

Part 1

January 27, 2000

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

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

January 27, 2000

Summary and Outlook

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

Measure	1999:Q4		2000:Q1	
	Dec. GB	Jan. GB	Dec. GB	Jan. GB
Real GDP	4.8	5.2	3.2	4.0
Private domestic final purchases	4.8	4.8	3.2	5.6
Personal consumption expenditures	5.1	5.2	2.8	4.8
Residential investment	-2.3	2.8	-6.1	.7
Business fixed investment	5.6	3.4	9.6	11.6
Government outlays for consumption and investment	3.0	5.5	5.1	4.0
Change, billions of chained (1996) dollars				
Inventory investment	11.0	14.0	12.5	-10.7
Net exports	-9.3	-12.2	-24.6	-25.1

and software--these effects were generally rather small and, we think, largely offsetting as far as GDP was concerned.

Consumer spending continued to increase rapidly--about 5-1/4 percent at an annual rate. Although consumer purchases of new cars and light trucks declined slightly from the very high third-quarter level, other retailers reported whopping holiday sales. Growth in business expenditures on high-tech equipment slowed sharply, at least partly as a result of Y2K influences, but spending on other types of capital goods strengthened. Residential construction failed to post its normal seasonal decline as unusually favorable weather and sizable backlog of new projects buoyed homebuilding.

Government spending posted a large gain during the fourth quarter. We have some uncertainty about how to interpret Monthly Treasury Statement figures showing a remarkable surge in defense outlays in December--in particular, how much of it was an increase in deliveries (as opposed to progress payments)--but we are estimating that real federal purchases increased more than 6 percent (annual rate) in the quarter. Consumption and investment expenditures by state and local governments rose at a 5 percent rate, led by a big gain in construction spending, which evidently benefited from good weather.

Projections of Real GDP
 (Percent change, compound annual rate)

Measure	1998	1999	2000	2001
Real GDP	4.6	4.1	4.1	3.8
Previous	4.6	4.0	3.8	3.8
Final sales	4.7	4.3	4.1	3.8
Previous	4.7	4.1	3.7	3.8
PCE	5.1	5.4	4.4	3.5
Previous	5.1	5.3	4.0	3.4
Residential investment	11.3	4.2	-3.6	-3.6
Previous	11.3	2.5	-5.2	-2.8
BFI	13.1	7.2	10.1	10.5
Previous	13.1	8.2	9.1	9.9
Government purchases	2.2	4.1	3.4	3.0
Previous	2.2	3.4	3.5	2.8
Exports	1.9	3.7	6.9	8.5
Previous	1.9	4.0	7.0	9.1
Imports	10.8	12.3	10.0	8.6
Previous	10.8	12.5	9.0	8.3
Change, billions of chained (1996) dollars				
Inventory change	-2.0	-18.7	3.7	2.5
Previous	-2.0	-21.2	.7	-3.3
Net exports	-103.6	-118.1	-67.8	-37.7
Previous	-103.6	-116.9	-52.8	-24.0

prospects. As noted above, the stock market has managed to rise further since the December FOMC meeting in the face of an increase in bond yields. We have projected that the equity gains will be sustained, so that the wealth-income ratio is on a somewhat higher path this time than last, while interest rates are also higher.

With aggregate supply and demand having been raised virtually in tandem, resource utilization levels are little changed from the previous forecast, and so too are the projected rates of wage and price inflation.

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

Measure	1998	1999	2000	2001
Output per hour, nonfarm business	3.1	3.1	3.1	2.8
Previous	3.1	2.9	2.8	2.8
Nonfarm payroll employment	2.4	2.1	1.8	1.6
Previous	2.4	2.1	1.8	1.5
Household employment survey	1.3	1.5	1.2	1.0
Previous	1.3	1.4	1.2	1.0
Labor force participation rate ¹	67.1	67.0	67.1	67.1
Previous	67.1	67.0	67.1	67.1
Civilian unemployment rate ¹	4.4	4.1	4.0	4.1
Previous	4.4	4.1	4.0	4.1

1. Percent, average for the fourth quarter.

sector appears to have increased 3.1 percent in 1999--matching the strong gain of 1998. There probably has been some "cyclical" element in this improvement: Many businesses surely have been surprised by the persistent strength of demand and, with workers often difficult to find, others have been unable to raise their labor forces to the levels that they might prefer in the longer run. However, we are inclined to believe that "structural" improvements explain the bulk of the recent efficiency gains, as firms have met competitive pressures by reorganizing operations, often capitalizing on the availability of labor-saving machines at improving relative costs. As we gauge it, these have translated into so-called trend labor productivity gains of about 2-3/4 percent for nonfarm businesses (NFB) over the past couple of years and trend potential GDP growth of about 3-3/4 percent per year. Feeding this growth rate into an Okun's law relation, one gets a close tracking of the actual performance of the unemployment rate to date.

In the current forecast, taking into account the likely increase in the contribution of capital deepening implied by our investment numbers, we have raised the trend NFB productivity growth rate for 2000-2001 to 3 percent and the growth of potential GDP to 4 percent. Given projected GDP growth at roughly this pace, we expect that the unemployment rate will remain at 4 percent. No significant change in labor force participation is projected, and we project growth in nonfarm payrolls to average 190,000 per month this year and 175,000 per month in 2001. (This is much higher than the stable-unemployment-rate job growth we once estimated and reflects our assumption that payroll gains will continue to outstrip employment increases measured in the household survey--

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

Measure	1998	1999	2000	2001
PCE chain-weighted price index	1.0	2.0	2.0	2.0
Previous	1.0	2.0	1.9	2.1
Excluding food and energy	1.4	1.5	1.9	2.1
Previous	1.4	1.5	1.9	2.2
Consumer price index	1.5	2.6	2.4	2.4
Previous	1.5	2.6	2.3	2.5
Food	2.2	1.9	2.4	2.6
Previous	2.2	1.9	2.3	2.6
Energy	-9.2	11.3	1.3	-2.2
Previous	-9.2	11.3	-.6	-1.3
Excluding food and energy	2.4	2.1	2.5	2.7
Previous	2.4	2.1	2.5	2.8
GDP chain-weighted price index	1.1	1.5	1.9	1.9
Previous	1.1	1.5	1.8	1.9
ECI for compensation of private industry workers ¹	3.5	3.3	3.8	4.2
Previous	3.5	3.3	3.7	4.1
NFB compensation per hour	5.3	4.5	4.9	5.1
Previous	5.3	4.5	4.7	4.9
Prices of core non-oil merchandise imports	-1.9	.5	2.2	2.4
Previous	-1.9	.6	2.6	2.3
Percentage points				
MEMO: Adjustments for technical changes to the CPI ²				
Core CPI	-.2	.0	.0	.0

1. December to December.

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

Labor remains the key cost for many industries, and from a conceptual point of view, compensation gains not ratified by productivity increases clearly should put upward pressure on prices. However, as we have noted before, neither of the standard compensation series is ideal as a measure of labor cost in this context.

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

Measure	2000	2001
<i>Real GDP</i>		
Baseline	4.1	3.8
Flat funds rate	4.6	5.7
11,000 Wilshire	3.6	2.7
16,000 Wilshire	4.2	4.4
<i>Civilian unemployment rate¹</i>		
Baseline	4.0	4.1
Flat funds rate	3.8	3.3
11,000 Wilshire	4.1	4.6
16,000 Wilshire	4.0	3.9
<i>PCE prices excluding food and energy</i>		
Baseline	1.9	2.1
Flat funds rate	2.0	2.8
11,000 Wilshire	1.9	1.9
16,000 Wilshire	1.9	2.1

1. Average for the fourth quarter.

11,000 by the end of this summer and to hold at that level over the balance of the projection period. In contrast, in the other stock market simulation, the Wilshire 5000 index trends upward, reaching 16,000 by the late 2001.

With no change in the nominal federal funds rate over the projection period, the model projects real GDP to rise 4.6 percent this year and 5.7 percent in 2001. The added growth reduces the unemployment rate to 3.8 percent by the end of this year and to 3.3 percent by the fourth quarter of 2001. Given the further tightening of labor markets, the model expects a much larger step-up in inflation: after a 2 percent rise in 2000, core PCE prices accelerate to a 2.8 percent pace in 2001.

In the 11,000 Wilshire alternative, higher costs of equity finance and, especially, a steep decline in the household wealth-income ratio reduce real GDP growth to 3.6 percent this year and 2.7 percent in 2001. With the economy growing well below its potential rate, the unemployment rate moves up to 4.6 percent by the

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

January 27, 2000

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²		
	12/15/99	1/27/00	12/15/99	1/27/00	12/15/99	1/27/00	12/15/99	1/27/00	12/15/99	1/27/00	
ANNUAL											
1997		6.2	6.2	4.5	4.5	1.7	1.7	2.3	2.3	4.9	4.9
1998		5.5	5.5	4.3	4.3	1.2	1.2	1.6	1.6	4.5	4.5
1999		5.5	5.5	4.0	4.0	1.4	1.4	2.2	2.2	4.2	4.2
2000		5.7	6.1	4.0	4.3	1.7	1.7	2.6	2.7	4.0	4.0
2001		5.6	5.8	3.8	3.9	1.8	1.9	2.3	2.3	4.1	4.1
QUARTERLY											
1998	Q1	7.7	7.7	6.7	6.7	1.0	1.0	1.0	1.0	4.6	4.7
	Q2	3.4	3.4	2.1	2.1	1.1	1.1	1.7	1.7	4.4	4.4
	Q3	5.4	5.4	3.8	3.8	1.4	1.4	1.7	1.7	4.5	4.5
	Q4	7.0	7.0	5.9	5.9	0.9	0.9	1.7	1.7	4.4	4.4
1999	Q1	5.7	5.7	3.7	3.7	2.0	2.0	1.5	1.5	4.3	4.3
	Q2	3.3	3.3	1.9	1.9	1.3	1.3	3.4	3.4	4.3	4.3
	Q3	6.6	6.8	5.6	5.7	1.2	1.1	2.7	2.7	4.2	4.2
	Q4	6.4	6.7	4.8	5.2	1.7	1.6	2.9	2.9	4.1	4.1
2000	Q1	5.4	6.1	3.2	4.0	2.1	2.1	2.6	2.9	4.1	4.0
	Q2	5.9	6.1	4.3	4.2	1.6	1.8	2.3	2.7	4.0	4.0
	Q3	5.5	6.1	3.8	4.1	1.7	1.9	1.9	1.9	4.0	4.0
	Q4	5.4	5.8	3.8	3.9	1.6	1.8	2.2	2.1	4.0	4.0
2001	Q1	5.9	6.0	3.8	3.8	2.1	2.1	2.3	2.2	4.1	4.1
	Q2	5.6	5.6	3.8	3.8	1.8	1.7	2.6	2.4	4.1	4.1
	Q3	5.6	5.7	3.8	3.8	1.9	1.8	2.5	2.4	4.1	4.1
	Q4	5.7	5.8	3.8	3.9	1.8	1.8	2.6	2.5	4.1	4.1
TWO-QUARTER³											
1998	Q2	5.5	5.5	4.4	4.4	1.1	1.1	1.4	1.4	-0.3	-0.3
	Q4	6.2	6.2	4.8	4.8	1.1	1.1	1.7	1.7	0.0	0.0
1999	Q2	4.5	4.5	2.8	2.8	1.7	1.7	2.5	2.5	-0.1	-0.1
	Q4	6.5	6.7	5.2	5.4	1.4	1.4	2.8	2.7	-0.2	-0.2
2000	Q2	5.7	6.1	3.7	4.1	1.9	1.9	2.5	2.8	-0.1	-0.1
	Q4	5.4	5.9	3.8	4.0	1.7	1.8	2.1	2.0	0.0	0.0
2001	Q2	5.7	5.8	3.8	3.8	1.9	1.9	2.4	2.3	0.1	0.1
	Q4	5.7	5.8	3.8	3.9	1.8	1.8	2.6	2.4	0.0	0.0
FOUR-QUARTER⁴											
1997	Q4	5.9	5.9	4.3	4.3	1.6	1.6	1.9	1.9	-0.6	-0.6
1998	Q4	5.9	5.9	4.6	4.6	1.1	1.1	1.5	1.5	-0.3	-0.3
1999	Q4	5.5	5.6	4.0	4.1	1.5	1.5	2.6	2.6	-0.3	-0.3
2000	Q4	5.6	6.0	3.8	4.1	1.8	1.9	2.3	2.4	-0.1	-0.1
2001	Q4	5.7	5.8	3.8	3.8	1.9	1.9	2.5	2.4	0.0	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 POMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES
(Seasonally adjusted annual rate)

January 27, 2000

Item	Units ¹	Projected									
		1993	1994	1995	1996	1997	1998	1999	2000	2001	
EXPENDITURES											
Nominal GDP	Bill. \$	6642.3	7054.3	7400.5	7813.2	8300.8	8759.9	9241.6	9805.0	10377.0	
Real GDP	Bill. Ch. \$	7054.1	7337.8	7537.1	7813.2	8165.1	8516.3	8857.8	9242.2	9602.7	
Real GDP	% change	2.2	4.2	2.2	4.2	4.3	4.6	4.1	4.1	3.8	
Gross domestic purchases		2.8	4.4	1.7	4.4	4.9	5.7	5.2	4.6	4.0	
Final sales		2.3	3.3	3.0	4.0	3.8	4.7	4.3	4.1	3.8	
Priv. dom. final purchases		3.9	4.4	3.2	4.6	4.9	6.5	5.6	4.8	4.2	
Personal cons. expenditures		2.9	3.6	2.8	3.3	4.2	5.1	5.4	4.4	3.5	
Durables		9.3	6.4	3.7	5.0	8.4	13.0	9.2	5.9	4.0	
Nondurables		2.6	4.1	2.5	3.2	2.4	5.0	5.5	3.3	2.5	
Services		1.9	2.9	2.8	3.0	4.2	3.6	4.6	4.6	3.9	
Business fixed investment		8.7	9.2	7.5	12.1	9.6	13.1	7.2	10.1	10.5	
Equipment & Software		11.5	12.0	8.9	11.8	11.3	16.8	11.2	13.7	13.3	
Nonres. structures		1.2	1.1	3.3	12.8	4.7	2.9	-4.5	-1.9	0.3	
Residential structures		7.8	4.0	-1.5	5.6	3.7	11.3	4.2	-3.6	-3.6	
Exports		4.5	10.6	9.7	9.9	9.4	1.9	3.7	6.9	8.5	
Imports		10.5	12.2	5.0	11.2	14.2	10.8	12.3	10.0	8.6	
Gov't. cons. & investment		-0.9	0.2	-0.8	2.7	2.2	2.2	4.1	3.4	3.0	
Federal		-5.3	-3.7	-5.3	2.0	0.2	0.6	3.0	1.5	0.7	
Defense		-6.4	-5.9	-4.7	0.8	-1.3	-1.1	2.1	-1.2	0.6	
State & local		2.3	2.8	2.1	3.1	3.4	3.2	4.7	4.5	4.2	
Change in bus. inventories	Bill. Ch. \$	20.0	66.8	30.4	30.0	69.1	74.3	38.5	51.0	56.8	
Nonfarm		28.6	53.6	42.6	22.1	66.2	73.2	38.1	51.0	56.3	
Net exports		-59.9	-87.6	-79.2	-89.0	-109.8	-215.1	-323.0	-401.1	-448.4	
Nominal GDP	% change	5.0	6.2	4.3	6.0	5.9	5.9	5.6	6.0	5.8	
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	110.7	114.1	117.2	119.6	122.7	125.8	128.6	131.2	133.2	
Unemployment rate	%	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.1	
Industrial prod. index	% change	3.4	6.4	3.5	5.3	6.8	2.9	4.5	4.1	3.8	
Capacity util. rate - mfg.	%	80.5	82.5	82.6	81.5	82.4	80.9	79.8	80.6	81.2	
Housing starts	Millions	1.29	1.46	1.35	1.48	1.47	1.62	1.67	1.61	1.54	
Light motor vehicle sales		13.86	15.01	14.72	15.05	15.02	15.50	16.77	16.59	16.19	
North Amer. produced		11.71	12.88	12.82	13.35	13.09	13.47	14.28	14.06	13.86	
Other		2.15	2.13	1.90	1.70	1.92	2.04	2.49	2.54	2.33	
INCOME AND SAVING											
Nominal GNP	Bill. \$	6666.7	7071.1	7420.9	7831.2	8305.0	8750.0	9226.6	9785.9	10344.5	
Nominal GNP	% change	4.9	6.2	4.4	5.9	5.7	5.6	5.6	6.0	5.6	
Nominal personal income		3.7	5.1	4.3	5.9	6.4	6.0	6.1	5.9	5.9	
Real disposable income		0.9	3.0	1.7	2.8	4.1	4.2	4.0	3.5	3.8	
Personal saving rate	%	7.1	6.1	5.6	4.8	4.5	3.7	2.5	1.6	1.7	
Corp. profits, IVA & CCAdj.	% change	18.0	12.5	11.2	11.2	10.2	-2.2	9.2	4.6	2.6	
Profit share of GNP	%	7.6	8.1	9.0	9.6	10.1	9.7	9.6	9.5	9.3	
Excluding FR Banks		7.4	7.8	8.7	9.3	9.8	9.4	9.3	9.3	9.1	
Federal surpl./deficit	Bill. \$	-274.1	-212.3	-192.0	-136.8	-48.8	46.9	113.0	162.9	225.9	
State & local surpl./def.		1.5	8.6	15.3	21.4	27.5	41.7	49.0	53.6	45.6	
Ex. social ins. funds		-2.7	4.0	11.4	18.7	26.4	40.8	48.3	52.8	44.8	
Gross natl. saving rate	%	15.6	16.3	16.9	17.2	18.3	18.8	18.8	18.5	18.8	
Net natl. saving rate		3.7	4.2	5.1	5.7	7.1	7.5	7.3	7.1	7.6	
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.7	2.0	2.1	1.7	1.6	1.1	1.5	1.9	1.9	
Gross Domestic Purchases chn.-wt. price index		2.5	2.1	2.0	1.7	1.1	0.7	1.8	1.8	1.7	
PCE chn.-wt. price index		2.6	2.0	2.0	2.2	1.3	1.0	2.0	2.0	2.0	
Ex. food and energy		2.9	2.1	2.2	1.6	1.4	1.4	1.5	1.9	2.1	
CPI		2.7	2.6	2.7	3.1	1.9	1.5	2.6	2.4	2.4	
Ex. food and energy		3.1	2.8	3.1	2.6	2.2	2.4	2.1	2.5	2.7	
ECL, hourly compensation ²		3.6	3.1	2.6	3.1	3.4	3.5	3.3	3.8	4.2	
Nonfarm business sector		-0.7	1.2	1.2	2.5	2.2	3.1	3.1	3.1	2.8	
Output per hour		1.3	2.2	2.7	3.2	4.2	5.3	4.5	4.9	5.1	
Compensation per Hour		2.0	0.9	1.5	0.7	2.0	2.1	1.4	1.8	2.4	
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)

January 27, 2000

Item	Units	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	8125.9	8259.5	8364.5	8453.0	8610.6	8683.7	8797.9	8947.6	9072.7	9146.2
Real GDP	Bill. Ch. \$	8033.4	8134.8	8214.8	8277.3	8412.7	8457.2	8536.0	8659.2	8737.9	8778.6
Real GDP	% change	4.9	5.1	4.0	3.1	6.7	2.1	3.8	5.9	3.7	1.9
Gross domestic purchases		5.7	5.6	4.8	3.5	8.6	4.1	4.6	5.5	5.8	3.2
Final sales		4.0	3.1	5.8	2.4	5.1	5.1	2.4	6.2	4.6	3.4
Priv. dom. final purchases		5.5	3.1	7.6	3.5	8.8	7.3	3.5	6.4	7.1	5.4
Personal cons. expenditures		4.9	1.8	6.6	3.4	5.6	6.1	3.9	4.6	6.5	5.1
Durables		10.9	-1.5	20.2	5.0	16.9	11.2	4.1	20.4	12.4	9.1
Nondurables		3.8	-0.2	5.7	0.3	5.8	6.7	2.4	5.0	8.9	3.3
Services		4.3	3.5	4.5	4.6	3.3	4.8	4.7	1.5	4.2	5.2
Business fixed investment		9.6	9.9	16.0	3.2	26.7	12.1	0.0	15.3	7.8	7.0
Equipment & Software		10.1	15.2	17.7	2.8	34.7	13.8	2.4	18.6	12.5	11.2
Nonres. structures		8.0	-4.0	11.2	4.3	5.7	7.1	-6.6	5.8	-5.8	-5.3
Residential structures		3.0	4.7	0.6	6.6	14.0	13.6	8.0	9.8	12.9	5.5
Exports		8.8	16.2	11.5	1.8	-1.5	-4.0	-1.7	16.1	-5.5	4.0
Imports		15.5	19.1	17.6	5.2	14.4	13.0	5.2	10.8	12.5	14.4
Gov't. cons. & investment		1.7	5.7	1.7	-0.1	-1.0	6.0	1.3	2.9	5.1	1.3
Federal		-2.8	9.9	-1.3	-4.2	-9.8	11.9	-2.3	3.9	-0.5	2.1
Defense		-11.3	9.6	-0.2	-2.4	-17.0	11.1	7.0	-2.9	-4.0	-2.6
State & local		4.4	3.4	3.5	2.4	4.1	3.0	3.3	2.3	8.2	0.9
Change in bus. inventories	Bill. Ch. \$	51.5	93.1	59.2	72.7	107.3	43.1	76.1	70.7	50.1	14.0
Nonfarm		56.7	85.7	52.6	69.7	103.8	53.2	77.5	58.2	43.1	13.1
Net exports		-90.8	-100.9	-118.7	-128.7	-171.7	-218.4	-237.9	-232.3	-284.5	-319.0
Nominal GDP	% change	7.4	6.7	5.2	4.3	7.7	3.4	5.4	7.0	5.7	3.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	121.4	122.3	123.0	123.9	124.8	125.5	126.1	126.9	127.6	128.2
Unemployment rate	%	5.3	5.0	4.8	4.7	4.7	4.4	4.5	4.4	4.3	4.3
Industrial prod. index	% change	6.5	6.7	6.9	6.9	2.4	3.0	2.9	3.3	2.0	4.7
Capacity util. rate - mfg.	%	81.9	82.2	82.5	82.7	82.0	81.0	80.3	80.2	79.6	79.6
Housing starts	Millions	1.46	1.47	1.46	1.52	1.59	1.57	1.64	1.70	1.77	1.62
Light motor vehicle sales		15.32	14.54	15.19	15.02	15.08	16.07	14.55	16.31	16.20	16.71
North Amer. produced		13.41	12.68	13.20	13.08	13.13	14.07	12.54	14.11	13.94	14.28
Other		1.92	1.86	1.99	1.94	1.95	1.99	2.01	2.20	2.26	2.43
INCOME AND SAVING											
Nominal GNP	Bill. \$	8131.1	8269.1	8366.5	8453.3	8613.7	8683.7	8772.2	8930.5	9058.2	9131.9
Nominal GNP	% change	6.8	7.0	4.8	4.2	7.8	3.3	4.1	7.4	5.8	3.3
Nominal personal income		8.0	5.6	5.5	6.4	5.3	5.8	6.6	6.5	5.4	5.5
Real disposable income		4.4	4.2	3.6	4.3	4.0	3.8	4.5	4.8	4.1	3.2
Personal saving rate	%	4.5	5.0	4.2	4.4	4.0	3.5	3.6	3.5	3.0	2.5
Corp. profits, IVA & CCAdj.	% change	15.9	14.7	15.9	-4.2	2.3	-4.8	-1.9	-4.4	24.9	-2.9
Profit share of GNP	%	9.9	10.1	10.3	10.1	10.0	9.8	9.6	9.3	9.7	9.6
Excluding FR Banks		9.6	9.8	10.0	9.8	9.7	9.5	9.3	9.1	9.5	9.3
Federal surpl./deficit	Bill. \$	-87.4	-63.2	-27.9	-16.8	24.9	43.5	59.6	59.7	97.6	118.1
State & local surpl./def.		25.9	23.7	30.9	29.7	32.0	30.9	49.9	54.2	48.7	37.6
Ex. social ins. funds		24.3	22.4	29.9	28.9	31.1	29.9	48.9	53.4	48.2	36.8
Gross natl. saving rate	%	17.7	18.4	18.5	18.6	18.8	18.6	19.0	18.9	19.1	18.7
Net natl. saving rate		6.4	7.2	7.3	7.4	7.6	7.2	7.6	7.5	7.8	7.3
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.4	1.5	1.2	1.3	1.0	1.1	1.4	0.9	2.0	1.3
Gross Domestic Purchases chn.-wt. price index		1.9	0.6	1.0	1.1	0.1	0.8	1.1	1.0	1.6	1.9
PCE chn.-wt. price index		2.1	0.8	1.1	1.2	0.5	1.1	1.2	1.2	1.4	2.2
Ex. food and energy		1.9	1.9	0.8	1.0	1.3	1.7	1.4	1.4	1.4	1.3
CPI		2.5	1.3	1.8	2.0	1.0	1.7	1.7	1.7	1.5	3.4
Ex. food and energy		2.2	2.9	1.4	2.4	2.4	2.6	2.3	2.1	1.6	2.5
ECI, hourly compensation ¹		2.5	3.7	3.4	4.3	3.0	3.6	4.1	2.9	1.4	4.6
Nonfarm business sector		0.9	3.3	3.3	1.2	4.4	0.9	3.1	4.1	2.7	0.6
Output per hour		3.6	2.6	4.4	6.4	4.8	5.6	6.2	4.6	4.2	4.8
Compensation per hour		2.7	-0.6	1.0	5.1	0.4	4.6	3.0	0.5	1.4	4.2
Unit labor cost											

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)

January 27, 2000

Item	Units	Projected									
		1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	9297.8	9449.7	9590.6	9732.9	9878.1	10018.3	10164.5	10302.9	10445.6	10595.0
Real GDP	Bill. Ch. \$	8900.6	9014.0	9102.0	9196.5	9290.1	9380.1	9468.1	9556.7	9646.3	9739.7
Real GDP	% change	5.7	5.2	4.0	4.2	4.1	3.9	3.8	3.8	3.8	3.9
Gross domestic purchases		6.3	5.4	4.8	4.9	4.6	4.0	4.2	4.2	4.0	3.7
Final sales		4.5	4.5	4.3	3.9	4.1	4.0	3.8	3.8	3.8	3.9
Priv. dom. final purchases		5.3	4.8	5.6	4.6	4.7	4.3	4.4	4.5	4.1	3.9
Personal cons. expenditures		4.9	5.2	4.8	4.5	4.4	3.8	3.9	3.9	3.3	3.0
Durables		7.7	7.7	8.4	5.5	6.0	3.7	4.3	4.4	6.0	3.2
Nondurables		3.6	6.3	3.2	3.4	3.3	3.1	3.0	2.9	2.1	2.1
Services		5.0	4.1	4.9	4.9	4.7	4.2	4.3	4.2	3.8	3.4
Business fixed investment		10.9	3.4	11.6	8.8	9.8	10.0	10.3	10.4	10.7	10.6
Equipment & Software		15.7	5.4	16.1	12.2	13.1	13.4	13.3	13.3	13.5	13.2
Nonres. structures		-3.8	-3.1	-2.4	-2.2	-1.2	-1.7	-0.2	-0.0	0.7	0.8
Residential structures		-3.8	2.8	0.7	-6.0	-4.8	-4.1	-4.8	-3.4	-3.3	-2.8
Exports		11.5	5.3	3.5	6.8	7.1	10.3	4.9	8.6	8.7	11.8
Imports		14.9	7.7	10.0	11.4	9.6	8.8	7.5	10.1	8.6	8.3
Gov't. cons. & investment		4.5	5.5	4.0	4.2	3.3	2.3	3.2	3.0	3.1	2.9
Federal		4.1	6.2	3.1	3.6	1.0	-1.8	1.0	0.7	0.7	0.4
Defense		11.2	4.7	-5.7	-0.6	1.4	0.3	1.1	0.6	0.7	0.2
State & local		4.8	5.2	4.4	4.5	4.5	4.6	4.3	4.2	4.3	4.2
Change in bus. inventories	Bill. Ch. \$	38.0	52.0	41.3	51.9	55.1	55.6	56.2	55.8	56.9	58.1
Nonfarm		41.2	55.0	42.7	51.4	54.6	55.2	55.8	55.3	56.4	57.6
Net exports		-338.2	-350.5	-375.5	-397.4	-413.2	-418.3	-433.0	-447.8	-456.7	-456.0
Nominal GDP	% change	6.8	6.7	6.1	6.1	6.1	5.8	6.0	5.6	5.7	5.8
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	128.9	129.6	130.4	131.0	131.4	131.9	132.4	132.9	133.4	134.0
Unemployment rate	%	4.2	4.1	4.0	4.0	4.0	4.0	4.1	4.1	4.1	4.1
Industrial prod. index	% change	4.8	6.6	4.2	3.9	4.2	3.9	3.5	4.1	4.1	3.6
Capacity util. rate - mfg.	%	79.7	80.3	80.4	80.5	80.6	80.7	81.0	81.1	81.3	81.5
Housing starts	Millions	1.66	1.65	1.64	1.62	1.59	1.57	1.56	1.54	1.53	1.52
Light motor vehicle sales		17.27	16.90	16.92	16.68	16.52	16.26	16.13	16.14	16.24	16.24
North Amer. produced		14.82	14.09	14.23	14.10	14.02	13.88	13.84	13.90	13.85	13.85
Other		2.45	2.81	2.68	2.58	2.50	2.38	2.29	2.24	2.39	2.39
INCOME AND SAVING											
Nominal GNP	Bill. \$	9282.3	9434.0	9575.0	9716.0	9856.7	9995.9	10135.6	10270.5	10412.7	10559.1
Nominal GNP	% change	6.8	6.7	6.1	6.0	5.9	5.8	5.7	5.4	5.7	5.7
Nominal personal income		5.2	8.5	6.1	5.6	5.9	6.0	6.4	5.8	5.5	5.9
Real disposable income		2.9	6.0	3.3	3.1	3.8	3.8	5.3	3.4	3.1	3.4
Personal saving rate	%	2.1	2.3	1.9	1.6	1.5	1.5	1.8	1.7	1.6	1.7
Corp. profits, IVA & CCAdj.	% change	1.7	15.5	0.5	7.4	5.4	5.2	-0.3	0.2	5.3	5.4
Profit share of GNP	%	9.5	9.7	9.5	9.6	9.6	9.5	9.4	9.3	9.3	9.3
Excluding FR Banks		9.2	9.4	9.3	9.3	9.3	9.3	9.1	9.0	9.0	9.0
Federal surpl./deficit	Bill. \$	133.8	102.5	138.6	151.1	172.4	189.6	193.9	216.4	241.8	251.6
State & local surpl./def.		48.9	60.8	54.0	54.6	54.6	51.1	48.5	47.5	44.1	42.4
Ex. social ins. funds		48.1	60.0	53.2	53.8	53.8	50.3	47.7	46.7	43.3	41.6
Gross natl. saving rate	%	18.7	18.6	18.5	18.4	18.5	18.6	18.7	18.8	18.9	19.0
Net natl. saving rate		7.1	7.1	7.1	7.0	7.1	7.2	7.4	7.5	7.6	7.7
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.1	1.6	2.1	1.8	1.9	1.8	2.1	1.7	1.8	1.8
Gross Domestic Purchases chn.-wt. price index		1.7	2.1	2.5	1.7	1.4	1.4	1.9	1.6	1.6	1.7
PCE chn.-wt. price index		1.8	2.5	2.4	2.0	1.7	1.8	1.9	2.0	2.1	2.1
Ex. food and energy		1.2	2.1	1.8	2.0	1.9	2.0	2.1	2.1	2.2	2.2
CPI		2.7	2.9	2.9	2.7	1.9	2.1	2.2	2.4	2.4	2.5
Ex. food and energy		1.6	2.5	2.2	2.8	2.4	2.7	2.6	2.8	2.7	2.8
ECI, hourly compensation ¹		3.4	3.6	3.8	3.7	3.8	4.1	4.1	4.1	4.1	4.5
Nonfarm business sector		5.0	4.4	2.5	3.6	3.0	3.0	2.6	2.7	2.8	3.0
Output per hour		4.7	4.3	5.0	4.7	4.7	5.1	5.1	5.3	4.9	5.2
Compensation per hour		-0.2	-0.1	2.5	1.1	1.7	2.1	2.6	2.6	2.1	2.2

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

January 27, 2000

Item	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	97Q4/ 96Q4	98Q4/ 97Q4	99Q4/ 98Q4
Real GDP	4.0	3.1	6.7	2.1	3.8	5.9	3.7	1.9	5.7	4.3	4.6	4.1
Gross dom. purchases	4.6	3.5	8.7	4.2	4.6	5.6	5.9	3.3	6.4	4.9	5.7	5.3
Final sales	5.7	2.4	5.1	5.0	2.3	6.2	4.6	3.4	4.5	3.8	4.6	4.2
Priv. dom. final purchases	6.2	2.9	7.2	6.0	2.9	5.3	5.9	4.5	4.5	4.0	5.4	4.7
Personal cons. expenditures	4.3	2.2	3.8	4.0	2.6	3.1	4.3	3.4	3.3	2.8	3.4	3.5
Durables	1.4	0.4	1.2	0.8	0.3	1.5	1.0	0.7	0.6	0.6	1.0	0.7
Nondurables	1.1	0.1	1.2	1.3	0.5	1.0	1.7	0.6	0.7	0.5	1.0	1.1
Services	1.8	1.8	1.4	1.9	1.8	0.6	1.6	2.0	2.0	1.7	1.4	1.8
Business fixed investment	1.8	0.4	2.9	1.4	0.0	1.8	0.9	0.9	1.3	1.1	1.5	0.9
Equipment & Software	1.5	0.2	2.7	1.2	0.2	1.6	1.1	1.0	1.4	1.0	1.5	1.0
Nonres. structures	0.3	0.1	0.2	0.2	-0.2	0.2	-0.2	-0.2	-0.1	0.1	0.1	-0.1
Residential structures	0.0	0.3	0.5	0.5	0.3	0.4	0.5	0.2	-0.2	0.1	0.5	0.2
Net exports	-0.8	-0.4	-1.9	-2.0	-0.8	0.3	-2.1	-1.4	-0.7	-0.7	-1.1	-1.2
Exports	1.3	0.2	-0.2	-0.5	-0.2	1.7	-0.6	0.4	1.2	1.1	0.2	0.4
Imports	-2.1	-0.6	-1.7	-1.6	-0.7	-1.3	-1.5	-1.8	-1.9	-1.7	-1.3	-1.6
Government cons. & invest.	0.3	-0.0	-0.2	1.0	0.2	0.5	0.9	0.2	0.8	0.4	0.4	0.7
Federal	-0.1	-0.3	-0.6	0.7	-0.1	0.2	-0.0	0.1	0.3	0.0	0.0	0.2
Defense	-0.0	-0.1	-0.8	0.4	0.3	-0.1	-0.2	-0.1	0.4	-0.1	-0.0	0.1
Nondefense	-0.1	-0.2	0.1	0.3	-0.4	0.4	0.1	0.2	-0.2	0.1	0.1	0.1
State and local	0.4	0.3	0.5	0.3	0.4	0.3	0.9	0.1	0.6	0.4	0.4	0.5
Change in bus. inventories	-1.6	0.7	1.6	-2.8	1.4	-0.3	-0.8	-1.5	1.1	0.5	-0.0	-0.2
Nonfarm	-1.6	0.8	1.6	-2.3	1.1	-0.8	-0.6	-1.2	1.3	0.5	-0.1	-0.0
Farm	-0.0	-0.1	0.0	-0.5	0.3	0.6	-0.2	-0.2	-0.2	-0.0	0.1	-0.2

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

January 27, 2000

Item	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	99Q4/ 99Q4	00Q4/ 99Q4	01Q4/ 00Q4
Real GDP												
Gross dom. purchases	5.2	4.0	4.2	4.1	3.9	3.8	3.8	3.8	3.9	4.1	4.1	3.8
	5.6	5.0	5.1	4.7	4.1	4.4	4.3	4.1	3.9	5.3	4.7	4.1
Final sales	4.5	4.3	3.9	4.0	3.9	3.8	3.8	3.7	3.9	4.2	4.0	3.8
Priv. dom. final purchases	4.1	4.7	3.9	4.0	3.7	3.8	3.8	3.5	3.3	4.7	4.1	3.6
Personal cons. expenditures	3.5	3.3	3.0	3.0	2.6	2.7	2.6	2.3	2.0	3.6	3.0	2.4
Durables	0.6	0.7	0.4	0.5	0.3	0.3	0.4	0.3	0.3	0.7	0.5	0.3
Nondurables	1.2	0.6	0.7	0.7	0.6	0.6	0.6	0.4	0.4	1.1	0.7	0.5
Services	1.6	1.9	1.9	1.8	1.6	1.7	1.7	1.5	1.4	1.8	1.8	1.6
Business fixed investment	0.4	1.4	1.1	1.2	1.2	1.3	1.3	1.4	1.4	0.9	1.2	1.3
Equipment & Software	0.5	1.5	1.2	1.2	1.3	1.3	1.3	1.3	1.3	1.0	1.3	1.3
Nonres. structures	-0.1	-0.1	-0.1	-0.0	-0.0	-0.0	-0.0	0.0	0.0	-0.1	-0.1	0.0
Residential structures	0.1	0.0	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	0.2	-0.2	-0.2
Net exports	-0.3	-1.0	-0.9	-0.6	-0.2	-0.5	-0.5	-0.3	0.1	-1.2	-0.6	-0.3
Exports	0.6	0.4	0.7	0.8	1.1	0.5	0.9	0.9	1.3	0.4	0.7	0.9
Imports	-1.0	-1.4	-1.6	-1.4	-1.2	-1.1	-1.4	-1.2	-1.2	-1.6	-1.4	-1.2
Government cons. & invest.	1.0	0.7	0.7	0.6	0.4	0.6	0.5	0.5	0.5	0.7	0.6	0.5
Federal	0.4	0.2	0.2	0.1	-0.1	0.1	0.0	0.0	0.0	0.2	0.1	0.0
Defense	0.2	-0.2	-0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	-0.0	0.0
Nondefense	0.2	0.4	0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0
State and local	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Change in bus. inventories	0.6	-0.4	0.4	0.1	0.0	0.0	-0.0	0.0	0.0	-0.2	0.0	0.0
Nonfarm	0.6	-0.5	0.4	0.1	0.0	0.0	-0.0	0.0	0.0	-0.0	0.0	0.0
Farm	-0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	0.0	0.0

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

Staff Projections of Federal Sector Accounts and Related Items
(Billions of dollars except as noted)

Item	Fiscal year ¹				1999				2000				2001			
	1998 ^a	1999 ^a	2000	2001	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^p	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget																
Receipts ²	1722	1827	1961	2067	402	564	449	444	434	610	473	465	460	641	502	501
Outlays ²	1653	1703	1775	1845	396	421	419	464	445	438	427	466	470	460	449	471
Surplus/deficit ²	69	124	186	223	6	143	30	-21	-11	172	46	-1	-10	181	53	30
On-budget	-30	.7	32	48	-49	88	21	-64	-38	106	27	-49	-41	107	31	-22
Off-budget	99	124	155	174	55	55	9	43	27	65	19	48	31	73	23	52
Surplus excluding deposit insurance	65	119	184	219	5	142	29	-20	-12	171	45	-2	-11	180	52	29
Means of financing																
Borrowing	-51	-88	-192	-222	7	-108	-20	48	-51	-136	-52	-18	-1	-145	-58	-35
Cash decrease	5	-18	11	0	-4	-31	-3	-27	57	-27	8	20	5	-30	5	20
Other ³	-23	-18	-6	-.9	-9	-4	-7	-.1	5	-9	-2	-1	6	-5	-.2	-15
Cash operating balance, end of period	39	56	45	45	22	53	56	83	26	53	45	25	20	50	45	25
NIPA federal sector																
Receipts	1722	1839	1966	2086	1827	1853	1883	1915	1953	1981	2015	2048	2067	2098	2132	2167
Expenditures	1694	1737	1825	1876	1729	1735	1749	1813	1814	1830	1842	1858	1873	1882	1890	1915
Consumption expenditures	452	467	500	516	467	465	475	485	500	507	509	506	518	519	521	523
Defense	300	305	319	328	305	301	312	317	319	319	321	322	329	330	331	332
Nondefense	153	162	181	188	162	164	163	168	181	188	188	184	189	189	190	190
Other expenditures	1242	1270	1325	1360	1262	1270	1274	1328	1314	1323	1334	1352	1356	1362	1368	1393
Current account surplus	28	102	141	210	98	118	134	102	139	151	172	190	194	216	242	252
Gross investment	84	92	96	99	90	96	95	95	97	96	98	99	99	99	100	100
Current and capital account surplus	-56	10	45	111	7	22	39	8	42	55	74	91	95	117	142	151
Fiscal indicators ⁴																
High-employment (HEB) surplus/deficit	-151	-109	-106	-62	-113	-93	-89	-132	-106	-100	-88	-76	-76	-58	-36	-32
Change in HEB, percent of potential GDP	-.8	-.6	-.1	-.5	-.4	-.2	-.1	.5	-.3	-.1	-.2	-.1	-.0	-.2	-.2	-.0
Fiscal impetus (FI) percent, calendar year	0	4	5	1	2	-.4	2	2	1	1	.5	-.7	-.2	.2	.2	.4

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1. 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.

2. OMB's June 1999 surplus estimates (assuming the enactment of the President's proposals) are \$99 billion in FY1999, \$143 billion in FY2000 and \$168 billion in FY2001. CBO's January 2000 baseline surplus estimates, assuming discretionary spending grows with inflation beginning in FY 2001, are \$176 billion in FY2000 and \$177 billion in FY2001. 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 FY1990.

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 3.6 percent beginning 1998:Q1. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1996) dollars, scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.

a--Actual p--Preliminary

Strictly Confidential (FR)
Class II FOMC

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

January 27, 2000

Period ¹	Total ²	Federal government ³	Total ⁴	Nonfederal					Memo: Nominal GDP	
				Households			Business	State and local governments		
				Total	Home mortgages	Consumer credit				
<i>Year</i>										
1991	4.3	11.1	2.2	4.5	6.1	-1.3	-1.6	8.6	4.0	
1992	4.6	10.9	2.6	4.5	5.3	0.8	0.8	2.2	6.4	
1993	4.9	8.3	3.8	5.4	4.5	7.3	1.4	6.0	5.0	
1994	4.6	4.7	4.6	7.7	6.0	14.5	3.9	-4.0	6.2	
1995	5.5	4.1	6.1	7.9	5.8	14.1	7.0	-4.6	4.3	
1996	5.4	4.0	5.9	7.4	7.4	7.9	6.0	-0.6	6.0	
1997	5.4	0.6	7.1	6.4	6.7	4.3	8.4	5.3	5.9	
1998	6.7	-1.4	9.4	8.7	9.7	5.4	10.7	7.2	5.9	
1999	6.8	-1.9	9.4	9.5	10.3	7.3	10.5	4.3	5.6	
2000	5.0	-7.0	8.2	8.4	9.2	6.1	9.1	3.0	6.0	
2001	4.9	-7.0	7.6	7.4	8.2	4.8	8.7	2.9	5.8	
<i>Quarter</i>										
1999:3	6.7	-2.2	9.2	9.2	10.0	5.5	10.4	4.3	6.8	
4	6.6	-0.5	8.5	9.5	9.8	8.8	8.7	2.4	6.7	
2000:1	4.7	-8.1	8.2	8.6	9.4	6.1	8.7	3.5	6.1	
2	5.3	-6.1	8.2	8.4	9.0	6.2	9.2	2.8	6.1	
3	5.0	-6.3	7.9	8.0	8.7	5.9	8.7	2.9	6.1	
4	4.6	-8.2	7.6	7.6	8.5	5.6	8.6	2.9	5.8	
2001:1	5.7	-2.9	7.6	7.4	8.1	5.2	8.8	3.1	6.0	
2	4.7	-7.5	7.4	7.2	8.0	4.8	8.6	2.9	5.6	
3	4.7	-7.4	7.3	7.1	7.9	4.6	8.3	2.8	5.7	
4	4.0	-10.9	7.2	7.0	7.9	4.2	8.1	2.7	5.8	

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1999:Q3 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 6.6 percent in 1999, 5.3 percent in 2000, and 4.9 percent in 2001.

3. On a monthly average basis, federal debt is projected to grow -2.5 percent in 1999, -6.0 percent in 2000, and -6.7 percent in 2001.

4. On a monthly average basis, nonfederal debt is projected to grow 9.4 percent in 1999, 8.3 percent in 2000, and 7.6 percent in 2001.

2.6.3 FOF

Category	Seasonally adjusted annual rates															
	Calendar year				1999				2000				2001			
	1998	1999	2000	2001	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
<i>Net funds raised by domestic nonfinancial sectors</i>																
1 Total	757.1	940.2	737.0	779.3	977.9	1047.8	676.1	762.4	790.9	718.5	928.0	763.0	768.4	657.7		
2 Net equity issuance	-267.0	-166.8	-133.0	-108.0	-153.0	-74.4	-148.0	-168.0	-108.0	-108.0	-108.0	-108.0	-108.0	-108.0		
3 Net debt issuance	1024.1	1106.9	870.0	887.3	1130.9	1122.2	824.1	930.4	898.9	826.5	1036.0	871.0	876.4	765.7		
<i>Borrowing sectors</i>																
Nonfinancial business																
4 Financing gap ¹	134.4	155.2	182.4	241.9	180.1	160.3	166.8	174.7	185.7	202.5	217.8	235.3	247.9	266.5		
5 Net equity issuance	-267.0	-166.8	-133.0	-108.0	-153.0	-74.4	-148.0	-168.0	-108.0	-108.0	-108.0	-108.0	-108.0	-108.0		
6 Credit market borrowing	524.5	568.1	545.6	572.1	595.3	511.6	521.1	562.1	546.1	553.1	577.1	576.1	568.1	567.1		
Households																
7 Net borrowing ²	471.9	559.5	543.4	517.4	566.0	598.3	559.4	552.9	539.4	521.9	516.4	513.3	519.6	520.4		
8 Home mortgages	359.8	417.7	410.7	402.5	425.7	426.2	421.2	410.2	406.2	405.2	394.2	400.2	403.2	412.2		
9 Consumer credit	67.6	96.9	86.5	72.5	75.4	123.0	86.5	90.0	86.5	83.0	79.5	74.4	70.7	65.5		
10 Debt/DPI (percent) ³	90.3	93.2	95.7	97.5	93.7	93.9	94.7	95.5	96.1	96.7	96.7	97.2	97.7	98.1		
State and local governments																
11 Net borrowing	80.3	51.3	38.1	37.4	52.8	29.3	43.4	35.4	36.4	37.4	40.4	37.4	36.4	35.4		
12 Current surplus ⁴	140.5	154.2	166.3	166.1	154.8	168.8	163.9	166.3	168.2	166.6	166.0	167.0	165.5	165.8		
Federal government																
13 Net borrowing	-52.6	-71.9	-257.1	-239.6	-83.1	-17.0	-299.7	-220.0	-222.9	-285.8	-97.8	-255.8	-247.6	-357.1		
14 Net borrowing (quarterly, n.s.a.)	-52.6	-71.9	-257.1	-239.6	-19.0	47.6	-51.4	-136.1	-51.9	-17.6	-1.0	-145.1	-58.1	-35.5		
15 Unified deficit (quarterly, n.s.a.)	-54.4	-157.2	-205.7	-253.9	-29.0	20.6	11.1	-171.8	-46.1	1.1	10.0	-180.5	-53.2	-30.0		
Depository institutions																
16 Funds supplied	360.5	361.8	373.4	337.1	534.8	449.9	379.9	380.9	364.9	367.9	337.9	334.9	335.9	339.9		
Memo (percentage of GDP)																
17 Domestic nonfinancial debt ⁵	180.1	182.3	181.9	180.3	182.6	182.6	182.5	182.1	181.7	181.3	181.0	180.9	180.5	179.9		
18 Domestic nonfinancial borrowing	11.7	12.0	8.9	8.6	12.2	11.9	8.6	9.6	9.1	8.3	10.2	8.5	8.4	7.2		
19 Federal government ⁶	-0.6	-0.8	-2.6	-2.3	-0.9	-0.2	-3.1	-2.3	-2.3	-2.9	-1.0	-2.5	-2.4	-3.4		
20 Nonfederal	12.3	12.8	11.5	10.9	13.1	12.1	11.7	11.8	11.4	11.1	11.2	10.9	10.8	10.6		

Note. Data after 1999:Q3 are staff projections.

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

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

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

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

6. Excludes government-insured mortgage pool securities.

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

divided by disposable personal income.

income growth than are U.S. exports, thereby weighing on net exports. Prices of core U.S. imports, after declining for several years, are expected to rise steadily over the forecast period, reflecting the anticipated decline in the dollar and projected further increases in world commodity prices. The U.S. current account deficit is projected to rise to about 4-1/2 percent of GDP this year and next, a shade higher than called for in the December Greenbook.

Summary of Staff Projections

(Percent change, seasonally adjusted annual rate)

Measure	1998	1999		Projection		
		H1	Q3	1999: Q4	2000	2001
Foreign output	0.8	4.2	3.5	4.0	3.7	3.6
<i>December GB</i>	<i>0.9</i>	<i>4.1</i>	<i>3.5</i>	<i>4.1</i>	<i>3.5</i>	<i>3.5</i>
Real exports	1.9	-0.9	11.5	5.3	6.9	8.5
<i>December GB</i>	<i>1.9</i>	<i>-0.9</i>	<i>10.8</i>	<i>7.3</i>	<i>7.0</i>	<i>9.1</i>
Real imports	10.8	13.5	14.9	7.7	10.0	8.6
<i>December GB</i>	<i>10.8</i>	<i>13.5</i>	<i>14.9</i>	<i>8.3</i>	<i>9.0</i>	<i>8.3</i>

NOTE. Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2; and for quarters, from previous quarter.

The dollar. The real trade-weighted value of the dollar relative to the currencies of a broad group of our important trading partners is projected to hold around current levels this year before edging down about 2 percent next year. This anticipated depreciation is smaller and more backloaded than in the December Greenbook, consistent with the stronger projection for U.S. growth and more significant near-term U.S. policy tightening assumed in the current outlook. Over time, however, the deterioration in the U.S. current account—and the resulting accumulation of U.S. assets held abroad—should diminish investors' appetite for dollar investments. Much of the projected decline in the dollar is anticipated to take place against the euro, which is expected to reverse its recent weakness as the momentum of euro-area growth is sustained, and against the Canadian dollar, which will also benefit from continued firming of commodity prices. We expect little change in the dollar against the yen over the forecast period; the positive effect on the yen of persistently large current account imbalances is likely to be offset by disappointment over continued sluggish Japanese growth. The real exchange value of the dollar relative to the currencies of developing countries is projected to depreciate somewhat over the forecast

Selected Trade Prices

(Percent change except as noted; seasonally adjusted annual rate)

Trade category	1998	1999		Projection		
		H1	Q3	1999: Q4	2000	2001
<i>Exports</i>						
Nonagricultural (core)	-1.9	0.8	2.5	4.2	1.2	1.0
Agricultural	-10.2	-8.9	-2.0	2.0	2.4	2.4
<i>Imports</i>						
Non-oil (core)	-1.9	-0.7	1.1	2.4	2.2	2.4
Oil (level, dollars per barrel)	11.40	14.70	18.60	21.80	20.60	17.30

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

Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2; and for quarters, from previous quarter.

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

Prices of non-oil imports and nonagricultural exports. After turning positive in the third quarter, the rate of increase in core import prices is estimated to have risen to 2-1/2 percent at an annual rate in the fourth quarter of 1999. We project that the growth of these prices will edge up further to nearly 3 percent through the first half of this year and then ease somewhat over the remainder of the forecast period. The reappearance of increases in core import prices reflects increases in world non-oil commodity prices and the path of the dollar. Prices of core exports are estimated to have risen 4-1/4 percent at an annual rate in the fourth quarter of 1999, largely in response to rising prices of industrial supplies, including petroleum products and chemicals whose prices are sensitive to the price of oil. Over the longer run, core export prices are expected to rise more slowly, in part because of the projected decline in oil prices.

Strictly Confidential (FR)
Class II FOMC

January 27, 2000

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

Measure and country	-----Projected----								
	1993	1994	1995	1996	1997	1998	1999	2000	2001
REAL GDP (1)									
Total foreign	3.1	5.1	2.3	4.3	4.1	0.8	4.0	3.7	3.6
Industrial Countries of which:	1.9	4.0	1.8	2.9	3.3	1.7	3.3	3.0	2.7
Canada	2.9	5.5	1.4	2.4	4.4	2.8	4.0	3.3	2.9
Japan	0.5	0.9	2.5	5.2	-0.5	-3.1	1.8	0.9	1.3
United Kingdom	3.2	4.6	1.9	2.9	3.4	1.6	2.7	2.8	2.4
Euro-11	0.0	2.9	1.5	1.6	3.0	1.9	2.9	3.2	3.0
Germany	-0.2	2.8	1.0	1.3	1.4	1.2	2.4	3.2	2.9
Developing Countries	5.0	6.9	3.0	6.3	5.1	-0.3	5.1	4.7	4.8
Asia	7.6	8.8	7.2	6.9	4.8	-1.8	7.5	5.8	6.3
Korea	6.3	9.4	7.2	6.8	3.7	-5.3	12.8	6.0	7.0
China	6.1	16.3	12.6	9.2	8.2	9.5	6.2	7.1	7.5
Latin America	2.6	5.4	-3.9	6.3	6.1	1.0	3.7	3.8	4.0
Mexico	1.9	5.2	-7.1	7.2	6.7	2.6	5.7	4.3	4.3
Brazil	4.5	9.8	-1.9	5.5	2.2	-1.6	2.5	2.5	3.0
CONSUMER PRICES (2)									
Industrial Countries of which:	2.1	1.1	1.3	1.5	1.6	1.0	1.1	1.6	1.6
Canada	1.8	-0.0	2.1	2.0	1.0	1.1	2.4	2.4	2.5
Japan	1.2	0.8	-0.8	0.1	2.1	0.7	-1.2	0.0	0.0
United Kingdom (3)	2.7	2.2	2.9	3.2	2.8	2.6	2.2	2.4	2.5
Euro-11 (4)	NA	NA	NA	2.0	1.4	0.9	1.6	1.8	1.6
Germany	4.2	2.6	1.5	1.5	2.1	0.4	1.0	1.6	1.5
Developing Countries	24.7	23.0	17.0	11.2	6.9	9.1	4.8	6.3	6.5
Asia	7.7	10.7	6.4	4.8	2.8	4.5	0.3	3.6	4.1
Korea	5.5	5.8	4.4	5.1	5.1	6.0	1.3	3.0	4.8
China	17.1	26.9	11.1	7.0	1.0	-1.1	-0.6	3.0	3.9
Latin America	74.2	54.3	42.2	26.0	15.8	15.6	12.7	10.6	10.3
Mexico	8.6	6.9	48.8	28.1	17.2	17.6	13.7	11.3	11.2
Brazil	2287.6	1216.3	23.1	10.8	5.3	1.8	8.4	7.6	5.0

1. Foreign GDP aggregates calculated using shares of U.S. non-agricultural exports.
 2. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.
 3. CPI excluding mortgage interest payments, which is the targeted inflation rate.
 4. Harmonized CPI's, 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 changes)

Measure and country	1999				2000				Projected				2001			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Quarterly changes at an annual rate															
REAL GDP (1)																
Total foreign	3.4	5.0	3.5	4.0	3.6	3.6	3.8	3.7	3.7	3.6	3.5	3.4				
Industrial Countries of which:	3.4	3.2	3.0	3.5	3.3	2.8	3.0	2.8	2.7	2.7	2.7	2.7				
Canada	4.1	3.1	4.7	4.0	3.6	3.4	3.4	3.0	2.9	2.9	2.9	2.9				
Japan	6.3	3.9	-3.8	1.2	2.8	-1.0	0.8	1.0	1.2	1.3	1.3	1.3				
United Kingdom	0.9	2.6	3.6	3.8	2.9	3.1	2.8	2.5	2.5	2.4	2.5	2.4				
Euro-11	1.9	2.4	3.5	3.7	3.2	3.3	3.2	3.1	3.1	3.0	2.9	2.8				
Germany	2.5	0.5	2.9	3.8	3.3	3.3	3.2	3.1	3.1	3.0	2.9	2.8				
Developing Countries	3.5	7.8	4.3	4.8	4.1	4.8	4.9	4.9	5.0	4.9	4.7	4.5				
Asia	7.0	12.0	4.1	7.2	5.1	5.8	6.1	6.2	6.3	6.3	6.2	6.3				
Korea	13.9	16.5	12.9	8.0	6.0	6.0	6.0	6.0	7.0	7.0	7.0	7.0				
China	2.2	1.1	11.4	10.6	6.1	6.5	8.0	8.0	7.5	7.5	7.5	7.5				
Latin America	0.7	5.4	5.5	3.2	3.3	4.1	3.9	3.8	4.1	4.1	3.8	3.8				
Mexico	1.8	8.2	8.4	4.4	4.1	4.7	4.2	4.2	4.5	4.5	4.1	4.1				
Brazil	7.2	4.0	-0.7	-0.5	1.5	2.8	2.8	2.7	2.7	3.0	3.2	3.2				
CONSUMER PRICES (2)																
	Four-quarter changes															
Industrial Countries of which:	0.6	0.9	1.3	1.1	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6				
Canada	0.8	1.6	2.2	2.4	2.8	2.6	2.5	2.4	2.4	2.4	2.4	2.5				
Japan	-0.2	-0.4	0.0	-1.2	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0				
United Kingdom (3)	2.6	2.3	2.2	2.2	2.3	2.4	2.4	2.4	2.4	2.4	2.5	2.5				
Euro-11 (4)	0.9	1.0	1.2	1.6	2.0	1.9	1.9	1.8	1.7	1.6	1.6	1.6				
Germany	0.3	0.5	0.6	1.0	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.5				
Developing Countries	8.2	6.9	6.0	4.8	4.8	5.3	5.7	6.3	6.5	7.2	7.7	6.5				
Asia	2.5	0.8	0.2	0.3	1.4	2.6	3.2	3.6	3.7	4.9	5.7	4.1				
Korea	0.7	0.6	0.7	1.3	1.5	2.2	3.2	3.0	3.8	4.2	4.5	4.8				
China	-1.4	-2.2	-1.2	-0.6	0.7	1.9	2.6	3.0	3.6	6.9	8.9	3.9				
Latin America	16.4	15.7	14.7	12.7	10.5	9.7	9.6	10.6	11.4	11.4	11.1	10.3				
Mexico	18.6	17.9	16.5	13.7	11.2	10.3	10.0	11.3	12.3	12.3	12.0	11.2				
Brazil	2.3	3.3	5.5	8.4	8.2	7.9	8.3	7.6	7.0	6.5	5.5	5.0				

1. Foreign GDP aggregates calculated using shares of U.S. non-agricultural exports.
 2. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.
 3. CPI excluding mortgage interest payments, which is the targeted inflation rate.
 4. Harmonized CPI's, weighted by shares in final consumption of households converted to a common currency using estimated PPP exchange rates.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1993	1994	1995	1996	1997	1998	-- 1999	- Projected 2000	----- 2001
NIPA REAL EXPORTS and IMPORTS									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.6	-0.3	0.4	-0.2	-0.7	-1.1	-1.2	-0.6	-0.3
Exports of G&S	0.4	1.1	1.0	1.1	1.1	0.2	0.4	0.7	0.9
Imports of G&S	-1.1	-1.3	-0.6	-1.3	-1.7	-1.3	-1.6	-1.4	-1.2
Percentage change, Q4/Q4									
Exports of G&S	4.5	10.6	9.7	9.9	9.4	1.9	3.7	6.9	8.5
Services	4.9	8.4	9.0	9.4	3.0	2.3	2.6	3.1	3.8
Agricultural Goods	-5.4	16.3	-4.0	3.8	3.3	0.3	-1.3	2.0	2.1
Computers	17.0	27.4	39.1	21.6	26.2	7.1	11.7	38.0	36.1
Semiconductors	31.1	66.9	79.6	44.6	21.0	9.3	31.3	41.8	41.2
Other Goods 1/	3.5	6.9	5.7	7.8	11.4	1.1	2.1	4.0	5.5
Imports of G&S	10.5	12.2	5.0	11.2	14.2	10.8	12.3	10.0	8.6
Services	6.7	1.8	5.5	5.3	13.6	8.5	7.9	4.8	3.4
Oil	10.1	-0.2	2.4	7.8	4.0	4.0	-0.7	12.7	0.7
Computers	30.6	39.0	35.0	17.8	32.3	26.9	27.0	38.6	36.1
Semiconductors	33.6	54.5	92.4	56.7	32.8	-7.4	30.8	42.4	42.5
Other Goods 2/	9.4	12.3	-1.2	10.4	12.7	11.3	12.6	7.0	6.2
Billions of chained 1996 dollars									
Net Goods & Services	-59.9	-87.6	-79.2	-89.0	-109.8	-215.1	-323.0	-401.1	-448.4
Exports of G&S	671.9	731.8	807.4	874.2	985.4	1007.1	1041.5	1107.5	1194.8
Imports of G&S	731.8	819.4	886.6	963.1	1095.2	1222.1	1364.6	1508.6	1643.2
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-85.3	-121.7	-113.6	-129.3	-143.5	-220.6	-337.0	-437.7	-476.5
Current Acct as Percent of GDP	-1.3	-1.7	-1.5	-1.7	-1.7	-2.5	-3.6	-4.5	-4.6
Net Goods & Services (BOP)	-69.9	-98.4	-97.5	-104.3	-104.7	-164.3	-271.4	-366.8	-392.1
Investment Income, Net	26.9	20.3	23.9	21.8	8.2	-7.0	-13.3	-17.7	-31.1
Direct, Net	58.6	54.4	63.8	67.7	69.2	59.4	61.3	76.9	91.9
Portfolio, Net	-31.7	-34.1	-39.9	-46.0	-61.0	-66.4	-74.5	-94.5	-123.0
Other Income & Transfers, Net	-42.2	-43.6	-39.9	-46.7	-46.9	-49.3	-52.3	-53.3	-53.3

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

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

January 27, 2000

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1996				1997				1998			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.0	-0.8	-1.3	2.1	-0.8	-0.5	-0.8	-0.5	-1.9	-2.0	-0.8	0.3
Exports of G&S	0.3	0.8	0.4	2.9	1.0	1.8	1.3	0.2	-0.2	-0.5	-0.2	1.6
Imports of G&S	-1.3	-1.6	-1.7	-0.8	-1.8	-2.2	-2.1	-0.7	-1.7	-1.6	-0.6	-1.3
Percentage change from previous period, SAAR												
Exports of G&S	2.3	6.9	3.5	29.0	8.8	16.2	11.5	1.8	-1.5	-4.0	-1.7	16.1
Services	-4.0	13.5	-6.7	41.0	-3.5	11.1	7.6	-2.5	1.7	8.8	-8.8	8.6
Agricultural Goods	15.2	-25.5	-4.1	40.9	-18.2	3.3	4.5	28.8	-10.9	-16.4	-16.4	62.7
Computers	41.0	4.8	17.3	26.1	56.2	46.4	28.7	-13.7	-13.0	11.1	19.1	14.2
Semiconductors	24.2	35.2	24.2	110.0	46.2	24.5	26.2	-6.7	1.3	-13.1	25.3	29.4
Other Goods 1/	-0.5	7.1	7.8	17.7	13.6	17.2	11.7	3.5	-1.2	-9.2	0.6	15.7
Imports of G&S	10.8	13.3	14.4	6.3	15.5	19.1	17.6	5.2	14.4	13.0	5.2	10.8
Services	5.6	4.1	11.8	0.0	20.6	8.6	20.7	5.3	16.7	9.7	6.4	1.6
Oil	-10.0	68.2	4.9	-15.0	-7.6	36.6	6.1	-12.7	6.4	41.8	2.4	-24.2
Computers	11.0	21.1	18.8	20.8	45.0	47.9	34.5	6.2	35.6	23.2	11.5	39.4
Semiconductors	30.0	18.9	58.4	146.3	77.6	28.8	6.1	1.3	-20.1	-3.0	-6.4	
Other Goods 2/	13.5	10.2	13.8	4.6	11.9	16.6	15.6	6.9	13.5	12.9	4.9	14.1
Billions of chained 1996 dollars, SAAR												
Net Goods & Services	-75.6	-90.6	-115.8	-73.9	-90.8	-100.9	-118.7	-128.7	-171.7	-218.4	-237.9	-232.3
Exports of G&S	845.6	859.8	867.1	924.2	943.9	979.9	1006.8	1011.2	1007.3	997.2	993.0	1030.8
Imports of G&S	921.1	950.4	982.9	998.1	1034.7	1080.8	1125.5	1139.9	1179.0	1215.6	1231.0	1263.1
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-107.0	-125.8	-153.3	-131.1	-139.6	-125.9	-142.5	-165.9	-172.1	-209.6	-253.9	-246.7
Current Account as % of GDP	-1.4	-1.6	-2.0	-1.6	-1.7	-1.5	-1.7	-2.0	-2.0	-2.4	-2.9	-2.8
Net Goods & Services (BOP)	-89.4	-105.9	-125.9	-96.1	-106.4	-96.8	-102.9	-112.8	-133.4	-167.8	-182.9	-173.1
Investment Income, Net	30.4	21.3	15.1	20.2	9.0	13.7	5.8	4.2	6.1	2.9	-22.5	-14.3
Direct, Net	68.5	64.3	63.6	74.5	66.4	74.7	69.2	66.6	67.3	64.7	47.3	58.2
Portfolio, Net	-38.2	-43.0	-48.5	-54.3	-57.4	-60.9	-63.4	-62.4	-61.3	-61.8	-69.9	-72.5
Other Inc. & Transfers, Net	-48.0	-41.2	-42.5	-55.2	-42.1	-42.9	-45.4	-57.3	-44.8	-44.7	-48.5	-59.3

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

2 Merchandise imports excluding oil, computers, and semiconductors.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1999				2000				Projected				2001																			
	Q1	Q2	Q3	Q4	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	-2.1	-1.4	-0.7	-0.5	-1.0	-0.9	-0.6	-0.2	-0.5	-0.5	-0.5	-0.3	0.1																			
Exports of G&S	-0.6	0.4	1.2	0.6	0.4	0.7	0.8	1.1	0.5	0.9	0.9	1.3																				
Imports of G&S	-1.5	-1.8	-1.9	-1.0	-1.4	-1.6	-1.4	-1.2	-1.1	-1.4	-1.2	-1.2	-1.2																			
Percentage change from previous period, SAAR																																
Exports of G&S	-5.5	4.0	11.5	5.3	3.5	6.8	7.1	10.3	4.9	8.6	8.7	11.8																				
Services	4.1	3.2	0.0	3.2	3.5	3.2	3.0	2.9	3.8	4.1	3.9	3.5																				
Agricultural Goods	-37.9	28.7	27.4	-6.6	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1																				
Computers	-3.0	32.1	27.8	-4.9	33.6	43.8	38.6	36.1	36.1	36.1	36.1	36.1																				
Semiconductors	36.3	40.8	47.8	4.9	36.0	43.8	43.8	43.8	41.2	41.2	41.2	41.2																				
Other Goods 1/	-9.3	-2.0	12.8	8.6	-1.0	3.4	4.1	9.7	-0.3	5.6	5.8	11.3																				
Imports of G&S	12.5	14.4	14.9	7.7	10.0	11.4	9.6	8.8	7.5	10.1	8.6	8.3																				
Services	11.9	8.9	3.6	7.6	5.1	4.7	4.8	4.4	3.6	3.0	3.3	3.9																				
Oil	7.1	25.5	-11.6	-18.2	21.0	27.4	7.8	-2.9	-15.2	33.0	2.9	-11.3																				
Computers	28.7	52.3	20.0	10.6	33.6	38.6	41.2	41.2	36.1	36.1	36.1	36.1																				
Semiconductors	18.4	63.5	19.0	27.2	33.5	46.4	46.4	43.8	43.8	43.8	41.2	41.2																				
Other Goods 2/	11.3	10.3	19.7	9.4	7.2	7.6	6.7	6.7	6.4	6.0	6.0	6.4																				
Billions of chained 1996 dollars, SAAR																																
Net Goods & Services	-284.5	-319.0	-338.2	-350.5	-375.5	-397.4	-413.2	-418.3	-433.0	-447.8	-456.7	-456.0																				
Exports of G&S	1016.4	1026.4	1054.8	1068.5	1077.8	1095.7	1114.5	1142.0	1155.8	1179.8	1204.8	1238.9																				
Imports of G&S	1300.9	1345.4	1393.0	1419.0	1453.4	1493.0	1527.7	1560.3	1588.9	1627.5	1661.5	1694.9																				
Billions of dollars, SAAR																																
US CURRENT ACCOUNT BALANCE	-274.6	-323.6	-358.3	-391.4	-415.2	-436.7	-445.2	-453.8	-460.2	-475.3	-481.0	-489.7																				
Current Account as % of GDP	-3.0	-3.5	-3.9	-4.1	-4.3	-4.5	-4.5	-4.5	-4.5	-4.6	-4.6	-4.6																				
Net Goods & Services (BOP)	-215.9	-260.3	-293.8	-315.6	-350.5	-370.6	-374.7	-371.2	-382.2	-393.7	-398.9	-393.6																				
Investment Income, Net	-11.8	-12.9	-14.1	-14.2	-14.2	-15.5	-20.0	-21.0	-27.5	-31.0	-31.5	-34.5																				
Direct, Net	59.3	56.0	62.6	67.3	71.4	74.8	77.3	84.1	84.6	88.2	94.9	99.8																				
Portfolio, Net	-71.1	-68.9	-76.7	-81.5	-85.5	-90.4	-97.3	-105.0	-112.0	-119.2	-126.4	-134.3																				
Other Inc. & Transfers, Net	-46.9	-50.4	-50.4	-61.6	-50.6	-50.6	-50.6	-61.6	-50.6	-50.6	-50.6	-61.6																				

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

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

Part 2

January 27, 2000

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

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

January 27, 2000

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Prepared for the Federal Open Market Committee
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four-week moving average of initial claims for unemployment insurance has held below 300,000 since late July. According to the National Federation of Independent Businesses and the BNA survey of personnel executives, firms continued to report hiring difficulties, while the Conference Board reported that, from the worker side, employment opportunities look plentiful. According to the NFIB's survey, the hiring plans of smaller firms moved above the previous high for the current expansion. Moreover, after a slight dip last fall, the forward-looking readings on expected labor market conditions from the Michigan Survey Research Center and the Conference Board have rebounded to highly favorable levels.

Industrial Production

Industrial production posted gains of 0.4 percent in December and November on the heels of a large increase in October that was partly a bounce back from the effects of Hurricane Floyd. All told, the index rose at an annual rate of 6.6 percent in the fourth quarter. The output of utilities was up sharply last month; production had been low in the prior two months when the weather was unseasonably warm. Manufacturing output, which rose a modest 0.2 percent in December, posted a substantial 7.2 percent gain in the fourth quarter. The factory operating rate ended the year at 80.3 percent, about 0.4 percentage point higher than a year earlier but below its long-run average.

The output of motor vehicles and parts fell in December, in part, because Ford and GM slowed some assembly lines as dealers sought to shed excessive stocks

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

Item	1999: Q4	2000: Q1 ¹	1999		2000		
			Nov.	Dec.	Jan. ¹	Feb. ¹	Mar. ¹
U.S. production	13.2	13.1	13.4	12.9	13.5	13.1	12.8
Autos	5.7	5.7	5.9	5.6	5.9	5.7	5.5
Trucks	7.4	7.4	7.5	7.3	7.6	7.4	7.3
Days' supply							
Autos	54.6	n.a.	51.6	54.6	n.a.	n.a.	n.a.
Light trucks ²	68.5	n.a.	72.7	68.5	n.a.	n.a.	n.a.

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

1. Production rates reflect manufacturers' schedules for January, February, and March.

2. Excludes medium and heavy (class 3-8) trucks.

n.a. Not available.

GROSS ISSUANCE OF SECURITIES BY U.S. CORPORATIONS
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1998	1999	1999			Dec.	2000 Jan. ^e
			H2	Q4	Nov.		
All U.S. corporations	94.0	89.3	76.0	64.5	85.3	49.6	49.7
Stocks ¹	10.6	10.9	11.8	14.5	23.9	8.0	11.1
Bonds	83.5	78.4	64.2	50.0	61.4	41.6	38.6
<u>Nonfinancial corporations</u>							
Stocks ¹	6.2	9.2	10.8	13.8	22.7	7.8	9.4
Initial public offerings	2.2	4.2	5.5	7.9	14.8	3.9	1.8
Seasoned offerings	4.0	5.0	5.3	5.9	7.9	3.9	7.6
Bonds ²	25.7	24.8	20.9	18.8	27.5	15.1	15.6
Investment grade ³	14.1	14.0	11.8	9.0	12.7	7.3	7.0
Speculative grade ³	10.2	7.5	5.8	6.6	9.2	6.5	3.7
Other (Sold Abroad/Unrated)	1.3	3.3	3.3	3.2	5.6	1.3	4.9
<u>Financial corporations</u>							
Stocks ¹	4.4	1.7	1.0	.7	1.2	.2	1.7
Bonds	57.8	53.6	43.3	31.2	33.9	26.5	23.0
<u>Memo:</u>							
Net issuance of commercial paper, nonfinancial corporations ⁴	2.3	3.6	4.4	4.2	-7.6	12.4	n.a.
Change in C&I loans at commercial banks ⁴	7.2	5.0	7.7	7.1	18.6	-6.7	n.a.

Note. Components may not sum to totals because of rounding. These data include speculative-grade bonds issued privately under Rule 144A. All other private placements are excluded. Total reflects gross proceeds rather than par value of original discount bonds.

1. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings.

2. Excludes mortgage-backed and asset-backed bonds.

3. Bonds sold in U.S. categorized according to Moody's bond ratings, or to Standard Poor's if unrated by Moody's.

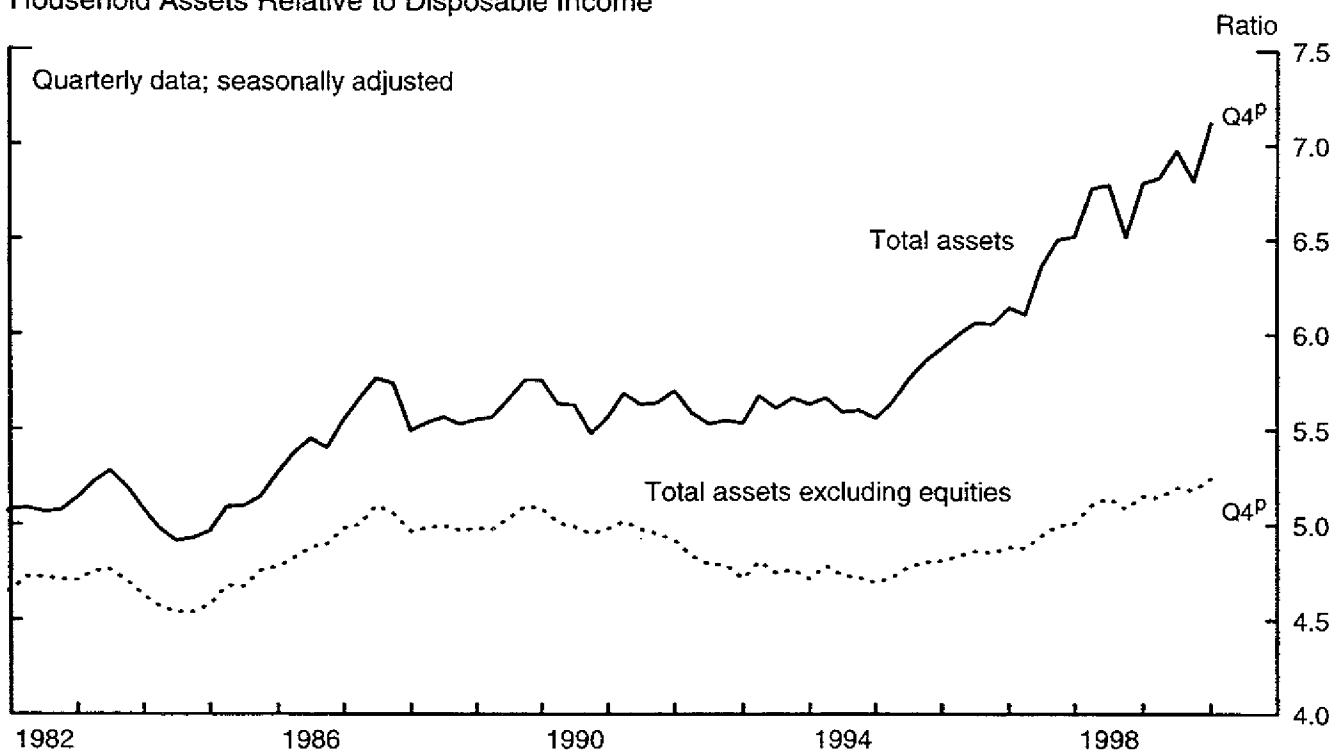
4. End-of-period basis, seasonally adjusted.

e Staff estimate.

n.a. Not available.

Household Assets

Household Assets Relative to Disposable Income



p. Staff projection.

Net Flows into Long-Term Mutual Funds

(Excluding reinvested dividends; billions of dollars, monthly rates.)

	1997	1998	H1	Q3	1999			Assets Nov.
					Oct.	Nov.	Dec. ^e	
Total long-term funds	22.7	20.2	18.3	8.6	16.7	11.9	7.3	4,875
Equity funds	19.0	13.2	15.2	10.7	21.0	19.1	21.3	3,675
Domestic	15.8	12.6	15.7	11.0	16.0	17.9	13.8	3,166
International	3.1	0.6	-0.4	-0.3	5.1	1.2	7.5	509
Hybrid funds	1.4	0.9	-0.4	-0.7	-0.8	-2.6	-2.3	377
Bond funds	2.4	6.2	3.4	-1.4	-3.5	-4.7	-11.7	823
International	-0.1	-0.1	-0.1	-0.2	-0.1	-0.4	-0.1	23
High-yield	1.4	1.1	0.3	-0.8	-0.6	0.9	-2.1	117
Other taxable	1.0	3.9	2.5	1.0	-1.2	-1.9	-2.6	400
Municipals	0.1	1.3	0.7	-1.4	-1.6	-3.2	-6.9	282
Memo:								
Retail Money Funds*	3.2	8.8	6.4	13.2	10.8	9.6	17.6	3,645

e Staff estimates based on confidential ICI weekly data.

* Change in assets.

Source. Investment Company Institute (ICI).

Treasury and Agency Finance

Treasury Financing (Billions of dollars)

Item	1999						2000
	Q2	Q3	Q4	Nov.	Dec.	Jan. ^e	
Total surplus, deficit (-)	143.1	29.0	-20.6	-27.6	33.1	n.a.	
Means of financing deficit							
Net borrowing	-108.0	-20.1	48.0	6.1	36.1	n.a.	
Nonmarketable	6.3	-2.7	1.4	3.3	-0.9	n.a.	
Marketable	-114.3	-17.4	46.6	2.9	37.0	-81.7	
Bills	-78.0	4.7	83.6	24.8	49.1	-67.2	
Coupons	-36.3	-22.0	-37.0	-21.9	-12.1	-14.5	
Decrease in cash balance	-31.5	-3.4	-26.9	41.5	-77.2	n.a.	
Other ¹	-3.6	-5.6	-0.1	-20.0	8.4	n.a.	
MEMO							
Cash balance, end of period	53.1	56.5	83.3	6.1	83.3	n.a.	

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

1. Direct loan financing, accrued items, checks issued less checks paid, and other transactions.

e Estimated.

n.a. Not available.

Net Cash Borrowing of Government-Sponsored Enterprises (Billions of dollars)

Agency	1999					
	Q2	Q3	Q4	Oct.	Nov.	Dec.
FHLBs	34.7	44.5	n.a.	7.8	13.4	n.a.
Freddie Mac	15.2	26.7	19.6	11.3	4.8	3.4
Fannie Mae	24.5	25.0	22.7	2.5	13.0	7.3
Farm Credit Banks	1.2	0.2	0.9	0.4	-0.7	1.2
Sallie Mae	1.2	4.0	n.a.	n.a.	n.a.	n.a.
MEMO						
<i>Outstanding non-callable notes and bonds</i>						
Fannie Mae benchmark	76.4	93.9	106.4	93.9	101.9	106.4
Freddie Mac reference	41.0	56.5	69.5	61.5	66.5	69.5

NOTE. Excludes mortgage pass-through securities issued by Fannie Mae and Freddie Mac.

n.a. Not available.

State and Local Finance

Gross Offerings of Municipal Securities

(Billions of dollars; monthly rates, not seasonally adjusted)

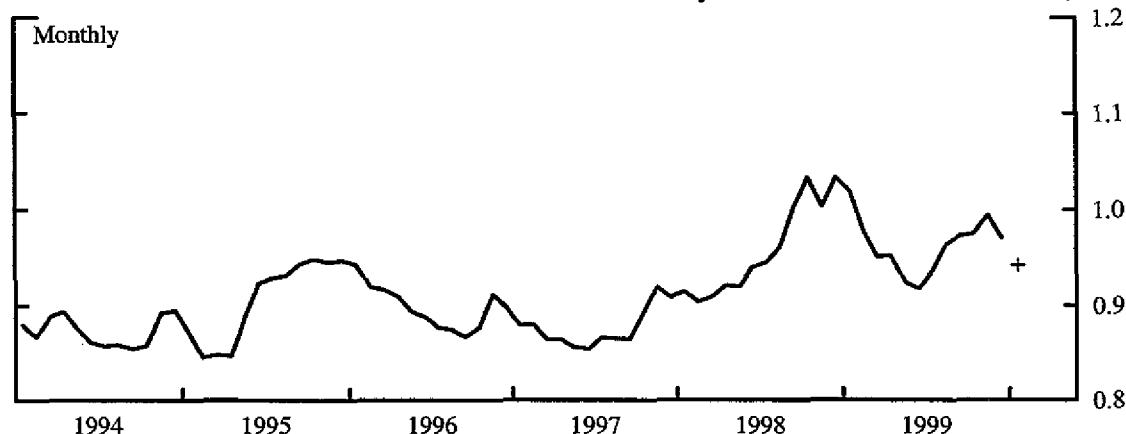
	1998	1999	Q3	Q4	1999	2000
					Nov.	Jan. ^e
Long-term	21.9	18.0	17.6	16.6	17.4	14.8
Refundings ¹	8.5	4.5	4.4	3.1	3.3	3.3
New capital	13.4	13.5	13.2	13.5	14.1	11.5
Short-term	2.4	2.7	3.9	2.2	1.8	2.6
Total tax-exempt	24.3	20.6	21.5	18.8	19.3	17.4
Total taxable	1.1	1.1	0.8	1.1	1.3	1.4
						0.0

Note. Includes issues for public and private purposes.

1. All issues that include any refunding bonds.

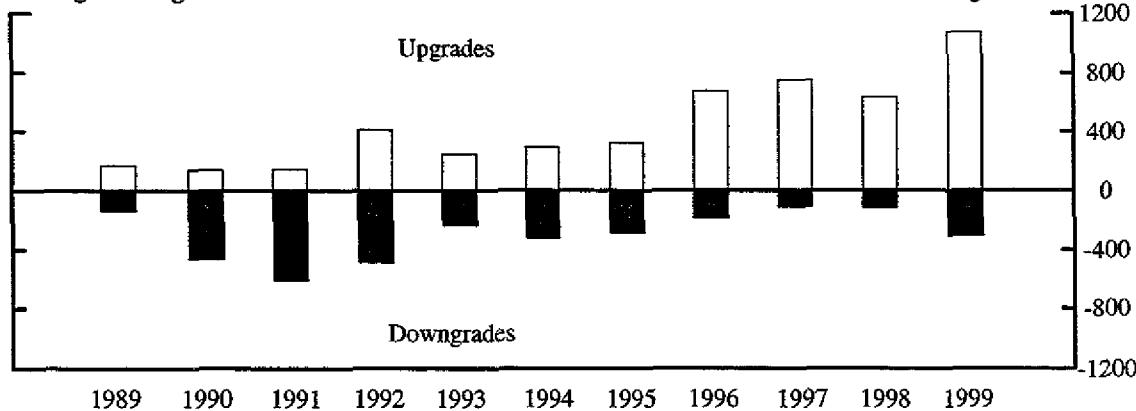
e. Staff estimate.

Ratio of 30-Year Revenue Bond Yield to 30-Year Treasury Yield



Note. Average of weekly data. + indicates latest observation (Jan. 20).

Ratings Changes



Euro-11 Current Indicators

(Percent change from previous period except as noted, SA)

Indicator	1999						2000
	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.
<i>Industrial production¹</i>							
Euro-11	.5	1.4	n.a.	.2	n.a.	n.a.	n.a.
Germany	1.0	1.7	n.a.	-.3	-0.5	n.a.	n.a.
France	1.0	2.1	n.a.	.5	1.6	n.a.	n.a.
Italy	-.6	1.7	n.a.	.8	1.1	n.a.	n.a.
<i>Unemployment rate²</i>							
Euro-11	10.1	10.0	n.a.	9.8	9.8	n.a.	n.a.
Germany	10.5	10.5	10.4	10.5	10.4	10.2	n.a.
France	11.3	11.2	n.a.	11.0	10.8	n.a.	n.a.
Italy	11.5	11.5	11.0	
<i>Consumer prices³</i>							
Euro-11 ⁴	1.0	1.2	n.a.	1.4	1.6	1.7	n.a.
Germany	.5	.6	.9	.8	1.0	1.1	1.7
France	.4	.6	1.0	.8	.9	1.2	n.a.
Italy	1.5	1.7	2.1	2.1	2.1	2.2	n.a.

1. Indexes exclude construction.

2. Euro-11 standardized to ILO definition. Includes Eurostat estimates in some cases.

Country figures are based on national definitions.

3. Percent change from year earlier.

4. Eurostat harmonized definition.

n.a. Not available. ... Not applicable.

Forward-looking indicators are generally positive. The overall economic sentiment index rose slightly in December following sharp gains in the preceding months and was up about 1 percent for the fourth quarter as a whole. Confidence improved in the fourth quarter in all three components of the index--consumer, construction, and business--although confidence in the construction sector fell back somewhat in December. The volume of German industry orders was up sharply in October and November relative to the third quarter, with strength in both the foreign and domestic components.

January 28, 2000

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

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

January 28, 2000

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

	1999 May	1999 June	1999 July	1999 Aug.	1999 Sept.	1999 Oct.	1999 Nov.	1999 Dec.	2000 Jan. (f)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	106.8	107.3	106.0	104.5	107.2	103.2	107.2	105.4	112.0
Current conditions	121.1	118.9	116.5	114.1	115.9	112.7	116.8	112.2	117.3
Expected conditions	97.6	99.8	99.2	98.4	101.5	97.1	101.0	101.1	108.6
<hr/>									
Personal financial situation									
Now compared with 12 months ago*	133	133	132	132	132	127	138	133	135
Expected in 12 months*	135	133	135	139	135	133	138	132	141
<hr/>									
Expected business conditions									
Next 12 months*	144	147	147	140	150	140	146	150	165
Next 5 years*	114	122	118	118	124	118	123	125	133
<hr/>									
Appraisal of buying conditions									
Cars	151	150	153	148	145	146	148	141	144
Large household appliances*	182	176	171	165	169	166	166	158	169
Houses	171	168	167	153	149	149	156	154	152
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Willingness to use credit									
Willingness to use savings	52	53	49	50	47	48	50	50	51
<hr/>									
Expected unemployment change - next 12 months									
Prob. household will lose a job - next 5 years	110	102	109	113	110	112	111	105	104
<hr/>									
Expected inflation - next 12 months									
Mean	3.2	3.1	3.0	3.2	3.2	3.5	3.3	3.6	3.5
Median	2.8	2.5	2.7	2.8	2.7	2.9	2.9	3.0	3.0
<hr/>									
Expected inflation - next 5 to 10 years									
Mean	3.5	3.3	3.3	3.3	3.5	3.2	3.5	3.2	3.5
Median	2.9	2.8	2.9	2.8	2.9	2.8	2.9	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.