

Part 1

November 12, 1998

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

Strictly Confidential (FR) Class II FOMC

November 12, 1998

SUMMARY AND OUTLOOK

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

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

Measure	1998:Q3		1998:Q4	
	Sept. GB	Oct. GB	Sept. GB	Oct. GB
Real GDP	2.6	3.6	2.6	2.1
Private domestic final purchases	3.4	3.6	4.9	4.3
Personal consumption	3.5	3.9	3.4	3.8
Residential investment	10.9	7.7	5.3	5.1
Business fixed investment	.3	-.5	14.2	7.3
Government outlays for consumption and investment	2.1	1.6	1.5	4.2
	Change, billions of chained (1992) dollars			
Inventory investment	6.7	27.2	-7.9	-25.2
Net exports	-20.7	-20.8	-30.2	-21.0

we are expecting starts in the current quarter to be well maintained. In the multifamily segment, starts retreated from an unsustainably high July level, but to a level still above the average of the second quarter. Given the lags from starts to construction outlays, we are projecting that real residential investment will rise further this quarter, though at a shade slower annualized pace of about 5 percent.

After a lull this summer, real business fixed investment appears to be poised for a considerable rebound in the current quarter. Orders for nondefense capital goods (excluding aircraft) moved up sharply in August and September; long-lead-time turbines reportedly accounted for a good portion of the strength, but other categories of equipment showed significant gains as well. Although shipments of commercial aircraft to domestic airlines are slated to decline in the current quarter, sales of heavy trucks have continued to boom, and business purchases of light vehicles appear to be rebounding from the strike-depressed level of the third quarter. On balance, real PDE is projected to rise at an annual rate of 12 percent--a gain that should far offset a further decline in investment in nonresidential structures.

A faster pace of government spending is expected to add to growth in the fourth quarter. Real federal purchases are forecast to bounce back at an annual rate of 6 percent in the fourth quarter, after a 1-1/2 percent decline in the third quarter that largely reflected the sale of the United States Enrichment Corporation. In addition, the

The Outlook for the Economy in 1999 and 2000

As noted earlier, our forecast for economic activity over the next two years has been raised slightly from the September Greenbook. Nonetheless, the story remains qualitatively the same. Although the drag from the international sector, as measured by changes in real net exports, is expected to diminish from what we have experienced over the past several quarters, this influence is more than offset by a loss of strength in domestic demand. In the business sector, a simple accelerator model--taking account of the stability of GDP growth over the past few years and the rapid buildup of capacity, especially in manufacturing--would point to a moderation of the demand for plant and equipment. But, in addition, despite the recent and prospective decline

Summary of Staff Projections

(Percent change, compound annual rate)

Measure	1998:H2	1999:H1	1999:H2	2000
Real GDP	2.9	1.4	1.7	2.3
Previous	2.6	.9	1.6	2.4
Final sales	2.8	1.7	1.7	2.1
Previous	2.7	1.2	1.6	2.2
PCE	3.8	2.7	2.2	2.4
Previous	3.4	2.5	2.2	2.4
Residential investment	6.4	-1.6	-1.8	.4
Previous	8.0	-6.1	-1.5	1.4
BFI	3.3	4.6	2.8	5.4
Previous	7.0	4.3	3.0	5.4
Government purchases	2.8	1.0	1.5	1.4
Previous	1.8	1.0	1.3	1.5
Exports	-1.9	1.5	3.2	4.7
Previous	-2.3	.1	2.6	4.7
Imports	5.4	6.9	5.4	6.5
Previous	6.6	6.8	5.3	6.6
Change, billions of chained (1992) dollars				
Inventory change	2.0	-13.5	2.9	10.7
Previous	-1.2	-14.9	.3	14.8
Net exports	-41.7	-35.1	-19.0	-39.8
Previous	-50.9	-41.9	-21.7	-41.7

The Outlook for the Labor Market

(Percent change, Q4 to Q4, except as noted)

Measure	1997	1998	1999	2000
Output per hour, nonfarm business	1.7	1.7	1.0	2.0
Previous	1.7	1.5	1.0	2.0
Nonfarm payroll employment	2.7	2.2	.8	.9
Previous	2.7	2.3	.7	.9
Household employment survey	2.1	1.0	.5	.6
Previous	2.1	.9	.3	.6
Labor force participation rate ¹	67.1	67.0	66.9	66.8
Previous	67.1	66.9	66.8	66.8
Civilian unemployment rate ¹	4.7	4.6	5.0	5.3
Previous	4.7	4.5	5.2	5.4

1. Percent, average for the fourth quarter.

We expect that employers will move fairly quickly to reduce the pace of hiring as output growth slows. Indeed, there already has been a perceptible pickup in the number of companies announcing plans to lay off or fire workers, especially in the troubled manufacturing and financial sectors. In our forecast, payroll employment gains average 130,000 per month in the current quarter--well below the 230,000 pace in the first nine months of 1998; job gains are projected to average only 90,000 per month in 1999 and 100,000 in 2000.

We now expect output per hour in the nonfarm business sector to rise 1-3/4 percent this year--1/4 percentage point more than in the last Greenbook, reflecting the upside surprise in the third quarter. Labor productivity is projected to record a below-trend increase of 1 percent in 1999 as the economy decelerates sharply, but to rise 2 percent in 2000--a pickup that is exaggerated to a degree by the removal of the drag on efficiency from Y2K work. As in previous forecasts, our projection has incorporated an assumption that efforts to address Y2K problems are subtracting one- or two-tenths of a percentage point from productivity increases this year and next.

Wages and prices. Despite the third-quarter's upside surprise and the lesser rise now projected for the unemployment rate, the ECI is projected to decelerate to a 3.1 percent pace in 1999 and 2000. Several considerations underlie this forecast.

First, a dissection of the acceleration of ECI compensation over the past year reveals the important role played by sales commissions and nonproduction bonuses (especially in the FIRE sector); these components of pay are likely to be quite flexible to the downside as well, when activity moderates, as we expect it will. Second, the recent

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

Measure	1997	1998	1999	2000
Consumer price index	1.9	1.5	2.2	2.1
Previous	1.9	1.6	2.1	2.0
Food	1.7	2.0	1.4	1.7
Previous	1.7	1.8	1.3	1.5
Energy	-1.0	-8.6	3.7	1.4
Previous	-1.0	-8.0	4.1	1.6
Excluding food and energy	2.2	2.4	2.2	2.2
Previous	2.2	2.3	2.1	2.1
PCE chain-weighted price index	1.5	.8	1.6	1.6
Previous	1.5	.9	1.6	1.5
Excluding food and energy	1.6	1.2	1.6	1.6
Previous	1.6	1.3	1.5	1.5
GDP chain-weighted price index	1.7	.9	1.5	1.6
Previous	1.7	1.0	1.5	1.5
ECI for compensation of private industry workers ¹	3.4	3.5	3.1	3.1
Previous	3.4	3.4	3.2	2.9
Prices of core non-oil merchandise imports	-.7	-2.2	1.1	1.2
Previous	-.7	-2.7	.6	1.4
Percentage points				
MEMO: <i>Adjustments for technical changes to the CPI²</i>				
Core CPI	.2	.4	.6	.6

1. December to December.

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

1/2 percentage point in 1999 and almost 1 percentage point in 2000. The unemployment rate edges up to just over 4-3/4 percent, and inflation is 1/2 percentage point higher by the end of the projection period.

In the higher stock market scenario, equity prices hold near current levels, rather than declining as in the baseline forecast. The federal funds path is the same as in the baseline forecast. The higher stock prices raise real GDP growth by about 1/2 percentage point in both 1999 and in 2000. The increase in the unemployment rate is somewhat less than in the baseline, and price inflation is slightly higher.

Alternative Federal Funds Rate and Stock Market Assumptions

(Percent change, Q4 to Q4, except as noted)

Measure	1998	1999	2000
<i>Real GDP</i>			
Baseline	3.3	1.6	2.3
Lower funds rate	3.3	2.0	3.2
Higher stock prices	3.3	2.0	2.8
<i>Civilian unemployment rate¹</i>			
Baseline	4.6	5.0	5.3
Lower funds rate	4.6	4.9	4.8
Higher stock prices	4.6	4.9	5.0
<i>CPI excluding food and energy</i>			
Baseline	2.4	2.2	2.2
Lower funds rate	2.4	2.3	2.7
Higher stock prices	2.4	2.2	2.3

1. Average for the fourth quarter.

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

November 12, 1998

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
	09/23/98	11/12/98	09/23/98	11/12/98	09/23/98	11/12/98	09/23/98	11/12/98	09/23/98	11/12/98
ANNUAL										
1996	5.4	5.4	3.4	3.4	1.9	1.9	3.0	3.0	5.4	5.4
1997	5.9	5.9	3.9	3.9	1.9	1.9	2.3	2.3	4.9	4.9
1998	4.6	4.7	3.5	3.6	1.1	1.0	1.6	1.6	4.5	4.5
1999	3.0	3.2	1.6	1.9	1.4	1.3	2.1	2.1	4.9	4.8
2000	3.4	3.5	1.9	1.9	1.5	1.6	2.0	2.1	5.4	5.2
QUARTERLY										
1997	Q1	7.2	7.2	4.2	4.2	2.8	2.8	2.0	5.3	5.3
	Q2	5.6	5.6	4.0	4.0	1.7	1.7	1.5	4.9	4.9
	Q3	5.4	5.4	4.2	4.2	1.2	1.2	1.8	4.9	4.9
	Q4	4.2	4.2	3.0	3.0	1.1	1.1	2.3	4.7	4.7
1998	Q1	6.4	6.4	5.5	5.5	0.9	0.9	0.5	4.7	4.7
	Q2	2.7	2.7	1.9	1.8	0.8	0.9	2.0	4.4	4.4
	Q3	4.2	4.5	2.6	3.6	1.5	0.8	1.9	4.5	4.6
	Q4	3.6	3.2	2.6	2.1	1.0	1.1	1.8	4.5	4.6
1999	Q1	2.7	3.1	0.9	1.4	1.8	1.7	2.4	4.7	4.6
	Q2	2.3	2.8	0.9	1.4	1.4	1.3	2.1	4.8	4.7
	Q3	2.8	3.0	1.4	1.5	1.4	1.5	2.0	5.0	4.8
	Q4	3.3	3.4	1.9	1.9	1.4	1.4	2.0	5.2	5.0
2000	Q1	2.9	2.9	1.3	0.9	1.6	1.9	2.0	5.3	5.1
	Q2	4.3	4.4	2.9	2.9	1.4	1.5	2.0	5.4	5.2
	Q3	4.1	4.2	2.7	2.6	1.4	1.5	2.0	5.4	5.2
	Q4	4.2	4.3	2.7	2.7	1.5	1.5	2.0	5.4	5.3
TWO-QUARTER³										
1997	Q2	6.4	6.4	4.1	4.1	2.2	2.2	1.8	1.8	-0.4
	Q4	4.8	4.8	3.6	3.6	1.2	1.2	2.0	2.0	-0.2
1998	Q2	4.5	4.6	3.7	3.7	0.8	0.9	1.2	1.2	-0.3
	Q4	3.9	3.9	2.6	2.9	1.3	1.0	1.9	1.8	0.1
1999	Q2	2.5	2.9	0.9	1.4	1.6	1.5	2.2	2.2	0.3
	Q4	3.0	3.2	1.6	1.7	1.4	1.4	2.0	2.1	0.3
2000	Q2	3.6	3.6	2.1	1.9	1.5	1.7	2.0	2.1	0.2
	Q4	4.2	4.2	2.7	2.6	1.4	1.5	2.0	2.1	0.1
FOUR-QUARTER⁴										
1996	Q4	5.8	5.8	3.9	3.9	1.8	1.8	3.2	3.2	-0.3
1997	Q4	5.6	5.6	3.8	3.8	1.7	1.7	1.9	1.9	-0.6
1998	Q4	4.2	4.2	3.2	3.3	1.0	0.9	1.6	1.5	-0.2
1999	Q4	2.8	3.1	1.3	1.6	1.5	1.5	2.1	2.2	0.6
2000	Q4	3.9	3.9	2.4	2.3	1.5	1.6	2.0	2.1	0.3

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.

Strictly Confidential <PR>
Class II FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES
(Seasonally adjusted annual rate)

November 12, 1998

Item	Units ¹	--- Projected ---									
		1992	1993	1994	1995	1996	1997	1998	1999	2000	
EXPENDITURES											
Nominal GDP	Bill. \$	6244.4	6558.1	6947.0	7269.6	7661.6	8110.9	8490.1	8762.9	9070.8	
Real GDP	Bill. Ch. \$	6244.4	6389.6	6610.7	6761.7	6994.8	7269.8	7533.5	7674.9	7820.6	
Real GDP	% change	3.6	2.4	3.3	2.1	3.9	3.8	3.3	1.6	2.3	
Gross domestic purchases		4.0	3.0	3.6	1.6	4.2	4.4	4.8	2.1	2.6	
Final sales		3.9	2.1	2.7	2.7	3.7	3.4	3.7	1.7	2.1	
Priv. dom. final purchases		4.9	3.7	3.7	2.9	4.4	4.5	5.9	2.4	2.7	
Personal cons. expenditures		4.2	2.7	3.1	2.6	3.3	3.7	4.9	2.4	2.4	
Durables		9.4	7.4	6.3	4.5	5.8	7.4	9.5	1.6	4.4	
Nondurables		3.4	1.6	3.0	1.7	2.8	2.0	4.1	2.0	1.8	
Services		3.6	2.3	2.5	2.6	3.0	3.8	4.4	2.9	2.3	
Business fixed investment		5.5	9.9	7.6	7.3	11.7	9.8	10.1	3.7	5.4	
Producers' dur. equipment		9.6	12.2	10.2	9.1	11.8	12.7	15.8	5.8	7.1	
Nonres. structures		-3.4	4.5	1.1	2.7	11.6	2.5	-4.0	-2.4	0.4	
Residential structures		16.9	7.8	4.2	-1.4	5.4	4.2	10.8	-1.7	0.4	
Exports		4.1	4.6	10.0	10.5	10.3	9.6	-3.6	2.3	4.7	
Imports		7.4	10.2	12.3	5.6	11.8	14.0	8.9	6.1	6.5	
Gov't. cons. & investment		1.7	-1.4	0.1	-0.9	2.1	1.4	1.9	1.3	1.4	
Federal		1.3	-6.1	-3.9	-5.6	1.1	-0.6	0.5	-1.5	-1.1	
Defense		-1.3	-6.9	-6.0	-5.0	-0.1	-1.4	-1.8	-2.0	-1.3	
State & local		2.0	2.0	2.7	2.1	2.8	2.6	2.6	2.7	2.6	
Change in bus. inventories	Bill. Ch. \$	7.0	22.1	60.6	27.7	30.0	63.2	58.8	27.8	32.1	
Nonfarm		2.0	29.5	49.0	37.7	23.2	58.8	51.3	23.6	30.2	
Net exports		-29.5	-70.2	-104.6	-96.5	-111.2	-136.1	-249.1	-325.4	-366.3	
Nominal GDP	% change	6.3	5.0	5.8	4.2	5.8	5.6	4.2	3.1	3.9	
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	108.6	110.7	114.1	117.2	119.6	122.7	125.8	127.3	128.4	
Unemployment rate	%	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.8	5.2	
Industrial prod. index	% change	3.7	3.3	6.5	3.3	4.2	5.8	1.0	1.0	2.7	
Capacity util. rate - mfg.	%	79.4	80.5	82.5	82.8	81.4	81.7	80.4	78.7	78.8	
Housing starts	Millions	1.20	1.29	1.46	1.35	1.48	1.47	1.59	1.53	1.53	
Light motor vehicle sales		12.85	13.86	15.01	14.72	15.05	15.03	15.31	14.78	14.38	
North Amer. produced		10.51	11.71	12.88	12.82	13.35	13.11	13.33	12.88	12.54	
Other		2.34	2.15	2.13	1.90	1.70	1.92	1.98	1.89	1.84	
INCOME AND SAVING											
Nominal GNP	Bill. \$	6255.5	6576.8	6955.2	7287.1	7674.0	8102.9	8467.7	8725.1	9021.5	
Nominal GNP	% change	6.2	5.1	5.7	4.4	5.6	5.2	4.1	2.9	3.9	
Nominal personal income		7.2	4.0	5.2	4.6	5.9	5.4	4.8	3.4	3.9	
Real disposable income		4.0	1.2	2.5	2.1	2.7	2.9	3.1	2.4	2.3	
Personal saving rate	%	5.7	4.4	3.5	3.4	2.9	2.1	0.4	0.3	0.3	
Corp. profits, IVA & CCAdj.	% change	11.3	19.0	14.1	14.6	7.7	7.7	-1.1	-6.0	3.5	
Profit share of GNP	%	6.8	7.5	8.2	9.2	9.8	10.1	9.7	8.9	8.5	
Excluding FR Banks		6.6	7.2	7.9	8.9	9.5	9.8	9.4	8.6	8.3	
Federal surpl./deficit	Bill. \$	-280.9	-250.7	-186.7	-174.4	-110.3	-21.1	78.3	56.8	65.8	
State & local surpl./def.		86.3	87.4	96.8	111.7	122.6	134.1	145.4	149.8	148.5	
Ex. social ins. funds		18.3	19.7	27.9	37.0	52.2	66.0	77.7	82.1	80.8	
Gross natl. saving rate	%	14.5	14.4	15.5	16.3	16.6	17.4	17.3	16.3	16.1	
Net natl. saving rate		3.7	3.7	4.7	5.8	6.3	7.3	7.3	6.2	6.0	
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.6	2.6	2.5	2.1	1.8	1.7	0.9	1.5	1.6	
Gross Domestic Purchases chn.-wt. price index		2.7	2.3	2.5	2.0	1.8	1.3	0.5	1.4	1.5	
CPI		3.1	2.7	2.7	2.6	3.2	1.9	1.5	2.2	2.1	
Ex. food and energy		3.5	3.1	2.8	3.1	2.6	2.2	2.4	2.2	2.2	
ECI, hourly compensation ²		3.5	3.6	3.1	2.6	3.1	3.4	3.5	3.1	3.1	
Nonfarm business sector											
Output per hour		3.5	-0.4	0.1	1.2	2.1	1.7	1.7	1.0	2.0	
Compensation per Hour		4.5	1.6	2.1	2.8	3.7	3.9	4.0	3.3	3.2	
Unit labor cost		1.0	2.0	2.0	1.6	1.6	2.1	2.2	2.3	1.2	

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

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

November 12, 1998

Item	Units	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	7495.3	7629.2	7703.4	7818.4	7955.0	8063.4	8170.8	8254.5	8384.2	8440.6
Real GDP	Bill. Ch. \$	6882.0	6983.9	7020.0	7093.1	7166.7	7236.5	7311.2	7364.6	7464.7	7498.6
Real GDP	% change	3.3	6.1	2.1	4.2	4.2	4.0	4.2	3.0	5.5	1.8
Gross domestic purchases		4.5	7.0	3.4	1.8	5.5	4.4	4.6	3.2	7.8	3.9
Final sales		3.6	5.4	0.9	5.1	2.9	2.7	5.8	2.1	4.3	4.6
Priv. dom. final purchases		5.1	6.1	3.1	3.3	4.6	3.3	7.2	2.9	8.5	7.4
Personal cons. expenditures		3.7	4.7	1.8	2.9	4.3	1.6	6.2	2.8	6.1	6.1
Durables		5.8	12.7	-1.9	7.2	12.3	-1.5	16.8	3.1	15.8	11.2
Nondurables		2.2	4.8	1.2	2.9	3.6	-0.2	5.1	-0.4	7.4	5.3
Services		4.0	3.0	3.0	2.0	3.1	3.2	4.7	4.3	3.5	5.4
Business fixed investment		13.1	11.0	14.2	8.8	7.0	14.0	17.0	1.8	22.2	12.8
Producers' dur. equipment		15.7	12.3	16.2	3.2	8.3	22.8	18.8	2.2	34.3	18.8
Nonres. structures		6.4	7.4	8.9	24.5	3.9	-6.2	12.4	0.9	-4.9	-2.3
Residential structures		9.3	19.5	-1.7	-3.9	3.1	6.1	-0.4	8.2	15.6	15.0
Exports		3.7	5.8	2.1	32.0	0.3	15.5	10.6	4.4	-2.8	-7.7
Imports		13.1	13.5	13.6	7.0	18.6	17.9	13.5	6.3	15.7	9.3
Gov't. cons. & investment		3.2	7.1	-1.6	0.0	2.1	2.1	1.4	0.1	-1.9	3.7
Federal		8.0	8.1	-4.7	-6.3	-2.7	3.6	-1.2	-2.1	-8.8	7.3
Defense		7.2	8.1	-6.3	-8.3	-9.9	9.1	-1.8	-2.0	-18.5	9.9
State & local		0.5	6.5	0.3	3.8	4.9	1.3	2.9	1.3	2.1	1.8
Change in bus. inventories	Bill. Ch. \$	14.4	26.1	47.5	32.1	56.3	79.0	51.0	66.5	91.4	38.2
Nonfarm		10.4	15.2	38.6	28.7	56.2	72.1	44.0	62.7	85.9	29.9
Net exports		-95.5	-113.5	-140.1	-95.9	-121.5	-131.6	-142.4	-149.0	-198.5	-245.2
Nominal GDP	% change	5.7	7.3	3.9	6.1	7.2	5.6	5.6	4.2	6.4	2.7
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	118.5	119.3	120.0	120.7	121.5	122.3	123.0	123.9	124.8	125.5
Unemployment rate	%	5.6	5.4	5.3	5.3	5.3	4.9	4.9	4.7	4.7	4.4
Industrial prod. index	% change	2.0	7.5	3.6	3.8	5.2	4.6	6.0	7.2	1.2	1.7
Capacity util. rate - mfg.	%	81.0	81.6	81.5	81.4	81.6	81.5	81.6	82.2	81.6	80.7
Housing starts	Millions	1.47	1.49	1.49	1.42	1.47	1.46	1.45	1.53	1.58	1.57
Light motor vehicle sales		15.10	15.18	15.00	14.91	15.32	14.54	15.19	15.07	15.02	16.08
North Amer. produced		13.44	13.46	13.33	13.16	13.41	12.68	13.20	13.13	13.07	14.09
Other		1.66	1.72	1.68	1.76	1.92	1.86	1.99	1.94	1.95	1.99
INCOME AND SAVING											
Nominal GNP	Bill. \$	7515.0	7643.3	7708.6	7829.0	7952.4	8062.3	8162.0	8234.9	8369.4	8421.8
Nominal GNP	% change	5.6	7.0	3.5	6.4	6.5	5.6	5.0	3.6	6.7	2.5
Nominal personal income		6.6	6.9	5.5	4.6	7.3	4.7	4.7	5.0	5.9	4.5
Real disposable income		2.9	2.1	4.4	1.3	3.3	2.9	2.4	2.9	4.0	2.6
Personal saving rate	%	3.2	2.6	3.1	2.6	2.4	2.6	1.7	1.7	1.2	0.4
Corp. profits, IVA & CCAdj.	% change	16.9	6.9	3.8	3.5	18.1	11.1	13.1	-9.2	4.2	-4.1
Profit share of GNP	%	9.8	9.8	9.8	9.7	10.0	10.1	10.3	10.0	9.9	9.7
Excluding FR Banks	%	9.5	9.5	9.5	9.5	9.7	9.8	10.0	9.7	9.6	9.5
Federal surpl./deficit	Bill. \$	-150.1	-112.6	-100.1	-78.3	-51.2	-34.8	-0.3	2.2	58.8	74.4
State & local surpl./def.		117.3	129.1	122.3	121.7	128.4	130.1	136.6	141.4	140.2	141.3
Ex. social ins. funds		45.3	58.2	52.5	52.9	59.8	61.6	68.7	73.8	72.7	73.6
Gross natl. saving rate	%	16.4	16.4	16.8	16.7	17.0	17.6	17.5	17.3	17.7	17.2
Net natl. saving rate	%	6.0	6.2	6.6	6.5	7.0	7.6	7.5	7.3	7.8	7.2
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.2	1.4	1.8	1.6	2.8	1.7	1.2	1.1	0.9	0.9
Gross Domestic Purchases chn.-wt. price index		2.1	1.4	1.5	2.1	2.2	0.9	1.1	1.0	-0.2	0.4
CPI		3.2	3.7	2.6	3.3	2.0	1.5	1.8	2.3	0.5	2.0
Ex. food and energy		2.5	2.5	2.7	2.7	2.2	2.6	1.9	2.1	2.4	2.6
ECI, hourly compensation ¹		2.5	3.5	2.8	2.8	2.5	3.7	3.4	4.3	2.7	3.6
Nonfarm business sector		4.1	3.0	0.0	1.2	0.5	1.8	3.6	0.9	3.5	0.3
Output per hour		2.6	5.2	3.7	3.3	4.0	2.6	3.9	4.9	4.6	4.0
Compensation per hour		-1.5	2.2	3.7	2.1	3.6	0.7	0.3	4.0	1.1	3.7

1. Private-industry workers.

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

November 12, 1998

Item	Units	Projected											
		1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4		
EXPENDITURES													
Nominal GDP	Bill. \$	8533.8	8601.8	8667.8	8727.2	8791.6	8865.0	8927.7	9024.8	9117.1	9213.5		
Real GDP	Bill. Ch. \$	7565.2	7605.4	7631.1	7658.1	7686.7	7723.6	7741.0	7796.5	7846.3	7898.8		
Real GDP	% change	3.6	2.1	1.4	1.4	1.5	1.9	0.9	2.9	2.6	2.7		
Gross domestic purchases		4.6	3.0	2.0	2.1	1.9	2.1	1.2	3.3	3.0	2.8		
Final sales		2.2	3.4	1.9	1.6	1.6	1.7	1.3	2.5	2.2	2.6		
Priv. dom. final purchases		3.6	4.3	3.1	2.4	2.1	2.0	1.9	2.9	2.9	3.0		
Personal cons. expenditures		3.9	3.8	3.0	2.4	2.3	2.1	1.8	2.7	2.5	2.5		
Durables		-0.0	11.8	2.0	1.2	1.3	1.9	3.3	4.2	4.9	5.2		
Nondurables		2.3	1.4	2.2	2.0	2.0	1.7	1.7	1.7	1.9	1.9		
Services		5.5	3.3	3.6	2.8	2.6	2.4	1.6	2.9	2.3	2.3		
Business fixed investment		-0.5	7.3	5.1	4.1	2.8	2.7	3.2	5.1	6.3	7.0		
Producers' dur. equipment		0.5	12.1	8.3	6.5	4.4	4.3	4.7	6.8	8.2	8.9		
Nonres. structures		-3.5	-5.3	-3.5	-2.6	-1.6	-1.8	-1.1	0.2	0.8	1.6		
Residential structures		7.7	5.1	-0.7	-2.4	-2.0	-1.6	-0.8	0.3	1.0	1.3		
Exports		-3.7	-0.1	0.9	2.2	2.9	3.4	3.4	4.7	5.2	5.5		
Imports		3.8	6.9	6.4	7.4	6.0	4.7	4.9	7.5	7.6	6.0		
Gov't. cons. & investment		1.6	4.2	0.1	1.9	1.6	1.4	0.2	2.9	1.1	1.4		
Federal		-1.6	5.9	-4.7	0.5	-0.6	-1.0	-4.5	3.4	-1.9	-1.1		
Defense		4.1	-0.3	-7.6	0.8	-0.7	-0.3	-8.6	0.6	-0.8	4.2		
State & local		3.3	3.3	2.8	2.7	2.7	2.7	2.6	2.6	2.7	2.6		
Change in bus. inventories	Bill. Ch. \$	65.4	40.2	30.2	26.7	24.8	29.6	20.7	29.7	37.9	40.3		
Nonfarm		57.2	32.3	23.8	21.8	21.3	27.3	18.7	27.7	35.9	38.3		
Net exports		-265.9	-286.9	-304.3	-322.0	-334.1	-341.0	-348.6	-361.7	-374.3	-380.8		
Nominal GDP	% change	4.5	3.2	3.1	2.8	3.0	3.4	2.9	4.4	4.2	4.3		
EMPLOYMENT AND PRODUCTION													
Nonfarm payroll employment	Millions	126.1	126.6	126.9	127.1	127.4	127.6	127.9	128.4	128.6	128.8		
Unemployment rate	%	4.6	4.6	4.6	4.7	4.8	5.0	5.1	5.2	5.2	5.3		
Industrial prod. index	% change	-0.0	1.0	0.3	0.2	0.9	2.4	0.4	3.0	3.6	3.9		
Capacity util. rate - mfg.	%	79.7	79.4	79.0	78.7	78.6	78.7	78.4	78.6	78.9	79.3		
Housing starts	Millions	1.63	1.57	1.56	1.54	1.52	1.51	1.52	1.52	1.53	1.53		
Light motor vehicle sales		14.55	15.58	15.19	14.87	14.61	14.43	14.30	14.31	14.39	14.51		
North Amer. produced		12.55	13.61	13.25	12.96	12.73	12.59	12.47	12.49	12.55	12.66		
Other		2.01	1.97	1.94	1.91	1.88	1.84	1.83	1.82	1.84	1.85		
INCOME AND SAVING													
Nominal GNP	Bill. \$	8506.4	8573.4	8635.6	8692.0	8752.0	8820.6	8880.4	8978.0	9067.0	9160.4		
Nominal GNP	% change	4.1	3.2	2.9	2.6	2.8	3.2	2.7	4.5	4.0	4.2		
Nominal personal income		4.2	4.8	3.7	3.1	3.6	3.4	4.4	4.0	3.6	3.6		
Real disposable income		2.6	3.1	5.4	1.1	1.8	1.5	3.7	2.1	1.7	1.7		
Personal saving rate	%	0.1	0.0	0.6	0.3	0.2	0.0	0.5	0.4	0.2	-0.0		
Corp. profits, IVA & CChadj.	% change	0.3	-4.7	-10.4	-5.5	-4.7	-3.2	-10.0	11.3	7.5	6.6		
Profit share of GNP	%	5.7	9.5	9.1	9.0	8.8	8.6	8.4	8.5	8.6	8.6		
Excluding FR Banks		9.4	9.2	8.9	8.7	8.5	8.4	8.1	8.3	8.3	8.4		
Federal surpl./deficit	Bill. \$	97.1	82.9	50.0	56.0	59.6	61.6	52.4	60.1	72.9	77.7		
State & local surpl./def.		145.7	154.2	151.6	151.0	148.9	147.9	147.7	148.3	148.7	149.2		
Ex. social ins. funds		78.1	86.5	83.9	83.3	81.2	80.2	80.0	80.6	81.0	81.5		
Gross natl. saving rate	%	17.3	16.9	16.7	16.4	16.2	16.0	16.0	16.1	16.1	16.0		
Net natl. saving rate		7.3	6.9	6.6	6.3	6.1	5.9	5.9	6.0	6.0	6.0		
PRICES AND COSTS													
GDP chn.-wt. price index	% change	0.8	1.1	1.7	1.3	1.5	1.4	1.9	1.5	1.5	1.5		
Gross Domestic Purchases chn.-wt. price index		0.5	1.0	1.7	1.4	1.3	1.3	1.9	1.4	1.4	1.4		
CPI		1.7	1.8	2.2	2.3	2.1	2.1	2.1	2.1	2.1	2.1		
Ex. food and energy		2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2		
ECL, hourly compensation ¹		4.4	3.3	3.1	3.1	3.0	3.0	3.0	3.0	3.0	3.4		
Nonfarm business sector		2.7	0.5	0.8	0.9	0.9	1.4	0.1	2.6	2.5	2.6		
Output per hour		4.0	3.3	3.6	3.2	3.2	3.3	3.0	3.0	3.0	3.4		
Compensation per hour		1.3	2.8	2.8	2.3	2.3	1.8	3.2	0.4	0.5	0.8		
Unit labor cost													

1. Private-industry workers.

Strictly Confidential <PR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

November 12, 1998

Item	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	96Q4/ 95Q4	97Q4/ 96Q4	98Q4/ 97Q4
Real GDP	2.1	4.2	4.2	4.0	4.2	3.0	5.5	1.8	3.6	3.9	3.8	3.3
Gross dom. purchases	3.5	1.9	5.5	4.4	4.7	3.2	7.9	4.0	4.6	4.2	4.4	4.9
Final sales	0.9	5.1	2.9	2.7	5.7	2.1	4.3	4.6	2.2	3.7	3.3	3.6
Priv. dom. final purchases	2.5	2.7	3.8	2.7	5.9	2.4	7.0	6.1	3.0	3.6	3.7	4.9
Personal cons. expenditures	1.3	2.0	2.9	1.1	4.2	1.9	4.1	4.1	2.6	2.2	2.5	3.3
Durables	-0.2	0.6	1.0	-0.1	1.3	0.3	1.2	0.9	-0.0	0.5	0.6	0.8
Nondurables	0.2	0.6	0.7	-0.0	1.0	-0.1	1.4	1.0	0.6	0.6	0.4	0.6
Services	1.2	0.8	1.2	1.3	1.9	1.7	1.4	2.1	2.2	1.2	1.5	1.8
Business fixed investment	1.4	0.9	0.7	1.4	1.7	0.2	2.2	1.4	-0.1	1.2	1.0	1.1
Producers' dur. equip.	1.1	0.2	0.6	1.6	1.3	0.1	2.4	1.4	0.0	0.8	0.9	1.2
Nonres. structures	0.2	0.6	0.1	-0.2	0.4	0.0	-0.2	-0.1	-0.1	0.3	0.1	-0.1
Residential structures	-0.1	-0.2	0.1	0.2	-0.0	0.3	0.6	0.6	0.3	0.2	0.2	0.4
Net exports	-1.3	2.4	-1.2	-0.5	-0.5	-0.3	-2.2	-2.1	-0.9	-0.3	-0.6	-1.6
Exports	0.2	3.2	1.0	1.8	1.2	0.5	-0.3	-0.9	-0.4	1.2	1.1	-0.4
Imports	-1.6	-0.9	-2.2	-2.2	-1.7	-0.8	-1.9	-1.2	-0.5	-1.4	-1.7	-1.1
Government cons. & invest.	-0.3	0.0	0.4	0.4	0.3	0.0	-0.3	0.6	0.3	0.4	0.3	0.3
Federal	-0.3	-0.4	-0.2	0.2	-0.1	-0.1	-0.6	0.4	-0.1	0.1	-0.0	0.0
Defense	-0.3	-0.4	-0.5	0.4	-0.1	-0.1	-0.8	0.4	0.2	-0.0	-0.1	-0.1
Nonddefense	0.0	0.0	0.3	-0.2	0.0	-0.1	0.3	0.1	-0.3	0.1	0.0	0.1
State and local	0.0	0.4	0.6	0.2	0.3	0.2	0.2	0.2	0.4	0.3	0.3	0.3
Change in bus. inventories	1.2	-0.8	1.3	1.3	-1.4	0.9	1.2	-2.7	1.3	0.2	0.5	-0.3
Nonfarm	1.3	-0.5	1.5	0.9	-1.5	1.0	1.2	-2.8	1.4	0.1	0.5	-0.4
Farm	-0.1	-0.3	-0.2	0.4	0.1	-0.1	0.0	0.1	-0.0	0.0	0.0	0.1

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

Strictly Confidential <PR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

November 12, 1998

Item	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	98Q4/ 97Q4	99Q4/ 98Q4	00Q4/ 99Q4
Real GDP	2.1	1.4	1.4	1.5	1.9	0.9	2.9	2.6	2.7	3.3	1.6	2.3
Gross dom. purchases	3.0	2.1	2.2	2.0	2.2	1.2	3.4	3.0	2.9	4.9	2.1	2.6
Final sales	3.4	1.9	1.6	1.6	1.7	1.3	2.5	2.2	2.6	3.6	1.7	2.1
Priv. dom. final purchases	3.6	2.6	2.0	1.8	1.7	1.6	2.4	2.5	2.6	4.9	2.0	2.3
Personal cons. expenditures	2.6	2.0	1.6	1.6	1.8	1.3	1.9	1.7	1.8	3.3	1.7	1.7
Durables	0.9	0.2	0.1	0.1	0.2	0.3	0.3	0.4	0.4	0.8	0.1	0.4
Nondurables	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.4	0.4	0.8	0.4	0.3
Services	1.3	1.5	1.1	1.1	1.0	0.7	1.2	1.0	1.0	1.8	1.2	1.0
Business fixed investment	0.8	0.6	0.4	0.3	0.3	0.3	0.5	0.7	0.7	1.1	0.4	0.6
Producers' dur. equip.	0.9	0.7	0.5	0.4	0.3	0.4	0.5	0.6	0.7	1.2	0.5	0.6
Nonres. structures	-0.2	-0.1	-0.1	-0.1	-0.0	-0.0	0.0	0.0	0.0	-0.1	-0.1	0.0
Residential structures	0.2	-0.0	-0.1	-0.1	-0.1	-0.0	0.0	0.0	0.1	0.4	-0.1	0.0
Net exports	-0.9	-0.7	-0.7	-0.5	-0.3	-0.3	-0.5	-0.5	-0.2	-1.6	-0.5	-0.4
Exports	-0.0	0.1	0.2	0.3	0.4	0.4	0.5	0.5	0.6	-0.4	0.3	0.5
Imports	-0.9	-0.8	-1.0	-0.8	-0.6	-0.6	-1.0	-1.0	-0.8	-1.1	-0.8	-0.9
Government cons. & invest.	0.7	0.0	0.3	0.3	0.3	0.0	0.5	0.2	0.2	0.3	0.2	0.2
Federal	0.4	-0.3	0.0	-0.0	-0.1	-0.3	0.2	-0.1	-0.1	0.0	-0.1	-0.1
Defense	-0.0	-0.3	0.0	-0.0	-0.0	-0.3	0.0	-0.0	0.2	-0.1	-0.1	-0.1
Nonddefense	0.4	0.0	-0.0	-0.0	-0.0	0.1	0.2	-0.1	-0.2	0.1	-0.0	-0.0
State and local	0.4	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	-1.2	-0.5	-0.2	-0.1	0.2	-0.4	0.4	0.4	0.1	-0.3	-0.1	0.1
Nonfarm	-1.2	-0.4	-0.1	-0.0	0.3	-0.4	0.4	0.4	0.1	-0.4	-0.1	0.1
Farm	0.0	-0.1	-0.1	-0.1	-0.1	-0.0	-0.0	-0.0	-0.0	0.1	-0.1	-0.0

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

Item	Fiscal year ⁵				1998				1999				2000			
	1997 ^a	1998 ^b	1999	2000	Q1 ^a	Q2 ^a	Q3 ^b	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET	Not seasonally adjusted															
Receipts ¹	1579	1721	1769	1827	378	544	412	407	400	534	429	420	414	552	441	430
Outlays ¹	1601	1651	1714	1754	409	407	409	464	398	424	428	442	449	434	429	448
Surplus/deficit ¹	-22	70	55	73	-30	137	3	-56	2	109	1	-22	-35	118	12	-17
On-budget	-103	-29	-66	-58	-51	87	1	-59	-52	57	-12	-60	-58	61	-1	-58
Off-budget	81	99	121	131	21	50	2	2	54	52	12	38	23	57	13	41
Surplus excluding deposit insurance ²	-36	66	51	70	-31	136	2	-57	1	108	0	-23	-36	117	11	-18
Means of financing																
Borrowing	38	-51	-57	-77	26	-82	-29	20	7	-92	7	11	24	-90	-22	2
Cash decrease	1	5	-1	0	4	-45	33	16	1	-13	-5	10	10	-25	5	20
Other ³	-17	-24	2	4	0	-10	-8	20	-11	-5	-3	1	1	-3	6	-5
Cash operating balance, end of period	44	39	40	40	28	72	39	23	22	35	40	30	20	45	40	20
NIPA FEDERAL SECTOR	Seasonally adjusted annual rate															
Receipts	1687	1818	1871	1910	1809	1838	1860	1882	1858	1867	1879	1890	1896	1917	1936	1955
Expenditures	1728	1759	1809	1848	1750	1764	1760	1799	1808	1811	1819	1829	1844	1857	1863	1877
Consumption expend.	458	458	470	479	451	464	459	466	470	472	472	472	478	483	482	480
Defense	306	301	305	306	293	303	303	304	304	305	305	305	306	307	306	309
Nondefense	152	157	165	173	158	161	156	162	166	167	167	166	172	177	175	171
Other expenditures	1270	1301	1339	1369	1299	1300	1302	1333	1337	1339	1347	1357	1366	1373	1381	1397
Current account surplus	-41	59	62	62	59	74	100	83	50	56	60	62	52	60	73	78
Gross investment	61	59	60	58	61	57	60	61	59	59	59	59	58	58	58	59
Current and capital account surplus	-102	-1	3	4	-2	18	39	22	-9	-3	0	2	-5	2	15	19
FISCAL INDICATORS⁴																
High-employment (HEB) surplus/deficit	-163	-99	-89	-53	-102	-85	-68	-83	-105	-90	-77	-67	-61	-51	-35	-29
Change in HEB, percent of potential GDP	-.8	-.8	-.1	-.4	-.5	-.2	-.2	.2	3	-.2	-.2	-.1	-.1	-.1	-.2	-.1
Fiscal impetus (FI), percent, cal. year	-2.1	-2.1	1.6	-1.5	-2.1	1.1	-.4	1	1.3	-.1	-.4	-1.1	-.8	.8	-.5	-.3

1. OMB's May 1998 surplus estimates (assuming the enactment of the President's proposals) are \$39 billion in FY98, \$54 billion in FY99 and \$61 billion in FY00. CBO's August 1998 baseline surplus estimates are \$63 billion in FY98, \$80 billion in FY99 and \$79 billion in FY00. 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 May 1998 surplus estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are \$35 billion in FY98, \$51 billion in FY99 and \$58 billion in FY00, and CBO's August baseline estimates are \$59 billion in FY98, \$76 billion in FY99 and \$76 billion in FY00.

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

4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Real potential GDP growth is assumed to be 2.8 percent beginning 1995:Q3. 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
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Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

Period ¹	Total ²	Federal government ³	Nonfederal						Memo: Nominal GDP	
			Total ⁴	Households			Business	State and local governments		
				Total	Home mortgages	Consumer credit				
<i>Year</i>										
1990	6.4	11.0	5.2	7.5	9.6	1.5	3.1	5.0	4.4	
1991	4.3	11.1	2.3	4.7	6.4	-1.3	-1.7	8.6	3.8	
1992	4.6	10.9	2.6	4.3	5.2	0.5	0.8	2.2	6.3	
1993	5.0	8.3	3.8	5.3	4.3	7.6	1.6	6.0	5.0	
1994	4.6	4.7	4.6	7.5	5.8	14.5	4.0	-4.0	5.8	
1995	5.4	4.1	5.9	7.8	5.5	14.1	6.6	-4.6	4.2	
1996	5.3	4.0	5.8	7.8	8.0	7.9	5.1	-0.6	5.8	
1997	5.3	0.6	7.0	6.8	7.5	4.3	7.6	5.3	5.6	
1998	5.9	-1.7	8.5	8.9	9.6	5.4	8.5	6.6	4.2	
1999	4.3	-1.8	6.1	6.4	6.9	3.4	6.0	4.9	3.1	
2000	3.4	-2.4	5.1	4.9	5.3	2.0	5.7	3.3	3.9	
<i>Quarter</i>										
1997:3	5.6	0.8	7.3	6.9	9.1	4.1	7.8	6.7	5.4	
4	6.4	1.1	8.2	7.3	8.2	3.0	9.1	8.4	4.2	
1998:1	6.1	-0.8	8.4	8.0	8.6	4.5	8.8	8.4	6.4	
2	6.2	-1.8	8.8	8.6	9.3	5.1	9.5	6.5	2.7	
3	5.6	-3.6	8.5	9.1	10.0	5.7	8.6	5.5	4.5	
4	5.4	-0.5	7.3	8.7	9.3	5.9	6.2	5.1	3.2	
1999:1	4.6	-3.2	6.9	7.7	8.3	4.6	6.2	6.0	3.1	
2	4.4	-1.5	6.1	6.5	7.0	3.9	5.8	4.8	2.8	
3	4.1	-0.7	5.5	5.6	6.1	2.8	5.7	4.3	3.0	
4	3.7	-1.7	5.3	5.2	5.6	2.2	5.7	4.1	3.4	

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1998:Q2 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2. On a monthly average basis, total debt is projected to grow 6.1 percent in 1998 and 4.5 percent in 1999.

3. On a monthly average basis, federal debt is projected to grow -1.3 percent in 1998 and -1.7 percent in 1999.

4. On a monthly average basis, nonfederal debt is projected to grow 8.6 percent in 1998 and 6.3 percent in 1999.

2.6.3 FOF

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

Category					Seasonally adjusted annual rates									
	Calendar year				1997		1998				1999			
	1997	1998	1999	2000	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	653.7	654.3	575.8	503.9	705.6	810.8	785.5	857.9	650.5	323.2	614.9	599.3	558.0	531.2
2 Net equity issuance	-114.6	-250.3	-111.2	-72.7	-124.0	-144.1	-139.2	-93.5	-226.6	-542.0	-122.4	-111.2	-125.2	-86.0
3 Net debt issuance	768.4	904.6	687.0	576.6	829.6	954.9	924.7	951.4	877.0	865.2	737.3	710.5	683.2	617.2
<i>Borrowing sectors</i>														
Nonfinancial business														
4 Financing gap ¹	73.8	105.8	117.7	139.8	50.8	82.8	118.5	96.1	109.9	98.8	107.2	113.9	118.8	130.7
5 Net equity issuance	-114.6	-250.3	-111.2	-72.7	-124.0	-144.1	-139.2	-93.5	-226.6	-542.0	-122.4	-111.2	-125.2	-86.0
6 Credit market borrowing	337.6	407.3	310.6	311.1	358.4	425.7	420.2	463.0	429.2	316.6	321.1	308.1	306.7	306.7
Households														
7 Net borrowing ²	351.6	488.2	383.9	310.3	368.3	396.2	441.5	483.1	520.2	508.0	464.1	399.2	347.9	324.4
8 Home mortgages	261.3	362.9	286.7	232.1	326.9	302.0	322.2	359.1	393.7	376.7	344.7	295.7	262.7	243.7
9 Consumer credit	52.5	68.4	45.6	27.8	50.3	37.8	57.3	65.1	73.6	77.5	61.3	52.6	38.1	30.2
10 Debt/DPI (percent) ³	91.9	95.5	98.4	100.0	92.1	92.8	93.7	94.8	96.0	97.1	97.4	98.4	99.1	99.6
State and local governments														
11 Net borrowing	56.1	73.4	58.2	41.9	72.6	92.3	94.3	74.9	64.2	60.4	71.5	58.3	52.9	50.3
12 Current surplus ⁴	135.6	183.1	185.3	188.9	117.6	171.5	179.1	180.9	181.5	190.8	188.7	178.7	187.2	186.8
Federal government														
13 Net borrowing	23.1	-64.3	-65.7	-86.7	30.3	40.8	-31.3	-69.6	-136.5	-19.7	-119.3	-55.0	-24.2	-64.2
14 Net borrowing (quarterly, n.s.a.)	23.1	-64.3	-65.7	-86.7	10.6	33.7	25.6	-81.5	-28.8	20.4	7.5	-91.8	7.3	11.4
15 Unified deficit (quarterly, n.s.a.)	2.4	-53.4	-89.6	-78.0	10.9	39.7	30.2	-136.9	-3.0	56.3	-1.9	-109.3	-0.5	22.1
Depository institutions														
16 Funds supplied	336.9	286.6	236.7	240.4	204.4	472.9	323.4	160.9	292.8	369.3	246.5	231.1	231.7	237.4
Memo (percentage of GDP)														
17 Domestic nonfinancial debt ⁵	182.8	184.5	187.8	188.4	182.0	182.8	182.8	184.3	185.0	186.1	187.0	187.8	188.4	188.6
18 Domestic nonfinancial borrowing	9.5	10.7	7.8	6.4	10.2	11.6	11.0	11.3	10.3	10.1	8.5	8.1	7.8	7.0
19 Federal government ⁶	0.3	-0.8	-0.7	-1.0	0.4	0.5	-0.4	-0.8	-1.6	-0.2	-1.4	-0.6	-0.3	-0.7
20 Nonfederal	9.2	11.4	8.6	7.3	9.8	11.1	11.4	12.1	11.9	10.3	9.9	8.8	8.0	7.7

Note. Data after 1998:Q2 are staff projections.

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

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

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

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

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

6. Excludes government-insured mortgage pool securities.

consider a scenario in which Brazil is forced off its peg with attendant disruptions to other emerging market countries.

Summary of Staff Projections

(Percentage change from end of previous period)

Measure	1997	Projection				
		1998			1999	2000
		H1	Q3	Q4		
Foreign output	4.1	0.0	0.2	0.0	1.4	2.2
<i>September</i>	3.9	0.1	-0.3	+0.1	1.5	2.4
Real exports	9.6	-5.3	-3.7	-0.1	2.3	4.7
<i>September</i>	9.6	-5.2	-1.7	-2.8	1.3	4.7
Real imports	14.0	12.5	3.8	6.9	6.1	6.5
<i>September</i>	14.0	12.4	5.5	7.7	6.1	6.6

The dollar. We project that the trade-weighted exchange value of the dollar against the major foreign currencies will decline from current levels. The dollar is expected to depreciate slightly against the euro-area currencies as U.S. economic activity slows relative to that in continental Europe. We project that the dollar will decline at a bit faster pace against the Canadian dollar as global recovery eventually helps that currency regain some of the ground it has lost since the beginning of the year. As in the previous forecast, there is considerable uncertainty about the factors that will affect the dollar/yen exchange rate. We have chosen to hold the dollar path near its current level against the yen throughout the forecast period. This path is seen as balancing the risk of dollar appreciation against the yen resulting from a significant further deterioration in economic activity in Japan against the risk of dollar depreciation in reaction to burgeoning current account imbalances.

Our forecast has the real exchange value of the dollar against a broad group of 35 currencies edging down slowly, as dollar depreciation against the major currencies and most Asian emerging-market currencies is nearly offset by appreciation against Latin American currencies. In Asia, inflationary pressures resulting from the sharp net currency depreciations over the past year and half are expected to dominate real exchange rate movements against the dollar in those regions. A notable exception to that forecast

core exports would continue to decline through the end of 1999. With exports of computers and semiconductors expected to continue growing at a much more rapid pace than other exports in real terms, total exports of goods and services should grow 2 to 3 percentage points faster than core exports over the forecast period.

We expect that the growth of imports of goods and services will slow noticeably over the year ahead from its rapid pace over the past several years as U.S. real GDP growth declines. Real imports of non-oil goods other than computers and semiconductors (core imports) should decelerate from an annual rate of growth of 7 percent during the second half of this year to 4-1/2 percent growth in 1999 and 2000. Growth of imports of computers and semiconductors in real terms should remain rapid. The quantity of oil imports should decline this quarter and the next as inventories are drawn down from unusually high levels. We project that oil imports will thereafter rise a bit faster than consumption as U.S. oil production is adversely affected by low oil prices.

Oil prices. We have lowered the projected path for the price of imported oil in the near term to reflect the recent path of spot oil prices. We project that the oil import price will increase from \$11.62 per barrel in the third quarter to about \$11.90 per barrel in the

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

Trade category	1997	Projection				
		1998			1999	2000
		H1	Q3	Q4		
<i>Exports</i>						
Nonagricultural (core)	0.4	-2.1	-2.4	-0.4	1.5	1.3
Agricultural	-3.2	-11.0	-7.6	-2.0	4.1	2.0
<i>Imports</i>						
Non-oil (core)	-0.8	-2.6	-3.3	-0.3	1.1	1.2
Oil (level, dollars per barrel)	17.72	12.51	11.62	11.90	13.50	14.00

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

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

fourth quarter and to about \$12.50 per barrel in the first quarter of 1999. The longer-term path remains unchanged from the previous forecast with oil prices averaging about \$13.50 per barrel in 1999 and \$14.00 per barrel in 2000.

by no means a "worst case" concerning the potential effects of a meltdown in Brazil on both global and U.S. GDP.

Measure	1998	1999	2000
<i>U.S. CPI ex. food and energy</i>			
Baseline	2.4	2.2	2.2
Pessimistic Brazil	2.4	2.1	1.9
Pessimistic Brazil + Stock Market*	2.4	2.1	1.8

* U.S. stock market falls 10 percent more.

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

Measure and country	-----Projected-----								
	1992	1993	1994	1995	1996	1997	1998	1999	2000
REAL GDP									
Canada	0.9	2.9	5.5	1.1	1.7	4.4	2.0	2.0	2.3
Japan	0.1	0.5	0.8	2.4	3.4	-0.4	-3.0	-0.7	-0.3
United Kingdom	0.7	3.2	4.6	1.9	2.6	4.0	1.9	1.3	2.2
Euro-11 Average (1)	0.1	-0.1	3.4	1.3	1.9	3.0	2.5	2.2	2.2
of which:									
France	-0.1	-0.5	4.1	0.3	2.4	3.0	2.3	1.8	1.8
Germany (2)	0.9	-0.2	3.4	0.0	2.1	2.3	2.4	2.0	2.2
Italy	-0.8	0.1	2.5	2.6	-0.2	2.8	1.4	1.9	2.1
Foreign G-7 Average weighted by 1991 GDP	0.2	0.7	2.8	1.5	2.3	1.9	0.3	1.0	1.3
Average weighted by share of U.S. nonagricultural exports									
Total foreign	2.2	3.3	5.1	2.0	4.0	4.1	0.1	1.4	2.2
Foreign G-7	0.6	1.8	4.1	1.4	2.2	3.1	1.0	1.4	1.8
Developing Countries	4.6	5.4	6.8	2.5	6.3	5.1	-1.8	1.1	2.7
CONSUMER PRICES									
Canada	1.8	1.8	-0.0	2.1	2.0	1.0	1.1	1.3	1.5
Japan	0.9	1.2	0.8	-0.8	0.1	2.1	-1.0	-1.0	0.0
United Kingdom (3)	3.7	2.7	2.2	2.9	3.2	2.8	2.5	2.5	2.5
Euro-11 Average (4)	NA	NA	NA	2.7	2.0	1.4	1.3	1.4	1.5
of which:									
France	1.8	2.1	1.6	1.9	1.7	1.2	0.9	1.0	1.0
Germany (2)	3.4	4.2	2.6	1.7	1.4	1.8	0.8	1.2	1.3
Italy	4.9	4.1	3.8	5.9	2.7	1.6	1.7	1.8	1.8
Foreign G-7 Average weighted by 1991 GDP	2.4	2.5	1.8	1.6	1.5	1.8	0.6	0.7	1.1
Average weighted by share of U.S. non-oil imports	1.9	2.0	1.0	1.1	1.3	1.7	0.4	0.5	0.9

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- Includes all of the European Union countries except the United Kingdom, Denmark, Sweden, and Greece; weighted by GDP.
- CPI excluding mortgage interest payments which is the targeted inflation rate.
- Harmonized CPI's for the Euro-11, weighted by shares in final consumption of households converted to a common currency using estimated PPP exchange rates.

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

Measure and country	1998				1999				Projected				2000
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
REAL GDP													
Canada	3.1	1.3	1.6	2.0	1.8	1.8	2.0	2.5	1.6	2.4	2.6	2.8	
Japan	-5.2	-3.3	-3.0	-0.5	-0.2	-1.0	-0.5	-1.0	-1.6	-0.2	0.3	0.3	
United Kingdom	3.1	1.9	2.0	0.5	0.4	1.3	1.7	1.9	1.5	2.3	2.5	2.5	
Euro-11 Average (1)	3.4	2.0	2.8	1.7	2.0	2.2	2.2	2.5	1.7	2.4	2.4	2.4	
of which:													
France	2.9	2.6	1.8	1.8	1.7	1.7	1.8	2.1	1.3	2.0	2.0	2.0	
Germany	5.9	0.4	2.3	0.9	1.4	2.0	2.1	2.4	1.7	2.3	2.4	2.4	
Italy	-0.5	1.7	3.5	1.0	1.8	1.8	1.9	2.2	1.6	2.3	2.3	2.3	
Foreign G-7 Average weighted by 1991 GDP	0.3	-0.1	0.5	0.6	0.9	0.8	1.1	1.2	0.5	1.4	1.7	1.7	
Average weighted by share of U.S. nonagricultural exports													I-38
Total foreign	-0.5	0.5	0.2	-0.0	0.7	1.2	1.6	2.1	1.5	2.3	2.5	2.6	
Foreign G-7	1.5	0.5	0.8	1.2	1.2	1.2	1.5	1.7	1.0	1.8	2.1	2.2	
Developing Countries	-3.8	-0.3	-1.1	-2.0	-0.3	0.8	1.6	2.5	2.1	2.7	3.0	3.2	
CONSUMER PRICES (2)													
Canada	1.0	1.0	0.9	1.1	1.2	1.2	1.3	1.3	1.4	1.4	1.5	1.5	
Japan	2.1	0.6	-0.1	-1.0	-1.3	-1.5	-1.3	-1.0	-0.7	-0.5	-0.2	0.0	
United Kingdom (3)	2.5	3.0	2.6	2.5	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5	
Euro-11 Average (4)	1.2	1.5	1.2	1.3	1.3	1.3	1.4	1.4	1.4	1.5	1.5	1.5	
of which:													
France	0.7	1.0	0.7	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	
Germany	1.2	1.3	0.8	0.8	0.9	1.0	1.1	1.2	1.2	1.3	1.3	1.3	
Italy	1.7	1.8	1.8	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.8	1.8	
Foreign G-7 Average weighted by 1991 GDP	1.6	1.3	0.9	0.6	0.5	0.4	0.5	0.7	0.8	0.9	1.0	1.1	
Average weighted by share of U.S. non-oil imports	1.6	1.1	0.6	0.4	0.3	0.2	0.3	0.5	0.6	0.7	0.9	0.9	

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

Strictly Confidential (FR)
Class II FOMC

November 12, 1998

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1992	1993	1994	1995	1996	1997	1998	Projected 1999	2000
NIPA REAL EXPORTS and IMPORTS									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.4	-0.6	-0.4	0.5	-0.3	-0.6	-1.6	-0.5	-0.4
Exports of G&S	0.4	0.5	1.0	1.1	1.2	1.1	-0.4	0.3	0.5
Imports of G&S	-0.8	-1.1	-1.4	-0.7	-1.4	-1.7	-1.1	-0.8	-0.9
Percentage change, Q4/Q4									
Exports of G&S	4.1	4.6	10.0	10.5	10.3	9.6	-3.6	2.3	4.7
Services	-0.9	4.1	6.0	9.8	7.5	1.5	-2.2	2.1	1.8
Agricultural Goods	10.4	-5.5	16.6	-4.3	4.8	2.8	-6.8	-4.7	0.0
Computers	25.2	23.7	32.0	55.5	35.9	40.7	9.0	26.6	28.3
Semiconductors	64.8	32.9	66.9	79.6	46.2	21.0	3.7	20.7	23.6
Other Goods 1/	2.3	3.6	7.0	5.8	8.0	11.6	-5.5	0.1	3.5
Imports of G&S	7.4	10.2	12.3	5.6	11.8	14.0	8.9	6.1	6.5
Services	1.4	3.2	1.4	6.1	5.5	12.4	1.3	1.6	3.1
Oil	12.1	10.1	-0.2	2.4	7.9	4.0	-0.4	3.8	6.1
Computers	45.1	39.3	44.8	48.1	24.4	30.3	23.1	30.2	29.9
Semiconductors	42.0	34.2	54.5	92.4	57.6	32.7	0.9	26.2	26.2
Other Goods 2/	5.4	9.5	12.2	-1.2	10.4	13.0	10.4	4.6	4.6
Billions of chained 1992 dollars									
Net Goods & Services	-29.5	-70.2	-104.6	-96.5	-111.2	-136.1	-249.1	-325.4	-366.3
Exports of G&S	639.4	658.2	712.4	792.6	860.0	970.0	972.4	974.2	1011.9
Imports of G&S	669.0	728.4	817.0	889.0	971.2	1106.1	1221.5	1299.6	1378.2
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-51.4	-86.1	-123.8	-115.3	-134.9	-155.2	-235.5	-314.7	-356.1
Net Goods & Services (BOP)	-38.7	-71.9	-100.9	-99.9	-108.6	-110.2	-177.7	-240.6	-270.5
Exports of G&S (BOP)	617.3	643.2	703.8	795.6	850.8	937.6	918.8	912.8	949.0
Imports of G&S (BOP)	656.0	715.2	804.7	895.5	959.3	1047.8	1096.5	1153.4	1219.5
Net Investment Income	22.5	23.9	16.5	19.3	14.2	-5.3	-16.7	-32.3	-43.8
Direct, Net	51.6	55.7	51.8	63.0	66.2	63.7	57.3	49.5	55.4
Portfolio, Net	-29.1	-31.7	-35.3	-43.7	-51.9	-69.1	-74.0	-81.9	-99.2
Net Transfers	-35.2	-38.1	-39.4	-34.6	-40.6	-39.7	-41.1	-41.8	-41.8

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

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1995				1996				1997			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-0.2	-0.3	1.6	0.7	-1.1	-1.0	-1.4	2.4	-1.3	-0.4	-0.5	-0.3
Exports of G&S	1.0	0.6	1.9	1.1	0.4	0.6	0.2	3.2	0.9	1.7	1.2	0.5
Imports of G&S	-1.2	-0.9	-0.3	-0.4	-1.5	-1.6	-1.6	-0.9	-2.2	-2.2	-1.7	-0.8
Percentage change from previous period, SAAR												
Exports of G&S	9.2	5.4	17.8	10.2	3.7	5.8	2.1	32.0	8.3	15.5	10.6	4.4
Services	9.1	2.9	21.7	6.4	-4.0	10.3	-9.9	39.8	-6.7	11.8	5.9	-4.0
Agricultural Goods	1.8	-13.4	5.0	-9.4	22.6	-32.8	-1.6	48.7	-16.1	-7.8	8.7	32.8
Computers	36.4	33.8	86.6	71.6	57.6	24.7	27.7	35.9	70.2	78.7	41.9	-9.2
Semiconductors	72.0	100.8	96.2	53.6	23.8	29.7	30.2	118.6	41.3	17.3	32.3	-2.2
Other Goods 1/	4.3	1.4	9.4	8.1	0.1	6.0	5.7	21.3	13.8	15.6	9.2	8.0
Imports of G&S	9.8	7.2	2.0	3.5	13.1	13.5	13.6	7.0	18.6	17.9	13.5	6.3
Services	20.5	-3.3	3.1	5.5	9.2	4.3	9.9	-1.1	17.8	10.6	15.8	5.8
Oil	-11.4	15.4	31.4	-18.2	-9.8	68.9	3.5	-14.0	-8.2	37.0	6.0	-12.2
Computers	15.4	51.6	62.7	69.3	22.5	22.9	18.8	33.8	54.5	39.0	30.6	2.9
Semiconductors	37.1	105.5	128.2	113.3	38.7	8.9	50.1	172.1	89.0	16.0	20.3	17.6
Other Goods 2/	7.2	1.5	-8.8	-3.8	13.9	10.5	13.5	4.2	16.2	16.1	11.8	8.1
Billions of chained 1992 dollars, SAAR												
Net Goods & Services	-109.5	-114.7	-86.8	-74.8	-95.5	-113.5	-140.1	-95.9	-121.5	-131.6	-142.4	-149.0
Exports of G&S	763.9	774.0	806.3	826.1	833.6	845.5	849.9	911.1	929.4	963.6	988.1	998.8
Imports of G&S	873.4	888.7	893.1	900.9	929.1	958.9	990.0	1007.0	1050.9	1095.2	1130.5	1147.8
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-123.7	-134.2	-115.5	-87.7	-112.9	-132.0	-161.6	-133.2	-148.0	-140.4	-152.4	-180.2
Net Goods & Services (BOP)	-109.3	-125.8	-90.0	-74.5	-92.4	-112.8	-132.3	-96.8	-112.5	-106.1	-108.4	-113.8
Exports of G&S (BOP)	765.4	782.0	809.7	825.6	833.6	845.3	837.5	886.7	904.7	936.1	951.7	957.8
Imports of G&S (BOP)	874.7	907.7	899.7	900.1	926.0	958.2	969.8	983.5	1017.3	1042.1	1060.1	1071.7
Net Investment Income	20.1	24.0	10.2	22.7	21.4	15.9	6.9	12.7	0.1	1.8	-6.2	-17.0
Direct, Net	59.9	67.2	56.5	68.3	64.8	64.4	61.9	73.6	64.2	69.6	65.5	55.6
Portfolio, Net	-39.8	-43.2	-46.2	-45.5	-43.3	-48.5	-55.0	-60.9	-64.2	-67.8	-71.7	-72.6
Net Transfers	-34.5	-32.4	-35.8	-35.9	-41.9	-35.1	-36.2	-49.1	-35.5	-36.1	-37.8	-49.3

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

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1998				1999				Projected			
	1998		1999		Projected		2000					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-2.3	-2.1	-0.9	-0.9	-0.7	-0.7	-0.5	-0.3	-0.3	-0.5	-0.5	-0.2
Exports of G&S	-0.3	-0.9	-0.4	-0.0	0.1	0.2	0.3	0.4	0.4	0.5	0.5	0.6
Imports of G&S	-1.9	-1.2	-0.5	-0.9	-0.8	-1.0	-0.8	-0.6	-0.6	-1.0	-1.0	-0.8
Percentage change from previous period, SAAR												
Exports of G&S	-2.8	-7.7	-3.7	-0.1	0.9	2.2	2.9	3.4	3.4	4.7	5.2	5.5
Services	-1.2	1.7	-9.3	0.4	2.4	2.4	1.8	1.6	0.9	2.0	2.0	2.2
Agricultural Goods	-9.9	-23.4	-7.8	18.8	-13.3	-4.2	-0.9	0.0	0.0	0.0	0.0	0.0
Computers	-15.5	8.7	21.5	26.2	26.2	26.2	26.7	27.2	27.7	28.2	28.6	28.6
Semiconductors	-2.0	-18.7	21.6	19.3	19.3	20.4	21.6	21.6	22.7	23.9	23.9	23.9
Other Goods 1/	-1.6	-11.0	-3.8	-5.2	-1.6	-0.4	0.7	1.7	1.9	3.4	4.2	4.7
Imports of G&S	15.7	9.3	3.8	6.9	6.4	7.4	6.0	4.7	4.9	7.5	7.6	6.0
Services	9.3	-0.6	-2.4	-0.8	0.1	0.9	2.4	2.9	1.5	3.8	3.5	3.5
Oil	8.8	41.4	-17.6	-22.4	-5.9	39.7	8.1	-18.3	5.1	29.7	12.7	-17.7
Computers	38.8	22.4	7.0	26.2	33.5	31.1	28.6	27.4	26.2	31.1	31.1	31.1
Semiconductors	9.9	-28.0	-0.0	31.1	26.2	26.2	26.2	26.2	26.2	26.2	26.2	26.2
Other Goods 2/	16.1	10.7	6.8	8.3	5.7	4.5	4.1	4.2	3.1	4.3	5.6	5.5
Billions of chained 1992 dollars, SAAR												
Net Goods & Services	-198.5	-245.2	-265.9	-286.9	-304.3	-322.0	-334.1	-341.0	348.6	-361.7	374.3	-380.8
Exports of G&S	991.9	972.1	962.9	962.7	964.7	970.0	976.9	985.2	993.6	1004.9	017.7	1031.4
Imports of G&S	1190.4	1217.3	1228.8	1249.6	1269.0	1292.0	1311.0	1326.3	342.2	1366.6	391.9	1412.2
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-186.9	-224.5	-249.9	-280.5	-288.4	-308.5	-320.9	-341.0	-338.5	-348.5	-360.3	-377.0
Net Goods & Services (BOP)	-140.0	-174.3	-188.9	-207.6	-222.6	-239.9	-247.8	-252.1	-257.7	-268.3	-276.7	-279.4
Exports of G&S (BOP)	946.2	921.1	906.1	901.9	903.3	908.6	915.8	923.6	931.7	942.5	954.4	967.3
Imports of G&S (BOP)	1086.2	1095.4	1095.0	1109.5	1125.9	1148.5	1163.6	1175.8	1189.5	1210.7	1231.1	1246.7
Net Investment Income	-9.0	-13.0	-22.0	-22.9	-26.7	-29.7	-34.1	-38.9	-41.8	-41.3	-44.6	-47.6
Direct, Net	62.4	61.0	53.8	52.0	49.1	49.5	49.6	49.8	51.4	55.7	56.7	57.9
Portfolio, Net	-71.3	-74.0	-75.8	-74.9	-75.9	-79.2	-83.7	-88.7	-93.1	-97.0	-101.3	-105.5
Net Transfers	-37.9	-37.3	-39.0	-50.0	-39.0	-39.0	-39.0	-50.0	-39.0	-39.0	-39.0	-50.0

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

Part 2

November 12, 1998

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

Confidential (FR) Class III FOMC

November 12, 1998

RECENT DEVELOPMENTS

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

conditions. In contrast, the number of firms in the National Federation of Independent Business' survey reporting jobs difficult to fill bounced back in October.

Industrial Production

Industrial activity has decelerated sharply since the end of last year largely because of the decline in net exports. The slowdown is evident in every major market grouping with the exception of construction supplies, where production has been boosted by rising residential building. In the third quarter, industrial production was flat as declines in manufacturing and mining output were offset by another surge in utilities.

Industrial production probably posted a small decline in October.¹ Total industrial output was pulled down by a sharp drop in utilities output from its high level and another fall in mining output. The decrease in the output of utilities can be explained by a return to more normal temperatures throughout the country. The recent downward trend in mining activity is the result of reduced oil and gas drilling in the wake of weak crude oil prices. Meanwhile, manufacturing output is estimated to have risen.

Within manufacturing, motor vehicle assemblies increased 1/4 million units in October, to 13.0 million units, a level higher than that before the GM strike.

Production of Domestic Autos and Trucks
(Millions of units at an annual rate; FRB seasonal basis)

Item	1998					
	Aug.	Sept.	Oct. ¹	Q2	Q3	Q4 ²
U.S. production	13.2	12.7	13.0	11.6	11.4	12.8
Autos	6.3	6.5	6.1	5.3	5.6	5.9
Trucks	6.9	6.2	6.9	6.4	5.8	6.9
Domestic stocks ³						
Autos	1.2	1.2	n.a.	1.1	1.2	n.a.
Light trucks	1.3	1.3	n.a.	1.4	1.3	n.a.

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

1. Production rates are latest estimates from Ward's Automotive Communications.

2. Production rates are manufacturers' schedules.

3. Quarterly data are for last month of quarter.

n.a. Not available.

1. The annual revision to industrial production and capacity utilization will be published later this month. The revisions to capacity utilization will incorporate information from the 1997 Survey of Plant Capacity.

CONFIDENTIAL (FR)
CLASS III - FOMC

November 13, 1998

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

November 13, 1998

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

	1998 Mar.	1998 Apr.	1998 May	1998 June	1998 July	1998 Aug.	1998 Sept.	1998 Oct.	1998 Nov. (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	106.5	108.7	106.5	105.6	105.2	104.4	100.9	97.4	102.4
Current conditions	113.7	115.5	113.9	115.4	113.3	113.9	111.7	112.8	116.8
Expected conditions	101.9	104.3	101.7	99.3	100.0	98.3	93.9	87.5	93.1
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Personal financial situation									
Now compared with 12 months ago*	128	131	130	130	132	132	126	131	132
Expected in 12 months*	134	138	134	134	139	139	131	133	130
Expected business conditions									
Next 12 months*	158	162	158	150	145	146	130	118	132
Next 5 years*	119	121	118	116	119	111	117	101	113
Appraisal of buying conditions									
Cars	146	145	148	152	139	150	142	153	150
Large household appliances*	167	169	166	170	162	163	164	162	171
Houses	176	178	172	171	169	170	166	178	171
Willingness to use credit									
Willingness to use savings	49	51	54	50	54	48	53	53	49
Willingness to use credit	82	70	78	68	82	77	65	70	77
Expected unemployment change - next 12 months									
Mean	100	97	102	105	111	109	112	121	118
Median	2.9	2.7	3.1	3.2	3.1	2.7	2.7	2.6	2.6
Expected inflation - next 12 months									
Mean	2.5	2.4	2.6	2.7	2.6	2.4	2.3	2.5	2.2
Expected inflation - next 5 to 10 years									
Mean	3.3	3.2	3.3	3.3	3.1	3.0	3.4	3.2	3.1
Median	2.8	2.7	2.8	2.9	2.7	2.7	2.9	2.8	2.7

* -- 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.