

## **Part 1**

January 28, 1999

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## **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

Strictly Confidential (FR) Class II FOMC

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January 28, 1999

## **SUMMARY AND OUTLOOK**

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### **Recent Developments and the Outlook for the Current Quarter**

As noted, GDP growth in the fourth quarter appears to have been remarkably rapid, outstripping even the brisk trend of previous quarters. A part of the story was the surge in motor vehicle assemblies, which contributed about 1-1/2 percentage points to the GDP gain; GM's post-strike efforts to recapture market share led to an intensification of price competition that, against a backdrop of basically strong demand, helped push sales to levels that took even the automakers by surprise.

Total consumer spending probably increased about 4-3/4 percent (annual rate) in the fourth quarter. Excluding motor vehicles, PCE rose at an annual rate of 3 percent or so--a considerable increment, but one that pales in comparison with the blistering 5-1/2 percent pace of the first three quarters of last year. Motor vehicles were also an important contributor to the re-acceleration of spending on producers' durable equipment in the final quarter of 1998; in addition, outlays for computers and communications equipment continued to post impressive increases. Construction expenditures were up appreciably: Warm weather and strong underlying fundamentals contributed to a jump in housing starts and a double-digit gain in residential investment, while outlays for nonresidential structures probably ticked up.

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

Measure	1998:Q4		1999:Q1	
	Dec. GB	Jan. GB	Dec. GB	Jan. GB
<b>Real GDP</b>	3.1	5.0	2.5	2.7
Private domestic final purchases	5.5	6.3	3.4	3.2
Personal consumption	4.1	4.7	3.1	2.7
Residential investment	10.5	12.5	4.7	7.9
Business fixed investment	12.2	14.0	4.6	4.5
Government outlays for consumption and investment	2.8	3.1	1.6	.8
	Change, billions of chained (1992) dollars			
Inventory investment	-24.2	-17.4	-.2	20.3
Net exports	-16.8	-2.0	-14.9	-26.5

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

Measure	1997	1998	1999	2000
<b>Real GDP</b>	3.8	4.0	2.6	2.4
Previous	3.8	3.6	2.1	2.3
Final sales	3.4	4.4	2.5	2.4
Previous	3.4	4.1	2.0	2.2
PCE	3.7	5.2	3.5	2.8
Previous	3.7	5.1	2.7	2.5
Residential investment	4.2	13.2	.2	-2.2
Previous	4.2	12.6	-1.2	-.6
BFI	9.8	11.8	5.8	5.8
Previous	9.8	11.4	4.1	5.1
Government purchases	1.4	1.6	1.4	1.8
Previous	1.4	1.6	1.3	1.5
Exports	9.6	.7	.2	4.4
Previous	9.6	-2.8	2.5	4.8
Imports	14.0	10.4	6.1	6.7
Previous	14.0	8.5	5.9	6.2
Change, billions of chained (1992) dollars				
Inventory change	34.4	-28.3	4.0	-.7
Previous	34.4	-34.8	7.7	3.4
Net exports	-53.1	-112.0	-75.2	-46.1
Previous	-53.1	-125.7	-49.3	-34.4

passes: Based on our rules of thumb, the wealth effect contributed 1 percentage point to the growth in consumption in 1998 and is projected to add 1/2 percentage point in 1999 and to subtract a tenth in 2000. As a result, increases in PCE outstrip the gains in disposable personal income, and the personal saving rate ends up in marginally negative territory over much of the 1999-2000 period.

Some analysts would say that the continuation of zero personal saving constitutes a downside risk to the consumption forecast. We do not find that argument compelling. Among other things, the NIPA saving concept is a byproduct of an accounting scheme that is not designed to capture all the elements of household finances that influence spending. And the

**Net exports.** Real exports of goods and services are forecast to rise 1/4 percent this year--a pace slightly below that in 1998. Increases are concentrated in computers and semiconductors, whereas other nonagricultural merchandise exports are projected to fall. Real exports increase 4-1/2 percent in 2000, as the pickup in foreign economic activity and the abatement of negative effects of earlier dollar appreciation boost the demand for U.S. products. Real imports of goods and services are expected to rise a still brisk 6 percent this year and 6-3/4 percent in 2000, reflecting steep uptrends in computers and semiconductors and the high income-elasticity of demand for other non-oil imports in this country. On balance, having subtracted 1-1/4 percentage points from real GDP growth in 1998, the drag from real net exports is projected to diminish to 3/4 percentage point this year and less than 1/2 percentage point in 2000. (A fuller discussion of the forecast for net exports is contained in the International Developments section.)

**Labor markets.** Labor productivity in the nonfarm business sector now appears to have risen rapidly in the fourth quarter of 1998 and about 2-1/2 percent for the year as a whole. Given the strength in the economy, a portion of this increase likely reflected "cyclical" influences; indeed, our models still generate an underlying productivity trend of 1-3/4 percent per year for the period since 1995, our standing assumption. But the recent performance is more impressive when one considers that many firms have had to divert worker hours to Y2K repairs. That thought, and the notion that

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

Measure	1997	1998	1999	2000
Output per hour, nonfarm business	1.7	2.4	1.4	1.8
Previous	1.7	1.8	1.3	1.9
Nonfarm payroll employment	2.7	2.3	1.7	1.2
Previous	2.7	2.3	1.3	.8
Employment, household survey	2.1	1.3	1.3	.9
Previous	2.1	1.2	.8	.5
Labor force participation rate <sup>1</sup>	67.1	67.1	67.2	67.2
Previous	67.1	67.1	67.0	66.9
Civilian unemployment rate <sup>1</sup>	4.7	4.4	4.3	4.4
Previous	4.7	4.5	4.7	4.9

1. Percent, average for the fourth quarter.

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

Measure	1997	1998	1999	2000
Consumer price index	1.9	1.5	2.3	2.4
Previous	1.9	1.6	2.3	2.2
Food	1.7	2.3	1.7	2.1
Previous	1.7	2.3	1.3	1.8
Energy	-1.0	-9.0	3.0	1.4
Previous	-1.0	-9.0	3.7	1.1
Excluding food and energy	2.2	2.4	2.3	2.6
Previous	2.2	2.4	2.3	2.3
PCE chain-weighted price index	1.5	.8	1.7	1.9
Previous	1.5	.8	1.7	1.7
Excluding food and energy	1.6	1.2	1.6	1.8
Previous	1.6	1.2	1.7	1.7
GDP chain-weighted price index	1.7	.9	1.5	1.9
Previous	1.7	.9	1.5	1.7
ECI for compensation of private industry workers <sup>1</sup>	3.4	3.5	3.5	3.7
Previous	3.4	3.6	3.3	3.3
Prices of core non-oil merchandise imports	-.7	-2.0	1.5	1.4
Previous	-.7	-2.0	1.5	1.4
Percentage points				
MEMO: Adjustments for technical changes to the CPI <sup>2</sup>				
Core CPI	.2	.4	.6	.6

1. December to December.

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

in the direction of the "wage-price" model in our forecast because it has performed better over the years and has greater intuitive appeal: Employers' and employees' perceptions of appropriate wage increments undoubtedly are influenced to some degree by the rate of increase in the cost of living; in a small percentage of cases, there is still a contractual link.

be better prepared to absorb any shocks by dint of the deleveraging of positions that has occurred since last summer.

### Alternative Simulations

We have generated two alternative simulations for this Greenbook: A tighter monetary policy scenario and a higher stock market scenario.

In the tighter monetary policy scenario, the federal funds rate is raised 100 basis points between March and October and then held at that higher level for the balance of the projection period. Under these assumptions, real GDP growth is reduced 0.2 percentage point this year and 1.1 percent percentage points in 2000. The unemployment rate rises to close to 5 percent by the end of next year, and inflation in 2000 ends up 1/2 percentage point lower than in the baseline.

In the higher stock market simulation, the Wilshire 5000 is assumed to rise at a 10 percent annual rate from here. In this scenario, growth is slightly faster this year and about 1/2 percentage point more rapid in 2000. The unemployment rate edges down to 4.2 percent this year and holds at that level in 2000. Nonetheless, the effect of higher utilization rates on inflation is relatively muted: The core CPI in 2000 is only 0.1 percentage point higher than in the baseline--in part because, in contrast to the tightening of monetary policy in the first simulation, expectations about inflation are not quickly altered.

### Alternative Federal Funds Rate and Stock Market Assumptions

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

Measure	1999	2000
<i>Real GDP</i>		
Baseline	2.6	2.4
Tighter policy	2.4	1.3
Higher stock prices	2.8	3.0
<i>Civilian unemployment rate<sup>1</sup></i>		
Baseline	4.3	4.4
Tighter policy	4.4	4.9
Higher stock prices	4.2	4.2
<i>CPI excluding food and energy</i>		
Baseline	2.3	2.6
Tighter policy	2.3	2.1
Higher stock prices	2.3	2.7

1. Average for the fourth quarter.

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

January 28, 1999

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>		
	12/16/98	01/28/99	12/16/98	01/28/99	12/16/98	01/28/99	12/16/98	01/28/99	12/16/98	01/28/99	
<b>ANNUAL</b>											
1996		5.4	5.4	3.4	3.4	1.9	1.9	3.0	3.0	5.4	5.4
1997		5.9	5.9	3.9	3.9	1.9	1.9	2.3	2.3	4.9	4.9
1998		4.8	4.9	3.7	3.8	1.0	1.0	1.6	1.6	4.5	4.5
1999		3.8	4.5	2.5	3.1	1.3	1.3	2.2	2.1	4.5	4.3
2000		3.6	4.1	2.0	2.3	1.6	1.8	2.2	2.4	4.8	4.4
<b>QUARTERLY</b>											
1997	Q1	7.2	7.2	4.2	4.2	2.8	2.8	2.0	2.0	5.3	5.2
	Q2	5.6	5.6	4.0	4.0	1.7	1.7	1.5	1.5	4.9	5.0
	Q3	5.4	5.4	4.2	4.2	1.2	1.2	1.8	1.8	4.9	4.9
	Q4	4.2	4.2	3.0	3.0	1.1	1.1	2.3	2.3	4.7	4.7
1998	Q1	6.4	6.4	5.5	5.5	0.9	0.9	0.5	0.5	4.7	4.6
	Q2	2.7	2.7	1.8	1.8	0.9	0.9	2.0	2.0	4.4	4.4
	Q3	4.7	4.7	3.8	3.7	0.8	1.0	1.7	1.7	4.6	4.5
	Q4	4.2	6.0	3.1	5.0	1.0	1.0	2.0	2.0	4.5	4.4
1999	Q1	4.5	4.4	2.5	2.7	1.9	1.7	2.3	2.1	4.4	4.3
	Q2	3.0	3.9	1.7	2.4	1.3	1.4	2.4	2.4	4.5	4.3
	Q3	3.2	3.8	1.8	2.2	1.4	1.5	2.2	2.3	4.6	4.3
	Q4	3.6	4.5	2.2	2.9	1.4	1.5	2.2	2.3	4.7	4.3
2000	Q1	2.9	3.2	0.9	1.0	2.0	2.2	2.2	2.5	4.8	4.3
	Q2	4.5	4.8	2.8	3.0	1.6	1.8	2.2	2.4	4.8	4.4
	Q3	4.3	4.3	2.6	2.4	1.6	1.8	2.2	2.4	4.9	4.4
	Q4	4.3	4.8	2.7	2.9	1.6	1.8	2.2	2.4	4.9	4.4
<b>TWO-QUARTER<sup>3</sup></b>											
1997	Q2	6.4	6.4	4.1	4.1	2.2	2.2	1.8	1.8	-0.4	-0.3
	Q4	4.8	4.8	3.6	3.6	1.2	1.2	2.0	2.0	-0.2	-0.3
1998	Q2	4.6	4.6	3.7	3.7	0.9	0.9	1.2	1.2	-0.3	-0.3
	Q4	4.4	5.4	3.5	4.3	0.9	1.0	1.9	1.9	0.1	0.0
1999	Q2	3.7	4.1	2.1	2.5	1.6	1.6	2.3	2.3	-0.0	-0.1
	Q4	3.4	4.1	2.0	2.6	1.4	1.5	2.2	2.3	0.2	-0.0
2000	Q2	3.7	4.0	1.9	2.0	1.8	2.0	2.2	2.4	0.1	0.1
	Q4	4.3	4.6	2.6	2.7	1.6	1.8	2.2	2.4	0.1	-0.0
<b>FOUR-QUARTER<sup>4</sup></b>											
1996	Q4	5.8	5.8	3.9	3.9	1.8	1.8	3.2	3.2	-0.3	-0.3
1997	Q4	5.6	5.6	3.8	3.8	1.7	1.7	1.9	1.9	-0.6	-0.6
1998	Q4	4.5	5.0	3.6	4.0	0.9	0.9	1.6	1.5	-0.2	-0.3
1999	Q4	3.6	4.1	2.1	2.6	1.5	1.5	2.3	2.3	0.2	-0.1
2000	Q4	4.0	4.3	2.3	2.4	1.7	1.9	2.2	2.4	0.2	0.1

1. For all urban consumers.

2. Level, except as noted.

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

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

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

January 28, 1999

Item	Units <sup>1</sup>	- - - Projected - - -									
		1992	1993	1994	1995	1996	1997	1998	1999	2000	
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	6244.4	6558.1	6947.0	7269.6	7661.6	8110.9	8506.7	8886.7	9251.4	
Real GDP	Bill. Ch. \$	6244.4	6389.6	6610.7	6761.7	6994.8	7269.8	7547.2	7779.3	7957.2	
Real GDP	% change	3.6	2.4	3.3	2.1	3.9	3.8	4.0	2.6	2.4	
Gross domestic purchases		4.0	3.0	3.6	1.6	4.2	4.4	5.2	3.3	2.7	
Final sales		3.9	2.1	2.7	2.7	3.7	3.4	4.4	2.5	2.4	
Priv. dom. final purchases		4.9	3.7	3.7	2.9	4.4	4.5	6.5	3.6	2.9	
Personal cons. expenditures		4.2	2.7	3.1	2.6	3.3	3.7	5.2	3.5	2.8	
Durables		9.4	7.4	6.3	4.5	5.8	7.4	12.6	3.6	3.5	
Nondurables		3.4	1.6	3.0	1.7	2.8	2.0	4.5	3.5	2.3	
Services		3.6	2.3	2.5	2.6	3.0	3.8	4.1	3.5	2.9	
Business fixed investment		5.5	9.9	7.6	7.3	11.7	9.8	11.8	5.8	5.8	
Producers' dur. equipment		9.6	12.2	10.2	9.1	11.8	12.7	16.8	8.4	7.7	
Nonres. structures		-3.4	4.5	1.1	2.7	11.6	2.5	-0.9	-1.4	0.6	
Residential structures		16.9	7.8	4.2	-1.4	5.4	4.2	13.2	0.2	-2.2	
Exports		4.1	4.6	10.0	10.5	10.3	9.6	0.7	0.2	4.4	
Imports		7.4	10.2	12.3	5.6	11.8	14.0	10.4	6.1	6.7	
Gov't. cons. & investment		1.7	-1.4	0.1	-0.9	2.1	1.4	1.6	1.4	1.8	
Federal		1.3	-6.1	-3.9	-5.6	1.1	-0.6	0.4	-1.7	-0.6	
Defense		-1.3	-6.9	-6.0	-5.0	-0.1	-1.4	-1.9	-2.5	-0.5	
State & local		2.0	2.0	2.7	2.1	2.8	2.6	2.3	3.1	3.1	
Change in bus. inventories	Bill. Ch. \$	7.0	22.1	60.6	27.7	30.0	63.2	55.9	44.4	36.2	
Nonfarm		2.0	29.5	49.0	37.7	23.2	58.8	48.2	39.4	33.7	
Net exports		-29.5	-70.2	-104.6	-96.5	-111.2	-136.1	-240.9	-316.0	-370.8	
Nominal GDP	% change	6.3	5.0	5.8	4.2	5.8	5.6	5.0	4.1	4.3	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	108.6	110.7	114.1	117.2	119.6	122.7	125.8	128.2	130.0	
Unemployment rate	%	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.3	4.4	
Industrial prod. index	% change	3.6	3.3	6.5	3.5	5.3	6.6	2.1	3.0	2.4	
Capacity util. rate - mfg.	%	79.5	80.5	82.5	82.7	81.4	82.0	80.9	79.9	80.1	
Housing starts	Millions	1.20	1.29	1.46	1.35	1.48	1.47	1.62	1.61	1.54	
Light motor vehicle sales		12.85	13.86	15.01	14.72	15.05	15.02	15.50	15.30	14.95	
North Amer. produced		10.51	11.71	12.88	12.82	13.35	13.09	13.47	13.28	13.04	
Other		2.34	2.15	2.13	1.90	1.70	1.92	2.04	2.02	1.92	
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	6255.5	6576.8	6955.2	7287.1	7674.0	8102.9	8484.1	8844.0	9189.3	
Nominal GNP	% change	6.2	5.1	5.7	4.4	5.6	5.2	4.8	3.9	4.2	
Nominal personal income		7.2	4.0	5.2	4.6	5.9	5.4	5.1	4.3	4.5	
Real disposable income		4.0	1.2	2.5	2.1	2.7	2.9	3.6	2.9	2.7	
Personal saving rate	%	5.7	4.4	3.5	3.4	2.9	2.1	0.5	0.2	-0.1	
Corp. profits, IVA & CCAdj.	% change	11.3	19.0	14.1	14.6	7.7	7.7	2.6	-3.9	1.7	
Profit share of GNP	%	6.8	7.5	8.2	9.2	9.8	10.1	9.8	9.3	8.8	
Excluding FR Banks		6.6	7.2	7.9	8.9	9.5	9.8	9.5	9.0	8.5	
Federal surpl./deficit	Bill. \$	-280.9	-250.7	-186.7	-174.4	-110.3	-21.1	78.5	106.8	141.7	
State & local surpl./def.		86.3	87.4	96.8	111.7	122.6	134.1	147.9	156.8	164.0	
Ex. social ins. funds		18.3	19.7	27.9	37.0	52.2	66.0	80.4	89.3	96.5	
Gross natl. saving rate	%	14.5	14.4	15.5	16.3	16.6	17.4	17.4	17.0	16.7	
Net natl. saving rate		3.7	3.7	4.7	5.8	6.3	7.3	7.4	7.1	6.8	
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	2.6	2.6	2.5	2.1	1.8	1.7	0.9	1.5	1.9	
Gross Domestic Purchases chn.-wt. price index		2.7	2.3	2.5	2.0	1.8	1.3	0.5	1.5	1.8	
CPI		3.1	2.7	2.7	2.6	3.2	1.9	1.5	2.3	2.4	
Ex. food and energy		3.5	3.1	2.8	3.1	2.6	2.2	2.4	2.3	2.6	
ECI, hourly compensation <sup>2</sup>		3.5	3.6	3.1	2.6	3.1	3.4	3.5	3.5	3.7	
Nonfarm business sector		3.5	-0.4	0.1	1.2	2.1	1.7	2.4	1.4	1.8	
Output per hour		4.5	1.6	2.1	2.8	3.7	3.9	4.0	3.9	4.0	
Compensation per Hour		1.0	2.0	2.0	1.6	1.6	2.1	1.5	2.5	2.3	
Unit labor cost											

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

Item	Units	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	7495.3	7629.2	7703.4	7818.4	7955.0	8063.4	8170.8	8254.5	8384.2	8440.6
Real GDP	Bill. Ch. \$	6882.0	6983.9	7020.0	7093.1	7166.7	7236.5	7311.2	7364.6	7464.7	7498.6
Real GDP	% change	3.3	6.1	2.1	4.2	4.2	4.0	4.2	3.0	5.5	1.8
Gross domestic purchases		4.5	7.0	3.4	1.8	5.5	4.4	4.6	3.2	7.8	3.9
Final sales		3.6	5.4	0.9	5.1	2.9	2.7	5.8	2.1	4.3	4.6
Priv. dom. final purchases		5.1	6.2	3.1	3.3	4.6	3.3	7.2	2.9	8.5	7.4
Personal cons. expenditures		3.7	4.7	1.8	2.9	4.3	1.6	6.2	2.8	6.1	6.1
Durables		5.8	12.7	-1.9	7.2	12.3	-1.5	16.8	3.1	15.8	11.2
Nondurables		2.2	4.8	1.2	2.9	3.6	-0.2	5.1	-0.4	7.4	5.3
Services		4.0	3.0	3.0	2.0	3.1	3.2	4.7	4.3	3.5	5.4
Business fixed investment		13.1	11.0	14.2	8.8	7.0	14.0	17.0	1.8	22.2	12.8
Producers' dur. equipment		15.7	12.3	16.2	3.2	8.3	22.8	18.8	2.2	34.3	18.8
Nonres. structures		6.4	7.4	8.9	24.5	3.9	-6.2	12.4	0.9	-4.9	-2.3
Residential structures		9.3	19.5	-1.7	-3.9	3.1	6.1	-0.4	8.2	15.6	15.0
Exports		3.7	5.8	2.1	32.0	8.3	15.5	10.6	4.4	-2.8	-7.7
Imports		13.1	13.5	13.6	7.0	18.6	17.9	13.5	6.3	15.7	9.3
Gov't. cons. & investment		3.2	7.1	-1.6	0.0	2.1	2.1	1.4	0.1	-1.9	3.7
Federal		8.0	8.1	-4.7	-6.3	-2.7	3.6	-1.2	-2.1	-8.8	7.3
Defense		7.2	8.1	-6.3	-8.3	-9.9	9.1	-1.8	-2.0	-18.5	9.9
State & local		0.5	6.5	0.3	3.8	4.9	1.3	2.9	1.3	2.1	1.8
Change in bus. inventories	Bill. Ch. \$	14.4	26.1	47.5	32.1	56.3	79.0	51.0	66.5	91.4	38.2
Nonfarm		10.4	15.2	38.6	28.7	56.2	72.1	44.0	62.7	85.9	29.9
Net exports		-95.5	-113.5	-140.1	-95.9	-121.5	-131.6	-142.4	-149.0	-198.5	-245.2
Nominal GDP	% change	5.7	7.3	3.9	6.1	7.2	5.6	5.4	4.2	6.4	2.7
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	118.5	119.3	120.0	120.7	121.5	122.3	123.0	123.9	124.8	125.5
Unemployment rate	%	5.5	5.5	5.3	5.3	5.2	5.0	4.9	4.7	4.6	4.4
Industrial prod. index	% change	2.8	9.6	5.5	3.5	6.6	6.0	7.2	6.6	1.6	2.8
Capacity util. rate - mfg.	%	80.9	81.6	81.8	81.3	81.6	81.7	82.1	82.5	81.8	81.2
Housing starts	Millions	1.47	1.49	1.49	1.42	1.47	1.46	1.45	1.53	1.58	1.57
Light motor vehicle sales		15.10	15.18	15.00	14.91	15.32	14.54	15.19	15.02	15.07	16.08
North Amer. produced		13.44	13.46	13.33	13.16	13.41	12.68	13.20	13.08	13.12	14.09
Other		1.66	1.72	1.68	1.76	1.92	1.86	1.99	1.94	1.95	1.99
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	7515.0	7643.3	7708.6	7829.0	7952.4	8062.3	8162.0	8234.9	8369.4	8421.8
Nominal GNP	% change	5.6	7.0	3.5	6.4	6.5	5.6	5.0	3.6	6.7	2.5
Nominal personal income		6.6	6.9	5.5	4.6	7.3	4.7	4.7	5.0	5.9	4.5
Real disposable income		2.9	2.1	4.4	1.3	3.3	2.9	2.4	2.9	4.0	2.6
Personal saving rate	%	3.2	2.6	3.1	2.6	2.4	2.6	1.7	1.7	1.2	0.4
Corp. profits, IVA & CCAdj.	% change	16.9	6.9	3.8	3.5	18.1	11.1	13.1	-9.2	4.2	-4.1
Profit share of GNP	%	9.8	9.8	9.8	9.7	10.0	10.1	10.3	10.0	9.9	9.7
Excluding FR Banks		9.5	9.5	9.5	9.5	9.7	9.8	10.0	9.7	9.6	9.5
Federal surpl./deficit	Bill. \$	-150.1	-112.6	-100.1	-78.3	-51.2	-34.8	-0.3	2.2	58.8	74.4
State & local surpl./def.		117.3	129.1	122.3	121.7	128.4	130.1	136.6	141.4	140.2	141.3
Ex. social ins. funds		45.3	58.2	52.5	52.9	59.8	61.6	68.7	73.8	72.7	73.6
Gross natl. saving rate	%	16.4	16.4	16.8	16.7	17.0	17.6	17.5	17.3	17.7	17.2
Net natl. saving rate		6.0	6.2	6.6	6.5	7.0	7.6	7.5	7.3	7.8	7.2
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	2.2	1.4	1.8	1.6	2.8	1.7	1.2	1.1	0.9	0.9
Gross Domestic Purchases chn.-wt. price index		2.1	1.4	1.5	2.1	2.2	0.9	1.1	1.0	-0.2	0.4
CPI		3.2	3.7	2.6	3.3	2.0	1.5	1.8	2.3	0.5	2.0
Ex. food and energy		2.5	2.5	2.7	2.7	2.2	2.6	1.9	2.1	2.4	2.6
ECI, hourly compensation <sup>1</sup>		2.5	3.5	2.8	2.8	2.5	3.7	3.4	4.3	2.7	3.6
Nonfarm business sector											
Output per hour		4.1	3.0	0.0	1.2	0.5	1.8	3.6	0.9	3.5	0.3
Compensation per hour		2.6	5.2	3.7	3.3	4.0	2.6	3.9	4.9	4.6	4.0
Unit labor cost		-1.5	2.2	3.7	2.1	3.6	0.7	0.3	4.0	1.1	3.7

1. Private-industry workers.

Item	Units	Projected											
		1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2000 Q3	2000 Q4
<b>EXPENDITURES</b>													
Nominal GDP	Bill. \$	8537.9	8664.1	8758.5	8841.7	8924.2	9022.2	9093.9	9202.2	9299.4	9410.0		
Real GDP	Bill. Ch. \$	7566.5	7659.0	7709.5	7755.0	7798.1	7854.5	7874.5	7933.6	7981.3	8039.4		
Real GDP	% change	3.7	5.0	2.7	2.4	2.2	2.9	1.0	3.0	2.4	2.9		
Gross domestic purchases		4.2	4.8	3.8	3.3	2.8	3.1	1.6	3.5	2.8	2.9		
Final sales		2.8	5.9	1.7	3.3	2.4	2.7	1.7	2.6	2.4	2.8		
Priv. dom. final purchases		3.7	6.3	3.2	4.8	3.3	3.2	2.4	3.2	3.0	3.1		
Personal cons. expenditures		4.1	4.7	2.7	4.2	3.5	3.5	2.5	3.2	2.7	2.8		
Durables		2.4	22.2	-3.9	9.7	3.9	5.0	3.6	3.3	3.0	4.0		
Nondurables		2.1	3.3	3.1	3.6	3.5	3.7	2.4	2.4	2.3	2.3		
Services		5.4	2.0	4.0	3.4	3.3	3.1	2.3	3.6	2.8	2.8		
Business fixed investment		-0.7	14.0	4.5	9.7	5.0	4.2	4.3	5.2	6.8	7.0		
Producers' dur. equipment		-1.0	18.0	7.5	13.7	7.0	5.8	5.9	6.9	9.0	9.0		
Nonres. structures		0.2	3.5	-3.6	-1.0	-0.5	-0.3	-0.1	0.4	0.6	1.4		
Residential structures		9.9	12.5	7.9	0.9	-3.5	-4.2	-4.2	-2.0	-1.8	-1.0		
Exports		-2.8	18.0	-6.7	0.8	2.3	4.8	0.5	4.2	5.3	7.8		
Imports		2.3	14.7	3.0	8.5	7.0	6.0	5.4	7.9	7.5	6.2		
Gov't. cons. & investment		1.5	3.1	0.8	2.0	1.6	1.4	2.2	2.8	1.6	0.9		
Federal		-1.4	5.1	-3.5	-0.1	-1.2	-1.9	0.3	2.3	-1.4	-3.4		
Defense		4.3	-0.9	-6.5	0.1	-1.6	-1.8	-1.3	-1.0	0.0	0.4		
State & local		3.1	2.3	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1		
Change in bus. inventories	Bill. Ch. \$	55.7	38.2	58.6	39.8	36.8	42.3	27.7	36.9	38.7	41.6		
Nonfarm		47.0	30.0	51.3	34.3	32.7	39.4	25.1	34.3	36.1	39.2		
Net exports		-259.0	-261.0	-287.5	-311.8	-328.4	-336.2	-352.5	-368.2	-380.4	-382.3		
Nominal GDP	% change	4.7	6.0	4.4	3.9	3.8	4.5	3.2	4.8	4.3	4.8		
<b>EMPLOYMENT AND PRODUCTION</b>													
Nonfarm payroll employment	Millions	126.1	126.8	127.5	128.0	128.4	128.9	129.4	130.0	130.1	130.4		
Unemployment rate	%	4.5	4.4	4.3	4.3	4.3	4.3	4.3	4.4	4.4	4.4		
Industrial prod. index	% change	0.9	3.2	2.3	3.0	3.0	3.7	0.8	2.8	2.8	3.2		
Capacity util. rate - mfg.	%	80.2	80.2	79.8	79.8	79.9	80.2	79.8	80.0	80.1	80.3		
Housing starts	Millions	1.63	1.69	1.68	1.64	1.59	1.55	1.54	1.54	1.53	1.53		
Light motor vehicle sales		14.55	16.31	15.06	15.61	15.30	15.23	15.10	15.00	14.85	14.86		
North Amer. produced		12.55	14.11	12.98	13.57	13.31	13.27	13.19	13.09	12.93	12.93		
Other		2.01	2.20	2.08	2.04	1.99	1.96	1.91	1.91	1.92	1.93		
<b>INCOME AND SAVING</b>													
Nominal GNP	Bill. \$	8510.9	8634.2	8724.4	8803.1	8878.9	8969.6	9035.6	9140.8	9236.0	9344.6		
Nominal GNP	% change	4.3	5.9	4.2	3.7	3.5	4.2	3.0	4.7	4.2	4.8		
Nominal personal income		4.5	5.7	5.2	3.7	4.1	4.2	5.6	4.3	3.9	4.2		
Real disposable income		3.2	4.5	5.5	1.7	2.1	2.2	4.7	2.2	1.8	2.1		
Personal saving rate	%	0.2	0.2	0.9	0.3	-0.0	-0.3	0.2	-0.0	-0.2	-0.4		
Corp. profits, IVA & CCAdj.	% change	3.2	7.6	-3.5	-4.8	-5.9	-1.5	-11.4	7.6	6.3	5.5		
Profit share of GNP	%	9.7	9.8	9.6	9.4	9.1	9.0	8.7	8.7	8.8	8.8		
Excluding FR Banks		9.4	9.5	9.3	9.1	8.9	8.7	8.4	8.5	8.5	8.5		
Federal surpl./deficit	Bill. \$	92.0	88.7	82.4	102.1	116.5	126.2	115.4	133.2	153.0	165.3		
State & local surpl./def.		148.7	161.6	155.5	156.5	155.6	159.5	162.9	163.7	164.0	165.2		
Ex. social ins. funds		81.3	94.1	88.0	89.0	88.1	92.0	95.4	96.2	96.5	97.7		
Gross natl. saving rate	%	17.3	17.3	17.5	17.1	16.8	16.6	16.6	16.6	16.7	16.7		
Net natl. saving rate		7.3	7.4	7.6	7.2	6.9	6.7	6.8	6.8	6.9	6.9		
<b>PRICES AND COSTS</b>													
GDP chn.-wt. price index	% change	1.0	1.0	1.7	1.4	1.5	1.5	2.2	1.8	1.8	1.8		
Gross Domestic Purchases chn.-wt. price index		0.7	0.9	1.5	1.5	1.5	1.5	2.1	1.6	1.7	1.7		
CPI		1.7	2.0	2.1	2.4	2.3	2.3	2.5	2.4	2.4	2.4		
Ex. food and energy		2.3	2.3	2.7	2.1	2.2	2.3	2.6	2.6	2.6	2.6		
ECI, hourly compensation <sup>1</sup>		4.4	2.9	3.2	3.5	3.6	3.6	3.6	3.7	3.7	4.0		
Nonfarm business sector		3.0	3.0	1.3	1.4	1.2	1.6	-0.4	2.5	2.3	2.7		
Output per hour		4.1	3.4	4.2	3.8	3.8	4.4	3.8	3.8	3.8	4.2		
Compensation per hour		1.1	0.4	2.9	2.4	2.6	2.1	4.8	1.3	1.5	1.5		
Unit labor cost													

1. Private-industry workers.

Strictly Confidential <FR>  
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

January 28, 1999

Item	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	96Q4/ 95Q4	97Q4/ 96Q4	98Q4/ 97Q4
Real GDP	2.1	4.2	4.2	4.0	4.2	3.0	5.5	1.8	3.7	3.9	3.8	4.0
Gross dom. purchases	3.5	1.9	5.5	4.4	4.7	3.2	7.9	4.0	4.3	4.2	4.4	5.2
Final sales	0.9	5.1	2.9	2.7	5.7	2.1	4.3	4.6	2.8	3.7	3.3	4.4
Priv. dom. final purchases	2.5	2.7	3.8	2.7	5.9	2.4	7.0	6.1	3.1	3.6	3.7	5.3
Personal cons. expenditures	1.3	2.0	2.9	1.1	4.2	1.9	4.1	4.1	2.8	2.2	2.5	3.5
Durables	-0.2	0.6	1.0	-0.1	1.3	0.3	1.2	0.9	0.2	0.5	0.6	1.0
Nondurables	0.2	0.6	0.7	-0.0	1.0	-0.1	1.4	1.0	0.4	0.6	0.4	0.9
Services	1.2	0.8	1.2	1.3	1.9	1.7	1.4	2.1	2.2	1.2	1.5	1.6
Business fixed investment	1.4	0.9	0.7	1.4	1.7	0.2	2.2	1.4	-0.1	1.2	1.0	1.2
Producers' dur. equip.	1.1	0.2	0.6	1.6	1.3	0.1	2.4	1.4	-0.1	0.8	0.9	1.3
Nonres. structures	0.2	0.6	0.1	-0.2	0.4	0.0	-0.2	-0.1	0.0	0.3	0.1	-0.0
Residential structures	-0.1	-0.2	0.1	0.2	-0.0	0.3	0.6	0.6	0.4	0.2	0.2	0.5
Net exports	-1.3	2.4	-1.2	-0.5	-0.5	-0.3	-2.2	-2.1	-0.6	-0.3	-0.6	-1.2
Exports	0.2	3.2	1.0	1.8	1.2	0.5	-0.3	-0.9	-0.3	1.2	1.1	0.1
Imports	-1.6	-0.9	-2.2	-2.2	-1.7	-0.8	-1.9	-1.2	-0.3	-1.4	-1.7	-1.3
Government cons. & invest.	-0.3	0.0	0.4	0.4	0.3	0.0	-0.3	0.6	0.3	0.4	0.3	0.3
Federal	-0.3	-0.4	-0.2	0.2	-0.1	-0.1	-0.6	0.4	-0.1	0.1	-0.0	0.0
Defense	-0.3	-0.4	-0.5	0.4	-0.1	-0.1	-0.8	0.4	0.2	-0.0	-0.1	-0.1
Nondefense	0.0	0.0	0.3	-0.2	0.0	-0.1	0.3	0.1	-0.3	0.1	0.0	0.1
State and local	0.0	0.4	0.6	0.2	0.3	0.2	0.2	0.2	0.4	0.3	0.3	0.3
Change in bus. inventories	1.2	-0.8	1.3	1.3	-1.4	0.9	1.2	-2.7	0.9	0.2	0.5	-0.4
Nonfarm	1.3	-0.5	1.5	0.9	-1.5	1.0	1.2	-2.8	0.9	0.1	0.5	-0.4
Farm	-0.1	-0.3	-0.2	0.4	0.1	-0.1	0.0	0.1	0.0	0.0	0.0	0.1

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

January 28, 1999

Item	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	98Q4/ 97Q4	99Q4/ 98Q4	00Q4/ 99Q4
<b>Real GDP</b>												
<b>Gross dom. purchases</b>	5.0	2.7	2.4	2.2	2.9	1.0	3.0	2.4	2.9	4.0	2.6	2.4
	4.9	3.8	3.4	2.9	3.2	1.7	3.6	2.9	3.0	5.2	3.3	2.8
<b>Final sales</b>	5.9	1.7	3.3	2.4	2.7	1.7	2.6	2.3	2.8	4.4	2.5	2.4
<b>Priv. dom. final purchases</b>	5.3	2.7	4.0	2.8	2.7	2.0	2.7	2.5	2.7	5.3	3.0	2.5
<b>Personal cons. expenditures</b>	3.2	1.9	2.9	2.4	2.4	1.7	2.2	1.8	1.9	3.5	2.4	1.9
<b>Durables</b>	1.7	-0.3	0.8	0.3	0.4	0.3	0.3	0.2	0.3	1.0	0.3	0.3
<b>Nondurables</b>	0.6	0.6	0.7	0.7	0.7	0.5	0.5	0.4	0.4	0.9	0.7	0.5
<b>Services</b>	0.8	1.6	1.4	1.4	1.3	0.9	1.5	1.1	1.1	1.6	1.4	1.2
<b>Business fixed investment</b>	1.5	0.5	1.0	0.5	0.5	0.5	0.6	0.7	0.8	1.2	0.6	0.6
<b>Producers' dur. equip.</b>	1.4	0.6	1.1	0.6	0.5	0.5	0.6	0.7	0.7	1.3	0.7	0.6
<b>Nonres. structures</b>	0.1	-0.1	-0.0	-0.0	-0.0	-0.0	0.0	0.0	0.0	-0.0	-0.0	0.0
<b>Residential structures</b>	0.5	0.3	0.0	-0.2	-0.2	-0.2	-0.1	-0.1	-0.0	0.5	0.0	-0.1
<b>Net exports</b>	0.1	-1.1	-1.0	-0.7	-0.3	-0.6	-0.6	-0.4	-0.0	-1.2	-0.8	-0.4
<b>Exports</b>	1.9	-0.8	0.1	0.3	0.5	0.1	0.4	0.6	0.8	0.1	0.0	0.5
<b>Imports</b>	-1.8	-0.4	-1.1	-0.9	-0.8	-0.7	-1.0	-1.0	-0.8	-1.3	-0.8	-0.9
<b>Government cons. &amp; invest.</b>	0.5	0.1	0.3	0.3	0.2	0.4	0.5	0.3	0.2	0.3	0.3	0.3
<b>Federal</b>	0.3	-0.2	-0.0	-0.1	-0.1	0.0	0.1	-0.1	-0.2	0.0	-0.1	-0.0
<b>Defense</b>	-0.0	-0.3	0.0	-0.1	-0.1	-0.0	-0.0	0.0	0.0	-0.1	-0.1	-0.0
<b>Nondefense</b>	0.3	0.0	-0.0	-0.0	-0.0	0.1	0.2	-0.1	-0.2	0.1	-0.0	-0.0
<b>State and local</b>	0.3	0.4	0.3	0.4	0.3	0.4	0.4	0.4	0.4	0.3	0.4	0.4
<b>Change in bus. inventories</b>	-0.8	1.0	-0.9	-0.1	0.3	-0.7	0.4	0.1	0.1	-0.4	0.0	-0.0
<b>Nonfarm</b>	-0.8	1.0	-0.8	-0.1	0.3	-0.7	0.4	0.1	0.1	-0.4	0.1	-0.0
<b>Farm</b>	-0.0	-0.1	-0.1	-0.1	-0.1	-0.0	-0.0	-0.0	-0.0	0.1	-0.1	-0.0

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

Item	Fiscal year <sup>5</sup>				1998				1999				2000			
	1997 <sup>a</sup>	1998 <sup>a</sup>	1999	2000	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>UNIFIED BUDGET</b>																
Receipts <sup>1</sup>	1579	1721	1802	1888	378	544	412	413	399	550	440	428	423	578	459	444
Outlays <sup>1</sup>	1601	1651	1701	1745	409	407	409	468	392	422	419	444	445	434	422	451
Surplus/deficit <sup>1</sup>	-22	70	101	144	-30	137	3	-55	7	128	20	-16	-21	143	37	-7
On-budget	-103	-29	-28	0	-53	87	3	-58	-49	71	9	-56	-49	81	25	-51
Off-budget	81	99	128	143	22	50	0	3	56	57	11	40	27	63	13	44
Surplus excluding deposit insurance <sup>2</sup>	-36	66	95	140	-31	136	2	-57	6	127	19	-16	-22	142	36	-8
<b>Means of financing</b>																
Borrowing	38	-51	-83	-148	26	-82	-29	32	3	-108	-11	5	11	-116	-48	-8
Cash decrease	1	5	-1	0	4	-45	33	21	-2	-14	-6	10	10	-25	5	20
Other <sup>3</sup>	-17	-24	-16	4	0	-10	-8	1	-8	-6	-3	1	1	-3	6	-5
Cash operating balance, end of period	44	39	40	40	28	72	39	18	19	34	40	30	20	45	40	20
<b>NIPA FEDERAL SECTOR</b>																
Receipts	1687	1818	1907	1982	1809	1838	1859	1888	1892	1914	1934	1958	1965	1991	2015	2040
Expenditures	1728	1761	1810	1850	1750	1764	1767	1800	1810	1812	1818	1831	1849	1858	1862	1875
Consumption expend.	458	458	470	481	451	464	459	467	471	472	471	470	482	487	486	482
Defense	306	301	304	308	293	303	303	304	304	305	304	303	309	309	310	311
Nondefense	152	157	166	173	158	161	156	163	167	167	167	167	173	177	176	172
Other expenditures	1270	1303	1340	1369	1299	1300	1308	1333	1339	1341	1346	1361	1367	1371	1376	1393
Current account surplus	-41	57	97	132	59	74	92	89	82	102	116	126	115	133	153	165
Gross investment	61	60	59	58	61	57	61	60	59	59	59	58	58	58	58	58
Current and capital account surplus	-102	-3	38	74	-2	18	31	28	24	43	58	68	57	75	95	107
<b>FISCAL INDICATORS<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-163	-101	-85	-43	-103	-85	-77	-94	-100	-81	-65	-56	-58	-40	-18	-7
Change in HEB, percent of potential GDP	-.8	-.8	-.2	-.5	-.5	-.2	-.1	.2	.1	-.2	-.2	-.1	0	-.2	-.2	-.1
Fiscal impetus (FI), percent, cal. year	-2.1	-1.8	2.2	-.7	-2.1	1.1	.4	.6	1.9	-.2	-.6	-.7	.1	.5	-.4	-.6

1. OMB's May 1998 surplus estimates (assuming the enactment of the President's proposals) are \$39 billion in FY98, \$54 billion in FY99 and \$61 billion in FY00. CBO's August 1998 baseline surplus estimates are \$63 billion in FY98, \$80 billion in FY99 and \$79 billion in FY00. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's May 1998 surplus estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are \$35 billion in FY98, \$51 billion in FY99 and \$58 billion in FY00, and CBO's August baseline estimates are \$59 billion in FY98, \$76 billion in FY99 and \$76 billion in FY00.

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

4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Real potential GDP growth is assumed to be 2.8 percent beginning 1995:Q3. 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.

Strictly Confidential Class II FOMC  
January 28, 1999

Change in Debt of the Domestic Nonfinancial Sectors  
(Percent)

Period <sup>1</sup>	Total <sup>2</sup>	Federal government <sup>3</sup>	Total <sup>4</sup>	Nonfederal				Business	State and local governments	Nominal GDP	Memo:				
				Households											
				Total	Home mortgages	Consumer credit									
<i>Year</i>															
1990	6.4	11.0	5.2	7.5	9.6	1.5	3.1	5.0	4.4						
1991	4.3	11.1	2.3	4.7	6.4	-1.3	-1.7	8.6	3.8						
1992	4.6	10.9	2.6	4.3	5.2	0.5	0.8	2.2	6.3						
1993	5.0	8.3	3.8	5.3	4.3	7.6	1.6	6.0	5.0						
1994	4.6	4.7	4.6	7.5	5.8	14.5	4.0	-4.0	5.8						
1995	5.4	4.1	5.8	7.7	5.5	14.1	6.7	-4.6	4.2						
1996	5.3	4.0	5.8	7.7	8.0	7.9	5.2	-0.6	5.8						
1997	5.3	0.6	7.0	6.9	7.5	4.3	7.5	5.3	5.6						
1998	6.3	-1.4	8.9	8.7	9.2	6.2	9.5	7.2	5.0						
1999	4.9	-2.9	7.3	8.0	8.6	5.6	6.9	5.5	4.1						
2000	4.2	-4.4	6.5	7.1	7.7	4.0	6.3	5.0	4.3						
<i>Quarter</i>															
1997:3	5.6	0.8	7.3	6.8	9.1	4.1	7.9	6.7	5.4						
4	6.4	1.1	8.2	7.3	8.2	3.0	9.1	8.4	4.2						
1998:1	6.0	-0.8	8.3	7.9	8.4	4.5	8.7	8.4	6.4						
2	6.1	-1.9	8.6	8.4	9.1	5.1	9.4	6.9	2.7						
3	5.9	-3.6	8.9	8.2	9.1	6.7	10.4	6.3	4.7						
4	6.6	0.7	8.4	9.1	9.1	8.0	8.1	6.5	6.0						
1999:1	5.0	-3.7	7.6	8.3	8.7	6.0	7.2	5.6	4.4						
2	4.7	-3.2	7.0	7.9	8.4	6.0	6.4	5.3	3.9						
3	4.8	-2.6	7.0	7.5	8.1	5.0	6.8	5.3	3.8						
4	4.8	-2.5	6.9	7.4	8.0	5.0	6.6	5.2	4.5						

Note. Quarterly data are at seasonally adjusted annual rates.

1 Data after 1998:Q3 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2. On a monthly average basis, total debt is estimated to have grown 6.3 percent in 1998 and is projected to grow 5.2 percent in 1999 and 4.2 percent in 2000.

3. On a monthly average basis, federal debt is estimated to have grown -1.2 percent in 1998 and is projected to grow -2.6 percent in 1999 and -4.3 percent in 2000.

4. On a monthly average basis, nonfederal debt is estimated to have grown 8.8 percent in 1998 and is projected to grow 7.5 percent in 1999 and 6.6 percent in 2000.

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

Category					Seasonally adjusted annual rates													
	Calendar year				1998				1999				2000					
	1997	1998	1999	2000	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2				
<i>Net funds raised by domestic nonfinancial sectors</i>																		
1 Total	655.1	696.6	647.1	653.2	780.0	806.1	626.2	574.2	707.3	553.2	581.6	746.5	685.3	621.1				
2 Net equity issuance	-114.4	-261.6	-149.0	-56.5	-139.2	-129.1	-299.2	-479.0	-96.0	-218.0	-218.0	-64.0	-63.0	-50.0				
3 Net debt issuance	769.6	958.2	796.1	709.7	919.2	935.2	925.3	1053.2	803.3	771.2	799.6	810.5	748.3	671.1				
<i>Borrowing sectors</i>																		
Nonfinancial business																		
4 Financing gap <sup>1</sup>	74.3	103.3	139.0	163.7	119.1	97.2	100.7	96.1	123.7	130.8	142.2	159.2	157.4	170.0				
5 Net equity issuance	-114.4	-261.6	-149.0	-56.5	-139.2	-129.1	-299.2	-479.0	-96.0	-218.0	-218.0	-64.0	-63.0	-50.0				
6 Credit market borrowing	334.8	452.2	362.2	351.4	417.8	457.4	517.9	415.6	375.8	340.7	366.7	365.7	350.6	352.1				
Households																		
7 Net borrowing <sup>2</sup>	355.6	478.1	479.2	456.5	437.2	469.8	471.2	534.3	498.4	483.4	465.1	470.1	463.8	449.3				
8 Home mortgages	261.9	347.4	352.2	344.9	316.1	351.7	356.2	365.7	357.7	352.7	348.8	349.6	346.0	343.8				
9 Consumer credit	52.5	78.6	75.4	57.2	57.3	65.1	86.7	105.3	80.6	81.8	69.2	70.0	61.3	53.1				
10 Debt/DPI (percent) <sup>3</sup>	91.8	95.2	98.3	101.0	93.6	94.7	95.6	96.3	96.8	97.9	98.8	99.7	100.3	101.8				
State and local governments																		
11 Net borrowing	56.1	80.5	65.4	62.8	94.3	78.9	72.7	76.3	66.7	65.0	65.0	65.0	61.8	63.8				
12 Current surplus <sup>4</sup>	135.6	184.6	189.6	199.3	179.1	169.4	191.5	198.4	187.9	183.5	191.2	195.8	198.5	200.1				
Federal government																		
13 Net borrowing	23.1	-52.6	-110.7	-160.9	-30.0	-70.9	-136.5	27.0	-137.6	-117.8	-97.2	-90.2	-127.8	-194.0				
14 Net borrowing (quarterly, n.s.a.)	23.1	-52.6	-110.7	-160.9	25.9	-81.8	-28.8	32.1	2.9	-107.5	-11.0	4.9	-104.7	-56.2				
15 Unified deficit (quarterly, n.s.a.)	2.4	-54.7	-139.9	-152.2	30.2	-136.9	-3.0	55.0	-7.3	-128.1	-20.2	15.6	-121.9	-30.3				
Depository institutions																		
16 Funds supplied	336.3	299.2	322.2	281.6	319.5	147.0	301.1	429.3	341.5	323.1	324.7	299.4	283.9	279.4				
Memo (percentage of GDP)																		
17 Domestic nonfinancial debt <sup>5</sup>	182.8	184.4	186.4	187.2	182.8	184.3	184.9	185.1	185.7	186.2	186.7	186.9	187.5	187.1				
18 Domestic nonfinancial borrowing	9.5	11.3	9.0	7.7	11.0	11.1	10.8	12.2	9.2	8.7	9.0	9.0	8.2	7.2				
19 Federal government <sup>6</sup>	0.3	-0.6	-1.2	-1.7	-0.4	-0.8	-1.6	0.3	-1.6	-1.3	-1.1	-1.0	-1.4	-2.1				
20 Nonfederal	9.2	11.9	10.2	9.4	11.3	11.9	12.4	11.8	10.7	10.1	10.0	10.0	9.6	9.2				

Note. Data after 1998:Q3 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.

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

Measure	1998		Projection			2000
			1998	1999	H1	
	H1	Q3	Q4	H2		
Foreign output <i>December GB</i>	-.1 .0	1.1 1.3	.9 .3	.4 1.2	1.3 2.0	2.2 2.3
Real exports <i>December GB</i>	-5.3 -5.3	-2.8 -3.0	18.0 2.7	-3.0 1.6	3.5 3.4	4.4 4.8
Real imports <i>December GB</i>	12.5 12.5	2.3 1.8	14.7 7.8	5.7 6.6	6.5 5.3	6.7 6.2

**The dollar.** We continue to expect that expanding current account imbalances in the United States and Japan--as well as the large euro-area current account surplus--will exert downward pressure on the dollar over the forecast period. Accordingly, despite some projected easing of monetary policy in Europe (compared with a stance by the Federal Reserve that is assumed to be unchanged), the dollar is projected to decline 1/2 percent against the euro in 1999 and 2-1/2 percent in 2000. The dollar is assumed to remain flat against the yen at a level somewhat below its current value, as continuing uncertainty about prospects for recovery in Japan offset pressures from current account imbalances. Projected upward movement of commodity prices should support appreciation of the Canadian currency against the U.S. dollar--about 3-1/2 percent in 1999 and 2 percent more in 2000. We project, on balance, that the trade-weighted foreign exchange value of the dollar against the major currencies will decline 2-1/2 percent in 1999 and another 1-1/2 percent in 2000.

Against the currencies of a broad group of U.S. trading partners, the real exchange value of the dollar is projected to move up in the near term. The Brazilian *real* is assumed to move to a rate of 2 *real*/dollar shortly and remain at that level for the rest of the forecast period. As inflation in Brazil picks up later this year, we project the price-adjusted value of the *real* to rise. We are projecting a more modest depreciation of the Mexican peso in price-adjusted terms over the next two quarters that is sustained over the remainder of the forecast period. On balance, we expect that the price-adjusted value of the broad index will gain about 1/2 percent in 1999 and edge back a bit in 2000. As in the previous Greenbook forecast, we assume that Chinese authorities will begin to allow some modest depreciation of the renminbi at some point during the

### Selected Trade Prices

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

Trade category	1998		Projection			2000
			1998	1999		
	H1	Q3	Q4	H1	H2	
<i>Exports</i>						
Nonagricultural (core)	-2.1	-2.3	-1.1	1.4	1.8	1.7
Agricultural	-11.0	-7.8	-7.2	1.6	1.6	2.0
<i>Imports</i>						
Non-oil (core)	-2.6	-3.1	.4	1.8	1.3	1.4
Oil (level, dollars per barrel)	12.51	11.59	11.40	11.61	12.97	13.50

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

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

**Prices of non-oil imports and exports.** After recording negative rates for the past three years, core import price inflation should increase to 1-3/4 percent (s.a.a.r.) in the first half of 1999 and then slow to 1-1/2 percent in 2000 as the effects of dollar depreciation wane. Some delayed effects from earlier dollar appreciation may tend to counteract the passthrough of more recent dollar weakness to import prices. Movements of commodity prices should be smaller than in 1998. After falling more than 13 percent last year and contributing importantly to lower import prices, commodity prices are expected to increase about 2 percent in 1999 and 2000, with little projected impact on prices of core imports. After falling about 1 percent in the fourth quarter, core export prices are expected to rise at an annual rate of about 1-1/2 percent.

**Nominal trade and current account balances.** The nominal trade deficit for goods and services is projected to widen significantly during the forecast period, from about \$180 billion (annual rate) in the fourth quarter of 1998 to about \$275 billion in 2000. The deficit for net investment income also is projected to widen. As a result, the current account deficit is expected to expand from a \$255 billion annual rate in the fourth quarter of last year (3 percent of GDP) to \$375 billion for the year 2000 (4 percent of GDP and nearly 1/2 percentage point above the previous peak for this ratio reached in 1987).

**Impact of Alternative Assumptions**  
(Percent change, Q4 to Q4)

Measure	1999	2000
<i>U.S. real GDP</i>		
Baseline	2.6	2.4
Pessimistic Brazil <sup>1</sup>	1.8	1.5
Optimistic Brazil <sup>2</sup>	3.1	2.9
<i>U.S. CPI excluding food and energy</i>		
Baseline	2.3	2.4
Pessimistic Brazil <sup>1</sup>	2.1	1.9
Optimistic Brazil <sup>2</sup>	2.4	2.6

NOTE. All simulations assume fixed federal funds rate.

1. Assumes U.S. stock market falls an additional 20 percent.

2. Assumes U.S. stock market rises an additional 10 percent.

Strictly Confidential (FR)  
Class II FOMC

January 28, 1999

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

Measure and country	-----Projected----									
	1992	1993	1994	1995	1996	1997	1998	1999	2000	
<b>REAL GDP (1)</b>										
Total foreign	2.2	3.3	5.1	2.0	4.1	4.1	0.5	0.9	2.2	
Industrial Countries	0.7	1.8	4.0	1.7	2.6	3.3	1.6	1.8	1.9	
of which:										
Canada	0.9	2.9	5.5	1.1	1.7	4.4	2.3	2.5	2.4	
Japan	0.1	0.5	0.9	2.5	5.1	-0.8	-2.7	-0.6	-0.4	
United Kingdom	0.7	3.2	4.6	1.9	2.6	4.0	1.6	1.0	2.0	
Euro-11	0.1	-0.1	3.4	1.3	1.9	3.1	2.5	2.1	2.2	
Germany	0.9	-0.2	3.4	0.0	2.1	2.3	2.4	1.9	2.3	
Developing Countries	4.6	5.4	6.8	2.5	6.3	5.1	-1.0	-0.3	2.7	
Asia	6.8	8.2	8.6	6.7	7.0	5.0	-3.2	1.0	3.1	
Korea	2.4	8.1	9.5	7.3	7.1	3.9	-6.6	1.0	3.1	
China	15.0	12.0	14.8	8.1	9.4	7.9	9.2	5.9	6.8	
Latin America	3.0	2.6	5.6	-4.1	6.2	5.9	1.5	-2.4	2.2	
Mexico	2.8	1.9	5.2	-7.0	7.1	6.7	3.2	-0.9	2.7	
Brazil	0.1	4.4	9.6	-1.5	5.0	1.6	-1.0	-7.8	-1.0	
<b>CONSUMER PRICES (2)</b>										
Industrial Countries	2.0	2.1	1.1	1.3	1.5	1.6	1.0	0.5	0.7	
of which:										
Canada	1.8	1.8	-0.0	2.1	2.0	1.0	1.1	1.3	1.5	
Japan	0.9	1.2	0.8	-0.8	0.1	2.1	0.7	-2.0	-1.4	
United Kingdom (3)	3.7	2.7	2.2	2.9	3.2	2.8	2.6	2.4	2.5	
Euro-11 (4)	NA	NA	NA	2.7	2.0	1.4	0.9	1.4	1.4	
Germany	3.4	4.2	2.6	1.7	1.4	1.8	0.6	1.1	1.2	
Developing Countries	21.7	24.8	23.1	17.0	11.2	6.9	8.9	8.9	7.7	
Asia	5.5	7.7	10.8	6.4	4.8	2.8	4.6	2.6	4.4	
Korea	4.7	5.5	5.8	4.4	5.1	5.0	6.0	3.0	2.6	
China	8.2	17.1	26.9	11.1	7.0	1.0	-1.1	0.1	3.6	
Latin America	72.4	74.5	54.6	42.2	26.0	15.6	15.7	20.5	13.4	
Mexico	13.2	8.6	6.9	48.8	28.1	17.2	17.6	20.5	13.5	
Brazil	1150.1	2321.7	1237.1	22.5	10.5	4.2	2.7	24.6	12.7	

1. Foreign GDP aggregates calculated using shares of U.S. non-agricultural exports.  
 2. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.  
 3. CPI excluding mortgage interest payments, which is the targeted inflation rate.  
 4. Harmonized CPI's, weighted by shares in final consumption of households converted to a common currency using estimated PPP exchange rates.

OUTLOOK FOR FOREIGN REAL GDP AND CONSUMER PRICES: SELECTED COUNTRIES  
(Percent changes)

Measure and country	1998				Projected				2000			
					1999							
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>REAL GDP (1)</b>												
Total foreign	-0.9	0.8	1.1	0.9	0.3	0.5	1.1	1.5	1.6	2.2	2.4	2.6
Industrial Countries of which:	1.9	1.2	1.3	1.9	1.7	1.7	1.7	2.0	1.4	1.9	2.1	2.2
Canada	3.1	1.4	1.8	3.0	2.6	2.4	2.4	2.7	2.0	2.4	2.6	2.8
Japan	-4.8	-2.9	-2.6	-0.5	-1.1	-0.6	-0.6	-0.2	-1.3	-0.2	-0.0	-0.0
United Kingdom	1.9	2.0	1.6	0.7	0.9	0.9	1.0	1.4	1.4	1.9	2.4	2.4
Euro-11	3.2	2.3	2.7	1.6	1.8	2.0	2.1	2.4	1.7	2.3	2.3	2.3
Germany	5.9	0.2	3.5	0.2	1.0	1.8	2.3	2.6	1.9	2.4	2.4	2.4
Developing Countries	-4.6	0.2	0.8	-0.5	-1.5	-0.9	0.3	0.9	2.0	2.6	2.9	3.1
Asia	-9.8	-3.3	-0.3	0.9	-0.2	0.6	1.4	2.2	2.2	2.9	3.5	3.8
Korea	-22.8	-5.1	2.3	1.5	0.5	0.5	1.0	2.0	1.7	2.5	3.5	4.5
China	7.2	6.6	10.8	12.4	5.2	6.0	6.0	6.5	6.3	7.0	7.0	7.0
Latin America	1.0	4.7	2.7	-2.4	-3.8	-3.4	-1.4	-1.0	1.9	2.3	2.3	2.3
Mexico	1.0	6.1	7.7	-1.6	-2.0	-1.6	0.1	-0.0	2.5	2.8	2.9	2.8
Brazil	2.1	5.4	-5.9	-5.0	-10.0	-10.0	-6.0	-5.0	-1.0	-1.0	-1.0	-1.0
<b>CONSUMER PRICES (2)</b>												
Industrial Countries	1.4	1.1	0.8	1.0	0.9	0.6	0.6	0.5	0.5	0.5	0.7	0.7
of which:												
Canada	1.0	1.0	0.9	1.1	1.2	1.2	1.3	1.3	1.4	1.4	1.5	1.5
Japan	2.1	0.6	-0.1	0.7	-0.2	-1.1	-1.4	-2.0	-2.0	-2.0	-1.5	-1.4
United Kingdom (3)	2.5	3.0	2.6	2.6	2.5	2.4	2.4	2.4	2.5	2.4	2.5	2.5
Euro-11 (4)	1.2	1.5	1.2	0.9	1.2	1.2	1.3	1.4	1.4	1.4	1.4	1.4
Germany	1.2	1.3	0.8	0.6	0.7	0.9	1.0	1.1	1.2	1.2	1.2	1.2
Developing Countries	7.3	7.6	8.0	8.9	8.7	9.3	9.4	8.9	8.3	7.8	7.7	7.7
Asia	4.2	4.7	4.6	4.6	3.1	2.8	2.5	2.6	3.3	3.6	4.0	4.4
Korea	8.9	8.2	7.0	6.0	1.1	1.7	2.7	3.0	3.3	3.1	2.8	2.6
China	0.4	-0.9	-1.4	-1.1	-0.5	0.9	0.8	0.1	0.6	1.4	2.4	3.6
Latin America	14.1	14.2	14.3	15.7	17.9	20.2	21.4	20.5	16.8	14.7	13.9	13.4
Mexico	15.3	15.1	15.6	17.6	19.9	21.7	22.2	20.5	16.4	14.7	14.1	13.5
Brazil	4.4	4.5	3.6	2.7	6.2	14.0	20.6	24.6	21.9	15.3	12.7	12.7

1. Foreign GDP aggregates calculated using shares of U.S. non-agricultural exports.

2. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.

3. CPI excluding mortgage interest payments, which is the targeted inflation rate.

4. Harmonized CPI's, weighted by shares in final consumption of households converted to a common currency using estimated PPP exchange rates.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1992	1993	1994	1995	1996	1997	-----	Projected 1999	----- 2000
<b>NIPA REAL EXPORTS and IMPORTS</b>									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.4	-0.6	-0.4	0.5	-0.3	-0.6	-1.2	-0.8	-0.4
Exports of G&S	0.4	0.5	1.0	1.1	1.2	1.1	0.1	0.0	0.5
Imports of G&S	-0.8	-1.1	-1.4	-0.7	-1.4	-1.7	-1.3	-0.8	-0.9
Percentage change, Q4/Q4									
Exports of G&S	4.1	4.6	10.0	10.5	10.3	9.6	0.7	0.2	4.4
Services	-0.9	4.1	6.0	9.8	7.5	1.5	-0.3	0.6	1.9
Agricultural Goods	10.4	-5.5	16.6	-4.3	4.8	2.8	-3.4	-9.2	0.2
Computers	25.2	23.7	32.0	55.5	35.9	40.7	5.9	24.2	28.2
Semiconductors	64.8	32.9	66.9	79.6	46.2	21.0	6.8	21.6	23.6
Other Goods 1/	2.3	3.6	7.0	5.8	8.0	11.6	0.9	-2.4	2.6
Imports of G&S	7.4	10.2	12.3	5.6	11.8	14.0	10.4	6.1	6.7
Services	1.4	3.2	1.4	6.1	5.5	12.4	3.8	3.4	3.1
Oil	12.1	10.1	-0.2	2.4	7.9	4.0	9.6	1.1	5.1
Computers	45.1	39.3	44.8	48.1	24.4	30.3	29.1	28.5	28.4
Semiconductors	42.0	34.2	54.5	92.4	57.6	32.7	-8.3	26.2	27.4
Other Goods 2/	5.4	9.5	12.2	-1.2	10.4	13.0	11.2	4.4	4.9
Billions of chained 1992 dollars									
Net Goods & Services	-29.5	-70.2	-104.6	-96.5	-111.2	-136.1	-240.9	-316.0	-370.8
Exports of G&S	639.4	658.2	712.4	792.6	860.0	970.0	983.8	996.1	1028.8
Imports of G&S	669.0	728.4	817.0	889.0	971.2	1106.1	1224.8	1312.1	1399.7
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-51.4	-86.1	-123.8	-115.3	-134.9	-155.2	-229.0	-309.6	-374.1
Net Goods & Services (BOP)	-38.7	-71.9	-100.9	-99.9	-108.6	-110.2	-170.2	-230.4	-275.5
Exports of G&S (BOP)	617.3	643.2	703.8	795.6	850.8	937.6	931.6	938.0	975.8
Imports of G&S (BOP)	656.0	715.2	804.7	895.5	959.3	1047.8	1101.8	1168.4	1251.4
Net Investment Income	22.5	23.9	16.5	19.3	14.2	-5.3	-17.2	-37.4	-56.8
Direct, Net	51.6	55.7	51.8	63.0	66.2	63.7	56.8	41.2	38.8
Portfolio, Net	-29.1	-31.7	-35.3	-43.7	-51.9	-69.1	-74.1	-78.6	-95.7
Net Transfers	-35.2	-38.1	-39.4	-34.6	-40.6	-39.7	-41.5	-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

	1995				1996				1997			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>NIPA REAL EXPORTS and IMPORTS</b>												
Percentage point contribution to GDP growth												
Net Goods & Services	-0.2	-0.3	1.6	0.7	-1.1	-1.0	-1.4	2.4	-1.3	-0.4	-0.5	-0.3
Exports of G&S	1.0	0.6	1.9	1.1	0.4	0.6	0.2	3.2	0.9	1.7	1.2	0.5
Imports of G&S	-1.2	-0.9	-0.3	-0.4	-1.5	-1.6	-1.6	-0.9	-2.2	-2.2	-1.7	-0.8
Percentage change from previous period, SAAR												
Exports of G&S	9.2	5.4	17.8	10.2	3.7	5.8	2.1	32.0	8.3	15.5	10.6	4.4
Services	9.1	2.9	21.7	6.4	-4.0	10.3	-9.9	39.8	-6.7	11.8	5.9	-4.0
Agricultural Goods	1.8	-13.4	5.0	-9.4	22.6	-32.8	-1.6	48.7	-16.1	-7.8	8.7	32.8
Computers	36.4	33.8	86.6	71.6	57.6	24.7	27.7	35.9	70.2	78.7	41.9	-9.2
Semiconductors	72.0	100.8	96.2	53.6	23.8	29.7	30.2	118.6	41.3	17.3	32.3	-2.2
Other Goods 1/	4.3	1.4	9.4	8.1	0.1	6.0	5.7	21.3	13.8	15.6	9.2	8.1
Imports of G&S	9.8	7.2	2.0	3.5	13.1	13.5	13.6	7.0	18.6	17.9	13.5	6.3
Services	20.5	-3.3	3.1	5.5	9.2	4.3	9.9	-1.1	17.8	10.6	15.8	5.8
Oil	-11.4	15.4	31.4	-18.2	-9.8	68.9	3.5	-14.0	-8.2	37.0	6.0	-12.2
Computers	15.4	51.6	62.7	69.3	22.5	22.9	18.8	33.8	54.5	39.0	30.6	2.9
Semiconductors	37.1	105.5	128.2	113.3	38.7	8.9	50.1	172.1	89.0	16.0	20.3	17.6
Other Goods 2/	7.2	1.5	-8.8	-3.8	13.9	10.5	13.5	4.2	16.2	16.1	11.8	8.1
Billions of chained 1992 dollars, SAAR												
Net Goods & Services	-109.5	-114.7	-86.8	-74.8	-95.5	-113.5	-140.1	-95.9	-121.5	-131.6	-142.4	-149.0
Exports of G&S	763.9	774.0	806.3	826.1	833.6	845.5	849.9	911.1	929.4	963.6	988.1	998.8
Imports of G&S	873.4	888.7	893.1	900.9	929.1	958.9	990.0	1007.0	1050.9	1095.2	1130.5	1147.8
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-123.7	-134.2	-115.5	-87.7	-112.9	-132.0	-161.6	-133.2	-148.0	-140.4	-152.4	-180.2
Net Goods & Services (BOP)	-109.3	-125.8	-90.0	-74.5	-92.4	-112.8	-132.3	-96.8	-112.5	-106.1	-108.4	-113.8
Exports of G&S (BOP)	765.4	782.0	809.7	825.6	833.6	845.3	837.5	886.7	904.7	936.1	951.7	957.8
Imports of G&S (BOP)	874.7	907.7	899.7	900.1	926.0	958.2	969.8	983.5	1017.3	1042.1	1060.1	1071.7
Net Investment Income	20.1	24.0	10.2	22.7	21.4	15.9	6.9	12.7	0.1	1.8	-6.2	-17.0
Direct, Net	59.9	67.2	56.5	68.3	64.8	64.4	61.9	73.6	64.2	69.6	65.5	55.6
Portfolio, Net	-39.8	-43.2	-46.2	-45.5	-43.3	-48.5	-55.0	-60.9	-64.2	-67.8	-71.7	-72.6
Net Transfers	-34.5	-32.4	-35.8	-35.9	-41.9	-35.1	-36.2	-49.1	-35.5	-36.1	-37.8	-49.3

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

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1998				1999				Projected				2000			
	Q1		Q2		Q3		Q4		Q1		Q2		Q3		Q4	
	Net Exports Imports	GDP Growth Change Period														
<b>NIPA REAL EXPORTS and IMPORTS</b>																
Percentage point contribution to GDP growth																
Net Goods & Services	-2.3	-2.1	-0.6	0.1	-1.1	-1.0	-0.7	-0.3	-0.6	-0.6	-0.6	-0.4	-0.0			
Exports of G&S	-0.3	-0.9	-0.3	1.9	-0.8	0.1	0.3	0.5	0.1	0.4	0.4	0.6	0.8			
Imports of G&S	-1.9	-1.2	-0.3	-1.8	-0.4	-1.1	-0.9	-0.8	-0.7	-1.0	-1.0	-1.0	-0.8			
Percentage change from previous period, SAAR																
Exports of G&S	-2.8	-7.7	-2.8	18.0	-6.7	0.8	2.3	4.8	0.5	4.2	5.3	7.8				
Services	-1.2	1.7	-10.4	9.9	-0.2	0.8	0.7	0.9	1.1	2.1	2.2	2.4				
Agricultural Goods	-9.9	-23.4	-14.5	47.7	-34.7	-7.8	11.2	1.7	-6.8	-2.7	8.3	2.6				
Computers	-15.5	8.7	20.6	13.6	20.4	23.9	26.2	26.2	27.2	28.2	28.6	28.6				
Semiconductors	-2.0	-18.7	29.6	26.2	21.6	21.6	21.6	21.6	22.7	23.9	23.9	23.9				
Other Goods 1/	-1.7	-11.0	-1.2	19.7	-10.5	-1.6	-0.8	4.1	-2.8	2.4	3.3	8.0				
Imports of G&S	15.7	9.3	2.3	14.7	3.0	8.5	7.0	6.0	5.4	7.9	7.5	6.2				
Services	9.3	-0.6	-0.6	7.7	2.1	3.4	3.8	4.4	1.6	4.2	3.0	3.7				
Oil	8.8	41.4	-5.7	-0.4	-18.2	40.1	10.1	-17.2	0.2	28.8	13.0	-16.3				
Computers	38.8	22.4	9.8	49.1	31.1	29.1	27.7	26.3	26.3	28.7	29.1	29.6				
Semiconductors	9.9	-28.0	-10.4	0.0	26.2	26.2	26.2	26.2	26.7	27.2	27.7	28.2				
Other Goods 2/	16.1	10.7	3.4	15.3	1.3	5.7	5.1	5.5	3.9	4.8	5.5	5.5				
Billions of chained 1992 dollars, SAAR																
Net Goods & Services	-198.5	-245.2	-259.0	-261.0	-287.5	-311.8	-328.4	-336.2	-352.5	-368.2	-380.4	-382.3				
Exports of G&S	991.9	972.1	965.3	1006.0	988.8	990.9	996.6	1008.2	1009.6	1019.9	1033.2	1052.6				
Imports of G&S	1190.4	1217.3	1224.3	1267.0	1276.3	1302.7	1325.0	1344.4	1362.1	1388.1	1413.6	1434.9				
Billions of dollars, SAAR																
US CURRENT ACCOUNT BALANCE	-186.9	-226.8	-246.0	-256.2	-271.4	-299.9	-321.0	-346.2	-355.2	-370.4	-380.3	-390.7				
Net Goods & Services (BOP)	-140.0	-175.5	-183.8	-181.6	-203.5	-227.5	-241.9	-248.8	-263.2	-275.2	-283.1	-280.6				
Exports of G&S (BOP)	946.2	922.3	909.8	948.1	928.4	932.2	939.5	952.0	955.0	966.5	980.7	1001.2				
Imports of G&S (BOP)	1086.2	1097.8	1093.6	1129.7	1131.9	1159.7	1181.4	1200.8	1218.2	1241.7	1263.8	1281.8				
Net Investment Income	-9.0	-13.5	-21.8	-24.6	-28.8	-33.3	-40.1	-47.4	-53.0	-56.2	-58.2	-60.1				
Direct, Net	62.4	60.7	54.7	49.6	45.1	43.0	39.7	37.1	36.3	37.2	39.7	42.1				
Portfolio, Net	-71.3	-74.2	-76.6	-74.2	-73.9	-76.3	-79.8	-84.6	-89.2	-93.3	-97.9	-102.2				
Net Transfers	-37.9	-37.8	-40.3	-50.0	-39.0	-39.0	-39.0	-50.0	-39.0	-39.0	-39.0	-50.0				

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

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

## **Part 2**

January 28, 1999

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# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

Confidential (FR) Class III FOMC

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January 28, 1999

## **RECENT DEVELOPMENTS**

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

## State and Local Finance

**GROSS OFFERINGS OF MUNICIPAL SECURITIES**  
 (Billions of dollars; monthly rates, not seasonally adjusted)

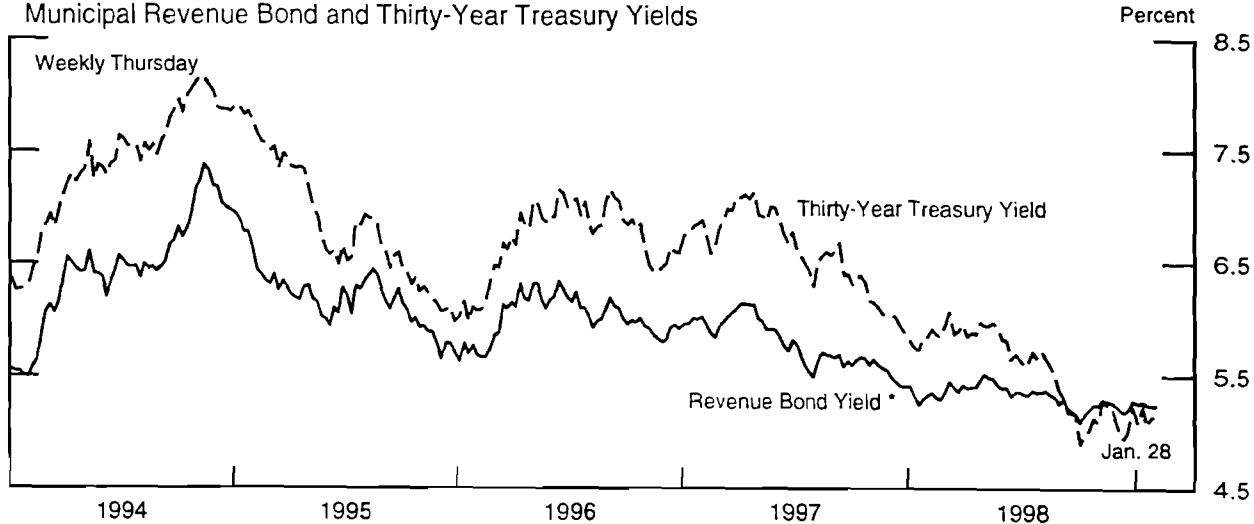
	1997	1998	1998				1999
			Q2	Q3	Q4	Nov.	
Total tax-exempt	21.5	24.3	27.5	23.1	23.4	21.0	27.4
Long-term	17.9	21.9	24.3	20.2	21.0	19.3	24.3
Refundings <sup>1</sup>	6.6	8.5	8.5	8.1	7.8	6.9	9.8
New capital	11.3	13.4	15.7	12.1	13.2	12.5	14.5
Short-term	3.6	2.4	3.2	2.9	2.3	1.7	3.1
Total taxable	1.1	1.1	0.8	1.3	0.8	0.7	1.1
							2.1

Note. Includes issues for public and private purposes.

1. All issues that include any refunding bonds.

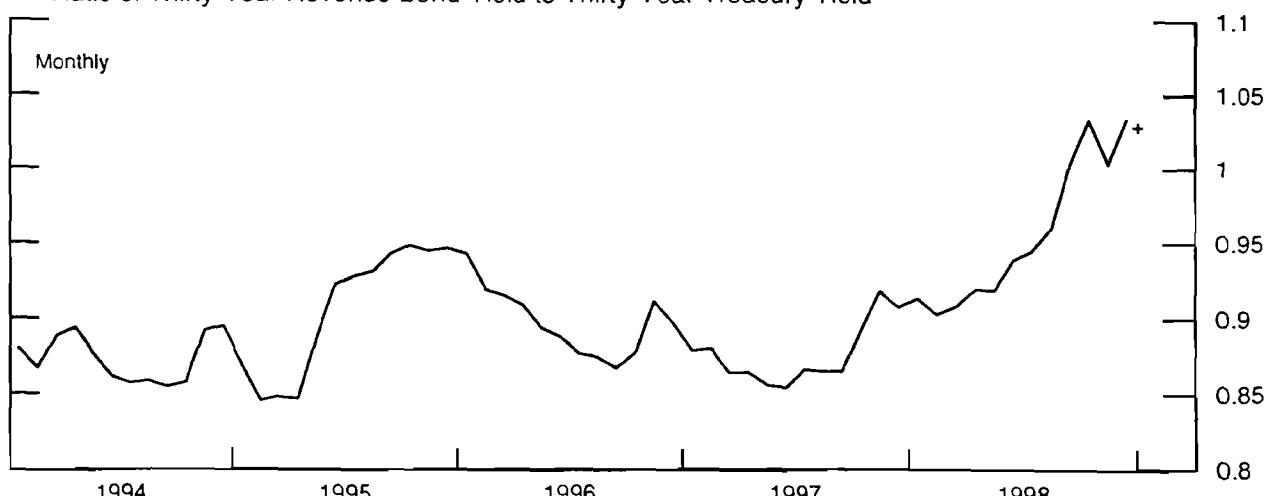
e. Staff estimate based on data through Jan. 28.

Municipal Revenue Bond and Thirty-Year Treasury Yields



\* Source: Bond Buyer.

Ratio of Thirty-Year Revenue Bond Yield to Thirty-Year Treasury Yield



Note. Average of weekly data.

Note. + indicates the latest observation (Jan. 28).

**U.S. Exports and Imports of Goods and Services**  
(Billions of dollars, SAAR, BOP basis)

	Levels				Amount Change <sup>1</sup>			
	1998		1998		1998		1998	
	Q3	Q4 <sup>e</sup>	Oct.	Nov.	Q3	Q4 <sup>e</sup>	Oct.	Nov.
<b>Exports of G&amp;S</b>	909.8	953.2	962.6	943.8	-12.5	43.4	33.0	-18.8
Goods exports	654.8	691.1	700.1	682.0	-4.5	36.3	28.0	-18.0
Agricultural	49.0	53.1	53.6	52.6	-3.1	4.2	8.4	-0.9
Gold	5.2	8.9	9.8	7.9	1.0	3.7	3.5	-1.9
Other goods	600.6	629.1	636.7	621.5	-2.4	28.5	16.2	-15.2
Aircraft & pts	58.0	68.0	70.2	65.7	13.3	9.9	-2.5	-4.4
Computers	45.1	46.0	46.8	45.2	0.3	0.9	1.5	-1.6
Semiconductors	37.4	39.0	39.6	38.5	1.9	1.6	1.1	-1.1
Other cap gds	158.7	163.4	165.7	161.1	-4.1	4.7	9.0	-4.6
Automotive	65.3	74.1	71.8	76.5	-6.9	8.8	-0.1	4.7
to Canada	33.8	42.9	41.4	44.4	-5.2	9.0	3.7	3.0
to Mexico	10.5	12.5	12.3	12.6	-1.9	2.0	-0.8	0.3
to ROW	21.0	18.8	18.1	19.5	0.2	-2.2	-3.0	1.3
Ind supplies	128.3	130.6	131.1	130.1	-5.8	2.3	3.6	-1.0
Consumer goods	80.3	80.2	81.7	78.6	0.3	-0.2	0.9	-3.2
All other	27.4	27.8	29.8	25.7	-1.4	0.4	6.0	-4.1
Services exports	255.0	262.2	262.6	261.8	-8.0	7.1	5.0	-0.8
<b>Imports of G&amp;S</b>	1093.6	1127.7	1125.7	1129.8	-4.2	34.1	23.7	4.1
Goods imports	913.0	943.3	942.1	944.6	-4.0	30.3	20.4	2.5
Petroleum	49.2	50.4	52.4	48.3	-4.7	1.1	4.3	-4.2
Gold	7.3	7.7	8.1	7.3	1.9	0.4	0.5	-0.9
Other goods	856.5	885.3	881.5	889.1	-1.2	28.8	15.6	7.6
Aircraft & pts	21.9	25.0	26.3	23.8	-0.5	3.1	4.4	-2.6
Computers	71.1	76.0	74.5	77.5	-0.5	4.8	2.4	3.0
Semiconductors	31.6	31.9	30.5	33.3	-2.0	0.4	-0.7	2.8
Other cap gds	142.3	145.1	144.1	146.2	-0.5	2.8	2.5	2.1
Automotive	143.5	162.0	160.4	163.7	-2.5	18.5	4.9	3.3
from Canada	47.4	62.3	60.9	63.7	-1.6	14.9	5.5	2.8
from Mexico	25.8	31.5	32.8	30.2	-2.7	5.7	4.1	-2.6
from ROW	70.3	68.2	66.7	69.7	1.8	-2.0	-4.8	3.1
Ind supplies	147.6	145.3	146.2	144.5	0.2	-2.2	-0.3	-1.8
Consumer goods	217.0	218.8	218.3	219.3	-0.3	1.7	2.1	1.0
Foods	40.5	40.1	40.1	40.2	-1.3	-0.3	0.1	0.1
All other	40.9	40.9	41.1	40.7	6.2	-0.0	0.2	-0.3
Services imports	180.6	184.4	183.6	185.1	-0.2	3.8	3.3	1.5
<i>Memo:</i>								
Oil qty (mb/d)	11.63	11.53	11.58	11.48	-0.17	-0.10	0.36	-0.10
Oil price (\$/bbl)	11.59	11.96	12.40	11.52	-0.91	0.37	0.66	-0.88

1. Change from previous quarter or month. e. Average of two months.

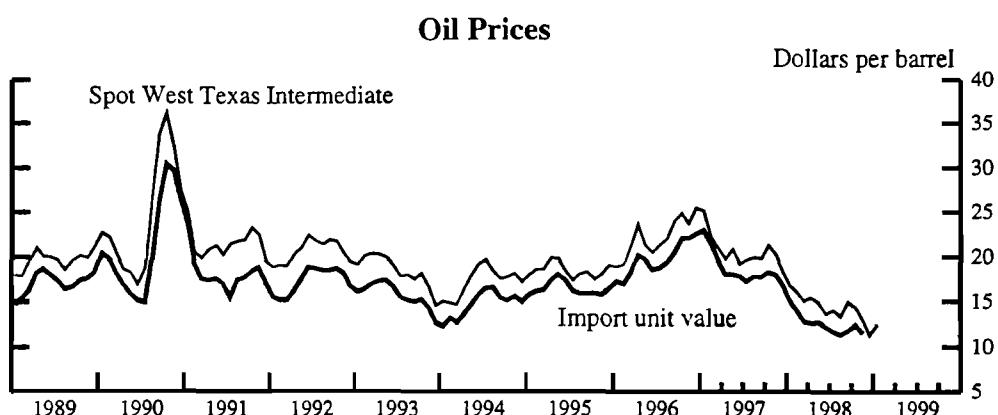
Source. U.S. Department of Commerce, Bureaus of Economic Analysis and Census.

**Prices of U.S. Imports and Exports**  
 (Percentage change from previous period)

	Annual rates			Monthly rates		
	1998			1998		
	Q2	Q3	Q4	Oct.	Nov.	Dec.
----- BLS prices (1995=100) -----						
<b>Merchandise imports</b>	-5.8	-6.0	-1.4	0.2	-0.5	-0.7
Oil	-31.6	-23.3	-17.4	2.0	-9.9	-11.9
Non-oil	-3.7	-4.5	-0.4	0.1	0.1	0.0
Core goods*	-2.7	-3.6	0.4	0.3	0.1	0.0
Foods, feeds, beverages.	-0.1	-7.0	3.1	1.0	-1.3	1.4
Industrial supplies ex oil	-4.0	-8.4	-4.6	-0.5	0.1	-0.4
Computers	-19.1	-10.4	-16.1	-2.8	-1.1	0.5
Semiconductors	-4.9	-12.1	4.7	0.6	0.9	0.1
Cap. goods ex comp & semi	-2.4	-3.7	2.9	0.6	0.6	-0.1
Automotive products	-0.8	-1.6	1.5	0.2	0.4	0.1
Consumer goods	-2.7	-1.3	0.7	0.3	0.1	-0.2
<b>Merchandise exports</b>	-3.3	-4.5	-2.1	-0.1	0.2	-0.1
Agricultural	-7.0	-11.5	-7.3	0.1	1.7	0.7
Nonagricultural	-2.8	-3.7	-1.4	-0.1	0.0	-0.2
Core goods*	-2.1	-2.5	-1.1	0.0	0.0	-0.2
Industrial supplies ex ag	-5.2	-9.1	-5.1	-0.5	0.0	-0.3
Computers	-11.8	-14.0	-5.0	-0.4	0.0	-0.3
Semiconductors	-8.6	-10.2	-2.0	-0.1	-0.6	-0.1
Cap. goods ex comp & semi	-0.1	-0.6	0.1	0.0	0.0	0.1
Automotive products	0.3	0.4	1.7	0.4	0.1	-0.1
Consumer goods	-1.4	-0.8	0.4	0.1	0.0	-0.2
----- Prices in the NIPA accounts (1992=100) -----						
<b>Chain-weight</b>						
Imports of goods & services	-4.5	-4.8	n.a.	...	...	...
Non-oil merchandise	-3.7	-4.4	n.a.	...	...	...
Core goods*	-1.8	-3.2	n.a.	...	...	...
Exports of goods & services	-1.8	-2.8	n.a.	...	...	...
Nonag merchandise	-2.8	-3.4	n.a.	...	...	...
Core goods*	-1.7	-2.3	n.a.	...	...	...

\*/ Excludes computers and semiconductors.

n.a. Not available. ... Not applicable.



On December 20, the lower house of the Italian Parliament approved the 1999 draft budget, which contains \$9 billion (or roughly 3/4 percent of GDP) of deficit-cutting measures. One-third of the budgeted measures come from new revenue and two-thirds from reduced spending.

The pace of economic activity in the **United Kingdom** slowed markedly in the fourth quarter, as the preliminary estimate of real GDP showed growth of 0.7 percent (SAAR). Output of production industries was estimated to have declined for the quarter primarily due to lower manufacturing output. Although surveys of service sector activity indicated a slight contraction in both November and December following a modest increase in October, service sector output was estimated to have grown 2.4 percent. Retail sales fell in December; for the fourth quarter on average, the volume of sales declined 0.2 percent. The official claims-based unemployment rate remained 4.6 percent in December, with the number of unemployed falling to the lowest level since 1980.

**United Kingdom Economic Indicators**  
(Percent change from previous period except as noted, SA)

Indicator	1998						1999
	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.
Real GDP (SAAR)	2.0	1.6	.7	...	...	...	...
Industrial production	1.2	.2	n.a.	.0	-.1	n.a.	n.a.
Retail sales	.2	.5	-.2	-.4	.9	-1.0	n.a.
Unemployment rate <sup>1</sup>	4.8	4.6	4.6	4.6	4.6	4.6	n.a.
Business confidence <sup>2</sup>	-.7	-11.7	-23.0	-29.0	-27.0	-13.0	-13.0
Consumer confidence <sup>3</sup>	3.3	-13.3	-17.7	-22.0	-14.0	-17.0	-12.0
Retail prices <sup>4</sup>	3.0	2.6	2.6	2.5	2.5	2.6	n.a.
Producer input prices <sup>5</sup>	-7.9	-9.2	-9.2	-10.0	-8.6	-9.1	n.a.

1. Percent.

2. Percentage of firms expecting output to increase in the next four months less percentage expecting output to decrease.

3. Level of index, expectations of general economic situation over the next 12 months.

4. Excluding mortgage interest payments. Percent change from previous year.

5. Percent change from previous year.

n.a. Not available. ... Not applicable.

**CONFIDENTIAL (FR)  
CLASS III - FOMC**

**January 29, 1999**

**SUPPLEMENT**

**CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

**Prepared for the  
Federal Open Market Committee**

**By the Staff  
Board of Governors  
of the Federal Reserve System**

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

	1998 May	1998 June	1998 July	1998 Aug.	1998 Sept.	1998 Oct.	1998 Nov.	1998 Dec.	1999 Jan. (f)
<b>Indexes of consumer sentiment (Feb. 1966=100)</b>									
Composite of current and expected conditions	106.5	105.6	105.2	104.4	100.9	97.4	102.7	100.5	103.9
Current conditions	113.9	115.4	113.3	113.9	111.7	112.8	115.9	113.9	116.8
Expected conditions	101.7	99.3	100.0	98.3	93.9	87.5	94.3	91.9	95.7
<b>Personal financial situation</b>									
Now compared with 12 months ago*	130	130	132	132	126	131	130	128	133
Expected in 12 months*	134	134	139	139	131	133	130	133	132
<b>Expected business conditions</b>									
Next 12 months*	158	150	145	146	130	118	136	130	143
Next 5 years*	118	116	119	111	117	101	113	107	110
<b>Appraisal of buying conditions</b>									
Cars	148	152	139	150	142	153	155	151	157
Large household appliances*	166	170	162	163	164	162	171	168	170
Houses	172	171	169	170	166	178	173	182	176
<b>Willingness to use credit</b>									
Willingness to use savings	54	50	54	48	53	53	53	52	47
78	68	82	77	65	70	77	69	75	
<b>Expected unemployment change - next 12 months</b>									
Prob. household will lose a job - next 5 years	102	105	111	109	112	121	119	124	115
<b>Expected inflation - next 12 months</b>									
Mean	3.1	3.2	3.1	2.7	2.7	2.6	2.7	2.8	3.0
Median	2.6	2.7	2.6	2.4	2.3	2.5	2.3	2.5	2.7
<b>Expected inflation - next 5 to 10 years</b>									
Mean	3.3	3.3	3.1	3.0	3.4	3.2	3.1	3.2	3.5
Median	2.8	2.9	2.7	2.7	2.9	2.8	2.8	2.9	3.0

\* -- Indicates the question is one of the five equally-weighted components of the index of sentiment.

(p) -- Preliminary

(f) -- Final

Note: Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall, plus 100.

CBO BUDGET AND ECONOMIC PROJECTIONS<sup>1</sup>

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Budget Projections</b> (Billions of dollars; fiscal years)											
<hr/>											
Receipts	1815	1870	1930	2015	2091	2184	2288	2393	2500	2611	2727
Outlays	1707	1739	1779	1806	1881	1951	2032	2086	2166	2255	2346
Surplus	107	131	151	209	209	234	256	306	333	355	381
On-Budget	-19	-7	6	55	48	63	72	113	130	143	164
Off-Budget	127	138	145	153	161	171	183	193	204	212	217
<hr/>											
<b>Economic Assumptions</b> (Calendar years)											
<hr/>											
-----Percent change, year over year-----											
Nominal GDP	4.1	3.8	4.3	4.5	4.6	4.6	4.6	4.5	4.5	4.5	4.4
Real GDP	2.3	1.7	2.2	2.4	2.4	2.4	2.4	2.4	2.3	2.3	2.3
CPI-U	2.5	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
<hr/>											
-----Percent, annual average-----											
Unemployment rate	4.6	5.1	5.4	5.6	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Yield on selected Treasuries											
Three-month	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Ten-year	5.1	5.3	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4

1. The projections assume that revenues and mandatory outlays evolve according to laws in effect at the time the projections were made. Discretionary spending is assumed to be in compliance with the statutory caps through 2002 and to grow at the rate of inflation in succeeding years. The on-budget surplus excludes the surplus of social security and the Postal Service (which are off-budget).

Source. Congressional Budget Office, The Economic and Budget Outlook:  
Fiscal Years 2000-2009. January 1999.

**Commercial Bank Credit**  
(Percent change; seasonally adjusted annual rate)

Type of credit	1998	1999					Level, Jan 1999 p (billions of \$)
		Q3	Q4	Nov	Dec	Jan p	
1. Bank credit: Reported	11.2	9.0	16.7	10.6	5.6	-3.4	4,536.1
2. Adjusted <sup>1</sup>	10.4	7.9	15.3	17.8	4.1	-2.0	4,416.8
3. Securities: Reported	15.0	12.7	24.9	8.8	8.9	-16.3	1,218.9
4. Adjusted <sup>1</sup>	12.3	8.5	20.0	37.4	3.2	-12.1	1,099.7
5. U.S. government	6.1	0.9	10.2	25.4	3.2	1.5	793.8
6. Other <sup>2</sup>	35.0	38.0	54.1	-20.6	19.3	-48.2	425.1
7. Loans <sup>3</sup>	9.8	7.6	13.7	11.3	4.3	1.4	3,317.2
8. Business	11.4	12.7	16.0	10.5	-2.7	0.1	945.3
9. Real estate	6.6	1.9	8.6	19.9	12.5	2.5	1,325.3
10. Home equity	0.4	-1.6	-2.0	3.7	-1.2	-6.2	96.7
11. Other	7.2	2.1	9.5	21.3	13.7	3.2	1,228.7
12. Consumer: Reported	-1.6	-7.1	2.5	4.8	7.2	2.9	503.0
13. Adjusted <sup>4</sup>	6.1	4.3	6.5	5.9	11.5	7.9	763.1
14. Other <sup>5</sup>	29.9	29.5	33.7	-1.8	-5.7	-0.4	543.5

Note. Adjusted for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates shown are percentage changes in consecutive levels, annualized but not compounded.

- 1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FASB 115).
- 2. Includes securities of corporations, state and local governments, and foreign governments and any trading account assets that are not U.S. government securities.
- 3. Excludes interbank loans.
- 4. Includes an estimate of outstanding loans securitized by commercial banks.
- 5. Includes security loans, loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

p Preliminary.