

Part 1

June 25, 1997

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

Prepared for the Federal Open Market Committee

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

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SUMMARY AND OUTLOOK

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unusually cool spring. Retailers have indicated that sales picked up in June; given these reports and the very positive fundamentals in the household sector, we are anticipating a sizable rebound in spending this month. Even so, total consumption is still expected to grow only about 1-1/2 percent at an annual rate for the quarter as a whole.

Housing activity appears to have been well maintained of late. Although single-family starts dipped to 1.1 million units (annual rate), on average, in April and May, the decline was from a first-quarter level that doubtless was boosted by weather considerations. Permits, which typically are less affected by weather, have been essentially flat over the past several months. Other recent indicators, such as homebuilders' surveys and loan applications, also suggest that demand has held up well--and potential homebuyers are being lured by mortgage rates (thirty-year, fixed-rate loans) that last week were about 40 basis points below those prevailing, on average, over the preceding three months.

In the business sector, we are projecting a big increase in real outlays for producers' durable equipment. The recent data on orders and shipments have been strong, and steep declines in computer prices should provide an extra boost when the nominal figures are translated into estimates of real spending. In addition, shipments of aircraft to domestic carriers, which had sagged in the first quarter, have surged in

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

Measure	1997:Q1			1997:Q2	
	May GB	BEA ^p	June GB	May GB	June GB
Real GDP	6.0	5.8	5.8	1.8	2.2
Private domestic final purchases	6.7	6.5	6.3	3.5	3.0
Personal consumption expenditures	5.8	5.7	5.7	2.2	1.4
Residential investment	6.4	6.0	6.0	1.3	4.4
Business fixed investment	12.2	11.5	10.3	12.2	13.0
Government outlays for consumption and investment	-.1	.1	.2	2.0	3.1
Change in billions of chained (1992) dollars					
Inventory investment	35.2	34.3	30.0	-13.3	-5.6
Net exports	-30.1	-28.4	-22.0	-12.5	-11.9

p Preliminary.

The unemployment rate is projected to fall only a couple of tenths further over the next few quarters and then, as GDP decelerates in 1998, it levels out at just over 4-1/2 percent. In this extremely tight labor market, we expect that employers are going to have to boost compensation increases to attract and retain the workers they need. Productivity growth appears to have picked up in the past year, but we continue to think that this improvement is mainly a short-run reflection of the acceleration in output and thus are projecting only moderate increases in output per hour through next year. Consequently, rising unit labor costs are likely to be squeezing profit margins, but ample productive capacity in the manufacturing sector is expected to limit the ability of firms to pass the higher costs through to prices.

Consumer spending. We have raised our projection of real PCE growth in the second half of 1997 to a bit more than 3-1/2 percent (annual rate), which is 1/2 percentage point faster than in the May Greenbook and about matches our current

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

Measure	1997:H1	1997:H2	1998
Real GDP	4.0	2.9	2.1
Previous	3.9	2.4	2.0
Final sales	3.2	3.2	2.1
Previous	3.2	2.8	2.0
PCE	3.5	3.6	2.5
Previous	4.0	3.1	2.6
Residential investment	5.1	-1.6	-2.0
Previous	3.8	-1.8	-1.9
BFI	11.6	9.2	6.3
Previous	12.2	8.2	5.6
Government purchases	1.6	1.1	.8
Previous	.9	1.3	.1
Change in billions of chained (1992) dollars			
Inventory change	24.4	-12.6	2.5
Previous	21.9	-13.6	-1.0
Net exports	-33.9	-12.0	-23.8
Previous	-42.6	-11.4	-23.4

part of a long sequence of purported break-throughs that do not pan out, is not yet clear. Moreover, some temporary acceleration in productivity is to be expected when output surges as it has recently. Under the circumstances, we have kept our estimate of the underlying, trend of growth in output per hour in the nonfarm business sector at a bit less than 1 percent per year; this estimate continues to be based on the assumption that output and productivity gains for the past few years will be revised upward. Productivity is projected to increase at roughly its trend rate over the next few quarters, on average, but then to decelerate as output growth slows and well-qualified workers become an even scarcer commodity.

Thus, businesses will need to maintain a brisk pace of hiring to meet the growth in sales and production we are forecasting. Payroll employment growth is projected to run close to 200,000 per month over the remainder of 1997 and about 160,000 per month in 1998. The strength in hiring should, in turn, draw some additional workers into the labor force and help sustain the recent uptrend in the participation rate. Combining the two elements, we expect the unemployment rate to move down only a little further over the second half of 1997 and to level out at 4.6 percent in 1998.

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

Measure	1995	1996	1997	1998
Output per hour, nonfarm business	-.1	.9	1.5	.8
Previous	-.1	.9	1.2	.9
Nonfarm payroll	2.0	2.1	2.1	1.6
Previous	2.0	2.2	1.9	1.3
Household employment survey	.6	2.0	2.3	1.4
Previous	.6	2.0	2.2	1.2
Labor force participation rate ¹	66.5	66.9	67.3	67.4
Previous	66.5	66.9	67.3	67.4
Civilian unemployment rate ¹	5.6	5.3	4.7	4.6
Previous	5.6	5.3	4.8	4.8

1. Percent, average for the fourth quarter.

Wages and prices. All else being equal, one would expect the higher levels of resource utilization in the current projection to be reflected in an upward revision to

the inflation forecast. However, we have lowered the projection for food and energy prices somewhat, which will be feeding into wages through formal or informal cost-of-living adjustments. Moreover, the continued subdued behavior of industrial prices suggests that the ongoing rapid expansion of industrial capacity may be restraining inflation to a greater extent than we had thought. Accordingly, the inflation forecast has been revised down slightly. Nonetheless, we still anticipate a gradual acceleration of both hourly compensation and prices over the period ahead.

Our forecast for hourly compensation now shows the ECI for private industry workers increasing 3.3 percent in 1997 and 3.4 percent in 1998, after having risen 3.1 percent in 1996. To be sure, as we discussed in the May Greenbook, compensation practices may well have changed in ways that bring greater flexibility to company wage structures (for example, firms may be targeting pay increases to workers with scarce skills), and other payments (for example, hiring bonuses) may not show up in the standard measures of compensation. Moreover, these innovations may have altered the timing or magnitude of the responses of hourly compensation to labor market slack. However, we continue to think that some further acceleration in compensation

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

Measure	1995	1996	1997	1998
Consumer price index	2.6	3.2	2.2	2.8
Previous	2.6	3.2	2.4	2.9
Food	2.6	4.2	1.7	2.6
Previous	2.6	4.2	2.1	2.7
Energy	-1.7	7.6	-2.6	1.8
Previous	-1.7	7.6	-1.3	1.3
Excluding food and energy	3.0	2.6	2.7	3.0
Previous	3.0	2.6	2.7	3.1
PCE chain-weighted price index	2.1	2.5	2.1	2.6
Previous	2.1	2.5	2.3	2.7
Excluding food and energy	2.3	2.0	2.4	2.7
Previous	2.3	2.0	2.5	2.8
ECI for compensation of private industry workers ¹	2.6	3.1	3.3	3.4
Previous	2.6	3.1	3.4	3.6
Prices of non-oil merchandise imports	.8	-2.9	-.5	.7
Previous	.8	-2.9	.0	.6

1. December to December.

of 1998. Because this assumption about the federal funds rate differs from the baseline assumption only for the latter half of 1998--and then only mildly--effects on the economy within the forecast period are negligible. Real GDP in 1998 rises just a tenth more than in the baseline forecast, and the effects on unemployment and inflation are imperceptible. Nonetheless, we have reason for showing this simulation: Although our baseline forecast has real GDP growth moderating in 1998, we do not believe that maintenance of a stable nominal funds rate in the face of an upcreep in inflation is likely to create a path for the real rate that is consistent with further output deceleration in 1999. Consequently, the forces necessary to ultimately turn inflation back down would not emerge.

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

Measure	1996	1997	1998
<i>Real GDP</i>			
Baseline	3.1	3.4	2.1
No further change	3.1	3.4	2.2
Tighter policy	3.1	3.3	1.5
<i>Civilian unemployment rate¹</i>			
Baseline	5.3	4.7	4.6
No further change	5.3	4.7	4.6
Tighter policy	5.3	4.7	4.9
<i>CPI excluding food and energy</i>			
Baseline	2.6	2.7	3.0
No further change	2.6	2.7	3.0
Tighter policy	2.6	2.7	2.8

1. Average for the fourth quarter.

The second alternative involves a more aggressive approach for capping inflation--preemptive, as it were. The federal funds rate is raised 125 basis points further in a series of steps by the middle of 1998 and then held steady through the end of next year. Growth of real GDP in 1998 is appreciably smaller in this alternative, the unemployment rate ends up about 1/4 percentage point higher than it is in the baseline forecast, and acceleration of core inflation is largely forestalled. Given the pressures on resource utilization that remain at the end of the period, however, a continuation of the high real rate of interest associated with this scenario might be necessary in 1999 to fully stabilize inflation.

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

June 25, 1997

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
	5/15/97	6/25/97	5/15/97	6/25/97	5/15/97	6/25/97	5/15/97	6/25/97	5/15/97	6/25/97
ANNUAL										
1994	5.8	5.8	3.5	3.5	2.3	2.3	2.6	2.6	6.1	6.1
1995	4.6	4.6	2.0	2.0	2.5	2.5	2.8	2.8	5.6	5.6
1996	4.4	4.4	2.4	2.4	2.1	2.1	3.0	3.0	5.4	5.4
1997	5.5	5.5	3.5	3.7	2.3	2.2	2.5	2.4	5.0	4.9
1998	4.4	4.5	2.1	2.4	2.5	2.4	2.8	2.6	4.8	4.6
QUARTERLY										
1995 Q1	3.8	3.8	0.4	0.4	3.3	3.3	2.7	2.7	5.5	5.5
Q2	3.1	3.1	0.7	0.7	2.4	2.4	3.5	3.5	5.6	5.6
Q3	6.0	6.0	3.8	3.8	2.1	2.1	2.1	2.1	5.7	5.7
Q4	2.3	2.3	0.3	0.3	2.1	2.1	2.6	2.6	5.6	5.6
1996 Q1	4.2	4.2	2.0	2.0	2.3	2.3	3.2	3.2	5.6	5.6
Q2	6.5	6.5	4.7	4.7	2.2	2.2	3.4	3.4	5.4	5.4
Q3	3.8	3.8	2.1	2.1	2.0	2.0	2.8	2.8	5.3	5.3
Q4	5.3	5.3	3.8	3.8	1.9	1.9	3.3	3.3	5.3	5.3
1997 Q1	8.1	8.1	6.0	5.8	2.8	2.8	2.3	2.3	5.3	5.3
Q2	3.9	3.9	1.8	2.2	2.1	1.9	1.2	1.1	5.0	4.9
Q3	4.6	4.8	2.5	2.9	2.3	2.1	2.7	2.4	4.9	4.8
Q4	4.5	4.7	2.3	2.8	2.4	2.2	3.1	2.8	4.8	4.7
1998 Q1	4.5	4.6	2.1	2.5	2.6	2.5	2.8	2.7	4.8	4.6
Q2	4.4	4.5	2.0	2.3	2.7	2.5	2.9	2.8	4.8	4.6
Q3	4.3	4.2	1.9	2.0	2.7	2.6	3.0	3.0	4.8	4.6
Q4	4.3	4.0	1.9	1.8	2.7	2.6	3.0	2.9	4.8	4.6
TWO-QUARTER³										
1995 Q2	3.5	3.5	0.6	0.6	2.9	2.9	3.0	3.0	0.0	0.0
Q4	4.1	4.1	2.0	2.0	2.1	2.1	2.3	2.3	0.0	0.0
1996 Q2	5.4	5.4	3.3	3.3	2.2	2.2	3.4	3.4	-0.2	-0.2
Q4	4.6	4.6	3.0	3.0	2.0	2.0	3.0	3.0	-0.1	-0.1
1997 Q2	6.0	6.0	3.9	4.0	2.5	2.3	1.8	1.8	-0.3	-0.4
Q4	4.6	4.7	2.4	2.9	2.4	2.1	2.9	2.6	-0.2	-0.2
1998 Q2	4.4	4.5	2.1	2.4	2.7	2.5	2.9	2.7	-0.0	-0.1
Q4	4.3	4.1	1.9	1.9	2.7	2.6	3.0	2.9	0.0	-0.0
FOUR-QUARTER⁴										
1994 Q4	5.9	5.9	3.5	3.5	2.3	2.3	2.7	2.7	-1.0	-1.0
1995 Q4	3.8	3.8	1.3	1.3	2.5	2.5	2.6	2.6	0.0	0.0
1996 Q4	5.0	5.0	3.1	3.1	2.1	2.1	3.2	3.2	-0.3	-0.3
1997 Q4	5.3	5.4	3.1	3.4	2.4	2.2	2.4	2.2	-0.5	-0.6
1998 Q4	4.4	4.3	2.0	2.1	2.7	2.5	2.9	2.8	0.0	-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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REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES
(Seasonally adjusted annual rate)

June 25, 1997

Item	Units ¹	- Projected -								
		1990	1991	1992	1993	1994	1995	1996	1997	1998
EXPENDITURES										
Nominal GDP	Bill. \$	5743.8	5916.7	6244.4	6553.0	6935.7	7253.8	7576.1	7994.2	8351.7
Real GDP	Bill. Ch. \$	6136.3	6079.4	6244.4	6386.1	6608.4	6742.2	6906.8	7159.3	7334.1
Real GDP	% change	-0.2	0.4	3.6	2.2	3.5	1.3	3.1	3.4	2.1
Gross domestic purchases		-0.8	0.0	4.0	2.9	3.7	1.0	3.3	4.0	2.4
Final sales		0.6	-0.4	3.9	2.0	2.9	1.9	3.1	3.2	2.1
Priv. dom. final purchases		-0.7	-0.8	4.9	3.4	4.0	2.3	3.6	4.3	2.7
Personal cons. expenditures		0.5	-0.2	4.2	2.5	3.1	1.9	2.7	3.5	2.5
Durables		-3.2	-3.1	9.4	7.3	7.0	1.3	5.4	8.7	4.7
Nondurables		-0.5	-1.0	3.4	1.5	3.5	1.1	1.8	2.0	1.7
Services		2.0	0.9	3.6	2.1	2.0	2.4	2.6	3.2	2.3
Business fixed investment		-2.5	-6.0	5.5	8.5	10.1	6.4	9.5	10.4	6.3
Producers' dur. equipment		-2.0	-2.6	9.6	11.5	12.6	6.9	9.7	12.6	6.9
Nonres. structures		-3.5	-12.5	-3.4	1.5	3.7	5.1	9.0	4.5	4.3
Residential structures		-15.1	1.1	16.9	8.1	5.7	-1.5	3.8	1.7	-2.0
Exports		7.2	8.6	4.1	4.8	9.9	7.4	7.4	9.9	7.3
Imports		0.5	4.1	7.4	10.5	11.8	4.2	8.3	13.6	8.5
Gov't. cons. & investment		2.6	-0.7	1.7	-0.5	0.0	-1.3	1.9	1.4	0.8
Federal		1.6	-3.1	1.3	-5.4	-3.1	-6.7	1.5	-0.4	-2.0
Defense		0.3	-5.3	-1.3	-6.8	-5.7	-6.8	0.2	-1.2	-3.6
State & local		3.3	1.0	2.0	3.1	2.2	2.1	2.1	2.4	2.4
Change in bus. inventories	Bill. Ch. \$	10.4	-3.0	7.0	19.0	58.9	32.7	13.6	39.8	35.9
Nonfarm		7.8	-1.2	2.0	26.4	46.8	37.2	17.1	39.0	33.6
Net exports		-61.9	-22.3	-29.5	-72.0	-105.7	-107.6	-113.6	-136.6	-166.6
Nominal GDP	% change	4.4	3.8	6.3	4.8	5.9	3.8	5.0	5.4	4.3
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	109.4	108.3	108.6	110.7	114.1	117.2	119.5	122.1	124.1
Unemployment rate	%	5.6	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.6
Industrial prod. index	% change	-0.6	-0.0	3.9	3.0	5.7	1.8	3.9	4.3	1.8
Capacity util. rate - mfg.	%	81.4	78.0	79.5	80.8	83.1	83.1	82.1	82.6	82.2
Housing starts	Millions	1.19	1.01	1.20	1.29	1.46	1.35	1.48	1.44	1.36
Light motor vehicle sales		14.05	12.52	12.85	13.87	15.02	14.77	15.03	15.07	14.88
North Amer. produced		10.85	9.74	10.51	11.72	12.88	12.85	13.32	13.18	13.06
Other		3.20	2.77	2.34	2.15	2.13	1.91	1.70	1.89	1.83
INCOME AND SAVING										
Nominal GNP	Bill. \$	5764.9	5932.4	6255.5	6563.5	6931.9	7246.7	7567.1	7964.0	8311.4
Nominal GNP	% change	4.6	3.5	6.2	4.7	5.7	3.9	4.9	5.1	4.2
Nominal personal income		6.4	3.7	7.3	3.6	4.9	5.6	5.7	5.5	4.6
Real disposable income		1.1	0.8	4.0	0.9	2.4	3.1	2.7	3.1	2.5
Personal saving rate	%	5.3	6.0	6.2	4.8	4.0	4.6	4.9	4.9	4.8
Corp. profits, IVA & CCAdj.	% change	5.5	4.5	11.3	18.8	9.6	6.2	6.7	8.7	-1.2
Profit share of GNP	%	6.9	6.9	6.8	7.5	8.0	8.3	8.9	9.1	8.7
Excluding FR Banks	%	6.5	6.6	6.6	7.3	7.7	8.0	8.6	8.8	8.4
Federal surpl./deficit	Bill. \$	-154.7	-196.0	-280.9	-255.6	-190.2	-161.7	-127.1	-73.2	-85.2
State & local surpl./def.		80.1	75.8	86.3	94.9	99.7	95.0	93.0	94.6	92.9
Ex. social ins. funds		20.2	11.5	18.3	28.0	36.9	36.8	37.4	42.0	41.1
PRICES AND COSTS										
GDP implicit deflator	% change	4.7	3.4	2.6	2.5	2.4	2.4	1.8	1.9	2.1
GDP chn.-wt. price index		4.7	3.3	2.6	2.5	2.3	2.5	2.1	2.2	2.5
Gross Domestic Purchases										
chn.-wt. price index		5.2	2.7	2.7	2.3	2.4	2.3	2.2	1.9	2.5
CPI		6.3	3.0	3.1	2.7	2.7	2.6	3.2	2.2	2.8
Ex. food and energy		5.3	4.4	3.5	3.1	2.8	3.0	2.6	2.7	3.0
ECI, hourly compensation ²		4.6	4.4	3.5	3.6	3.1	2.6	3.1	3.3	3.4
Nonfarm business sector										
Output per hour		-0.6	2.2	3.5	-0.3	0.3	-0.1	0.9	1.5	0.8
Compensation per Hour		5.8	4.8	4.5	1.8	2.3	3.6	3.6	3.7	3.7
Unit labor cost		6.4	2.5	1.0	2.1	2.0	3.7	2.6	2.3	2.9

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

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

June 25, 1997

Item	Units	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	6776.1	6890.5	6993.1	7083.2	7149.8	7204.9	7309.8	7350.6	7426.8	7545.1
Real GDP	Bill. Ch. \$	6508.5	6587.4	6644.8	6692.9	6700.2	6712.7	6775.8	6780.2	6813.8	6892.1
Real GDP	% change	2.5	4.9	3.5	2.9	0.4	0.7	3.8	0.3	2.0	4.7
Gross domestic purchases		3.5	5.3	3.7	2.4	1.5	0.7	2.6	-0.7	3.0	5.2
Final sales		1.2	3.0	4.2	3.5	0.6	2.1	3.6	1.4	3.0	4.1
Priv. dom. final purchases		3.8	4.4	3.8	4.0	2.2	2.3	3.1	1.5	4.6	4.0
Personal cons. expenditures		2.8	3.5	2.8	3.1	1.0	3.1	2.4	1.1	3.5	3.4
Durables		5.8	4.3	5.6	12.4	-8.9	7.0	9.3	-1.0	8.2	11.4
Nondurables		3.9	3.2	3.8	3.2	2.4	1.8	0.5	-0.4	3.7	1.3
Services		1.6	3.5	1.6	1.2	2.4	3.0	2.0	2.3	2.4	2.7
Business fixed investment		7.3	7.1	13.8	12.2	15.4	3.5	4.9	2.5	11.6	3.8
Producers' dur. equipment		15.5	4.1	19.4	11.9	17.4	3.5	4.3	3.0	13.1	6.7
Nonres. structures		-11.8	15.7	0.2	13.0	9.9	3.4	6.3	1.0	7.7	-3.7
Residential structures		12.8	12.7	-1.8	-0.1	-6.3	-13.4	9.2	6.4	7.4	16.3
Exports		-1.5	15.9	9.7	16.5	2.6	5.9	10.7	10.7	1.8	5.6
Imports		8.2	18.4	10.7	10.3	11.2	4.5	-0.0	1.6	10.6	9.9
Gov't. cons. & investment		-4.3	-0.8	7.0	-1.4	-1.2	0.8	-0.6	-4.3	1.6	7.7
Federal		-11.4	-5.3	11.5	-5.9	-6.5	-1.4	-5.6	-13.2	6.0	9.4
Defense		-17.4	0.7	13.5	-16.1	-7.4	0.6	-7.6	-12.3	4.1	10.0
State & local		0.7	2.2	4.2	1.6	2.3	2.1	2.7	1.5	-0.9	6.7
Change in bus. inventories	Bill. Ch. \$	40.8	74.7	64.6	55.6	53.7	29.9	33.5	13.7	-3.5	6.7
Nonfarm		29.7	54.0	50.5	53.0	57.4	33.7	38.5	19.0	2.9	11.7
Net exports		-99.3	-107.3	-111.7	-104.4	-122.5	-121.4	-101.6	-84.9	-104.0	-114.7
Nominal GDP	% change	5.3	6.9	6.1	5.3	3.8	3.1	6.0	2.3	4.2	6.5
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	112.6	113.7	114.7	115.6	116.5	116.9	117.4	117.9	118.5	119.2
Unemployment rate	%	6.6	6.2	6.0	5.6	5.5	5.6	5.7	5.6	5.6	5.4
Industrial prod. index	% change	6.2	6.7	4.4	5.6	3.9	-0.7	3.2	0.8	1.6	6.2
Capacity util. rate - mfg.	%	82.0	83.0	83.3	84.0	84.2	83.1	82.9	82.3	81.7	82.1
Housing starts	Millions	1.39	1.47	1.45	1.47	1.32	1.29	1.42	1.41	1.46	1.50
Light motor vehicle sales		15.05	14.86	14.95	15.20	14.72	14.42	14.94	14.98	15.19	15.02
North Amer. produced		12.92	12.71	12.74	13.15	12.68	12.46	13.08	13.20	13.51	13.32
Other		2.13	2.15	2.21	2.05	2.04	1.96	1.86	1.79	1.68	1.70
INCOME AND SAVING											
Nominal GNP	Bill. \$	6781.0	6888.3	6986.9	7071.4	7146.8	7202.4	7293.4	7344.3	7426.6	7537.5
Nominal GNP	% change	5.4	6.5	5.9	4.9	4.3	3.1	5.1	2.8	4.6	6.1
Nominal personal income		-2.2	11.2	4.6	6.4	7.2	4.7	4.8	5.7	4.9	6.8
Real disposable income		-4.0	7.4	2.6	3.8	3.7	0.2	4.3	4.3	2.0	1.4
Personal saving rate	%	3.3	4.2	4.1	4.2	4.8	4.1	4.5	5.1	4.8	4.3
Corp. profits, IVA & CCAdj.	% change	-33.6	74.5	12.9	10.4	-7.7	0.6	38.4	-1.1	22.6	6.8
Profit share of GNP	%	7.2	8.1	8.3	8.4	8.1	8.1	8.6	8.6	8.9	8.9
Excluding FR Banks	%	6.9	7.9	8.0	8.1	7.8	7.8	8.3	8.3	8.6	8.6
Federal surpl./deficit	Bill. \$	-212.7	-169.6	-188.5	-190.1	-172.6	-161.1	-158.5	-154.5	-155.2	-126.7
State & local surpl./def.		94.8	105.2	99.6	99.3	99.0	99.0	93.9	88.1	91.0	101.0
Ex. social ins. funds		29.0	41.1	37.9	39.4	40.2	40.9	35.8	30.5	34.1	44.6
PRICES AND COSTS											
GDP implicit deflator	% change	2.8	1.9	2.5	2.3	3.4	2.4	2.1	2.0	2.2	1.8
GDP chn.-wt. price index		2.9	1.9	2.4	2.1	3.3	2.4	2.1	2.1	2.3	2.2
Gross Domestic Purchases											
chn.-wt. price index		2.4	2.3	3.0	2.0	2.8	2.8	1.6	1.9	2.3	2.1
CPI		1.9	2.8	3.6	2.4	2.7	3.5	2.1	2.6	3.2	3.4
Ex. food and energy		2.9	2.9	3.1	2.3	3.3	3.3	2.8	2.7	2.7	2.7
ECI, hourly compensation ¹		3.0	3.4	3.3	2.3	2.9	2.6	2.6	2.9	2.5	3.5
Nonfarm business sector											
Output per hour		-1.9	1.0	1.6	0.3	-2.2	1.5	1.5	-1.0	2.1	0.4
Compensation per hour		3.0	1.2	1.7	3.3	2.9	4.0	3.6	4.1	3.4	3.7
Unit labor cost		4.9	0.2	0.1	2.9	5.2	2.5	2.1	5.2	1.3	3.3

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

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

June 25, 1997

Item	Units	----- Projected -----									
		1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	7616.3	7716.1	7868.1	7943.1	8036.3	8129.3	8220.7	8311.1	8396.1	8479.0
Real GDP	Bill. Ch. \$	6928.1	6993.3	7092.3	7130.9	7181.8	7232.3	7276.6	7318.3	7354.4	7386.9
Real GDP	% change	2.1	3.8	5.8	2.2	2.9	2.8	2.5	2.3	2.0	1.8
Gross domestic purchases		3.3	1.6	7.0	2.7	3.8	2.5	3.1	2.5	2.8	1.2
Final sales		0.5	4.9	4.1	2.4	2.9	3.6	2.2	2.3	1.5	2.5
Priv. dom. final purchases		2.3	3.3	6.3	3.0	4.7	3.4	3.3	2.9	2.4	2.3
Personal cons. expenditures		0.5	3.4	5.7	1.4	4.0	3.2	3.1	2.7	2.2	2.1
Durables		-2.6	5.0	19.3	-0.5	9.4	7.5	6.3	5.1	3.8	3.7
Nondurables		0.4	1.8	4.7	-2.0	3.3	2.1	2.1	1.8	1.5	1.4
Services		1.3	3.8	3.3	3.6	3.2	2.6	2.7	2.5	2.0	1.9
Business fixed investment		17.5	5.5	10.3	13.0	11.3	7.2	7.2	6.3	6.0	5.7
Producers' dur. equipment		20.9	-0.9	11.7	17.3	13.7	8.0	8.1	7.0	6.6	6.2
Nonres. structures		8.4	25.8	6.5	1.7	4.8	5.0	4.5	4.5	4.3	4.1
Residential structures		-5.2	-1.8	6.0	4.4	-2.5	-0.8	-1.4	-1.8	-2.6	-2.3
Exports		-0.9	25.0	10.7	13.8	4.0	11.3	4.9	9.9	3.4	11.2
Imports		9.3	3.3	19.7	17.3	10.4	7.6	9.5	10.0	8.9	5.8
Gov't. cons. & investment		-0.6	-0.9	0.2	3.1	-0.3	2.5	0.7	0.5	2.0	0.0
Federal		-3.5	-5.3	-3.1	4.5	-5.0	2.4	-2.2	-2.9	1.2	-4.1
Defense		-5.5	-6.9	-10.0	10.6	-5.8	1.8	-4.7	-5.2	0.8	-5.1
State & local		1.1	1.9	2.2	2.2	2.5	2.6	2.4	2.4	2.4	2.4
Change in bus. inventories	Bill. Ch. \$	34.1	17.1	47.1	41.5	41.8	28.9	34.4	34.4	43.2	31.4
Nonfarm		34.6	19.3	47.7	40.8	40.3	27.3	32.3	32.2	40.8	29.1
Net exports		-137.4	-98.4	-120.4	-132.3	-149.5	-144.3	-158.0	-162.0	-178.3	-168.1
Nominal GDP	% change	3.8	5.3	8.1	3.9	4.8	4.7	4.6	4.5	4.2	4.0
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	119.9	120.5	121.1	121.8	122.4	122.9	123.4	123.9	124.4	124.8
Unemployment rate	%	5.3	5.3	5.3	4.9	4.8	4.7	4.6	4.6	4.6	4.6
Industrial prod. index	% change	3.3	4.5	4.4	4.8	4.2	3.6	2.1	2.0	1.7	1.7
Capacity util. rate - mfg.	%	82.3	82.3	82.5	82.7	82.8	82.6	82.4	82.3	82.1	81.9
Housing starts	Millions	1.49	1.42	1.47	1.44	1.44	1.41	1.39	1.37	1.34	1.34
Light motor vehicle sales		15.07	14.82	15.45	14.61	15.14	15.08	15.05	14.97	14.82	14.68
North Amer. produced		13.38	13.07	13.50	12.79	13.22	13.20	13.19	13.13	13.01	12.89
Other		1.69	1.75	1.95	1.83	1.92	1.88	1.86	1.84	1.81	1.79
INCOME AND SAVING											
Nominal GNP	Bill. \$	7598.9	7705.6	7840.0	7915.6	8005.1	8095.3	8182.8	8271.4	8354.6	8436.9
Nominal GNP	% change	3.3	5.7	7.2	3.9	4.6	4.6	4.4	4.4	4.1	4.0
Nominal personal income		5.7	5.4	7.3	5.1	4.8	4.8	5.0	4.6	4.5	4.4
Real disposable income		4.9	2.6	4.2	3.4	2.4	2.3	4.4	2.0	1.8	1.9
Personal saving rate	%	5.3	5.1	4.8	5.2	4.8	4.7	5.0	4.8	4.7	4.7
Corp. profits, IVA & CCAdj.	% change	3.1	-4.2	34.8	3.2	0.2	0.3	-2.1	0.5	-0.4	-2.8
Profit share of GNP	%	8.9	8.7	9.2	9.2	9.1	9.0	8.9	8.8	8.7	8.5
Excluding FR Banks	%	8.6	8.4	8.9	8.9	8.8	8.7	8.6	8.5	8.4	8.3
Federal surpl./deficit	Bill. \$	-120.8	-105.9	-80.0	-73.3	-65.2	-74.3	-90.9	-83.5	-80.8	-85.8
State & local surpl./def.		89.2	90.9	95.6	92.0	96.2	94.5	94.1	93.5	92.0	91.9
Ex. social ins. funds		33.8	36.9	42.7	39.3	43.7	42.2	42.0	41.6	40.3	40.4
PRICES AND COSTS											
GDP implicit deflator	% change	1.7	1.5	2.2	1.6	1.8	1.8	2.0	2.1	2.1	2.2
GDP chn.-wt. price index		2.0	1.9	2.8	1.9	2.1	2.2	2.5	2.5	2.6	2.6
Gross Domestic Purchases											
chn.-wt. price index		1.9	2.6	2.2	1.2	1.9	2.3	2.5	2.4	2.5	2.5
CPI		2.8	3.3	2.3	1.1	2.4	2.8	2.7	2.8	3.0	2.9
Ex. food and energy		2.4	2.7	2.2	2.9	2.6	2.9	2.9	2.9	3.0	3.0
ECI, hourly compensation ¹		2.8	2.8	2.5	3.7	3.6	3.5	2.9	3.6	3.7	3.6
Nonfarm business sector											
Output per hour		-0.2	1.3	2.8	1.3	0.7	1.2	1.1	1.0	0.7	0.5
Compensation per hour		3.5	3.7	4.9	3.0	3.4	3.9	3.7	3.7	3.7	3.7
Unit labor cost		3.6	2.4	2.1	1.7	2.7	2.6	2.6	2.7	3.0	3.2

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

June 25, 1997

Item	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	96Q4/ 95Q4	97Q4/ 96Q4	98Q4/ 97Q4
Real GDP	3.8	5.8	2.2	2.9	2.6	2.5	2.3	2.0	1.8	3.1	3.4	2.1
Gross dom. purchases	1.6	7.1	2.7	3.8	2.5	3.2	2.5	2.8	1.2	3.3	4.0	2.4
Final sales	4.9	4.0	2.4	2.9	3.6	2.1	2.3	1.5	2.5	3.1	3.2	2.1
Priv. dom. final purchases	2.8	5.2	2.5	3.9	2.9	2.7	2.4	2.0	1.9	2.9	3.6	2.3
Personal cons. expenditures	2.3	3.8	0.9	2.7	2.1	2.1	1.8	1.5	1.4	1.8	2.4	1.7
Durables	0.4	1.6	-0.0	0.8	0.7	0.6	0.5	0.4	0.4	0.5	0.8	0.4
Nondurables	0.4	1.0	-0.4	0.7	0.4	0.4	0.4	0.3	0.3	0.4	0.4	0.3
Services	1.5	1.2	1.3	1.2	1.0	1.0	0.9	0.8	0.7	1.0	1.2	0.9
Business fixed investment	0.6	1.1	1.4	1.3	0.8	0.8	0.8	0.7	0.7	1.0	1.2	0.8
Producers' dur. equip.	-0.1	1.0	1.4	1.2	0.7	0.7	0.6	0.6	0.6	0.8	1.1	0.6
Nonres. structures	0.7	0.2	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Residential structures	-0.1	0.2	0.2	-0.1	-0.0	-0.1	-0.1	-0.1	-0.1	0.2	0.1	-0.1
Net exports	2.2	-1.3	-0.7	-1.0	0.3	-0.8	-0.2	-0.9	0.6	-0.2	-0.7	-0.3
Exports	2.6	1.3	1.6	0.5	1.4	0.6	1.3	0.5	1.3	0.9	1.2	1.0
Imports	-0.4	-2.6	-2.3	-1.5	-1.1	-1.4	-1.5	-1.4	-0.9	-1.1	-1.9	-1.3
Government cons. & invest.	-0.2	0.0	0.5	-0.0	0.5	0.1	0.1	0.3	0.0	0.4	0.3	0.1
Federal	-0.4	-0.2	0.3	-0.3	0.2	-0.1	-0.2	0.1	-0.3	0.1	-0.0	-0.1
Defense	-0.3	-0.5	0.4	-0.3	0.1	-0.2	-0.2	0.0	-0.2	0.0	-0.1	-0.2
Nondefense	0.0	0.2	-0.1	-0.1	0.1	0.1	0.0	0.0	-0.1	0.1	0.0	0.0
State and local	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Change in bus. inventories	-1.0	1.7	-0.3	0.0	-0.7	0.3	-0.0	0.5	-0.6	0.1	0.2	0.0
Nonfarm	-0.9	1.6	-0.4	-0.0	-0.7	0.3	-0.0	0.5	-0.6	0.0	0.1	0.0
Farm	-0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
GDP residual	-0.5	-0.3	-0.2	-0.4	-0.4	-0.3	-0.3	-0.3	-0.4	-0.3	-0.3	-0.3

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

Item	Fiscal year ⁵				1996				1997				1998			
	1995 ^a	1996 ^a	1997	1998	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1	Not seasonally adjusted						
UNIFIED BUDGET																
Receipts ¹	1352	1453	1564	1612	322	446	362	346	349	493	376	354	359	503	396	370
Outlays ¹	1516	1560	1623	1697	393	392	395	405	401	406	412	427	421	424	425	475
Surplus/deficit ¹	-164	-107	-59	-85	-72	54	-33	-59	-52	87	-36	-73	-62	79	-28	-105
On-budget	-226	-174	-128	-165	-84	14	-36	-76	-69	57	-40	-85	-76	32	-36	-118
Off-budget	62	67	68	81	12	39	2	18	17	30	4	12	14	47	8	13
Surplus excluding deposit insurance ²	-182	-116	-73	-89	-75	52	-35	-65	-56	85	-36	-74	-63	78	-30	-106
Means of financing																
Borrowing	171	130	61	103	80	-23	39	49	48	-69	34	58	61	-60	45	82
Cash decrease	-2	-6	9	-4	-1	-16	-6	11	-1	-17	15	6	10	-15	-5	10
Other ³	-5	-16	-11	-14	-7	-14	0	-1	5	-1	-13	10	-8	-4	-11	13
Cash operating balance, end of period	38	44	36	40	22	38	44	33	33	50	36	30	20	35	40	30
NIPA FEDERAL SECTOR																
Seasonally adjusted annual rate																
Receipts	1459	1544	1663	1730	1523	1576	1582	1619	1656	1679	1700	1719	1715	1734	1752	1766
Expenditures	1629	1683	1745	1813	1678	1702	1703	1725	1736	1752	1765	1794	1806	1817	1833	1852
Consumption expend.	455	457	462	471	454	464	461	458	463	465	462	468	471	472	476	474
Defense	304	303	305	308	299	307	305	305	303	307	305	307	308	306	308	307
Nondefense	151	155	157	164	155	156	157	153	160	158	157	160	163	165	167	167
Other expenditures	1175	1226	1283	1341	1225	1239	1241	1268	1273	1287	1303	1326	1335	1346	1358	1378
Current account surplus	-171	-139	-81	-82	-155	-127	-121	-106	-80	-73	-65	-74	-91	-83	-81	-86
Gross investment	65	63	62	64	65	66	64	61	58	64	63	64	64	63	64	63
Current and capital account surplus	-236	-202	-143	-146	-220	-193	-185	-167	-138	-137	-129	-138	-154	-146	-144	-149
FISCAL INDICATORS ⁴																
High-employment (HEB) surplus/deficit	-257	-228	-211	-244	-239	-226	-221	-214	-204	-213	-213	-230	-251	-247	-247	-252
Change in HEB, percent of potential GDP	-.1	-.4	-.2	.4	.1	-.2	-.1	-.1	-.1	.1	0	.2	.3	0	0	.1
Fiscal impetus (FI), percent, cal. year	-5.5	-2	-2.3	-1	1.3	1.8	-.4	-2.2	-.1	0	-1.2	-.4	1	-.9	.1	-2.1

1. OMB's February 1997 deficit estimates (assuming the enactment of the President's proposals) are \$126 billion in FY97 and \$121 billion in FY98. CBO's March 1997 baseline deficit estimates are \$115 billion in FY97 and \$122 billion in FY98. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's February 1997 deficit estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are \$138 billion in FY97 and \$125 billion in FY98. CBO's March 1997 baseline deficit estimates, excluding deposit insurance, are \$128 billion in FY97 and \$126 billion in FY98.

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

4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output generated by 1.8 percent real (chain-weighted) growth and an associated unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1992) dollars, scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.

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

a--Actual.

b--Preliminary.

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

Period ¹	Total ²	Federal government ³	Nonfederal						Memo: Nominal GDP
			Total ⁴	Households			Business	State and local governments	
				Total	Home mortgages	Consumer credit			
<i>Year</i>									
1986	12.1	13.6	11.7	11.4	13.8	9.2	12.2	10.8	5.0
1987	9.2	8.0	9.6	12.2	16.3	5.1	6.7	12.1	7.4
1988	9.0	8.0	9.3	9.6	10.9	8.6	9.7	6.5	7.6
1989	7.6	7.0	7.8	8.7	10.1	6.0	7.5	5.7	6.4
1990	6.6	11.0	5.3	7.9	10.1	2.0	3.1	4.9	4.4
1991	4.4	11.1	2.4	5.1	6.7	-1.7	-1.8	8.2	3.8
1992	4.8	10.9	2.8	5.3	6.2	0.6	0.5	2.0	6.3
1993	5.3	8.3	4.2	6.4	5.5	7.7	1.5	5.7	4.8
1994	5.0	4.7	5.1	8.7	6.7	14.6	3.5	-3.4	5.9
1995	5.5	4.1	5.9	8.2	6.2	14.3	6.0	-3.5	3.8
1996	5.4	4.0	5.9	8.0	8.4	8.2	4.6	1.2	5.0
1997	5.0	1.9	6.0	6.6	7.2	6.2	6.3	2.3	5.4
1998	5.2	3.3	5.8	5.9	6.5	6.0	6.4	2.9	4.3
<i>Quarter</i>									
1996:1	6.4	6.6	6.3	9.4	10.0	10.8	4.3	-0.3	4.2
2	5.1	1.7	6.3	8.1	8.0	7.8	4.5	4.1	6.5
3	5.0	4.3	5.2	7.1	7.0	7.9	5.7	-5.7	3.8
4	4.8	3.1	5.4	6.5	7.5	5.4	3.7	6.7	5.3
1997:1	5.1	2.5	6.0	7.2	7.4	6.5	5.5	1.9	8.1
2	4.3	-2.3	6.5	6.4	7.0	5.9	6.8	5.8	3.9
3	4.7	3.4	5.2	6.1	6.8	5.9	5.9	-2.3	4.8
4	5.4	3.8	5.9	6.0	6.7	5.9	6.3	3.7	4.7
1998:1	5.1	3.6	5.6	5.9	6.5	5.8	6.4	1.1	4.6
2	4.4	-0.7	6.1	5.8	6.4	5.8	6.4	6.7	4.5
3	5.1	4.1	5.4	5.8	6.3	5.8	6.2	0.4	4.2
4	5.8	6.1	5.7	5.7	6.2	5.8	6.2	3.2	4.0

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1997: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 grew 5.4 percent in 1996, 4.9 percent in 1997, and 5.1 percent in 1998.

3. On a monthly average basis, federal debt rose 3.8 percent in 1996, 1.9 percent in 1997, and 2.9 percent in 1998.

4. On a monthly average basis, nonfederal debt increased 5.9 percent in 1996, 5.9 percent in 1997, and 5.8 percent in 1998.

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

Category					Seasonally adjusted annual rates							
	Calendar year				1997				1998			
	1995	1996	1997	1998	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>												
1 Total	645.9	670.6	630.2	711.9	658.8	539.1	602.9	720.2	709.1	607.0	707.7	823.9
2 Net equity issuance	-73.8	-81.2	-94.6	-87.8	-84.8	-94.0	-104.8	-94.8	-77.2	-80.8	-96.8	-96.4
3 Net debt issuance	719.7	751.8	724.8	799.7	743.6	633.1	707.7	815.0	786.3	687.8	804.5	920.3
<i>Borrowing sectors</i>												
<i>Nonfinancial business</i>												
4 Financing gap ¹	60.6	18.0	42.9	77.3	39.9	42.2	46.5	43.1	62.3	72.5	88.4	85.8
5 Net equity issuance	-73.8	-81.2	-94.6	-87.8	-84.8	-94.0	-104.8	-94.8	-77.2	-80.8	-96.8	-96.4
6 Credit market borrowing	232.4	190.5	270.5	295.9	237.5	298.1	262.8	283.4	292.1	297.6	295.1	298.6
<i>Households</i>												
7 Net borrowing ²	381.9	403.4	359.3	344.7	391.4	357.1	343.5	345.2	344.2	342.7	345.7	346.2
8 Home mortgages	198.6	282.3	261.5	255.2	271.5	260.0	256.9	257.7	256.7	255.2	254.2	254.7
9 Consumer credit	141.6	93.2	75.7	77.5	80.2	73.3	74.3	75.0	76.0	77.0	78.0	79.0
10 Debt/DPI (percent) ³	91.2	93.9	95.6	96.7	95.0	95.5	95.9	96.2	96.1	96.5	96.9	97.3
<i>State and local governments</i>												
11 Net borrowing	-39.0	12.9	25.1	32.0	21.0	64.2	-25.8	41.0	12.4	74.8	4.4	36.4
12 Current surplus ⁴	108.4	115.1	117.0	116.0	115.9	109.6	124.0	118.5	116.5	116.4	115.3	115.7
<i>Federal government</i>												
13 Net borrowing	144.4	145.0	70.0	127.2	93.7	-86.4	127.2	145.4	137.6	-27.3	159.3	239.1
14 Net borrowing (quarterly, n.s.a.)	144.4	145.0	70.0	127.2	48.0	-69.5	34.0	57.5	60.6	-60.1	44.8	81.9
15 Unified deficit (quarterly, n.s.a.)	146.3	110.6	73.5	116.3	52.0	-87.4	35.7	73.3	61.8	-78.8	28.5	104.8
<i>Depository institutions</i>												
16 Funds supplied	274.6	233.3	288.4	266.9	315.7	360.4	215.4	262.2	256.0	264.2	273.2	274.2
<i>Memo (percentage of GDP)</i>												
17 Domestic nonfinancial debt ⁵	186.5	188.3	187.7	188.8	187.2	187.6	187.6	187.7	188.1	188.3	188.6	189.3
18 Domestic nonfinancial borrowing	9.9	9.9	9.1	9.6	9.5	8.0	8.8	10.0	9.6	8.3	9.6	10.9
19 Federal government ⁶	2.0	1.9	0.9	1.5	1.2	-1.1	1.6	1.8	1.7	-0.3	1.9	2.8
20 Nonfederal	7.9	8.0	8.2	8.1	8.3	9.1	7.2	8.2	7.9	8.6	7.7	8.0

Note. Data after 1997: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.

price of non-oil imports fell 3.8 percent (annual rate) in April-May compared with the first quarter, reflecting in part the effects of the appreciation of the dollar earlier this year. Prices of agricultural exports, notably grains and oilseeds, dropped sharply while those of nonagricultural exports were about unchanged on average.

Outlook

The basic staff projection is little changed from that in the May Greenbook. The growth of real output in our foreign trading partners (weighted by bilateral shares in U.S. nonagricultural exports) appears to be a bit stronger in the second quarter than we had projected in May, reversing transitory factors in Italy, Mexico, and Korea in the first quarter. We still expect growth to average about a 4 percent annual rate over the next six quarters. The forecast again has the dollar drifting down slightly over this period. We have revised up slightly the growth of real imports and exports, but the downward trajectory of real net exports remains about the same as it was in May. The decline subtracts about 1/3 percentage point from the annual rate of GDP growth in the second half of 1997 and during 1998.

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

Measure	1997				1998
	Q1	Q2	Q3	Q4	
Foreign output	3.3	4.6	4.0	4.1	3.9
Previous	4.0	3.9	3.9	3.9	3.9
Real exports	10.7	13.8	4.0	11.3	7.3
Previous	7.9	7.9	2.1	10.3	6.9
Real imports	19.7	17.3	10.4	7.6	8.5
Previous	20.9	12.2	9.2	5.9	8.1

The dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies will weaken a small amount over the forecast period as the widening U.S. current account deficit and Japanese current account surplus depress the dollar, particularly against the yen. The dollar is projected to be essentially unchanged against the currencies of prospective EMU members as the influence of the deteriorating U.S. current account is offset by uncertainties associated with the introduction of the euro. We assume that the spillover effects of financial turbulence

turnaround. In 1998, the anticipated reversal of these price increases and the slower rate of depreciation of the dollar should damp the increase in non-oil import prices. Prices of nonagricultural exports are projected to rise slowly over the forecast period in line with comparable U.S. producer prices.

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

Trade category	Projection				
	1997				1998
	Q1	Q2	Q3	Q4	
<i>Exports</i>					
Nonagricultural	-1.0	-3.0	-1.2	-0.0	0.9
Agricultural	0.7	1.4	2.8	-3.3	1.6
<i>Imports</i>					
Non-oil	-2.7	-2.5	0.7	2.8	0.7
Oil (level, dollars per barrel)	21.37	17.82	17.22	17.10	17.00

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

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

Nominal trade and current account balances. The nominal trade deficit for goods and services is projected to widen over the forecast period, from a little more than \$115 billion in the first quarter of 1997 to \$140 billion in the fourth quarter of 1998. The deficit on net investment income is expected to widen this year and next as well. Accordingly, the current account deficit, which averaged \$148 billion in 1996, is projected to rise to about \$210 billion, or 2-1/2 percent of GDP, in 1998.

Strictly Confidential (FR)
Class II FOMC

June 25, 1997

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

Measure and country	--Projected--								
	1990	1991	1992	1993	1994	1995	1996	1997	1998
REAL GDP									

Canada	-1.9	0.0	0.5	3.1	4.9	0.7	2.3	3.5	3.2
France	1.4	1.3	0.0	-0.6	4.3	0.3	2.1	2.7	2.4
Germany (1)	6.8	3.3	1.0	-0.2	3.4	0.8	2.2	2.4	2.7
Italy	0.7	1.9	-0.8	0.1	2.7	2.5	0.1	1.8	2.3
Japan	5.1	2.5	0.1	0.4	0.8	2.6	3.0	2.6	2.4
United Kingdom	-0.7	-1.5	0.3	2.8	4.2	1.9	2.6	3.1	2.2
Average weighted by 1987-89 GDP	2.8	2.8	0.2	0.7	2.8	1.7	2.2	2.6	2.5
Average weighted by share of									
U.S. nonagricultural exports									
Total foreign	2.5	2.9	1.9	3.2	5.1	1.7	4.0	4.0	3.9
Foreign G-7	0.6	1.5	0.3	1.8	3.8	1.3	2.4	3.1	2.8
Developing Countries	6.2	6.4	5.1	6.0	7.0	2.1	6.8	5.7	5.9
CONSUMER PRICES									

Canada	4.9	4.1	1.8	1.8	0.0	2.1	2.0	1.4	1.6
France	3.5	3.0	1.8	2.1	1.6	1.9	1.7	1.4	1.9
Germany (1)	3.0	4.0	3.4	4.2	2.6	1.7	1.4	1.6	1.6
Italy	6.4	6.1	4.9	4.1	3.8	5.9	2.7	1.8	2.0
Japan	3.2	3.2	0.9	1.2	0.8	-0.8	0.1	1.5	0.6
United Kingdom (2)	9.2	5.7	3.7	2.7	2.2	2.9	3.2	2.6	2.7
Average weighted by 1987-89 GDP	4.7	2.6	2.4	2.5	1.8	1.7	1.5	1.7	1.5
Average weighted by share of									
U.S. non-oil imports	4.3	2.8	1.9	2.0	1.0	1.1	1.3	1.6	1.3

1. West German data through 1991, all Germany thereafter.
2. CPI excluding mortgage interest payments which is the targeted inflation rate.

June 25, 1997

OUTLOOK FOR FOREIGN REAL GDP AND CONSUMER PRICES: SELECTED COUNTRIES
(Percent, quarterly change at an annual rate)

Measure and country	1996				1997				Projected 1998			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP												
Canada	1.4	1.4	3.3	2.9	3.4	3.6	3.6	3.4	3.2	3.2	3.2	3.1
France	5.2	-0.7	3.1	0.8	0.8	5.0	2.7	2.4	2.6	2.4	2.3	2.3
Germany	-0.4	6.1	3.0	0.3	1.8	3.3	2.0	2.4	2.6	2.9	2.8	2.7
Italy	0.8	-1.5	2.2	-0.9	-1.2	4.0	2.2	2.2	2.2	2.2	2.4	2.4
Japan	8.4	-1.1	1.3	3.8	6.6	-0.4	1.9	2.3	2.4	2.2	2.4	2.4
United Kingdom	2.5	2.1	2.6	3.4	3.8	3.3	2.8	2.7	2.2	2.2	2.1	2.1
Average weighted by 1987-89 GDP	4.0	0.7	2.3	2.0	3.2	2.4	2.4	2.5	2.5	2.4	2.5	2.5
Average weighted by share of U.S. nonagricultural exports												
Total foreign	4.7	1.8	4.6	4.8	3.3	4.6	4.0	4.1	4.0	3.9	3.8	3.7
Foreign G-7	3.0	1.2	2.8	2.6	3.6	2.8	2.9	2.9	2.8	2.8	2.8	2.8
Developing Countries	8.9	1.6	7.7	9.2	3.9	7.2	5.9	6.0	5.9	5.9	5.8	5.8
CONSUMER PRICES (1)												
Canada	1.4	1.4	1.4	2.0	2.1	1.6	1.7	1.4	1.4	1.5	1.7	1.6
France	2.1	2.4	1.8	1.7	1.5	1.0	1.3	1.4	1.6	1.6	1.8	1.9
Germany	1.6	1.5	1.4	1.4	1.7	1.5	1.5	1.6	1.6	1.6	1.6	1.6
Italy	5.0	4.2	3.5	2.7	2.4	1.7	1.8	1.8	2.0	2.0	2.0	2.0
Japan	-0.3	0.1	0.0	0.1	0.0	1.5	1.5	1.5	1.7	0.2	0.4	0.6
United Kingdom (2)	2.9	2.8	2.9	3.2	2.9	2.6	2.6	2.6	2.7	2.7	2.7	2.7
Average weighted by 1987-89 GDP	1.7	1.7	1.5	1.5	1.4	1.6	1.7	1.7	1.8	1.3	1.5	1.5
Average weighted by share of U.S. non-oil imports	1.1	1.2	1.1	1.3	1.3	1.6	1.6	1.6	1.7	1.1	1.3	1.3

1. Percent change from same period a year earlier.

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

June 25, 1997

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1990	1991	1992	1993	1994	1995	1996	-- Projected -- 1997	1998
NIPA REAL EXPORTS and IMPORTS									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	0.6	0.4	-0.4	-0.7	-0.4	0.3	-0.2	-0.7	-0.3
Exports of G&S	0.6	0.8	0.4	0.5	1.0	0.8	0.9	1.2	1.0
Imports of G&S	-0.0	-0.4	-0.8	-1.1	-1.4	-0.5	-1.1	-1.9	-1.3
Percentage change, Q4/Q4									
Exports of G&S	7.2	8.6	4.1	4.8	9.9	7.4	7.4	9.9	7.3
Services	8.9	7.1	-0.9	3.9	4.8	5.1	3.0	1.8	4.9
Agricultural Goods	-7.3	10.1	10.4	-5.4	17.1	-3.1	4.0	-3.1	3.2
Computers	12.3	21.7	25.2	22.7	28.8	49.4	32.8	61.5	35.4
Semiconductors	61.5	41.8	64.8	45.1	68.7	29.7	4.9	21.4	28.7
Other Goods 1/	6.0	7.0	2.3	3.6	7.4	5.3	7.7	7.9	1.7
Imports of G&S	0.5	4.1	7.4	10.5	11.8	4.2	8.3	13.6	8.5
Services	5.8	-2.7	1.4	3.7	0.8	4.1	4.7	10.3	2.6
Oil	-15.8	8.1	12.1	10.1	-0.2	0.9	-1.9	-9.5	9.5
Computers	2.9	35.9	45.1	38.8	37.3	43.8	23.9	49.1	29.4
Semiconductors	60.9	55.3	42.0	44.9	47.4	57.1	-13.6	41.8	31.6
Other Goods 2/	-0.3	2.5	5.4	9.5	12.5	-1.2	10.0	10.2	4.5
Billions of chained 1992 dollars									
Net Goods & Services	-61.9	-22.3	-29.5	-72.0	-105.7	-107.6	-113.6	-136.6	-166.6
Exports of G&S	564.4	599.9	639.4	658.2	712.0	775.4	825.9	917.7	987.7
Imports of G&S	626.3	622.2	669.0	730.2	817.6	883.0	939.5	1054.3	1154.2
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-91.9	-5.6	-56.4	-90.8	-133.5	-129.1	-148.2	-174.2	-209.2
Net Goods & Services (BOP)	-81.2	-31.0	-39.2	-72.3	-104.4	-101.9	-111.0	-118.8	-142.6
Exports of G&S (BOP)	537.1	581.1	617.5	643.5	699.6	794.6	848.8	917.6	966.2
Imports of G&S (BOP)	618.4	612.2	656.7	715.8	804.1	896.5	959.9	1036.5	1108.9
Net Investment Income	23.9	20.2	18.0	19.7	9.7	6.8	2.8	-14.7	-24.8
Direct, Net	55.9	55.6	51.6	55.7	50.8	60.0	66.8	66.1	70.5
Portfolio, Net	-31.9	-35.4	-33.6	-36.0	-41.0	-53.2	-63.9	-80.8	-95.3
Net Transfers	-34.6	5.1	-35.2	-38.1	-38.8	-34.0	-40.0	-40.7	-41.8

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

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

June 25, 1997

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1996				1997				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.1	-0.6	-1.3	2.3	-1.3	-0.7	-1.0	0.3	-0.8	-0.2	-0.9	0.6
Exports of G&S	0.2	0.7	-0.1	2.7	1.3	1.6	0.5	1.4	0.6	1.3	0.5	1.4
Imports of G&S	-1.3	-1.3	-1.2	-0.4	-2.5	-2.3	-1.5	-1.1	-1.4	-1.5	-1.3	-0.9
Percentage change from previous period, SAAR												
Exports of G&S	1.8	5.6	-0.9	25.0	10.7	13.8	4.0	11.3	4.9	9.9	3.4	11.2
Services	2.7	2.8	-3.8	10.8	1.2	1.2	1.5	3.3	4.8	5.2	4.9	4.8
Agricultural Goods	9.3	-33.7	8.7	48.7	-26.3	-9.9	8.0	22.8	3.3	3.2	1.6	4.8
Computers	58.7	21.0	18.3	36.8	90.4	70.0	49.1	41.1	36.0	36.0	34.8	34.8
Semiconductors	-0.0	-20.7	2.6	48.8	15.4	13.7	28.7	28.7	28.7	28.7	28.7	28.7
Other Goods 1/	-4.1	14.0	-2.7	26.7	12.1	15.8	-3.0	7.8	-2.0	6.4	-5.2	8.1
Imports of G&S	10.6	9.9	9.3	3.3	19.7	17.3	10.4	7.6	9.5	10.0	8.9	5.8
Services	13.0	1.3	2.6	2.3	24.3	9.5	5.2	3.4	2.9	2.8	2.5	2.4
Oil	-22.2	59.9	7.0	-30.5	-12.4	22.4	-7.6	-32.1	24.6	46.3	19.4	-33.8
Computers	27.7	23.0	22.2	22.6	56.6	60.8	43.8	36.3	31.3	28.8	28.8	28.8
Semiconductors	4.6	-38.5	-19.0	6.8	50.3	36.6	44.3	36.6	31.6	31.6	31.6	31.5
Other Goods 2/	12.2	11.6	11.8	4.7	15.8	12.6	6.7	6.1	5.1	4.8	4.4	3.8
Billions of chained 1992 dollars												
Net Goods & Services	-104.0	-114.7	-137.4	-98.4	-120.4	-132.3	-149.5	-144.3	-158.0	-162.0	-178.3	-168.1
Exports of G&S	806.7	817.9	816.1	862.9	885.1	914.2	923.2	948.2	959.6	982.6	990.9	1017.6
Imports of G&S	910.7	932.6	953.5	961.3	1005.5	1046.4	1072.6	1092.5	1117.5	1144.6	1169.2	1185.7
Billions of dollars												
----- Projected -----												
US CURRENT ACCOUNT BALANCE	-131.5	-142.3	-171.3	-147.5	-163.9	-163.7	-179.4	-190.0	-198.0	-201.7	-219.2	-217.9
Net Goods & Services (BOP)	-98.1	-111.1	-130.1	-104.8	-116.5	-112.7	-124.7	-121.4	-136.5	-138.5	-154.2	-141.3
Exports of G&S (BOP)	828.4	848.6	840.3	878.0	898.1	919.6	916.3	936.7	944.3	963.4	967.5	989.9
Imports of G&S (BOP)	926.6	959.7	970.4	982.8	1014.5	1032.2	1041.0	1058.1	1080.8	1101.9	1121.7	1131.1
Net Investment Income	8.2	3.5	-5.5	5.0	-12.6	-12.1	-15.7	-18.6	-22.5	-24.2	-26.0	-26.6
Direct, Net	66.2	64.2	60.3	76.4	65.0	66.6	66.2	66.7	66.4	68.5	71.5	75.5
Portfolio, Net	-57.9	-60.7	-65.7	-71.4	-77.5	-78.7	-81.9	-85.3	-88.8	-92.7	-97.5	-102.2
Net Transfers	-41.6	-34.8	-35.8	-47.7	-34.8	-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

June 25, 1997

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

Prepared for the Federal Open Market Committee

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

June 25, 1997

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee
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Industrial Production

Industrial output continued to grow briskly in the spring, rising 0.4 percent in May after registering similar gains in the preceding two months. Manufacturing output posted a sizable 0.5 percent increase in May and mining was up 2.0 percent, while utility production fell because of cooler-than-average temperatures. On balance, the recent growth of factory output has been about in line with the growth in capacity. As a result, manufacturing capacity utilization has held steady at slightly above 82-1/2 percent over the past four months.

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

	1997			1997		
	Apr.	May	June ^e	Q1	Q2 ^e	Q3
U.S. production	11.3	11.5	12.1	12.3	11.6	Sched. 12.3
Autos	5.7	5.8	6.0	6.1	5.8	6.2
Trucks	5.6	5.7	6.1	6.3	5.8	6.0
Days' supply						
Autos	61.1	59.7	61.2	55.0	61.2	--
Light trucks	77.3	71.8	68.1	69.4	68.1	--

Note. Components may not sum to totals because of rounding.
e--Staff estimates based on weekly data for June.

The motor vehicle and parts industry has been quite volatile in recent months, owing mainly to strikes. Production of motor vehicles and parts bounced back 1.2 percent in May after falling 2.7 percent in April, when strikes curtailed assemblies at Chrysler and General Motors. However, with inventories still ample at the end of May, only a part of the strike-related losses in production, most of which were light trucks, is likely to be made up. At the end of May, the days' supply of light trucks was just above 70 days, a little on the high side, while the days' supply of autos was running about 60 days. Assemblies appear to be increasing a little more rapidly in June than in May, rising just above 12 million units (annual rate); only one strike at a truck assembly plant has affected June output. Total assemblies for the second quarter are expected to be 11.6 million units at an annual rate, compared with 12.3 million in the first quarter.

Outside of motor vehicles, the production of consumer goods edged down in May, as a decline in consumer nondurables offset a

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June 27, 1997

SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

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June 27, 1997

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

	1996 Oct	1996 Nov	1996 Dec	1997 Jan	1997 Feb	1997 Mar	1997 Apr	1997 May	1997 Jun (f)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	96.5	99.2	96.9	97.4	99.7	100.0	101.4	103.2	104.5
Current conditions	106.6	107.5	104.9	106.8	107.2	109.8	115.2	113.5	113.2
Expected conditions	89.9	93.9	91.8	91.3	94.9	93.6	92.5	96.6	98.9

Personal financial situation									
Now compared with 12 months ago*	115	121	117	116	114	119	132	122	126
Expected in 12 months*	127	133	132	128	134	134	130	138	131
Expected business conditions									
Next 12 months*	131	137	130	136	135	138	130	142	147
Next 5 years*	103	108	107	103	113	105	113	109	121
Appraisal of buying conditions									
Cars	132	135	134	141	130	135	136	150	154
Large household appliances*	161	158	155	160	164	166	167	173	168
Houses	159	157	156	162	166	155	153	160	160
Willingness to use credit	37	43	41	45	39	37	41	49	43
Willingness to use savings	62	70	63	71	67	66	68	71	73
Expected unemployment change - next 12 months	114	110	110	114	107	112	113	109	108
Expected inflation - next 12 months									
Mean	4.2	4.0	3.9	4.1	3.8	3.5	3.7	3.7	3.5
Median	3.0	3.0	3.0	3.0	3.0	2.8	3.0	2.9	2.8
Expected inflation - next 5 to 10 years									
Mean	4.2	3.7	3.9	4.0	3.7	3.6	3.6	3.8	3.9
Median	3.0	3.0	3.0	3.1	3.1	3.0	2.9	3.0	3.1

* -- 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.