

## **Part 1**

June 24, 1998

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

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

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## **SUMMARY AND OUTLOOK**

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

Measure	1998:Q1			1998:Q2	
	May GB	BEA <sup>1</sup>	June GB	May GB	June GB
<b>Real GDP</b>	5.2	4.8	5.4	2.5	2.0
Private domestic final purchases	8.0	7.9	8.2	6.1	6.2
Personal consumption expenditures	5.8	6.1	6.1	5.2	5.2
Residential investment	17.6	16.1	16.5	12.7	12.1
Business fixed investment	17.7	17.2	18.2	9.0	10.2
Government outlays for consumption and investment	-2.8	-3.0	-3.2	3.7	6.1
Change, billions of chained (1992) dollars					
Inventory investment	29.0	26.7	29.7	-45.3	-51.1
Net exports	-48.8	-55.6	-48.8	-17.7	-35.0

1. Preliminary release published on May 28.

annual rate of real GDP growth, though not out of line with many private forecasts, is not offered with much confidence.

The plunge in the unemployment rate suggests, via Okun's law, another increase in real GDP on the order of 5 percent. Experience, however, tells us that this is not a very reliable indicator of quarter-to-quarter changes. Hours data generally are a more useful guide at this point, and we are estimating that aggregate hours in the nonfarm business sector will increase 2 percent at an annual rate this quarter.<sup>2</sup> We are anticipating in our forecast that output per hour will be flat, for two reasons: The GM strike is likely to subtract about 1/2 percentage point from GDP growth, though the loss of hours will not be picked up in the June labor market survey; and more fundamentally, the rapid GDP growth of the past several quarters probably has lifted labor productivity well above the underlying trend and some reversion is to be expected as firms gradually bring their staffing levels and workweeks into more normal alignment with activity.

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2. Aggregate private production-worker hours are anticipated to rise just 1/2 percent (annual rate) in the current quarter. The gap between the projected growth in production-worker hours and that in nonfarm business hours reflects the significantly larger gains in recent months in hours of nonproduction/supervisory workers and the self-employed.

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

Measure	1998:H1	1998:H2	1999
<b>Real GDP</b>	<b>3.7</b>	<b>1.8</b>	<b>2.0</b>
Previous	3.9	1.8	2.3
Final sales	4.2	2.4	2.1
Previous	4.2	2.8	2.3
PCE	5.7	3.6	2.6
Previous	5.5	3.6	2.6
Residential investment	14.3	-.8	-2.8
Previous	15.1	-2.1	-2.4
BFI	14.1	6.7	6.1
Previous	13.3	6.8	6.9
Government purchases	1.4	.6	.9
Previous	.4	1.3	.9
Exports	-2.2	1.0	3.8
Previous	-1.1	3.6	5.0
Imports	13.0	7.7	6.5
Previous	10.9	7.6	7.0
Change, billions of chained (1992) dollars			
Inventory change	-21.4	-20.7	-9.5
Previous	-16.3	-35.9	.2
Net exports	-83.8	-41.2	-45.0
Previous	-66.6	-32.6	-37.7

GDP growth remaining sluggish in the second half of the year. Although the direct drags from these two sectors are projected to abate in 1999, the lagging multiplier-accelerator effects will tend to damp demand growth next year, as will the anticipated decline in the ratio of household wealth to income. On average, we are projecting that real GDP will grow at an annual rate of just under 2 percent over the next six quarters, more than 1/2 percentage point slower than the estimated rise in potential output.

That differential implies an easing of the pressures in the labor market, but a sub-5 percent unemployment rate can scarcely be characterized as slack conditions. Moreover, oil prices are expected to recover some of their marked decline of the past

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

Measure	1997	1998	1999
Output per hour, nonfarm business <sup>1</sup>	1.8	1.3	1.4
Previous	2.3	1.0	1.6
Nonfarm payroll employment	2.7	2.0	.9
Previous	2.5	1.7	1.2
Household employment survey	2.1	1.4	.5
Previous	2.1	1.3	.9
Labor force participation rate <sup>2</sup>	67.1	67.1	67.1
Previous	67.1	67.2	67.2
Civilian unemployment rate <sup>2</sup>	4.7	4.4	4.9
Previous	4.7	4.5	4.8

1. Corrected by FRB staff for length-of-pay-period problem.

2. Percent, average for the fourth quarter.

same as in our previous forecast. On balance, net exports are now projected to reduce real U.S. GDP growth about 1-1/2 percentage points in 1998 and 1/2 percentage point in 1999--a quarter point more, on average, than in the last Greenbook. (A more detailed discussion is contained in the *International Developments* section.)

**Labor markets.** There have been ongoing anecdotes about employers having to scramble--and, in some cases, to lower their standards--to add to their work forces in this tight labor market. In all probability, many employers have yet to meet their hiring goals, and thus payroll gains in the near term are projected to diminish only a little from the 250,000 per month pace posted thus far this year. Eventually, however, the deceleration in business activity should damp employers' enthusiasm for adding workers, and thus job growth is anticipated to drop to less than 150,000 per month by the end of this year and to around 100,000 per month in 1999. With employment growth falling below its trend rate, the unemployment rate rises in 1999, approaching 5 percent by the end of the year.

Reflecting the presumed lag between output growth and employment growth implicit in our analysis, we are projecting a sharp diminution in labor productivity gains. Output per hour in the nonfarm business sector, which we expect will be up at close to a 2 percent annual rate in the first half of this year (corrected for length-of-pay-period effects), is projected to rise only 1 percent over the second half. As firms

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

Measure	1997	1998	1999
Consumer price index	1.9	1.7	2.2
Previous	1.9	1.6	2.1
Food	1.7	1.4	2.0
Previous	1.7	1.3	1.7
Energy	-1.0	-5.3	1.7
Previous	-1.0	-4.4	1.1
Excluding food and energy	2.2	2.3	2.3
Previous	2.2	2.2	2.2
PCE chain-weighted price index	1.5	1.3	1.9
Previous	1.5	1.4	1.8
Excluding food and energy	1.5	1.7	1.9
Previous	1.5	1.7	1.8
GDP chain-weighted price index	1.8	1.5	1.7
Previous	1.8	1.5	1.7
ECI for compensation of private industry workers <sup>1</sup>	3.4	3.6	3.5
Previous	3.4	3.4	3.4
Prices of core non-oil merchandise imports	- .8	-2.3	1.6
Previous	- .8	-1.7	1.3
Percentage points			
<i>MEMO: Adjustments for technical changes to the CPI<sup>2</sup></i>			
Core CPI	.2	.4	.7
Core PCE	.1	.1	.4
GDP chain price index	.1	.1	.2

1. December to December.

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

1999. It is tempting to discount some of the recent bad news on prices as indicative of factors unrelated to the high level of activity and labor cost pressures. The brisk rise in cigarette prices is an obvious case, and pharmaceutical price hikes may not be a product of purely cyclical factors. But, at bottom, we believe that it would be dangerous to slice and dice the overall CPI and set these items off to the side, when

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

Measure	1997	1998	1999
<i>Real GDP</i>			
Baseline	3.7	2.7	2.0
Higher funds rate	3.7	2.6	1.3
Lower funds rate	3.7	2.8	2.7
Constant stock market wealth-to-income ratio	3.7	2.8	2.3
<i>Civilian unemployment rate<sup>1</sup></i>			
Baseline	4.7	4.4	4.9
Higher funds rate	4.7	4.4	5.2
Lower funds rate	4.7	4.4	4.6
Constant stock market wealth-to-income ratio	4.7	4.4	4.8
<i>CPI excluding food and energy</i>			
Baseline	2.2	2.3	2.3
Higher funds rate	2.2	2.3	2.0
Lower funds rate	2.2	2.3	2.6
Constant stock market wealth-to-income ratio	2.2	2.3	2.3

1. Average for the fourth quarter.

level off at around 5 percent in coming quarters. Federal government debt, in contrast, is expected to shrink at an average 1-3/4 percent annual rate over the next year and a half.

The recent slowing of M2 growth is projected to extend into the second half of the year. As a result, the declines in M2 velocity of late are projected to abate, and M2 growth falls roughly in line with GDP growth by the end of this year. M3 expansion is projected to remain faster than income growth, owing both to the rapid rise of institutional money market accounts favored by business treasurers and to the need by banks to fund strong growth of depository credit.

### Alternative Simulations

Our alternative, model-based simulations assess the implications of different assumptions about interest rates and the stock market. In the first alternative, the federal funds rate rises 25 basis points per quarter beginning in the third quarter of

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

June 24, 1998

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>4</sup>	
	05/14/98	06/24/98	05/14/98	06/24/98	05/14/98	06/24/98	05/14/98	06/24/98	05/14/98	06/24/98
<b>ANNUAL</b>										
1995	4.6	4.6	2.0	2.0	2.5	2.5	2.8	2.8	5.6	5.6
1996	5.1	5.1	2.8	2.8	2.3	2.3	3.0	3.0	5.4	5.4
1997	5.8	5.8	3.8	3.8	2.0	2.0	2.3	2.3	4.9	4.9
1998	4.8	4.8	3.4	3.3	1.4	1.4	1.6	1.6	4.5	4.4
1999	3.8	3.5	2.1	1.8	1.7	1.7	2.1	2.2	4.7	4.7
<b>QUARTERLY</b>										
1996 Q1	4.7	4.7	1.8	1.8	2.8	2.8	3.2	3.2	5.6	5.6
Q2	7.7	7.7	6.0	6.0	1.9	1.9	3.7	3.7	5.4	5.4
Q3	3.6	3.6	1.0	1.0	2.7	2.7	2.6	2.6	5.3	5.3
Q4	6.2	6.2	4.3	4.3	1.9	1.9	3.3	3.3	5.3	5.3
1997 Q1	7.4	7.4	4.9	4.9	2.4	2.4	2.0	2.0	5.3	5.3
Q2	5.2	5.2	3.3	3.3	1.8	1.8	1.5	1.5	4.9	4.9
Q3	4.6	4.6	3.1	3.1	1.4	1.4	1.8	1.8	4.9	4.9
Q4	5.2	5.2	3.7	3.7	1.4	1.4	2.3	2.3	4.7	4.7
1998 Q1	6.1	6.5	5.2	5.4	0.9	1.0	0.5	0.5	4.7	4.7
Q2	4.2	3.7	2.5	2.0	1.6	1.7	1.6	2.0	4.4	4.3
Q3	3.6	3.6	1.8	2.0	1.7	1.6	2.3	2.0	4.5	4.3
Q4	3.5	3.4	1.8	1.7	1.7	1.7	2.1	2.2	4.5	4.4
1999 Q1	4.0	3.4	2.0	1.5	1.9	1.9	2.1	2.4	4.6	4.6
Q2	3.8	3.4	2.2	1.8	1.6	1.6	2.1	2.2	4.7	4.7
Q3	4.0	3.9	2.3	2.2	1.6	1.6	2.1	2.2	4.7	4.8
Q4	4.1	4.0	2.4	2.3	1.6	1.7	2.1	2.2	4.8	4.9
<b>TWO-QUARTER<sup>3</sup></b>										
1996 Q2	6.2	6.2	3.8	3.8	2.3	2.3	3.5	3.5	-0.2	-0.2
Q4	4.9	4.9	2.7	2.7	2.3	2.3	2.9	2.9	-0.1	-0.1
1997 Q2	6.3	6.3	4.1	4.1	2.1	2.1	1.8	1.8	-0.4	-0.4
Q4	4.9	4.9	3.4	3.4	1.4	1.4	2.0	2.0	-0.2	-0.2
1998 Q2	5.1	5.1	3.9	3.7	1.3	1.4	1.1	1.3	-0.3	-0.4
Q4	3.5	3.5	1.8	1.8	1.7	1.6	2.2	2.1	0.1	0.1
1999 Q2	3.9	3.4	2.1	1.6	1.7	1.8	2.1	2.3	0.2	0.3
Q4	4.0	4.0	2.4	2.3	1.6	1.6	2.1	2.2	0.1	0.2
<b>FOUR-QUARTER<sup>4</sup></b>										
1995 Q4	4.0	4.0	1.6	1.6	2.4	2.4	2.6	2.6	0.0	0.0
1996 Q4	5.6	5.6	3.2	3.2	2.3	2.3	3.2	3.2	-0.3	-0.3
1997 Q4	5.6	5.6	3.7	3.7	1.8	1.8	1.9	1.9	-0.6	-0.6
1998 Q4	4.3	4.3	2.8	2.7	1.5	1.5	1.6	1.7	-0.2	-0.3
1999 Q4	4.0	3.7	2.3	2.0	1.7	1.7	2.1	2.2	0.3	0.5

1. For all urban consumers.

2. Level, except as noted.

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

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



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

June 24, 1998

Item	Units <sup>1</sup>	- Projected -								
		1991	1992	1993	1994	1995	1996	1997	1998	1999
EXPENDITURES										
Nominal GDP	Bill. \$	5916.7	6244.4	6558.1	6947.0	7265.4	7636.0	8079.9	8468.8	8768.3
Real GDP	Bill. Ch. \$	6079.4	6244.4	6389.6	6610.7	6742.1	6928.4	7188.8	7429.1	7563.2
Real GDP	% change	0.4	3.6	2.4	3.3	1.6	3.2	3.7	2.7	2.0
Gross domestic purchases		0.0	4.0	3.0	3.6	1.2	3.6	4.3	4.1	2.3
Final sales		-0.4	3.9	2.1	2.7	2.2	3.1	3.1	3.3	2.1
Priv. dom. final purchases		-0.8	4.9	3.7	3.7	2.5	3.8	4.3	5.5	2.8
Personal cons. expenditures		-0.2	4.2	2.7	3.1	2.2	2.7	3.6	4.6	2.6
Durables		-3.1	9.4	7.4	6.3	3.0	3.9	6.8	7.6	3.0
Nondurables		-1.0	3.4	1.6	3.0	1.0	1.8	1.4	4.1	1.8
Services		0.9	3.6	2.3	2.5	2.7	2.8	4.0	4.3	2.9
Business fixed investment		-6.0	5.5	9.9	7.6	6.5	11.7	9.0	10.3	6.1
Producers' dur. equipment		-2.6	9.6	12.2	10.2	8.3	12.2	12.9	13.3	7.5
Nonres. structures		-12.5	-3.4	4.5	1.1	2.0	10.3	-0.7	2.5	2.5
Residential structures		1.1	16.9	7.8	4.2	-1.9	3.9	5.6	6.5	-2.8
Exports		8.6	4.1	4.6	10.0	10.3	9.3	10.2	-0.6	3.8
Imports		4.1	7.4	10.2	12.3	5.6	11.8	14.4	10.3	6.5
Gov't. cons. & investment		-0.7	1.7	-1.4	0.1	-1.4	2.0	1.0	1.0	0.9
Federal		-3.1	1.3	-6.1	-3.9	-6.0	1.5	-0.7	-1.6	-1.9
Defense		-5.3	-1.3	-6.9	-6.0	-5.9	1.1	-0.8	-4.1	-2.4
State & local		1.0	2.0	2.0	2.7	1.4	2.2	2.0	2.4	2.4
Change in bus. inventories	Bill. Ch. \$	-3.0	7.0	22.1	60.6	27.3	25.0	65.7	59.3	26.5
Nonfarm		-1.2	2.0	29.5	49.0	35.7	22.5	57.8	52.1	21.3
Net exports		-22.3	-29.5	-70.2	-104.6	-98.8	-114.4	-146.5	-250.3	-316.3
Nominal GDP	% change	3.8	6.3	5.0	5.8	4.0	5.6	5.6	4.3	3.7
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	108.3	108.6	110.7	114.1	117.2	119.6	122.7	125.7	127.1
Unemployment rate	%	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.4	4.7
Industrial prod. index	% change	-0.0	3.7	3.3	6.5	3.3	4.2	5.8	1.6	1.7
Capacity util. rate - mfg.	%	77.9	79.4	80.5	82.5	82.8	81.4	81.7	80.5	79.6
Housing starts	Millions	1.01	1.20	1.29	1.46	1.35	1.48	1.47	1.55	1.45
Light motor vehicle sales		12.53	12.86	13.88	15.03	14.74	15.06	15.06	15.14	14.66
North Amer. produced		9.74	10.51	11.71	12.88	12.82	13.34	13.12	13.18	12.78
Other		2.78	2.35	2.16	2.14	1.91	1.71	1.94	1.97	1.89
INCOME AND SAVING										
Nominal GNP	Bill. \$	5932.4	6255.5	6576.8	6955.2	7270.6	7637.7	8060.1	8440.9	8726.9
Nominal GNP	% change	3.5	6.2	5.1	5.7	4.1	5.5	5.2	4.1	3.6
Nominal personal income		3.7	7.3	4.2	5.1	5.2	5.8	6.0	4.7	3.9
Real disposable income		0.8	4.0	1.5	2.4	2.4	2.0	3.7	2.8	2.6
Personal saving rate	%	6.0	6.2	5.1	4.2	4.8	4.3	3.9	2.9	2.7
Corp. profits, IVA & CCAdj.	% change	4.5	11.3	19.0	14.1	11.0	9.1	9.4	-3.3	0.3
Profit share of GNP	%	6.9	6.8	7.5	8.2	8.9	9.6	10.0	9.6	9.0
Excluding FR Banks		6.6	6.6	7.2	7.9	8.6	9.3	9.7	9.3	8.8
Federal surpl./deficit	Bill. \$	-196.0	-280.9	-250.7	-186.7	-174.4	-110.5	-28.8	61.9	35.0
State & local surpl./def.		75.8	86.3	87.4	96.8	103.1	105.3	107.8	114.6	116.4
Ex. social ins. funds		11.5	18.3	19.7	27.9	32.5	34.1	36.3	42.8	44.5
Gross natl. saving rate	%	15.7	14.5	14.4	15.5	16.0	16.6	17.3	17.4	16.5
Net natl. saving rate		4.8	3.7	3.7	4.7	5.5	6.4	7.3	7.5	6.5
PRICES AND COSTS										
GDP chn.-wt. price index	% change	3.3	2.6	2.6	2.5	2.4	2.3	1.8	1.5	1.7
Gross Domestic Purchases		2.7	2.7	2.3	2.5	2.3	2.3	1.3	1.0	1.7
chn.-wt. price index		3.0	3.1	2.7	2.7	2.6	3.2	1.9	1.7	2.2
CPI		4.4	3.5	3.1	2.8	3.1	2.6	2.2	2.3	2.3
Ex. food and energy		4.4	3.5	3.1	2.8	3.1	2.6	2.2	2.3	2.3
ECI, hourly compensation <sup>2</sup>		4.4	3.5	3.6	3.1	2.6	3.1	3.4	3.6	3.5
Nonfarm business sector		2.2	3.5	-0.2	-0.1	0.6	1.7	2.1	0.7	1.4
Output per hour		4.8	4.5	1.8	1.9	3.1	3.9	4.1	4.0	3.5
Compensation per Hour		2.5	1.0	2.0	2.0	2.4	2.2	2.0	3.3	2.2
Unit labor cost										

1. Changes are from fourth quarter to fourth quarter.
2. Private-industry workers.

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

June 24, 1998

Item	Units	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	7168.9	7209.5	7301.3	7381.9	7467.5	7607.7	7676.0	7792.9	7933.6	8034.3
Real GDP	Bill. Ch. \$	6703.7	6708.8	6759.2	6796.5	6826.4	6926.0	6943.8	7017.4	7101.6	7159.6
Real GDP	% change	0.9	0.3	3.0	2.2	1.8	6.0	1.0	4.3	4.9	3.3
Gross domestic purchases		1.3	0.2	1.9	1.3	3.1	6.5	2.4	2.5	5.9	3.7
Final sales		1.8	1.9	3.3	2.0	2.6	5.2	0.2	4.5	3.0	2.5
Priv. dom. final purchases		2.5	2.2	2.7	2.5	4.4	5.5	2.1	3.2	5.1	2.9
Personal cons. expenditures		1.5	2.9	2.6	1.8	3.1	3.7	0.5	3.3	5.3	0.9
Durables		-3.0	3.9	9.3	2.0	4.8	9.7	-1.9	3.5	14.1	-5.4
Nondurables		1.7	0.9	0.7	0.7	1.7	2.6	0.6	2.1	4.7	-2.1
Services		2.4	3.7	2.2	2.3	3.5	3.1	1.0	3.9	3.9	3.9
Business fixed investment		14.2	5.7	1.6	4.9	11.7	13.0	16.5	5.9	4.1	14.6
Producers' dur. equipment		16.1	6.2	2.0	9.4	13.1	14.9	19.1	2.6	6.7	23.0
Nonres. structures		9.5	4.3	0.7	-5.8	8.2	7.9	10.0	15.3	-2.1	-4.7
Residential structures		-7.0	-15.5	8.4	8.5	8.3	17.9	-4.5	-4.3	3.3	7.4
Exports		7.2	9.3	13.5	11.5	1.7	9.6	1.9	25.5	9.9	18.4
Imports		10.0	7.7	2.3	2.4	13.1	14.1	13.2	6.8	17.9	20.5
Gov't. cons. & investment		0.6	-0.1	-0.7	-5.4	1.8	7.2	-1.1	0.1	-0.4	3.1
Federal		-1.1	-4.5	-1.3	-16.4	7.5	8.8	-4.2	-5.2	-5.8	6.6
Defense		-1.1	-1.6	-4.0	-15.9	6.1	11.0	-4.6	-7.1	-11.8	7.5
State & local		1.7	2.6	-0.4	1.9	-1.4	6.3	0.7	3.3	2.7	1.2
Change in bus. inventories	Bill. Ch. \$	48.5	21.6	17.0	22.2	8.0	21.3	37.9	32.9	63.7	77.6
Nonfarm		54.7	34.0	29.6	24.4	14.5	17.3	31.6	26.5	58.3	70.1
Net exports		-113.5	-112.8	-92.9	-76.1	-100.8	-112.6	-138.9	-105.6	-126.3	-136.6
Nominal GDP	% change	4.2	2.3	5.2	4.5	4.7	7.7	3.6	6.2	7.4	5.2
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	116.5	116.9	117.4	117.9	118.5	119.3	120.0	120.7	121.5	122.3
Unemployment rate	%	5.5	5.7	5.7	5.6	5.6	5.4	5.3	5.3	5.3	4.9
Industrial prod. index	% change	5.9	1.6	4.5	1.1	2.0	7.5	3.6	3.8	5.2	4.6
Capacity util. rate - mfg.	%	83.8	82.9	82.6	81.8	81.0	81.6	81.5	81.4	81.6	81.5
Housing starts	Millions	1.32	1.29	1.42	1.42	1.47	1.49	1.49	1.42	1.47	1.46
Light motor vehicle sales		14.68	14.43	14.87	14.96	15.04	15.14	15.08	14.96	15.27	14.51
North Amer. produced		12.66	12.46	13.00	13.18	13.38	13.43	13.38	13.18	13.34	12.67
Other		2.02	1.97	1.87	1.78	1.67	1.71	1.70	1.77	1.92	1.85
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	7175.1	7220.6	7298.3	7388.5	7475.3	7610.5	7669.1	7796.1	7919.2	8013.6
Nominal GNP	% change	4.5	2.6	4.4	5.0	4.8	7.4	3.1	6.8	6.5	4.9
Nominal personal income		7.4	4.1	4.3	5.1	6.8	6.6	5.1	4.8	8.0	5.0
Real disposable income		4.5	0.2	2.6	2.5	3.5	1.1	2.7	0.7	4.6	3.1
Personal saving rate	%	5.3	4.6	4.5	4.6	4.7	4.1	4.5	3.9	3.7	4.2
Corp. profits, IVA & CCAdj.	% change	-2.9	10.0	31.7	7.9	20.0	12.1	0.6	4.5	18.1	8.2
Profit share of GNP	%	8.5	8.7	9.2	9.3	9.6	9.7	9.6	9.6	9.8	9.9
Excluding FR Banks		8.2	8.4	8.9	9.0	9.3	9.4	9.4	9.3	9.6	9.6
Federal surpl./deficit	Bill. \$	-191.5	-179.5	-176.5	-150.2	-153.6	-111.6	-99.5	-77.1	-55.5	-36.8
State & local surpl./def.		107.7	105.6	101.1	97.8	104.1	114.4	102.6	100.4	104.7	104.9
Ex. social ins. funds		37.7	35.3	30.3	26.8	33.2	43.1	31.1	28.9	33.5	33.3
Gross natl. saving rate	%	15.8	15.7	16.0	16.6	16.3	16.5	16.9	16.7	16.8	17.4
Net natl. saving rate		5.4	5.1	5.5	6.0	6.0	6.4	6.7	6.6	6.7	7.4
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	3.3	2.1	2.0	2.1	2.8	1.9	2.7	1.9	2.4	1.8
Gross Domestic Purchases		3.0	2.5	1.7	1.9	2.7	1.8	2.4	2.4	1.9	0.8
chn.-wt. price index		2.7	3.5	2.1	2.4	3.2	3.7	2.6	3.3	2.0	1.5
CPI		3.3	3.3	2.8	3.0	2.5	2.5	2.7	2.7	2.2	2.6
Ex. food and energy		2.9	2.6	2.6	2.9	2.5	3.5	2.8	2.8	2.5	3.7
ECI, hourly compensation <sup>1</sup>		2.9	2.6	2.6	2.9	2.5	3.5	2.8	2.8	2.5	3.7
Nonfarm business sector		-1.8	0.8	1.4	2.2	2.8	2.9	-0.7	1.9	1.1	2.3
Output per hour		2.3	3.1	3.1	3.7	3.9	5.1	3.3	3.4	4.3	3.2
Compensation per hour		4.2	2.3	1.7	1.4	1.0	2.2	4.0	1.5	3.1	0.9
Unit labor cost											

1. Private-industry workers.

Strictly Confidential <FR>  
Class II FOMC

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

June 24, 1998

em	Units	----- Projected -----									
		1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	8124.3	8227.4	8357.1	8432.8	8507.3	8577.9	8649.7	8722.9	8806.4	8894.1
Real GDP	Bill. Ch. \$	7214.0	7280.0	7376.2	7412.2	7448.7	7479.3	7506.4	7539.6	7581.4	7625.5
Real GDP	% change	3.1	3.7	5.4	2.0	2.0	1.7	1.5	1.8	2.2	2.3
Gross domestic purchases		4.3	3.4	7.6	3.5	2.9	2.4	2.0	2.3	2.6	2.5
Final sales		4.7	2.3	3.8	4.6	2.2	2.5	1.6	1.9	2.3	2.5
Priv. dom. final purchases		7.1	2.3	8.2	6.2	4.0	3.5	2.6	2.6	2.9	3.1
Personal cons. expenditures		5.6	2.5	6.1	5.2	3.8	3.3	2.6	2.5	2.6	2.7
Durables		18.4	1.9	15.8	8.2	1.9	5.1	2.7	2.6	3.3	3.4
Nondurables		4.3	-1.2	6.6	4.4	3.0	2.4	1.8	1.8	1.8	1.9
Services		3.9	4.4	4.0	5.1	4.7	3.4	3.0	2.9	2.9	2.9
Business fixed investment		19.2	-0.8	18.2	10.2	6.8	6.6	6.0	6.2	6.3	6.2
Producers' dur. equipment		24.1	-0.3	27.0	11.7	7.8	7.9	7.1	7.5	7.7	7.6
Nonres. structures		6.7	-2.3	-2.9	6.2	4.0	2.9	2.8	2.7	2.4	2.3
Residential structures		2.7	9.1	16.5	12.1	-0.5	-1.1	-6.9	-4.8	-0.4	1.3
Exports		4.4	8.3	-1.2	-3.2	0.3	1.7	2.4	3.6	4.4	4.9
Imports		14.6	5.3	16.9	9.3	8.1	7.3	6.4	7.8	6.6	5.3
Gov't. cons. & investment		1.1	0.3	-3.2	6.1	-0.7	1.9	-0.1	1.6	1.3	0.7
Federal		-1.1	-2.3	-9.8	10.4	-6.7	0.7	-4.6	0.3	-0.8	-2.3
Defense		1.2	1.0	-18.4	13.8	-10.3	1.6	-6.4	0.4	-1.3	-2.1
State & local		2.3	1.8	0.7	3.8	2.7	2.6	2.4	2.3	2.4	2.4
Change in bus. inventories	Bill. Ch. \$	47.5	74.0	103.8	52.6	48.8	31.9	29.7	27.7	26.2	22.4
Nonfarm		38.3	64.5	94.8	45.2	42.2	26.1	24.2	22.5	21.0	17.3
Net exports		-164.1	-159.1	-207.9	-242.9	-266.2	-284.1	-298.2	-313.7	-324.0	-329.1
Nominal GDP	% change	4.6	5.2	6.5	3.7	3.6	3.4	3.4	3.4	3.9	4.0
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	123.0	123.9	124.8	125.5	126.1	126.5	126.7	127.0	127.2	127.6
Unemployment rate	%	4.9	4.7	4.7	4.3	4.3	4.4	4.6	4.7	4.8	4.9
Industrial prod. index	% change	6.0	7.2	1.0	1.8	1.6	1.8	1.5	1.6	1.8	2.1
Capacity util. rate - mfg.	%	81.6	82.2	81.5	80.6	80.0	79.8	79.6	79.6	79.6	79.6
Housing starts	Millions	1.45	1.53	1.58	1.55	1.56	1.50	1.45	1.45	1.45	1.45
Light motor vehicle sales		15.34	15.10	15.01	15.67	14.90	14.99	14.86	14.66	14.59	14.54
North Amer. produced		13.31	13.14	13.05	13.71	12.93	13.02	12.95	12.76	12.71	12.69
Other		2.03	1.96	1.97	1.96	1.98	1.97	1.91	1.90	1.88	1.85
INCOME AND SAVING											
Nominal GNP	Bill. \$	8103.5	8204.2	8338.6	8407.4	8473.3	8544.3	8613.3	8684.5	8761.5	8848.2
Nominal GNP	% change	4.6	5.1	6.7	3.3	3.2	3.4	3.3	3.3	3.6	4.0
Nominal personal income		4.6	6.3	6.6	4.4	4.2	3.7	3.8	3.8	4.0	3.9
Real disposable income		2.6	4.5	4.7	2.5	2.4	1.5	5.2	1.8	1.9	1.8
Personal saving rate	%	3.5	3.9	3.7	3.1	2.7	2.3	2.9	2.8	2.6	2.4
Corp. profits, IVA & CCAdj.	% change	17.2	-4.4	7.6	-7.0	-9.2	-3.6	-2.1	-2.8	1.7	4.8
Profit share of GNP	%	10.2	10.0	10.0	9.7	9.4	9.3	9.1	9.0	9.0	9.0
Excluding FR Banks		9.9	9.7	9.7	9.5	9.2	9.0	8.9	8.7	8.7	8.7
Federal surpl./deficit	Bill. \$	-10.8	-12.1	54.2	56.6	73.6	63.4	26.8	31.5	40.5	41.2
State & local surpl./def.		111.4	110.1	108.6	117.4	116.2	116.2	115.4	116.5	116.0	117.5
Ex. social ins. funds		40.0	38.6	36.8	45.6	44.4	44.4	43.5	44.6	44.1	45.6
Gross natl. saving rate	%	17.4	17.5	18.1	17.5	17.3	16.7	16.7	16.5	16.5	16.3
Net natl. saving rate		7.5	7.5	8.2	7.7	7.3	6.7	6.7	6.5	6.4	6.3
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.4	1.4	1.0	1.7	1.6	1.7	1.9	1.6	1.6	1.7
Gross Domestic Purchases		1.3	1.4	0.1	1.0	1.2	1.7	1.9	1.6	1.6	1.6
chn.-wt. price index		1.8	2.3	0.5	2.0	2.0	2.2	2.4	2.2	2.2	2.2
CPI		1.9	2.1	2.4	2.7	2.2	2.1	2.3	2.3	2.3	2.3
Ex. food and energy											
ECI, hourly compensation <sup>1</sup>		3.4	4.3	2.7	4.0	3.9	3.9	3.4	3.5	3.5	3.5
Nonfarm business sector											
Output per hour		3.6	1.4	0.9	0.0	0.7	1.1	0.9	1.1	1.7	1.7
Compensation per hour		3.8	5.2	4.2	3.9	3.9	3.9	3.5	3.5	3.5	3.5
Unit labor cost		0.2	3.8	3.3	4.0	3.3	2.9	2.6	2.4	1.8	1.9

1. Private-industry workers.

Item	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	95Q4/ 94Q4	96Q4/ 95Q4	97Q4/ 96Q4
Real GDP	3.0	2.2	1.8	6.0	1.0	4.3	4.9	3.3	3.1	1.6	3.2	3.7
Gross dom. purchases	1.9	1.3	3.1	6.6	2.4	2.5	6.0	3.7	4.4	1.2	3.6	4.4
Final sales	3.3	1.9	2.6	5.2	0.2	4.5	3.0	2.5	4.7	2.2	3.1	3.1
Priv. dom. final purchases	2.3	2.0	3.6	4.5	1.7	2.7	4.2	2.4	5.8	2.0	3.1	3.6
Personal cons. expenditures	1.8	1.2	2.1	2.5	0.4	2.2	3.6	0.6	3.8	1.5	1.8	2.4
Durables	0.7	0.2	0.4	0.8	-0.2	0.3	1.1	-0.5	1.4	0.2	0.3	0.5
Nondurables	0.1	0.1	0.4	0.5	0.1	0.4	0.9	-0.4	0.8	0.2	0.4	0.3
Services	0.9	0.9	1.4	1.2	0.4	1.5	1.5	1.5	1.5	1.0	1.1	1.6
Business fixed investment	0.2	0.5	1.1	1.3	1.6	0.6	0.4	1.4	1.9	0.6	1.1	0.9
Producers' dur. equip.	0.1	0.6	0.9	1.0	1.3	0.2	0.5	1.6	1.7	0.6	0.9	0.9
Nonres. structures	0.0	-0.2	0.2	0.2	0.3	0.4	-0.1	-0.1	0.2	0.1	0.3	-0.0
Residential structures	0.3	0.3	0.3	0.7	-0.2	-0.2	0.1	0.3	0.1	-0.1	0.2	0.2
Net exports	1.1	1.0	-1.3	-0.6	-1.4	1.8	-1.0	-0.4	-1.3	0.4	-0.4	-0.6
Exports	1.4	1.2	0.2	1.1	0.2	2.7	1.1	2.0	0.5	1.1	1.0	1.2
Imports	-0.2	-0.3	-1.5	-1.7	-1.6	-0.8	-2.1	-2.5	-1.7	-0.7	-1.4	-1.8
Government cons. & invest.	-0.1	-1.0	0.3	1.3	-0.2	0.0	-0.1	0.6	0.2	-0.3	0.4	0.2
Federal	-0.1	-1.2	0.5	0.6	-0.3	-0.4	-0.4	0.4	-0.1	-0.4	0.1	-0.0
Defense	-0.2	-0.8	0.3	0.5	-0.2	-0.3	-0.6	0.3	0.1	-0.3	0.0	-0.0
Nondefense	0.1	-0.4	0.2	0.1	-0.1	0.0	0.2	0.1	-0.1	-0.2	0.1	-0.0
State and local	0.0	0.2	-0.2	0.7	0.1	0.4	0.3	0.1	0.3	0.2	0.3	0.2
Change in bus. inventories	-0.2	0.3	-0.8	0.7	0.8	-0.2	1.8	0.8	-1.6	-0.6	0.1	0.5
Nonfarm	-0.2	-0.3	-0.6	0.1	0.8	-0.2	1.8	0.7	-1.7	-0.5	0.0	0.5
Farm	0.0	0.6	-0.2	0.5	0.1	-0.1	0.0	0.1	0.1	-0.1	0.1	0.0

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

Item	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	97Q4/ 96Q4	98Q4/ 97Q4	99Q4/ 98Q4
Real GDP	3.7	5.4	2.0	2.0	1.7	1.5	1.8	2.2	2.3	3.7	2.7	2.0
Gross dom. purchases	3.4	7.7	3.5	3.0	2.4	2.0	2.4	2.6	2.5	4.4	4.1	2.4
Final sales	2.3	3.8	4.6	2.2	2.5	1.6	1.9	2.3	2.5	3.1	3.3	2.1
Priv. dom. final purchases	1.9	6.7	5.1	3.3	2.9	2.2	2.2	2.5	2.6	3.6	4.5	2.3
Personal cons. expenditures	1.7	4.1	3.5	2.6	2.3	1.8	1.7	1.8	1.8	2.4	3.1	1.8
Durables	0.2	1.2	0.7	0.2	0.4	0.2	0.2	0.3	0.3	0.5	0.6	0.2
Nondurables	-0.2	1.3	0.8	0.6	0.5	0.4	0.3	0.4	0.4	0.3	0.8	0.4
Services	1.8	1.6	2.0	1.9	1.4	1.2	1.2	1.2	1.2	1.6	1.7	1.2
Business fixed investment	-0.1	1.8	1.1	0.7	0.7	0.6	0.7	0.7	0.7	0.9	1.1	0.7
Producers' dur. equip.	0.0	1.9	0.9	0.6	0.6	0.6	0.6	0.6	0.6	0.9	1.0	0.6
Nonres. structures	-0.1	-0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	-0.0	0.1	0.1
Residential structures	0.4	0.6	0.5	-0.0	-0.0	-0.3	-0.2	-0.0	0.1	0.2	0.3	-0.1
Net exports	0.3	-2.2	-1.5	-1.0	-0.7	-0.6	-0.6	-0.4	-0.2	-0.6	-1.4	-0.4
Exports	1.0	-0.1	-0.4	0.0	0.2	0.3	0.4	0.5	0.5	1.2	-0.1	0.4
Imports	-0.7	-2.1	-1.2	-1.0	-0.9	-0.8	-1.0	-0.9	-0.7	-1.8	-1.3	-0.9
Government cons. & invest.	0.1	-0.6	1.0	-0.1	0.3	-0.0	0.3	0.2	0.1	0.2	0.2	0.2
Federal	-0.1	-0.7	0.6	-0.4	0.0	-0.3	0.0	-0.1	-0.1	-0.0	-0.1	-0.1
Defense	0.0	-0.9	0.5	-0.4	0.1	-0.3	0.0	-0.1	-0.1	-0.0	-0.2	-0.1
Nondefense	-0.2	0.2	0.1	0.0	-0.0	-0.0	0.0	0.0	-0.1	-0.0	0.1	-0.0
State and local	0.2	0.1	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.3
Change in bus. inventories	1.4	1.5	-2.5	-0.2	-0.8	-0.1	-0.1	-0.1	-0.2	0.5	-0.5	-0.1
Nonfarm	1.4	1.6	-2.5	-0.1	-0.8	-0.1	-0.1	-0.1	-0.2	0.5	-0.5	-0.1
Farm	0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	0.0	0.0	0.0	-0.0	-0.0

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

Item	Fiscal year <sup>5</sup>				1997				1998				1999			
	1996 <sup>a</sup>	1997 <sup>a</sup>	1998	1999	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4 <sup>a</sup>	Q1 <sup>b</sup>	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET	Not seasonally adjusted															
Receipts <sup>1</sup>	1453	1579	1715	1767	349	496	387	386	378	543	406	417	383	538	429	422
Outlays <sup>1</sup>	1561	1601	1652	1714	401	396	398	426	409	406	411	464	398	424	428	440
Surplus/deficit <sup>1</sup>	-107	-22	63	53	-52	100	-11	-40	-30	138	-5	-47	-15	114	1	-19
On-budget	-174	-103	-36	-65	-69	61	-19	-66	-51	95	-14	-48	-67	61	-12	-56
Off-budget	67	81	98	119	17	39	8	26	21	43	9	1	52	53	13	37
Surplus excluding deposit insurance <sup>2</sup>	-116	-36	58	49	-56	97	-12	-41	-31	136	-7	-48	-16	113	0	-20
Means of financing																
Borrowing	130	38	-49	-49	48	-69	11	34	26	-84	-25	30	8	-96	9	6
Cash decrease	-6	1	4	0	-1	-18	8	12	4	-48	36	4	16	-15	-5	10
Other <sup>3</sup>	-16	-17	-17	-4	5	-13	-7	-6	0	-6	-5	13	-9	-3	-5	2
Cash operating balance, end of period	44	44	40	40	33	51	44	32	28	76	40	36	20	35	40	30
NIPA FEDERAL SECTOR	Seasonally adjusted annual rate															
Receipts	1550	1692	1823	1866	1675	1709	1742	1767	1816	1845	1863	1876	1847	1862	1879	1896
Expenditures	1679	1737	1780	1825	1731	1746	1753	1780	1761	1789	1790	1813	1820	1830	1839	1855
Consumption expend.	447	460	464	469	458	464	465	468	457	469	464	466	468	470	471	470
Defense	302	309	308	308	306	311	312	314	301	312	306	308	308	309	309	308
Nondefense	145	151	156	161	152	153	153	154	155	157	158	158	161	161	162	162
Other expenditures	1232	1277	1315	1357	1273	1282	1288	1311	1305	1320	1326	1347	1352	1360	1368	1385
Current account surplus	-129	-45	43	41	-56	-37	-11	-12	54	57	74	63	27	32	40	41
Gross investment	69	61	60	59	58	62	61	59	59	61	59	60	59	59	59	59
Current and capital account surplus	-197	-106	-16	-18	-114	-99	-72	-71	-5	-5	14	4	-32	-27	-18	-17
FISCAL INDICATORS <sup>4</sup>																
High-employment (HEB) surplus/deficit	-220	-164	-119	-116	-167	-164	-144	-155	-107	-115	-97	-105	-130	-120	-108	-105
Change in HEB, percent of potential GDP	-.7	-.7	-.6	0	-.2	0	-.2	.1	-.6	.1	-.2	.1	.3	-.1	-.1	0
Fiscal impetus (FI), percent, cal. year	-2.3	-1.9	-1.6	-.5	-1.1	1.5	.2	-1.7	-2.3	3.5	-1.7	-.9	.9	-.2	-.5	-1.4

1. OMB's May 1998 surplus estimates (assuming the enactment of the President's proposals) are \$39 billion in FY98 and \$54 billion in FY99. In May 1998, CBO revised its surplus estimates to a range of \$43 billion to \$63 billion for FY98 and a range of \$30 billion to \$40 billion for FY99. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's May 1998 surplus estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are \$35 billion in FY98 and \$51 billion in FY99.

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

4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Real potential GDP growth is assumed to rise from 2.3 percent in 1996 to 2.5 percent in 1999, reflecting CPI modifications. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1992) dollars, scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.

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

a--Actual.

b--Preliminary.

Change in Debt of the Domestic Nonfinancial Sectors  
(Percent)

Period <sup>1</sup>	Total <sup>2</sup>	Federal government <sup>3</sup>	Nonfederal						Memo: Nominal GDP
			Total <sup>4</sup>	Households			Business	State and local governments	
				Total	Home mortgages	Consumer credit			
<i>Year</i>									
1989	7.3	7.0	7.3	8.6	9.9	6.0	6.7	5.6	6.4
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	0.7	2.9	6.3
1993	5.0	8.3	3.8	5.2	4.3	7.6	1.4	6.7	5.0
1994	4.6	4.7	4.6	7.5	5.8	14.5	3.7	-2.7	5.8
1995	5.4	4.1	5.9	7.8	5.5	14.1	6.3	-3.1	4.0
1996	5.3	4.0	5.8	7.8	8.0	7.9	4.7	1.3	5.6
1997	5.3	0.6	6.9	6.8	7.5	4.3	7.1	7.0	5.6
1998	5.3	-1.5	7.5	7.4	8.2	4.1	7.7	7.5	4.3
1999	4.4	-1.9	6.4	6.5	7.5	3.2	6.6	5.1	3.7
<i>Quarter</i>									
1997:3	5.3	0.8	6.9	7.2	9.4	4.1	6.9	5.4	4.6
4	6.2	1.1	8.0	7.2	8.2	2.3	8.8	8.3	5.2
1998:1	6.2	-0.8	8.5	7.8	8.2	4.5	8.9	10.3	6.5
2	4.8	-3.7	7.6	7.3	8.1	4.1	7.6	8.7	3.7
3	4.4	-2.8	6.7	6.9	7.9	3.8	6.8	5.3	3.6
4	5.3	1.4	6.5	6.6	7.7	3.7	6.9	5.0	3.4
1999:1	4.4	-2.3	6.4	6.6	7.5	3.5	6.6	5.1	3.4
2	3.7	-5.2	6.3	6.4	7.3	3.4	6.6	5.0	3.4
3	4.9	0.8	6.1	6.2	7.1	3.0	6.3	4.9	3.9
4	4.4	-1.2	6.0	6.0	7.0	2.7	6.3	4.9	4.0

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1998:Q1 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2. On a monthly average basis, total debt is projected to grow 5.4 percent in 1998 and 4.6 percent in 1999.

3. On a monthly average basis, federal debt is projected to grow -1.5 percent in 1998 and -1.3 percent in 1999.

4. On a monthly average basis, nonfederal debt is projected to grow 7.7 percent in 1998 and 6.4 percent in 1999.

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

Category	Calendar year				Seasonally adjusted annual rates									
					1997		1998				1999			
	1996	1997	1998	1999	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	663.6	649.4	679.6	618.4	703.7	789.2	831.6	657.8	571.3	657.9	606.0	502.4	720.8	644.3
2 Net equity issuance	-64.2	-114.8	-122.9	-90.0	-83.2	-144.1	-109.6	-82.0	-118.0	-182.0	-98.0	-94.0	-86.0	-82.0
3 Net debt issuance	727.8	764.2	802.5	708.4	786.9	933.4	941.2	739.8	689.3	839.9	704.0	596.4	806.8	726.3
<i>Borrowing sectors</i>														
<i>Nonfinancial business</i>														
4 Financing gap <sup>1</sup>	6.8	48.2	75.6	81.4	25.3	54.0	82.4	58.6	88.1	73.4	72.6	81.1	84.0	87.9
5 Net equity issuance	-64.2	-114.8	-122.9	-90.0	-83.2	-144.1	-109.6	-82.0	-118.0	-182.0	-98.0	-94.0	-86.0	-82.0
6 Credit market borrowing	195.8	311.3	364.1	334.1	311.6	406.0	419.7	363.0	332.4	341.1	332.1	338.1	332.1	334.1
<i>Households</i>														
7 Net borrowing <sup>2</sup>	372.7	350.3	404.3	381.4	381.4	388.0	426.9	411.8	395.0	383.5	392.1	385.1	377.6	371.1
8 Home mortgages	261.0	262.2	309.8	304.2	337.7	303.4	307.5	312.9	311.8	306.9	307.4	304.4	301.4	303.4
9 Consumer credit	88.8	52.5	51.6	42.1	50.5	28.8	56.9	52.0	49.5	47.8	46.0	45.0	40.5	37.0
10 Debt/DPI (percent) <sup>3</sup>	88.7	90.4	92.6	94.7	90.6	90.9	91.5	92.3	93.1	93.9	93.8	94.5	95.1	95.7
<i>State and local governments</i>														
11 Net borrowing	14.3	79.5	90.9	65.9	63.6	98.6	124.6	107.4	67.8	63.9	65.9	65.9	65.9	65.9
12 Current surplus <sup>4</sup>	123.2	107.0	106.8	109.6	89.9	137.7	125.2	101.6	100.2	100.1	119.0	109.8	119.2	90.4
<i>Federal government</i>														
13 Net borrowing	145.0	23.1	-56.7	-73.0	30.3	40.8	-30.0	-142.4	-105.8	51.4	-86.0	-192.7	31.3	-44.7
14 Net borrowing (quarterly, n.s.a.)	145.0	23.1	-56.7	-73.0	10.6	33.7	25.9	-83.7	-25.3	30.4	8.0	-96.3	9.0	6.3
15 Unified deficit (quarterly, n.s.a.)	110.9	2.4	-55.3	-81.4	10.9	39.7	30.2	-137.6	5.1	47.1	15.1	-114.3	-1.0	18.8
<i>Depository institutions</i>														
16 Funds supplied	232.9	336.9	275.5	279.9	188.9	476.0	316.8	218.7	278.5	287.9	276.9	277.9	281.9	282.9
<i>Memo (percentage of GDP)</i>														
17 Domestic nonfinancial debt <sup>5</sup>	184.4	183.5	184.3	186.7	183.1	183.5	183.4	184.3	184.7	185.4	186.1	186.4	186.7	187.0
18 Domestic nonfinancial borrowing	9.5	9.5	9.5	8.1	9.7	11.3	11.3	8.8	8.1	9.8	8.1	6.8	9.2	8.2
19 Federal government <sup>6</sup>	1.9	0.3	-0.7	-0.8	0.4	0.5	-0.4	-1.7	-1.2	0.6	-1.0	-2.2	0.4	-0.5
20 Nonfederal	7.6	9.2	10.1	8.9	9.3	10.8	11.6	10.5	9.3	9.2	9.1	9.0	8.8	8.7

Note. Data after 1998:Q1 are staff projections.

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

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

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

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

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

6. Excludes government-insured mortgage pool securities.



## Outlook

Growth in total foreign real GDP (weighted by shares of U.S. nonagricultural exports) is expected to show only a small rebound in the second quarter following a stagnant first quarter, to remain quite weak throughout the rest of this year, and to pick up only moderately in 1999. This forecast is considerably lower than that in the May Greenbook mainly because of a much gloomier outlook for Asia. The dollar is expected to depreciate slightly in real terms over the forecast period against an average of 29 currencies, principally reflecting modest nominal depreciation against most major currencies as well as higher inflation in the Asian developing economies than in the United States. Compared with the May Greenbook, the path of the dollar is about 3 percent higher over the forecast period. As a result of the less optimistic outlook for foreign growth as well as the stronger dollar, exports are now expected to fall about ½ percent (Q4/Q4) in 1998. The downward revision to our projection for exports reduces the contribution of real net exports to GDP growth this year to -1.4 percentage point, compared with -1.0 percentage point in the May Greenbook. However, the staff still expects the contribution of net exports to be less negative next year (-0.4 percentage point), as the effect of the past appreciation of the dollar wears off, foreign growth improves somewhat, and U.S. growth slows.

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

Measure	1997	Projection			
		1998			1999
		Q1	Q2	H2	
Foreign output	3.8	-0.3	0.8	1.7	2.6
<i>May</i>	4.0	1.5	2.2	2.5	3.0
Real exports	10.2	-1.2	-3.2	1.0	3.8
<i>May</i>	10.2	-4.3	2.2	3.6	5.0
Real imports	14.4	16.9	9.3	7.7	6.5
<i>May</i>	14.4	13.8	8.0	7.6	7.0

**The dollar.** We project that the dollar will depreciate almost 4 percent from its current level on balance against the major foreign currencies that make up the staff's narrow exchange-rate index by the end of 1999. Compared with the May forecast, the level of the dollar is about 2 percent higher in the near-term, reflecting recent developments, but is projected to reach a similar level by the end of next year. The yen is forecast to remain around its recent level through 1998 and to appreciate somewhat

hand, if producers are unable to sustain the lower rate of production, then spot WTI could fall as low as \$11.00 per barrel in the near term. On the other hand, if Iraqi oil is withheld from the market again—especially near the end of the year when Iraq may be exporting as much as 2.0 mb/d—spot WTI could rise above \$20 per barrel.

**Prices of non-oil imports and exports.** Our forecasts for other merchandise trade prices are generally little changed from the May Greenbook. Prices of imports of non-oil goods other than computers and semiconductors (core imports) have continued to decline so far in the second quarter in response to the strength of the dollar and decreases in non-oil commodity prices. We expect a small further decline in import prices in the third quarter, followed by moderate increases over the forecast period as the dollar reverses some of its recent gains and commodity prices stabilize. Prices of core goods exports are also estimated to have fallen in the second quarter and are expected to ease further in the third quarter, but to firm toward the end of the year and then rise in line with comparable U.S. domestic prices.

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

Trade category	1997	Projection			
		1998			1999
		Q1	Q2	H2	
<i>Exports</i>					
Nonagricultural (core)	0.5	-2.4	-1.9	-0.1	1.2
Agricultural	-3.1	-16.5	-7.8	-3.1	2.0
<i>Imports</i>					
Non-oil (core)	-0.8	-3.5	-2.6	-1.6	1.6
Oil (level, dollars per barrel)	17.72	13.89	12.29	12.81	13.50

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

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

**Nominal trade and current account balances.** The nominal trade deficit in goods and services is expected to continue to deteriorate over the forecast period, reaching over \$225 billion by the end of 1999. We also expect the deficit in net investment income to widen. As a result, the current account deficit is projected to increase from \$190 billion in the first quarter of 1998 to about \$300 billion for 1999, nearly 3½ percent of GDP.

June 24, 1998

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

Measure and country	----- Projected -----								
	1991	1992	1993	1994	1995	1996	1997	1998	1999
REAL GDP									
-----									
Canada	-0.3	0.9	3.1	4.5	0.8	2.0	4.0	3.3	2.7
Japan	2.5	0.1	0.5	0.8	2.4	3.4	-0.4	-1.0	0.4
United Kingdom	-1.6	0.4	2.7	4.9	2.0	2.9	2.9	2.0	2.0
Euro-11 Average (1)	2.1	0.1	-0.1	3.4	1.5	1.9	3.0	2.7	3.0
of which:									
France	1.4	-0.1	-0.5	4.1	0.3	2.3	3.1	2.4	2.7
Germany (2)	3.3	0.9	-0.2	3.4	0.7	2.1	2.3	2.5	2.9
Italy	1.9	-0.8	0.1	2.5	2.6	-0.2	2.6	2.1	2.9
Foreign G-7 Average weighted by 1991 GDP	1.7	0.2	0.6	2.8	1.7	2.3	1.8	1.3	1.9
Average weighted by share of U.S. nonagricultural exports									
Total foreign	3.3	2.3	3.4	5.0	1.9	4.1	3.8	0.9	2.6
Foreign G-7	0.8	0.5	1.9	3.6	1.3	2.3	2.8	2.1	2.2
Developing Countries	6.7	5.2	6.1	7.1	2.6	6.8	5.2	-1.4	3.0
CONSUMER PRICES									
-----									
Canada	4.1	1.8	1.8	-0.0	2.1	2.0	1.0	1.6	1.8
Japan	3.2	0.9	1.2	0.8	-0.8	0.1	2.1	0.0	0.0
United Kingdom (3)	5.7	3.7	2.7	2.2	2.9	3.2	2.8	2.9	2.8
Euro-11 Average (4)	NA	NA	NA	NA	2.7	2.0	1.4	1.7	1.9
of which:									
France	3.0	1.8	2.1	1.6	1.9	1.7	1.2	1.3	1.6
Germany (2)	4.0	3.4	4.2	2.6	1.7	1.4	1.8	1.5	1.8
Italy	6.1	4.9	4.1	3.8	5.9	2.7	1.6	1.8	2.0
Foreign G-7 Average weighted by 1991 GDP	4.1	2.4	2.5	1.8	1.6	1.5	1.8	1.2	1.3
Average weighted by share of U.S. non-oil imports	3.9	1.9	2.0	1.0	1.1	1.3	1.7	1.0	1.2

1. Includes all of the European Union countries except the United Kingdom, Denmark, Sweden, and Greece; weighted by GDP.
2. West German data through 1991; all Germany thereafter.
3. CPI excluding mortgage interest payments which is the targeted inflation rate.
4. Harmonized CPI's for the 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	1997				1998				Projected 1999			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>REAL GDP</b>												
Canada	4.8	4.2	4.3	2.8	3.7	3.6	3.1	2.8	2.8	2.7	2.7	2.7
Japan	8.3	-10.6	3.2	-1.5	-5.3	-2.4	1.5	2.4	0.1	0.3	0.5	0.7
United Kingdom	2.1	3.5	3.6	2.5	2.0	2.3	1.8	1.7	1.8	1.8	2.1	2.1
Euro-11 Average (1)	1.5	5.1	3.2	2.1	2.6	2.7	2.8	2.7	2.8	2.8	3.1	3.1
of which:												
France	0.9	4.7	3.7	3.2	2.2	2.6	2.3	2.3	2.5	2.6	2.8	2.8
Germany	1.3	3.9	2.9	1.2	3.9	1.1	2.6	2.6	2.7	2.8	3.1	3.1
Italy	0.2	8.0	1.9	0.7	-0.4	4.1	2.5	2.5	2.5	2.5	3.4	3.4
Foreign G-7 Average weighted by 1991 GDP	3.7	-0.5	3.1	0.8	-0.3	0.9	2.1	2.4	1.7	1.8	2.1	2.2
Average weighted by share of U.S. nonagricultural exports												
Total foreign	5.2	3.7	4.5	2.0	-0.3	0.8	1.4	1.9	2.3	2.6	2.8	2.9
Foreign G-7	4.5	1.1	3.8	1.7	1.5	2.0	2.5	2.5	2.1	2.2	2.2	2.3
Developing Countries	6.7	6.5	5.7	2.1	-3.9	-1.6	-0.6	0.6	2.2	3.0	3.4	3.5
<b>CONSUMER PRICES (2)</b>												
Canada	2.1	1.6	1.7	1.0	1.0	1.2	1.4	1.6	1.7	1.7	1.8	1.8
Japan	0.0	1.5	1.7	2.1	2.1	0.5	0.0	0.0	-0.0	0.0	0.0	0.0
United Kingdom (3)	2.9	2.6	2.8	2.8	2.5	3.2	3.0	2.9	2.9	2.6	2.8	2.8
Euro-11 Average (4)	1.7	1.2	1.5	1.4	1.2	1.5	1.6	1.7	1.8	1.8	1.9	1.9
of which:												
France	1.5	0.9	1.3	1.2	0.7	1.0	1.3	1.3	1.4	1.5	1.6	1.6
Germany	1.7	1.6	1.9	1.8	1.2	1.4	1.4	1.5	1.7	1.8	1.8	1.8
Italy	2.4	1.6	1.5	1.6	1.7	1.8	1.8	1.8	2.1	2.0	2.0	2.0
Foreign G-7 Average weighted by 1991 GDP	1.4	1.6	1.8	1.8	1.6	1.3	1.2	1.2	1.3	1.3	1.3	1.3
Average weighted by share of U.S. non-oil imports	1.3	1.6	1.8	1.7	1.6	1.1	1.0	1.0	1.1	1.1	1.2	1.2

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.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1991	1992	1993	1994	1995	1996	--- Projected --- 1997 1998 1999		
NIPA REAL EXPORTS and IMPORTS									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	0.4	-0.4	-0.6	-0.4	0.4	-0.4	-0.6	-1.4	-0.4
Exports of G&S	0.8	0.4	0.5	1.0	1.1	1.0	1.2	-0.1	0.4
Imports of G&S	-0.4	-0.8	-1.1	-1.4	-0.7	-1.4	-1.8	-1.3	-0.9
Percentage change, Q4/Q4									
Exports of G&S	8.6	4.1	4.6	10.0	10.3	9.3	10.2	-0.6	3.8
Services	7.1	-0.9	4.1	6.0	9.0	4.7	2.1	0.3	3.0
Agricultural Goods	10.1	10.4	-5.5	16.6	-3.4	5.7	2.5	-7.1	1.7
Computers	21.7	25.2	23.7	32.0	55.7	33.8	48.0	19.6	29.9
Semiconductors	41.8	64.8	32.9	66.9	80.4	45.9	21.4	8.7	30.2
Other Goods 1/	7.0	2.3	3.6	6.9	5.7	7.7	11.6	-2.5	0.9
Imports of G&S	4.1	7.4	10.2	12.3	5.6	11.8	14.4	10.3	6.5
Services	-2.7	1.4	3.2	1.4	7.3	5.0	10.6	4.4	2.3
Oil	8.1	12.1	10.1	-0.2	1.5	8.3	5.5	1.8	2.3
Computers	35.9	45.1	39.3	44.8	46.2	23.6	44.5	35.1	25.6
Semiconductors	55.3	42.0	34.2	54.5	92.7	57.9	32.6	10.1	31.0
Other Goods 2/	2.5	5.4	9.5	12.2	-1.3	10.6	12.9	10.3	5.2
Billions of chained 1992 dollars									
Net Goods & Services	-22.3	-29.5	-70.2	-104.6	-98.8	-114.4	-146.5	-250.3	-316.3
Exports of G&S	599.9	639.4	658.2	712.4	791.2	857.0	962.7	985.0	1007.5
Imports of G&S	622.2	669.0	728.4	817.0	890.1	971.5	1109.2	1235.3	1323.8
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-4.4	-51.4	-86.1	-123.8	-115.3	-134.9	-155.2	-228.0	-293.9
Net Goods & Services (BOP)	-30.9	-38.7	-71.9	-100.9	-99.9	-108.6	-110.2	-164.9	-216.8
Exports of G&S (BOP)	581.2	617.3	643.2	703.8	795.6	850.8	937.6	931.4	945.8
Imports of G&S (BOP)	612.2	656.0	715.2	804.8	895.5	959.3	1047.8	1096.4	1162.5
Net Investment Income	21.5	22.5	23.9	16.5	19.3	14.2	-5.3	-21.8	-35.3
Direct, Net	55.6	51.6	55.7	51.8	63.0	66.2	63.7	55.2	54.7
Portfolio, Net	-34.1	-29.1	-31.7	-35.3	-43.7	-51.9	-69.1	-77.0	-90.1
Net Transfers	5.0	-35.2	-38.1	-39.4	-34.6	-40.6	-39.7	-41.2	-41.8

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1994				1995				1996			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.0	-0.3	-0.4	0.3	-0.4	0.1	1.2	1.0	-1.3	-0.6	-1.4	1.8
Exports of G&S	-0.2	1.7	1.1	1.5	0.8	1.0	1.4	1.3	0.2	1.1	0.2	2.6
Imports of G&S	-0.8	-2.0	-1.5	-1.2	-1.2	-0.9	-0.3	-0.3	-1.5	-1.7	-1.6	-0.8
Percentage change from previous period, SAAR												
Exports of G&S	-1.8	17.7	10.6	14.7	7.2	9.3	13.5	11.5	1.7	9.6	1.9	25.5
Services	2.4	12.9	2.0	6.9	6.0	3.8	20.3	6.6	-3.8	9.7	0.3	13.5
Agricultural Goods	-25.2	8.1	45.3	57.2	-1.3	-17.5	19.7	-10.7	12.5	-34.3	13.1	49.2
Computers	21.4	24.3	35.5	48.4	34.9	41.0	89.6	63.1	46.2	31.8	29.2	28.7
Semiconductors	111.8	23.4	65.9	79.1	72.0	97.0	100.3	56.2	19.9	28.3	37.6	113.8
Other Goods 1/	-6.8	20.3	7.4	8.6	2.9	8.1	0.9	10.9	-1.3	13.2	-2.9	24.2
Imports of G&S	7.6	19.0	13.1	9.9	10.0	7.7	2.3	2.4	13.1	14.1	13.2	6.8
Services	2.7	4.1	-0.4	-0.9	24.4	-4.0	8.4	2.2	14.6	2.7	1.2	2.1
Oil	-8.6	27.2	33.5	-36.2	-8.1	12.5	28.0	-19.7	-7.6	67.2	10.6	-19.6
Computers	32.9	48.3	42.3	57.0	8.1	57.3	65.8	61.8	6.4	30.7	26.9	32.0
Semiconductors	60.7	23.7	74.4	64.3	29.6	108.0	157.1	98.8	30.4	10.3	75.5	146.4
Other Goods 2/	6.8	19.6	10.3	12.5	7.3	2.2	-10.0	-3.7	14.5	11.1	12.4	4.6
Billions of chained 1992 dollars, SAAR												
Net Goods & Services	-97.6	-103.9	-111.1	-105.9	-113.5	-112.8	-92.9	-76.1	-100.8	-112.6	-138.9	-105.6
Exports of G&S	676.0	704.1	722.1	747.3	760.4	777.4	802.4	824.6	828.2	847.4	851.4	901.1
Imports of G&S	773.6	808.0	833.2	853.2	873.9	890.3	895.4	900.7	929.0	960.0	990.2	1006.6
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-97.3	-118.5	-135.9	-143.7	-123.7	-134.2	-115.5	-87.7	-112.8	-132.1	-161.6	-133.1
Net Goods & Services (BOP)	-85.9	-97.3	-111.2	-109.2	-109.3	-125.8	-90.0	-74.5	-92.4	-112.8	-132.3	-96.8
Exports of G&S (BOP)	668.0	693.1	714.3	740.0	765.4	782.0	809.7	825.6	833.6	845.3	837.5	886.7
Imports of G&S (BOP)	753.9	790.5	825.5	849.1	874.7	907.7	899.7	900.1	926.0	958.2	969.8	983.5
Net Investment Income	20.8	16.3	14.6	14.2	20.1	24.0	10.2	22.7	21.5	15.8	6.9	12.8
Direct, Net	52.3	49.5	52.2	53.2	59.9	67.2	56.5	68.3	64.8	64.3	61.8	73.7
Portfolio, Net	-31.5	-33.1	-37.5	-39.0	-39.8	-43.2	-46.2	-45.5	-43.3	-48.5	-55.0	-60.9
Net Transfers	-32.1	-37.5	-39.2	-48.7	-34.5	-32.4	-35.8	-35.9	-41.9	-35.1	-36.2	-49.1

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	----- Projected -----											
	1997				1998				1999			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>NIPA REAL EXPORTS and IMPORTS</b>												
	Percentage point contribution to GDP growth											
Net Goods & Services	-1.0	-0.4	-1.3	0.3	-2.2	-1.5	-1.0	-0.7	-0.6	-0.6	-0.4	-0.2
Exports of G&S	1.1	2.0	0.5	1.0	-0.1	-0.4	0.0	0.2	0.3	0.4	0.5	0.5
Imports of G&S	-2.1	-2.5	-1.8	-0.7	-2.1	-1.2	-1.0	-0.9	-0.8	-1.0	-0.9	-0.7
	Percentage change from previous period, SAAR											
Exports of G&S	9.9	18.4	4.4	8.3	-1.2	-3.2	0.3	1.7	2.4	3.6	4.4	4.9
Services	3.7	3.2	7.2	-5.1	-0.4	2.0	-1.4	1.0	2.1	3.3	3.4	3.3
Agricultural Goods	-27.6	-4.2	20.6	31.9	-9.2	-20.6	1.7	1.6	1.6	1.7	1.7	1.7
Computers	72.3	84.3	61.5	-6.5	12.1	14.7	23.9	28.7	31.1	31.1	28.7	28.7
Semiconductors	39.0	15.7	38.8	-2.6	-1.7	-5.4	17.0	28.6	29.6	30.0	30.5	30.5
Other Goods 1/	12.4	25.0	-4.6	15.7	-1.8	-5.0	-1.6	-1.4	-1.1	0.4	1.7	2.7
Imports of G&S	17.9	20.5	14.6	5.3	16.9	9.3	8.1	7.3	6.4	7.8	6.6	5.3
Services	24.2	8.9	10.1	0.3	9.2	2.7	3.8	2.1	1.9	1.9	2.4	2.9
Oil	-10.8	44.5	6.3	-9.5	9.1	27.3	-12.6	-11.6	-9.6	35.9	8.4	-17.8
Computers	51.3	71.1	53.0	10.0	62.7	23.9	28.6	28.6	27.4	25.1	25.1	25.1
Semiconductors	71.2	19.3	44.3	5.0	6.0	-9.6	19.2	28.6	31.0	31.0	31.0	31.0
Other Goods 2/	15.3	17.1	11.8	7.6	16.4	9.4	8.5	7.2	5.9	5.1	4.9	5.0
	Billions of chained 1992 dollars, SAAR											
Net Goods & Services	-126.3	-136.6	-164.1	-159.1	-207.9	-242.9	-266.2	-284.1	-298.2	-313.7	-324.0	-329.1
Exports of G&S	922.7	962.5	973.0	992.7	989.6	981.6	982.4	986.6	992.4	1001.3	1012.1	1024.4
Imports of G&S	1048.9	1099.1	1137.1	1151.8	1197.5	1224.5	1248.6	1270.7	1290.6	1315.0	1336.1	1353.5
	Billions of dollars, SAAR											
US CURRENT ACCOUNT BALANCE	-147.9	-140.5	-152.4	-180.1	-188.8	-218.1	-239.1	-266.0	-270.8	-286.4	-301.6	-316.5
Net Goods & Services (BOP)	-112.5	-106.1	-108.4	-113.8	-139.4	-159.8	-172.1	-188.4	-201.5	-215.0	-223.8	-226.7
Exports of G&S (BOP)	904.7	936.1	951.7	957.8	945.6	928.9	924.2	927.1	932.3	940.1	949.8	960.9
Imports of G&S (BOP)	1017.3	1042.1	1060.1	1071.7	1085.1	1088.7	1096.2	1115.5	1133.8	1155.1	1173.6	1187.6
Net Investment Income	0.1	1.7	-6.2	-16.9	-12.4	-19.2	-28.0	-27.6	-30.3	-32.4	-38.8	-39.8
Direct, Net	64.3	69.5	65.5	55.7	61.8	55.9	49.8	53.3	53.7	55.2	53.2	56.8
Portfolio, Net	-64.2	-67.8	-71.7	-72.6	-74.2	-75.1	-77.8	-80.9	-84.0	-87.6	-92.0	-96.6
Net Transfers	-35.5	-36.1	-37.8	-49.3	-36.9	-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**

June 24, 1998

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

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



June 24, 1998

## **RECENT DEVELOPMENTS**

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

## Administration Economic and Budget Projections

Measure	1998	1999	2000	2001	2002	2003
<b>ECONOMIC ASSUMPTIONS (CALENDAR YEARS)</b>	<b>Percent change, Q4 to Q4</b>					
<i>Real GDP</i>						
May	2.4	2.0	2.0	2.2	2.4	2.4
January	2.0	2.0	2.0	2.3	2.4	2.4
<i>CPI-U</i>						
May	1.6	2.1	2.3	2.3	2.3	2.3
January	2.1	2.2	2.3	2.3	2.3	2.3
	<b>Percent, annual average</b>					
<i>Unemployment</i>						
May	4.8	5.0	5.2	5.4	5.4	5.4
January	5.0	5.2	5.4	5.4	5.4	5.4
<i>91-day Treasury bill</i>						
May	5.0	4.9	4.8	4.7	4.7	4.7
January	5.0	4.9	4.8	4.7	4.7	4.7
<i>10-year Treasury note</i>						
May	5.6	5.6	5.6	5.6	5.6	5.6
January	5.6	5.6	5.6	5.6	5.6	5.6
<b>BUDGET PROJECTIONS (FISCAL YEARS)<sup>1</sup></b>	<b>Billions of dollars</b>					
<b>Surplus</b>						
May estimate	39	54	61	83	148	150
January estimate	-10	10	9	28	90	83
Change in estimates	49	44	52	55	58	67
Economic <sup>2</sup>	12	22	22	24	24	27
Other	37	22	30	31	34	40
	<b>Percent of GDP</b>					
Receipts	20.4	20.5	20.2	20.1	20.1	20.0
Outlays	19.9	19.9	19.6	19.2	18.6	18.6
Surplus	.5	.6	.7	.9	1.5	1.4

1. Assumes implementation of the Administration's budget.

2. Change resulting from new economic assumptions.

SOURCE. Office of Management and Budget, *Mid-Session Review: Budget of the United States Government* (May 26, 1998).

**Treasury Financing**  
(Billions of dollars)

Item	1997		1998			
	Q4	Q1	Q2 <sup>p</sup>	April	May	June <sup>p</sup>
<b>Total surplus, deficit (-)</b>	<b>-39.7</b>	<b>-30.2</b>	<b>137.6</b>	<b>124.6</b>	<b>-38.8</b>	<b>51.8</b>
<b>Means of financing deficit</b>						
Net borrowing	33.7	25.9	-83.7	-60.6	-8.6	-14.6
Nonmarketable	15.8	17.3	15.1	7.2	4.3	3.6
Marketable	17.9	8.6	-98.8	-67.8	-12.9	-18.2
Bills	14.4	4.1	-80.2	-62.0	-10.1	-8.1
Coupons	3.5	4.6	-18.6	-5.7	-2.7	-10.1
Decrease in cash balance	11.7	4.3	-48.2	-60.4	51.9	-39.7
Other <sup>1</sup>	-5.7	0.0	-5.7	-3.6	-4.5	2.4
<b>MEMO</b>						
Cash balance, end of period	31.9	27.6	75.8	88.0	36.1	75.8

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

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

p Projected.

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

Agency	1997		1998		
	Q4	Q1	Feb.	March	April
FHLBs	18.7	4.0	0.6	5.9	5.2
FHLMC	9.2	24.1	2.2	9.2	7.5
FNMA	11.8	11.3	3.1	7.5	14.9
Farm Credit Banks	1.9	-1.2	-0.1	1.1	0.5
SLMA	-2.8	-1.4	0.2	-3.3	n.a.

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

CONFIDENTIAL (FR)  
CLASS II - FOMC

June 26, 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

June 26, 1998

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

	1997 Oct	1997 Nov	1997 Dec	1998 Jan	1998 Feb	1998 Mar	1998 Apr	1998 May	1998 Jun (f)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	105.6	107.2	102.1	106.6	110.4	106.5	108.7	106.5	105.6
Current conditions	109.8	114.9	111.4	113.5	120.0	113.7	115.5	113.9	115.4
Expected conditions	102.8	102.3	96.1	102.2	104.2	101.9	104.3	101.7	99.3
-----									
Personal financial situation									
Now compared with 12 months ago*	124	130	123	124	142	128	131	130	130
Expected in 12 months*	136	138	136	141	145	134	138	134	134
Expected business conditions									
Next 12 months*	154	151	142	148	155	158	162	158	150
Next 5 years*	125	123	109	123	121	119	121	118	116
Appraisal of buying conditions									
Cars	141	140	135	145	149	146	145	148	152
Large household appliances*	161	169	166	171	170	167	169	166	170
Houses	164	163	161	172	170	176	178	172	171
Willingness to use credit	37	46	39	55	56	49	51	54	50
Willingness to use savings	69	69	75	74	78	82	70	78	68
Expected unemployment change - next 12 months	100	108	114	106	99	100	97	102	105
Expected inflation - next 12 months									
Mean	3.2	3.4	3.4	2.8	2.6	2.9	2.7	3.1	3.2
Median	2.8	2.9	2.8	2.3	2.4	2.5	2.4	2.6	2.7
Expected inflation - next 5 to 10 years									
Mean	3.6	3.8	3.9	3.4	3.2	3.3	3.2	3.3	3.3
Median	3.0	3.1	3.1	2.9	2.9	2.8	2.7	2.8	2.9

\* -- 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.

## INTERNATIONAL DEVELOPMENTS

### Correction to Greenbook

After the Greenbook went to press, we learned of some reporting errors in the foreign official intervention data. As a consequence, we have reliable data on official activity since the May FOMC meeting for Canada, Germany, and Japan only.