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Strictly Confidential (FR) Class II FOMC

Part 1

June 23, 1999

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

June 23, 1999

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee
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Domestic Developments

In the wake of the Committee's May 18 announcement that it had adopted a tightening "bias," market attention has been fixed on indicators of actual or potential inflationary pressures and on any further hints regarding policymakers' intentions. In these circumstances, securities prices have been rather volatile. However, at least for now, System words probably have accomplished the equivalent of what the deed of a modest tightening action would have: Market interest rates are up somewhat, pretty much across the maturity and risk spectra, and share prices have fluctuated below their late-April or early-May peaks.

Although these financial developments, if sustained, should leave their mark in coming months, to date the economic picture has evolved broadly as we anticipated in the last Greenbook. It did not appear to do so at first, as the outsized jump in the April CPI was reported just the day after our forecast was printed. The surge in the core component of the index in particular suggested that we might have seriously misread the current inflation trend; however, that concern was greatly reduced last week when we received the mild May CPI numbers. Meanwhile, the surprises in the incoming data on production and spending have been mixed and have altered our perceptions of demand trends here and abroad only moderately.

At this point, our guess is that growth in real GDP has averaged about 3-3/4 percent, at an annual rate, over the first two quarters of 1999--the same as in the last Greenbook. Over the next six quarters, through the end of 2000, growth is projected to average a little less than 3 percent--again close to the last forecast. Foreign economic activity appears to be on a slightly higher track than we had thought last month, and that would have argued, all else being equal, for an elevation of the U.S. GDP forecast. But in light of the Committee's declaration, we have moved forward in time the Fed tightening that we had assumed in the last projection; this has put a little greater damper on domestic demand, especially in 2000. Thus, the level of real GDP at the end of this projection is little different from that in the last Greenbook.

Admittedly, there still is not much evidence that a meaningful and lasting moderation in the economy's pace of expansion is in train. As before, we are looking for the impetus to private domestic demand from the financial markets to cease--most important, we are anticipating a halt in the uptrend in stock prices. Also, although the recent strength of sales of consumer durables, homes, and business equipment would seem to undermine the argument, we continue to think that the waning of accelerator effects will become a more apparent force once the spur of earlier interest rate declines and wealth increases begins to ebb.

That said, the slackening in output growth that we are projecting probably is not sufficient to reduce pressures on labor supplies. Indeed, we see the unemployment rate remaining near its current level. Real wage gains therefore seem likely to remain sizable, squeezing profit margins to a degree as growth in labor productivity falls back from the recent rapid pace. In addition, the damping influence of weak import prices also is likely to diminish over coming quarters. All told, while overall consumer price inflation may be restrained by a flattening in oil prices after the recent resurgence, core price increases probably will trend upward gradually. The core CPI, which rose 2.0 percent over the twelve months ended in May, is projected to increase 2-1/2 percent in 2000. Moreover, we would emphasize, as we did last month, that the economy in this forecast enters 2001 with enough momentum to maintain an aggregate demand-supply imbalance and to push inflation still higher. Alternative scenarios at the end of this section explore circumstances and policy actions that might exacerbate or mute that tendency.

Key Background Factors

In the week following the announcement of the FOMC's tightening bias, yields on Treasury coupon securities moved higher as financial markets priced in an early Fed tightening--indeed, several tightenings. At the same time, risk spreads on investment-grade corporate bonds moved up, and mortgage rates rose smartly as well. Last week, the benign May CPI report and Chairman Greenspan's JEC testimony ignited a little bond rally, but it has fizzled on worries about oncoming corporate issuance and renewed nervousness about the possible aggressiveness of Fed pre-emptive actions.

Given the FOMC's directive and the inflationary tendencies we see in the economy, we have pulled forward the moderate hike in the federal funds rate that was assumed in our last forecast to occur in 2000. As noted, largely because of policymakers' statements, rates in the long end of the market also have moved up ahead of our previous schedule, and we are anticipating that they will fluctuate around the current level through next year. We have assumed somewhat less tightening than appears built into the yield curve at this juncture, but the financial restraint in our forecast is reinforced by a subpar equity market performance.

Equity prices have, on balance, been about unchanged since the last Greenbook. Share prices have fluctuated wildly for some of the high-flying Internet and technology stocks whose earnings are mostly, if not entirely, in the distant future and whose share prices reportedly have been especially sensitive to swings in bond yields. Overall, the performance of the market as a whole has been rather impressive in the face of the rise in interest rates. Stated differently, equity valuations seem even more stretched today, indicating the potential for a significant downturn. However, that story is not new, and we have, in this baseline forecast, anticipated merely that the market will fluctuate around the current level through next year--perhaps moving upward a bit in the near term, especially if the Fed appears friendlier than generally expected now, but dipping later this year as the funds rate is raised and as Y2K concerns come to the fore. Those same factors are likely to be reflected in some enhanced risk aversion in the credit markets as well; and we would expect that in 2000 the more moderate growth of economic activity will encourage some continuing caution with respect to risk spreads and lending policies.

The foreign economic outlook has improved a bit recently. Real GDP surged in Japan in the first quarter, and several developing Asian economies--especially Korea--appeared to be on a more solid footing in the first quarter. In addition, prospects for Brazil have brightened somewhat. We suspect that the recent data substantially overstate the underlying thrust in many of these economies, and so we have marked up our forecast of foreign real GDP only about 1/4 percentage point for this year and next. We now expect that foreign real GDP will increase about 2-1/2 percent this year and about 2-3/4 percent in 2000.

The dollar has moved somewhat higher since the last Greenbook, with the notable further slippage of the euro. We expect the inflation-adjusted value of the dollar against a broad index of currencies to remain near current levels through the end of the year, but we anticipate some erosion in 2000. Better relative GDP performance abroad and a further widening of the U.S. current account deficit argue for a less robust dollar than we have been seeing--and we have leaned modestly in that direction.

Crude oil prices are close to where they were at the time of the last Greenbook, buttressed by an unusual degree of compliance by OPEC members with their promised production cutbacks. In the near term, the spot price of WTI, lately around $18 per barrel, is held slightly above that level as oil companies build in a little extra inventory in anticipation of possible Y2K disruptions. Further ahead, supplies seem likely to loosen at least a bit; consequently, the spot price of WTI is projected to move down to $17.50 a barrel by the middle of next year and then level out. This ending price is $0.50 higher than in our May forecast, reflecting in part the implications of a stronger world economy for petroleum demands.

Under our essentially unchanged budget assumptions, fiscal policy continues to have an essentially neutral effect on aggregate demand. Political uncertainties are considerable at this juncture. The discretionary spending caps are under stress, and there is still a strong urge among some in the Congress to cut taxes; however, there also are offsetting pressures to devote the prospective surpluses to "saving" social security or to paying down the national debt. While we do not have a clear view of how all this will play out, it does seem likely that any dollar effects on the changes in the budget are likely to be small through fiscal 2000. The unified budget surpluses are projected to be $124 billion and $183 billion for FY1999 and FY2000, respectively--a bit lower than last month's forecast. The size of the on-budget surplus promises to be a constraint on new initiatives. We are projecting about $35 billion for FY2000, but that probably is appreciably greater than what CBO will publish next week.

Recent Developments and the Outlook for the Current Quarter

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

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

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

1. Preliminary release, published on May 27.

Real personal consumption expenditures appear likely to register a growth rate of nearly 4-1/2 percent this quarter--substantial but off from the blistering 6 percent average pace of the past couple of quarters. Surprisingly, unit sales of new light vehicles actually have strengthened a bit further this spring, but our translation of the April and May retail sales data suggests that real spending for goods other than motor vehicles will slow considerably from its extraordinary first-quarter pace.

Real residential investment should decelerate markedly in the second quarter. Single-family starts averaged 1.33 million units at an annual rate in April and May, a little less than the first-quarter pace, and multifamily starts slipped noticeably. Our suspicion is that the fall-off in starts is largely a reflection of supply constraints, which builders were able to overcome to a degree in the fall and winter by keeping many workers on construction sites through the normal seasonal lull. Certainly, recent demand indicators for the single-family sector have been impressively strong. Some have attributed this to efforts by buyers to beat further mortgage rate increases, but we suspect that much of the recent strength reflects ongoing fundamentals: large gains in jobs, income, and wealth that have given households the wherewithal and confidence to make the big financial commitment.

Real business fixed investment appears to have surged this spring, particularly on the equipment side. Business purchases of motor vehicles should be up sharply for the quarter, and a bulge in the share of Boeing deliveries going to domestic airlines should generate a sharp increase in aircraft investment. For computers, a big jump in April shipments suggests a considerable bounceback from a first-quarter increase that was "only" in the mid-30 percent area. In contrast, reflecting the soft data on construction put-in-place for April, real outlays on structures are expected to drop more than 2 percent this quarter--a partial retracement of the first-quarter gain.

Real government purchases are expected to decline at a 1-1/2 percent annual rate in the current quarter, held down by declines at both the federal and state and local levels. State and local construction outlays--especially for road projects--are projected to fall considerably, as activity fails to exhibit a normal seasonal pickup from the weather-favored first-quarter level. In the federal sector, both defense and nondefense purchases decline.

We anticipate that real net exports will subtract a little more than 1 percentage point from real GDP growth in the second quarter. The contribution of net exports is somewhat less negative than that in the last Greenbook, largely reflecting the news in the April trade data and the accompanying annual revision. Exports this quarter are projected to rise moderately, while imports appear headed for another double-digit increase.

As with net exports, we have few data for inventory investment beyond April. We expect that motor vehicle inventory investment will decline this quarter, given the indications for sales and assemblies. On shakier ground, we are anticipating that other nonfarm stocks will grow about as much as they did in the first quarter; the April pace of inventory investment for manufacturing and trade inventories other than motor vehicles was similar to that in the first quarter. Overall, growth of final sales probably will again outstrip that in total nonfarm inventories this quarter, extending the steep decline in the aggregate stock-sales ratio that has occurred since last summer.

After jumping 0.4 percent in April, the core CPI inched up just 0.1 percent in May. Averaging across the two months, these readings were a little less favorable than we had anticipated in the last Greenbook, and we now expect the core index to increase 2-1/2 percent at an annual rate in the second quarter (as compared with 1-3/4 percent before). However, we would put the underlying trend closer to 2 percent, and we expect relatively modest increases in the core CPI in coming months. Retail energy prices dropped back in May and should decline again in June, keeping headline inflation negligible. On the wage side, average hourly earnings rose 0.4 percent last month, leaving the increase over the past twelve months at 3.6 percent. BLS revised up figures for earlier months, indicating that the trend in AHE has been somewhat stronger than we had thought previously--although the recent twelve-month changes are still off more than a half percentage point from the peak last year.[1]

The Outlook for Economic Activity beyond the Current Quarter

We project that real GDP will increase 3-3/4 percent this year and 2-1/2 percent next year. In neither case has there been a large change from the last forecast, owing to the offsetting factors of an earlier tightening of domestic financial conditions and a bit higher path for foreign economic activity. And, as was noted in the introduction, the basic story behind our forecasted moderation of domestic demand remains unchanged, hinging critically on a loss of momentum in the bull market for equities.

The latest Beige Book seemed to have a somewhat more worrisome tone in its reports of labor market conditions and inflationary pressures, and we do believe the best news on the trend of prices is behind us. Although we have bumped up

1. The upward revisions largely reflected the correction of BLS errors in the previously reported figures for retail and wholesale trade.

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

Summary of Projections
(Percent change, compound annual rate)

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

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

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

businesses, and we are anticipating that Y2K concerns will lead to a slowdown in computer purchases as the end of the year approaches. In addition, we assume that there will be some minor disruptions of activity early next year as Y2K computer glitches show up. Working all of this through, we estimate that these factors will increase the four-quarter change in real GDP a tenth of a percentage point this year and then hold down the four-quarter change in 2000 about 1/4 percentage point.[3] Were it not for these effects, we would be forecasting real GDP increases of just over 3-1/2 percent this year and 2-3/4 percent in 2000. We view our assumptions as being of reasonable magnitude, especially insofar as GDP effects are concerned; if panic sets in late and precautionary demands jump, much of it presumably will show up in a reshuffling of stocks, rather than in added production.

Consumer spending. Assuming that the uptrend in equity prices does not reassert itself, the wealth effects that have spurred consumer spending should begin to wane over the months ahead. Moreover, the substantial backup in mortgage rates has caused a marked ebbing of the refinancing wave that likely gave a non-negligible lift to spending over the past couple of quarters. A flattening of home construction and sales should take some of the steam out of the demand for home appliances and furnishings. All told, these considerations--along with the dynamics leading to more moderate increases in employment and income--lead us to expect that growth in real personal consumption expenditures will slow from an annual rate of 5-1/2 percent in the first half of 1999 to 4 percent in the second half and 3-1/4 percent in 2000.

Spending on durables is likely to register the greatest deceleration. We have been predicting a slowing in such expenditures for some time now on the thought that the rates of accumulation of these goods already had become quite high; however, repeated large upside surprises to wealth seem to have translated into higher perceived permanent income and thereby boosted desired stock levels. Absent a further boost through that channel, stock-adjustment effects should take a considerable bite out of the growth in demand for motor vehicles and other durables over coming quarters--though ongoing price declines and product innovations should provide some support for sales of electronic goods especially.

Around the turn of the year, we expect Y2K effects to bounce the PCE numbers around. As indicated above, we have assumed that consumers will do a small

3. The slightly negative effect on net for 1999 and 2000 is balanced by a slight boost to 1998 associated with accelerated purchases of computers. Corporate reports suggested that Y2K-related technology purchases were already occurring in 1998, and the aggregate investment data also are consistent with such a pattern.

amount of precautionary buying at the end of the year, especially of food, prescription drugs, gasoline and heating oil, and other essentials. Much of this spending would simply be a shifting forward of purchases that would otherwise have been made in early 2000, although some--such as the oft-mentioned electrical generators--may represent spending that would not have been made at all if not for the millennium scare.

The earlier debate over whether the personal saving rate could turn negative for any span of time seems to have been settled now, and we expect that the rate will move still lower over coming quarters as the effects of weaker income and wealth trends on spending take time to play out. Although an end to the stock market's bull run undoubtedly may cause some currently exuberant and over-extended households a degree of financial stress, this phenomenon seems unlikely to be significant; and employment and income gains should remain sufficient to avoid broad loan repayment problems, despite the considerable increase that has occurred in debt burdens. Nor do we see reduced access to credit becoming a significant factor in spending behavior over the next year and a half.

Residential investment. The recent strength of demand indicators in the single-family sector of the housing market has led us to revise upward our projection of starts in the next few quarters. We believe that a considerable backlog of orders will buoy construction to an unusual degree past the seasonal peak month of June. Indeed, if builders were able to hold activity at the recent unadjusted level through the remainder of the year, seasonally adjusted single-family starts would move upward to around 1-3/4 million units by the fourth quarter. We do not see that scenario as realistic, partly because of the costs and risks of undertaking projects so late in the year; however, we have raised our projection of seasonally adjusted starts to more than 1.36 million units in the second half of the year, close to the high average level of the past fall and winter when strong demand and good weather combined to boost construction.

By next year, a flat stock market, the projected deceleration in overall economic activity, and the backup in mortgage rates should begin to show through in housing demand. We are expecting a modest retreat in rates on fixed-rate loans from the high level reached last week, and a further shift to adjustable-rate loans may damp the effects of the rise in FRM rates; even so, cash flow affordability will be less favorable than it was in the past year. As a consequence, we project that single-family starts will edge back to about 1.3 million units in 2000--still a high number relative to the likely underlying demographics. One wild card in the outlook: house prices. Recent statistical indicators have been mixed, but we are somewhat concerned by some anecdotal reports suggesting significant acceleration. Should a broad perception develop that house prices are shooting up, it could enhance buy-in-advance motives, which to date seem to have played only a minor role in consumers' decisions; on the other hand, a leap in prices could reinforce the aforementioned deterioration in affordability.

Although demand should remain focused on the single-family segment, market and financing conditions seem likely to support multifamily starts at somewhat above the 300,000 unit level in coming months. Constraints on construction labor and materials evidently have played a role in this area as well. By all reports, the availability of gypsum board, especially, should improve by the next year, and with single-family building falling off, supply limitations and costs are unlikely to impede multifamily building.

Pulling this all together, and adding in some weakening in what have been robust uptrends in brokers' commissions and spending on remodeling, we see real residential investment being little changed on balance in the second half of the year but declining 4 percent over the course of 2000. This is not an inconsequential element in the projected deceleration of GDP: Over the past six quarters of around 4 percent average growth in real GDP, residential investment has made a direct arithmetic contribution of about ½ percentage point; that contribution is predicted to be a negative 0.2 percent next year.

Business fixed investment. Growth in real business fixed investment is projected to slow to an annual rate of 3-1/2 percent over the second half of this year from a pace exceeding 11 percent during the first half--the falloff basically mirroring the pattern of equipment outlays. BFI growth is expected to run about 7-1/2 percent on average in 2000. A number of transitory factors are distorting the time path of investment spending this year and next, but the basic pattern is one of moderation from the double-digit advances of 1997 and 1998. The broad influences fostering this pattern are an end to the decline in financing costs, a flattening in business cash flows, and the deceleration of output at a time when a high *level* of investment already is expanding the stock of equipment at a fairly rapid clip.

We project that real computer spending, after increasing at an annual rate of more than 45 percent in the first half of the year, will rise at about a 35 percent rate in the second half--and that gain probably will be front-loaded. The usual incentives for computer purchases--improved capabilities at lower prices, the need to expand "online" business operations, and a continuing drive to use information technology to improve productivity--will still be at work later this year; however, we are guessing that Y2K considerations will lead to relatively subdued spending. In particular, many large firms pulled purchases forward to deal with Y2K problems by replacing noncompliant systems; and, to ensure stability of their systems, these firms will be reluctant to install new equipment until the beginning of 2000. We expect that the pace of computer purchases will pick up considerably next year, as the attractions of further technology investments reassert themselves.

Elsewhere in the IT area, real outlays for communications equipment are projected to decelerate from the extraordinary pace of recent quarters--somewhere between 25 and 30 percent at an annual rate since last fall. But we are still expecting increases to remain sizable through next year, in light of the competitive pressures to install facilities to accommodate new communications services.

In the transportation area, business purchases of motor vehicles increased considerably this spring, but we expect spending to decline in the second half of the year. As the economic expansion slows further in 2000, we anticipate that investment in vehicles will fall off still more--reflecting not only fewer consumer lease transactions but also a diminution of deliveries of medium and heavy trucks. Also, after a second-quarter surge, we anticipate that aircraft investment will fall back over the remainder of this year; Boeing production is heading down, and the share of its output being shipped to domestic airlines should drop from its elevated level in the second quarter. Looking to 2000 and beyond, the growth of airline fleets appears likely to outstrip growth in passenger-revenue miles; the resultant excess capacity will reinforce the downswing in jet orders, the plus side being that, airport slots permitting, it should also put a damper on fares.

Outside of hi-tech and transportation, equipment spending has been soft starting in the second-half of last year--probably reflecting the excess capacity in many manufacturing industries and the decline in farm income. However, orders for industrial equipment have, on balance, firmed of late, and we anticipate a pickup in shipments in the near term. It could well be that the widely reported firming of foreign demand is playing a role here, but we expect that there will be a resumption of moderate growth in domestic spending.

For nonresidential structures, we have marked down our projection of real outlays somewhat, and we expect a relatively flat picture through next year. Again, excess capacity in manufacturing should continue to hold down building activity in the industrial sector, and we have become more pessimistic about the prospects for office construction, reflecting the persistent downtrend in contracts over the last six months. Although markets for office space seem healthy on the whole, in the present instance lenders and investors appear to be modulating any inclination of builders to overdo it, in contrast to some prior cycles.

Government. As noted earlier, the recently enacted 1999 "supplemental" was similar to what we had assumed in the May Greenbook. And, with the end of hostilities in the Balkans, the risk of heavy expenditures to support a large ground offensive has been eliminated. All in all, this forecast for the federal sector is similar to our last, with real consumption and investment expenditures projected to decline 1/2 percent at an annual rate, on average, over the next six quarters.

In the state and local sector, with the weather-affected swings of recent months behind us, we believe that construction spending will exhibit a solid uptrend. For the most part, governmental units are in good to excellent fiscal health, and they are slated to receive a substantial increase in federal highway money. Over the next six quarters, we expect that real purchases by state and local governments will increase at an annual rate of more than 3-1/2 percent, considerably above the pace seen in recent years. Even at that pace of spending, the already large surplus of operating accounts, which exclude social insurance funds, may grow a little more.

Business inventories. Nonfarm inventory accumulation should provide considerable impetus to growth in the second half of this year. Although overhangs appear to exist in a few areas--for example, chemicals and farm machinery--stocks overall seem to be on the lean side, having been drawn down by surprisingly strong sales at the end of last year and the early part of this year. Thus, we expect that many firms will rebuild stocks in the third quarter, considerably boosting the pace of accumulation. The pace of investment may rise still further in the last quarter of the year as firms take a "just-in-case" approach to possible Y2K supply disruptions, figuring that they can run off any extra stocks in the first quarter of next year. Putting together the pieces, we expect nonfarm inventories to boost growth about 3/4 percentage point (annual rate) in the second half of this year and to trim about a tenth percentage point next year.

We project that farm inventory stocks will continue to increase, but at a pace that slows over the projection period. Responding to the prevailing low level of prices, farmers appear to have planted a little less this year. But if weather conditions remain favorable, the harvest this fall will be large and pressures for further output adjustment will persist.

Net exports. Falling net exports have been a big negative in the GDP-growth arithmetic since the end of 1997--averaging a deduction of about 1-1/4 percentage points per year. That drag should diminish considerably over the projection period. We are forecasting that export growth will pick up to

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

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

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

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

1. Corrected by FRB staff for length-of-pay-period problem.
2. Percent, average for the fourth quarter.

Given this pattern of employment, and our expectation that labor force participation will remain in the recent range, the unemployment rate probably will fluctuate narrowly, edging closer to 4 percent before inching back up to 4-1/4 percent by the end of 2000. In the first half of next year, hiring for the decennial census will cause a temporary jump in government payrolls. We suspect that the bulk of the added jobs will be taken by people who are already working; thus, the swing in census employment should have only a slight effect on the labor force participation or unemployment rates.[4]

Efforts to enhance efficiency through process changes and investments in new equipment undoubtedly will persist, but their effects probably will be masked somewhat for a time as firms continue to hire opportunistically even as the economy begins to decelerate. Thus, productivity growth is projected to drop back considerably in the near term from its recent brisk pace. Output per hour in the nonfarm business sector rises about 1-1/2 percent over the next four quarters and then picks back up to around 2-1/4 percent in the latter half of 2000.

Prices and wages. As noted already, we continue to expect that the underlying trend of inflation will turn up. Labor markets remain extremely tight in this forecast; oil prices have completely reversed the decline of 1998 and early 1999; commodity prices appear to have bottomed out, with prices of some construction materials going through the roof as demand outstrips supply; and prices of non-oil imports are no longer so favorable a factor as they were last year. In addition, the official price and wage data have been a little less favorable than we anticipated in the May Greenbook, and more recent indicators such as the Purchasing Managers' price series, along with anecdotes from the Beige Book and elsewhere, suggest intensifying inflation pressures.

On the compensation front, we have raised the trajectory for the ECI by a few tenths of a percentage point this year and next; we now expect the ECI for hourly compensation in private industry to increase 3.3 percent in 1999 and 3.6 percent in 2000. In terms of this revision, we have built in more of a bounceback from the extraordinarily low first-quarter ECI number for wages and salaries, judging that we may previously have allowed too much of that good news to carry forward. In that regard, upward revisions to average hourly earnings data suggest greater near-term momentum in wage inflation than had been apparent previously. Also, based on reports of large increases in health insurance premiums, we have boosted our projection for benefit costs compared

4. Considerable uncertainty remains about the magnitude of census hiring, depending on how the Bureau of the Census ultimately conducts the count.

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

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

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

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

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

another hike in October of next year; these increases are expected to boost four-quarter changes in compensation per hour by roughly a tenth percentage point this year and next.

On the price side, the core CPI is projected to increase 2.1 percent in 1999 and 2.5 percent in 2000, a tenth or two more each year than in the last Greenbook; the upward revision primarily reflects news on prices received since the last Greenbook and the upward revision to labor costs. Food prices are expected to remain a benign influence on inflation, rising a touch more slowly than the core both this year and next. In contrast, higher oil prices caused the CPI for energy to soar in April, thereby setting up a very large second-quarter increase. Although we expect energy prices to rise only little, on balance, from here on out, the increases that are already behind us are sufficient to push up total CPI inflation above the core to 2-1/4 percent this year. By 2000, increases in food and energy prices are modest, and the total CPI is expected to increase 2-1/4 percent, somewhat less than core inflation.

Although increases in nominal compensation should be held down by the favorable price performance of the past couple of years, labor market tightness is projected to translate into sizable increases in real compensation. Using product-side prices and the measure of nonfarm compensation per hour from the productivity and cost series, real compensation is expected to rise 2.8 percent in 1999 and 2.9 percent in 2000, considerably faster than our forecasts of growth in actual and trend productivity over the forecast period. With the labor share of national income therefore rising and net interest payments creeping up, the profit share declines, on net, over the rest of 1999 and 2000.

Money and Credit Flows

Growth in domestic nonfinancial debt likely has slowed in the second quarter, to around 4-3/4 percent, at an annual rate, from about 6-1/4 percent in the first quarter. The moderation owes almost entirely to a slowing in nonfederal debt growth, as the pace of federal debt retirement picked up only a shade further. We expect aggregate debt growth to slow still more over the forecast period, as businesses and households cut back on their borrowing and the contraction in federal debt steepens.

In the nonfinancial corporate sector, borrowing was very heavy in the first quarter and has fallen off appreciably in the second. Diminishing merger-related credit demands, along with some further easing in the rate of stock repurchases, allows the growth of business debt to remain more moderate over the projection period despite a rising financing gap. The gap has widened over the past several years, and we expect it to widen additionally as capital outlays continue to rise while internal funds change little, on net, over the forecast period. The larger financing gap keeps the growth in business debt at a fairly rapid pace--about 7-1/2 percent in 1999 as a whole and about 6-3/4 percent during 2000, down from the 9 percent increase in 1998. Despite the hefty growth of debt in the past couple of years, the financial positions of most corporations appear to be sound. However, the default rate on junk bonds has picked up noticeably this year, and models suggest that it could rise further; moreover, delinquencies on C&I loans have edged up in recent quarters. As economic growth moderates, a mild further erosion of credit quality is likely; this appears to be largely anticipated by lenders, as evidenced for example by elevated spreads in the junk bond market, and thus any tightening in business credit supply should be minor.

Household debt is projected to substantially outpace income in 1999 and 2000, even though we expect that the moderating growth of consumer durables and housing activity will slow borrowing. To date, the burden of servicing the growing household debt has been held down by declining interest rates and by the lengthening maturities of existing debt, a process facilitated by the wave of mortgage refinancings. Given our interest rate forecast, such relief is not anticipated going forward. The slackening in the pace of economic expansion likely will be accompanied by some modest deterioration in credit quality in consumer and mortgage portfolios, but not enough to induce more than a selective tightening of lending standards.

In government sectors, we have shaved our projection of the federal budget surpluses slightly compared with the last Greenbook, but we continue to foresee a substantial retirement of federal debt. As for states and localities, the pace of advance refunding has slowed significantly, and, with rising interest rates, we anticipate refundings to remain smaller than in the past few years. The debt of state and local governments is projected to grow roughly at a 4 percent pace over the rest of 1999 and 2000. The sound budgetary condition of most states and localities should keep credit quality concerns in the municipal securities markets to a minimum. Consequently, funding should remain readily available for the increased volume of investment projects anticipated in our GDP forecast.

After expanding rapidly during the period of turbulent financial market conditions and policy easings of late last year, M2 growth moderated over the first half of 1999. M2 growth is expected to edge down further over the balance of 1999 and in 2000, as a rising federal funds rate boosts the opportunity cost of holding M2 assets and as nominal spending decelerates next year. M3 growth slowed more appreciably over the first half of this year, in part because banks' need for managed liabilities declined as borrowers repaid the loans that they had taken out last fall. M3 growth is expected to pick up a bit in coming months as bank lending expands, but it then is projected to slip down with weaker GDP growth in 2000. The deceleration of the broad monetary aggregates over the forecast period is expected to be associated with smaller declines in their velocities.

Alternative Simulations

We have developed four alternative, model-based simulations for this forecast. The first two simulations present the implications of alternative paths for the federal funds rate; the other two consider the effects of alternative paths for stock prices, where those deviations from the baseline are generated autonomously, without policy changes.

The first simulation assumes that the FOMC holds the federal funds rate flat over the forecast interval. Relative to baseline, this alternative path for the funds rate would have little effect on real GDP, unemployment, or inflation in 1999. In 2000, however, the growth of real GDP would be noticeably stronger and the unemployment rate about 1/4 percentage point lower by the end of the year. Inflation would pick up to 2-3/4 percent in 2000, about 1/4 percentage point higher than in the baseline forecast. And if this simulation were extended out to 2001, inflation would rise noticeably further, even if the funds rate were moved upward to avoid a still greater decline in the real short-term rate.

In the other alternative monetary policy simulation, the FOMC raises the federal funds rate 100 basis points by the end of this year--considerably more than in the baseline forecast and beyond prevailing market expectations. In contrast to the baseline scenario in which the federal funds rate increases only as much as core inflation, in this alternative simulation real short rates rise appreciably. In this scenario, the higher path for the funds rate would not visibly affect the economy in 1999. In 2000, however, real GDP growth would be weaker than in the baseline, and the unemployment rate would be 1/4 percentage point higher by the end of the year. The inflation rate would move up a touch less than in the baseline forecast next year and would be relatively stable in 2001.

The third simulation has the Wilshire 5000 rising to a level of 15,000 by the fourth quarter of next year--a gain of almost 25 percent from the current level. The increase is assumed to occur because of a reduction in the equity risk premium required by investors. Under this alternative, real GDP growth is considerably stronger than in the baseline, and the unemployment rate is lower. Inflation would rise to 2-1/2 percent next year, the same as in the baseline forecast. As we have noted in previous Greenbooks, expectations of inflation in the FRB/US model respond relatively slowly to movements in resource utilization that are not accompanied by changes in monetary policy. Over time, however, consumers and firms would deduce that the Fed's inflation target had been relaxed, and inflation expectations ultimately would begin to move upward. Indeed, by 2001, the inflationary consequences of the stronger stock market would start to become more visible.

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

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

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

1. Average for the fourth quarter.

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June 23, 1999

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

1. For all urban consumers. The historical quarterly figures for the CPI have been updated to reflect revised seasonal factors.
2. Level, except as noted.
3. Percent change from two quarters earlier; for unemployment rate, change in percentage points.
4. Percent change from four quarters earlier; for unemployment rate, change in percentage points.

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

June 23, 1999

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

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

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Class II FOMC

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

June 23, 1999

Item	Units	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2
EXPENDITURES											
Nominal GDP	Bill. $	7495.3	7629.2	7703.4	7818.4	7955.0	8063.4	8170.8	8254.5	8384.2	8440.6
Real GDP	Bill. Ch. $	6882.0	6983.9	7020.0	7093.1	7166.7	7236.5	7311.2	7364.6	7464.7	7498.6
Real GDP	% change	3.3	6.1	2.1	4.2	4.2	4.0	4.2	3.0	5.5	1.8
Gross domestic purchases		4.5	7.0	3.4	1.8	5.5	4.4	4.6	3.2	7.8	3.9
Final sales		3.6	5.4	0.9	5.1	2.9	2.7	5.8	2.1	4.3	4.6
Priv. dom. final purchases		5.1	6.2	2.8	3.3	4.6	3.3	7.5	2.9	8.5	7.4
Personal cons. expenditures		3.7	4.7	1.8	2.9	4.3	1.6	6.2	2.8	6.1	6.1
Durables		5.8	12.7	-1.9	7.2	12.3	-1.5	16.8	3.1	15.8	11.2
Nondurables		2.2	4.8	1.2	2.9	3.6	-0.2	5.1	-0.4	7.4	5.3
Services		4.0	3.0	3.0	2.0	3.1	3.2	4.7	4.3	3.5	5.4
Business fixed investment		13.1	11.0	14.2	8.8	7.0	14.0	17.0	1.8	22.2	12.8
Producers' dur. equipment		15.7	12.3	16.2	3.2	8.3	22.8	18.8	2.2	34.3	18.8
Nonres. structures		6.4	7.4	8.9	24.5	3.9	-6.2	12.4	0.9	-4.9	-2.3
Residential structures		9.3	19.5	-1.7	-3.9	3.1	6.1	-0.4	8.2	15.6	15.0
Exports		3.7	5.8	2.1	32.0	8.3	15.5	10.6	4.4	-2.8	-7.7
Imports		13.1	13.5	13.6	7.0	18.6	17.9	13.5	6.3	15.7	9.3
Gov't. cons. & investment		3.2	7.1	-1.6	0.0	2.1	2.1	1.4	0.1	-1.9	3.7
Federal		8.0	8.1	-4.7	-6.3	-2.7	3.6	-1.2	-2.1	-8.8	7.3
Defense		7.2	8.1	-6.3	-8.3	-9.9	9.1	-1.8	-2.0	-18.5	9.9
State & local		0.5	6.5	0.3	3.8	4.9	1.3	2.9	1.3	2.1	1.8
Change in bus. inventories	Bill. Ch. $	14.4	26.1	47.5	32.1	56.3	79.0	51.0	66.5	91.4	38.2
Nonfarm		10.4	15.2	38.6	28.7	56.2	72.1	44.0	62.7	85.9	29.9
Net exports		-95.5	-113.5	-140.1	-95.9	-121.5	-131.6	-142.4	-149.0	-198.5	-245.2
Nominal GDP	% change	5.7	7.3	3.9	6.1	7.2	5.6	5.4	4.2	6.4	2.7
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	118.5	119.3	120.0	120.7	121.4	122.3	123.0	123.9	124.8	125.5
Unemployment rate	%	5.5	5.5	5.3	5.3	5.2	5.0	4.9	4.7	4.6	4.4
Industrial prod. index	% change	2.8	9.6	5.5	3.5	6.6	6.0	7.2	6.6	1.6	2.8
Capacity util. rate - mfg.	%	80.9	81.6	81.8	81.3	81.6	81.7	82.1	82.5	81.8	81.2
Housing starts	Millions	1.46	1.50	1.50	1.42	1.46	1.47	1.46	1.52	1.59	1.57
Light motor vehicle sales		15.10	15.18	15.00	14.91	15.32	14.54	15.19	15.02	15.08	16.07
North Amer. produced		13.44	13.46	13.33	13.16	13.41	12.68	13.20	13.08	13.13	14.07
Other		1.66	1.72	1.68	1.76	1.92	1.86	1.99	1.94	1.95	1.99
INCOME AND SAVING											
Nominal GNP	Bill. $	7515.0	7643.3	7708.6	7829.0	7952.4	8062.3	8162.0	8234.9	8369.4	8421.8
Nominal GNP	% change	5.6	7.0	3.5	6.4	6.5	5.6	5.0	3.6	6.7	2.5
Nominal personal income		6.6	6.9	5.5	4.6	7.3	4.7	4.7	5.0	5.9	4.5
Real disposable income		2.9	2.1	4.4	1.3	3.3	2.9	2.4	2.9	4.0	2.6
Personal saving rate	%	3.2	2.6	3.1	2.6	2.4	2.6	1.7	1.7	1.2	0.4
Corp. profits, IVA & CCAdj.	% change	16.9	6.9	3.8	3.5	18.1	11.1	13.1	-9.2	4.2	-4.1
Profit share of GNP	%	9.8	9.8	9.8	9.7	10.0	10.1	10.3	10.0	9.9	9.7
Excluding FR Banks		9.5	9.5	9.5	9.5	9.7	9.8	10.0	9.7	9.6	9.5
Federal surpl./deficit	Bill. $	-150.1	-112.6	-100.1	-78.3	-51.2	-34.8	-0.3	2.2	58.8	74.4
State & local surpl./def.		117.3	129.1	122.3	121.7	128.4	130.1	136.6	141.4	140.2	141.3
Ex. social ins. funds		45.3	58.2	52.5	52.9	59.8	61.6	68.7	73.8	72.7	73.6
Gross natl. saving rate	%	16.4	16.4	16.8	16.7	17.0	17.6	17.5	17.3	17.7	17.2
Net natl. saving rate		6.0	6.2	6.6	6.5	7.0	7.6	7.5	7.3	7.8	7.2
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.2	1.4	1.8	1.6	2.8	1.7	1.2	1.1	0.9	0.9
Gross Domestic Purchases chn.-wt. price index		2.1	1.4	1.5	2.1	2.2	0.9	1.1	1.0	-0.2	0.4
CPI		3.2	3.7	2.3	3.3	2.5	1.3	1.8	2.0	1.0	1.7
Ex. food and energy		2.5	2.7	2.4	2.7	2.2	2.9	1.4	2.4	2.4	2.6
ECI, hourly compensation[1]		2.5	3.5	2.8	2.8	2.5	3.7	3.4	4.3	3.0	3.6
Nonfarm business sector											
Output per hour		4.2	3.0	-0.1	1.0	0.1	1.6	3.4	0.9	3.6	0.3
Compensation per hour		2.7	5.2	3.6	3.1	3.7	2.4	3.8	4.9	4.7	4.1
Unit labor cost		-1.5	2.2	3.7	2.1	3.5	0.7	0.3	4.0	1.1	3.7

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

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

June 23, 1999

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

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	96Q4/ 95Q4	97Q4/ 96Q4	98Q4/ 97Q4
Real GDP	2.1	4.2	4.2	4.0	4.2	3.0	5.5	1.8	3.7	3.9	3.8	4.3
Gross dom. purchases	3.5	1.9	5.5	4.4	4.7	3.2	7.9	4.0	4.3	4.2	4.4	5.4
Final sales	0.9	5.1	2.9	2.7	5.7	2.1	4.3	4.6	2.8	3.7	3.3	4.5
Priv. dom. final purchases	2.3	2.7	3.8	2.7	6.1	2.4	7.0	6.1	3.1	3.6	3.8	5.4
Personal cons. expenditures	1.3	2.0	2.9	1.1	4.2	1.9	4.1	4.1	2.8	2.2	2.5	3.6
Durables	-0.2	0.6	1.0	-0.1	1.3	0.3	1.2	0.9	0.2	0.5	0.6	1.1
Nondurables	0.2	0.6	0.7	-0.0	1.0	-0.1	1.4	1.0	0.4	0.6	0.4	0.9
Services	1.2	0.8	1.2	1.3	1.9	1.7	1.4	2.1	2.2	1.2	1.5	1.6
Business fixed investment	1.4	0.9	0.7	1.4	1.7	0.2	2.2	1.4	-0.1	1.2	1.0	1.2
Producers' dur. equip.	1.1	0.2	0.6	1.6	1.3	0.1	2.4	1.4	-0.1	0.8	0.9	1.3
Nonres. structures	0.2	0.6	0.1	-0.2	0.4	0.0	-0.2	-0.1	0.0	0.3	0.1	-0.0
Residential structures	-0.1	-0.2	0.1	0.2	-0.0	0.3	0.6	0.6	0.4	0.2	0.2	0.5
Net exports	-1.3	2.4	-1.2	-0.5	-0.5	-0.3	-2.2	-2.1	-0.6	-0.3	-0.6	-1.1
Exports	0.2	3.2	1.0	1.8	1.2	0.5	-0.3	-0.9	-0.3	1.2	1.1	0.1
Imports	-1.6	-0.9	-2.2	-2.2	-1.7	-0.8	-1.9	-1.2	-0.3	-1.4	-1.7	-1.2
Government cons. & invest.	-0.3	0.0	0.4	0.4	0.3	0.0	-0.3	0.6	0.3	0.4	0.3	0.3
Federal	-0.3	-0.4	-0.2	0.2	-0.1	-0.1	-0.6	0.4	-0.1	0.1	-0.0	0.1
Defense	-0.3	-0.4	-0.5	0.4	-0.1	-0.1	-0.8	0.4	0.2	-0.0	-0.1	-0.1
Nondefense	0.0	0.0	0.3	-0.2	0.0	-0.1	0.3	0.1	-0.3	0.1	0.0	0.1
State and local	0.0	0.4	0.6	0.2	0.3	0.2	0.2	0.2	0.4	0.3	0.3	0.2
Change in bus. inventories	1.2	-0.8	1.3	1.3	-1.4	0.9	1.2	-2.7	0.9	0.2	0.5	-0.3
Nonfarm	1.3	-0.5	1.5	0.9	-1.5	1.0	1.2	-2.8	0.9	0.1	0.5	-0.3
Farm	-0.1	-0.3	-0.2	0.4	0.1	-0.1	0.0	0.1	0.0	0.0	0.0	0.0

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

Strictly Confidential <FR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

June 23, 1999

Item	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	98Q4/ 97Q4	99Q4/ 98Q4	0Q4/ 99Q4
Real GDP	6.0	4.5	2.9	3.5	3.7	0.1	4.4	2.9	3.0	4.3	3.7	2.6
Gross dom. purchases	5.5	6.8	4.0	4.9	4.2	0.5	5.5	3.5	3.0	5.4	4.9	3.1
Final sales	6.6	4.8	3.3	2.4	3.1	1.6	3.6	2.7	3.1	4.5	3.4	2.7
Priv. dom. final purchases	5.4	6.2	4.7	3.1	3.4	1.6	4.2	2.9	2.8	5.4	4.3	2.9
Personal cons. expenditures	3.5	4.6	3.0	2.7	3.0	1.4	3.3	2.3	2.1	3.6	3.3	2.3
Durables	1.9	1.0	0.6	0.3	0.3	0.4	0.4	0.4	0.4	1.1	0.6	0.4
Nondurables	0.8	1.8	0.5	0.8	1.2	-0.2	1.2	0.6	0.5	0.9	1.1	0.5
Services	0.7	1.7	1.9	1.5	1.4	1.2	1.7	1.3	1.2	1.6	1.7	1.3
Business fixed investment	1.5	0.9	1.6	0.5	0.3	0.3	1.1	0.9	0.9	1.2	0.8	0.8
Producers' dur. equip.	1.4	0.7	1.7	0.6	0.3	0.3	1.1	0.9	0.9	1.3	0.8	0.8
Nonres. structures	0.2	0.1	-0.1	-0.0	-0.0	-0.0	0.0	0.0	0.0	-0.0	0.0	0.0
Residential structures	0.4	0.7	0.1	-0.1	0.1	-0.1	-0.2	-0.3	-0.1	0.5	0.2	-0.2
Net exports	0.5	-2.2	-1.1	-1.3	-0.5	-0.4	-1.1	-0.6	0.0	-1.1	-1.3	-0.5
Exports	2.0	-0.6	0.3	0.1	0.7	-0.1	0.6	0.6	0.9	0.1	0.1	0.5
Imports	-1.5	-1.6	-1.4	-1.4	-1.1	-0.3	-1.7	-1.2	-0.9	-1.2	-1.4	-1.0
Government cons. & invest.	0.6	0.8	-0.3	0.5	0.2	0.5	0.5	0.3	0.2	0.3	0.3	0.4
Federal	0.4	-0.1	-0.2	0.2	-0.2	0.0	0.1	-0.1	-0.2	0.1	-0.1	-0.0
Defense	0.1	-0.3	-0.1	0.2	-0.2	-0.1	-0.0	-0.0	0.0	-0.1	-0.1	-0.0
Nondefense	0.4	0.2	-0.1	-0.0	-0.0	0.1	0.1	-0.1	-0.2	0.1	0.0	-0.0
State and local	0.2	0.9	-0.0	0.4	0.4	0.4	0.4	0.4	0.4	0.2	0.4	0.4
Change in bus. inventories	-0.5	-0.3	-0.4	1.1	0.6	-1.5	0.7	0.2	-0.0	-0.3	0.3	-0.1
Nonfarm	-0.5	-0.2	-0.4	1.2	0.6	-1.5	0.7	0.3	-0.0	-0.3	0.3	-0.1
Farm	-0.1	-0.1	-0.0	-0.1	-0.1	-0.0	-0.0	-0.0	-0.0	0.0	-0.1	-0.0

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

Strictly Confidential (FR)
Class II FOMC

June 23, 1999

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

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

1. OMB's February 1999 surplus estimates (assuming the enactment of the President's proposals) are $79 billion in FY1999 and $103 billion in FY2000. CBO's March 1999 baseline surplus estimates are $111 billion in FY1999 and $133 billion in FY2000. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY1990.
2. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.
3. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Real potential GDP growth is assumed to be 3.3 percent beginning 1998:Q1. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1992) dollars, scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.
4. Fiscal year data for the unified budget come from OMB; quarterly data come from the Monthly Treasury Statement and may not sum to OMB fiscal year totals.

a--Actual b--Preliminary

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

Period[1]	Total[2]	Federal government[3]	Nonfederal							Memo: Nominal GDP
			Total[4]	Households			Business	State and local governments		
				Total	Home mortgages	Consumer credit				
Year										
1990	6.4	11.0	5.2	7.3	9.3	1.5	3.3	5.0		4.4
1991	4.3	11.1	2.3	4.6	6.2	-1.3	-1.6	8.6		3.8
1992	4.6	10.9	2.6	4.4	5.3	0.5	0.8	2.2		6.3
1993	5.0	8.3	3.8	5.4	4.5	7.6	1.4	6.0		5.0
1994	4.6	4.7	4.6	7.7	6.0	14.5	3.9	-4.0		5.8
1995	5.4	4.1	5.8	7.9	5.7	14.1	6.5	-4.6		4.2
1996	5.1	4.0	5.4	7.2	7.3	7.9	4.9	-0.6		5.8
1997	5.0	0.6	6.6	6.4	6.6	4.3	7.1	5.3		5.6
1998	6.2	-1.4	8.7	8.7	9.7	5.4	9.1	7.2		5.2
1999	5.1	-3.9	7.8	8.8	9.7	6.9	7.5	4.4		5.2
2000	4.2	-4.9	6.7	7.2	8.3	4.4	6.8	4.1		4.4
Quarter										
1998:3	5.4	-3.6	8.3	7.7	8.7	6.3	9.4	6.2		4.7
4	6.9	0.7	8.8	9.7	11.0	4.9	8.3	6.4		6.9
1999:1	6.2	-3.2	9.1	9.4	10.1	9.5	9.6	5.6		6.0
2	4.7	-3.7	7.2	8.7	9.4	6.2	6.3	3.5		4.7
3	4.6	-4.3	7.2	8.1	9.0	5.8	6.9	4.2		4.8
4	4.4	-4.8	6.9	7.9	8.9	5.4	6.4	4.2		5.4
2000:1	5.2	-1.9	7.2	7.3	8.6	4.9	7.7	4.0		2.2
2	3.8	-6.3	6.5	7.1	8.2	4.4	6.3	3.9		6.0
3	3.7	-6.6	6.3	6.9	7.8	4.2	6.2	4.1		4.7
4	4.0	-5.0	6.2	6.7	7.7	3.9	6.2	4.0		4.7

Note. Quarterly data are at seasonally adjusted annual rates.
1. Data after 1999:Q1 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.
2. On a monthly average basis, total debt is estimated to have grown 6.1 percent in 1998 and is projected to grow 5.4 percent in 1999 and 4.3 percent in 2000.
3. On a monthly average basis, federal debt is estimated to have grown -1.2 percent in 1998 and is projected to grow -2.7 percent in 1999 and -5.0 percent in 2000.
4. On a monthly average basis, nonfederal debt is estimated to have grown 8.6 percent in 1998 and is projected to grow 7.9 percent in 1999 and 6.9 percent in 2000.

2.6.3 FOF

Strictly Confidential Class II FOMC
June 23, 1999

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

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

Note. Data after 1999:Q1 are staff projections.
1. For corporations: Excess of capital expenditures over U.S. internal funds.
2. Includes change in liabilities not shown in lines 8 and 9.
3. Average debt levels in the period (computed as the average of period-end debt positions) divided by disposable personal income.
4. NIPA surplus less changes in retirement fund assets plus consumption of fixed capital.
5. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.
6. Excludes government-insured mortgage pool securities.

2.6.4 FOF

International Developments

Data released since the May FOMC meeting on first-quarter economic activity abroad have led us to adjust upward slightly our outlook for foreign activity over the forecast period. First-quarter GDP growth in Japan, Canada, Brazil, and Korea was surprisingly strong. Some, but not all, of this surprise is taken back in the near term, leading to a higher foreign GDP path than that in the May Greenbook.

Higher foreign activity and recent U.S. trade data have boosted our projection for real exports relative to our May projection. U.S. real net exports are still projected to subtract 1-1/4 percentage points from U.S. real GDP growth in 1999 and 1/2 percentage point in 2000.

Recent Developments

International financial markets. The weighted average foreign exchange value of the dollar, as measured by the staff's nominal broad index, increased by 0.5 percent during the period since the May FOMC meeting. On balance, the dollar appreciated 3.6 percent against the euro and depreciated 1 percent against the yen. Among emerging markets, the dollar appreciated about 7 percent against the Brazilian *real,* changed little against the Mexican peso, and depreciated 3.7 percent against the Korean won.

The dollar's weakening against the yen over the period was accompanied by a 17 basis point narrowing of the yield spread between U.S. and Japanese 10-year government debt. Market participants were surprised by the announced surge in Japanese growth in the first quarter, which led to a further strengthening of the yen and an increase in Japanese government bond yields. Japanese authorities subsequently intervened on four days, buying a total of nearly $21 billion and $4-1/2 billion equivalent of euros, and the yen weakened somewhat.

The dollar's further strengthening against the euro was accompanied by a widening of U.S.-euro government bond yield spreads, as signals of ongoing robust growth in the United States and of a prospective turnaround in U.S. monetary policy contrasted with indications of only a gradual pickup of economic activity in the major European countries. The dollar also appreciated more than 3 percent against sterling with most of the rise coming after the Bank of England lowered its repo rate 25 basis points.

During the intermeeting period, Latin American financial markets experienced several bouts of increased stress, which were caused by expectations of higher U.S. interest rates following the FOMC's announcement of the adoption of a tightening bias at the May meeting, uncertainty about the political consensus with regard to the Argentine currency-board regime, and concerns over the pace of fiscal reform in Brazil. Brady bond spreads rose early in the period following these developments but have since retraced much of their increases.

Overseas equity markets strengthened during the intermeeting period, with the exception of those in Latin America. Share prices were 5 to 7 percent higher in Japan and Europe. Equity markets in major Asian emerging markets were up as much as 23 percent. Major Latin American markets were down slightly on balance.

The price of gold fell another $15 to below $260 per troy ounce on higher interest rates and expectation of future sales by the official sector.

. The Desk did not intervene during the intermeeting period.

Economic activity abroad. Recent economic developments in the major foreign industrial countries suggest that activity has picked up somewhat.

In Japan, real GDP rose a surprising 7.9 percent annual rate (seasonally adjusted) in the first quarter, but the extent to which this number represents a shift toward sustained improvement is unclear. Other indicators of activity show smaller increases, and unemployment has risen to record levels. Most of the expansion in GDP was associated with fiscal stimulus and unexpected, and possibly transitory, increases in private expenditure.

Euro-area activity has picked up moderately, with Germany's better performance partly offset by weaker performance in France and Italy. Industrial production moved up 0.6 percent in the euro area in March and 0.7 percent in Germany in April. Forward-looking indicators for the euro area suggest continued recovery in industrial output but are less positive for household spending. Industrial confidence has risen from recent lows, but consumer confidence edged down further in May from earlier historic highs.

In the United Kingdom, preliminary indicators suggest that the pace of economic activity increased in the second quarter, after a flat first quarter. Data on industrial production, employment, retail sales, and business confidence point to modest expansion in the second quarter. Canadian GDP rose at an annual rate of 4.2 percent in the first quarter, but recent indicators suggest a modest slowing of growth in the second quarter.

Inflationary pressures remain subdued in the foreign industrial countries. In Japan, consumer prices in May were 0.6 percent below year-earlier levels. Consumer price inflation in the euro area edged up to 1.1 percent in April. In the United Kingdom, retail price inflation in May fell to 2.1 percent from a year earlier, below the Bank of England's 2.5 percent target. Canadian CPI inflation moved higher, but consumer prices in May were only 1.6 percent higher than a year earlier.

Signs of a pickup in growth have emerged in Latin America and to a greater extent in developing Asia. Mexican GDP grew at an annual rate of 1.3 percent in the first quarter, following flat activity in the fourth quarter. In Brazil, real GDP posted a surprising 4.1 percent gain in the first quarter, a partial rebound from a sharp contraction in the preceding quarter. The unexpected growth is partly attributable to special factors, but on balance activity seems to have bottomed out. In contrast, Argentine real GDP fell 6.1 percent in the first quarter, slightly more than in the fourth quarter, and there is no reason for optimism about activity in the second quarter.

In developing Asia, Korean GDP surged almost 15 percent at an annual rate in the first quarter, following a strong fourth quarter. Among ASEAN countries, data on economic activity suggest that recovery has taken hold, with industrial production up in the first quarter throughout the region. Industrial production in China continued to expand at a steady high rate through April, although GDP growth there is estimated to have slowed sharply in the first quarter, after an unsustainably strong fourth quarter. Real GDP contracted 2.8 percent in Hong Kong in the first quarter, continuing its ongoing decline. In contrast, Taiwan's GDP rose a strong 4.5 percent in the first quarter, a modest pickup from the fourth-quarter rate.

Inflation rates remain surprisingly subdued in Latin America. In May, consumer prices in Brazil were only 3.1 percent higher than a year earlier, despite the large exchange rate devaluation in January. Argentine consumer prices in May were 1.2 percent below their year-earlier level, their fourth consecutive month of deflation. Consumer price inflation in Mexico continued on its recent downward path but remains in double digits. Inflation remains near zero in most of developing Asia. Consumer prices in April were slightly below their year-earlier level in China, Hong Kong, and Singapore. The same held true for Thailand through May. Korea's consumer prices increased less than 1 percent from a year earlier.

U.S. net exports and prices. In April, the U.S. trade deficit was $18.9 billion, nearly the same as recorded in the previous two months, but larger than the first-quarter average. The nominal U.S. trade deficit in goods and services was

$215 billion at a seasonally adjusted annual rate in the first quarter, substantially larger than in any quarter in 1998.

The value of exports rose 1 percent in April, following declines in the previous five months. Increases were reported in all major trade categories. The value of imports rose in April, as it did throughout the first quarter. A sharp rise in the value of oil imports in April was partly in quantity (strong inventory demand) but largely from prices.

The marked increase in the price of imported oil that began in March and extended through May was in response to the announcement of production cuts following an agreement by OPEC in March to reduce world supply. After trading near $19 per barrel in early May, the spot price of WTI fell more than $2.50 per barrel because of high exports from Russia, high production from Nigeria, and high world inventories, and averaged about $17.75 for the month. More recently, oil prices have rebounded on news of OPEC's continued compliance with production cuts agreed to in March. Spot WTI is currently trading around $18 per barrel.

Prices of non-oil imports decreased 2 percent at an annual rate in April-May, a somewhat larger rate of decline than in the previous two quarters. Prices of core imports (which exclude oil, computers, and semiconductors) declined 1-1/2 percent at an annual rate following two quarters of virtually no price change, with much of the weaker prices in machinery and consumer goods. Prices of exports in April-May were about unchanged from the first quarter level, following declines in the first and fourth quarters.

Outlook

Growth of foreign real GDP (weighted by U.S. nonagricultural export shares) is projected to average about 2-1/2 percent (annual rate) during the second half of 1999 and nearly 2-3/4 percent in 2000. Compared with the May Greenbook, the path for foreign GDP starts at a higher level in 1999, mostly reflecting stronger-than-expected first quarter growth in Japan, Canada, Brazil, and Korea. For the balance of 1999, we have marked down the outlook for foreign growth a bit, as key elements of the surprise in first-quarter numbers are expected to be unwound.

As in the May forecast, we assume that Y2K effects will raise foreign growth in the second half of 1999 because of inventory accumulation and reduce it in the first half of 2000 as stocks are run down. We project that the dollar in terms of a broad index of trading-partner currencies will depreciate a bit in real terms over the forecast period, though from a slightly higher level than that in the May Greenbook.

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

Summary of Staff Projections
(Percent change, seasonally adjusted annual rate)

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

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

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

The real exchange value of the dollar against the currencies of a wider group of U.S. trading partners, as measured by the staff's broad index, is projected to edge down over the forecast period. U.S. consumer price inflation, which is expected to outstrip inflation in most of the foreign industrial countries, offsets some of the dollar's moderate nominal decline against the major foreign currencies, resulting in only slight dollar depreciation in real terms against these currencies. As before, the dollar is expected to appreciate in real terms against all major Latin American currencies except the Brazilian *real*. We continue to project that Chinese authorities will begin to allow modest depreciation of the renminbi at some point during the forecast period, and we continue to assume that the Argentine and Hong Kong currency pegs will hold.

Activity in foreign industrial countries. Real export-weighted GDP in the foreign industrial countries is projected to grow at about a 2 percent annual rate over the last three quarters of 1999 and in 2000. Absent the assumed Y2K effect, which shifts around 1/4 percentage point of growth from 2000 into 1999, growth would have a modest upward trajectory. We expect that much of the surprisingly strong first-quarter GDP growth in Japan was transitory and that its GDP will show moderate declines for the balance of 1999 and will expand slowly in 2000.

We are projecting that euro-area GDP growth will be about 2-1/4 percent at an annual rate over the last three quarters of 1999 and in 2000. The decline in the exchange value of the euro is expected to support activity going forward, although a recent weakening of consumer confidence may indicate some slowing of growth in consumption.

U.K. GDP is projected to grow about 2 percent over the balance of 1999 and nearly 2-1/4 percent in 2000. The monetary easing in June is expected to help keep economic growth on an upward path. Our forecast for the Canadian economy in 1999 has growth averaging 3 percent in the final three-quarters of 1999 before slowing to around 2-3/4 percent in 2000 as the U.S. economy decelerates and Canadian export growth is restrained by the rise in the Canadian dollar this year.

Inflation. Consumer price inflation in the foreign industrial countries, weighted by U.S. non-oil import shares, is projected to average a bit less than 1 percent over the forecast period. Consumer prices in Japan are expected to fall at a 1/2 percent rate (four-quarter change) in the second quarter and a 1 percent rate in the second half of 1999 and 2000. The Japanese price forecast shows somewhat less deflation than in the May Greenbook, consistent with the upward revision to the path of Japanese GDP. In contrast, the forecast for U.K. inflation has been revised down a bit to reflect the stronger pound.

Interest rates. Short-term interest rates in Japan are assumed to remain near zero throughout the forecast period. Euro-area short-term rates are assumed to remain unchanged as policymakers weigh the effects of the substantial depreciation of the euro since year-end and previous monetary easing. With Canadian inflation expected to remain in the bottom half of the official target range and with some continuing upward pressure on the Canadian dollar, we project that the Bank of Canada will match only part of the assumed rise in U.S. interest rates. We expect that, absent significant further appreciation of the pound, the Bank of England will not reduce rates further and will begin to tighten monetary policy in mid-2000 as U.K. inflation rises toward the target rate.

Other countries. The projected level of real GDP at the end of the forecast period in the major developing-country trading partners of the United States has been revised up from the May Greenbook, reflecting surprisingly strong first quarter growth in Brazil and several of the developing Asian economies, especially Korea. We do not regard the high first-quarter growth rates in developing countries as being sustainable in the near term. Accordingly, some of the pick up is reversed in the second quarter and we have left growth rates for the second half of this year and next year about unchanged from the last Greenbook. As a net result of these changes, we now project that real GDP in the major developing countries will increase 2-1/2 percent in 1999, compared with projected growth of 2 percent in the May Greenbook. In 2000, growth in the developing countries is expected to move up to nearly 3-1/2 percent.

The developing Asian economies that experienced sharp declines in output last year appear to be bottoming out or, in the case of Korea, recovering strongly. Growth in the first quarter was significantly faster than expected in Korea, Singapore, the Philippines, and Taiwan. Korea is now projected to grow at a robust 6 percent rate in 1999. On average, real GDP growth in the Asian developing countries is expected to be 3-1/4 percent in 1999, up about 3/4 percentage point from the last Greenbook. In 2000, average growth in developing Asia is expected to rise to 3-1/2 percent.

Our outlook for growth in Brazil has been raised in light of recent surprisingly good performance on inflation and the strength of activity in the first quarter. We now expect real GDP in Brazil to grow by 1-1/4 percent in 1999, compared with a decline of 1-1/2 percent forecast in the last Greenbook. Growth in Mexico is projected to be 3-1/4 percent in 1999, up from 3 percent forecast in the last Greenbook. In Latin America as a whole, real GDP is projected to increase 2 percent in 1999, up from a projected rise of 1-1/2 percent in the last Greenbook. In 2000, average growth in Latin America is expected to rise to 3-1/4 percent.

Century date change. As in the May Greenbook, our forecast assumes that Y2K effects will affect the quarterly pattern of GDP growth abroad in the second half of 1999 and the first half of 2000. We know very little about the likely magnitude of these effects across countries, but many countries are less prepared than the United States to deal with these problems but are also less dependent than the U.S. economy on computers.

Real exports and imports of goods and services. We project that, after falling in the first quarter, real exports of goods and services will rebound in the second quarter and rise at an annual rate of about 4-1/2 percent thereafter. Core exports (goods other than agricultural products, computers, and semiconductors) are projected to be little changed in the second quarter and to grow at a 2-1/2 percent pace over the remainder of the forecast period. The increase reflects in part our assumption of a higher level of foreign economic activity and in part the waning of the depressing effects of past increases in the foreign exchange value of the dollar.

Growth of real imports of goods and services is projected to continue in the current quarter at near the 12 percent annual rate recorded in the first quarter and to slow to an 8 percent pace over the rest of the forecast period, as the growth of U.S. economic activity moderates. Core import growth slows similarly from a 9 percent rate in the first half of 1999 to a 5 percent rate over the remainder of the forecast.

The quantity of imported oil is expected to increase in both 1999 and 2000, as domestic production fails to keep pace with the growth in domestic consumption. Because of the recent run-up in prices, however, domestic production is not expected to decrease as rapidly as we previously anticipated.

Oil prices. The staff has increased its forecast for the price of imported oil in the current quarter by $0.25 to around $14.60 per barrel. OPEC's relatively high compliance with its production targets, more robust foreign economic growth, and declining inventories more than offset the effects of a stronger exchange value of the dollar. The price of imported oil is expected to increase to $15.80 per barrel through the fourth quarter of this year in response to firming of economic activity abroad. The assumed Y2K precautionary stockbuild in the United States adds about $0.25 per barrel to the oil import price in the fourth quarter of this year. In 2000, the price for imported oil is expected to decline to around $15 per barrel as production from non-OPEC and OPEC countries increases more rapidly than consumption.

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

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

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

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

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

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

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

Risks to the Foreign Outlook

Stronger recovery of activity abroad. Our baseline forecast assumes that the surprising strength of GDP in a number of key foreign countries in the first quarter will have a sustained effect on the level but not the rate of growth of foreign GDP over the forecast period. In some cases, the expansion in GDP in the first quarter was at odds with other indicators of activity, and in other cases the factors underlying that strength appear to have been transitory. Nevertheless, the risks of a further surprise on the upside may well have increased in nearly all regions of the world. In the first alternative scenario presented in the table below we have considered the effects of GDP growth beginning in 1999:Q2 being 2 percentage points above our baseline projection in Asia (including Japan) and 1 percentage point higher in Europe and Canada, or taken together, foreign GDP growth is nearly 1-1/2 percent above baseline. The higher foreign growth rates are sustained through 2000. The effect of this scenario is to raise U.S. real GDP growth about 0.1 percentage point this year and 0.3 percentage point in 2000. The stronger foreign growth also has a small positive effect on U.S. inflation that becomes barely visible in 2000.

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

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

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

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

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

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

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

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

Strictly Confidential (FR)
Class II FOMC

June 23, 1999

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

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

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1992	1993	1994	1995	1996	1997	1998	Projected 1999	Projected 2000
NIPA REAL EXPORTS and IMPORTS									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.4	-0.6	-0.4	0.5	-0.3	-0.6	-1.1	-1.3	-0.5
Exports of G&S	0.4	0.5	1.0	1.1	1.2	1.1	0.1	0.1	0.5
Imports of G&S	-0.8	-1.1	-1.4	-0.7	-1.4	-1.7	-1.2	-1.4	-1.0
Percentage change, Q4/Q4									
Exports of G&S	4.1	4.6	10.0	10.5	10.3	9.6	1.1	1.2	4.7
Services	-0.9	4.1	6.0	9.8	7.5	1.5	-0.6	1.5	2.8
Agricultural Goods	10.4	-5.5	16.6	-4.3	4.8	2.8	-1.2	-9.9	1.1
Computers	25.2	23.7	32.0	55.5	35.9	40.7	6.4	19.3	29.4
Semiconductors	64.8	32.9	66.9	79.6	46.2	21.0	9.4	26.8	24.5
Other Goods 1/	2.3	3.6	7.0	5.8	8.0	11.6	1.2	-1.1	2.3
Imports of G&S	7.4	10.2	12.3	5.6	11.8	14.0	9.7	10.8	7.6
Services	1.4	3.2	1.4	6.1	5.5	12.4	2.4	9.2	3.2
Oil	12.1	10.1	-0.2	2.4	7.9	4.0	5.9	8.8	2.1
Computers	45.1	39.3	44.8	48.1	24.4	30.3	28.3	32.4	34.8
Semiconductors	42.0	34.2	54.5	92.4	57.6	32.7	-7.6	23.9	28.8
Other Goods 2/	5.4	9.5	12.2	-1.1	10.4	13.0	10.9	9.1	5.8
Billions of chained 1992 dollars									
Net Goods & Services	-29.5	-70.2	-104.6	-96.5	-111.2	-136.1	-238.2	-341.6	-415.7
Exports of G&S	639.4	658.2	712.4	792.6	860.0	970.0	984.7	1006.7	1041.9
Imports of G&S	669.0	728.4	817.0	889.0	971.2	1106.1	1222.9	1348.3	1457.5
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-50.6	-85.3	-121.7	-113.6	-129.3	-143.5	-220.6	-328.4	-402.0
Net Goods & Services (BOP)	-37.0	-69.9	-98.4	-97.5	-104.3	-104.7	-164.3	-256.7	-315.8
Net Income	22.3	23.2	15.9	19.4	17.2	3.2	-12.2	-28.9	-43.4
Direct, Net	54.7	58.6	54.4	63.8	67.7	69.2	59.4	54.9	57.2
Portfolio, Net	-29.1	-31.7	-34.1	-39.9	-46.0	-61.0	-66.4	-78.3	-95.0
Employee Comp., Net	-3.3	-3.7	-4.4	-4.5	-4.5	-5.0	-5.2	-5.6	-5.6
Net Transfers	-35.9	-38.5	-39.2	-35.4	-42.2	-42.0	-44.1	-42.8	-42.8

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

Strictly Confidential (FR)
Class II FOMC

June 23, 1999

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

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

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

Strictly Confidential (FR)
Class II FOMC

June 23, 1999

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

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

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

Strictly Confidential (FR)
Class II FOMC

June 23, 1999

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

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

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