

## **Part 1**

March 25, 1998

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

March 25, 1998

## **SUMMARY AND OUTLOOK**

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rate in the first quarter. Light vehicle sales continued to run at about a 15 million unit annual pace in the first two months of the year, but sales of other goods surged. With the exception of the weather-related drop in energy consumption, expenditures on services have also advanced rapidly.

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

Measure	1997:Q4		1998:Q1	
	Jan. GB	Mar. GB	Jan. GB	Mar. GB
<b>Real GDP</b>	<b>3.9</b>	<b>3.9</b>	<b>2.7</b>	<b>3.1</b>
Private domestic final purchases	2.7	2.7	5.4	6.2
Personal consumption expenditures	2.9	3.1	4.7	5.3
Residential investment	8.1	9.5	1.7	14.2
Business fixed investment	-.4	-2.2	11.7	9.3
Government outlays for consumption and investment	.9	.4	-1.1	.0
	Change, billions of chained (1992) dollars			
Inventory investment	17.9	24.5	-3.1	-7.5
Net exports	10.8	4.4	-30.2	-35.2

Housing markets were hot this winter. Stimulated by falling mortgage rates and by briskly rising income and wealth, sales of single-family homes have skyrocketed, and new starts averaged 1.24 million units (annual rate) in January and February--well above the already healthy pace of the fourth quarter. Unusually warm weather in northern areas likely contributed to these increases, but we believe that underlying demand trends were a major element in the strength of building. After having surged in the latter part of 1997, multifamily starts dropped back to 346,000 units in the first two months of this year--a pace more in line with the fundamentals in this market. On net, real residential investment expenditures are estimated to have risen at a 14-1/4 percent pace in the first quarter.

Business fixed investment is rebounding from its decline in the fourth quarter. On the equipment side, orders and shipments were up sharply, on balance, over the December-to-February period and are consistent with a return to a double-digit growth rate for equipment spending. The acceleration was particularly impressive in office

All told, then, we are looking for real PCE to grow 4 percent this year--a little more than in 1997. In the near term, a return to normal levels of energy use for heating and cooling should add to a strong uptrend in services consumption. Although we see sales of new light vehicles only remaining on the 15 million unit plateau of the past several years, the prospects appear good for substantial growth in purchases of other consumer goods. Rapidly declining relative prices are boosting the demand for computers and other electronic goods, and the current strength in home sales likely will translate into increased spending on furniture, appliances, and other household durables.

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

Measure	1997	1998	1999
<b>Real GDP</b>	<b>3.8</b>	<b>2.3</b>	<b>2.2</b>
Previous	3.8	1.7	1.9
<b>Final sales</b>	<b>3.2</b>	<b>3.0</b>	<b>2.1</b>
Previous	3.3	2.4	1.8
<b>PCE</b>	<b>3.7</b>	<b>4.0</b>	<b>2.4</b>
Previous	3.7	3.5	2.1
<b>Residential investment</b>	<b>5.7</b>	<b>3.0</b>	<b>-1.8</b>
Previous	5.4	.6	-.3
<b>BFI</b>	<b>8.6</b>	<b>9.5</b>	<b>6.2</b>
Previous	9.1	7.7	5.4
<b>Government purchases</b>	<b>1.0</b>	<b>.8</b>	<b>.9</b>
Previous	1.1	.6	.9
<b>Exports</b>	<b>10.2</b>	<b>1.3</b>	<b>4.8</b>
Previous	10.5	.5	4.1
<b>Imports</b>	<b>14.5</b>	<b>9.1</b>	<b>6.7</b>
Previous	14.1	7.9	6.5
<b>Change, billions of chained (1992) dollars</b>			
<b>Inventory change</b>	<b>39.1</b>	<b>-52.7</b>	<b>6.6</b>
Previous	32.5	-52.3	12.2
<b>Net exports</b>	<b>-54.1</b>	<b>-91.9</b>	<b>-35.4</b>
Previous	-47.7	-86.2	-40.0

constrain costs, and employment gains slow to around 130,000 per month in the second half of this year and to 110,000 in 1999.

In this environment, we are forecasting a slowdown in the growth of labor productivity this year. Output per hour is projected to increase 0.3 percent in 1998 and 1.4 percent next year--in line with our estimates of the longer-term trend.<sup>3</sup> In addition to the pent-up demand for labor noted above, labor productivity probably will be held down by ongoing efforts to solve the Year 2000 problem. As we have noted previously, getting a handle on the timing and size of the Y2K work is quite difficult, but it seems obvious that resources are being devoted to this task, with little or no payoff in terms of greater output. The allowance we have made in this forecast is on the order of a tenth or two of a percentage point on growth in output per hour.

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

Measure	1997	1998	1999
Output per hour, nonfarm business	2.2	.3	1.4
Previous	2.3	.8	1.5
Nonfarm payroll employment	2.5	2.0	1.0
Previous	2.5	1.3	.8
Household employment survey	2.1	1.3	.8
Previous	2.1	1.0	.7
Labor force participation rate <sup>1</sup>	67.1	67.2	67.2
Previous	67.1	67.1	67.1
Civilian unemployment rate <sup>1</sup>	4.7	4.7	4.9
Previous	4.7	4.8	5.2

1. Percent, average for the fourth quarter.

Given the greater strength in economic activity in this forecast, the unemployment rate is projected to rise to only about 5 percent by the end of 1999--several tenths less than in the last forecast. We expect the labor force participation rate to edge off a tenth of point after jumping early this year and to hold near 67.2 percent over the forecast period. The pool of people still wanting a job has

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3. We continue to assume trend growth in labor productivity of 1.2 percent *on a consistently measured basis*. Allowing for technical changes in the CPI, the trend estimates are 1.3 percent in 1998 and 1.5 percent in 1999.

are expected to depress electricity prices in the first quarter of this year; we expect price increases in this sector to remain below overall inflation over the projection period, as more competition for electric power develops in other states.

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

Measure	1997	1998	1999
Consumer price index	1.9	1.7	2.2
Previous	1.9	1.6	2.0
Food	1.7	1.5	1.8
Previous	1.7	1.3	1.8
Energy	-1.0	-4.6	1.2
Previous	-1.0	-3.0	2.5
Excluding food and energy	2.2	2.3	2.3
Previous	2.2	2.1	2.0
PCE chain-weighted price index	1.5	1.5	2.0
Previous	1.6	1.6	1.9
Excluding food and energy	1.6	1.9	2.1
Previous	1.7	1.9	1.8
GDP chain-weighted price index	1.8	1.6	1.8
Previous	1.9	1.7	1.7
ECI for compensation of private industry workers <sup>1</sup>	3.4	3.4	3.3
Previous	3.4	3.2	3.1
Prices of core non-oil merchandise imports	- .8	-1.5	1.8
Previous	-1.6	-1.5	1.1
Percentage points			
<i>MEMO: Adjustments for technical changes to the CPI<sup>2</sup></i>			
Core CPI	.2	.4	.6
Core PCE	.1	.1	.3
GDP chain price index	.1	.1	.2

1. December to December.

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

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

Measure	1997	1998	1999
<i>Real GDP</i>			
Baseline	3.8	2.3	2.2
Higher funds rate	3.8	2.1	1.4
Lower funds rate	3.8	2.5	3.0
No stock price decline	3.8	2.5	2.7
<i>Civilian unemployment rate</i> <sup>1</sup>			
Baseline	4.7	4.7	4.9
Higher funds rate	4.7	4.8	5.3
Lower funds rate	4.7	4.6	4.5
No stock price decline	4.7	4.6	4.7
<i>CPI excluding food and energy</i>			
Baseline	2.2	2.3	2.3
Higher funds rate	2.2	2.2	1.9
Lower funds rate	2.2	2.4	2.7
No stock price decline	2.2	2.3	2.4

1. Average for the fourth quarter.

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

March 25, 1998

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>	
	01/28/98	03/25/98	01/28/98	03/25/98	01/28/98	03/25/98	01/28/98	03/25/98	01/28/98	03/25/98
<b>ANNUAL</b>										
1995	4.6	4.6	2.0	2.0	2.5	2.5	2.8	2.8	5.6	5.6
1996	5.1	5.1	2.8	2.8	2.3	2.3	3.0	3.0	5.4	5.4
1997	5.9	5.8	3.8	3.8	2.1	2.0	2.3	2.3	4.9	4.9
1998	4.2	4.4	2.5	2.8	1.7	1.5	1.5	1.6	4.7	4.6
1999	3.5	3.9	1.7	2.1	1.7	1.8	2.1	2.2	5.0	4.8
<b>QUARTERLY</b>										
1996 Q1	4.7	4.7	1.8	1.8	2.8	2.8	3.2	3.2	5.6	5.6
1996 Q2	7.7	7.7	6.0	6.0	1.9	1.9	3.4	3.7	5.4	5.4
1996 Q3	3.6	3.6	1.0	1.0	2.7	2.7	2.8	2.6	5.3	5.3
1996 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	2.0	5.3	5.3
1997 Q2	5.2	5.2	3.3	3.3	1.8	1.8	1.0	1.5	4.9	4.9
1997 Q3	4.6	4.6	3.1	3.1	1.4	1.4	2.0	1.8	4.9	4.9
1997 Q4	5.9	5.4	3.9	3.9	1.9	1.5	2.3	2.3	4.7	4.7
1998 Q1	4.4	4.5	2.7	3.1	1.8	1.4	0.5	0.5	4.6	4.6
1998 Q2	2.6	3.6	1.0	2.1	1.6	1.5	1.7	1.5	4.7	4.6
1998 Q3	3.1	3.8	1.5	2.0	1.6	1.8	2.1	2.3	4.7	4.6
1998 Q4	3.4	3.8	1.7	2.0	1.7	1.8	2.2	2.2	4.8	4.7
1999 Q1	3.7	4.1	1.8	2.0	1.9	2.0	2.1	2.2	4.9	4.7
1999 Q2	3.5	3.8	1.9	2.1	1.6	1.7	2.0	2.2	5.0	4.8
1999 Q3	3.7	4.0	2.0	2.2	1.7	1.7	2.0	2.2	5.1	4.8
1999 Q4	3.8	4.1	2.1	2.3	1.7	1.7	2.0	2.2	5.2	4.9
<b>TWO-QUARTER<sup>3</sup></b>										
1996 Q2	6.2	6.2	3.8	3.8	2.3	2.3	3.4	3.5	-0.2	-0.2
1996 Q4	4.9	4.9	2.7	2.7	2.3	2.3	3.0	2.9	-0.1	-0.1
1997 Q2	6.3	6.3	4.1	4.1	2.1	2.1	1.7	1.8	-0.4	-0.4
1997 Q4	5.2	5.0	3.5	3.5	1.7	1.4	2.1	2.0	-0.2	-0.2
1998 Q2	3.5	4.1	1.8	2.6	1.7	1.4	1.1	1.0	-0.0	-0.1
1998 Q4	3.3	3.8	1.6	2.0	1.7	1.8	2.1	2.3	0.1	0.1
1999 Q2	3.6	3.9	1.8	2.0	1.8	1.9	2.1	2.2	0.2	0.2
1999 Q4	3.7	4.1	2.0	2.3	1.7	1.7	2.0	2.2	0.2	0.1
<b>FOUR-QUARTER<sup>4</sup></b>										
1995 Q4	4.0	4.0	1.6	1.6	2.4	2.4	2.6	2.6	0.0	0.0
1996 Q4	5.6	5.6	3.2	3.2	2.3	2.3	3.2	3.2	-0.3	-0.3
1997 Q4	5.8	5.6	3.8	3.8	1.9	1.8	1.9	1.9	-0.6	-0.6
1998 Q4	3.4	3.9	1.7	2.3	1.7	1.6	1.6	1.7	0.1	-0.0
1999 Q4	3.7	4.0	1.9	2.2	1.7	1.8	2.0	2.2	0.4	0.2

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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REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES  
(Seasonally adjusted annual rate)

March 25, 1998

Item	Units <sup>1</sup>	- - - Projected - - -								
		1991	1992	1993	1994	1995	1996	1997	1998	1999
EXPENDITURES										
Nominal GDP	Bill. \$	5916.7	6244.4	6558.1	6947.0	7265.4	7636.0	8081.1	8437.9	8767.8
Real GDP	Bill. Ch. \$	6079.4	6244.4	6389.6	6610.7	6742.1	6928.4	7189.5	7393.2	7544.8
Real GDP	% change	0.4	3.6	2.4	3.3	1.6	3.2	3.8	2.3	2.2
Gross domestic purchases		0.0	4.0	3.0	3.6	1.2	3.6	4.4	3.2	2.4
Final sales		-0.4	3.9	2.1	2.7	2.2	3.1	3.2	3.0	2.1
Priv. dom. final purchases		-0.8	4.9	3.7	3.7	2.5	3.8	4.4	4.6	2.7
Personal cons. expenditures		-0.2	4.2	2.7	3.1	2.2	2.7	3.7	4.0	2.4
Durables		-3.1	9.4	7.4	6.3	3.0	3.9	6.8	6.9	2.9
Nondurables		-1.0	3.4	1.6	3.0	1.0	1.8	1.4	3.0	1.6
Services		0.9	3.6	2.3	2.5	2.7	2.8	4.2	3.9	2.7
Business fixed investment		-6.0	5.5	9.9	7.6	6.5	11.7	8.6	9.5	6.2
Producers' dur. equipment		-2.6	9.6	12.2	10.2	8.3	12.2	12.3	12.2	7.4
Nonres. structures		-12.5	-3.4	4.5	1.1	2.0	10.3	-0.6	2.5	2.9
Residential structures		1.1	16.9	7.8	4.2	-1.9	3.9	5.7	3.0	-1.8
Exports		8.6	4.1	4.6	10.0	10.3	9.3	10.2	1.3	4.8
Imports		4.1	7.4	10.2	12.3	5.6	11.8	14.5	9.1	6.7
Gov't. cons. & investment		-0.7	1.7	-1.4	0.1	-1.4	2.0	1.0	0.8	0.9
Federal		-3.1	1.3	-6.1	-3.9	-6.0	1.5	-0.7	-1.8	-1.8
Defense		-5.3	-1.3	-6.9	-6.0	-5.9	1.1	-0.7	-4.3	-2.3
State & local		1.0	2.0	2.0	2.7	1.4	2.2	2.0	2.2	2.4
Change in bus. inventories	Bill. Ch. \$	-3.0	7.0	22.1	60.6	27.3	25.0	65.2	42.1	30.9
Nonfarm		-1.2	2.0	29.5	49.0	35.7	22.5	57.3	35.5	25.9
Net exports		-22.3	-29.5	-70.2	-104.6	-98.8	-114.4	-146.7	-228.6	-281.9
Nominal GDP	% change	3.8	6.3	5.0	5.8	4.0	5.6	5.6	3.9	4.0
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	108.3	108.6	110.7	114.1	117.2	119.5	122.3	125.3	126.8
Unemployment rate	%	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.6	4.8
Industrial prod. index	% change	-0.0	3.7	3.3	6.5	3.3	4.2	5.7	1.8	2.1
Capacity util. rate - mfg.	%	77.9	79.4	80.5	82.5	82.8	81.4	81.7	80.9	78.8
Housing starts	Millions	1.01	1.20	1.29	1.46	1.35	1.48	1.48	1.51	1.44
Light motor vehicle sales		12.52	12.85	13.87	15.02	14.73	15.05	15.06	14.89	14.59
North Amer. produced		9.74	10.51	11.71	12.88	12.82	13.34	13.12	13.02	12.86
Other		2.77	2.34	2.15	2.13	1.90	1.71	1.93	1.86	1.73
INCOME AND SAVING										
Nominal GNP	Bill. \$	5932.4	6255.5	6576.8	6955.2	7270.6	7637.7	8061.2	8398.5	8719.5
Nominal GNP	% change	3.5	6.2	5.1	5.7	4.1	5.5	5.3	3.7	4.0
Nominal personal income		3.7	7.3	4.2	5.1	5.2	5.8	6.0	4.3	3.9
Real disposable income		0.8	4.0	1.5	2.4	2.4	2.0	3.7	2.8	2.4
Personal saving rate	%	6.0	6.2	5.1	4.2	4.8	4.3	3.8	3.4	3.1
Corp. profits, IVA & CCAdj.	% change	4.5	11.3	19.0	14.1	11.0	9.1	10.0	-5.2	2.5
Profit share of GNP	%	6.9	6.8	7.5	8.2	8.9	9.6	10.0	9.3	9.1
Excluding FR Banks		6.6	6.6	7.2	7.9	8.6	9.3	9.7	9.1	8.8
Federal surpl./deficit	Bill. \$	-196.0	-280.9	-250.7	-186.7	-174.4	-110.5	-28.8	10.2	-2.0
State & local surpl./def.		75.8	86.3	87.4	96.8	103.1	105.3	107.8	116.0	116.4
Ex. social ins. funds		11.5	18.3	19.7	27.9	32.5	34.1	36.4	44.5	44.8
Gross natl. saving rate	%	15.7	14.5	14.4	15.5	16.0	16.6	17.3	17.0	16.4
Net natl. saving rate		4.8	3.7	3.7	4.7	5.5	6.4	7.3	7.0	6.4
PRICES AND COSTS										
GDP chn.-wt. price index	% change	3.3	2.6	2.6	2.5	2.4	2.3	1.8	1.6	1.8
Gross Domestic Purchases		2.7	2.7	2.3	2.5	2.3	2.3	1.4	1.2	1.8
chn.-wt. price index		3.0	3.1	2.7	2.7	2.6	3.2	1.9	1.7	2.2
CPI		4.4	3.5	3.1	2.8	3.1	2.6	2.2	2.3	2.3
Ex. food and energy										
ECI, hourly compensation <sup>2</sup>		4.4	3.5	3.6	3.1	2.6	3.1	3.4	3.4	3.3
Nonfarm business sector										
Output per hour		2.2	3.5	-0.2	-0.1	0.6	1.7	2.2	0.3	1.4
Compensation per Hour		4.8	4.5	1.8	1.9	3.1	3.9	4.1	3.6	3.3
Unit labor cost		2.5	1.0	2.0	2.0	2.4	2.2	1.9	3.3	1.9

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

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

March 25, 1998

Item	Units	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	7168.9	7209.5	7301.3	7381.9	7467.5	7607.7	7676.0	7792.9	7933.6	8034.3
Real GDP	Bill. Ch. \$	6703.7	6708.8	6759.2	6796.5	6826.4	6926.0	6943.8	7017.4	7101.6	7159.6
Real GDP	% change	0.9	0.3	3.0	2.2	1.8	6.0	1.0	4.3	4.9	3.3
Gross domestic purchases		1.3	0.2	1.9	1.3	3.1	6.5	2.4	2.5	5.9	3.7
Final sales		1.8	1.9	3.3	2.0	2.6	5.2	0.2	4.5	3.0	2.5
Priv. dom. final purchases		2.5	2.2	2.7	2.5	4.4	5.5	2.1	3.2	5.1	2.9
Personal cons. expenditures		1.5	2.9	2.6	1.8	3.1	3.7	0.5	3.3	5.3	0.9
Durables		-3.0	3.9	9.3	2.0	4.8	9.7	-1.9	3.5	14.1	-5.4
Nondurables		1.7	0.9	0.7	0.7	1.7	2.6	0.6	2.1	4.7	-2.1
Services		2.4	3.7	2.2	2.3	3.5	3.1	1.0	3.9	3.9	3.9
Business fixed investment		14.2	5.7	1.6	4.9	11.7	13.0	16.5	5.9	4.1	14.6
Producers' dur. equipment		16.1	6.2	2.0	9.4	13.1	14.9	19.1	2.6	6.7	23.0
Nonres. structures		9.5	4.3	0.7	-5.8	8.2	7.9	10.0	15.3	-2.1	-4.7
Residential structures		-7.0	-15.5	8.4	8.5	8.3	17.9	-4.5	-4.3	3.3	7.4
Exports		7.2	9.3	13.5	11.5	1.7	9.6	1.9	25.5	9.9	18.4
Imports		10.0	7.7	2.3	2.4	13.1	14.1	13.2	6.8	17.9	20.5
Gov't. cons. & investment		0.6	-0.1	-0.7	-5.4	1.8	7.2	-1.1	0.1	-0.4	3.1
Federal		-1.1	-4.5	-1.3	-16.4	7.5	8.8	-4.2	-5.2	-5.8	6.6
Defense		-1.1	-1.6	-4.0	-15.9	6.1	11.0	-4.6	-7.1	-11.8	7.5
State & local		1.7	2.6	-0.4	1.9	-1.4	6.3	0.7	3.3	2.7	1.2
Change in bus. inventories	Bill. Ch. \$	48.5	21.6	17.0	22.2	8.0	21.3	37.9	32.9	63.7	77.6
Nonfarm		54.7	34.0	29.6	24.4	14.5	17.3	31.6	26.5	58.3	70.1
Net exports		-113.5	-112.8	-92.9	-76.1	-100.8	-112.6	-138.9	-105.6	-126.3	-136.6
Nominal GDP	% change	4.2	2.3	5.2	4.5	4.7	7.7	3.6	6.2	7.4	5.2
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	116.5	116.9	117.4	117.9	118.5	119.2	119.9	120.5	121.1	121.9
Unemployment rate	%	5.5	5.7	5.7	5.6	5.6	5.4	5.3	5.3	5.3	4.9
Industrial prod. index	% change	5.9	1.6	4.5	1.1	2.0	7.5	3.6	3.8	5.2	4.6
Capacity util. rate - mfg.	%	83.8	82.9	82.6	81.8	81.0	81.6	81.5	81.4	81.6	81.5
Housing starts	Millions	1.32	1.29	1.42	1.42	1.47	1.49	1.49	1.42	1.47	1.46
Light motor vehicle sales		14.67	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
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	7175.1	7220.6	7298.3	7388.5	7475.3	7610.5	7669.1	7796.1	7919.2	8013.6
Nominal GNP	% change	4.5	2.6	4.4	5.0	4.8	7.4	3.1	6.8	6.5	4.9
Nominal personal income		7.4	4.1	4.3	5.1	6.8	6.6	5.1	4.8	8.0	5.0
Real disposable income		4.5	0.2	2.6	2.5	3.5	1.1	2.7	0.7	4.6	3.1
Personal saving rate	%	5.3	4.6	4.5	4.6	4.7	4.1	4.5	3.9	3.7	4.2
Corp. profits, IVA & CCAdj.	% change	-2.9	10.0	31.7	7.9	20.0	12.1	0.6	4.5	18.1	8.2
Profit share of GNP	%	8.5	8.7	9.2	9.3	9.6	9.7	9.6	9.6	9.8	9.9
Excluding FR Banks	%	8.2	8.4	8.9	9.0	9.3	9.4	9.4	9.3	9.6	9.6
Federal surpl./deficit	Bill. \$	-191.5	-179.5	-176.5	-150.2	-153.6	-111.6	-99.5	-77.1	-55.5	-36.8
State & local surpl./def.		107.7	105.6	101.1	97.8	104.1	114.4	102.6	100.4	104.7	104.9
Ex. social ins. funds		37.7	35.3	30.3	26.8	33.2	43.1	31.1	28.9	33.5	33.3
Gross natl. saving rate	%	15.8	15.7	16.0	16.6	16.3	16.5	16.9	16.7	16.8	17.4
Net natl. saving rate	%	5.4	5.1	5.5	6.0	6.0	6.4	6.7	6.6	6.7	7.4
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	3.3	2.1	2.0	2.1	2.8	1.9	2.7	1.9	2.4	1.8
Gross Domestic Purchases											
chn.-wt. price index		3.0	2.5	1.7	1.9	2.7	1.8	2.4	2.4	1.9	0.8
CPI		2.7	3.5	2.1	2.4	3.2	3.7	2.6	3.3	2.0	1.5
Ex. food and energy		3.3	3.3	2.8	3.0	2.5	2.5	2.7	2.7	2.2	2.6
ECI, hourly compensation <sup>1</sup>		2.9	2.6	2.6	2.9	2.5	3.5	2.8	2.8	2.5	3.4
Nonfarm business sector											
Output per hour		-1.8	0.8	1.4	2.2	2.8	2.9	-0.7	1.9	1.1	2.3
Compensation per hour		2.3	3.1	3.1	3.7	3.9	5.1	3.3	3.4	4.3	3.2
Unit labor cost		4.2	2.3	1.7	1.4	1.0	2.2	4.0	1.3	3.1	0.9

1. Private-industry workers.

Strictly Confidential <PR>  
Class II FOMC

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

March 25, 1998

Item	Units	----- Projected -----									
		1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	8124.3	8232.1	8323.6	8397.2	8475.3	8555.7	8641.0	8722.9	8808.8	8898.5
Real GDP	Bill. Ch. \$	7214.0	7282.9	7338.0	7375.5	7411.4	7447.7	7484.1	7522.8	7564.1	7608.1
Real GDP	% change	3.1	3.9	3.1	2.1	2.0	2.0	2.0	2.1	2.2	2.3
Gross domestic purchases		4.3	3.6	4.7	3.1	3.2	2.0	2.7	2.3	2.9	1.9
Final sales		4.7	2.6	3.5	3.1	2.3	3.0	1.3	2.3	1.8	2.9
Priv. dom. final purchases		7.1	2.7	6.2	4.7	4.2	3.4	2.5	2.6	2.7	2.8
Personal cons. expenditures		5.6	3.1	5.3	4.2	3.7	2.7	2.3	2.4	2.5	2.5
Durables		18.4	1.9	15.9	5.3	3.8	3.0	2.4	2.9	3.1	3.2
Nondurables		4.3	-1.1	3.2	3.2	3.4	2.2	1.5	1.6	1.7	1.7
Services		3.9	5.4	4.3	4.5	3.8	2.9	2.6	2.6	2.7	2.7
Business fixed investment		19.2	-2.2	9.3	9.6	9.6	9.7	6.0	6.4	6.0	6.3
Producers' dur. equipment		24.1	-2.3	12.8	11.9	12.0	12.2	7.2	7.7	7.1	7.6
Nonres. structures		6.7	-2.0	0.4	3.3	3.2	3.1	2.9	2.9	2.9	3.0
Residential structures		2.7	9.5	14.2	0.8	-1.5	-1.0	-2.3	-2.2	-1.8	-1.0
Exports		4.4	8.6	-3.5	3.0	-1.6	7.5	1.1	7.1	1.6	9.8
Imports		14.6	5.7	9.5	11.1	8.8	6.8	6.7	8.1	6.7	5.2
Gov't. cons. & investment		1.1	0.4	0.0	1.1	1.0	1.1	-0.2	1.7	1.3	0.8
Federal		-1.1	-2.1	-3.2	-1.2	-1.4	-1.3	-4.8	0.4	-0.8	-2.1
Defense		1.2	1.3	-10.5	-2.2	-2.5	-1.5	-6.7	0.7	-1.2	-1.8
State & local		2.3	1.9	1.9	2.3	2.3	2.4	2.4	2.4	2.4	2.4
Change in bus. inventories	Bill. Ch. \$	47.5	72.0	64.5	45.9	38.8	19.3	32.0	28.6	37.0	25.9
Nonfarm		38.3	62.4	55.5	38.9	33.3	14.4	26.9	23.6	31.9	21.0
Net exports		-164.1	-159.7	-194.9	-219.0	-248.9	-251.6	-269.4	-277.0	-294.2	-286.9
Nominal GDP	% change	4.6	5.4	4.5	3.6	3.8	3.8	4.1	3.8	4.0	4.1
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	122.6	123.5	124.5	125.2	125.6	126.0	126.3	126.6	127.0	127.3
Unemployment rate	%	4.9	4.7	4.6	4.6	4.6	4.7	4.7	4.8	4.8	4.9
Industrial prod. index	% change	6.0	7.2	2.8	2.8	0.5	1.3	2.1	1.9	2.0	2.5
Capacity util. rate - mfg.	%	81.6	82.2	81.9	81.5	80.5	79.8	79.3	78.9	78.6	78.4
Housing starts	Millions	1.45	1.53	1.56	1.51	1.50	1.48	1.46	1.45	1.43	1.43
Light motor vehicle sales		15.34	15.10	15.08	15.02	14.77	14.68	14.59	14.59	14.58	14.58
North Amer. produced		13.31	13.14	13.09	13.13	12.96	12.92	12.86	12.86	12.85	12.85
Other		2.03	1.94	1.99	1.90	1.81	1.76	1.73	1.73	1.73	1.73
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	8103.5	8208.5	8290.5	8360.3	8433.5	8509.6	8596.0	8676.2	8759.6	8846.0
Nominal GNP	% change	4.6	5.3	4.1	3.4	3.5	3.7	4.1	3.8	3.9	4.0
Nominal personal income		4.6	6.4	6.7	3.7	3.6	3.3	4.1	3.9	3.9	3.7
Real disposable income		2.6	4.5	6.8	2.0	1.3	1.0	4.8	1.6	1.6	1.5
Personal saving rate	%	3.5	3.8	4.2	3.7	3.2	2.7	3.3	3.2	3.0	2.7
Corp. profits, IVA & CCAdj.	% change	17.2	-2.2	-11.8	-8.6	-3.6	3.7	2.3	1.3	2.3	4.3
Profit share of GNP	%	10.2	10.0	9.6	9.3	9.2	9.2	9.1	9.1	9.0	9.0
Excluding FR Banks		9.9	9.8	9.4	9.1	8.9	8.9	8.9	8.8	8.8	8.8
Federal surpl./deficit	Bill. \$	-10.8	-12.3	-0.9	8.7	17.9	15.2	-10.1	-5.2	3.5	3.7
State & local surpl./def.		111.4	110.3	118.2	114.8	113.5	117.4	116.1	116.8	116.0	116.9
Ex. social ins. funds		40.0	38.8	46.7	43.3	42.0	45.9	44.5	45.2	44.4	45.3
Gross natl. saving rate	%	17.4	17.5	17.7	17.2	16.7	16.4	16.5	16.4	16.4	16.2
Net natl. saving rate		7.5	7.5	7.8	7.2	6.7	6.4	6.5	6.4	6.3	6.2
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	1.4	1.5	1.4	1.5	1.8	1.8	2.0	1.7	1.7	1.7
Gross Domestic Purchases		1.3	1.4	0.4	1.1	1.7	1.7	2.0	1.7	1.7	1.7
chn.-wt. price index		1.8	2.3	0.5	1.5	2.3	2.2	2.2	2.2	2.2	2.2
CPI		1.9	2.1	2.5	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Ex. food and energy		3.4	4.9	3.5	3.4	3.4	3.4	3.2	3.3	3.3	3.3
ECI, hourly compensation <sup>1</sup>		3.4	4.9	3.5	3.4	3.4	3.4	3.2	3.3	3.3	3.3
Nonfarm business sector		3.6	1.8	-2.2	0.7	1.1	1.6	1.0	1.3	1.4	1.8
Output per hour		3.8	5.2	4.1	3.5	3.5	3.4	3.3	3.3	3.3	3.3
Compensation per hour		0.2	3.4	6.3	2.8	2.4	1.8	2.3	2.0	1.9	1.5
Unit labor cost											

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

March 25, 1998

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

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

Item	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	97Q4/ 96Q4	98Q4/ 97Q4	99Q4/ 98Q4
Real GDP	3.9	3.1	2.1	2.0	2.0	2.0	2.1	2.2	2.3	3.8	2.3	2.2
Gross dom. purchases	3.6	4.7	3.1	3.3	2.0	2.7	2.4	2.9	2.0	4.4	3.3	2.5
Final sales	2.6	3.5	3.0	2.3	3.0	1.3	2.3	1.8	2.9	3.2	2.9	2.1
Priv. dom. final purchases	2.3	5.1	3.9	3.5	2.8	2.1	2.2	2.3	2.4	3.6	3.8	2.2
Personal cons. expenditures	2.1	3.6	2.9	2.5	1.9	1.6	1.6	1.7	1.7	2.5	2.7	1.7
Durables	0.2	1.2	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.5	0.5	0.2
Nondurables	-0.2	0.6	0.6	0.7	0.4	0.3	0.3	0.3	0.3	0.3	0.6	0.3
Services	2.1	1.7	1.8	1.6	1.2	1.1	1.1	1.1	1.1	1.7	1.6	1.1
Business fixed investment	-0.2	0.9	1.0	1.0	1.0	0.6	0.7	0.6	0.7	0.9	1.0	0.7
Producers' dur. equip.	-0.2	0.9	0.9	0.9	0.9	0.6	0.6	0.6	0.6	0.9	0.9	0.6
Nonres. structures	-0.2	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-0.0	0.1	0.1
Residential structures	0.4	0.6	0.0	-0.1	-0.0	-0.1	-0.1	-0.1	-0.0	0.2	0.1	-0.1
Net exports	0.3	-1.6	-1.0	-1.3	-0.1	-0.7	-0.3	-0.7	0.4	-0.6	-1.0	-0.3
Exports	1.0	-0.4	0.3	-0.2	0.8	0.1	0.8	0.2	1.1	1.2	0.1	0.5
Imports	-0.7	-1.2	-1.4	-1.1	-0.9	-0.9	-1.0	-0.9	-0.7	-1.8	-1.2	-0.9
Government cons. & invest.	0.1	0.0	0.2	0.2	0.2	-0.0	0.3	0.2	0.1	0.2	0.1	0.2
Federal	-0.1	-0.2	-0.1	-0.1	-0.1	-0.3	0.0	-0.0	-0.1	-0.0	-0.1	-0.1
Defense	0.1	-0.5	-0.1	-0.1	-0.1	-0.3	0.0	-0.0	-0.1	-0.0	-0.2	-0.1
Nondefense	-0.2	0.3	0.0	0.0	-0.0	-0.0	0.0	0.0	-0.1	-0.0	0.1	-0.0
State and local	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.3
Change in bus. inventories	1.2	-0.4	-0.9	-0.4	-1.0	0.6	-0.2	0.4	-0.5	0.3	-0.7	0.1
Nonfarm	1.3	-0.4	-0.8	-0.3	-0.9	0.6	-0.2	0.4	-0.5	0.3	-0.6	0.1
Farm	0.0	-0.0	-0.1	-0.1	-0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0

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

Item	Fiscal year <sup>5</sup>				1997				1998				1999			
	1996 <sup>a</sup>	1997 <sup>a</sup>	1998	1999	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4 <sup>b</sup>	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
Not seasonally adjusted																
Receipts <sup>1</sup>	1453	1579	1679	1725	349	496	387	386	381	516	396	406	375	523	421	412
Outlays <sup>1</sup>	1561	1601	1670	1721	401	396	398	426	414	414	417	464	400	426	431	443
Surplus/deficit <sup>1</sup>	-107	-22	9	5	-52	100	-11	-40	-33	102	-20	-58	-25	98	-10	-30
On-budget	-174	-103	-85	-112	-69	61	-19	-66	-50	58	-27	-59	-76	45	-22	-67
Off-budget	67	81	95	117	17	39	8	26	17	44	7	1	52	52	12	37
Surplus excluding deposit insurance <sup>2</sup>	-116	-36	4	1	-56	97	-12	-41	-34	101	-22	-59	-26	97	-11	-31
Means of financing																
Borrowing	130	38	-5	-11	48	-69	11	34	22	-89	28	24	30	-80	16	16
Cash decrease	-6	1	4	0	-1	-18	8	12	6	-10	-4	20	0	-15	-5	10
Other <sup>3</sup>	-16	-17	-8	6	5	-13	-7	-6	4	-4	-3	14	-5	-2	-1	4
Cash operating balance, end of period	44	44	40	40	33	51	44	32	26	36	40	20	20	35	40	30
NIPA FEDERAL SECTOR																
Seasonally adjusted annual rate																
Receipts	1550	1692	1791	1832	1675	1709	1742	1767	1783	1798	1814	1832	1815	1831	1850	1867
Expenditures	1679	1737	1787	1831	1731	1746	1753	1779	1784	1789	1796	1817	1825	1836	1846	1863
Consumption expend.	447	460	468	471	458	464	465	469	467	467	468	468	470	472	473	472
Defense	302	309	311	310	306	311	312	315	311	310	309	309	309	310	310	310
Nondefense	145	151	156	161	152	153	153	154	156	157	158	159	161	162	163	162
Other expenditures	1232	1277	1319	1360	1273	1282	1288	1311	1317	1322	1328	1349	1355	1364	1373	1391
Current account surplus	-129	-45	3	1	-56	-37	-11	-12	-1	9	18	15	-10	-5	3	4
Gross investment	69	61	59	58	58	62	61	59	60	60	59	59	58	58	58	58
Current and capital account surplus	-197	-106	-56	-58	-114	-99	-72	-71	-61	-51	-42	-44	-68	-63	-55	-54
FISCAL INDICATORS <sup>4</sup>																
High-employment (HEB) surplus/deficit	-221	-169	-154	-150	-171	-169	-150	-163	-159	-152	-141	-142	-161	-153	-143	-141
Change in HEB, percent of potential GDP	-.6	-.7	-.2	-.1	-.2	0	-.2	.2	0	-.1	-.1	0	.2	-.1	-.1	0
Fiscal impetus (FI), percent, cal. year	-2.3	-1.9	-.7	-1.1	-1.1	1.5	.2	-1.6	.9	-.5	-.4	-1.4	.9	-.2	-.5	-1.1

1. OMB's February 1998 surplus estimates (assuming the enactment of the President's proposals) are -\$10 billion in FY98 and \$10 billion in FY99. CBO's March 1998 baseline surplus estimates are \$8 billion in FY98 and \$9 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 February 1998 surplus estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are -\$15 billion in FY98 and \$5 billion in FY99. CBO's March 1998 baseline surplus estimates, excluding deposit insurance, are \$3 billion in FY98 and \$5 billion in FY99.

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

4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Real potential GDP growth is assumed to rise from 2.2 percent in 1996 to 2.5 percent in 1999, reflecting CPI modifications. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1992) dollars, scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.

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

a--Actual.

b--Preliminary.

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Change in Debt of the Domestic Nonfinancial Sectors  
(Percent)

Period <sup>1</sup>	Total <sup>2</sup>	Federal government <sup>3</sup>	Nonfederal						Memo: Nominal GDP
			Total <sup>4</sup>	Households			Business	State and local governments	
				Total	Home mortgages	Consumer credit			
<i>Year</i>									
1989	7.3	7.0	7.3	8.5	9.9	6.0	6.7	5.7	6.4
1990	6.4	11.0	5.2	7.5	9.6	1.5	3.1	5.1	4.4
1991	4.3	11.1	2.3	4.8	6.4	-1.3	-1.7	8.4	3.8
1992	4.6	10.9	2.6	4.5	5.2	0.5	0.7	2.0	6.3
1993	5.0	8.3	3.8	5.6	4.3	7.6	1.4	5.7	5.0
1994	4.6	4.7	4.6	7.8	5.8	14.5	3.8	-3.9	5.8
1995	5.4	4.1	5.9	8.1	5.6	14.1	6.3	-4.4	4.0
1996	5.2	4.0	5.7	7.9	7.9	7.9	4.6	0.1	5.6
1997	5.3	0.6	6.9	7.0	7.2	4.4	7.1	5.6	5.6
1998	5.4	-0.4	7.3	7.0	7.9	3.4	8.3	5.0	3.9
1999	4.7	-0.5	6.2	6.3	7.0	3.1	6.6	4.5	4.0
<i>Quarter</i>									
1997:3	4.9	1.1	6.2	6.0	7.0	4.3	7.0	3.8	4.6
4	6.5	1.8	8.1	7.8	8.3	2.5	8.8	6.9	5.4
1998:1	6.0	-0.7	8.3	7.3	7.9	3.2	10.1	5.8	4.5
2	4.2	-4.3	7.0	6.8	7.8	3.3	7.8	4.9	3.6
3	5.7	2.8	6.7	6.4	7.6	3.4	7.4	4.6	3.8
4	5.2	0.7	6.6	6.7	7.5	3.4	7.0	4.5	3.8
1999:1	4.9	0.0	6.4	6.5	7.1	3.4	6.7	4.5	4.1
2	3.9	-3.4	6.2	6.3	6.9	3.3	6.5	4.5	3.8
3	5.0	1.6	6.0	6.0	6.7	2.9	6.3	4.4	4.0
4	4.5	-0.1	5.9	5.9	6.6	2.6	6.2	4.4	4.1

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1997:Q4 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 4.9 percent in 1997, 5.6 percent in 1998, and 4.8 percent in 1999.

3. On a monthly average basis, federal debt rose 0.6 percent in 1997, -0.2 percent in 1998, and -0.2 percent in 1999.

4. On a monthly average basis, nonfederal debt increased 6.5 percent in 1997, 7.5 percent in 1998, and 6.3 percent in 1999.

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

Category	Calendar year				Seasonally adjusted annual rates									
					1997		1998				1999			
	1996	1997	1998	1999	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	655.5	678.9	719.7	653.7	661.9	886.1	816.0	560.1	788.4	714.4	680.6	542.1	730.5	661.4
2 Net equity issuance	-64.2	-79.9	-100.5	-92.0	-60.4	-90.0	-100.0	-94.0	-106.0	-102.0	-98.0	-98.0	-86.0	-86.0
3 Net debt issuance	719.7	758.8	820.2	745.7	722.3	976.1	916.0	654.1	894.4	816.4	778.6	640.1	816.5	747.4
<i>Borrowing sectors</i>														
<i>Nonfinancial business</i>														
4 Financing gap <sup>1</sup>	6.5	45.2	84.0	104.5	25.1	42.6	74.2	82.8	92.2	86.8	98.2	101.4	113.0	105.5
5 Net equity issuance	-64.2	-79.9	-100.5	-92.0	-60.4	-90.0	-100.0	-94.0	-106.0	-102.0	-98.0	-98.0	-86.0	-86.0
6 Credit market borrowing	190.3	311.7	390.3	334.4	317.3	405.9	473.5	377.0	363.4	347.1	338.1	335.1	333.1	331.1
<i>Households</i>														
7 Net borrowing <sup>2</sup>	383.0	364.1	387.6	375.7	322.2	425.8	404.6	383.3	372.0	390.5	385.1	380.1	370.6	367.1
8 Home mortgages	258.2	251.0	297.5	284.2	254.6	304.8	298.4	297.9	296.8	296.9	287.4	284.4	281.4	283.4
9 Consumer credit	88.8	53.8	42.7	40.1	53.0	31.5	41.1	42.5	43.5	43.8	44.0	43.0	38.5	35.0
10 Debt/DPI (percent) <sup>3</sup>	89.6	91.5	93.3	95.4	91.8	92.1	92.1	92.9	93.7	94.5	94.5	95.2	95.8	96.3
<i>State and local governments</i>														
11 Net borrowing	1.3	59.9	56.9	53.9	41.8	77.0	65.9	55.9	52.9	52.9	53.9	53.9	53.9	53.9
12 Current surplus <sup>4</sup>	123.2	96.4	106.0	105.6	89.9	95.1	98.5	94.9	113.5	117.1	115.6	106.1	115.1	85.8
<i>Federal government</i>														
13 Net borrowing	145.0	23.1	-14.4	-18.2	40.9	67.4	-27.9	-162.0	106.2	26.0	1.6	-128.9	59.0	-4.6
14 Net borrowing (quarterly, n.s.a.)	145.0	23.1	-14.4	-18.2	10.6	33.7	22.5	-88.6	27.7	24.0	29.9	-80.4	15.9	16.4
15 Unified deficit (quarterly, n.s.a.)	110.9	2.4	9.2	-32.4	10.9	39.7	32.8	-102.1	20.4	58.0	24.9	-97.6	9.9	30.4
<i>Depository institutions</i>														
16 Funds supplied	232.9	332.2	280.2	254.4	183.4	465.5	337.7	254.7	260.5	267.9	258.9	245.9	262.9	249.9
<i>Memo (percentage of GDP)</i>														
17 Domestic nonfinancial debt <sup>5</sup>	184.4	183.3	184.9	186.9	182.9	183.1	183.9	184.6	185.2	186.0	186.5	186.7	187.0	187.3
18 Domestic nonfinancial borrowing	9.4	9.4	9.7	8.5	8.9	11.9	11.0	7.8	10.6	9.5	9.0	7.3	9.3	8.4
19 Federal government <sup>6</sup>	1.9	0.3	-0.2	-0.2	0.5	0.8	-0.3	-1.9	1.3	0.3	0.0	-1.5	0.7	-0.1
20 Nonfederal	7.5	9.1	9.9	8.7	8.4	11.0	11.3	9.7	9.3	9.2	9.0	8.8	8.6	8.5

Note. Data after 1997:Q4 are staff projections.

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

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

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

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

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

6. Excludes government-insured mortgage pool securities.



### Outlook

We project that growth of total foreign real GDP (weighted by shares of U.S. nonagricultural exports) slowed again in the first quarter of 1998 to just less than 1-3/4 percent at an annual rate. Foreign output growth is projected to remain around 2 percent this year, before recovering to nearly 3 percent in 1999. The projected pace of foreign growth is essentially unchanged from the January forecast (see table).

The dollar, in nominal terms, is projected to remain near recent levels in terms of the currencies of most of our industrial- and developing-country trading partners. Inflation is projected to rise during 1998 and recede somewhat during 1999. Accordingly, the dollar, adjusted for changes in prices, is expected to depreciate somewhat over the forecast period. Compared to the January Greenbook, the level of the dollar is, on average, modestly lower throughout the forecast period.

In light of new data and the changes to our outlook for foreign growth and for exchange rates, we have increased the rate of real export growth from that projected in the January forecast. Real non-oil imports are also expected to increase more rapidly. We project that real net exports will subtract 1-1/2 percentage points from GDP growth in the first quarter; this is a somewhat more negative contribution than that in the January Greenbook. For 1998 and 1999 as a whole, real net exports are projected to shave nearly 1 percentage point and about 1/3 percentage point, respectively, from GDP growth, a somewhat lower projection than that in the previous Greenbook, particularly in 1999.

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

Measure	1997	Projection			
		1998		1998: H2	1999
		Q1	Q2		
Foreign output	3.8	1.7	2.1	2.3	2.9
<i>January</i>	3.2	2.0	2.1	2.3	2.9
Real exports	10.2	-3.5	3.0	2.8	4.8
<i>January</i>	10.5	-3.1	.0	2.6	4.1
Real imports	14.5	9.5	11.1	7.8	6.7
<i>January</i>	14.1	8.1	10.0	6.8	6.5

Our forecast for real growth in Latin America in 1998 also remains virtually unchanged since the January Greenbook. We continue to expect growth in Mexico to be a relatively robust 4-1/2 percent this year.

**Oil prices.** The staff has left its projected path for the price of imported oil about unchanged in 1998 and lowered it \$1-1/2 per barrel in 1999 since the January Greenbook. We project that import prices will fall to \$14 per barrel during the first quarter because of the 0.75 mb/d increase in production by Saudi Arabia, Kuwait, and the United Arab Emirates that began in January. However, we expect a set of OPEC and non-OPEC producers will cut back production sufficiently that the market will be able to absorb additional exports from Iraq at a price for WTI near \$16.50 per barrel.<sup>4</sup> There is considerable risk to this forecast. If producers fail to restrain production as agreed, then spot WTI could fall once again below \$13.00 per barrel in the near term. On the other hand, if Iraqi oil exports are interrupted again, spot WTI could rise above \$20 per barrel.

#### Selected Trade Prices

(Percentage change from end of previous period  
except as noted; seasonally adjusted)

Trade category	1997	Projection			
		1998		1998: H2	1999
		Q1	Q2		
<i>Exports</i>					
Nonagricultural (core)	0.5	-3.1	-1.4	.5	1.3
Agricultural	-3.1	-15.1	-2.8	-1.7	.9
<i>Imports</i>					
Non-oil (core)	-.8	-3.7	-2.9	.3	1.8
Oil (level, dollars per barrel)	17.70	14.11	13.80	13.99	14.00

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

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

**Prices of non-oil imports and exports.** Prices of imports of core goods are projected to decline through the third quarter of this year before reversing course and increasing at an annual rate of 1 to 2 percent thereafter. The path for core import

4. We assume Iraqi exports will reach 1.8 mb/d by the end of the year.

Strictly Confidential (FR)  
Class II FOMC

March 25, 1998

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

Measure and country							---- Projected ----		
	1991	1992	1993	1994	1995	1996	1997	1998	1999
<b>REAL GDP</b>									
Canada	-0.3	0.9	3.1	4.5	0.8	2.0	4.2	3.0	2.6
Japan	2.5	0.1	0.5	0.8	2.4	3.4	-0.2	1.3	1.7
United Kingdom	-1.6	0.4	2.7	4.9	2.0	2.9	2.9	1.9	1.8
EU-11 Average (1)	2.1	0.1	-0.1	3.5	1.5	1.9	2.9	2.6	2.9
of which:									
France	1.4	-0.0	-0.7	4.3	0.3	2.3	3.2	2.1	2.5
Germany (2)	3.3	0.9	-0.2	3.4	0.7	2.1	2.3	2.5	3.0
Italy	1.9	-0.8	0.1	2.5	2.6	-0.2	2.8	1.9	2.9
Foreign G-7 Average weighted by 1991 GDP	1.7	0.2	0.6	2.8	1.6	2.3	1.9	1.9	2.3
Average weighted by share of U.S. nonagricultural exports									
Total foreign	3.3	2.3	3.5	5.0	1.9	4.1	3.8	2.1	2.9
Foreign G-7	0.8	0.5	1.9	3.6	1.3	2.3	2.8	2.4	2.4
Developing Countries	6.7	5.2	6.4	7.1	2.6	6.7	5.2	1.3	3.5
<b>CONSUMER PRICES</b>									
Canada	4.1	1.8	1.8	0.0	2.1	2.0	1.0	1.6	1.8
Japan	3.2	0.9	1.2	0.8	-0.8	0.1	2.1	0.0	0.0
United Kingdom (3)	5.7	3.7	2.7	2.2	2.9	3.2	2.8	2.8	2.9
EU-11 Average (4)	NA	NA	NA	NA	2.7	2.0	1.4	1.9	2.0
of which:									
France	3.0	1.8	2.1	1.6	1.9	1.7	1.2	1.2	1.6
Germany (2)	4.0	3.4	4.2	2.6	1.7	1.4	1.8	1.9	1.8
Italy	6.1	4.9	4.1	3.8	5.9	2.7	1.6	2.1	2.5
Foreign G-7 Average weighted by 1991 GDP	4.1	2.4	2.5	1.8	1.6	1.5	1.8	1.3	1.4
Average weighted by share of U.S. non-oil imports	3.9	1.9	2.0	1.0	1.1	1.3	1.7	1.1	1.2

1. Includes all of the European Union countries except the United Kingdom, Denmark, Sweden, and Greece; weighted by GDP.
2. West German data through 1991; all Germany thereafter.
3. CPI excluding mortgage interest payments which is the targeted inflation rate.
4. Harmonized CPI's for the 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				1998 Projected				1999			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>REAL GDP</b>												
Canada	4.7	5.2	3.9	3.0	3.1	3.2	2.9	2.9	2.6	2.7	2.6	2.6
Japan	8.3	-10.6	3.2	-0.7	-0.2	1.9	1.7	1.6	1.5	1.7	1.8	1.8
United Kingdom	2.1	3.5	3.6	2.5	2.8	1.8	1.6	1.6	1.6	1.6	1.9	2.0
EU-11 Average (1)	1.5	5.0	3.2	2.0	2.6	2.4	2.7	2.7	2.7	2.8	3.0	3.0
of which:												
France	1.3	4.7	3.7	3.1	2.3	2.0	2.2	2.1	2.4	2.5	2.6	2.6
Germany	1.5	3.8	2.9	1.1	2.8	1.9	2.6	2.7	2.8	2.8	3.2	3.1
Italy	0.1	7.8	2.6	0.7	1.8	1.8	2.0	2.0	2.5	2.5	3.3	3.3
Foreign G-7 Average weighted by 1991 GDP	3.8	-0.5	3.2	1.0	1.6	2.0	2.1	2.0	2.1	2.2	2.4	2.4
Average weighted by share of U.S. nonagricultural exports												
Total foreign	4.6	3.9	4.5	2.3	1.7	2.1	2.2	2.5	2.6	2.8	3.0	3.2
Foreign G-7	4.6	1.3	3.6	1.9	2.3	2.5	2.4	2.4	2.3	2.4	2.4	2.4
Developing Countries	5.5	7.3	5.9	2.4	0.5	1.2	1.5	2.3	3.0	3.4	3.7	4.0
<b>CONSUMER PRICES (2)</b>												
Canada	2.1	1.6	1.7	1.0	1.3	1.4	1.5	1.6	1.7	1.7	1.8	1.8
Japan	0.0	1.5	1.7	2.1	2.0	0.5	0.0	0.0	-0.0	0.0	0.0	0.0
United Kingdom (3)	2.9	2.6	2.8	2.8	2.6	2.6	2.7	2.8	2.9	3.0	2.9	2.9
EU-11 Average (4)	1.7	1.2	1.5	1.4	1.4	1.7	1.8	1.9	1.9	1.9	2.0	2.0
of which:												
France	1.5	0.9	1.3	1.2	0.8	1.1	1.3	1.2	1.4	1.5	1.6	1.6
Germany	1.7	1.6	1.9	1.8	1.1	1.8	1.8	1.9	2.0	1.8	1.8	1.8
Italy	2.4	1.6	1.5	1.6	2.0	2.0	2.1	2.1	2.3	2.3	2.5	2.5
Foreign G-7 Average weighted by 1991 GDP	1.4	1.6	1.8	1.8	1.7	1.4	1.3	1.3	1.4	1.4	1.4	1.4
Average weighted by share of U.S. non-oil imports	1.3	1.6	1.8	1.7	1.6	1.2	1.1	1.1	1.2	1.2	1.2	1.2

1. Includes all of the European Union countries except the United Kingdom, Denmark, Sweden, and Greece; weighted by GDP.
2. Percent change from same period a year earlier.
3. CPI excluding mortgage interest payments which is the targeted inflation rate.
4. Harmonized CPI's for the EU-11, weighted by shares in final consumption of households converted to a common currency using estimated PPP exchange rates.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1991	1992	1993	1994	1995	1996	1997	--- Projected --- 1998	1999
<hr/>									
NIPA REAL EXPORTS and IMPORTS	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	0.4	-0.4	-0.6	-0.4	0.4	-0.4	-0.6	-1.0	-0.3
Exports of G&S	0.8	0.4	0.5	1.0	1.1	1.0	1.2	0.1	0.5
Imports of G&S	-0.4	-0.8	-1.1	-1.4	-0.7	-1.4	-1.8	-1.2	-0.9
Percentage change, Q4/Q4									
Exports of G&S	8.6	4.1	4.6	10.0	10.3	9.3	10.2	1.3	4.8
Services	7.1	-0.9	4.1	6.0	9.0	4.7	2.2	-0.9	3.4
Agricultural Goods	10.1	10.4	-5.5	16.6	-3.4	5.7	2.5	-4.0	1.9
Computers	21.7	25.2	23.7	32.0	55.7	33.8	48.1	26.1	31.0
Semiconductors	41.8	64.8	32.9	66.9	80.4	45.9	21.5	25.3	31.9
Other Goods 1/	7.0	2.3	3.6	6.9	5.7	7.7	11.7	-0.5	1.9
Imports of G&S	4.1	7.4	10.2	12.3	5.6	11.8	14.5	9.1	6.7
Services	-2.7	1.4	3.2	1.4	7.3	5.0	10.9	3.6	2.6
Oil	8.1	12.1	10.1	-0.2	1.5	8.3	7.4	1.0	2.3
Computers	35.9	45.1	39.3	44.8	46.2	23.6	44.4	36.6	25.7
Semiconductors	55.3	42.0	34.2	54.5	92.7	57.9	32.7	18.6	32.3
Other Goods 2/	2.5	5.4	9.5	12.2	-1.3	10.6	12.8	8.3	5.2
Billions of chained 1992 dollars									
Net Goods & Services	-22.3	-29.5	-70.2	-104.6	-98.8	-114.4	-146.7	-228.6	-281.9
Exports of G&S	599.9	639.4	658.2	712.4	791.2	857.0	962.9	992.6	1029.8
Imports of G&S	622.2	669.0	728.4	817.0	890.1	971.5	1109.5	1221.2	1311.7
<hr/>									
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-5.7	-56.4	-90.8	-133.5	-129.1	-148.2	-166.4	-230.2	-281.4
Net Goods & Services (BOP)	-31.0	-39.2	-72.3	-104.4	-101.9	-111.0	-113.6	-153.2	-195.5
Exports of G&S (BOP)	581.2	617.5	643.5	699.6	794.6	848.8	931.6	933.5	962.8
Imports of G&S (BOP)	612.2	656.7	715.8	804.1	896.5	959.9	1045.2	1086.7	1158.3
Net Investment Income	20.3	18.0	19.7	9.7	6.8	2.8	-14.3	-35.3	-44.2
Direct, Net	55.6	51.6	55.7	50.8	60.0	66.8	67.7	56.6	61.2
Portfolio, Net	-35.4	-33.6	-36.0	-41.0	-53.2	-63.9	-82.0	-92.0	-105.5
Net Transfers	5.1	-35.2	-38.1	-38.8	-34.0	-40.0	-38.5	-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	1.2	1.0	-1.3	-0.6	-1.4	1.8
Exports of G&S	-0.2	1.7	1.1	1.5	0.8	1.0	1.4	1.3	0.2	1.1	0.2	2.6
Imports of G&S	-0.8	-2.0	-1.5	-1.2	-1.2	-0.9	-0.3	-0.3	-1.5	-1.7	-1.6	-0.8
Percentage change from previous period, SAAR												
Exports of G&S	-1.8	17.7	10.6	14.7	7.2	9.3	13.5	11.5	1.7	9.6	1.9	25.5
Services	2.4	12.9	2.0	6.9	6.0	3.8	20.3	6.6	-3.8	9.7	0.3	13.5
Agricultural Goods	-25.2	8.1	45.3	57.2	-1.3	-17.5	19.7	-10.7	12.5	-34.3	13.1	49.2
Computers	21.4	24.3	35.5	48.4	34.9	41.0	89.6	63.1	46.2	31.8	29.2	28.7
Semiconductors	111.8	23.4	65.9	79.1	72.0	97.0	100.3	56.2	19.9	28.3	37.6	113.8
Other Goods 1/	-6.8	20.3	7.4	8.6	2.9	8.1	0.9	10.9	-1.3	13.2	-2.9	24.2
Imports of G&S	7.6	19.0	13.1	9.9	10.0	7.7	2.3	2.4	13.1	14.1	13.2	6.8
Services	2.7	4.1	-0.4	-0.9	24.4	-4.0	8.4	2.2	14.6	2.7	1.2	2.1
Oil	-8.6	27.2	33.5	-36.2	-8.1	12.5	28.0	-19.7	-7.6	67.2	10.6	-19.6
Computers	32.9	48.3	42.3	57.0	8.1	57.3	65.8	61.8	6.4	30.7	26.9	32.0
Semiconductors	60.7	23.7	74.4	64.3	29.6	108.0	157.1	98.8	30.4	10.3	75.5	146.4
Other Goods 2/	6.8	19.6	10.3	12.5	7.3	2.2	-10.0	-3.7	14.5	11.1	12.4	4.6
Billions of chained 1992 dollars												
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	-145.4	-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	-111.7	-113.2	-123.2	-95.5	-75.5	-98.1	-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.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1997				1998				Projected 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	-0.4	-1.3	0.3	-1.6	-1.0	-1.3	-0.1	-0.7	-0.3	-0.7	0.4
Exports of G&S	1.1	2.0	0.5	1.0	-0.4	0.3	-0.2	0.8	0.1	0.8	0.2	1.1
Imports of G&S	-2.1	-2.5	-1.8	-0.7	-1.2	-1.4	-1.1	-0.9	-0.9	-1.0	-0.9	-0.7
Percentage change from previous period, SAAR												
Exports of G&S	9.9	18.4	4.4	8.6	-3.5	3.0	-1.6	7.5	1.1	7.1	1.6	9.8
Services	3.7	3.2	7.2	-5.0	-5.7	-0.4	0.7	2.0	2.9	3.5	3.6	3.6
Agricultural Goods	-27.6	-4.2	20.6	31.8	-21.5	-0.8	8.2	0.7	-5.5	-1.0	10.6	4.5
Computers	72.3	84.3	61.5	-6.3	8.4	31.1	33.5	33.5	31.0	31.0	31.0	31.0
Semiconductors	39.0	15.7	38.8	-2.3	13.7	26.2	31.1	31.1	31.6	32.1	32.1	32.1
Other Goods 1/	12.4	25.0	-4.6	16.2	-2.4	1.6	-8.0	7.4	-3.3	6.2	-4.6	10.2
Imports of G&S	17.9	20.5	14.6	5.7	9.5	11.1	8.8	6.8	6.7	8.1	6.7	5.2
Services	24.2	8.9	10.1	1.3	5.7	4.0	2.7	2.1	2.6	2.4	2.5	2.8
Oil	-10.8	44.5	6.3	-3.0	-15.8	31.0	8.8	-13.3	-8.5	34.0	7.6	-17.1
Computers	51.3	71.1	53.0	9.8	51.8	36.0	31.1	28.7	27.4	25.1	25.1	25.1
Semiconductors	71.2	19.3	44.3	5.1	-7.8	23.9	31.1	32.3	32.3	32.3	32.3	32.3
Other Goods 2/	15.3	17.1	11.8	7.4	10.4	8.9	7.5	6.7	6.0	5.3	4.9	4.7
Billions of chained 1992 dollars												
Net Goods & Services	-126.3	-136.6	-164.1	-159.7	-194.9	-219.0	-248.9	-251.6	-269.4	-277.0	-294.2	-286.9
Exports of G&S	922.7	962.5	973.0	993.3	984.5	991.9	988.0	1005.9	1008.7	1026.1	1030.1	1054.3
Imports of G&S	1048.9	1099.1	1137.1	1153.0	1179.4	1210.9	1236.8	1257.5	1278.1	1303.1	1324.3	1341.3
Billions of dollars												
US CURRENT ACCOUNT BALANCE	-159.7	-151.2	-172.5	-182.5	-197.5	-215.3	-246.4	-261.7	-264.7	-272.8	-290.9	-297.3
Net Goods & Services (BOP)	-117.3	-102.7	-119.6	-115.0	-129.5	-143.6	-169.7	-169.8	-184.9	-191.3	-206.8	-199.0
Exports of G&S (BOP)	896.3	938.2	938.6	953.1	933.3	932.8	926.0	942.0	944.0	959.8	962.6	984.9
Imports of G&S (BOP)	1013.6	1040.9	1058.2	1068.1	1062.8	1076.4	1095.7	1111.8	1128.8	1151.1	1169.4	1183.8
Net Investment Income	-8.1	-13.1	-16.5	-19.4	-29.0	-32.7	-37.7	-41.9	-40.8	-42.6	-45.0	-48.3
Direct, Net	69.3	70.9	66.1	64.5	59.2	57.4	55.4	54.5	58.9	60.6	62.2	63.3
Portfolio, Net	-77.4	-84.0	-82.6	-83.9	-88.2	-90.1	-93.1	-96.4	-99.7	-103.1	-107.3	-111.7
Net Transfers	-34.3	-35.4	-36.3	-48.1	-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**

March 25, 1998

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System



March 25, 1998

## **RECENT DEVELOPMENTS**

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

The strong gains in employment and the workweek in the fourth quarter of 1997 were accompanied by an increase in output per hour in the nonfarm business sector of 1.6 percent at an annual rate. The reporting problems in measuring the workweek mentioned above probably caused published productivity growth in the fourth quarter to be understated by between 1/2 and 1 percentage point, and we expect published productivity growth in the first quarter of 1998 to be understated by a similar amount. Over the four quarters of 1997, productivity rose 2.1 percent; this figure probably was not greatly affected by the workweek measurement problems.

#### Industrial Production

After growing at a torrid pace in the second half of last year, industrial production decelerated noticeably over the first two months of this quarter. In part, the slowdown reflected the effects of the unusually warm weather on utilities output. But signs of a tapering were also apparent in manufacturing, where output rose only 0.3 percent in January and was unchanged in February--trimming the factory operating rate to its long-term average of 81-3/4 percent.

To some extent, the recent deceleration in manufacturing production reflects developments in the motor vehicle sector, where output had been boosted in late 1997 by the make-up of assembly shortfalls that occurred last spring and summer due to strikes and plant startup problems. With the adjustment apparently complete, assemblies fell back to a 12.4 million unit annual rate in January and to 12 million units in February, reducing industrial production growth 0.1 percentage point in each month. While inventories are

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

	1998			1997	1998	
	Jan.	Feb.	Mar.	Q4	Q1	Q2
U.S. production	12.4	12.0	Sched. 11.8	12.7	Sched. 12.0	Sched. 12.2
Autos	5.9	5.4	5.4	5.9	5.6	5.5
Trucks	6.4	6.6	6.4	6.7	6.5	6.7
Days' supply						
Light vehicles	66.1	68.5	...	66.4	...	...
Autos	61.5	62.1	...	60.1	...	...
Light trucks	70.7	74.5	...	70.6	...	...

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

**1. The Budget Outlook under the President's Proposals**  
(Billions of dollars; fiscal years)

Measure	1998	1999	2000	2001	2002	2003
<i>Office of Management and Budget</i>						
February baseline <sup>1</sup>	-10	6	5	28	90	89
PLUS: New proposals	0	4	4	0	-1	-6
EQUALS: February surplus (deficit, -)	-10	10	9	28	90	83
<i>Congressional Budget Office</i>						
January baseline <sup>1</sup>	-5	-2	-3	14	69	54
PLUS: Changes to baseline	13	11	4	-1	-2	-1
EQUALS: March baseline <sup>1</sup>	8	9	1	13	67	53
PLUS: New proposals	1	-5	-6	-5	-16	-11
EQUALS: Budget under President's proposals	8	4	-5	8	51	42

**2. CBO Baseline Budget as a Percent of GDP**  
(Fiscal years)

Measure	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Receipts	19.9	19.6	19.4	19.4	19.3	19.3	19.3	19.3	19.3	19.3
Outlays	19.8	19.6	19.3	18.8	18.8	18.7	18.7	18.4	18.3	18.3
Surplus	.1	.0	.1	.7	.5	.7	.7	1.0	1.0	1.0
Debt	43	42	40	38	36	34	31	29	27	25
MEMO <i>OMB's budget under President's policies</i>										
Surplus	.1	.1	.3	.9	.8	1.0	1.2	1.4	1.7	2.0
Debt	44	42	40	38	35	33	30	28	25	22

**3. Economic Assumptions**  
(Calendar years)

Measure	1998	1999	2000	2001	2002	2003
	Percentage change, Q4 to Q4					
<i>Real GDP</i>						
OMB	2.0	2.0	2.0	2.3	2.4	2.4
CBO	2.3	1.9	1.9	2.0	2.2	2.3
<i>GDP price index</i>						
OMB	2.0	2.1	2.2	2.2	2.2	2.2
CBO	2.1	2.2	2.4	2.5	2.4	2.5
<i>Consumer price index</i>						
OMB	2.2	2.2	2.3	2.3	2.3	2.3
CBO	2.4	2.5	2.7	2.8	2.8	2.8
	Annual average (percent)					
<i>Unemployment rate</i>						
OMB	4.9	5.1	5.3	5.4	5.4	5.4
CBO	4.8	5.1	5.4	5.6	5.8	5.9
<i>3-month Treasury bill</i>						
OMB	5.0	4.9	4.8	4.7	4.7	4.7
CBO	5.3	5.2	4.8	4.7	4.7	4.7
<i>10-year Treasury note</i>						
OMB	5.9	6.1	6.0	5.9	5.9	5.9
CBO	6.0	6.1	6.0	5.9	5.9	5.9

**4. OMB Estimates of the President's Budget Proposals**  
(Billions of dollars; fiscal years)

Proposal	1998	1999	2000	2001	2002	2003	1998-2003
Changes from baseline							
Receipts	-.1	12.9	14.7	16.7	18.5	18.7	81.5
Tobacco legislation	.0	9.8	11.8	13.3	14.5	16.1	65.5
Other	-.1	3.1	2.9	3.4	4.0	2.6	16.0
Tax relief	-.5	-3.2	-5.1	-5.5	-5.0	-5.4	-24.2
Tax increases	.4	6.3	8.0	8.8	9.0	8.0	40.2
Mandatory spending	.0	4.5	5.1	5.8	2.5	3.3	21.3
Tobacco legislation <sup>1</sup>	.0	3.4	3.9	4.6	5.0	5.4	22.3
Other	.0	1.1	1.2	1.2	-2.5	-2.1	1.0
Veterans compensation	.0	-.7	-1.3	-2.3	-6.3	-6.3	-17.0
Medicare buy-in	.0	.1	.4	.4	.3	.3	1.5
Other	.0	1.7	2.1	3.1	3.5	3.9	16.5
Discretionary spending <sup>2</sup>	.0	4.8	8.4	10.2	15.6	21.7	60.7
Level of discretionary spending							
MEMO							
<i>Current dollars</i>							
Proposed	553	566	574	575	577	595	...
Capped baseline	553	561	565	565	561	574	...
<i>1992 dollars</i>							
Proposed	478	479	475	466	457	461	...
Capped baseline	478	474	468	458	445	444	...

1. Includes unrestricted grants to states and various health initiatives.

2. Excludes fiscal 1998 supplemental appropriations.

... Not applicable.

SOURCE: Budget of the United States Government.