

## **Part 1**

June 23, 1999

# **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

June 23, 1999

## **SUMMARY AND OUTLOOK**

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effects on the changes in the budget are likely to be small through fiscal 2000. The unified budget surpluses are projected to be \$124 billion and \$183 billion for FY1999 and FY2000, respectively--a bit lower than last month's forecast. The size of the on-budget surplus promises to be a constraint on new initiatives. We are projecting about \$35 billion for FY2000, but that probably is appreciably greater than what CBO will publish next week.

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

We expect that real GDP will increase somewhere around 3 percent in the current quarter, a step-down from what we estimate will be a 4-1/2 percent figure for the first quarter in this Friday's "final" NIPA release. Given that aggregate private production-worker hours have risen only a little in April and May, even our forecast of just a moderate gain in GDP this quarter embodies another sizable increase in labor productivity--one just a bit below the 2-1/2 percent rate of increase observed on average in the nonfarm business sector over the past two years. Although movements in industrial production have not been a very useful guide to the behavior of GDP in recent quarters, factory output appears headed for nearly a 5 percent gain this quarter--implying an impressive increment to productivity in that sector, where payrolls have continued to shrink.

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

Measure	1999:Q1			1999:Q2	
	May GB	BEA <sup>1</sup>	June GB	May GB	June GB
<b>Real GDP</b>	<b>4.1</b>	<b>4.1</b>	<b>4.5</b>	<b>3.4</b>	<b>2.9</b>
Private domestic final purchases	7.5	7.4	7.5	4.7	5.6
Personal consumption expenditures	6.8	6.8	6.8	4.2	4.4
Residential investment	15.6	15.4	16.0	1.3	2.1
Business fixed investment	8.2	7.9	8.3	9.2	15.2
Government outlays for consumption and investment	4.7	4.3	4.5	.3	-1.4
Change, billions of chained (1992) dollars					
Inventory investment	-7.4	-5.2	-5.7	16.7	-8.6
Net exports	-58.3	-60.1	-51.4	-35.1	-27.8

1. Preliminary release, published on May 27.

our inflation forecast, our judgment is still that the acceleration of core prices will be gradual. Indeed, given the noise in monthly price indexes, it may be difficult to discern for some time whether or not the trend has changed.

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

Measure	1999:H1	1999:H2	2000
<b>Real GDP</b>	<b>3.7</b>	<b>3.6</b>	<b>2.6</b>
Previous	3.7	3.3	2.6
Final sales	4.1	2.7	2.8
Previous	3.5	2.9	2.8
PCE	5.6	4.1	3.3
Previous	5.5	4.4	3.3
Residential investment	8.8	.4	-3.9
Previous	8.2	-3.1	-2.3
BFI	11.7	3.6	7.5
Previous	8.7	3.6	7.4
Government purchases	1.5	2.1	2.2
Previous	2.5	1.4	2.2
Exports	-1.3	3.8	4.7
Previous	-3.7	4.7	4.3
Imports	11.8	9.8	7.6
Previous	12.2	8.8	8.1
Change, billions of chained (1992) dollars			
Inventory change	-7.2	18.4	-12.5
Previous	4.7	8.2	-15.1
Net exports	-39.6	-22.6	-58.2
Previous	-46.7	-17.2	-68.5

As in previous forecasts, we have made some adjustments for Y2K effects.<sup>2</sup> Specifically, we have assumed a little precautionary stocking by consumers and

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2. Except for the small Y2K-related boost to oil prices, we have not built in Y2K price effects. Although Y2K-induced stockpiling could generate some transitory bottlenecks and price pressures, we believe that such effects are, on the whole, likely to be minute.

3-3/4 percent in the second half of this year and 4-3/4 percent next year. At the same time, import growth steps down in the second half of this year and slows further next year, reflecting the deceleration in the U.S. economy and the waning effects of past appreciation of the dollar. All told, we expect net exports to subtract nearly 1 percentage point (annual rate) from real GDP growth in the second half of this year and 1/2 percentage point next year. (A more detailed discussion of the outlook for the external sector is contained in the *International Developments* section.)

**Labor markets.** Anecdotal reports of firms struggling to hire workers have, if anything, proliferated recently. We expect that businesses will continue to add workers as they can find them in coming months, paying up in many instances for those with critical skills. This should keep private payrolls growing over the remainder of the year, on average, at roughly the pace recorded in the first five months--around 170,000 per month. But, with business sales growth beginning to moderate, profit margins narrowing, and staffing coming into closer alignment with production trends by the end of this year, we would think that firms will pare their hiring efforts and that payroll growth will average around 100,000 per month during 2000.

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

Measure	1998	1999	2000
Output per hour, nonfarm business <sup>1</sup>	2.7	2.4	1.9
Previous	2.7	2.2	2.2
Nonfarm payroll employment	2.4	2.0	1.3
Previous	2.3	2.1	1.1
Household employment survey	1.3	1.6	1.0
Previous	1.3	1.7	.8
Labor force participation rate <sup>2</sup>	67.1	67.2	67.2
Previous	67.1	67.2	67.2
Civilian unemployment rate <sup>2</sup>	4.4	4.1	4.2
Previous	4.4	4.0	4.2

1. Corrected by FRB staff for length-of-pay-period problem.

2. Percent, average for the fourth quarter.

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

Measure	1998	1999	2000
Consumer price index	1.5	2.3	2.3
Previous	1.5	2.3	2.1
Food	2.2	1.9	2.1
Previous	2.2	1.6	1.8
Energy	-9.2	6.3	.8
Previous	-9.2	7.1	.4
Excluding food and energy	2.4	2.1	2.5
Previous	2.4	2.0	2.3
PCE chain-weighted price index	.7	1.6	1.8
Previous	.7	1.6	1.5
Excluding food and energy	1.2	1.4	1.8
Previous	1.2	1.3	1.6
GDP chain-weighted price index	.9	1.5	1.7
Previous	.9	1.5	1.7
ECI for compensation of private industry workers <sup>1</sup>	3.5	3.3	3.6
Previous	3.5	3.0	3.4
Prices of core non-oil merchandise imports	-2.1	-.3	1.6
Previous	-2.1	.1	.9
	Percentage points		
MEMO: <i>Adjustments for technical changes to the CPI</i> <sup>2</sup>			
Core CPI	-.2	.0	.0

1. December to December.

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

with the last Greenbook.<sup>5</sup> As in the May Greenbook, compensation per hour also is boosted by a minimum wage increase on October 1 of this year and

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5. The California Public Employees Retirement System (CalPERS) recently announced that its premiums for all plans will rise more than 9 percent, on average, in 2000, after having increased about 6 percent this year. In part reflecting this news, we have revised up our forecast for employer health insurance costs to 8 percent next year, on top of a projected increase of 7 percent this year.

upward. Indeed, by 2001, the inflationary consequences of the stronger stock market would start to become more visible.

The simulation with the bearish view of the stock market assumes that the Wilshire index falls 25 percent by the end of this year and then flattens out at that lower level. This correction is assumed to be set off by a sudden upward shift in the equity premium. In this scenario, real GDP growth is considerably lower than in the baseline forecast both this year and next--dipping to about 1-1/4 percent in 2000--and the unemployment rate reaches a level of 4-3/4 percent by the end of next year. As in the other stock market simulation, inflation in 2000 differs only slightly from the baseline forecast, again because of lagging expectations adjustments.

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

Measure	1999	2000
<i>Real GDP</i>		
Baseline	3.7	2.6
Flat funds rate	3.7	3.1
Tighter monetary policy	3.7	2.1
15,000 Wilshire	3.8	3.4
25 percent stock price decline	3.4	1.2
<i>Civilian unemployment rate</i> <sup>1</sup>		
Baseline	4.1	4.2
Flat funds rate	4.1	4.0
Tighter monetary policy	4.1	4.4
15,000 Wilshire	4.1	4.0
25 percent stock price decline	4.2	4.7
<i>CPI excluding food and energy</i>		
Baseline	2.1	2.5
Flat funds rate	2.1	2.7
Tighter monetary policy	2.1	2.4
15,000 Wilshire	2.1	2.5
25 percent stock price decline	2.1	2.4

1. Average for the fourth quarter.

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

June 23, 1999

Interval		Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>	
		05/13/99	06/23/99	05/13/99	06/23/99	05/13/99	06/23/99	05/13/99	06/23/99	05/13/99	06/23/99
<b>ANNUAL</b>											
1996		5.4	5.4	3.4	3.4	1.9	1.9	3.0	3.0	5.4	5.4
1997		5.9	5.9	3.9	3.9	1.9	1.9	2.3	2.3	4.9	4.9
1998		4.9	4.9	3.9	3.9	1.0	1.0	1.6	1.6	4.5	4.5
1999		5.2	5.4	3.9	4.0	1.2	1.3	2.1	2.1	4.2	4.2
2000		4.3	4.4	2.6	2.7	1.6	1.7	2.2	2.3	4.2	4.1
<b>QUARTERLY</b>											
1997	Q1	7.2	7.2	4.2	4.2	2.8	2.8	2.5	2.5	5.2	5.2
	Q2	5.6	5.6	4.0	4.0	1.7	1.7	1.3	1.3	5.0	5.0
	Q3	5.4	5.4	4.2	4.2	1.2	1.2	1.8	1.8	4.9	4.9
	Q4	4.2	4.2	3.0	3.0	1.1	1.1	2.0	2.0	4.7	4.7
1998	Q1	6.4	6.4	5.5	5.5	0.9	0.9	1.0	1.0	4.6	4.6
	Q2	2.7	2.7	1.8	1.8	0.9	0.9	1.7	1.7	4.4	4.4
	Q3	4.7	4.7	3.7	3.7	1.0	1.0	1.7	1.7	4.5	4.5
	Q4	6.9	6.9	6.0	6.0	0.8	0.8	1.7	1.7	4.4	4.4
1999	Q1	5.6	6.0	4.1	4.5	1.5	1.5	1.5	1.5	4.3	4.3
	Q2	4.8	4.7	3.4	2.9	1.4	1.7	3.5	3.6	4.2	4.2
	Q3	4.3	4.8	2.8	3.5	1.5	1.3	2.3	1.8	4.1	4.1
	Q4	5.3	5.4	3.7	3.7	1.5	1.6	2.1	2.4	4.0	4.1
2000	Q1	1.9	2.2	0.1	0.1	1.8	2.1	1.7	2.1	4.1	4.1
	Q2	5.9	6.0	4.2	4.4	1.6	1.6	2.2	2.3	4.1	4.1
	Q3	4.8	4.7	3.1	2.9	1.6	1.7	2.3	2.4	4.2	4.2
	Q4	4.6	4.7	3.0	3.0	1.6	1.7	2.3	2.5	4.2	4.2
<b>TWO-QUARTER<sup>3</sup></b>											
1997	Q2	6.4	6.4	4.1	4.1	2.2	2.2	1.9	1.9	-0.3	-0.3
	Q4	4.8	4.8	3.6	3.6	1.2	1.2	1.9	1.9	-0.3	-0.3
1998	Q2	4.6	4.6	3.7	3.7	0.9	0.9	1.4	1.4	-0.3	-0.3
	Q4	5.8	5.8	4.8	4.8	0.9	0.9	1.7	1.7	0.0	0.0
1999	Q2	5.2	5.4	3.7	3.7	1.4	1.6	2.5	2.5	-0.2	-0.2
	Q4	4.8	5.1	3.3	3.6	1.5	1.5	2.2	2.1	-0.2	-0.1
2000	Q2	3.9	4.1	2.1	2.2	1.7	1.8	1.9	2.2	0.1	-0.0
	Q4	4.7	4.7	3.0	3.0	1.6	1.7	2.3	2.5	0.1	0.1
<b>FOUR-QUARTER<sup>4</sup></b>											
1996	Q4	5.8	5.8	3.9	3.9	1.8	1.8	3.1	3.1	-0.3	-0.3
1997	Q4	5.6	5.6	3.8	3.8	1.7	1.7	1.9	1.9	-0.6	-0.6
1998	Q4	5.2	5.2	4.3	4.3	0.9	0.9	1.5	1.5	-0.3	-0.3
1999	Q4	5.0	5.2	3.5	3.7	1.5	1.5	2.3	2.3	-0.4	-0.3
2000	Q4	4.3	4.4	2.6	2.6	1.7	1.7	2.1	2.3	0.2	0.1

1. For all urban consumers. The historical quarterly figures for the CPI have been updated to reflect revised seasonal factors.

2. Level, except as noted.

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

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



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

June 23, 1999

Item	Units <sup>1</sup>	- Projected -								
		1992	1993	1994	1995	1996	1997	1998	1999	2000
EXPENDITURES										
Nominal GDP	Bill. \$	6244.4	6558.1	6947.0	7269.6	7661.6	8110.9	8511.0	8967.9	9366.8
Real GDP	Bill. Ch. \$	6244.4	6389.6	6610.7	6761.7	6994.8	7269.8	7551.9	7856.5	8068.8
Real GDP	% change	3.6	2.4	3.3	2.1	3.9	3.8	4.3	3.7	2.6
Gross domestic purchases		4.0	3.0	3.6	1.6	4.2	4.4	5.3	4.8	3.0
Final sales		3.9	2.1	2.7	2.7	3.7	3.4	4.6	3.4	2.8
Priv. dom. final purchases		4.9	3.7	3.7	2.9	4.3	4.6	6.5	5.2	3.4
Personal cons. expenditures		4.2	2.7	3.1	2.6	3.3	3.7	5.3	4.8	3.3
Durables		9.4	7.4	6.3	4.5	5.8	7.4	13.2	6.7	4.5
Nondurables		3.4	1.6	3.0	1.7	2.8	2.0	4.7	5.5	2.7
Services		3.6	2.3	2.5	2.6	3.0	3.8	4.0	4.1	3.3
Business fixed investment		5.5	9.9	7.6	7.3	11.7	9.8	11.9	7.6	7.5
Producers' dur. equipment		9.6	12.2	10.2	9.1	11.8	12.7	16.8	10.2	10.1
Nonres. structures		-3.4	4.5	1.1	2.7	11.6	2.5	-0.3	0.3	0.1
Residential structures		16.9	7.8	4.2	-1.4	5.4	4.2	12.6	4.5	-3.9
Exports		4.1	4.6	10.0	10.5	10.3	9.6	1.1	1.2	4.7
Imports		7.4	10.2	12.3	5.6	11.8	14.0	9.7	10.8	7.6
Gov't. cons. & investment		1.7	-1.4	0.1	-0.9	2.1	1.4	1.6	1.8	2.2
Federal		1.3	-6.1	-3.9	-5.6	1.1	-0.6	0.9	-1.5	-0.5
Defense		-1.3	-6.9	-6.0	-5.0	-0.1	-1.4	-1.3	-2.5	-0.6
State & local		2.0	2.0	2.7	2.1	2.8	2.6	2.1	3.6	3.7
Change in bus. inventories	Bill. Ch. \$	7.0	22.1	60.6	27.7	30.0	63.2	57.4	47.4	47.9
Nonfarm		2.0	29.5	49.0	37.7	23.2	58.8	50.1	44.1	46.5
Net exports		-29.5	-70.2	-104.6	-96.5	-111.2	-136.1	-238.2	-341.6	-415.7
Nominal GDP	% change	6.3	5.0	5.8	4.2	5.8	5.6	5.2	5.2	4.4
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	108.6	110.7	114.1	117.2	119.6	122.7	125.8	128.5	130.5
Unemployment rate	%	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.1
Industrial prod. index	% change	3.6	3.3	6.5	3.5	5.3	6.6	1.9	3.9	2.5
Capacity util. rate - mfg.	%	79.5	80.5	82.5	82.7	81.4	82.0	80.8	79.9	79.9
Housing starts	Millions	1.20	1.29	1.46	1.35	1.48	1.47	1.62	1.69	1.61
Light motor vehicle sales		12.85	13.86	15.01	14.72	15.05	15.02	15.50	16.10	15.29
North Amer. produced		10.51	11.71	12.88	12.82	13.35	13.09	13.47	13.84	13.25
Other		2.34	2.15	2.13	1.90	1.70	1.92	2.04	2.26	2.04
INCOME AND SAVING										
Nominal GNP	Bill. \$	6255.5	6576.8	6955.2	7287.1	7674.0	8102.9	8490.5	8937.9	9322.2
Nominal GNP	% change	6.2	5.1	5.7	4.4	5.6	5.2	5.2	5.0	4.3
Nominal personal income		7.2	4.0	5.2	4.6	5.9	5.4	5.1	5.3	5.1
Real disposable income		4.0	1.2	2.5	2.1	2.7	2.9	3.5	3.4	3.2
Personal saving rate	%	5.7	4.4	3.5	3.4	2.9	2.1	0.5	-0.9	-1.1
Corp. profits, IVA & CCAdj.	% change	11.3	19.0	14.1	14.6	7.7	7.7	0.1	5.2	-0.4
Profit share of GNP	%	6.8	7.5	8.2	9.2	9.8	10.1	9.7	9.6	9.1
Excluding FR Banks		6.6	7.2	7.9	8.9	9.5	9.8	9.4	9.4	8.8
Federal surpl./deficit	Bill. \$	-280.9	-250.7	-186.7	-174.4	-110.3	-21.1	72.8	145.4	183.6
State & local surpl./def.		86.3	87.4	96.8	111.7	122.6	134.1	150.2	165.6	172.2
Ex. social ins. funds		18.3	19.7	27.9	37.0	52.2	66.0	82.5	97.7	104.3
Gross natl. saving rate	%	14.5	14.4	15.5	16.3	16.6	17.4	17.3	16.9	16.7
Net natl. saving rate		3.7	3.7	4.7	5.8	6.3	7.3	7.3	7.1	6.9
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.6	2.6	2.5	2.1	1.8	1.7	0.9	1.5	1.7
Gross Domestic Purchases		2.7	2.3	2.5	2.0	1.8	1.3	0.4	1.5	1.6
chn.-wt. price index		3.1	2.7	2.6	2.7	3.1	1.9	1.5	2.3	2.3
CPI		3.5	3.1	2.8	3.1	2.6	2.2	2.4	2.1	2.5
Ex. food and energy										
ECI, hourly compensation <sup>2</sup>		3.5	3.6	3.1	2.6	3.1	3.4	3.5	3.3	3.6
Nonfarm business sector										
Output per hour		3.5	-0.4	0.1	1.3	2.0	1.5	2.7	2.4	1.9
Compensation per Hour		4.5	1.6	2.1	2.9	3.6	3.7	4.2	4.0	4.2
Unit labor cost		1.0	2.0	2.0	1.6	1.6	2.1	1.5	1.6	2.2

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)

June 23, 1999

Item	Units	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	7495.3	7629.2	7703.4	7818.4	7955.0	8063.4	8170.8	8254.5	8384.2	8440.6
Real GDP	Bill. Ch. \$	6882.0	6983.9	7020.0	7093.1	7166.7	7236.5	7311.2	7364.6	7464.7	7498.6
Real GDP	% change	3.3	6.1	2.1	4.2	4.2	4.0	4.2	3.0	5.5	1.8
Gross domestic purchases		4.5	7.0	3.4	1.8	5.5	4.4	4.6	3.2	7.8	3.9
Final sales		3.6	5.4	0.9	5.1	2.9	2.7	5.8	2.1	4.3	4.6
Priv. dom. final purchases		5.1	6.2	2.8	3.3	4.6	3.3	7.5	2.9	8.5	7.4
Personal cons. expenditures		3.7	4.7	1.8	2.9	4.3	1.6	6.2	2.8	6.1	6.1
Durables		5.8	12.7	-1.9	7.2	12.3	-1.5	16.8	3.1	15.8	11.2
Nondurables		2.2	4.8	1.2	2.9	3.6	-0.2	5.1	-0.4	7.4	5.3
Services		4.0	3.0	3.0	2.0	3.1	3.2	4.7	4.3	3.5	5.4
Business fixed investment		13.1	11.0	14.2	8.8	7.0	14.0	17.0	1.8	22.2	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	121.4	122.3	123.0	123.9	124.8	125.5
Unemployment rate	%	5.5	5.5	5.3	5.3	5.2	5.0	4.9	4.7	4.6	4.4
Industrial prod. index	% change	2.8	9.6	5.5	3.5	6.6	6.0	7.2	6.6	1.6	2.8
Capacity util. rate - mfg.	%	80.9	81.6	81.8	81.3	81.6	81.7	82.1	82.5	81.8	81.2
Housing starts	Millions	1.46	1.50	1.50	1.42	1.46	1.47	1.46	1.52	1.59	1.57
Light motor vehicle sales		15.10	15.18	15.00	14.91	15.32	14.54	15.19	15.02	15.08	16.07
North Amer. produced		13.44	13.46	13.33	13.16	13.41	12.68	13.20	13.08	13.13	14.07
Other		1.66	1.72	1.68	1.76	1.92	1.86	1.99	1.94	1.95	1.99
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	7515.0	7643.3	7708.6	7829.0	7952.4	8062.3	8162.0	8234.9	8369.4	8421.8
Nominal GNP	% change	5.6	7.0	3.5	6.4	6.5	5.6	5.0	3.6	6.7	2.5
Nominal personal income		6.6	6.9	5.5	4.6	7.3	4.7	4.7	5.0	5.9	4.5
Real disposable income		2.9	2.1	4.4	1.3	3.3	2.9	2.4	2.9	4.0	2.6
Personal saving rate	%	3.2	2.6	3.1	2.6	2.4	2.6	1.7	1.7	1.2	0.4
Corp. profits, IVA & CCAdj.	% change	16.9	6.9	3.8	3.5	18.1	11.1	13.1	-9.2	4.2	-4.1
Profit share of GNP	%	9.8	9.8	9.8	9.7	10.0	10.1	10.3	10.0	9.9	9.7
Excluding FR Banks		9.5	9.5	9.5	9.5	9.7	9.8	10.0	9.7	9.6	9.5
Federal surpl./deficit	Bill. \$	-150.1	-112.6	-100.1	-78.3	-51.2	-34.8	-0.3	2.2	58.8	74.4
State & local surpl./def.		117.3	129.1	122.3	121.7	128.4	130.1	136.6	141.4	140.2	141.3
Ex. social ins. funds		45.3	58.2	52.5	52.9	59.8	61.6	68.7	73.8	72.7	73.6
Gross natl. saving rate	%	16.4	16.4	16.8	16.7	17.0	17.6	17.5	17.3	17.7	17.2
Net natl. saving rate		6.0	6.2	6.6	6.5	7.0	7.6	7.5	7.3	7.8	7.2
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	2.2	1.4	1.8	1.6	2.8	1.7	1.2	1.1	0.9	0.9
Gross Domestic Purchases		2.1	1.4	1.5	2.1	2.2	0.9	1.1	1.0	-0.2	0.4
chn.-wt. price index		3.2	3.7	2.3	3.3	2.5	1.3	1.8	2.0	1.0	1.7
CPI		2.5	2.7	2.4	2.7	2.2	2.9	1.4	2.4	2.4	2.6
Ex. food and energy											
ECI, hourly compensation <sup>1</sup>		2.5	3.5	2.8	2.8	2.5	3.7	3.4	4.3	3.0	3.6
Nonfarm business sector											
Output per hour		4.2	3.0	-0.1	1.0	0.1	1.6	3.4	0.9	3.6	0.3
Compensation per hour		2.7	5.2	3.6	3.1	3.7	2.4	3.8	4.9	4.7	4.1
Unit labor cost		-1.5	2.2	3.7	2.1	3.5	0.7	0.3	4.0	1.1	3.7

1. Private-industry workers.

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

June 23, 1999

Item	Units	----- Projected -----									
		1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	8537.9	8681.2	8809.5	8910.6	9016.5	9135.0	9184.7	9319.5	9426.6	9536.2
Real GDP	Bill. Ch. \$	7566.5	7677.7	7763.1	7818.4	7886.4	7958.1	7960.1	8045.8	8104.4	8165.1
Real GDP	% change	3.7	6.0	4.5	2.9	3.5	3.7	0.1	4.4	2.9	3.0
Gross domestic purchases		4.2	5.4	6.6	3.9	4.7	4.0	0.5	5.4	3.4	2.9
Final sales		2.8	6.6	4.8	3.3	2.4	3.1	1.6	3.6	2.7	3.1
Priv. dom. final purchases		3.7	6.5	7.5	5.6	3.7	4.0	1.9	5.0	3.5	3.3
Personal cons. expenditures		4.1	5.0	6.8	4.4	3.9	4.4	2.0	4.8	3.3	3.0
Durables		2.4	24.5	12.7	7.0	3.9	3.4	4.7	4.4	4.5	4.4
Nondurables		2.1	4.2	9.4	2.4	3.9	6.4	-1.0	6.2	3.1	2.4
Services		5.4	1.7	4.3	4.8	3.9	3.6	2.9	4.2	3.1	3.0
Business fixed investment		-0.7	14.6	8.3	15.2	4.9	2.4	3.1	10.4	8.5	8.1
Producers' dur. equipment		-1.0	17.8	9.6	22.0	6.8	3.4	4.3	14.1	11.4	10.8
Nonres. structures		0.2	6.0	4.6	-2.2	-0.5	-0.5	-0.4	0.1	0.4	0.4
Residential structures		9.9	10.0	16.0	2.1	-1.5	2.3	-2.3	-4.6	-5.6	-3.3
Exports		-2.8	19.7	-5.1	2.6	1.3	6.3	-1.0	5.4	5.5	9.0
Imports		2.3	12.0	12.7	11.0	11.1	8.5	2.4	12.7	8.6	6.8
Gov't. cons. & investment		1.5	3.3	4.5	-1.4	3.1	1.0	2.7	3.0	2.0	1.3
Federal		-1.4	7.3	-1.7	-3.5	2.6	-3.3	0.6	1.9	-1.4	-3.2
Defense		4.3	1.3	-6.6	-3.1	4.2	-4.1	-1.8	-0.9	-0.1	0.5
State & local		3.1	1.3	8.0	-0.2	3.4	3.4	3.7	3.6	3.7	3.7
Change in bus. inventories	Bill. Ch. \$	55.7	44.2	38.5	30.0	54.3	66.7	33.2	49.3	54.8	54.2
Nonfarm		47.0	37.5	34.3	26.2	51.2	64.7	31.9	47.8	53.4	52.9
Net exports		-259.0	-250.0	-301.4	-329.3	-361.5	-374.3	-385.2	-414.4	-430.6	-432.5
Nominal GDP	% change	4.7	6.9	6.0	4.7	4.8	5.4	2.2	6.0	4.7	4.7
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	126.1	126.9	127.6	128.2	128.8	129.4	129.8	130.5	130.7	131.1
Unemployment rate	%	4.5	4.4	4.3	4.2	4.1	4.1	4.1	4.1	4.2	4.2
Industrial prod. index	% change	0.9	2.2	1.3	4.8	4.8	5.0	-2.5	4.8	3.7	4.0
Capacity util. rate - mfg.	%	80.2	80.1	79.5	79.7	80.1	80.5	79.4	79.8	80.0	80.3
Housing starts	Millions	1.64	1.70	1.77	1.64	1.69	1.68	1.65	1.61	1.60	1.58
Light motor vehicle sales		14.55	16.31	16.22	16.65	15.98	15.54	15.40	15.30	15.25	15.21
North Amer. produced		12.54	14.11	13.95	14.25	13.74	13.40	13.32	13.25	13.23	13.21
Other		2.01	2.20	2.27	2.39	2.23	2.14	2.08	2.05	2.02	2.00
INCOME AND SAVING											
Nominal GNP	Bill. \$	8510.9	8660.0	8789.5	8884.4	8981.7	9096.1	9143.5	9275.7	9381.7	9488.0
Nominal GNP	% change	4.3	7.2	6.1	4.4	4.5	5.2	2.1	5.9	4.6	4.6
Nominal personal income		4.5	5.5	5.2	5.5	4.9	5.6	4.7	5.8	4.8	4.9
Real disposable income		3.2	4.3	4.3	2.8	3.1	3.4	3.7	3.7	2.7	2.8
Personal saving rate	%	0.2	0.0	-0.6	-0.9	-1.0	-1.2	-0.8	-1.0	-1.2	-1.2
Corp. profits, IVA & CCAdj.	% change	3.2	-2.5	15.6	8.8	-3.0	0.2	-16.0	7.3	4.6	4.4
Profit share of GNP	%	9.7	9.5	9.7	9.8	9.6	9.5	9.0	9.1	9.1	9.1
Excluding FR Banks		9.4	9.2	9.4	9.5	9.3	9.2	8.8	8.8	8.8	8.8
Federal surpl./deficit	Bill. \$	92.0	65.8	112.4	137.0	159.7	172.4	153.8	175.9	196.1	208.4
State & local surpl./def.		148.7	170.5	168.0	159.9	163.9	170.6	169.9	172.7	173.1	173.2
Ex. social ins. funds		81.3	102.6	100.1	92.0	96.0	102.7	102.0	104.8	105.2	105.3
Gross natl. saving rate	%	17.3	16.9	17.0	16.9	16.9	16.8	16.6	16.6	16.7	16.7
Net natl. saving rate		7.3	7.0	7.2	7.1	7.1	7.1	6.8	6.9	7.0	7.1
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.0	0.8	1.5	1.7	1.3	1.6	2.1	1.6	1.7	1.7
Gross Domestic Purchases		0.7	0.9	1.1	2.1	1.2	1.5	1.9	1.5	1.5	1.5
chn.-wt. price index		1.7	1.7	1.5	3.6	1.8	2.4	2.1	2.3	2.4	2.5
CPI		2.3	2.1	1.6	2.5	2.0	2.3	2.3	2.5	2.6	2.7
Ex. food and energy											
ECI, hourly compensation <sup>1</sup>		4.1	2.9	1.4	3.9	3.8	4.1	3.6	3.6	3.6	3.8
Nonfarm business sector											
Output per hour		2.5	4.3	4.0	2.2	1.9	1.5	-0.4	3.4	2.2	2.4
Compensation per hour		3.9	4.0	4.2	3.8	3.8	4.1	4.2	4.0	4.0	4.3
Unit labor cost		1.4	-0.4	0.2	1.5	1.9	2.7	4.6	0.6	1.8	1.9

1. Private-industry workers.

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	4.3
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	5.4
Final sales	0.9	5.1	2.9	2.7	5.7	2.1	4.3	4.6	2.8	3.7	3.3	4.5
Priv. dom. final purchases	2.3	2.7	3.8	2.7	6.1	2.4	7.0	6.1	3.1	3.6	3.8	5.4
Personal cons. expenditures	1.3	2.0	2.9	1.1	4.2	1.9	4.1	4.1	2.8	2.2	2.5	3.6
Durables	-0.2	0.6	1.0	-0.1	1.3	0.3	1.2	0.9	0.2	0.5	0.6	1.1
Nondurables	0.2	0.6	0.7	-0.0	1.0	-0.1	1.4	1.0	0.4	0.6	0.4	0.9
Services	1.2	0.8	1.2	1.3	1.9	1.7	1.4	2.1	2.2	1.2	1.5	1.6
Business fixed investment	1.4	0.9	0.7	1.4	1.7	0.2	2.2	1.4	-0.1	1.2	1.0	1.2
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	-1.1
Exports	0.2	3.2	1.0	1.8	1.2	0.5	-0.3	-0.9	-0.3	1.2	1.1	0.1
Imports	-1.6	-0.9	-2.2	-2.2	-1.7	-0.8	-1.9	-1.2	-0.3	-1.4	-1.7	-1.2
Government cons. & invest.	-0.3	0.0	0.4	0.4	0.3	0.0	-0.3	0.6	0.3	0.4	0.3	0.3
Federal	-0.3	-0.4	-0.2	0.2	-0.1	-0.1	-0.6	0.4	-0.1	0.1	-0.0	0.1
Defense	-0.3	-0.4	-0.5	0.4	-0.1	-0.1	-0.8	0.4	0.2	-0.0	-0.1	-0.1
Nondefense	0.0	0.0	0.3	-0.2	0.0	-0.1	0.3	0.1	-0.3	0.1	0.0	0.1
State and local	0.0	0.4	0.6	0.2	0.3	0.2	0.2	0.2	0.4	0.3	0.3	0.2
Change in bus. inventories	1.2	-0.8	1.3	1.3	-1.4	0.9	1.2	-2.7	0.9	0.2	0.5	-0.3
Nonfarm	1.3	-0.5	1.5	0.9	-1.5	1.0	1.2	-2.8	0.9	0.1	0.5	-0.3
Farm	-0.1	-0.3	-0.2	0.4	0.1	-0.1	0.0	0.1	0.0	0.0	0.0	0.0

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

June 23, 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
Real GDP	6.0	4.5	2.9	3.5	3.7	0.1	4.4	2.9	3.0	4.3	3.7	2.6
Gross dom. purchases	5.5	6.8	4.0	4.9	4.2	0.5	5.5	3.5	3.0	5.4	4.9	3.1
Final sales	6.6	4.8	3.3	2.4	3.1	1.6	3.6	2.7	3.1	4.5	3.4	2.7
Priv. dom. final purchases	5.4	6.2	4.7	3.1	3.4	1.6	4.2	2.9	2.8	5.4	4.3	2.9
Personal cons. expenditures	3.5	4.6	3.0	2.7	3.0	1.4	3.3	2.3	2.1	3.6	3.3	2.3
Durables	1.9	1.0	0.6	0.3	0.3	0.4	0.4	0.4	0.4	1.1	0.6	0.4
Nondurables	0.8	1.8	0.5	0.8	1.2	-0.2	1.2	0.6	0.5	0.9	1.1	0.5
Services	0.7	1.7	1.9	1.5	1.4	1.2	1.7	1.3	1.2	1.6	1.7	1.3
Business fixed investment	1.5	0.9	1.6	0.5	0.3	0.3	1.1	0.9	0.9	1.2	0.8	0.8
Producers' dur. equip.	1.4	0.7	1.7	0.6	0.3	0.3	1.1	0.9	0.9	1.3	0.8	0.8
Nonres. structures	0.2	0.1	-0.1	-0.0	-0.0	-0.0	0.0	0.0	0.0	-0.0	0.0	0.0
Residential structures	0.4	0.7	0.1	-0.1	0.1	-0.1	-0.2	-0.3	-0.1	0.5	0.2	-0.2
Net exports	0.5	-2.2	-1.1	-1.3	-0.5	-0.4	-1.1	-0.6	0.0	-1.1	-1.3	-0.5
Exports	2.0	-0.6	0.3	0.1	0.7	-0.1	0.6	0.6	0.9	0.1	0.1	0.5
Imports	-1.5	-1.6	-1.4	-1.4	-1.1	-0.3	-1.7	-1.2	-0.9	-1.2	-1.4	-1.0
Government cons. & invest.	0.6	0.8	-0.3	0.5	0.2	0.5	0.5	0.3	0.2	0.3	0.3	0.4
Federal	0.4	-0.1	-0.2	0.2	-0.2	0.0	0.1	-0.1	-0.2	0.1	-0.1	-0.0
Defense	0.1	-0.3	-0.1	0.2	-0.2	-0.1	-0.0	-0.0	0.0	-0.1	-0.1	-0.0
Nondefense	0.4	0.2	-0.1	-0.0	-0.0	0.1	0.1	-0.1	-0.2	0.1	0.0	-0.0
State and local	0.2	0.9	-0.0	0.4	0.4	0.4	0.4	0.4	0.4	0.2	0.4	0.4
Change in bus. inventories	-0.5	-0.3	-0.4	1.1	0.6	-1.5	0.7	0.2	-0.0	-0.3	0.3	-0.1
Nonfarm	-0.5	-0.2	-0.4	1.2	0.6	-1.5	0.7	0.3	-0.0	-0.3	0.3	-0.1
Farm	-0.1	-0.1	-0.0	-0.1	-0.1	-0.0	-0.0	-0.0	-0.0	0.0	-0.1	-0.0

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

June 23, 1999

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

Item	Fiscal Year <sup>4</sup>				1998				1999				2000			
	1997a	1998a	1999	2000	Q1a	Q2a	Q3a	Q4a	Q1b	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
	-----								Not seasonally adjusted				-----			
Receipts <sup>1</sup>	1579	1722	1824	1923	378	544	412	413	401	564	445	434	427	599	463	452
Outlays <sup>1</sup>	1601	1653	1700	1739	409	407	410	467	396	417	420	440	444	431	425	449
Surplus/Deficit <sup>1</sup>	-22	69	124	183	-30	137	2	-55	6	147	26	-6	-16	167	38	2
On-budget	-103	-30	-2	35	-53	87	2	-58	-49	93	11	-47	-43	104	21	-42
Off-budget	81	99	126	148	22	50	-0	3	55	54	14	41	26	64	17	44
Surplus excluding deposit insurance	-36	65	119	179	-31	136	1	-57	5	146	25	-7	-17	166	37	2
Means of financing																
Borrowing	38	-51	-99	-176	26	-82	-29	32	7	-112	-26	-17	20	-135	-45	-16
Cash decrease	1	5	-1	0	4	-45	33	21	-4	-31	12	19	1	-25	5	20
Other <sup>2</sup>	-17	-23	-24	-7	0	-10	-7	1	-9	-4	-11	3	-4	-7	2	-7
Cash operating balance, end of period	44	39	40	40	28	72	39	18	22	52	40	21	20	45	40	20
NIPA FEDERAL SECTOR																
	-----								Seasonally adjusted annual rates				-----			
Receipts	1687	1818	1919	2020	1809	1838	1859	1870	1902	1938	1964	1995	1997	2030	2056	2084
Expenditures	1728	1761	1800	1845	1750	1764	1767	1805	1791	1801	1805	1823	1843	1854	1860	1875
Consumption expend.	458	458	473	486	451	464	459	471	472	474	477	475	487	492	491	488
Defense	306	301	306	311	293	303	303	307	304	305	308	306	312	312	313	314
Nondefense	152	157	168	176	158	161	156	164	168	169	169	169	175	180	179	174
Other expenditures	1270	1303	1327	1359	1299	1300	1308	1334	1319	1327	1327	1348	1356	1362	1369	1387
Current account surplus	-41	57	118	175	59	74	92	66	111	137	160	172	154	176	196	208
Gross investment	61	60	61	59	61	57	61	60	65	59	60	59	60	59	59	59
Current and capital account surplus	-102	-3	57	115	-2	18	31	6	47	78	100	113	94	117	137	150
FISCAL INDICATORS <sup>3</sup>																
High-employment (HEB) surplus/deficit	-163	-99	-72	-19	-101	-81	-70	-112	-82	-55	-39	-31	-34	-17	5	17
Change in HEB, percent of potential GDP	-0.9	-0.9	-0.4	-0.6	-0.5	-0.3	-0.1	0.5	-0.4	-0.3	-0.2	-0.1	0.0	-0.2	-0.2	-0.1
Fiscal impetus (FI) percent, cal. year	-2.1	-1.7	1.9	-0.4	-2.1	1.1	0.4	0.9	1.5	-1.3	0.8	-0.7	0.1	0.4	-0.4	-0.7

1. OMB's February 1999 surplus estimates (assuming the enactment of the President's proposals) are \$79 billion in FY1999 and \$103 billion in FY2000. CBO's March 1999 baseline surplus estimates are \$111 billion in FY1999 and \$133 billion in FY2000. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY1990.

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

3. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Real potential GDP growth is assumed to be 3.3 percent beginning 1998:Q1. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed 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.

4. 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

Strictly Confidential Class II FOMC  
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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>									
1990	6.4	11.0	5.2	7.3	9.3	1.5	3.3	5.0	4.4
1991	4.3	11.1	2.3	4.6	6.2	-1.3	-1.6	8.6	3.8
1992	4.6	10.9	2.6	4.4	5.3	0.5	0.8	2.2	6.3
1993	5.0	8.3	3.8	5.4	4.5	7.6	1.4	6.0	5.0
1994	4.6	4.7	4.6	7.7	6.0	14.5	3.9	-4.0	5.8
1995	5.4	4.1	5.8	7.9	5.7	14.1	6.5	-4.6	4.2
1996	5.1	4.0	5.4	7.2	7.3	7.9	4.9	-0.6	5.8
1997	5.0	0.6	6.6	6.4	6.6	4.3	7.1	5.3	5.6
1998	6.2	-1.4	8.7	8.7	9.7	5.4	9.1	7.2	5.2
1999	5.1	-3.9	7.8	8.8	9.7	6.9	7.5	4.4	5.2
2000	4.2	-4.9	6.7	7.2	8.3	4.4	6.8	4.1	4.4
<i>Quarter</i>									
1998:3	5.4	-3.6	8.3	7.7	8.7	6.3	9.4	6.2	4.7
4	6.9	0.7	8.8	9.7	11.0	4.9	8.3	6.4	6.9
1999:1	6.2	-3.2	9.1	9.4	10.1	9.5	9.6	5.6	6.0
2	4.7	-3.7	7.2	8.7	9.4	6.2	6.3	3.5	4.7
3	4.6	-4.3	7.2	8.1	9.0	5.8	6.9	4.2	4.8
4	4.4	-4.8	6.9	7.9	8.9	5.4	6.4	4.2	5.4
2000:1	5.2	-1.9	7.2	7.3	8.6	4.9	7.7	4.0	2.2
2	3.8	-6.3	6.5	7.1	8.2	4.4	6.3	3.9	6.0
3	3.7	-6.6	6.3	6.9	7.8	4.2	6.2	4.1	4.7
4	4.0	-5.0	6.2	6.7	7.7	3.9	6.2	4.0	4.7

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1999:Q1 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2. On a monthly average basis, total debt is estimated to have grown 6.1 percent in 1998 and is projected to grow 5.4 percent in 1999 and 4.3 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 -2.7 percent in 1999 and -5.0 percent in 2000.

4. On a monthly average basis, nonfederal debt is estimated to have grown 8.6 percent in 1998 and is projected to grow 7.9 percent in 1999 and 6.9 percent in 2000.

Strictly Confidential Class II FOMC  
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Flow of Funds Projections: Highlights  
(Billions of dollars except as noted)

Category					Seasonally adjusted annual rates									
	Calendar year				1998		1999				2000			
	1997	1998	1999	2000	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	608.2	670.1	674.5	619.1	535.3	597.7	955.9	682.5	497.9	561.5	719.0	554.5	568.6	634.0
2 Net equity issuance	-114.4	-267.0	-141.5	-97.0	-308.4	-491.3	-46.1	-84.0	-268.0	-168.0	-162.0	-94.0	-70.0	-62.0
3 Net debt issuance	722.6	937.1	816.0	716.1	843.6	1089.0	1002.0	766.5	765.9	729.5	881.0	648.5	638.6	696.0
<i>Borrowing sectors</i>														
<i>Nonfinancial business</i>														
4 Financing gap <sup>1</sup>	62.7	85.6	119.1	166.2	67.8	93.3	86.1	100.6	137.4	152.3	140.3	165.6	176.5	182.4
5 Net equity issuance	-114.4	-267.0	-141.5	-97.0	-308.4	-491.3	-46.1	-84.0	-268.0	-168.0	-162.0	-94.0	-70.0	-62.0
6 Credit market borrowing	316.8	436.7	391.0	378.4	471.4	425.5	498.1	335.9	374.2	355.7	430.1	362.1	358.1	363.1
<i>Households</i>														
7 Net borrowing <sup>2</sup>	326.6	472.7	519.5	462.0	436.0	561.2	556.3	525.3	499.0	497.7	470.4	463.8	460.8	453.2
8 Home mortgages	229.5	359.6	394.1	369.6	336.9	435.3	411.1	392.4	384.9	388.2	380.9	372.3	362.3	362.7
9 Consumer credit	52.5	67.6	91.6	63.0	81.7	64.1	126.2	84.0	80.0	76.0	70.0	64.0	61.0	57.0
10 Debt/DPI (percent) <sup>3</sup>	90.8	94.0	97.3	100.0	94.3	95.1	96.1	97.0	98.0	98.7	99.2	99.7	100.3	100.8
<i>State and local governments</i>														
11 Net borrowing	56.1	80.3	53.2	50.8	72.6	75.4	66.8	42.5	51.5	52.0	49.8	49.8	51.8	51.8
12 Current surplus <sup>4</sup>	135.1	182.8	188.5	196.1	182.2	201.7	197.5	174.7	187.3	194.5	194.3	196.7	196.4	197.1
<i>Federal government</i>														
13 Net borrowing	23.1	-52.6	-147.7	-175.1	-136.5	26.9	-119.2	-137.1	-158.7	-175.9	-69.2	-227.1	-232.0	-172.0
14 Net borrowing (quarterly, n.s.a.)	23.1	-52.6	-147.7	-175.1	-28.8	32.1	7.5	-112.3	-26.3	-16.5	20.0	-134.8	-44.7	-15.6
15 Unified deficit (quarterly, n.s.a.)	2.4	-54.4	-172.7	-191.3	-2.2	54.5	-5.8	-147.2	-25.6	5.9	16.5	-167.2	-38.1	-2.4
<i>Depository institutions</i>														
16 Funds supplied	336.3	361.9	233.5	270.1	296.0	674.4	193.4	221.6	272.2	246.9	263.9	264.9	274.9	276.9
<i>Memo (percentage of GDP)</i>														
17 Domestic nonfinancial debt <sup>5</sup>	182.1	183.3	183.7	184.1	183.8	183.5	183.8	184.2	184.2	183.8	185.0	184.4	184.0	183.6
18 Domestic nonfinancial borrowing	8.9	11.0	9.1	7.6	9.9	12.5	11.4	8.6	8.5	8.0	9.6	7.0	6.8	7.3
19 Federal government <sup>6</sup>	0.3	-0.6	-1.6	-1.9	-1.6	0.3	-1.4	-1.5	-1.8	-1.9	-0.8	-2.4	-2.5	-1.8
20 Nonfederal	8.6	11.6	10.7	9.5	11.5	12.2	12.7	10.1	10.3	9.9	10.3	9.4	9.2	9.1

Note. Data after 1999:Q1 are staff projections.

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

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

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

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

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

6. Excludes government-insured mortgage pool securities.



Declines in U.S. real net exports should subtract 1-1/4 percentage points from U.S. real GDP growth in 1999 and 1/2 percentage point in 2000, as export growth picks up in response to the firming of growth abroad and the expansion of imports slows with the deceleration of U.S. output over the forecast period.

### Summary of Staff Projections

(Percent change, seasonally adjusted annual rate)

Measure	1998	Projection			
		1999			2000
		Q1	Q2	H2	
Foreign output	0.6	3.3	1.3	2.5	2.7
<i>May GB</i>	<i>0.6</i>	<i>1.4</i>	<i>1.7</i>	<i>2.8</i>	<i>2.5</i>
Real exports	1.1	-5.1	2.6	3.8	4.7
<i>May GB</i>	<i>1.1</i>	<i>-7.7</i>	<i>0.5</i>	<i>4.7</i>	<i>4.3</i>
Real imports	9.7	12.7	11.0	9.8	7.6
<i>May GB</i>	<i>9.7</i>	<i>12.7</i>	<i>11.7</i>	<i>8.8</i>	<i>8.1</i>

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

**The dollar.** During the forecast period the nominal exchange value of the dollar against the major international currencies should decline moderately from its current level. As in previous Greenbooks, we assume that the dollar will move lower against the euro as markets begin to focus on the growing current account imbalances of the euro area and the United States. The U.S. dollar is also projected to decline somewhat further against the Canadian dollar, as the continuing recovery of commodity prices provides some near-term support for the Canadian currency. Against the yen, the dollar is expected to change little in the near-term but to decline later in the forecast period. Easy monetary policy in Japan and continuing disappointment in the market at the pace of recovery and restructuring in Japan initially provides dollar support, but that is seen as eventually giving way to downward pressure from current account imbalances of Japan and the United States.

The real exchange value of the dollar against the currencies of a wider group of U.S. trading partners, as measured by the staff's broad index, is projected to edge down over the forecast period. U.S. consumer price inflation, which is expected to outstrip inflation in most of the foreign industrial countries, offsets some of the dollar's moderate nominal decline against the major foreign currencies, resulting in only slight dollar depreciation in real terms against these

### Selected Trade Prices

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

Trade category	1998	Projection			
		1999			2000
		Q1	Q2	H2	
<i>Exports</i>					
Nonagricultural (core)	-1.9	-0.2	1.3	1.2	1.2
Agricultural	-9.8	-7.9	-7.8	2.0	2.4
<i>Imports</i>					
Non-oil (core)	-2.0	-0.1	-1.3	0.1	1.6
Oil (level, dollars per barrel)	11.40	10.38	14.66	15.80	15.00

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

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

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

**Prices of non-oil imports and exports.** Core import prices are projected to decline slightly in the second and third quarters before turning up in the fourth quarter, as commodity prices pick up with the rebound in foreign activity and the lagged effects of earlier dollar gains dissipate. Core export prices are forecast to rise moderately over the forecast period in line with comparable U.S. domestic prices.

**Nominal trade and current account balances.** The nominal trade deficit for goods and services is projected to widen substantially during the forecast period, from an annual rate of \$215 billion in the first quarter of 1999 to \$325 billion in the fourth quarter of 2000. The deficit for net investment income is also expected to widen this year and next. Accordingly, the current account deficit, which was a revised \$220 billion in 1998, is projected to rise to about \$400 billion in 2000, 4-1/4 percent of projected GDP.

### Risks to the Foreign Outlook

**Stronger recovery of activity abroad.** Our baseline forecast assumes that the surprising strength of GDP in a number of key foreign countries in the first quarter will have a sustained effect on the level but not the rate of growth of foreign GDP over the forecast period. In some cases, the expansion in GDP in the first quarter was at odds with other indicators of activity, and in other cases the factors underlying that strength appear to have been transitory. Nevertheless,

the risks of a further surprise on the upside may well have increased in nearly all regions of the world. In the first alternative scenario presented in the table below we have considered the effects of GDP growth beginning in 1999:Q2 being 2 percentage points above our baseline projection in Asia (including Japan) and 1 percentage point higher in Europe and Canada, or taken together, foreign GDP growth is nearly 1-1/2 percent above baseline. The higher foreign growth rates are sustained through 2000. The effect of this scenario is to raise U.S. real GDP growth about 0.1 percentage point this year and 0.3 percentage point in 2000. The stronger foreign growth also has a small positive effect on U.S. inflation that becomes barely visible in 2000.

**Weaker U.S. dollar.** The scenario with stronger foreign growth causes a small (less than 1 percent) endogenous depreciation of the dollar against foreign currencies; it also results in a moderate (\$25 billion by the end of 2000) narrowing of the U.S. current account deficit relative to its baseline path. In the event of a robust recovery of activity abroad, it is quite possible that the large and growing U.S. current account deficit will become a more central focus of attention to market participants. Questions about the longer term sustainability of that deficit could result in a significant depreciation of the dollar. In the second scenario below, we have considered the effects of an additional across-the-board 10 percent depreciation of the dollar occurring in the second half of 1999. In this case, the effects on U.S. GDP and prices would be a good deal more noticeable, especially in 2000, once the lagged effects of the depreciation on trade flows have worked through.

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

Measure	1999	2000
<i>U.S. real GDP</i>		
Baseline	3.5	2.4
Stronger foreign GDP growth	3.6	2.7
Stronger foreign growth and weaker dollar <sup>1</sup>	3.7	3.9
<i>U.S. CPI excluding food and energy</i>		
Baseline	2.3	2.1
Stronger foreign GDP growth	2.3	2.2
Stronger foreign growth and weaker dollar <sup>1</sup>	2.4	3.0

NOTE. All simulations assume federal funds rate unchanged from baseline.

1. Assumes dollar path falls an additional 10 percent below baseline.

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

Measure and country	1992	1993	1994	1995	1996	1997	1998	-Projected-	
								1999	2000
REAL GDP (1)									
-----									
Total foreign	2.2	3.1	5.2	2.2	4.3	4.1	0.6	2.4	2.7
Industrial Countries	0.6	1.9	4.0	1.8	2.8	3.3	1.7	2.3	2.1
of which:									
Canada	0.9	2.9	5.5	1.4	2.4	4.4	2.8	3.3	2.7
Japan	0.1	0.5	0.9	2.5	5.1	-0.8	-3.0	0.2	0.4
United Kingdom	0.7	3.2	4.6	1.9	2.6	3.9	1.1	1.5	2.2
Euro-11	0.1	0.0	3.1	1.5	1.5	3.1	2.1	2.1	2.2
Germany	0.8	-0.2	2.8	0.9	1.5	1.8	1.3	2.0	2.3
Developing Countries	4.8	5.0	7.0	2.7	6.4	5.3	-0.9	2.6	3.4
Asia	7.0	7.5	8.8	6.9	7.0	4.9	-2.5	3.3	3.6
Korea	3.9	6.3	9.4	7.2	6.8	3.7	-5.3	6.0	4.6
China	14.6	6.1	16.3	12.6	9.2	8.2	9.5	4.9	6.0
Latin America	2.8	2.8	5.6	-4.1	6.4	6.3	0.8	2.1	3.2
Mexico	2.5	1.9	5.1	-7.3	7.5	7.2	2.9	3.2	3.6
Brazil	0.1	4.4	9.6	-1.5	5.0	2.0	-1.9	1.3	2.5
CONSUMER PRICES (2)									
-----									
Industrial Countries	2.0	2.1	1.1	1.3	1.5	1.6	1.0	0.8	1.0
of which:									
Canada	1.8	1.8	-0.0	2.1	2.0	1.0	1.1	1.6	1.8
Japan	0.9	1.2	0.8	-0.8	0.1	2.1	0.7	-1.3	-1.0
United Kingdom (3)	3.7	2.7	2.2	2.9	3.2	2.8	2.6	2.2	2.5
Euro-11 (4)	NA	NA	NA	2.7	2.0	1.4	0.9	1.7	1.5
Germany	3.4	4.2	2.6	1.5	1.5	2.1	0.4	1.2	1.3
Developing Countries	21.7	24.8	23.1	17.0	11.2	6.9	8.9	5.7	6.2
Asia	5.5	7.7	10.7	6.4	4.8	2.8	4.6	1.5	3.3
Korea	4.7	5.5	5.8	4.4	5.1	5.1	6.0	1.8	3.5
China	8.2	17.1	26.9	11.1	7.0	1.0	-1.1	0.4	2.6
Latin America	72.4	74.5	54.6	42.2	26.0	15.6	15.6	13.2	11.2
Mexico	13.2	8.6	6.9	48.8	28.1	17.2	17.6	14.3	11.9
Brazil	1150.1	2321.7	1237.1	22.5	10.5	4.2	2.7	7.8	6.3

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

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

Measure and country	1998				1999				Projected 2000			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)												
----- Quarterly changes at an annual rate -----												
Total foreign	-0.7	0.3	1.2	1.5	3.3	1.3	2.1	3.0	0.6	3.6	3.3	3.2
Industrial Countries	1.6	1.1	1.7	2.2	3.7	1.5	1.7	2.5	0.0	3.4	2.7	2.4
of which:												
Canada	2.8	1.1	2.6	4.8	4.2	3.0	2.8	3.3	0.4	4.2	3.4	3.0
Japan	-4.8	-2.9	-1.2	-3.3	7.9	-3.5	-3.0	-0.3	-1.2	1.3	0.7	0.8
United Kingdom	1.7	1.2	1.1	0.3	-0.1	1.5	2.1	2.7	0.3	3.1	2.9	2.4
Euro-11	2.6	2.6	1.9	1.2	1.5	1.9	2.3	2.7	0.2	3.5	2.7	2.5
Germany	4.1	0.0	1.8	-0.6	1.8	1.5	2.2	2.7	0.7	3.3	2.6	2.5
Developing Countries	-3.9	-0.8	0.7	0.6	2.9	1.2	2.6	3.7	1.5	4.0	4.0	4.2
Asia	-10.7	-3.9	1.3	3.8	5.2	1.2	2.8	3.9	1.3	4.1	4.4	4.5
Korea	-23.0	-5.3	4.0	6.0	14.7	0.1	4.5	5.3	3.0	5.5	5.0	5.0
China	7.0	6.5	11.0	13.8	2.2	5.5	5.5	6.5	3.0	6.0	7.5	7.5
Latin America	4.1	2.3	0.1	-3.4	0.5	1.1	2.7	4.0	1.5	4.1	3.7	3.7
Mexico	5.1	2.6	3.8	0.1	1.3	2.7	3.9	4.9	2.0	4.5	3.9	3.9
Brazil	-0.4	5.8	-6.0	-6.6	4.1	-3.0	1.2	3.1	0.6	3.0	3.2	3.2
CONSUMER PRICES (2)												
----- Four-quarter changes -----												
Industrial Countries	1.5	1.1	0.8	1.0	0.6	0.9	0.9	0.8	0.9	0.9	0.9	1.0
of which:												
Canada	1.0	1.0	0.9	1.1	0.8	1.6	1.5	1.6	1.6	1.6	1.6	1.8
Japan	2.1	0.6	-0.1	0.7	-0.2	-0.5	-0.7	-1.3	-1.0	-1.0	-1.0	-1.0
United Kingdom (3)	2.5	3.0	2.6	2.6	2.6	2.2	2.2	2.2	2.3	2.3	2.4	2.5
Euro-11 (4)	1.2	1.4	1.2	0.9	0.9	1.4	1.5	1.7	1.7	1.6	1.5	1.5
Germany	1.2	1.4	0.7	0.4	0.3	0.6	1.1	1.2	1.3	1.3	1.3	1.3
Developing Countries	7.4	7.6	8.0	8.9	7.9	6.8	6.1	5.7	5.8	6.1	6.3	6.2
Asia	4.2	4.7	4.6	4.6	2.6	1.3	1.1	1.5	2.0	2.6	3.0	3.3
Korea	8.9	8.2	7.0	6.0	0.7	0.9	1.5	1.8	2.5	2.9	3.3	3.5
China	0.4	-0.9	-1.4	-1.1	-1.4	-1.4	-0.3	0.4	1.0	1.6	2.1	2.6
Latin America	14.1	14.2	14.3	15.6	16.4	15.6	14.4	13.2	12.1	11.4	11.4	11.2
Mexico	15.3	15.1	15.6	17.6	18.6	17.9	16.2	14.3	12.9	12.0	12.0	11.9
Brazil	4.4	4.5	3.6	2.7	3.0	3.6	5.6	7.8	7.2	6.7	6.6	6.3

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

June 23, 1999

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1992	1993	1994	1995	1996	1997	1998	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	-1.1	-1.3	-0.5
Exports of G&S	0.4	0.5	1.0	1.1	1.2	1.1	0.1	0.1	0.5
Imports of G&S	-0.8	-1.1	-1.4	-0.7	-1.4	-1.7	-1.2	-1.4	-1.0
Percentage change, Q4/Q4									
Exports of G&S	4.1	4.6	10.0	10.5	10.3	9.6	1.1	1.2	4.7
Services	-0.9	4.1	6.0	9.8	7.5	1.5	-0.6	1.5	2.8
Agricultural Goods	10.4	-5.5	16.6	-4.3	4.8	2.8	-1.2	-9.9	1.1
Computers	25.2	23.7	32.0	55.5	35.9	40.7	6.4	19.3	29.4
Semiconductors	64.8	32.9	66.9	79.6	46.2	21.0	9.4	26.8	24.5
Other Goods 1/	2.3	3.6	7.0	5.8	8.0	11.6	1.2	-1.1	2.3
Imports of G&S	7.4	10.2	12.3	5.6	11.8	14.0	9.7	10.8	7.6
Services	1.4	3.2	1.4	6.1	5.5	12.4	2.4	9.2	3.2
Oil	12.1	10.1	-0.2	2.4	7.9	4.0	5.9	8.8	2.1
Computers	45.1	39.3	44.8	48.1	24.4	30.3	28.3	32.4	34.8
Semiconductors	42.0	34.2	54.5	92.4	57.6	32.7	-7.6	23.9	28.8
Other Goods 2/	5.4	9.5	12.2	-1.1	10.4	13.0	10.9	9.1	5.8
Billions of chained 1992 dollars									
Net Goods & Services	-29.5	-70.2	-104.6	-96.5	-111.2	-136.1	-238.2	-341.6	-415.7
Exports of G&S	639.4	658.2	712.4	792.6	860.0	970.0	984.7	1006.7	1041.9
Imports of G&S	669.0	728.4	817.0	889.0	971.2	1106.1	1222.9	1348.3	1457.5
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-50.6	-85.3	-121.7	-113.6	-129.3	-143.5	-220.6	-328.4	-402.0
Net Goods & Services (BOP)	-37.0	-69.9	-98.4	-97.5	-104.3	-104.7	-164.3	-256.7	-315.8
Net Income	22.3	23.2	15.9	19.4	17.2	3.2	-12.2	-28.9	-43.4
Direct, Net	54.7	58.6	54.4	63.8	67.7	69.2	59.4	54.9	57.2
Portfolio, Net	-29.1	-31.7	-34.1	-39.9	-46.0	-61.0	-66.4	-78.3	-95.0
Employee Comp., Net	-3.3	-3.7	-4.4	-4.5	-4.5	-5.0	-5.2	-5.6	-5.6
Net Transfers	-35.9	-38.5	-39.2	-35.4	-42.2	-42.0	-44.1	-42.8	-42.8

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

June 23, 1999

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1995				1996				1997			
	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	-0.2	-0.3	1.6	0.7	-1.1	-1.0	-1.4	2.4	-1.3	-0.4	-0.5	-0.3
Exports of G&S	1.0	0.6	1.9	1.1	0.4	0.6	0.2	3.2	0.9	1.7	1.2	0.5
Imports of G&S	-1.2	-0.9	-0.3	-0.4	-1.5	-1.6	-1.6	-0.9	-2.2	-2.2	-1.7	-0.8
	Percentage change from previous period, SAAR											
Exports of G&S	9.2	5.4	17.8	10.2	3.7	5.8	2.1	32.0	8.3	15.5	10.6	4.4
Services	9.1	2.9	21.7	6.4	-4.0	10.3	-9.9	39.8	-6.7	11.8	5.9	-4.0
Agricultural Goods	1.8	-13.4	5.0	-9.4	22.6	-32.8	-1.6	48.7	-16.1	-7.8	8.7	32.8
Computers	36.4	33.8	86.6	71.6	57.6	24.7	27.7	35.9	70.2	78.7	41.9	-9.2
Semiconductors	72.0	100.8	96.2	53.6	23.8	29.7	30.2	118.6	41.3	17.3	32.3	-2.2
Other Goods 1/	4.3	1.4	9.4	8.1	0.1	6.0	5.7	21.3	13.8	15.6	9.2	8.0
Imports of G&S	9.8	7.2	2.0	3.5	13.1	13.5	13.6	7.0	18.6	17.9	13.5	6.3
Services	20.5	-3.3	3.1	5.5	9.2	4.3	9.9	-1.1	17.8	10.6	15.8	5.8
Oil	-11.4	15.4	31.4	-18.2	-9.8	68.9	3.5	-14.0	-8.2	37.0	6.0	-12.2
Computers	15.4	51.6	62.7	69.3	22.5	22.9	18.8	33.8	54.5	39.0	30.6	2.9
Semiconductors	37.1	105.5	128.2	113.3	38.7	8.9	50.1	172.1	89.0	16.0	20.3	17.6
Other Goods 2/	7.2	1.5	-8.8	-3.8	13.9	10.5	13.4	4.1	16.2	16.1	11.8	8.1
	Billions of chained 1992 dollars, SAAR											
Net Goods & Services	-109.5	-114.7	-86.8	-74.8	-95.5	-113.5	-140.1	-95.9	-121.5	-131.6	-142.4	-149.0
Exports of G&S	763.9	774.0	806.3	826.1	833.6	845.5	849.9	911.1	929.4	963.6	988.1	998.8
Imports of G&S	873.4	888.7	893.1	900.9	929.1	958.9	990.0	1007.0	1050.9	1095.2	1130.5	1147.8
	Billions of dollars, SAAR											
US CURRENT ACCOUNT BALANCE	-122.1	-132.9	-112.3	-87.1	-107.0	-125.8	-153.3	-131.1	-139.6	-125.9	-142.5	-165.9
Net Goods & Services (BOP)	-107.2	-123.6	-87.2	-72.1	-89.4	-105.9	-125.9	-96.1	-106.4	-96.8	-102.9	-112.8
Net Income	20.6	24.3	10.3	22.4	26.1	16.8	10.6	15.3	4.2	8.8	0.8	-1.0
Direct, Net	61.7	68.4	57.0	68.1	68.5	64.3	63.6	74.5	66.4	74.7	69.2	66.6
Portfolio, Net	-36.7	-39.6	-42.2	-41.1	-38.2	-43.0	-48.5	-54.3	-57.4	-60.9	-63.4	-62.4
Employee Comp., Net	-4.4	-4.5	-4.5	-4.6	-4.3	-4.5	-4.5	-4.9	-4.7	-4.9	-5.0	-5.2
Net Transfers	-35.5	-33.6	-35.3	-37.3	-43.7	-36.7	-38.0	-50.3	-37.4	-38.0	-40.4	-52.1

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

June 23, 1999

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1995				1996				1997			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>NIPA REAL EXPORTS and IMPORTS</b>												
Percentage point contribution to GDP growth												
Net Goods & Services	-0.2	-0.3	1.6	0.7	-1.1	-1.0	-1.4	2.4	-1.3	-0.4	-0.5	-0.3
Exports of G&S	1.0	0.6	1.9	1.1	0.4	0.6	0.2	3.2	0.9	1.7	1.2	0.5
Imports of G&S	-1.2	-0.9	-0.3	-0.4	-1.5	-1.6	-1.6	-0.9	-2.2	-2.2	-1.7	-0.8
Percentage change from previous period, SAAR												
Exports of G&S	9.2	5.4	17.8	10.2	3.7	5.8	2.1	32.0	8.3	15.5	10.6	4.4
Services	9.1	2.9	21.7	6.4	-4.0	10.3	-9.9	39.8	-6.7	11.8	5.9	-4.0
Agricultural Goods	1.8	-13.4	5.0	-9.4	22.6	-32.8	-1.6	48.7	-16.1	-7.8	8.7	32.8
Computers	36.4	33.8	86.6	71.6	57.6	24.7	27.7	35.9	70.2	78.7	41.9	-9.2
Semiconductors	72.0	100.8	96.2	53.6	23.8	29.7	30.2	118.6	41.3	17.3	32.3	-2.2
Other Goods 1/	4.3	1.4	9.4	8.1	0.1	6.0	5.7	21.3	13.8	15.6	9.2	8.0
Imports of G&S	9.8	7.2	2.0	3.5	13.1	13.5	13.6	7.0	18.6	17.9	13.5	6.3
Services	20.5	-3.3	3.1	5.5	9.2	4.3	9.9	-1.1	17.8	10.6	15.8	5.8
Oil	-11.4	15.4	31.4	-18.2	-9.8	68.9	3.5	-14.0	-8.2	37.0	6.0	-12.2
Computers	15.4	51.6	62.7	69.3	22.5	22.9	18.8	33.8	54.5	39.0	30.6	2.9
Semiconductors	37.1	105.5	128.2	113.3	38.7	8.9	50.1	172.1	89.0	16.0	20.3	17.6
Other Goods 2/	7.2	1.5	-8.8	-3.8	13.9	10.5	13.4	4.1	16.2	16.1	11.8	8.1
Billions of chained 1992 dollars, SAAR												
Net Goods & Services	-109.5	-114.7	-86.8	-74.8	-95.5	-113.5	-140.1	-95.9	-121.5	-131.6	-142.4	-149.0
Exports of G&S	763.9	774.0	806.3	826.1	833.6	845.5	849.9	911.1	929.4	963.6	988.1	998.8
Imports of G&S	873.4	888.7	893.1	900.9	929.1	958.9	990.0	1007.0	1050.9	1095.2	1130.5	1147.8
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-122.1	-132.9	-112.3	-87.1	-107.0	-125.8	-153.3	-131.1	-139.6	-125.9	-142.5	-165.9
Net Goods & Services (BOP)	-107.2	-123.6	-87.2	-72.1	-89.4	-105.9	-125.9	-96.1	-106.4	-96.8	-102.9	-112.8
Net Income	20.6	24.3	10.3	22.4	26.1	16.8	10.6	15.3	4.2	8.8	0.8	-1.0
Direct, Net	61.7	68.4	57.0	68.1	68.5	64.3	63.6	74.5	66.4	74.7	69.2	66.6
Portfolio, Net	-36.7	-39.6	-42.2	-41.1	-38.2	-43.0	-48.5	-54.3	-57.4	-60.9	-63.4	-62.4
Employee Comp., Net	-4.4	-4.5	-4.5	-4.6	-4.3	-4.5	-4.5	-4.9	-4.7	-4.9	-5.0	-5.2
Net Transfers	-35.5	-33.6	-35.3	-37.3	-43.7	-36.7	-38.0	-50.3	-37.4	-38.0	-40.4	-52.1

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



OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1998				1999				Projected 2000			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>NIPA REAL EXPORTS and IMPORTS</b>												
Percentage point contribution to GDP growth												
Net Goods & Services	-2.3	-2.1	-0.6	0.5	-2.2	-1.1	-1.3	-0.5	-0.4	-1.1	-0.6	0.0
Exports of G&S	-0.3	-0.9	-0.3	2.0	-0.6	0.3	0.1	0.7	-0.1	0.6	0.6	0.9
Imports of G&S	-1.9	-1.2	-0.3	-1.5	-1.6	-1.4	-1.4	-1.1	-0.3	-1.7	-1.2	-0.9
Percentage change from previous period, SAAR												
Exports of G&S	-2.8	-7.7	-2.8	19.7	-5.1	2.6	1.3	6.3	-1.0	5.4	5.5	9.0
Services	-1.2	1.7	-10.4	8.3	4.1	1.0	-0.0	0.9	-0.0	4.1	3.5	3.7
Agricultural Goods	-9.9	-23.4	-14.5	61.3	-37.8	14.4	-14.3	8.2	0.9	0.9	0.8	1.7
Computers	-15.5	8.7	20.6	15.7	-0.0	26.2	28.5	25.0	27.3	29.7	29.8	31.0
Semiconductors	-2.0	-19.7	29.7	40.3	33.7	25.9	23.6	24.1	24.1	24.6	24.6	24.6
Other Goods 1/	-1.6	-11.0	-1.2	21.4	-8.8	-0.8	-0.2	6.2	-5.7	3.0	3.4	9.3
Imports of G&S	15.7	9.3	2.3	12.0	12.7	11.0	11.1	8.5	2.4	12.7	8.6	6.8
Services	9.3	-0.6	-0.6	2.0	12.6	10.5	8.5	5.4	0.5	5.2	3.5	3.7
Oil	8.8	41.4	-5.7	-13.2	7.9	32.5	14.3	-14.3	-23.0	45.9	13.1	-14.5
Computers	38.8	22.4	9.8	45.3	43.6	29.1	31.1	26.2	26.2	38.6	38.6	36.0
Semiconductors	9.9	-28.8	-10.5	3.8	17.2	25.2	26.2	27.2	28.1	28.6	29.1	29.6
Other Goods 2/	16.1	10.8	3.5	13.8	10.3	7.8	9.2	9.1	2.1	9.5	6.1	5.8
Billions of chained 1992 dollars, SAAR												
Net Goods & Services	-198.5	-245.2	-259.0	-250.1	-301.4	-329.3	-361.5	-374.3	-385.2	-414.4	-430.6	-432.5
Exports of G&S	991.9	972.1	965.3	1009.6	996.3	1002.8	1006.1	1021.5	1019.1	1032.6	1046.6	1069.2
Imports of G&S	1190.4	1217.3	1224.3	1259.6	1297.8	1332.1	1367.6	1395.9	1404.3	1447.0	1477.2	1501.7
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-172.1	-209.6	-253.9	-246.7	-274.3	-315.3	-350.6	-373.6	-372.2	-399.4	-411.7	-424.5
Net Goods & Services (BOP)	-133.4	-167.8	-182.9	-173.0	-215.0	-250.2	-276.9	-284.8	-292.1	-316.7	-327.9	-326.4
Net Income	1.0	-2.2	-27.9	-19.7	-18.9	-25.1	-33.7	-37.8	-40.1	-42.7	-43.8	-47.2
Direct, Net	67.3	64.7	47.3	58.2	58.1	56.9	52.7	52.1	53.1	54.6	59.1	61.8
Portfolio, Net	-61.3	-61.8	-69.9	-72.5	-71.4	-76.4	-80.8	-84.4	-87.6	-91.7	-97.4	-103.4
Employee Comp, Net	-5.1	-5.2	-5.3	-5.4	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6
Net Transfers	-39.7	-39.5	-43.1	-53.9	-40.4	-40.0	-40.0	-51.0	-40.0	-40.0	-40.0	-51.0

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

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

## **Part 2**

June 23, 1999

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

June 23, 1999

## **RECENT DEVELOPMENTS**

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productivity surged 4.2 percent at an annual rate in the first quarter and is up 3.7 percent over the past four quarters.<sup>4</sup>

### Industrial Production

Industrial production rose 0.2 percent last month, despite a sharp weather-related drop in the output of utilities. Manufacturing production rose 0.4 percent in May following gains of similar magnitudes in the preceding three months. The increases in production have lifted the factory operating rate 0.2 percentage point over the past three months to 79.7 percent in May, but this still is nearly 2 percentage points below the long-term average.

The output of motor vehicles and parts was up 2.2 percent in May, as the industry attempted to keep up with the blockbuster pace of sales. Production schedules for the third quarter indicate that assemblies are likely to remain high: They call for output to run at an annual rate of 13.1 million units, about the same as in the second quarter. High production rates could well be maintained even if

### Production of Domestic Autos and Trucks

(Millions of units at an annual rate except as noted; FRB seasonal basis)

Item	1999					
	Q1	Q2 <sup>1</sup>	Q3 <sup>1</sup>	May	June <sup>1</sup>	July <sup>1</sup>
U.S. production	12.7	13.0	13.1	13.0	13.2	13.0
Autos	5.6	5.6	5.7	5.5	5.6	5.7
Trucks	7.1	7.5	7.3	7.6	7.6	7.2
Days' supply						
Autos	60.1	n.a.	n.a.	55.8	n.a.	n.a.
Light trucks <sup>2</sup>	61.4	n.a.	n.a.	62.6	n.a.	n.a.

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

1. Production rates are manufacturers' schedules.

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

n.a. Not available.

4. Nonfarm business output is calculated on the product side of the national accounts, while the output of nonfinancial corporations is generated from income-side measures. We estimate that if it were measured from the income side of the accounts, nonfarm business output would have risen roughly 0.4 percentage point more over the past year, accounting for about one-third of the 1.1 percentage point difference between productivity growth in the two sectors over this period.

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

	April-May			12 months ending in May.		
	1998	1999	Percent change	1998	1999	Percent change
Outlays	270.5	275.2	1.8	1622.2	1685.1	3.9
Deposit insurance	-0.8	-1.0	35.9	-4.5	-5.6	23.3
Spectrum auction	-0.1	-0.2	221.4	-6.8	-2.8	-59.0
Sale of major assets	-3.2	0.0	-100.0	-3.2	0.0	-100.0
Other	274.5	276.5	0.7	1636.7	1693.4	3.5
Receipts	356.3	364.7	2.4	1681.9	1779.1	5.8
Surplus	85.8	89.5	4.3	59.7	94.0	57.4
Outlays excluding deposit insurance, spectrum auction, and sale of major assets are adjusted for payment timing shifts <sup>1</sup>						
Outlays	277.7	276.5	-0.4	1652.4	1694.6	2.6
National defense	45.3	44.7	-1.4	270.9	272.8	0.7
Net interest	41.8	40.2	-3.9	245.1	234.5	-4.3
Social security	62.8	64.6	2.8	374.5	387.2	3.4
Medicare	32.4	31.8	-1.8	196.8	190.1	-3.4
Medicaid	16.8	17.8	6.1	99.0	104.9	5.9
Other health	4.9	5.2	4.9	28.6	31.6	10.6
Income security	39.5	37.3	-5.5	230.7	235.9	2.3
Other	34.2	35.1	2.5	206.8	237.7	14.9
Receipts	356.3	364.7	2.4	1681.9	1779.1	5.8
Individual income and payroll taxes	286.6	300.6	4.9	1324.2	1420.6	7.3
Withheld + FICA	186.0	197.2	6.0	1117.7	1207.3	8.0
Nonwithheld + SECA	147.7	164.2	11.2	305.1	334.8	9.7
Refunds (-)	47.1	60.9	29.1	98.6	121.5	23.2
Corporate	30.6	25.6	-16.2	189.2	180.2	-4.8
Gross	34.6	32.3	-6.7	213.5	211.5	-0.9
Refunds (-)	4.0	6.6	66.4	24.2	31.3	29.3
Other	39.1	38.5	-1.5	168.5	178.3	5.8
Surplus	78.6	88.2	12.2	29.5	84.4	186.1

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

1. A shift in payment timing occurs when the first of the month falls on a weekend or holiday, or when the first three days of a month are nonworking days. Outlays for defense, social security, Medicare, income security, and "other" have been adjusted to account for these shifts.

n.a.--Not applicable

## Treasury and Agency Finance

### Treasury Financing (Billions of dollars)

Item	1998	1999				
	Q4	Q1	Q2 <sup>e</sup>	Apr.	May	June <sup>e</sup>
<b>Total surplus, deficit (-)</b>	<b>-54.5</b>	<b>5.8</b>	<b>147.2</b>	<b>113.5</b>	<b>-24.0</b>	<b>57.7</b>
Means of financing deficit						
Net borrowing	32.3	7.5	-112.3	-85.2	-.6	-26.6
Nonmarketable	8.2	2.2	3.4	3.8	.9	-1.3
Marketable	24.1	5.2	-115.8	-89.0	-1.5	-25.3
Bills	53.3	34.0	-78.0	-75.5	-1.7	-.8
Coupons	-29.2	-28.7	-37.8	-13.4	.2	-24.5
Decrease in cash balance	21.4	-4.1	-30.6	-36.5	32.5	-26.6
Other <sup>1</sup>	.9	-9.1	-4.3	8.3	-8.0	-4.6
MEMO						
Cash balance, end of period	17.5	21.6	52.2	58.1	25.6	52.2

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

1. Direct loan financing, accrued items, checks issued less checks paid, and other transactions.

<sup>e</sup> Estimated.

### Net Cash Borrowing of Government-Sponsored Enterprises (Billions of dollars)

Agency	1998		1999			
	Q3	Q4	Q1	Mar.	Apr.	May
FHLBs	14.7	38.9	20.2	18.6	13.2	6.1
Freddie Mac	32.7	54.4	11.8	.0	11.2	n.a.
Fannie Mae	24.2	29.7	15.1	4.1	3.6	13.9
Farm Credit Banks	-.4	-.8	3.0	-.1	1.0	-.9
Sallie Mae	.5	1.6	1.4	.3	n.a.	n.a.
MEMO: Outstanding						
Fannie Mae benchmark notes	32.2	42.2	55.2	55.2	62.7	70.2
Freddie Mac reference notes	10.0	20.0	30.0	30.0	36.0	40.0

NOTE. Excludes mortgage pass-through securities issued by Fannie Mae and Freddie Mac.

n.a. Not available.

**DIVISION OF INTERNATIONAL FINANCE  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

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**Date:** June 24, 1999  
**To:** Members of the Federal Open Market Committee  
**From:** Thomas A. Connors *TAC*  
**Subject:** Corrected Table, Greenbook Part 1, page I-38.

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**CLASS II - FOMC**

Attached is a corrected table, **Impact of Alternative Assumptions**, contained in Greenbook Part 1, page I-38. The table has been corrected to reflect the current baseline assumptions for U.S. real GDP and the U.S. CPI.

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**CLASS II - FOMC**

**Impact of Alternative Assumptions**

(Percent change, Q4 to Q4)

Measure	1999	2000
<i>U.S. real GDP</i>		
Baseline	3.7	2.6
Stronger foreign GDP growth	3.8	2.9
Stronger foreign growth and weaker dollar <sup>1</sup>	3.9	4.1
<i>U.S. CPI excluding food and energy</i>		
Baseline	2.1	2.5
Stronger foreign GDP growth	2.1	2.6
Stronger foreign growth and weaker dollar <sup>1</sup>	2.2	3.4

NOTE. All simulations assume federal funds rate unchanged from baseline.

1. Assumes dollar path falls an additional 10 percent below baseline.



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CLASS III - FOMC

June 25, 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 Oct.	1998 Nov.	1998 Dec.	1999 Jan.	1999 Feb.	1999 Mar.	1999 Apr.	1999 May	1999 June
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	97.4	102.7	100.5	103.9	108.1	105.7	104.6	106.8	107.3
Current conditions	112.8	115.9	113.9	116.8	115.0	116.3	115.9	121.1	118.9
Expected conditions	87.5	94.3	91.9	95.7	103.6	99.0	97.4	97.6	99.8
-----									
Personal financial situation									
Now compared with 12 months ago*									
Expected in 12 months*	131	130	128	133	133	130	134	133	133
	133	130	133	132	138	134	136	135	133
Expected business conditions									
Next 12 months*	118	136	130	143	152	141	141	144	147
Next 5 years*	101	113	107	110	127	123	115	114	122
Appraisal of buying conditions									
Cars	153	155	151	157	153	152	150	151	150
Large household appliances*	162	171	168	170	166	172	167	182	176
Houses	178	173	182	176	178	167	168	171	168
Willingness to use credit	53	53	52	47	53	51	49	52	53
Willingness to use savings	70	77	69	75	81	80	73	75	88
Expected unemployment change - next 12 months	121	119	124	115	108	113	109	110	102
Prob. household will lose a job - next 5 years	21	22	19	21	20	21	23	22	20
Expected inflation - next 12 months									
Mean	2.6	2.7	2.8	3.0	2.8	3.1	3.0	3.2	3.1
Median	2.5	2.3	2.5	2.7	2.5	2.7	2.7	2.8	2.5
Expected inflation - next 5 to 10 years									
Mean	3.2	3.1	3.2	3.5	3.3	3.0	3.0	3.5	3.3
Median	2.8	2.8	2.9	3.0	2.8	2.7	2.8	2.9	2.8

\* -- 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.