Prefatory Note

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[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

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Part 1

May 11, 2000

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

Confidential (FR) Class II FOMC

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Summary and Outlook

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Domestic Developments

Overview

U.S. economic activity has continued to expand impressively. We estimate that real GDP rose at an annual rate of around 5 percent in the first quarter, as a surge in private domestic final purchases more than offset sizable declines in net exports and inventory investment. Indeed, given that the measured advance in output was held down about 1 percentage point by a timing shift in payments to Department of Defense vendors, activity appears to have slowed little from the spectacular growth pace of the second half of 1999. Moreover, the available information for the current quarter is pointing to another strong advance, perhaps again in the neighborhood of 5 percent.

Such rapid expansion has pushed resource utilization rates upward--despite what we think is substantial ongoing structural improvement in productivity. Last month, the unemployment rate edged below the 4 percent mark for the first time in more than thirty years, a development entirely consistent with the anecdotal reports in the Beige Book and elsewhere of an extremely tight labor market. Against this backdrop, and with the effects of the steep run-up in oil prices of the past year filtering through the economy, we are not surprised to be seeing some signs of a general pickup in wage and price inflation. Nonetheless, the recent news, of which big jumps registered by the consumer price and employment cost indexes were only a part, has been striking enough that we have elevated our inflation projection slightly more than we might have solely on the basis of the higher resource utilization now in our forecast.

Looking ahead, in light of the greater inflationary pressure, we have raised the assumed path for the nominal federal funds rate a notch. In the stock market, the Wilshire 5000 has fluctuated mainly in the 13,000 to 14,000 range since last December, making no further progress on what were very favorable first-quarter earnings reports. In recent days, equity prices have run around the low end of the range, and our forecast assumes that they will continue to do so over the next year and a half; this implies a declining wealth-income ratio, which adds to the restraint on aggregate demand. Consequently, our baseline projection continues to call for a considerable moderation of real GDP growth, to just over 4 percent in the second half of 2000 and to a little more than 3-1/2 percent in 2001. The unemployment rate is little changed over this period.

To achieve such a slackening in output growth, real domestic spending probably will have to decelerate even more markedly, as the decline in U.S. net exports is expected to slow in coming quarters. Overall, economic activity in the rest of the world has continued to surpass expectations, and we have carried some of the surprise forward by boosting projected foreign output growth a bit, especially in the near term. Meanwhile, despite the good news from abroad, the dollar has registered an unanticipated appreciation on exchange markets. In light of the dollar's ongoing strength, but with more than a little trepidation, we have raised the level of the trade-weighted dollar throughout the projection.

The elevation of the exchange rate path is modest, however, and we continue to anticipate a gradual dollar depreciation that contributes to a rise in core non-oil import prices over coming quarters. Meanwhile, although some further easing of oil prices likely lies ahead, the pass-through effects of the earlier rise probably have yet to run their full course. All told, we see no major disinflationary offset to the resource pressures in the domestic economy. Thus, core PCE prices, which increased just 1.5 percent in 1999, are projected to rise 2.2 percent this year and 2.4 percent next. The predictions for 2000 and 2001 are 0.2 points higher than in the March Greenbook.

Some Key Background Factors

Long-term interest rates--at least outside the junk bond sector--slipped a bit in the initial part of the intermeeting period, but they have more than reversed that move since mid-April. Although we are assuming just a tad more tightening of money market conditions than appears to be built into the present term structure, we are projecting a significant further rise in long rates over the next several quarters. We suspect that the continued labor market pressures and the updrift in core inflation will make financial market participants less sanguine than they are now about the prospects for an early peaking of short-term rates, so that the yield curve will flatten less than one might otherwise have expected.

The shift in market expectations just described presumably would not be bullish for equity prices either. So, even though the recent upside surprise in corporate profits and economic activity has led us to raise the level of earnings throughout the forecast period, we have retained the projection of an essentially flat stock market. Early declarations that April 14 was "The Day the NASDAQ Died" may overstate the case, but the crash of many Internet stocks and the more frequent mention of price-earnings multiples may be an indication that the market has regained some sanity; moreover, if we are right that a considerable slowing in profit momentum lies ahead, the current remarkable optimism about longer-range earnings gains will be tested. We would underscore once again, however, our lack of conviction about the particular equity price path we have built into our baseline forecast. And, once again, we have explored the possible economic consequences of both higher and lower share prices in model simulations at the end of this section.

Our fiscal policy assumptions have been adjusted somewhat to reflect recent legislative developments. The elimination of the social security earnings test signed into law in early April is projected to raise benefit payments about $4 billion per year over the next few years. Furthermore, we have added some features of the congressional budget resolution to our forecast. The resolution calls for undoing last fall's legislation that delayed certain wage and benefit payments from September to October of this year. We have incorporated this reversal, which boosts outlays recorded in fiscal 2000 by $10 billion, and we assume that the additional resources freed up in fiscal 2001 will be used to finance spending initiatives. We have also taken on board the proposed increase in agricultural subsidies, which may raise farm income about $5 billion per year beginning in the second half of this year, and the proposed income tax cut, which adds roughly $15 billion to disposable income in 2001.

Despite these stimulative additions, our forecast for the unified budget surplus runs higher than in the March Greenbook. Given the strength of tax receipts in recent weeks, we now project unified surpluses of $225 billion in fiscal 2000 and $269 billion in fiscal 2001. However, with the on-budget surplus projected to reach $99 billion next year, we believe that the risks remain tilted decidedly toward more spending increases or tax cuts than we have assumed.

Crude oil prices have fallen, on balance, since mid-March. The supply response to OPEC's decision to raise production has been unexpectedly quick, and it now looks as though the price of WTI may average about $26.50 per barrel this quarter--more than $3 below our March Greenbook forecast. The longer-term projection is consistent with futures quotes and calls for the WTI price to drift down to less than $22 by the end of 2001.

The Outlook for Real Economic Activity

Although it is mid-May, significant uncertainty remains about the outcome for first-quarter GDP, let alone about where activity is headed in the current quarter. In the case of the earlier period, the arrival in coming days of data on March retail inventories and international trade could alter our estimate of 4.9 percent real GDP growth and give us a little different sense of the tendencies in the economy as we entered the spring.

Regarding the second quarter, our point-forecast for measured GDP growth is 5-1/4 percent--with the rebound of federal government purchases from the artificially depressed first-quarter level accounting for about 1/2 percentage point of the gain. The April labor market report, putting production worker hours 3/4 percent (not at an annual rate) above the first-quarter average and the unemployment rate a little lower, argues for a strong output increase. The sizable rise in manufacturing hours also points to a big jump in industrial production last month.

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

Measure	1999:Q4	2000:Q1		2000:Q2	
		Mar. GB	May GB	Mar. GB	May GB
Real GDP	**7.3**	**4.3**	**4.9**	**4.9**	**5.3**
Private domestic final purchases	5.3	7.5	10.0	5.4	4.7
Personal consumption expenditures	5.9	6.1	7.6	4.1	4.0
Residential investment	1.8	8.2	6.3	-1.4	-2.2
Business fixed investment	2.9	14.8	24.8	15.1	10.6
Government outlays for consumption and investment	9.3	.1	-1.4	5.4	3.9
Memo:					
Real GDP adjusted for defense spending anomaly	6.8	5.2	5.8	4.4	4.8
	Change, billions of chained (1996) dollars				
Inventory investment	28.7	-7.8	-45.3	-4.0	32.9
Net exports	-3.7	-41.2	-34.1	-12.8	-21.0

On the expenditure side, although April's downdraft in the stock market appears to have scarcely dented consumer sentiment, the reports on retail sales and unit sales of new motor vehicles for the month point to some moderation in household spending after a phenomenal first quarter. The April softening in purchases could prove to be merely another head-fake, perhaps caused partly by an unusually late onset of spring weather. Still, the "fundamentals" driving increases in consumer demand, including the impetus from the earlier rise in stock market, probably have crested. The pattern of housing starts through the winter indicates that residential construction will decline a bit this quarter. Orders for nondefense capital goods suggest that business equipment investment will post another substantial gain, but one short of the huge first-quarter increase. In addition, private nonresidential and state and local construction probably were boosted by favorable weather during the winter, pulling forward some activity from this quarter. In sum, we expect a substantial falloff in the growth of domestic final purchases this quarter; however, that deceleration will likely be offset by a pickup in inventory investment and a somewhat less sizable drop in net exports.

Beyond the current quarter, we expect that the balance of these domestic and international influences will gradually tilt in the direction of slower GDP growth. Central to this projection is the damping of consumption and housing demand by rising interest rates and a cessation of the bull market in equities.

Projections of Real GDP
(Percent change, Q4 to Q4, except as noted)

Measure	1998	1999	2000	2001
Real GDP	**4.7**	**4.6**	**4.5**	**3.6**
Previous	4.6	4.5	4.2	3.7
Final sales	4.7	4.6	4.7	3.8
Previous	4.7	4.5	4.3	3.7
PCE	5.1	5.6	4.9	3.3
Previous	5.1	5.6	4.6	3.4
Residential investment	11.3	3.9	-1.5	-3.6
Previous	11.3	3.8	-2.0	-4.4
BFI	13.1	7.1	14.9	10.0
Previous	13.1	6.9	12.4	9.8
Government purchases	2.3	5.0	2.2	3.5
Previous	2.2	5.0	2.9	3.4
Exports	2.0	4.8	6.1	8.4
Previous	1.9	4.5	7.2	8.7
Imports	10.8	12.6	10.9	8.1
Previous	10.8	13.0	11.3	8.5
Memo:				
Real GDP adjusted for defense spending anomaly[1]	4.7	4.5	4.7	3.6
	Change, billions of chained (1996) dollars			
Inventory change	-2.0	-3.9	-13.5	-12.5
Previous	-2.0	-3.5	-9.4	-3.3
Net exports	-102.9	-109.7	-89.8	-31.7
Previous	-103.6	-117.4	-82.7	-34.2

1. The estimated GDP growth rate adjustment for the defense spending anomaly is -0.12 percentage point in 1999 and +0.12 percentage point in 2000. The apparent lack of symmetry in the growth rates shown in the table is due to rounding.

The weakening of household expenditure growth in turn impinges on the profitability of businesses and encourages less robust capacity expansion. In addition, more moderate increases in final sales and improving supply-chain management curb firms' desired inventory accumulation. Partly offsetting these trends, softer domestic demand and a little dollar depreciation foster some diminution in the pace of import growth, while exports respond to the solid world economic expansion.

Household demand. We project that growth of real personal consumption expenditures will slow from an average rate of around 6 percent (annual rate) in recent quarters to just over 4 percent in the remaining three quarters of this year and to only 3-1/4 percent in 2001. To be sure, we have predicted such decelerations in the past, and things have gone in the opposite direction. For the most part, upside surprises in stock prices have been the culprit in these errors, though there may be something of a chicken-and-egg problem in that assessment: The ebullience of consumers, possibly infected with "New Era" enthusiasm about economic prospects, may have lifted both the demand for goods and equity prices.

That said, we remain fairly confident that if the anticipated deterioration in financial conditions occurs, it will take some of the steam out of consumer demand. In fact, our rule of thumb suggests that, given the assumed stock market path, the spur to consumption growth from wealth effects should drop from something on the order of 1 percentage point in the second half of 1999 to a small negative in the second half of this year and then drop to a little more than a half point negative in 2001. In addition, accelerator effects should damp further growth in outlays for motor vehicles and many other durable goods. Overall, we expect spending to slow relative to disposable income, so that the personal saving rate--which appears to have sunk to about 1/2 percent in the first quarter--moves back above 1 percent next year.[1]

The same fundamentals also should put a damper on the demand for housing. Whether they have already begun to do so is unclear. As noted in Part 2, divergent indicators have made it difficult to gauge the recent direction of demand in the single-family market. We think that, in all likelihood, the rise in household wealth--and the willingness of many confident buyers to switch to lower-initial-cost ARM financing--have been counterbalancing the effects of the considerable rise in interest rates on fixed-rate mortgages. Furthermore, there are

1. Although we have no solid evidence, we suspect that the recent data on personal income and the saving rate may understate the true figures. As noted earlier, tax receipts have been surprisingly strong and, as we discuss later, the last couple of readings for the compensation per hour series derived from the national accounts look a bit lean.

anecdotal reports that sales may have been boosted of late by a rush to beat the much publicized prediction of an upcoming rise in interest rates. Going forward, however, our financial scenario tips this balance in a moderately negative direction.

However, construction activity is unlikely to fall off appreciably in the near term. Partly because builders have been constrained to date by shortages of labor, materials, and lots, we believe that they have a sufficient backlog of projects to keep them very busy for a while. We expect that single-family starts will total 1.30 million units this year--somewhat below the 1999 figure--and then drop to a 1.25 million unit pace (annual rate) by the end of next year. Multifamily starts are likely to follow much the same pattern. The overall level of starts projected for next year is still high relative to underlying demographic trends, but that seems reasonable in light of continued high employment and good affordability.

Business spending. We anticipate that real business fixed investment, which surged at an annual rate of 25 percent in the first quarter after a late-1999 lull, will increase at a pace of close to 12 percent over the remainder of this year and 10 percent in 2001. These obviously are still big numbers, and they reflect our assessment that technological advance and the desire to substitute capital for relatively costly labor will continue to lift demand in the face of less favorable financing conditions. In addition, the increasing importance of fast-depreciating equipment means that greater replacement requirements are boosting gross investment; this tends to counteract the negative accelerator effects that one might otherwise expect to see more clearly in the BFI path.

The aforementioned factors leave their greatest imprint on real outlays for equipment and software, which are expected to post an increase averaging around 13 percent (annual rate) over the projection period. The growth will be led by further large advances in the computing and communications categories. In addition to the attraction of rapidly declining prices, investment in such equipment evidently is being driven by the desire to build the broad-band and wireless infrastructure for e-commerce and information/entertainment services.[2] Meanwhile, recent orders trends and rising capacity utilization point to moderate growth in spending on other industrial equipment, while the demand for farm

2. Concerns have surfaced that the effective shutting-off of the financial spigot for dot-com enterprises may cut into demand for high-tech equipment. However, we believe that any such effects will be minor because these firms likely account for a small portion of total capital expenditures; in addition, these firms have, in the past, directed much of the funds they raise through IPOs and debt toward purposes that do not count as capital expenditures, such as advertising.

machinery appears to be firming as well. In contrast, outlays for transportation equipment--both motor vehicles and aircraft--probably will decline from here.

Incoming information since the March Greenbook has led us to raise our forecast of spending on nonresidential structures considerably. Construction data for the first quarter showed large gains across categories in which spending had been puzzlingly weak last year. Moreover, new figures on vacancy rates, space rents, and property prices have confirmed our view that the commercial real estate market is not generally overbuilt. All told, we are now expecting a sizable increase in spending on nonresidential structures this year and a further small advance next year.

Turning from fixed investment to inventories, aggregate nonfarm inventory-sales ratios have declined sharply over the past year or so. Although it is quite possible that unexpectedly strong sales led to an excessive drawdown of stocks, we have not heard many expressions of concern that inventory positions are too lean. Thus, although restocking efforts may occur here and there, we are anticipating only a moderate buildup of total inventories over the projection period, with some further edging down of inventory-sales ratios. If anything, we see a modest downside risk in this forecast if the current wave of "B2B" initiatives produces the inventory management improvements that have been touted--but many of the more ambitious projects are embryonic, and their potential may have been overhyped in the desire of companies to "enhance shareholder value" by capturing some of the Internet aura.[3]

Farm inventories were drawn down in the first quarter, marking the third consecutive quarter of decline. Strong demand has been a key force behind this pattern, as consumer food expenditures have posted robust gains in the past couple of years, and more recently, agricultural exports have picked up. We are predicting that drawdowns will continue for some time but then taper off such that farm stocks hold about steady in the latter part of next year.

Government. Once we get past the short-term dynamics of the timing shift in defense spending, we expect real federal purchases to follow a modest uptrend. Our forecast calls for an increase of 1/4 percent (annual rate) in the second half of this year and a rise of around 1-1/4 percent over the four quarters of 2001.

3. Indeed, it would not be unduly cynical to suggest that some of the attraction of these initiatives has been the thought that the B2B exchanges that are being set up can be spun off at astronomical valuations; whether the recent slump in dot-com stocks will alter this calculation remains to be seen. In any event, we believe that, in the near term, at least some companies will find themselves burdened with the cost and confusion of maintaining old EDI and other procurement systems while trying to set up web-based hook-ups with their partners.

This forecast is virtually the same as that in the March Greenbook, as the changes in our policy assumptions have a relatively small effect on federal government purchases.

Most state and local governments continue to be in exceptionally good financial shape. We project that real state and local consumption and investment expenditures will increase about 4-3/4 percent (annual rate) over the next six quarters, just a little below last year's robust pace. Spending on capital improvements and education may benefit most from the strong budgets, but more tax cuts also seem to be in store.

Net exports. The alterations in the expected paths of the dollar and foreign activity have had a slightly negative effect, on balance, on the projection for real net exports. This year's widening of the trade gap arithmetically trims just under 1 percentage point from GDP growth, only a little less than we saw last year; however, the slowing of the deterioration of net exports in 2001 reduces the drag on GDP growth to just 1/4 percentage point. (The International Developments section provides a more detailed discussion of the outlook for the external sector.)

Prospects for the Supply Side of the Economy and Inflation

The expansion of aggregate supply has been substantial, but nowhere near enough to match the advance of demand. Consequently, pressures on resources appear to have reached a point where workers feel they can be more aggressive in seeking higher compensation and where firms are more willing to test the competitive waters by hiking prices. The moderation in demand growth in our forecast is insufficient to relieve those pressures, suggesting that--other things being equal--a greater tightening of policy than we have assumed may be required to avert an ongoing deterioration in the inflation trend beyond the projection period.

Labor markets. Given the data now in hand, we estimate that the official accounts will be revised to show a published productivity gain in the nonfarm business sector of 1-1/2 percent (annual rate) in the first quarter. However, this figure is depressed by the anomaly in defense payments; adjusting for that yields a first-quarter increase of 2.7 percent and puts the estimated four-quarter change at 3-1/2 percent. We see some of the strong productivity performance of the past year as reflecting a rapid pace of structural improvement, but we also think that a significant portion is cyclical: Businesses have been surprised by the high level of demand and unable to readily hire in the tight labor market, so they have simply stretched their current workers further. Such stretching certainly is apparent in the thinner staffing and poorer service that one encounters in many

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

Measure	1998	1999	2000	2001
Output per hour, nonfarm business	3.3	3.7	2.8	2.7
Previous	3.1	3.7	3.0	2.8
Nonfarm payroll employment	2.4	2.2	2.1	1.4
Previous	2.4	2.2	1.8	1.4
Household employment survey	1.3	1.5	1.7	1.0
Previous	1.3	1.5	1.3	.9
Labor force participation rate[1]	67.1	67.0	67.4	67.4
Previous	67.1	67.0	67.3	67.3
Civilian unemployment rate[1]	4.4	4.1	3.8	4.0
Previous	4.4	4.1	4.0	4.2
Memo:				
Output per hour, nonfarm business, adjusted for defense spending anomaly	3.3	3.6	2.9	2.7

1. Percent, average for the fourth quarter.

retail establishments, and reports of strain and greater quality problems are heard from businesses in other sectors as well.

On this interpretation, we have not materially altered our view of productivity trends. Based on high levels of capital investment and continuing opportunities for operational improvements that firms seem to be pursuing quite aggressively, we are assuming that the pace of structural improvement in NFB labor productivity has stepped up to 3-1/4 percent per year. However, the appreciable moderation in output growth that we project should generate some cyclical drag on productivity, as severely short-staffed firms fill some of the many job vacancies they have been reporting. On balance, we are projecting that actual output per hour will rise a little less than 3 percent this year and next.

The expansion of supply has also been abetted by a considerable increase in the labor force since last fall. The latest labor market reports have shown participation rates remaining around the 67-1/2 percent level--pretty much in line with our March Greenbook expectation. The usual noise in the data and the unknown effects from temporary Census hiring make it difficult to judge the significance of the big jump in participation that has been recorded, but we continue to think that some of the advance will prove to be a lasting response to the ready availability of jobs.

Combining these factors, our assessment remains that potential GDP growth has picked up from a little less than 4 percent on average in the past couple of years to about 4-1/4 percent per year in 2000-01. The behavior of the unemployment rate to date seems consistent with this view, and going forward our Okun's law model suggests that the jobless rate will remain near the April level.[4]

Wages and Prices. Incoming data bolster our view that the underlying trend in prices is now less favorable than it was last year. Although we think the March increase in the core CPI of 0.4 percent exaggerates the problem, an accelerating trend in the index is consistent with anecdotal reports that firms are more inclined to pass along increases in their costs. Wage inflation also appears to be picking up, although the signals have been somewhat mixed. However, as we have noted previously, given the methods firms are using to attract and retain workers these days, none of the available pay data seems well suited to capture the influence of labor costs on pricing decisions. Thus, while these costs certainly remain an important component of the inflation process in the real world, our forecast of prices is not tied to our projections for the various official measures of compensation in a tight quantitative manner.

We project that the ECI measure of compensation per hour will increase 4.4 percent in 2000, compared with 3.4 percent in 1999. The projected rise this year is 1/2 percentage point greater than that in the March Greenbook and reflects both the tighter projected labor market and the surprisingly sharp jumps in both the benefits and the wages-and-salaries components in the first quarter. Actually, the adjustment brings the forecast into closer alignment with the predictions of our econometric models. In our previous forecast, we did not have the courage of our models' convictions, given that the anecdotal evidence remained ambiguous and the official statistics were providing no meaningful hint of an acceleration in nominal pay rates; we opted therefore for a more gradual pickup over 2000 and 2001.

The largest acceleration in the compensation series in the first quarter was in finance, insurance, and real estate (FIRE). Competition for workers in this sector reportedly has been intense; even in investment banking, where huge pay

4. Although GDP growth falls noticeably below the assumed potential rate next year, our econometric relationships indicate that employment tends to respond with a lag to output movements. This leads to a more gradual adjustment than a simple rule-of-thumb version of Okun's law would suggest, limiting the upswing in the unemployment rate by a tenth or two within the forecast period.

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

Measure	1998	1999	2000	2001
PCE chain-weighted price index	.9	2.0	2.4	2.2
Previous	1.0	2.0	2.3	1.9
Excluding food and energy	1.3	1.5	2.2	2.4
Previous	1.4	1.5	2.0	2.2
Consumer price index	1.5	2.6	3.0	2.4
Previous	1.5	2.6	2.8	2.3
Food	2.3	1.9	2.8	2.7
Previous	2.3	1.9	2.3	2.7
Energy	-9.2	11.2	6.4	-3.2
Previous	-9.2	11.2	6.1	-4.8
Excluding food and energy	2.4	2.1	2.7	2.9
Previous	2.4	2.1	2.5	2.8
GDP chain-weighted price index	1.0	1.6	2.3	2.0
Previous	1.1	1.6	2.2	1.9
ECI for compensation of private industry workers[1]	3.5	3.4	4.4	4.6
Previous	3.5	3.4	3.9	4.4
NFB compensation per hour	5.4	4.3	4.9	5.5
Previous	5.3	4.3	4.9	5.3
Prices of core non-oil merchandise imports	-1.9	.2	1.8	3.0
Previous	-1.9	.2	2.0	2.4
	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.

packages are not unheard of, firms are said to be having difficulty attracting talent because workers prefer to chase the megabucks of the venture capital and dot-com enterprises. Yet, because pay increases in FIRE tend to be volatile and may have been boosted by big commissions and bonus payments related to exceptionally high levels of activity, our forecast also gives some weight to the numbers excluding FIRE, which show a smaller but still noteworthy acceleration.

We expect the increase in ECI compensation to pick up just a little further in 2001. The more muted acceleration compared with 2000 partly reflects the peaking of oil prices this year, which should show up as a smaller cost-of-living effect next year. In addition, the moderation in the expansion of business sales and financial activity should cause bonus and commission increases to ease from this year's pace, and we do not expect a further escalation in the already steep rate of increase in health insurance benefit costs. The predicted gain in hourly compensation next year is 0.2 percentage point larger than in our previous forecast, however, because of the tighter labor market and higher prices in the current projection.[5]

In contrast to the ECI, the productivity and cost (P&C) measure of hourly compensation showed a relatively subdued increase in the first quarter, as it did in the fourth. As we are discounting part of the surge in the ECI, we are also questioning the signal in the recent movements in the P&C series. One reason for skepticism about these numbers is that the series does not yet incorporate wage and salary information from the unemployment insurance system beyond the third quarter of last year or any timely benefits data. We would not be surprised to see upward revisions to the published P&C compensation readings at some point, but for now we are simply projecting that the increases in coming quarters will be distinctly higher than they have been recently. We see the rise in P&C compensation per hour picking up from 4.3 percent in 1999 to 5.5 percent in 2001, an acceleration like that in the ECI. The projected gain this year is the same as in the March Greenbook, with the negative surprise in the first quarter outweighing the upward revisions later in the year, but the increase next year is a little higher.

Turning to prices, we have boosted our forecast for food prices this year to reflect the heightened possibility that dry weather will hurt farm output; we now see food prices rising a little faster than core prices this year and slowing only a touch in 2001. Retail energy prices are projected to finish this year above their level at the end of 1999; the rise over 2000 will be much smaller than the double-digit gain registered in 1999 but still above the inflation rate for other consumer items. In the near term, the decline in crude oil prices has caused the

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5. As in the previous Greenbook, assumed increases in the minimum wage near the end of this year and next add 0.1 percentage point to our projection of the four-quarter change in compensation this year and 0.2 percentage point next year.

retail price of gasoline to ease a bit in recent weeks, although the effect on overall energy prices will be offset a little by a further rise in natural gas prices, which, in turn, lifts feedstock costs and promises to make electricity more expensive. For 2001, we expect that energy prices will decline, holding down overall inflation.

Excluding food and energy, we continue to project a substantial pickup in consumer prices this year and a further acceleration in 2001. Although, as noted, we continue to resist tying our price forecast tightly to the behavior of any particular measure of compensation movements, we think that unit labor cost pressures will in all likelihood provide an impetus to price increases. The outlook for core inflation also reflects the lagged effects of higher oil prices and a further firming of prices for non-oil imports. We expect that the slack in industrial markets will continue to diminish, with factory utilization drifting up to the long-term average of 82 percent next year; although this level certainly does not suggest significant bottlenecks, it does mean that firms will have a bit less to worry about in regard to potential losses of market share if they attempt to raise prices.

We project that core PCE prices will accelerate almost 1 percentage point between 1999 and 2001, with the inflation rate by this measure approaching 2-1/2 percent. We are predicting about the same amount of acceleration in the core CPI, which would put the inflation rate for that index at close to 3 percent next year. However, because of the subdued behavior of energy prices over the coming quarters, the headline inflation rates for both the PCE index and the CPI will slow next year and run only 2-1/4 to 2-1/2 percent. That pattern should be helpful in containing core inflation in 2002, in part by damping cost-of-living increases; but avoidance of an ongoing deterioration in the underlying trend will likely require a sharper deceleration in output and at least some loosening of the labor market.

Financial Flows and Conditions

Growth of domestic nonfinancial debt slowed in the first quarter of this year from the pace of late 1999. Net borrowing by both households and businesses remained substantial, but this was damped by modest net bond issuance by state and local governments and a continued paydown of federal debt.

Looking ahead, household borrowing is likely to diminish some as the demand for consumer durables and housing moderates. However, in the business sector, corporate borrowing is expected to be buoyed by the widening gap between internal cash flow and capital outlays. Net borrowing by state and local units should remain sluggish: Bond issuance for public investment will likely be strong, but so too will funds available from tax revenues and federal support of construction. Moreover, retirements from earlier advance refunding activity will be sizable this year and in 2001. Given the mushrooming federal surplus, the paydown of Treasury debt will accelerate. Overall, domestic nonfinancial debt is projected to expand about 5 percent in 2000 and in 2001, down from the nearly 7 percent pace last year.

Corporate bond issuance has been slow since mid-March owing, at least in part, to the increase in the level and volatility of bond rates. Consequently, businesses have apparently turned to other debt financing sources, causing both C&I loans from banks and commercial paper to grow briskly. In due course, bond market participants presumably will adapt to the benchmarking problems that have arisen as a result of the reduced supply of Treasuries, so that this source of illiquidity will diminish in importance. However, we anticipate that the bond market will remain less hospitable to riskier and to smaller, less liquid offerings than it was before the turmoil of 1998--especially against a backdrop of continued substantial defaults especially on junk bonds that were underwritten aggressively a few years ago. Firms that might otherwise have tapped the junk market will continue to look to a range of other public and private financing options. Banks probably will satisfy some of that demand for funds, but we would expect the trend toward tighter lending standards and firmer pricing to persist--encouraged to some degree by admonitions from federal supervisors. All told, this firming of lending terms and availability, however, will not remotely resemble a credit crunch for business firms.

Tightening credit supply is likely to be even less of an issue for households. Interest rates on loans should move up with market rates, but we do not foresee an appreciable firming of underwriting standards. Although debt-service burdens probably will rise further, the continuation of quite solid employment and income growth suggests that loan repayment difficulties will not increase enough to scare lenders. Were there to be a sizable decline in the stock market, it undoubtedly would cause some particular discomfort for heavy spending households that had, in effect, liquefied some of their gains through consumer or mortgage loans. However, this would seem unlikely itself to trigger widespread loan defaults: Most people with significant shareholdings also have either other financial assets or substantial labor income that could be tapped to service debts.

The financial health of states and localities should remain quite good, minimizing concerns about credit risk in the municipal bond market. This may have helped municipals outperform corporates of late. Looking ahead, as returns on stock portfolios prove disappointing, high-bracket investors could find the after-tax yields on munis quite attractive, and the resultant demand might further reduce the ratio of muni yields to yields on taxable bonds. Nonetheless, with corporate rates rising appreciably in our projection, we would expect muni rates to remain high enough to deter new advance refundings; with a sizable volume of already refunded issues due to be retired, this suggests a considerable drag on state and local debt growth through next year.

Based on our budget projections, the Treasury will have a bigger job to do in managing its debt retirements than it has yet faced up to publicly. It has moved to make the repurchase program more predictable in terms of timing, but that will not resolve all the issues related to market liquidity. While we remain uncertain that the widening of spreads that has occurred between Treasury and other debt is fully justified by the reality of the prospects for reduced supply of Treasuries, that reality is not easy to define and neither is the degree to which investors are being forced out of their preferred habitats. Under the circumstances, we have assumed that spreads will remain similar to those now prevailing, with the benchmark/pricing uncertainty premium diminishing, but credit risk premiums increasing a bit.

The broad monetary aggregates expanded at a fast clip in March and April, boosted by the effects of above-average tax payments last month. For the year as a whole, M2 velocity is expected to rise in response to higher short-term interest rates. The damping effect of higher rates abates in 2001, bringing the growth of M2 back in line with the expansion of nominal income. M3 growth is expected to outpace the growth of income in both years.

Alternative Simulations

We have prepared four simulations with the FRB/US econometric model. In the first scenario, we allow the federal funds rate to remain at its current level through 2001. In the second scenario, we assume tighter monetary policy than in our baseline projection, with the funds rate rising to 8 percent by the end of this year--fully 1 percentage point more than the market seems now to be anticipating. A third scenario explores the possibility of a stock market correction, assuming that the Wilshire 5000 falls sharply over the next few weeks to a level of 11,000 and remains at this level through the end of next year. Finally, we have included a continued bull market scenario, where the Wilshire trends up to 16,000 by the end of 2001.

With no change in the nominal federal funds rate over the projection period, the model calls for real GDP to continue rising at 4-3/4 percent per year--in excess of our baseline assumption of potential. The unemployment rate consequently moves down to less than 3-1/2 percent by the end of 2001. With this substantial further tightening of labor markets, core PCE inflation accelerates from a 2-1/4 percent pace this year to a 3 percent rate in 2001; it clearly will step up rapidly beyond the forecast period.

Alternative Simulations
(Percent change, Q4 to Q4, except as noted)

Measure	2000	2001
Real GDP		
Baseline	4.5	3.6
Flat funds rate	4.7	4.8
Tighter policy	4.4	3.2
Stock market correction	4.2	3.0
Continued stock market gains	4.6	4.0
Civilian unemployment rate[1]		
Baseline	3.8	4.0
Flat funds rate	3.7	3.4
Tighter policy	3.8	4.3
Stock market correction	3.9	4.2
Continued stock market gains	3.8	3.9
PCE prices excluding food and energy		
Baseline	2.2	2.4
Flat funds rate	2.2	3.0
Tighter policy	2.2	2.1
Stock market correction	2.2	2.3
Continued stock market gains	2.2	2.4

1. Average for the fourth quarter.

In contrast, the "tighter policy" scenario shows real GDP growth slowing to 3-1/4 percent next year. The greater deceleration in activity adds only a few tenths to the baseline unemployment rate by the end of 2001, so that the labor market remains unsustainably taut. However, a significant short-run disinflationary effect is predicted, as the increase in the core PCE price index edges down a hair in 2001, rather than rising as in the baseline. According to the model, the more aggressive monetary policy tightening damps inflation fairly quickly through its effects both on the exchange rate and on expectations about the future level of slack and, consequently, the long-run level of inflation.

A further stock market correction would raise the cost of equity finance and pare the household wealth-income ratio to a greater degree than in our baseline forecast. Operating through these channels, the drop in equity prices in the simulation--bringing the Wilshire 5000 down about 20 percent from its first-quarter average--would reduce GDP growth to 4-1/4 percent this year and to

3 percent next year. As in the tighter monetary policy scenario, the unemployment rate would rise to around 4-1/4 percent by the end of 2001; however, the disinflationary benefits are smaller because perceptions of the long-run inflation goal of monetary policy are unchanged.

The scenario that calls for the stock market to trend upward yields somewhat stronger output growth than in our baseline projection, with GDP increasing a little more than 4-1/2 percent this year and 4 percent next year. Labor markets are a bit tighter at the end of next year, but the change is not large enough to produce a noticeable effect on core inflation in 2001.

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May 11, 2000

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]	
		3/15/00	5/11/00	3/15/00	5/11/00	3/15/00	5/11/00	3/15/00	5/11/00	3/15/00	5/11/00
ANNUAL											
1997		6.2	6.2	4.5	4.2	1.7	1.9	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		5.6	5.7	4.1	4.1	1.4	1.4	2.2	2.2	4.2	4.2
2000		7.0	7.3	4.8	5.1	2.1	2.1	3.1	3.1	4.0	3.9
2001		5.7	5.9	3.8	3.8	1.9	2.0	2.1	2.4	4.1	3.9
QUARTERLY											
1998	Q1	7.7	7.7	6.7	6.9	1.0	0.9	1.0	1.0	4.7	4.7
	Q2	3.4	3.4	2.1	2.2	1.1	1.1	1.7	1.7	4.4	4.4
	Q3	5.4	5.4	3.8	3.8	1.4	1.3	1.7	1.7	4.5	4.5
	Q4	7.0	7.0	5.9	5.9	0.9	0.8	1.7	1.7	4.4	4.4
1999	Q1	5.7	5.7	3.7	3.7	2.0	2.0	1.7	1.7	4.3	4.3
	Q2	3.3	3.3	1.9	1.9	1.3	1.3	3.2	3.2	4.3	4.3
	Q3	6.8	6.8	5.7	5.7	1.1	1.1	2.4	2.4	4.2	4.2
	Q4	9.1	9.4	7.0	7.3	2.0	2.0	2.9	2.9	4.1	4.1
2000	Q1	7.3	7.7	4.3	4.9	2.9	2.6	3.9	4.1	4.0	4.1
	Q2	7.6	7.9	4.9	5.3	2.6	2.7	4.4	3.5	4.0	3.9
	Q3	5.4	6.1	3.8	4.1	1.6	1.9	1.1	2.1	4.0	3.8
	Q4	5.5	5.9	3.8	4.0	1.7	1.8	1.7	2.3	4.0	3.8
2001	Q1	5.7	5.8	3.7	3.6	2.0	2.1	1.9	2.2	4.1	3.9
	Q2	5.4	5.6	3.6	3.6	1.8	1.9	2.3	2.5	4.1	3.9
	Q3	5.7	5.6	3.7	3.6	1.9	2.0	2.3	2.4	4.1	3.9
	Q4	5.8	5.7	3.7	3.6	1.9	2.0	2.5	2.6	4.2	4.0
TWO-QUARTER[3]											
1998	Q2	5.5	5.5	4.4	4.5	1.1	1.0	1.3	1.3	-0.3	-0.3
	Q4	6.2	6.2	4.8	4.9	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	7.9	8.1	6.3	6.5	1.5	1.5	2.7	2.7	-0.2	-0.2
2000	Q2	7.4	7.8	4.6	5.1	2.8	2.7	4.1	3.7	-0.1	-0.2
	Q4	5.5	6.0	3.8	4.0	1.6	1.9	1.4	2.2	0.0	-0.1
2001	Q2	5.6	5.7	3.6	3.6	1.9	2.0	2.1	2.3	0.1	0.1
	Q4	5.7	5.7	3.7	3.6	1.9	2.0	2.4	2.5	0.1	0.1
FOUR-QUARTER[4]											
1997	Q4	5.9	5.9	4.3	4.1	1.6	1.8	1.9	1.9	-0.6	-0.6
1998	Q4	5.9	5.9	4.6	4.7	1.1	1.0	1.5	1.5	-0.3	-0.3
1999	Q4	6.2	6.3	4.5	4.6	1.6	1.6	2.6	2.6	-0.3	-0.3
2000	Q4	6.4	6.9	4.2	4.5	2.2	2.3	2.8	3.0	-0.1	-0.3
2001	Q4	5.6	5.7	3.7	3.6	1.9	2.0	2.3	2.4	0.2	0.1

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

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

May 11, 2000

Item	Units[1]	1993	1994	1995	1996	1997	1998	1999	-- Projected -- 2000	2001
EXPENDITURES										
Nominal GDP	Bill. $	6642.3	7054.3	7400.5	7813.2	8300.8	8759.9	9256.1	9935.1	10523.5
Real GDP	Bill. Ch. $	7062.6	7347.7	7543.8	7813.2	8144.8	8495.7	8848.2	9302.9	9660.8
Real GDP	% change	2.5	4.1	2.2	4.1	4.1	4.7	4.6	4.5	3.6
Gross domestic purchases		3.1	4.3	1.7	4.3	4.7	5.7	5.6	5.2	3.7
Final sales		2.6	3.2	2.9	3.9	3.6	4.7	4.6	4.7	3.8
Priv. dom. final purchases		4.2	4.3	3.2	4.4	4.7	6.6	5.7	6.1	4.0
Personal cons. expenditures		3.4	3.6	2.8	3.1	3.9	5.1	5.6	4.9	3.3
Durables		9.3	6.4	3.7	5.0	8.4	13.0	10.5	7.4	2.9
Nondurables		2.6	4.1	2.5	3.2	2.4	5.0	5.8	4.5	2.5
Services		2.6	2.7	2.7	2.7	3.8	3.7	4.5	4.7	3.7
Business fixed investment		8.7	9.2	7.5	12.1	9.6	13.1	7.1	14.9	10.0
Equipment & Software		11.5	12.0	8.9	11.8	11.3	16.8	10.8	17.3	12.5
Nonres. structures		1.2	1.1	3.3	12.8	4.7	2.9	-3.9	7.1	1.3
Residential structures		7.8	4.0	-1.5	5.6	3.7	11.3	3.9	-1.5	-3.6
Exports		4.8	10.5	9.7	9.8	9.2	2.0	4.8	6.1	8.4
Imports		10.5	12.2	5.0	11.2	14.2	10.8	12.6	10.9	8.1
Gov't. cons. & investment		-0.8	0.2	-0.8	2.7	2.2	2.3	5.0	2.2	3.5
Federal		-5.3	-3.7	-5.3	2.0	0.2	0.6	5.0	-2.0	1.3
Defense		-6.4	-5.9	-4.7	0.8	-1.3	-1.1	5.1	-4.2	0.8
State & local		2.5	2.8	2.1	3.0	3.3	3.2	5.0	4.4	4.7
Change in bus. inventories	Bill. Ch. $	20.0	66.8	30.4	30.0	69.1	74.3	42.2	47.1	44.5
Nonfarm		28.6	53.6	42.6	22.1	66.2	73.2	42.4	52.8	45.0
Net exports		-59.1	-86.5	-78.4	-89.0	-112.1	-217.6	-323.0	-409.7	-461.7
Nominal GDP	% change	5.0	6.2	4.3	6.0	5.9	5.9	6.3	6.9	5.7
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	110.7	114.1	117.2	119.6	122.7	125.8	128.6	131.5	133.6
Unemployment rate	%	6.9	6.1	5.6	5.4	4.9	4.5	4.2	3.9	3.9
Industrial prod. index	% change	3.4	6.4	3.5	5.3	6.8	2.9	4.2	5.7	4.0
Capacity util. rate - mfg.	%	80.5	82.5	82.6	81.5	82.4	80.9	79.8	81.3	82.0
Housing starts	Millions	1.29	1.46	1.35	1.48	1.47	1.62	1.67	1.66	1.57
Light motor vehicle sales		13.87	15.01	14.77	15.05	15.05	15.45	16.76	17.35	16.53
North Amer. produced		11.72	12.88	12.87	13.35	13.12	13.43	14.28	14.63	14.07
Other		2.15	2.13	1.90	1.70	1.94	2.02	2.48	2.72	2.47
INCOME AND SAVING										
Nominal GNP	Bill. $	6666.7	7071.1	7420.9	7831.2	8305.0	8750.0	9236.2	9899.0	10474.6
Nominal GNP	% change	4.9	6.2	4.4	5.9	5.7	5.6	6.1	6.9	5.6
Nominal personal income		3.7	5.1	4.3	5.9	6.4	6.0	5.9	6.8	6.1
Real disposable income		1.3	2.9	1.7	2.6	3.9	4.3	3.7	3.8	3.9
Personal saving rate	%	7.1	6.1	5.6	4.8	4.5	3.7	2.4	0.7	1.2
Corp. profits, IVA & CCAdj.	% change	18.0	12.3	11.3	11.4	10.1	-1.8	9.6	9.5	0.9
Profit share of GNP	%	7.7	8.1	9.0	9.6	10.1	9.7	9.7	10.1	9.6
Excluding FR Banks		7.4	7.9	8.7	9.4	9.8	9.4	9.4	9.8	9.4
Federal surpl./deficit	Bill. $	-274.1	-212.3	-192.0	-136.8	-48.8	46.9	115.4	205.6	233.9
State & local surpl./def.		1.5	8.6	15.3	21.4	27.5	41.7	51.0	56.1	52.4
Ex. social ins. funds		-2.7	4.0	11.4	18.7	26.4	40.8	50.2	54.7	51.0
Gross natl. saving rate	%	15.6	16.3	16.9	17.2	18.3	18.8	18.7	18.6	18.8
Net natl. saving rate		3.8	4.3	5.1	5.7	7.1	7.5	7.3	7.3	7.5
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.4	2.1	2.1	1.9	1.8	1.0	1.6	2.3	2.0
Gross Domestic Purchases chn.-wt. price index		2.2	2.1	2.1	1.9	1.3	0.7	1.9	2.2	1.9
PCE chn.-wt. price index		2.1	2.1	2.1	2.3	1.6	0.9	2.0	2.4	2.2
Ex. food and energy		2.4	2.3	2.3	1.8	1.7	1.3	1.5	2.2	2.4
CPI		2.7	2.6	2.7	3.1	1.9	1.5	2.6	3.0	2.4
Ex. food and energy		3.1	2.8	3.0	2.6	2.2	2.4	2.1	2.7	2.9
ECI, hourly compensation[2]		3.6	3.1	2.6	3.1	3.4	3.5	3.4	4.4	4.6
Nonfarm business sector										
Output per hour		-0.2	1.1	1.1	2.3	1.9	3.3	3.7	2.8	2.7
Compensation per Hour		1.3	2.2	2.7	3.2	4.3	5.4	4.3	4.9	5.5
Unit labor cost		1.6	1.0	1.5	0.9	2.3	2.0	0.6	2.1	2.8

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

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Class II FOMC

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

May 11, 2000

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. $	8018.7	8115.4	8192.2	8253.2	8391.1	8436.3	8515.7	8639.5	8717.6	8758.3
Real GDP	% change	4.5	4.9	3.8	3.0	6.9	2.2	3.8	5.9	3.7	1.9
Gross domestic purchases		5.4	5.4	4.6	3.4	8.8	4.2	4.6	5.5	5.8	3.2
Final sales		3.5	2.9	5.6	2.4	5.2	5.1	2.4	6.3	4.6	3.4
Priv. dom. final purchases		5.0	2.8	7.4	3.4	9.0	7.4	3.6	6.4	7.0	5.4
Personal cons. expenditures		4.4	1.5	6.4	3.3	5.8	6.1	4.0	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		3.4	3.0	4.2	4.5	3.7	4.9	4.7	1.5	4.2	5.2
Business fixed investment		9.6	9.9	16.0	3.2	26.7	12.1	0.0	15.3	7.8	7.0
Equipment & Software		10.1	15.2	17.7	2.8	34.7	13.8	2.4	18.6	12.5	11.2
Nonres. structures		8.0	-4.0	11.2	4.3	5.7	7.1	-6.6	5.8	-5.8	-5.3
Residential structures		3.0	4.7	0.6	6.6	14.0	13.6	8.0	9.8	12.9	5.5
Exports		8.3	15.9	11.3	1.7	-1.5	-3.9	-1.6	16.3	-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		1.5	5.6	1.6	-0.1	-1.0	6.0	1.3	2.9	5.1	1.3
Federal		-2.9	9.8	-1.4	-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		4.1	3.3	3.4	2.3	4.1	3.0	3.3	2.4	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		-92.6	-103.2	-121.3	-131.5	-174.5	-221.0	-240.3	-234.4	-286.6	-321.1
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	%	5.3	5.0	4.8	4.7	4.7	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	1.43	1.48	1.46	1.53	1.56	1.57	1.63	1.72	1.76	1.59
Light motor vehicle sales		15.35	14.54	15.26	15.06	15.18	16.09	14.52	16.01	16.24	16.74
North Amer. produced		13.43	12.68	13.25	13.11	13.21	14.10	12.52	13.88	13.98	14.32
Other		1.92	1.86	2.01	1.96	1.97	1.99	2.00	2.13	2.26	2.42
INCOME AND SAVING											
Nominal GNP	Bill. $	8131.1	8269.1	8366.5	8453.3	8613.7	8683.7	8772.2	8930.5	9058.2	9131.9
Nominal GNP	% change	6.8	7.0	4.8	4.2	7.8	3.3	4.1	7.4	5.8	3.3
Nominal personal income		8.0	5.6	5.5	6.4	5.3	5.8	6.6	6.5	5.4	5.5
Real disposable income		3.9	3.9	3.4	4.3	4.2	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	15.6	14.4	15.9	-4.1	1.9	-4.1	-1.2	-3.6	24.9	-2.9
Profit share of GNP	%	9.9	10.1	10.3	10.1	10.0	9.8	9.7	9.4	9.8	9.6
Excluding FR Banks		9.6	9.8	10.0	9.8	9.7	9.5	9.4	9.1	9.5	9.4
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	7.6	7.8	7.3
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.8	1.8	1.3	1.3	0.9	1.1	1.3	0.8	2.0	1.3
Gross Domestic Purchases chn.-wt. price index		2.3	0.8	1.2	1.2	-0.1	0.8	1.0	0.9	1.6	1.9
PCE chn.-wt. price index		2.6	1.1	1.3	1.2	0.3	1.1	1.1	1.1	1.5	2.2
Ex. food and energy		2.5	2.3	1.0	1.1	1.1	1.6	1.3	1.3	1.5	1.3
CPI		2.5	1.3	1.8	2.0	1.0	1.7	1.7	1.7	1.7	3.2
Ex. food and energy		2.2	2.6	1.7	2.1	2.8	2.3	2.3	2.1	1.8	2.1
ECI, hourly compensation[1]		2.8	3.4	3.0	4.6	3.0	3.3	4.4	2.6	1.7	4.3
Nonfarm business sector											
Output per hour		0.3	3.0	3.2	1.1	4.7	1.0	3.2	4.1	2.7	0.5
Compensation per hour		3.6	2.6	4.4	6.4	4.9	5.6	6.2	4.6	4.2	4.7
Unit labor cost		3.3	-0.3	1.2	5.2	0.2	4.5	3.0	0.4	1.5	4.2

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

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

May 11, 2000

Item	Units	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4
				- - - - -	- - - - -	- - - - -	- - - - - Projected	- - - - -	- - - - -	- - - - -	- - - - -
EXPENDITURES											
Nominal GDP	Bill. $	9297.8	9507.9	9685.7	9872.6	10018.8	10163.5	10307.3	10449.7	10594.0	10742.9
Real GDP	Bill. Ch. $	8879.8	9037.2	9145.0	9262.9	9355.5	9448.1	9532.2	9617.6	9703.3	9790.2
Real GDP	% change	5.7	7.3	4.9	5.3	4.1	4.0	3.6	3.6	3.6	3.6
Gross domestic purchases		6.2	7.2	6.1	5.9	5.0	4.1	4.0	4.0	3.7	3.3
Final sales		4.5	6.0	6.7	3.9	3.9	4.3	3.9	3.7	3.7	3.8
Priv. dom. final purchases		5.3	5.3	10.0	4.7	5.1	4.7	4.4	4.2	3.8	3.4
Personal cons. expenditures		4.9	5.9	7.6	4.0	4.4	3.8	3.9	3.5	3.0	2.5
Durables		7.7	13.0	22.2	-0.7	5.4	4.2	3.2	2.7	3.1	2.8
Nondurables		3.6	7.6	6.2	4.5	4.0	3.3	3.3	2.7	2.0	1.8
Services		5.0	3.7	5.4	4.8	4.4	4.0	4.4	4.1	3.6	2.9
Business fixed investment		10.9	2.9	24.8	10.6	12.2	12.6	9.9	10.1	10.2	9.7
Equipment & Software		15.7	4.0	29.1	10.6	14.7	15.6	12.3	12.6	12.9	12.4
Nonres. structures		-3.8	-0.5	16.5	5.7	3.9	2.8	2.0	1.7	1.1	0.5
Residential structures		-3.8	1.8	6.3	-2.2	-4.8	-5.0	-5.1	-3.2	-3.5	-2.6
Exports		11.5	10.1	0.2	11.0	4.0	9.4	4.5	8.3	8.7	12.0
Imports		14.9	8.7	10.1	14.3	10.7	8.6	7.0	9.8	8.2	7.4
Gov't. cons. & investment		4.5	9.3	-1.4	3.9	3.5	2.8	3.5	3.5	3.6	3.6
Federal		4.1	14.7	-15.5	8.7	1.2	-0.8	1.3	1.3	1.4	1.4
Defense		11.2	17.2	-23.2	8.0	0.7	0.8	0.8	0.8	0.9	0.9
State & local		4.8	6.4	7.0	1.4	4.7	4.7	4.7	4.6	4.7	4.7
Change in bus. inventories	Bill. Ch. $	38.0	66.7	21.4	54.3	59.6	53.2	47.5	45.7	44.3	40.7
Nonfarm		41.2	72.3	29.2	61.3	64.6	56.2	49.5	46.7	44.3	39.7
Net exports		-340.4	-344.1	-378.2	-399.2	-427.3	-433.9	-448.0	-462.7	-470.4	-465.7
Nominal GDP	% change	6.8	9.4	7.7	7.9	6.1	5.9	5.8	5.6	5.6	5.7
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	128.9	129.6	130.5	131.5	131.9	132.4	132.9	133.4	133.9	134.3
Unemployment rate	%	4.2	4.1	4.1	3.9	3.8	3.8	3.9	3.9	3.9	4.0
Industrial prod. index	% change	4.8	5.3	6.4	7.2	5.6	3.6	4.2	4.0	4.9	3.0
Capacity util. rate - mfg.	%	79.7	80.3	80.7	81.3	81.5	81.7	81.8	81.9	82.0	82.1
Housing starts	Millions	1.66	1.69	1.72	1.65	1.64	1.61	1.60	1.58	1.56	1.56
Light motor vehicle sales		17.16	16.89	18.13	17.32	17.09	16.87	16.63	16.51	16.50	16.49
North Amer. produced		14.71	14.09	15.28	14.55	14.40	14.28	14.11	14.04	14.06	14.06
Other		2.45	2.80	2.85	2.77	2.69	2.59	2.52	2.47	2.44	2.43
INCOME AND SAVING											
Nominal GNP	Bill. $	9282.3	9472.3	9653.4	9838.5	9982.0	10122.1	10261.7	10400.8	10544.9	10690.9
Nominal GNP	% change	6.8	8.4	7.9	7.9	6.0	5.7	5.6	5.5	5.7	5.7
Nominal personal income		5.2	7.4	6.3	8.2	6.3	6.3	7.0	5.9	5.6	5.7
Real disposable income		2.9	4.7	2.0	5.4	4.1	3.8	6.1	3.4	3.1	3.1
Personal saving rate	%	2.1	1.8	0.5	0.9	0.8	0.7	1.2	1.2	1.2	1.3
Corp. profits, IVA & CCAdj.	% change	1.6	17.0	31.9	2.4	4.0	2.3	-2.5	0.1	2.6	3.4
Profit share of GNP	%	9.5	9.7	10.2	10.1	10.0	9.9	9.7	9.6	9.6	9.5
Excluding FR Banks		9.2	9.4	9.9	9.8	9.8	9.7	9.5	9.4	9.3	9.3
Federal surpl./deficit	Bill. $	133.8	112.2	198.4	193.9	212.2	217.7	204.4	223.9	248.4	258.9
State & local surpl./def.		48.9	68.8	56.3	57.3	53.8	56.9	58.8	55.7	49.8	45.2
Ex. social ins. funds		48.1	67.7	55.0	56.0	52.4	55.5	57.4	54.3	48.4	43.8
Gross natl. saving rate	%	18.7	18.3	18.5	18.6	18.6	18.6	18.7	18.7	18.8	18.9
Net natl. saving rate		7.1	6.9	7.1	7.3	7.3	7.3	7.4	7.4	7.6	7.7
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.1	2.0	2.6	2.7	1.9	1.8	2.1	1.9	2.0	2.0
Gross Domestic Purchases chn.-wt. price index		1.7	2.3	3.2	2.3	1.7	1.8	2.1	1.8	1.8	1.9
PCE chn.-wt. price index		1.8	2.5	3.2	2.6	1.8	2.1	2.0	2.2	2.2	2.3
Ex. food and energy		1.2	2.0	1.8	2.4	2.2	2.3	2.3	2.4	2.4	2.5
CPI		2.4	2.9	4.1	3.5	2.1	2.3	2.2	2.5	2.4	2.6
Ex. food and energy		2.1	2.3	2.3	3.2	2.6	2.7	2.6	3.0	2.9	3.0
ECI, hourly compensation[1]		3.7	4.0	5.9	3.5	3.9	4.3	4.5	4.5	4.5	4.7
Nonfarm business sector											
Output per hour		5.0	6.9	1.5	3.5	3.1	3.1	2.6	2.6	2.6	2.9
Compensation per hour		4.6	3.8	4.2	5.0	5.0	5.3	5.6	5.3	5.3	5.6
Unit labor cost		-0.3	-2.9	2.7	1.5	1.9	2.3	3.0	2.7	2.7	2.8

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	97Q4/ 96Q4	98Q4/ 97Q4	99Q4/ 98Q4
Real GDP	3.8	3.0	6.9	2.2	3.8	5.9	3.7	1.9	5.7	4.1	4.7	4.6
Gross dom. purchases	4.7	3.5	8.9	4.2	4.7	5.6	5.9	3.3	6.4	4.7	5.8	5.7
Final sales	5.5	2.3	5.2	5.1	2.4	6.2	4.5	3.4	4.5	3.6	4.7	4.6
Priv. dom. final purchases	6.1	2.8	7.4	6.1	3.0	5.3	5.9	4.5	4.5	3.8	5.4	4.8
Personal cons. expenditures	4.2	2.2	3.9	4.0	2.7	3.1	4.3	3.4	3.3	2.6	3.4	3.7
Durables	1.4	0.4	1.2	0.8	0.3	1.5	1.0	0.7	0.6	0.6	1.0	0.8
Nondurables	1.1	0.1	1.2	1.3	0.5	1.0	1.7	0.6	0.7	0.5	1.0	1.1
Services	1.6	1.7	1.5	1.9	1.9	0.7	1.6	2.0	2.0	1.5	1.5	1.8
Business fixed investment	1.8	0.4	2.9	1.4	0.0	1.8	1.0	0.9	1.3	1.1	1.5	0.9
Equipment & Software	1.5	0.2	2.7	1.2	0.2	1.6	1.1	1.0	1.4	1.0	1.5	1.0
Nonres. structures	0.3	0.1	0.2	0.2	-0.2	0.2	-0.2	-0.2	-0.1	0.1	0.1	-0.1
Residential structures	0.0	0.3	0.5	0.5	0.3	0.4	0.5	0.2	-0.2	0.1	0.5	0.2
Net exports	-0.8	-0.5	-1.9	-2.0	-0.8	0.3	-2.1	-1.4	-0.7	-0.7	-1.1	-1.1
Exports	1.3	0.2	-0.2	-0.5	-0.2	1.7	-0.6	0.4	1.2	1.0	0.2	0.5
Imports	-2.1	-0.7	-1.8	-1.6	-0.7	-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	0.8	0.4	0.4	0.9
Federal	-0.1	-0.3	-0.6	0.7	-0.1	0.2	-0.0	0.1	0.3	0.0	0.0	0.3
Defense	-0.0	-0.1	-0.8	0.4	0.3	-0.1	-0.2	-0.1	0.4	-0.1	-0.0	0.2
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	0.6	0.4	0.4	0.6
Change in bus. inventories	-1.6	0.7	1.6	-2.8	1.4	-0.3	-0.9	-1.5	1.1	0.5	-0.0	-0.0
Nonfarm	-1.6	0.8	1.6	-2.3	1.1	-0.8	-0.6	-1.2	1.3	0.5	-0.1	0.2
Farm	-0.0	-0.1	0.0	-0.5	0.3	0.6	-0.2	-0.2	-0.2	-0.0	0.1	-0.2

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

Strictly Confidential <FR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

May 11, 2000

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	7.3	4.9	5.3	4.1	4.0	3.6	3.6	3.6	3.6	4.6	4.5	3.6
Gross dom. purchases	7.4	6.3	6.1	5.2	4.2	4.1	4.2	3.9	3.4	5.7	5.4	3.9
Final sales	6.0	6.7	3.9	3.8	4.3	3.8	3.7	3.7	3.8	4.6	4.7	3.7
Priv. dom. final purchases	4.5	8.4	4.0	4.3	4.0	3.7	3.6	3.3	2.9	4.8	5.1	3.4
Personal cons. expenditures	4.1	5.1	2.7	3.0	2.6	2.7	2.4	2.1	1.7	3.7	3.4	2.2
Durables	1.0	1.7	-0.1	0.4	0.3	0.3	0.2	0.2	0.2	0.8	0.6	0.2
Nondurables	1.5	1.2	0.9	0.8	0.7	0.7	0.5	0.4	0.4	1.1	0.9	0.5
Services	1.5	2.1	1.9	1.7	1.6	1.7	1.6	1.4	1.1	1.8	1.8	1.5
Business fixed investment	0.4	3.0	1.3	1.5	1.6	1.3	1.3	1.3	1.3	0.9	1.8	1.3
Equipment & Software	0.4	2.6	1.0	1.4	1.5	1.2	1.3	1.3	1.3	1.0	1.6	1.3
Nonres. structures	-0.0	0.5	0.2	0.1	0.1	0.1	0.1	0.0	0.0	-0.1	0.2	0.0
Residential structures	0.1	0.3	-0.1	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	0.2	-0.1	-0.2
Net exports	-0.1	-1.4	-0.8	-1.1	-0.2	-0.5	-0.5	-0.2	0.2	-1.1	-0.9	-0.3
Exports	1.1	0.0	1.1	0.4	1.0	0.5	0.9	0.9	1.3	0.5	0.7	0.9
Imports	-1.2	-1.4	-1.9	-1.5	-1.2	-1.0	-1.4	-1.2	-1.1	-1.6	-1.5	-1.2
Government cons. & invest.	1.6	-0.2	0.7	0.6	0.5	0.6	0.6	0.6	0.6	0.9	0.4	0.6
Federal	0.9	-1.0	0.5	0.1	-0.0	0.1	0.1	0.1	0.1	0.3	-0.1	0.1
Defense	0.7	-1.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.2	-0.2	0.0
Nondefense	0.2	-0.0	0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0
State and local	0.8	0.8	0.2	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.5	0.5
Change in bus. inventories	1.2	-1.9	1.4	0.2	-0.3	-0.2	-0.1	-0.1	-0.1	-0.0	-0.1	-0.1
Nonfarm	1.4	-1.8	1.3	0.1	-0.3	-0.3	-0.1	-0.1	-0.2	0.2	-0.2	-0.2
Farm	-0.1	-0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	-0.2	0.0	0.0

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

Strictly Confidential (FR)
Class II FOMC

May 11, 2000

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[a]	Q4[a]	Q1[p]	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts[2]	1722	1827	2010	2113	402	564	449	444	434	650	483	478	468	656	510	513
Outlays[2]	1653	1703	1786	1844	396	421	419	464	449	440	433	461	471	464	448	480
Surplus/deficit[2]	69	125	225	269	6	143	30	-21	-15	210	50	17	-2	192	62	32
On-budget	-30	1	72	99	-49	88	21	-64	-45	146	33	-30	-31	119	41	-20
Off-budget	99	124	153	170	55	55	9	43	30	64	17	48	29	73	21	52
Surplus excluding deposit insurance	65	119	221	267	5	142	29	-20	-18	209	50	17	-3	192	62	32
Means of financing																
Borrowing	-51	-88	-230	-267	7	-108	-20	48	-27	-192	-58	-36	-9	-157	-67	-58
Cash decrease	5	-18	12	-0	-4	-31	-3	-27	39	-12	12	20	5	-30	5	20
Other[3]	-23	-19	-7	-1	-9	-4	-7	-0	4	-6	-4	-1	6	-5	-0	6
Cash operating balance, end of period	39	56	45	45	22	53	56	83	45	57	45	25	20	50	45	25
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	1722	1839	1993	2112	1827	1853	1883	1922	1986	2017	2048	2080	2091	2122	2154	2187
Expenditures	1694	1737	1814	1888	1729	1735	1749	1810	1787	1823	1836	1863	1887	1898	1905	1928
Consumption expenditures	452	467	492	509	467	465	475	492	482	496	499	498	510	513	515	518
Defense	300	305	318	327	305	301	312	326	310	317	319	321	327	329	330	331
Nondefense	153	162	174	182	162	164	163	167	173	179	180	177	183	184	185	187
Other expenditures	1242	1270	1322	1379	1262	1270	1274	1318	1304	1327	1337	1365	1377	1385	1390	1410
Current account surplus	28	102	179	224	98	118	134	112	199	194	212	218	204	224	248	259
Gross investment	84	92	99	103	90	96	95	102	97	98	100	101	102	103	104	105
Current and capital account surplus	-56	10	80	121	7	22	39	11	102	96	113	117	102	121	144	154
Fiscal indicators[4]																
High-employment (HEB) surplus/deficit	-139	-91	-60	-31	-94	-74	-69	-116	-31	-52	-41	-39	-50	-31	-6	5
Change in HEB, percent of potential GDP	-.9	-.6	-.4	-.3	-.4	-.2	-.1	.5	-.9	.2	-.1	-0	.1	-.2	-.2	-.1
Fiscal impetus (FI) percent, calendar year	0	5	3	5	2	-.4	2	4	-5	4	.9	.8	2	.5	.4	.7

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 February 2000 surplus estimates (assuming the enactment of the President's proposals) are $167 billion in FY2000 and $184 billion in FY2001. CBO's March 2000 baseline surplus estimates, *assuming discretionary spending grows with inflation beginning in FY 2001, are $179 billion in FY2000 and $181 billion in FY2001. Budget receipts, outlays, and surplus/deficit include corresponding* social security (OASDI) categories. The OASDI surplus is excluded from the on-budget surplus 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. 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

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	3.7	5.4	4.5	7.3	1.4	6.0	5.0
1994	4.6	4.7	4.5	7.7	6.0	14.5	3.7	-4.0	6.2
1995	5.5	4.1	6.0	7.9	5.8	14.1	6.8	-4.6	4.3
1996	5.4	4.0	5.9	7.4	7.4	7.9	5.7	-0.6	6.0
1997	5.4	0.6	7.0	6.4	6.7	4.3	8.2	5.3	5.9
1998	6.6	-1.4	9.3	8.7	9.7	5.4	10.5	7.2	5.9
1999	6.8	-1.9	9.4	9.4	10.4	7.3	10.6	4.4	6.3
2000	4.8	-8.5	8.4	8.9	9.1	9.3	9.1	2.5	6.9
2001	4.8	-8.6	7.8	7.5	8.3	5.4	9.2	2.5	5.7
Quarter									
1999:3	7.0	-2.2	9.6	9.9	11.3	5.6	10.2	4.6	6.8
4	6.5	-0.5	8.4	8.4	8.8	8.3	9.6	2.5	9.3
2000:1	5.7	-5.5	8.8	9.6	9.2	10.9	9.3	1.7	7.7
2	4.0	-12.2	8.2	8.7	9.0	9.1	8.7	2.7	7.9
3	5.0	-7.1	7.9	8.5	8.7	8.6	8.4	2.7	6.1
4	4.3	-10.3	7.7	7.8	8.4	7.3	8.6	2.8	5.9
2001:1	5.6	-3.8	7.7	7.7	8.3	6.5	8.8	2.8	5.8
2	4.7	-9.0	7.7	7.4	8.1	5.6	9.0	2.5	5.6
3	4.8	-8.7	7.6	7.3	7.9	4.9	8.9	2.4	5.6
4	3.8	-14.1	7.4	6.9	7.8	4.3	8.8	2.3	5.7

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 1999:Q4 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 5.2 percent in 2000 and 4.8 percent in 2001.
3. On a monthly average basis, federal debt is projected to grow -7.2 percent in 2000 and -8.2 percent in 2001.
4. On a monthly average basis, nonfederal debt is projected to grow 8.5 percent in 2000 and 7.9 percent in 2001.

2.6.3 FOF

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

					Seasonally adjusted annual rates									
	Calendar year				1999		2000				2001			
Category	1998	1999	2000	2001	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net funds raised by domestic nonfinancial sectors														
1 Total	744.3	963.3	767.8	809.0	1029.6	1065.8	1062.1	516.5	805.3	687.1	957.2	800.0	827.6	651.3
2 Net equity issuance	-267.0	-142.7	-71.3	-62.0	-138.6	-41.6	62.8	-188.0	-80.0	-80.0	-62.0	-62.0	-62.0	-62.0
3 Net debt issuance	1011.3	1105.9	839.1	871.0	1168.2	1107.4	999.3	704.5	885.3	767.1	1019.2	862.0	889.6	713.3
Borrowing sectors														
Nonfinancial business														
4 Financing gap [1]	134.4	159.2	177.5	262.1	174.5	182.8	122.2	173.9	197.1	217.0	227.7	250.8	274.1	295.7
5 Net equity issuance	-267.0	-142.7	-71.3	-62.0	-138.6	-41.6	62.8	-188.0	-80.0	-80.0	-62.0	-62.0	-62.0	-62.0
6 Credit market borrowing	511.7	568.5	543.2	599.5	579.7	559.8	558.1	535.2	527.2	552.2	573.2	601.2	609.2	614.2
Households														
7 Net borrowing [2]	471.9	556.6	577.9	529.3	614.6	533.8	623.4	579.1	572.1	537.1	539.1	530.1	531.1	517.1
8 Home mortgages	359.8	421.7	408.5	404.2	482.4	385.9	411.2	413.2	407.2	402.2	404.2	404.2	404.2	404.2
9 Consumer credit	67.6	96.8	132.5	85.0	77.3	115.9	155.2	134.0	129.0	112.0	102.0	89.0	79.0	70.0
10 Debt/DPI (percent) [3]	90.3	93.2	95.7	97.3	93.8	94.3	95.2	95.5	96.1	96.6	96.6	97.0	97.5	98.0
State and local governments														
11 Net borrowing	80.3	52.7	31.2	32.4	57.0	30.7	21.8	33.4	34.4	35.4	35.4	32.4	31.4	30.4
12 Current surplus [4]	140.5	156.2	169.0	173.7	154.8	176.9	166.2	169.2	167.8	172.9	177.0	176.0	172.2	169.8
Federal government														
13 Net borrowing	-52.6	-71.8	-313.3	-290.1	-83.1	-16.9	-204.0	-443.2	-248.3	-357.6	-128.5	-301.7	-282.1	-448.3
14 Net borrowing (quarterly, n.s.a.)	-52.6	-71.8	-313.3	-290.1	-19.0	47.7	-27.5	-191.9	-58.3	-35.6	-8.6	-156.5	-66.7	-58.3
15 Unified deficit (quarterly, n.s.a.)	-54.4	-158.3	-262.4	-283.8	-30.1	20.6	15.0	-210.1	-50.1	-17.2	2.3	-192.0	-61.9	-32.3
Depository institutions														
16 Funds supplied	360.5	407.9	446.0	357.5	533.0	636.0	593.8	428.4	396.9	364.9	348.4	358.9	356.9	365.9
Memo (percentage of GDP)														
17 Domestic nonfinancial debt [5]	179.7	181.7	179.2	177.3	182.3	181.4	180.8	179.5	178.9	178.4	178.0	177.9	177.5	176.9
18 Domestic nonfinancial borrowing	11.5	11.9	8.4	8.3	12.6	11.6	10.3	7.1	8.8	7.5	9.9	8.2	8.4	6.6
19 Federal government [6]	-0.6	-0.8	-3.2	-2.8	-0.9	-0.2	-2.1	-4.5	-2.5	-3.5	-1.2	-2.9	-2.7	-4.2
20 Nonfederal	12.1	12.7	11.6	11.0	13.5	11.8	12.4	11.6	11.3	11.1	11.1	11.1	11.1	10.8

Note. Data after 1999:Q4 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

Overview

Readings on foreign economic activity since the March Greenbook have come in somewhat stronger than we expected, and we have raised our projection for foreign growth, particularly in the near term. Recent indicators point to a pickup of Japanese domestic demand in the first half, but significant doubts remain about whether the improved pace will be sustained beyond mid-year. Canada has continued to thrive on spillovers from the robust U.S. economy. Activity in the euro area has benefited--and is likely to benefit further--from weakness of its currency. The outlook for growth of U.S. trading partners among the developing countries remains solid. Recoveries of several Asian emerging-market economies have settled back toward more sustainable rates. In Mexico, growth was higher than expected in the first quarter, and key South American countries have continued to recover from recent recessions.

Although the recent spike in oil prices was reflected in upticks in headline price indexes, the strengthening of foreign growth has occurred without any clear signs of an acceleration of underlying inflation. Lately, higher oil prices and the ending of pass-through effects from previous yen appreciation have caused Japanese consumer prices to decline a bit less rapidly, but looking ahead, inflation risks are minimal because ample economic slack remains. Even in the euro area, where depreciation of the currency has been substantial, core inflation has moved up only modestly. Inflation appears to be under control in the emerging-market economies as well.

The dollar moved up further during the intermeeting period, showing surprising resilience in the face of falling U.S. equity prices and monetary policy firming abroad. Accordingly, we have bowed in the direction of the dollar's persistent strength and raised our outlook for the dollar's path. Nevertheless, in view of the large and widening U.S. current account deficit, we continue to project that the dollar will depreciate.

The upward revision to foreign growth only partially offsets the effect of the higher dollar path on our projection for net exports. While we have revised exports down, especially in the near term, the contribution of exports to U.S. GDP growth should increase next year. Demand for real imports should slacken over the forecast period as U.S. growth slows. The stronger dollar also should restrain prices of core imports somewhat this year, but they are expected to rise later in the forecast period as the dollar depreciates. A lower path for oil prices in the near term mostly reflects OPEC's decision in late March to increase production, which should help keep import price pressures down as well. By the end of the forecast period, oil import prices should settle around $19.30 per barrel, somewhat higher than in the March Greenbook.

Recent Developments

International financial markets. Since the March FOMC meeting, the nominal exchange value of the dollar has risen about 3-1/2 percent, on balance, in terms of the major currencies index. The broad index has moved up about 2-1/2 percent, as the dollar has gained less against currencies of other important trading partners. The dollar has been supported in part by higher U.S. interest rates, as the surprising pace of U.S. economic growth and indications of heightened domestic price pressures have continued to fuel expectations of more U.S. monetary tightening. Even when the U.S. stock market fell sharply in mid-April, sympathetic movements in other stock markets and a shift toward the perceived safety of dollar-denominated instruments belied what had been a popular "disaster scenario" for the dollar--that a break in the U.S. market would precipitate a shift in investors' preferences toward foreign assets. The largest appreciation during the intermeeting period--about 7 percent--came against the euro, with smaller gains against sterling, the yen, and the Canadian dollar. The dollar is up somewhat against the Mexican peso and the Brazilian *real* as well.

In moves that were largely anticipated by the markets, the European Central Bank, the Swiss National Bank, the Bank of Canada, and the Reserve Bank of Australia all raised official rates during the intermeeting period. Authorities pointed to concerns about potential inflation generally, with the ECB being more explicit than in previous official communications about concerns that euro weakness was adding to inflationary risks. Short-term and long-term interest rates moved up in Europe and Canada, but declined slightly in Japan.

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

Economic activity abroad. Recent data from the industrial countries confirm a fairly widespread strengthening of activity so far this year. A cluster of positive indicators suggests that Japan is experiencing a rebound from its sagging performance at the end of last year, although labor-market conditions still are very soft. Even after allowing for leap-year effects that have boosted some indicators, improvements in industrial production, housing, and shipments of manufactures indicate that activity strengthened in the first quarter. Business confidence (as measured by the March Tankan survey) and other forward-looking indicators also have improved a bit.

The euro area has shown further indications of solid expansion. Unemployment rates have continued to move down, while industrial production, construction, and orders have remained firm. Areawide business sentiment stayed at its record high level. Growth in Canada and the United Kingdom slowed in the first quarter but still appears to be quite robust.

Higher energy prices raised headline inflation in recent months, but the latest data suggest that these effects are waning. Core inflation rates have shown no clear signs of increasing. Higher oil prices nudged the twelve-month change of Japanese wholesale prices into the positive range in recent months, but consumer prices and land prices have extended their prolonged declines.

The pace of activity in several key Asian economies that had been experiencing quite rapid growth--including Korea, China, and Taiwan--has slackened only a bit. In Latin America, Mexico has continued to benefit from the strength of the U.S. economy; Mexico and other oil exporters in the region also have been helped by higher oil prices. Other Latin American countries, including Brazil, Argentina, and Chile, appear to be continuing to recover from their recent recessions. Inflation has remained subdued on balance, although performances have varied somewhat across the emerging market economies.

Prices of internationally traded goods. After peaking in early March, oil prices fell substantially, mainly in response to OPEC's decision to increase production. Oil production increases by Mexico and Norway and a boost in exports from Russia also contributed to the price decline. More recently, oil prices partially reversed their declines as a labor strike in Norway temporarily disrupted oil shipments and as some OPEC members indicated that they may not increase production in June as much as some market participants had expected. The spot price of West Texas intermediate currently is trading around $28 per barrel, about $2 below the March average.

Prices of non-oil imports moved up 0.7 percent, a.r., in the first quarter, about the same pace as in the fourth quarter of last year. Prices of imported core goods (which exclude oil, computers, and semiconductors) rose at about twice that rate, as higher prices of industrial supplies, automotive products, and foods were offset incompletely by a swing from increase to decrease in prices of machinery and consumer goods. Prices of computers and semiconductors also fell.

Prices of exports of core goods (nonagricultural goods other than computers and semiconductors) increased 3.3 percent, a.r., a bit faster than in fourth quarter. First-quarter increases were led by a large jump in the price of industrial supplies (which include oil and oil-related chemicals).

U.S. international transactions. In February, the U.S. trade deficit in goods and services expanded by $1.8 billion to $29.2 billion. The combined deficit for

January and February was larger than that in the fourth quarter by $38 billion, s.a.a.r. Exports for January-February were 1/2 percent higher in value than in the fourth quarter of last year, with moderate increases in most major trade categories except aircraft, fuels, and chemicals, which declined. By export market, Canada, Western Europe, and Mexico showed the greatest increases. The value of imports for January-February combined was 3-1/2 percent higher than in the fourth quarter, with increases in all major trade categories except foods.

After expanding strongly in the final two quarters of 1999, real exports are estimated to have made a zero contribution to GDP growth in the first quarter of this year. Rising imports continued to satisfy a significant part of the growth of domestic expenditures in the first quarter. In the NIPA, this is reflected in an estimated 1.4 percentage point "negative contribution" to GDP growth in 2000:Q1 (slightly more negative than in the fourth quarter of last year, but less so than during 1999 as a whole).

Outlook

The dollar. In light of the recent appreciation of the dollar, especially in relation to the euro, we have shifted up the path of the dollar in the Greenbook outlook. We have to admit to having no firm basis for determining the timing of the end to dollar appreciation. However, our reading of fundamentals convinces us that dollar appreciation cannot be sustained as U.S. economic growth slows relative to that abroad and as the expanding U.S. current account deficit strains foreign investors' willingness to continue adding to their holding of U.S. obligations. We project that the real trade-weighted value of the dollar (as measured by our major-currencies index) will peak in the current quarter and then depreciate gradually during the rest of the forecast period. By the fourth quarter of 2001, we forecast that it will have fallen to a level 4-1/2 percent below its average level in the current quarter. This end-point still is almost 3 percent higher than the level projected in the March Greenbook owing to the dollar's recent upward movement.

Our exchange rate outlook embodies a fairly sizable real appreciation of the euro as well as more moderate real appreciations of the Canadian dollar, the Swiss franc, and sterling. During the second half of this year and 2000, the euro is expected to recover from its recent lows, as the gap between U.S. and euro-area growth narrows and the ECB raises interest rates significantly. The ECB is expected to react sooner (before midyear) and tighten somewhat more during the forecast period than assumed in the March Greenbook. Against the yen, in contrast, the dollar is projected to appreciate in real terms as a result of a flat path for the yen/dollar exchange rate, continued deflation in Japan, and an increase in core U.S. inflation.

We continue to project a slight depreciation of the dollar in real terms against the currencies of our other important trading partners, led by a decline against the currencies of emerging Asian economies. In contrast, the real value of the dollar is expected to hold roughly constant against the Mexican peso and major Latin American currencies.

Foreign economic activity and prices. Total foreign real output growth (weighted by U.S. bilateral export shares) is projected to strengthen noticeably in the first half of this year. Despite slowing in the second half and somewhat more in 2001, growth during these six quarters is projected to average about 4 percent. The level of GDP at the end of the forecast period is more than 1/2 percent higher than projected in the March Greenbook. Aggregate foreign inflation is expected to rise modestly over the forecast period, to slightly below 3-1/2 percent next year. Many key countries (including Japan and some developing countries) still have substantial economic slack, and monetary tightening is expected to blunt inflationary pressure in countries in more advanced stages of economic recovery and expansion.

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

			Projection		
	1999 H1	1999 H2	2000 H1	2000 H2	2001
Foreign output	4.5	4.3	4.7	4.1	3.9
March GB	*4.4*	*4.0*	*3.9*	*3.9*	*3.8*
Foreign CPI	2.3	2.9	2.3	3.6	3.4
March GB	*2.7*	*2.5*	*3.3*	*3.0*	*3.4*

NOTE. Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2.

Industrial countries. Export-weighted real GDP growth in the foreign industrial countries is projected to remain at about 3-1/2 percent in 2000, before slowing to 3 percent in 2001. This forecast is about 1/2 percentage point stronger for 2000 and nearly 1/4 percentage point stronger for 2001 than in the March Greenbook. It includes upward revisions to growth in Japan, the euro area, and Canada. In Japan, recent indicators suggest that GDP is rebounding in the first half after a very poor performance in the second half of last year. Japanese growth in the second half of 2000 and in 2001 is expected to be sluggish, held down by the withdrawal of fiscal stimulus and by the effect on spending of uncertainties about employment and household income related in part to corporate restructuring.

Growth in the euro area is projected to pick up from its 1999 rate of 3 percent to about 3-3/4 percent on average during the forecast period as domestic demand gains momentum and external demand is boosted by the weak euro. The Canadian economy, which surged in 1999 and early this year in concert with the U.S. economy, is expected to slow gradually toward its potential growth rate in response to tighter monetary policy and slower U.S. growth.

Inflation. Continued strong activity should intensify pressure on resources in most foreign industrial economies, leading to a moderate increase in core inflation rates. However, the effect on headline prices of the relatively gradual increase in core measures will be offset by the retracing of some of the runup of oil prices of the past year or so. Inflation in the euro area is expected to decline from its recent rate, which is near the ECB's target ceiling of 2 percent, to about 1-1/2 percent by year-end, but to rise a bit in 2001 as economic slack diminishes. In the United Kingdom, where wage growth has picked up in response to tight labor market conditions, inflation is projected to rise to the Bank of England's 2-1/2 percent ceiling by the end of 2001. Japanese prices are expected to continue to decline over the next two years but at a lower rate than last year as the deflationary effect of past yen appreciation wanes. Slower Japanese deflation accounts for most of the rise in the import-weighted average of foreign industrial country inflation rates from just over 1 percent in 1999 to between 1-1/4 percent and 1-1/2 percent in 2000 and 2001.

Interest rates. We assume that the Bank of Japan will begin to move short-term interest rates cautiously away from zero in the second half of this year, as first-half indicators confirm a return to positive growth. Japanese rate hikes are expected to total only 25 basis points by the end of the forecast period, as growth will remain tepid at best. Responding to concerns about euro weakness, but cognizant of the risks of restraining growth, the ECB is assumed to tighten policy by another 75 basis points this year--with a portion of this increase likely coming relatively soon--and 50 basis points next year. That will bring the refinancing rate to 5 percent by mid-2001, 50 basis points higher than assumed in the March Greenbook. The Bank of England is assumed to tighten policy by an additional 50 basis points to contain inflationary pressures, but the strength of the pound against other European currencies should forestall any need for more aggressive action. The Bank of Canada is expected to match the rises assumed for U.S. policy rates. Long-term interest rates, which already incorporate some expectations of future monetary tightening, should move up less than short rates in most major foreign industrial economies.

Other countries. Growth of real GDP for the major developing-country trading partners of the United States is projected to average about 5-1/4 percent over the forecast period, only a slight moderation from the pace of last year. The near-term outlook has been raised slightly since the last Greenbook, reflecting generally stronger incoming data. Growth in the Asian developing economies is expected to slow from about 8 percent in 1999 to somewhat below 7 percent through the end of next year. In contrast, Latin American growth is expected to edge up to about 4-1/4 percent during the forecast period, as several countries–including Brazil, Argentina, and Chile–continue to pull out of the recession that hit the region in late 1998. Growth in Mexico, which was among the economies least affected by the regional recession, is projected to slow from a 5-1/4 percent pace in 1999 to a 4-1/2 percent rate next year.

Inflation in developing countries is expected to pick up only modestly in response to strong activity, as inflationary pressures are limited by the still-high levels of excess capacity remaining from the previous downturn, declining oil prices, and generally stable exchange rates.

Prices of internationally traded goods. Our predicted trajectory for oil prices is notably flatter than in the previous Greenbook, with lower prices in the near term and somewhat higher prices toward the end of the forecast period. The near-term revision is due primarily to OPEC's decision in late March to increase production by 1.7 million barrels per day. For 2001, our projection for the price of imported oil is somewhat higher than in the previous Greenbook, reflecting Saudi Arabia's stated preference to keep the prices of WTI and Brent in the range of $20 to $25 per barrel. We project that the price of imported oil will decline to nearly $23 per barrel by the fourth quarter of this year and to somewhat above $19 by the end of 2001. Of course, given low inventory levels, oil prices likely will remain quite volatile.

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

Trade category	1999 Q4	2000 Q1	Projection 2000 Q2	2000 H2	2001
Exports					
Nonagricultural (core)	2.9	3.3	1.8	0.7	0.8
Agricultural	1.0	-3.6	11.8	3.7	3.5
Imports					
Non-oil (core)	1.3	1.4	0.6	2.6	3.0
Oil (level, dollars per barrel)	22.00	26.00	25.50	23.10	19.30

NOTE. Prices for nonagricultural exports and non-oil imports of goods, both excluding computers and semiconductors, are on a NIPA chain-weighted basis. The price of imported oil for multi-quarter periods is the price for the final quarter of the period. Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2; and for quarters, from previous quarter.

Prices of core imports are projected to flatten out in the second quarter, but to rise thereafter, largely reflecting the projected path of the dollar. Prices of core goods exports are expected to decelerate as the run-up in prices of industrial supplies (which includes petroleum products and petrochemicals) slows from the rapid pace of last year.

U.S. International Transactions. Real exports of goods and services have slowed in the opening months of this year from their rapid pace during the second half of 1999, but they should strengthen in the second half and somewhat more next year. Over the four quarters of 2000, exports are projected to grow 6 percent, somewhat more than last year, and to accelerate to 8-1/2 percent in 2001. Robust real output growth abroad should help sustain the expansion of core exports throughout the forecast period. The firming of core export growth over the course of the forecast also reflects the boost to competitiveness of U.S. products implied by our projection for the exchange value of the dollar and prices here and abroad. Relative prices should shift from imparting slight restraint on the growth of core exports during the first half of this year to stimulating their growth at rising rates over the forecast period.

Summary of Staff Projections for Goods and Services
(Percent change, seasonally adjusted annual rate)

Measure	1999 H1	1999 H2	Projection 2000 H1	2000 H2	2001
Real exports	-0.9	10.8	5.5	6.7	8.4
March GB	*-0.9*	*10.1*	*7.5*	*7.0*	*8.7*
Real imports	13.5	11.8	12.2	9.7	8.1
March GB	*13.5*	*12.5*	*13.5*	*9.0*	*8.5*

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

Real imports of goods and services are projected to decelerate over the forecast period from about 12 percent growth at an annual rate during the second half of 1999 and first half of 2000 to 8 percent growth in 2001. This pattern reflects the slower expected growth of imports of non-oil core goods and of services. The projected slowing of U.S. real GDP growth partly accounts for the deceleration. In addition, we expect that relative prices here and abroad, which have been strongly boosting growth of non-oil imports in recent quarters, will continue to do so only in the near term and will change to a slightly restraining factor next year. The quantity of imported oil is forecast to expand strongly in the near term, as stocks are replenished, but more moderately in 2001.

With regard to impacts on U.S. GDP growth, we expect exports to contribute 0.7 percentage point this year and 0.9 percentage point in 2001, after contributing 0.5 percentage point in 1999. We expect that imports will satisfy a sizable, though diminishing, part of the growth of domestic demand over the forecast period, subtracting 1.5 percentage points from real GDP growth in 2000 and 1.2 percentage points in 2001. As a result, the contribution of net exports to GDP growth will move from negative 1.1 percentage point in 1999 to negative 0.9 percentage point this year and negative 0.3 percentage point in 2001.

The U.S. current account deficit is projected to rise from 3.7 percent of GDP in 1999 to 4.6 percent this year and 4.9 percent in 2001. Much of the projected change is in goods and services, but the net outflow of investment income also increases notably. Net investment income payments are projected to increase significantly as the U.S. net liability position increases in tandem with the large current account deficit.

Risks to the Foreign Outlook

Weaker U.S. dollar. Because of the uncertainties surrounding the outlook for the dollar, in the scenario below we have considered the effects of an additional across-the-board 10 percent nominal depreciation of the dollar that occurs in the current quarter. In this scenario, the federal funds rate is assumed to remain unchanged from its baseline path, and the dollar stays about 10 percent below baseline over the remaining six quarters of the forecast period. The additional dollar depreciation raises U.S. GDP growth about 1/4 percentage point relative to baseline in 2000, and slightly over 1 percentage point in 2001. Inflation in core PCE prices (which exclude food and energy) is increased 1/4 percentage point in 2000 relative to baseline and slightly more than 1/2 percentage point in 2001.

Impact of a Weaker Dollar[1]
(Percent change, Q4 to Q4)

Measure	2000	2001
U.S. real GDP		
Baseline	4.6	3.6
Weaker dollar	4.8	4.7
U.S. PCE prices ex. food and energy		
Baseline	2.2	2.4
Weaker dollar	2.4	3.0

1. The dollar depreciates 10 percent below baseline in 2000:Q2 and remains at this lower level through 2001:Q4. Simulations assume the federal funds rate is unchanged from baseline.

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

Measure and country	1993	1994	1995	1996	1997	1998	1999	--Projected-- 2000	2001
REAL GDP (1)									
Total foreign	3.2	5.1	2.3	4.3	4.1	0.8	4.4	4.4	3.9
Industrial Countries	1.9	3.9	1.9	2.9	3.3	1.7	3.4	3.6	3.0
of which:									
Canada	2.9	5.5	1.4	2.4	4.4	2.8	4.7	3.9	3.4
Japan	0.5	0.9	2.5	5.2	-0.5	-3.1	0.0	2.8	0.8
United Kingdom	3.2	4.6	1.9	2.9	3.4	1.5	3.0	2.6	2.5
Euro-11	0.1	3.0	1.6	1.8	3.0	2.0	3.0	3.8	3.6
Germany	-0.3	2.8	1.1	1.4	1.5	1.2	2.3	3.7	3.7
Developing Countries	5.1	6.9	3.0	6.4	5.1	-0.3	5.8	5.5	5.1
Asia	7.8	8.9	7.2	7.0	4.7	-1.9	8.2	6.9	6.6
Korea	6.3	9.4	7.2	6.8	3.7	-5.5	14.0	8.0	7.0
China	6.1	16.3	12.6	9.2	8.2	9.5	6.2	8.0	8.0
Latin America	2.6	5.4	-3.9	6.3	6.1	1.0	3.8	4.5	4.2
Mexico	1.9	5.2	-7.1	7.1	6.7	2.6	5.2	5.0	4.5
Brazil	4.5	9.8	-1.9	5.5	2.2	-1.6	3.2	3.1	3.4
CONSUMER PRICES (2)									
Industrial Countries	2.1	1.1	1.3	1.4	1.6	1.0	1.1	1.3	1.4
of which:									
Canada	1.8	-0.0	2.1	2.0	1.0	1.1	2.4	2.3	2.3
Japan	1.2	0.8	-0.8	0.1	2.0	0.8	-1.3	-0.7	-0.4
United Kingdom (3)	2.7	2.2	2.9	3.2	2.7	2.5	2.2	2.4	2.5
Euro-11 (4)	NA	NA	NA	2.0	1.5	0.8	1.5	1.5	1.6
Germany	4.2	2.6	1.5	1.4	2.0	0.4	0.9	1.1	1.5
Developing Countries	24.7	22.7	17.0	11.0	6.9	9.0	4.7	5.3	6.1
Asia	7.7	10.5	6.4	4.7	2.9	4.4	0.3	3.1	4.4
Korea	5.5	5.8	4.3	5.1	5.1	6.0	1.3	2.1	4.9
China	17.3	26.9	11.0	6.8	0.9	-1.2	-0.9	3.2	4.2
Latin America	73.9	54.0	42.1	25.9	15.6	15.5	12.6	9.1	9.2
Mexico	8.6	7.0	48.9	28.2	17.2	17.5	13.6	9.6	9.7
Brazil	2272.4	1196.9	21.5	9.6	4.7	1.6	8.3	5.8	5.1

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

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

					Projected							
	1999				2000				2001			
Measure and country	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	3.8	5.1	4.3	4.2	5.0	4.3	4.1	4.0	4.0	3.9	3.8	3.8
Industrial Countries	4.0	3.4	3.5	2.8	4.4	3.5	3.3	3.2	3.1	3.1	3.0	2.9
of which:												
Canada	5.1	3.6	5.5	4.6	4.5	4.2	3.6	3.5	3.5	3.5	3.4	3.3
Japan	6.3	3.9	-3.9	-5.5	8.6	1.1	1.1	0.6	0.5	0.7	0.9	1.1
United Kingdom	1.6	3.0	4.1	3.1	1.9	3.0	2.8	2.6	2.5	2.4	2.5	2.4
Euro-11	2.5	2.4	3.8	3.2	3.5	3.5	4.1	4.0	3.7	3.7	3.5	3.5
Germany	2.7	0.3	3.5	2.7	3.1	3.2	4.5	4.2	4.0	3.8	3.5	3.5
Developing Countries	3.7	7.8	5.4	6.3	6.0	5.4	5.3	5.3	5.3	5.2	5.0	5.0
Asia	7.0	11.5	5.3	9.3	7.4	7.0	6.6	6.7	6.6	6.6	6.6	6.6
Korea	13.0	17.5	14.0	11.7	7.0	9.0	8.0	8.0	7.0	7.0	7.0	7.0
China	2.2	1.1	11.4	10.6	9.6	7.5	7.5	7.5	8.0	8.0	8.0	8.0
Latin America	0.7	5.0	6.1	3.4	5.1	4.2	4.3	4.3	4.3	4.3	4.1	4.1
Mexico	2.5	7.6	8.9	2.2	6.1	4.7	4.7	4.7	4.7	4.7	4.3	4.3
Brazil	3.8	3.4	0.1	5.8	3.2	3.0	3.0	3.2	3.2	3.3	3.5	3.7
CONSUMER PRICES (2)	Four-quarter changes											
Industrial Countries	0.7	0.9	1.3	1.1	1.5	1.4	1.3	1.3	1.4	1.4	1.4	1.4
of which:												
Canada	0.8	1.6	2.2	2.4	2.7	2.5	2.4	2.3	2.3	2.3	2.3	2.3
Japan	-0.2	-0.4	0.1	-1.3	-0.8	-0.6	-0.9	-0.7	-0.6	-0.5	-0.5	-0.4
United Kingdom (3)	2.6	2.3	2.2	2.2	2.1	2.4	2.4	2.4	2.4	2.4	2.5	2.5
Euro-11 (4)	0.9	1.0	1.1	1.5	2.1	1.8	1.5	1.5	1.5	1.5	1.6	1.6
Germany	0.3	0.5	0.6	0.9	1.8	1.4	1.1	1.1	1.3	1.3	1.4	1.5
Developing Countries	8.2	7.0	5.9	4.7	3.9	4.2	4.6	5.3	6.2	6.6	6.4	6.1
Asia	2.6	0.9	0.2	0.3	0.5	1.6	2.5	3.1	4.1	4.6	4.5	4.4
Korea	0.7	0.6	0.7	1.3	1.6	1.8	2.9	2.1	3.7	4.9	4.8	4.9
China	-1.5	-2.1	-1.1	-0.9	0.1	1.9	2.3	3.2	3.9	4.4	4.4	4.2
Latin America	16.4	15.8	14.7	12.6	10.0	9.0	8.6	9.1	10.0	10.2	9.9	9.2
Mexico	18.6	18.0	16.5	13.6	10.6	9.3	8.9	9.6	10.6	10.7	10.5	9.7
Brazil	2.0	3.4	5.7	8.3	7.8	7.4	7.1	5.8	6.4	6.7	5.9	5.1

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

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OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1993	1994	1995	1996	1997	1998	1999	Projected 2000	Projected 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	-1.1	-0.9	-0.3
Exports of G&S	0.5	1.0	1.0	1.1	1.0	0.2	0.5	0.7	0.9
Imports of G&S	-1.1	-1.3	-0.6	-1.3	-1.7	-1.3	-1.6	-1.5	-1.2
Percentage change, Q4/Q4									
Exports of G&S	4.8	10.5	9.7	9.8	9.2	2.0	4.8	6.1	8.4
Services	6.0	8.2	8.8	8.9	2.3	2.6	3.7	1.8	4.6
Agricultural Goods	-5.3	16.3	-4.0	3.7	3.3	0.3	-1.7	1.3	1.6
Computers	17.3	27.2	39.1	21.6	26.1	7.1	12.0	35.4	36.0
Semiconductors	31.1	66.9	79.6	44.6	21.0	9.3	33.4	35.1	41.1
Other Goods 1/	3.5	6.9	5.7	7.8	11.4	1.1	3.5	4.1	5.0
Imports of G&S	10.5	12.1	5.0	11.2	14.2	10.8	12.6	10.9	8.1
Services	6.7	1.8	5.5	5.3	13.6	8.4	6.9	5.9	2.8
Oil	10.1	-0.3	2.4	7.8	4.0	4.1	-3.3	13.4	0.4
Computers	30.7	38.9	35.0	17.7	32.4	26.9	26.1	30.6	36.1
Semiconductors	33.6	54.5	92.4	56.7	32.8	-7.4	35.4	38.5	42.4
Other Goods 2/	9.4	12.3	-1.2	10.4	12.7	11.3	13.4	8.9	5.6
Billions of chained 1996 dollars									
Net Goods & Services	-59.1	-86.5	-78.4	-88.9	-112.1	-217.6	-323.1	-409.7	-461.7
Exports of G&S	672.7	732.8	808.2	874.2	983.1	1004.6	1042.4	1111.9	1195.0
Imports of G&S	731.8	819.4	886.6	963.1	1095.2	1222.2	1365.4	1521.6	1656.7
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-85.3	-121.7	-113.6	-129.3	-143.5	-220.6	-339.0	-458.8	-513.2
Current Acct as Percent of GDP	-1.3	-1.7	-1.5	-1.7	-1.7	-2.5	-3.7	-4.6	-4.9
Net Goods & Services (BOP)	-69.9	-98.4	-97.5	-104.3	-104.7	-164.3	-267.6	-369.1	-410.7
Investment Income, Net	26.9	20.3	23.9	21.8	8.2	-7.0	-19.2	-36.4	-49.2
Direct, Net	58.6	54.4	63.8	67.7	69.2	59.4	58.4	65.3	81.6
Portfolio, Net	-31.7	-34.1	-39.9	-46.0	-61.0	-66.4	-77.6	-101.7	-130.7
Other Income & Transfers,Net	-42.2	-43.6	-39.9	-46.7	-46.9	-49.3	-52.2	-53.3	-53.3

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

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OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1996				1997				1998			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.0	-0.8	-1.3	2.1	-0.9	-0.5	-0.8	-0.5	-1.9	-2.0	-0.8	0.3
Exports of G&S	0.3	0.7	0.4	2.9	0.9	1.7	1.3	0.2	-0.2	-0.4	-0.2	1.7
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, s.a.a.r.												
Exports of G&S	2.3	6.8	3.2	28.7	8.3	15.9	11.3	1.7	-1.5	-3.9	-1.6	16.3
Services	-3.9	12.9	-7.3	39.7	-4.9	10.4	7.2	-2.7	1.7	8.9	-8.4	9.2
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	14.2
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-75.0	-90.3	-115.9	-74.6	-92.6	-103.2	-121.3	-131.5	-174.5	-221.1	-240.4	-234.4
Exports of G&S	846.1	860.1	867.0	923.5	942.1	977.6	1004.2	1008.4	1004.5	994.5	990.6	1028.7
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, s.a.a.r.												
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.

May 11, 2000

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1999				Projected 2000				Projected 2001			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-2.1	-1.4	-0.7	-0.1	-1.4	-0.8	-1.1	-0.2	-0.5	-0.5	-0.2	0.2
Exports of G&S	-0.6	0.4	1.2	1.1	0.0	1.1	0.4	1.0	0.5	0.9	0.9	1.3
Imports of G&S	-1.5	-1.8	-1.9	-1.2	-1.4	-1.9	-1.5	-1.2	-1.0	-1.4	-1.2	-1.1
Percentage change from previous period, s.a.a.r.												
Exports of G&S	-5.5	4.0	11.5	10.1	0.2	11.0	4.0	9.4	4.5	8.3	8.7	12.0
Services	4.1	3.1	0.1	7.5	0.1	2.0	1.4	3.5	4.6	4.8	4.5	4.3
Agricultural Goods	-38.1	29.3	27.3	-8.1	16.9	-7.1	-2.2	-0.9	-1.2	1.4	3.2	3.0
Computers	-3.1	32.0	28.2	-3.9	24.2	43.7	38.6	36.0	36.0	36.0	36.0	36.0
Semiconductors	36.3	40.8	47.8	11.7	12.1	43.7	43.7	43.7	41.1	41.1	41.1	41.1
Other Goods 1/	-9.3	-2.0	12.7	14.4	-3.8	12.6	-0.0	8.2	-1.0	4.9	5.3	11.2
Imports of G&S	12.5	14.4	14.9	8.7	10.1	14.3	10.7	8.6	7.0	9.8	8.2	7.4
Services	12.1	8.9	3.6	3.4	6.0	8.5	5.7	3.5	2.2	2.7	3.1	3.3
Oil	7.3	25.4	-11.6	-26.4	36.3	24.4	4.6	-6.8	-14.9	32.7	2.8	-12.6
Computers	28.7	52.5	20.0	7.2	9.1	38.6	38.6	38.6	36.1	36.1	36.1	36.1
Semiconductors	18.4	63.5	19.0	45.9	24.1	43.7	43.7	43.7	43.7	43.7	41.1	41.1
Other Goods 2/	11.3	10.3	19.7	12.6	8.1	11.3	8.8	7.3	6.1	5.5	5.4	5.4
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-286.6	-321.1	-340.4	-344.1	-378.2	-399.2	-427.3	-433.9	-448.0	-462.7	-470.4	-465.7
Exports of G&S	1014.3	1024.3	1052.6	1078.2	1078.7	1107.3	1118.1	1143.6	1156.3	1179.7	1204.6	1239.3
Imports of G&S	1300.9	1345.4	1393.0	1422.3	1456.9	1506.5	1545.4	1577.5	1604.3	1642.4	1674.9	1704.9
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-275.6	-324.6	-356.3	-399.2	-432.2	-445.0	-468.5	-489.6	-497.3	-512.7	-518.0	-524.9
Current Account as % of GDP	-3.0	-3.5	-3.8	-4.2	-4.5	-4.5	-4.7	-4.8	-4.8	-4.9	-4.9	-4.9
Net Goods & Services (BOP)	-216.7	-261.2	-290.4	-302.1	-349.1	-360.1	-380.9	-386.4	-400.9	-412.9	-418.1	-411.0
Investment Income, Net	-12.1	-13.2	-15.5	-35.9	-32.5	-34.3	-37.0	-41.7	-45.9	-49.1	-49.3	-52.3
Direct, Net	59.0	55.7	66.2	52.9	60.9	63.4	66.9	70.1	72.9	76.9	85.3	91.1
Portfolio, Net	-71.1	-68.9	-81.7	-88.7	-93.4	-97.8	-103.9	-111.8	-118.8	-126.1	-134.6	-143.4
Other Inc. & Transfers, Net	-46.8	-50.2	-50.4	-61.3	-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.