

Part 1

June 26, 1996

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

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SUMMARY AND OUTLOOK

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from its substantial first-quarter rate. But even here, inventory-sales ratios look rather lean in some sectors, and a little of the strength in production evident in non-auto IP could well have reflected efforts to rebuild stocks.

Continued reports of tightness in the labor market and recent statistics suggest that employers may be bidding up wages to attract workers. The latest monthly data on average hourly earnings reinforce the impression of an uptrend in wage inflation that was left by the jump in the first-quarter wage and salary figure from the Employment Cost Index. To date, however, there is no indication that any resultant cost pressures are feeding through to prices. Although the surge in energy prices likely will boost the CPI about 4 percent at an annual rate this quarter, excluding food and energy, the CPI is projected to rise just over 2-1/2 percent, a pace little different from that of recent quarters.

SUMMARY OF STAFF PROJECTIONS
(Percentage change at annual rate except as noted)

		1996		
	1995	H1	H2	1997
Real GDP	1.3	3.0	2.1	2.2
<i>Previous</i>		3.0	2.0	2.2
Final sales	1.9	3.1	1.7	2.2
<i>Previous</i>		3.1	1.6	2.1
PCE	2.0	3.2	2.7	2.5
<i>Previous</i>		3.2	2.6	2.5
BFI	6.7	9.7	4.8	4.2
<i>Previous</i>		8.9	4.7	4.4
Residential investment	-1.4	6.7	-3.1	-.2
<i>Previous</i>		7.2	-4.8	-.9
Civilian unemployment rate ¹	5.5	5.5	5.5	5.5
<i>Previous</i>		5.5	5.5	5.5

Note. Percentage change from final quarter of previous period to final quarter of period indicated except as noted.

1. Average level for the final quarter of period indicated.

The Outlook for the Second Half of 1996 and 1997

The contour of the projection for economic activity through 1997 is essentially the same as that in the last Greenbook. Growth in real GDP is forecast to slow sharply in the third quarter and to

noticeable uptick in overall consumer price inflation--to about 3.2 percent by 1997, a half percentage point faster than in 1995.

In the energy sector, the recent developments in oil markets have led us to lower the price path over the second half of this year. Indeed, as the Lundberg survey indicates, lower crude prices are already beginning to show up at gasoline stations, where the usual summer increase in prices did not occur. The additional declines in oil prices that we anticipate in coming months should be passed through fairly promptly to the retail level as well, and we now expect the CPI for energy to decline 5-1/2 percent at an annual rate over the second half of the year. In 1997, energy prices are projected to rise about 3-3/4 percent, reflecting the firming in crude oil costs that we have assumed for next year.

SUMMARY OF STAFF INFLATION PROJECTIONS
(Percentage change at an annual rate)

	1996		1995	1996	1997
	H1	H2			
Employment cost index ¹	2.8	3.2	2.8	3.0	3.3
<i>Previous</i>	2.9	3.4		3.1	3.5
Consumer price index ²	3.6	2.7	2.7	3.1	3.2
<i>Previous</i>	3.7	3.1		3.4	3.2
Food	2.8	4.5	2.6	3.7	3.8
<i>Previous</i>	3.1	4.8		3.9	4.0
Energy	16.5	-5.5	-1.7	4.9	3.7
<i>Previous</i>	17.3	-1.2		7.6	1.5
Excluding food and energy	2.7	3.0	3.0	2.9	3.0
<i>Previous</i>	2.7	3.1		2.9	3.2
PCE chain-weight price index ²	2.9	2.4	2.2	2.6	2.9
<i>Previous</i>	3.1	2.9		3.0	3.0
Excluding food and energy	2.1	2.6	2.4	2.4	2.7
<i>Previous</i>	2.3	3.0		2.7	3.0
GDP chain-weight price index ²	2.2	2.7	2.5	2.5	2.8
<i>Previous</i>	2.5	3.0		2.8	2.9

1. Percentage change from final month of previous period to final month of period indicated.

2. Percentage change from final quarter of previous period to final quarter of period indicated.

Agricultural commodity markets have remained volatile in recent weeks. The spot prices of crops have backed away from the highs of a few weeks ago, and mixed patterns continue to be evident in the

outstanding should be associated with the moderate growth projected for nominal expenditures on consumer durable goods and an upward tilt to debt repayments on the large volume of loans extended in the past several years. Growth in home mortgage debt is expected to slow a bit from the recent pace as home sales fall off.

Alternative Simulations

We have run two model simulations in which the funds rate is symmetrically raised or lowered relative to the assumption in the Greenbook. Deviations from baseline mount gradually to a total of 100 basis points by the end of this year and remain at that differential in 1997. In the lower-rate scenario, real GDP growth is little changed this year and 3/4 percentage point higher in 1997. The unemployment rate is lowered 0.4 percentage point by the end of 1997, and core CPI inflation is 1/2 percentage point higher than in the baseline forecast. The effects of the tighter policy scenario are symmetric.

ALTERNATIVE FEDERAL FUNDS RATE ASSUMPTIONS
(Percent change, Q4 to Q4, except as noted)

	1996	1997
Real GDP		
Baseline	2.5	2.2
Lower funds rate	2.6	3.0
Higher funds rate	2.4	1.4
Civilian unemployment rate		
Baseline	5.5	5.5
Lower funds rate	5.5	5.1
Higher funds rate	5.5	5.9
CPI excluding food and energy		
Baseline	2.9	3.0
Lower funds rate	2.9	3.4
Higher funds rate	2.9	2.6

1. Average for the fourth quarter.

An Accounting Note

As noted in footnote 4 on productivity, the real GDP growth rates in the projection are in terms of fixed-weight 1994 dollars rather than true chain-weight dollars and, other things equal, would be slightly lower when the BEA shifts to 1995 weights in August and to 1996 weights next summer. The effects of those changes would be to lower the GDP growth rates from what has been reported here to about 2.4 percent in 1996 and 2.0 percent in 1997.

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

June 26, 1996

Interval	Nominal GDP		Real GDP		GDP Chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
	05/16/96	06/26/96	05/16/96	06/26/96	05/16/96	06/26/96	05/16/96	06/26/96	05/16/96	06/26/96
ANNUAL										
1993	4.9	4.9	2.2	2.2	2.6	2.6	3.0	3.0	6.9	6.9
1994	5.8	5.8	3.5	3.5	2.3	2.3	2.6	2.6	6.1	6.1
1995	4.5	4.5	2.0	2.0	2.5	2.5	2.8	2.8	5.6	5.6
1996	4.4	4.3	2.2	2.2	2.5	2.3	3.1	3.0	5.5	5.5
1997	4.7	4.5	2.2	2.2	2.9	2.7	3.3	3.1	5.5	5.5
QUARTERLY										
1994	Q1	5.4	5.4	2.5	2.5	2.8	1.9	1.9	6.6	6.6
	Q2	6.8	6.8	4.8	4.8	1.9	1.9	2.8	6.2	6.2
	Q3	6.1	6.1	3.6	3.6	2.4	2.4	3.6	6.0	6.0
	Q4	5.4	5.4	3.2	3.2	2.2	2.2	2.4	5.6	5.6
1995	Q1	3.9	3.9	0.6	0.6	3.3	3.3	2.7	5.5	5.5
	Q2	2.8	2.8	0.5	0.5	2.5	2.5	3.5	5.7	5.7
	Q3	5.8	5.8	3.6	3.6	2.2	2.2	2.1	5.6	5.6
	Q4	2.3	2.3	0.5	0.5	2.2	2.2	2.4	5.5	5.5
1996	Q1	4.8	4.5	2.5	2.2	2.5	2.3	3.2	5.6	5.6
	Q2	5.6	5.4	3.5	3.8	2.5	2.1	4.2	5.5	5.5
	Q3	4.7	4.5	2.0	2.3	3.2	2.6	3.1	5.5	5.5
	Q4	4.5	4.4	1.9	1.9	2.9	2.7	3.0	5.5	5.5
1997	Q1	5.0	4.4	2.3	2.1	3.1	2.8	3.3	5.5	5.5
	Q2	4.6	4.6	2.1	2.2	2.8	2.8	3.3	5.5	5.5
	Q3	4.3	4.4	1.8	2.0	2.9	2.8	3.2	5.5	5.5
	Q4	4.9	4.6	2.4	2.3	2.9	2.7	3.2	5.5	5.5
TWO-QUARTER³										
1994	Q2	6.1	6.1	3.7	3.7	2.3	2.4	2.3	2.3	-0.4
	Q4	5.7	5.7	3.4	3.4	2.3	2.3	2.9	2.9	-0.6
1995	Q2	3.3	3.3	0.5	0.5	2.9	2.9	3.2	3.2	0.1
	Q4	4.0	4.0	2.0	2.0	2.2	2.2	2.2	2.2	-0.2
1996	Q2	5.2	5.0	3.0	3.0	2.5	2.2	3.7	3.6	-0.0
	Q4	4.6	4.4	2.0	2.1	3.1	2.7	3.1	2.7	0.0
1997	Q2	4.8	4.5	2.2	2.1	3.0	2.8	3.3	3.3	0.0
	Q4	4.6	4.5	2.1	2.2	2.9	2.7	3.2	3.1	-0.0
FOUR-QUARTER⁴										
1993	Q4	4.7	4.7	2.2	2.2	2.5	2.5	2.7	2.7	-0.8
1994	Q4	5.9	5.9	3.5	3.5	2.3	2.3	2.6	2.6	-1.0
1995	Q4	3.7	3.7	1.3	1.3	2.6	2.5	2.7	2.7	-0.1
1996	Q4	4.9	4.7	2.5	2.5	2.8	2.5	3.4	3.1	-0.0
1997	Q4	4.7	4.5	2.2	2.2	2.9	2.8	3.2	3.2	-0.0

1. For all urban consumers.

2. Level, except as noted.

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

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

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

June 26, 1996

Item	Units ¹	- Projected -									
		1989	1990	1991	1992	1993	1994	1995	1996	1997	
EXPENDITURES											
Nominal GDP	Bill. \$	5438.7	5743.8	5916.7	6244.4	6550.2	6931.4	7245.8	7557.4	7898.5	
Real GDP	Bill. Ch. \$	6060.4	6138.7	6079.0	6244.4	6383.8	6604.2	6739.0	6889.4	7041.4	
Real GDP	% change	2.4	-0.2	0.4	3.7	2.2	3.5	1.3	2.5	2.2	
Gross domestic purchases		1.7	-0.8	-0.0	4.0	2.8	3.7	1.1	3.1	2.2	
Final sales		2.3	0.6	-0.4	3.9	2.0	3.0	1.9	2.4	2.2	
Priv. dom. final purchases		1.4	-0.6	-0.8	4.9	3.5	4.0	2.4	3.4	2.6	
Personal cons. expenditures		1.6	0.5	-0.2	4.2	2.5	3.0	2.0	2.9	2.5	
Durables		-0.1	-3.2	-3.1	9.4	7.3	7.0	1.8	6.2	5.2	
Nondurables		1.6	-0.5	-1.0	3.4	1.5	3.6	1.1	2.7	2.1	
Services		2.1	2.0	0.9	3.6	2.1	1.9	2.6	2.3	2.0	
Business fixed investment		2.8	-2.5	-6.0	5.5	8.5	10.1	6.7	7.2	4.2	
Producers' dur. equipment		2.3	-2.0	-2.5	9.6	11.5	12.6	7.3	8.2	5.4	
Nonres. structures		3.7	-3.5	-12.5	-3.4	1.5	3.7	5.0	4.3	0.5	
Residential structures		-7.0	-15.1	1.1	16.9	8.1	5.7	-1.4	1.7	-0.2	
Exports		10.8	7.2	8.6	4.1	5.0	10.2	6.5	5.7	9.0	
Imports		2.6	0.5	4.1	7.4	11.4	11.6	4.6	9.3	8.0	
Gov't. cons. & investment		2.5	2.6	-0.7	1.7	-0.5	0.1	-1.3	0.5	0.4	
Federal		0.8	1.6	-3.1	1.3	-5.5	-3.0	-6.6	-2.5	-3.4	
Defense		-1.0	0.3	-5.3	-1.3	-6.9	-5.6	-6.6	-2.4	-3.3	
State & local		3.9	3.3	1.0	2.0	3.1	2.2	2.1	2.2	2.5	
Change in bus. inventories	Bill. Ch. \$	33.3	10.4	-3.0	7.3	19.1	58.9	33.7	17.2	25.7	
Nonfarm		33.5	7.8	-1.2	1.9	26.4	46.8	37.4	19.4	22.9	
Net exports		-82.7	-61.9	-22.3	-29.5	-74.4	-108.1	-114.2	-128.2	-134.7	
Nominal GDP	% change	6.4	4.4	3.8	6.3	4.7	5.9	3.7	4.7	4.5	
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	107.9	109.4	108.3	108.6	110.7	114.2	117.2	119.3	120.8	
Unemployment rate	%	5.3	5.6	6.9	7.5	6.9	6.1	5.6	5.5	5.5	
Industrial prod. index	% change	-0.1	-0.2	0.2	4.0	3.2	6.6	1.6	3.9	3.1	
Capacity util. rate - mfg.	%	83.2	81.3	78.0	79.5	80.6	83.3	83.0	81.9	81.8	
Housing starts	Millions	1.38	1.19	1.01	1.20	1.29	1.46	1.35	1.42	1.36	
Light motor vehicle sales		14.66	14.05	12.52	12.85	13.87	15.02	14.74	15.03	14.85	
North Amer. produced		11.20	10.85	9.74	10.51	11.72	12.88	12.82	13.31	13.07	
Other		3.46	3.20	2.77	2.34	2.15	2.13	1.91	1.72	1.78	
INCOME AND SAVING											
Nominal GNP	Bill. \$	5452.8	5764.9	5932.4	6255.5	6560.0	6922.4	7237.5	7554.6	7885.9	
Nominal GNP	% change	6.5	4.6	3.5	6.2	4.6	5.7	3.9	4.6	4.4	
Nominal personal income		6.8	6.4	3.7	7.3	3.6	5.1	5.4	5.2	4.9	
Real disposable income		1.6	1.0	0.8	4.0	0.9	2.6	3.0	2.4	2.4	
Personal saving rate	%	4.8	5.0	5.7	5.9	4.5	3.8	4.5	4.5	4.5	
Corp. profits, IVA & CCAdj.	% change	-9.9	6.2	3.9	12.7	19.9	10.9	8.7	6.2	1.3	
Profit share of GNP	%	6.5	6.4	6.4	6.4	7.1	7.6	8.1	8.7	8.4	
(excluding FR banks)	%	6.2	6.0	6.1	6.1	6.8	7.4	7.8	8.4	8.1	
Federal surpl./deficit	Bill. \$	-113.4	-154.7	-196.0	-280.9	-254.7	-189.9	-162.6	-134.0	-144.2	
State & local surpl./def.		95.1	80.1	75.8	86.3	94.9	99.7	95.0	91.6	87.5	
Ex. social ins. funds		34.9	20.2	11.5	18.3	28.0	36.9	36.8	35.2	32.0	
PRICES AND COSTS											
GDP implicit deflator	% change	3.9	4.6	3.4	2.6	2.5	2.3	2.4	2.1	2.3	
GDP chn.-wt. price index		3.9	4.7	3.3	2.6	2.5	2.3	2.5	2.5	2.8	
Gross Domestic Purchases chn.-wt. price index		4.0	5.2	2.7	2.7	2.3	2.4	2.4	2.3	2.7	
CPI Ex. food and energy		4.6	6.3	3.0	3.1	2.7	2.6	2.7	3.1	3.2	
CPI Ex. food and energy		4.4	5.3	4.4	3.5	3.1	2.8	3.0	2.9	3.0	
ECI, hourly compensation ²		4.8	4.6	4.4	3.5	3.6	3.1	2.8	3.0	3.3	
Nonfarm business sector		0.1	-0.6	2.2	3.6	-0.4	0.5	0.3	1.5	1.2	
Output per hour		2.8	5.9	4.7	4.6	1.8	2.3	3.6	3.5	3.6	
Compensation per Hour		2.7	6.5	2.5	1.0	2.2	1.7	3.4	2.0	2.4	
Unit labor cost											

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

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

June 26, 1996

Item	Units	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	6442.8	6503.2	6571.3	6683.7	6772.8	6885.0	6987.6	7080.0	7147.8	7196.5
Real GDP	Bill. Ch. \$	6327.0	6353.7	6390.4	6463.9	6504.6	6581.5	6639.5	6691.3	6701.6	6709.4
Real GDP	% change	-0.0	1.7	2.3	4.7	2.5	4.8	3.6	3.2	0.6	0.5
Gross domestic purchases		0.9	2.4	3.7	4.4	3.4	5.4	3.6	2.7	1.4	0.9
Final sales		-0.8	1.5	2.3	4.8	1.2	2.8	4.2	3.6	0.7	1.8
Priv. dom. final purchases		1.4	2.8	4.4	5.4	3.7	4.5	3.6	4.1	2.1	2.6
Personal cons. expenditures		0.7	2.7	3.8	2.8	2.6	3.6	2.5	3.3	0.8	3.4
Durables		0.8	11.2	7.3	10.2	5.8	4.3	5.6	12.6	-8.7	7.0
Nondurables		-0.9	2.3	2.9	1.7	3.8	3.3	4.0	3.2	2.4	1.9
Services		1.6	1.3	3.6	1.9	1.4	3.6	1.2	1.4	2.1	3.4
Business fixed investment		6.0	6.3	4.7	17.5	7.3	7.1	13.7	12.2	15.3	3.6
Producers' dur. equipment		7.1	11.4	6.3	21.7	15.6	4.1	19.3	11.9	17.4	3.7
Nonres. structures		3.5	-5.3	0.8	7.5	-11.8	15.7	0.2	13.0	9.9	3.4
Residential structures		2.1	-5.1	13.2	24.3	12.8	12.7	-1.8	-0.1	-6.3	-13.3
Exports		0.4	7.9	-7.9	21.5	-0.6	14.8	12.2	15.3	2.6	4.6
Imports		9.6	14.5	4.9	17.0	7.5	19.1	11.0	9.3	8.7	7.7
Gov't. cons. & investment		-4.7	0.2	1.0	1.5	-4.2	-0.8	7.0	-1.4	-1.1	0.9
Federal		-13.1	-4.9	-2.9	-0.7	-11.1	-5.3	11.5	-5.9	-6.3	-1.1
Defense		-15.6	-5.2	-5.8	-0.5	-17.0	0.7	13.3	-16.1	-7.0	0.9
State & local		1.7	3.9	3.8	3.0	0.7	2.2	4.2	1.6	2.3	2.1
Change in bus. inventories	Bill. Ch. \$	18.5	20.8	19.5	17.4	40.1	74.1	64.0	57.3	54.5	30.6
Nonfarm		26.0	26.7	30.9	22.1	29.8	54.1	50.1	53.3	58.1	33.8
Net exports		-55.2	-67.0	-89.1	-86.2	-101.3	-112.2	-113.3	-105.8	-119.0	-126.8
Nominal GDP	% change	3.8	3.8	4.3	7.0	5.4	6.8	6.1	5.4	3.9	2.8
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	109.7	110.3	111.0	111.8	112.6	113.7	114.7	115.6	116.5	117.0
Unemployment rate	%	7.2	7.1	6.8	6.6	6.6	6.2	6.0	5.6	5.5	5.7
Industrial prod. index	% change	3.7	0.5	3.2	5.5	8.4	7.0	4.6	6.4	3.9	-1.4
Capacity util. rate - mfg.	%	80.6	80.3	80.4	81.1	82.2	83.2	83.4	84.3	84.3	83.0
Housing starts	Millions	1.17	1.27	1.30	1.43	1.38	1.47	1.46	1.48	1.31	1.29
Light motor vehicle sales		13.04	14.12	13.82	14.51	15.07	14.85	14.99	15.16	14.56	14.44
North Amer. produced		10.87	11.87	11.69	12.45	12.94	12.69	12.79	13.12	12.52	12.46
Other		2.17	2.25	2.14	2.06	2.13	2.16	2.20	2.05	2.04	1.97
INCOME AND SAVING											
Nominal GNP	Bill. \$	6458.4	6512.3	6584.8	6684.5	6773.6	6876.3	6977.6	7062.2	7140.5	7187.0
Nominal GNP	% change	4.3	3.4	4.5	6.2	5.4	6.2	6.0	4.9	4.5	2.6
Nominal personal income		-4.8	8.5	3.1	8.1	-3.3	13.6	4.2	6.5	7.1	4.5
Real disposable income		-7.1	4.8	1.4	4.9	-5.3	10.1	2.1	4.0	3.6	0.0
Personal saving rate	%	4.3	4.8	4.3	4.7	2.8	4.2	4.1	4.2	4.8	4.0
Corp. profits, IVA & CCAdj.	% change	-1.2	22.9	19.7	42.2	-37.5	84.7	14.5	14.6	-6.4	1.1
Profit share of GNP	%	6.6	6.9	7.1	7.7	6.7	7.7	7.9	8.1	7.8	7.8
(excluding FR banks)	%	6.3	6.6	6.9	7.4	6.5	7.5	7.6	7.8	7.5	7.5
Federal surpl./deficit	Bill. \$	-283.7	-249.2	-253.5	-232.4	-212.9	-169.9	-186.3	-190.4	-173.3	-160.5
State & local surpl./def.		80.5	89.1	94.9	115.0	94.8	105.2	99.6	99.3	99.0	99.0
Ex. social ins. funds		13.3	22.0	28.1	48.5	29.0	41.1	37.9	39.4	40.2	40.9
PRICES AND COSTS											
GDP implicit deflator	% change	3.8	2.1	1.9	2.2	2.8	1.9	2.4	2.2	3.2	2.3
GDP chn.-wt. price index		3.8	2.2	1.8	2.3	2.8	1.9	2.4	2.2	3.3	2.5
Gross Domestic Purchases		3.1	2.4	1.3	2.2	2.3	2.3	3.0	2.1	2.9	2.9
chn.-wt. price index		3.1	2.8	1.7	3.4	1.9	2.8	3.6	2.4	2.7	3.5
CPI		3.5	3.5	2.4	2.9	2.9	2.9	3.1	2.3	3.3	3.3
Ex. food and energy		4.2	3.5	3.4	3.4	3.0	3.4	3.3	2.3	2.9	2.9
ECI, hourly compensation ¹		4.2	3.5	3.4	3.4	3.0	3.4	3.3	2.3	2.9	2.9
Nonfarm business sector		-3.7	-2.1	1.6	2.5	-1.9	0.9	2.0	1.1	-1.4	1.6
Output per hour		1.3	2.1	1.7	1.9	2.9	1.9	0.7	3.5	3.5	4.1
Compensation per hour		5.2	4.3	0.1	-0.6	4.9	1.0	-1.3	2.4	4.9	2.5

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)

June 26, 1996

Item	Units	Projected										
		1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	
EXPENDITURES												
Nominal GDP	Bill. \$	7298.5	7340.4	7421.5	7520.2	7603.3	7684.8	7768.5	7855.4	7940.6	8029.4	
Real GDP	Bill. Ch. \$	6768.3	6776.5	6813.9	6877.7	6916.7	6949.2	6985.4	7022.9	7058.5	7098.8	
Real GDP	% change	3.6	0.5	2.2	3.8	2.3	1.9	2.1	2.2	2.0	2.3	
Gross domestic purchases		2.8	-0.5	3.3	4.4	2.8	1.8	1.8	2.2	2.5	2.1	
Final sales		3.4	1.6	3.4	2.8	1.3	2.1	2.3	2.2	1.8	2.5	
Priv. dom. final purchases		3.3	1.6	5.0	3.5	2.8	2.5	2.4	2.6	2.7	2.7	
Personal cons. expenditures		2.8	1.2	3.6	2.9	2.7	2.6	2.6	2.5	2.4	2.4	
Durables		9.3	0.3	8.2	6.4	5.9	4.4	5.5	5.0	5.2	5.1	
Nondurables		0.5	-0.3	3.6	2.0	2.8	2.4	2.2	2.1	2.0	2.0	
Services		2.6	2.2	2.6	2.5	1.9	2.3	2.1	2.1	2.0	2.0	
Business fixed investment		5.2	3.1	13.5	6.0	5.8	3.8	3.7	4.3	4.4	4.4	
Producers' dur. equipment		4.9	4.0	15.2	6.5	6.8	4.6	4.9	5.5	5.7	5.6	
Nonres. structures		6.2	0.9	8.6	4.4	2.9	1.3	0.0	0.4	0.7	0.7	
Residential structures		9.2	6.4	6.6	6.8	-2.8	-3.3	-4.2	-0.8	1.4	2.8	
Exports		8.0	11.0	2.4	6.7	2.6	11.2	7.5	11.2	5.4	12.0	
Imports		1.0	1.3	11.2	10.7	6.2	9.1	4.5	10.2	8.1	9.3	
Gov't. cons. & investment		-0.7	-4.1	2.6	2.7	-2.9	-0.1	0.1	0.5	0.5	0.6	
Federal		-5.9	-12.8	8.5	-4.4	-9.1	-4.1	-4.0	-3.1	-3.1	-3.3	
Defense		-8.1	-12.0	7.5	-4.0	-8.0	-4.5	-4.4	-2.9	-2.9	-3.0	
State & local		2.7	1.5	-0.8	7.0	0.7	2.2	2.4	2.5	2.5	2.7	
Change in bus. inventories	Bill. Ch. \$	33.2	16.5	-3.5	13.8	31.0	27.4	24.6	24.7	28.5	24.9	
Nonfarm		38.3	19.5	2.1	16.8	32.2	26.4	21.9	22.0	25.7	22.0	
Net exports		-114.3	-96.6	-116.0	-126.7	-135.7	-134.6	-130.1	-131.4	-139.8	-137.4	
Nominal GDP	% change	5.8	2.3	4.5	5.4	4.5	4.4	4.4	4.6	4.4	4.6	
EMPLOYMENT AND PRODUCTION												
Nonfarm payroll employment	Millions	117.4	117.9	118.5	119.2	119.7	120.0	120.3	120.6	121.0	121.3	
Unemployment rate	%	5.6	5.5	5.6	5.5	5.5	5.5	5.5	5.5	5.5	5.5	
Industrial prod. index	% change	3.2	0.6	3.0	5.5	4.4	2.8	3.1	3.1	2.9	3.3	
Capacity util. rate - mfg.	%	82.6	82.0	81.6	82.0	82.1	81.8	81.8	81.8	81.8	81.9	
Housing starts	Millions	1.42	1.41	1.47	1.46	1.39	1.37	1.35	1.35	1.36	1.37	
Light motor vehicle sales		15.04	14.92	15.17	15.21	14.96	14.80	14.81	14.83	14.87	14.88	
North Amer. produced		13.18	13.13	13.48	13.52	13.20	13.04	13.04	13.06	13.09	13.10	
Other		1.86	1.79	1.69	1.69	1.76	1.76	1.77	1.77	1.78	1.78	
INCOME AND SAVING												
Nominal GNP	Bill. \$	7283.0	7339.6	7426.7	7518.9	7596.8	7676.1	7758.6	7843.9	7927.3	8013.9	
Nominal GNP	% change	5.4	3.1	4.8	5.1	4.2	4.2	4.4	4.5	4.3	4.4	
Nominal personal income		5.0	5.2	5.2	5.9	5.2	4.4	5.2	4.8	4.9	4.8	
Real disposable income		4.5	3.8	2.6	1.1	4.2	1.8	3.8	1.7	2.1	2.0	
Personal saving rate	%	4.4	4.9	4.7	4.3	4.6	4.4	4.7	4.6	4.5	4.4	
Corp. profits, IVA & CCAdj.	% change	44.2	2.4	24.1	1.5	-3.0	4.0	0.3	2.2	0.5	2.3	
Profit share of GNP	%	8.4	8.4	8.8	8.7	8.6	8.6	8.5	8.4	8.3	8.3	
(excluding FR banks)	%	8.1	8.1	8.5	8.4	8.3	8.3	8.2	8.2	8.1	8.0	
Federal surpl./deficit	Bill. \$	-161.6	-154.9	-153.2	-124.9	-128.2	-129.8	-145.0	-142.3	-140.9	-148.4	
State & local surpl./def.		93.9	88.1	87.0	97.3	92.8	89.3	88.6	89.1	86.4	86.0	
Ex. social ins. funds		35.8	30.5	30.2	40.7	36.5	33.3	32.8	33.5	31.0	30.8	
PRICES AND COSTS												
GDP implicit deflator	% change	2.2	1.8	2.3	1.6	2.2	2.4	2.3	2.3	2.3	2.2	
GDP chn.-wt. price index		2.2	2.2	2.3	2.1	2.6	2.7	2.8	2.8	2.8	2.7	
Gross Domestic Purchases chn.-wt. price index		1.7	2.1	2.3	2.2	2.4	2.4	2.9	2.8	2.7	2.6	
CPI		2.1	2.4	3.2	4.0	2.6	2.7	3.2	3.4	3.1	3.0	
Ex. food and energy		2.8	2.7	2.7	2.6	3.0	3.0	3.0	3.0	3.1	3.1	
ECI, hourly compensation ¹		2.6	3.2	2.9	2.8	3.1	3.2	3.3	3.3	3.3	3.4	
Nonfarm business sector		1.7	-0.8	2.0	1.9	1.0	0.9	1.3	1.1	0.9	1.4	
Output per hour		4.1	2.9	3.3	3.5	3.6	3.6	3.7	3.6	3.6	3.6	
Compensation per hour		2.4	3.7	1.3	1.7	2.6	2.7	2.4	2.4	2.7	2.1	

1. Private-industry workers.

Strictly Confidential <PR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

June 26, 1996

Item	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	95Q4/ 94Q4	96Q4/ 95Q4	97Q4/ 96Q4
Real GDP												
Gross dom. purchases	0.5	2.2	3.8	2.3	1.9	2.1	2.2	2.0	2.3	1.3	2.5	2.2
-0.5	3.3	4.4	2.8	1.8	1.8	2.2	2.5	2.2	1.1	3.1	2.2	
Final sales	1.6	3.4	2.8	1.3	2.1	2.3	2.2	1.8	2.5	1.9	2.4	2.2
Priv. dom. final purchases	1.4	4.1	2.9	2.4	2.1	2.0	2.1	2.2	2.3	2.0	2.9	2.2
Personal cons. expenditures	0.8	2.4	2.0	1.8	1.8	1.7	1.7	1.7	1.6	1.4	2.0	1.7
Durables	0.0	0.7	0.6	0.5	0.4	0.5	0.4	0.5	0.5	0.2	0.5	0.5
Nondurables	-0.1	0.7	0.4	0.6	0.5	0.5	0.4	0.4	0.4	0.2	0.6	0.4
Services	0.9	1.0	1.0	0.7	0.9	0.8	0.8	0.8	0.8	1.0	0.9	0.8
Business fixed investment	0.3	1.4	0.6	0.6	0.4	0.4	0.5	0.5	0.5	0.7	0.8	0.5
Producers' dur. equip.	0.3	1.2	0.5	0.6	0.4	0.4	0.5	0.5	0.5	0.6	0.7	0.5
Nonres. structures	0.0	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0
Residential structures	0.2	0.3	0.3	-0.1	-0.1	-0.2	-0.0	0.1	0.1	-0.1	0.1	-0.0
Net exports	1.0	-1.1	-0.6	-0.5	0.1	0.3	-0.1	-0.5	0.1	0.1	-0.6	-0.0
Exports	1.2	0.3	0.8	0.3	1.3	0.9	1.3	0.7	1.5	0.7	0.7	1.1
Imports	-0.2	1.4	1.4	0.8	1.2	0.6	1.4	1.1	1.3	0.6	1.2	1.1
Government cons. & invest.	-0.8	0.5	0.5	-0.5	-0.0	0.0	0.1	0.1	0.1	-0.2	0.1	0.1
Federal	-0.9	0.6	-0.3	-0.6	-0.3	-0.3	-0.2	-0.2	-0.2	-0.5	-0.2	-0.2
Defense	-0.6	0.3	-0.2	-0.4	-0.2	-0.2	-0.1	-0.1	-0.1	-0.3	-0.1	-0.1
Nondefense	-0.4	0.2	-0.1	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1
State and local	0.2	-0.1	0.8	0.1	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.3
Change in bus. inventories	-1.1	-1.2	1.0	1.0	-0.2	-0.2	0.0	0.2	-0.2	-0.6	0.2	-0.0
Nonfarm	-1.1	-1.0	0.9	0.9	-0.3	-0.3	0.0	0.2	-0.2	-0.5	0.1	-0.1
Farm	0.1	-0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	-0.1	0.1	0.0
GDP residual	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	0.0

Components may not sum to total due to rounding.

I-22

Item UNIFIED BUDGET	Fiscal year ⁵				1995				1996				1997				
	1994 ^a	1995 ^a	1996	1997	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1 Not seasonally adjusted								
	Receipts ¹	1258	1355	1449	1493	307	404	333	324	321	446	357	344	325	451	373	359
Outlays ¹	1461	1519	1576	1656	380	381	373	380	394	396	407	414	415	411	415	432	
Surplus/deficit ¹	-203	-164	-128	-163	-73	23	-40	-56	-72	50	-50	-70	-91	40	-42	-73	
On-budget	-259	-226	-191	-223	-85	-11	-43	-69	-84	14	-52	-76	-102	2	-47	-79	
Off-budget	56	62	64	60	12	34	2	14	12	36	2	6	11	39	5	6	
Surplus excluding deposit insurance ²	-211	-182	-138	-167	-80	18	-42	-59	-75	47	-51	-71	-92	39	-43	-74	
Means of financing																	
Borrowing	185	171	141	181	66	26	20	33	80	-27	54	66	62	6	47	52	
Cash decrease	17	-2	-5	-17	8	-42	23	17	-1	-17	-3	8	20	-45	0	25	
Other ³	1	-6	-9	-1	-1	-7	-2	5	-7	-6	-2	-3	8	-1	-5	-3	
Cash operating balance, end of period	36	38	43	60	18	61	38	20	22	39	43	35	15	60	60	35	
NIPA FEDERAL SECTOR																	
Receipts	1354	1459	1539	1601	1449	1483	1487	1495	1524	1568	1567	1585	1589	1607	1624	1643	
Expenditures	1554	1630	1679	1741	1623	1644	1648	1650	1677	1693	1695	1715	1734	1749	1765	1791	
Consumption expend.	450	455	451	442	455	456	453	451	457	452	444	442	443	442	441	440	
Defense	307	304	300	296	303	305	301	300	302	301	297	296	297	296	296	296	
Nondefense	143	151	151	146	152	151	152	151	155	151	147	146	147	146	145	144	
Other expenditures	1104	1175	1228	1299	1168	1188	1195	1198	1220	1240	1240	1252	1273	1290	1307	1324	1351
Current account surplus	-200	-171	-140	-140	-173	-151	-162	-155	-153	-125	-128	-130	-145	-142	-141	-148	
Gross investment	67	65	61	61	65	67	63	56	64	62	61	61	61	60	60	60	
Current and capital account surplus	-267	-237	-201	-200	-238	-227	-225	-211	-217	-187	-189	-191	-206	-203	-201	-208	
FISCAL INDICATORS ⁴																	
High-employment (HEB) surplus/deficit	-268	-267	-239	-240	-265	-248	-253	-235	-245	-222	-229	-233	-250	-249	-250	-261	
Change in HEB, percent of potential GDP	-.7	0	-.4	0	-.3	-.2	.1	-.2	.1	-.3	.1	.1	.2	0	0	.1	
Fiscal impetus (FI), percent, cal. year	-6.3	-5.5	-5.8	-5.3	-1.9	-.8	-1.7	-3.6	1.5	-3	-2	-1.3	-1.3	-1	-1	-.1	

1. OMB's March 1996 baseline deficit estimates (assuming the enactment of the President's proposals) are \$146 billion in FY96 and \$140 billion in FY97. CBO's April 1996 baseline deficit estimates are \$144 billion in FY96 and \$171 billion in FY97. 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 March 1996 baseline deficit estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are \$154 billion in FY96 and \$144 billion in FY97. CBO's April 1996 baseline deficit estimates, excluding deposit insurance spending, are \$154 billion in FY96 and \$176 billion in FY97.

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 1.8 percent real growth 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 fiscal year totals.

a--Actual.
b--Preliminary.

Confidential FR Class II
June 26, 1996

CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS¹
(Percent)

	Nonfederal								MEMO	
	Households				Home mtg.	Cons. credit	Business	State and local govt.		
	Total	Federal govt.	Total							
Year										
1986	12.2	13.6	11.8	11.5	13.8	9.6	12.2	10.8	5.0	
1987	9.2	8.0	9.6	12.1	16.3	5.0	6.7	12.1	7.4	
1988	8.8	8.0	9.1	9.3	10.9	7.2	9.7	6.5	7.6	
1989	7.6	7.0	7.8	8.7	10.1	6.0	7.5	5.7	6.4	
1990	6.6	11.0	5.3	7.9	10.1	2.0	3.1	4.9	4.4	
1991	4.4	11.1	2.4	5.0	6.6	-1.7	-1.7	8.2	3.8	
1992	4.8	10.9	2.8	5.2	6.1	0.6	0.5	2.0	6.3	
1993	5.3	8.3	4.2	6.2	5.4	7.7	1.6	5.7	4.7	
1994	4.9	4.7	5.0	8.5	6.5	14.5	3.8	-3.7	5.9	
1995	5.6	4.1	6.1	8.3	6.4	14.5	6.4	-4.1	3.7	
1996	4.8	4.8	4.8	6.6	6.2	9.2	4.3	-2.3	4.7	
1997	4.6	4.4	4.6	6.0	6.0	6.9	4.6	-2.2	4.5	
Quarter (seasonally adjusted annual rates)										
1995:1	6.7	7.6	6.3	7.7	6.0	14.0	7.7	-4.0	3.9	
2	6.6	5.7	7.0	8.3	6.4	15.3	7.6	-1.0	2.8	
3	4.3	1.8	5.2	9.3	7.9	14.9	4.5	-10.0	5.8	
4	4.2	1.2	5.3	6.8	4.9	10.7	5.3	-1.5	2.3	
1996:1	6.2	7.9	5.6	7.7	7.7	10.8	4.6	-0.3	4.5	
2	3.8	0.9	4.8	6.7	6.3	8.8	3.9	-0.8	5.4	
3	4.3	5.4	3.9	5.8	5.3	8.2	4.2	-6.7	4.5	
4	4.4	4.5	4.4	5.6	5.1	7.6	4.4	-1.5	4.4	
1997:1	5.0	6.8	4.3	5.7	5.6	6.9	4.5	-3.7	4.4	
2	4.2	3.2	4.6	5.9	5.8	6.8	4.6	-2.7	4.6	
3	4.6	4.4	4.6	5.9	6.0	6.7	4.5	-1.9	4.4	
4	4.3	2.9	4.7	5.9	6.0	6.5	4.5	-0.8	4.6	

I. Data after 1996:Q1 are staff projections. Changes are measured from end of the preceding period to end of period indicated except annual nominal GDP growth, which is Q4 to Q4. On a monthly average basis, total debt grows 5.6 percent in 1995, 4.6 percent in 1996, and 4.6 percent in 1997. Federal debt rises 4.4 percent in 1995, 4.1 percent in 1996, and 4.7 percent in 1997. Nonfederal debt increases 6.1 percent in 1995, 4.7 percent in 1996, and 4.6 percent in 1997.

Confidential FR Class II
June 26, 1996

FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS¹
(Billions of dollars)

	Calendar year				1995		1996				1997	
	1994	1995	1996	1997	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
Seasonally Adjusted Annual Rates												
Net funds raised by domestic nonfinancial sectors												
1 Total	574.0	658.7	597.5	592.7	492.0	505.4	745.5	536.6	548.9	559.1	595.2	590.3
2 Net equity issuance	-44.9	-74.2	-63.9	-73.8	-92.8	-72.8	-118.0	3.2	-62.8	-78.0	-76.0	-71.6
3 Net debt issuance	618.9	732.9	661.4	666.5	584.8	578.2	863.5	533.4	611.7	637.1	671.2	661.9
Borrowing sectors												
Nonfinancial business												
4 Financing gap ²	3.8	57.7	20.9	22.3	60.5	13.7	1.6	17.3	38.1	26.6	21.0	23.7
5 Net equity issuance	-44.9	-74.2	-63.9	-73.8	-92.8	-72.8	-118.0	3.2	-62.8	-78.0	-76.0	-71.6
6 Credit market borrowing	144.3	250.6	181.3	201.0	181.5	217.4	190.7	165.8	180.2	188.2	199.4	202.6
Households												
7 Net borrowing, of which:	362.2	383.5	331.4	321.7	448.1	334.5	387.7	343.5	300.3	294.1	314.0	329.4
8 Home mortgages	194.5	203.8	210.1	213.8	258.2	162.9	259.4	215.0	185.0	181.0	205.1	222.5
9 Consumer credit	124.9	142.9	103.7	85.0	158.5	118.2	121.7	102.7	97.7	92.7	85.0	85.0
10 Debt/DPI (percent) ³	88.7	90.9	93.1	94.0	91.4	92.0	92.6	93.4	93.4	93.7	93.7	94.3
State and local governments												
11 Net borrowing	-43.4	-45.7	-24.8	-23.5	-110.6	-16.0	-3.7	-8.4	-71.1	-16.0	-33.2	-13.7
12 Current surplus ⁴	107.4	106.8	122.8	130.6	102.7	101.5	102.2	131.9	129.3	127.7	130.0	131.3
U.S. government												
13 Net borrowing	155.9	144.4	173.6	167.3	65.8	42.4	288.8	32.4	202.3	170.8	191.0	143.6
14 Net borrowing (quarterly, nsa)	155.9	144.4	173.6	167.3	19.9	33.3	80.5	-26.7	54.3	65.5	68.3	99.0
15 Unified deficit (quarterly, nsa)	185.2	146.4	141.6	166.2	40.2	55.9	72.3	-50.3	49.5	70.0	50.5	115.6
16 Funds supplied by depository institutions	198.3	275.0	175.7	213.4	292.5	110.8	128.6	155.7	194.7	223.7	209.3	217.5
MEMO: (percent of GDP)												
17 Domestic nonfinancial debt ³	185.4	186.7	188.2	188.5	187.4	188.3	188.7	188.5	188.4	188.4	188.5	188.6
18 Domestic nonfinancial borrowing	8.9	10.1	8.8	8.4	8.0	7.9	11.6	7.1	8.0	8.3	8.6	8.3
19 U.S. government ⁵	2.2	2.0	2.3	2.1	0.9	0.6	3.9	0.4	2.7	2.2	2.4	1.8
20 Private	6.7	8.1	6.5	6.3	7.1	7.3	7.7	6.7	5.4	6.1	6.1	6.5

1. Data after 1996: Q1 are staff projections.

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

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

4. NIPA surplus less retirement funds plus consumption of fixed capital.

5. Excludes government-insured mortgage pool securities.

the past year, but more stimulus from domestic demand induced by easing of monetary conditions in some cases.

U.S. real exports and imports of goods and services. Real exports of goods and services are projected to expand at an annual rate of nearly 7 percent in the second quarter and in the second half of 1996 and to accelerate to 9 percent growth in 1997.⁵ The growth of real computer exports is expected to slow substantially in the second quarter from the torrid pace in the first quarter but should return to its longer-term trend over the period ahead. Real exports of semiconductors also are expected to recover to a robust rate of expansion after a pause related to global inventory adjustments in the first half of the year. The quantities of exports of other goods (excluding agricultural products) are estimated to have bounced back in the current quarter from their decline in the first quarter, in part a make-up of automobile

QUANTITIES OF GOODS AND SERVICES
(Percent change from end of previous period, SAAR)

	1995	-----Projection-----			1997
		Q1	Q2	H2	
Exports of G&S	6.5	2.3	6.7	6.8	9.0
Services	1.6	1.9	-0.3	2.9	3.4
Computers	48.0	54.6	17.0	25.1	31.0
Semiconductors	30.0	0.1	0.0	23.8	30.9
Other goods ¹	2.5	-5.7	13.1	3.3	3.8
Imports of G&S	4.6	11.2	10.7	7.6	8.0
Services	3.9	11.3	2.2	2.2	2.7
Oil	-0.5	-16.2	63.9	8.5	2.2
Computers	43.5	26.3	18.3	23.8	21.5
Semiconductors	57.9	4.5	0.1	25.9	30.6
Other goods ²	-3.0	12.5	8.3	4.2	4.7

Note: NIPA basis, chained (1992) dollars.

1. Merchandise exports excluding agriculture, computers, and semiconductors.

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

5. Given experience with the 1984 Olympics in Los Angeles and the 1994 World Cup, any effect of the Olympics in Atlanta is unlikely to be discernible in data on U.S. international transactions.

below \$15 per barrel in the fourth quarter with the increased supply from Iraq. Trend increases in consumption, augmented by strong seasonal demand early in 1997, are expected to return oil prices fairly quickly to our long-run projection paths of \$19.50/b for WTI and \$17/b for the oil import unit value.

Prices of non-oil imports and exports. Prices of non-oil imports are projected to increase only slightly during 1996-97 as foreign inflation remains low and world commodity prices decline. Prices of nonagricultural exports (including computers and semiconductors) are projected to change little on balance this year and then to rise somewhat next year. We project agricultural export prices to decline moderately over the next six quarters, in line with futures prices for key U.S. export commodities. Prices of corn and soybeans, in particular, have declined recently on expectations of good fall harvests.

SELECTED PRICE INDICATORS
(Percent change from end of previous period except as noted, AR)

	-----Projection-----				1997
	1995	1996		H2	
	Q1	Q2			
Ag. exports ¹	15.1	6.7	22.4	-4.0	-2.5
Nonag. exports ¹	1.6	-2.0	1.0	-0.2	1.8
Non-oil imports ¹	1.0	-0.8	1.4	1.4	0.3
Oil imports (Q4 level, \$/bl)	15.76	17.53	19.23	14.63	17.00

1. NIPA chain-weighted basis, including computers and semiconductors.

Nominal trade and current account balances. The nominal trade balance on goods and services is expected to widen somewhat over the forecast period, from its rate of \$97 billion in the first quarter of 1996 to \$115 billion in the fourth quarter of 1997. Net earnings from direct investment are projected to continue expanding, but that gain will be more than offset by an increasing deficit on portfolio income. Accordingly, the current account balance is projected to widen over 1996-97, reaching \$175 billion, almost 2-1/4 percent of GDP, in 1997.

STRICTLY CONFIDENTIAL - FR
CLASS II FOMC

June 26, 1996

REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1994-97
(Percent; quarterly change at an annual rate except as noted)

Measure and country	Projected											
	Projected				1995				1996			
	1994	1995	1996	1997	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
REAL GDP												
Canada	4.9	0.7	2.4	2.8	0.9	1.2	2.7	2.9	3.0	2.8	2.7	
France	4.1	0.5	2.4	2.7	-1.6	4.9	0.2	2.0	2.4	2.6	2.6	
Germany	3.7	1.0	1.4	2.3	-0.6	-1.5	2.7	2.3	2.2	2.2	2.4	
Italy	2.6	2.3	2.0	2.2	-3.6	0.8	1.0	2.8	3.6	2.5	2.3	
Japan	0.4	2.5	4.0	2.6	4.8	12.7	-2.0	2.4	3.3	4.0	1.3	
United Kingdom	4.1	1.9	2.1	2.5	2.0	1.6	2.0	2.2	2.5	2.5	2.5	
Average, weighted by 1987-89 GDP	2.7	1.7	2.6	2.5	1.0	4.9	0.5	2.4	2.9	3.0	2.1	
Average, weighted by share of U.S. nonagricultural exports												
Total foreign	4.8	1.6	3.6	3.9	3.4	4.5	2.8	3.3	3.8	3.9	3.7	
Foreign G-7	3.6	1.3	2.6	2.6	1.3	3.5	1.4	2.6	2.9	2.9	2.4	
Developing countries	6.5	2.5	5.2	5.8	6.0	6.6	4.2	4.5	5.4	5.7	5.7	
CONSUMER PRICES(1)												
Canada	0.0	2.1	1.8	1.6	0.1	1.7	3.0	1.6	1.0	1.6	1.8	
France	1.6	1.9	1.8	1.9	2.3	2.9	3.6	0.4	0.2	2.1	1.9	
Western Germany	2.5	1.6	1.5	1.8	-0.5	2.5	1.9	1.8	-0.2	3.3	2.3	
Italy	3.8	5.9	4.1	3.5	5.0	3.3	4.6	2.1	6.4	2.5	3.9	
Japan	0.8	-0.8	0.4	1.5	-0.5	-0.4	2.7	-0.6	-0.1	-0.4	6.9	
United Kingdom(2)	2.2	2.9	2.7	2.7	1.4	3.0	5.8	0.8	1.4	2.0	6.3	
Average, weighted by 1987-89 GDP	1.7	1.7	1.7	2.1	1.0	1.7	3.4	0.7	1.1	1.5	4.4	
Average, weighted by share of U.S. non-oil imports	1.0	1.1	1.4	1.8	0.2	1.2	3.1	0.7	0.7	1.1	4.2	

Note. Annual values are measured from Q4 to Q4.

1. Not seasonally adjusted.

2. CPI excluding mortgage interest payments, which is the targeted inflation rate. Previously the CPI including mortgage interest payments was shown.

Strictly Confidential (FR) Class II-FOMC

U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT
(Billions of dollars, seasonally adjusted annual rates)

	1993				1994				1995		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1992	1993	1994
NIPA Real Net Exports (Chained 1992 dollars)	-55.2	-67.0	-89.1	-86.2	-101.3	-112.2	-113.3	-105.8	-119.0	-126.8	-29.5	-74.4	-108.2
Exports of G&S Goods	649.8	662.3	648.9	681.4	680.4	704.3	724.8	751.0	755.8	764.3	639.4	660.6	715.1
Agricultural	454.2	465.8	453.3	484.6	481.5	501.8	518.3	543.9	548.9	557.7	448.7	464.5	511.4
Computers	43.8	43.9	41.0	43.4	40.7	41.0	44.8	51.2	51.3	48.2	44.1	43.0	44.4
Semiconductors	32.3	33.1	35.9	38.6	40.7	41.8	44.9	49.6	52.9	55.7	28.7	35.0	44.2
Other Goods	20.6	22.3	25.5	28.2	33.5	35.4	39.5	47.2	50.7	53.3	16.0	24.1	38.9
Services	357.5	366.5	350.9	374.4	366.6	383.6	389.1	395.9	394.0	400.5	359.9	362.3	383.8
	195.5	196.5	195.6	197.0	199.0	202.7	206.8	207.7	207.6	207.4	190.8	196.2	204.1
Imports of G&S Goods	705.1	729.4	738.1	767.6	781.7	816.5	838.1	856.8	874.9	891.2	668.9	735.1	823.3
Oil	577.3	598.6	605.1	629.1	643.0	676.5	698.1	718.6	732.8	750.5	544.9	602.5	684.0
Computers	53.7	57.9	56.9	58.3	57.0	60.6	64.6	58.2	56.5	57.4	51.4	56.7	60.1
Semiconductors	38.9	42.3	46.5	49.9	53.9	57.3	61.8	68.3	71.7	76.3	31.7	44.4	60.3
Other Goods	19.2	21.2	22.4	25.0	27.3	28.5	31.6	36.9	39.4	45.3	15.5	22.0	31.1
Services	465.5	477.2	479.3	495.9	504.8	530.1	540.1	555.2	565.2	571.5	446.3	479.5	532.6
	127.8	130.8	133.0	138.5	138.8	140.2	140.2	138.5	142.4	141.1	124.1	132.5	139.4
Memo: (Percent change 1/)													
Exports of G&S	0.4	7.9	-7.9	21.6	-0.6	14.8	12.2	15.3	2.6	4.6	4.1	5.0	10.2
Agricultural	-17.8	0.9	-23.9	25.6	-22.7	3.0	42.6	70.6	0.8	-22.1	10.6	-5.7	18.0
Computers	12.0	10.3	38.4	33.7	23.6	11.3	33.1	48.9	29.4	22.9	25.1	22.9	28.5
Semiconductors	34.4	39.3	68.4	50.1	100.8	23.7	55.5	103.3	33.5	22.1	64.8	47.5	67.4
Other Goods	-7.4	10.4	-15.9	29.6	-8.1	20.0	5.8	7.2	-1.9	6.8	2.6	2.7	5.7
Services	16.4	2.1	-1.8	2.9	4.1	7.6	8.3	1.8	-0.2	-0.4	-0.8	4.7	5.4
Imports of G&S	9.6	14.5	4.9	17.0	7.6	19.0	11.0	9.2	8.7	7.7	7.4	11.4	11.6
Oil	5.4	35.2	-6.7	10.2	-8.6	27.8	29.1	-34.1	-11.2	6.5	12.1	10.0	-0.2
Computers	41.0	39.8	46.0	32.6	36.1	27.7	35.3	49.2	21.4	28.2	45.1	39.8	36.9
Semiconductors	61.1	48.4	24.9	53.3	42.8	18.4	51.6	87.1	29.9	74.4	42.0	46.3	48.0
Other Goods	8.5	10.4	1.8	14.7	7.4	21.6	7.7	11.6	7.4	4.5	5.5	8.8	11.9
Services	1.3	9.7	6.9	17.6	0.9	4.1	0.0	-4.8	11.7	-3.6	1.4	8.7	0.0
Current Account Balance	-72.7	-96.9	-109.7	-120.5	-118.8	-144.1	-160.0	-170.6	-156.2	-163.9	-62.6	-99.9	-148.4
Goods & Serv (BOP), net	-54.2	-72.1	-84.8	-77.0	-90.8	-103.5	-113.8	-109.4	-118.1	-127.3	-38.3	-72.0	-104.4
Goods (BOP), net	-116.8	-133.5	-146.0	-134.1	-147.4	-164.3	-177.7	-175.1	-179.7	-191.7	-96.1	-132.6	-166.1
Services (BOP), net	62.6	61.4	61.2	57.1	56.5	60.8	63.9	65.7	61.6	64.4	57.8	60.6	61.7
Investment Income, net	15.1	9.4	12.0	2.6	4.7	-2.5	-6.4	-12.4	-3.6	-3.4	11.2	9.7	-4.2
Direct, net	61.3	53.6	58.9	49.8	49.5	46.0	47.4	46.9	57.4	59.9	51.6	55.9	47.4
Portfolio, net	-46.2	-44.2	-46.9	-47.3	-44.8	-48.5	-53.7	-59.3	-61.0	-63.3	-40.4	-46.2	-51.6
Unilateral Transfers, net	-33.5	-34.1	-36.9	-46.1	-32.7	-38.0	-39.9	-48.9	-34.6	-33.2	-35.5	-37.6	-39.9

1/ Percent change (AR) from previous period; percent changes for annual data are calculated Q4/Q4.

Strictly Confidential (FR) Class II-FOMC

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT
(Billions of dollars, seasonally adjusted annual rates)

	Projection												Projection		
	1995				1996				1997				ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1995	1996	1997		
NIPA Real Net Exports (Chained 1992 dollars)	-114.3	-96.6	-116.0	-126.7	-135.7	-134.6	-130.1	-131.4	-139.8	-137.4	-114.2	-128.2	-134.7		
Exports of G&S Goods	779.1	799.8	804.5	817.5	822.9	845.0	860.3	883.4	895.1	920.8	774.7	822.5	889.9		
Agricultural	570.7	589.8	593.5	606.7	610.9	631.2	644.6	665.8	675.7	699.8	566.8	610.6	671.5		
Computers	50.0	49.4	50.5	48.0	47.7	48.9	49.4	49.9	50.4	50.9	49.7	48.7	50.1		
Semiconductors	65.2	73.4	81.8	85.1	89.8	95.2	101.8	109.0	116.6	124.7	61.8	88.0	113.0		
Other Goods	57.0	61.3	61.3	61.3	64.4	68.2	72.9	78.0	83.4	89.3	55.6	63.8	80.9		
Services	398.5	405.7	399.8	412.3	409.1	419.0	420.4	429.0	425.3	434.9	399.7	410.0	427.4		
	209.4	211.1	212.1	211.9	213.0	214.9	216.9	218.7	220.5	222.1	208.9	213.0	219.6		
Imports of G&S Goods	893.4	896.4	920.5	944.2	958.6	979.6	990.4	1014.9	1034.9	1058.2	889.0	950.7	1024.6		
Oil	752.2	752.8	772.9	795.9	809.4	829.6	839.5	863.1	882.1	904.2	747.1	802.0	872.2		
Computers	60.7	57.9	55.4	62.7	66.1	65.3	62.9	68.2	71.2	66.8	58.1	62.4	67.3		
Semiconductors	88.0	98.0	103.9	108.3	114.3	120.5	126.6	132.9	139.5	146.5	83.5	111.8	136.3		
Other Goods	53.0	58.3	59.0	59.0	62.5	66.2	70.7	75.6	80.8	86.4	49.0	61.6	78.4		
Services	550.5	538.6	554.7	565.9	566.6	577.6	579.4	586.4	590.6	604.6	556.4	566.2	590.2		
	141.6	143.9	147.8	148.6	149.5	150.2	151.2	152.1	153.1	154.2	142.2	149.0	152.7		
Memo: (Percent change 1/)															
Exports of G&S	8.0	11.1	2.3	6.7	2.6	11.2	7.5	11.2	5.4	12.0	6.5	5.6	9.0		
Agricultural	15.8	-4.7	9.2	-18.6	-2.5	10.5	4.2	4.1	4.1	4.0	-3.5	-1.1	4.1		
Computers	87.7	60.6	54.6	17.0	23.9	26.2	31.0	31.0	31.0	31.0	48.0	29.7	31.0		
Semiconductors	31.3	33.3	0.1	0.0	21.4	26.0	30.8	30.9	30.9	30.9	30.0	11.3	30.9		
Other Goods	-2.0	7.5	-5.7	13.1	-3.1	10.0	1.4	8.4	-3.4	9.4	2.5	3.3	3.8		
Services	3.9	3.3	1.9	-0.3	2.1	3.5	3.8	3.5	3.3	2.9	1.6	1.8	3.4		
Imports of G&S	1.0	1.3	11.2	10.7	6.2	9.1	4.5	10.2	8.1	9.3	4.6	9.3	8.0		
Oil	25.1	-17.2	-16.2	63.9	23.6	-4.3	-14.3	38.7	18.6	-22.7	-0.5	12.9	2.2		
Computers	76.9	53.8	26.3	18.3	23.8	23.8	21.5	21.5	21.5	21.5	43.5	23.0	21.5		
Semiconductors	86.9	46.8	4.5	0.1	25.8	25.8	30.6	30.6	30.6	30.7	57.9	13.4	30.6		
Other Goods	-13.9	-8.4	12.5	8.3	0.5	8.0	1.2	4.9	2.9	9.9	-3.0	7.2	4.7		
Services	1.4	6.7	11.3	2.2	2.3	2.1	2.5	2.4	2.7	3.0	3.9	4.4	2.7		
Current Account Balance	-150.8	-121.7	-142.4	-152.6	-160.4	-163.6	-150.9	-155.3	-165.6	-175.4	-148.2	-154.7	-161.8		
Goods & Serv (BOP), net	-97.3	-77.6	-97.4	-111.6	-114.1	-105.1	-104.3	-106.9	-115.5	-113.0	-105.1	-107.0	-109.9		
Goods (BOP), net	-170.2	-152.1	-171.0	-185.2	-188.5	-181.2	-182.3	-186.8	-196.9	-195.9	-173.4	-181.5	-190.5		
Services (BOP), net	72.9	74.5	73.5	73.6	74.4	76.1	78.0	79.8	81.5	82.9	68.4	74.4	80.5		
Investment Income, net	-17.4	-7.6	-1.6	-8.1	-13.3	-15.4	-16.6	-18.3	-20.1	-22.3	-8.0	-9.6	-19.3		
Direct, net	51.3	61.3	63.3	61.7	60.6	61.8	63.2	63.7	64.3	64.5	57.5	61.8	63.9		
Portfolio, net	-68.7	-68.9	-64.8	-69.8	-73.9	-77.2	-79.8	-82.0	-84.4	-86.9	-65.5	-71.4	-83.3		
Unilateral Transfers, net	-36.0	-36.6	-43.4	-33.0	-33.0	-43.0	-30.0	-30.0	-30.0	-40.0	-35.1	-38.1	-32.5		

1/ Percent change (AR) from previous period; percent changes for annual data are calculated Q4/Q4.

Part 2

June 26, 1996

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

Confidential (FR) Class III FOMC

June 26, 1996

RECENT DEVELOPMENTS

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

lingering effects of the GM strike, have left inventories of light motor vehicles at relatively lean levels. As a result, automakers set assembly schedules for June at a robust 12.4 million unit pace, and their current plans would hold production at a similar clip in the third quarter.

PRODUCTION OF DOMESTIC AUTOS AND TRUCKS
(Millions of units at an annual rate; FRB seasonal basis)

	1996					
	Apr.	May	June	Q1	Q2	Q3
			-sched.-			---sched.---
U.S. production	12.2	12.2	12.4	11.0	12.2	12.4
Autos	6.3	6.5	6.6	5.5	6.5	6.7
Trucks	5.9	5.7	5.8	5.6	5.8	5.8
Days' supply						
Autos	59.4	50.4
Light trucks	71.5	68.8

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

Apart from motor vehicles, the production of manufactured consumer goods was flat in May. The output of business equipment increased again last month: Information processing equipment made another sizable advance, and, in contrast to the previous two months, industrial equipment also moved up. The gains for industrial equipment are consistent with the pickup in new orders for these items earlier in the year. The output of construction supplies rose 0.3 percent last month, extending the recovery that began last fall. The production of materials surged 0.7 percent in May, reflecting gains in durable goods materials, particularly semiconductors, computer parts, and miscellaneous plastic materials.

Forward-looking indicators of industrial activity suggest moderate growth in the near term. New orders for durable goods, adjusted for inflation and excluding orders that are not closely related to near-term activity, rose 1.0 percent in May following a 1.5 percent advance in April. The orders and production components of the National Purchasing Managers' indexes remained on the positive side for a second consecutive month. Other private surveys also indicate that manufacturers expect moderate growth over the coming three months.³

3. The strike at the McDonnell Douglas plant that started on June 5 affects only about 6,700 workers and is expected to have a minor effect on industrial production.

SALES OF AUTOMOBILES AND LIGHT TRUCKS¹
 (Millions of units at an annual rate; FRB seasonals)

	1994		1995		1996		1996		
	1994	1995	Q3	Q4	Q1	Mar.	Apr.	May	
Total	15.05	14.72	15.03	14.91	15.16	15.83	14.45	15.76	
Autos	8.99	8.63	8.94	8.65	8.61	9.28	8.26	9.27	
Light trucks	6.06	6.09	6.09	6.26	6.54	6.55	6.19	6.49	
North American ²	12.91	12.82	13.18	13.12	13.46	13.93	12.88	13.98	
Autos	7.26	7.12	7.46	7.26	7.32	7.83	7.13	7.97	
Big Three	5.73	5.43	5.55	5.47	5.41	5.56	5.35	5.92	
Transplants	1.52	1.69	1.91	1.79	1.91	2.27	1.79	2.06	
Light trucks	5.66	5.69	5.72	5.87	6.15	6.10	5.74	6.01	
Foreign produced	2.14	1.90	1.86	1.79	1.69	1.90	1.58	1.78	
Autos	1.74	1.51	1.48	1.39	1.30	1.46	1.13	1.30	
Light trucks	.40	.39	.37	.39	.40	.44	.45	.48	

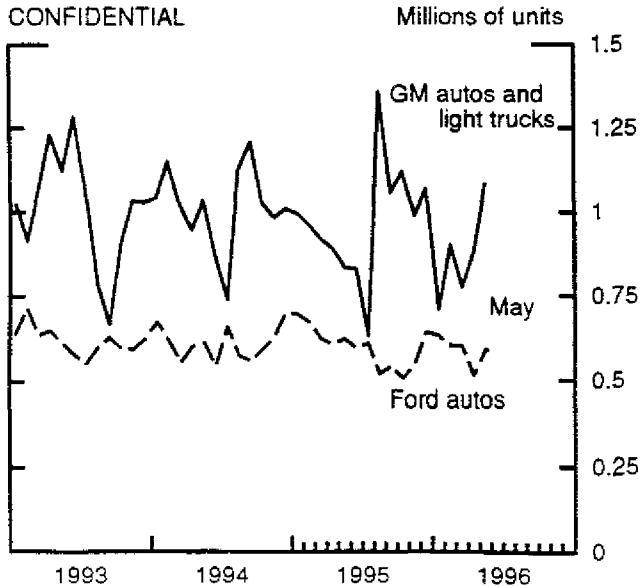
Note: Data on sales of trucks and imported autos for the most recent month are preliminary and subject to revision.

1. Components may not add to totals because of rounding.

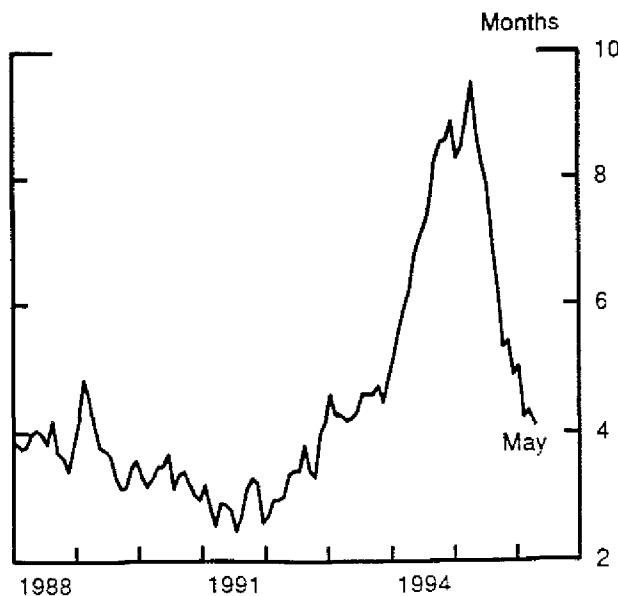
2. Excludes some vehicles produced in Canada that are classified as imports by the industry.

GM and Ford Fleet Sales

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Medium and Heavy Truck Order Backlog



Unfilled orders divided by shipments of North American product classes 5-8 trucks, seasonally adjusted.

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

	Fiscal year to date totals					
	April & May				Dollar change	Percent change
	1995	1996	1995	1996		
Outlays	245.6	274.3	1006.7	1047.7	41.0	4.1
Deposit insurance (DI)	-1.9	-1.2	-12.6	-6.6	6.0	-47.6
Spectrum auction (SA)	-.6	.0	-.6	-.2	.4	-.7
Other	247.4	275.5	1019.9	1054.5	34.6	3.4
Receipts	255.8	293.4	870.2	938.6	68.4	7.9
Deficit(+)	-10.2	-19.1	136.5	109.1	-27.4	-20.0
Adjusted for payment timing shifts ¹ and excluding DI and SA						
Outlays	253.7	269.6	1025.5	1054.5	29.0	2.8
National defense	43.0	46.6	179.6	178.7	-.9	-.5
Net interest	40.3	40.8	153.8	161.2	7.4	4.8
Social security	56.0	58.2	219.7	229.4	9.7	4.4
Medicare and health	45.3	54.4	178.7	195.2	16.5	9.3
Income security	41.0	41.0	153.4	162.0	8.6	5.6
Other	28.2	28.6	144.7	128.1	-16.6	-11.4
Receipts	255.8	293.4	870.2	938.6	68.4	7.9
Personal income and social insurance taxes	208.2	246.7	707.8	771.3	63.5	9.0
Corporate	25.7	27.5	82.3	91.7	9.4	11.4
Other	21.9	19.2	80.1	75.6	-4.5	-5.6
Deficit(+)	-2.1	-23.8	155.3	116.0	-39.4	-25.4

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, income security, and "other" have been adjusted to account for this shift.
 Components may not sum to totals because of rounding.

Committee work on these bills is targeted for completion in June, July, and September respectively. Welfare and Medicaid reform is already behind schedule, as committee work continues in the House despite a targeted completion date of June 13.

BUDGET RESOLUTION DEFICITS COMPARED WITH CBO BASELINE
(Billions of dollars)

	1997	1998	1999	2000	2001	2002	1997- 2002
CBO baseline deficit ¹	171	194	219	244	259	285	1,372
Policy changes ²	-12	-28	-65	-101	-153	-214	-575
Fiscal dividend ³	-5	-19	-37	-53	-64	-75	-254
Budget resolution deficit	153	147	117	89	42	-5	543

1. Under current economic policy assumptions. Assumes discretionary spending grows with inflation after 1998.

2. Includes debt-service savings from the direct effects of policy changes on the deficit.

3. Represents the deficit reduction estimated to result from macroeconomic effects of adopting policies to balance the budget in 2002.

According to CBO estimates, the congressional budget resolution would produce essentially the same deficit outcome for fiscal 1997 as would the President's plan, although the congressional proposal contains bigger spending cuts offset by somewhat larger net tax cuts. Over the longer run, the budget resolution contains substantially more deficit reduction than the President's basic plan. However, if the contingent out-year deficit reduction in the President's plan were to be invoked, it too would produce a small surplus by 2002.

State and Local Government Sector

Real spending by state and local governments exhibited strength during the early months of the second quarter; these gains are coming on the heels of a previous rebound in spending from weather-depressed levels earlier in the year. Real construction spending rose 1.3 percent in April. The increase primarily reflects the building of sewer and water supply systems; construction of most other categories declined. Government employment jumped 45,000 in May following a small advance the month before. A little less than half of the May increase reflected temporary hiring of election workers to staff polls in Arkansas, Indiana, Nebraska, North Carolina, West Virginia, and the District of Columbia.

On balance, news on Italian inflation continues to be encouraging. The 12-month CPI inflation rate, which had declined in three successive months before plateauing in April, slowed further through June (preliminary) reflecting the slowing of the economy as well as lira appreciation. Although the wholesale price index ticked up slightly in April, 12-month rates of increase in wholesale prices and wages continued to recede.

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

	1995			1996			
	Q4	Q1	Q2	Mar	Apr	May	Jun
Industrial Production	-0.9	-2.0	n.a.	0.6	-3.0	n.a.	n.a.
Cap. Utilization (%)	78.5	75.9	n.a.
Unemployment Rate (%)	11.9	12.0	n.a.
Consumer Confidence ¹	110.0	107.7	113.8	106.1	108.8	114.8	117.9
Bus. Sentiment ² (%)	11.3	15.7	n.a.	10.0	16.0	n.a.	n.a.
Consumer Prices ³	5.9	5.0	4.2	4.5	4.5	4.3	3.9
Wholesale Prices ³	10.5	7.7	n.a.	5.6	6.0	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.

After being sworn in on May 18, the Prodi government gained full powers on May 31 upon winning the second of two confidence votes in parliament. Prodi's cabinet includes former technocrats as well as nine members of the PDS, the largest party in the center-left bloc. Former prime minister and previous Bank of Italy governor Ciampi is in charge of a portfolio that combines the treasury and budget ministries. Prodi's predecessor Dini has joined the new cabinet as foreign minister.

On June 19, the government approved a \$10.5 billion supplementary budget for 1996. The supplementary budget, which is designed to enable the government to maintain its deficit target for this year, aims to raise about \$3 billion from increased revenues and \$7.5 billion from planned spending cuts.

Economic activity in Canada expanded 1.2 percent (SAAR) in the first quarter of 1996, following growth of 0.9 percent in the fourth

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

	1995 Oct	1995 Nov	1995 Dec	1996 Jan	1996 Feb	1996 Mar	1996 Apr	1996 May	1996 Jun
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	90.2	88.2	91.0	89.3	88.5	93.7	92.7	89.4	92.4
Current conditions	104.8	101.3	102.4	105.8	105.2	105.4	107.8	105.1	105.4
Expected conditions	80.8	79.7	83.7	78.7	77.8	86.2	83.0	79.2	84.0
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Personal financial situation									
Now compared with 12 months ago*	111	108	112	115	111	112	118	114	118
Expected in 12 months*	120	123	126	131	120	130	127	122	128
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Expected business conditions									
Next 12 months*	112	111	115	104	109	125	118	110	117
Next 5 years*	91	85	95	80	83	91	88	86	93
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Appraisal of buying conditions									
Cars	125	130	133	122	129	134	125	127	137
Large household appliances*	161	154	153	159	161	161	162	159	155
Houses	151	148	157	152	163	168	157	159	153
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Willingness to use credit									
Willingness to use savings	40	43	45	36	40	47	45	37	54
Willingness to use savings	63	62	70	65	65	71	64	64	66
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Expected unemployment change - next 12 months									
Expected inflation - next 12 months	133	124	122	135	131	123	124	121	123
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Expected inflation - next 5 to 10 years									
Mean	3.6	3.8	3.3	4.0	3.6	4.2	4.5	4.9	4.2
Median	2.9	2.8	2.7	2.9	2.8	2.9	3.0	3.0	2.9
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* -- 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.