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SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

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SUPPLEMENTAL NOTES

THE DOMESTIC NONFINANCIAL ECONOMY

Gross Domestic Product: 1998:Q4

Real GDP is estimated to have increased at an annual rate of 5.6 percent in the fourth quarter of 1998; for the year as a whole, real GDP rose 4.1 percent. In the fourth quarter, real final sales accelerated more than 4 percentage points to an annual rate of 6 percent, while nonfarm inventory investment declined \$5.3 billion.

The robust increase in final sales reflected strength in both domestic demand and exports. Real consumer spending rose at an annual rate of 4.4 percent; outlays for durables increased sharply, reflecting a surge in, motor vehicle sales. After having posting a small decline in the third quarter, outlays for producers durable equipment rose at a 21 percent pace in the fourth quarter, boosted by strength in purchases of high-tech and transportation equipment. Outlays for nonresidential structures, which declined in the first half of this year and were unchanged in the third quarter, posted a 5-1/2 percent gain last quarter. Spending for residential structures continued to climb, rising at an annual rate of 10.1 percent in the fourth quarter. Federal purchases--which rose at a 7.9 percent annual rate--were boosted by a large increase in the nondefense category.

Exports declined over the first three quarters of last year, but rebounded in the fourth quarter, rising at an annual rate of 18.8 percent. At the same time, imports rose at a 16 percent rate, boosted by substantial gains in the capital goods and the automotive vehicles and parts components. All told, net exports fell \$3.9 billion in the fourth quarter.

The chain-weighted price index for GDP rose at an annual rate of 0.9 percent, about the same as in the previous two quarters.

Consumer Sentiment

According to the final report, the Michigan Survey Research Center index of consumer sentiment rose more than three percentage points in January to its highest since last August.¹ Respondents had more favorable views of their current finances, and assessments of their

1. Today's report also indicates that sentiment was higher later in January than it had been earlier in the month. The overall index in the final report was almost three percentage points above the preliminary release of January 15. Respondents interviewed over the final weeks of the survey were particularly more optimistic about future business conditions and expected personal finances.

future financial positions were little changed. Households were decidedly more optimistic about expected business conditions in January, and appraisals of buying conditions for large household appliances also improved.

Among the questions not in the overall index, the index of expected unemployment change fell 9 percentage points in January; compared with this last three months, this marked a considerable improvement of views on labor market conditions over the next year. In addition, appraisals of buying conditions for homes and cars remained at extremely favorable levels in January.

Expected inflation continued to creep up. The mean and median of expected inflation over the next year each increased 0.2 percentage point in January to 3 percent and 2.7 percent, respectively. The mean of expected inflation over the next 5 to 10 years increased 0.3 percentage point in January to 3.5 percent, and the median edged up to 3 percent--both readings are their highest since December 1997.

The Annual Report of the Congressional Budget Office

The Congressional Budget Office's annual report on the economic and budget outlook, released on January 29, projects a budget surplus of \$107 billion for the current fiscal year (FY1999) under current law. This projection expects the continuation of the strong growth in receipts experienced over the last five years; indeed, in the current fiscal year, receipts are forecast to rise to 20.7 percent of GDP, a post-war high. On the spending side, outlays are estimated to edge down this year to 19.5 percent of GDP, the lowest level since the mid-1970s. CBO expects the surplus to total \$131 billion in FY2000.

Over the coming decade, budget surpluses are projected to rise steadily, cumulating to more than \$2-1/2 trillion and reaching 2.8 percent of projected GDP in FY2009. The on-budget balance, which excludes social security and the postal service, moves into surplus in FY2001 and trends up over the next decade, cumulating to nearly \$800 billion. An implication of the rising budget surpluses is that federal debt held by the public is projected to decline to 22 percent of GDP by FY2005--below its previous post-war low--and to less than 10 percent of GDP by FY2009. The projections assume that discretionary spending will equal the statutory caps on such spending each year through FY2002, when the caps expire, and will

increase with inflation thereafter. The budget projections are based on a path of real GDP growth that hovers around 2.3 to 2.4 percent per annum, except in 2000 when it is forecast to be 1.7 percent.

THE FINANCIAL ECONOMY

Erratum

On page III-A-2 of the Appendix to the *Domestic Financial Developments* section of the Greenbook, the last sentence in the third paragraph should read:

By contrast, over half of the branches and agencies of foreign banks--which have been tightening credit standards and terms much more than domestic banks for several months--would tighten on **60** percent or more of their outstanding commitments.

THE INTERNATIONAL ECONOMY

Erratum

In the table on page IV-23 of the *International Developments* section of the Greenbook, the German current account balance should be **+\$24.3 billion**.

Real Gross Domestic Product and Related Items

(Percent change from previous period at compound annual rates;
based on seasonally adjusted data, chain-type indexes)

	<u>1998:Q2</u>	<u>1998:Q3</u>	<u>1998:Q4</u>
	Final	Final	Advance
1. Gross domestic product	1.8	3.7	5.6
2. Final sales	4.6	2.8	6.0
3. Consumer spending	6.1	4.1	4.4
4. Durables	11.2	2.4	21.4
5. Nondurables	5.3	2.1	3.2
6. Services	5.4	5.4	1.7
7. Business fixed investment	12.8	-7	16.7
8. Producers' durable equipment	18.8	-1.0	21.0
9. Nonresidential structures	-2.3	.2	5.5
10. Residential investment	15.0	9.9	10.1
11. Federal government consumption expenditures and investment	7.3	-1.4	7.9
12. State and local government consumption expenditures and investment	1.8	3.1	2.1
13. Exports of goods and services	-7.7	-2.8	18.8
14. Imports of goods and services	9.3	2.3	16.0
<hr style="border-top: 1px dashed black;"/>			
<i>ADDENDA:</i>			
15. Nonfarm inventory investment ¹	29.9	47.0	41.7
16. Motor vehicles ¹	-22.5	-9.0	8.2
17. Excl. motor vehicles ¹	52.4	56.0	33.5
18. Net exports of goods and services ¹	-245.2	-259.0	-262.9
19. Nominal GDP	2.7	4.7	6.5
20. GDP price index	.9	1.0	.9
21. Real disposable personal income	2.6	3.2	3.6
22. Personal saving rate (percent)	.4	.2	.0

1. Level, billions of chained (1992) dollars.

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

	1998 May	1998 June	1998 July	1998 Aug.	1998 Sept.	1998 Oct.	1998 Nov.	1998 Dec.	1999 Jan.
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	106.5	105.6	105.2	104.4	100.9	97.4	102.7	100.5	103.9
Current conditions	113.9	115.4	113.3	113.9	111.7	112.8	115.9	113.9	116.8
Expected conditions	101.7	99.3	100.0	98.3	93.9	87.5	94.3	91.9	95.7

Personal financial situation									
Now compared with 12 months ago*	130	130	132	132	126	131	130	128	133
Expected in 12 months*	134	134	139	139	131	133	130	133	132
Expected business conditions									
Next 12 months*	158	150	145	146	130	118	136	130	143
Next 5 years*	118	116	119	111	117	101	113	107	110
Appraisal of buying conditions									
Cars	148	152	139	150	142	153	155	151	157
Large household appliances*	166	170	162	163	164	162	171	168	170
Houses	172	171	169	170	166	178	173	182	176
Willingness to use credit	54	50	54	48	53	53	53	52	47
Willingness to use savings	78	68	82	77	65	70	77	69	75
Expected unemployment change - next 12 months	102	105	111	109	112	121	119	124	115
Prob. household will lose a job - next 5 years	21	20	20	21	22	21	22	19	21
Expected inflation - next 12 months									
Mean	3.1	3.2	3.1	2.7	2.7	2.6	2.7	2.8	3.0
Median	2.6	2.7	2.6	2.4	2.3	2.5	2.3	2.5	2.7
Expected inflation - next 5 to 10 years									
Mean	3.3	3.3	3.1	3.0	3.4	3.2	3.1	3.2	3.5
Median	2.8	2.9	2.7	2.7	2.9	2.8	2.8	2.9	3.0

* -- Indicates the question is one of the five equally-weighted components of the index of sentiment.
 (p) -- Preliminary
 (f) -- Final
 Note: Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall, plus 100.

CBO BUDGET AND ECONOMIC PROJECTIONS¹

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

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

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

cbobud.txt (01-29-99)

Selected Financial Market Quotations
(One-day quotes in percent except as noted)

Instrument	1998			1999	Change to Jan. 28 from selected dates (percentage points)		
	June 30	Nov. 16	FOMC* Dec. 22	Jan. 28	June 30	Nov. 16	FOMC* Dec. 22
<i>Short-term</i>							
Federal funds							
FOMC intended rate	5.50	5.00	4.75	4.75	-.75	-.25	.00
Realized rate ¹	5.51	5.08	4.82	4.80	-.71	-.28	-.02
Treasury bills ²							
3-month	4.97	4.41	4.42	4.38	-.59	-.03	-.04
6-month	5.04	4.42	4.43	4.29	-.75	-.13	-.14
1-year	5.10	4.34	4.33	4.31	-.79	-.03	-.02
Commercial paper							
1-month	5.54	5.13	5.37	4.79	-.75	-.34	-.58
3-month	5.47	5.09	5.01	4.75	-.72	-.34	-.26
Large negotiable CDs ²							
1-month	5.60	5.19	5.58	4.86	-.74	-.33	-.72
3-month	5.61	5.31	5.15	4.86	-.75	-.45	-.29
6-month	5.68	5.12	5.00	4.86	-.82	-.26	-.14
Eurodollar deposits ³							
1-month	5.56	5.19	5.50	4.81	-.75	-.38	-.69
3-month	5.59	5.31	5.13	4.81	-.78	-.50	-.32
Bank prime rate	8.50	8.00	7.75	7.75	-.75	-.25	.00
<i>Intermediate- and long-term</i>							
U.S. Treasury (constant maturity)							
2-year	5.49	4.56	4.56	4.58	-.91	.02	.02
10-year	5.44	4.85	4.64	4.67	-.77	-.18	.03
30-year	5.62	5.28	5.07	5.11	-.51	-.17	.04
U.S. Treasury 10-year indexed note	3.76	3.80	3.79	3.75	-.01	-.05	-.04
Municipal revenue (Bond Buyer) ⁴	5.36	5.28	5.21	5.24	-.12	-.04	.03
Corporate bonds, Moody's seasoned Baa	7.11	7.37	7.23	7.23	.12	-.14	.00
High-yield corporate ⁵	9.20	10.62	10.49	10.45	1.25	-.17	-.04
Home mortgages (FHLMC survey rate) ⁶							
30-year fixed	6.96	6.93	6.69	6.78	-.18	-.15	.09
1-year adjustable	5.68	5.56	5.55	5.57	-.11	.01	.02

Stock exchange index	Record high		1998		1999	Change to Jan. 28 from selected dates (percent)		
	Level	Date	Nov. 16	FOMC* Dec. 22	Jan. 28	Record high	Nov. 16	FOMC* Dec. 22
Dow-Jones Industrial	9,643.32	1-8-99	9,011.25	8,988.85	9,281.33	-3.75	3.00	3.25
S&P 500 Composite	1,275.09	1-8-99	1,135.87	1,202.84	1,265.37	-.76	11.40	5.20
NASDAQ (OTC)	2,477.34	1-28-99	1,861.68	2,138.03	2,477.34	.00	33.07	15.87
Russell 2000	491.41	4-21-98	390.42	401.83	423.97	-13.72	8.59	5.51
Wilshire 5000	11,702.09	1-8-99	10,383.89	10,956.28	11,620.80	-.69	11.91	6.07

1. Average for two-week reserve maintenance period ending on or before date shown. Most recent observation is average for current maintenance period to date.

2. Secondary market.

3. Bid rates for Eurodollar deposits collected around 9:30 a.m. Eastern time.

4. Most recent Thursday quote.

5. Merrill Lynch Master II high-yield bond index composite.

6. For week ending Friday previous to date shown.

* Data are as of the close on December 21, 1998.

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

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

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

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FASB 115).

2. Includes securities of corporations, state and local governments, and foreign governments and any trading account assets that are not U.S. government securities.

3. Excludes interbank loans.

4. Includes an estimate of outstanding loans securitized by commercial banks.

5. Includes security loans, loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

p Preliminary.