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Confidential (FR) Class II FOMC

Part 1

November 10, 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

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Domestic Developments

The recent revisions of the national income accounts have prompted us to recalibrate our forecast to some extent, but the basic story remains similar to that in the last Greenbook: The economy is continuing to expand briskly, with real GDP growth likely averaging well in excess of 4 percent, at an annual rate, over the second half of this year. We project that, in 2000-2001, a continuing upswing in interest rates and a flattening of the stock market will impose some restraint on the expansion of domestic demand. However, with solid foreign economic growth and a depreciating dollar lessening the ongoing drag from the external sector, growth of real GDP will fall only a little short of potential over the next two years. Thus, the easing of pressures on labor markets will be too little and too late to prevent a deterioration in underlying inflation trends.

The key changes in our forecast relate to a revised outlook for labor productivity and the path of equity prices. On the first point, the combination of changes to the NIPA and a reassessment of the contribution to potential output from growth of the capital stock has led us to raise our estimate of trend growth in recent years and to tack on a bit more to the structural gains in labor productivity in the period ahead. At the same time, we have incorporated the recent jump in stock prices in our new forecast and boosted demand growth accordingly. The result is that real GDP rises 1/2 percentage point faster in the next two years than predicted in the last Greenbook, registering gains of 3-1/2 percent each year. With GDP growth running a little below potential, the unemployment rate creeps up slightly.

At this juncture, we see only a few signs of moderation in domestic final demand, the most prominent being the weakening of home sales in response to higher mortgage rates. We anticipate that a broader softening in consumer spending will become apparent in coming months, largely because of a loss of impetus from the stock market. On the price front, the recent information on labor costs has been quite favorable, with wages increasing relatively slowly--despite widespread reports of worker shortages--and with productivity increasing more rapidly. Our strong suspicion is that the moderation in wage increases owes in large part to lagged effects of last year's drop in inflation, which has since been reversed as a consequence of the sharp rebound in oil prices. Moreover, various other factors, including the upturn in non-oil import prices and increases in the costs of medical insurance and industrial supplies, suggest that inflationary pressures are building. We continue to think that some easing of oil prices will damp overall CPI inflation over the forecast period, but we expect that the core CPI will accelerate substantially--from 2 percent in the past twelve months to about 2-3/4 percent in 2001.

Key Background Factors

In light of the subdued wage numbers published in the past couple of weeks, fewer financial market participants are now guessing that the tightening bias announced after the last FOMC meeting will be translated into a hike in the federal funds rate next week. Nonetheless, most anticipate that some firming in policy will occur over the next year or so, and we have once again assumed a moderate rise in the funds rate in our baseline forecast.

Elsewhere in the credit markets, bond yields have been running higher of late than we anticipated in the last Greenbook, and we have raised the path in the forecast somewhat--to a degree, a natural adjunct to the faster growth of productivity, which tends to raise the equilibrium real rate of interest. We do see the potential for a decline in corporate bond yields and mortgage rates as end-of-millennium liquidity pressures disappear, but we are anticipating that rates will move back up before long. Although the Fed tightening we have assumed already is embedded in the present term structure, we don't believe that the drift away from price stability that we are forecasting is fully anticipated; consequently, rising inflation expectations could well push bond yields significantly beyond the recent highs. Moreover, any narrowing of corporate yield spreads, especially in the junk sector, is likely to be limited by a further rise in default rates; in loan markets, banks are expected to extend the trend of the past year or so toward tighter standards and terms on business credits.

Equity prices, like bond yields, have been volatile in recent weeks. On net, however, with corporate earnings posting a large year-on-year gain, the stock market bulls have had the upper hand. The Wilshire 5000 has risen about 9 percent from where it was at the time of the last Greenbook, and we have carried forward this higher level. But while the upward revision to our estimate of potential output is a plus for corporate profit growth, we continue to foresee a much weaker trajectory of earnings than is predicted by security analysts. Our flat path for share prices is, quite frankly, a rough compromise between divergent scenarios that are quite easy to envision. Given our earnings forecast, and the historic valuations prevailing today, the market would still seem to be vulnerable to a considerable setback; on the other hand, one cannot rule out the possibility that momentum in the market will sustain the uptrend in stock prices for at least a while longer. Both of these alternatives are explored in model-based simulations in the final part of this section.

The outlook for the federal budget, at least through fiscal 2000, has become less uncertain and is close to the assumptions we had built into our previous projection. Whatever the official accounting shows, discretionary spending for fiscal 2000 probably will exceed the CBO's July baseline projection by about $30 billion. Given our economic assumptions, that level of spending would imply a unified budget surplus of $159 billion in fiscal 2000, up from $123 billion in fiscal 1999; we have assumed that the surplus in fiscal 2001 will rise further, to $214 billion. The on-budget accounts are also projected to show surpluses of $9 billion in fiscal 2000 and $48 billion in fiscal 2001.

We have altered our assumption for an increase in the minimum wage. Although the Senate passed the Republican version of the bill yesterday, the Administration continues to object to the business tax cuts attached to the legislation, and the likelihood of getting an agreement before Congress adjourns has diminished. Nevertheless, this issue is likely to remain on the table, and we are assuming that a compromise will be reached early in the next session. However, we now have a $1.00 per hour increase spread over three years rather than two, with 35 cent increases in April 2000 and January 2001, and a 30 cent increase in January 2002.

Turning to the external sector, incoming readings on foreign activity again have shown more strength than expected. Recoveries in Canada and many European countries have quickened further, and Japan continues to surprise to the upside. As a result, foreign economic growth over the second half of this year is likely to about match the first-half pace. Looking ahead, however, we anticipate that anti-inflationary monetary policies will restrain growth of demand in most major industrial countries; the tightening moves announced by the ECB and the Bank of England last Thursday are likely to be followed by more in 2000 and 2001. In addition, although growth in emerging economies has rebounded impressively this year, the recoveries started from very low levels, and those countries--especially those in Asia--appear unlikely to repeat this performance in the next couple of years. All told, we see foreign GDP growth slowing a bit, to an annual pace of around 3-1/2 percent in 2000 and 2001. With the large and growing U.S. current account deficit weighing on the dollar, we are anticipating a steady depreciation over the projection period--about 2 percent per year for the inflation-adjusted value against a broad range of currencies.

After declining over much of the intermeeting period, crude oil prices jumped yesterday and today, owing to reports that OPEC members are sticking to their production quotas and that inventories fell in September. While these recent developments suggest an upside risk to our near-term forecast of a $23 per barrel spot price of WTI crude in the fourth quarter, futures prices have not changed much in recent days. Indeed, with current prices leaving ample scope for production to increase throughout the world, we believe that prices will trend downward. We are projecting that the WTI price will decline to around $19.50 per barrel by the end of 2000, and to just above $18 per barrel by the end of 2001.

Recent Developments and the Outlook for the Current Quarter

The BEA's advance estimate of third-quarter real GDP growth came in somewhat above our forecast in the September Greenbook.[1] A straightforward incorporation of the source data that have become available since the BEA release--most notably new figures on construction and inventories--suggests a figure close to 5-1/2 percent, and we have used that estimate in this projection. However, September data on retail inventories and net exports are still outstanding, and thus this estimate could change substantially.

As for the current quarter, we are expecting growth of real GDP to be around 4 percent at an annual rate. The key indicator in hand at this point is the labor market report for October. Payroll employment and production-worker hours both posted sizable gains last month, and even modest growth in November and December would result in a significant gain in hours this quarter. The continuing low level of initial claims for jobless benefits and anecdotal accounts certainly suggest that labor demand has remained intense into this month.

On the expenditure side, real consumer spending probably will grow a little less rapidly this quarter than last. The step-down in light vehicle sales last month is the only hard number we have in this regard, but chain store sales reports also were lackluster. We still expect that many households will do a little precautionary buying before the end of the year; were it not for that Y2K effect, our forecast would exhibit a more considerable moderation in PCE growth, in light of the sideways movement in stock prices since last spring and some erosion in consumer sentiment.

As noted, increases in mortgage rates evidently have begun to cut into housing demand. We think that housing starts may rebound somewhat from the weather-depressed September level, but unless that rebound is quite substantial, the lagged effects of the summer decline in single-family starts will produce another quarter of modest decline in real residential investment.[2]

Business spending on equipment and software (E&S) surged at an annual rate of better than 18 percent in real terms in the third quarter, led by a big gain in

1. Because the annual revisions contained some definitional changes to the concept of GDP, the September Greenbook forecast and the BEA's advance release are not strictly comparable. In particular, the reclassification of software from an intermediate to a final product probably added about 0.2 percentage point to the third-quarter figure.

2. In the previous Greenbook, we had boosted fourth-quarter residential investment on the assumption that there would be some rebuilding of structures damaged by Hurricane Floyd. It now appears that some of those structures will not be rebuilt, at least this year, and thus we have scaled back this effect in the current forecast.

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

Measure	1999:Q3			1999:Q4	
	Sept. GB	BEA[1]	Nov. GB	Sept. GB	Nov. GB
Real GDP	**4.4**	**4.8**	**5.4**	**4.5**	**4.1**
Private domestic final purchases	4.9	5.2	5.3	3.7	3.7
Personal consumption expenditures	3.9	4.3	4.3	4.3	4.1
Residential investment	-3.9	-6.3	-3.0	1.2	-2.1
Business fixed investment	15.2	14.9	13.6	1.2	3.2
Government outlays for consumption and investment	2.6	3.3	4.1	2.9	1.9
	Change, billions of chained (1996) dollars				
Inventory investment	21.0	14.1	22.2	23.6	25.1
Net exports	-31.1	-24.0	-23.7	-7.9	-11.6

1. Advance release, published on October 28.

spending on computers and a sharp jump in purchases of transportation equipment. In contrast, we are projecting that growth of E&S expenditures will be only moderate in the fourth quarter. For computers, a sharp slowing is already evident in the declining August and September shipments by U.S. manufacturers, and there are more recent anecdotal reports of weakening sales--especially for mainframes and high-end servers--because of the Y2K "lock-down" phenomenon. We anticipate a drop-off in fleet sales of light vehicles from the elevated third-quarter level, and Boeing's deliveries of new aircraft should be down. Apart from these categories, trends in equipment orders have been quite positive, on balance, and suggest considerable growth in investment. In contrast, incoming data point to a further decline in spending on nonresidential structures.

Government purchases are projected to rise less than 2 percent this quarter, following an increase in the third quarter that now seems likely to have exceeded 4 percent. On the federal side, the slowing is largely a timing matter: Defense outlays jumped sharply in the third quarter, and we expect most of this increase to be retraced in the fourth quarter. In contrast, state and local spending is projected to rise at a pace of more than 3-1/2 percent this quarter; recent construction outlays have been quite robust, and employment gains in the sector were strong again in October.

Exports appear to be on a track to produce a sizable gain this quarter. The trend has been much improved since the spring, and reports from manufacturers on export orders have been upbeat. However, the appetite of U.S. consumers and producers for imports--perhaps intensified in the very near term by a desire to obtain goods before any Y2K disruptions occur--is likely to result in a further widening of the trade deficit. We have net exports subtracting 0.4 percentage point from GDP growth--about half the third-quarter drag.

As with net exports, we have no data on manufacturing or trade inventories beyond September. Our sense is that stocks are fairly lean overall and that firms would probably want to add to them at least moderately even in the absence of Y2K considerations. But with some firms indicating that they plan to build extra inventories as a hedge against Y2K supply disruptions, we expect that the rate of accumulation will rise noticeably before year-end. The NAPM October survey results showing a swing into positive territory for the inventory question may indicate that factory stocks of materials have in fact already turned upward significantly. In any event, we have nonfarm inventory investment contributing a bit more than 1 percentage point to GDP growth this quarter.

Incoming data on wages and prices have been mixed. The employment cost index showed only a moderate rise in hourly compensation despite another uptick in the growth rate of benefit costs. In addition, average hourly earnings increased just 0.1 percent in October, and the twelve-month change has remained in the 3-1/2 to 3-3/4 percent range that has prevailed all year. In contrast, the PPI has shown further appreciable increases in core crude and intermediate prices and some large hikes in the prices of some core finished goods. At the consumer level, we are projecting that the CPI will accelerate on a quarterly average basis--to an annual rate of around 3 percent. Part of this pickup reflects the sharp rise in energy prices at the end of the summer. Core price increases are expected to pick up as well--owing in part to the effect of the September increase in tobacco prices on the quarterly average change.

The Outlook for Economic Activity beyond the Current Quarter

The projected growth of real GDP, at 3-1/2 percent in both 2000 and 2001, is noticeably higher than in the last Greenbook.[3] As we noted in the introduction, this elevation is in part a response to the definitional and statistical changes to GDP contained in the revision of the national income accounts--most notably the

3. Our assumptions about the effects of Y2K on real GDP growth early next year have been adjusted to include software. Specifically, the runoff of household and business inventories, coupled with Y2K disruptions, subtracts 2.2 percentage points from our first-quarter projection of real GDP growth, while the rebound to a normal pace of activity adds 1.6 percentage points to growth in the second quarter.

Projections of Real GDP
(Percent change, compound annual rate)

Measure	1999:H2	2000:H1	2000:H2	2001
Real GDP	**4.8**	**3.2**	**3.7**	**3.5**
Previous	4.5	2.7	3.0	2.8
Final sales	3.6	3.3	3.8	3.6
Previous	3.4	2.8	3.2	2.9
PCE	4.2	3.8	3.7	3.3
Previous	4.1	3.1	3.1	2.8
Residential investment	-2.6	-6.5	-5.0	-2.9
Previous	-1.4	-5.1	-4.6	-4.0
BFI	8.3	7.9	9.3	9.9
Previous	8.0	7.3	8.8	8.2
Government purchases	3.0	4.2	2.6	2.7
Previous	2.8	4.3	2.1	2.5
Exports	9.9	5.1	9.9	9.2
Previous	8.6	4.8	10.1	9.2
Imports	13.1	9.2	8.5	9.0
Previous	12.5	8.5	8.6	8.4
	Change, billions of chained (1996) dollars			
Inventory change	23.6	-1.4	-1.8	-9.3
Previous	22.3	-2.2	-3.3	-13.8
Net exports	-17.6	-18.8	-4.4	-32.4
Previous	-19.5	-17.2	-4.7	-26.1

reclassification of software as a final product and the improved measures of real banking services. On top of this, however, a preliminary analysis of the pattern of GDP and productivity changes now evident in the data for recent years has led us to alter our assumed path of trend output growth looking forward. In particular, we have now built an accelerating trend into our productivity assumptions, with growth rates that are roughly 0.2 percentage point higher over 2000-2001 than those in the past two years. As a result, we now assume that potential GDP grew 3.6 percent per year in 1998 and 1999 and will rise 3.8 percent per year in 2000 and 2001. This assumption appears consistent with the staff's very preliminary estimates of capital stock growth that include software, which suggest an ongoing increase in the underlying pace of capital deepening.[4]

In the projection, the upward revision in potential output growth has been roughly matched by a stronger path of domestic demand, reflecting both larger real income gains and the upward adjustment to share prices. Although this leaves the output gap largely unaltered, the stronger growth of productivity results in a more modest rise in unit labor costs and a somewhat smaller step-up in core price inflation.

Consumer spending. After imparting a boost to consumption growth this quarter, Y2K effects are expected to depress spending in the first quarter as households run off the stocks they have accumulated and as temporary disruptions prevent some outlays on services. Abstracting from these transitory influences, we are expecting that growth in consumer spending will moderate over the projection period. The increases of 3-3/4 percent in 2000 and 3-1/4 percent in 2001 represent an upward revision to our previous forecast, reflecting the higher anticipated level of the stock market and the additional real income gains associated with stronger trend output growth. Nevertheless, given our projection of a declining wealth-income ratio, we still think it likely that the wealth effects spurring consumption in recent years will begin to reverse themselves. In particular, after having added nearly 1 percentage point to consumption growth in 1999, we expect that wealth effects will provide almost no boost to the growth in consumer spending in 2000 and will hold down spending growth about 1/3 percentage point in 2001. In contrast, our forecast assumes that the growth of real income will be well maintained over the projection period.

As in previous forecasts, we expect that the moderation in consumer demand will be evident on a broad front. We are once again declaring a peak in motor vehicle sales, and outlays for household durables should soften with the slackening in homebuilding. We are still looking for considerable growth in overall durables expenditures--exceeding 4 percent in real terms--with demand spurred by declining prices and new products in the electronics market. But spending on nondurables and services, which has been robust thus far this year, is projected to decelerate noticeably.

Residential investment. Our housing forecast has been influenced by the higher path of mortgage rates and by the somewhat weaker tone of recent home

4. Our assumed potential GDP growth rates imply a relatively constant rate of trend growth in multifactor productivity over the projection period.

sales data. This has been only partially offset by the additional permanent income growth that goes along with our higher path of potential output. On balance, we are projecting a slightly steeper decline in residential expenditures next year than in our previous forecast, but a lesser decline in 2001.

These changes are centered in the single-family sector. We expect that starts there will drop from 1.33 million units this year to around 1.25 million units next year, as builders work off their current backlogs and as the higher mortgage rates eat into demand. In 2001, single-family starts are projected to decline to about 1.2 million units. The apartment market appears to be sound in terms of vacancy trends, rents, and property values. Nonetheless, we expect that the rise in interest rates will curb building to a degree and that multifamily starts over the next two years will fall roughly 10 percent from the 1999 pace.

Business fixed investment. Business fixed investment is projected to rise at a pace of roughly 9 percent over the projection period, a bit faster than in the first half of this year but well below the rate of the previous couple of years. Technological advances and ongoing price declines should continue to sustain strong growth in outlays for computers; even apart from our assumption that the implementation of spending plans delayed by Y2K will result in a bounceback in the first half of next year, spending growth in this category is projected to remain at an annual rate of about 50 percent through the end of 2001. Purchases of software should also grow at a robust pace over the next couple of years, fueled importantly by spending on applications in support of e-commerce initiatives.[5] Finally, we expect that rapid changes in communications technology will continue to stimulate growth in this segment of investment; in particular, recent reports suggest that demand for fiber-optic and networking equipment will remain very high for some time.

Investment in industrial and other equipment is expected to remain fairly strong through mid-2000, following the recent uptrend in orders; later next year, however, we expect growth in this category to slow somewhat, reflecting waning accelerator effects. In contrast, for transportation equipment, the trend is clearly pointing down: Production schedules at Boeing suggest a substantial decline in aircraft purchases over the next couple of years. Similarly, we expect business purchases of motor vehicles to come off their recent highs and to slow in line with the deceleration in overall economic activity.

5. The addition of software to the spending side of the NIPA adds nearly 1 percentage point to our projection for BFI in 2000 and 2001 relative to what was in the previous Greenbook.

Investment in nonresidential structures is expected to show little growth in 2000 and 2001, after dropping 4 percent this year. Although the recent trend in construction of office buildings has been decidedly positive, we are anticipating that higher interest rates and tighter financing conditions will impose some restraint on new projects over the next couple of years. In addition, the decline in oil prices is expected to damp growth in drilling and mining structures. Finally, while rising export demand may provide some stimulus to manufacturing production, the increases in capacity utilization built into this projection would not argue for much of a pickup in industrial building in the next two years.

Business inventories. After a Y2K-related buildup this quarter, nonfarm inventory investment drops back sharply early next year, subtracting nearly 1 percentage point from real GDP growth in the first quarter; inventories then provide a boost to second-quarter growth as stockbuilding returns to a more normal pace. Beyond these near-term fluctuations, inventory investment is projected to have a relatively neutral influence on growth. Although inventory-sales ratios have dropped sharply in the last year or so, only a few businesses seem to be expressing concerns about potential stockouts, and it seems more likely that the recent declines simply reflect more-streamlined production and distribution techniques and tighter stock control. Consequently, our forecast contains little upward movement from the current, historically low stock-sales ratio.

In the farm sector, the NIPA revisions lowered the average pace of inventory accumulation considerably in recent quarters; on net, it is now shown to be negligible in the year to date. Given the likely price-induced restraint on grain and oilseed production and our forecast for modest growth in exports, we anticipate that farm stocks will change little on balance over the projection period.

Government spending. Our basic outlook for these sectors is little changed from the previous Greenbook, although the addition of software has boosted both the level and growth rate of spending.[6] Real federal purchases are projected to rise around 2 percent next year, slowing to about 1/2 percent in 2001. Real defense purchases edge up 1/2 percent at an annual rate over the forecast period. On the nondefense side, spending is projected to rise 5 percent next year,

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6. Although software purchases were previously included in government spending, they have been reclassified as an investment in the revised NIPA figures. This results in a higher estimate of consumption of fixed capital, which is added to government consumption.

reflecting higher purchases associated with the fiscal 2000 budget; in 2001, growth in nondefense spending slows to just 1/4 percent.

Real state and local purchases are projected to rise at an annual rate of around 4 percent over the next two years, roughly the same as in 1999. The fiscal positions of states and localities remain quite favorable, and the pickup in spending this year suggests that many governments are prepared to use some of their tax revenues to boost outlays for public consumption and investment projects. Even with the additional spending, incoming revenues are projected to keep the current-account surplus for this sector as a whole at roughly its current level.

Net exports. The outlook for net exports is little changed from the last projection. Real export growth is projected to pick up to 7-1/2 percent in 2000 and to 9-1/4 percent in 2001, in response to the decline in the exchange value of the dollar. Meanwhile, increases in real imports are forecast to slow to an annual pace of around 9 percent, reflecting the exchange rate movements and the deceleration in domestic demand. Real net exports are projected to subtract just under 1/2 percentage point from GDP growth in 2000 and 1/4 point in 2001, following a drag of 1-1/4 percentage points in 1999. (A fuller discussion of the forecast for net exports is contained in the international developments section.)

Labor markets. At the core of our upward revision to potential output growth is a more positive assessment of the underlying trends in labor productivity. For the nonfarm business sector, we now are assuming structural rates of growth of 2.3 percent and 2.6 percent annually for the periods 1996-97 and 1998-99, respectively, followed by an increase of 2.8 percent per year in 2000-2001.[7,8]

Implicit in our revised trend assumption is an interpretation that the strength in productivity in recent years has had less of a cyclical component than we previously thought; that is, actual productivity has fluctuated in a narrower band around its trend. Thus, with only a modest deceleration in output in the forecast, we expect productivity growth to average close to its trend over the projection period. This forecast requires that employers keep a tight rein on their labor

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7. In the September Greenbook, we had assumed trend productivity growth of 1.8 percent per year in 1996-97 and 2.3 percent per year from 1998-2001.

8. An income-side estimate indicates substantially larger gains in output over the past couple of years than does the official product-side GDP estimate. Given that experience does not suggest that we can rely on the recent product-side numbers to be revised toward the income-based figures, we have given only limited weight to the latter in reaching our judgment regarding the prospects for productivity growth.

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

Measure	1998	1999	2000	2001
Output per hour, nonfarm business	3.1	2.5	2.8	2.7
Previous	2.6	2.2	2.2	2.1
Nonfarm payroll employment	2.4	2.1	1.5	1.3
Previous	2.4	2.1	1.4	1.2
Household employment survey	1.3	1.4	1.3	1.0
Previous	1.3	1.6	1.2	.9
Labor force participation rate[1]	67.1	67.0	67.1	67.1
Previous	67.1	67.1	67.2	67.2
Civilian unemployment rate[1]	4.4	4.1	4.0	4.2
Previous	4.4	4.1	4.1	4.2

1. Percent, average for the fourth quarter.

inputs, which is mirrored in a further noticeable moderation of growth in private payrolls to roughly 120,000 per month in 2001.

In the current environment, we see little reason to expect any significant increase in the labor force participation rate. Strong real wage growth and the low unemployment rate have led us to build in a small uptick in the participation rate in the near term. However, the slowing pace of hiring activity damps any further impetus, and the participation rate is projected to hold at 67.1 percent in each of the next two years. This combination of supply and demand influences implies a gradual rise over time in the unemployment rate. In particular, after edging down to 4 percent early in 2000, the jobless rate is forecast to drift up to 4-1/4 percent by the end of 2001.

Wages and prices. We have trimmed a bit from our projection of compensation and price inflation. Incoming wage data generally have remained favorable, and the higher productivity path suggests somewhat more moderate increases in unit labor costs than in the last Greenbook, which reduces the upward pressure on prices a bit.

Nonetheless, our forecast still shows an accelerating trend in wages and core prices. In particular, we continue to believe that the moderation in the pace of compensation increases since last year is to an important degree a reflection of the lagged effects of last year's drop in price inflation; a deceleration in commissions and bonuses in the finance and real estate sectors and the absence

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

Measure	1998	1999	2000	2001
Consumer price index	1.5	2.6	2.3	2.4
Previous	1.5	2.7	2.3	2.6
Food	2.2	1.9	2.2	2.4
Previous	2.2	2.0	2.4	2.6
Energy	-9.2	10.6	-0.7	-0.7
Previous	-9.2	12.2	-2.3	-0.7
Excluding food and energy	2.4	2.1	2.5	2.7
Previous	2.4	2.1	2.7	2.9
PCE chain-weighted price index	1.0	2.0	1.8	2.0
Previous	.7	1.9	1.9	2.2
Excluding food and energy	1.4	1.6	1.9	2.1
Previous	1.2	1.4	2.1	2.3
GDP chain-weighted price index	1.1	1.5	1.8	1.9
Previous	.9	1.4	2.0	2.1
ECI for compensation of private industry workers[1]	3.5	3.3	3.7	4.0
Previous	3.5	3.3	3.9	4.1
Prices of core non-oil merchandise imports	-1.9	.5	2.7	2.1
Previous	-2.1	.6	2.3	2.1
	Percentage points			
MEMO: *Adjustments for technical changes to the CPI*[2]				
Core CPI	-.2	.0	.0	.0

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

of new minimum wage hikes also have played a role. However, some of these forces are reversing in the period ahead: Consumer prices have risen much more rapidly in 1999, and we are assuming that the Congress will enact an increase in the minimum wage in this projection--albeit smaller and later than we had previously assumed. Moreover, all indications are that employers are experiencing a jump in health insurance costs, only a portion of which is likely to be passed onto workers in the short run. All told, the employment cost index for hourly compensation in private industry, which rose just 3.1 percent over the twelve months ending September, is projected to increase 3-3/4 percent in 2000 and 4 percent in 2001.

With regard to the price forecast, we are projecting that the increase in the overall CPI will dip to 2-1/4 percent in 2000 and edge back toward 2-1/2 percent in 2001. After rising sharply this year, CPI energy prices are projected to fall a tad in both 2000 and 2001. Gasoline and fuel oil prices should turn down as the projected moderation in crude oil prices begins to feed through to refined petroleum products. In addition, increases in natural gas prices are forecast to retreat to a more moderate rate; the recent sharp runup in spot prices seemed to reflect some rebuilding of inventories, which we think is now largely complete.

In contrast, food prices are forecast to accelerate a bit over the next two years, in line with the projected changes in core inflation. Experience suggests that even large swings in commodity prices often leave little mark on grocery store prices--and still less on the increasingly important food-away-from-home component of the CPI. In the present case, we do not anticipate any shocks great enough to override the broader trend of rising food manufacturing and distribution costs.

Core CPI inflation is projected to move up from roughly a 2 percent rate this year to 2-1/2 percent in 2000 and 2-3/4 percent in 2001. The decline in the dollar and the associated pickup in non-oil import prices accounts for some of the acceleration. The remainder is attributable to the pickup in unit labor costs occasioned by the steeper rise in compensation described above. The continuing relatively low level of plant utilization might suggest a downside risk to the price forecast, as it would seem to imply a persistence of strong competitive pressures in goods markets; however, our price models incorporating the capacity utilization rate in lieu of the unemployment rate have been noticeably underpredicting in recent quarters, encouraging us to continue giving only marginal weight to this factor in our overall forecast.

Money and Credit Flows

Growth of domestic nonfinancial sector debt is expected to slow appreciably this quarter, largely as the credit demands of nonfederal sectors are damped by higher interest rates and by a reluctance to tap credit markets that are edgy on the eve of the century date change. We are forecasting further declines in debt growth even as Y2K effects recede, largely because somewhat slower growth in domestic spending and less bullish asset markets are associated with reduced demand for credit from households and businesses. At the same time, the contraction of federal debt will pick up with the anticipated increases in the government surplus.

After running very strong earlier in the year, business borrowing has slowed in the fourth quarter and--reflecting the market preference for liquid issues--much of the borrowing in bond markets of late has been limited to large offerings by investment-grade firms. We expect business borrowing to be light through year-end, although if concerns about Y2K disruptions abate further, there could be some attractive financing opportunities. Looking beyond the near term, we believe that the trend for business debt growth will be down over 2000 and 2001. Corporate borrowing to finance equity retirements is projected to slacken; plans by businesses for share repurchases have diminished, and more restrictive credit conditions are likely to slow the pace of merger and acquisition activity from the rate of the past two years.

Credit supply conditions for businesses are expected to firm a bit over the forecast period. Although the further increase in defaults on junk bonds that we are anticipating may only come as a mild surprise to the markets, it still may well lead to a further widening of risk premiums. Similarly, we anticipate some further pickup in loan losses at banks, which should foster a continuation of the tightening of terms and standards for business loans that has been evident for more than a year.

Expansion of household debt is expected to slow, in keeping with a slackening of housing activity and slower growth of spending on big-ticket durable goods. Higher interest rates, flat equity prices, and some slowing in the rate of increase in home prices, which limit opportunities to cash out equity by refinancing mortgages, likely will discourage many families from taking on additional debt. Measures of credit quality on home mortgages and consumer credit have shown no signs of deterioration, and we do not anticipate significant erosion over the forecast period. Nonetheless, some strains could emerge among more marginal credits, prompting lenders to tighten standards selectively on consumer loans.

State and local debt is projected to rise less than 3 percent in each of the next two years. Governmental units should have ample opportunity to tap the markets to fund investment in infrastructure, and we anticipate rising bond issuance for new capital. That borrowing will be offset, in part, by retirements of debt issues that were advance refunded earlier. New advance refundings are expected to be relatively few because of higher interest rates.

Treasury borrowing in the fourth quarter is being elevated by Y2K concerns. Although the Treasury is aiming to accumulate a year-end cash balance of $70 billion, given the underlying budget surplus, borrowing will be less than seasonal. We estimate that Treasury debt will decline at a 3 percent seasonally adjusted annual rate in the fourth quarter.[9] After the turn of the year, we expect the rate of decline of federal debt to pick up substantially and to remain rapid through 2001.

M2 growth remained moderate over the intermeeting period, while growth of M3 picked up. Our forecast anticipates that Y2K uncertainties will lead to a spurt in money growth toward year-end, as investors build up currency and other relatively safe, liquid assets contained in the monetary aggregates. Looking to 2000 and 2001, rising short-term interest rates will damp M2 growth, pushing velocity up slightly. The rate of increase in M3 is projected to decline as well but still to outpace that of nominal GDP.

Alternative Simulations

The first two alternative scenarios we have included this time relate to our new assumptions for trend productivity growth and potential output. In the judgmental forecast, we have tried to balance the risks to these assumptions. On the one hand, it might be argued that even our new, higher assumptions are too conservative: Although we have fed through evidence of greater capital deepening into our estimate of the trend, a case might be made for a pickup in the underlying trend rate of multifactor productivity growth as well. On the other hand, some of the recent strength in productivity that we have extrapolated may have been more of a reflection of transitory or cyclical effects than we have allowed for.

For illustrative purposes, we performed two simulations based on quite marked differences in productivity growth over the forecast period. In the first, we assumed a steeper and ongoing acceleration in the productivity trend to a rate of 4 percent on average over the four quarters of 2001; this path essentially assumes a further significant rise in multifactor productivity growth. In the second simulation, we assume that trend growth gradually slows to around a 1-1/2 percent rate in 2001, still a bit above the 1973-90 average. In each of these simulations, the nominal federal funds rate follows the same path as in the Greenbook forecast.

In the case of faster productivity growth, the model forecasts that actual growth will pick up even more than the increase in trend over the shorter term; in this particular simulation, GDP increases 4-1/4 percent in 2000 and 5-1/2 percent in 2001. Higher perceived permanent incomes and accelerator effects boost

9. We are expecting less borrowing than announced by Treasury. Our deficit is smaller, largely because of higher receipts estimates. The Treasury's weaker receipts probably reflect use of technical and economic assumptions from late June's Mid-Session Review of the Budget.

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

Measure	1999	2000	2001
Real GDP			
Baseline	3.8	3.5	3.5
Faster productivity growth	3.8	4.2	5.6
Slower productivity growth	3.8	2.8	1.6
Flat funds rate	3.8	3.6	4.1
Tighter policy	3.8	3.2	2.7
15,000 Wilshire	3.8	3.7	4.1
20 percent stock price decline	3.8	2.4	2.4
Civilian unemployment rate[1]			
Baseline	4.1	4.0	4.2
Faster productivity growth	4.1	3.9	3.8
Slower productivity growth	4.1	4.1	4.6
Flat funds rate	4.1	3.9	3.9
Tighter policy	4.1	4.1	4.6
15,000 Wilshire	4.1	3.9	3.9
20 percent stock price decline	4.1	4.3	4.9
CPI excluding food and energy			
Baseline	2.1	2.5	2.7
Faster productivity growth	2.1	2.4	2.4
Slower productivity growth	2.1	2.6	3.0
Flat funds rate	2.1	2.5	3.0
Tighter policy	2.1	2.4	2.4
15,000 Wilshire	2.1	2.5	2.8
20 percent stock price decline	2.1	2.5	2.4

1. Average for the fourth quarter.

demand enough to reduce the unemployment rate to 3-3/4 percent by the end of 2001. Despite the lower unemployment rate, faster productivity growth results in lesser growth in unit labor costs and lower inflation. Core inflation is trimmed 0.1 percentage point relative to the baseline next year and 0.3 percentage point in 2001; given our baseline projection, this scenario would show inflation rising to a bit below 2-1/2 percent in both 2000 and 2001.

With slower productivity growth, the effects are reversed. GDP growth falls by more than the slowdown in trend, and the unemployment rate rises by a few tenths more than in the baseline forecast. Even so, by 2001 core inflation is 0.3 percentage point higher relative to the baseline projection.

The next two rows in the table explore the implications of a more accommodative or restrictive monetary policy than that in our baseline projection. These simulations assume, alternatively, that the Fed holds the nominal funds rate fixed at its current level or that it raises it by 100 basis points, to 6-1/4 percent, by the end of next year. With a stable funds rate, the model projects GDP growth of a bit more than 3-1/2 percent in 2000 and 4 percent in 2001, which leads to a small decline in the unemployment rate. In this scenario, core CPI inflation increases to around 3 percent in 2001.

In the "tighter policy" scenario, the assumed rise in the federal funds rate is sufficient to hold core inflation below 2-1/2 percent in 2000 and 2001. This entails a slowing of real GDP growth to 2-3/4 percent by 2001 and an increase in the unemployment rate to above 4-1/2 percent. Although this level is still below the model's estimate of the NAIRU, lower inflation expectations in response to the anti-inflationary stance of the Fed, along with an appreciation in the dollar relative to baseline, reinforce the disinflationary effects of the shrinking unemployment gap.

The final two alternative simulations focus once again on the uncertainties attending the outlook for share prices--namely, the possibility that the bullish psychology will be able to sustain the uptrend in the market through a spell of disappointing earnings or the possibility that unprecedented valuations will at some point lead to a more substantial and lasting correction than has been seen in recent years. In the first of these simulations, we assume that the Wilshire 5000 index rises to 15,000 by the end of 2001; this essentially builds in roughly a further 10 percent appreciation in stock prices in both 2000 and 2001. Under this assumption, the stimulative effects of higher wealth boost domestic demand, and real GDP growth stays close to 4 percent. The higher growth path reduces the unemployment rate to below 4 percent, but the implications for inflation are minimal. As we have noted in previous Greenbooks, the contrast between this simulation and the flat funds rate simulation--which yield roughly similar output effects but differing inflation consequences--is due partly to the fact that the model does not build in any change in expectations of monetary policy objectives in response to a change in stock market wealth; another reason for the difference is the model's view that exogenous changes in short-term interest rates have a larger effect on the exchange rate than do movements in stock prices.

In the second stock market simulation, we assume that the Wilshire index drops 20 percent by the end of the first quarter. The decline in wealth produces a sharp slowdown in GDP growth and pushes the unemployment rate up toward 5 percent; as a result, core CPI inflation is held to 2-1/2 percent. As with the previous simulation, the implied unemployment-inflation tradeoff is less favorable than in the case of a higher funds rate--that is, the interest rate scenario generates the same inflation rate with a lower unemployment rate--because of differences in exchange rate movements and expectations about monetary policy.

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November 10, 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]	
		9/29/99	11/10/99	9/29/99	11/10/99	9/29/99	11/10/99	9/29/99	11/10/99	9/29/99	11/10/99
ANNUAL											
1997		5.9	6.2	3.9	4.5	1.9	1.7	2.3	2.3	4.9	4.9
1998		4.9	5.5	3.9	4.3	1.0	1.2	1.6	1.6	4.5	4.5
1999		5.2	5.4	3.9	3.9	1.3	1.4	2.2	2.2	4.2	4.2
2000		5.0	5.3	3.1	3.6	1.8	1.7	2.6	2.5	4.1	4.1
2001		5.1	5.5	3.0	3.6	2.0	1.8	2.5	2.4	4.2	4.1
QUARTERLY											
1998	Q1	6.4	7.7	5.5	6.7	0.9	1.0	1.0	1.0	4.6	4.6
	Q2	2.7	3.4	1.8	2.1	0.9	1.1	1.7	1.7	4.4	4.4
	Q3	4.7	5.4	3.7	3.8	1.0	1.4	1.7	1.7	4.5	4.5
	Q4	6.9	7.0	6.0	5.9	0.8	0.9	1.7	1.7	4.4	4.4
1999	Q1	6.0	5.7	4.3	3.7	1.6	2.0	1.5	1.5	4.3	4.3
	Q2	3.3	3.3	1.8	1.9	1.6	1.3	3.4	3.4	4.3	4.3
	Q3	5.5	6.3	4.4	5.4	1.1	1.0	2.5	2.7	4.2	4.2
	Q4	6.1	5.9	4.5	4.1	1.4	1.7	3.3	3.0	4.1	4.1
2000	Q1	3.2	3.6	0.9	1.5	2.3	2.1	2.3	2.0	4.0	4.1
	Q2	6.4	6.8	4.5	5.0	1.9	1.7	2.2	2.4	4.0	4.0
	Q3	5.2	5.6	3.2	3.8	1.9	1.7	2.3	2.2	4.1	4.0
	Q4	4.8	5.3	2.9	3.6	1.9	1.7	2.5	2.4	4.1	4.0
2001	Q1	5.2	5.7	2.8	3.5	2.3	2.1	2.5	2.3	4.1	4.1
	Q2	4.8	5.3	2.8	3.5	2.0	1.8	2.6	2.6	4.2	4.1
	Q3	4.9	5.3	2.8	3.5	2.0	1.8	2.6	2.4	4.2	4.2
	Q4	4.9	5.4	2.8	3.5	2.0	1.8	2.6	2.5	4.2	4.2
TWO-QUARTER[3]											
1998	Q2	4.6	5.5	3.7	4.4	0.9	1.1	1.4	1.4	-0.3	-0.3
	Q4	5.8	6.2	4.8	4.8	0.9	1.1	1.7	1.7	0.0	0.0
1999	Q2	4.7	4.5	3.0	2.8	1.6	1.7	2.5	2.5	-0.1	-0.1
	Q4	5.8	6.1	4.5	4.8	1.3	1.4	2.9	2.8	-0.2	-0.2
2000	Q2	4.8	5.2	2.7	3.2	2.1	1.9	2.3	2.2	-0.1	-0.1
	Q4	5.0	5.5	3.0	3.7	1.9	1.7	2.4	2.3	0.1	0.0
2001	Q2	5.0	5.5	2.8	3.5	2.2	1.9	2.6	2.4	0.1	0.1
	Q4	4.9	5.4	2.8	3.5	2.0	1.8	2.6	2.5	0.0	0.1
FOUR-QUARTER[4]											
1997	Q4	5.6	5.9	3.8	4.3	1.7	1.6	1.9	1.9	-0.6	-0.6
1998	Q4	5.2	5.9	4.3	4.6	0.9	1.1	1.5	1.5	-0.3	-0.3
1999	Q4	5.2	5.3	3.7	3.8	1.4	1.5	2.7	2.6	-0.3	-0.3
2000	Q4	4.9	5.3	2.9	3.5	2.0	1.8	2.3	2.3	-0.0	-0.1
2001	Q4	4.9	5.4	2.8	3.5	2.1	1.9	2.6	2.4	0.2	0.2

1. For all urban consumers.
2. Level, except as noted.
3. Percent change from two quarters earlier; for unemployment rate, change in percentage points.
4. Percent change from four quarters earlier; for unemployment rate, change in percentage points.

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

November 10, 1999

Item	Units[1]	1993	1994	1995	1996	1997	1998	------ Projected ------ 1999	2000	2001
EXPENDITURES										
Nominal GDP	Bill. $	6642.3	7054.3	7400.5	7813.2	8300.8	8759.9	9231.9	9721.6	10259.4
Real GDP	Bill. Ch. $	7054.1	7337.8	7537.1	7813.2	8165.1	8516.3	8849.6	9165.7	9498.4
Real GDP	% change	2.2	4.2	2.2	4.2	4.3	4.6	3.8	3.5	3.5
Gross domestic purchases		2.8	4.4	1.7	4.4	4.9	5.7	4.9	3.8	3.6
Final sales		2.3	3.3	3.0	4.0	3.8	4.7	3.8	3.5	3.6
Priv. dom. final purchases		3.9	4.4	3.2	4.6	4.9	6.5	5.3	4.0	3.9
Personal cons. expenditures		2.9	3.6	2.8	3.3	4.2	5.1	5.0	3.7	3.3
Durables		9.3	6.4	3.7	5.0	8.4	13.0	7.8	4.3	4.1
Nondurables		2.6	4.1	2.5	3.2	2.4	5.0	5.2	2.6	2.2
Services		1.9	2.9	2.8	3.0	4.2	3.6	4.3	4.2	3.6
Business fixed investment		8.7	9.2	7.5	12.1	9.6	13.1	7.8	8.6	9.9
Equipment & Software		11.5	12.0	8.9	11.8	11.3	16.8	11.8	11.4	12.3
Nonres. structures		1.2	1.1	3.2	12.8	4.8	2.9	-4.0	-0.6	1.2
Residential structures		7.8	4.0	-1.5	5.6	3.7	11.3	3.1	-5.8	-2.9
Exports		4.5	10.6	9.7	9.9	9.4	1.9	4.4	7.5	9.2
Imports		10.5	12.1	5.0	11.2	14.2	10.8	13.3	8.8	9.0
Gov't. cons. & investment		-0.9	0.2	-0.8	2.7	2.2	2.2	3.1	3.4	2.7
Federal		-5.3	-3.7	-5.3	2.0	0.2	0.6	0.9	2.1	0.5
Defense		-6.4	-5.9	-4.7	0.8	-1.3	-1.1	-0.8	0.6	0.7
State & local		2.3	2.8	2.1	3.1	3.4	3.2	4.3	4.1	3.8
Change in bus. inventories	Bill. Ch. $	20.0	66.8	30.4	30.0	69.1	74.3	40.4	54 6	52.8
Nonfarm		28.6	53.6	42.6	22.2	66.2	73.2	40.4	53.9	51.5
Net exports		-59.9	-87.6	-79.2	-89.0	-109.8	-215.1	-325.1	-391.1	-427.5
Nominal GDP	% change	5.0	6.2	4.3	6.0	5.9	5.9	5.3	5.3	5.4
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	110.7	114.1	117.2	119.6	122.7	125.8	128.6	130.8	132.5
Unemployment rate	%	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.1	4.1
Industrial prod. index	% change	3.3	6.5	3.5	5.3	6.6	1.9	3.3	2.5	3.4
Capacity util. rate - mfg.	%	80.5	82.5	82.7	81.4	82.0	80.8	79.6	79.5	80.2
Housing starts	Millions	1.29	1.46	1.35	1.48	1.47	1.62	1.67	1.56	1.51
Light motor vehicle sales		13.86	15.01	14.72	15.05	15.02	15.50	16.62	16.11	15.74
North Amer. produced		11.71	12.88	12.82	13.35	13.09	13.47	14.20	13.96	13.65
Other		2.15	2.13	1.90	1.70	1.92	2.04	2.42	2.15	2.09
INCOME AND SAVING										
Nominal GNP	Bill. $	6666.7	7071.1	7420.9	7831.2	8305.0	8750.0	9216.8	9702.0	10233.0
Nominal GNP	% change	4.9	6.2	4.4	5.9	5.7	5.6	5.3	5.3	5.3
Nominal personal income		3.7	5.1	4.3	5.9	6.4	6.0	5.7	5.3	5.6
Real disposable income		0.9	3.0	1.7	2.8	4.1	4.2	3.4	3.4	3.6
Personal saving rate	%	7.1	6.1	5.6	4.8	4.5	3.7	2.4	1.9	2.1
Corp. profits, IVA & CCAdj.	% change	18.0	12.5	11.2	11.2	10.2	-2.2	10.3	3.8	2.9
Profit share of GNP	%	7.6	8.1	9.0	9.6	10.1	9.7	9.7	9.6	9.5
Excluding FR Banks		7.4	7.8	8.7	9.3	9.8	9.4	9.4	9.3	9.2
Federal surpl./deficit	Bill. $	-274.1	-212.3	-192.0	-136.8	-48.8	46.9	126.6	158.3	206.2
State & local surpl./def.		1.5	8.6	15.3	21.4	27.5	41.7	46.1	52.9	47.3
Ex. social ins. funds		-2.7	4.0	11.4	18.7	26.4	40.8	45.4	52.1	46.5
Gross natl. saving rate	%	15.6	16.3	16.9	17.2	18.3	18.8	18.9	18.8	19.1
Net natl. saving rate		3.7	4.2	5.1	5.7	7.1	7.5	7.5	7.4	7.8
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.7	2.0	2.1	1.7	1.6	1.1	1.5	1.8	1.9
Gross Domestic Purchases chn.-wt. price index		2.5	2.1	2.0	1.7	1.1	0.7	1.8	1.6	1.7
CPI		2.7	2.6	2.7	3.1	1.9	1.5	2.6	2.3	2.4
Ex. food and energy		3.1	2.8	3.1	2.6	2.2	2.4	2.1	2.5	2.7
ECI, hourly compensation[2]		3.6	3.1	2.6	3.1	3.4	3.5	3.3	3.7	4.0
Nonfarm business sector[3]										
Output per hour		-0.7	1.2	1.2	2.5	2.2	3.1	2.5	2.8	2.7
Compensation per Hour		1.4	2.1	2.7	3.3	3.9	5.1	4.3	4.5	4.7
Unit labor cost		2.2	0.8	1.4	0.7	1.7	1.9	1.8	1.7	1.9

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

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

November 10, 1999

Item	Units	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2
EXPENDITURES											
Nominal GDP	Bill. $	8125.9	8259.5	8364.5	8453.0	8610.6	8683.7	8797.9	8947.6	9072.7	9146.2
Real GDP	Bill. Ch. $	8033.4	8134.8	8214.8	8277.3	8412.7	8457.2	8536.0	8659.2	8737.9	8778.6
Real GDP	% change	4.9	5.1	4.0	3.1	6.7	2.1	3.8	5.9	3.7	1.9
Gross domestic purchases		5.7	5.6	4.8	3.5	8.6	4.1	4.6	5.5	5.8	3.2
Final sales		4.0	3.1	5.8	2.4	5.1	5.1	2.4	6.2	4.6	3.4
Priv. dom. final purchases		5.5	3.0	7.6	3.5	8.8	7.3	3.5	6.4	7.1	5.4
Personal cons. expenditures		4.9	1.8	6.6	3.4	5.6	6.1	3.9	4.6	6.5	5.1
Durables		10.9	-1.5	20.2	5.0	16.9	11.2	4.1	20.4	12.4	9.1
Nondurables		3.8	-0.2	5.7	0.3	5.8	6.7	2.4	5.0	8.9	3.3
Services		4.3	3.5	4.5	4.6	3.3	4.8	4.7	1.5	4.2	5.2
Business fixed investment		9.6	9.9	16.0	3.2	26.7	12.1	0.0	15.3	7.8	7.0
Equipment & Software		10.1	15.2	17.7	2.8	34.7	13.8	2.4	18.6	12.5	11.2
Nonres. structures		8.0	-4.0	11.2	4.3	5.7	7.1	-6.6	5.8	-5.8	-5.3
Residential structures		3.0	4.7	0.6	6.6	14.0	13.6	8.0	9.8	12.9	5.5
Exports		8.8	16.2	11.5	1.8	-1.5	-4.0	-1.7	16.1	-5.5	4.0
Imports		15.5	19.1	17.6	5.2	14.4	13.0	5.2	10.8	12.5	14.4
Gov't. cons. & investment		1.7	5.7	1.7	-0.1	-1.0	6.0	1.3	2.9	5.1	1.3
Federal		-2.8	9.9	-1.3	-4.2	-9.8	11.9	-2.3	3.9	-0.5	2.1
Defense		-11.3	9.6	-0.2	-2.4	-17.0	11.1	7.0	-2.9	-4.0	-2.6
State & local		4.4	3.4	3.5	2.4	4.1	3.0	3.3	2.3	8.2	0.9
Change in bus. inventories	Bill. Ch. $	51.5	93.1	59.2	72.7	107.3	43.1	76.1	70.7	50.1	14.0
Nonfarm		56.7	85.7	52.6	69.7	103.8	53.2	77.5	58.2	43.1	13.1
Net exports		-90.8	-100.9	-118.7	-128.7	-171.7	-218.4	-237.9	-232.3	-284.5	-319.0
Nominal GDP	% change	7.4	6.7	5.2	4.3	7.7	3.4	5.4	7.0	5.7	3.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	121.4	122.3	123.0	123.9	124.8	125.5	126.1	126.9	127.6	128.2
Unemployment rate	%	5.2	5.0	4.9	4.7	4.6	4.4	4.5	4.4	4.3	4.3
Industrial prod. index	% change	6.6	6.0	7.2	6.6	1.6	2.8	0.9	2.2	1.3	3.8
Capacity util. rate - mfg.	%	81.6	81.7	82.1	82.5	81.8	81.2	80.2	80.1	79.5	79.5
Housing starts	Millions	1.46	1.47	1.46	1.52	1.59	1.57	1.64	1.70	1.77	1.62
Light motor vehicle sales		15.32	14.54	15.19	15.02	15.08	16.07	14.55	16.31	16.22	16.73
North Amer. produced		13.41	12.68	13.20	13.08	13.13	14.07	12.54	14.11	13.95	14.31
Other		1.92	1.86	1.99	1.94	1.95	1.99	2.01	2.20	2.27	2.42
INCOME AND SAVING											
Nominal GNP	Bill. $	8131.1	8269.1	8366.5	8453.3	8613.7	8683.7	8772.2	8930.5	9058.2	9131.9
Nominal GNP	% change	6.8	7.0	4.8	4.2	7.8	3.3	4.1	7.4	5.8	3.3
Nominal personal income		8.0	5.6	5.5	6.4	5.3	5.8	6.6	6.5	5.4	5.5
Real disposable income		4.4	4.2	3.6	4.3	4.0	3.8	4.5	4.8	4.1	3.2
Personal saving rate	%	4.5	5.0	4.2	4.4	4.0	3.5	3.6	3.5	3.0	2.5
Corp. profits, IVA & CCAdj.	% change	15.9	14.7	15.9	-4.2	2.3	-4.8	-1.9	-4.4	24.9	-2.9
Profit share of GNP	%	9.9	10.1	10.3	10.1	10.0	9.8	9.6	9.3	9.7	9.6
Excluding FR Banks		9.6	9.8	10.0	9.8	9.7	9.5	9.3	9.1	9.5	9.3
Federal surpl./deficit	Bill. $	-87.4	-63.2	-27.9	-16.8	24.9	43.5	59.6	59.7	97.6	118.1
State & local surpl./def.		25.9	23.7	30.9	29.7	32.0	30.9	49.9	54.2	48.7	37.6
Ex. social ins. funds		24.3	22.4	29.9	28.9	31.1	29.9	48.9	53.4	48.2	36.8
Gross natl. saving rate	%	17.7	18.4	18.5	18.6	18.8	18.6	19.0	18.9	19.1	18.7
Net natl. saving rate		6.4	7.2	7.3	7.4	7.6	7.2	7.6	7.5	7.8	7.3
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.4	1.5	1.2	1.3	1.0	1.1	1.4	0.9	2.0	1.3
Gross Domestic Purchases chn.-wt. price index		1.9	0.6	1.0	1.1	0.1	0.8	1.1	1.0	1.6	1.9
CPI		2.5	1.3	1.8	2.0	1.0	1.7	1.7	1.7	1.5	3.4
Ex. food and energy		2.2	2.9	1.4	2.4	2.4	2.6	2.3	2.1	1.6	2.5
ECI, hourly compensation[1]		2.5	3.7	3.4	4.3	3.0	3.6	4.1	2.9	1.4	4.6
Nonfarm business sector[2]											
Output per hour		1.0	3.4	3.4	1.2	4.6	1.0	3.2	4.2	2.7	0.6
Compensation per hour		3.2	2.5	4.2	5.8	4.6	5.6	5.9	4.5	4.3	4.6
Unit labor cost		2.1	-0.7	0.6	4.9	-0.0	4.6	2.8	0.4	1.5	4.0

1. Private-industry workers.
2. Staff estimates.

Strictly Confidential <FR>
Class II FOMC

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

November 10, 1999

		Projected									
Item	Units	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4
EXPENDITURES											
Nominal GDP	Bill. $	9287.0	9421.8	9504.8	9662.5	9795.5	9923.6	10061.1	10191.3	10324.4	10460.7
Real GDP	Bill. Ch. $	8895.6	8986.2	9018.6	9130.0	9216.3	9297.7	9377.2	9457.2	9537.9	9621.3
Real GDP	% change	5.4	4.1	1.5	5.0	3.8	3.6	3.5	3.5	3.5	3.5
Gross domestic purchases		6.2	4.4	2.0	5.7	4.1	3.3	3.8	3.8	3.6	3.3
Final sales		4.2	3.0	2.3	4.3	3.6	3.9	3.5	3.4	3.6	3.9
Priv. dom. final purchases		5.3	3.7	2.4	5.3	4.1	4.0	4.1	3.9	4.0	3.8
Personal cons. expenditures		4.3	4.1	2.5	5.1	3.8	3.6	3.5	3.3	3.2	3.1
Durables		7.0	3.0	5.0	5.0	3.5	3.7	3.8	4.3	4.3	4.3
Nondurables		3.6	5.2	-1.0	5.7	3.2	2.6	2.5	2.1	2.1	2.1
Services		4.1	3.9	3.8	4.9	4.1	4.0	3.9	3.6	3.6	3.3
Business fixed investment		13.6	3.2	5.2	10.7	9.2	9 5	9.8	9.6	10.0	10.0
Equipment & Software		18.8	5.0	7.4	14.3	11.9	12.2	12.4	12.1	12.5	12.5
Nonres. structures		-2.2	-2.6	-1.9	-1.0	0.0	0.5	1.0	1.1	1.3	1.3
Residential structures		-3.0	-2.1	-6.4	-6.6	-5.2	-4.9	-3.4	-2.8	-2.8	-2.7
Exports		13.1	6.9	1.7	8.6	8.2	11.6	6.0	9.3	9.3	12.5
Imports		17.7	8.6	5.6	13.0	8.9	8.0	8.1	10.2	9.1	8.5
Gov't. cons. & investment		4.1	1.9	4.6	3.8	2.9	2.2	2.9	2.7	2.7	2.5
Federal		3.1	-1.3	5.8	3.4	0.8	-1.3	0.8	0.5	0.5	0.3
Defense		9.9	-5.9	0.8	-0.6	1.4	0.8	1.1	0.6	0.6	0.4
State & local		4.7	3.6	4.0	4.0	4.1	4.1	3.9	3.9	3.8	3.7
Change in bus. inventories	Bill. Ch. $	36.2	61.3	41.6	58.4	63.5	54.9	54.9	56.9	53.9	45.6
Nonfarm		40.3	65.0	43.0	57.0	62.0	53.5	53.5	55.5	52.5	44.3
Net exports		-342.7	-354.3	-369.4	-392.0	-402.4	-400.7	-414.4	-426.9	-435.6	-433.1
Nominal GDP	% change	6.3	5.9	3.6	6.8	5.6	5.3	5.7	5.3	5.3	5.4
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	128.9	129.5	130.0	130.8	131.1	131.5	131.9	132.3	132.8	133.2
Unemployment rate	%	4.2	4.1	4.1	4.0	4.0	4.0	4.1	4.1	4.2	4.2
Industrial prod. index	% change	3.7	4.5	-1.1	4.0	3.7	3.6	3.3	3.5	3.5	3.4
Capacity util. rate - mfg.	%	79.5	79.9	79.1	79.4	79.6	79.8	80.0	80.1	80.3	80.5
Housing starts	Millions	1.66	1.64	1.59	1.57	1.55	1.54	1.53	1.51	1.50	1.49
Light motor vehicle sales		17.15	16.37	16.32	16.23	16.03	15.87	15.76	15.73	15.73	15.73
North Amer. produced		14 71	13.83	14.09	14.07	13.91	13.78	13.67	13.64	13.64	13.64
Other		2.44	2.54	2.23	2.16	2.12	2.09	2.09	2.09	2.09	2.09
INCOME AND SAVING											
Nominal GNP	Bill. $	9271.7	9405.6	9484.5	9643.7	9774.9	9904.8	10037.3	10164.9	10298.1	10431.6
Nominal GNP	% change	6.3	5.9	3.4	6.9	5.6	5.4	5.5	5.2	5.3	5.3
Nominal personal income		5.1	6.9	4.5	6.3	5.3	5.4	6.1	5.4	5.3	5.5
Real disposable income		2.8	3.5	3.4	4.1	3.0	3.2	5.2	3.0	2.9	3.2
Personal saving rate	%	2.2	2.0	2.2	2.0	1.8	1.7	2.2	2.1	2.0	2.0
Corp. profits, IVA & CCAdj.	% change	12.9	8.2	-10.4	12.1	7.3	7.5	-0.5	2.9	4.7	4.7
Profit share of GNP	%	9.7	9.8	9.4	9.6	9.6	9.6	9.5	9.4	9.4	9.4
Excluding FR Banks		9.5	9.5	9.2	9.3	9.3	9.4	9.3	9.2	9.2	9.2
Federal surpl./deficit	Bill. $	143.5	147.2	130.4	149.4	171.7	181.6	180.6	199.4	220.8	224.0
State & local surpl./def.		47.4	50.8	50.1	54.0	55.5	51.8	48.2	47.3	46.5	47.3
Ex. social ins. funds		46.6	50.0	49.3	53.2	54.7	51.0	47.4	46.5	45.7	46.5
Gross natl. saving rate	%	19.0	18.8	18.7	18.8	18.9	18.9	19.0	19.1	19.2	19.2
Net natl. saving rate		7.5	7.4	7.2	7.4	7.5	7.5	7.7	7.8	7.9	7.9
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.0	1.7	2.1	1.7	1.7	1.7	2.1	1.8	1.8	1.8
Gross Domestic Purchases chn.-wt. price index		1.7	2.1	2.0	1.5	1.5	1.5	2.0	1.6	1.6	1.6
CPI		2.7	3.0	2.0	2.4	2.2	2.4	2.3	2.6	2.4	2.5
Ex. food and energy		1.6	2.7	2.2	2.7	2.5	2.7	2.6	2.9	2.6	2.8
ECI, hourly compensation[1]		3.4	3.6	3.5	3.8	3.7	3.7	4.1	3.9	3.9	4.0
Nonfarm business sector											
Output per hour		4.2	2.5	0.8	4.4	3.2	3.0	2.6	2.7	2.7	2.9
Compensation per hour		4.4	4.0	4.3	4.7	4.6	4.6	4.9	4.7	4.7	4.6
Unit labor cost		0.2	1.5	3.5	0.3	1.4	1.6	2.2	1.9	1.9	1.7

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	97Q4/ 96Q4	98Q4/ 97Q4	99Q4/ 98Q4
Real GDP	4.0	3.1	6.7	2.1	3.8	5.9	3.7	1.9	5.4	4.3	4.6	3.8
Gross dom. purchases	4.8	3.5	8.7	4.2	4.6	5.6	5.9	3.3	6.4	4.9	5.7	5.0
Final sales	5.7	2.4	5.1	5.0	2.3	6.2	4.6	3.4	4.2	3.8	4.6	3.8
Priv. dom. final purchases	6.2	2.9	7.2	6.0	3.0	5.3	5.9	4.5	4.5	4.0	5.4	4.5
Personal cons. expenditures	4.3	2.2	3.7	4.0	2.6	3.1	4.3	3.4	2.9	2.8	3.4	3.4
Durables	1.4	0.4	1.2	0.8	0.3	1.5	1.0	0.7	0.6	0.6	1.0	0.6
Nondurables	1.1	0.1	1.1	1.3	0.5	1.0	1.7	0.6	0.7	0.5	1.0	1.0
Services	1.7	1.8	1.3	1.8	1.8	0.6	1.6	2.0	1.6	1.7	1.4	1.7
Business fixed investment	1.8	0.4	2.9	1.4	0.0	1.8	0.9	0.9	1.6	1.1	1.5	1.0
Equipment & Software	1.5	0.3	2.7	1.2	0.2	1.6	1.1	1.0	1.7	1.0	1.5	1.1
Nonres. structures	0.3	0.1	0.2	0.2	-0.2	0.2	-0.2	-0.2	-0.1	0.1	0.1	-0.1
Residential structures	0.0	0.3	0.5	0.5	0.3	0.4	0.5	0.2	-0.1	0.1	0.5	0.1
Net exports	-0.8	-0.5	-1.9	-2.0	-0.8	0.3	-2.1	-1.4	-0.9	-0.7	-1.1	-1.2
Exports	1.3	0.2	-0.2	-0.5	-0.2	1.6	-0.6	0.4	1.3	1.1	0.2	0.5
Imports	-2.1	-0.7	-1.7	-1.6	-0.6	-1.3	-1.5	-1.8	-2.3	-1.7	-1.3	-1.7
Government cons. & invest.	0.3	-0.0	-0.2	1.0	0.2	0.5	0.9	0.2	0.7	0.4	0.4	0.5
Federal	-0.1	-0.3	-0.6	0.7	-0.1	0.2	-0.0	0.1	0.2	0.0	0.0	0.1
Defense	-0.0	-0.1	-0.8	0.4	0.3	-0.1	-0.2	-0.1	0.4	-0.1	-0.0	-0.0
Nondefense	-0.1	-0.2	0.1	0.3	-0.4	0.4	0.1	0.2	-0.2	0.1	0.1	0.1
State and local	0.4	0.3	0.5	0.3	0.4	0.3	0.9	0.1	0.5	0.4	0.4	0.5
Change in bus. inventories	-1.6	0.6	1.6	-2.8	1.5	-0.2	-0.9	-1.8	1.1	0.5	-0.0	-0.1
Nonfarm	-1.6	0.8	1.6	-2.3	1.1	-0.8	-0.6	-1.3	1.2	0.5	-0.1	0.1
Farm	-0.0	-0.1	-0.0	-0.1	0.3	0.6	-0.3	-0.5	-0.1	-0.0	0.1	-0.2

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

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Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

November 10, 1999

Item	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	99Q4/ 98Q4	00Q4/ 99Q4	01Q4/ 00Q4
Real GDP	4.1	1.5	5.0	3.8	3.6	3.5	3.5	3.5	3.5	3.8	3.5	3.5
Gross dom. purchases	4.5	2.1	5.9	4.2	3.5	4.0	3.9	3.7	3.4	5.0	3.9	3.7
Final sales	3.0	2.2	4.3	3.6	3.9	3.4	3.3	3.5	3.8	3.8	3.5	3.5
Priv. dom. final purchases	3.1	2.1	4.5	3.5	3.4	3.5	3.3	3.4	3.3	4.5	3.4	3.4
Personal cons. expenditures	2.8	1.7	3.5	2.6	2.4	2.4	2.2	2.2	2.1	3.4	2.5	2.2
Durables	0.2	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.6	0.3	0.3
Nondurables	1.0	-0.2	1.1	0.6	0.5	0.5	0.4	0.4	0.4	1.0	0.5	0.4
Services	1.5	1.5	1.9	1.6	1.6	1.6	1.4	1.4	1.3	1.7	1.7	1.5
Business fixed investment	0.4	0.6	1.3	1.1	1.2	1.2	1.2	1.3	1.3	1.0	1.1	1.3
Equipment & Software	0.5	0.7	1.3	1.1	1.2	1.2	1.2	1.2	1.2	1.1	1.1	1.2
Nonres. structures	-0.1	-0.1	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.0	0.0
Residential structures	-0.1	-0.3	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	0.1	-0.3	-0.1
Net exports	-0.4	-0.6	-0.9	-0.4	0.1	-0.5	-0.4	-0.3	0.1	-1.2	-0.4	-0.3
Exports	0.7	0.2	0.9	0.9	1.2	0.7	1.0	1.0	1.4	0.5	0.8	1.0
Imports	-1.2	-0.8	-1.8	-1.3	-1.1	-1.2	-1.4	-1.3	-1.2	-1.7	-1.2	-1.3
Government cons. & invest.	0.3	0.8	0.7	0.5	0.4	0.5	0.5	0.5	0.4	0.5	0.6	0.5
Federal	-0.1	0.3	0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0
Defense	-0.2	0.0	-0.0	0.1	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	0.0
Nondefense	0.2	0.3	0.2	-0.0	-0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0
State and local	0.4	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.5	0.5	0.4
Change in bus. inventories	1.1	-0.8	0.7	0.2	-0.3	-0.0	0.1	-0.1	-0.3	-0.1	-0.1	-0.1
Nonfarm	1.0	-0.9	0.6	0.2	-0.3	0.0	0.1	-0.1	-0.3	0.1	-0.1	-0.1
Farm	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	0.1	0.0

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

Strictly Confidential (FR)
Class II FOMC

November 10, 1999

Staff Projections of Federal Sector Accounts and Related Items
(Billions of dollars except as noted)

Item	Fiscal year[1]				1999				2000				2001			
	1998[a]	1999[a]	2000	2001	Q1[a]	Q2[a]	Q3[p]	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts[2]	1722	1827	1934	2040	402	564	449	441	425	605	464	454	456	636	493	485
Outlays[2]	1653	1705	1775	1826	396	421	420	454	449	439	433	459	466	456	445	468
Surplus/deficit[2]	69	123	159	214	6	143	28	-13	-25	166	31	-5	-10	180	48	17
On-budget	-30	-1	9	48	-49	88	19	-54	-51	102	13	-49	-40	111	27	-30
Off-budget	99	124	150	165	55	55	9	41	26	64	18	45	30	69	21	47
Surplus excluding deposit insurance	65	118	155	210	5	142	28	14	-26	165	30	-5	-11	179	47	17
Means of financing																
Borrowing	-51	-88	-174	-210	7	-108	-20	24	-37	-128	-33	-4	-6	-149	-52	-12
Cash decrease	5	-18	16	0	-4	-31	-3	-14	56	-31	5	10	10	-25	5	10
Other[3]	-23	-17	-1	-3	-9	-4	-5	3	6	-7	-3	-2	6	-6	-.9	-15
Cash operating balance, end of period	39	56	40	40	22	53	56	70	14	45	40	30	20	45	40	30
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	1722	1840	1950	2048	1827	1853	1888	1925	1925	1959	1990	2018	2030	2057	2087	2116
Expenditures	1694	1735	1800	1853	1729	1735	1744	1778	1795	1809	1819	1837	1850	1858	1866	1892
Consumption expenditures	452	466	493	510	467	465	473	475	494	500	501	499	512	513	515	516
Defense	300	305	314	325	305	301	311	307	316	316	317	318	326	327	329	330
Nondefense	153	161	179	185	162	164	162	167	178	185	184	181	185	186	186	186
Other expenditures	1242	1269	1308	1343	1262	1270	1270	1303	1301	1309	1317	1337	1338	1345	1351	1376
Current account surplus	28	105	150	196	98	118	144	147	130	149	172	182	181	199	221	224
Gross investment	84	92	94	97	90	96	94	92	94	94	96	97	97	97	98	98
Current and capital account surplus	-56	13	56	98	7	22	50	55	36	56	76	85	84	102	123	126
Fiscal indicators[4]																
High-employment (HEB) surplus/deficit	-152	-113	-88	-55	-118	-100	-86	-89	-99	-90	73	-67	-69	-51	-31	-30
Change in HEB, percent of potential GDP	-.8	-.5	-.3	-.4	-.3	-.2	-.2	0	.1	-.1	-.2	-.1	0	-.2	-.2	-0
Fiscal impetus (FI) percent, calendar year	0	4	4	.3	2	-.4	2	2	1	1	.5	-.6	-.2	.2	.2	.4

1. 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.
2. OMB's June 1999 surplus estimates (assuming the enactment of the President's proposals) are $99 billion in FY1999 and $143 billion in FY2000. CBO's July 1999 baseline surplus estimates are $120 billion in FY1999 and $161 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.
3. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.
4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Real potential GDP growth is assumed to be 3.6 percent beginning 2000:Q1. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1996) dollars, scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.

a--Actual p--Preliminary

Strictly Confidential (FR)
Class II FOMC

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

November 10, 1999

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									
1991	4.3	11.1	2.2	4.5	6.1	-1.3	-1.6	8.6	4.0
1992	4.6	10.9	2.6	4.5	5.3	0.8	0.8	2.2	6.4
1993	4.9	8.3	3.8	5.4	4.5	7.3	1.4	6.0	5.0
1994	4.6	4.7	4.6	7.7	6.0	14.5	3.9	-4.0	6.2
1995	5.5	4.1	6.0	7.9	5.7	14.1	7.0	-4.6	4.3
1996	5.4	4.0	5.9	7.4	7.3	7.9	6.0	-0.6	6.0
1997	5.4	0.6	7.1	6.4	6.6	4.3	8.4	5.3	5.9
1998	6.7	-1.4	9.4	8.7	9.7	5.4	10.7	7.2	5.9
1999	6.1	-2.5	8.6	8.8	9.8	6.4	9.5	4.1	5.3
2000	4.9	-5.5	7.7	7.7	8.5	5.0	8.9	2.9	5.3
2001	4.5	-6.3	7.1	7.0	8.0	4.1	8.0	2.7	5.4
Quarter									
1999:1	7.7	-2.0	10.6	9.4	10.0	9.5	12.6	7.3	5.7
2	5.2	-3.0	7.6	8.5	10.0	3.9	7.7	2.9	3.3
3	6.1	-2.2	8.5	8.5	9.1	6.4	9.5	4.3	6.3
4	4.7	-3.0	6.8	7.7	8.9	5.4	7.0	1.6	5.9
2000:1	4.7	-6.6	7.8	7.7	8.7	5.1	8.9	3.4	3.6
2	4.9	-5.2	7.5	7.7	8.5	5.3	8.3	2.7	6.8
3	5.2	-4.2	7.5	7.3	8.1	4.7	8.7	2.7	5.6
4	4.6	-6.5	7.3	7.1	7.9	4.6	8.4	2.7	5.3
2001:H1	4.7	-5.6	7.1	7.0	8.0	4.2	8.1	2.7	5.5
H2	4.2	-7.3	6.8	6.8	7.8	3.9	7.6	2.6	5.4

Note. Quarterly data are at seasonally adjusted annual rates.
1. Data after 1999:Q2 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.
2. On a monthly average basis, total debt is projected to grow 6.3 percent in 1999, 4.9 percent in 2000, and 4.6 percent in 2001.
3. On a monthly average basis, federal debt is projected to grow -2.5 percent in 1999, -5.1 percent in 2000, and -6.2 percent in 2001.
4. On a monthly average basis, nonfederal debt is projected to grow 8.9 percent in 1999, 7.7 percent in 2000, and 7.1 percent in 2001.

2.6.3 FOF

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

Category	Calendar year				Seasonally adjusted annual rates									
					1999				2000				2001	
	1998	1999	2000	2001	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
Net funds raised by domestic nonfinancial sectors														
1 Total	755.5	805.7	727.6	744.3	1182.4	511.6	880.2	648.4	655.3	726.1	808.9	720.1	773.7	714.8
2 Net equity issuance	-267.0	-181.8	-125.0	-74.0	-65.7	-354.0	-153.6	-154.0	-164.0	-132.0	-108.0	-96.0	-76.0	-72.0
3 Net debt issuance	1022.5	987.5	852.6	818.3	1248.1	865.6	1033.8	802.4	819.3	858.1	916.9	816.1	849.7	786.8
Borrowing sectors														
Nonfinancial business														
4 Financing gap [1]	132.7	149.0	186.0	223.9	112.9	161.3	144.0	178.0	175.9	188.8	193.8	185.6	214.0	233.7
5 Net equity issuance	-267.0	-181.8	-125.0	-74.0	-65.7	-354.0	-153.6	-154.0	-164.0	-132.0	-108.0	-96.0	-76.0	-72.0
6 Credit market borrowing	524.5	515.5	526.6	516.9	682.6	431.1	539.6	408.8	528.1	505.1	542.1	531.1	525.1	508.6
Households														
7 Net borrowing [2]	470.3	518.5	491.6	485.9	553.3	511.0	524.2	485.7	491.9	506.9	487.9	479.9	483.9	487.9
8 Home mortgages	358.2	398.4	380.0	387.2	405.2	414.5	386.6	387.2	385.2	384.2	377.2	373.2	384.2	390.2
9 Consumer credit	67.6	85.9	71.0	61.0	126.6	53.2	87.6	76.0	72.0	76.0	68.0	68.0	62.0	60.0
10 Debt/DPI (percent) [3]	90.2	92.9	95.3	96.7	91.8	92.6	93.5	93.9	94.5	94.9	95.6	96.1	96.3	97.2
State and local governments														
11 Net borrowing	80.3	48.9	36.4	34.4	87.4	35.7	53.2	19.3	42.4	34.4	34.4	34.4	34.4	34.4
12 Current surplus [4]	140.5	151.2	164.9	166.6	151.0	142.0	153.3	158.4	159.5	165.2	168.5	166.6	165.2	168.0
Federal government														
13 Net borrowing	-52.6	-95.5	-202.0	-218.8	-75.2	-112.2	-83.1	-111.3	-243.1	-188.2	-147.4	-229.2	-193.6	-244.0
14 Net borrowing (quarterly, n.s.a.)	-52.6	-95.5	-202.0	-218.8	7.5	-108.0	-19.0	24.0	-37.3	-128.2	-33.0	-3.5	-154.4	-64.4
15 Unified deficit (quarterly, n.s.a.)	-54.4	-164.4	-167.3	-235.4	-5.8	-143.1	-28.5	12.9	24.8	-165.8	-30.9	4.5	-169.8	-65.6
Depository institutions														
16 Funds supplied	360.5	329.3	310.9	278.9	209.3	258.5	457.8	391.4	311.9	315.9	307.9	307.9	280.4	277.4
Memo (percentage of GDP)														
17 Domestic nonfinancial debt [5]	180.1	181.7	182.1	180.7	181.2	182.7	182.4	182.3	182.8	182.0	181.8	181.6	181.1	180.4
18 Domestic nonfinancial borrowing	11.7	10.7	8.8	8.0	13.8	9.5	11.1	8.5	8.6	8.9	9.4	8.2	8.4	7.6
19 Federal government [6]	-0.6	-1.0	-2.1	-2.1	-0.8	-1.2	-0.9	-1.2	-2.6	-1.9	-1.5	-2.3	-1.9	-2.3
20 Nonfederal	12.3	11.7	10.8	10.1	14.6	10.7	12.0	9.7	11.2	10.8	10.9	10.5	10.3	9.9

Note. Data after 1999:Q2 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

Economic growth is firming in nearly all regions of the world. The Japanese economy, which posted surprisingly strong growth in the first half of the year, is continuing to expand in the second half; going forward, concerns remain about the prospective effects of yen appreciation, a flagging of fiscal stimulus, and a potential downturn in consumer demand. In the euro area, robust growth prospects seem more assured, and both Canada and the United Kingdom showed surprisingly strong growth in the third quarter. The recovery in the developing economies has proceeded generally as expected, with the exception of a stronger-than-expected pickup in growth in China.

Our estimate of foreign growth in the second half of this year has risen about 3/4 percentage point, to 4 percent, largely owing to greater-than-expected strength in industrial countries. Smoothing through expected Y2K effects on the quarterly pattern of growth, we expect that activity abroad will continue to expand strongly over the forecast period, little changed from the September Greenbook. With our projection of a moderate decline in the dollar also essentially unchanged, we continue to forecast a slowing deterioration of U.S. net exports in 2000 and 2001. The outlook for oil prices is largely unchanged from that of the previous Greenbook, except the current quarter, where the price has been lowered a bit in response to incoming data. Prices of core imports are expected to rise moderately after several years of decline, reflecting the anticipated fall in the dollar and a projected firming of world commodity prices related to the global economic recovery.

Recent Developments

International Financial Markets. Since the October FOMC meeting, the weighted average foreign exchange value of the dollar, as measured by the staff's broad nominal index, has changed little on balance. Appreciation of the dollar against the major foreign currencies of nearly 1 percent offset a comparable decline in terms of the currencies of our other important trading partners. Among the major foreign currencies, the dollar lost 1-1/2 percent against the yen but gained 2-3/4 percent and 2 percent in terms of the euro and sterling, respectively.

The strengthening of the yen, which extended a runup begun at the middle of this year, presumably owed to evidence of continued recovery in Japan, as well as to upward revisions to the anticipated Japanese fiscal package. These developments underpinned a moderate increase in long-term bond yields and a substantial rise in equity prices. Notwithstanding concerns evinced by Japanese authorities that the strength of the currency might undercut the recovery, the Bank of Japan did not intervene in foreign exchange markets to weaken the yen.

The rise in the dollar since the October FOMC meeting against the euro and sterling occurred despite a tightening of European monetary policy in response to indications of a strong revival of economic activity. On November 4, the European Central Bank increased its refinancing rate 50 basis points, to 3 percent, and the Bank of England raised its repurchase rate 25 basis points, to 5-1/2 percent. Even though expectations of the rate hikes solidified in the weeks leading up to these actions, ten-year bond yields in the euro area and the United Kingdom declined significantly, rolling back a portion of their rise over the prior half year. These declines in bond yields may have reflected improved prospects for price stability or reduced uncertainties about monetary policy going forward. Along with the strength of the economic recovery, these declines likely contributed to a runup in major European equity indexes since the October FOMC meeting.

In Latin America, equity prices rose substantially in Mexico and Brazil and somewhat less in Argentina. In Brazil, the *real* came under pressure early in the period, partially in response to a supreme court ruling overturning a tax on government pension benefits. It recovered after the central bank announced measures to support the currency, including an agreement with the IMF allowing it more room to intervene in the foreign exchange market. The victory of the opposition candidate in Argentina's presidential elections had been widely anticipated and generated little market reaction. The victory in Mexico's ruling-party primary of the candidate most closely associated with the current administration also proved uneventful. Despite continued debt-servicing problems in Ecuador, Brady bond spreads narrowed for most Latin American issuers, partly because of several exchanges that took many of these bonds off the market.

Emerging Asian financial markets generally remained stable in the absence of much significant news. However, the Indonesian rupiah surged 12 percent with the election of a new government, which reduced political uncertainties. The Korean won and Thai baht both appreciated moderately. Share prices rose in most emerging Asian markets, with double-digit increases for the period being registered in both Indonesia and Korea.

. The Desk did not intervene during the period for the accounts of the System or the Treasury.

Economic activity abroad. In the euro zone, sizable increases in industrial production in July and August, strong third-quarter growth in new orders for manufactures in Germany, and widespread improvements in recent indexes of consumer and business sentiment suggest that a firming of growth has taken hold in the region. In the United Kingdom, where real GDP growth already had increased to a respectable 2.6 percent annual rate in the second quarter, preliminary estimates point to a further pickup to 3.7 percent in the third quarter. Canadian growth had been slowing in the first half of this year from the fast pace reached at the end of 1998, but growth of industrial production picked up in July and August, reflecting strong domestic consumer and investment demand as well as booming sales of manufactures--primarily automobiles--to the United States.

In Japan, production indicators suggest that the rebound in activity that began in the first half of this year continued into the third quarter, but indicators of future growth in domestic demand have been mixed. Industrial production and machinery shipments rose strongly in the third quarter, machinery orders have stabilized, and measures of business sentiment have improved. In contrast, consumer demand and housing starts--both of which had contributed to the first-half rebound--were down in the third quarter, potentially reflecting the effect of continued slack labor markets on household sentiment.

Price pressures remain subdued in the foreign industrial countries, although higher oil prices have led to some increases in headline measures of inflation. In Japan, core consumer prices (excluding food and energy prices) in October were slightly below their year-earlier level, while wholesale prices continued to exhibit more substantial deflation. Euro-zone twelve-month inflation has edged up to about 1-1/4 percent recently from less than 1 percent at the beginning of the year, but it is still well below the ECB's upper limit of 2 percent. Despite the economic recovery and the effects of higher oil prices, retail price inflation (excluding mortgage interest) in the United Kingdom has actually declined somewhat over the course of the year, to just over 2 percent. In Canada, twelve-month core inflation has risen considerably over the year, but at 1.8 percent in September, it remains just below the mid-point of the Bank of Canada's 1 to 3 percent target range.

In developing Asia, the recovery remained strong in the third quarter, although some slowing from the double-digit pace of output growth in the second quarter appears to be in train. In Korea, rapid growth of industrial production in July gave way to small declines in August and September. Recent production indicators for Southeast Asia moderated a bit as well, and industrial output dropped in Taiwan because of the September earthquake, although a rebound in trade in October confirms assessments that the longer-term effects of the earthquake will be limited. In contrast to the rest of the region, China's real GDP, after being almost flat during the first half of the year, leaped an estimated 11 percent at an annual rate in the third quarter, primarily because of surging exports.

In Latin America, economic activity continued to strengthen, but to a much more limited extent than in Asia. In Mexico, where especially strong growth had been registered in the second quarter, industrial production continued to rise at a robust pace, on average, in July and August, driven by strong U.S. growth and favorable oil prices. Brazil also appears to have extended second-quarter gains into the third quarter, although industrial production has slowed somewhat. In Argentina, which has been among the countries in the region hardest hit by recession, industrial production rose in the third quarter for the first increase since the second quarter of 1998, suggesting that the economy may finally have bottomed out. However, there are no indications of a comparable improvement in Venezuela and Colombia.

Inflation rates in most of the emerging market economies either remain low or are on a downward trend. Twelve-month inflation has been at double-digit levels in Mexico and Venezuela but has been edging downward throughout the year. Argentina continues to register year-over-year declines in consumer prices, as do China, Hong Kong, and Thailand. In Korea, recovering activity has led over the past half-year to an increase in twelve-month inflation, but it still remains quite low at just over 1 percent. Brazilian consumer price inflation remained subdued in the third quarter, but several highly publicized wage settlements, as well as a pickup in wholesale prices in response to the recent fall in the *real*, point to heightened price pressures down the road.

U.S. net exports and prices. The nominal U.S. trade deficit was $24.1 billion in August, slightly smaller than the deficits registered in the previous two months, as exports rose more than imports. However, the combined July-August deficit was $294 billion at a seasonally adjusted annual rate, $35 billion larger than in the second quarter.

A sharp rise in aircraft sales accounted for about half of August's surge in the value of exports, with automotive products, industrial supplies, and agricultural products also making significant contributions. The growth of imports in August largely reflected the impact of higher oil prices on petroleum imports, as well as increased purchases of vehicles and industrial supplies. For July and August combined, exports were up 3 percent from the second quarter, while imports rose 5-1/4 percent.

Prices of non-oil imports increased slightly in October for the third straight month. Prices of core goods imports (excluding oil, computers, and semiconductors), also ticked up in October and extended a rise of 1 percent at annual rate in the third quarter. Prices of goods exports rose in October after edging up in the third quarter for the first quarterly increase since the beginning of 1997. Prices of core goods exports (which exclude agricultural products, computers, and semiconductors) rose at about a 1-1/2 percent annual rate in the third quarter, close to its second-quarter increase, and increased further in October.

Following increases in imported oil prices through the third quarter, reflecting both reduced supplies--primarily from OPEC--and strengthening world demand, oil prices moderated in October. Iraqi exports remained high and expectations of higher non-OPEC production increased, and the monthly average spot price of WTI declined for the first time in eight months. However, amid continued production restraint by OPEC and reports of declines in inventories, the spot WTI price rose back above $24 per barrel in recent days.

Outlook

The level of foreign real GDP is expected to grow along a higher path than was the case in the last Greenbook. Our estimate of third-quarter foreign real GDP growth (weighted by U.S. nonagricultural export shares) has been revised up significantly since the September Greenbook in light of incoming data, and our forecast for foreign growth beyond the third quarter is a touch faster than projected in September. Growth over the forecast period averages about 3-1/2 percent (annual rate). As in previous forecasts, we assume that inventory accumulation in anticipation of possible Y2K problems is raising foreign growth slightly in the second half of 1999, but that these effects will be reversed in the first half of 2000 as stocks are run down. The real broad dollar is expected to depreciate about 5 percent over the forecast period from its third-quarter average, slightly more than projected in September. Accordingly, declines in U.S. real net exports are expected to subtract nearly 1/2 percentage point from real GDP growth in 2000 and somewhat less in 2001 as export growth picks up strongly.

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

Measure	1998	1999		Projection		
		H1	Q3	Q4	2000	2001
Foreign output	0.8	4.0	4.0	4.0	3.3	3.5
September GB	*0.9*	*4.0*	*3.0*	*3.6*	*3.1*	*3.6*
Real exports	1.9	-0.9	13.1	6.9	7.5	9.2
September GB	*1.1*	*-0.5*	*10.2*	*7.7*	*7.4*	*9.2*
Real imports	10.8	13.5	17.7	8.6	8.8	9.0
September GB	*9.7*	*13.9*	*18.0*	*8.0*	*8.5*	*8.4*

NOTE. Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2; and for quarters, from previous quarter. In this table, foreign aggregates in the current forecast and September Greenbook forecast are calculated using recently revised weights.

The dollar. During the forecast period the nominal exchange rate of the dollar against the major international currencies is projected to depreciate moderately from its current level. We continue to assume that the steep appreciation of the dollar against the euro that has occurred this year will be reversed in response to both stronger growth in Europe and market concerns about the growing U.S. current account deficit. The dollar is expected to depreciate somewhat against the Canadian dollar, as firmer commodity prices contribute to an improvement in Canada's current account balance. We project the dollar will depreciate slightly against the yen over the forecast period, as concerns about whether the Japanese recovery can be sustained without massive government stimulus efforts are balanced against worries about persistent large current account imbalances.

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 depreciate about 5 percent over the forecast period. The dollar's nominal decline against the currencies of the major industrial countries is offset somewhat in real terms by higher U.S. consumer price inflation relative to inflation in most of the industrial countries. The dollar is projected to depreciate moderately in real terms against the currencies of the ASEAN group and more noticeably against the Korean won and Indonesian rupiah. Based on improved prospects for growth in China, and in contrast to the September Greenbook's projection of a moderate nominal depreciation in 2000, we are now assuming that the dollar value of the renminbi will be constant through the forecast period. In contrast, we expect the dollar to appreciate in real terms against all major Latin American currencies.

Activity in foreign industrial countries. Relative to the September Greenbook, projected growth in 2000 and 2001 is little changed, but because our assessment of growth in the second half of 1999 has been revised up a full percentage point, mostly on the basis of incoming data, the projected level of economic activity during the forecast period is accordingly stronger. After mild gyrations associated with Y2K effects, the pace of expansion is expected to settle down to about 2-1/2 percent in 2000 and 2001.

In light of strong indicators of industrial activity, the estimate for Japanese growth in the second half of 1999 has been revised up to about a 2 percent pace from less than 1/2 percent in the September Greenbook. Growth is projected to slow thereafter as fiscal stimulus wanes, net exports are hurt by yen appreciation, and consumer demand languishes in response to continued slack labor markets and concerns about the effects of corporate restructuring on job security.

Real GDP growth in the euro area also appears to be running significantly stronger than projected in the September Greenbook, partially reflecting a pickup in external demand, which has been buoyed by recovery in key trading partners and the euro's first-half depreciation. Euro-area growth should average 2-3/4 percent in 2000 and 2001 as activity going forward is moderated by the effects of tightening monetary conditions and projected strengthening of the euro. In the United Kingdom, growth is estimated to have rebounded in the second half as well and is projected to stabilize at 2-1/2 percent over the remainder of the forecast period. We project that Canadian growth, now around 4-1/2 percent at an annual rate in the second half, will settle in at about 2-3/4 percent thereafter as U.S. demand moderates somewhat and Canadian monetary policy begins to resist potential inflationary pressures.

Inflation. Average inflation in the major foreign industrial countries, weighted by U.S. non-oil imports, is projected to accelerate somewhat to about 1-1/2 percent in 2000 and 2001, a bit higher than in the September Greenbook on account of stronger projected economic activity. The anticipated narrowing and then disappearance of Japanese deflation, as Japan's economy recovers, accounts for most of the rise in the industrial-country average. In the euro area, twelve-month inflation is expected to peak near 1-3/4 percent in the first quarter of 2000, and then level off just below that rate as a forecast easing of oil prices offsets moderate upward pressure from faster activity. Canadian inflation is projected to remain between 2 percent and 2-1/2 percent, below the 3 percent ceiling of the Bank of Canada's target range, while inflation in the United Kingdom is projected to move up gradually to the target rate of 2-1/2 percent.

Interest rates. We continue to assume that the Bank of Japan will keep short-term interest rates near zero throughout the forecast period to support the economy's recovery and offset the effects of yen strengthening. Our projection for euro short-term interest rates assumes that, following the European Central Bank's recent 50 basis point rate hike to 3 percent, which occurred nearly a year earlier than projected in the September Greenbook, the ECB will maintain steady policy for the next several months. Subsequently, it will raise rates another 50 basis points by the end of next year as euro-area output gets closer to capacity. The recent quarter-point U.K. rate hike was consistent with our previous forecast, and, as in the September Greenbook, we expect the Bank of England to tighten policy another 50 basis points over the next year and a half to keep inflation from rising above the 2-1/2 percent target rate. The Bank of Canada is expected to increase rates 50 basis points over the next year, up from the expectation of 25 basis points incorporated in the September Greenbook.

Other countries. For the major developing country trading partners of the United States, the projected level of real GDP at the end of the forecast period has remained about unchanged since the September Greenbook. Slightly stronger growth than forecast in September for the second half of 1999 is projected to be given back later in the forecast period. We expect that, on average, real GDP in the developing countries will increase at a rate of about 4-1/2 percent next year, rising slightly to about 4-3/4 percent in 2001.

In the Asian developing economies, we estimate that, when final data are available, real GDP will have increased nearly 8 percent this year, led by double-digit growth in Korea, Singapore, and Malaysia. With recovery in the former crisis countries becoming more mature, cyclical factors going forward should be less favorable, and the still-unresolved banking and corporate sector problems in several of these countries may also constrain economic activity somewhat. Therefore, growth in the region is expected to moderate next year to about 5-1/4 percent, although continued progress toward normalizing the financial environment and creating the conditions for renewed business investment should allow growth to rise thereafter to roughly 6-1/2 percent in 2001. The forecast for growth in China has been strengthened to about 7-1/4 percent over the next two years, reflecting both strong incoming data and the belief that the government will be more willing to use fiscal policy aggressively to meet growth targets. However, some drag from structural reforms is expected to set in toward the end of the forecast period.

For Latin America, our outlook remains largely unchanged from the September Greenbook. We expect real GDP growth to rise about 1/2 percentage point next year to roughly 3-3/4 percent, as several countries emerge from recession, and then to edge up slightly further in 2001. Mexico is expected to grow at a rate of about 4-1/2 percent over the forecast period, consistent with continued strong growth of exports to the United States and our view that next year's presidential election will not lead to significant disruptions.

Inflation in the developing countries should continue to be held down by the still-high levels of excess capacity remaining from the previous downturn. Some increased price pressures in Asia, where recovery has proceeded the furthest, should be offset by continuing disinflation in Latin America. Accordingly, we expect that average consumer price inflation in the developing countries should show little trend and remain at slightly above 6 percent throughout the forecast period.

Real exports and imports of goods and services. Advance data for the third quarter show that NIPA real net exports continued to weaken, as real exports grew 12.4 percent at an annual rate and real imports grew 17.2 percent. Staff currently estimates the contribution of net exports to U.S. GDP growth in the third quarter to be -0.9 percentage point, somewhat less negative than in the September Greenbook. Over the forecast period, the projected decline in the dollar and relative U.S. and foreign growth rates should further slow the widening of the deficit, causing the negative contribution of net exports to GDP growth to continue to diminish.

After an unusually weak first-half performance, real exports of goods and services are expected to rebound to an annual rate of growth of 10 percent in the second half of this year, boosted in part by Y2K effects and the spurt of growth abroad. These exports are projected to grow 7-1/2 percent in 2000 and more than 9 percent in 2001. Exports of core goods appear to be following a similar pattern. After growing at an 11 percent annual rate during the second half of 1999, exports of core goods are projected to grow 4 percent in 2000 and 6-1/2 percent in 2001 as foreign demand continues to rise and the cumulative effects of the real depreciation of the dollar increasingly boost U.S. exports.

The growth of real non-oil goods imports is estimated to have picked up in the second half of 1999 from its very rapid first-half pace. During 2000 and 2001, growth of these imports is projected to slow to 10 percent. With the pace of the U.S. expansion moderating and the value of the dollar declining in real terms, the growth of imported core goods is projected to slow from 16 percent in the second half to 6 percent in 2000 and 2001.

The quantity of imported oil is projected to rise steadily over the forecast period, driven by continuing expansion of U.S. oil consumption, even as domestic production moderates.

Oil prices. The outlook for the U.S. oil import price is largely unchanged from the previous Greenbook, except for the current quarter, which is now a bit lower. While the stronger outlook for world economic activity is likely to boost oil demand, this increase is expected to be more than fully offset by higher oil supply. We anticipate that OPEC will hold production near current levels for the rest of this year as inventories are drawn down, but will then increase output in an attempt to retain market share in the face of potential and actual supply increases from non-OPEC producers. The price of imported oil is expected to increase to around $21 per barrel in the fourth quarter of this year and then to decline gradually to around $17.50 per barrel by the end of 2000 and to near $16 per barrel by the end of 2001.

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

Trade category	1998	1999 H1	1999 Q3	Projection 1999 Q4	Projection 2000	Projection 2001
Exports						
Nonagricultural (core)	-1.9	0.8	2.1	2.5	1.5	1.5
Agricultural	-10.2	-8.9	-2.9	0.5	2.4	2.4
Imports						
Non-oil (core)	-1.9	-0.7	1.1	2.4	2.7	2.1
Oil (level, dollars per barrel)	11.40	14.70	18.58	21.00	17.69	15.83

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 non-agricultural exports. After ticking up to an annual rate of about 1 percent in the third quarter, core import price inflation is projected to rise further to an average of just under 2-1/2 percent over the forecast period. This step-up in inflation reflects both the projected decline in the dollar and expected mild increases in commodity prices following several years of declines. Core export prices are projected to rise at a rate of about 1-1/2 percent during the forecast period, slightly higher in the near term than projected in September.

Nominal trade and current account balances. The nominal trade deficit for goods and services is projected to widen substantially from an estimated annual rate of $294 billion in the third quarter of 1999 to about $345 billion in the fourth quarter of 2000 and to $360 billion by the end of 2001. The deficit for net investment income also is expected to widen somewhat over the forecast period. Accordingly, the current account deficit, which was $221 billion (2.5 percent of GDP) in 1998, is projected to rise to about $410 billion in 2000 (4.2 percent of GDP) and to nearly $440 billion in 2001 (4.3 percent of GDP). The previous peak level of the current-account-deficit-to-GDP ratio was 3.4 percent in 1987.

Risks to the Foreign Outlook

Stronger recovery of activity abroad. Our baseline forecast assumes that the rapid growth of GDP in many foreign countries during 1999 will give way to slightly lower growth thereafter as economic slack is unwound. Nevertheless, over the course of this year, the pace of recovery of foreign activity frequently has proven higher than had been anticipated, and the risks of a further surprise on the upside remain substantial. In the first alternative scenario presented in the table below, we have used the staff global model to assess the effects of foreign GDP growth beginning in the first quarter of 2000 being 1 percentage point above our baseline projection for all of our trading partners. The higher foreign growth rates are sustained through 2001, and the federal funds rate is assumed to remain unchanged from its baseline path. The effect of this scenario is to raise U.S. real GDP growth about 1/4 percentage point next year and 3/4 percentage point in 2001. The stronger foreign growth also has a small positive effect on U.S. core inflation, reflecting higher foreign prices, a slight induced decline in the dollar, and the effect of increased global activity in raising world oil prices. In this simulation, total CPI inflation (not shown) rises slightly more than does core inflation, since it more fully reflects the rise in oil prices.

Weaker U.S. dollar. Underlying our projection is an assumption that over the forecast period, the nominal value of the dollar will decline about 3 percent against the currencies of our trading partners. However, as the recovery of activity abroad proceeds, leading to higher foreign interest rates and improved assessments of foreign profitability, it is 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 prompt a significant depreciation of the dollar. In the second scenario below, we have considered the effects of an additional across-the-board 10 percent nominal depreciation of the dollar occurring smoothly over the course of 2000 and 2001. This generates effects on U.S. GDP and prices that are comparable to those induced by higher foreign growth.

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

Measure	1999	2000	2001
U.S. real GDP			
Baseline	3.8	3.5	3.5
Stronger foreign GDP growth[1]	3.8	3.8	4.2
Weaker dollar[2]	3.8	3.6	4.3
U.S. CPI excluding food and energy			
Baseline	2.1	2.5	2.7
Stronger foreign GDP growth[1]	2.1	2.6	3.1
Weaker dollar[2]	2.1	2.6	3.1

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

1. Assumes foreign GDP growth is 1 percentage point higher than baseline starting in 2000:Q1.

2. Assumes dollar path falls an additional 10 percent below baseline by 2001:Q4.

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

Measure and country	1993	1994	1995	1996	1997	1998	1999 (Projected)	2000 (Projected)	2001 (Projected)
REAL GDP (1)									
Total foreign	3.1	5.2	2.3	4.3	4.1	0.8	4.0	3.3	3.5
Industrial Countries	1.9	4.0	1.8	2.9	3.3	1.7	3.5	2.5	2.5
of which:									
Canada	2.9	5.5	1.4	2.4	4.4	2.8	4.2	2.9	2.7
Japan	0.5	0.9	2.5	5.1	-0.8	-3.0	3.1	1.0	1.2
United Kingdom	3.2	4.6	1.9	2.9	3.4	1.6	2.7	2.4	2.5
Euro-11	0.1	2.9	1.5	1.6	2.9	1.9	2.8	2.6	2.7
Germany	-0.2	2.8	1.0	1.3	1.4	1.2	2.6	2.6	2.7
Developing Countries	5.0	7.0	2.9	6.4	5.3	-0.3	4.9	4.4	4.8
Asia	7.6	8.9	7.2	6.9	4.9	-1.7	7.7	5.3	6.5
Korea	6.3	9.4	7.2	6.8	3.7	-5.3	10.9	5.9	7.0
China	6.1	16.3	12.6	9.2	8.2	9.5	5.3	6.9	7.4
Latin America	2.7	5.5	-4.1	6.4	6.3	1.0	3.2	3.8	3.9
Mexico	1.9	5.1	-7.3	7.5	7.2	2.9	4.6	4.5	4.3
Brazil	4.5	9.8	-1.9	5.5	2.2	-1.6	2.8	2.2	3.0
CONSUMER PRICES (2)									
Industrial Countries	2.1	1.1	1.3	1.5	1.6	1.0	1.2	1.4	1.5
of which:									
Canada	1.8	-0.0	2.1	2.0	1.0	1.1	2.4	2.1	2.3
Japan	1.2	0.8	-0.8	0.1	2.1	0.7	-0.9	-0.1	0.0
United Kingdom (3)	2.7	2.2	2.9	3.2	2.8	2.6	2.2	2.3	2.5
Euro-11 (4)	NA	NA	NA	2.0	1.4	0.9	1.7	1.5	1.6
Germany	4.2	2.6	1.5	1.5	2.1	0.4	1.0	1.3	1.6
Developing Countries	24.7	23.0	17.0	11.2	6.9	9.1	5.3	6.2	6.3
Asia	7.7	10.7	6.4	4.8	2.8	4.5	0.8	3.2	3.8
Korea	5.5	5.8	4.4	5.1	5.1	6.0	1.9	3.7	4.9
China	17.1	26.9	11.1	7.0	1.0	-1.1	-0.1	2.4	3.8
Latin America	74.2	54.3	42.2	26.0	15.8	15.6	13.4	11.7	10.5
Mexico	8.6	6.9	48.8	28.1	17.2	17.6	14.6	12.5	11.2
Brazil	2287.6	1216.3	23.1	10.8	5.3	1.8	7.9	8.3	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.

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

					Projected							
	1999				2000				2001			
Measure and country	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	3.4	4.6	4.0	4.0	1.8	4.1	3.7	3.6	3.5	3.5	3.5	3.4
Industrial Countries	3.6	2.7	3.9	3.6	0.7	3.9	2.9	2.6	2.6	2.5	2.5	2.5
of which:												
Canada	4.2	3.3	5.0	4.3	1.0	4.4	3.4	2.8	2.7	2.7	2.7	2.7
Japan	8.1	0.4	2.5	1.4	-0.2	1.9	1.0	1.2	1.2	1.2	1.2	1.2
United Kingdom	0.9	2.6	3.7	3.9	0.6	3.8	2.6	2.5	2.5	2.5	2.5	2.4
Euro-11	1.7	2.1	3.8	3.7	0.6	4.0	3.1	2.8	2.7	2.7	2.7	2.7
Germany	1.8	0.2	4.5	3.8	0.5	4.1	3.0	2.8	2.7	2.7	2.7	2.7
Developing Countries	3.3	7.5	4.3	4.6	3.6	4.4	4.9	5.0	5.0	4.9	4.8	4.7
Asia	6.3	12.1	6.4	6.0	3.1	5.6	6.0	6.4	6.4	6.5	6.6	6.6
Korea	14.7	15.4	7.5	6.2	4.0	6.7	6.0	7.0	7.0	7.0	7.0	7.0
China	2.2	1.1	11.4	6.7	4.8	6.9	8.0	7.8	7.5	7.3	7.3	7.3
Latin America	1.0	4.6	3.6	3.7	2.9	4.2	4.0	4.0	4.0	4.0	3.8	3.8
Mexico	1.3	7.7	5.1	4.5	4.0	4.9	4.5	4.5	4.5	4.5	4.1	4.1
Brazil	3.1	3.8	1.2	3.1	0.6	2.8	2.7	2.8	2.7	3.0	3.2	3.2
CONSUMER PRICES (2)	Four-quarter changes											
Industrial Countries	0.6	0.9	1.3	1.2	1.3	1.3	1.4	1.4	1.4	1.5	1.5	1.5
of which:												
Canada	0.8	1.6	2.2	2.4	2.2	2.2	2.1	2.1	2.1	2.2	2.2	2.3
Japan	-0.2	-0.4	0.0	-0.9	-0.4	-0.3	-0.2	-0.1	0.0	0.0	0.0	0.0
United Kingdom (3)	2.6	2.3	2.2	2.2	2.2	2.2	2.3	2.3	2.4	2.4	2.5	2.5
Euro-11 (4)	0.9	1.0	1.2	1.7	1.7	1.6	1.6	1.5	1.5	1.5	1.6	1.6
Germany	0.3	0.5	0.6	1.0	1.4	1.3	1.2	1.3	1.4	1.5	1.6	1.6
Developing Countries	8.2	6.9	6.0	5.3	5.4	5.7	6.0	6.2	6.1	6.3	6.4	6.3
Asia	2.6	0.8	0.3	0.8	1.5	2.4	3.0	3.2	3.2	3.4	3.7	3.8
Korea	0.7	0.6	0.7	1.9	2.8	3.4	4.4	3.7	3.8	4.1	4.4	4.9
China	-1.4	-2.2	-1.2	-0.1	0.8	1.6	2.1	2.4	3.0	3.6	3.8	3.8
Latin America	16.4	15.7	14.7	13.4	12.2	11.4	11.3	11.7	11.5	11.5	11.3	10.5
Mexico	18.6	17.9	16.5	14.6	13.2	12.3	12.0	12.5	12.3	12.3	12.0	11.2
Brazil	2.3	3.3	5.5	7.9	8.1	8.1	8.3	8.3	7.8	7.3	6.8	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.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

							------ Projected ------		
	1993	1994	1995	1996	1997	1998	1999	2000	2001
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	-0.6	-0.3	0.4	-0.2	-0.7	-1.1	-1.2	-0.4	-0.3
Exports of G&S	0.4	1.1	1.0	1.1	1.1	0.2	0.5	0.8	1.0
Imports of G&S	-1.1	-1.3	-0.6	-1.3	-1.7	-1.3	-1.7	-1.2	-1.3
	Percentage change, Q4/Q4								
Exports of G&S	4.5	10.6	9.7	9.9	9.4	1.9	4.4	7.5	9.2
Services	4.9	8.5	9.0	9.4	3.0	2.3	3.8	4.7	4.1
Agricultural Goods	-5.3	16.3	-4.0	3.7	3.3	0.3	-2.2	2.0	2.0
Computers	17.3	27.2	39.1	21.6	26.1	7.1	18.9	37.9	36.0
Semiconductors	31.1	66.9	79.6	44.6	21.0	9.3	33.9	41.8	43.8
Other Goods 1/	3.5	6.9	5.7	7.8	11.4	1.1	2.2	4.0	6.4
Imports of G&S	10.5	12.1	5.0	11.2	14.2	10.8	13.3	8.8	9.0
Services	6.7	1.8	5.5	5.3	13.6	8.4	6.4	3.7	3.9
Oil	10.1	-0.3	2.4	7.8	4.0	4.1	3.5	6.9	2.5
Computers	30.7	38.9	35.0	17.7	32.4	26.9	35.0	37.9	36.1
Semiconductors	33.6	54.5	92.4	56.7	32.8	-7.4	28.3	43.7	46.4
Other Goods 2/	9.4	12.3	-1.2	10.4	12.7	11.3	13.3	6.2	6.1
	Billions of chained 1996 dollars								
Net Goods & Services	-59.9	-87.5	-79.1	-88.9	-109.8	-215.1	-325.1	-391.1	-427.5
Exports of G&S	671.9	731.8	807.5	874.2	985.5	1007.1	1044.4	1116.4	1215.9
Imports of G&S	731.8	819.4	886.6	963.1	1095.2	1222.2	1369.5	1507.5	1643.4
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-85.3	-121.7	-113.6	-129.3	-143.5	-220.6	-335.6	-412.0	-438.3
Current Acct as Percent of GDP	-1.3	-1.7	-1.5	-1.7	-1.7	-2.5	-3.6	-4.2	-4.3
Net Goods & Services (BOP)	-69.9	-98.4	-97.5	-104.3	-104.7	-164.3	-270.5	-341.3	-360.9
Investment Income, Net	26.9	20.3	23.9	21.8	8.2	-7.0	-12.7	-17.3	-24.1
Direct, Net	58.6	54.4	63.8	67.7	69.2	59.4	61.7	74.4	91.2
Portfolio, Net	-31.7	-34.1	-39.9	-46.0	-61.0	-66.4	-74.4	-91.7	-115.3
Other Income & Transfers,Net	-42.2	-43.6	-39.9	-46.7	-46.9	-49.3	-52.4	-53.3	-53.3

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

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OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1996				1997				1998			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.0	-0.8	-1.3	2.1	-0.8	-0.5	-0.8	-0.5	-1.9	-2.0	-0.8	0.3
Exports of G&S	0.3	0.8	0.4	2.9	1.0	1.8	1.3	0.2	-0.2	-0.5	-0.2	1.6
Imports of G&S	-1.3	-1.6	-1.7	-0.8	-1.8	-2.2	-2.1	-0.7	-1.7	-1.6	-0.6	-1.3
Percentage change from previous period, SAAR												
Exports of G&S	2.3	6.9	3.4	29.1	8.8	16.2	11.4	1.8	-1.5	-4.0	-1.7	16.1
Services	-4.0	13.5	-6.7	41.2	-3.6	11.1	7.7	-2.5	1.7	8.8	-8.9	8.7
Agricultural Goods	15.0	-25.3	-4.6	41.3	-18.5	3.3	4.6	29.2	-11.0	-16.3	-16.5	62.7
Computers	40.4	4.9	17.1	26.9	56.1	46.2	28.4	-13.6	-12.9	11.0	19.0	14.5
Semiconductors	24.2	35.2	24.2	110.0	46.2	24.5	26.2	-6.7	1.3	-13.1	25.3	29.4
Other Goods 1/	-0.4	7.0	7.8	17.7	13.6	17.2	11.7	3.5	-1.2	-9.2	0.6	15.6
Imports of G&S	10.8	13.3	14.4	6.3	15.5	19.0	17.6	5.2	14.4	13.0	5.2	10.8
Services	5.7	4.0	11.7	0.0	20.8	8.5	20.7	5.3	16.9	9.6	6.5	1.5
Oil	-9.6	67.4	5.4	-15.3	-7.4	36.4	6.3	-13.0	6.5	42.1	2.4	-24.3
Computers	10.4	21.0	19.2	20.5	45.0	48.5	34.3	6.2	35.7	23.0	11.4	39.4
Semiconductors	30.0	18.9	58.4	146.3	77.6	28.1	28.8	6.1	1.3	-20.1	-3.0	-6.4
Other Goods 2/	13.5	10.2	13.7	4.6	11.9	16.5	15.6	6.9	13.5	12.9	4.9	14.1
Billions of chained 1996 dollars, SAAR												
Net Goods & Services	-75.5	-90.6	-115.8	-73.9	-90.8	-100.9	-118.7	-128.7	-171.7	-218.4	-238.0	-232.3
Exports of G&S	845.6	859.8	867.1	924.2	943.9	979.9	1006.8	1011.2	1007.3	997.2	993.0	1030.8
Imports of G&S	921.1	950.4	982.9	998.1	1034.7	1080.8	1125.5	1139.9	1179.0	1215.6	1231.0	1263.1
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-107.0	-125.8	-153.3	-131.1	-139.6	-125.9	-142.5	-165.9	-172.1	-209.6	-253.9	-246.7
Current Account as % of GDP	-1.4	-1.6	-2.0	-1.6	-1.7	-1.5	-1.7	-2.0	-2.0	-2.4	-2.9	-2.8
Net Goods & Services (BOP)	-89.4	-105.9	-125.9	-96.1	-106.4	-96.8	-102.9	-112.8	-133.4	-167.8	-182.9	-173.1
Investment Income, Net	30.4	21.3	15.1	20.2	9.0	13.7	5.8	4.2	6.1	2.9	-22.5	-14.3
Direct, Net	68.5	64.3	63.6	74.5	66.4	74.7	69.2	66.6	67.3	64.7	47.3	58.2
Portfolio, Net	-38.2	-43.0	-48.5	-54.3	-57.4	-60.9	-63.4	-62.4	-61.3	-61.8	-69.9	-72.5
Other Inc. & Transfers, Net	-48.0	-41.2	-42.5	-55.2	-42.1	-42.9	-45.4	-57.3	-44.8	-44.7	-48.5	-59.3

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

Strictly Confidential (FR) November 10, 1999
Class II FOMC

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1999				Projected 2000				2001			
	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	-2.1	-1.4	-0.9	-0.4	-0.6	-0.9	-0.4	0.1	-0.5	-0.4	-0.3	0.1
Exports of G&S	-0.6	0.4	1.3	0.7	0.2	0.9	0.9	1.2	0.7	1.0	1.0	1.4
Imports of G&S	-1.5	-1.8	-2.3	-1.2	-0.8	-1.8	-1.3	-1.1	-1.2	-1.4	-1.3	-1.2
Percentage change from previous period, SAAR												
Exports of G&S	-5.5	4.0	13.1	6.9	1.7	8.6	8.2	11.6	6.0	9.3	9.3	12.5
Services	4.1	3.2	3.8	4.2	3.0	6.1	4.9	4.7	4.3	4.2	3.8	3.9
Agricultural Goods	-38.1	29.3	20.2	-4.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Computers	-3.1	32.0	28.8	21.5	33.5	46.4	36.0	36.0	36.0	36.0	36.0	36.0
Semiconductors	36.3	40.8	45.9	14.8	33.5	46.4	43.8	43.8	43.8	43.8	43.8	43.8
Other Goods 1/	-9.3	-2.0	14.0	7.6	-3.9	4.5	5.0	11.1	0.9	6.6	6.5	11.9
Imports of G&S	12.5	14.4	17.7	8.6	5.6	13.0	8.9	8.0	8.1	10.2	9.1	8.5
Services	12.1	8.9	1.6	3.4	1.4	5.7	4.2	3.7	3.9	3.8	4.0	4.0
Oil	7.3	25.4	-9.2	-6.1	7.8	24.3	3.9	-6.1	-8.2	31.2	3.2	-11.3
Computers	28.7	52.5	36.5	23.9	33.6	46.4	36.1	36.1	36.1	36.1	36.1	36.1
Semiconductors	18.4	63.5	24.4	12.6	36.0	46.4	46.4	46.4	46.4	46.4	46.4	46.4
Other Goods 2/	11.3	10.3	22.3	9.8	2.8	9.6	6.5	6.0	6.0	6.0	6.1	6.1
Billions of chained 1996 dollars, SAAR												
Net Goods & Services	-284.5	-319.0	-342.7	-354.3	-369.4	-392.0	-402.4	-400.7	-414.4	-426.9	-435.6	-433.1
Exports of G&S	1016.4	1026.4	1058.5	1076.2	1080.7	1103.2	1125.1	1156.4	1173.4	1199.9	1226.9	1263.4
Imports of G&S	1300.9	1345.4	1401.2	1430.5	1450.1	1495.2	1527.5	1557.1	1587.8	1626.8	1662.5	1696.5
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-274.6	-321.8	-357.9	-388.1	-395.4	-411.6	-418.5	-422.3	-426.1	-437.3	-441.0	-449.0
Current Account as % of GDP	-3.0	-3.5	-3.9	-4.1	-4.2	-4.3	-4.3	-4.3	-4.2	-4.3	-4.3	-4.3
Net Goods & Services (BOP)	-215.9	-259.1	-294.3	-312.6	-326.8	-344.5	-349.7	-344.2	-354.0	-362.6	-366.4	-360.6
Investment Income, Net	-11.8	-12.0	-13.0	-14.0	-18.0	-16.5	-18.3	-16.5	-21.5	-24.2	-24.0	-26.8
Direct, Net	59.3	56.4	64.0	66.9	66.2	72.1	75.7	83.6	84.5	87.8	94.3	98.2
Portfolio, Net	-71.1	-68.5	-77.0	-80.9	-84.3	-88.6	-93.9	-100.1	-106.0	-111.9	-118.4	-125.0
Other Inc. & Transfers, Net	-46.9	-50.6	-50.6	-61.6	-50.6	-50.6	-50.6	-61.6	-50.6	-50.6	-50.6	-61.6

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