

Part 1

September 24, 1997

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

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

Strictly Confidential (FR) Class II FOMC

September 24, 1997

SUMMARY AND OUTLOOK

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

| Measure | 1997:Q2 | | | 1997:Q3 | |
|---|------------|--------------|-------------|------------|-------------|
| | Aug. GB | BEA prel. | Sept. GB | Aug. GB | Sept. GB |
| Real GDP | 2.6 | 3.6 | 3.6 | 2.2 | 2.8 |
| Private domestic final purchases | 2.8 | 3.0 | 3.1 | 5.0 | 5.9 |
| Personal consumption expenditures | .8 | 1.0 | 1.1 | 4.2 | 4.1 |
| Residential investment | 7.5 | 7.1 | 7.5 | -5.0 | -4.6 |
| Business fixed investment | 15.3 | 15.4 | 15.5 | 14.6 | 22.9 |
| Government outlays for consumption and investment | 3.7 | 3.1 | 3.2 | -.5 | -.1 |
| Change, billions of chained (1992) dollars | | | | | |
| Inventory investment | 7.2 | 14.1 | 13.1 | -24.9 | -19.4 |
| Net exports | -17.9 | -6.4 | -6.6 | -9.2 | -20.0 |

Growth in real business fixed investment is now projected to top 20 percent (annual rate) in the current quarter--the biggest increase in more than a decade. Gains in this sector continue to be led by investment in office and computing equipment; shipments have been rising in nominal terms, and prices have been plummeting, so growth in real outlays appears likely to exceed 50 percent (annual rate) this quarter. Meanwhile, data on construction put in place through July point to a likely rebound in outlays for nonresidential structures this quarter.

In contrast to the strength in domestic final demand, the book-value inventory figures for July are consistent with our notion that the rate of stock accumulation will drop back considerably. For manufacturing and trade, excluding motor vehicles, the annualized rate of stockbuilding in July was \$26 billion, versus an average of nearly \$50 billion in the second quarter. Although we have raised our prediction of inventory building for the current quarter as a whole, the deceleration is still expected to subtract more than a percentage point from GDP growth.

Net exports are also projected to fall substantially--much more than in the last forecast. The trade deficit widened considerably in July; exports appear to be holding up well after the second quarter's upside surprise, but strong domestic demand is apparently sucking in huge volumes of imported goods.

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

| Measure | 1997:H1 | 1997:H2 | 1998 | 1999 |
|--|------------|------------|------------|------------|
| Real GDP | 4.3 | 2.9 | 2.3 | 1.5 |
| Previous | 3.7 | 2.3 | 2.0 | ... |
| Final sales | 3.0 | 4.0 | 2.5 | 1.6 |
| Previous | 2.6 | 3.4 | 2.0 | ... |
| PCE | 3.2 | 3.8 | 2.8 | 1.7 |
| Previous | 3.0 | 3.7 | 2.6 | ... |
| Residential investment | 5.4 | -1.7 | -2.6 | -2.2 |
| Previous | 5.4 | -1.6 | -2.6 | ... |
| BFI | 10.0 | 14.5 | 7.9 | 5.6 |
| Previous | 9.6 | 9.3 | 5.9 | ... |
| Government purchases | 1.4 | .3 | .7 | .7 |
| Previous | 1.6 | .6 | .7 | ... |
| Change, billions of chained (1992) dollars | | | | |
| Inventory change | 43.8 | -31.9 | -15.1 | -11.2 |
| Previous | 37.9 | -40.6 | -.7 | ... |
| Net exports | -27.3 | -12.1 | -30.0 | -22.4 |
| Previous | -38.6 | -5.6 | -37.5 | ... |

... Not applicable.

tighten further.¹ Employers are likely to find that they must pay more for labor, and though we do not anticipate a significant shift in inflation psychology, we doubt that all of these cost pressures will be absorbed in the profit share; rather, there will be a gradual upcreep in the trend rate of price increase.

Consumer spending. Real PCE is projected to rise about 3-1/2 percent this year, with growth slowing to 2-3/4 percent next year and 1-3/4 percent in 1999. In the near term, the moderation in inventory investment is expected to take some of the steam out of overall production and income growth, but financial factors become a significant influence as time passes. Given our forecast of the stock market, the household wealth-to-income ratio will be declining throughout the forecast period, but especially during 1998. Our rule of thumb, derived from various econometric

1. We had failed previously to take account of the effects of technical changes in the CPI on the estimation of real output. The correction adds 0.1 percentage point to growth in both actual and potential GDP in 1998 and 0.2 percentage point in 1999.

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

| Measure | 1996 | 1997 | 1998 | 1999 |
|---|------|------|------|------|
| Output per hour, nonfarm business | 1.2 | 1.8 | 1.0 | .9 |
| Previous | 1.2 | 1.0 | .8 | ... |
| Nonfarm payroll employment | 2.1 | 2.3 | 1.7 | .8 |
| Previous | 2.1 | 2.2 | 1.4 | ... |
| Household employment survey | 2.1 | 2.2 | 1.5 | .7 |
| Previous | 2.1 | 2.2 | 1.3 | ... |
| Labor force participation rate ¹ | 66.9 | 67.2 | 67.4 | 67.3 |
| Previous | 66.9 | 67.2 | 67.3 | ... |
| Civilian unemployment rate ¹ | 5.3 | 4.7 | 4.5 | 4.9 |
| Previous | 5.3 | 4.7 | 4.7 | ... |

1. Percent, average for the fourth quarter.

... Not applicable.

Labor markets. Reflecting the upward revision to GDP growth over the second half of this year, we have boosted our near-term forecast for labor demand. Gains in nonfarm payrolls are now expected to average more than 200,000 per month over the fourth quarter, before gradually decelerating to about 110,000 per month by the end of next year and less than 100,000 per month in 1999. We anticipate that the near-term strength in labor demand will attract some additional workers into the labor force, and thus we continue to project that the labor force participation rate will begin to move up again. However, we do not think that the reserve of inactive, yet qualified, individuals is sufficient to fully meet the added demand, and thus we foresee the unemployment rate falling to 4-1/2 percent by next spring.

The decline in unemployment would have been even greater had we not also raised our projection for labor productivity growth in the second half of 1997 and in the first half of 1998 to about 1-1/2 percent. Output per hour posted an unexpectedly large increase in the second quarter, suggesting that--despite the prevalence of reports of difficulty in finding qualified workers--there were as yet no insurmountable problems of lesser quality. Taking a somewhat more optimistic view of productivity prospects in light of the recent experience, we have raised our forecast of productivity growth over the next few quarters by more than typically would be consistent with the revision to output growth. Productivity growth then decelerates to a subpar rate as firms lag somewhat in adjusting their labor input to the slower rate of output growth.

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

| Measure | 1996 | 1997 | 1998 | 1999 |
|---|------|------|------|------|
| Consumer price index | 3.2 | 2.1 | 2.3 | 2.7 |
| Previous | 3.2 | 2.1 | 2.6 | ... |
| Food | 4.2 | 1.8 | 2.2 | 2.5 |
| Previous | 4.2 | 1.5 | 2.4 | ... |
| Energy | 7.6 | -1.5 | -0 | 2.2 |
| Previous | 7.6 | -1.6 | 1.0 | ... |
| Excluding food and energy | 2.6 | 2.4 | 2.6 | 2.8 |
| Previous | 2.6 | 2.5 | 2.8 | ... |
| PCE chain-weighted price index | 2.7 | 1.7 | 2.2 | 2.5 |
| Previous | 2.7 | 1.8 | 2.3 | ... |
| Excluding food and energy | 2.4 | 1.8 | 2.3 | 2.5 |
| Previous | 2.4 | 2.0 | 2.4 | ... |
| GDP chain-weighted price index | 2.4 | 1.9 | 2.1 | 2.2 |
| Previous | 2.4 | 1.9 | 2.2 | ... |
| ECI for compensation of private industry workers ¹ | 3.1 | 3.1 | 3.2 | 3.3 |
| Previous | 3.1 | 3.2 | 3.3 | ... |
| Prices of core non-oil merchandise imports | -.7 | -.5 | 0.6 | 1.9 |
| Previous | -.7 | .2 | 1.5 | ... |
| Percentage points | | | | |
| MEMO | | | | |
| Adjustment to the core CPI for technical changes ² | .2 | .2 | .4 | .6 |

1. December to December.

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

... Not applicable.

accumulation of inventories over the coming year; we have a slight further pickup in 1999 along with faster labor cost growth. Overall, we expect the total CPI to rise 2 percent this year, 2-1/4 percent in 1998, and 2-3/4 percent in 1999.

Our forecast for hourly compensation now shows the ECI for private industry accelerating from 2.9 percent in the twelve months ended this past June to 3.2 percent in 1998. The slightly more modest acceleration of compensation in this projection reflects, in part, the lower forecast for inflation; real compensation gains (measured in

The second alternative assumes that the funds rate begins to rise soon and reaches 7 percent next summer. In this scenario, output growth falls to about 2 percent in 1998 and to 1-1/4 percent in 1999. This slower rate of output growth pushes the unemployment rate up to 5-1/4 percent by late 1999 and almost eliminates the acceleration in prices, at least as published with the anticipated technical changes.

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

| Measure | 1996 | 1997 | 1998 | 1999 |
|---|------|------|------|------|
| <i>Real GDP</i> | | | | |
| Baseline | 3.2 | 3.6 | 2.3 | 1.5 |
| No further change | 3.2 | 3.6 | 2.6 | 2.2 |
| Tighter policy | 3.2 | 3.6 | 1.9 | 1.3 |
| <i>Civilian unemployment rate¹</i> | | | | |
| Baseline | 5.3 | 4.7 | 4.5 | 4.9 |
| No further change | 5.3 | 4.7 | 4.4 | 4.4 |
| Tighter policy | 5.3 | 4.7 | 4.7 | 5.2 |
| <i>CPI excluding food and energy</i> | | | | |
| Baseline | 2.6 | 2.5 | 2.6 | 2.8 |
| No further change | 2.6 | 2.4 | 2.7 | 3.2 |
| Tighter policy | 2.6 | 2.4 | 2.5 | 2.5 |

1. Average for the fourth quarter.

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

September 24, 1997

| Interval | Nominal GDP | | Real GDP | | GDP chain-weighted price index | | Consumer price index ¹ | | Unemployment rate ² | |
|---------------------------------|-------------|----------|----------|----------|--------------------------------|----------|-----------------------------------|----------|--------------------------------|----------|
| | 08/14/97 | 09/24/97 | 08/14/97 | 09/24/97 | 08/14/97 | 09/24/97 | 08/14/97 | 09/24/97 | 08/14/97 | 09/24/97 |
| ANNUAL | | | | | | | | | | |
| 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 | 5.5 | 5.8 | 3.4 | 3.7 | 2.0 | 2.0 | 2.4 | 2.4 | 5.0 | 4.9 |
| 1998 | 4.3 | 4.8 | 2.2 | 2.7 | 2.0 | 2.0 | 2.4 | 2.2 | 4.7 | 4.5 |
| 1999 | | 3.8 | | 1.6 | | 2.2 | | 2.6 | | 4.7 |
| QUARTERLY | | | | | | | | | | |
| 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 | 3.4 | 3.4 | 5.4 | 5.4 |
| Q3 | 3.6 | 3.6 | 1.0 | 1.0 | 2.7 | 2.7 | 2.8 | 2.8 | 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 | 2.3 | 2.3 | 5.3 | 5.3 |
| Q2 | 4.2 | 5.2 | 2.6 | 3.6 | 1.5 | 1.6 | 2.0 | 1.0 | 4.9 | 4.9 |
| Q3 | 3.9 | 4.5 | 2.2 | 2.8 | 1.8 | 1.5 | 2.2 | 2.1 | 4.8 | 4.8 |
| Q4 | 4.5 | 5.0 | 2.4 | 3.0 | 2.0 | 2.0 | 2.6 | 2.7 | 4.7 | 4.7 |
| 1998 Q1 | 4.4 | 5.3 | 2.3 | 3.0 | 2.1 | 2.2 | 2.4 | 2.1 | 4.7 | 4.6 |
| Q2 | 4.4 | 4.8 | 2.1 | 2.6 | 2.2 | 2.1 | 2.5 | 2.3 | 4.7 | 4.5 |
| Q3 | 4.1 | 4.0 | 1.9 | 1.9 | 2.2 | 2.0 | 2.7 | 2.4 | 4.7 | 4.5 |
| Q4 | 4.0 | 3.6 | 1.7 | 1.5 | 2.2 | 2.0 | 2.7 | 2.5 | 4.7 | 4.5 |
| 1999 Q1 | | 3.9 | | 1.5 | | 2.4 | | 2.7 | | 4.6 |
| Q2 | | 3.6 | | 1.4 | | 2.1 | | 2.8 | | 4.7 |
| Q3 | | 3.6 | | 1.4 | | 2.1 | | 2.7 | | 4.8 |
| Q4 | | 3.7 | | 1.5 | | 2.1 | | 2.7 | | 4.9 |
| TWO-QUARTER³ | | | | | | | | | | |
| 1996 Q2 | 6.2 | 6.2 | 3.8 | 3.8 | 2.3 | 2.3 | 3.4 | 3.4 | -0.2 | -0.2 |
| Q4 | 4.9 | 4.9 | 2.7 | 2.7 | 2.3 | 2.3 | 3.0 | 3.0 | -0.1 | -0.1 |
| 1997 Q2 | 5.8 | 6.3 | 3.7 | 4.3 | 2.0 | 2.0 | 1.7 | 1.7 | -0.4 | -0.4 |
| Q4 | 4.2 | 4.8 | 2.3 | 2.9 | 1.9 | 1.7 | 2.4 | 2.4 | -0.2 | -0.2 |
| 1998 Q2 | 4.4 | 5.0 | 2.2 | 2.8 | 2.1 | 2.1 | 2.5 | 2.2 | -0.0 | -0.2 |
| Q4 | 4.1 | 3.8 | 1.8 | 1.7 | 2.2 | 2.0 | 2.7 | 2.5 | -0.0 | 0.0 |
| 1999 Q2 | | 3.7 | | 1.4 | | 2.3 | | 2.8 | | 0.2 |
| Q4 | | 3.6 | | 1.5 | | 2.1 | | 2.7 | | 0.2 |
| FOUR-QUARTER⁴ | | | | | | | | | | |
| 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 | 5.0 | 5.5 | 3.0 | 3.6 | 1.9 | 1.9 | 2.1 | 2.1 | -0.6 | -0.6 |
| 1998 Q4 | 4.2 | 4.4 | 2.0 | 2.3 | 2.2 | 2.1 | 2.6 | 2.3 | -0.1 | -0.2 |
| 1999 Q4 | | 3.7 | | 1.5 | | 2.2 | | 2.7 | | 0.4 |

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)

September 24, 1997

| Item | Units ¹ | --- 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 | 8079.2 | 8464.0 | 8784.3 | |
| Real GDP | Bill. Ch. \$ | 6079.4 | 6244.4 | 6389.6 | 6610.7 | 6742.1 | 6928.4 | 7188.0 | 7384.1 | 7501.5 | |
| Real GDP | % change | 0.4 | 3.6 | 2.4 | 3.3 | 1.6 | 3.2 | 3.6 | 2.3 | 1.5 | |
| Gross domestic purchases | | 0.0 | 4.0 | 3.0 | 3.6 | 1.2 | 3.6 | 4.0 | 2.5 | 1.6 | |
| Final sales | | -0.4 | 3.9 | 2.1 | 2.7 | 2.2 | 3.1 | 3.4 | 2.5 | 1.6 | |
| Priv. dom. final purchases | | -0.8 | 4.9 | 3.7 | 3.7 | 2.5 | 3.8 | 4.4 | 3.2 | 2.0 | |
| Personal cons. expenditures | | -0.2 | 4.2 | 2.7 | 3.1 | 2.2 | 2.7 | 3.5 | 2.8 | 1.7 | |
| Durables | | -3.1 | 9.4 | 7.4 | 6.3 | 3.0 | 3.9 | 7.8 | 4.0 | 1.4 | |
| Nondurables | | -1.0 | 3.4 | 1.6 | 3.0 | 1.0 | 1.8 | 1.8 | 2.7 | 1.1 | |
| Services | | 0.9 | 3.6 | 2.3 | 2.5 | 2.7 | 2.8 | 3.4 | 2.6 | 2.1 | |
| Business fixed investment | | -6.0 | 5.5 | 9.9 | 7.6 | 6.5 | 11.7 | 12.0 | 7.9 | 5.6 | |
| Producers' dur. equipment | | -2.6 | 9.6 | 12.2 | 10.2 | 8.3 | 12.2 | 16.5 | 9.6 | 6.6 | |
| Nonres. structures | | -12.5 | -3.4 | 4.5 | 1.1 | 2.0 | 10.3 | 0.9 | 3.1 | 2.9 | |
| Residential structures | | 1.1 | 16.9 | 7.8 | 4.2 | -1.9 | 3.9 | 1.8 | -2.6 | -2.2 | |
| Exports | | 8.6 | 4.1 | 4.6 | 10.0 | 10.3 | 9.3 | 12.3 | 7.6 | 6.1 | |
| Imports | | 4.1 | 7.4 | 10.2 | 12.3 | 5.6 | 11.8 | 14.9 | 9.2 | 7.0 | |
| Gov't. cons. & investment | | -0.7 | 1.7 | -1.4 | 0.1 | -1.4 | 2.0 | 0.9 | 0.7 | 0.7 | |
| Federal | | -3.1 | 1.3 | -6.1 | -3.9 | -6.0 | 1.5 | -1.1 | -2.0 | -2.2 | |
| Defense | | -5.3 | -1.3 | -5.9 | -6.0 | -5.9 | 1.1 | -3.0 | -3.5 | -2.7 | |
| State & local | | 1.0 | 2.0 | 2.0 | 2.7 | 1.4 | 2.2 | 2.0 | 2.3 | 2.3 | |
| Change in bus. inventories | Bill. Ch. \$ | -3.0 | 7.0 | 22.1 | 60.6 | 27.3 | 25.0 | 60.7 | 35.7 | 28.7 | |
| Nonfarm | | -1.2 | 2.0 | 29.5 | 49.0 | 35.7 | 22.5 | 54.0 | 31.5 | 25.3 | |
| Net exports | | -22.3 | -29.5 | -70.2 | -104.6 | -98.8 | -114.4 | -139.3 | -165.1 | -194.8 | |
| Nominal GDP | % change | 3.8 | 6.3 | 5.0 | 5.8 | 4.0 | 5.6 | 5.5 | 4.4 | 3.7 | |
| EMPLOYMENT AND PRODUCTION | | | | | | | | | | | |
| Nonfarm payroll employment | Millions | 108.3 | 108.6 | 110.7 | 114.1 | 117.2 | 119.5 | 122.2 | 124.7 | 126.0 | |
| Unemployment rate | % | 6.8 | 7.5 | 6.9 | 6.1 | 5.6 | 5.4 | 4.9 | 4.5 | 4.7 | |
| Industrial prod. index | % change | -0.0 | 3.9 | 3.0 | 5.7 | 1.8 | 3.9 | 4.8 | 2.3 | 1.4 | |
| Capacity util. rate - mfg. | % | 78.0 | 79.5 | 80.8 | 83.1 | 83.1 | 82.1 | 82.7 | 82.7 | 82.0 | |
| Housing starts | Millions | 1.01 | 1.20 | 1.29 | 1.46 | 1.35 | 1.48 | 1.45 | 1.41 | 1.37 | |
| Light motor vehicle sales | | 12.52 | 12.85 | 13.87 | 15.02 | 14.73 | 15.05 | 15.00 | 14.92 | 14.54 | |
| North Amer. produced | | 9.74 | 10.51 | 11.71 | 12.88 | 12.82 | 13.34 | 13.09 | 13.09 | 12.77 | |
| Other | | 2.77 | 2.34 | 2.15 | 2.13 | 1.90 | 1.71 | 1.91 | 1.83 | 1.77 | |
| INCOME AND SAVING | | | | | | | | | | | |
| Nominal GNP | Bill. \$ | 5932.4 | 6255.5 | 6576.8 | 6955.2 | 7270.6 | 7637.7 | 8057.6 | 8430.6 | 8744.5 | |
| Nominal GNP | % change | 3.5 | 6.2 | 5.1 | 5.7 | 4.1 | 5.5 | 5.1 | 4.3 | 3.6 | |
| Nominal personal income | | 3.7 | 7.3 | 4.2 | 5.1 | 5.2 | 5.8 | 5.6 | 4.7 | 4.1 | |
| Real disposable income | | 0.8 | 4.0 | 1.5 | 2.4 | 2.4 | 2.0 | 3.2 | 2.7 | 1.9 | |
| Personal saving rate | % | 6.0 | 6.2 | 5.1 | 4.2 | 4.8 | 4.3 | 3.8 | 3.7 | 3.9 | |
| Corp. profits, IVA & CCAdj. | % change | 4.5 | 11.3 | 19.0 | 14.1 | 11.0 | 9.1 | 5.6 | 1.0 | -1.1 | |
| Profit share of GNP | % | 6.9 | 6.8 | 7.5 | 8.2 | 8.9 | 9.6 | 9.8 | 9.5 | 9.0 | |
| Excluding FR Banks | % | 6.6 | 6.6 | 7.2 | 7.9 | 8.6 | 9.3 | 9.5 | 9.2 | 8.8 | |
| Federal surpl./deficit | Bill. \$ | -196.0 | -280.9 | -250.7 | -186.7 | -174.4 | -110.5 | -30.1 | -18.4 | -36.8 | |
| State & local surpl./def. | | 75.8 | 86.3 | 87.4 | 96.8 | 103.1 | 105.3 | 105.9 | 112.3 | 108.5 | |
| Ex. social ins. funds | | 11.5 | 18.3 | 19.7 | 27.9 | 32.5 | 34.1 | 34.4 | 40.6 | 36.7 | |
| PRICES AND COSTS | | | | | | | | | | | |
| GDP implicit deflator | % change | 3.4 | 2.6 | 2.6 | 2.5 | 2.4 | 2.2 | 1.9 | 2.1 | 2.2 | |
| GDP chn.-wt. price index | | 3.3 | 2.6 | 2.6 | 2.5 | 2.4 | 2.3 | 1.9 | 2.1 | 2.2 | |
| Gross Domestic Purchases | | 2.7 | 2.7 | 2.3 | 2.5 | 2.3 | 2.3 | 1.4 | 1.9 | 2.2 | |
| chn.-wt. price index | | 3.0 | 3.1 | 2.7 | 2.7 | 2.6 | 3.2 | 2.1 | 2.3 | 2.7 | |
| CPI | | 4.4 | 3.5 | 3.1 | 2.8 | 3.0 | 2.6 | 2.4 | 2.6 | 2.8 | |
| Ex. food and energy | | 4.4 | 3.5 | 3.1 | 2.8 | 3.0 | 2.6 | 2.4 | 2.6 | 2.8 | |
| ECI, hourly compensation ² | | 4.4 | 3.5 | 3.6 | 3.1 | 2.6 | 3.1 | 3.1 | 3.2 | 3.3 | |
| Nonfarm business sector | | 2.2 | 3.5 | -0.2 | -0.1 | 0.4 | 1.2 | 1.8 | 1.0 | 0.9 | |
| Output per hour | | 4.8 | 4.5 | 1.8 | 1.9 | 2.8 | 3.3 | 3.7 | 3.5 | 3.5 | |
| Compensation per Hour | | 2.5 | 1.0 | 2.0 | 2.0 | 2.4 | 2.1 | 1.8 | 2.5 | 2.6 | |
| Unit labor cost | | 2.5 | 1.0 | 2.0 | 2.0 | 2.4 | 2.1 | 1.8 | 2.5 | 2.6 | |

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

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

September 24, 1997

| Item | Units | -- | | | | | | | | | | | |
|---|--------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|--|--|
| | | 1995 Q1 | 1995 Q2 | 1995 Q3 | 1995 Q4 | 1996 Q1 | 1996 Q2 | 1996 Q3 | 1996 Q4 | 1997 Q1 | 1997 Q2 | | |
| EXPENDITURES | | | | | | | | | | | | | |
| Nominal GDP | Bill. \$ | 7168.9 | 7209.5 | 7301.3 | 7381.9 | 7467.5 | 7607.7 | 7676.0 | 7792.9 | 7933.6 | 8035.4 | | |
| Real GDP | Bill. Ch. \$ | 6703.7 | 6708.8 | 6759.2 | 6796.5 | 6826.4 | 6926.0 | 6943.8 | 7017.4 | 7101.6 | 7165.5 | | |
| Real GDP | % change | 0.9 | 0.3 | 3.0 | 2.2 | 1.8 | 6.0 | 1.0 | 4.3 | 4.9 | 3.6 | | |
| Gross domestic purchases | | 1.3 | 0.2 | 1.9 | 1.3 | 3.1 | 6.5 | 2.4 | 2.5 | 5.9 | 3.8 | | |
| Final sales | | 1.8 | 1.9 | 3.3 | 2.0 | 2.6 | 5.2 | 0.2 | 4.5 | 3.0 | 2.9 | | |
| Priv. dom. final purchases | | 2.5 | 2.2 | 2.7 | 2.5 | 4.4 | 5.5 | 2.1 | 3.2 | 5.1 | 3.1 | | |
| Personal cons. expenditures | | 1.5 | 2.9 | 2.6 | 1.8 | 3.1 | 3.7 | 0.5 | 3.3 | 5.3 | 1.1 | | |
| Durables | | -3.0 | 3.9 | 9.3 | 2.0 | 4.8 | 9.7 | -1.9 | 3.5 | 14.1 | -5.2 | | |
| 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 | 4.0 | | |
| Business fixed investment | | 14.2 | 5.7 | 1.6 | 4.9 | 11.7 | 13.0 | 16.5 | 5.9 | 4.1 | 15.5 | | |
| Producers' dur. equipment | | 16.1 | 6.2 | 2.0 | 9.4 | 13.1 | 14.9 | 19.1 | 2.6 | 6.7 | 24.2 | | |
| Nonres. structures | | 9.5 | 4.3 | 0.7 | -5.8 | 8.2 | 7.9 | 10.0 | 15.3 | -2.1 | -4.6 | | |
| Residential structures | | -7.0 | -15.5 | 8.4 | 8.5 | 8.3 | 17.9 | -4.5 | -4.3 | 3.3 | 7.5 | | |
| Exports | | 7.2 | 9.3 | 13.5 | 11.5 | 1.7 | 9.6 | 1.9 | 25.5 | 9.9 | 20.2 | | |
| 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 | 3.2 | | |
| Federal | | -1.1 | -4.5 | -1.3 | -16.4 | 7.5 | 8.8 | -4.2 | -5.2 | -5.8 | 6.8 | | |
| Defense | | -1.1 | -1.6 | -4.0 | -15.9 | 6.1 | 11.0 | -4.6 | -7.1 | -11.8 | 7.6 | | |
| 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 | 76.7 | | |
| Nonfarm | | 54.7 | 34.0 | 29.6 | 24.4 | 14.5 | 17.3 | 31.6 | 26.5 | 58.3 | 69.3 | | |
| Net exports | | -113.5 | -112.8 | -92.9 | -76.1 | -100.8 | -112.6 | -138.9 | -105.6 | -126.3 | -132.9 | | |
| Nominal GDP | % change | 4.2 | 2.3 | 5.2 | 4.5 | 4.7 | 7.7 | 3.6 | 6.2 | 7.4 | 5.2 | | |
| EMPLOYMENT AND PRODUCTION | | | | | | | | | | | | | |
| Nonfarm payroll employment | Millions | 116.5 | 116.9 | 117.4 | 117.9 | 118.5 | 119.2 | 119.9 | 120.5 | 121.1 | 121.9 | | |
| Unemployment rate | % | 5.5 | 5.6 | 5.7 | 5.6 | 5.6 | 5.4 | 5.3 | 5.3 | 5.3 | 4.9 | | |
| Industrial prod. index | % change | 3.9 | -0.7 | 3.2 | 0.8 | 1.6 | 6.2 | 3.3 | 4.5 | 4.4 | 4.3 | | |
| Capacity util. rate - mfg. | % | 84.2 | 83.1 | 82.9 | 82.3 | 81.7 | 82.1 | 82.3 | 82.3 | 82.5 | 82.5 | | |
| Housing starts | Millions | 1.32 | 1.29 | 1.42 | 1.41 | 1.46 | 1.50 | 1.49 | 1.42 | 1.47 | 1.46 | | |
| Light motor vehicle sales | | 14.67 | 14.42 | 14.86 | 14.96 | 15.04 | 15.13 | 15.08 | 14.95 | 15.26 | 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 | | 2.01 | 1.96 | 1.86 | 1.78 | 1.66 | 1.70 | 1.70 | 1.76 | 1.92 | 1.85 | | |
| INCOME AND SAVING | | | | | | | | | | | | | |
| Nominal GNP | Bill. \$ | 7175.1 | 7220.6 | 7298.3 | 7388.5 | 7475.3 | 7610.5 | 7669.1 | 7796.1 | 7919.2 | 8015.1 | | |
| 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 | 2.9 | | |
| Personal saving rate | % | 5.3 | 4.6 | 4.5 | 4.6 | 4.7 | 4.1 | 4.5 | 3.9 | 3.7 | 4.1 | | |
| Corp. profits, IVA & CCAdj. | % change | -2.9 | 10.0 | 31.7 | 7.9 | 20.0 | 12.1 | 0.6 | 4.5 | 18.1 | 9.1 | | |
| 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 | 9.7 | | |
| Federal surpl./deficit | Bill. \$ | -191.5 | -179.5 | -176.5 | -150.2 | -153.6 | -111.6 | -99.5 | -77.1 | -55.5 | -34.7 | | |
| State & local surpl./def. | | 107.7 | 105.6 | 101.1 | 97.8 | 104.1 | 114.4 | 102.6 | 100.4 | 104.7 | 105.6 | | |
| Ex. social ins. funds | | 37.7 | 35.3 | 30.3 | 26.8 | 33.2 | 43.1 | 31.1 | 28.9 | 33.5 | 34.0 | | |
| PRICES AND COSTS | | | | | | | | | | | | | |
| GDP implicit deflator | % change | 3.3 | 2.0 | 2.1 | 2.2 | 2.9 | 1.7 | 2.6 | 1.9 | 2.4 | 1.5 | | |
| GDP chn.-wt. price index | | 3.3 | 2.1 | 2.0 | 2.1 | 2.8 | 1.9 | 2.7 | 1.9 | 2.4 | 1.6 | | |
| Gross Domestic Purchases chn.-wt. price index | | 3.0 | 2.5 | 1.7 | 1.9 | 2.7 | 1.8 | 2.4 | 2.4 | 1.9 | 0.9 | | |
| CPI Ex. food and energy | | 2.7 | 3.5 | 2.1 | 2.6 | 3.2 | 3.4 | 2.8 | 3.3 | 2.3 | 1.0 | | |
| ECI, hourly compensation ¹ | | 3.3 | 3.3 | 2.8 | 2.7 | 2.7 | 2.7 | 2.4 | 2.7 | 2.2 | 2.9 | | |
| Nonfarm business sector | | 2.9 | 2.6 | 2.6 | 2.9 | 2.5 | 3.5 | 2.8 | 2.8 | 2.5 | 3.4 | | |
| Output per hour | | -1.6 | 0.8 | 1.1 | 1.6 | 1.9 | 2.2 | -1.0 | 1.8 | 1.4 | 2.8 | | |
| Compensation per hour | | 2.6 | 3.1 | 2.7 | 2.9 | 2.8 | 4.4 | 2.9 | 3.3 | 4.5 | 3.2 | | |
| Unit labor cost | | 4.2 | 2.3 | 1.6 | 1.3 | 0.9 | 2.1 | 3.9 | 1.5 | 3.1 | 0.4 | | |

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)

September 24, 1997

| Item | Units | Projected | | | | | | | | | | | |
|---|--------------|-----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|--|
| | | 1997 Q3 | 1997 Q4 | 1998 Q1 | 1998 Q2 | 1998 Q3 | 1998 Q4 | 1999 Q1 | 1999 Q2 | 1999 Q3 | 1999 Q4 | 1999 Q4 | |
| EXPENDITURES | | | | | | | | | | | | | |
| Nominal GDP | Bill. \$ | 8123.9 | 8224.0 | 8330.8 | 8428.3 | 8510.8 | 8586.2 | 8668.3 | 8744.6 | 8822.0 | 8902.2 | | |
| Real GDP | Bill. Ch. \$ | 7215.6 | 7269.2 | 7323.8 | 7371.8 | 7406.3 | 7434.4 | 7461.5 | 7487.8 | 7514.0 | 7542.7 | | |
| Real GDP | % change | 2.8 | 3.0 | 3.0 | 2.6 | 1.9 | 1.5 | 1.5 | 1.4 | 1.4 | 1.5 | | |
| Gross domestic purchases | | 3.7 | 2.5 | 2.9 | 3.3 | 2.8 | 1.2 | 1.9 | 1.5 | 2.0 | 1.1 | | |
| Final sales | | 3.9 | 3.7 | 3.7 | 2.3 | 1.7 | 2.2 | 1.2 | 1.6 | 1.3 | 2.3 | | |
| Priv. dom. final purchases | | 5.9 | 3.7 | 4.3 | 3.5 | 2.8 | 2.2 | 2.0 | 2.0 | 2.1 | 2.0 | | |
| Personal cons. expenditures | | 4.1 | 3.4 | 3.3 | 3.3 | 2.8 | 1.9 | 1.8 | 1.7 | 1.7 | 1.6 | | |
| Durables | | 15.3 | 8.2 | 4.7 | 5.5 | 3.6 | 2.2 | 1.9 | 0.9 | 1.0 | 1.7 | | |
| Nondurables | | 2.7 | 2.1 | 3.5 | 3.2 | 2.6 | 1.5 | 1.3 | 1.1 | 0.9 | 0.9 | | |
| Services | | 2.7 | 3.1 | 2.9 | 2.9 | 2.7 | 2.1 | 2.1 | 2.1 | 2.2 | 1.9 | | |
| Business fixed investment | | 22.9 | 6.6 | 12.5 | 7.1 | 5.3 | 6.7 | 5.8 | 5.8 | 5.5 | 5.2 | | |
| Producers' dur. equipment | | 28.8 | 8.0 | 16.1 | 8.6 | 6.1 | 8.0 | 6.8 | 6.9 | 6.5 | 6.1 | | |
| Nonres. structures | | 7.9 | 3.0 | 3.1 | 3.1 | 3.1 | 3.0 | 3.0 | 3.0 | 2.9 | 2.9 | | |
| Residential structures | | -4.6 | 1.3 | -0.0 | -1.4 | -4.0 | -4.9 | -5.2 | -3.3 | -0.9 | 0.7 | | |
| Exports | | 4.9 | 14.7 | 11.4 | 6.5 | 2.4 | 10.1 | 3.4 | 8.2 | 2.5 | 10.7 | | |
| Imports | | 12.0 | 9.6 | 9.7 | 11.4 | 9.1 | 6.7 | 6.5 | 8.3 | 7.0 | 6.3 | | |
| Gov't. cons. & investment | | -0.1 | 0.9 | 0.6 | 0.4 | 1.8 | 0.2 | 0.2 | 0.5 | 1.4 | 0.7 | | |
| Federal | | -3.4 | -1.8 | -2.3 | -3.1 | 0.9 | -3.6 | -3.6 | -2.6 | -0.3 | -2.2 | | |
| Defense | | -3.6 | -3.1 | -4.4 | -5.6 | 1.0 | -4.9 | -4.9 | -3.4 | 0.3 | -2.7 | | |
| State & local | | 1.8 | 2.4 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.2 | 2.2 | 2.3 | | |
| Change in bus. inventories | Bill. Ch. \$ | 57.4 | 44.9 | 32.3 | 38.7 | 42.1 | 29.7 | 34.0 | 30.1 | 32.1 | 18.5 | | |
| Nonfarm | | 49.8 | 38.5 | 26.8 | 34.4 | 38.6 | 26.4 | 30.7 | 26.7 | 28.7 | 15.2 | | |
| Net exports | | -152.9 | -145.0 | -144.5 | -160.2 | -180.6 | -175.0 | -186.0 | -190.1 | -205.7 | -197.4 | | |
| Nominal GDP | % change | 4.5 | 5.0 | 5.3 | 4.8 | 4.0 | 3.6 | 3.9 | 3.6 | 3.6 | 3.7 | | |
| EMPLOYMENT AND PRODUCTION | | | | | | | | | | | | | |
| Nonfarm payroll employment | Millions | 122.6 | 123.2 | 123.9 | 124.5 | 124.9 | 125.3 | 125.6 | 125.9 | 126.1 | 126.4 | | |
| Unemployment rate | % | 4.8 | 4.7 | 4.6 | 4.5 | 4.5 | 4.5 | 4.6 | 4.7 | 4.8 | 4.9 | | |
| Industrial prod. index | % change | 5.8 | 4.5 | 3.5 | 2.7 | 1.5 | 1.6 | 1.6 | 1.4 | 1.2 | 1.4 | | |
| Capacity util. rate - mfg. | % | 83.0 | 83.0 | 83.0 | 82.9 | 82.5 | 82.3 | 82.2 | 82.1 | 82.0 | 81.9 | | |
| Housing starts | Millions | 1.43 | 1.43 | 1.43 | 1.42 | 1.40 | 1.38 | 1.36 | 1.36 | 1.37 | 1.38 | | |
| Light motor vehicle sales | | 15.16 | 15.05 | 15.04 | 14.99 | 14.88 | 14.75 | 14.65 | 14.55 | 14.47 | 14.50 | | |
| North Amer. produced | | 13.18 | 13.17 | 13.18 | 13.15 | 13.06 | 12.95 | 12.87 | 12.78 | 12.71 | 12.73 | | |
| Other | | 1.98 | 1.88 | 1.86 | 1.84 | 1.82 | 1.80 | 1.78 | 1.77 | 1.76 | 1.77 | | |
| INCOME AND SAVING | | | | | | | | | | | | | |
| Nominal GNP | Bill. \$ | 8100.0 | 8196.1 | 8300.3 | 8396.2 | 8475.9 | 8549.9 | 8631.7 | 8706.7 | 8781.0 | 8858.4 | | |
| Nominal GNP | % change | 4.3 | 4.8 | 5.2 | 4.7 | 3.9 | 3.5 | 3.9 | 3.5 | 3.5 | 3.6 | | |
| Nominal personal income | | 4.5 | 5.2 | 6.0 | 4.1 | 4.6 | 4.3 | 4.9 | 3.7 | 3.9 | 4.1 | | |
| Real disposable income | | 2.6 | 2.6 | 5.3 | 1.6 | 2.0 | 1.8 | 4.3 | 0.9 | 1.1 | 1.5 | | |
| Personal saving rate | % | 3.8 | 3.6 | 4.1 | 3.7 | 3.6 | 3.5 | 4.1 | 3.9 | 3.8 | 3.8 | | |
| Corp. profits, IVA & CCAdj. | % change | -3.5 | 0.1 | 4.2 | 4.8 | -1.9 | -3.0 | -1.9 | -1.3 | -0.2 | -0.9 | | |
| Profit share of GNP | % | 9.7 | 9.6 | 9.6 | 9.6 | 9.5 | 9.3 | 9.2 | 9.1 | 9.0 | 8.9 | | |
| Excluding FR Banks | % | 9.5 | 9.4 | 9.4 | 9.4 | 9.2 | 9.1 | 8.9 | 8.8 | 8.8 | 8.7 | | |
| Federal surpl./deficit | Bill. \$ | -13.5 | -16.7 | -27.8 | -15.7 | -11.5 | -18.5 | -40.7 | -36.1 | -32.0 | -38.4 | | |
| State & local surpl./def. | | 101.2 | 111.9 | 112.8 | 113.5 | 111.5 | 111.3 | 110.4 | 108.9 | 107.8 | 107.1 | | |
| Ex. social ins. funds | | 29.6 | 40.3 | 41.2 | 41.8 | 39.8 | 39.6 | 38.6 | 37.1 | 36.0 | 35.3 | | |
| PRICES AND COSTS | | | | | | | | | | | | | |
| GDP implicit deflator | % change | 1.6 | 2.0 | 2.2 | 2.1 | 2.0 | 2.0 | 2.4 | 2.1 | 2.1 | 2.1 | | |
| GDP chn.-wt. price index | | 1.5 | 2.0 | 2.2 | 2.1 | 2.0 | 2.0 | 2.4 | 2.1 | 2.1 | 2.1 | | |
| Gross Domestic Purchases chn.-wt. price index | | 1.2 | 1.7 | 2.0 | 1.9 | 1.9 | 2.0 | 2.4 | 2.1 | 2.1 | 2.1 | | |
| CPI Ex. food and energy | | 2.1 | 2.7 | 2.1 | 2.3 | 2.4 | 2.5 | 2.7 | 2.8 | 2.7 | 2.7 | | |
| ECI, hourly compensation ¹ | | 1.9 | 2.8 | 2.5 | 2.5 | 2.6 | 2.6 | 2.8 | 2.8 | 2.8 | 2.8 | | |
| Nonfarm business sector Output per hour | | 3.2 | 3.4 | 2.7 | 3.4 | 3.5 | 3.4 | 2.9 | 3.4 | 3.5 | 3.5 | | |
| Compensation per hour | | 3.2 | 3.6 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.6 | 3.6 | 3.6 | | |
| Unit labor cost | | 1.7 | 2.2 | 2.0 | 2.2 | 2.8 | 3.0 | 2.9 | 2.6 | 2.3 | 2.5 | | |

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

September 24, 1997

| Item | 1996 Q4 | 1997 Q1 | 1997 Q2 | 1997 Q3 | 1997 Q4 | 1998 Q1 | 1998 Q2 | 1998 Q3 | 1998 Q4 | 96Q4/ 95Q4 | 97Q4/ 96Q4 | 98Q4/ 97Q4 |
|-----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|---------------|---------------|---------------|
| Real GDP | 4.3 | 4.9 | 3.6 | 2.8 | 3.0 | 3.0 | 2.6 | 1.9 | 1.5 | 3.2 | 3.6 | 2.3 |
| Gross dom. purchases | 2.5 | 6.0 | 3.8 | 3.8 | 2.6 | 3.0 | 3.3 | 2.8 | 1.2 | 3.6 | 4.0 | 2.6 |
| Final sales | 4.5 | 3.0 | 2.8 | 3.9 | 3.7 | 3.7 | 2.3 | 1.7 | 2.2 | 3.1 | 3.4 | 2.5 |
| Priv. dom. final purchases | 2.7 | 4.2 | 2.5 | 4.9 | 3.1 | 3.5 | 2.9 | 2.3 | 1.8 | 3.1 | 3.7 | 2.6 |
| Personal cons. expenditures | 2.2 | 3.6 | 0.7 | 2.8 | 2.3 | 2.2 | 2.2 | 1.9 | 1.3 | 1.8 | 2.4 | 1.9 |
| Durables | 0.3 | 1.1 | -0.4 | 1.2 | 0.6 | 0.4 | 0.4 | 0.3 | 0.2 | 0.3 | 0.6 | 0.3 |
| Nondurables | 0.4 | 0.9 | -0.4 | 0.5 | 0.4 | 0.7 | 0.6 | 0.5 | 0.3 | 0.4 | 0.4 | 0.5 |
| Services | 1.5 | 1.5 | 1.6 | 1.1 | 1.2 | 1.1 | 1.1 | 1.1 | 0.8 | 1.1 | 1.4 | 1.1 |
| Business fixed investment | 0.6 | 0.4 | 1.5 | 2.2 | 0.7 | 1.3 | 0.8 | 0.6 | 0.7 | 1.1 | 1.2 | 0.8 |
| Producers' dur. equip. | 0.2 | 0.5 | 1.6 | 2.0 | 0.6 | 1.2 | 0.7 | 0.5 | 0.6 | 0.9 | 1.2 | 0.7 |
| Nonres. structures | 0.4 | -0.1 | -0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.3 | 0.0 | 0.1 |
| Residential structures | -0.2 | 0.1 | 0.3 | -0.2 | 0.1 | -0.0 | -0.1 | -0.2 | -0.2 | 0.2 | 0.1 | -0.1 |
| Net exports | 1.8 | -1.0 | -0.3 | -0.9 | 0.4 | 0.1 | -0.7 | -0.9 | 0.3 | -0.4 | -0.4 | -0.3 |
| Exports | 2.7 | 1.1 | 2.2 | 0.6 | 1.7 | 1.3 | 0.8 | 0.3 | 1.2 | 1.0 | 1.4 | 0.9 |
| Imports | -0.8 | -2.1 | -2.4 | -1.5 | -1.2 | -1.2 | -1.4 | -1.2 | -0.9 | -1.4 | -1.8 | -1.2 |
| Government cons. & invest. | 0.0 | -0.1 | 0.6 | -0.0 | 0.2 | 0.1 | 0.1 | 0.3 | 0.0 | 0.4 | .2 | 0.1 |
| Federal | -0.4 | -0.4 | 0.4 | -0.2 | -0.1 | -0.1 | -0.2 | 0.1 | -0.2 | 0.1 | -0.1 | -0.1 |
| Defense | -0.3 | -0.6 | 0.3 | -0.2 | -0.1 | -0.2 | -0.2 | 0.0 | -0.2 | 0.0 | -0.1 | -0.1 |
| Nondefense | 0.0 | 0.2 | 0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | -0.0 | 0.1 | 0.1 | 0.0 |
| State and local | 0.4 | 0.3 | 0.1 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.3 |
| Change in bus. inventories | -0.2 | 1.8 | 0.7 | -1.0 | -0.7 | -0.7 | 0.3 | 0.2 | -0.6 | 0.1 | 0.2 | -0.2 |
| Nonfarm | -0.2 | 1.8 | 0.6 | -1.0 | -0.6 | -0.6 | 0.4 | 0.2 | -0.6 | 0.0 | 0.2 | -0.2 |
| Farm | -0.1 | 0.0 | 0.1 | 0.0 | -0.1 | -0.0 | -0.1 | -0.0 | -0.0 | 0.1 | -0.0 | -0.0 |

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

Strictly Confidential <PR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

September 24, 1997

| 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 | 3.0 | 3.0 | 2.6 | 1.9 | 1.5 | 1.5 | 1.4 | 1.4 | 1.5 | 3.6 | 2.3 | 1.5 |
| Gross dom. purchases | 2.6 | 3.0 | 3.3 | 2.8 | 1.2 | 1.9 | 1.5 | 2.1 | 1.1 | 4.0 | 2.6 | 1.7 |
| Final sales | 3.7 | 3.7 | 2.3 | 1.7 | 2.2 | 1.2 | 1.6 | 1.3 | 2.2 | 3.4 | 2.5 | 1.6 |
| Priv. dom. final purchases | 3.1 | 3.5 | 2.9 | 2.3 | 1.8 | 1.7 | 1.6 | 1.7 | 1.7 | 3.7 | 2.6 | 1.7 |
| Personal cons. expenditures | 2.3 | 2.2 | 2.2 | 1.9 | 1.3 | 1.3 | 1.1 | 1.1 | 1.1 | 2.4 | 1.9 | 1.2 |
| Durables | 0.6 | 0.4 | 0.4 | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.6 | 0.3 | 0.1 |
| Nondurables | 0.4 | 0.7 | 0.6 | 0.5 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.4 | 0.5 | 0.2 |
| Services | 1.2 | 1.1 | 1.1 | 1.1 | 0.8 | 0.8 | 0.8 | 0.9 | 0.8 | 1.4 | 1.1 | 0.8 |
| Business fixed investment | 0.7 | 1.3 | 0.8 | 0.6 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | 1.2 | 0.8 | 0.6 |
| Producers' dur. equip. | 0.6 | 1.2 | 0.7 | 0.5 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 1.2 | 0.7 | 0.5 |
| Nonres. structures | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 |
| Residential structures | 0.1 | -0.0 | -0.1 | -0.2 | -0.2 | -0.2 | -0.1 | -0.0 | 0.0 | 0.1 | -0.1 | -0.1 |
| Net exports | 0.4 | 0.1 | -0.7 | -0.9 | 0.3 | -0.5 | -0.1 | -0.6 | 0.4 | -0.4 | -0.3 | -0.2 |
| Exports | 1.7 | 1.3 | 0.8 | 0.3 | 1.2 | 0.4 | 1.0 | 0.3 | 1.3 | 1.4 | 0.9 | 0.8 |
| Imports | -1.2 | -1.2 | -1.4 | -1.2 | -0.9 | -0.9 | -1.1 | -1.0 | -0.9 | -1.8 | -1.2 | -1.0 |
| Government cons. & invest. | 0.2 | 0.1 | 0.1 | 0.3 | 0.0 | 0.0 | 0.1 | 0.2 | 0.1 | 0.2 | 0.1 | 0.1 |
| Federal | -0.1 | -0.1 | -0.2 | 0.1 | -0.2 | -0.2 | -0.2 | -0.0 | -0.1 | -0.1 | -0.1 | -0.1 |
| Defense | -0.1 | -0.2 | -0.2 | 0.0 | -0.2 | -0.2 | -0.1 | 0.0 | -0.1 | -0.1 | -0.1 | -0.1 |
| Nondefense | 0.0 | 0.0 | 0.0 | 0.0 | -0.0 | -0.0 | -0.0 | -0.0 | -0.0 | 0.1 | 0.0 | -0.0 |
| State and local | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 |
| Change in bus. inventories | -0.7 | -0.7 | 0.3 | 0.2 | -0.6 | 0.2 | -0.2 | 0.1 | -0.7 | 0.2 | -0.2 | -0.1 |
| Nonfarm | -0.6 | -0.6 | 0.4 | 0.2 | -0.6 | 0.2 | -0.2 | 0.1 | -0.7 | 0.2 | -0.2 | -0.1 |
| Farm | -0.1 | -0.0 | -0.1 | -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.

STAFF PROJECTIONS OF FEDERAL SECTOR ACCOUNTS AND RELATED ITEMS
(Billions of dollars except as noted)

September 24, 1997

| Item | Fiscal year ⁵ | | | | 1997 | | | | 1998 | | | | 1999 | | | |
|--|--------------------------|------|------|------|-----------------|-----------------|------|------|------|------|------|------|------|------|------|------|
| | 1996 ^a | 1997 | 1998 | 1999 | Q1 ^a | Q2 ^b | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| UNIFIED BUDGET | | | | | | | | | | | | | | | | |
| Receipts ¹ | 1453 | 1578 | 1636 | 1697 | 349 | 496 | 386 | 362 | 368 | 508 | 397 | 387 | 370 | 520 | 420 | 387 |
| Outlays ¹ | 1560 | 1606 | 1687 | 1747 | 401 | 396 | 403 | 429 | 419 | 421 | 419 | 474 | 404 | 434 | 435 | 454 |
| Surplus/deficit ¹ | -107 | -28 | -51 | -50 | -52 | 100 | -17 | -67 | -51 | 88 | -22 | -87 | -34 | 86 | -15 | -67 |
| On-budget | -174 | -105 | -133 | -146 | -69 | 61 | -21 | -78 | -65 | 42 | -32 | -104 | -50 | 34 | -27 | -84 |
| Off-budget | 67 | 76 | 82 | 96 | 17 | 39 | 4 | 12 | 14 | 46 | 10 | 17 | 16 | 51 | 13 | 16 |
| Surplus excluding deposit insurance ² | -116 | -43 | -56 | -53 | -56 | 97 | -19 | -68 | -52 | 87 | -23 | -88 | -35 | 85 | -15 | -68 |
| Means of financing | | | | | | | | | | | | | | | | |
| Borrowing | 130 | 36 | 67 | 63 | 48 | -69 | 9 | 56 | 42 | -69 | 37 | 64 | 37 | -67 | 28 | 51 |
| Cash decrease | -6 | 17 | -13 | 0 | -1 | -18 | 24 | -3 | 11 | -15 | -5 | 10 | 10 | -15 | -5 | 10 |
| Other ³ | -16 | -25 | -2 | -13 | 5 | -13 | -16 | 14 | -2 | -4 | -10 | 13 | -13 | -4 | -9 | 6 |
| Cash operating balance, end of period | 44 | 27 | 40 | 40 | 33 | 51 | 27 | 31 | 20 | 35 | 40 | 30 | 20 | 35 | 40 | 30 |
| NIPA FEDERAL SECTOR | | | | | | | | | | | | | | | | |
| Receipts | 1550 | 1691 | 1776 | 1819 | 1675 | 1712 | 1734 | 1758 | 1761 | 1783 | 1800 | 1813 | 1806 | 1820 | 1835 | 1848 |
| Expenditures | 1679 | 1736 | 1794 | 1850 | 1731 | 1747 | 1748 | 1775 | 1789 | 1798 | 1812 | 1831 | 1847 | 1856 | 1867 | 1887 |
| Consumption expend. | 447 | 459 | 465 | 469 | 458 | 464 | 461 | 461 | 466 | 465 | 468 | 467 | 470 | 470 | 471 | 471 |
| Defense | 302 | 308 | 307 | 307 | 306 | 311 | 308 | 307 | 309 | 306 | 308 | 306 | 307 | 306 | 308 | 307 |
| Nondefense | 145 | 151 | 158 | 163 | 152 | 153 | 153 | 154 | 158 | 160 | 161 | 161 | 163 | 163 | 164 | 164 |
| Other expenditures | 1232 | 1277 | 1328 | 1381 | 1273 | 1283 | 1286 | 1313 | 1323 | 1333 | 1344 | 1364 | 1377 | 1386 | 1396 | 1416 |
| Current account surplus | -129 | -45 | -18 | -32 | -56 | -35 | -14 | -17 | -28 | -16 | -12 | -19 | -41 | -36 | -32 | -38 |
| Gross investment | 69 | 62 | 62 | 60 | 58 | 62 | 63 | 62 | 61 | 62 | 61 | 60 | 60 | 60 | 60 | 60 |
| Current and capital account surplus | -197 | -107 | -80 | -92 | -114 | -97 | -76 | -79 | -90 | -77 | -73 | -79 | -101 | -96 | -92 | -98 |
| FISCAL INDICATORS⁴ | | | | | | | | | | | | | | | | |
| High-employment (HEB) surplus/deficit | -223 | -177 | -189 | -199 | -178 | -177 | -166 | -178 | -197 | -190 | -189 | -194 | -210 | -200 | -192 | -193 |
| Change in HEB, percent of potential GDP | -.6 | -.6 | .1 | .1 | -.1 | 0 | -.1 | .2 | .2 | -.1 | 0 | .1 | .2 | -.1 | -.1 | 0 |
| Fiscal impetus (FI), percent, cal. year | -2.3 | -2.2 | -1.5 | -1.9 | -1.1 | 1.6 | -1 | -.8 | .4 | -1 | .1 | -.2 | 1 | -.1 | -.4 | -1.3 |

1. OMB's September 1997 deficit estimates (assuming the enactment of the President's proposals) are \$37 billion in FY97, \$58 billion in FY98 and \$57 billion in FY99. CBO's September 1997 baseline deficit estimates are \$34 billion in FY97, \$57 billion in FY98 and \$52 billion in 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 September 1997 deficit estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are \$51 billion in FY97, \$63 billion in FY98 and \$59 billion in FY99. CBO's September 1997 baseline deficit estimates, excluding deposit insurance, are \$48 billion in FY97, \$61 billion in FY98 and \$56 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 generated by 2.0 percent real (chain-weighted) growth (2.1 and 2.2 percent in 1998 and 1999, respectively, to reflect CPI modifications) and an associated unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1992) dollars, scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.

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

a--Actual.

b--Preliminary.

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**Change in Debt of the Domestic Nonfinancial Sectors
(Percent)**

| Period ¹ | Total ² | Federal government ³ | Total ⁴ | Nonfederal | | | | | Memo: Nominal GDP | |
|---------------------|--------------------|---------------------------------|--------------------|------------|----------------|-----------------|----------|-----------------------------|-------------------------|--|
| | | | | Households | | | Business | State and local governments | | |
| | | | | Total | Home mortgages | Consumer credit | | | | |
| <i>Year</i> | | | | | | | | | | |
| 1987 | 9.2 | 8.0 | 9.6 | 12.0 | 15.9 | 5.1 | 6.9 | 12.1 | 7.4 | |
| 1988 | 8.9 | 8.0 | 9.2 | 9.5 | 10.7 | 8.6 | 9.8 | 6.5 | 7.6 | |
| 1989 | 7.6 | 7.0 | 7.8 | 8.5 | 9.9 | 6.0 | 7.7 | 5.7 | 6.4 | |
| 1990 | 6.5 | 11.0 | 5.3 | 7.5 | 9.6 | 1.9 | 3.3 | 5.1 | 4.4 | |
| 1991 | 4.3 | 11.1 | 2.3 | 4.9 | 6.6 | -1.7 | -1.8 | 8.4 | 3.8 | |
| 1992 | 4.8 | 10.9 | 2.8 | 5.1 | 6.0 | 0.5 | 0.6 | 2.0 | 6.3 | |
| 1993 | 5.2 | 8.3 | 4.1 | 6.2 | 5.3 | 7.7 | 1.5 | 5.7 | 5.0 | |
| 1994 | 4.8 | 4.7 | 4.8 | 8.2 | 6.4 | 14.5 | 3.7 | -4.0 | 5.8 | |
| 1995 | 5.3 | 4.1 | 5.8 | 7.8 | 6.0 | 14.2 | 6.2 | -3.8 | 4.0 | |
| 1996 | 5.2 | 4.0 | 5.6 | 7.4 | 7.9 | 7.6 | 4.7 | 1.2 | 5.6 | |
| 1997 | 4.6 | 1.2 | 5.8 | 6.0 | 6.4 | 5.6 | 6.1 | 3.1 | 5.5 | |
| 1998 | 5.0 | 1.9 | 6.0 | 5.6 | 6.2 | 5.3 | 6.9 | 4.0 | 4.4 | |
| 1999 | 4.6 | 1.3 | 5.7 | 5.4 | 5.8 | 5.1 | 6.6 | 3.8 | 3.7 | |
| <i>Quarter</i> | | | | | | | | | | |
| 1997:1 | 4.7 | 2.1 | 5.6 | 6.4 | 6.5 | 7.1 | 5.3 | 3.2 | 7.4 | |
| 2 | 3.7 | -2.6 | 5.9 | 5.5 | 5.4 | 4.2 | 6.0 | 7.7 | 5.2 | |
| 3 | 4.3 | 0.9 | 5.4 | 5.9 | 6.6 | 5.4 | 6.3 | -0.5 | 4.5 | |
| 4 | 5.3 | 4.2 | 5.6 | 5.8 | 6.5 | 5.3 | 6.3 | 2.0 | 5.0 | |
| 1998:1 | 4.7 | 1.4 | 5.8 | 5.6 | 6.2 | 5.2 | 6.6 | 3.3 | 5.3 | |
| 2 | 4.1 | -2.2 | 6.2 | 5.5 | 6.1 | 5.2 | 6.6 | 7.6 | 4.8 | |
| 3 | 5.3 | 3.7 | 5.8 | 5.5 | 5.9 | 5.2 | 6.8 | 3.5 | 4.0 | |
| 4 | 5.5 | 4.8 | 5.7 | 5.4 | 5.9 | 5.2 | 7.0 | 1.4 | 3.6 | |

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1997:Q2 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2. On a monthly average basis, total debt grew 4.4 percent in 1997, 5.0 percent in 1998, and 4.7 percent in 1999.

3. On a monthly average basis, federal debt rose 1.0 percent in 1997, 1.9 percent in 1998, and 1.5 percent in 1999.

4. On a monthly average basis, nonfederal debt increased 5.6 percent in 1997, 6.0 percent in 1998, and 5.8 percent in 1999.

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

| Category | | | | | Seasonally adjusted annual rates | | | | | | | |
|--|---------------|-------|-------|-------|----------------------------------|--------|-------|--------|-------|-------|-------|-------|
| | Calendar year | | | | 1997 | | | | 1998 | | | |
| | 1996 | 1997 | 1998 | 1999 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| <i>Net funds raised by domestic nonfinancial sectors</i> | | | | | | | | | | | | |
| 1 Total | 651.1 | 570.2 | 669.8 | 681.1 | 600.0 | 461.1 | 556.7 | 663.2 | 623.8 | 538.0 | 733.0 | 784.5 |
| 2 Net equity issuance | -64.2 | -91.9 | -85.0 | -58.0 | -86.2 | -83.6 | -72.8 | -124.8 | -82.0 | -90.0 | -90.0 | -78.0 |
| 3 Net debt issuance | 715.3 | 662.1 | 754.8 | 739.1 | 686.2 | 544.7 | 629.5 | 788.0 | 705.8 | 628.0 | 823.0 | 862.5 |
| <i>Borrowing sectors</i> | | | | | | | | | | | | |
| Nonfinancial business | | | | | | | | | | | | |
| 4 Financing gap ¹ | 8.4 | 69.6 | 109.7 | 151.6 | 36.1 | 82.2 | 79.6 | 80.5 | 95.8 | 103.1 | 117.4 | 122.4 |
| 5 Net equity issuance | -64.2 | -91.9 | -85.0 | -58.0 | -86.2 | -83.6 | -72.8 | -124.8 | -82.0 | -90.0 | -90.0 | -78.0 |
| 6 Credit market borrowing | 193.9 | 268.9 | 322.7 | 328.7 | 234.5 | 266.4 | 284.9 | 289.6 | 306.0 | 314.5 | 326.4 | 343.9 |
| Households | | | | | | | | | | | | |
| 7 Net borrowing ² | 363.8 | 315.1 | 313.4 | 315.6 | 335.5 | 291.1 | 316.3 | 317.7 | 311.2 | 312.3 | 314.3 | 316.0 |
| 8 Home mortgages | 263.9 | 229.7 | 235.8 | 235.4 | 233.0 | 195.9 | 244.0 | 245.8 | 237.4 | 235.9 | 234.3 | 235.4 |
| 9 Consumer credit | 86.3 | 68.2 | 68.3 | 69.3 | 85.9 | 52.4 | 66.9 | 67.6 | 67.1 | 67.9 | 68.7 | 69.5 |
| 10 Debt/DPI (percent) ³ | 90.5 | 91.9 | 92.6 | 93.4 | 91.3 | 91.8 | 92.2 | 92.4 | 92.0 | 92.5 | 92.8 | 93.1 |
| State and local governments | | | | | | | | | | | | |
| 11 Net borrowing | 12.7 | 33.9 | 44.6 | 44.6 | 35.0 | 84.2 | -5.8 | 22.3 | 36.5 | 85.3 | 40.0 | 16.6 |
| 12 Current surplus ⁴ | 126.1 | 121.0 | 123.2 | 118.9 | 115.8 | 124.1 | 119.0 | 125.3 | 124.0 | 124.6 | 122.4 | 122.0 |
| Federal government | | | | | | | | | | | | |
| 13 Net borrowing | 145.0 | 44.2 | 74.1 | 50.2 | 81.2 | -97.1 | 34.1 | 158.5 | 52.2 | -84.0 | 142.3 | 186.1 |
| 14 Net borrowing (quarterly, n.s.a.) | 145.0 | 44.2 | 74.1 | 50.2 | 48.0 | -69.2 | 8.9 | 56.4 | 42.5 | -69.2 | 36.8 | 64.0 |
| 15 Unified deficit (quarterly, n.s.a.) | 110.9 | 35.9 | 71.8 | 30.3 | 52.0 | -100.1 | 17.3 | 66.6 | 50.8 | -87.8 | 21.8 | 87.0 |
| Depository institutions | | | | | | | | | | | | |
| 16 Funds supplied | 233.2 | 280.8 | 287.8 | 299.5 | 330.6 | 370.2 | 178.4 | 244.2 | 268.0 | 290.0 | 288.8 | 304.4 |
| Memo (percentage of GDP) | | | | | | | | | | | | |
| 17 Domestic nonfinancial debt ⁵ | 185.2 | 183.6 | 183.6 | 185.4 | 183.9 | 183.5 | 183.3 | 183.2 | 183.1 | 182.9 | 183.3 | 184.1 |
| 18 Domestic nonfinancial borrowing | 9.4 | 8.2 | 8.9 | 8.4 | 8.6 | 6.8 | 7.7 | 9.6 | 8.5 | 7.5 | 9.7 | 10.0 |
| 19 Federal government ⁶ | 1.9 | 0.5 | 0.9 | 0.6 | 1.0 | -1.2 | 0.4 | 1.9 | 0.6 | -1.0 | 1.7 | 2.2 |
| 20 Nonfederal | 7.5 | 7.6 | 8.0 | 7.8 | 7.6 | 8.0 | 7.3 | 7.7 | 7.8 | 8.4 | 8.0 | 7.9 |

Note. Data after 1997:Q2 are staff projections.

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

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

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

4. NJPA 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

In extending the forecast through 1999, we needed to take account explicitly of the scheduled start of Stage Three of European Monetary Union on January 1, 1999. We have assumed that EMU will go forward as planned with eleven countries as initial members.¹ Accordingly, our projection for dollar exchange rates in 1999 incorporates the assumption that after January 1, 1999, bilateral rates among the currencies of these countries will be fixed and short-term market interest rates will be identical in these currencies. In reporting our outlook for activity and prices abroad, we have added aggregates for the EU-11.

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

| Measure | 1997 | | | 1998 | 1999 |
|----------------|------|------|------|------|------|
| | H1 | Q3 | Q4 | | |
| Foreign output | 3.8 | 4.0 | 4.1 | 3.9 | 3.7 |
| Previous | 3.7 | 4.1 | 4.1 | 3.9 | -- |
| Real exports | 14.9 | 4.9 | 14.7 | 7.6 | 6.1 |
| Previous | 11.9 | 2.3 | 8.9 | 4.4 | -- |
| Real imports | 19.2 | 12.0 | 9.6 | 9.2 | 7.0 |
| Previous | 18.9 | 5.4 | 6.3 | 7.2 | -- |

The staff projects that total foreign real output (weighted by U.S. bilateral export shares) will increase at an annual rate of about 4 percent over the final two quarters of this year and will decelerate slightly through 1999. We continue to expect that the dollar will depreciate moderately from recent levels, but not until late in the forecast period, reflecting the tightening of U.S. monetary conditions during 1998. Although projected growth for U.S. real output is somewhat below that for foreign real output, we project that growth of real imports will exceed that of real exports over the forecast period; historical experience indicates that U.S. imports are more responsive to U.S. income growth than are U.S. exports to growth abroad. As a consequence, real net exports will subtract about 1/3 percentage point from annual real GDP growth throughout the forecast period. Upward revision to the forecast path for U.S. real GDP growth since the August Greenbook raises our projected growth of real imports. Continued strong export performance has led us to revise up our forecast for real

1. Those countries are Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain.

of the forecast period at an increasing rate. The acceleration in core import prices results in part from the switch from dollar appreciation earlier this year to a flat dollar and then depreciation in 1999. In addition, projected declines in non-oil commodity prices through 1998 hold down core import prices in the near term, but not in late 1998 and 1999. Prices of core nonagricultural exports are also projected to decline in the near term and to rise subsequently at an increasing rate 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 | Projection | | | | |
|---------------------------------|------------|-------|-------|-------|-------|
| | 1997 | | | 1998 | 1999 |
| | H1 | Q3 | Q4 | | |
| <i>Exports</i> | | | | | |
| Nonagricultural (core) | 0.9 | -0.3 | -0.2 | 1.2 | 1.7 |
| Agricultural | -10.8 | -13.0 | -3.6 | 2.1 | 2.0 |
| <i>Imports</i> | | | | | |
| Non-oil (core) | -1.2 | -0.4 | 0.8 | 0.6 | 1.9 |
| Oil (level, dollars per barrel) | 18.00 | 17.31 | 16.48 | 16.94 | 18.50 |

NOTE. Prices for exports and non-oil imports of goods exclude computers and semiconductors and 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 on goods and services is expected to widen from \$105 billion in the second quarter of this year to \$140 billion at the end of 1999. The deficit on net investment income is projected to increase by about \$20 billion over that same interval. We project that the current account deficit will average \$167 billion or 2 percent of GDP this year but will widen to \$215 billion or 2-1/2 percent of GDP in 1999.

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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 | 0.0 | 0.5 | 3.1 | 4.9 | 0.7 | 2.3 | 4.0 | 3.1 | 2.3 |
| Japan | 2.5 | 0.1 | 0.4 | 0.8 | 2.6 | 3.0 | -0.0 | 2.5 | 2.5 |
| United Kingdom | -1.6 | 0.4 | 2.7 | 4.9 | 2.0 | 2.9 | 3.2 | 1.9 | 1.6 |
| EU-11 Average (1) | 2.1 | 0.1 | -0.1 | 3.5 | 1.3 | 1.9 | 2.7 | 2.7 | 2.9 |
| of which: | | | | | | | | | |
| France | 1.3 | -0.0 | -0.5 | 4.3 | 0.3 | 2.1 | 2.4 | 2.5 | 2.5 |
| Germany (2) | 3.3 | 0.9 | -0.2 | 3.4 | 0.7 | 2.1 | 2.8 | 2.7 | 3.2 |
| Italy | 1.9 | -0.8 | 0.1 | 2.7 | 2.3 | 0.2 | 2.4 | 2.4 | 3.1 |
| Foreign G-7 Average weighted by 1991 GDP | 1.7 | 0.2 | 0.6 | 2.9 | 1.7 | 2.3 | 1.9 | 2.5 | 2.6 |
| Average weighted by share of U.S. nonagricultural exports | | | | | | | | | |
| Total foreign | 2.9 | 1.9 | 3.2 | 5.1 | 1.7 | 4.0 | 4.0 | 3.9 | 3.7 |
| Foreign G-7 | 0.8 | 0.3 | 1.8 | 3.9 | 1.3 | 2.4 | 2.8 | 2.7 | 2.4 |
| Developing Countries | 6.4 | 5.1 | 6.0 | 7.0 | 2.1 | 6.8 | 5.8 | 5.8 | 5.7 |
| CONSUMER PRICES | | | | | | | | | |
| Canada | 4.1 | 1.8 | 1.8 | 0.0 | 2.1 | 2.0 | 1.9 | 2.1 | 2.2 |
| Japan | 3.2 | 0.9 | 1.2 | 0.8 | -0.8 | 0.1 | 1.7 | 0.6 | 0.8 |
| United Kingdom (3) | 5.7 | 3.7 | 2.7 | 2.2 | 2.9 | 3.2 | 2.6 | 2.8 | 2.9 |
| EU-11 Average (4) | NA | NA | NA | NA | 2.7 | 2.0 | 1.6 | 1.9 | 2.1 |
| of which: | | | | | | | | | |
| France | 3.0 | 1.8 | 2.1 | 1.6 | 1.9 | 1.7 | 1.4 | 1.8 | 1.9 |
| Germany (2) | 4.0 | 3.4 | 4.2 | 2.6 | 1.7 | 1.4 | 2.0 | 2.1 | 2.2 |
| Italy | 6.1 | 4.9 | 4.1 | 3.8 | 5.9 | 2.7 | 1.8 | 2.0 | 2.5 |
| Foreign G-7 Average weighted by 1991 GDP | 4.1 | 2.4 | 2.5 | 1.8 | 1.6 | 1.5 | 1.8 | 1.6 | 1.8 |
| Average weighted by share of U.S. non-oil imports | 3.9 | 1.9 | 2.0 | 1.0 | 1.1 | 1.3 | 1.8 | 1.5 | 1.7 |

- I-36
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 EU-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 | | | | Projected 1998 | | | | 1999 | | | |
|---|-------|-------|-----|-----|----------------|-----|-----|-----|------|-----|-----|-----|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | <hr/> | | | | | | | | | | | |
| REAL GDP | | | | | | | | | | | | |
| Canada | 3.7 | 4.9 | 3.8 | 3.4 | 3.2 | 3.3 | 3.1 | 2.8 | 2.5 | 2.4 | 2.3 | 2.1 |
| Japan | 5.7 | -11.2 | 2.4 | 3.9 | 2.7 | 2.5 | 2.4 | 2.4 | 2.5 | 2.5 | 2.5 | 2.5 |
| United Kingdom | 3.3 | 4.0 | 3.2 | 2.4 | 2.1 | 1.9 | 1.8 | 1.7 | 1.7 | 1.6 | 1.6 | 1.6 |
| EU-11 Average (1) | 0.9 | 4.5 | 3.0 | 2.6 | 2.6 | 2.6 | 2.7 | 2.7 | 2.9 | 2.8 | 3.0 | 3.0 |
| of which: | | | | | | | | | | | | |
| France | 1.0 | 4.0 | 2.3 | 2.3 | 2.6 | 2.4 | 2.5 | 2.4 | 2.5 | 2.5 | 2.5 | 2.5 |
| Germany | 1.2 | 4.1 | 3.4 | 2.5 | 2.6 | 2.7 | 2.8 | 2.6 | 3.1 | 3.1 | 3.2 | 3.3 |
| Italy | -0.7 | 6.0 | 2.5 | 2.0 | 2.3 | 2.3 | 2.5 | 2.5 | 2.7 | 2.7 | 3.5 | 3.5 |
| Foreign G-7 Average weighted by 1991 GDP | 2.8 | -0.9 | 2.8 | 2.9 | 2.6 | 2.5 | 2.5 | 2.4 | 2.5 | 2.5 | 2.6 | 2.6 |
| Average weighted by share of U.S. nonagricultural exports | | | | | | | | | | | | |
| Total foreign | 3.4 | 4.4 | 4.0 | 4.1 | 3.9 | 3.9 | 3.8 | 3.9 | 3.7 | 3.7 | 3.6 | 3.6 |
| Foreign G-7 | 3.5 | 1.3 | 3.3 | 3.1 | 2.8 | 2.8 | 2.7 | 2.5 | 2.4 | 2.4 | 2.4 | 2.3 |
| Developing Countries | 4.2 | 8.1 | 5.3 | 5.7 | 5.7 | 5.8 | 5.7 | 5.8 | 5.7 | 5.8 | 5.7 | 5.8 |
| CONSUMER PRICES (2) | | | | | | | | | | | | |
| Canada | 2.1 | 1.6 | 1.9 | 1.9 | 1.9 | 2.0 | 2.0 | 2.1 | 2.1 | 2.1 | 2.1 | 2.2 |
| Japan | 0.0 | 1.5 | 1.6 | 1.7 | 1.8 | 0.2 | 0.4 | 0.6 | 0.8 | 0.8 | 0.8 | 0.8 |
| United Kingdom (3) | 2.9 | 2.6 | 2.8 | 2.6 | 2.6 | 2.7 | 2.8 | 2.8 | 2.8 | 2.9 | 2.9 | 2.9 |
| EU-11 Average (4) | 1.7 | 1.2 | 1.6 | 1.6 | 1.9 | 1.8 | 1.9 | 1.9 | 2.0 | 2.0 | 2.1 | 2.1 |
| of which: | | | | | | | | | | | | |
| France | 1.5 | 0.9 | 1.3 | 1.4 | 1.6 | 1.5 | 1.8 | 1.8 | 1.9 | 1.9 | 1.9 | 1.9 |
| Germany | 1.7 | 1.6 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.1 | 2.1 | 2.1 | 2.2 | 2.2 |
| Italy | 2.4 | 1.6 | 1.6 | 1.8 | 2.0 | 2.0 | 2.0 | 2.0 | 2.3 | 2.3 | 2.5 | 2.5 |
| Foreign G-7 Average weighted by 1991 GDP | 1.4 | 1.6 | 1.8 | 1.8 | 2.0 | 1.4 | 1.5 | 1.6 | 1.7 | 1.8 | 1.8 | 1.8 |
| Average weighted by share of U.S. non-oil imports | 1.3 | 1.6 | 1.8 | 1.8 | 1.9 | 1.3 | 1.4 | 1.5 | 1.6 | 1.6 | 1.7 | 1.7 |

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 EU-11, weighted by shares in final consumption of households converted to a common currency using estimated PPP exchange rates.

Strictly Confidential (FR)
Class II FOMC

September 24, 1997

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | ----- | Projected 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 | -0.4 | -0.3 |
| Exports of G&S | 0.8 | 0.4 | 0.5 | 1.1 | 1.2 | 1.1 | 1.6 | 1.1 | 0.9 |
| Imports of G&S | -0.4 | -0.8 | -1.1 | -1.4 | -0.7 | -1.6 | -2.1 | -1.5 | -1.2 |
| Percentage change, Q4/Q4 | | | | | | | | | |
| Exports of G&S | 8.6 | 4.1 | 4.6 | 10.0 | 10.3 | 9.3 | 12.3 | 7.6 | 6.1 |
| Services | 7.1 | -0.9 | 4.1 | 6.0 | 9.0 | 4.7 | 2.5 | 2.6 | 3.5 |
| Agricultural Goods | 10.1 | 10.4 | -5.5 | 16.6 | -3.4 | 5.7 | 2.4 | 0.0 | 1.9 |
| Computers | 21.7 | 25.2 | 23.7 | 32.0 | 55.7 | 33.8 | 67.1 | 45.8 | 43.1 |
| Semiconductors | 41.8 | 64.8 | 32.9 | 66.9 | 80.4 | 45.9 | 34.3 | 41.2 | 41.2 |
| Other Goods 1/ | 7.0 | 2.3 | 3.6 | 6.9 | 5.7 | 7.6 | 13.2 | 5.2 | 1.5 |
| Imports of G&S | 4.1 | 7.4 | 10.2 | 12.3 | 5.6 | 11.8 | 14.9 | 9.2 | 7.0 |
| Services | -2.7 | 1.4 | 3.2 | 1.4 | 7.3 | 5.0 | 11.0 | 3.5 | 2.0 |
| Oil | 8.1 | 12.1 | 10.1 | -0.2 | 1.5 | 8.3 | 0.5 | 3.2 | 1.8 |
| Computers | 35.9 | 45.1 | 39.3 | 44.8 | 46.2 | 23.6 | 55.0 | 40.0 | 39.5 |
| Semiconductors | 55.3 | 42.0 | 34.2 | 54.5 | 92.7 | 57.9 | 45.0 | 41.8 | 40.6 |
| Other Goods 2/ | 2.5 | 5.4 | 9.5 | 12.2 | -1.2 | 10.5 | 12.7 | 6.7 | 3.7 |
| Billions of chained 1992 dollars | | | | | | | | | |
| Net Goods & Services | -22.3 | -29.5 | -70.2 | -104.6 | -98.8 | -114.4 | -139.3 | -165.1 | -194.8 |
| Exports of G&S | 599.9 | 639.4 | 658.2 | 712.4 | 791.2 | 857.0 | 969.5 | 1061.5 | 1124.3 |
| Imports of G&S | 622.2 | 669.0 | 728.4 | 817.0 | 890.1 | 971.5 | 1108.8 | 1226.6 | 1319.1 |
| Billions of dollars | | | | | | | | | |
| US CURRENT ACCOUNT BALANCE | -4.5 | -55.4 | -90.5 | -133.5 | -129.1 | -148.2 | -167.4 | -183.5 | -214.0 |
| Net Goods & Services (BOP) | -29.9 | -38.3 | -72.0 | -104.4 | -101.9 | -111.0 | -112.0 | -114.6 | -138.7 |
| Exports of G&S (BOP) | 580.7 | 617.7 | 643.0 | 699.7 | 794.6 | 848.8 | 933.1 | 1010.0 | 1068.9 |
| Imports of G&S (BOP) | 610.6 | 655.9 | 715.0 | 804.1 | 896.5 | 959.9 | 1045.2 | 1124.5 | 1207.6 |
| Net Investment Income | 20.3 | 18.0 | 19.7 | 9.7 | 6.8 | 2.8 | -15.4 | -27.2 | -33.6 |
| Direct, Net | 55.6 | 51.6 | 55.7 | 50.8 | 60.0 | 66.8 | 68.3 | 69.2 | 78.4 |
| Portfolio, Net | -35.4 | -33.6 | -36.0 | -41.0 | -53.2 | -63.9 | -83.7 | -96.4 | -112.0 |
| Net Transfers | 5.1 | -35.2 | -38.1 | -38.8 | -34.0 | -40.0 | -40.0 | -41.8 | -41.8 |

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

Strictly Confidential (FR)
Class II FOMC

September 24, 1997

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 | -1.1 | -0.4 | -0.4 | 0.3 | -0.5 | 0.0 | 1.2 | 1.0 | -1.5 | -0.7 | -1.5 | 1.9 |
| Exports of G&S | -0.2 | 1.7 | 1.1 | 1.5 | 0.8 | 1.0 | 1.5 | 1.3 | 0.2 | 1.1 | 0.2 | 2.9 |
| Imports of G&S | -0.9 | -2.1 | -1.5 | -1.2 | -1.2 | -1.0 | -0.3 | -0.3 | -1.7 | -1.8 | -1.7 | -0.9 |
| 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 | 8.2 | 1.0 | 11.0 | -1.2 | 13.2 | -3.1 | 23.9 |
| 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/ | 6.9 | 19.6 | 10.3 | 12.5 | 7.3 | 2.2 | -10.0 | -3.6 | 14.5 | 11.0 | 12.2 | 4.3 |
| Billions of chained 1992 dollars | | | | | | | | | | | | |
| 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 | | | | | | | | | | | | |
| US CURRENT ACCOUNT BALANCE | -104.6 | -128.0 | -145.5 | -156.1 | -138.8 | -142.8 | -132.5 | -102.2 | -131.5 | -142.3 | -171.3 | -147.5 |
| Net Goods & Services (BOP) | -90.6 | -101.5 | -114.0 | -111.6 | -113.2 | -123.2 | -95.5 | -75.5 | -98.2 | -111.1 | -130.1 | -104.8 |
| Exports of G&S (BOP) | 662.5 | 688.4 | 710.9 | 736.8 | 761.5 | 785.9 | 806.4 | 824.6 | 828.4 | 848.6 | 840.3 | 878.0 |
| Imports of G&S (BOP) | 753.1 | 789.9 | 824.9 | 848.4 | 874.7 | 909.1 | 901.9 | 900.1 | 926.6 | 959.7 | 970.4 | 982.8 |
| Net Investment Income | 17.9 | 10.6 | 7.2 | 3.3 | 8.2 | 12.9 | -1.6 | 7.8 | 8.2 | 3.5 | -5.5 | 5.0 |
| Direct, Net | 51.7 | 48.9 | 51.0 | 51.5 | 57.6 | 64.1 | 53.9 | 64.5 | 66.2 | 64.2 | 60.3 | 76.4 |
| Portfolio, Net | -33.8 | -38.3 | -43.8 | -48.2 | -49.4 | -51.3 | -55.5 | -56.7 | -57.9 | -60.7 | -65.7 | -71.4 |
| Net Transfers | -31.9 | -37.1 | -38.7 | -47.7 | -33.8 | -32.5 | -35.4 | -34.5 | -41.6 | -34.8 | -35.8 | -47.7 |

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

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

September 24, 1997

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

| | 1997 | | | | Projected | | | | 1999 | | | |
|--|--------|--------|--------|--------|-----------|--------|--------|--------|--------|--------|--------|--------|
| | | | | | 1998 | | | | | | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| NIPA REAL EXPORTS and IMPORTS | | | | | | | | | | | | |
| Percentage point contribution to GDP growth | | | | | | | | | | | | |
| Net Goods & Services | -1.2 | -0.4 | -1.1 | 0.4 | 0.0 | -0.9 | -1.1 | 0.3 | -0.6 | -0.2 | -0.8 | 0.4 |
| Exports of G&S | 1.2 | 2.4 | 0.7 | 1.9 | 1.5 | 0.9 | 0.3 | 1.4 | 0.5 | 1.2 | 0.4 | 1.5 |
| Imports of G&S | -2.4 | -2.8 | -1.8 | -1.4 | -1.5 | -1.8 | -1.4 | -1.1 | -1.1 | -1.4 | -1.2 | -1.1 |
| Percentage change from previous period, SAAR | | | | | | | | | | | | |
| Exports of G&S | 9.9 | 20.2 | 4.9 | 14.7 | 11.4 | 6.5 | 2.4 | 10.1 | 3.4 | 8.2 | 2.5 | 10.7 |
| Services | 3.7 | 3.5 | 1.4 | 1.4 | 2.0 | 2.7 | 2.7 | 3.0 | 3.5 | 3.5 | 3.5 | 3.6 |
| Agricultural Goods | -27.6 | 20.9 | 7.2 | 17.0 | -7.2 | -3.7 | 3.8 | 7.8 | 2.0 | -5.6 | 3.9 | 7.8 |
| Computers | 72.3 | 85.5 | 60.8 | 51.8 | 49.1 | 46.4 | 43.8 | 43.8 | 43.8 | 43.3 | 42.7 | 42.7 |
| Semiconductors | 39.0 | 15.3 | 41.2 | 43.8 | 41.2 | 41.2 | 41.2 | 41.2 | 41.2 | 41.2 | 41.2 | 41.2 |
| Other Goods 1/ | 12.4 | 25.1 | 0.2 | 16.5 | 13.2 | 3.9 | -3.9 | 8.5 | -2.9 | 6.0 | -5.0 | 8.5 |
| Imports of G&S | 17.9 | 20.5 | 12.0 | 9.6 | 9.7 | 11.4 | 9.1 | 6.7 | 6.5 | 8.3 | 7.0 | 6.3 |
| Services | 24.2 | 9.5 | 5.7 | 5.6 | 5.1 | 3.7 | 2.7 | 2.5 | 2.2 | 2.0 | 1.9 | 1.9 |
| Oil | -10.8 | 44.6 | -6.3 | -15.6 | -9.4 | 33.3 | 10.9 | -15.5 | -11.3 | 26.5 | 2.7 | -6.8 |
| Computers | 51.3 | 71.6 | 51.8 | 46.4 | 40.7 | 39.7 | 39.8 | 40.0 | 39.5 | 39.5 | 39.6 | 39.4 |
| Semiconductors | 71.2 | 19.1 | 50.7 | 43.8 | 42.7 | 42.2 | 41.1 | 41.4 | 40.6 | 40.6 | 40.8 | 40.4 |
| Other Goods 2/ | 15.3 | 17.0 | 10.5 | 8.3 | 8.3 | 7.6 | 6.1 | 4.9 | 4.2 | 3.7 | 3.5 | 3.3 |
| Billions of chained 1992 dollars | | | | | | | | | | | | |
| Net Goods & Services | -126.3 | -132.9 | -152.9 | -145.0 | -144.5 | -160.2 | -180.6 | -175.0 | -186.0 | -190.1 | -205.7 | -197.4 |
| Exports of G&S | 922.7 | 966.0 | 977.7 | 1011.7 | 1039.4 | 1056.0 | 1062.4 | 1088.3 | 1097.3 | 1119.2 | 1126.0 | 1154.9 |
| Imports of G&S | 1048.9 | 1098.9 | 1130.6 | 1156.7 | 1183.9 | 1216.2 | 1243.0 | 1263.2 | 1283.3 | 1309.3 | 1331.7 | 1352.3 |
| Billions of dollars | | | | | | | | | | | | |
| US CURRENT ACCOUNT BALANCE | -159.9 | -156.9 | -175.5 | -177.4 | -163.1 | -175.3 | -195.3 | -200.3 | -200.4 | -205.2 | -222.7 | -227.7 |
| Net Goods & Services (BOP) | -117.2 | -106.6 | -118.8 | -105.6 | -99.9 | -110.4 | -127.6 | -120.3 | -131.0 | -134.6 | -148.9 | -140.2 |
| Exports of G&S (BOP) | 897.0 | 936.2 | 935.1 | 964.1 | 989.7 | 1004.9 | 1010.4 | 1034.9 | 1043.4 | 1064.5 | 1070.3 | 1097.6 |
| Imports of G&S (BOP) | 1014.2 | 1042.8 | 1053.9 | 1069.8 | 1089.6 | 1115.3 | 1138.0 | 1155.1 | 1174.4 | 1199.0 | 1219.2 | 1237.7 |
| Net Investment Income | -8.0 | -14.1 | -17.7 | -21.7 | -24.2 | -25.9 | -28.7 | -30.1 | -30.3 | -31.7 | -34.8 | -37.6 |
| Direct, Net | 69.3 | 69.5 | 67.7 | 66.7 | 66.9 | 68.0 | 69.5 | 72.6 | 74.5 | 77.6 | 79.6 | 81.9 |
| Portfolio, Net | -77.3 | -83.6 | -85.3 | -88.4 | -91.1 | -93.9 | -98.1 | -102.6 | -104.9 | -109.3 | -114.4 | -119.4 |
| Net Transfers | -34.7 | -36.3 | -39.0 | -50.0 | -39.0 | -39.0 | -39.0 | -50.0 | -39.0 | -39.0 | -39.0 | -50.0 |

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

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

Part 2

September 24, 1997

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

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

Confidential (FR) Class III FOMC

September 24, 1997

RECENT DEVELOPMENTS

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

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

| | Fiscal year to date totals | | | | | |
|---|----------------------------|-------|--------|--------|------------------|-------------------|
| | July-Aug. | | | | Dollar change | Percent change |
| | 1996 | 1997 | 1996 | 1997 | | |
| Outlays | 272.6 | 272.9 | 1437.8 | 1475.5 | 37.7 | 2.6 |
| Deposit insurance (DI) | -.5 | -1.1 | -7.6 | -13.9 | -6.3 | |
| Spectrum auction (SA) | .0 | -.7 | -.2 | -11.0 | -10.8 | |
| Other | 273.1 | 274.7 | 1445.7 | 1500.5 | 54.8 | 3.8 |
| Receipts | 203.9 | 212.7 | 1295.1 | 1404.2 | 109.1 | 8.4 |
| Deficit(+) | 68.7 | 60.2 | 142.7 | 71.3 | -71.4 | -50.0 |
| Adjusted for payment timing shifts¹ and excluding DI and spectrum auction | | | | | | |
| Outlays | 266.0 | 267.4 | 1445.7 | 1493.2 | 47.6 | 3.3 |
| National defense | 46.2 | 45.1 | 245.6 | 246.9 | 1.3 | .5 |
| Net interest | 41.8 | 42.1 | 221.9 | 226.4 | 4.5 | 2.0 |
| Social security | 58.5 | 61.1 | 320.5 | 334.8 | 14.3 | 4.5 |
| Medicare and health | 53.5 | 55.3 | 270.6 | 289.3 | 18.7 | 6.9 |
| Income security | 36.3 | 35.5 | 211.9 | 214.5 | 2.6 | 1.2 |
| Other | 31.1 | 29.8 | 175.1 | 182.7 | 7.6 | 4.3 |
| Receipts | 203.9 | 212.7 | 1295.1 | 1404.2 | 109.1 | 8.4 |
| Personal income and social insurance taxes | 176.1 | 186.3 | 1053.8 | 1151.0 | 97.2 | 9.2 |
| Corporate | 8.0 | 6.0 | 136.7 | 145.0 | 8.2 | 6.0 |
| Other | 19.7 | 20.4 | 104.6 | 108.2 | 3.6 | 3.5 |
| Deficit(+) | 62.2 | 54.8 | 150.6 | 89.0 | -61.6 | -40.9 |

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

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

OMB 1997 MIDSESSION REVIEW

| Measure | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2007 |
|---|------|------|------|------|------|------|------|
| Budget projections (billions of dollars: fiscal years) | | | | | | | |
| Baseline deficit, February | 128 | 120 | 140 | 128 | 109 | 101 | 92 |
| Changes | | | | | | | |
| Economic | -11 | -13 | -10 | -1 | 1 | 2 | na |
| Technical | -80 | -56 | -46 | -41 | -39 | -41 | na |
| Policy | 1 | 7 | -26 | -44 | -64 | -124 | -193 |
| Bills enacted | -1 | 2 | 2 | 1 | 1 | 0 | 0 |
| Reconciliation bills | 1 | 6 | -27 | -44 | -62 | -121 | -187 |
| Other | 0 | -1 | -1 | -2 | -3 | -4 | -6 |
| September deficit | 37 | 58 | 57 | 41 | 7 | -63 | -167 |
| Economic assumptions (calendar years) | | | | | | | |
| -----Percentage change, year over year----- | | | | | | | |
| Nominal GDP | 5.5 | 4.5 | 4.5 | 4.6 | 4.9 | 4.9 | 4.9 |
| Real GDP | 3.5 | 2.0 | 2.0 | 2.1 | 2.4 | 2.4 | 2.4 |
| GDP price index | 2.3 | 2.5 | 2.5 | 2.4 | 2.4 | 2.4 | 2.4 |
| CPI-U | 2.7 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| -----Percent, annual average----- | | | | | | | |
| Unemployment rate | 5.0 | 5.2 | 5.4 | 5.5 | 5.5 | 5.5 | 5.5 |
| Yield on selected Treasuries | | | | | | | |
| Three-month | 5.2 | 5.1 | 4.9 | 4.6 | 4.4 | 4.4 | 4.4 |
| Ten-year | 6.6 | 6.1 | 5.8 | 5.6 | 5.4 | 5.4 | 5.4 |

Note. The February baseline assumes that discretionary spending equals then-enacted appropriations in FY1997, and grows at the projected rate of inflation thereafter. The current deficit projections incorporate the discretionary spending caps for FY1998-FY2002 called for by the Budget Enforcement Act of 1997, and assume discretionary spending growth equal to the rate of inflation in FY2003-FY2007.

Source. Office of Management and Budget, Mid-Session Review of the 1998 Budget, September 1997. Economic assumptions beyond 2002 were provided by the Administration and are confidential.

CBO SEPTEMBER 1997 UPDATE

| Measure | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2007 |
|---|------|------|------|------|------|------|------|
| Budget projections (Billions of dollars: fiscal years) | | | | | | | |
| Baseline deficit, March | 115 | 122 | 149 | 172 | 167 | 188 | 278 |
| Changes | | | | | | | |
| Economic | -23 | -43 | -52 | -65 | -75 | -89 | -198 |
| Technical | -56 | -44 | -41 | -38 | -34 | -36 | -56 |
| Policy | -2 | 21 | -3 | -20 | -21 | -95 | -109 |
| Bills enacted | -2 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reconciliation bills | 0 | 21 | -3 | -20 | -21 | -95 | -109 |
| September deficit | 34 | 57 | 52 | 48 | 36 | -32 | -86 |
| Economic assumptions (calendar years) | | | | | | | |
| -----Percentage change, year over year----- | | | | | | | |
| Nominal GDP | 5.5 | 4.5 | 4.6 | 4.8 | 4.9 | 5.1 | 5.0 |
| Real GDP | 3.4 | 2.1 | 1.9 | 2.1 | 2.2 | 2.4 | 2.3 |
| GDP price index | 2.0 | 2.4 | 2.6 | 2.6 | 2.6 | 2.6 | 2.7 |
| CPI-U | 2.4 | 2.7 | 3.0 | 3.0 | 3.0 | 3.1 | 3.1 |
| -----Percent, annual average----- | | | | | | | |
| Unemployment rate | 5.0 | 5.1 | 5.5 | 5.8 | 5.9 | 6.0 | 6.0 |
| Yield on selected Treasuries | | | | | | | |
| Three-month | 5.2 | 5.4 | 4.7 | 4.4 | 4.4 | 4.4 | 4.4 |
| Ten-year | 6.4 | 6.2 | 5.8 | 5.7 | 5.7 | 5.7 | 5.7 |

Note. The March baseline assumes that discretionary spending equals the OBRA93 cap in 1998, and grows at the projected rate of inflation thereafter. The current deficit projections incorporate the discretionary spending caps for FY1998-FY2002 called for by the Budget Enforcement Act of 1997, and assume discretionary spending growth equal to the rate of inflation in FY2003-FY2007.

Source. Congressional Budget Office, The Economic and Budget Outlook: An Update, September 1997.

TREASURY FINANCING
(Billions of dollars; total for period)

| Item | 1997 | | | | | |
|---------------------------------------|-------|-------|-----------------|-------|-------|-------------------|
| | Q1 | Q2 | Q3 ^e | July | Aug. | Sep. ^e |
| Total surplus/deficit (-) | -52.0 | 100.1 | -- | -25.6 | -34.6 | -- |
| Means of financing deficit | | | | | | |
| Net cash borrowing and repayments (-) | 48.0 | -69.2 | -- | -1.4 | 30.3 | -- |
| Nonmarketable | 4.0 | 1.9 | -- | -1.8 | 2.4 | -- |
| Marketable | 44.0 | -71.1 | 6.7 | .4 | 27.9 | -21.5 |
| Bills | 7.9 | -81.4 | -1.1 | 1.8 | 15.7 | -18.7 |
| Coupons | 36.1 | 10.3 | 7.8 | -1.5 | 12.2 | -2.9 |
| Decrease in cash balance | -.7 | -17.8 | -- | 23.7 | 15.4 | -- |
| Other ¹ | 4.6 | -13.1 | -- | 3.3 | -11.2 | -- |
| Memo: | | | | | | |
| Cash balance, end of period | 33.5 | 51.3 | -- | 27.5 | 12.1 | -- |

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

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

e Estimated.

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

| Agency | 1997 | | | | |
|-------------------|------|------|-----|------|------|
| | Q1 | Q2 | May | June | July |
| FHLBs | 3.1 | 23.6 | 7.0 | 5.2 | 1.9 |
| FHLMC | -3.4 | 8.3 | 4.5 | -5.5 | -.4 |
| FNMA | 4.9 | 9.3 | 2.6 | 1.1 | 3.1 |
| Farm Credit Banks | .8 | 1.2 | .4 | .7 | -.2 |
| SLMA | -1.7 | 1.7 | -.9 | -2.8 | n.a. |

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

n.a. Not available.

The government's highly successful tax incentive scheme continued to provide stimulus to Italian auto manufacturing.

Third-quarter indicators are limited, but available data suggest further expansion. In July, new car registrations leapt for the sixth consecutive month, with growth in auto sales averaging close to 40 percent higher than in July 1996. Consumer confidence, which rose significantly in the first quarter and remained relatively flat in the second quarter, rose in July and August.

ITALIAN ECONOMIC INDICATORS
(Percent change from previous period except where noted, SA)

| | 1996 | | | 1997 | | | |
|----------------------------------|-------|-------|-------|-------|-------|-------|------|
| | Q4 | Q1 | Q2 | Jun | Jul | Aug | Sep |
| Industrial Production | -1.0 | 1.4 | 2.2 | 0.1 | 0.1 | n.a. | n.a. |
| Cap. Utilization (%) | 75.1 | 76.2 | 77.7 | ... | ... | ... | ... |
| Unemployment Rate (%) | 12.0 | 12.2 | 12.4 | ... | ... | ... | ... |
| Consumer Confidence ¹ | 104.7 | 109.2 | 108.8 | 108.9 | 114.1 | 117.8 | n.a. |
| Bus. Sentiment ² (%) | 1.3 | 20.0 | 13.7 | 11.0 | n.a. | n.a. | n.a. |
| Consumer Prices ³ | 2.7 | 2.5 | 1.6 | 1.4 | 1.6 | 1.5 | 1.4 |
| Wholesale Prices ³ | 1.8 | 0.6 | -0.4 | -0.3 | 0.1 | n.a. | n.a. |

1. Level of index, NSA.

2. Percent of manufacturing firms having a favorable view of business conditions minus those with an unfavorable outlook.

3. Percent change from previous year.

Italian inflation remains at record low levels. In September, the consumer price index was up a preliminary 1.4 percent on a 12-month basis. Although short-term price movements suggest that the deceleration in inflation has come to an end, a significant pick-up in CPI inflation is not likely in the near term.

The rift on welfare reform between the center-left coalition and the Communists remains wide. As part of his 1998 budget, Prime Minister Prodi hopes to include cuts in health care spending and pensions, which the Communists adamantly oppose. The 1998 budget proposal, which will outline the extent of intended reforms, will be presented to the parliament by the end of September. Under Italian law, the parliament is required to approve the budget by the end of December.

CONFIDENTIAL (FR)
CLASS II - FOMC

September 26, 1997

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

September 26, 1997

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

| | 1997 Jan | 1997 Feb | 1997 Mar | 1997 Apr | 1997 May | 1997 Jun | 1997 Jul | 1997 Aug | 1997 Sep (f) |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------------|
| Indexes of consumer sentiment (Feb. 1966=100) | | | | | | | | | |
| Composite of current and expected conditions | 97.4 | 99.7 | 100.0 | 101.4 | 103.2 | 104.5 | 107.1 | 104.4 | 106.0 |
| Current conditions | 106.8 | 107.2 | 109.8 | 115.2 | 113.5 | 113.2 | 114.0 | 110.7 | 114.1 |
| Expected conditions | 91.3 | 94.9 | 93.6 | 92.5 | 96.6 | 98.9 | 102.6 | 100.3 | 100.7 |
| <hr/> | | | | | | | | | |
| Personal financial situation | | | | | | | | | |
| Now compared with 12 months ago* | 116 | 114 | 119 | 132 | 122 | 126 | 130 | 121 | 127 |
| Expected in 12 months* | 128 | 134 | 134 | 130 | 138 | 131 | 133 | 138 | 138 |
| <hr/> | | | | | | | | | |
| Expected business conditions | | | | | | | | | |
| Next 12 months* | 136 | 135 | 138 | 130 | 142 | 147 | 151 | 150 | 149 |
| Next 5 years* | 103 | 113 | 105 | 113 | 109 | 121 | 130 | 116 | 119 |
| <hr/> | | | | | | | | | |
| Appraisal of buying conditions | | | | | | | | | |
| Cars | 141 | 130 | 135 | 136 | 150 | 154 | 136 | 139 | 143 |
| Large household appliances* | 160 | 164 | 166 | 167 | 173 | 168 | 166 | 167 | 170 |
| Houses | 162 | 166 | 155 | 153 | 160 | 160 | 165 | 166 | 173 |
| <hr/> | | | | | | | | | |
| Willingness to use credit | | | | | | | | | |
| Willingness to use savings | 45 | 39 | 37 | 41 | 49 | 43 | 49 | 48 | 50 |
| <hr/> | | | | | | | | | |
| Expected unemployment change - next 12 months | | | | | | | | | |
| | 114 | 107 | 112 | 113 | 109 | 108 | 104 | 107 | 103 |
| <hr/> | | | | | | | | | |
| Expected inflation - next 12 months | | | | | | | | | |
| Mean | 4.1 | 3.8 | 3.5 | 3.7 | 3.7 | 3.5 | 3.4 | 3.3 | 3.5 |
| Median | 3.0 | 3.0 | 2.8 | 3.0 | 2.9 | 2.8 | 2.7 | 2.7 | 2.9 |
| <hr/> | | | | | | | | | |
| Expected inflation - next 5 to 10 years | | | | | | | | | |
| Mean | 4.0 | 3.7 | 3.6 | 3.6 | 3.8 | 3.9 | 3.4 | 3.8 | 3.7 |
| Median | 3.1 | 3.1 | 3.0 | 2.9 | 3.0 | 3.1 | 2.9 | 3.0 | 3.2 |

* -- 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.

Strictly Confidential (FR)
Class II FOMC

CORRECTED
September 25, 1997

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | Projected 1997 | Projected 1998 | Projected 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 | -0.4 | -0.3 | -0.2 |
| Exports of G&S | 0.8 | 0.4 | 0.5 | 1.0 | 1.1 | 1.0 | 1.4 | 0.9 | 0.8 |
| Imports of G&S | -0.4 | -0.8 | -1.1 | -1.4 | -0.7 | -1.4 | -1.8 | -1.2 | -1.0 |
| Percentage change, Q4/Q4 | | | | | | | | | |
| Exports of G&S | 8.6 | 4.1 | 4.6 | 10.0 | 10.3 | 9.3 | 12.3 | 7.6 | 6.1 |
| Services | 7.1 | -0.9 | 4.1 | 6.0 | 9.0 | 4.7 | 2.5 | 2.6 | 3.5 |
| Agricultural Goods | 10.1 | 10.4 | -5.5 | 16.6 | -3.4 | 5.7 | 2.4 | 0.0 | 1.9 |
| Computers | 21.7 | 25.2 | 23.7 | 32.0 | 55.7 | 33.8 | 67.1 | 45.8 | 43.1 |
| Semiconductors | 41.8 | 64.8 | 32.9 | 66.9 | 80.4 | 45.9 | 34.3 | 41.2 | 41.2 |
| Other Goods 1/ | 7.0 | 2.3 | 3.6 | 6.9 | 5.7 | 7.6 | 13.2 | 5.2 | 1.5 |
| Imports of G&S | 4.1 | 7.4 | 10.2 | 12.3 | 5.6 | 11.8 | 14.9 | 9.2 | 7.0 |
| Services | -2.7 | 1.4 | 3.2 | 1.4 | 7.3 | 5.0 | 11.0 | 3.5 | 2.0 |
| Oil | 8.1 | 12.1 | 10.1 | -0.2 | 1.5 | 8.3 | 0.5 | 3.2 | 1.8 |
| Computers | 35.9 | 45.1 | 39.3 | 44.8 | 46.2 | 23.6 | 55.0 | 40.0 | 39.5 |
| Semiconductors | 55.3 | 42.0 | 34.2 | 54.5 | 92.7 | 57.9 | 45.0 | 41.8 | 40.6 |
| Other Goods 2/ | 2.5 | 5.4 | 9.5 | 12.2 | -1.2 | 10.5 | 12.7 | 6.7 | 3.7 |
| Billions of chained 1992 dollars | | | | | | | | | |
| Net Goods & Services | -22.3 | -29.5 | -70.2 | -104.6 | -98.8 | -114.4 | -139.3 | -165.1 | -194.8 |
| Exports of G&S | 599.9 | 639.4 | 658.2 | 712.4 | 791.2 | 857.0 | 969.5 | 1061.5 | 1124.3 |
| Imports of G&S | 622.2 | 669.0 | 728.4 | 817.0 | 890.1 | 971.5 | 1108.8 | 1226.6 | 1319.1 |
| Billions of dollars | | | | | | | | | |
| US CURRENT ACCOUNT BALANCE | -4.5 | -55.4 | -90.5 | -133.5 | -129.1 | -148.2 | -167.4 | -183.5 | -214.0 |
| Net Goods & Services (BOP) | -29.9 | -38.3 | -72.0 | -104.4 | -101.9 | -111.0 | -112.0 | -114.6 | -138.7 |
| Exports of G&S (BOP) | 580.7 | 617.7 | 643.0 | 699.7 | 794.6 | 848.8 | 933.1 | 1010.0 | 1068.9 |
| Imports of G&S (BOP) | 610.6 | 655.9 | 715.0 | 804.1 | 896.5 | 959.9 | 1045.2 | 1124.5 | 1207.6 |
| Net Investment Income | 20.3 | 18.0 | 19.7 | 9.7 | 6.8 | 2.8 | -15.4 | -27.2 | -33.6 |
| Direct, Net | 55.6 | 51.6 | 55.7 | 50.8 | 60.0 | 66.8 | 68.3 | 69.2 | 78.4 |
| Portfolio, Net | -35.4 | -33.6 | -36.0 | -41.0 | -53.2 | -63.9 | -83.7 | -96.4 | -112.0 |
| Net Transfers | 5.1 | -35.2 | -38.1 | -38.8 | -34.0 | -40.0 | -40.0 | -41.8 | -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 | 1.1 | 1.0 | -1.3 | -0.6 | -1.4 | 1.8 |
| Exports of G&S | -0.2 | 1.7 | 1.0 | 1.4 | 0.7 | 1.0 | 1.4 | 1.2 | 0.2 | 1.1 | 0.2 | 2.7 |
| Imports of G&S | -0.8 | -2.0 | -1.4 | -1.1 | -1.1 | -0.9 | -0.2 | -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 | 8.2 | 1.0 | 11.0 | -1.2 | 13.2 | -3.1 | 23.9 |
| 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/ | 6.9 | 19.6 | 10.3 | 12.5 | 7.3 | 2.2 | -10.0 | -3.6 | 14.5 | 11.0 | 12.2 | 4.3 |
| Billions of chained 1992 dollars | | | | | | | | | | | | |
| 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 | | | | | | | | | | | | |
| US CURRENT ACCOUNT BALANCE | -104.6 | -128.0 | -145.5 | -156.1 | -138.8 | -142.8 | -132.5 | -102.2 | -131.5 | -142.3 | -171.3 | -147.5 |
| Net Goods & Services (BOP) | -90.6 | -101.5 | -114.0 | -111.6 | -113.2 | -123.2 | -95.5 | -75.5 | -98.2 | -111.1 | -130.1 | -104.8 |
| Exports of G&S (BOP) | 662.5 | 688.4 | 710.9 | 736.8 | 761.5 | 785.9 | 806.4 | 824.6 | 828.4 | 848.6 | 840.3 | 878.0 |
| Imports of G&S (BOP) | 753.1 | 789.9 | 824.9 | 848.4 | 874.7 | 909.1 | 901.9 | 926.6 | 959.7 | 970.4 | 982.8 | |
| Net Investment Income | 17.9 | 10.6 | 7.2 | 3.3 | 8.2 | 12.9 | -1.6 | 7.8 | 8.2 | 3.5 | -5.5 | 5.0 |
| Direct, Net | 51.7 | 48.9 | 51.0 | 51.5 | 57.6 | 64.1 | 53.9 | 64.5 | 66.2 | 64.2 | 60.3 | 76.4 |
| Portfolio, Net | -33.8 | -38.3 | -43.8 | -48.2 | -49.4 | -51.3 | -55.5 | -56.7 | -57.9 | -60.7 | -65.7 | -71.4 |
| Net Transfers | -31.9 | -37.1 | -38.7 | -47.7 | -33.8 | -32.5 | -35.4 | -34.5 | -41.6 | -34.8 | -35.8 | -47.7 |

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

13-A-

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

| | Projected | | | | | | | | | | | |
|--|-----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 1997 | | | | 1998 | | | | 1999 | | | |
| | 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 | -0.9 | 0.4 | 0.1 | -0.7 | -0.9 | 0.3 | -0.5 | -0.1 | -0.6 | 0.4 |
| Exports of G&S | 1.1 | 2.2 | 0.6 | 1.7 | 1.3 | 0.8 | 0.3 | 1.2 | 0.4 | 1.0 | 0.3 | 1.3 |
| Imports of G&S | -2.1 | -2.4 | -1.5 | -1.2 | -1.2 | -1.4 | -1.2 | -0.9 | -0.9 | -1.1 | -1.0 | -0.9 |
| Percentage change from previous period, SAAR | | | | | | | | | | | | |
| Exports of G&S | 9.9 | 20.2 | 4.9 | 14.7 | 11.4 | 6.5 | 2.4 | 10.1 | 3.4 | 8.2 | 2.5 | 10.7 |
| Services | 3.7 | 3.5 | 1.4 | 1.4 | 2.0 | 2.7 | 2.7 | 3.0 | 3.5 | 3.5 | 3.5 | 3.6 |
| Agricultural Goods | -27.6 | 20.9 | 7.2 | 17.0 | -7.2 | -3.7 | 3.8 | 7.8 | 2.0 | -5.6 | 3.9 | 7.8 |
| Computers | 72.3 | 85.5 | 60.8 | 51.8 | 49.1 | 46.4 | 43.8 | 43.8 | 43.3 | 42.7 | 42.7 | 42.7 |
| Semiconductors | 39.0 | 15.3 | 41.2 | 43.8 | 41.2 | 41.2 | 41.2 | 41.2 | 41.2 | 41.2 | 41.2 | 41.2 |
| Other Goods 1/ | 12.4 | 25.1 | 0.2 | 16.5 | 13.2 | 3.9 | -3.9 | 8.5 | -2.9 | 6.0 | -5.0 | 8.5 |
| Imports of G&S | 17.9 | 20.5 | 12.0 | 9.6 | 9.7 | 11.4 | 9.1 | 6.7 | 6.5 | 8.3 | 7.0 | 6.3 |
| Services | 24.2 | 9.5 | 5.7 | 5.6 | 5.1 | 3.7 | 2.7 | 2.5 | 2.2 | 2.0 | 1.9 | 1.9 |
| Oil | -10.8 | 44.6 | -6.3 | -15.6 | -9.4 | 33.3 | 10.9 | -15.5 | -11.3 | 26.5 | 2.7 | -6.8 |
| Computers | 51.3 | 71.6 | 51.8 | 46.4 | 40.7 | 39.7 | 39.8 | 40.0 | 39.5 | 39.5 | 39.6 | 39.4 |
| Semiconductors | 71.2 | 19.1 | 50.7 | 43.8 | 42.7 | 42.2 | 41.1 | 41.4 | 40.6 | 40.6 | 40.8 | 40.4 |
| Other Goods 2/ | 15.3 | 17.0 | 10.5 | 8.3 | 8.3 | 7.6 | 6.1 | 4.9 | 4.2 | 3.7 | 3.5 | 3.3 |
| Billions of chained 1992 dollars | | | | | | | | | | | | |
| Net Goods & Services | -126.3 | -132.9 | -152.9 | -145.0 | -144.5 | -160.2 | -180.6 | -175.0 | -186.0 | -190.1 | -205.7 | -197.4 |
| Exports of G&S | 922.7 | 966.0 | 977.7 | 1011.7 | 1039.4 | 1056.0 | 1062.4 | 1088.3 | 1097.3 | 1119.2 | 1126.0 | 1154.9 |
| Imports of G&S | 1048.9 | 1098.9 | 1130.6 | 1156.7 | 1183.9 | 1216.2 | 1243.0 | 1263.2 | 1283.3 | 1309.3 | 1331.7 | 1352.3 |
| Billions of dollars | | | | | | | | | | | | |
| US CURRENT ACCOUNT BALANCE | -159.9 | -156.9 | -175.5 | -177.4 | -163.1 | -175.3 | -195.3 | -200.3 | -200.4 | -205.2 | -222.7 | -227.7 |
| Net Goods & Services (BOP) | -117.2 | -106.6 | -118.8 | -105.6 | -99.9 | -110.4 | -127.6 | -120.3 | -131.0 | -134.6 | -148.9 | -140.2 |
| Exports of G&S (BOP) | 897.0 | 936.2 | 935.1 | 964.1 | 989.7 | 1004.9 | 1010.4 | 1034.9 | 1043.4 | 1064.5 | 1070.3 | 1097.6 |
| Imports of G&S (BOP) | 1014.2 | 1042.8 | 1053.9 | 1069.8 | 1089.6 | 1115.3 | 1138.0 | 1155.1 | 1174.4 | 1199.0 | 1219.2 | 1237.7 |
| Net Investment Income | -8.0 | -14.1 | -17.7 | -21.7 | -24.2 | -25.9 | -28.7 | -30.1 | -30.3 | -31.7 | -34.8 | -37.6 |
| Direct, Net | 69.3 | 69.5 | 67.7 | 66.7 | 66.9 | 68.0 | 69.5 | 72.6 | 74.5 | 77.6 | 79.6 | 81.9 |
| Portfolio, Net | -77.3 | -83.6 | -85.3 | -88.4 | -91.1 | -93.9 | -98.1 | -102.6 | -104.9 | -109.3 | -114.4 | -119.4 |
| Net Transfers | -34.7 | -36.3 | -39.0 | -50.0 | -39.0 | -39.0 | -39.0 | -50.0 | -39.0 | -39.0 | -39.0 | -50.0 |

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

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