57.9	-60.7	-65.7	-71.4	-77.5	-79.0	-82.9	-86.0	-89.3	-93.0	-97.9	-102.6
Net Transfers	-41.6	-34.8	-35.8	-47.7	-34.8	-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**

August 14, 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

Confidential (FR) Class III FOMC

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August 14, 1997

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## **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

through Saturday, which seems likely at this point, nonfarm payroll employment in August will be held down, on net, by disruptions from the strike.

#### Industrial Production

Industrial production rose 0.2 percent in July after rising at nearly a 4 percent annual rate in the first half of this year. Although a return to more normal weather boosted electric utility output in July, industrial production was held down by a 2-3/4 percent decrease in the output of motor vehicles and parts. Manufacturing excluding motor vehicles and parts increased 0.2 percent for a third consecutive month. Production of nondurable consumer goods edged lower, while output of appliances turned up and business equipment posted another solid gain. The overall factory operating rate edged down to 82.1 percent in July, the lowest level since last October.

Production of motor vehicles and parts has been a volatile component of industrial production throughout 1997. In July, production fell short of schedules made at the beginning of the month by more than 1 million units at an annual rate. Strikes at General Motors accounted for about 400,000 units of the underbuild; in addition, the company's start-up following the companywide shutdown was slower than expected, in part because of quality concerns. General Motors and Chrysler also curtailed output of a few models whose inventories were excessive; however, these losses were more than offset by stepped-up production at transplants. At the end of July, stocks of light trucks were at about 68 days' supply, just a little on the high side, while the days' supply of autos was running at a lean 54 days.

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

	1997				
	----- scheduled -----				
	Q2	July	Aug.	Sept.	Q3
U.S. production	11.5	11.0	12.8	13.0	12.3
Autos	5.7	5.8	6.3	6.4	6.2
Trucks	5.8	5.2	6.5	6.6	6.1
Days' supply					
Autos	60.6	54.3	...	...	...
Light trucks	78.6	67.9	...	...	...

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

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

	Fiscal year to date totals					
	June				Dollar change	Percent change
	1996	1997	1996	1997		
<b>Outlays</b>	<b>117.7</b>	<b>118.8</b>	<b>1165.2</b>	<b>1202.4</b>	<b>37.2</b>	<b>3.2</b>
Deposit insurance (DI)	-.5	-.3	-7.1	-12.9	-5.7	n.a.
Spectrum auction (SA)	.0	-5.2	-.2	-10.3	-10.1	n.a.
Other	118.2	124.4	1172.6	1225.5	53.0	4.5
<b>Receipts</b>	<b>152.0</b>	<b>173.4</b>	<b>1091.2</b>	<b>1191.5</b>	<b>100.3</b>	<b>9.2</b>
<b>Deficit (+)</b>	<b>-34.3</b>	<b>-54.5</b>	<b>74.0</b>	<b>10.9</b>	<b>-63.1</b>	<b>-85.3</b>
<hr/>						
Adjusted for payment timing shifts <sup>1</sup> and excluding DI and spectrum auction						
<b>Outlays</b>	<b>125.2</b>	<b>131.6</b>	<b>1179.6</b>	<b>1225.5</b>	<b>45.9</b>	<b>3.9</b>
National defense	21.6	22.7	199.4	201.8	2.4	1.2
Net interest	19.0	19.5	180.1	184.3	4.2	2.3
Social security	32.7	34.1	262.0	273.7	11.7	4.4
Medicare	13.4	15.0	130.0	141.3	11.3	8.7
Medicaid	7.6	8.0	68.5	71.5	3.0	4.3
Other health	2.2	2.6	20.0	21.3	1.4	6.9
Income security	13.4	13.4	175.6	179.0	3.4	1.9
Other	15.3	16.3	143.9	152.6	8.7	6.0
<b>Receipts</b>	<b>152.0</b>	<b>173.4</b>	<b>1091.2</b>	<b>1191.5</b>	<b>100.3</b>	<b>9.2</b>
Individual income and payroll taxes	105.4	121.9	848.8	936.2	87.4	10.3
Withheld	76.3	87.8	737.4	795.8	58.4	7.9
Nonwithheld	31.2	35.9	195.2	227.9	32.7	16.8
Refunds (-)	2.1	1.8	83.8	87.4	3.6	4.3
Corporate	37.0	39.4	128.7	139.0	10.3	8.0
Other	9.6	12.1	113.7	116.3	2.6	2.3
<b>Deficit (+)</b>	<b>-26.8</b>	<b>-41.8</b>	<b>88.4</b>	<b>34.0</b>	<b>-54.4</b>	<b>-61.5</b>

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

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

n.a. Not applicable.

PRELIMINARY ESTIMATES OF THE DEFICIT EFFECTS OF THE  
BALANCED BUDGET AND TAXPAYER RELIEF ACTS  
(Fiscal years, billions of dollars)

	1998	1999	2000	2001	2002	1998-2002
<b>Effects on deficit</b>						
Discretionary spending	8	-3	-15	-33	-54	-97
Mandatory spending	1	-12	-33	-19	-55	-118
Medicare	-6	-16	-29	-20	-41	-112
Medicaid	0	-1	-2	-3	-4	-10
Asset sales (spectrum)	0	-2	-3	-4	-12	-21
Child health	4	4	4	4	3	20
Other	3	3	-3	4	-1	6
Revenues	9	9	26	30	18	92
Child credit	3	18	22	21	21	85
Education incentives	3	8	9	10	10	39
Capital gains/IRAs	-6	0	3	3	3	3
Estate tax	0	1	1	2	2	6
Other misc. tax cuts	17	-6	4	5	0	19
Excise Taxes	-6	-8	-8	-9	-10	-40
Other tax increases	-2	-4	-5	-2	-8	-20
Debt service	0	1	0	-1	-4	-2
<b>Total</b>	<b>18</b>	<b>-5</b>	<b>-22</b>	<b>-23</b>	<b>-96</b>	<b>-125</b>

Neither CBO nor OMB has released estimates of the effects of the reconciliation legislation on the deficit. However, CBO has released its estimates of the effects of the BBA on mandatory spending, and the Joint Committee on Taxation has released estimates of the effects of the legislation on revenues. We have estimated the effects of the new caps on discretionary spending using CBO's March baseline and have used unofficial CBO estimates of the effects on debt service.

**BROAD MEASURES OF INFLATION**  
**(Four-quarter percent change)**

	1994 Q2	1995 Q2	1996 Q2	1997 Q2
<b><u>Product prices</u></b>				
GDP chain-type price index	2.3	2.6	2.2	2.1
Nonfarm business chain-type price index <sup>1</sup>	2.2	2.6	1.6	1.7
<b><u>Expenditure prices</u></b>				
Gross domestic purchases chain-type price index	2.1	2.7	2.0	1.8
Less food and energy	2.4	2.7	1.8	1.9
PCE chain-type price index	2.2	2.9	2.3	2.1
Less food and energy	2.5	2.8	2.0	2.2
CPI	2.4	3.0	2.8	2.4
Less food and energy	2.8	3.0	2.7	2.5
Median CPI	2.8	3.0	3.1	2.7

**SURVEYS OF (CPI) INFLATION EXPECTATIONS**  
**(Percent)**

	Actual inflation <sup>1</sup>	University of Michigan (1-year) Mean <sup>2</sup>	Michigan (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
			2.9	4.1	
			3.0	4.3	
			3.0	4.3	
			3.0	4.2	
Apr.	2.5	3.7	3.0	4.1	
May	2.2	3.7	2.9	4.0	
Jun	2.3	3.5	2.8	4.0	2.9
Jul	2.2	3.4	2.7	4.0	

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.

TREASURY FINANCING  
(Billions of dollars; total for period)

Item	1996		1997			
	Q4	Q1	Q2	May	June	July <sup>e</sup>
Total surplus/deficit (-)	-58.9	-52.0	100.0	-48.5	54.5	--
<b>Means of financing deficit</b>						
Net cash borrowing and repayments (-)	48.7	48.0	-69.2	-19.1	-11.1	-1.2
Nonmarketable	7.4	4.0	1.9	-.4	1.4	-1.5
Marketable	41.3	44.0	-71.1	-18.6	-12.6	.4
Bills	16.2	7.9	-81.4	-21.7	-15.5	1.8
Coupons	25.1	36.1	10.3	3.1	3.0	-1.5
Decrease in cash balance	11.4	-.7	-17.8	72.5	-34.4	23.7
Other <sup>1</sup>	-1.3	4.6	-13.0	-5.0	-9.0	--
<b>Memo:</b>						
Cash balance, end of period	32.8	33.5	51.3	16.9	51.3	27.5

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

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

<sup>e</sup> Estimate.

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

Agency	1997				
	Q1	Q2	Apr.	May	June
FHLBs	3.1	23.6	11.4	7.0	5.2
FHLMC	-3.4	8.3	9.3	4.5	-5.5
FNMA	4.9	9.3	5.6	2.6	1.1
Farm Credit Banks	.8	1.2	.1	.4	.7
SLMA	-1.7	1.7	5.4	-.9	-2.8

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

CONFIDENTIAL (FR)  
CLASS III FOMC

August 15, 1997

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

August 15, 1997

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

	1996 Dec	1997 Jan	1997 Feb	1997 Mar	1997 Apr	1997 May	1997 Jun	1997 Jul	1997 Aug (p)
<b>Indexes of consumer sentiment (Feb. 1966=100)</b>									
Composite of current and expected conditions	96.9	97.4	99.7	100.0	101.4	103.2	104.5	107.1	102.8
Current conditions	104.9	106.8	107.2	109.8	115.2	113.5	113.2	114.0	109.3
Expected conditions	91.8	91.3	94.9	93.6	92.5	96.6	98.9	102.6	98.5
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Personal financial situation									
Now compared with 12 months ago*	117	116	114	119	132	122	126	130	123
Expected in 12 months*	132	128	134	134	130	138	131	133	133
<hr/>									
Expected business conditions									
Next 12 months*	130	136	135	138	130	142	147	151	149
Next 5 years*	107	103	113	105	113	109	121	130	114
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Appraisal of buying conditions									
Cars	134	141	130	135	136	150	154	136	131
Large household appliances*	155	160	164	166	167	173	168	166	160
Houses	156	162	166	155	153	160	160	165	167
<hr/>									
Willingness to use credit	41	45	39	37	41	49	43	49	46
Willingness to use savings	63	71	67	66	68	71	73	68	64
<hr/>									
Expected unemployment change - next 12 months	110	114	107	112	113	109	108	104	108
<hr/>									
Expected inflation - next 12 months									
Mean	3.9	4.1	3.8	3.5	3.7	3.7	3.5	3.4	3.2
Median	3.0	3.0	3.0	2.8	3.0	2.9	2.8	2.7	2.8
<hr/>									
Expected inflation - next 5 to 10 years									
Mean	3.9	4.0	3.7	3.6	3.6	3.8	3.9	3.4	3.8
Median	3.0	3.1	3.1	3.0	2.9	3.0	3.1	2.9	3.0

\* -- Indicates the question is one of the five equally-weighted components of the index of sentiment.

(p) -- Preliminary

(f) -- Final

Note: Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall, plus 100.