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Confidential (FR) Class II FOMC

Part 1

December 15, 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 economy continues to barrel ahead, producing hefty increases in output and employment. Our guess is that real GDP growth will approach 5 percent, at an annual rate, in the current quarter, based on solid gains in most categories of spending--domestic and foreign. With rising asset prices continuing to boost wealth and credit remaining readily available, the run-up in interest rates this year has failed to put much of a dent in aggregate demand to this point.

Nonetheless, there are only a few signs that underlying inflation trends are deteriorating. Although the labor market is widely reported to be extremely taut, employers have managed to maintain a strong pace of overall hiring without a step-up in measured wage inflation. This could be at least in part because employers are compensating workers in ways not captured by the available statistics, but we also think that nominal pay increases have been muted by the lagged effects of last year's very low inflation. Furthermore, many firms appear still to be managing to offset increases in labor and other costs through productivity improvements, and "core" inflation rates have remained subdued. That said, a steep rebound in oil prices has left its mark on overall consumer inflation, and the CPI has risen 2-1/2 percent over the past twelve months--up from 1-1/2 percent earlier this year and the highest increase since early 1997.

As we look ahead, we remain optimistic that the economy will continue to enjoy sizable gains in productivity, achieved in large measure through heavy investment in equipment and software. But, especially in light of the recent further rise in the stock market, we also see aggregate demand as having enough momentum that the pressures on labor resources will remain intense and costs will begin to accelerate. Moreover, the tightening of economies abroad and a less buoyant dollar are removing a safety valve that has helped to hold down inflation in this country. In our forecast, even with an assumed firming of the federal funds rate in 2000 that is greater than currently anticipated by the market--and, very importantly, a halt in the rise of equity prices--there is only a modest deceleration in GDP growth, to 3-3/4 percent, and a gradual upcreep in the core inflation rate, to 2-3/4 percent in 2001. Our forecast hinges in part on some relaxation of the prevailing restraint on oil supplies, so that crude prices fall back considerably over the coming year; with that easing, overall CPI inflation is projected to run only around 2-1/4 to 2-1/2 percent in both 2000 and 2001.

The significant uncertainties attending the outlook have not diminished. The oil market is the locus of some of those uncertainties, particularly in the near term: Inventories of oil and refined products are low, and the potential for a further spiking of prices in response to any unusual winter heating requirements is obvious. Of greater concern is the possibility that financial markets will veer off the predicted course to a degree that would materially alter the economic outlook. In this regard, we remain concerned about the vulnerability of the dollar to a sharp depreciation, given the nation's large and growing current account deficit; of course, the consequences of such a depreciation are less than clear, for the inflationary impulse one might normally expect could be offset if the disturbance had seriously negative effects on U.S. securities prices. Even setting aside the possibility of a shock from that sphere, the demonstrated ability of share prices to defy traditional norms of valuation confronts us with the divergent risks of continued exuberance in the equity market or a pronounced market slump.

Key Background Factors

Barring an autonomous stock market slide, we believe that the growth of aggregate demand is unlikely to moderate unless monetary policy applies some additional restraint in the coming months. The yield curve would seem to be conveying the same message, for it suggests that a firming of the funds rate on the order of a half percentage point is anticipated by the end of next year. We have assumed that the FOMC will act somewhat more aggressively than that, in terms of both the timing and the overall dimension of money market tightening. We would have built in still more policy firming were it not for our anticipation that share prices, overall, will post no further appreciable advance, with a string of disappointing profit figures eventually helping to sap investors' New Era enthusiasms.

As in our previous forecast, Treasury bond yields are expected to inch upward over the projection period. This drift reflects not only the assumed actual tightening of monetary policy but also a likely growing market perception that still more tightening may ultimately be needed to fully curb inflationary pressures. In the corporate bond market, spreads over Treasury rates have narrowed of late and may shrink further after remaining century-date-change concerns are eliminated; but they probably will widen a bit thereafter as more businesses encounter cash flow pressures. Banks and other lenders also may become more cautious in their underwriting standards. We are anticipating only moderate movements in that direction, though, and consumers are even less likely than businesses to perceive any curtailment of their access to credit.

The past few weeks have seen remarkable run-ups in the share prices of some established "technology" firms and, even more so, in those of computer and Internet-related IPOs. The share prices of many companies have slipped, but huge gains by the favored few have produced an overall advance in the broad Wilshire 5000 index of a few percent since we finalized our forecast for the November Greenbook. We are anticipating that the market will make little further headway in the coming months and that share prices will average around the current, higher level in 2000-2001.

This is scarcely the only stock market scenario that one can envision, and the recent behavior of equities has not done much to clarify the relative probabilities. The willingness of investors to pay almost any price for companies with Internet stories underscores the bubble-like elements of the market--and the possibility that it will be able to lift itself a good deal further on sheer momentum. On the other hand, we have seen some companies with disappointing earnings experience precipitous declines in market value; these occurrences suggest that, if we are right in forecasting weak earnings growth and a little extra monetary tightening, the market could suffer a substantial setback. Another scenario combines the two possibilities just noted--a further marked inflation of share prices followed by an even more violent deflation, the kind of sequence that obviously is worrying some commentators who are calling for the Fed to let some air out of the bubble as a prophylactic measure. The equity price path we have built into this forecast might be characterized as somewhat on the pessimistic side, in the sense that the implied returns for investors would be even less than the current risk-free rate. If we are right, price-earnings multiples will slip a little, and there will be a considerable drop over time in the household wealth-income ratio--both of these being demand-dampers that reduce the amount of policy firming that might otherwise be needed to contain inflation.

It does not appear that fiscal policy will be much help in curbing aggregate demand in the near term. We had anticipated most of the additional spending that was included in the budget agreement signed by the President; overall, the budget contains the sharpest step-up in discretionary outlays since the 1980s and constitutes a non-negligible stimulus to private spending. In thinking about the fiscal 2001 budget process that lies ahead, we have assumed that the Congress and the Administration will once again stretch the statutory caps on discretionary spending but that they will find it politically difficult to enact an increase in spending anywhere near as large as the one they just enacted. There may some upside risk to our outlay forecast, however: Our projections show on-budget surpluses of $7 billion and $42 billion in fiscal 2000 and 2001, respectively, and if CBO were to move into line with our view of the prospects for economic growth, it could provide baseline assumptions to the Congress that suggest more scope for spending increases or tax reductions than appears likely at this point.

On the external front, we are projecting that foreign real GDP, after rising 4 percent in 1999, will grow 3-1/2 percent in 2000 and 2001. The figure for 2000 is a shade higher than our forecast in the November Greenbook, largely because of an upward revision to European growth. Still, the general contours of the projection are unchanged: Growth in Canada and Mexico moderates along with that in the United States, and activity in the emerging economies of Asia advances less rapidly than in 1999 as they move beyond the early stages of cyclical recovery and struggle with their ongoing structural problems. The incoming data have reinforced our view that the recovery in Japan will be sluggish; and with monetary authorities in Europe keeping a close eye on inflation, we expect that past and prospective rate hikes will prevent a further acceleration in activity there. We continue to assume that the dollar will depreciate about 5 percent by the end of 2001.

The spot price of West Texas intermediate crude oil has been bouncing above the \$25 per barrel mark over the past several weeks, versus the \$23 figure we had assumed in the November Greenbook. We--and apparently the futures markets--believe that OPEC will raise production to head off an expansion of output by non-OPEC producers; however, political considerations, particularly regarding the recent resumption of oil sales by Iraq, probably will keep OPEC from making any major moves before their next scheduled meeting in March. Accordingly, we are anticipating that spot WTI will average nearly \$27 per barrel in the first quarter of 2000 but that OPEC will begin to boost production more substantially in the spring, setting the stage for a downtrend in prices to under \$19 by the end of the projection period.

Recent Developments and the Outlook for the Current Quarter

Real GDP is projected to increase at an annual rate of 4-3/4 percent in the fourth quarter, 3/4 percentage point faster than our forecast in the November Greenbook. This additional strength does not appear to be related to any greater Y2K precautionary stockpiling by businesses and households than we had previously anticipated; rather, it reflects stronger private domestic final demand.

Real consumer expenditures appear to be increasing this quarter at close to the 5 percent average rate of growth that has prevailed for some time now. Household purchases of cars and light trucks have been running close to their third-quarter pace, and retail sales for other goods have posted substantial real gains in the past couple of months. Anecdotal reports suggest that retailers have been pleased with their sales since Thanksgiving.

Housing markets appear to have lost some of their vigor, following the run-up in mortgage rates this year. While single-family starts rebounded in October from September's hurricane-depressed level, permits for the month suggested a weaker pattern. On a quarterly average basis, single-family starts are projected to match their third-quarter pace of 1.30 million units, but given the lagged effect of the

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

Measure	1999:Q4		2000:Q1	
	Nov. GB	Dec. GB	Nov. GB	Dec. GB
Real GDP	**4.1**	**4.8**	**1.5**	**3.2**
Private domestic final purchases	3.7	4.8	2.4	3.2
Personal consumption expenditures	4.1	5.1	2.5	2.8
Residential investment	-2.1	-2.3	-6.4	-6.1
Business fixed investment	3.2	5.6	5.2	9.6
Government outlays for consumption and investment	1.9	3.0	4.6	5.1
MEMO:				
GDP excluding Y2K effects	3.9	4.7	3.7	4.3
	Change, billions of chained (1996) dollars			
Inventory investment	25.1	11.0	-19.6	12.5
Net exports	-11.6	-9.3	-15.1	-24.6

decline in starts this summer and a modest falloff in building in the multifamily sector, total residential investment is expected to be a small negative for growth.

Business fixed investment is projected to decelerate from an annualized growth rate of 12-1/2 percent in the third quarter to a 5-1/2 percent pace in the current quarter. After surging last summer, spending for transportation equipment is expected to flatten as increased shipments of medium and heavy trucks and a pickup in deliveries of aircraft to domestic air carriers are offset by a sharp drop in business fleet sales and consumer leases of motor vehicles. Computer shipments surged in October, and we are projecting that outlays will rise at an annual rate of about 30 percent this quarter; presumably reflecting Y2K influences, this gain is down from the 40 to 50 percent rates of increase observed in recent quarters, but it is much more than we had built into our previous forecast. Orders data point to a moderate gain in spending for equipment other than transportation equipment and computers this quarter. In contrast, the incoming indicators of construction activity point to a further drop in spending for nonresidential structures.

Real government purchases are projected to increase at an annual rate of 3 percent, down from a 4-1/4 percent rise in the third quarter. The slower growth largely reflects developments in the federal sector, as defense purchases are expected to fall back from an elevated third-quarter level. In the state and local sector, hiring and construction activity appear to be maintaining solid uptrends, and overall purchases are projected to continue rising at a 4 percent annual rate.

A pickup in inventory investment is projected to boost real GDP growth in the current quarter by 1/2 percentage point, compared with the 1 percentage point contribution in the last forecast. Book-value figures for manufacturing and trade are available only through October, and these show stockbuilding outside of motor vehicles differing little from the third-quarter pace. We are still anticipating that Y2K precautions will add to the inventory accumulation this quarter, but to a lesser degree than we previously allowed for.[1]

Given the available information on U.S. industrial production, it seems likely that if there is a major upside surprise in inventories relative to our projection, there would be at least some offset in a weaker trade balance--probably stronger imports. Net exports are, at this point, a complete wild card in our assessment of the current-quarter GDP picture, with the October trade report not coming out until tomorrow. We expect that both exports and imports will rise at robust rates in the fourth quarter--though not so rapidly as in the third. U.S. manufacturers' bookings of foreign orders reportedly have been rising appreciably, and the strong growth in the U.S. economy should continue to spur the demand for imported goods. Overall, net exports are projected to decline further this quarter, reducing GDP growth 0.4 percentage point--but this drag is about half that experienced in the third quarter and well below the 1-3/4 percent negative contribution of net exports during the first half of the year.

At this point, we perceive no serious tension between the indicators of spending and the available labor market data. Payroll employment and production-worker hours posted sizable gains in October and November, and given the continued low levels of initial claims for unemployment insurance benefits and other indicators, hiring likely has continued at a solid pace in December. All told, we are looking for hours worked in the nonfarm business (NFB) sector to increase at

1. Looking through the detail in the October book-value data, we could find only a couple of industries--namely manufacturers of food products and wholesale drug distributors--in which inventory investment was elevated and Y2K-related stockbuilding might be expected somewhere in the distribution channel. Furthermore, sifting through the industrial production data indicates only scattered cases--the most notable being coal mining--in which Y2K considerations may be important. However, C&I lending has been very strong this quarter; informal contacts with banks indicate that some borrowers may have increased their demand for funds in order to build up inventories for Y2K.

an annual rate of about 2-1/4 percent this quarter. These hours will support our output forecast if NFB productivity increases 3-1/4 percent, a figure not unduly far above what we believe to be the current pace of structural improvements in business efficiency.

Except for developments on the energy front, the data on prices and wages that we have received since the November Greenbook have contained no great surprises. The CPI excluding food and energy is projected to rise at an annual rate of 2-1/2 percent in the fourth quarter, up from the third quarter's figure of 1.6 percent, as the data in hand point to a faster increase in service prices--including some step-up in owners' equivalent rent--in the wake of a very low third-quarter number. Reflecting higher energy prices, the headline CPI will increase at an annual rate of about 3 percent on a quarterly average basis. As for wages, although the November increase in average hourly earnings was on the low side, October was revised upward and the twelve-month change, at 3-1/2 percent, remained--as we expected--in the middle of the fairly narrow range that has prevailed since early this year.

The Outlook for Economic Activity beyond the Current Quarter

Real GDP is projected to increase at an annual rate of 3-1/4 percent in the first quarter of 2000, 1-3/4 percentage points faster than forecast in the November Greenbook. Roughly 1 percentage point of this upward revision comes from the scale-back in our Y2K assumptions, which results in a smaller negative offset to growth in the first quarter (that is, the reduction to growth from the drop-back in inventory investment and PCE from their temporarily elevated fourth-quarter rates). Our new fiscal assumptions also provide a bit of an extra boost to spending, but the bulk of the remaining 3/4 percentage point of the revision reflects a greater degree of forward momentum of private demand, generated in part by the effects of the higher stock market.

Looking beyond the first quarter, real final sales are projected to increase about 3-3/4 percent in both 2000 and 2001, after rising 4 percent this year. All of these figures are roughly a quarter point higher than in the last forecast, but the general story remains the same: Higher interest rates and a flattening stock market damp domestic demand enough to more than offset the positive impulse to growth from a slowing decline in our net export balance. Inventory investment is a neutral influence on GDP growth over the next two years, on the assumption that firms will be unable or unwilling to trim their stock-sales ratios as fast as they have in the past year or so.

This modest slowing of the economic expansion is insufficient to ease pressures on resources. The jobless rate likely will remain near 4 percent; and with manufacturing benefiting from the improvement in net exports, capacity

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

Measure	1999:H2	2000:H1	2000:H2	2001
Real GDP	**5.2**	**3.7**	**3.8**	**3.8**
Previous	4.8	3.2	3.7	3.5
Final sales	4.2	3.4	4.0	3.8
Previous	3.6	3.3	3.8	3.6
PCE	4.8	4.0	3.9	3.4
Previous	4.2	3.8	3.7	3.3
Residential investment	-3.7	-5.6	-4.9	-2.8
Previous	-2.6	-6.5	-5.0	-2.9
BFI	9.0	8.8	9.4	9.9
Previous	8.3	7.9	9.3	9.9
Government purchases	3.7	4.5	2.5	2.8
Previous	3.0	4.2	2.6	2.7
Exports	9.0	4.6	9.5	9.1
Previous	9.9	5.1	9.9	9.2
Imports	11.6	9.9	8.1	8.3
Previous	13.1	9.2	8.5	9.0
	Change, billions of chained (1996) dollars			
Inventory change	17.7	6.0	-5.7	-3.3
Previous	23.6	-1.4	-1.8	-9.3
Net exports	-15.1	-22.3	-4.1	-24.0
Previous	-17.7	-18.8	-4.4	-32.4

utilization in that sector should edge upward. Factoring in the dollar and other influences, the outlook generally has an inflationary tilt.

Consumer spending. Real PCE growth is projected to move down from a 5-1/4 percent pace in 1999 to about 4 percent in 2000 and 3-1/2 percent in 2001. The impetus to spending from earlier increases in wealth should run its course as we move through next year; after that, the drag from the projected decline in the ratio of wealth to income should dominate. Consequently, after boosting real PCE about 1 percentage point in 1998 and 1999, direct wealth effects may add just 1/3 percentage point to real PCE growth in 2000 and reduce it about 1/3 percentage point in 2001.[2]

The projected slowing in spending growth involves more than these direct wealth effects. The strength of the economy for some time now likely has ratcheted up households' perceptions of their "permanent" income. Such a change would be expected to produce a surge in expenditures--financed in many cases by borrowing--as households adjust up their holdings of durable goods in accordance with the improved prospects for earnings; it would be followed by a weakening of outlays after stocks have reached levels that provide the desired flows of consumption services. This pattern is most apparent in our forecast of consumer expenditures on motor vehicles, which are projected to fall about 1 percent per year in 2000 and 2001 after rising at an annual rate of about 9 percent over the previous two years. Spending on furniture and appliances is also expected to soften, in part reflecting reduced home sales. The slowing in spending growth may be less pronounced for home electronics, where continued technological advances and related price declines should buoy demand, and in nondurables and services, where stock adjustment factors play only a minor role in determining demand.

Residential investment. Single-family starts are projected to tail off only a little in the next few months. Builders' backlogs likely are still substantial. Mortgage rates, though up considerably from their lows, are high only by the most recent standards--and the ability to turn to a variety of adjustable rate loans with lower initial rates has provided many homebuyers with a means of holding down monthly payments. Moreover, especially at the higher end of the market, the huge gains in the stock market are providing a boost to housing demand.

Looking further ahead, the flattening of the yield curve that we are projecting will diminish the perceived advantages of ARMs, and the stock market will begin to provide less impetus; in time, a slowing of employment growth will take some additional toll. We therefore project that single-family starts will fall to about 1.2 million units in 2001, a drop of about 10 percent from this year's pace. Multifamily starts also are expected to fall off, and we are projecting that total real residential investment will decline more than 5 percent next year and 2-3/4 percent in 2001.

Business fixed investment. Business fixed investment is projected to continue growing rapidly over the projection period--roughly 9-1/2 percent per year.

2. These wealth effects are calculated relative to a baseline in which the wealth-to-income ratio remains at its level in the fourth quarter of 1994.

Increases in spending on equipment are expected to remain robust, but overall investment in structures should be sluggish for some time to come.

Although corporate cash flows will be under some pressure, external financing conditions remain generally accommodative in our forecast, and declining prices for many types of high-tech equipment will continue to spur investment. We expect that outlays for computing and communications equipment will register further impressive increases. In addition, judging from orders trends, spending for industrial and electrical generating equipment should grow at least moderately for a while. On the negative side, we believe that the cyclical peak in motor vehicle outlays has passed: Purchases of vehicles for lease to consumers will likely fall off along with other auto sales, and orders for medium and heavy trucks have weakened. Commercial aircraft deliveries are also slated to decline through 2001.

Investment in nonresidential structures is expected to be relatively weak on the whole. Construction of office buildings has been on an uptrend over the past several years, but going forward we expect growth to be slower in this sector. Contracts for new office construction have dropped off convincingly in recent months, apparently reflecting the awareness of market participants--including financiers--that a substantial new supply is already in train. Construction of other commercial buildings is expected to edge off, although a collapse in outlays is unlikely given the expansion plans of "big box" retailers and the ongoing demand for warehousing facilities to accommodate new distribution systems. In contrast, given our outlook for manufacturing capacity utilization, spending for industrial structures is expected to continue declining.

Business inventories. After boosting real GDP growth in the current quarter, nonfarm inventory investment is projected to contribute another 1/2 percentage point to growth in the first quarter of 2000. This contrasts with a negative swing in the last Greenbook, reflecting our judgment that there will be less of a Y2K buildup to unwind and that firms will likely wish to step up stockbuilding in response to the faster growth in final sales. As consumer demand slackens over time, inventory accumulation likely will slow somewhat, with that tendency reinforced by the ongoing streamlining of production and distribution processes. In the farm sector, stocks are expected to edge up slightly in 2000 and 2001 as output grows modestly; we are assuming that farmers will not trim planting as much as they otherwise would in response to low crop prices because repeated emergency appropriations probably have given them some greater confidence that their incomes will be supported.

Government spending. Total real federal purchases are projected to rise at an annual rate of 5 percent in the first half of 2000, contributing 1/4 percentage point to real GDP growth over this period. This spurt in growth largely reflects the step-up in spending allocated by the fiscal 2000 budget.[3] However, we expect that after that pickup, real federal purchases will be relatively flat over the remainder of the forecast period.

The current fiscal positions of most state and local governments are quite healthy. Furthermore, the continued solid performance of the economy should keep tax revenues growing appreciably, and--as evidenced by the fiscal 2000 budget--generous grants-in-aid can be expected from the federal government. Given this ample funding, we project that growth in real state and local consumption and investment spending should run close to the sizable 4-1/4 percent increase we expect to be recorded in 1999.

Net exports. Our projections for exports and imports have not changed much from the November Greenbook. The maintenance of solid growth abroad and the downtilt in the dollar are expected to push up real exports about 8 percent per year, on average, over the next two years, up from a 4 percent gain in 1999. At the same time, real import growth is projected to move down from the sharp 12-1/2 percent gain recorded in 1999, to around 8-1/2 percent in 2000 and 2001. On balance, declining real net exports are projected to reduce U.S. GDP growth 1/2 percentage point in 2000 and 1/4 percentage point in 2001, much less than the 1-1/4 percentage point negative contribution in 1999. (A fuller discussion of the forecast for net exports is contained in the International Developments section.)

Labor markets. It now appears that labor productivity in the nonfarm business sector, as conventionally measured, will rise close to 3 percent over the course of this year, and with only a little slowing in GDP growth, we are projecting increases of 2-3/4 percent in 2000 and 2001. Gains in private payrolls are projected to moderate as output decelerates, from about 2-1/4 million this year to about 1.7 million in 2001.

Although there have been some considerable fluctuations, the labor force participation rate has changed little, on balance, over the past three years. The absence of an uptrend over this period has been somewhat surprising, given the tightness in labor markets, the rise in real wages, and the implementation of welfare reform. We are projecting only a minimal uptick in the participation rate from the 67.0 level of the past couple of months. Coupled with our employment

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3. Given the appropriations bills already signed and our readings of the political winds, we had already assumed in the November Greenbook a 4-1/2 percent (annual rate) increase in real federal purchases in the first half of 2000.

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	2.9	2.8	2.8
Previous	3.1	2.5	2.8	2.7
Nonfarm payroll employment	2.4	2.1	1.8	1.5
Previous	2.4	2.1	1.5	1.3
Household employment survey	1.3	1.4	1.2	1.0
Previous	1.3	1.4	1.3	1.0
Labor force participation rate[1]	67.1	67.0	67.1	67.1
Previous	67.1	67.0	67.1	67.1
Civilian unemployment rate[1]	4.4	4.1	4.0	4.1
Previous	4.4	4.1	4.0	4.2

1. Percent, average for the fourth quarter.

forecast, the jobless rate is not expected to move significantly from the recent level.

Wages and prices. The general contours of the wage and price forecasts are little changed from the November Greenbook, with both compensation and core consumer price inflation projected to move up over the next couple of years. Given the higher path we have assumed for crude oil prices, overall consumer price inflation measures are likely to remain elevated through the early part of next year; but they are projected, in due course, to slow somewhat from this year's pace.[4]

An important element in our forecast is the assumption that the beneficial influences of earlier declines in inflation are now behind us. In light of this consideration, increases in nominal pay rates seem likely to be larger in the period ahead. The ECI is projected to accelerate considerably, with private industry compensation rising 3-3/4 percent in 2000 and 4 percent in 2001, versus 3-1/4 percent this year. The pickup occurs in both wages and benefits, the latter reflecting in part the influence of bigger increases in the cost of health

4. As a rough rule of thumb, a permanent increase of $5 per barrel in the price of oil would increase consumer inflation roughly 1/4 percentage point in both the first and the second years after the price rise. (This rule of thumb is based on a simulation of the FRB/US model, assuming no change in the nominal federal funds rate.)

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

Measure	1998	1999	2000	2001
Consumer price index	1.5	2.6	2.3	2.5
Previous	1.5	2.6	2.3	2.4
Food	2.2	1.9	2.3	2.6
Previous	2.2	1.9	2.2	2.4
Energy	-9.2	11.3	-0.6	-1.3
Previous	-9.2	10.6	-0.7	-0.7
Excluding food and energy	2.4	2.1	2.5	2.8
Previous	2.4	2.1	2.5	2.7
PCE chain-weighted price index	1.0	2.0	1.9	2.1
Previous	1.0	2.0	1.8	2.0
Excluding food and energy	1.4	1.5	1.9	2.2
Previous	1.4	1.6	1.9	2.1
GDP chain-weighted price index	1.1	1.5	1.8	1.9
Previous	1.1	1.5	1.8	1.9
ECI for compensation of private industry workers[1]	3.5	3.3	3.7	4.1
Previous	3.5	3.3	3.7	4.0
NFB compensation per hour	5.3	4.5	4.7	4.9
Previous	5.1	4.3	4.5	4.7
Prices of core non-oil merchandise imports	-1.9	.6	2.6	2.3
Previous	-1.9	.5	2.7	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.

insurance.[5] The ECI undoubtedly is understating labor costs because of its omission of stock options and various cash payments that are categorized as recruiting expenses. With regard to NFB compensation per hour, which attempts to measure these factors, we are projecting a small acceleration--from an increase of 4-1/2 percent in 1999 to closer to 5 percent in 2001--in part because we think that stock option realizations may not increase so rapidly as in recent years. This aspect of our forecast has some upside risk, but it may not be terribly significant in terms of the implications for price pressures because realizations of option income probably are only loosely related to the perceived short-run marginal costs of business operations.

Our projection for core inflation is little changed from the November Greenbook. Core CPI inflation is projected to move up considerably from a little more than 2 percent in 1999 to 2-1/2 percent in 2000 and 2-3/4 percent in 2001. In addition to mounting labor cost pressures, core inflation is expected to be boosted in the near term by the pass-through of higher energy prices (indeed, airlines and trucking firms already have announced plans to raise prices to recover fuel costs) and, on a more persistent basis, by the upswing in nonoil import prices. We believe that the upturn in the core crude and intermediate PPIs this year is in part a reflection of these external developments, as well as of the firming of utilization rates in some materials manufacturing industries in this country.

Energy prices could be quite volatile through the winter months. Even without any weather-related spike, we think that consumer energy price increases likely will far outstrip core CPI inflation in the first quarter. However, given our assumed path for oil prices and the continued beneficial effects of increased competition in domestic utility industries, CPI energy prices should begin to recede next spring and trend downward through 2001. Increases in consumer food prices are expected to run close to core inflation over the next two years, as they usually do in the absence of dramatic developments in prices at the farm level.

All told, after increasing 2-1/2 percent in 1999, the total CPI is projected to rise between 2-1/4 and 2-1/2 percent in 2000 and 2001, about the same as in the November Greenbook. The pattern for the PCE price indexes is broadly similar, but on a lower plane. However, the GDP price index is expected to rise a little faster in 2000-2001 than in 1999, owing to the differential effects of import

5. Some of the acceleration in the ECI reflects our assumption that the federal minimum wage will be raised 35 cents in April 2000 and again in January 2001. The increase boosts the four-quarter change in the ECI for wages and salaries about 0.2 percentage point in both years, and the change in the ECI for total compensation between 0.1 and 0.2 percentage point.

prices on this measure of domestic production prices versus those on domestic expenditure prices.

Money and Credit Flows

Domestic nonfinancial sector debt is increasing faster this quarter than anticipated in the November Greenbook. Looking ahead, debt growth is projected to moderate, though the upward revision to GDP growth in this forecast has caused us to revise up slightly the growth of domestic nonfinancial debt to 5 percent in 2000 and 4-1/2 percent in 2001.

Business debt accelerated in November and appears to have grown substantially through the early part of this month. Corporate bond issuance picked up after a lull in October, although investors have continued to show a considerable preference for large, liquid offerings. C&I loans at banks have surged in recent weeks. Some large banks indicated to Board staff that, besides financing capital outlays, firms have increased their demand for funds to build up liquid asset positions for Y2K. Firms have also tapped the commercial paper market, though they continue to avoid placing paper with maturities around the final days of this year or in early January.

A build-up of liquid assets this quarter may reduce borrowing in the first several months of next year, and we expect that business debt growth generally will tend to moderate a little over the course of 2000 and 2001. Although the gap between investment outlays and internal cash flow is expected to widen as a result of sluggish profit growth, borrowing to finance equity retirements is projected to slacken. Merger activity may fall off from its recent astronomical pace, and share repurchases appear to have begun to diminish.

We anticipate that credit conditions for businesses will become only a little less accommodative over the forecast period. Perceived real rates of interest are likely to rise just a bit, and price-earnings ratios are projected to recede only moderately on average. Junk bond defaults have risen this year, as have delinquency rates for C&I loans--though the latter remain quite low. Indicators of credit quality probably will deteriorate further, but that movement should not be great, unless profitability weakens more than we have anticipated. To some extent, the bond markets probably are already pricing in some higher default risk--especially in the junk sector. And banks have apparently been firming their lending standards a little, with encouragement of late from their supervisors.

The growth of household debt has remained brisk. Although debt growth is projected to diminish in line with the slowing of housing activity and spending on big-ticket durable goods, it is expected to outpace gains in disposable income, and debt-service burdens are likely to edge up. Current measures of credit quality on home mortgages have shown no signs of deterioration, and although credit card delinquency rates remain high, they have not changed appreciably for some time. We do not anticipate significant erosion of credit quality or tightening of credit availability over the forecast period.

State and local debt is projected to rise less than 3 percent in each of the next two years, though bond issuance for education and infrastructure projects will remain considerable. Higher interest rates should damp advance refundings.

Treasury borrowing in the fourth quarter has been boosted by a desire to shore up cash holdings as a Y2K precaution. We expect that the Treasury's year-end cash balance will exceed its announced target level of $70 billion, although this prediction hinges on highly uncertain forecasts of tax receipts in the coming days. We expect the rate of decline of federal debt to pick up substantially after the turn of the year and to remain rapid through 2001.

The public's holdings of currency have built up recently at a slightly faster rate than that in previous years, probably reflecting, at least to some degree, Y2K demands. Nonetheless, M2 growth has remained moderate, restrained by a rise in its opportunity cost; M2 is expected to post a 6 percent growth rate for the year, somewhat above its annual range of 1 to 5 percent. M3 surged last month, reflecting the funding of strong bank asset growth and some Y2K-related investments in institution-only money funds; M3 is expected to grow 7-1/2 percent over 1999 as a whole, above its annual range of 2 to 6 percent. Looking to 2000 and 2001, rising short-term interest rates are likely to damp M2 growth and induce some rise in its velocity. The rate of increase in M3 is projected to slow as well but still to outpace that of nominal GDP.

Alternative Simulations

We have included four simulations using the FRB/US econometric model in this Greenbook. The first two scenarios consider alternative paths for the federal funds rate: The "flat funds rate" alternative assumes that the nominal funds rate remains at its current level through the end of 2001; the "tighter policy" scenario assumes that the funds rate is raised to 7 percent by the third quarter of 2000 and stays at that level over the remainder of the forecast period. The next two simulations consider alternative paths for stock prices: The "16,000 Wilshire" alternative has equity prices rising at an annual rate of a little more than 10 percent over the next two years (leaving the Wilshire 5000 at 16,000 by late 2001); the "20 percent stock price decline" alternative assumes that the Wilshire index falls 20 percent by March 2000 and then is unchanged at this lower level through the end of 2001. In both stock market scenarios, the nominal federal funds rate is held at the path assumed in the baseline Greenbook forecast.

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

Measure	2000	2001
Real GDP		
Baseline	3.8	3.8
Flat funds rate	4.0	4.7
Tighter policy	3.3	2.7
16,000 Wilshire	4.0	4.6
20 percent stock price decline	2.8	2.8
Civilian unemployment rate[1]		
Baseline	4.0	4.1
Flat funds rate	3.9	3.7
Tighter policy	4.2	4.7
16,000 Wilshire	3.9	3.8
20 percent stock price decline	4.2	4.7
CPI excluding food and energy		
Baseline	2.5	2.8
Flat funds rate	2.6	3.2
Tighter policy	2.4	2.2
16,000 Wilshire	2.5	2.9
20 percent stock price decline	2.5	2.6

1. Average for the fourth quarter.

Given the uptilt of inflation in our forecast, a flat nominal federal funds rate puts real short-term interest rates on a downward path throughout the projection period. Furthermore, according to the relationships embodied in the FRB/US model, other financial conditions--notably real long-term interest rates, equity values, and the real exchange value of the dollar--also are more stimulative than in the baseline. As a result, output growth in this scenario runs above potential, and the unemployment rate falls well below 4 percent; core CPI inflation rises to above 3 percent in 2001 and would increase even more if the simulation were run out further.

In contrast, in the tighter policy scenario, the higher short-term interest rates and the endogenous response of other financial variables push the unemployment rate up to 4.7 percent by the end of 2001. Even though the unemployment rate remains fairly low, core inflation falls to about 2-1/4 percent in 2001, roughly the same as the pace we have seen over the past two years. This outcome largely reflects the expectations formation process in the FRB/US model: Households and businesses take the more aggressive tightening as a signal that the monetary authority will not tolerate a step-up of inflation and lower their expectations of future inflation accordingly. Absent a reduction in the funds rate, inflation would be heading down, and the unemployment rate trending upward in 2002 and beyond.

The more bullish stock market in the 16,000 Wilshire alternative results in real GDP growth and a path for the unemployment rate that are close to those in the flat federal funds rate alternative. However, core CPI inflation is only a little higher than in the baseline--and well below inflation in the looser monetary policy alternative. As we have noted in the past, according to the model, businesses and households believe that the Fed would react to the higher growth under this alternative by eventually tightening monetary policy to choke off the rise in inflation. In contrast, inflation expectations run much higher in the flat federal funds rate case because the looser monetary policy in that scenario is taken as a signal that the central bank is willing to accept a higher path for inflation.

Finally, in the simulation of a 20 percent decline in equity prices, real GDP growth is pushed down 1 percentage point below baseline in 2000 and 2001. By the end of the simulation, the unemployment rate has risen to 4.7 percent, and the inflation rate has fallen to 2.6 percent, 0.2 percentage point below the baseline. Again, because the federal funds rate is held at its baseline path, inflation expectations are higher--and the reduction in actual inflation is less pronounced--in this scenario than in the tighter monetary policy simulation.

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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]	
		11/10/99	12/15/99	11/10/99	12/15/99	11/10/99	12/15/99	11/10/99	12/15/99	11/10/99	12/15/99
ANNUAL											
1997		6.2	6.2	4.5	4.5	1.7	1.7	2.3	2.3	4.9	4.9
1998		5.5	5.5	4.3	4.3	1.2	1.2	1.6	1.6	4.5	4.5
1999		5.4	5.5	3.9	4.0	1.4	1.4	2.2	2.2	4.2	4.2
2000		5.3	5.7	3.6	4.0	1.7	1.7	2.5	2.6	4.1	4.0
2001		5.5	5.6	3.6	3.8	1.8	1.8	2.4	2.3	4.1	4.1
QUARTERLY											
1998	Q1	7.7	7.7	6.7	6.7	1.0	1.0	1.0	1.0	4.6	4.6
	Q2	3.4	3.4	2.1	2.1	1.1	1.1	1.7	1.7	4.4	4.4
	Q3	5.4	5.4	3.8	3.8	1.4	1.4	1.7	1.7	4.5	4.5
	Q4	7.0	7.0	5.9	5.9	0.9	0.9	1.7	1.7	4.4	4.4
1999	Q1	5.7	5.7	3.7	3.7	2.0	2.0	1.5	1.5	4.3	4.3
	Q2	3.3	3.3	1.9	1.9	1.3	1.3	3.4	3.4	4.3	4.3
	Q3	6.3	6.6	5.4	5.6	1.0	1.2	2.7	2.7	4.2	4.2
	Q4	5.9	6.4	4.1	4.8	1.7	1.7	3.0	2.9	4.1	4.1
2000	Q1	3.6	5.4	1.5	3.2	2.1	2.1	2.0	2.6	4.1	4.1
	Q2	6.8	5.9	5.0	4.3	1.7	1.6	2.4	2.3	4.0	4.0
	Q3	5.6	5.5	3.8	3.8	1.7	1.7	2.2	1.9	4.0	4.0
	Q4	5.3	5.4	3.6	3.8	1.7	1.6	2.4	2.2	4.0	4.0
2001	Q1	5.7	5.9	3.5	3.8	2.1	2.1	2.3	2.3	4.1	4.1
	Q2	5.3	5.6	3.5	3.8	1.8	1.8	2.6	2.6	4.1	4.1
	Q3	5.3	5.6	3.5	3.8	1.8	1.9	2.4	2.5	4.2	4.1
	Q4	5.4	5.7	3.5	3.8	1.8	1.8	2.5	2.6	4.2	4.1
TWO-QUARTER[3]											
1998	Q2	5.5	5.5	4.4	4.4	1.1	1.1	1.4	1.4	-0.3	-0.3
	Q4	6.2	6.2	4.8	4.8	1.1	1.1	1.7	1.7	0.0	0.0
1999	Q2	4.5	4.5	2.8	2.8	1.7	1.7	2.5	2.5	-0.1	-0.1
	Q4	6.1	6.5	4.8	5.2	1.4	1.4	2.8	2.8	-0.2	-0.2
2000	Q2	5.2	5.7	3.2	3.7	1.9	1.9	2.2	2.5	-0.1	-0.1
	Q4	5.5	5.4	3.7	3.8	1.7	1.7	2.3	2.1	0.0	0.0
2001	Q2	5.5	5.7	3.5	3.8	1.9	1.9	2.4	2.4	0.1	0.1
	Q4	5.4	5.7	3.5	3.8	1.8	1.8	2.5	2.6	0.1	0.0
FOUR-QUARTER[4]											
1997	Q4	5.9	5.9	4.3	4.3	1.6	1.6	1.9	1.9	-0.6	-0.6
1998	Q4	5.9	5.9	4.6	4.6	1.1	1.1	1.5	1.5	-0.3	-0.3
1999	Q4	5.3	5.5	3.8	4.0	1.5	1.5	2.6	2.6	-0.3	-0.3
2000	Q4	5.3	5.6	3.5	3.8	1.8	1.8	2.3	2.3	-0.1	-0.1
2001	Q4	5.4	5.7	3.5	3.8	1.9	1.9	2.4	2.5	0.2	0.0

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

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

Item	Units[1]	1993	1994	1995	1996	1997	1998	1999 (Projected)	2000 (Projected)	2001 (Projected)
EXPENDITURES										
Nominal GDP	Bill. $	6642.3	7054.3	7400.5	7813.2	8300.8	8759.9	9237.9	9767.1	10317.4
Real GDP	Bill. Ch. $	7054.1	7337.8	7537.1	7813.2	8165.1	8516.3	8854.5	9209.4	9559.7
Real GDP	% change	2.2	4.2	2.2	4.2	4.3	4.6	4.0	3.8	3.8
Gross domestic purchases		2.8	4.4	1.7	4.4	4.9	5.7	5.0	4.1	3.8
Final sales		2.3	3.3	3.0	4.0	3.8	4.7	4.1	3.7	3.8
Priv. dom. final purchases		3.8	4.3	3.3	4.6	4.8	6.4	5.6	4.3	4.1
Personal cons. expenditures		2.9	3.6	2.8	3.3	4.2	5.1	5.3	4.0	3.4
Durables		9.3	6.4	3.7	5.0	8.4	13.0	9.1	4.7	3.7
Nondurables		2.6	4.1	2.5	3.2	2.4	5.0	5.5	2.8	2.3
Services		1.9	2.9	2.8	3.0	4.2	3.6	4.5	4.4	3.8
Business fixed investment		8.7	9.2	7.5	12.1	9.6	13.1	8.2	9.1	9.9
Equipment & Software		11.5	12.0	8.9	11.8	11.3	16.8	12.4	12.0	12.4
Nonres. structures		1.2	1.1	3.2	12.8	4.8	2.9	-4.5	-0.7	1.2
Residential structures		7.8	4.0	-1.5	5.6	3.7	11.3	2.5	-5.2	-2.8
Exports		4.5	10.6	9.7	9.9	9.4	1.9	4.0	7.0	9.1
Imports		10.5	12.1	5.0	11.2	14.2	10.8	12.5	9.0	8.3
Gov't. cons. & investment		-0.9	0.2	-0.8	2.7	2.2	2.2	3.4	3.5	2.8
Federal		-5.3	-3.7	-5.3	2.0	0.2	0.6	1.7	2.2	0.5
Defense		-6.4	-5.9	-4.7	0.8	-1.3	-1.1	0.2	0.2	0.6
State & local		2.3	2.8	2.1	3.1	3.4	3.2	4.3	4.2	4.0
Change in bus. inventories	Bill. Ch. $	20.0	66.8	30.4	30.0	69.1	74.3	38.0	58.2	51.7
Nonfarm		28.6	53.6	42.6	22.2	66.2	73.2	37.6	57.5	50.4
Net exports		-59.9	-87.6	-79.2	-89.0	-109.8	-215.1	-323.2	-393.3	-422.7
Nominal GDP	% change	5.0	6.2	4.3	6.0	5.9	5.9	5.5	5.6	5.7
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	110.7	114.1	117.2	119.6	122.7	125.8	128.6	131.1	133.1
Unemployment rate	%	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.1
Industrial prod. index	% change	3.4	6.4	3.5	5.3	6.8	2.9	4.2	3.5	3.7
Capacity util. rate - mfg.	%	80.5	82.5	82.6	81.5	82.4	80.9	79.7	80.3	81.2
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	16.74	16.57	15.86
North Amer. produced		11.71	12.88	12.82	13.35	13.09	13.47	14.24	14.03	13.69
Other		2.15	2.13	1.90	1.70	1.92	2.04	2.50	2.53	2.17
INCOME AND SAVING										
Nominal GNP	Bill. $	6666.7	7071.1	7420.9	7831.2	8305.0	8750.0	9223.3	9748.3	10290.3
Nominal GNP	% change	4.9	6.2	4.4	5.9	5.7	5.6	5.5	5.5	5.6
Nominal personal income		3.7	5.1	4.3	5.9	6.4	6.0	5.9	5.4	5.8
Real disposable income		0.9	3.0	1.7	2.8	4.1	4.2	3.6	3.5	3.7
Personal saving rate	%	7.1	6.1	5.6	4.8	4.5	3.7	2.4	1.7	1.9
Corp. profits, IVA & CCAdj.	% change	18.0	12.5	11.2	11.2	10.2	-2.2	9.4	3.8	3.9
Profit share of GNP	%	7.6	8.1	9.0	9.6	10.1	9.7	9.6	9.5	9.4
Excluding FR Banks		7.4	7.8	8.7	9.3	9.8	9.4	9.4	9.3	9.1
Federal surpl./deficit	Bill. $	-274.1	-212.3	-192.0	-136.8	-48.8	46.9	119.4	148.5	199.7
State & local surpl./def.		1.5	8.6	15.3	21.4	27.5	41.7	46.8	60.5	55.9
Ex. social ins. funds		-2.7	4.0	11.4	18.7	26.4	40.8	46.0	59.7	55.1
Gross natl. saving rate	%	15.6	16.3	16.9	17.2	18.3	18.8	18.8	18.5	18.8
Net natl. saving rate		3.7	4.2	5.1	5.7	7.1	7.5	7.3	7.1	7.5
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	1.9	1.6	1.8
CPI		2.7	2.6	2.7	3.1	1.9	1.5	2.6	2.3	2.5
Ex. food and energy		3.1	2.8	3.1	2.6	2.2	2.4	2.1	2.5	2.8
ECI, hourly compensation[2]		3.6	3.1	2.6	3.1	3.4	3.5	3.3	3.7	4.1
Nonfarm business sector[3]										
Output per hour		-0.7	1.2	1.2	2.5	2.2	3.1	2.9	2.8	2.8
Compensation per Hour		1.3	2.2	2.7	3.2	4.2	5.3	4.5	4.7	4.9
Unit labor cost		2.0	0.9	1.5	0.7	2.0	2.1	1.6	1.9	2.1

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)

December 15, 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		5.6	3.2	7.3	3.4	8.7	6.9	4.0	6.0	7.2	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	4.8	0.6	6.6	13.9	13.6	8.1	9.8	12.8	5.6
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	6.5	6.7	6.9	6.9	2.4	3.0	2.9	3.3	2.0	4.7
Capacity util. rate - mfg.	%	81.9	82.2	82.5	82.7	82.0	81.0	80.3	80.2	79.6	79.6
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	16.21	16.74
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	2.26	2.43
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		0.9	3.3	3.3	1.2	4.4	0.9	3.1	4.1	2.7	0.6
Compensation per hour		3.6	2.6	4.4	6.4	4.8	5.6	6.2	4.6	4.2	4.8
Unit labor cost		2.7	-0.6	1.0	5.1	0.4	4.6	3.0	0.5	1.4	4.2

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

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

December 15, 1999

		Projected									
sm	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. $	9293.5	9439.3	9564.7	9703.8	9835.2	9964.6	10107.5	10245.0	10386.2	10531.0
Real GDP	Bill. Ch. $	8898.5	9002.8	9073.6	9168.6	9254.4	9340.8	9427.5	9515.1	9603.3	9692.9
Real GDP	% change	5.6	4.8	3.2	4.3	3.8	3.8	3.8	3.8	3.8	3.8
Gross domestic purchases		6.2	4.9	4.1	4.9	4.0	3.6	4.0	4.0	3.8	3.5
Final sales		4.2	4.2	2.6	4.3	3.9	4.1	3.8	3.5	3.7	4.1
Priv. dom. final purchases		5.1	4.8	3.2	5.2	4.4	4.3	4.3	4.1	4.1	4.0
Personal cons. expenditures		4.5	5.1	2.8	5.2	4.0	3.8	3.5	3.3	3.3	3.3
Durables		7.5	7.6	5.7	5.6	4.6	2.8	3.2	3.3	3.3	4.9
Nondurables		3.5	6.3	0.4	5.0	3.1	2.9	2.5	2.3	2.3	2.1
Services		4.5	4.0	3.5	5.3	4.4	4.4	4.1	3.8	3.7	3.6
Business fixed investment		12.4	5.6	9.6	7.9	9.1	9.6	10.0	9.6	10.1	10.0
Equipment & Software		17.0	9.0	13.4	10.6	11.8	12.3	12.5	12.1	12.6	12.4
Nonres. structures		-1.6	-5.1	-2.6	-0.8	0.0	0.5	1.2	1.2	1.3	1.3
Residential structures		-5.0	-2.3	-6.1	-5.1	-4.8	-4.9	-3.4	-2.7	-2.7	-2.6
Exports		10.8	7.3	1.6	7.6	7.8	11.3	5.8	9.2	9.1	12.2
Imports		14.9	8.3	8.4	11.5	8.5	7.8	7.0	9.6	8.5	7.9
Gov't. cons. & investment		4.3	3.0	5.1	3.9	3.0	2.0	2.9	2.8	2.8	2.7
Federal		3.9	1.4	6.8	3.4	0.8	-2.0	0.8	0.5	0.5	0.2
Defense		11.4	-3.3	-0.1	-0.6	1.5	0.3	1.1	0.6	0.7	0.2
State & local		4.4	3.9	4.1	4.2	4.2	4.2	4.1	4.0	4.0	3.9
Change in bus. inventories	Bill. Ch. $	38.5	49.5	62.0	61.5	58.9	50.2	49.9	54.9	55.0	47.0
Nonfarm		41.7	52.5	63.4	60.2	57.6	49.0	48.6	53.6	53.7	45.7
Net exports		-339.9	-349.2	-373.8	-393.7	-403.5	-402.0	-412.2	-422.9	-429.8	-426.0
Nominal GDP	% change	6.6	6.4	5.4	5.9	5.5	5.4	5.9	5.6	5.6	5.7
EMPLOYMENT AND PRODUCTION											
onfarm payroll employment	Millions	128.9	129.5	130.2	131.0	131.4	131.8	132.3	132.8	133.3	133.8
employment rate	%	4.2	4.1	4.1	4.0	4.0	4.0	4.1	4.1	4.1	4.1
Industrial prod. index	% change	4.7	5.6	2.6	4.1	3.7	3.8	3.6	4.2	3.6	3.6
Capacity util. rate - mfg.	%	79.6	80.1	80.0	80.1	80.3	80.6	80.9	81.1	81.4	81.6
Housing starts	Millions	1.65	1.62	1.59	1.57	1.55	1.54	1.53	1.51	1.50	1.49
Light motor vehicle sales		17.15	16.85	16.81	16.68	16.52	16.26	16.08	15.89	15.73	15.73
North Amer. produced		14.70	14.00	14.13	14.10	14.02	13.88	13.79	13.70	13.64	13.64
Other		2.45	2.85	2.67	2.58	2.50	2.38	2.29	2.19	2.09	2.09
INCOME AND SAVING											
Nominal GNP	Bill. $	9278.3	9424.9	9547.6	9686.0	9814.3	9945.3	10083.2	10217.4	10358.4	10502.0
Nominal GNP	% change	6.6	6.5	5.3	5.9	5.4	5.4	5.7	5.4	5.6	5.7
Nominal personal income		5.0	7.8	4.7	5.8	5.5	5.6	6.5	5.6	5.5	5.8
Real disposable income		2.7	4.3	3.1	3.7	3.5	3.6	5.5	3.1	3.0	3.3
Personal saving rate	%	2.1	1.9	2.0	1.6	1.5	1.5	1.9	1.9	1.8	1.8
Corp. profits, IVA & CCAdj.	% change	4.1	13.4	-0.5	5.6	4.2	5.8	-0.6	3.8	5.8	6.5
Profit share of GNP	%	9.5	9.7	9.5	9.5	9.5	9.5	9.4	9.3	9.3	9.4
Excluding FR Banks		9.3	9.4	9.3	9.3	9.2	9.3	9.1	9.1	9.1	9.1
Federal surpl./deficit	Bill. $	135.0	126.9	123.6	139.2	160.1	171.1	170.4	191.4	215.5	221.6
State & local surpl./def.		48.5	52.3	57.9	61.3	63.1	59.7	56.0	55.7	55.2	56.6
Ex. social ins. funds		47.7	51.5	57.1	60.5	62.3	58.9	55.2	54.9	54.4	55.8
Gross natl. saving rate	%	18.8	18.5	18.5	18.4	18.5	18.6	18.7	18.8	18.9	19.0
Net natl. saving rate		7.1	7.1	7.1	7.0	7.1	7.2	7.4	7.5	7.7	7.7
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.2	1.7	2.1	1.6	1.7	1.6	2.1	1.8	1.9	1.8
Gross Domestic Purchases chn.-wt. price index		1.8	2.1	2.4	1.4	1.3	1.4	2.0	1.7	1.7	1.7
CPI		2.7	2.9	2.6	2.3	1.9	2.2	2.3	2.6	2.5	2.6
Ex. food and energy		1.6	2.6	2.2	2.8	2.5	2.7	2.7	3.0	2.8	2.9
ECI, hourly compensation[1]		3.4	3.6	3.5	3.8	3.8	3.8	4.1	4.0	4.0	4.1
onfarm business sector											
Output per hour		5.0	3.3	2.6	3.0	2.8	2.8	2.7	2.8	2.8	2.9
Compensation per hour		4.7	4.3	4.8	4.7	4.6	4.6	5.1	4.8	4.8	4.8
Unit labor cost		-0.3	1.0	2.2	1.7	1.8	1.8	2.4	2.0	2.0	1.9

1. Private-industry workers.

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CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

December 15, 1999

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	5.6	4.3	4.6	4.0
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	5.1
Final sales	5.7	2.4	5.1	5.0	2.3	6.2	4.6	3.4	4.2	3.8	4.6	4.1
Priv. dom. final purchases	5.9	2.8	7.2	5.7	3.3	5.0	6.0	4.5	4.3	4.0	5.3	4.7
Personal cons. expenditures	4.3	2.2	3.7	4.0	2.6	3.1	4.3	3.4	3.1	2.8	3.4	3.6
Durables	1.4	0.4	1.2	0.8	0.3	1.5	1.0	0.7	0.6	0.6	1.0	0.7
Nondurables	1.1	0.1	1.1	1.3	0.5	1.0	1.7	0.6	0.7	0.5	1.0	1.1
Services	1.7	1.8	1.3	1.8	1.8	0.6	1.6	2.0	1.8	1.7	1.4	1.8
Business fixed investment	1.8	0.4	2.9	1.4	0.0	1.8	0.9	0.9	1.5	1.1	1.5	1.0
Equipment & Software	1.5	0.3	2.7	1.2	0.2	1.6	1.1	1.0	1.5	1.0	1.5	1.1
Nonres. structures	0.3	0.1	0.2	0.2	-0.2	0.2	-0.2	-0.2	-0.0	0.1	0.1	-0.1
Residential structures	0.0	0.3	0.5	0.5	0.3	0.4	0.5	0.2	-0.2	0.1	0.5	0.1
Net exports	-0.8	-0.5	-1.9	-2.0	-0.8	0.3	-2.1	-1.4	-0.8	-0.7	-1.1	-1.2
Exports	1.3	0.2	-0.2	-0.5	-0.2	1.6	-0.6	0.4	1.1	1.1	0.2	0.4
Imports	-2.1	-0.7	-1.7	-1.6	-0.6	-1.3	-1.5	-1.8	-1.9	-1.7	-1.3	-1.6
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	0.6
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	1.3	0.5	-0.0	-0.2
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	-1.0	-0.5	-0.0	0.1	-0.2

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

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	4.8	3.2	4.3	3.8	3.8	3.8	3.8	3.8	3.8	4.0	3.8	3.8
Gross dom. purchases	5.1	4.2	5.1	4.2	3.7	4.1	4.1	4.0	3.6	5.1	4.3	4.0
Final sales	4.2	2.6	4.2	3.9	4.1	3.7	3.5	3.7	4.1	4.1	3.7	3.8
Priv. dom. final purchases	4.1	2.8	4.4	3.7	3.7	3.6	3.4	3.5	3.4	4.7	3.6	3.5
Personal cons. expenditures	3.4	1.9	3.5	2.7	2.6	2.4	2.3	2.2	2.3	3.6	2.7	2.3
Durables	0.6	0.5	0.4	0.4	0.2	0.3	0.3	0.3	0.4	0.7	0.4	0.3
Nondurables	1.2	0.1	1.0	0.6	0.6	0.5	0.5	0.4	0.4	1.1	0.6	0.5
Services	1.6	1.4	2.1	1.7	1.8	1.6	1.5	1.5	1.5	1.8	1.8	1.5
Business fixed investment	0.7	1.2	1.0	1.1	1.2	1.2	1.2	1.3	1.3	1.0	1.1	1.3
Equipment & Software	0.9	1.3	1.0	1.1	1.2	1.2	1.2	1.2	1.2	1.1	1.2	1.2
Nonres. structures	-0.2	-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	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	0.1	-0.2	-0.1
Net exports	-0.4	-1.0	-0.8	-0.4	0.1	-0.4	-0.4	-0.2	0.2	-1.2	-0.5	-0.2
Exports	0.8	0.2	0.8	0.8	1.2	0.6	1.0	1.0	1.3	0.4	0.8	1.0
Imports	-1.1	-1.2	-1.6	-1.2	-1.1	-1.0	-1.4	-1.2	-1.1	-1.6	-1.3	-1.2
Government cons. & invest.	0.5	0.9	0.7	0.5	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.5
Federal	0.1	0.4	0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0
Defense	-0.1	-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	0.4	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	0.5	0.5	0.5	0.5	0.5	0.5
Change in bus. inventories	0.5	0.5	-0.0	-0.1	-0.3	-0.0	0.2	0.0	-0.3	-0.2	0.0	-0.0
Nonfarm	0.5	0.5	-0.1	-0.1	-0.3	-0.0	0.2	0.0	-0.3	-0.1	-0.0	-0.0
Farm	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	0.0	0.0

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

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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	1935	2050	402	564	449	431	429	610	466	454	459	641	496	487
Outlays[2]	1653	1704	1775	1840	396	421	419	453	452	442	428	465	468	459	447	470
Surplus/deficit[2]	69	124	160	210	6	143	29	-23	-23	168	38	-11	-9	182	48	17
On-budget	-30	-0	7	42	-49	88	20	-67	-49	104	19	-56	-40	112	26	-31
Off-budget	99	124	154	168	55	55	9	44	27	64	19	45	31	70	22	48
Surplus excluding deposit insurance	65	118	157	207	5	142	28	-23	-24	167	37	-12	-10	181	47	16
Means of financing																
Borrowing	-51	-88	-172	-209	7	-108	-20	39	-39	-132	-41	-8	-2	-146	-53	-22
Cash decrease	5	-18	11	0	-4	-31	-3	-20	57	-30	5	20	5	-30	5	20
Other[3]	-23	-18	.4	-.9	-9	-4	-6	4	5	-6	-2	-1	6	-5	-.2	-15
Cash operating balance, end of period	39	56	45	45	22	53	56	77	20	50	45	25	20	50	45	25
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	1722	1839	1953	2054	1827	1853	1883	1925	1932	1962	1993	2021	2035	2064	2096	2128
Expenditures	1694	1736	1816	1867	1729	1735	1748	1798	1809	1823	1833	1850	1864	1872	1881	1906
Consumption expenditures	452	467	499	515	467	465	475	480	501	507	508	505	517	519	520	521
Defense	300	305	317	328	305	301	312	311	319	319	320	321	329	330	331	332
Nondefense	153	161	182	188	162	164	162	169	182	188	188	184	188	189	189	189
Other expenditures	1242	1270	1317	1352	1262	1270	1274	1318	1308	1316	1325	1345	1347	1354	1360	1385
Current account surplus	28	103	137	187	98	118	135	127	124	139	160	171	170	191	215	222
Gross investment	84	92	94	97	90	96	95	93	94	94	96	96	97	97	97	97
Current and capital account surplus	-56	10	43	90	7	22	40	34	29	45	65	75	74	95	118	124
Fiscal indicators[4]																
High-employment (HEB) surplus/deficit	-151	-109	-100	-68	-113	-93	-87	-103	-110	-101	-86	-79	-83	-65	-45	-43
Change in HEB, percent of potential GDP	-.8	-.6	-.2	-.4	-.4	-.2	-.1	.2	.1	-.1	-.2	-.1	0	-.2	-.2	-0
Fiscal impetus (FI) percent, calendar year	0	4	5	.1	2	-.4	2	1	2	1	.5	-.7	-.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 1998: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

December 15, 1999

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

			Nonfederal							
				Households						
Period [1]	Total [2]	Federal government [3]	Total [4]	Total	Home mortgages	Consumer credit	Business	State and local governments	Memo: Nominal GDP
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	6.1	7.9	5.8	14.1	7.0	-4.6	4.3
1996	5.4	4.0	5.9	7.4	7.4	7.9	6.0	-0.6	6.0
1997	5.4	0.6	7.1	6.4	6.7	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	6.7	-2.1	9.3	9.2	10.3	6.3	10.6	4.1	5.5
2000	5.1	-6.0	8.1	8.0	9.0	4.9	9.3	2.9	5.6
2001	4.6	-6.5	7.2	7.0	8.0	3.6	8.3	2.7	5.7
Quarter									
1999:1	7.9	-2.0	10.9	9.4	10.0	9.7	13.3	7.3	5.7
2	5.3	-3.0	7.8	8.5	9.9	4.4	7.9	2.9	3.3
3	6.7	-2.2	9.2	9.2	10.0	5.5	10.4	4.3	6.6
4	6.1	-1.4	8.1	8.3	9.6	5.2	9.3	1.6	6.4
2000:1	5.0	-6.8	8.2	8.2	9.1	5.4	9.1	3.4	5.4
2	5.3	-5.6	8.1	8.0	8.9	5.0	9.3	2.7	5.9
3	5.2	-5.0	7.8	7.7	8.6	4.7	8.9	2.7	5.5
4	4.7	-7.0	7.5	7.2	8.3	4.1	8.7	2.7	5.4
2001:H1	4.9	-5.2	7.2	6.9	7.9	3.6	8.5	2.7	5.7
H2	4.3	-7.9	7.0	6.9	7.9	3.6	7.9	2.6	5.7

Note. Quarterly data are at seasonally adjusted annual rates.

1 Data after 1999:Q3 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 6.6 percent in 1999, 5.3 percent in 2000, and 4.7 percent in 2001.

3. On a monthly average basis, federal debt is projected to grow -2.6 percent in 1999, -5.2 percent in 2000, and -6.2 percent in 2001.

4. On a monthly average basis, nonfederal debt is projected to grow 9.4 percent in 1999, 8.2 percent in 2000, and 7.3 percent in 2001.

2.6.3 FOF

Strictly Confidential (FR)
Class II FOMC

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

December 15, 1999

					Seasonally adjusted annual rates									
	Calendar year				1999				2000				2001	
Category	1998	1999	2000	2001	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
Net funds raised by domestic nonfinancial sectors														
1 Total	757.1	923.3	776.7	779.0	1222.4	512.6	977.9	980.1	723.7	763.7	851.5	768.0	822.3	735.8
2 Net equity issuance	-267.0	-163.7	-118.0	-68.0	-65.7	-374.0	-153.0	-62.0	-148.0	-168.0	-84.0	-72.0	-68.0	-68.0
3 Net debt issuance	1024.1	1086.9	894.7	847.0	1288.1	886.6	1130.9	1042.1	871.7	931.7	935.5	840.0	890.3	803.8
Borrowing sectors														
Nonfinancial business														
4 Financing gap [1]	134.4	161.0	193.3	232.3	114.8	165.5	176.7	187.2	193.1	191.2	193.7	195.0	220.2	244.3
5 Net equity issuance	-267.0	-163.7	-118.0	-68.0	-65.7	-374.0	-153.0	-62.0	-148.0	-168.0	-84.0	-72.0	-68.0	-68.0
6 Credit market borrowing	524.5	577.3	560.4	546.9	719.5	445.9	595.3	548.7	546.1	572.1	562.1	561.1	555.1	538.6
Households														
7 Net borrowing [2]	471.9	541.2	517.4	489.1	556.4	517.1	566.0	525.3	531.9	527.9	517.9	491.9	481.9	496.4
8 Home mortgages	359.8	415.9	404.7	392.7	405.7	413.1	425.7	419.2	409.2	408.2	403.2	398.2	387.2	398.2
9 Consumer credit	67.6	84.2	69.0	54.0	129.2	60.1	75.4	72.0	76.0	72.0	68.0	60.0	54.0	54.0
10 Debt/DPI (percent) [3]	90.3	93.1	95.7	97.1	91.9	92.7	93.7	94.1	94.8	95.4	96.1	96.6	96.7	97.5
State and local governments														
11 Net borrowing	80.3	48.8	36.4	34.4	87.4	35.7	52.8	19.3	42.4	34.4	34.4	34.4	34.4	34.4
12 Current surplus [4]	140.5	151.9	172.7	175.3	151.1	142.0	154.5	160.0	167.4	172.6	176.2	174.6	173.5	177.2
Federal government														
13 Net borrowing	-52.6	-80.4	-219.4	-223.3	-75.2	-112.2	-83.1	-51.1	-248.7	-202.6	-178.8	-247.3	-181.0	-265.6
14 Net borrowing (quarterly, n.s.a.)	-52.6	-80.4	-219.4	-223.3	7.5	-108.0	-19.0	39.1	-38.7	-131.8	-40.9	-8.0	-148.1	-75.1
15 Unified deficit (quarterly, n.s.a.)	-54.4	-155.6	-172.1	-237.6	-5.8	-143.1	-29.4	22.6	23.0	-167.9	-38.0	10.8	-172.7	-64.9
Depository institutions														
16 Funds supplied	360.5	364.3	361.4	302.1	206.3	256.2	534.8	459.9	384.9	364.9	351.9	343.9	301.4	302.9
Memo (percentage of GDP)														
17 Domestic nonfinancial debt [5]	180.1	182.2	182.5	181.2	181.3	182.9	182.7	182.7	182.8	182.5	182.5	182.3	181.8	180.9
18 Domestic nonfinancial borrowing	11.7	11.8	9.2	8.2	14.2	9.7	12.2	11.0	9.1	9.6	9.5	8.4	8.7	7.7
19 Federal government [6]	-0.6	-0.9	-2.2	-2.2	-0.8	-1.2	-0.9	-0.5	-2.6	-2.1	-1.8	-2.5	-1.8	-2.5
20 Nonfederal	12.3	12.6	11.4	10.4	15.0	10.9	13.1	11.6	11.7	11.7	11.3	10.9	10.5	10.2

Note. Data after 1999:Q3 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

While recent readings from different regions have been mixed, growth of overall economic activity abroad appears to have moderated only slightly in the second half of this year from its rapid pace of the first half. Japanese output unexpectedly declined in the third quarter, and Japanese growth going forward has been marked down somewhat. However, robust recent indicators for the euro area suggest a greater momentum of domestic demand which, with the anticipated stimulus from the depreciation of the euro, has caused an upward revision in projected growth. The recovery in the developing economies appears to be proceeding generally as expected. On balance, foreign growth is projected to average about 3-1/2 percent per annum over the forecast period, down from this year's rate of 4 percent and little changed from the forecast in the November Greenbook.

Movements of dollar exchange rates over the intermeeting period have been roughly offsetting, with some weakening of the dollar against the yen and strengthening relative to the euro. Looking forward, the dollar is expected to depreciate moderately in real terms over the forecast period, as the expanding U.S. external deficit and bright growth prospects abroad diminish global investors' relative demand for dollar assets. Mainly because of an improvement of the U.S. competitive position arising from this projected depreciation, the drag on U.S. growth from net exports is expected to wane over time. The recent surge in spot crude oil prices has resulted in a ratcheting up of the near-term oil price outlook, but it is still expected that fundamentals will push prices lower later in the forecast period. Core import prices are projected to continue to rise modestly.

Recent Developments

International Financial Markets. Since the November FOMC meeting, the exchange value of the dollar is little changed on balance, as movements against various currencies have been largely offsetting. The dollar has depreciated 1-1/4 percent versus the Japanese yen but appreciated 2-3/4 percent against the euro. The euro hit a new low in early December, crossing below parity with the dollar, reportedly on market concerns about euro-area governments' commitment to market-oriented policies. Signs of a cyclical upswing in Europe have helped push up bond yields over the intermeeting period. European equity prices have risen strongly. In emerging markets, financial conditions appear to have improved on balance over the past month; yield spreads on sovereign bonds have continued to fall, and equity prices have generally risen.

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

Economic activity abroad. Recent data on economic activity in the foreign industrial countries have varied across regions. In the euro area, growth picked up sharply in the third quarter. Most forward-looking indicators--notably consumer and business sentiment--suggest further strength. In contrast, Japanese growth turned negative in the third quarter following a spurt in the first half of the year, as domestic demand fell sharply. Underlying inflationary pressures remain quiescent in the foreign industrial countries, though higher oil prices continue to boost headline inflation. In the euro area, consumer price inflation has edged up further, but is still comfortably below the 2 percent ceiling specified by the European Central Bank. Japanese core consumer prices remain flat, while wholesale prices continue to decline.

The latest indicators of activity in developing countries have also been diverse. In Latin America, the Mexican economy continued to register robust growth, and in Argentina there has been evidence of a nascent recovery. However, activity weakened in Brazil in the third quarter after a strong performance in the first half of the year. China, Hong Kong, and Korea have continued to recover strongly, and activity in Taiwan appears to be rebounding from the September earthquake. In contrast, growth in several ASEAN countries slowed in the third quarter from an unsustainably rapid second-quarter pace. Inflation pressures in developing countries have been generally subdued. In developing Asia, inflation rates remain low or negative. In Latin America, with the exception of Brazil, inflation rates have edged down further.

U.S. net exports and prices. The nominal U.S. trade deficit widened slightly in September, bringing the expansion in the deficit for the third quarter as a whole to $35 billion at a seasonally adjusted annual rate. In the third quarter, the value of exports rose, reflecting strong increases in capital goods and industrial materials, but the value of imports rose even faster, with sizable increases recorded in all major categories except food. Import prices--most notably oil--rose strongly relative to export prices in the third quarter. Despite the rise in the nominal deficit in the third quarter, the contribution of net exports to U.S. real GDP growth was less negative than in the previous two quarters, as real export growth picked up and real import growth continued at the second-quarter pace.

The increase in the price of non-oil goods imports quickened in November, and these prices rose at an annual rate of nearly 2 percent for October and November combined. Prices of core goods imports (which exclude computers, semiconductors, and oil) moved up even more strongly over this period, led by a large increase in prices of industrial materials. Prices of total goods exports increased moderately in November, but, for October and November combined, they rose at a 2 percent annual rate, a sharp pickup from the pace of previous quarters.

The price of imported oil rose to more than $20 per barrel in September. For the third quarter, the U.S. oil import price rose nearly $4 per barrel, reflecting strengthening world demand and ongoing production restraint from OPEC. More recently, oil prices have risen further, mainly because of OPEC's high degree of compliance with production targets and Iraq's decision to withhold exports until the United Nations approved a six-month extension of the oil-for-food program, which it did late in the intermeeting period.

Outlook

Real net exports are expected to continue deteriorating over the forecast period, but their negative contribution to U.S. real GDP growth is projected to shrink from more than 1 percentage point this year to about 1/2 percentage point next year and 1/4 percentage point in 2001. This is similar to the forecast in the November Greenbook, and mainly reflects the forecast of a moderate real depreciation of the dollar and the resulting improvement in the price competitiveness of U.S. goods. Both foreign and U.S. real GDP growth rates are still expected to moderate slightly over the forecast period. However, the faster rate of projected U.S. growth relative to that abroad and the historical tendency of U.S. imports to be more responsive to income growth than are U.S. exports produces some drag on net exports. Prices of core imports, after several years of decline, are expected to rise slightly over the forecast period, reflecting the anticipated fall of the dollar and a projected further firming of world commodity prices. The U.S. current account deficit is forecast to increase in nominal dollar terms but to remain at about 4-1/4 percent of GDP throughout the forecast period.

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

Measure	1998	1999 H1	1999 Q3	Projection 1999 Q4	Projection 2000	Projection 2001
Foreign output	0.9	4.1	3.5	4.1	3.5	3.5
November GB	*0.8*	*4.0*	*4.0*	*4.0*	*3.3*	*3.5*
Real exports	1.9	-0.9	10.8	7.3	7.0	9.1
November GB	*1.9*	*-0.9*	*13.1*	*6.9*	*7.5*	*9.2*
Real imports	10.8	13.5	14.9	8.3	9.0	8.3
November GB	*10.8*	*13.5*	*17.7*	*8.6*	*8.8*	*9.0*

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

The dollar. The real trade-weighted value of the dollar relative to the currencies of a broad group of important U.S. trading partners is forecast to depreciate at a moderate rate, declining by a total of 5 percent over the projection period. Most of the broad dollar's expected decline is due to the forecast of a real depreciation of the dollar vis-a-vis the major foreign currencies, especially the euro. The recent strength of the dollar against the euro is expected to be reversed, partly as a result of relatively robust European growth and partly in response to market concerns about the large and growing U.S. current account deficit. Against the yen, the real value of the dollar is expected to be little changed over the forecast period, following the sharp decline in recent months. The real exchange value of the dollar relative to the currencies of developing countries is projected to decline slightly over the forecast period, as the anticipated further depreciation of the dollar against the currencies of the developing Asian economies is only partially offset by slight real appreciation in terms of major Latin American currencies.

Activity in foreign industrial countries. Export-weighted real GDP growth in the foreign industrial countries is projected to average about 2-3/4 percent over the next two years, moderating somewhat from the estimated 3-1/4 percent pace of this year. In response to unexpectedly weak incoming data, we have revised down our near-term assessment of economic activity in Japan. Thereafter, Japanese growth is projected to remain weak because fiscal stimulus is expected to be smaller than in recent years and the boost to the external sector from recovery in developing Asia should be largely offset by the ongoing effect of the yen's appreciation. Japanese private domestic demand is expected to grow sluggishly, well below the fiscally bolstered pace seen in the first half of this year.

Since the November Greenbook, projected euro-area growth has been revised up to near 3 percent for each of the next two years. Recent indicators of activity have suggested greater momentum in euro-area domestic demand. In addition, the euro's depreciation over the past year is expected to provide an additional spur to net exports. The forecast for U.K. growth also has been revised upward but by less than that for the euro area, as the pound has remained strong on a trade-weighted basis. Growth of the Canadian economy, which was supported this year by strong U.S. growth, is expected to slow to a pace more in line with its rate of potential growth.

Inflation. Average inflation in the foreign industrial countries is projected to pick up slightly to about 1-1/2 percent. Relative to the November Greenbook, this inflation forecast is a bit higher, especially over the next few quarters, mainly because of the higher projected path of oil prices. In addition, for the euro area, recent currency weakness is expected to translate into slightly higher inflation over the next year. Core Japanese prices, which have declined slightly over the past year, are expected to be about unchanged over the next two years.

Interest rates. We assume that the Bank of Japan will keep short-term interest rates near zero throughout the forecast period to provide support for the economy's still very slow recovery. In response to relatively strong growth and some pickup in inflation, the ECB is expected to raise its official rate a total of 100 basis points over the forecast period, twice the increase assumed in the November Greenbook. The Bank of England is projected to tighten policy 75 basis points to keep inflation from rising above the target rate of 2-1/2 percent. The Bank of Canada is also expected to increase rates 75 basis points, as the closing of the Canadian output gap begins to intensify inflation pressures.

Other countries. For the major developing-country trading partners of the United States, the projected growth of real GDP remains about unchanged from the November Greenbook. Average real GDP in developing countries is projected to increase at a rate of about 4-1/2 percent over the next two years. In the Asian developing economies, we expect that, when final data are available, real GDP will have increased more than 7 percent this year (compared with a decline last year of nearly 2 percent), led by very strong recoveries in Korea, Singapore, and Malaysia. Next year, growth in developing Asia is expected to moderate. With a more mature recovery in the former crisis countries, cyclical factors such as inventory investment should be somewhat less favorable. In addition, the still-unresolved banking and corporate sector problems in several of these countries are also expected to hold down growth somewhat. In Latin America, where recovery this year has in general been more delayed and less pronounced than in developing Asia, real GDP is expected to grow a shade below 4 percent per year over the forecast period. Next year, Argentina, Chile and Venezuela are expected to return to positive growth, while the pace of activity in Mexico slows somewhat.

Inflation in 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 progressed the furthest, are projected to be offset by continuing disinflation in Latin America.

Real exports and imports of goods and services. After turning in a weak first-half performance, real exports of goods and services are estimated to have rebounded to an annual rate of growth of nearly 10 percent in the second half of this year. Demand for U.S. exports is expected to expand smartly over the outlook period, boosted by a modest depreciation of the dollar and vigorous growth abroad. Exports of goods and services are projected to grow 7 percent next year, then move up to 9 percent growth in 2001. Exports of core goods follow a somewhat similar pattern.

The growth of real imports of non-oil goods is estimated to have picked up slightly in the second half of this year from its already very rapid first-half pace. Next year and during 2001, growth of these imports is projected to slow to a rate of about 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 15 percent in the second half of this year to 6 percent in 2000 and 2001. Despite the turmoil surrounding the WTO meetings in Seattle, we do not foresee trade policy developments having a material effect on U.S. trade flows over the forecast period.

Oil prices. The outlook for the U.S. oil import price over the current quarter and the first half of 2000 is notably higher than in the November Greenbook. Continuing strength in demand--particularly in North America and Asia--and OPEC's ongoing supply restraint have led to substantial declines in inventories. The hiatus in exports from Iraq eroded inventories further, pushing up oil prices to levels not seen since 1996. The price of imported oil is projected to peak in the first quarter of next year at $24 per barrel, but oil market fundamentals should lead prices to decline fairly rapidly thereafter as major oil producers increase supply. For the second half of 2000 and all of 2001, the U.S. oil import price is expected to be a bit higher than it was in the November Greenbook, mainly because we have trimmed our projection of increases in non-OPEC production. Given the low level of oil inventories, there is a significant risk that unforeseen reductions in supply or increases in demand could cause oil prices to move markedly higher than we project.

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	2.5	4.1	0.9	1.0
Agricultural	-10.2	-8.9	-2.6	-0.2	2.4	2.5
Imports						
Non-oil (core)	-1.9	-0.7	1.0	2.7	2.6	2.3
Oil (level, dollars per barrel)	11.40	14.70	18.60	22.20	18.90	16.50

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 multiquarter periods is the price for the final quarter of the period.

Prices of non-oil imports and non-agricultural exports. After turning positive in the third quarter, core import price inflation is projected to step up to a 2-3/4 percent rate through the first half of next year and then ease slightly over the remainder of the forecast period. The reappearance of positive core import price inflation reflects increases in commodity prices and the path of the dollar. Core export prices rose at a 2-1/2 percent rate in the third quarter and are projected to rise further in the fourth quarter in response to rising prices of industrial supplies (including oil). Over the longer run, core export prices are expected to rise more slowly, as the projected decline in oil prices provides a damping influence.

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

							-----Projected----		
Measure and country	1993	1994	1995	1996	1997	1998	1999	2000	2001
REAL GDP (1)									
Total foreign	3.1	5.1	2.3	4.3	4.1	0.9	4.0	3.5	3.5
Industrial Countries	1.9	4.0	1.8	2.9	3.3	1.7	3.3	2.8	2.7
of which:									
Canada	2.9	5.5	1.4	2.4	4.4	2.8	4.0	3.1	2.9
Japan	0.5	0.9	2.5	5.2	-0.5	-3.1	1.7	0.8	1.2
United Kingdom	3.2	4.6	1.9	2.9	3.4	1.6	2.7	2.6	2.5
Euro-11	0.1	2.9	1.5	1.6	2.9	1.9	2.9	3.0	2.9
Germany	-0.2	2.8	1.0	1.3	1.4	1.2	2.4	3.0	2.8
Developing Countries	5.0	6.9	2.9	6.3	5.3	-0.3	5.1	4.5	4.7
Asia	7.6	8.8	7.2	6.9	4.8	-1.7	7.5	5.5	6.3
Korea	6.3	9.4	7.2	6.8	3.7	-5.3	13.0	5.9	7.0
China	6.1	16.3	12.6	9.2	8.2	9.5	5.3	6.9	7.5
Latin America	2.7	5.5	-4.0	6.4	6.4	1.0	3.7	3.7	3.9
Mexico	1.9	5.1	-7.3	7.5	7.2	2.9	5.6	4.3	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	1.5	1.6
of which:									
Canada	1.8	-0.0	2.1	2.0	1.0	1.1	2.5	2.2	2.4
Japan	1.2	0.8	-0.8	0.1	2.1	0.7	-0.9	0.0	0.0
United Kingdom (3)	2.7	2.2	2.9	3.2	2.8	2.6	2.2	2.4	2.5
Euro-11 (4)	NA	NA	NA	2.0	1.4	0.9	1.7	1.6	1.6
Germany	4.2	2.6	1.5	1.5	2.1	0.4	1.0	1.5	1.5
Developing Countries	24.7	23.0	17.0	11.2	6.9	9.1	5.0	6.5	6.5
Asia	7.7	10.7	6.4	4.8	2.8	4.5	0.6	3.6	4.1
Korea	5.5	5.8	4.4	5.1	5.1	6.0	1.5	4.3	5.5
China	17.1	26.9	11.1	7.0	1.0	-1.1	-0.3	2.8	3.8
Latin America	74.2	54.3	42.2	26.0	15.8	15.6	12.9	11.4	10.4
Mexico	8.6	6.9	48.8	28.1	17.2	17.6	14.0	12.2	11.2
Brazil	2287.6	1216.3	23.1	10.8	5.3	1.8	8.3	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.

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

Quarters marked "Projected" run from 1999 Q4 through 2001 Q4.

REAL GDP (1): quarterly changes at an annual rate

Measure and country	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4
Total foreign	3.4	4.9	3.5	4.1	2.3	4.1	3.8	3.7	3.6	3.6	3.5	3.4
Industrial Countries	3.4	3.2	2.9	3.5	1.7	3.5	3.0	2.8	2.7	2.7	2.6	2.6
of which:												
Canada	4.1	3.1	4.7	4.3	2.1	4.0	3.4	3.0	2.9	2.9	2.9	2.9
Japan	6.3	3.9	-3.8	0.8	-0.4	1.4	1.0	1.2	1.2	1.2	1.2	1.2
United Kingdom	0.9	2.6	3.6	3.9	2.0	3.4	2.5	2.5	2.5	2.4	2.5	2.4
Euro-11	1.9	2.4	3.6	3.7	2.0	3.7	3.2	3.1	2.9	2.9	2.8	2.8
Germany	2.6	0.4	2.9	3.8	2.3	3.9	3.0	3.0	2.8	2.8	2.8	2.8
Developing Countries	3.5	7.4	4.4	5.0	3.2	4.9	4.9	5.0	5.0	4.9	4.6	4.5
Asia	6.5	12.2	4.2	7.0	3.6	5.9	6.2	6.4	6.3	6.3	6.2	6.3
Korea	13.9	16.5	13.9	8.0	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	6.8	8.0	8.0	7.7	7.5	7.5	7.5
Latin America	1.2	4.3	5.5	3.7	2.9	4.2	3.8	3.9	4.0	4.0	3.7	3.8
Mexico	1.3	7.7	8.7	5.1	3.9	4.9	4.2	4.3	4.4	4.5	4.0	4.1
Brazil	7.2	4.0	-0.7	1.0	0.6	2.8	2.7	2.8	2.7	3.0	3.2	3.2

CONSUMER PRICES (2): four-quarter changes

Measure and country	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4
Industrial Countries	0.6	0.9	1.3	1.2	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.6
of which:												
Canada	0.8	1.6	2.2	2.5	2.7	2.5	2.4	2.2	2.2	2.2	2.3	2.4
Japan	-0.2	-0.4	0.0	-0.9	-0.3	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0
United Kingdom (3)	2.6	2.3	2.2	2.2	2.3	2.3	2.4	2.4	2.4	2.4	2.5	2.5
Euro-11 (4)	0.9	1.0	1.2	1.7	2.0	1.8	1.7	1.6	1.6	1.6	1.6	1.6
Germany	0.3	0.5	0.6	1.0	1.6	1.5	1.4	1.5	1.5	1.5	1.5	1.5
Developing Countries	8.2	6.9	5.9	5.0	5.3	5.7	6.0	6.5	6.4	6.5	6.6	6.5
Asia	2.5	0.8	0.2	0.6	1.7	2.6	3.2	3.6	3.6	3.8	3.9	4.1
Korea	0.7	0.6	0.7	1.5	2.3	3.1	4.4	4.3	4.7	4.9	5.2	5.5
China	-1.4	-2.2	-1.2	-0.3	1.1	2.0	2.5	2.8	3.1	3.6	3.8	3.8
Latin America	16.4	15.7	14.7	12.9	11.5	10.7	10.6	11.4	11.5	11.4	11.2	10.4
Mexico	18.6	17.9	16.5	14.0	12.4	11.4	11.2	12.2	12.3	12.3	12.0	11.2
Brazil	2.3	3.3	5.5	8.3	8.5	8.6	8.8	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.

Strictly Confidential (FR) December 15, 1999
Class II FOMC

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1993	1994	1995	1996	1997	1998	------ 1999	Projected 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	-0.5	-0.2
Exports of G&S	0.4	1.1	1.0	1.1	1.1	0.2	0.4	0.8	1.0
Imports of G&S	-1.1	-1.3	-0.6	-1.3	-1.7	-1.3	-1.6	-1.3	-1.2
	Percentage change, Q4/Q4								
Exports of G&S	4.5	10.6	9.7	9.9	9.4	1.9	4.0	7.0	9.1
Services	4.9	8.5	9.0	9.4	3.0	2.3	2.9	4.2	4.3
Agricultural Goods	-5.3	16.3	-4.0	3.7	3.3	0.3	-1.1	2.0	2.0
Computers	17.3	27.2	39.1	21.6	26.1	7.1	18.5	37.9	36.0
Semiconductors	31.1	66.9	79.6	44.6	21.0	9.3	30.5	40.5	41.2
Other Goods 1/	3.5	6.9	5.7	7.8	11.4	1.1	2.1	3.7	6.3
Imports of G&S	10.5	12.1	5.0	11.2	14.2	10.8	12.5	9.0	8.3
Services	6.7	1.8	5.5	5.3	13.6	8.4	7.3	3.4	3.2
Oil	10.1	-0.3	2.4	7.8	4.0	4.1	1.2	10.5	0.8
Computers	30.7	38.9	35.0	17.7	32.4	26.9	28.7	38.6	36.1
Semiconductors	33.6	54.5	92.4	56.7	32.8	-7.4	24.6	42.4	42.5
Other Goods 2/	9.4	12.3	-1.2	10.4	12.7	11.3	12.9	6.3	5.8
	Billions of chained 1996 dollars								
Net Goods & Services	-59.9	-87.5	-79.1	-88.9	-109.8	-215.1	-323.2	-393.3	-422.7
Exports of G&S	671.9	731.8	807.5	874.2	985.5	1007.1	1041.9	1109.0	1204.9
Imports of G&S	731.8	819.4	886.6	963.1	1095.2	1222.2	1365.1	1502.3	1627.6
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-85.3	-121.7	-113.6	-129.3	-143.5	-220.6	-336.8	-427.1	-448.8
Current Acct as Percent of GDP	-1.3	-1.7	-1.5	-1.7	-1.7	-2.5	-3.6	-4.4	-4.3
Net Goods & Services (BOP)	-69.9	-98.4	-97.5	-104.3	-104.7	-164.3	-271.5	-356.1	-369.4
Investment Income, Net	26.9	20.3	23.9	21.8	8.2	-7.0	-13.0	-17.7	-26.1
Direct, Net	58.6	54.4	63.8	67.7	69.2	59.4	61.5	75.9	93.4
Portfolio, Net	-31.7	-34.1	-39.9	-46.0	-61.0	-66.4	-74.6	-93.6	-119.5
Other Income & Transfers,Net	-42.2	-43.6	-39.9	-46.7	-46.9	-49.3	-52.3	-53.3	-53.3

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

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.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1999				2000 (Projected)				2001 (Projected)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-2.1	-1.4	-0.8	-0.4	-1.0	-0.8	-0.4	0.1	-0.4	-0.4	-0.2	0.2
Exports of G&S	-0.6	0.4	1.1	0.8	0.2	0.8	0.8	1.2	0.6	1.0	1.0	1.3
Imports of G&S	-1.5	-1.8	-1.9	-1.1	-1.2	-1.6	-1.2	-1.1	-1.0	-1.4	-1.2	-1.1
Percentage change from previous period, SAAR												
Exports of G&S	-5.5	4.0	10.8	7.3	1.6	7.6	7.8	11.3	5.8	9.2	9.1	12.2
Services	4.1	3.2	0.2	4.0	2.6	4.9	4.5	4.7	4.7	4.5	3.9	3.9
Agricultural Goods	-38.1	29.3	27.1	-6.0	2.0	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Computers	-3.1	32.0	26.9	21.5	33.5	43.7	38.6	36.0	36.0	36.0	36.0	36.0
Semiconductors	36.3	40.8	46.9	3.0	31.1	43.8	43.8	43.8	41.2	41.2	41.2	41.2
Other Goods 1/	-9.3	-2.0	11.5	9.6	-3.6	3.9	4.5	10.6	0.7	6.5	6.5	11.8
Imports of G&S	12.5	14.4	14.9	8.3	8.4	11.5	8.5	7.8	7.0	9.6	8.5	7.9
Services	12.1	8.9	3.6	4.7	3.2	4.2	3.4	3.0	2.9	2.9	3.5	3.5
Oil	7.3	25.4	-11.0	-12.3	14.9	24.7	7.0	-2.9	-14.1	31.2	3.2	-11.3
Computers	28.7	52.5	19.6	17.0	33.6	43.8	38.6	38.6	36.1	36.1	36.1	36.1
Semiconductors	18.4	63.5	19.6	4.1	33.5	46.4	46.4	43.8	43.8	43.8	41.2	41.2
Other Goods 2/	11.3	10.3	19.7	10.7	5.9	7.9	5.7	5.7	5.6	5.6	5.9	6.0
Billions of chained 1996 dollars, SAAR												
Net Goods & Services	-284.5	-319.0	-339.9	-349.2	-373.8	-393.7	-403.5	-402.0	-412.2	-422.9	-429.8	-426.0
Exports of G&S	1016.4	1026.4	1053.2	1071.8	1076.0	1096.0	1116.8	1147.1	1163.5	1189.4	1215.7	1251.1
Imports of G&S	1300.9	1345.4	1393.1	1421.0	1449.8	1489.7	1520.3	1549.1	1575.6	1612.2	1645.5	1677.2
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-274.6	-323.6	-359.8	-389.2	-413.0	-428.2	-432.0	-435.3	-436.8	-448.2	-451.9	-458.3
Current Account as % of GDP	-3.0	-3.5	-3.9	-4.1	-4.3	-4.4	-4.4	-4.4	-4.3	-4.4	-4.4	-4.4
Net Goods & Services (BOP)	-215.9	-260.3	-295.3	-314.3	-346.4	-360.9	-361.6	-355.5	-363.1	-371.1	-374.5	-368.8
Investment Income, Net	-11.8	-12.9	-14.1	-13.3	-16.0	-16.8	-19.8	-18.2	-23.2	-26.5	-26.8	-27.9
Direct, Net	59.3	56.0	62.6	68.3	69.7	73.1	76.3	84.5	86.2	89.7	96.0	101.7
Portfolio, Net	-71.1	-68.9	-76.7	-81.6	-85.7	-89.9	-96.1	-102.7	-109.3	-116.2	-122.9	-129.6
Other Inc. & Transfers, Net	-46.9	-50.4	-50.4	-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.