

## **Part 1**

August 18, 1999

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## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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### **Summary and Outlook**

Strictly Confidential (FR) Class II FOMC

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August 18, 1999

## **SUMMARY AND OUTLOOK**

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

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

Measure	1999:Q2			1999:Q3	
	June GB	BEA <sup>1</sup>	Aug. GB	June GB	Aug. GB
<b>Real GDP</b>	<b>2.9</b>	<b>2.3</b>	<b>1.9</b>	<b>3.5</b>	<b>3.5</b>
Private domestic final purchases	5.6	4.9	4.8	3.7	3.2
Personal consumption expenditures	4.4	4.0	3.8	3.9	3.6
Residential investment	2.1	5.1	8.0	-1.5	-4.8
Business fixed investment	15.2	10.8	10.4	4.9	4.5
Government outlays for consumption and investment	-1.4	-1.2	-1.7	3.1	2.8
Change, billions of chained (1992) dollars					
Inventory investment	-8.6	-19.4	-23.8	24.3	23.8
Net exports	-27.8	-19.4	-20.9	-32.2	-22.0

1. Advance release, published on July 29.

We have only a few data for the current quarter. We are projecting that real GDP will increase at around a 3-1/2 percent annual rate, the same as in the June Greenbook. That outcome would be broadly consistent with the labor market results for July, after taking account of both the sizable increase in aggregate hours and the flat unemployment rate. Industrial production rose 3/4 percent in July after a weak June and is projected to rise at an annual rate of nearly 5 percent for the quarter as a whole.

Growth in private domestic final sales slowed somewhat in the second quarter, and our forecast is for a further slowing in the current quarter--to an annual rate of 3-1/4 percent. One reason is that consumer spending seems to have decelerated after having soared earlier in the year. Unit sales of new light vehicles (adjusting for shifts in reporting periods) were a sizzling 16-3/4 million units (annual rate) in July, but that only matched the pace of the second quarter. Moreover, the advance report on retail sales indicated that real outlays for non-automotive consumer goods were about unchanged last month at a level less than 1/2 percent above the second-quarter average. We expect stronger retail sales figures in the next couple of monthly reports, given the buoyant consumer sentiment and positive fundamentals; in addition, heavy air conditioning use should give an extra boost to the services component of spending. Even so, real PCE seems likely to grow a touch less this quarter than last.

Projections of Real GDP (Percent change, compound annual rate)			
Measure	1999:H1	1999:H2	2000
<b>Real GDP</b>	<b>3.1</b>	<b>3.8</b>	<b>2.8</b>
Previous	3.7	3.6	2.6
Final sales	3.8	2.8	2.9
Previous	4.1	2.7	2.8
PCE	5.2	4.1	3.3
Previous	5.6	4.1	3.3
Residential investment	11.6	-4.3	-3.4
Previous	8.8	.4	-3.9
BFI	9.4	4.1	7.4
Previous	11.7	3.6	7.5
Government purchases	1.2	2.6	2.7
Previous	1.5	2.1	2.2
Exports	-.8	6.0	5.3
Previous	-1.3	3.8	4.7
Imports	11.5	10.0	7.7
Previous	11.8	9.8	7.6
Change, billions of chained (1992) dollars			
Inventory change	-14.6	20.3	-12.5
Previous	-7.2	18.4	-12.5
Net exports	-37.3	-17.7	-52.6
Previous	-39.6	-22.6	-58.2

the past few quarters and our projection of essentially flat stock prices from here on. Moreover, the wave of mortgage refinancings--which, we suspect, provided extra impetus to consumption earlier this year--has ended as mortgage rates have climbed. The personal saving rate is expected to bounce around over the next year and a half, in part because of Y2K effects, but to remain around the level of the second quarter of 1999 (that is, about -1 percent on the current NIPA definition).<sup>2</sup>

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2. This fall, in the benchmark revision of the NIPA, government retirement plans will be included in the personal saving figures, as private plans have long been treated; this should add about 1-3/4 percentage points to the level of the saving rate in 1998, although other changes to the income and expenditure data could obscure the effect.

**Labor markets.** We have made only modest changes to our projection of labor productivity growth despite the sharp slowing registered in the second quarter. That drop-off followed a string of sizable increases and coincided with a marked deceleration in output. We expect productivity to post another relatively small increase in the current quarter, but to resume a faster pace of growth in the fourth quarter. On average, we expect productivity to rise about 2 percent per year between mid-1999 and the end of 2000; this would be about 1/2 percentage point below the average gain over the preceding six quarters. Firms surely will continue to seek efficiency gains through capital deepening and innovative uses of technology; however, productivity will no longer be getting a lift from output growth that not only is above trend but also is above many prevailing expectations (as we believe has been the case in the past couple of years).

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

Measure	1998	1999	2000
Output per hour, nonfarm business	2.6	1.9	2.2
Previous	2.7	2.4	1.9
Nonfarm payroll employment	2.4	2.1	1.2
Previous	2.4	2.0	1.3
Household employment survey	1.3	1.5	.9
Previous	1.3	1.6	1.0
Labor force participation rate <sup>1</sup>	67.1	67.2	67.1
Previous	67.1	67.2	67.2
Civilian unemployment rate <sup>1</sup>	4.4	4.2	4.3
Previous	4.4	4.1	4.2

1. Percent, average for the fourth quarter.

Indeed, we expect that employers may not wish to cut back payroll growth commensurately with the deceleration of output in the near term. We continue to hear that firms have intensified their efforts to fill the many jobs that have gone vacant for a while--in some cases offering higher pay especially, but not exclusively, to individuals with special skills. We anticipate that, as a result, payrolls will grow somewhere around 200,000 per month, on average, over the remainder of the year. In 2000, with firms having caught up to some degree in their hiring, payroll growth is projected to slow to about 130,000 per month, on average.

### Inflation Projections

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

Measure	1998	1999	2000
Consumer price index	1.5	2.6	2.3
Previous	1.5	2.3	2.3
Food	2.2	2.0	2.3
Previous	2.2	1.9	2.1
Energy	-9.2	9.9	-1.7
Previous	-9.2	6.3	.8
Excluding food and energy	2.4	2.1	2.6
Previous	2.4	2.1	2.5
PCE chain-weighted price index	.8	1.9	1.9
Previous	.8	1.6	1.8
Excluding food and energy	1.2	1.4	2.0
Previous	1.2	1.4	1.8
GDP chain-weighted price index	.9	1.5	1.9
Previous	.9	1.5	1.7
ECI for compensation of private industry workers <sup>1</sup>	3.5	3.3	3.8
Previous	3.5	3.3	3.6
Prices of core non-oil merchandise imports	-2.1	.4	1.8
Previous	-2.1	-.3	1.6
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Percentage points			
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MEMO: <i>Adjustments for technical changes to the CPI<sup>2</sup></i>			
Core CPI	-.2	.0	.0

1. December to December.

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

The P&C measure of hourly compensation in the nonfarm business sector increased 4-1/4 percent over the past four quarters, according to the published

somewhat recently. In 2000, the broad monetary aggregates should decelerate with the slowing in nominal spending, and, with M2 also restrained by a further tightening of policy, the declines in its velocity observed since mid-1997 could about cease.

### Alternative Simulations

We have developed four alternative, model-based simulations for this forecast. The first two simulations present the implications of alternative paths for the federal funds rate; the other two consider the effects of alternative paths for stock prices, where the deviations from the baseline are generated autonomously, without policy changes.

#### Alternative Federal Funds Rate and Stock Market Assumptions

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

Measure	1999	2000
<i>Real GDP</i>		
Baseline	3.4	2.8
Flat funds rate	3.4	3.2
Tighter monetary policy	3.4	1.9
15,000 Wilshire	3.4	3.7
20 percent stock price decline	3.2	1.6
<i>Civilian unemployment rate</i> <sup>1</sup>		
Baseline	4.2	4.3
Flat funds rate	4.2	4.1
Tighter monetary policy	4.2	4.6
15,000 Wilshire	4.2	4.1
20 percent stock price decline	4.2	4.7
<i>CPI excluding food and energy</i>		
Baseline	2.1	2.6
Flat funds rate	2.1	2.7
Tighter monetary policy	2.1	2.3
15,000 Wilshire	2.1	2.6
20 percent stock price decline	2.1	2.5

1. Average for the fourth quarter.

Strictly Confidential <FR>  
Class II FOMCSTAFF PROJECTIONS OF CHANGES IN GDP, PRICES, AND UNEMPLOYMENT  
(Percent, annual rate)

August 18, 1999

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>	
	6/23/99	8/18/99	6/23/99	8/18/99	6/23/99	8/18/99	6/23/99	8/18/99	6/23/99	8/18/99
<b>ANNUAL</b>										
1996	5.4	5.4	3.4	3.4	1.9	1.9	3.0	3.0	5.4	5.4
1997	5.9	5.9	3.9	3.9	1.9	1.9	2.3	2.3	4.9	4.9
1998	4.9	4.9	3.9	3.9	1.0	1.0	1.6	1.6	4.5	4.5
1999	5.4	5.2	4.0	3.8	1.3	1.3	2.1	2.2	4.2	4.2
2000	4.4	4.7	2.7	2.8	1.7	1.8	2.3	2.4	4.1	4.2
<b>QUARTERLY</b>										
1997 Q1	7.2	7.2	4.2	4.2	2.8	2.8	2.5	2.5	5.2	5.2
Q2	5.6	5.6	4.0	4.0	1.7	1.7	1.3	1.3	5.0	5.0
Q3	5.4	5.4	4.2	4.2	1.2	1.2	1.8	1.8	4.9	4.9
Q4	4.2	4.2	3.0	3.0	1.1	1.1	2.0	2.0	4.7	4.7
1998 Q1	6.4	6.4	5.5	5.5	0.9	0.9	1.0	1.0	4.6	4.6
Q2	2.7	2.7	1.8	1.8	0.9	0.9	1.7	1.7	4.4	4.4
Q3	4.7	4.7	3.7	3.7	1.0	1.0	1.7	1.7	4.5	4.5
Q4	6.9	6.9	6.0	6.0	0.8	0.8	1.7	1.7	4.4	4.4
1999 Q1	6.0	6.0	4.5	4.3	1.5	1.6	1.5	1.5	4.3	4.3
Q2	4.7	3.5	2.9	1.9	1.7	1.6	3.6	3.4	4.2	4.3
Q3	4.8	5.0	3.5	3.5	1.3	1.4	1.8	2.5	4.1	4.2
Q4	5.4	5.8	3.7	4.1	1.6	1.6	2.4	2.8	4.1	4.2
2000 Q1	2.2	2.6	0.1	0.4	2.1	2.2	2.1	2.1	4.1	4.2
Q2	6.0	6.3	4.4	4.4	1.6	1.8	2.3	2.2	4.1	4.2
Q3	4.7	5.1	2.9	3.2	1.7	1.9	2.4	2.4	4.2	4.3
Q4	4.7	5.1	3.0	3.1	1.7	1.9	2.5	2.5	4.2	4.3
<b>TWO-QUARTER<sup>3</sup></b>										
1997 Q2	6.4	6.4	4.1	4.1	2.2	2.2	1.9	1.9	-0.3	-0.3
Q4	4.8	4.8	3.6	3.6	1.2	1.2	1.9	1.9	-0.3	-0.3
1998 Q2	4.6	4.6	3.7	3.7	0.9	0.9	1.4	1.4	-0.3	-0.3
Q4	5.8	5.8	4.8	4.8	0.9	0.9	1.7	1.7	0.0	0.0
1999 Q2	5.4	4.7	3.7	3.1	1.6	1.6	2.5	2.5	-0.2	-0.1
Q4	5.1	5.4	3.6	3.8	1.5	1.5	2.1	2.7	-0.1	-0.1
2000 Q2	4.1	4.4	2.2	2.4	1.8	2.0	2.2	2.2	-0.0	-0.0
Q4	4.7	5.1	3.0	3.1	1.7	1.9	2.5	2.4	0.1	0.1
<b>FOUR-QUARTER<sup>4</sup></b>										
1996 Q4	5.8	5.8	3.9	3.9	1.8	1.8	3.1	3.1	-0.3	-0.3
1997 Q4	5.6	5.6	3.8	3.8	1.7	1.7	1.9	1.9	-0.6	-0.6
1998 Q4	5.2	5.2	4.3	4.3	0.9	0.9	1.5	1.5	-0.3	-0.3
1999 Q4	5.2	5.1	3.7	3.4	1.5	1.5	2.3	2.6	-0.3	-0.2
2000 Q4	4.4	4.7	2.6	2.8	1.7	1.9	2.3	2.3	0.1	0.1

1. For all urban consumers.

2. Level, except as noted.

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

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

Item	Units <sup>1</sup>	- Projected -									
		1992	1993	1994	1995	1996	1997	1998	1999	2000	
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	6244.4	6558.1	6947.0	7269.6	7661.6	8110.9	8511.0	8951.5	9371.5	
Real GDP	Bill. Ch. \$	6244.4	6389.6	6610.7	6761.7	6994.8	7269.8	7551.9	7839.8	8061.0	
Real GDP	% change	3.6	2.4	3.3	2.1	3.9	3.8	4.3	3.4	2.8	
Gross domestic purchases		4.0	3.0	3.6	1.6	4.2	4.4	5.3	4.5	3.1	
Final sales		3.9	2.1	2.7	2.7	3.7	3.4	4.6	3.3	2.9	
Priv. dom. final purchases		4.9	3.7	3.7	2.9	4.3	4.6	6.5	4.9	3.4	
Personal cons. expenditures		4.2	2.7	3.1	2.6	3.3	3.7	5.3	4.7	3.3	
Durables		9.4	7.4	6.3	4.5	5.8	7.4	13.2	7.2	4.3	
Nondurables		3.4	1.6	3.0	1.7	2.8	2.0	4.7	5.1	2.5	
Services		3.6	2.3	2.5	2.6	3.0	3.8	4.0	3.9	3.4	
Business fixed investment		5.5	9.9	7.6	7.3	11.7	9.8	11.9	6.7	7.4	
Producers' dur. equipment		9.6	12.2	10.2	9.1	11.8	12.7	16.8	9.1	10.1	
Nonres. structures		-3.4	4.5	1.1	2.7	11.6	2.5	-0.3	0.3	-0.3	
Residential structures		16.9	7.8	4.2	-1.4	5.4	4.2	12.6	3.3	-3.4	
Exports		4.1	4.6	10.0	10.5	10.3	9.6	1.1	2.5	5.3	
Imports		7.4	10.2	12.3	5.6	11.8	14.0	9.7	10.8	7.7	
Gov't. cons. & investment		1.7	-1.4	0.1	-0.9	2.1	1.4	1.6	1.9	2.7	
Federal		1.3	-6.1	-3.9	-5.6	1.1	-0.6	0.9	-0.6	0.5	
Defense		-1.3	-6.9	-6.0	-5.0	-0.1	-1.4	-1.3	-2.3	0.3	
State & local		2.0	2.0	2.7	2.1	2.8	2.6	2.1	3.4	3.9	
Change in bus. inventories	Bill. Ch. \$	7.0	22.1	60.6	27.7	30.0	63.2	57.4	37.0	38.4	
Nonfarm		2.0	29.5	49.0	37.7	23.2	58.8	50.1	34.2	37.7	
Net exports		-29.5	-70.2	-104.6	-96.5	-111.2	-136.1	-238.2	-333.6	-396.5	
Nominal GDP	% change	6.3	5.0	5.8	4.2	5.8	5.6	5.2	5.1	4.7	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	108.6	110.7	114.1	117.2	119.6	122.7	125.8	128.6	130.7	
Unemployment rate	%	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.2	
Industrial prod. index	% change	3.6	3.3	6.5	3.5	5.3	6.6	1.9	3.7	2.4	
Capacity util. rate - mfg.	%	79.5	80.5	82.5	82.7	81.4	82.0	80.8	79.8	79.6	
Housing starts	Millions	1.20	1.29	1.46	1.35	1.48	1.47	1.62	1.66	1.58	
Light motor vehicle sales		12.85	13.86	15.01	14.72	15.05	15.02	15.50	16.37	15.69	
North Amer. produced		10.51	11.71	12.88	12.82	13.35	13.09	13.47	14.04	13.54	
Other		2.34	2.15	2.13	1.90	1.70	1.92	2.04	2.34	2.15	
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	6255.5	6576.8	6955.2	7287.1	7674.0	8102.9	8490.5	8928.1	9341.5	
Nominal GNP	% change	6.2	5.1	5.7	4.4	5.6	5.2	5.2	5.0	4.7	
Nominal personal income		7.2	4.0	5.2	4.6	5.9	5.4	5.1	5.7	5.1	
Real disposable income		4.0	1.2	2.5	2.1	2.7	2.9	3.5	3.4	3.1	
Personal saving rate	%	5.7	4.4	3.5	3.4	2.9	2.1	0.5	-0.9	-0.9	
Corp. profits, IVA & CCAdj.	% change	11.3	19.0	14.1	14.6	7.7	7.7	0.1	5.0	2.9	
Profit share of GNP	%	6.8	7.5	8.2	9.2	9.8	10.1	9.7	9.7	9.2	
Excluding FR Banks		6.6	7.2	7.9	8.9	9.5	9.8	9.4	9.4	8.9	
Federal surpl./deficit	Bill. \$	-280.9	-250.7	-186.7	-174.4	-110.3	-21.1	72.8	148.6	174.9	
State & local surpl./def.		86.3	87.4	96.8	111.7	122.6	134.1	150.2	171.0	178.9	
Ext. social ins. funds		18.3	19.7	27.9	37.0	52.2	66.0	82.5	103.2	111.1	
Gross natl. saving rate	%	14.5	14.4	15.5	16.3	16.6	17.4	17.3	17.1	16.9	
Net natl. saving rate		3.7	3.7	4.7	5.8	6.3	7.3	7.3	7.3	7.2	
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	2.6	2.6	2.5	2.1	1.8	1.7	0.9	1.5	1.9	
Gross Domestic Purchases chn.-wt. price index		2.7	2.3	2.5	2.0	1.8	1.3	0.4	1.6	1.7	
CPI		3.1	2.7	2.6	2.7	3.1	1.9	1.5	2.6	2.3	
Ex. food and energy		3.5	3.1	2.8	3.1	2.6	2.2	3.4	2.1	2.6	
ECI, hourly compensation <sup>2</sup>		3.5	3.6	3.1	2.6	3.1	3.4	3.5	3.3	3.8	
Nonfarm business sector											
Output per hour		3.5	-0.4	0.1	1.2	2.0	1.6	2.6	1.9	2.2	
Compensation per Hour		4.5	1.6	2.1	2.9	3.6	3.7	4.1	4.5	4.5	
Unit labor cost		1.0	2.0	2.0	1.6	1.6	2.1	1.5	2.6	2.2	

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

Item	Units	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	7495.3	7629.2	7703.4	7818.4	7955.0	8063.4	8170.8	8254.5	8384.2	8440.6
Real GDP	Bill. Ch. \$	6882.0	6983.9	7020.0	7093.1	7166.7	7236.5	7311.2	7364.6	7464.7	7498.6
Real GDP	% change	3.3	6.1	2.1	4.2	4.2	4.0	4.2	3.0	5.5	1.8
Gross domestic purchases		4.5	7.0	3.4	1.8	5.5	4.4	4.6	3.2	7.8	3.9
Final sales		3.6	5.4	0.9	5.1	2.9	2.7	5.8	2.1	4.3	4.6
Priv. dom. final purchases		5.1	6.2	2.8	3.3	4.6	3.3	7.5	2.9	8.5	7.4
Personal cons. expenditures		3.7	4.7	1.8	2.9	4.3	1.6	6.2	2.8	6.1	6.1
Durables		5.8	12.7	-1.9	7.2	12.3	-1.5	16.8	3.1	15.8	11.2
Nondurables		2.2	4.8	1.2	2.9	3.6	-0.2	5.1	-0.4	7.4	5.3
Services		4.0	3.0	3.0	2.0	3.1	3.2	4.7	4.3	3.5	5.4
Business fixed investment		13.1	11.0	14.2	8.8	7.0	14.0	17.0	1.8	22.3	12.8
Producers' dur. equipment		15.7	12.3	16.2	3.2	8.3	22.8	18.8	2.2	34.3	18.8
Nonres. structures		6.4	7.4	8.9	24.5	3.9	-6.2	12.4	0.9	-4.9	-2.3
Residential structures		9.3	19.5	-1.7	-3.9	3.1	6.1	-0.4	8.2	15.6	15.0
Exports		3.7	5.8	2.1	32.0	8.3	15.5	10.6	4.4	-2.8	-7.7
Imports		13.1	13.5	13.6	7.0	18.6	17.9	13.5	6.3	15.7	9.3
Gov't. cons. & investment		3.2	7.1	-1.6	0.0	2.1	2.1	1.4	0.1	-1.9	3.7
Federal		8.0	8.1	-4.7	-6.3	-2.7	3.6	-1.2	-2.1	-8.8	7.3
Defense		7.2	8.1	-6.3	-8.3	-9.9	9.1	-1.8	-2.0	-18.5	9.9
State & local		0.5	6.5	0.3	3.8	4.9	1.3	2.9	1.3	2.1	1.8
Change in bus. inventories	Bill. Ch. \$	14.4	26.1	47.5	32.1	56.3	79.0	51.0	66.5	91.4	38.2
Nonfarm		10.4	15.2	38.6	28.7	56.2	72.1	44.0	62.7	85.9	29.9
Net exports		-95.5	-113.5	-140.1	-95.9	-121.5	-131.6	-142.4	-149.0	-198.5	-245.2
Nominal GDP	% change	5.7	7.3	3.9	6.1	7.2	5.6	5.4	4.2	6.4	2.7
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	118.5	119.3	120.0	120.7	121.4	122.3	123.0	123.9	124.8	125.5
Unemployment rate	%	5.5	5.5	5.3	5.3	5.2	5.0	4.9	4.7	4.6	4.4
Industrial prod. index	% change	2.8	9.6	5.5	3.5	6.6	6.0	7.2	6.6	1.6	2.8
Capacity util. rate - mfg.	%	80.9	81.6	81.8	81.3	81.6	81.7	82.1	82.5	81.8	81.2
Housing starts	Millions	1.46	1.50	1.50	1.42	1.46	1.47	1.46	1.52	1.59	1.57
Light motor vehicle sales		15.10	15.18	15.00	14.91	15.32	14.54	15.19	15.02	15.08	16.07
North Amer. produced		13.44	13.46	13.33	13.16	13.41	12.68	13.20	13.08	13.13	14.07
Other		1.66	1.72	1.68	1.76	1.92	1.86	1.99	1.94	1.95	1.99
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	7515.0	7643.3	7708.6	7829.0	7952.4	8062.3	8162.0	8234.9	8369.4	8421.8
Nominal GNP	% change	5.6	7.0	3.5	6.4	6.5	5.6	5.0	3.6	6.7	2.5
Nominal personal income		6.6	6.9	5.5	4.6	7.3	4.7	4.7	5.0	5.9	4.5
Real disposable income		2.9	2.1	4.4	1.3	3.3	2.9	2.4	2.9	4.0	2.6
Personal saving rate	%	3.2	2.6	3.1	2.6	2.4	2.6	1.7	1.7	1.2	0.4
Corp. profits, IVA & CCAdj.	% change	16.9	6.9	3.8	3.5	18.1	11.1	13.1	-9.2	4.2	-4.1
Profit share of GNP	%	9.8	9.8	9.8	9.7	10.0	10.1	10.3	10.0	9.9	9.7
Excluding FR Banks		9.5	9.5	9.5	9.5	9.7	9.8	10.0	9.7	9.6	9.5
Federal surpl./deficit	Bill. \$	-150.1	-112.6	-100.1	-78.3	-51.2	-34.8	-0.3	2.2	58.8	74.4
State & local surpl./def.		117.3	129.1	122.3	121.7	128.4	130.1	136.6	141.4	140.2	141.3
Ex. social ins. funds		45.3	58.2	52.5	52.9	59.8	61.6	68.7	73.8	72.7	73.6
Gross natl. saving rate	%	16.4	16.4	16.8	16.7	17.0	17.6	17.5	17.3	17.7	17.2
Net natl. saving rate		6.0	6.2	6.6	6.5	7.0	7.6	7.5	7.3	7.8	7.2
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	2.2	1.4	1.8	1.6	2.8	1.7	1.2	1.1	0.9	0.9
Gross Domestic Purchases chn.-wt. price index		2.1	1.4	1.5	2.1	2.2	0.9	1.1	1.0	-0.2	0.4
CPI		3.2	3.7	2.3	3.3	2.5	1.3	1.8	2.0	1.0	1.7
Ex. food and energy		2.5	2.7	2.4	2.7	2.2	2.9	1.4	2.4	2.4	2.6
ECI, hourly compensation <sup>1</sup>		2.5	3.5	2.8	2.8	2.5	3.7	3.4	4.3	3.0	3.6
Nonfarm business sector											
Output per hour		4.2	3.0	-0.2	1.0	0.0	1.7	3.5	1.0	3.2	0.4
Compensation per hour		2.8	5.1	3.4	3.2	3.8	2.3	3.7	5.2	4.6	3.9
Unit labor cost		-1.4	2.1	3.6	2.1	3.8	0.5	0.2	4.1	1.4	3.5

1. Private-industry workers.

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

August 18, 1999

Item	Units	Projected											
		1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4		
<b>EXPENDITURES</b>													
Nominal GDP	Bill. \$	8537.9	8681.2	8808.7	8884.2	8992.8	9120.2	9178.3	9319.0	9435.7	9552.9		
Real GDP	Bill. Ch. \$	7566.5	7677.7	7759.6	7795.6	7862.3	7941.8	7949.3	8035.8	8098.7	8160.2		
Real GDP	% change	3.7	6.0	4.3	1.9	3.5	4.1	0.4	4.4	3.2	3.1		
Gross domestic purchases		4.2	5.4	6.6	2.6	4.2	4.5	0.7	5.3	3.6	3.0		
Final sales		2.8	6.6	4.6	3.0	2.4	3.3	1.8	3.7	3.0	3.2		
Priv. dom. final purchases		3.7	6.5	7.4	4.8	3.2	4.0	1.8	4.9	3.6	3.5		
Personal cons. expenditures		4.1	5.0	6.7	3.8	3.6	4.6	2.0	4.8	3.2	3.0		
Durables		2.4	24.5	12.9	4.8	6.8	4.3	4.4	3.7	4.4	4.6		
Nondurables		2.1	4.2	9.5	2.5	2.3	6.1	-1.1	6.1	3.0	2.2		
Services		5.4	1.7	4.1	4.2	3.6	3.9	3.1	4.4	3.1	3.1		
Business fixed investment		-0.7	14.6	8.5	10.4	4.5	3.7	2.8	9.7	8.5	8.8		
Producers' dur. equipment		-1.0	17.8	9.5	14.8	6.7	5.5	4.1	13.4	11.4	11.7		
Nonres. structures		0.2	6.0	5.7	-1.1	-1.9	-1.1	-1.0	-0.6	0.1	0.4		
Residential structures		9.9	10.0	15.4	8.0	-4.8	-3.9	-4.3	-3.8	-3.2	-2.4		
Exports		-2.8	19.7	-5.1	3.7	4.8	7.2	0.1	6.0	6.0	9.4		
Imports		2.3	12.0	13.5	9.6	10.6	9.5	2.6	12.5	8.4	7.6		
Gov't. cons. & investment		1.5	3.3	4.2	-1.7	2.8	2.4	3.6	3.2	2.5	1.5		
Federal		-1.4	7.3	-1.9	-3.2	2.3	0.3	3.2	2.0	-0.1	-2.9		
Defense		4.3	1.3	-6.6	-3.3	4.0	-2.9	0.5	-1.1	1.2	0.4		
State & local		3.1	1.3	7.7	-0.9	3.4	3.5	3.9	3.8	3.9	3.9		
Change in bus. inventories	Bill. Ch. \$	55.7	44.2	38.7	14.9	38.7	55.5	25.2	40.5	45.0	43.0		
Nonfarm		47.0	37.5	35.1	11.4	36.3	54.2	24.5	39.7	44.2	42.3		
Net exports		-259.0	-250.0	-303.6	-324.5	-346.5	-360.0	-368.7	-395.4	-409.4	-412.5		
Nominal GDP	% change	4.7	6.9	6.0	3.5	5.0	5.8	2.6	6.3	5.1	5.1		
<b>EMPLOYMENT AND PRODUCTION</b>													
Nonfarm payroll employment	Millions	126.1	126.9	127.6	128.2	129.0	129.6	130.0	130.7	130.8	131.1		
Unemployment rate	%	4.5	4.4	4.3	4.3	4.2	4.2	4.2	4.2	4.3	4.3		
Industrial prod. index	% change	0.9	2.2	1.3	3.8	4.8	5.1	-2.5	4.5	3.7	4.1		
Capacity util. rate - mfg.	%	80.2	80.1	79.5	79.5	79.8	80.2	79.1	79.5	79.8	80.1		
Housing starts	Millions	1.64	1.70	1.77	1.61	1.64	1.62	1.60	1.59	1.58	1.57		
Light motor vehicle sales		14.55	16.31	16.22	16.73	16.48	16.07	15.90	15.71	15.62	15.53		
North Amer. produced		12.54	14.11	13.95	14.31	14.12	13.77	13.67	13.55	13.50	13.44		
Other		2.01	2.20	2.27	2.42	2.36	2.30	2.23	2.16	2.12	2.09		
<b>INCOME AND SAVING</b>													
Nominal GNP	Bill. \$	8510.9	8660.0	8788.4	8863.2	8967.6	9093.3	9149.4	9289.0	9405.7	9521.8		
Nominal GNP	% change	4.3	7.2	6.1	3.4	4.8	5.7	2.5	6.2	5.1	5.0		
Nominal personal income		4.5	5.5	5.1	5.6	5.7	6.2	4.8	5.9	4.8	4.7		
Real disposable income		3.2	4.3	3.5	2.9	3.6	3.7	3.9	3.7	2.5	2.5		
Personal saving rate	%	0.2	0.0	-0.7	-0.9	-0.9	-1.1	-0.6	-0.8	-1.0	-1.1		
Corp. profits, IVA & CCAdj.	% change	3.2	-2.5	25.0	2.6	-8.4	3.4	-15.0	10.3	9.4	9.5		
Profit share of GNP	%	9.7	9.5	9.9	9.9	9.5	9.5	9.1	9.1	9.2	9.3		
Excluding FR Banks		9.4	9.2	9.6	9.6	9.3	9.2	8.8	8.9	9.0	9.1		
Federal surpl./deficit	Bill. \$	92.0	65.8	122.7	142.1	165.5	164.2	142.7	166.0	189.0	202.0		
State & local surpl./def.		148.7	170.5	169.7	170.8	166.4	177.1	176.0	179.2	180.0	180.4		
Ex. social ins. funds		81.3	102.6	101.9	102.8	98.6	109.3	108.2	111.4	112.2	112.6		
Gross natl. saving rate	%	17.3	16.9	17.2	17.2	17.1	17.0	16.8	16.9	17.0	17.0		
Net natl. saving rate		7.3	7.0	7.4	7.3	7.3	7.3	7.0	7.2	7.3	7.4		
<b>PRICES AND COSTS</b>													
GDP chn.-wt. price index	% change	1.0	0.8	1.6	1.6	1.4	1.6	2.2	1.8	1.9	1.9		
Gross Domestic Purchases chn.-wt. price index		0.7	0.9	1.2	2.1	1.5	1.7	2.0	1.6	1.6	1.7		
CPI		1.7	1.7	1.5	3.4	2.5	2.8	2.1	2.2	2.4	2.5		
Ex. food and energy		2.3	2.1	1.6	2.5	1.8	2.5	2.5	2.6	2.7	2.8		
ECI, hourly compensation <sup>1</sup>		4.1	2.9	1.4	4.6	3.6	3.6	4.1	3.7	3.8	3.8		
Nonfarm business sector		2.7	4.1	3.6	0.7	1.2	2.1	-0.1	3.5	2.7	2.7		
Output per hour		4.1	3.8	4.4	5.0	4.7	4.2	4.7	4.3	4.4	4.4		
Compensation per hour		1.3	-0.4	0.8	4.3	3.5	2.1	4.8	0.8	1.7	1.7		
Unit labor cost													

<sup>1</sup>. Private-industry workers.

## CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

August 18, 1999

Item	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	96Q4/ 95Q4	97Q4/ 96Q4	98Q4/ 97Q4
<b>Real GDP</b>												
Gross dom. purchases	2.1	4.2	4.2	4.0	4.2	3.0	5.5	1.8	3.7	3.9	3.8	4.3
	3.5	1.9	5.5	4.4	4.7	3.2	7.9	4.0	4.3	4.2	4.4	5.4
Final sales	0.9	5.1	2.9	2.7	5.7	2.1	4.3	4.6	2.8	3.7	3.3	4.5
Priv. dom. final purchases	2.3	2.7	3.8	2.7	6.1	2.4	7.0	6.1	3.1	3.6	3.8	5.4
Personal cons. expenditures	1.3	2.0	2.9	1.1	4.2	1.9	4.1	4.1	2.8	2.2	2.5	3.6
Durables	-0.2	0.6	1.0	-0.1	1.3	0.3	1.2	0.9	0.2	0.5	0.6	1.1
Nondurables	0.2	0.6	0.7	-0.0	1.0	-0.1	1.4	1.0	0.4	0.6	0.4	0.9
Services	1.2	0.8	1.2	1.3	1.9	1.7	1.4	2.1	2.2	1.2	1.5	1.6
Business fixed investment	1.4	0.9	0.7	1.4	1.7	0.2	2.2	1.4	-0.1	1.2	1.0	1.3
Producers' dur. equip.	1.1	0.2	0.6	1.6	1.3	0.1	2.4	1.4	-0.1	0.8	0.9	1.3
Nonres. structures	0.2	0.6	0.1	-0.2	0.4	0.0	-0.2	-0.1	0.0	0.3	0.1	-0.0
Residential structures	-0.1	-0.2	0.1	0.2	-0.0	0.3	0.6	0.6	0.4	0.2	0.2	0.5
Net exports	-1.3	2.4	-1.2	-0.5	-0.5	-0.3	-2.2	-2.1	-0.6	-0.3	-0.6	-1.1
Exports	0.2	3.2	1.0	1.8	1.2	0.5	-0.3	-0.9	-0.3	1.2	1.1	0.1
Imports	-1.6	-0.9	-2.2	-2.2	-1.7	-0.8	-1.9	-1.2	-0.3	-1.4	-1.7	-1.2
Government cons. & invest.	-0.3	0.0	0.4	0.4	0.3	0.0	-0.3	0.6	0.3	0.4	0.3	0.3
Federal	-0.3	-0.4	-0.2	0.2	-0.1	-0.1	-0.6	0.4	-0.1	0.1	-0.0	0.1
Defense	-0.3	-0.4	-0.5	0.4	-0.1	-0.1	-0.8	0.4	0.2	-0.0	-0.1	-0.1
Nondefense	0.0	0.0	0.3	-0.2	0.0	-0.1	0.3	0.1	-0.3	0.1	0.0	0.1
State and local	0.0	0.4	0.6	0.2	0.3	0.2	0.2	0.2	0.4	0.3	0.3	0.2
Change in bus. inventories	1.2	-0.8	1.3	1.3	-1.4	0.9	1.2	-2.7	0.9	0.2	0.5	-0.3
Nonfarm	1.3	-0.5	1.5	0.9	-1.5	1.0	1.2	-2.8	0.9	0.1	0.5	-0.3
Farm	-0.1	-0.3	-0.2	0.4	0.1	-0.1	0.0	0.1	0.0	0.0	0.0	0.0

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

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Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

August 18, 1999

Item	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	98Q4/ 97Q4	99Q4/ 98Q4	0Q4/ 99Q4
Real GDP	6.0	4.3	1.9	3.5	4.1	0.4	4.4	3.2	3.1	4.3	3.4	2.8
Gross dom. purchases	5.5	6.7	2.7	4.4	4.6	0.7	5.5	3.7	3.1	5.4	4.5	3.2
Final sales	6.6	4.6	2.9	2.4	3.3	1.8	3.7	3.0	3.2	4.5	3.3	2.9
Priv. dom. final purchases	5.4	6.2	4.1	2.7	3.4	1.5	4.2	3.0	2.9	5.4	4.1	2.9
Personal cons. expenditures	3.5	4.6	2.6	2.5	3.1	1.4	3.3	2.3	2.1	3.6	3.2	2.3
Durables	1.9	1.1	0.4	0.6	0.4	0.4	0.3	0.4	0.4	1.1	0.6	0.4
Nondurables	0.8	1.8	0.5	0.5	1.2	-0.2	1.2	0.6	0.4	0.9	1.0	0.5
Services	0.7	1.7	1.7	1.4	1.6	1.2	1.8	1.3	1.3	1.6	1.6	1.4
Business fixed investment	1.5	0.9	1.1	0.5	0.4	0.3	1.0	0.9	0.9	1.3	0.7	0.8
Producers' dur. equip.	1.4	0.8	1.1	0.5	0.4	0.3	1.0	0.9	0.9	1.3	0.7	0.8
Nonres. structures	0.2	0.2	-0.0	-0.1	-0.0	-0.0	-0.0	0.0	0.0	-0.0	0.0	-0.0
Residential structures	0.4	0.7	0.4	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	0.5	0.1	-0.2
Net exports	0.5	-2.2	-0.8	-0.9	-0.5	-0.3	-1.0	-0.5	-0.0	-1.1	-1.1	-0.5
Exports	2.0	-0.6	0.4	0.5	0.8	0.0	0.6	0.6	1.0	0.1	0.3	0.6
Imports	-1.5	-1.7	-1.2	-1.4	-1.3	-0.4	-1.7	-1.1	-1.0	-1.2	-1.4	-1.1
Government cons. & invest.	0.6	0.7	-0.3	0.5	0.4	0.6	0.6	0.4	0.3	0.3	0.3	0.5
Federal	0.4	-0.1	-0.2	0.1	0.0	0.2	0.1	-0.0	-0.2	0.1	-0.0	0.0
Defense	0.1	-0.2	-0.1	0.2	-0.1	0.0	-0.0	0.0	0.0	-0.1	-0.1	0.0
Nonddefense	0.4	0.1	-0.1	-0.0	0.1	0.2	0.2	-0.1	-0.2	0.1	0.1	0.0
State and local	0.2	0.8	-0.1	0.4	0.4	0.4	0.4	0.4	0.4	0.2	0.4	0.4
Change in bus. inventories	-0.5	-0.3	-1.1	1.1	0.8	-1.4	0.7	0.2	-0.1	-0.3	0.1	-0.1
Nonfarm	-0.5	-0.1	-1.1	1.2	0.8	-1.3	0.7	0.2	-0.1	-0.3	0.2	-0.1
Farm	-0.1	-0.1	0.0	-0.1	-0.1	-0.0	0.0	0.0	0.0	0.0	-0.1	-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 <sup>1</sup>				1998				1999				2000			
	1997 <sup>a</sup>	1998 <sup>a</sup>	1999	2000	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4 <sup>a</sup>	Q1 <sup>a</sup>	Q2 <sup>p</sup>	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget</b>																
Receipts <sup>2</sup>	1579	1722	1824	1925	378	544	412	413	401	564	446	435	428	598	464	452
Outlays <sup>2</sup>	1601	1653	1700	1758	409	407	410	467	396	421	416	443	448	436	431	454
Surplus/deficit <sup>2</sup>	-22	69	124	167	-30	137	2	-55	6	143	29	-8	-20	162	33	-2
On-budget	-103	-30	-4	17	-53	87	2	-58	-49	88	15	-49	-46	97	15	-47
Off-budget	81	99	127	150	22	50	-.1	3	55	55	15	41	27	64	18	45
Surplus excluding deposit insurance	-36	65	118	163	-31	136	.8	-57	5	142	28	-9	-21	161	32	-3
<b>Means of financing</b>																
Borrowing	38	-51	-84	-178	26	-82	-29	32	7	-108	-16	27	-37	-129	-39	-9
Cash decrease	.6	5	-14	13	4	-45	33	21	-4	-31	.2	-27	60	-25	5	10
Other <sup>3</sup>	-17	-23	-25	-2	.0	-10	-7	.8	-9	-4	-13	8	-3	-8	1	-7
Cash operating balance, end of period	44	39	53	40	28	72	39	18	22	53	53	80	20	45	40	30
<b>NIPA federal sector</b>																
Receipts	1687	1818	1927	2031	1809	1838	1859	1870	1915	1948	1973	2005	2007	2041	2072	2101
Expenditures	1728	1761	1802	1866	1750	1764	1767	1805	1792	1805	1808	1841	1864	1875	1883	1899
Consumption expenditures	458	458	472	492	451	464	459	471	472	470	476	477	493	498	498	495
Defense	306	301	304	311	293	303	303	307	304	300	307	305	313	313	314	315
Nondefense	152	157	168	181	158	161	156	164	168	170	169	173	180	185	185	181
Other expenditures	1270	1303	1330	1374	1299	1300	1308	1334	1320	1335	1332	1363	1371	1377	1384	1403
Current account surplus	-41	57	124	165	59	74	92	66	123	143	165	164	143	166	189	202
Gross investment	61	60	62	63	61	57	61	60	65	64	61	62	64	63	64	64
Current and capital account surplus	-102	-3	62	102	-2	18	31	6	58	80	104	102	79	103	125	138
<b>Fiscal indicators<sup>4</sup></b>																
High-employment (HEB)																
surplus/deficit	-163	-99	-64	-27	-101	-81	-70	-112	-71	-47	-26	-35	-43	-26	-4	9
Change in HEB, percent of potential GDP	-.9	-.8	-.4	-.4	-.5	-.2	-.1	.4	-.5	-.2	-.2	.0	.0	-.1	-.2	-.1
Fiscal impetus (FI)																
percent, calendar year	-2.1	-1.5	3.5	2.4	-2.1	1.1	.4	2.0	1.5	-1.1	.5	2.0	.6	.4	-.0	-.6

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 and \$143 billion in FY2000. CBO's July 1999 baseline surplus estimates are \$120 billion in FY1999 and \$161 billion in FY2000. 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 3.3 percent beginning 1998:Q1. 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. 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.

a--Actual p--Preliminary

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Change in Debt of the Domestic Nonfinancial Sectors  
(Percent)

Period <sup>1</sup>	Total <sup>2</sup>	Federal government <sup>3</sup>	Total <sup>4</sup>	Nonfederal				Business	State and local governments	Memo: Nominal GDP			
				Households									
				Total	Home mortgages	Consumer credit							
<i>Year</i>													
1990	6.4	11.0	5.2	7.3	9.3	1.5	3.3	5.0	4.4				
1991	4.3	11.1	2.3	4.6	6.2	-1.3	-1.6	8.6	3.8				
1992	4.6	10.9	2.6	4.4	5.3	0.5	0.8	2.2	6.3				
1993	5.0	8.3	3.8	5.4	4.5	7.6	1.4	6.0	5.0				
1994	4.6	4.7	4.6	7.7	6.0	14.5	3.9	-4.0	5.8				
1995	5.4	4.1	5.8	7.9	5.7	14.1	6.5	-4.6	4.2				
1996	5.1	4.0	5.4	7.2	7.3	7.9	4.9	-0.6	5.8				
1997	5.0	0.6	6.6	6.4	6.6	4.3	7.1	5.3	5.6				
1998	6.2	-1.4	8.7	8.7	9.7	5.4	9.1	7.2	5.2				
1999	5.3	-2.4	7.6	8.8	9.7	6.0	7.0	4.2	5.1				
2000	4.1	-5.6	6.8	7.3	8.4	3.7	6.7	4.3	4.7				
<i>Quarter</i>													
1998:3	5.4	-3.6	8.3	7.7	8.7	6.3	9.4	6.2	4.7				
4	6.9	0.7	8.8	9.7	11.0	4.9	8.3	6.4	6.9				
1999:1	6.2	-3.2	9.1	9.4	10.1	9.5	9.6	5.6	6.0				
2	4.5	-3.2	6.7	8.9	9.7	4.7	5.3	2.3	3.5				
3	4.8	-3.2	7.1	8.0	8.8	4.9	6.6	4.5	5.0				
4	5.2	-0.0	6.6	7.7	8.8	4.3	5.9	4.4	5.8				
2000:1	3.7	-8.1	7.0	7.4	8.6	4.1	7.1	4.3	2.6				
2	4.0	-5.7	6.6	7.2	8.3	3.6	6.4	4.3	6.3				
3	3.9	-5.9	6.5	7.0	8.0	3.5	6.4	4.3	5.1				
4	4.4	-3.3	6.3	6.8	7.8	3.4	6.3	4.2	5.1				

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1999: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 estimated to have grown 6.1 percent in 1998 and is projected to grow 5.5 percent in 1999 and 4.2 percent in 2000.

3. On a monthly average basis, federal debt is estimated to have grown -1.2 percent in 1998 and is projected to grow -2.1 percent in 1999 and -5.3 percent in 2000.

4. On a monthly average basis, nonfederal debt is estimated to have grown 8.6 percent in 1998 and is projected to grow 7.9 percent in 1999 and 6.8 percent in 2000.

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

Category	Seasonally adjusted annual rates													
	Calendar year				1998		1999				2000			
	1997	1998	1999	2000	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	608.2	670.1	674.1	614.3	535.3	597.7	936.3	372.7	697.7	689.8	484.2	607.0	634.1	731.7
2 Net equity issuance	-114.4	-267.0	-170.9	-77.0	-308.4	-491.3	-65.7	-354.0	-90.0	-174.0	-146.0	-78.0	-46.0	-38.0
3 Net debt issuance	722.6	937.1	845.1	691.3	843.6	1089.0	1002.0	726.7	787.7	863.8	630.2	685.0	680.1	769.7
<i>Borrowing sectors</i>														
Nonfinancial business														
4 Financing gap <sup>1</sup>	62.7	85.6	92.2	134.0	67.8	93.3	63.0	68.4	112.2	125.4	118.2	137.0	140.7	139.9
5 Net equity issuance	-114.4	-267.0	-170.9	-77.0	-308.4	-491.3	-65.7	-354.0	-90.0	-174.0	-146.0	-78.0	-46.0	-38.0
6 Credit market borrowing	316.8	436.7	364.6	375.7	471.4	425.5	498.1	281.7	356.7	321.7	396.4	365.4	369.4	371.4
Households														
7 Net borrowing <sup>2</sup>	326.6	472.7	518.9	467.1	436.0	561.2	556.3	536.8	494.6	488.2	475.3	468.7	466.8	457.7
8 Home mortgages	229.5	359.6	392.6	375.5	336.9	435.3	411.1	401.7	375.9	381.7	381.7	378.7	372.7	368.7
9 Consumer credit	52.5	67.6	79.6	52.2	81.7	64.1	126.2	64.6	67.6	60.0	57.9	51.3	50.4	49.3
10 Debt/DPI (percent) <sup>3</sup>	90.8	94.0	97.3	99.7	94.3	95.1	96.2	97.1	97.9	98.4	98.9	99.4	100.0	100.6
State and local governments														
11 Net borrowing	56.1	80.3	50.9	54.4	72.6	75.4	66.8	27.9	54.5	54.4	54.4	54.4	54.4	54.4
12 Current surplus <sup>4</sup>	135.1	182.8	193.8	202.5	182.2	201.7	198.7	185.8	189.9	201.0	200.3	202.9	203.0	203.9
Federal government														
13 Net borrowing	23.1	-52.6	-89.3	-205.8	-136.5	26.9	-119.2	-119.7	-118.0	-0.4	-295.8	-203.4	-210.4	-113.7
14 Net borrowing (quarterly, n.s.a.)	23.1	-52.6	-89.3	-205.8	-28.8	32.1	7.5	-108.0	-16.2	27.3	-36.7	-128.9	-39.3	-1.0
15 Unified deficit (quarterly, n.s.a.)	2.4	-55.2	-170.2	-173.1	-3.0	54.5	-5.8	-143.1	-29.4	8.1	19.7	-161.6	-33.0	1.9
Depository institutions														
16 Funds supplied	336.3	361.9	239.6	269.4	296.0	674.4	193.4	195.9	299.7	269.4	262.9	267.9	272.9	273.9
Memo (percentage of GDP)														
17 Domestic nonfinancial debt <sup>5</sup>	182.1	183.3	184.2	184.2	183.8	183.5	183.8	184.7	184.6	184.3	185.1	184.1	183.6	183.3
18 Domestic nonfinancial borrowing	8.9	11.0	9.4	7.4	9.9	12.5	11.4	8.2	8.8	9.5	6.9	7.4	7.2	8.1
19 Federal government <sup>6</sup>	0.3	-0.6	-1.0	-2.2	-1.6	0.3	-1.4	-1.3	-1.3	-0.0	-3.2	-2.2	-2.2	-1.2
20 Nonfederal	8.6	11.6	10.4	9.6	11.5	12.2	12.7	9.5	10.1	9.5	10.1	9.5	9.4	9.2

1-27

Note. Data after 1999: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.

currencies over the forecast period. The trajectory for the dollar is similar to the previous projection, although the level is lower as a result of the recent depreciation.

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

Measure	1998	Projection			
		1999			2000
		H1	Q3	Q4	
Foreign output <i>June GB</i>	0.5	3.5	2.5	3.4	3.0
	0.6	2.3	2.1	3.0	2.7
Real exports <i>June GB</i>	1.1	-0.8	4.8	7.2	5.3
	1.1	-1.3	1.3	6.3	4.7
Real imports <i>June GB</i>	9.7	11.5	10.6	9.5	7.7
	9.7	11.8	11.1	8.5	7.6

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

Declines in U.S. real net exports are expected to subtract  $\frac{3}{4}$  percentage point from U.S. real GDP growth in the second half of 1999 and  $\frac{1}{2}$  percentage point in 2000, as the rebound in exports and continued slowing of import growth lessen the negative contribution of the external sector.

**The dollar.** The nominal exchange value of the dollar against the index of major foreign currencies is still expected to decline moderately from its current level. We continue to assume that the dollar will move lower against the euro, partly in response to widespread current account imbalances, and partly as a result of the expected pickup in European growth. We also expect partial reversal of the recent appreciation relative to the Canadian dollar, as the continuing recovery of commodity prices provides some near-term support for the Canadian currency. This forecast assumes that the Bank of Canada will match any U.S. interest rate increases. Against the yen, we project that the dollar strengthens a little from its current level in the near term. The continued accommodative stance of Japanese monetary policy and market participants' likely disappointment with the pace of recovery in Japan should lend support to the dollar. However, the dollar remains vulnerable to a downward correction against the yen owing to the persistence of the widening current account imbalances of the two countries.

year. The price of imported oil is expected to increase to around \$18.50 per barrel in the fourth quarter of this year and then to decline gradually to around \$16 per barrel by the end of 2000 as OPEC loosens its production constraints and non-OPEC production increases in response to the higher prices.

### Selected Trade Prices

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

Trade category	1998	Projection			
		1999			2000
		H1	Q3	Q4	
<i>Exports</i>					
Nonagricultural (core)	-1.9	0.5	1.4	1.5	1.2
Agricultural	-9.9	-9.1	2.0	2.0	2.4
<i>Imports</i>					
Non-oil (core)	-2.0	-0.5	0.7	1.7	1.8
Oil (level, dollars per barrel)	11.40	14.69	17.40	18.61	16.22

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 exports.** Prices of core imports are projected to increase in the second half of the year following three and a half years of decline as commodity prices pick up with the rebound in foreign activity and the lagged effects of earlier dollar gains dissipate. Core import prices are projected to rise just under 2 percent in 2000. Core export prices are forecast to rise moderately in line with comparable U.S. domestic prices.

**Nominal trade and current account balances.** The nominal trade deficit for goods and services is projected to widen substantially from an estimated annual rate of \$246 billion in the second quarter of 1999 to \$312 billion in the fourth quarter of 2000. The deficit for net investment income is expected to widen somewhat this year and next. Accordingly, the current account deficit, which was \$220 billion (2.6 percent of GDP) in 1998, is projected to rise to about \$375 billion in 2000, 4.0 percent of projected GDP. The previous peak level of the current-account-deficit-to-GDP ratio was 3.5 percent in 1987.

**Weaker U.S. dollar.** Although there are always considerable risks to the exchange rate forecast in both directions, we continue to believe that one of the most significant is that the large and growing U.S. current account deficit will become a more central focus of attention to market participants. Questions about the longer-term sustainability of that deficit could result in a significant depreciation of the dollar. In the scenario summarized in the following table, we have considered the effects of a dollar path that is 10 percent weaker than our current forecast throughout the projection period.<sup>1</sup> In this case, both U.S. real GDP growth and CPI inflation are substantially higher in 2000, assuming no change in U.S. monetary policy.

**Impact of Weaker Dollar Alternative**  
(Percent change, Q4 to Q4)

Measure	1999	2000
<i>U.S. real GDP</i>		
Baseline	3.4	2.8
Alternative	3.4	3.7
<i>U.S. CPI excluding food and energy</i>		
Baseline	2.1	2.6
Alternative	2.1	3.2

NOTE. Simulation assumes nominal federal funds rate unchanged from baseline.

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1. More precisely, the exogenous shock to each bilateral exchange rate is in the form of a change in the risk premium that is calibrated so that the U.S. dollar would depreciate by 10 percent in the absence of any changes in bilateral long-term real interest rate differentials. In response to the dollar depreciation, foreign monetary authorities reduce short-term interest rates, leading to a fall in long-term real rates as well. However, with the federal funds rate held at the baseline path over the simulation period, higher expected inflation causes U.S. long-term real interest rates to fall slightly more than corresponding foreign rates, leading to a further  $\frac{3}{4}$  percent dollar depreciation by the end of 2000.

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

Measure and country	1992	1993	1994	1995	1996	1997	1998	1999	2000	-Projected-
<b>REAL GDP (1)</b>										
Total foreign	2.3	3.1	5.2	2.2	4.3	4.1	0.5	3.3	3.0	
Industrial Countries	0.6	1.9	4.0	1.8	2.9	3.3	1.7	2.5	2.2	
of which:										
Canada	0.9	2.9	5.5	1.4	2.4	4.4	2.8	3.6	2.7	
Japan	0.1	0.5	0.9	2.5	5.1	-0.8	-3.0	0.3	0.4	
United Kingdom	0.7	3.2	4.6	1.9	2.9	3.4	1.6	1.9	2.2	
Euro-11	0.1	0.0	3.0	1.5	1.6	3.1	1.9	2.2	2.4	
Germany	0.8	-0.2	2.8	0.9	1.5	1.8	1.3	2.0	2.5	
Developing Countries	4.8	4.9	6.9	2.9	6.3	5.2	-1.0	4.3	4.0	
Asia	7.1	7.5	8.8	7.3	6.9	4.9	-2.7	5.9	4.7	I-39
Korea	3.9	6.3	9.4	7.2	6.8	3.7	-5.3	7.0	4.9	
China	14.6	6.1	16.3	12.6	9.2	8.2	9.5	3.4	5.4	
Latin America	2.8	2.6	5.5	-4.0	6.3	6.3	0.8	3.0	3.4	
Mexico	2.5	1.9	5.1	-7.3	7.5	7.2	2.9	4.3	4.0	
Brazil	0.1	4.4	9.6	-1.5	4.9	2.0	-1.9	3.0	2.5	
<b>CONSUMER PRICES (2)</b>										
Industrial Countries	2.0	2.1	1.1	1.3	1.5	1.6	1.0	0.8	1.1	
of which:										
Canada	1.8	1.8	-0.0	2.1	2.0	1.0	1.1	1.8	2.1	
Japan	0.9	1.2	0.8	-0.8	0.1	2.1	0.7	-1.4	-1.1	
United Kingdom (3)	3.7	2.7	2.2	2.9	3.2	2.8	2.6	2.2	2.5	
Euro-11 (4)	NA	NA	NA	2.7	2.0	1.4	0.9	1.8	1.5	
Germany	3.4	4.3	2.6	1.5	1.4	2.1	0.4	0.9	1.3	
Developing Countries	21.6	24.7	23.0	17.0	11.2	6.9	8.9	5.4	6.1	
Asia	5.5	7.7	10.7	6.4	4.8	2.8	4.6	0.9	3.1	
Korea	4.7	5.5	5.8	4.4	5.1	5.1	6.0	0.4	3.5	
China	8.2	17.1	26.9	11.1	7.0	1.0	-1.1	0.2	2.4	
Latin America	71.7	74.2	54.3	42.2	26.0	15.8	15.5	13.4	11.1	
Mexico	13.2	8.6	6.9	48.8	28.1	17.2	17.6	14.7	11.9	
Brazil	1118.8	2287.6	1216.3	23.1	10.8	5.3	1.8	7.8	6.3	

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	1998				1999				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Quarterly changes at an annual rate											
REAL GDP (1)												
Total foreign	-0.7	0.4	1.0	1.4	3.7	3.4	2.5	3.4	1.1	3.8	3.5	3.5
Industrial Countries of which:	1.7	1.1	1.8	2.1	3.7	1.9	1.8	2.7	0.2	3.5	2.8	2.5
Canada	2.8	1.1	2.6	4.8	4.2	3.5	3.0	3.6	0.4	4.2	3.4	3.0
Japan	-4.8	-2.9	-1.2	-3.3	8.1	-3.0	-3.1	-0.3	-1.1	1.6	0.5	0.7
United Kingdom	2.2	1.9	2.2	0.2	0.5	2.0	2.4	2.8	0.5	3.1	2.9	2.4
Euro-11	2.4	2.2	2.1	1.1	1.9	2.0	2.4	2.7	0.4	3.6	3.0	2.7
Germany	4.1	0.0	1.8	-0.6	1.8	1.5	2.2	2.7	0.7	3.4	3.1	3.0
Developing Countries	-3.8	-0.6	0.0	0.7	3.8	5.3	3.6	4.5	2.4	4.3	4.6	4.8
Asia	-10.6	-3.6	-0.1	4.1	6.9	6.3	4.9	5.6	2.3	5.1	5.6	6.0
Korea	-23.0	-5.3	4.0	6.0	14.7	3.5	5.0	5.3	3.0	5.7	5.0	5.9
China	7.0	6.5	11.0	13.8	2.2	1.1	4.7	5.5	2.2	5.2	7.0	7.3
Latin America	4.0	2.5	0.3	-3.6	0.5	5.3	2.5	3.8	2.7	3.8	3.7	3.7
Mexico	5.1	2.6	3.8	0.1	1.3	7.7	3.8	4.7	3.9	4.1	3.9	3.9
Brazil	-0.4	5.7	-6.0	-6.6	4.1	3.8	1.2	3.1	0.6	3.2	3.2	3.2
CONSUMER PRICES (2)					Four-quarter changes							
Industrial Countries of which:	1.5	1.1	0.8	1.0	0.6	0.9	1.0	0.8	0.9	1.0	1.1	1.1
Canada	1.0	1.0	0.9	1.1	0.8	1.6	1.7	1.8	1.9	2.0	2.1	2.1
Japan	2.1	0.6	-0.1	0.7	-0.2	-0.4	-0.5	-1.4	-1.1	-1.1	-1.1	-1.1
United Kingdom (3)	2.5	3.0	2.6	2.6	2.6	2.3	2.2	2.2	2.3	2.3	2.4	2.5
Euro-11 (4)	1.2	1.4	1.2	0.9	0.9	1.0	1.5	1.8	1.6	1.6	1.5	1.5
Germany	1.2	1.4	0.6	0.4	0.3	0.5	0.7	0.9	1.0	1.1	1.2	1.3
Developing Countries	7.4	7.6	7.9	8.9	7.8	6.5	5.8	5.4	5.6	6.0	6.2	6.1
Asia	4.2	4.7	4.6	4.6	2.6	0.8	0.4	0.9	1.5	2.4	2.9	3.1
Korea	8.9	8.2	7.0	6.0	0.7	0.6	0.1	0.4	1.2	1.8	3.3	3.5
China	0.4	-0.9	-1.4	-1.1	-1.4	-2.2	-1.0	0.2	1.0	1.8	2.1	2.4
Latin America	14.1	14.1	14.2	15.5	16.3	15.4	14.5	13.4	12.2	11.6	11.3	11.1
Mexico	15.3	15.1	15.6	17.6	18.6	17.9	16.5	14.7	13.3	12.5	12.1	11.9
Brazil	4.6	3.7	2.6	1.8	2.3	3.3	5.6	7.8	7.5	7.0	6.6	6.3

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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

	1992	1993	1994	1995	1996	1997	1998	Projected 1999	Projected 2000
<b>NIPA REAL EXPORTS and IMPORTS</b>									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.4	-0.6	-0.4	0.5	-0.3	-0.6	-1.1	-1.1	-0.5
Exports of G&S	0.4	0.5	1.0	1.1	1.2	1.1	0.1	0.3	0.6
Imports of G&S	-0.8	-1.1	-1.4	-0.7	-1.4	-1.7	-1.2	-1.4	-1.1
Percentage change, Q4/Q4									
Exports of G&S	4.1	4.6	10.0	10.5	10.3	9.6	1.1	2.5	5.3
Services	-0.9	4.1	6.0	9.8	7.5	1.5	-0.6	2.8	3.0
Agricultural Goods	10.4	-5.5	16.6	-4.3	4.8	2.8	-1.2	-5.8	2.2
Computers	25.2	23.7	32.0	55.5	35.9	40.7	6.4	27.4	29.5
Semiconductors	64.8	32.9	66.9	79.6	46.2	21.0	7.8	31.1	24.6
Other Goods 1/	2.3	3.6	7.0	5.8	8.0	11.6	1.3	-0.6	3.3
Imports of G&S	7.4	10.2	12.3	5.6	11.8	14.0	9.7	10.8	7.7
Services	1.4	3.2	1.4	6.1	5.5	12.4	2.4	7.5	3.5
Oil	12.1	10.1	-0.2	2.4	7.9	4.0	5.9	10.6	2.1
Computers	45.1	39.3	44.8	48.1	24.4	30.3	28.3	44.5	36.7
Semiconductors	42.0	34.2	54.5	92.4	57.6	32.7	-7.8	33.3	28.9
Other Goods 2/	5.4	9.5	12.2	-1.1	10.4	13.0	10.9	7.9	5.8
Billions of chained 1992 dollars									
Net Goods & Services	-29.5	-70.2	-104.6	-96.5	-111.2	-136.1	-238.2	-333.6	-396.5
Exports of G&S	639.4	658.2	712.4	792.6	860.0	970.0	984.7	1013.7	1060.7
Imports of G&S	669.0	728.4	817.0	889.0	971.2	1106.1	1222.9	1347.3	1457.2
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-50.6	-50.6	-85.3	-121.7	-113.6	-129.3	-220.6	-318.4	-377.4
Net Goods & Services (BOP)	-37.0	-37.0	-69.9	-98.4	-97.5	-104.3	-164.3	-253.6	-306.0
Net Income	22.3	22.3	23.2	15.9	19.4	17.2	-12.2	-21.9	-28.6
Direct, Net	54.7	54.7	58.6	54.4	63.8	67.7	59.4	60.9	71.3
Portfolio, Net	-29.1	-29.1	-31.7	-34.1	-39.9	-46.0	-66.4	-77.3	-94.3
Employee Comp., Net	-3.3	-3.3	-3.7	-4.4	-4.5	-4.5	-5.2	-5.6	-5.6
Net Transfers	-35.9	-35.9	-38.5	-39.2	-35.4	-42.2	-44.1	-42.8	-42.8

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1995				1996				1997			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>NIPA REAL EXPORTS and IMPORTS</b>												
Percentage point contribution to GDP growth												
Net Goods & Services	-0.2	-0.3	1.6	0.7	-1.1	-1.0	-1.4	2.4	-1.3	-0.4	-0.5	-0.3
Exports of G&S	1.0	0.6	1.9	1.1	0.4	0.6	0.2	3.2	0.9	1.7	1.2	0.5
Imports of G&S	-1.2	-0.9	-0.3	-0.4	-1.5	-1.6	-1.6	-0.9	-2.2	-2.2	-1.7	-0.8
Percentage change from previous period, SAAR												
Exports of G&S	9.2	5.4	17.8	10.2	3.7	5.8	2.1	32.0	8.3	15.5	10.6	4.4
Services	9.1	2.9	21.7	6.4	-4.0	10.3	-9.9	39.8	-6.7	11.8	5.9	-4.0
Agricultural Goods	1.8	-13.4	5.0	-9.4	22.6	-32.8	-1.6	48.7	-16.1	-7.8	8.7	32.8
Computers	36.4	33.8	86.6	71.6	57.6	24.7	27.7	35.9	70.2	78.7	41.9	-9.2
Semiconductors	72.0	100.8	96.2	53.6	23.8	29.7	30.2	118.6	41.3	17.3	32.3	-2.2
Other Goods 1/	4.3	1.4	9.4	8.1	0.1	6.0	5.7	21.3	13.8	15.6	9.2	8.0
Imports of G&S	9.8	7.2	2.0	3.5	13.1	13.5	13.6	7.0	18.6	17.9	13.5	6.3
Services	20.5	-3.3	3.1	5.5	9.2	4.3	9.9	-1.1	17.8	10.6	15.8	5.8
Oil	-11.4	15.4	31.4	-18.2	-9.8	68.9	3.5	-14.0	-8.2	37.0	6.0	-12.2
Computers	15.4	51.6	62.7	69.3	22.5	22.9	18.8	33.8	54.5	39.0	30.6	2.9
Semiconductors	37.1	105.5	128.2	113.3	38.7	8.9	50.1	172.1	89.0	16.0	20.3	17.6
Other Goods 2/	7.2	1.5	-8.8	-3.8	13.9	10.5	13.4	4.1	16.2	16.1	11.8	8.1
Billions of chained 1992 dollars, SAAR												
Net Goods & Services	-109.5	-114.7	-86.8	-74.8	-95.5	-113.5	-140.1	-95.9	-121.5	-131.6	-142.4	-149.0
Exports of G&S	763.9	774.0	806.3	826.1	833.6	845.5	849.9	911.1	929.4	963.6	988.1	998.8
Imports of G&S	873.4	888.7	893.1	900.9	929.1	958.9	990.0	1007.0	1050.9	1095.2	1130.5	1147.8
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-122.1	-132.9	-112.3	-87.1	-122.1	-132.9	-112.3	-87.1	-107.0	-125.8	-153.3	-131.1
Net Goods & Services (BOP)	-107.2	-123.6	-87.2	-72.1	-89.4	-105.9	-125.9	-96.1	-106.4	-96.8	-102.9	-112.8
Net Income	20.6	24.3	10.3	22.4	20.6	24.3	10.3	22.4	26.1	16.8	10.6	15.3
Direct, Net	61.7	68.4	57.0	68.1	61.7	68.4	57.0	68.1	68.5	64.3	63.6	74.5
Portfolio, Net	-36.7	-39.6	-42.2	-41.1	-36.7	-39.6	-42.2	-41.1	-38.2	-43.0	-48.5	-54.3
Employee Comp., Net	-4.4	-4.5	-4.5	-4.6	-4.4	-4.5	-4.5	-4.6	-4.3	-4.5	-4.5	-4.9
Net Transfers	-35.5	-33.6	-35.3	-37.3	-43.7	-36.7	-38.0	-50.3	-37.4	-38.0	-40.4	-52.1

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1998				1999				Projected				2000			
	Q1	Q2	Q3	Q4	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      -2.3      -2.1      -0.6      0.5      -2.3      -0.8      -0.9      -0.5      -0.3      -1.0      -0.5      -0.0 Exports of G&S      -0.3      -0.9      -0.3      2.0      -0.6      0.4      0.5      0.8      0.0      0.6      0.6      1.0 Imports of G&S      -1.9      -1.2      -0.3      -1.5      -1.7      -1.2      -1.4      -1.3      -0.4      -1.7      -1.1      -1.0																
Percentage change from previous period, SAAR																
Exports of G&S      -2.7      -7.7      -2.8      19.7      -5.1      3.7      4.8      7.2      0.1      6.0      6.0      9.4 Services      -1.2      1.6      -10.3      8.3      4.3      3.6      0.8      2.6      0.9      4.1      3.5      3.6 Agricultural Goods      -9.6      -23.5      -14.3      61.1      -37.9      21.4      2.2      2.2      2.2      2.2      2.2      2.2 Computers      -15.4      8.5      20.7      15.7      0.2      46.8      43.1      25.0      27.4      29.8      29.8      31.0 Semiconductors      -2.0      -14.3      23.9      29.9      34.2      41.1      25.3      24.4      24.4      24.4      24.8      24.8 Other Goods 1/      -1.7      -10.9      -1.2      21.9      -8.8      -3.0      2.8      7.4      -4.4      3.9      4.2      10.2																
Imports of G&S      15.7      9.4      2.3      12.0      13.5      9.6      10.6      9.5      2.6      12.5      8.4      7.6 Services      9.3      -0.7      -0.5      1.9      11.9      2.0      10.1      6.2      1.0      5.1      4.2      3.9 Oil      8.8      41.6      -5.8      -13.4      7.0      28.2      9.6      -0.3      -21.9      42.2      3.5      -5.2 Computers      38.7      22.6      9.6      45.3      43.8      66.9      43.8      26.2      31.1      38.6      38.6      38.6 Semiconductors      9.9      -27.8      -3.0      -6.4      17.5      55.7      36.0      26.7      28.2      28.6      29.1      29.6 Other Goods 2/      16.1      10.8      3.5      13.9      11.6      4.3      7.0      9.0      2.1      9.0      6.4      6.0																I-43
Billions of chained 1992 dollars, SAAR																
Net Goods & Services      -198.5      -245.2      -259.0      -250.0      -303.6      -324.5      -346.5      -360.0      -368.7      -395.4      -409.4      -412.5 Exports of G&S      991.9      972.1      965.3      1009.6      996.5      1005.6      1017.4      1035.2      1035.6      1050.7      1066.2      1090.4 Imports of G&S      1190.4      1217.3      1224.3      1259.6      1300.1      1330.1      1363.9      1395.2      1404.3      1446.1      1475.6      1503.0																
Billions of dollars, SAAR																
US CURRENT ACCOUNT BALANCE      -172.1      -209.6      -253.9      -246.7      -274.3      -305.3      -333.4      -360.7      -356.2      -376.7      -383.6      -393.0 Net Goods & Services (BOP)      -133.4      -167.8      -182.9      -173.1      -215.0      -245.7      -269.6      -284.2      -288.7      -308.1      -315.0      -312.3 Net Income      1.0      -2.2      -27.9      -19.7      -18.9      -19.6      -23.7      -25.5      -27.5      -28.6      -28.6      -29.7 Direct Net      67.3      64.7      47.3      58.2      58.1      61.2      60.8      63.5      65.3      68.3      73.6      78.0 Portfolio, Net      -61.3      -61.8      -69.9      -72.5      -71.4      -75.2      -79.0      -83.5      -87.2      -91.3      -96.7      -102.1 Employee Comp, Net      -5.1      -5.2      -5.3      -5.4      -5.6      -5.6      -5.6      -5.6      -5.6      -5.6      -5.6      -5.6																
Net Transfers      -39.7      -39.5      -43.1      -53.9      -40.4      -40.0      -40.0      -51.0      -40.0      -40.0      -40.0      -40.0      -51.0																

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

## **Part 2**

August 18, 1999

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## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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### **Recent Developments**

Confidential (FR) Class III FOMC

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August 18, 1999

## **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

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

Item	1999					
	Q1	Q2	Q3 <sup>1</sup>	June	July	Aug. <sup>1</sup>
U.S. production	12.7	13.1	13.1	13.4	12.6	13.5
Autos	5.6	5.6	5.7	5.6	5.4	5.9
Trucks	7.1	7.5	7.4	7.8	7.2	7.5
Days' supply						
Autos	58.7	57.0	n.a.	57.0	56.1	n.a.
Light trucks <sup>2</sup>	59.9	64.9	n.a.	64.9	63.1	n.a.

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

1. Production rates are manufacturers' schedules.

2. Excludes medium and heavy trucks (classes 4-8).

n.a. Not available.

**New Orders for Durable Goods**  
 (Percent change from preceding period; seasonally adjusted)

Component	Share, 1999:H1	1999				
		Q1	Q2	Apr.	May	June
Total durable goods	100.0	3.8	-1.1	-2.4	1.0	.4
Adjusted durable goods <sup>1</sup>	69.0	2.0	.4	.3	-1.3	-.7
Computers	6.0	-.5	2.9	1.8	.5	-4.7
Nondefense capital goods excluding aircraft and computers	18.0	4.4	-1.2	-.2	-4.0	-3.5
Other	46.0	1.5	.7	.2	-.4	.8
MEMO						
Real adjusted orders <sup>2</sup>	...	3.3	1.2	.6	-1.1	-.5

1. Orders excluding defense capital goods, nondefense aircraft, and motor vehicle parts.

2. Nominal adjusted durable goods orders were split into three components: computers, electronic components, and all other. The components were deflated and then aggregated in a chain-weighted fashion.

... Not applicable.

**Revisions to Budget Projections**  
(Billions of dollars, fiscal years)

Item	1999	2000	2001	2002	2003	2004
Office of Management and Budget						
February surplus	79	117	134	187	182	208
PLUS: Changes						
Policy	-4	-4	-2	-1	-1	-1
Economic	18	21	20	19	24	31
Technical	6	9	16	15	18	16
Total	20	26	34	33	41	46
EQUALS: June surplus	99	143	168	220	223	254
Congressional Budget Office						
March-April baseline surplus	111	133	156	212	213	239
PLUS: Changes						
Policy	-4	-8	-4	-2	-3	-3
Economic	15	33	37	37	33	26
Technical	-1	3	4	0	5	5
Total	10	28	37	34	35	28
EQUALS: July baseline surplus	120	161	193	246	247	266

NOTE. The OMB surplus is the projection pending social security and Medicare reform. The CBO baseline assumes that discretionary spending will be held at the caps through fiscal 2002 and rise with inflation thereafter; and that taxes and mandatory spending will evolve according to current laws.

**OMB and CBO Economic Projections**  
 (Calendar years)

Measure and agency	1999	2000	2001	2002	2003	2004	2004-2009
Year-over-year percent change, annual rate							
<i>Nominal GDP</i>							
OMB	5.2	4.2	4.2	4.4	4.8	4.8	4.8
CBO	5.3	4.3	4.3	4.2	4.2	4.2	4.4
<i>Real GDP</i>							
OMB	3.9	2.4	2.1	2.2	2.5	2.5	2.5
CBO	4.0	2.4	2.4	2.3	2.3	2.3	2.5
<i>GDP price index</i>							
OMB	1.3	1.8	2.1	2.2	2.2	2.2	2.2
CBO	1.3	1.8	1.8	1.8	1.8	1.8	1.9
<i>Consumer price index</i>							
OMB	2.2	2.4	2.4	2.5	2.5	2.5	2.5
CBO	2.2	2.5	2.5	2.5	2.5	2.5	2.5
Percent, annual average <sup>1</sup>							
<i>Civilian unemployment rate</i>							
OMB	4.3	4.5	4.9	5.2	5.2	5.2	5.2
CBO	4.2	4.3	4.6	4.9	5.1	5.3	5.5
<i>Three-month Treasury bill</i>							
OMB	4.5	4.5	4.5	4.5	4.6	4.6	4.6
CBO	4.6	5.0	4.6	4.5	4.5	4.5	4.5
<i>Ten-year Treasury note</i>							
OMB	5.4	5.5	5.5	5.6	5.6	5.6	5.6
CBO	5.6	5.9	5.5	5.4	5.4	5.4	5.4

Note. OMB economic assumptions for 2005-09 are confidential.

1. Values in 2004-09 are for 2009.