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Strictly Confidential (FR) Class II FOMC

Part 1

November 6, 1996

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

Strictly Confidential (FR) Class II FOMC

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SUMMARY AND OUTLOOK

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Final demand decelerated even more sharply this summer than we had expected, with a marked weakening of consumer spending. But a pickup in inventory investment largely filled the gap, and real GDP growth in the third quarter once again exceeded 2 percent. Although the recent pace of stock accumulation is unsustainable, there is no major inventory overhang, and businesses seem to be confident that their sales will be healthy in the near term--witness their willingness to add substantially to their payrolls last month.

Our guess is that real GDP growth will decelerate to a bit less than 2 percent in the current quarter, with the effects of the CAW/UAW strikes against GM accounting for a good part of the further slowing. A catchup in auto production should give a fillip to manufacturing activity into the early part of 1997, but we continue to think that GDP growth generally will run just a shade above 2 percent over the next two years if present money market conditions are maintained. The softening in demand in the third quarter has stimulated some talk of possible recession--shades of late 1995. However, we would judge the risks attending our output path to be at least as great on the upside over the next few quarters. Fiscal policy restraint seems likely to be limited in the near term, and credit supplies are ample. Notably, the stock market has posted impressive gains, and absent a more sudden and jarring correction than we are inclined to forecast, equity values should remain a plus for demand for a while.

Given the projected GDP growth, the unemployment rate is expected to hold in the recent low range. On the labor cost side, the third-quarter increase in ECI hourly compensation fell short of our expectations, and based on another quarter's "surprise," we have shaved our effective NAIRU a couple of tenths. Nonetheless, even with this adjustment, labor markets would be characterized as tight, implying some further upward drift in compensation rates. As regards prices, the latest news was in line with our earlier thinking. However, looking forward, the more favorable labor cost projection has led us to trim our forecast of price inflation. Assuming some relief from food and energy supply pressures, we now anticipate that the overall CPI will rise just under 3 percent in both 1997 and 1998, compared with about 3-1/4 percent this year. We remind the reader, though, that the year-to-year progression of inflation rates is being damped by technical changes in the CPI; an adjusted series would show a gradual upcreep, especially in the core CPI.

Key Background Factors in the Forecast

Bond markets have rallied strongly in response to the latest economic data, and concerns about prospective Fed tightening actions have evaporated. Given our baseline assumption of an unchanged federal funds rate and our expectations for the economy, we see no reason to anticipate a major sustained backup in yields. Rather, we are projecting that bond rates will remain mainly in the recent range through 1998.

Credit still seems readily available to most borrowers and is not expected to be a significant constraint on spending over the projection period. In the consumer loan market, banks have become less aggressive in marketing new credit cards to marginal borrowers and have tightened terms on some accounts. These selective actions are likely to continue a while longer, but on the whole, banks are unlikely to retreat in any significant way from their relatively profitable consumer lending business. In the business sector, firms should continue to enjoy relatively easy access to credit at favorable spreads.

Stock prices have reached new highs since the last FOMC meeting, reflecting the decline in interest rates as well as third-quarter earnings reports that again exceeded expectations.[1] However, even with a more favorable forecast of labor costs, we believe that corporate profit growth is likely to prove less robust than anticipated by many financial analysts. This factor, along with what simply seems to be a very thin equity premium currently, leads us to persist in anticipating that there will be a correction in the stock market before long. Nonetheless, the level of share prices is higher throughout this forecast than in the last, especially in the near term--a marginal plus for business investment and consumer spending, relative to our previous expectations.

The elections produced no significant change in the existing balance of power between the President and the Congress. Given campaign promises, there is likely to be an effort to enact some tax cuts, but longer-range budget-balancing objectives are likely to curb any tendency toward fiscal laxness. We continue to assume that federal spending will be restrained enough to give a slightly restrictive cast to federal fiscal policy. However, the unified deficit is projected to stay about flat in fiscal 1997 and then rise $33 billion to $141 billion in fiscal 1998. The year-to-year pattern reflects a bunching of tax payments in fiscal 1996 (associated with the surge in individual income tax liabilities), $14 billion in expected spectrum auction proceeds in fiscal 1997, and a return to more normal growth in outlays for mandatory programs.

The trade-weighted foreign exchange value of the dollar is little changed on net since the September meeting of the FOMC, and we expect it to remain near current levels over the forecast period.

1. The profits implicit in BEA's advance estimate appear weak relative to what is suggested by available corporate reports.

This expectation represents an elevation of about 1 percent from the path in the September Greenbook. Our projections of economic activity abroad also are little changed from the last forecast: After growing 3-1/4 percent in 1996, foreign real GDP is projected to rise between 3-1/2 percent and 4 percent in 1997 and 1998.

Oil prices have been quite volatile since the time of the last Greenbook, rising initially in response to uncertainty about the unrest in Northern Iraq and concern about the adequacy of heating oil stocks in the United States. Prices have fallen back in the past week as the Iraqi situation has stabilized, but the spot price of WTI now is expected to average $23.50 per barrel in the fourth quarter--about $1.50 higher than in our previous forecast. Oil prices are expected to average $22 per barrel in the first quarter of 1997, before dropping to $19.50 by the third quarter of 1997 in the wake of the arrival of Iraqi oil on the market; oil prices remain at this level for the balance of the forecast period.

Recent Developments and the Prospects for the Current Quarter

Our current point estimate of real GDP growth in the third quarter is 2.5 percent at an annual rate--0.3 percentage point above BEA's advance figure and about the same as in the last Greenbook. The expected upward revision reflects the September data on manufacturers' inventories, which came in above BEA's assumption, as well as greater strength in shipments of nondefense capital goods and in construction put in place.

Turning to the fourth quarter, the data in hand are quite limited--the most important being those from the labor market. Despite a sizable gain in employment, production-worker hours dropped appreciably in October, implying a sharp drop in the average workweek. However, the workweek has been following a sawtooth pattern, and we expect some recovery in November-December.

Certainly, initial claims for jobless benefits suggest an ongoing vitality of labor demand into early November. For the quarter as a whole, production-worker hours are projected to increase 1-1/2 percent (annual rate). This increase, and the recent stability of the unemployment rate, would be consistent with moderate output growth.

SUMMARY OF THE NEAR-TERM OUTLOOK
(Percent change, annual rate)

	1996:Q3			1996:Q4	
	Sept. GB	BEA Adv.	Nov. GB	Sept. GB	Nov. GB
Real GDP	2.4	2.2	2.5	2.2	1.8
Private domestic final sales	2.4	1.9	2.0	3.4	3.2
Change in billions of chained (1992) dollars					
Inventory investment	24.0	32.5	33.6	-4.7	-18.1
Government outlays for consumption and investment	-8.5	-4.4	-1.5	-2.3	-2.4
Net exports	-8.3	-17.5	-18.9	-3.3	6.1

Strikes by the Canadian Auto Workers (CAW) and United Auto Workers (UAW) against General Motors reduced U.S. light vehicle assemblies by 1.2 million units (annual rate) in October and early November. These work stoppages are now over, but the lost output probably cannot be made up in the current quarter because many of the affected assembly plants had been operating at capacity prior to the strikes. On balance, we estimate that the resultant decline in motor vehicle output will reduce real GDP growth by around 0.3 percentage point in the fourth quarter.

Consumer spending is projected to be the driving force behind a resurgence in final sales this quarter. Income growth has been quite strong this year, the rise in the stock market has boosted household wealth, and indexes of consumer sentiment remain near the high end of the range experienced in this expansion. Even considering the less favorable consumer debt situation, some reversal of the summer jump in the personal saving rate would seem to be in store. At this point, though, there is no real statistical evidence to support this prediction: Non-auto retail sales did turn up in September, but sales of light vehicles were down slightly in October (perhaps hindered a little by the strikes).

Real business fixed investment is expected to grow relatively slowly in the current quarter, reflecting sizable cutbacks in business purchases of motor vehicles. We anticipate that, in the wake of the CAW/UAW strikes, GM will allocate a greater fraction of the available supply of vehicles to retail customers, temporarily curtailing its fleet sales. Outside of motor vehicles, the outlook for equipment spending is considerably brighter. Positive trends in orders and shipments, coupled with further rapid price declines, suggest another robust quarter of real spending on computers and communications equipment. Recent trends in indicators of nonresidential construction point to small increases in this sector.

Residential construction is expected to decline in the current quarter. The drop would stem mainly from the earlier falloff in single-family starts, but we are also anticipating that such starts will run lower this quarter than the average pace over the summer. Recent indicators of housing demand remain mixed, however. On the positive side, mortgage rates have fallen, consumer perceptions of homebuying conditions have improved again, and mortgage applications have been well maintained. In contrast, builders' ratings of new home sales have tailed off since the spring.

In the government sector, the decline in federal purchases is expected to steepen in the fourth quarter, with spending reductions concentrated in defense consumption expenditures. State and local purchases are forecast to pick up in the fourth quarter, with the largest gains in construction spending.

After widening over the first three quarters of this year, the deficit on real net exports is projected to narrow temporarily in the fourth quarter--contributing a little to the growth of real GDP.

A key element in the current-quarter forecast is the expectation that growth in the stock of nonfarm inventories will drop back to a sustainable pace after a 4-1/4 percent increase (annual rate) in the third quarter. Inventory-sales ratios had fallen to relatively low levels at the beginning of the summer, and the additional stockbuilding just moved stock-sales ratios back to the middle of the recent range. Anecdotal reports generally find businesses to be satisfied with current stock levels, but they have no obvious incentive to build their inventories further relative to what is perceived to be a moderate sales growth trajectory. Nonfarm inventories thus are projected to increase at a 2 percent annual rate in the current quarter, and this downshifting in the pace of accumulation restrains real GDP growth by more than 1 percentage point.

The CPI is projected to rise at a 3-1/4 percent annual rate in the fourth quarter--slightly less than in the September Greenbook. The rate of increase in food prices should slow somewhat from the elevated pace of the third quarter. Estimates of the size of this year's harvest have been boosted, and crop prices have fallen substantially. Near-term energy price increases also have been scaled back despite the higher crude oil prices in this projection; this reflects favorable developments in the markets for natural gas and electricity. Excluding food and energy, we forecast that the

CPI will increase close to 3 percent in the current quarter--essentially the same as in the last Greenbook.

As a result of the more favorable trends in the incoming data, we have trimmed the projected increase in the ECI in the fourth quarter to 3-1/2 percent at an annual rate. The acceleration between the third and fourth quarters is concentrated in wages and salaries and reflects the tautness in labor markets as well as the hike in the minimum wage. We have stuck by our estimate that the higher minimum wage will add almost 1/2 percentage point to the annual rate of increase in the ECI in the current quarter, even though the evidence of such an effect was not striking in the October data on average hourly earnings. Although average hourly earnings were flat overall last month, there was a large increase in the retail trade sector, in which many minimum-wage workers are employed.

The Outlook for the Economy Beyond the Current Quarter

Real GDP is projected to grow a little more than 2 percent in both 1997 and 1998. The forecast for 1997 has been raised slightly to reflect the makeup of motor vehicle output lost as a result of the CAW/UAW strikes. This added output boosts real GDP growth by almost 1/2 percentage point (at an annual rate) in the first quarter of 1997. Thereafter, the projection is virtually the same as in the September Greenbook. With no imbalances to speak of and no major monetary or fiscal policy shocks, economic growth settles down to about its trend pace.

Consumer spending. After rebounding in the current quarter, personal consumption expenditures are forecast to move closely in line with disposable income, holding the personal saving rate essentially flat at about 5 percent. As in past Greenbooks, we view this projection as balancing several conflicting influences on consumption. Confidence is high, and the higher values of the stock market probably have boosted the consumption of some households and could buoy spending in coming quarters, even with the correction built into the forecast. Other segments of the population are likely finding their spending capacity restricted by heavy debt-service burdens, and the tightening of credit card standards that has been under way will put a further damper on spending, albeit a minor one. Still other households probably are earmarking more of their income to retirement saving or to college funds for their children.

SUMMARY OF STAFF REAL GDP PROJECTION FOR 1996-98
(Percent change, Q4 TO Q4, unless otherwise noted)

	1996	1997	1998
Real GDP	2.7	2.2	2.1
Previous	2.8	2.1	2.1
Real PCE	2.8	2.7	2.4
Previous	2.9	2.7	2.4
Real BFI	8.7	5.1	5.6
Previous	7.6	5.1	5.6
Real residential investment	2.3	-1.1	1.3
Previous	4.1	-2.2	1.0
Change in billions of chained (1992) dollars			
Net exports	-42.6	-24.3	-18.8
Previous	-41.1	-15.6	-18.4

Reflecting these crosscurrents, real PCE is forecast to grow 2-3/4 percent in 1997 and 2-1/2 percent in 1998. Sales of new cars and light trucks have been running at a fairly high level for a while, and underlying stock relationships would not seem to support a sustained further advance. Similarly, with the projected softening in housing activity, we do not foresee large increments to spending on furniture and appliances. In contrast, the growth in demand for computers and other home electronic equipment probably will be maintained at a high level, given the large price declines and product innovations in this area. We are projecting fairly steady growth in spending on nondurables and services.

Residential investment. We have raised the forecast for housing activity slightly, reflecting the lower level of mortgage rates in this forecast. Single-family housing starts are projected to edge down closer to a 1.1 million unit rate in the next few quarters and to remain there through 1998. Although we have anticipated no changes in the tax treatment of owner-occupied housing, the risks probably are in the positive direction for demand: There were campaign promises of further enhancement of the shelter from capital gains taxes, while more fundamental tax reforms that might make homeownership less advantageous do not appear to be imminent. In the multifamily market, starts are projected to hold steady at 300,000 units over the forecast period. Vacancy rates have risen, and profitability concerns are likely to inhibit construction.

The projected level of overall starts is relatively high and might be regarded as more than ample in relation to longer-term trends in the pace of household formation. However, those trends have proved quite difficult to predict and, moreover, have not been a particularly reliable guide to construction in the short run. The cash-flow affordability of single-family homes is very good by the standards of recent decades, and the rapid growth of employment over the past few years probably has positioned a greater number of people to establish households.

Business fixed investment. After the large gains of recent years, real BFI is projected to decelerate to a 5 percent pace in 1997 and to grow 5-1/2 percent in 1998. The slowing reflects the waning of accelerator effects and the less rapid growth in corporate cash flow.

Real PDE is forecast to rise around 7 percent in both 1997 and 1998. Growth in gross spending on office and computing equipment is expected to remain quite strong--though well below the astronomical pace of earlier years. Continued technological change and large price declines are expected to produce a hefty demand in this sector. Similarly, we are anticipating an acceleration in spending on communications equipment over the next few years, as the introduction of new technologies coupled with deregulation of this industry prompts substantial new investment. Spending on new aircraft also should pick up, given the improved finances of domestic air carriers; industry production will be boosted as well by rising deliveries to foreign customers. Outside of these areas, spending for new motor vehicles and the more traditional types of industrial equipment is projected to grow slowly as current levels of investment probably are already sufficient to meet most anticipated needs for such capital. In some materials industries, especially, concerns have begun to arise about potential excess capacity.

Nonresidential investment is expected to only inch up over the projection period. Construction contracts have flattened out as overbuilding in some areas (such as retail outlets) is now starting to restrain new construction.

Inventory investment. With the exception of the near-term outlook discussed above, the forecast for nonfarm inventory investment is essentially unchanged from the September Greenbook. We expect businesses to maintain a focus on paring stocks to their operational minimum, and we anticipate that inventory-sales ratios will trend downward over the projection period. In such an environment, nonfarm inventory investment has an essentially neutral influence on real GDP growth in 1997 and 1998.

As regards farm inventories, we have strengthened our projection for the second half of 1996 in light of the favorable outcome of the current harvest. After a rocky start, this year's corn, wheat, and soybean output looks to be quite a bit better than anticipated just three months ago, when it was feared that stocks might be exhausted. Futures prices have eased now that stockpiles are expected to be adequate to meet demand. Assuming normal harvests in 1997 and 1998, we expect farm inventories to rise somewhat further over the forecast period.

Government. Real federal expenditures on consumption and gross investment are projected to fall 2-1/2 percent in 1997 and 3-1/2 percent in 1998. This is an upward revision from the September Greenbook and reflects the additional outlays for defense approved by the Congress before it adjourned. Defense purchases now are expected to fall 3-1/4 percent in 1997 and 4-1/2 percent in 1998. Nondefense purchases are forecast to decline 1 percent in 1997 and 1-3/4 percent in 1998, reflecting anticipated reductions in federal employment.

Most state and local governments find themselves in reasonably good financial shape at the moment, and we anticipate moderate growth in real purchases over the next two years. State and local consumption and investment expenditures are projected to rise 2-1/2 percent in both 1997 and 1998.

Net exports of goods and services. The outlook for the U.S. external balances has weakened in this forecast relative to the September Greenbook. Exports are expected to grow 6-3/4 percent in 1997 and 6-1/4 percent in 1998, while the growth in imports is somewhat faster than that: 8-1/4 percent in 1997 and 7-1/4 percent in 1998. The widening of the deficit on real net exports subtracts about 1/3 percentage point from real GDP growth in 1997 and 1998. (A more detailed discussion of the outlook for net exports is contained in the International Developments section.)

Labor markets. Growth in nonfarm payrolls is projected to taper down to about 130,000 per month in early 1997. With the economy growing at about its potential pace and only a slight further increase expected in the labor force participation rate, the unemployment rate is projected to hold steady at 5.2 percent over the forecast period.

STAFF LABOR MARKET PROJECTIONS
(Percent change, Q4 TO Q4, unless otherwise noted)

	1996	1997	1998
Output per hour, nonfarm business	.6	.9	1.0
Previous	.9	.9	1.0
Nonfarm payroll employment	2.1	1.3	1.2
Previous	2.2	1.2	1.3
Civilian unemployment rate[1]	5.2	5.2	5.2
Previous	5.4	5.4	5.4
Labor force participation rate[1]	66.8	66.9	66.9
Previous	66.8	66.8	66.9

1. Average for the fourth quarter.

In putting together this forecast, we have assumed that growth in labor productivity will move back to its trend rate of around 1 percent. In doing so, we have heavily discounted its recent poor performance. It is possible that depletion of the supplies of well-qualified workers has now started to take its toll on productivity gains. But we think it more likely that productivity simply has been underestimated. When output is estimated from the "income" side of the accounts, recent productivity growth looks better than the published product-side measure. Furthermore, we find it difficult to believe that actual efficiency gains have markedly slowed in an environment of robust capital spending, rapid technological change, and ongoing corporate restructuring. Thus, we have let the growth in labor productivity move back to its trend. However, it is important to note that this assumption is not without its risks. If trend growth in productivity truly has slowed recently, the staff forecast may seriously understate the potential inflationary pressures in the economy.

Wages and prices. As in past Greenbooks, a key influence on the medium-term outlook for wage and price inflation is the amount of slack in labor and product markets. Given current and prospective levels of investment, physical capacity in the industrial sector would not appear to be a concern. Rather, it is in the availability of qualified labor where the tensions between aggregate demand and supply appear to be arising. As noted above, looking at the trends in compensation with the receipt of another quarter's data, we have judged that the upcreep in pay rates is slower than we had thought. This suggests that a somewhat lower level of unemployment may in fact be compatible with stability in inflation--and, in effect, we have lowered the NAIRU implicit in our forecast to something more like 5.6 percent, a couple of tenths below that embedded in our previous forecast. That said, the staff forecast continues to show the actual unemployment rate below the sustainable level, and thus includes a gradual uptrend in inflation.

ECI hourly compensation is projected to rise from a rate of 3 percent in 1996 to 3.4 percent in 1997 and 3.6 percent in 1998. In addition to the tightness in labor markets, the direct effect of the hikes in the minimum wage and the associated feedback effects through higher price inflation add 0.2 percentage point to the increases in the ECI in both 1997 and 1998.

The influence of economic slack is more difficult to identify in the CPI forecast because of methodological changes to the index and developments in food and energy markets. After an increase of 2.7 percent in 1996, core CPI inflation is projected to rise to 3 percent in 1997, and it is expected to hold at that level in 1998 as reweighting of the index masks the underlying upward movement in prices induced by excessively tight markets. In addition, a gradual updrift in non-oil import prices is expected to be a marginal addition to inflationary pressures--in contrast to the damping effect of import price declines over the past year.

STAFF INFLATION PROJECTIONS
(Percent change, Q4 TO Q4, unless otherwise noted)

	1996	1997	1998
Consumer price index	3.2	2.8	2.8
Previous	3.2	3.1	2.9
Food	3.9	2.9	2.8
Previous	4.1	3.7	2.4
Energy	7.1	.3	1.0
Previous	7.6	1.6	1.9
Excluding food and energy	2.7	3.0	3.0
Previous	2.7	3.1	3.1
ECI for compensation of private industry workers[1]	3.0	3.4	3.6
Previous	3.3	3.6	3.8
Memo:			
Core CPI adjusted for methodology changes	2.9	3.3	3.4
Previous	2.9	3.4	3.5

1. December to December.

The overall CPI is projected to decelerate from an increase of 3.2 percent in 1996 to 2-3/4 percent in 1997 and 1998, reflecting favorable developments in food and energy markets. The outlook for energy prices is largely determined by the path of crude oil prices. The recent run-up in crude costs is expected to show up at the pump in the next few months. As crude oil prices drop over the first half of 1997, the rate of increase in energy prices slows. On balance, we are forecasting increases in CPI energy prices of just 0.3 percent in 1997 and 1 percent in 1998.

The changes to the food price projection mainly reflect the more favorable outlook for both crop and livestock production. As noted, the larger harvest now expected for this year has put downward pressure on corn, wheat, and soybean prices. With lower input prices, the expected run-up in retail food prices has been scaled back. In addition, feed prices have fallen sufficiently to again make it profitable to put young calves on feed, and an increase in meat supplies is expected during 1997. As a result of these influences, we have cut the expected increase in CPI food prices next year 3/4 percentage point, to 3 percent. Assuming normal harvests in 1998, food prices are projected to decelerate further to an increase of 2-3/4 percent.

Monetary and credit flows. With short-term market interest rates assumed to be about unchanged over the projection period, deposit interest rates and the opportunity cost of holding M2 are expected to be about flat, and consequently M2 growth remains roughly in line with that of nominal GDP in the staff forecast. M2 should finish 1996 in the upper half of its annual range. M3 is likely to close the year around the upper end of its range. Over the next two years, M3 growth should remain relatively brisk, reflecting, in part, a strengthening in bank credit expansion.

After a 5 percent increase this year, growth in the debt of the domestic nonfinancial sector is expected to be a little over 4-1/2 percent in 1997 and 1998--close to the expansion of nominal GDP. The sectoral composition of debt growth is projected to shift, however.

Business borrowing has picked up in recent months, following a lull during the summer. Business debt growth is projected to move up slightly further as the slackening in the growth of profits and the continued strength in capital spending in the forecast boosts financing needs in 1997 and 1998. The staff anticipates that merger and acquisition activity will run close to its current pace through 1998 and share repurchase programs will dip only slightly from recent high levels; both factors will tend to support business borrowing in the period ahead. Borrowing conditions should remain accommodative for businesses, with attractive bank lending terms and narrow rate spreads in the securities markets.

Growth in household debt is expected to edge lower but to stay above that of nominal income. The projected moderation in the growth of spending on durable goods suggests a less robust demand for consumer credit, which already has slowed markedly in recent months. On the supply side, banks and other lenders continue to tighten standards selectively while pursuing well-qualified borrowers. Overall, consumer credit availability is expected to impose only mild restraint on consumer outlays. Home mortgage credit should remain in plentiful supply but borrowing likely will edge lower in the quarters ahead as housing activity softens.

In the state and local government sector, debt retirements associated with the completion of advance refundings are expected to slow and net debt issuance is projected to turn slightly positive over the forecast period. The growth of federal government debt remains modest over 1997 and 1998.

Alternative Simulations

Two alternative simulations examine the implications of different assumptions about the path of the federal funds rate. In the first scenario, increases in the funds rate begin immediately and cumulate to 100 basis points by the fourth quarter of 1997; the funds rate is held constant thereafter. The tighter financial conditions reduce the increase in real GDP 0.4 percentage point in 1997 and lower growth 0.6 percentage point in 1998. The unemployment rate is 0.1 percentage point higher than the Greenbook baseline by the fourth quarter of next year and 0.5 percentage point higher by the end of 1998. The additional slack reduces CPI inflation by 0.1 percentage point in 1997 and 0.5 percentage point in 1998. The alternative scenario with lower interest rates has symmetrical effects.

ALTERNATIVE FEDERAL FUNDS RATE ASSUMPTIONS
(Percent change, Q4 to Q4, except as noted)

	1996	1997	1998
Real GDP			
Baseline	2.7	2.2	2.1
Higher funds rate	2.7	1.8	1.5
Lower funds rate	2.7	2.6	2.7
Civilian unemployment rate[1]			
Baseline	5.2	5.2	5.2
Higher funds rate	5.2	5.3	5.7
Lower funds rate	5.2	5.1	4.7
CPI			
Baseline	3.2	2.8	2.8
Higher funds rate	3.2	2.7	2.3
Lower funds rate	3.2	2.9	3.3

1. Average for the fourth quarter.

Strictly Confidential <FR>
Class II FOMC

November 6, 1996

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

Interval		Nominal GDP		Real GDP		GDP Chain-weighted price index		Consumer price index[1]		Unemployment rate[2]	
		09/18/96	11/06/96	09/18/96	11/06/96	09/18/96	11/06/96	09/18/96	11/06/96	09/18/96	11/06/96
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	2.2	2.2	3.0	2.9	5.4	5.4
1997		4.7	4.6	2.3	2.4	2.6	2.5	3.1	2.9	5.4	5.2
1998		4.6	4.3	2.1	2.1	2.7	2.6	2.9	2.8	5.4	5.2
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	5.7	5.7
	Q3	6.0	6.0	3.8	3.8	2.1	2.1	2.1	2.1	5.6	5.6
	Q4	2.3	2.3	0.3	0.3	2.1	2.1	2.4	2.4	5.5	5.5
1996	Q1	4.2	4.2	2.0	2.0	2.3	2.3	3.2	3.2	5.6	5.6
	Q2	6.6	6.5	4.7	4.7	2.2	2.2	3.9	3.9	5.4	5.4
	Q3	4.2	4.1	2.4	2.5	2.1	1.9	2.4	2.3	5.3	5.2
	Q4	4.5	4.0	2.2	1.8	2.6	2.5	3.5	3.3	5.4	5.2
1997	Q1	5.0	5.4	2.1	2.4	3.0	2.9	3.4	3.1	5.4	5.2
	Q2	4.6	4.4	2.1	2.2	2.7	2.4	2.9	2.6	5.4	5.2
	Q3	4.6	4.3	2.2	2.2	2.6	2.4	2.8	2.6	5.4	5.2
	Q4	4.6	4.1	2.2	2.1	2.7	2.4	3.1	2.9	5.4	5.2
1998	Q1	4.7	4.4	2.1	2.1	2.9	2.7	2.9	2.8	5.4	5.2
	Q2	4.6	4.3	2.1	2.1	2.7	2.5	2.9	2.8	5.4	5.2
	Q3	4.5	4.3	2.1	2.1	2.8	2.7	2.9	2.8	5.4	5.2
	Q4	4.6	4.4	2.1	2.1	2.8	2.7	2.9	2.9	5.4	5.2
TWO-QUARTER[3]											
1995	Q2	3.5	3.5	0.6	0.6	2.9	2.9	3.2	3.2	0.1	0.1
	Q4	4.1	4.1	2.0	2.0	2.1	2.1	2.2	2.2	-0.2	-0.2
1996	Q2	5.4	5.4	3.3	3.3	2.3	2.3	3.5	3.5	-0.1	-0.1
	Q4	4.3	4.1	2.3	2.2	2.4	2.2	3.0	2.8	-0.0	-0.2
1997	Q2	4.8	4.9	2.1	2.3	2.8	2.7	3.2	2.9	-0.0	0.0
	Q4	4.6	4.2	2.2	2.1	2.6	2.4	3.0	2.7	-0.0	0.0
1998	Q2	4.6	4.4	2.1	2.1	2.8	2.6	2.9	2.8	0.0	-0.0
	Q4	4.5	4.4	2.1	2.1	2.8	2.7	2.9	2.9	-0.0	-0.0
FOUR-QUARTER[4]											
1994	Q4	5.9	5.9	3.5	3.5	2.3	2.3	2.6	2.6	-1.0	-1.0
1995	Q4	3.8	3.8	1.3	1.3	2.5	2.5	2.7	2.7	-0.1	-0.1
1996	Q4	4.9	4.7	2.8	2.7	2.3	2.2	3.2	3.2	-0.1	-0.3
1997	Q4	4.7	4.5	2.1	2.2	2.7	2.5	3.1	2.8	-0.0	0.0
1998	Q4	4.6	4.4	2.1	2.1	2.8	2.7	2.9	2.8	0.0	-0.0

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.

Strictly Confidential (FR) Class II FOMC

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

November 6, 1996

Item	Units[1]	1990	1991	1992	1993	1994	1995	1996 (Projected)	1997 (Projected)	1998 (Projected)
EXPENDITURES										
Nominal GDP	Bill. $	5743.8	5916.7	6244.4	6553.0	6935.7	7253.8	7572.4	7922.9	8264.6
Real GDP	Bill. Ch. $	6138.7	6079.0	6244.4	6386.4	6608.7	6742.9	6901.9	7065.3	7215.5
Real GDP	% change	-0.2	0.4	3.7	2.2	3.5	1.3	2.7	2.2	2.1
Gross domestic purchases		-0.8	-0.0	4.0	2.9	3.8	1.0	3.3	2.5	2.3
Final sales		0.6	-0.4	3.9	2.0	2.9	1.9	2.6	2.2	2.2
Priv. dom. final purchases		-0.6	-0.8	4.9	3.5	4.0	2.3	3.5	2.9	2.9
Personal cons. expenditures		0.5	-0.2	4.2	2.5	3.1	1.9	2.8	2.7	2.4
Durables		-3.2	-3.1	9.4	7.3	7.0	1.3	6.6	4.7	4.4
Nondurables		-0.5	-1.0	3.4	1.5	3.5	1.1	2.0	2.5	1.9
Services		2.0	0.9	3.6	2.1	2.0	2.4	2.3	2.4	2.2
Business fixed investment		-2.5	-6.0	5.5	8.5	10.1	6.4	8.7	5.1	5.6
Producers' dur. equipment		-2.0	-2.6	9.6	11.5	12.6	6.9	10.7	6.7	7.2
Nonres. structures		-3.5	-12.5	-3.4	1.6	3.6	5.1	3.1	0.6	0.7
Residential structures		-15.1	1.1	16.9	8.1	5.7	-1.5	2.3	-1.1	1.3
Exports		7.2	8.6	4.1	4.8	9.9	7.4	4.8	6.7	6.3
Imports		0.5	4.1	7.4	10.5	11.8	4.2	9.1	8.3	7.2
Gov't. cons. & investment		2.6	-0.7	1.7	-0.5	0.0	-1.3	2.0	0.7	0.3
Federal		1.6	-3.1	1.3	-5.4	-3.1	-6.7	1.3	-2.5	-3.6
Defense		0.3	-5.3	-1.3	-6.8	-5.7	-6.8	0.0	-3.2	-4.6
State & local		3.3	1.0	2.0	3.1	2.2	2.1	2.4	2.5	2.4
Change in bus. inventories	Bill. Ch. $	10.4	-3.0	7.3	19.1	58.9	33.2	16.8	26.1	22.6
Nonfarm		7.8	-1.2	1.9	26.4	46.8	37.2	19.6	22.3	17.4
Net exports		-61.9	-22.3	-29.5	-72.0	-105.7	-107.6	-119.9	-142.1	-163.2
Nominal GDP	% change	4.4	3.8	6.3	4.8	5.9	3.8	4.7	4.5	4.4
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	109.4	108.3	108.6	110.7	114.2	117.2	119.5	121.4	122.8
Unemployment rate	%	5.6	6.8	7.5	6.9	6.1	5.6	5.4	5.2	5.2
Industrial prod. index	% change	-0.2	0.2	4.0	3.2	6.6	1.6	3.8	3.1	3.2
Capacity util. rate - mfg.	%	81.3	78.0	79.5	80.6	83.3	83.0	82.0	81.8	81.6
Housing starts	Millions	1.19	1.01	1.20	1.29	1.46	1.35	1.47	1.42	1.41
Light motor vehicle sales		14.05	12.52	12.85	13.87	15.02	14.74	14.98	14.98	14.80
North Amer. produced		10.85	9.74	10.51	11.72	12.88	12.82	13.29	13.21	13.07
Other		3.20	2.77	2.34	2.15	2.13	1.91	1.69	1.77	1.73
INCOME AND SAVING										
Nominal GNP	Bill. $	5764.9	5932.4	6255.5	6563.5	6931.9	7246.7	7565.5	7908.3	8243.7
Nominal GNP	% change	4.6	3.5	6.2	4.7	5.7	3.9	4.7	4.4	4.3
Nominal personal income		6.4	3.7	7.3	3.6	5.2	5.6	5.4	4.7	4.7
Real disposable income		1.0	0.8	4.0	0.9	2.7	3.1	2.4	2.7	2.4
Personal saving rate	%	5.0	5.7	5.9	4.5	3.8	4.7	4.8	5.0	5.0
Corp. profits, IVA & CCAdj.	% change	6.2	3.9	12.7	19.9	11.3	7.2	1.7	5.7	2.7
Profit share of GNP	%	6.4	6.4	6.4	7.1	7.6	8.1	8.5	8.3	8.1
(excluding FR banks)	%	6.0	6.1	6.1	6.8	7.4	7.8	8.2	8.0	7.9
Federal surpl./deficit	Bill. $	-154.7	-196.0	-280.9	-255.6	-190.2	-161.7	-126.8	-112.4	-109.6
State & local surpl./def.		80.1	75.8	86.3	94.9	99.7	95.0	91.9	83.1	75.8
Ex. social ins. funds		20.2	11.5	18.3	28.0	36.9	36.8	35.9	28.5	22.0
PRICES AND COSTS										
GDP implicit deflator	% change	4.6	3.4	2.6	2.5	2.3	2.5	1.9	2.3	2.2
GDP chn.-wt. price index		4.7	3.3	2.6	2.5	2.3	2.5	2.2	2.5	2.7
Gross Domestic Purchases chn.-wt. price index		5.2	2.7	2.7	2.3	2.4	2.3	2.2	2.2	2.5
CPI		6.3	3.0	3.1	2.7	2.6	2.7	3.2	2.8	2.8
Ex. food and energy		5.3	4.4	3.5	3.1	2.8	3.0	2.7	3.0	3.0
ECI, hourly compensation[2]		4.6	4.4	3.5	3.6	3.1	2.6	3.0	3.4	3.6
Nonfarm business sector										
Output per hour		-0.6	2.2	3.6	-0.3	0.5	0.3	0.6	0.9	1.0
Compensation per Hour		5.9	4.7	4.6	1.8	2.5	4.1	3.8	3.7	3.6
Unit labor cost		6.5	2.5	1.0	2.1	2.0	3.8	3.3	2.8	2.6

1. Changes are from fourth quarter to fourth quarter.
2. 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)

November 6, 1996

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. $	6776.0	6890.5	6993.1	7083.2	7149.8	7204.9	7309.8	7350.6	7426.8	7545.1
Real GDP	Bill. Ch. $	6508.5	6587.6	6644.9	6693.9	6701.0	6713.5	6776.4	6780.7	6814.3	6892.6
Real GDP	% change	2.5	4.9	3.5	3.0	0.4	0.7	3.8	0.3	2.0	4.7
Gross domestic purchases		3.5	5.3	3.7	2.5	1.4	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		3.9	4.4	3.8	4.0	2.3	2.3	3.0	1.4	4.7	4.1
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	-1.3	-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. $	40.5	74.5	64.5	56.1	54.5	30.5	33.0	14.6	-3.0	7.1
Nonfarm		29.7	54.0	50.5	53.0	57.4	33.7	38.6	19.0	2.9	11.7
Net exports		-99.3	-107.3	-111.7	-104.3	-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	117.0	117.4	117.9	118.5	119.3
Unemployment rate	%	6.6	6.2	6.0	5.6	5.5	5.7	5.6	5.5	5.6	5.4
Industrial prod. index	% change	8.4	7.0	4.6	6.4	3.9	-1.4	3.2	0.6	3.0	6.7
Capacity util. rate - mfg.	%	82.2	83.2	83.4	84.3	84.3	83.0	82.6	82.0	81.6	82.2
Housing starts	Millions	1.38	1.47	1.46	1.48	1.31	1.29	1.42	1.41	1.47	1.49
Light motor vehicle sales		15.07	14.85	14.99	15.16	14.56	14.44	15.04	14.92	15.18	15.13
North Amer. produced		12.94	12.69	12.79	13.12	12.52	12.46	13.18	13.13	13.49	13.41
Other		2.13	2.16	2.20	2.05	2.04	1.97	1.86	1.79	1.69	1.72
INCOME AND SAVING											
Nominal GNP	Bill. $	6781.0	6888.3	6987.0	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		-3.4	13.3	4.9	6.7	7.1	4.7	4.9	5.8	4.8	6.8
Real disposable income		-5.4	9.7	2.9	4.2	3.7	0.3	4.3	4.4	2.0	1.3
Personal saving rate	%	2.7	4.0	4.1	4.3	4.9	4.1	4.5	5.2	4.8	4.3
Corp. profits, IVA & CCAdj.	% change	-35.4	82.5	14.8	13.5	-7.4	1.7	40.8	-0.5	23.6	6.8
Profit share of GNP	%	6.8	7.8	7.9	8.1	7.8	7.8	8.4	8.3	8.7	8.7
(excluding FR banks)	%	6.5	7.5	7.7	7.8	7.5	7.5	8.1	8.0	8.4	8.4
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	2.2	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	2.4	3.2	3.9
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	2.9	2.6	2.6	2.9	3.2
Nonfarm business sector											
Output per hour		-2.0	1.0	2.0	0.9	-1.6	2.0	2.0	-1.1	1.8	0.5
Compensation per hour		2.8	1.4	2.1	3.9	3.7	4.6	4.0	4.1	3.3	3.7
Unit labor cost		4.8	0.3	0.1	2.9	5.4	2.6	1.9	5.2	1.5	3.2

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)

November 6, 1996

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. $	7621.1	7696.5	7798.6	7882.0	7965.0	8045.9	8133.9	8220.3	8307.0	8397.4
Real GDP	Bill. Ch. $	6934.5	6966.3	7008.1	7046.3	7085.4	7121.5	7158.6	7196.5	7234.2	7272.6
Real GDP	% change	2.5	1.8	2.4	2.2	2.2	2.1	2.1	2.1	2.1	2.1
Gross domestic purchases		3.5	1.5	2.6	2.4	2.8	2.2	2.2	2.3	2.6	2.2
Final sales		0.5	2.9	2.4	2.0	2.0	2.4	2.2	2.2	2.1	2.3
Priv. dom. final purchases		2.0	3.2	3.4	2.6	3.0	2.8	2.8	2.9	2.9	2.8
Personal cons. expenditures		0.4	3.8	3.3	2.5	2.6	2.5	2.5	2.5	2.4	2.4
Durables		-0.8	8.1	7.3	2.4	4.6	4.6	4.3	4.4	4.3	4.5
Nondurables		-0.3	3.6	3.3	2.5	2.3	2.0	2.0	2.0	2.0	1.9
Services		1.1	2.9	2.4	2.5	2.4	2.3	2.3	2.3	2.2	2.1
Business fixed investment		16.2	3.6	6.0	4.5	5.1	5.0	5.3	5.6	5.9	5.9
Producers' dur. equipment		19.7	4.1	8.0	5.9	6.5	6.4	6.8	7.1	7.5	7.5
Nonres. structures		6.5	2.4	0.2	0.4	0.9	0.8	0.6	0.7	0.7	0.7
Residential structures		-6.6	-6.0	-2.4	-2.2	-0.4	0.5	1.2	1.3	1.4	1.3
Exports		0.4	11.7	6.5	8.3	2.3	9.7	4.5	8.7	2.3	9.8
Imports		8.8	7.3	7.5	9.3	6.6	9.8	4.9	9.1	5.9	8.9
Gov't. cons. & investment		-0.5	-0.7	-1.1	0.9	1.3	1.5	-0.2	-0.1	1.2	0.3
Federal		-4.0	-5.5	-7.0	-1.7	-0.7	-0.4	-5.0	-4.6	-1.0	-3.7
Defense		-5.1	-7.8	-9.9	-2.0	-0.6	-0.0	-5.9	-6.4	-0.9	-5.1
State & local		1.7	2.2	2.4	2.4	2.5	2.6	2.5	2.5	2.4	2.4
Change in bus. inventories	Bill. Ch. $	40.7	22.6	23.7	26.5	29.8	24.3	23.5	23.1	23.2	20.5
Nonfarm		42.9	20.7	20.4	23.2	26.0	19.5	18.7	18.1	17.9	14.9
Net exports		-133.6	-127.5	-131.7	-136.7	-148.1	-151.8	-154.5	-158.6	-169.0	-170.6
Nominal GDP	% change	4.1	4.0	5.4	4.4	4.3	4.1	4.4	4.3	4.3	4.4
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	119.9	120.4	120.8	121.2	121.6	121.9	122.3	122.6	123.0	123.4
Unemployment rate	%	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Industrial prod. index	% change	4.4	1.1	3.8	3.0	2.9	2.7	3.2	3.3	3.0	3.4
Capacity util. rate - mfg.	%	82.4	81.7	81.9	81.8	81.8	81.6	81.6	81.6	81.6	81.6
Housing starts	Millions	1.48	1.45	1.43	1.42	1.41	1.41	1.41	1.41	1.41	1.41
Light motor vehicle sales		14.95	14.67	15.21	14.88	14.92	14.93	14.88	14.82	14.77	14.72
North Amer. produced		13.30	12.96	13.45	13.11	13.14	13.15	13.12	13.08	13.05	13.02
Other		1.65	1.71	1.76	1.77	1.78	1.78	1.76	1.74	1.72	1.70
INCOME AND SAVING											
Nominal GNP	Bill. $	7610.5	7687.5	7787.2	7868.1	7949.6	8028.3	8115.6	8200.3	8285.8	8373.0
Nominal GNP	% change	3.9	4.1	5.3	4.2	4.2	4.0	4.4	4.2	4.2	4.3
Nominal personal income		5.5	4.6	5.5	4.5	4.4	4.3	5.0	4.7	4.5	4.3
Real disposable income		4.7	1.7	3.8	2.6	2.5	2.1	3.5	2.2	2.0	1.8
Personal saving rate	%	5.4	4.9	5.1	5.1	5.0	4.9	5.2	5.1	5.0	4.9
Corp. profits, IVA & CCAdj.	% change	-4.6	-15.0	18.4	3.1	2.4	-0.0	2.4	3.6	3.2	1.7
Profit share of GNP	%	8.5	8.1	8.3	8.3	8.3	8.2	8.2	8.1	8.1	8.1
(excluding FR banks)	%	8.2	7.8	8.1	8.0	8.0	7.9	7.9	7.9	7.9	7.8
Federal surpl./deficit	Bill. $	-119.9	-105.3	-114.6	-112.3	-107.9	-114.8	-116.7	-110.5	-105.1	-106.2
State & local surpl./def.		89.9	85.5	87.0	84.9	81.3	79.0	77.3	76.4	75.0	74.5
Ex. social ins. funds		34.5	30.4	32.1	30.2	26.8	24.7	23.2	22.5	21.3	21.0
PRICES AND COSTS											
GDP implicit deflator	% change	1.5	2.1	2.9	2.1	2.0	2.0	2.3	2.1	2.1	2.2
GDP chn.-wt. price index		1.9	2.5	2.9	2.4	2.4	2.4	2.7	2.5	2.7	2.7
Gross Domestic Purchases chn.-wt. price index		1.8	2.6	2.5	2.1	2.1	2.3	2.6	2.5	2.5	2.6
CPI		2.3	3.3	3.1	2.6	2.6	2.9	2.8	2.8	2.8	2.9
Ex. food and energy		2.4	2.9	2.8	2.9	3.0	3.1	2.9	3.0	3.0	3.1
ECI, hourly compensation[1]		2.5	3.5	3.3	3.3	3.7	3.5	3.5	3.6	3.6	3.7
Nonfarm business sector											
Output per hour		0.0	0.1	0.5	1.1	1.0	1.0	1.0	1.0	1.0	1.1
Compensation per hour		4.3	4.3	3.8	3.6	3.7	3.8	3.6	3.7	3.7	3.7
Unit labor cost		4.3	4.1	3.3	2.4	2.6	2.7	2.5	2.6	2.6	2.5

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	95Q4/ 94Q4	96Q4/ 95Q4	97Q4/ 96Q4
Real GDP	0.3	2.0	4.7	2.5	1.8	2.4	2.2	2.2	2.1	1.3	2.7	2.2
Gross dom. purchases	-0.7	3.1	5.3	3.6	1.5	2.7	2.5	2.9	2.3	1.0	3.3	2.6
Final sales	1.4	3.0	4.1	0.5	2.9	2.4	2.0	2.0	2.4	1.9	2.6	2.2
Priv. dom. final purchases	1.2	3.9	3.4	1.7	2.7	2.8	2.1	2.5	2.3	1.8	2.9	2.4
Personal cons. expenditures	0.7	2.4	2.3	0.3	2.6	2.2	1.7	1.8	1.7	1.3	1.9	1.9
Durables	-0.1	0.7	0.9	-0.1	0.7	0.6	0.2	0.4	0.4	0.1	0.6	0.4
Nondurables	-0.1	0.7	0.3	-0.1	0.7	0.7	0.5	0.5	0.4	0.2	0.4	0.5
Services	0.8	0.9	1.1	0.4	1.1	0.9	1.0	0.9	0.9	0.9	0.9	0.9
Business fixed investment	0.2	1.1	0.4	1.7	0.4	0.7	0.5	0.6	0.6	0.7	0.9	0.6
Producers' dur. equip.	0.2	0.9	0.5	1.5	0.3	0.7	0.5	0.6	0.6	0.5	0.9	0.6
Nonres. structures	0.0	0.2	-0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0
Residential structures	0.2	0.3	0.6	-0.3	-0.2	-0.1	-0.1	-0.0	0.0	-0.1	0.1	-0.0
Net exports	0.9	-1.1	-0.6	-1.1	0.3	-0.2	-0.3	-0.6	-0.2	0.3	-0.6	-0.3
Exports	1.1	0.2	0.6	0.1	1.3	0.8	1.0	0.3	1.2	0.8	0.6	0.8
Imports	-0.2	-1.3	-1.2	1.2	1.0	1.0	1.3	0.9	1.4	0.5	1.2	1.2
Government cons. & invest.	-0.8	0.3	1.4	-0.1	-0.1	-0.2	0.2	0.2	0.3	-0.3	0.4	0.1
Federal	-0.9	0.4	0.6	-0.3	-0.4	-0.5	-0.1	-0.0	-0.0	-0.5	0.1	-0.2
Defense	-0.6	0.2	0.4	-0.2	-0.4	-0.5	-0.1	-0.0	-0.0	-0.3	0.0	-0.1
Nondefense	-0.3	0.2	0.2	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.2	0.1	-0.0
State and local	0.2	-0.1	0.8	0.2	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.3
Change in bus. inventories	-1.0	-1.0	0.5	2.0	-1.0	0.1	0.2	0.2	-0.3	-0.6	0.1	0.0
Nonfarm	-1.2	-0.9	0.5	1.8	-1.3	-0.0	0.2	0.2	-0.4	-0.5	0.0	-0.0
Farm	0.1	-0.1	0.1	0.2	0.2	0.1	0.0	0.0	0.1	-0.1	0.1	0.0
GDP residual	-0.0	0.0	-0.0	-0.0	-0.0	0.0	0.0	0.1	0.0	0.0	-0.0	0.0

Components may not sum to total due to rounding.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

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	1.8	2.4	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.7	2.2	2.1
Gross dom. purchases	1.5	2.7	2.5	2.9	2.3	2.2	2.4	2.7	2.2	3.3	2.6	2.4
Final sales	2.9	2.4	2.0	2.0	2.4	2.1	2.2	2.1	2.3	2.6	2.2	2.2
Priv. dom. final purchases	2.7	2.8	2.1	2.5	2.3	2.3	2.4	2.5	2.3	2.9	2.4	2.4
Personal cons. expenditures	2.6	2.2	1.7	1.8	1.7	1.7	1.7	1.6	1.6	1.9	1.9	1.7
Durables	0.7	0.6	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.6	0.4	0.4
Nondurables	0.7	0.7	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.4
Services	1.1	0.9	1.0	0.9	0.9	0.9	0.9	0.8	0.8	0.9	0.9	0.9
Business fixed investment	0.4	0.7	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.9	0.6	0.7
Producers' dur. equip.	0.3	0.7	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.9	0.6	0.7
Nonres. structures	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Residential structures	-0.2	-0.1	-0.1	-0.0	0.0	0.0	0.1	0.1	0.0	0.1	-0.0	0.0
Net exports	0.3	-0.2	-0.3	-0.6	-0.2	-0.1	-0.2	-0.6	-0.1	-0.6	-0.3	-0.3
Exports	1.3	0.8	1.0	0.3	1.2	0.6	1.1	0.3	1.2	0.6	0.8	0.8
Imports	1.0	1.0	1.3	0.9	1.4	0.7	1.3	0.9	1.3	1.2	1.2	1.1
Government cons. & invest.	-0.1	-0.2	0.2	0.2	0.3	-0.0	-0.0	0.2	0.0	0.4	0.1	0.1
Federal	-0.4	-0.5	-0.1	-0.0	-0.0	-0.3	-0.3	-0.1	-0.2	0.1	-0.2	-0.2
Defense	-0.4	-0.5	-0.1	-0.0	-0.0	-0.3	-0.3	-0.0	-0.2	0.0	-0.1	-0.2
Nondefense	-0.0	-0.0	-0.0	-0.0	-0.0	-0.1	-0.0	-0.0	-0.0	0.1	-0.0	-0.0
State and local	0.3	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	0.1	0.2	0.2	-0.3	-0.0	-0.0	0.0	-0.1	0.1	0.0	-0.1
Nonfarm	-1.3	-0.0	0.2	0.2	-0.4	-0.0	-0.0	-0.0	-0.2	0.0	-0.0	-0.1
Farm	0.2	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0
GDP residual	-0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	-0.0	-0.0	0.0	0.0

Components may not sum to total due to rounding.

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

Item	Fiscal year[5]				1996				1997				1998			
	1995[a]	1996[a]	1997	1998	Q1[a]	Q2[a]	Q3[b]	Q4								
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1355	1453	1518	1568	322	446	362	351	333	457	377	365	344	468	391	385
Outlays[1]	1519	1560	1627	1709	393	392	395	406	407	406	408	429	423	430	427	445
Surplus/deficit[1]	-164	-107	-108	-141	-72	54	-33	-55	-73	51	-31	-64	-78	38	-37	-60
On-budget	-226	-174	-178	-214	-84	14	-36	-63	-86	9	-37	-73	-92	-6	-43	-73
Off-budget	62	67	69	74	12	39	2	8	13	42	7	9	13	44	7	12
Surplus excluding deposit insurance[2]	-182	-116	-116	-143	-75	52	-35	-61	-74	50	-32	-64	-79	37	-37	-61
Means of financing																
Borrowing	171	130	122	161	80	-23	39	38	74	-30	40	50	81	-17	47	36
Cash decrease	-2	-6	4	0	-1	-16	-6	14	9	-15	-5	10	10	-15	-5	10
Other[3]	-5	-16	-18	-20	-7	-14	0	2	-10	-6	-4	4	-13	-6	-5	14
Cash operating balance, end of period	38	44	40	40	22	38	44	30	20	35	40	30	20	35	40	30
NIPA FEDERAL SECTOR					*Seasonally adjusted, annual rate*											
Receipts	1459	1544	1629	1695	1523	1576	1583	1615	1616	1633	1653	1671	1684	1702	1723	1744
Expenditures	1629	1683	1739	1807	1678	1702	1703	1720	1731	1745	1760	1786	1800	1813	1829	1850
Consumption expend.	455	457	457	460	454	463	461	457	455	456	459	461	461	458	460	459
Defense	304	303	298	299	299	307	304	300	296	297	299	301	300	297	299	297
Nondefense	151	155	159	161	155	156	156	157	158	159	160	160	161	161	162	162
Other expenditures	1175	1226	1282	1347	1225	1239	1243	1264	1276	1289	1302	1325	1339	1354	1368	1391
Current account surplus	-171	-139	-110	-112	-155	-127	-120	-105	-115	-112	-108	-115	-117	-111	-105	-106
Gross investment	65	63	63	62	65	66	64	64	62	62	62	62	62	62	61	61
Current and capital account surplus	-236	-202	-173	-173	-220	-193	-184	-169	-177	-175	-170	-177	-178	-172	-167	-167
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-268	-242	-230	-239	-246	-233	-230	-221	-233	-234	-233	-242	-243	-240	-237	-241
Change in HEB, percent of potential GDP	0	-.4	-.2	.1	.1	-.2	0	-.1	.2	0	0	.1	0	0	0	0
Fiscal impetus (FI), percent, cal. year	-5.5	-1.9	-3.8	-3.5	1.3	1.8	-.2	-2.2	-1.9	-.4	-.2	-1	-1.3	-1.2	-.2	-1.1

1. OMB's July 1996 baseline deficit estimates (assuming the enactment of the President's proposals) are $126 billion in FY97 and $94 billion in FY98. CBO'S April 1996 baseline deficit estimates are $171 billion in FY97 and $194 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 July 1996 baseline deficit estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are $134 billion in FY97 and $96 billion in FY98. CBO'S April 1996 baseline deficit estimates, excluding deposit insurance, are $175 billion in FY97 and $196 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 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 1995 data for the unified budget come from OMB; fiscal 1996 and quarterly data come from the Monthly Treasury Statement and may not sum to OMB fiscal year totals.

a--Actual.
b--Preliminary.

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CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS [1]
(Percent)

			Nonfederal						Memo:
				Households					
	Total	Federal government	Total	Total	Home mortgages	Consumer credit	Business	State and local governments	Nominal GDP
Year									
1986	12.2	13.6	11.8	11.5	13.8	9.6	12.2	10.8	5.0
1987	9.2	8.0	9.6	12.1	16.3	5.0	6.7	12.1	7.4
1988	8.8	8.0	9.1	9.3	10.9	7.2	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	5.0	6.6	-1.7	-1.7	8.2	3.8
1992	4.8	10.9	2.8	5.2	6.1	0.6	0.5	2.0	6.3
1993	5.3	8.3	4.2	6.3	5.4	7.7	1.5	5.7	4.8
1994	4.9	4.7	5.0	8.6	6.5	14.6	3.7	-3.7	5.9
1995	5.5	4.1	6.0	8.2	6.2	14.3	6.2	-4.1	3.8
1996	5.0	3.7	5.5	7.3	7.4	7.6	4.8	-0.8	4.7
1997	4.7	3.5	5.0	5.8	5.9	6.0	5.4	0.1	4.5
1998	4.7	3.8	5.1	5.5	5.8	5.5	5.4	1.7	4.4
Quarter (seasonally adjusted annual rates)									
1995:1	6.4	7.1	6.2	7.9	6.0	13.8	7.3	-4.9	3.8
2	6.5	5.2	7.0	8.5	6.4	15.1	7.3	-0.8	3.1
3	4.3	2.4	5.0	8.6	6.8	14.8	4.6	-9.4	6.0
4	4.3	1.6	5.3	6.9	4.9	10.7	5.1	-1.5	2.3
1996:1	6.3	6.6	6.1	8.7	8.8	11.5	5.0	-1.2	4.2
2	4.9	1.7	6.0	7.6	7.2	7.0	4.7	3.5	6.5
3	4.2	4.3	4.2	6.3	6.7	4.8	4.4	-6.9	4.1
4	4.3	2.0	5.1	5.9	6.1	6.3	5.0	1.5	4.0
1997:1	5.0	5.2	5.0	5.8	5.9	6.0	5.3	-0.3	5.4
2	4.4	1.9	5.2	5.7	5.8	5.9	5.5	1.7	4.4
3	4.5	4.0	4.6	5.6	5.7	5.7	5.3	-3.4	4.3
4	4.5	3.0	5.0	5.5	5.7	5.7	4.9	2.2	4.1

1. Data after 1996:Q2 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.
On a monthly average basis, total debt grows 5.0 percent in 1996, 4.6 percent in 1997, and 4.8 percent in 1998.
Federal debt rises 3.6 percent in 1996, 3.3 percent in 1997, and 4.1 percent in 1998.
Nonfederal debt increases 5.5 percent in 1996, 5.1 percent in 1997, and 5.0 percent in 1998.

2.6.3 FOF

Confidential FR Class II
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FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS [1]
(Billions of dollars)

	Calendar year						1996				1997	
	1993	1994	1995	1996	1997	1998	Q1	Q2	Q3	Q4	H1	H2
Net funds raised by domestic nonfinancial sectors												
1 Total	649.8	575.5	648.0	623.0	583.6	639.4	763.0	672.6	497.3	558.8	609.0	558.1
2 Net equity issuance	21.3	-44.9	-74.2	-73.1	-96.0	-83.5	-106.8	-16.8	-106.8	-62.0	-80.4	-111.6
3 Net debt issuance	628.5	620.4	722.3	696.1	679.6	722.9	869.8	689.4	604.1	620.8	689.4	669.7
Borrowing sectors												
Nonfinancial business												
4 Financing gap [2]	3.8	3.8	57.7	21.9	48.3	59.5	2.5	-5.7	56.4	34.3	44.6	52.1
5 Net equity issuance	21.3	-44.9	-74.2	-73.1	-96.0	-83.5	-106.8	-16.8	-106.8	-62.0	-80.4	-111.6
6 Credit market borrowing	55.5	139.3	242.9	201.1	233.3	247.0	206.6	199.1	185.3	213.4	235.7	230.9
Households												
7 Net borrowing, of which:	254.6	368.7	380.6	368.5	311.8	311.2	435.9	391.0	331.5	315.6	312.1	311.6
8 Home mortgages	152.1	194.5	195.9	248.5	213.9	220.2	296.3	247.5	235.2	215.2	213.7	214.2
9 Consumer credit	61.5	126.3	141.6	85.7	72.5	70.5	129.7	81.1	57.0	75.0	73.0	72.0
10 Debt/DPI (percent) [3]	86.6	88.9	90.9	93.3	94.6	95.4	92.7	93.6	93.8	94.2	94.3	95.0
State and local governments												
11 Net borrowing	62.3	-43.4	-45.7	-8.4	0.6	17.8	-12.5	36.8	-74.0	16.2	7.8	-6.7
12 Current surplus [4]	109.9	107.4	106.8	106.2	103.7	99.8	99.0	116.8	106.1	102.9	105.3	102.1
Federal government												
13 Net borrowing	256.1	155.9	144.4	134.8	133.9	146.9	239.9	62.4	161.3	75.6	133.8	133.9
14 Net borrowing (quarterly, n.s.a.)	256.1	155.9	144.4	134.8	133.9	146.9	80.5	-23.5	39.3	38.5	43.6	90.3
15 Unified deficit (quarterly, n.s.a.)	226.3	185.0	146.4	107.0	116.9	137.3	72.3	-53.7	33.3	55.1	22.4	94.5
16 Funds supplied by depository institutions	140.4	198.3	274.6	179.2	203.1	220.4	123.9	229.5	193.7	169.7	199.8	206.5
Memo: (percent of GDP)												
17 Domestic nonfinancial debt [3]	186.4	185.3	186.5	188.0	188.3	189.0	188.4	188.1	188.3	188.5	188.2	188.6
18 Domestic nonfinancial borrowing	9.6	8.9	10.0	9.2	8.6	8.7	11.7	9.1	7.9	8.1	8.8	8.4
19 Federal government [5]	3.9	2.2	2.0	1.8	1.7	1.8	3.2	0.8	2.1	1.0	1.7	1.7
20 Nonfederal	5.7	6.7	8.0	7.4	6.9	7.0	8.5	8.3	5.8	7.1	7.1	6.7

1. Data after 1996:Q2 are staff projections.
2. For corporations: Excess of capital expenditures over U.S. internal funds.
3. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.
4. NIPA surplus less changes in retirement fund assets plus consumption of fixed capital.
5. Excludes government-insured mortgage pool securities.

2.6.4 FOF

Recent Developments

The weighted-average foreign exchange value of the dollar in terms of the other G-10 currencies has changed little, on balance, since the September FOMC meeting. The dollar has moved disparately against individual currencies, however, rising 4 percent against the yen and falling 5 percent against sterling and 3 percent against the Canadian dollar.

The yen came under downward pressure as prospects for a supplemental budget package to cushion the fiscal contraction now under way in Japan waned in the aftermath of the recent Japanese election, thereby diminishing prospects for a firming move by the Bank of Japan. The Liberal Democratic Party made gains in the election but encountered unexpected difficulties in forming a coalition government. Sterling was boosted by, among other factors, the release of favorable data on the U.K. economy and a surprise 25-basis-point increase in the Bank of England's minimum lending rate. The Canadian dollar could well be benefitting from Canada's monetary and fiscal rectitude as well as from a current account that has recently moved into surplus. The U.S. dollar has changed little on balance against the mark and most other major continental European currencies; an exception was the Swiss franc, against which the dollar appreciated 3 percent.

Short-term interest rates in the major foreign industrial countries declined 10 basis points on average, with the decline more than accounted for by Canada, Italy, France, and Sweden. Official rates were cut 75 basis points in Canada and Italy, about 50 basis points in Sweden and Switzerland, and 15 basis points in France. Short-term rates moved up somewhat in the United Kingdom, Germany, and the Netherlands. Ten-year bond rates abroad moved down more than 40 basis points on average, a bit less than the decline in U.S. rates. Substantial declines in Italian and Canadian bond rates (roughly 100 basis points each) reflected improving fiscal prospects and moderating inflation in these countries. Italy's announcement that the lira would rejoin the ERM by the end of the year further bolstered the Italian bond market.

The Mexican peso has depreciated 5 percent since the September FOMC meeting, to a level just below 8 pesos per dollar, and Mexican stock and Brady bond prices have declined. A reassessment of

Mexico's prospects in the context of slowing of progress on privatization and eroding political support for the governing party were among the factors cited in the downturn of Mexican financial markets.

. The Desk did not intervene during the period, setting a record for the longest period of nonintervention (449 days as of November 6) during the period of floating exchange rates since March 1973.

Economic activity in the major foreign industrial countries on average expanded at a moderate pace during the third quarter. In Japan, industrial production and housing starts advanced strongly. German industrial production grew at a 3-1/4 percent annual rate, and orders strengthened further. U.K. GDP (preliminary) grew at a 3 percent rate, and survey data for the fourth quarter suggest continued strength. Indicators in Canada were mixed: industrial output and orders rose moderately in July-August, but employment grew only slightly in the third quarter. In France, an incentive program for car sales strengthened consumption of manufactured goods substantially, but other indicators have been weak. Industrial output in Italy declined significantly further in July-August.

Consumer price inflation in the foreign G-7 countries has remained generally low. In Germany, France, and Canada, the twelve-month change in consumer prices through September continued at about 1-1/2 percent, and in the United Kingdom, it edged up but remained a bit under 3 percent. In Japan, 12-month inflation through October dipped below zero again, and in Italy it fell to 3 percent.

Activity in key developing countries has remained fairly robust on average. Industrial production advanced strongly (twelve-month change) through August in Mexico and Argentina. In Brazil, GDP surged at a 7 percent annual rate in the second quarter, but industrial output fell back somewhat in July-August. Growth in China remained strong through the third quarter.

The nominal deficit in U.S. international trade in goods and services narrowed somewhat in August, but the July-August average was a good deal larger than that in the second quarter. Exports in July-August were 2 percent less than in the second quarter, while imports rose slightly. The decline in exports was largely accounted for by reduced shipments of aircraft and nonmonetary gold.

Prices of exports declined in the third quarter, primarily because the prices for agricultural exports reversed most of their sharp increases over the preceding year. Prices of non-oil imports continued their broad-based decline at a somewhat faster pace than during the first half of the year. The price of imported oil fell slightly in the third quarter after its strong increase in the first half of the year. Spot WTI is currently trading just below $23 per barrel, slightly above the level at the time of the September Greenbook, but nearly $2 below the level on the day of the September FOMC. Prices were pushed up shortly before the September meeting and further early in the intermeeting period by the resumption of fighting in the Kurdish region of Northern Iraq and by concern about the level of heating oil stocks in the United States and Europe. In the past week, the announcement of a tentative settlement of the dispute among the Kurds resulted in a decline of about $2 per barrel.

SUMMARY OF STAFF PROJECTIONS
(Percent change from end of previous period)

	1996			1997	1998
	H1	Q3	Q4		
Foreign output	3.1	3.5	3.6	3.9	3.6
Previous	*3.1*	*3.3*	*3.7*	*3.9*	*3.6*
Real exports	3.7	0.4	11.7	6.7	6.3
Previous	*3.8*	*1.3*	*9.8*	*7.2*	*7.9*
Real imports	10.3	8.7	7.3	8.3	7.2
Previous	*10.3*	*4.8*	*10.0*	*7.9*	*8.6*

Outlook

The staff projects growth of real output in our major trading partners (weighted by U.S. nonagricultural export shares) to pick up to a 3-1/2 to 4 percent annual rate during the fourth quarter and through 1997-98. This outlook is little changed from that in the September Greenbook. The projected path of the dollar is slightly higher than in September and has led us to mark down the path of real net exports a bit. Our forecast for the growth of exports, imports, and net exports also has been revised down as a result of the effects of recent revisions to historical data on our forecasting model.[1] The effects of some residual seasonality and the CAW/UAW auto strike lead us to expect real net exports to rise somewhat in the fourth quarter. Beyond the current quarter, however, we see net exports resuming their downtrend and subtracting 0.3 percentage point from GDP growth during 1997 and 1998.

The dollar. We project the foreign exchange value of the dollar in terms of the other G-10 currencies to remain little changed from its recent levels throughout the forecast period. This is slightly higher than the level forecast in the previous Greenbook, reflecting the somewhat higher level the dollar has maintained in the intermeeting period. In the September Greenbook, the staff had anticipated some downward pressure on the dollar on the assumption that the FOMC, contrary to market expectations, would not act to increase interest rates at the September meeting. In the event, the dollar did not decline, in part because of the market's interpretation of subsequent economic and financial developments in other G-10 countries. The current forecast involves some risk of downward pressure on the dollar to the extent that the market expects some narrowing of the U.S. current account deficit, contrary to the staff projection. We expect that the CPI-adjusted value of the dollar in terms of the currencies of key developing countries will depreciate at a moderate rate throughout the forecast period.

Foreign G-7 countries. We project real GDP in the foreign G-7 countries (weighted by U.S. nonagricultural export shares) to expand at an annual rate of between 2-1/2 and 2-3/4 percent during the second half of this year and through the projection period. In Europe and Canada, stimulus to private domestic demand from recent declines in interest rates should support moderate GDP growth in most countries despite ongoing fiscal contraction.

Real GDP growth in Germany and France is projected to average a little more than a 2 percent annual rate over the forecast period, led by expansions of investment. In the United Kingdom, we expect the recent strong growth of final domestic demand to hold up through 1997 and then to slow a bit in 1998 in response to higher interest

[1] Recent BEA revisions to historical data for the chain-weighted measure of real nonagricultural exports have resulted in significant shifts in some of the key estimated parameters in our trade equations.

rates. Because the recent decline in Italian interest rates probably will not be enough to offset the relatively large fiscal contraction in train in that country, we expect Italian GDP growth to be sluggish--in the vicinity of a 1-1/2 percent rate--over the forecast period.[2]

Real GDP growth in Japan is expected to strengthen through the first quarter of 1997 as consumers spend in anticipation of the planned increase in the consumption tax on April 1, 1997; growth should slow after the tax takes effect. We project Japanese net exports to begin to make a positive contribution to GDP growth over the next several quarters in response to the depreciation of the yen during the past year.

In Canada, a positive inventory swing and robust investment should boost output growth in the near term. The Canadian auto strike should shave growth in the fourth quarter by a couple of tenths and boost first-quarter growth by a like amount. In the longer term, investment and net exports will help sustain moderate growth.

We forecast that average consumer price inflation for the foreign G-7 countries (weighted by bilateral U.S. import shares) will rise to about 1-3/4 percent next year, from a little over 1 percent this year, as the Japanese price level jumps because of the rise in the consumption tax. Inflation abroad is expected to move back below 1-1/4 percent in 1998.

We assume that average short-term market interest rates in the major foreign industrial countries will remain about unchanged through the middle of next year and then will rise about 50 basis points by the end of 1998. One exception is Italy, where rates are assumed to decline further over the year ahead. Long-term rates abroad are projected to remain little changed on average over the

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[2] The Italian government has announced a budget for 1997 that would meet the Maastricht target of 3 percent of GDP. However, the budget for 1996 is running well above target, and an outcome of closer to 4 percent of GDP seems more likely for 1997. The government's budget announcement did lead us to mark down our forecast for Italy's GDP growth in 1997, however. We continue to assume that Italy will not qualify for first-round EMU membership when Stage Three begins on January 1, 1999. However, some special status for Italy, such as assured "second-round" membership, is likely.

forecast period, with sizable declines in Italy and small declines elsewhere in continental Europe offsetting a sizable increase in Japan and small increases in Canada and the United Kingdom.

Other countries. Real GDP of major U.S. trading partners among developing countries (weighted by U.S. exports) is projected to grow about 5 percent during 1996 and closer to 6 percent over the next two years. Most of the acceleration reflects faster growth in Mexico and Venezuela.

We forecast real GDP in Mexico to expand at an annual rate of 3-1/2 percent during the second half of 1996 and 4 to 5 percent per year during 1997-98. However, the weak balance-sheet positions of households and banks and the possibility of renewed volatility in financial markets pose risks to this outlook. Elsewhere in Latin America, we project growth in Argentina to be about 5 percent per year over the forecast period. However, widening fiscal deficits and possible social unrest are risks for Argentina for 1997-98. In Brazil, we expect that an overvalued currency and tight monetary policy will restrain growth to about 2 percent per year during 1997-98. The downturn in Venezuela appears to be abating, and we are projecting a moderate recovery over the next two years.

Real output in our major trading partners in Asia is expected to expand at an annual rate of about 5-3/4 percent during the second half of 1996. The easing of monetary policies as inflation has abated in some Asian economies should allow annual growth in the region to rise to about 6-3/4 percent during 1997-98.

U.S. real exports and imports of goods and services. We project growth of exports of real goods and services to strengthen from a bit less than 5 percent during 1996 to a little more than 6 percent during 1997 and 1998. Exports of computers are expected to continue to grow rapidly in real terms and exports of semiconductors to recover from their slump earlier this year. Other exports of goods will be boosted in the fourth quarter by an upturn in aircraft shipments and by a residual seasonal increase in other categories that more than offset a decline in auto shipments to Canada associated with the CAW/UAW strike. The growth of other exports should pick up a bit in 1997, compared with its average rate in 1996, but then drop back in 1998. These exports will be bolstered in 1997, and to a slightly lesser extent in 1998, by stronger growth abroad. Moreover, net gains in the price competitiveness of U.S. exports over the past two years will continue to contribute to export growth through 1997.

QUANTITIES OF GOODS AND SERVICES
(Percent change from end of previous period, SAAR)

	Projection				
	1996				
	H1	Q3	Q4	1997	1998
Exports of G&S	3.7	0.4	11.7	6.7	6.3
Services	2.8	-0.7	7.1	3.2	2.7
Agricultural products	-15.5	25.0	3.5	3.6	3.6
Computers	38.4	21.6	36.1	29.3	28.7
Semiconductors	-11.2	2.1	24.8	21.6	21.6
Other goods	4.4	-3.9	11.2	4.6	3.3
Imports of G&S	10.3	8.7	7.3	8.3	7.2
Services	6.9	5.8	1.3	3.1	2.9
Oil	11.6	-6.9	15.4	3.6	4.1
Computers	25.3	25.3	28.6	24.5	23.9
Semiconductors	-19.8	-22.3	21.6	21.6	21.6
Other goods	11.9	11.4	4.8	7.1	4.9

Note: NIPA basis, chained (1992) dollars.

Growth of real imports of goods and services is projected to slow somewhat over the forecast period from the rapid rate observed earlier this year as the growth of U.S. domestic demand slows. As with exports, the growth of imports of computers should remain robust and that of semiconductors should recover. We expect the auto strike will reduce imports in the fourth quarter by more than exports, and that the shortfalls in both will be largely made up in the first quarter.[3] The quantity of oil imports should rise somewhat this quarter and during the remainder of the forecast period: consumption will rise with the increase in U.S. economic activity and U.S. oil production should continue to trend down, although at a somewhat slower pace than we assumed in the previous Greenbook.

Oil prices. In light of the temporary increase in spot oil prices over the past six weeks, we have raised the projected price of imported oil for the fourth quarter about $1.50 per barrel, to a

[3] The net effect of the auto strike on trade flows will be to increase the level of real net exports in the fourth quarter by about $2 billion and to reduce the level in the first quarter by a slightly smaller amount.

little over $21 per barrel. Thereafter, the import price is projected to return to $18 per barrel by the second quarter and $17 per barrel by the fourth quarter of 1997 (a level consistent with $19.50 per barrel for WTI), in line with our previous projection. We continue to assume that Iraq will begin shipping 800,000 b/d under U.N. auspices next April and that planned increases in oil production during 1998 will be sufficient to hold oil prices about unchanged from their end-1997 levels.

SELECTED PRICE INDICATORS
(Percent change from end of previous period except as noted, AR)

	1996 H1	1996 Q3	1996 Q4	1997	1998
		Projection			
Ag. exports[1]	18.3	-18.03	-4.4	1.7	2.4
Nonag. exports[1]	-2.4	-1.5	1.6	0.9	1.7
Non-oil imports[1]	-3.4	-3.1	-0.7	-1.0	1.06
Oil imports (Q4 level, $/bl)	19.52	19.55	21.22	17.05	17.00

1. NIPA chain-weighted basis, including computers and semiconductors.

Prices of non-oil imports and exports. Prices of agricultural exports are projected to decline moderately during the fourth quarter before rising in 1997 and 1998. Prices of nonagricultural exports, held down by price declines for computers and semiconductors, should be little changed over the second half of this year and rise only slightly over the remainder of the forecast period. We anticipate that the prices of non-oil imports will show little movement over the forecast period as inflation abroad remains very low and the dollar is unchanged.

Nominal trade and current account balances. The nominal trade deficit on goods and services is projected to widen from its second-quarter level of $112 billion to about $125 billion in 1998. The balance on net investment income is projected to deteriorate slightly as well. Accordingly, the current account balance should move from a deficit of about $155 billion in the second quarter to $165 billion in 1997 and $180 billion in 1998.

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REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1995-98
(Percent, quarterly change at an annual rate except as noted)

					Projected						
			Projected		1996				1997		
Measure and Country	1995	1996	1997	1998	Q1	Q2	Q3	Q4	Q1	Q2	Q3
REAL GDP											
Canada	0.7	2.3	3.0	2.8	1.3	1.3	3.8	2.9	3.7	2.6	2.8
France	0.4	1.6	2.3	2.2	4.6	-1.4	3.0	0.2	2.3	2.2	2.4
Germany	1.1	2.1	2.1	2.3	-1.9	6.1	2.1	2.3	2.0	2.1	2.2
Italy	2.4	0.9	1.3	1.7	1.7	-1.6	2.0	1.6	1.5	1.5	1.0
Japan	2.5	3.2	2.6	2.2	12.2	-2.9	1.4	2.7	4.3	1.7	2.2
United Kingdom	1.7	2.7	2.9	2.3	2.6	2.2	3.0	3.0	3.0	3.0	2.8
Average weighted by 1987-89 GDP	1.7	2.3	2.4	2.2	4.9	-0.0	2.3	2.2	3.0	2.1	2.2
Average weighted by share of U.S. nonagricultural exports											
Total foreign	1.7	3.3	3.9	3.6	4.4	1.9	3.5	3.6	4.1	3.7	3.8
Foreign G-7	1.3	2.4	2.7	2.5	3.5	0.7	2.9	2.6	3.4	2.3	2.5
Developing Countries	2.4	5.0	5.9	5.7	6.9	2.6	5.0	5.5	5.9	6.0	6.0
CONSUMER PRICES (1)											
Canada	2.1	1.5	1.3	1.3	1.7	3.1	0.6	0.6	1.0	1.8	1.6
France	1.9	1.6	1.8	1.8	2.9	3.2	-0.9	1.3	4.1	2.8	-1.9
W. Germany	1.6	1.5	1.6	1.7	2.5	1.9	1.6	-0.2	2.6	2.0	1.9
Italy	5.8	2.8	2.5	2.8	2.9	4.9	0.9	2.6	2.5	5.2	-0.3
Japan	-0.8	-0.0	1.7	0.5	-0.3	1.9	-1.2	-0.4	-0.2	8.1	-1.2
United Kingdom (2)	2.9	2.9	2.7	2.8	3.0	6.1	1.1	1.4	1.5	6.4	1.5
Average weighted by 1987-89 GDP	1.7	1.4	1.9	1.6	1.7	3.2	0.1	0.6	1.6	5.2	-0.1
Average weighted by share of U.S. non-oil imports	1.1	1.1	1.7	1.2	1.2	2.8	-0.0	0.3	1.0	4.8	0.2

Note: Annual values are measured from Q4 to Q4.
1. Not seasonally adjusted.
2. CPI excluding mortgage interest payments, which is the targeted inflation rate. Previously the CPI including mortgage interest payments was shown.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1990	1991	1992	1993	1994	1995	------- Projected ------- 1996	1997	1998
NIPA REAL EXPORTS and IMPORTS									
	percentage point contribution to GDP growth, Q4/Q4								
Net Goods and Services	0.6	0.4	-0.4	-0.7	-0.4	0.3	-0.6	-0.3	-0.3
Exports of Goods and Services	0.6	0.8	0.4	0.5	1.0	0.8	0.6	0.8	0.8
Imports of Goods and Services	-0.1	-0.4	-0.8	-1.1	-1.4	-0.5	-1.2	-1.2	-1.1
	percent change, Q4/Q4								
Exports of Goods and Services	7.2	8.6	4.1	4.8	9.9	7.4	4.8	6.7	6.3
Services	8.9	7.1	-0.9	3.9	4.8	5.1	2.9	3.2	2.7
Agricultural Goods	-7.3	10.1	10.4	-5.4	17.1	-3.0	-1.7	3.6	3.6
Computers	12.3	21.7	25.2	22.7	28.8	49.5	33.5	29.3	28.7
Semiconductors	61.5	41.8	64.8	45.1	68.7	29.7	0.2	21.6	21.6
Other Goods 1/	6.0	7.0	2.3	3.6	7.4	5.2	3.9	4.6	3.3
Imports of Goods and Services	0.5	4.0	7.5	10.5	11.8	4.2	9.1	8.3	7.2
Services	5.8	-2.7	1.5	3.6	0.8	4.1	5.2	3.1	2.8
Oil	-15.8	8.1	12.1	10.1	-0.2	0.9	7.6	3.6	4.1
Computers	2.9	35.9	45.1	38.8	37.3	43.8	26.1	24.5	23.9
Semiconductors	60.9	55.3	42.0	44.9	47.4	57.1	-11.7	21.6	21.6
Other Goods 2/	-0.3	2.5	5.4	9.4	12.5	-1.2	9.9	7.1	4.9
	in billions of chained 1992$								
Net Goods and Services	-61.9	-22.3	-29.5	-72.0	-105.7	-107.6	-120.0	-142.1	-163.2
Exports of Goods and Services	564.4	599.9	639.4	658.3	712.0	775.4	821.3	875.7	930.5
Imports of Goods and Services	626.3	622.2	668.9	730.3	817.6	883.0	941.3	1017.8	1093.7
	in billions of dollars								
US CURRENT ACCOUNT BALANCE	-94.7	-9.5	-62.6	-99.9	-148.4	-148.2	-160.0	-164.3	-178.7
Net Goods + Services (BOP)	-80.3	-29.9	-38.3	-72.0	-104.4	-105.1	-115.1	-118.3	-126.3
Exports of G+S (BOP)	536.8	580.7	617.7	643.0	698.3	786.5	832.3	883.0	941.4
Imports of G+S (BOP)	617.1	610.6	655.9	715.0	802.7	891.6	947.4	1001.3	1067.7
Net Investment Income	20.9	15.8	11.2	9.7	-4.2	-8.0	-5.7	-13.5	-19.9
Direct, Net	55.9	55.6	51.6	55.9	47.4	57.5	65.7	70.3	71.8
Portfolio, Net	-35.0	-39.8	-40.4	-46.2	-51.6	-65.5	-71.4	-83.7	-91.7
Net Transfers	-35.2	4.5	-35.5	-37.6	-39.9	-35.1	-39.2	-32.5	-32.5

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

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OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1994				1995				1996	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
NIPA REAL EXPORTS and IMPORTS										
	percentage point contribution to GDP growth									
Net Goods and Services	-1.1	-0.5	-0.3	0.4	-1.1	0.1	1.2	1.0	-1.1	-0.6
Exports of Goods and Services	-0.2	1.6	1.0	1.7	0.3	0.7	1.2	1.2	0.2	0.7
Imports of Goods and Services	-0.9	-2.1	-1.3	-1.2	-1.4	-0.6	0.0	-0.2	-1.3	-1.3
	percent change, AR									
Exports of Goods and Services	-1.6	15.9	9.7	16.5	2.6	5.9	10.8	10.7	1.8	5.7
Services	0.8	9.7	3.4	5.5	-1.1	4.1	18.6	-0.2	2.7	2.8
Agricultural Goods	-24.4	6.8	43.0	62.9	-0.6	-19.9	16.8	-4.7	8.9	-33.7
Computers	24.5	16.6	27.6	48.6	33.0	29.8	79.9	60.7	58.6	21.0
Semiconductors	131.4	16.2	45.8	106.7	43.6	19.9	28.8	27.6	-0.0	-20.7
Other Goods 1/	-6.6	20.2	6.6	11.1	0.1	7.6	0.6	13.3	-4.2	13.8
Imports of Goods and Services	8.2	18.4	10.7	10.3	11.2	4.5	-0.0	1.6	10.7	10.0
Services	1.8	7.5	-1.6	-4.0	21.7	-6.7	6.0	-2.6	13.0	1.3
Oil	-8.6	27.2	33.5	-36.2	-2.4	5.5	22.1	-17.5	-22.1	59.9
Computers	45.0	30.9	24.8	49.9	29.6	32.2	64.3	51.8	27.7	23.0
Semiconductors	65.3	7.3	43.4	85.8	49.3	61.0	76.4	43.6	4.6	-38.5
Other Goods 2/	7.0	19.9	9.5	14.1	6.9	2.4	-10.9	-2.3	12.1	11.5
	in billions of chained 1992$, SAAR									
Net Goods and Services	-99.3	-107.3	-111.7	-104.3	-122.5	-121.3	-101.7	-84.9	-104.1	-114.8
Exports of Goods and Services	677.6	703.1	719.6	747.6	752.3	763.3	783.0	803.1	806.7	817.9
Imports of Goods and Services	777.0	810.4	831.3	851.9	874.9	884.6	884.6	888.0	910.8	932.7
	in billions of dollars, SAAR									
US CURRENT ACCOUNT BALANCE	-118.8	-144.1	-160.0	-170.6	-156.2	-163.9	-150.8	-121.7	-139.5	-155.8
Net Goods + Services (BOP)	-90.8	-103.5	-113.8	-109.4	-118.1	-127.3	-97.3	-77.6	-96.9	-112.2
Exports of G+S (BOP)	662.3	686.1	708.3	736.5	755.9	778.9	796.8	814.5	820.6	836.4
Imports of G+S (BOP)	753.1	789.6	822.1	845.9	874.0	906.2	894.2	892.0	917.5	948.6
Net Investment Income	4.7	-2.5	-6.4	-12.4	-3.6	-3.4	-17.4	-7.6	1.0	-6.4
Direct, Net	49.5	46.0	47.4	46.9	57.4	59.9	51.3	61.3	66.1	62.1
Portfolio, Net	-44.8	-48.5	-53.7	-59.3	-61.0	-63.3	-68.7	-68.9	-65.0	-68.6
Net Transfers	-32.7	-38.0	-39.9	-48.9	-34.6	-33.2	-36.0	-36.6	-43.6	-37.2

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	Projected									
	1996		1997				1998			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS										
percentage point contribution to GDP growth										
Net Goods and Services	-1.1	0.3	-0.2	-0.3	-0.7	-0.2	-0.1	-0.2	-0.6	-0.1
Exports of Goods and Services	0.1	1.3	0.8	1.0	0.3	1.2	0.6	1.1	0.3	1.2
Imports of Goods and Services	-1.1	-1.0	-1.0	-1.3	-0.9	-1.4	-0.7	-1.3	-0.9	-1.3
percent change, AR										
Exports of Goods and Services	0.4	11.7	6.5	8.3	2.3	9.7	4.5	8.7	2.3	9.8
Services	-0.7	7.1	3.2	3.5	3.3	2.9	2.9	3.0	2.7	2.4
Agricultural Goods	25.0	3.5	3.6	3.6	3.5	3.6	3.6	3.6	3.6	3.6
Computers	21.6	36.1	31.1	28.7	28.7	28.7	28.7	28.7	28.7	28.7
Semiconductors	2.1	24.8	21.6	21.6	21.6	21.6	21.6	21.6	21.6	21.6
Other Goods 1/	-3.9	11.3	4.5	7.6	-3.2	10.1	0.5	7.8	-4.0	9.6
Imports of Goods and Services	8.7	7.3	7.5	9.3	6.6	9.8	4.9	9.1	5.9	8.9
Services	5.8	1.3	3.7	2.9	2.8	2.8	2.9	2.7	2.7	2.9
Oil	-6.9	15.4	-22.6	47.1	14.8	-11.8	-5.5	32.8	13.8	-17.6
Computers	25.3	28.6	26.2	23.9	23.9	23.9	23.9	23.9	23.9	23.9
Semiconductors	-22.3	21.6	21.6	21.6	21.6	21.6	21.6	21.6	21.6	21.6
Other Goods 2/	11.4	4.8	8.3	5.5	3.7	10.9	2.6	5.7	2.1	9.6
in billions of chained 1992$, SAAR										
Net Goods and Services	-133.6	-127.5	-131.7	-136.7	-148.1	-151.8	-154.5	-158.6	-169.0	-170.6
Exports of Goods and Services	818.8	841.7	855.2	872.4	877.3	898.0	908.0	927.2	932.4	954.5
Imports of Goods and Services	952.3	969.2	986.9	1009.1	1025.5	1049.8	1062.5	1085.8	1101.4	1125.1
in billions of dollars, SAAR										
US CURRENT ACCOUNT BALANCE	-171.1	-173.7	-157.4	-158.2	-164.7	-176.9	-167.6	-172.1	-181.6	-193.3
Net Goods + Services (BOP)	-128.6	-122.8	-117.1	-115.4	-120.3	-120.4	-120.4	-123.2	-131.5	-130.0
Exports of G+S (BOP)	824.8	847.4	861.4	879.2	884.6	906.8	917.7	938.2	943.4	966.5
Imports of G+S (BOP)	953.4	970.3	978.5	994.7	1005.0	1027.1	1038.1	1061.4	1074.9	1096.5
Net Investment Income	-9.6	-7.9	-10.3	-12.8	-14.4	-16.5	-17.2	-18.9	-20.1	-23.3
Direct, Net	64.4	70.0	70.3	69.9	70.5	70.4	71.5	71.6	72.5	71.7
Portfolio, Net	-74.0	-77.8	-80.5	-82.7	-84.8	-86.9	-88.7	-90.5	-92.7	-95.1
Net Transfers	-33.0	-43.0	-30.0	-30.0	-30.0	-40.0	-30.0	-30.0	-30.0	-40.0

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