

## **Part 1**

March 24, 1999

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# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

March 24, 1999

## **SUMMARY AND OUTLOOK**

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

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

With almost uniformly strong incoming data on domestic spending, we now project that real GDP will rise at an annual rate of about 3-1/2 percent in the current quarter. This is well below the 6 percent pace of the fourth quarter, which was boosted substantially by a post-strike rebound in motor vehicle production. Production worker hours have risen appreciably thus far in 1999 on the strength of increases in private payrolls averaging more than 200,000 per month, and low initial claims for unemployment insurance benefits suggest that hiring has remained brisk in March.

Private domestic final purchases have been tremendously strong again this quarter, paced by household demands. We now think that consumption expenditures will rise at a 6 percent annual rate--well above last year's pace. Retail sales soared in January and February, and service outlays were up sharply in January. One of the biggest surprises--to us and also to the automakers--has been the sustained high level of light vehicle sales, which seem to be on track to match the 16-1/4 million unit volume (annual rate) of the fourth quarter. The housing market has shown some hints of a peaking of demand in recent months, probably in part because of the rise in mortgage rates since last fall. However, building activity will be up markedly further this quarter: Total housing starts jumped to an average of 1.8 million units at an annual rate in January and February, and we estimate that real residential investment expenditures will increase at an 11-1/2 percent rate this quarter.

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

Measure	1998:Q4		1999:Q1	
	Jan. GB	Mar. GB	Jan. GB	Mar. GB
<b>Real GDP</b>	5.0	5.9	2.7	3.4
Private domestic final purchases	6.3	6.3	3.2	6.7
Personal consumption	4.7	4.6	2.7	6.0
Residential investment	12.5	10.6	7.9	11.6
Business fixed investment	14.0	15.8	4.5	9.1
Government outlays for consumption and investment	3.1	3.3	.8	1.4
	Change, billions of chained (1992) dollars			
Inventory investment	-17.4	-7.9	20.3	-7.7
Net exports	-2.0	7.7	-26.5	-45.7

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

Measure	1997	1998	1999	2000
<b>Real GDP</b>	3.8	4.2	3.0	2.2
Previous	3.8	4.0	2.6	2.4
<b>Final sales</b>	3.4	4.5	2.9	2.3
Previous	3.4	4.4	2.5	2.4
<b>PCE</b>	3.7	5.2	4.6	2.7
Previous	3.7	5.2	3.5	2.8
<b>Residential investment</b>	4.2	12.7	.3	-3.0
Previous	4.2	13.2	.2	-2.2
<b>BFI</b>	9.8	12.2	6.1	6.5
Previous	9.8	11.8	5.8	5.8
<b>Government purchases</b>	1.4	1.6	1.6	2.0
Previous	1.4	1.6	1.4	1.8
<b>Exports</b>	9.6	.9	-.5	4.0
Previous	9.6	.7	.2	4.4
<b>Imports</b>	14.0	9.7	8.4	6.9
Previous	14.0	10.4	6.1	6.7
Change, billions of chained (1992) dollars				
<b>Inventory change</b>	34.4	-18.7	5.6	-13.8
Previous	34.4	-28.3	4.0	-.7
<b>Net exports</b>	-53.1	-102.4	-111.0	-54.5
Previous	-53.1	-112.0	-75.2	-46.1

exert on spending could still lie ahead. Second, demand for household appliances and furnishings may be supported by the recent high levels of home sales and starts. Third, although we think that the recent pace of motor vehicle sales is simply too high to be sustained for very long, continuing relative price declines could buoy vehicle sales for a few months more if the automakers are content to give up some of their profits in the battle for market share.

Another special factor this year, and one whose importance is extremely difficult to assess, is fears of Y2K disasters. Polls show that many people are expecting disruptions and intend to take some precautions. Even so, we remain hesitant to build into our forecast more than a minor fillip to PCE

**Net exports.** The external sector appears likely to make a larger negative contribution to projected GDP growth in 1999 and 2000 than indicated in the January Greenbook. The greater appreciation of the dollar, with a lag, slows export growth and shifts domestic expenditures toward imports. In addition, the more rapid growth of domestic income spurs higher import spending. All told, we now think that the arithmetic drag on 1999 GDP growth from net exports will be about the same as the 1.1 percentage point registered in 1998. We still expect this drag to diminish considerably next year, when exports should strengthen with the world economy and domestic demand is projected to moderate. (A more detailed discussion of the outlook for net exports is contained in the International Developments section.)

**Labor markets.** The continued strength of final demand has been met both by rising payrolls and by marked increases in labor productivity. Payroll growth averaged nearly 250,000 per month in January and February, about the same as the 1998 pace. Given that many firms have been operating short-staffed for a while and looking to fill vacancies, we expect payroll gains to remain sizable even as output growth begins to taper off. With payrolls continuing to rise close to 200,000 per month into the summer, the unemployment rate should edge down a bit further. We project that job gains will slow gradually to around 110,000 per month next year, whereupon the unemployment rate should inch back up to about 4-1/2 percent.

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

Measure	1997	1998	1999	2000
Output per hour, nonfarm business	1.5	2.7	1.8	1.7
Previous	1.7	2.4	1.4	1.8
Nonfarm payroll employment	2.7	2.3	2.0	1.0
Previous	2.7	2.3	1.7	1.2
Employment, household survey	2.1	1.3	1.7	.6
Previous	2.1	1.3	1.3	.9
Labor force participation rate <sup>1</sup>	67.1	67.1	67.2	67.2
Previous	67.1	67.1	67.2	67.2
Civilian unemployment rate <sup>1</sup>	4.7	4.4	4.2	4.5
Previous	4.7	4.4	4.3	4.4

1. Percent, average for the fourth quarter.

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

Measure	1997	1998	1999	2000
Consumer price index	1.9	1.5	2.2	2.4
Previous	1.9	1.5	2.3	2.4
Food	1.7	2.2	1.9	2.0
Previous	1.7	2.3	1.7	2.1
Energy	-1.2	-9.2	5.2	1.5
Previous	-1.0	-9.0	3.0	1.4
Excluding food and energy	2.2	2.4	2.1	2.5
Previous	2.2	2.4	2.3	2.6
PCE chain-weighted price index	1.5	.7	1.6	1.8
Previous	1.5	.8	1.7	1.9
Excluding food and energy	1.6	1.2	1.4	1.8
Previous	1.6	1.2	1.6	1.8
GDP chain-weighted price index	1.7	.9	1.5	1.9
Previous	1.7	.9	1.5	1.9
ECI for compensation of private industry workers <sup>1</sup>	3.4	3.5	3.4	3.5
Previous	3.4	3.5	3.5	3.7
Prices of core non-oil merchandise imports	-.7	-2.0	.5	1.0
Previous	-.7	-2.0	1.5	1.4
Percentage points				
MEMO: <i>Adjustments for technical changes to the CPI<sup>2</sup></i>	.2	.4	.6	.6
Core CPI				

1. December to December.

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

the more optimistic side, our projection for inflation is tempered by the consideration that, given prospects for continued ample manufacturing capacity here and abroad, pricing leverage is likely to remain quite limited in many goods markets.

Also contributing to our optimism with respect to the inflation outlook is our view that nominal compensation gains probably will be pretty level, despite

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

Measure	1999	2000
<i>Real GDP</i>		
Baseline	3.0	2.2
Tighter monetary policy	2.8	1.1
25 percent stock price decline	2.3	1.0
Stable equity wealth/income	3.0	2.5
15,000 Wilshire	3.2	3.2
<i>Civilian unemployment rate<sup>1</sup></i>		
Baseline	4.2	4.5
Tighter monetary policy	4.3	5.0
25 percent stock price decline	4.4	5.1
Stable equity wealth/income	4.2	4.4
15,000 Wilshire	4.2	4.2
<i>CPI excluding food and energy</i>		
Baseline	2.1	2.5
Tighter monetary policy	2.1	2.1
25 percent stock price decline	2.1	2.4
Stable equity wealth/income	2.1	2.5
15,000 Wilshire	2.1	2.5

1. Average for the fourth quarter.

The remaining alternatives consider different paths for the stock market. Whereas the baseline for this Greenbook assumes that share prices change little from here, the second alternative takes the much more pessimistic view that stock values plummet 25 percent in the second quarter and remain flat at that lower level thereafter--not implausible, given that the market may be quite substantially overvalued. In this scenario, GDP growth is considerably lower both this year and next, and the unemployment rate rises above 5 percent next year. However, despite the substantial growth and unemployment effects of this alternative, core CPI inflation is only a little lower next year in this scenario. This results from a particular feature of the FRB/US model. In this model, expectations of inflation are relatively slow to respond to fluctuations in resource utilization that are not accompanied by changes in monetary policy--in part because people have come to expect that monetary policy will move to prevent a change in inflation. Were we to extend the simulation beyond 2000, though, a more substantial effect on

Strictly Confidential <FR>  
Class II FOMCSTAFF PROJECTIONS OF CHANGES IN GDP, PRICES, AND UNEMPLOYMENT  
(Percent, annual rate)

March 24, 1999

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>	
	01/28/99	03/24/99	01/28/99	03/24/99	01/28/99	03/24/99	01/28/99	03/24/99	01/28/99	03/24/99
<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	3.8	3.9	1.0	1.0	1.6	1.6	4.5	4.5
1999	4.5	4.9	3.1	3.6	1.3	1.3	2.1	2.0	4.3	4.2
2000	4.1	4.1	2.3	2.3	1.8	1.7	2.4	2.4	4.4	4.4
<b>QUARTERLY</b>										
1997	Q1	7.2	7.2	4.2	4.2	2.8	2.8	2.0	5.2	5.2
	Q2	5.6	5.6	4.0	4.0	1.7	1.7	1.5	5.0	5.0
	Q3	5.4	5.4	4.2	4.2	1.2	1.2	1.8	4.9	4.9
	Q4	4.2	4.2	3.0	3.0	1.1	1.1	2.3	4.7	4.7
1998	Q1	6.4	6.4	5.5	5.5	0.9	0.9	0.5	4.6	4.6
	Q2	2.7	2.7	1.8	1.8	0.9	0.9	2.0	4.4	4.4
	Q3	4.7	4.7	3.7	3.7	1.0	1.0	1.7	4.5	4.5
	Q4	6.0	6.8	5.0	5.9	1.0	0.8	2.0	4.4	4.4
1999	Q1	4.4	5.1	2.7	3.4	1.7	1.6	2.1	4.3	4.3
	Q2	3.9	4.6	2.4	3.2	1.4	1.4	2.4	4.3	4.2
	Q3	3.8	3.8	2.2	2.3	1.5	1.5	2.3	4.3	4.2
	Q4	4.5	4.5	2.9	3.0	1.5	1.4	2.3	4.3	4.2
2000	Q1	3.2	2.8	1.0	0.7	2.2	2.1	2.5	4.3	4.3
	Q2	4.8	5.4	3.0	3.6	1.8	1.7	2.4	4.4	4.3
	Q3	4.3	4.0	2.4	2.2	1.8	1.8	2.4	4.4	4.4
	Q4	4.8	4.1	2.9	2.2	1.8	1.8	2.4	4.4	4.5
<b>TWO-QUARTER<sup>3</sup></b>										
1997	Q2	6.4	6.4	4.1	4.1	2.2	2.2	1.8	1.9	-0.3
	Q4	4.8	4.8	3.6	3.6	1.2	1.2	2.0	1.9	-0.3
1998	Q2	4.6	4.6	3.7	3.7	0.9	0.9	1.2	1.4	-0.3
	Q4	5.4	5.7	4.3	4.8	1.0	0.9	1.9	1.7	0.0
1999	Q2	4.1	4.9	2.5	3.3	1.6	1.5	2.3	2.2	-0.1
	Q4	4.1	4.2	2.6	2.7	1.5	1.5	2.3	2.3	-0.0
2000	Q2	4.0	4.1	2.0	2.1	2.0	1.9	2.4	2.3	0.1
	Q4	4.6	4.0	2.7	2.2	1.8	1.8	2.4	2.4	-0.0
<b>FOUR-QUARTER<sup>4</sup></b>										
1996	Q4	5.8	5.8	3.9	3.9	1.8	1.8	3.2	3.1	-0.3
1997	Q4	5.6	5.6	3.8	3.8	1.7	1.7	1.9	1.9	-0.6
1998	Q4	5.0	5.1	4.0	4.2	0.9	0.9	1.5	1.5	-0.3
1999	Q4	4.1	4.5	2.6	3.0	1.5	1.5	2.3	2.2	-0.1
2000	Q4	4.3	4.1	2.4	2.2	1.9	1.9	2.4	2.4	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.

Item	Units <sup>1</sup>	--- Projected ---									
		1992	1993	1994	1995	1996	1997	1998	1999	2000	
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	6244.4	6558.1	6947.0	7269.6	7661.6	8110.9	8510.3	8929.7	9292.9	
Real GDP	Bill. Ch. \$	6244.4	6389.6	6610.7	6761.7	6994.8	7269.8	7551.6	7824.7	8004.7	
Real GDP	% change	3.6	2.4	3.3	2.1	3.9	3.8	4.2	3.0	2.2	
Gross domestic purchases		4.0	3.0	3.6	1.6	4.2	4.4	5.3	4.1	2.6	
Final sales		3.9	2.1	2.7	2.7	3.7	3.4	4.5	2.9	2.3	
Priv. dom. final purchases		4.9	3.7	3.7	2.9	4.3	4.6	6.5	4.5	2.9	
Personal cons. expenditures		4.2	2.7	3.1	2.6	3.3	3.7	5.2	4.6	2.7	
Durables		9.4	7.4	6.3	4.5	5.8	7.4	12.2	6.3	3.7	
Nondurables		3.4	1.6	3.0	1.7	2.8	2.0	4.8	5.4	2.3	
Services		3.6	2.3	2.5	2.6	3.0	3.8	4.0	3.8	2.8	
Business fixed investment		5.5	9.9	7.6	7.3	11.7	9.8	12.2	6.1	6.5	
Producers' dur. equipment		9.6	12.2	10.2	9.1	11.8	12.7	17.1	8.3	8.6	
Nonres. structures		-3.4	4.5	1.1	2.7	11.6	2.5	0.0	0.0	0.6	
Residential structures		16.9	7.8	4.2	-1.4	5.4	4.2	12.7	0.3	-3.0	
Exports		4.1	4.6	10.0	10.5	10.3	9.6	0.9	-0.5	4.0	
Imports		7.4	10.2	12.3	5.6	11.8	14.0	9.7	8.4	6.9	
Gov't. cons. & investment		1.7	-1.4	0.1	-0.9	2.1	1.4	1.6	1.6	2.0	
Federal		1.3	-6.1	-3.9	-5.6	1.1	-0.6	0.9	-2.0	-0.6	
Defense		-1.3	-6.9	-6.0	-5.0	-0.1	-1.4	-1.4	-2.6	-0.6	
State & local		2.0	2.0	2.7	2.1	2.8	2.6	2.1	3.6	3.4	
Change in bus. inventories	Bill. Ch. \$	7.0	22.1	60.6	27.7	30.0	63.2	58.3	50.0	42.0	
Nonfarm		2.0	29.5	49.0	37.7	23.2	58.8	50.9	46.1	40.5	
Net exports		-29.5	-70.2	-104.6	-96.5	-111.2	-136.1	-238.5	-334.8	-402.5	
Nominal GDP	% change	6.3	5.0	5.8	4.2	5.8	5.6	5.1	4.5	4.1	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	108.6	110.7	114.1	117.2	119.6	122.7	125.8	128.5	130.3	
Unemployment rate	%	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.4	
Industrial prod. index	% change	3.6	3.3	6.5	3.5	5.3	6.6	1.9	3.6	1.9	
Capacity util. rate - mfg.	%	79.5	80.5	82.5	82.7	81.4	82.0	80.8	79.8	79.9	
Housing starts	Millions	1.20	1.29	1.46	1.35	1.48	1.47	1.62	1.66	1.57	
Light motor vehicle sales		12.85	13.86	15.01	14.72	15.05	15.02	15.50	15.68	15.04	
North Amer. produced		10.51	11.71	12.88	12.82	13.35	13.09	13.47	13.51	13.08	
Other		2.34	2.15	2.13	1.90	1.70	1.92	2.04	2.16	1.96	
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	6255.5	6576.8	6955.2	7287.1	7674.0	8102.9	8489.8	8888.3	9234.3	
Nominal GNP	% change	6.2	5.1	5.7	4.4	5.6	5.2	5.1	4.2	3.9	
Nominal personal income		7.2	4.0	5.2	4.6	5.9	5.4	5.1	5.0	4.5	
Real disposable income		4.0	1.2	2.5	2.1	2.7	2.9	3.5	3.3	2.6	
Personal saving rate	%	5.7	4.4	3.5	3.4	2.9	2.1	0.5	-0.6	-0.8	
Corp. profits, IVA & CCAdj.	% change	11.3	19.0	14.1	14.6	7.7	7.7	3.9	-2.8	0.4	
Profit share of GNP	%	6.8	7.5	8.2	9.2	9.8	10.1	9.8	9.4	8.9	
Excluding FR Banks		6.6	7.2	7.9	8.9	9.5	9.8	9.5	9.2	8.6	
Federal surpl./deficit	Bill. \$	-280.9	-250.7	-186.7	-174.4	-110.3	-21.1	75.3	148.1	186.9	
State & local surpl./def.		86.3	87.4	96.8	111.7	122.6	134.1	150.5	160.7	167.0	
Ex. social ins. funds		18.3	19.7	27.9	37.0	52.2	66.0	82.9	92.8	99.1	
Gross natl. saving rate	%	14.5	14.4	15.5	16.3	16.6	17.4	17.4	17.0	16.7	
Net natl. saving rate		3.7	3.7	4.7	5.8	6.3	7.3	7.4	7.2	6.9	
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	2.6	2.6	2.5	2.1	1.8	1.7	0.9	1.5	1.9	
Gross Domestic Purchases chn.-wt. price index		2.7	2.3	2.5	2.0	1.8	1.3	0.4	1.4	1.7	
CPI		3.1	2.7	2.6	2.7	3.1	1.9	1.5	2.2	2.4	
Ex. food and energy		3.5	3.1	2.8	3.1	2.6	2.2	2.4	2.1	2.5	
ECI, hourly compensation <sup>2</sup>		3.5	3.6	3.1	2.6	3.1	3.4	3.5	3.4	3.5	
Nonfarm business sector		3.5	-0.4	0.1	1.3	2.0	1.5	2.7	1.8	1.7	
Output per hour		4.5	1.6	2.1	2.9	3.6	3.7	4.0	3.8	4.0	
Compensation per Hour		1.0	2.0	2.0	1.6	1.6	2.1	1.3	2.0	2.3	
Unit labor cost											

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

Item	Units	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	7495.3	7629.2	7703.4	7818.4	7955.0	8063.4	8170.8	8254.5	8384.2	8440.6
Real GDP	Bill. Ch. \$	6882.0	6983.9	7020.0	7093.1	7166.7	7236.5	7311.2	7364.6	7464.7	7498.6
Real GDP	% change	3.3	6.1	2.1	4.2	4.2	4.0	4.2	3.0	5.5	1.8
Gross domestic purchases		4.5	7.0	3.4	1.8	5.5	4.4	4.6	3.2	7.8	3.9
Final sales		3.6	5.4	0.9	5.1	2.9	2.7	5.8	2.1	4.3	4.6
Priv. dom. final purchases		5.1	6.2	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	121.5	122.3	123.0	123.9	124.8	125.5
Unemployment rate	%	5.5	5.5	5.3	5.3	5.2	5.0	4.9	4.7	4.6	4.4
Industrial prod. index	% change	2.8	9.6	5.5	3.5	6.6	6.0	7.2	6.6	1.6	2.8
Capacity util. rate - mfg.	%	80.9	81.6	81.8	81.3	81.6	81.7	82.1	82.5	81.8	81.2
Housing starts	Millions	1.46	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 chn.-wt. price index		2.1	1.4	1.5	2.1	2.2	0.9	1.1	1.0	-0.2	0.4
CPI		3.2	3.7	2.6	3.3	2.0	1.5	1.8	2.3	0.5	2.0
Ex. food and energy		2.5	2.5	2.7	2.7	2.2	2.6	1.9	2.1	2.4	2.6
ECI, hourly compensation <sup>1</sup>		2.5	3.5	2.8	2.8	2.5	3.7	3.4	4.3	2.7	3.6
Nonfarm business sector		4.2	3.0	-0.1	1.0	0.1	1.6	3.4	0.9	3.6	0.3
Output per hour		2.7	5.2	3.6	3.1	3.7	2.4	3.8	4.9	4.7	4.1
Compensation per hour		-1.5	2.2	3.7	2.1	3.5	0.7	0.3	4.0	1.1	3.7
Unit labor cost											

1. Private-industry workers.

Item	Units	Projected											
		1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2000 Q4	
<b>EXPENDITURES</b>													
Nominal GDP	Bill. \$	8537.9	8678.7	8787.6	8887.8	8972.0	9071.4	9133.2	9253.8	9345.5	9439.2		
Real GDP	Bill. Ch. \$	7566.5	7676.5	7741.7	7802.6	7847.9	7906.6	7919.5	7990.0	8032.7	8076.7		
Real GDP	% change	3.7	5.9	3.4	3.2	2.3	3.0	0.7	3.6	2.2	2.2		
Gross domestic purchases		4.2	5.4	5.4	4.4	3.2	3.3	1.3	4.2	2.6	2.2		
Final sales		2.8	6.4	3.8	2.5	2.4	3.0	1.5	3.2	2.2	2.5		
Priv. dom. final purchases		3.7	6.3	6.7	4.1	3.6	3.7	2.1	3.9	2.8			
Personal cons. expenditures		4.1	4.6	6.0	4.1	4.0	4.2	2.0	4.0	2.6	2.4		
Durables		2.4	20.2	12.7	2.6	5.0	5.3	3.9	3.4	3.7	3.6		
Nondurables		2.1	4.3	7.0	4.8	4.6	5.1	0.5	4.2	2.6	2.0		
Services		5.4	1.7	4.2	4.1	3.5	3.5	2.4	4.0	2.4	2.3		
Business fixed investment		-0.7	15.8	9.1	6.7	4.7	4.0	4.5	6.9	6.9	7.6		
Producers' dur. equipment		-1.0	19.0	12.4	9.4	6.4	5.3	6.1	9.1	9.2	9.8		
Nonres. structures		0.2	7.4	0.3	-0.4	-0.1	0.3	-0.1	0.8	0.6	1.4		
Residential structures		9.9	10.6	11.6	-1.3	-4.7	-3.7	-2.8	-3.6	-3.2	-2.3		
Exports		-2.8	19.0	-7.6	-0.1	1.7	4.3	0.3	3.8	4.8	7.2		
Imports		2.3	12.0	8.6	10.0	8.5	6.5	5.6	8.3	8.0	5.8		
Gov't. cons. & investment		1.5	3.3	1.4	2.0	1.8	1.4	2.3	2.9	1.7	1.0		
Federal		-1.4	7.3	-5.1	0.5	-1.1	-2.1	0.3	2.1	-1.4	-3.4		
Defense		4.3	1.3	-7.9	1.1	-1.6	-2.0	-1.4	-1.2	-0.1	0.2		
State & local		3.1	1.4	5.2	2.8	3.3	3.3	3.4	3.3	3.4	3.4		
Change in bus. inventories	Bill. Ch. \$	55.7	47.8	40.2	53.7	52.5	53.4	36.4	45.9	46.0	39.6		
Nonfarm		47.0	40.7	34.2	49.2	49.3	51.5	34.8	44.3	44.6	38.4		
Net exports		-259.0	-251.4	-297.1	-328.4	-351.4	-362.3	-380.3	-398.8	-414.2	-416.8		
Nominal GDP	% change	4.7	6.8	5.1	4.6	3.8	4.5	2.8	5.4	4.0	4.1		
<b>EMPLOYMENT AND PRODUCTION</b>													
Nonfarm payroll employment	Millions	126.1	126.8	127.6	128.3	128.8	129.3	129.7	130.4	130.5	130.6		
Unemployment rate	%	4.5	4.4	4.3	4.2	4.2	4.2	4.3	4.3	4.4	4.5		
Industrial prod. index	% change	0.9	2.2	1.3	3.9	4.5	4.6	-0.0	2.4	2.5	2.7		
Capacity util. rate - mfg.	%	80.2	80.1	79.5	79.6	79.9	80.3	79.8	79.8	79.9	80.0		
Housing starts	Millions	1.64	1.70	1.75	1.64	1.62	1.61	1.59	1.57	1.56	1.55		
Light motor vehicle sales		14.55	16.31	16.21	15.71	15.46	15.32	15.15	15.02	14.99	15.01		
North Amer. produced		12.54	14.11	13.93	13.53	13.33	13.26	13.14	13.06	13.06	13.07		
Other		2.01	2.20	2.28	2.18	2.13	2.06	2.01	1.96	1.93	1.94		
<b>INCOME AND SAVING</b>													
Nominal GNP	Bill. \$	8510.9	8657.2	8754.9	8850.2	8927.9	9020.3	9078.8	9196.5	9285.7	9376.2		
Nominal GNP	% change	4.3	7.1	4.6	4.4	3.6	4.2	2.6	5.3	3.9	4.0		
Nominal personal income		4.5	5.3	5.8	4.9	4.6	4.7	5.2	4.7	4.0	4.2		
Real disposable income		3.2	4.2	5.6	2.6	2.5	2.7	4.1	2.6	1.8	2.0		
Personal saving rate	%	0.2	0.1	-0.1	-0.4	-0.7	-1.1	-0.5	-0.8	-1.0	-1.0		
Corp. profits, IVA & CCAdj.	% change	3.2	12.9	0.2	-4.5	-5.8	-0.9	-9.8	8.4	2.3	1.7		
Profit share of GNP	%	9.7	9.8	9.7	9.5	9.3	9.2	8.9	9.0	8.9	8.9		
Excluding FR Banks		9.4	9.6	9.5	9.2	9.0	8.9	8.6	8.7	8.7	8.6		
Federal surpl./deficit	Bill. \$	92.0	76.1	116.9	141.7	161.4	172.2	163.5	181.9	197.0	205.2		
State & local surpl./def.		148.7	171.8	160.1	160.0	159.2	163.7	165.8	168.1	167.9	166.3		
Ex. social ins. funds		81.3	103.9	92.2	92.1	91.3	95.8	97.9	100.2	100.0	98.4		
Gross natl. saving rate	%	17.3	17.3	17.4	17.1	16.9	16.7	16.7	16.7	16.7	16.7		
Net natl. saving rate		7.3	7.4	7.5	7.3	7.0	6.8	6.9	6.9	6.9	6.9		
<b>PRICES AND COSTS</b>													
GDP chn.-wt. price index	% change	1.0	0.8	1.6	1.4	1.5	1.4	2.1	1.7	1.8	1.8		
Gross Domestic Purchases chn.-wt. price index		0.7	0.8	1.2	1.6	1.4	1.4	2.0	1.6	1.6	1.7		
CPI		1.7	2.0	1.6	2.8	2.3	2.2	2.3	2.4	2.4	2.4		
Ex. food and energy		2.3	2.3	1.7	2.0	2.2	2.3	2.5	2.5	2.6	2.6		
ECI, hourly compensation <sup>1</sup>		4.4	2.9	3.1	3.4	3.4	3.5	3.4	3.5	3.5	3.8		
Nonfarm business sector													
Output per hour		2.5	4.5	2.9	1.9	1.0	1.4	-0.3	3.0	2.1	2.1		
Compensation per hour		3.9	3.5	4.1	3.7	3.7	3.7	4.1	3.8	3.8	4.2		
Unit labor cost		1.4	-1.1	1.2	1.8	2.7	2.3	4.4	0.8	1.7	2.1		

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

March 24, 1999

Item	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	96Q4/ 95Q4	97Q4/ 96Q4	98Q4/ 97Q4
<b>Real GDP</b>												
Gross dom. purchases	2.1	4.2	4.2	4.0	4.2	3.0	5.5	1.8	3.7	3.9	3.8	4.2
	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	5.3
Personal cons. expenditures	1.3	2.0	2.9	1.1	4.2	1.9	4.1	4.1	2.8	2.2	2.5	3.5
Durables	-0.2	0.6	1.0	-0.1	1.3	0.3	1.2	0.9	0.2	0.5	0.6	1.0
Nondurables	0.2	0.6	0.7	-0.0	1.0	-0.1	1.4	1.0	0.4	0.6	0.4	0.9
Services	1.2	0.8	1.2	1.3	1.9	1.7	1.4	2.1	2.2	1.2	1.5	1.6
Business fixed investment	1.4	0.9	0.7	1.4	1.7	0.2	2.2	1.4	-0.1	1.2	1.0	1.3
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	-0.2
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	0.1

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

March 24, 1999

Item	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	98Q4/ 97Q4	99Q4/ 98Q4	0Q4/ 99Q4
Real GDP												
Gross dom. purchases	5.9	3.4	3.2	2.3	3.0	0.7	3.6	2.2	2.2	4.2	3.0	2.2
	5.5	5.5	4.5	3.3	3.4	1.4	4.3	2.7	2.3	5.4	4.1	2.7
Final sales	6.3	3.8	2.5	2.4	3.0	1.4	3.2	2.1	2.5	4.5	2.9	2.3
Priv. dom. final purchases	5.3	5.6	3.5	3.0	3.1	1.8	3.3	2.4	2.4	5.3	3.8	2.5
Personal cons. expenditures	3.1	4.1	2.8	2.7	2.9	1.4	2.8	1.8	1.6	3.5	3.1	1.9
Durables	1.6	1.0	0.2	0.4	0.4	0.3	0.3	0.3	0.3	1.0	0.5	0.3
Nondurables	0.8	1.3	0.9	0.9	1.0	0.1	0.8	0.5	0.4	0.9	1.0	0.5
Services	0.7	1.7	1.6	1.4	1.4	1.0	1.6	1.0	0.9	1.6	1.5	1.1
Business fixed investment	1.6	1.0	0.7	0.5	0.4	0.5	0.7	0.7	0.8	1.3	0.7	0.7
Producers' dur. equip.	1.4	1.0	0.7	0.5	0.4	0.5	0.7	0.7	0.8	1.3	0.7	0.7
Nonres. structures	0.2	0.0	-0.0	-0.0	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residential structures	0.5	0.5	-0.1	-0.2	-0.2	-0.1	-0.2	-0.1	-0.1	0.5	0.0	-0.1
Net exports	0.5	-2.0	-1.3	-0.9	-0.4	-0.7	-0.7	-0.6	-0.0	-1.1	-1.1	-0.5
Exports	2.0	-0.9	-0.0	0.2	0.5	0.0	0.4	0.5	0.7	0.1	-0.1	0.4
Imports	-1.5	-1.1	-1.3	-1.1	-0.9	-0.7	-1.1	-1.1	-0.8	-1.2	-1.1	-0.9
Government cons. & invest.	0.6	0.2	0.3	0.3	0.2	0.4	0.5	0.3	0.2	0.3	0.3	0.3
Federal	0.4	-0.3	0.0	-0.1	-0.1	0.0	0.1	-0.1	-0.2	0.1	-0.1	-0.0
Defense	0.1	-0.3	0.0	-0.1	-0.1	-0.1	-0.0	-0.0	0.0	-0.1	-0.1	-0.0
Nondefense	0.4	0.0	-0.0	-0.0	-0.0	0.1	0.2	-0.1	-0.2	0.1	-0.0	-0.0
State and local	0.2	0.6	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.2	0.4	0.4
Change in bus. inventories	-0.4	-0.4	0.6	-0.1	0.0	-0.8	0.4	0.0	-0.3	-0.2	0.1	-0.2
Nonfarm	-0.3	-0.3	0.7	0.0	0.1	-0.8	0.4	0.0	-0.3	-0.3	0.1	-0.2
Farm	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.0	-0.0	-0.0	0.1	-0.1	-0.0

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

Item	Fiscal year <sup>4</sup>				1998				1999				2000			
	1997 <sup>a</sup>	1998 <sup>a</sup>	1999	2000	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>UNIFIED BUDGET</b>																
Receipts <sup>1</sup>	1579	1722	1821	1908	378	544	412	413	394	570	444	431	426	590	461	447
Outlays <sup>1</sup>	1601	1653	1698	1739	409	407	409	468	392	421	418	441	445	433	420	451
Surplus/deficit <sup>1</sup>	-22	69	122	169	-30	137	3	-55	2	149	26	-10	-19	157	41	-4
On-budget	-103	-30	-7	26	-53	87	3	-58	-51	94	9	-49	-43	96	22	-45
Off-budget	81	99	129	143	22	50	0	3	54	56	17	39	24	62	18	41
Surplus excluding deposit insurance	-36	65	118	165	-31	136	2	-57	2	148	25	-11	-19	156	40	-5
Means of financing																
Borrowing	38	-51	-94	-160	26	-82	-29	32	11	-120	-18	0	13	-125	-48	-9
Cash decrease	1	5	-1	0	4	-45	33	21	-3	-20	0	10	10	-25	5	20
Other <sup>2</sup>	-17	-23	-27	-9	0	-10	-8	1	-10	-10	-9	1	-4	-7	2	-7
Cash operating balance, end of period	44	39	40	40	28	72	39	18	21	40	40	30	20	45	40	20
<b>NIPA FEDERAL SECTOR</b>																
Receipts	1687	1818	1923	2016	1809	1838	1859	1881	1911	1939	1962	1989	1998	2027	2048	2070
Expenditures	1728	1761	1799	1837	1750	1764	1767	1804	1794	1797	1800	1817	1835	1845	1851	1865
Consumption expend.	458	458	472	483	451	464	459	471	472	473	473	471	483	488	487	484
Defense	306	301	306	310	293	303	303	307	305	307	306	305	311	311	312	313
Nondefense	152	157	166	173	158	161	156	164	166	166	167	166	172	172	177	171
Other expenditures	1270	1303	1327	1354	1299	1300	1308	1333	1322	1324	1328	1345	1351	1357	1364	1381
Current account surplus	-41	57	124	179	59	74	92	78	117	142	161	172	164	182	197	205
Gross investment	61	60	59	58	61	57	61	60	59	59	59	58	58	58	58	58
Current and capital account surplus	-102	-3	65	121	-2	18	31	18	58	83	103	114	106	124	139	147
<b>FISCAL INDICATORS<sup>3</sup></b>																
High-employment (HEB) surplus/deficit	-161	-99	-69	-15	-100	-83	-74	-107	-74	-57	-38	-30	-26	-12	7	20
Change in HEB, percent of potential GDP	-.8	-.8	-.4	-.6	-.5	-.2	-.1	.4	-.4	-.2	-.2	-.1	0	-.2	-.2	-.1
Fiscal impetus (FI), percent, cal. year	-2.1	-1.7	1.7	-.9	-2.1	1.1	.4	.9	1	.1	-.6	-.8	0	.5	-.4	-1

1. OMB's February 1999 surplus estimates (assuming the enactment of the President's proposals) are \$69 billion in FY98, \$79 billion in FY99 and \$103 billion in FY2000. CBO's March 1999 baseline surplus estimates are \$111 billion in FY99 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 FY90.

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 2.8 percent beginning 1996:Q2. 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.

Strictly Confidential Class II FOMC  
March 24, 1999

Change in Debt of the Domestic Nonfinancial Sectors  
(Percent)

Period <sup>1</sup>	Total <sup>2</sup>	Federal government <sup>3</sup>	Total <sup>4</sup>	Nonfederal					Memo: Nominal GDP	
					Households			Business	State and local governments	
					Total	Home mortgages	Consumer credit			
<i>Year</i>										
1990	6.4	11.0	5.2	7.5	9.6	1.5	3.1	5.0	4.4	
1991	4.3	11.1	2.3	4.7	6.4	-1.3	-1.7	8.6	3.8	
1992	4.6	10.9	2.6	4.3	5.2	0.5	0.8	2.2	6.3	
1993	5.0	8.3	3.8	5.3	4.3	7.6	1.5	6.0	5.0	
1994	4.6	4.7	4.6	7.6	5.8	14.5	4.1	-4.0	5.8	
1995	5.4	4.1	5.9	7.8	5.6	14.1	6.7	-4.6	4.2	
1996	5.2	4.0	5.7	7.5	7.7	7.9	5.3	-0.6	5.8	
1997	5.1	0.6	6.7	6.5	6.8	4.3	7.3	5.3	5.6	
1998	6.3	-1.4	8.8	8.9	9.9	5.4	9.2	7.2	5.1	
1999	5.1	-3.4	7.7	8.3	9.1	5.7	7.5	5.3	4.5	
2000	4.2	-4.7	6.6	7.2	7.9	3.8	6.4	4.8	4.1	
<i>Quarter</i>										
1997:3	5.6	0.8	7.3	6.9	9.1	4.1	7.7	6.7	5.4	
4	5.7	1.1	7.3	5.6	5.5	3.0	9.0	8.4	4.2	
1998:1	6.0	-0.8	8.2	8.0	9.8	4.5	8.4	8.4	6.4	
2	6.0	-1.9	8.6	8.2	8.2	5.1	9.4	6.9	2.7	
3	5.5	-3.6	8.4	7.9	9.0	6.4	9.3	6.2	4.7	
4	7.1	0.7	9.0	10.2	11.1	5.1	8.3	6.4	6.8	
1999:1	5.5	-2.8	8.0	8.7	9.3	6.6	7.8	5.4	5.1	
2	4.9	-4.5	7.7	8.3	9.0	5.9	7.5	5.3	4.6	
3	5.0	-3.4	7.3	7.8	8.7	5.2	7.3	5.2	3.8	
4	4.7	-3.0	6.8	7.4	8.3	4.5	6.6	5.0	4.5	

Note. Quarterly data are at seasonally adjusted annual rates.

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

2. On a monthly average basis, total debt 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 -2.9 percent in 1999 and -4.5 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 6.7 percent in 2000.

#### 2.6.3 FOF

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

Category					Seasonally adjusted annual rates											
	Calendar year				1998				1999				2000			
	1997	1998	1999	2000	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2		
<i>Net funds raised by domestic nonfinancial sectors</i>																
1 Total	622.4	688.2	698.3	638.5	765.5	796.3	547.1	643.9	832.8	766.3	616.7	577.7	666.9	610.0		
2 Net equity issuance	-114.4	-262.8	-123.0	-75.0	-139.2	-129.1	-308.4	-474.4	-52.0	-32.0	-204.0	-204.0	-80.0	-70.0		
3 Net debt issuance	736.9	950.9	821.3	713.5	904.7	925.4	855.5	1118.3	884.8	798.3	820.7	781.7	746.9	680.0		
<i>Borrowing sectors</i>																
Nonfinancial business																
4 Financing gap <sup>1</sup>	62.7	78.5	124.8	156.6	102.8	78.2	67.5	65.5	83.9	121.8	141.1	152.4	149.1	164.0		
5 Net equity issuance	-114.4	-262.8	-123.0	-75.0	-139.2	-129.1	-308.4	-474.4	-52.0	-32.0	-204.0	-204.0	-80.0	-70.0		
6 Credit market borrowing	324.1	438.2	390.6	358.4	402.9	460.1	466.6	423.3	404.8	398.2	394.7	364.7	357.6	359.1		
Households																
7 Net borrowing <sup>2</sup>	333.6	485.0	493.7	463.8	437.5	457.2	452.7	592.7	519.1	503.2	486.4	466.3	472.9	454.7		
8 Home mortgages	236.7	368.9	374.2	354.3	365.4	312.4	353.2	444.6	383.1	378.4	372.9	362.2	358.6	350.0		
9 Consumer credit	52.5	67.9	75.5	53.5	57.0	64.8	83.4	66.6	87.9	79.9	71.4	62.6	55.9	51.2		
10 Debt/DPI (percent) <sup>3</sup>	91.5	94.8	97.9	100.8	93.1	94.1	95.0	96.0	96.6	97.6	98.5	99.3	100.1	101.6		
State and local governments																
11 Net borrowing	56.1	80.3	63.7	60.8	94.3	78.9	72.6	75.4	65.0	64.5	63.5	62.0	59.8	61.8		
12 Current surplus <sup>4</sup>	135.6	183.0	193.2	201.2	179.1	169.4	182.7	200.7	192.2	186.7	194.5	199.6	201.3	201.2		
Federal government																
13 Net borrowing	23.1	-52.6	-126.7	-169.4	-30.0	-70.9	-136.5	26.9	-104.0	-167.5	-123.8	-111.2	-143.3	-195.5		
14 Net borrowing (quarterly, n.s.a.)	23.1	-52.6	-126.7	-169.4	25.9	-81.8	-28.8	32.1	11.3	-120.0	-17.6	-0.4	-112.4	-57.0		
15 Unified deficit (quarterly, n.s.a.)	2.4	-54.7	-167.2	-175.3	30.2	-136.9	-3.0	55.0	-2.2	-149.4	-25.8	10.3	-138.6	-36.7		
Depository institutions																
16 Funds supplied	336.3	364.3	286.0	292.1	319.5	156.9	296.9	683.9	237.5	308.1	317.7	280.4	291.9	292.4		
Memo (percentage of GDP)																
17 Domestic nonfinancial debt <sup>5</sup>	182.6	183.9	185.2	186.2	182.4	183.9	184.4	184.2	184.8	185.1	185.6	185.8	186.4	186.3		
18 Domestic nonfinancial borrowing	9.1	11.2	9.2	7.7	10.8	11.0	10.0	12.9	10.1	9.0	9.1	8.6	8.1	7.2		
19 Federal government <sup>6</sup>	0.3	-0.6	-1.4	-1.8	-0.4	-0.8	-1.6	0.3	-1.2	-1.9	-1.4	-1.2	-1.6	-2.1		
20 Nonfederal	8.8	11.8	10.6	9.5	11.1	11.8	11.6	12.6	11.3	10.9	10.5	9.8	9.7	9.3		

Note. Data after 1998:Q4 are staff projections.

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

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

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

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

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

6. Excludes government-insured mortgage pool securities.

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

Measure	1998		Projection		
			1999		2000
	H1	H2	H1	H2	
Foreign output <i>January GB</i>	-.1	1.1	.9	1.7	2.4
	-.1	1.0	.4	1.3	2.2
Real exports <i>January GB</i>	-5.3	7.6	-3.9	3.0	4.0
	-5.3	7.1	-3.0	3.5	4.4
Real imports <i>January GB</i>	12.5	7.1	9.3	7.5	6.9
	12.5	8.3	5.7	6.5	6.7

**The dollar.** We project that the trade-weighted foreign exchange value of the dollar against the major foreign currencies will move down slightly from its current level throughout the forecast period. This path is somewhat higher than in the January Greenbook, reflecting the dollar's recent appreciation. Against the yen, the dollar is expected to change little on balance as weakness in the Japanese economy and easy monetary conditions there counter downward pressures on the dollar stemming from widening current account imbalances in the United States and Japan. Against the euro, the dollar is projected to depreciate somewhat from its current level, reflecting similar pressures from current account imbalances.

Our forecast has the broad index of the real exchange value of the dollar rising slightly over the forecast period, on balance. The dollar's marginal real appreciation against the major currencies is explained by higher consumer price inflation in the United States than in foreign industrial countries. The dollar is expected to appreciate in real terms against all major Latin American currencies except the Brazilian *real*. We continue to project that Chinese authorities will begin to allow modest depreciation of the renminbi at some point during the forecast period, and we continue to assume that the Argentine and Hong Kong currency pegs will hold.

**Activity in foreign industrial countries.** Real GDP growth in foreign industrial countries is projected to run at about 2 percent this year and next, just a shade above the pace in the previous Greenbook. We have revised up our forecast for Canadian growth this year in view of recent signs of stronger

February. Going forward, we have marked up the projected price of imported oil by an average of \$0.60 per barrel over the last three quarters of 1999 and by \$.30 per barrel in 2000, because of an agreement by major oil producers to reduce supply by 2 million barrels per day. The forecast assumes that only about half of these cuts will be implemented.

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

Trade category	1998		Projection		
			1999		2000
	H1	H2	H1	H2	
<i>Exports</i>					
Nonagricultural (core)	-2.1	-1.7	0.7	1.2	1.4
Agricultural	-11.0	-8.6	-2.0	1.6	2.0
<i>Imports</i>					
Non-oil (core)	-2.6	-1.5	0.2	0.7	1.0
Oil (level, dollars per barrel)	12.51	11.38	12.38	13.34	14.00

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

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

**Prices of non-oil imports and exports.** After falling for the past three years, on balance, core import prices are projected to edge up in 1999 and then to increase 1 percent in 2000 as the effects of the dollar's appreciation wane. Commodity prices, which fell more than 13 percent last year and contributed importantly to lower import prices, declined in the current quarter but in future quarters are projected to rise at roughly the same rate as overall prices. The forecast turnaround in commodity prices relies on two factors. First, there was a robust supply response to high prices in recent years, which is now dissipating. Second, the foreign growth slowdown has reduced global demand for commodities, but total foreign GDP is expected pick up over the forecast period. However, the assumption of a stronger dollar has led us to lower the path of commodity prices from that projected in the January Greenbook. Core export prices are projected to rise about 1 percent in 1999 and 1-1/2 percent in 2000.

**Nominal trade and current account balances.** The nominal trade deficit for goods and services is projected to widen substantially during the forecast period,

March 24, 1999

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

Measure and country	-----Projected-----								
	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>REAL GDP (1)</b>									
Total foreign	2.1	3.4	5.1	2.0	4.1	4.1	0.5	1.3	2.4
Industrial Countries of which:	0.6	1.8	4.0	1.7	2.6	3.3	1.6	2.0	2.0
Canada	0.9	2.9	5.5	1.1	1.7	4.4	2.8	2.9	2.5
Japan	0.1	0.5	0.9	2.5	5.1	-0.8	-3.0	-0.6	-0.1
United Kingdom	0.7	3.2	4.6	1.9	2.6	4.0	1.0	1.4	2.3
Euro-11	0.1	-0.1	3.4	1.3	1.9	3.2	2.3	2.0	2.2
Germany	0.9	-0.2	3.4	0.1	2.1	2.3	1.8	1.8	2.3
Developing Countries	4.5	5.7	6.7	2.6	6.3	5.3	-1.0	0.5	2.9
Asia	6.7	8.6	8.4	6.7	7.0	5.1	-2.8	1.2	3.2
Korea	2.4	8.1	9.5	7.2	7.0	3.7	-5.3	2.5	3.8
China	14.6	13.2	12.0	10.1	9.4	7.9	9.2	5.2	6.2
Latin America	2.8	2.8	5.6	-4.1	6.4	6.3	0.9	-0.8	2.6
Mexico	2.5	1.9	5.1	-7.3	7.5	7.2	2.9	1.6	3.4
Brazil	0.1	4.4	9.6	-1.5	5.0	2.0	-1.9	-7.3	-1.0
<b>CONSUMER PRICES (2)</b>									
Industrial Countries of which:	2.0	2.1	1.1	1.3	1.5	1.6	1.0	0.5	0.8
Canada	1.8	1.8	-0.0	2.1	2.0	1.0	1.1	1.3	1.5
Japan	0.9	1.2	0.8	-0.8	0.1	2.1	0.7	-1.8	-1.1
United Kingdom (3)	3.7	2.7	2.2	2.9	3.2	2.8	2.6	2.4	2.5
Euro-11 (4)	NA	NA	NA	2.7	2.0	1.4	0.9	1.4	1.4
Germany	3.4	4.2	2.6	1.7	1.4	1.8	0.6	1.0	1.2
Developing Countries	21.7	24.8	23.1	17.0	11.2	6.9	8.9	6.7	7.7
Asia	5.5	7.7	10.7	6.4	4.8	2.8	4.6	0.8	4.4
Korea	4.7	5.5	5.8	4.4	5.1	5.1	6.0	1.5	2.6
China	8.2	17.1	26.9	11.1	7.0	1.0	-1.1	-5.2	3.6
Latin America	72.4	74.5	54.6	42.2	26.0	15.6	15.6	17.4	14.0
Mexico	13.2	8.6	6.9	48.8	28.1	17.2	17.6	17.7	14.2
Brazil	1150.1	2321.7	1237.1	22.5	10.5	4.2	2.7	19.1	12.7

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

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

Measure and country	1998				1999				Projected				2000			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Quarterly changes at an annual rate															
REAL GDP (1)																
Total foreign	-0.6	0.4	0.9	1.3	0.8	1.1	1.5	1.9	1.9	2.3	2.6	2.6				
Industrial Countries of which:	1.8	1.1	1.5	2.1	1.9	2.0	1.9	2.1	1.6	2.0	2.2	2.2				
Canada	3.2	1.5	1.7	4.6	3.3	3.0	2.6	2.9	2.1	2.5	2.7	2.8				
Japan	-4.8	-2.9	-1.2	-3.2	-1.2	-0.6	-0.3	-0.3	-0.8	-0.1	0.2	0.2				
United Kingdom	1.4	1.3	1.0	0.4	0.4	1.5	1.6	2.1	1.8	2.2	2.6	2.6				
Euro-11	3.1	2.4	2.8	0.9	1.8	1.9	2.1	2.3	1.8	2.3	2.4	2.4				
Germany	5.3	-0.1	3.6	-1.5	1.1	1.6	2.2	2.5	1.8	2.4	2.5	2.5				
Developing Countries	-3.9	-0.7	0.2	0.4	-0.6	-0.0	0.9	1.6	2.4	2.8	3.2	3.1				
Asia	-10.3	-3.4	0.4	2.4	0.3	0.8	1.6	2.3	2.3	2.9	3.7	3.9				
Korea	-22.1	-3.5	1.6	5.3	2.0	2.5	2.5	3.0	3.0	3.5	4.0	4.5				
China	7.2	6.6	10.8	12.4	6.0	4.8	4.8	5.5	5.0	5.5	7.3	7.2				
Latin America	3.6	2.5	0.1	-2.5	-2.2	-1.3	-0.2	0.5	2.6	2.7	2.8	2.3				
Mexico	5.1	2.6	3.8	0.1	0.4	1.6	2.0	2.2	3.6	3.6	3.7	2.8				
Brazil	0.0	5.4	-6.1	-6.4	-8.2	-10.0	-6.0	-5.0	-1.0	-1.0	-1.0	-1.0				
CONSUMER PRICES (2)									Four-quarter changes							
Industrial Countries of which:	1.5	1.1	0.8	1.0	0.7	0.7	0.6	0.5	0.6	0.7	0.8	0.8				
Canada	1.0	1.0	0.9	1.1	0.9	1.2	1.3	1.3	1.4	1.4	1.5	1.5				
Japan	2.1	0.6	-0.1	0.7	-0.2	-0.9	-1.5	-1.8	-1.7	-1.6	-1.4	-1.1				
United Kingdom (3)	2.5	3.0	2.6	2.6	2.5	2.4	2.4	2.4	2.5	2.4	2.5	2.5				
Euro-11 (4)	1.2	1.4	1.2	0.9	1.1	1.2	1.3	1.4	1.4	1.4	1.4	1.4				
Germany	1.2	1.3	0.8	0.6	0.3	0.7	0.9	1.0	1.2	1.2	1.2	1.2				
Developing Countries	7.4	7.6	8.0	8.9	7.4	7.1	7.1	6.7	7.6	7.9	7.8	7.7				
Asia	4.2	4.7	4.6	4.6	1.8	1.0	0.7	0.8	2.7	3.6	4.0	4.4				
Korea	8.9	8.2	7.0	6.0	0.7	0.8	1.4	1.5	2.1	2.3	2.5	2.6				
China	0.4	-0.9	-1.4	-1.1	-4.3	-4.5	-4.6	-5.2	-0.9	1.5	2.4	3.6				
Latin America	14.1	14.2	14.3	15.6	16.5	17.2	18.1	17.4	15.7	15.2	14.6	14.0				
Mexico	15.3	15.1	15.6	17.6	18.7	19.3	19.3	17.7	15.4	15.0	14.7	14.2				
Brazil	4.4	4.5	3.6	2.7	3.0	6.9	14.2	19.1	20.2	17.6	13.8	12.7				

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1992	1993	1994	1995	1996	1997	-----Projected-----	1999	2000
<b>NIPA REAL EXPORTS and IMPORTS</b>									
							Percentage point contribution to GDP growth, Q4/Q4		
Net Goods & Services	-0.4	-0.6	-0.4	0.5	-0.3	-0.6	-1.1	-1.1	-0.5
Exports of G&S	0.4	0.5	1.0	1.1	1.2	1.1	0.1	-0.1	0.4
Imports of G&S	-0.8	-1.1	-1.4	-0.7	-1.4	-1.7	-1.2	-1.1	-0.9
							Percentage change, Q4/Q4		
Exports of G&S	4.1	4.6	10.0	10.5	10.3	9.6	0.9	-0.5	4.0
Services	-0.9	4.1	6.0	9.8	7.5	1.5	-0.6	-0.2	1.8
Agricultural Goods	10.4	-5.5	16.6	-4.3	4.8	2.8	-1.1	-11.6	0.2
Computers	25.2	23.7	32.0	55.5	35.9	40.7	6.5	23.3	28.1
Semiconductors	64.8	32.9	66.9	79.6	46.2	21.0	9.2	22.1	23.6
Other Goods 1/	2.3	3.6	7.0	5.8	8.0	11.6	1.0	-3.0	1.9
Imports of G&S	7.4	10.2	12.3	5.6	11.8	14.0	9.7	8.4	6.9
Services	1.4	3.2	1.4	6.1	5.5	12.4	2.5	4.3	3.2
Oil	12.1	10.1	-0.2	2.4	7.9	4.0	6.0	5.5	6.1
Computers	45.1	39.3	44.8	48.1	24.4	30.3	28.2	29.6	28.4
Semiconductors	42.0	34.2	54.5	92.4	57.6	32.7	-7.7	26.5	27.4
Other Goods 2/	5.4	9.5	12.2	-1.1	10.4	13.0	10.9	7.1	5.2
							Billions of chained 1992 dollars		
Net Goods & Services	-29.5	-70.2	-104.6	-96.5	-111.2	-136.1	-238.5	-334.8	-402.5
Exports of G&S	639.4	658.2	712.4	792.6	860.0	970.0	984.4	993.0	1021.2
Imports of G&S	669.0	728.4	817.0	889.0	971.2	1106.1	1222.9	1327.8	1423.7
							Billions of dollars		
US CURRENT ACCOUNT BALANCE	-51.4	-86.1	-123.8	-115.3	-134.9	-155.2	-233.6	-338.5	-410.5
Net Goods & Services (BOP)	-38.7	-71.9	-100.9	-99.9	-108.6	-110.2	-169.3	-244.9	-299.5
Exports of G&S (BOP)	617.3	643.2	703.8	795.6	850.8	937.6	931.0	930.2	961.0
Imports of G&S (BOP)	656.0	715.2	804.7	895.5	959.3	1047.8	1100.3	1175.1	1260.5
Net Investment Income	22.5	23.9	16.5	19.3	14.2	-5.3	-22.5	-50.9	-68.2
Direct, Net	51.6	55.7	51.8	63.0	66.2	63.7	54.6	37.7	37.7
Portfolio, Net	-29.1	-31.7	-35.3	-43.7	-51.9	-69.1	-77.1	-88.6	-105.9
Net Transfers	-35.2	-38.1	-39.4	-34.6	-40.6	-39.7	-41.9	-42.8	-42.8

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

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

## OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1995				1996				1997			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>NIPA REAL EXPORTS and IMPORTS</b>												
Percentage point contribution to GDP growth												
Net Goods & Services	-0.2	-0.3	1.6	0.7	-1.1	-1.0	-1.4	2.4	-1.3	-0.4	-0.5	-0.3
Exports of G&S	1.0	0.6	1.9	1.1	0.4	0.6	0.2	3.2	0.9	1.7	1.2	0.5
Imports of G&S	-1.2	-0.9	-0.3	-0.4	-1.5	-1.6	-1.6	-0.9	-2.2	-2.2	-1.7	-0.8
Percentage change from previous period, SAAR												
Exports of G&S	9.2	5.4	17.8	10.2	3.7	5.8	2.1	32.0	8.3	15.5	10.6	4.4
Services	9.1	2.9	21.7	6.4	-4.0	10.3	-9.9	39.8	-6.7	11.8	5.9	-4.0
Agricultural Goods	1.8	-13.4	5.0	-9.4	22.6	-32.8	-1.6	48.7	-16.1	-7.8	8.7	32.8
Computers	36.4	33.8	86.6	71.6	57.6	24.7	27.7	35.9	70.2	78.7	41.9	-9.2
Semiconductors	72.0	100.8	96.2	53.6	23.8	29.7	30.2	118.6	41.3	17.3	32.3	-2.2
Other Goods 1/	4.3	1.4	9.4	8.1	0.1	6.0	5.7	21.3	13.8	15.6	9.2	8.0
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	-123.7	-134.2	-115.5	-87.7	-112.9	-132.0	-161.6	-133.2	-148.0	-140.4	-152.4	-180.2
Net Goods & Services (BOP)	-109.3	-125.8	-90.0	-74.5	-92.4	-112.8	-132.3	-96.8	-112.5	-106.1	-108.4	-113.8
Exports of G&S (BOP)	765.4	782.0	809.7	825.6	833.6	845.3	837.5	886.7	904.7	936.1	951.7	957.8
Imports of G&S (BOP)	874.7	907.7	899.7	900.1	926.0	958.2	969.8	983.5	1017.3	1042.1	1060.1	1071.7
Net Investment Income	20.1	24.0	10.2	22.7	21.4	15.9	6.9	12.7	0.1	1.8	-6.2	-17.0
Direct, Net	59.9	67.2	56.5	68.3	64.8	64.4	61.9	73.6	64.2	69.6	65.5	55.6
Portfolio, Net	-39.8	-43.2	-46.2	-45.5	-43.3	-48.5	-55.0	-60.9	-64.2	-67.8	-71.7	-72.6
Net Transfers	-34.5	-32.4	-35.8	-35.9	-41.9	-35.1	-36.2	-49.1	-35.5	-36.1	-37.8	-49.3

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

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

## OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	Projected											
	1998				1999				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	-2.0	-1.3	-0.9	-0.4	-0.7	-0.7	-0.6	-0.0
Exports of G&S	-0.3	-0.9	-0.3	2.0	-0.9	-0.0	0.2	0.5	0.0	0.4	0.5	0.7
Imports of G&S	-1.9	-1.2	-0.3	-1.5	-1.1	-1.3	-1.1	-0.9	-0.7	-1.1	-1.1	-0.8
Percentage change from previous period, SAAR												
Exports of G&S	-2.8	-7.7	-2.8	19.0	-7.6	-0.1	1.7	4.3	0.3	3.8	4.8	7.2
Services	-1.2	1.7	-10.4	8.3	0.1	-1.0	-0.5	0.6	1.1	2.0	1.8	2.1
Agricultural Goods	-9.9	-23.4	-14.5	61.9	-35.2	-16.9	11.3	1.8	-6.8	-2.7	8.3	2.6
Computers	-15.5	8.7	20.6	16.1	14.7	26.2	26.2	26.2	27.2	28.1	28.6	28.6
Semiconductors	-2.0	-19.7	29.7	39.2	23.9	21.6	21.6	21.6	22.7	23.9	23.9	23.9
Other Goods 1/	-1.6	-11.0	-1.2	20.4	-11.9	-1.6	-1.4	3.5	-3.4	1.8	2.6	7.0
Imports of G&S	15.7	9.3	2.3	12.0	8.6	10.0	8.5	6.5	5.6	8.3	8.0	5.8
Services	9.3	-0.6	-0.6	2.5	2.7	5.3	4.8	4.4	1.0	5.0	3.3	3.4
Oil	8.8	41.4	-5.7	-13.1	2.2	34.0	10.3	-17.9	6.5	25.7	11.4	-15.1
Computers	38.8	22.4	9.8	45.1	32.3	31.1	28.7	26.3	26.3	28.7	29.1	29.6
Semiconductors	9.9	-28.8	-10.5	3.4	27.4	26.2	26.2	26.2	26.7	27.2	27.7	28.2
Other Goods 2/	16.1	10.8	3.5	13.8	7.6	7.5	6.8	6.5	4.0	5.5	6.2	5.1
Billions of chained 1992 dollars, SAAR												
Net Goods & Services	-198.5	-245.2	-259.0	-251.4	-297.1	-328.4	-351.4	-362.3	-380.3	-398.8	-414.2	-416.8
Exports of G&S	991.9	972.1	965.3	1008.2	988.6	988.3	992.4	1002.9	1003.6	1013.0	1025.1	1043.0
Imports of G&S	1190.4	1217.3	1224.3	1259.6	1285.7	1316.7	1343.8	1365.2	1383.9	1411.8	1439.3	1459.8
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-188.1	-227.9	-262.8	-255.7	-291.3	-328.6	-353.7	-380.6	-388.1	-405.3	-417.9	-430.5
Net Goods & Services (BOP)	-141.5	-176.9	-186.0	-172.7	-209.0	-241.5	-260.1	-269.0	-284.2	-298.5	-308.4	-307.0
Exports of G&S (BOP)	944.8	921.0	909.4	948.9	924.7	925.4	930.2	940.7	942.3	952.6	965.3	983.7
Imports of G&S (BOP)	1086.3	1097.9	1095.4	1121.6	1133.7	1166.8	1190.2	1209.7	1226.5	1251.0	1273.8	1290.7
Net Investment Income	-8.9	-13.4	-36.7	-31.0	-42.3	-47.1	-53.6	-60.6	-63.9	-66.9	-69.4	-72.6
Direct, Net	62.5	60.9	44.5	50.7	40.9	39.1	37.0	33.9	34.8	36.2	38.8	41.0
Portfolio, Net	-71.4	-74.2	-81.1	-81.8	-83.2	-86.2	-90.6	-94.5	-98.7	-103.1	-108.2	-113.5
Net Transfers	-37.7	-37.6	-40.1	-52.0	-40.0	-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.

Internal FR

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
DIVISION OF RESEARCH AND STATISTICS

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**Date: March 25, 1999**

**To: Federal Open Market Committee**

**From: Mike Prell** *MSP*

**Subject: Greenbook Part 1 Correction**

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Strictly Confidential (FR) -- Class II FOMC

The last sentence on page I-2 should have ended "...while the market price-earnings multiple, measured on trailing earnings, will *remain around its current level.*" The current text mentions a further rise in the P-E ratio. Our projection does indeed show a moderate decline in economic profits from the current level, but it probably doesn't imply much change in the 12-month moving average of earnings used to calculate conventional market PEs.

## **Part 2**

March 24, 1999

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## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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### **Recent Developments**

Confidential (FR) Class III FOMC

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March 24, 1999

## **RECENT DEVELOPMENTS**

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

**Administration Budget Projections and Economic Assumptions**

Measure	1999	2000	2001	2002	2003	2004	Total, 2000-04
BUDGET PROJECTIONS (FISCAL YEARS)	Billions of dollars						
<i>Baseline</i> <sup>1</sup>							
Receipts	1,807	1,872	1,925	1,998	2,066	2,157	10,018
Outlays	1,727	1,755	1,791	1,811	1,884	1,950	9,191
Surplus	80	117	134	187	182	208	828
<i>Policy proposals</i>							
Universal savings account	0	-14	-16	-22	-21	-24	-96
Defense and other priorities	0	0	-26	-41	-37	-34	-138
Debt service	0	0	-2	-4	-8	-11	-24
Surplus	79	103	90	120	117	139	569
MEMO							
CBO baseline surplus <sup>1</sup>	111	133	156	212	213	239	952
ECONOMIC ASSUMPTIONS (CALENDAR YEARS)	Percent change, Q4 to Q4						
Nominal GDP	4.0	4.2	4.1	4.5	4.5	4.5	...
Real GDP	2.0	2.0	2.0	2.4	2.4	2.4	...
CPI-U	2.3	2.3	2.3	2.3	2.3	2.3	...
	Percent, annual average						
Unemployment	4.8	5.0	5.3	5.3	5.3	5.3	...
Yield on selected Treasuries	4.2	4.3	4.3	4.4	4.4	4.4	...
3-month	4.9	5.0	5.2	5.3	5.4	5.4	...
10-year							

1. Assumes that (1) discretionary spending will be held at the caps through fiscal 2002 and rise with inflation thereafter and (2) taxes and mandatory spending will evolve according to current law.

... Not applicable.

## Treasury and Agency Finance

### Treasury Financing (Billions of dollars)

Item	1998		1999			
	Q3	Q4	Q1 <sup>e</sup>	Jan	Feb	Mar <sup>e</sup>
<b>Total surplus, deficit (-)</b>	<b>3.0</b>	<b>-55.0</b>	<b>2.3</b>	<b>70.3</b>	<b>-42.9</b>	<b>-25.2</b>
Means of financing deficit						
Net borrowing	28.8	32.3	8.1	-31.2	1.7	37.6
Nonmarketable	10.1	8.2	1.1	-0.8	0.8	1.1
Marketable	-38.9	24.1	7.0	-30.4	0.9	36.6
Bills	-3.5	53.3	38.9	-28.4	4.3	63.0
Coupons	-35.3	-29.2	-31.9	-2.0	-3.5	-26.4
Decrease in cash balance	33.4	21.4	-1.7	-39.6	52.4	-14.6
Other <sup>1</sup>	-7.6	1.3	-8.6	0.5	-11.3	2.1
MEMO						
Cash balance, end of period	38.9	17.5	19.2	57.1	4.6	19.2

e = estimate

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

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

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

Agency	1998				1999	
	Q2	Q3	Q4	Dec	Jan	Feb
FHLBs	10.5	14.7	38.9	8.4	1.4	n.a.
FHLMC	7.0	32.7	54.4	19.5	13.5	n.a.
FNMA	25.1	24.2	29.7	13.9	0.9	10.1
Farm Credit Banks	2.4	-0.4	-0.8	-2.6	-2.2	5.3
SLMA	-3.1	0.5	1.6	1.5	n.a.	n.a.

NOTE. Excludes mortgage pass-through securities issued by FNMA and FHLMC.

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

**March 26, 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 July	1998 Aug.	1998 Sept.	1998 Oct.	1998 Nov.	1998 Dec.	1998 Jan.	1999 Feb.	1999 Mar. (F)
<b>Indexes of consumer sentiment (reb. 1966=100)</b>									
Composite of current and expected conditions	105.2	104.4	100.9	97.4	102.7	100.5	103.9	108.1	105.7
Current conditions	113.3	113.9	111.7	112.8	115.9	113.9	116.8	115.0	116.3
Expected conditions	100.0	98.3	93.9	87.5	94.3	91.9	95.7	103.6	99.0
<b>Personal financial situation</b>									
Now compared with 12 months ago*	132	132	126	131	130	128	133	133	130
Expected in 12 months*	139	139	131	133	130	133	132	138	134
<b>Expected business conditions</b>									
Next 12 months*	145	146	130	118	136	130	143	152	141
Next 5 years*	119	111	117	101	113	107	110	127	123
<b>Appraisal of buying conditions</b>									
Cars	139	150	142	153	155	151	157	153	152
Large household appliances*	162	163	164	162	171	168	170	166	172
Houses	169	170	166	178	173	182	176	178	167
<b>Willingness to use credit</b>									
Willingness to use savings	54	48	53	53	53	52	47	53	51
<b>Expected unemployment change - next 12 months</b>									
111	109	112	121	119	124	115	108	113	
<b>Prob. household will lose a job - next 5 years</b>									
20	21	22	21	22	19	21	20	21	
<b>Expected inflation - next 12 months</b>									
Mean	3.1	2.7	2.7	2.6	2.7	2.8	3.0	2.8	3.1
Median	2.6	2.4	2.3	2.5	2.3	2.5	2.7	2.5	2.7
<b>Expected inflation - next 5 to 10 years</b>									
Mean	3.1	3.0	3.4	3.2	3.1	3.2	3.5	3.3	3.0
Median	2.7	2.7	2.9	2.8	2.8	2.9	3.0	2.8	2.7

-2-

\* -- 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.