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Strictly Confidential (FR) Class II FOMC

Part 1

May 13, 1999

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

Prepared for the Federal Open Market Committee
by the staff of the Board of Governors of the Federal Reserve System

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SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee
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Domestic Developments

The U.S. economy continued to enjoy a combination of brisk growth and low inflation during the first quarter of 1999. A further huge increase in domestic spending more than offset a sharp drop in net exports, propelling real GDP upward at a somewhat faster pace than we projected in the last Greenbook. This gain came at no immediate inflation cost, however, because wages were remarkably subdued and, moreover, labor productivity registered another striking advance. All this added up to a surprisingly strong performance for corporate profits, and share prices responded accordingly.

The prospects for demand seem more positive at this stage than we anticipated in our previous forecast, but the same is true of the supply side of the equation. The recent good news on productivity reinforces the view that high levels of investment are paying off in greater efficiency, and we have become more sanguine about the outlook for output per worker hour. Additionally, wage increases appear to be on a lower track than we previously had thought: Although the extraordinarily small first-quarter rise in the employment cost index was partly a reflection of declines in commissions and bonuses that could be reversed to some degree in coming quarters, a low inflation rate appears to be damping the underlying wage trend even more than we previously had allowed for in our forecast. All told, we have ended up in this Greenbook with a noticeably more favorable combination of unemployment and inflation than before.

That said, our economic forecast retains some familiar features--in particular, a moderation in the pace of economic expansion and an eventual firming of wages and prices. Although the latest rise in the stock market creates some additional momentum in consumption and other components of domestic demand going forward, we have resisted the temptation to throw in the towel and extrapolate the steep uptrend in share prices in the face of earnings that seem likely to disappoint the market. The abatement of wealth gains, along with negative accelerator effects on the demand for houses, autos, and business equipment, should curb the growth of domestic spending and more than offset a lesser drag from the external sector. Real GDP, after rising 4-1/4 percent in 1998, is projected to increase 3-1/2 percent in 1999 and a bit more than 2-1/2 percent in 2000. The figures for both this year and next are approximately 1/2 percentage point higher than they were in the March Greenbook.

Growth of the magnitude that we anticipate for 1999 is likely to lead to a slight further tightening of the labor market, and the subpar growth of output next year only returns the unemployment rate to its recent 4-1/4 percent level; thus, real wages are expected to remain under considerable upward pressure. And although we see factory capacity remaining ample, an upturn in non-oil import prices is likely to afford goods producers a tad more pricing leverage. The recent run-up in crude oil prices will leave a major mark on headline inflation in the near term, and the indirect effects will also add modestly to production and distribution costs. All told, we are forecasting that the CPI excluding food and energy, after rising only 2 percent this year, will register an increase of about 2-1/4 percent next year. If oil prices fall back somewhat, as we are expecting, total CPI inflation should follow a pattern opposite to that of the core CPI, moving up to 2-1/4 percent this year and then dropping back to about 2 percent in 2000.

We obviously have had to deal with many significant uncertainties in assembling the forecast. Some of them are explored through model-based simulations of alternative scenarios in this and the international section. The baseline forecast attempts to balance what may in fact be sizable risks: We can envision a future in which the "virtuous cycle" of exceptionally favorable real and financial (at least equity market) performance continues for a while longer, but we can also see possibilities that either an unwinding of the high equity valuations or a deteriorating external position could lead to financial and economic disruptions.

Even setting such risks aside, our baseline forecast suggests that monetary policy ultimately may have some work to do to maintain the progress that has been made toward price stability. We believe that the current level of unemployment is unsustainable. Were we to extend our projections beyond 2000, this would be clearer, as prices would be on an accelerating trend in the absence of either an exogenous disinflationary shock or a substantial policy tightening.

Key Background Factors

The "bond market vigilantes" appear to have been reacting to just such concerns --but only mildly. Indeed, the backup of Treasury yields in recent weeks seemingly has been, to an important degree, an unwinding of the earlier flight to safety, as investors have shown a greater preference of late for equities and relatively risky private debt obligations. The result has been that financing conditions have remained distinctly attractive for households and businesses. Under the circumstances, we have altered our monetary policy assumptions to incorporate a rise in the federal funds rate over the next year or so, though only a modest one that merely validates current market expectations and that would do little more than maintain a rough stability of real short rates in the context of an adverse inflation trend.

Under this funds rate assumption, we are projecting that longer-term Treasury yields will fluctuate mainly in their recent range, probably tending a bit to the high side next year. With the economy slowing, however, the risk spreads on corporate debt are likely to widen somewhat. Banks may also become less accommodative in other ways, tightening lending standards and adjusting non-rate terms of credit.

Especially important for the economic outlook, however, is the path of the stock market. Share prices are well above the level contemplated in the last forecast--seemingly on a trajectory steeper than that in the most extreme upside alternative simulated in the March Greenbook (the one putting the Wilshire 5000 at 15,000 by the end of next year). The internal momentum of the market may well keep prices rising, but with valuations already so far beyond the historical range, we find it difficult to buy comfortably into the thought that investors are going to shrug off completely the earnings disappointments implied by our essentially flat profit forecast. Moreover, Y2K jitters are likely to afflict the corporate securities markets to some degree later this year, and monetary policy is assumed to tighten slightly next year. Consequently, we are projecting that equity prices will advance only a bit further in the coming months and then slip back some in 2000.

We are anticipating that the inflation-adjusted value of the dollar against a broad index of currencies will be essentially unchanged on balance over the next several quarters, following a somewhat lower path than was projected in the March Greenbook. The dollar is expected to be supported by the greater strength of the U.S. economy relative to foreign economies and by the expectation that returns on financial investments will remain higher in the United States than in the still relatively sluggish economies of Japan and Europe. Nonetheless, upside potential for the dollar may be limited by the current account deficit, which will widen considerably further over the projection period.

Foreign economic prospects have generally improved somewhat in recent weeks, although negative risks in the outlook may not have diminished quite so much as upbeat traders in foreign stock markets seem to have assumed. Overall, we now are predicting that foreign real GDP will rise 2-1/4 percent in 1999 and 2-1/2 percent in 2000--larger gains than we had forecast in the last Greenbook. The Brazilian economy is expected to pull out of recession sooner than we previously predicted, and the growth rates for Mexico and Korea have been raised appreciably. Japan, however, still is expected to contract slightly, on net, both this year and next, and growth in Europe is expected to remain modest, on balance.

Crude oil prices have been pushed higher since late March by a combination of OPEC production cutbacks and a slight firming of world demand. We now are predicting that the price of West Texas intermediate will average more than $18 per barrel in the second quarter of this year--nearly $3 above what we were forecasting in March. The forecast has the WTI price dropping back to $17.25 a barrel by the second quarter of 2000 and holding out at that level through the end of next year. Although this ending price is only a little higher than in the last forecast, oil prices average a good bit higher than we previously were anticipating.

We still regard our fiscal policy assumptions as being essentially neutral in terms of their impact on aggregate demand, even though they have been altered a little this month to allow for increased outlays in support of the operation in the Balkans. In the unified budget, that add-on to spending is far more than offset by a higher level of revenues, the result of a combination of the higher GDP path and some technical adjustments that translate into a higher effective tax rate on individuals. Thus, our projections of the budget surpluses for FY 1999 and FY 2000 have been raised further, to $135 billion and $188 billion, respectively. The current-year forecast is about $13 billion higher than in the last Greenbook, and the forecast for next year has been boosted $19 billion.

Recent Developments and the Outlook for the Current Quarter

The BEA's advance estimate showed the economy growing at an annual rate of 4-1/2 percent in the first quarter. Data that have come in since the report was released suggest, all else equal, a rate closer to 4 percent--with the bulk of the downward revision occurring in wholesale inventories. But with March data on retail inventories and international trade yet to come, there is still considerable room for further revision.

We expect that real GDP growth will post another solid gain in the current quarter, our projection being about 3-1/2 percent. Although aggregate production worker hours in April were just marginally above the first-quarter average, the 226,000 increase in private payrolls last month and low initial claims for unemployment benefits into early May suggest that hiring has continued apace. Thus, we are inclined to think that hours this quarter will yet show a significant gain. Of course, that still leaves open the question of how large a productivity gain we shall see; we are looking for something close to the 2-3/4 percent average of the past year. In the industrial sector, production appears to be headed for a sizable increase, given the substantial jump we are estimating for April.

On the expenditure side, we are predicting that real consumer spending will grow at an annual rate of about 4-1/4 percent in the current quarter, after having risen 6-3/4 percent at an annual rate in the first quarter. Spending on motor vehicles is expected to record only a small gain this quarter, and based partly on retail sales data through April, we are predicting that real outlays for goods other than vehicles probably will rise at less than half the phenomenal 12 percent annual rate of the first quarter.

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

Measure	1999:Q1 Mar. GB	1999:Q1 May GB	1999:Q2 Mar. GB	1999:Q2 May GB
Real GDP	3.4	4.1	3.2	3.4
Private domestic final purchases	6.7	7.5	4.1	4.7
Personal consumption expenditures	6.0	6.8	4.1	4.2
Residential investment	11.6	15.6	-1.3	1.3
Business fixed investment	9.1	8.2	6.7	9.2
Government outlays for consumption and investment	1.4	4.7	2.0	.3
	Change, billions of chained (1992) dollars			
Inventory investment	-7.7	-7.4	13.6	16.7
Net exports	-45.7	-58.3	-31.3	-35.1

Indicators of housing activity are hinting at a pullback from the torrid pace seen through the winter. Permits for new construction fell in March, and we are predicting that starts, too, will be turning down--partly because of capacity constraints that are likely to become more evident with the seasonal pickup in construction. Residential investment expenditures are expected to increase little in the current quarter after having risen at an annual rate of more than 15 percent last period.

Real business fixed investment increased at an annual rate of about 8 percent in the first quarter--a large advance but considerably slower than the 12 percent gain in 1998. We are forecasting a second-quarter rise of about 9 percent. Based partly on positive trends in orders at domestic manufacturers of capital goods, we expect investment in equipment to pick up a little this quarter; outlays for structures may soften, however, after having received a boost from mild weather this winter.

Government purchases rose 4-3/4 percent at an annual rate in the first quarter, as a steep increase in state and local expenditures more than offset a small drop in federal purchases. Growth of state and local construction outlays probably will be slow in the near term, with good weather having permitted a speedup of road building and other construction earlier in the year. Federal purchases are projected to decline a little further this quarter despite some added spending on NATO activity in the Balkans.

Following a surprising advance at the end of 1998, net exports weakened considerably in the first quarter, subtracting 2-1/2 percentage points from real GDP growth; seasonal adjustment problems and other transitory factors probably contributed substantially to this sharp up-and-down pattern. This quarter, we expect net exports to trim about 1-1/2 percentage points from GDP growth: Imports are projected to rise nearly as fast as in the first quarter, but exports are expected to essentially level out after a big swing over the past two quarters.

Nonfarm inventories have risen less rapidly than business final sales over the past couple of quarters, and stocks may have been a little to the lean side at the end of the first quarter--assuming that the March report on retail sales does not alter the picture materially. We are positing that some restocking will take place in the current quarter and that inventories will be making a contribution of about 3/4 percentage point to the growth of real GDP.

Rising crude oil prices--together with a series of refinery shutdowns--have caused the retail price of gasoline to surge in recent weeks. The increase in energy prices in the April CPI, which will be released tomorrow morning, should be a multiple of the 1-1/2 percent rise in March. The surge in energy prices likely will cause the rate of increase in the total CPI to pick up substantially this quarter, to an annual rate of about 3-1/2 percent. Increases in the core CPI over the near term are expected to be small but not quite so small as the 0.1 percent monthly increases that we saw in the first quarter, when deceleration of the core index likely was exaggerated by seasonal adjustment problems related to the introduction of geometric means. The incoming data on wages and hourly compensation have remained quite favorable: The April rise in average hourly earnings was the third straight 0.2 percent monthly increase and gave greater credence to the first-quarter ECI's signal of subdued pay inflation.

The Outlook for Economic Activity beyond the Current Quarter

In the current Greenbook forecast, the growth of domestic demand is appreciably stronger than in the March Greenbook, in large part because of the impetus from a higher stock market. Some of the increment to domestic demand is met by imports, and although exports have been revised up as well, the deterioration in net exports is somewhat greater than in the last forecast. Real GDP at the end of 2000 is 0.9 percent higher than in the March Greenbook.

On the supply side, productivity growth that is faster than we previously were projecting helps firms to meet the bigger gain in aggregate demand without a commensurate addition to their workforces. Consequently, the unemployment rate runs only slightly lower, on average, in this forecast. This additional

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

Measure	1997	1998	1999	2000
Real GDP	3.8	4.3	3.5	2.6
Previous	3.8	4.2	3.0	2.2
Final sales	3.4	4.6	3.2	2.8
Previous	3.4	4.5	2.9	2.3
PCE	3.7	5.3	5.0	3.3
Previous	3.7	5.2	4.6	2.7
Residential investment	4.2	12.6	2.4	-2.3
Previous	4.2	12.7	.3	-3.0
BFI	9.8	11.9	6.1	7.4
Previous	9.8	12.2	6.1	6.5
Government purchases	1.4	1.6	1.9	2.2
Previous	1.4	1.6	1.6	2.0
Exports	9.6	1.1	.4	4.3
Previous	9.6	.9	-.5	4.0
Imports	14.0	9.7	10.5	8.1
Previous	14.0	9.7	8.4	6.9
	Change, billions of chained (1992) dollars			
Inventory change	34.4	-22.3	25.6	-15.1
Previous	34.4	-18.7	5.6	-13.8
Net exports	-53.1	-101.0	-127.8	-68.5
Previous	-53.1	-102.4	-111.0	-54.5

tightness of the labor market normally would add a little to the projected rate of inflation, but the new productivity pattern and recent favorable wage and price news have more than offset that consideration.

Y2K effects in this forecast are larger than we had allowed for in the previous Greenbook. Survey evidence and anecdotal reports that we have been hearing about precautionary planning by households and businesses seemed to warrant the more significant allowance. The forecast has the precautionary expenditures adding around 1/3 percentage point to real GDP growth in 1999 and their reversal subtracting the same amount in 2000. Because, as a practical matter, monetary policy cannot smooth out these fluctuations in demand, we have been tempted to ignore the phenomenon entirely in our forecast; however, even on the assumptions we have made--which we regard as far from extreme--the forecast may usefully highlight the distinct possibility that Y2K effects could produce significant pressures in some sectors and certainly enough noise to make it difficult to read the underlying trends of demand.

Consumer spending. The first-half rate of growth in consumption expenditures has been raised about 1/2 percentage point in this forecast, and we also have boosted the second-half forecast by a small amount. Growth over the year as a whole now is expected to be 5 percent, a gain that would nearly match last year's advance. Consumer spending still is expected to slow considerably in 2000 but--because of the higher stock market--not so much as we previously were predicting. We are putting the increase next year at about 3-1/4 percent.

A variety of factors help to explain why consumer spending should decelerate. One part of the explanation is that the investment cycles for various types of consumer durables probably will have moved past their stimulative phases. Real expenditures on vehicles, which rose about 15 percent in 1998, have flattened out in recent months and are projected to edge down, on net, in 1999 and 2000. Household spending on computer and other electronic gear is expected to continue growing very rapidly in real terms, but the outlays for other household durables probably will start to cool as housing construction and home sales ebb. By 2000, slower growth of disposable income and wealth is likely to have brought about smaller gains in the outlays for nondurables and services as well.

Potential Y2K effects are at least a minor wild card in the outlook for consumer spending. Our guess is that precautionary buying in advance of the millennium will pull forward into 1999 some of the purchases that otherwise would have been made in 2000--if ever. Wood-burning stoves and home electrical generators reportedly have been in heavy demand, and many households probably will be stocking up more heavily on food, prescription drugs, and other necessities as the end of the year approaches. The forecast allows for a few service interruptions early in 2000, but these are assumed to be of short duration and not highly disruptive.

A more significant question mark in the consumption forecast overall relates to the prospects for asset prices and the influence of household wealth on spending. The important uncertainty about the future path of share prices was discussed above. But, setting that aside, the dimension and timing of wealth effects for a given stock market movement are impossible to nail down; this uncertainty is perhaps magnified by the fact that the wealth-income ratio has soared into uncharted territory, and we cannot be sure how such a degree of affluence will affect consumer behavior. Our forecasts of spending have been running too low in recent quarters--suggesting the possibility that the wealth effects from the stock market have been larger than we have been assuming. Alternatively, it is quite conceivable that the wave of mortgage refinancings and real estate transactions unleashed by the decline in interest rates last fall has given a transitory boost to spending growth; other boosts might have been provided by mild winter weather or auto purchase incentives. We have, in effect, struck a compromise in this forecast, assuming that some, but not all, of the recent upside surprises reflect transitory influences.

Wealth effects contribute importantly this year to a further sharp decline in the personal saving rate, which falls to an annual average of -0.9 percent. Owing to the lags in the response of spending to changes in wealth and income, the saving rate maintains a downward course in 2000 despite the assumed downturn in the stock market and slowing of income growth next year. However, next year's drop in the saving rate is much smaller than those of the past few years and would represent a marked shift from the major demand stimulus that consumers have been providing.

Residential investment. We have also raised our forecast of housing activity in conjunction with the upward revision to the stock market assumptions and in response to the faster gains in income and employment in the current projection. Nonetheless, we continue to think that residential investment is peaking. Although sales have remained strong in recent months, their upward momentum seems to have dissipated, and the market assessments of both consumers and home builders have cooled a bit.

In our judgment, the recent levels of starts are probably adding to the stock of housing at a faster pace than is sustainable over the long run--unless a continued boom in stock prices moves people to substantially higher levels of affluence. Our forecast of starts therefore trends lower over time, but from the current quarter on, the decline is quite gradual. Current backlogs should hold up the level of building activity for a while. Over the longer term, the anticipated slowing of income and employment, especially in 2000, will be reducing the stimulus from those sources to some degree, but mortgage interest rates are expected to remain in a range that will keep home purchase quite affordable and support relatively high levels of new construction and home improvement.

Business fixed investment. The changes to our forecast of business fixed investment are relatively small this month. We still expect the gains in real outlays this year and next to be roughly half as large as the huge gain recorded in 1998. Technological advances will continue to drive a good deal of investment, but waning accelerator effects, sluggish profits growth, and less favorable external financing terms are likely to temper capital spending.

Actually, evidence of some moderation in equipment demand already exists. Increases in real PDE spending have averaged about 9 percent (annual rate) in the most recent three quarters--hardly a paltry number but one that is well below the earlier pace. Outlays for office and computing machines have been an important element in the deceleration, having risen at an 80 percent rate in the first half of last year, 50 percent in the second half, and "only" 26 percent in the first quarter of this year.

We are predicting that growth of computer spending will remain comparatively subdued, on average, into early 2000 and then pick up appreciably, but we do not feel particularly confident about this forecast. On the one hand, many large firms accelerated their replacement cycles to deal with Y2K problems and will want to stabilize their systems in the latter part of this year. On the other hand, some firms that did not focus on the Y2K problem earlier may be making replacement purchases in coming months--and others simply will feel compelled to make further investments for other business reasons, such as implementing their "Internet strategies." How these forces will balance out is highly uncertain --as the recent stock price volatility of the computer companies has reflected.

The other big high-tech category, communications equipment, has been very strong of late. Rapid changes in the sector should continue to drive large increases in investment--though not so large as the estimated 37 percent (annual rate) burst in the first quarter.

We continue to think that investment cycles in the transportation area are topping out. Boeing's production plans suggest that the deliveries of aircraft will be declining substantially from recent highs, and we think that part of the decline will show up as reduced investment by the domestic airlines. Business investment in motor vehicles also has risen to high levels, and fleets have been expanding rapidly; as the economy decelerates, we expect investment to drop back a little and the growth of the vehicle stock to slow.

Although orders for other types of equipment have been strong of late, the trend over the next few quarters is expected to be one of deceleration. Investment in industrial equipment--the largest of these other equipment categories--likely will be damped by the excess capacity in a number of manufacturing sectors. Demand for agricultural machinery will likely be held down by continuing pressures on the profitability of farming.

Real outlays for nonresidential structures are projected to grow only a little over the next two years, as contractions in some components are about offset by expansion in other areas. For the foreseeable future, office construction still appears likely to be the strongest major segment of nonresidential building. Office vacancy rates have declined a great deal, and space-rents and prices have been climbing briskly; finance appears to be in good supply, with the REIT and mortgage-backed securities sectors looking healthier of late and other lenders and investors still showing considerable interest. On the other hand, industrial construction is likely to remain weak, given the aforementioned excess factory capacity.

Government. The expanded NATO military operation in the Balkans represents only a modest innovation to our economic forecast. So long as American participation does not involve a major commitment of ground forces, expenditures are likely to be raised just moderately within the projection period. Working from that assumption, expenditures in the unified budget will likely be boosted only a little relative to our previous forecast--which already anticipated passage of a significant "emergency" supplemental for military and other purposes. Although defense procurement runs a little higher in this forecast than in the last, we are still projecting declines in total real purchases both this year and next, of 1-1/2 percent and 1/2 percent respectively.

State and local expenditures are projected to rise about 3-3/4 percent in both 1999 and 2000. These are larger increases than we have been seeing in recent years, but we do not regard them as being excessively bullish. State and local governments have seen budgetary surpluses mount quite rapidly over the past few years and seemingly are positioned to start boosting spending at a faster pace. The biggest gains are likely to come in construction. School building should be strong in many locales, and spending on road construction will receive an ongoing boost from the federal highway bill passed last year.

Business inventories. Basically, the nonfarm inventory forecast shows two years of sustained accumulation, with a couple of quarterly bumps that deserve special mention. One of these, already noted, is the anticipated step-up in stockbuilding in the near-term, which reflects the efforts of businesses to rebuild inventories after having been surprised by the strength of sales late last year and early this year. The second bump in the inventory forecast stems from our assumption that businesses will be doing some precautionary stockpiling in the latter half of this year in preparation for potential Y2K supply disruptions. That accumulation adds to the growth of stocks this year but creates a dip in accumulation in the first half of 2000. Nonfarm inventory accumulation contributes about 0.4 percentage point to real GDP growth in 1999 and subtracts a couple of tenths from growth in 2000.

Farm inventory accumulation has slowed over the past half-year, and we think that the rate of stockpiling probably will fall off further in coming quarters. Producers appear likely to reduce plantings a little this year, and that should restrain farm output to some degree. Nonetheless, the further increases in stocks, though smaller than those of last year, will be adding to inventories that already are excessive. Arithmetically, this year's slowdown takes 0.1 percentage point off GDP growth; the effect of next year's deceleration rounds to zero.

Net exports. With the forecast of domestic demand having been boosted further in this Greenbook, the growth of imports has been raised as well. That increment to imports more than offsets a modest upward revision to our forecast of export growth, leaving us with a bigger drop in net exports than we were showing in the March Greenbook. All told, we now think that this year's decline in net exports will subtract about 1-1/4 percentage points from GDP growth, a slightly more negative effect than in 1998. The downward pull on real GDP from net exports still is expected to diminish considerably in 2000, when exports should strengthen and imports are expected to slow. (A more detailed discussion of the outlook for net exports is contained in the international developments section.)

Labor markets. As evidence of a pickup in productivity has accumulated over the past few years, we have on numerous occasions upped our estimate of the productivity gains that might be achievable moving forward, only to be repeatedly outflanked by incoming data that were even more favorable than we had anticipated. In this round, we once again have been confronted with a productivity rise--the estimated first-quarter gain of 3-1/2 percent (annual rate) in the nonfarm business sector--that not only outstripped our prediction but did so by more than can be readily explained by the upside surprise to output growth. It appears that structural improvements in productive efficiency have been considerable.

Elevated levels of investment in new equipment in recent years--especially in equipment embodying the new information technologies--have led to faster growth of the capital stock and in the amount of capital services per worker. This is something we have largely anticipated in recent forecasts. But, in addition to, or perhaps in conjunction with, the contribution of this capital deepening, gains in multifactor productivity (MFP) have increased substantially, by our estimate. Given that MFP is the unexplained residual in the growth accounting framework, its behavior is difficult to forecast with great conviction, but we believe that the evidence of ongoing changes in business organization and operations argues for a somewhat more positive view of the prospects for structural improvements in efficiency than was implicit in our previous projections.

In response, we have raised our forecast of the labor-productivity gains this year and next to about 2-1/4 percent, up about 1/2 percentage point in both cases from the previous forecast. Y2K developments could introduce a considerable amount of volatility into the productivity data in coming quarters, and we have tried to anticipate those effects to some degree; the effects should mainly be transitory. Y2K effects aside, the projected increases in productivity this year and next are less than was achieved in recent quarters because, as demand growth slows, firms do not scale back their hiring efforts commensurately in the short run.

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

Measure	1997	1998	1999	2000
Output per hour, nonfarm business	1.5	2.7	2.2	2.2
Previous	1.5	2.7	1.8	1.7
Nonfarm payroll employment	2.7	2.3	2.1	1.1
Previous	2.7	2.3	2.0	1.0
Employment, household survey	2.1	1.3	1.7	.8
Previous	2.1	1.3	1.7	.6
Labor force participation rate[1]	67.1	67.1	67.2	67.2
Previous	67.1	67.1	67.2	67.2
Civilian unemployment rate[1]	4.7	4.4	4.0	4.2
Previous	4.7	4.4	4.2	4.5

1. Percent, average for the fourth quarter.

Indeed, we think that employment will continue to expand briskly for a while longer. Many businesses undoubtedly have been operating with fewer workers than they would like, and that should keep hiring rolling ahead until a weakening in the growth of sales and profitability has become clearly discernible. We are predicting that the monthly growth of payrolls will remain around 200,000 for several more months. In 2000, when the economy is growing more slowly and firms have caught up to some degree in their hiring, job growth should be slower; our forecast allows for average monthly gains in payrolls of about 125,000 next year. Government hiring for the completion of the decennial Census is expected to cause a temporary blip in payroll employment growth next spring, but the added jobs will probably be picked up mainly by individuals who already are employed; consequently, the unemployment rate should be little affected.

We are assuming that the labor force participation rate will be fluctuating around 67.2 percent over the next several quarters--a touch higher than in April but in line with the average of the past couple of quarters. The unemployment rate thus should move down to about 4 percent by this fall and then return to its recent level by the latter part of 2000.

Wages and prices. We think that inflation will remain fairly low through next year; however, the underlying trend probably will be turning up mildly. This forecast hinges on two key factors: the continued extreme tautness of the labor market and an end of the heretofore favorable effects of declines in the prices of oil and non-oil imports.

On the latter score, crude oil prices have now fully reversed the decline of 1998 and early 1999, and we are anticipating that prices will drop back only moderately from their recent levels. The earlier plunge in feedstock and energy costs may still be having favorable effects on a range of goods and services prices, but that will end soon. Meanwhile, prices also seem to be turning up for some industrial commodities, and we would not be surprised if a more broadly based upturn in these prices gets under way in coming months; indeed the increases might be sharp in some cases, given the tendency of primary materials prices to react quickly to changes in market conditions. More generally, with the world economy firming and the appreciation in the exchange value of the dollar expected to abate, core non-oil import prices (which exclude the prices of computers and semiconductors) seem likely to cease declining and may rise a little. But, we would not expect the upturn to have much force initially, given the amount of excess capacity that is present in manufacturing here and abroad.

In the domestic economy, a focus on cost restraint has become widespread and is not likely to lessen abruptly--especially not in the goods sector, where competitive pressures are intensified by ample plant capacity. Productivity growth is helping businesses keep unit labor costs down, and nominal wage gains are being restrained by the good price performance. By next year, though, the restraints on domestic wages and prices may start to loosen a little. With a firming in import prices, the pressures on U.S. businesses to hold the prices of tradable goods in check will diminish somewhat, and lagged effects of the rise in oil prices will have worked their way into both the business cost structure and workers' perceptions of the cost of living. The labor market will be slightly tighter than it is at present if our forecast is correct. In these circumstances, the trends in price and wage increases will likely begin to tilt up.

The forecast has the ECI for hourly compensation in private industry moving up 3.4 percent in 2000 after rising just 3.0 percent in 1999. The ECI compensation forecast for the remainder of this year allows for a partial reversal of the declines in commissions and nonproduction bonuses that helped keep last quarter's ECI advance so exceptionally small. The ECI forecast also allows for a hike in the minimum wage. Congressional discussions have centered on a $1 hike that would occur in two or three steps; some GOP legislators have indicated that they would swap support for such a bill for some tax breaks for businesses--especially smaller businesses. We have assumed a $1 rise that takes effect in three equal steps, the first on October 1 of this year, the second next October, and the third in October of 2001. The contribution to the ECI from the assumed minimum wage increases this year and next rounds to 0.1 percentage point a year.

The core CPI is predicted to increase 2.0 percent in 1999 and 2.3 percent in 2000, down slightly from what we were forecasting previously. The core CPI shows a small deceleration in 1999 even when allowance is made for the BLS technical adjustments. The forecast for 2000 would still show some acceleration on that basis, however.[1]

Measured in product-price terms, real compensation gains are expected to be sizable in 1999 and 2000, but increases in productivity will be offsetting a considerable part of those pay increases. The rise in unit labor costs picks up only slightly in our forecast, moving from 1-1/2 percent in 1998 to about 1-3/4 percent in 1999 and 2000. As in the last Greenbook, the profit share declines, on net, over the balance of 1999 and in 2000, but not so much as in the March Greenbook because of the upward revision to the forecast of productivity growth.

1. The quarterly changes in the core CPI (and the core PCE) have been adjusted to take account of seasonal adjustment problems that seem to have arisen with the introduction of geometric means.

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

Measure	1997	1998	1999	2000
Consumer price index	1.9	1.5	2.3	2.1
Previous	1.9	1.5	2.2	2.4
Food	1.7	2.2	1.6	1.8
Previous	1.7	2.2	1.9	2.0
Energy	-1.2	-9.2	7.1	.4
Previous	-1.2	-9.2	5.2	1.5
Excluding food and energy	2.2	2.4	2.0	2.3
Previous	2.2	2.4	2.1	2.5
PCE chain-weighted price index	1.5	.7	1.6	1.5
Previous	1.5	.7	1.6	1.8
Excluding food and energy	1.6	1.2	1.3	1.6
Previous	1.6	1.2	1.4	1.8
GDP chain-weighted price index	1.7	.9	1.5	1.7
Previous	1.7	.9	1.5	1.9
ECI for compensation of private industry workers[1]	3.4	3.5	3.0	3.4
Previous	3.4	3.5	3.4	3.5
Prices of core non-oil merchandise imports	-.7	-2.1	.1	.9
Previous	-.7	-2.0	.5	1.0
	Percentage points			
MEMO: *Adjustments for technical changes to the CPI*[2]				
Core CPI	.2	.4	.6	.6

1. December to December.
2. Adjustments are calculated relative to the methodological structure of the CPI in 1994.

Money and Credit Flows

Domestic nonfinancial debt expanded at a 5-1/2 percent annual rate in the first quarter, down from the average 6-1/4 percent pace in 1998. Federal debt ran off last quarter, but business and household borrowing, despite some moderation, remained quite robust. We expect that the growth of credit demands from households and businesses will subside somewhat over the projection period, while the contraction in federal debt should intensify.

After a substantial first-quarter bounceback, profits in the nonfinancial corporate sector are expected to hold roughly level over the remainder of 1999 and to grow slightly in 2000. Even with this more positive outlook for profits--compared with previous forecasts--the expected gap between capital spending and internal funds widens appreciably over the forecast period. Nonetheless, we are predicting a slowdown in business borrowing because a decline in cash-financed mergers and a reduced pace of share buy-backs is expected to offset the rise in the financing gap. Growth in business debt, which was a very strong 9-1/4 percent last year, is expected to drop about 2 percentage points in 1999 and to slow a bit more in 2000. The default rate on junk bonds has picked up of late, and we expect to see some further deterioration in business credit quality as economic growth moderates. However, as evidenced by the narrowing of junk spreads and the rally in "cyclical" stocks, the market has taken in stride the recent spate of defaults, and we anticipate only a moderate tightening in business credit supply.

Household debt is likely to continue rising faster than income in 1999 and 2000. But we expect the gap in growth rates to diminish as borrowing gradually slackens with the deceleration in consumer spending and moderation in housing activity. Despite the hefty buildup of household debt in recent quarters, the burden of servicing debt has risen little because of declining interest rates and the lengthening of maturities. Mortgage refinancings have in many cases facilitated this movement, a pattern that is unlikely to continue. We anticipate the slackening in the pace of economic expansion will be accompanied by some deterioration in credit quality in consumer and mortgage loan portfolios. However, lenders likely will respond by tightening up mainly on their credit extensions to riskier borrowers, leaving the bulk of consumers little affected.

Further upward revisions to the federal budget surplus presage a substantial retirement of federal debt over the projection period. Federal debt fell 1-1/2 percent in 1998, and the pace of the run-off is seen increasing to about 4 percent in 1999 and 5-1/4 percent in 2000. The Treasury has yet to settle on a debt-management strategy in this era of budget surpluses, but we expect that the reductions in publicly held marketable securities will be spread across the maturity spectrum.

The sound budgetary condition of most states and localities should keep credit quality concerns in the municipal securities markets to a minimum. Consequently, funding should remain readily available for the increased volume of investment projects anticipated in our GDP forecast. The pace of advance refunding has recently slowed, and we expect the lower volume to continue because rates have been low enough that much of the eligible stock of bonds has already been refunded. We anticipate debt growth of state and local governments to be moderate--a little under 5 percent--over the rest of 1999 and 2000.

Smoothing through tax effects, the slower pace of M2 growth likely reflects an abatement of the effects of last fall's policy easings and an unwinding of last fall's buildup of liquid balances during the flight to safety. As this unwinding largely ceases to be a significant factor for money growth during the current quarter, M2 growth is seen picking up somewhat over the remainder of 1999. M3 also accelerates over the second half of 1999 with faster expansion of depository credit. In 2000, the growth rates of M2 and M3 soften with the slowdown in growth of nominal spending and the assumed increase in short-term interest rates, which has a quicker effect on money demand than on spending.

Alternative Simulations

We have developed three alternative, model-based simulations for this forecast. The first presents the implications of a quicker and more substantial monetary tightening than we are assuming in the baseline forecast. The other two simulations are developed from alternative stock market scenarios, one that has share prices moving up substantially further from recent levels and another that has them falling back substantially.

The simulation with the alternative monetary policy assumption would have the FOMC move preemptively to address the upturn in inflation that we see beginning in 2000. In this simulation the interest rate on fed funds would be raised 25 basis points at the meeting next week and lifted further, in a series of steps, over the next several quarters, reaching a level of 6 percent in the second quarter of 2000. This quicker tightening would have little effect on real GDP, unemployment or inflation in 1999. In 2000, however, the growth of real GDP would be substantially lower than in the baseline forecast, and the unemployment rate in the fourth quarter of next year would be about 1/2 percentage point higher. Inflation would edge down in 2000, rather than picking up.

The simulation with the bullish view of the stock market assumes that the Wilshire 5000 rises to a level of 15,000 by the fourth quarter of next year--a gain of roughly 25 percent from the recent average. The increase is assumed to come about as a result of a further reduction in the equity risk premium. GDP growth in 2000 is considerably stronger under this alternative than in the baseline, and the unemployment rate ends up about 1/4 percentage point lower. Inflation next year would not be perceptibly higher than in the baseline; as noted in previous Greenbooks, expectations of inflation in the FRB/US model are relatively slow to respond to fluctuations in resource utilization that are not accompanied by changes in monetary policy. The inflationary implications of the stronger stock market would start to become more evident in 2001, however.

The third alternative has the Wilshire index falling 25 percent in the next couple of months and flattening out thereafter. The decline is assumed to be prompted by an abrupt upward shift in the equity premium. In this scenario, GDP growth is considerably lower than in the baseline forecast both this year and next, and the unemployment rate reaches a level of 4-3/4 percent in the fourth quarter of next year. Inflation next year is lower than in the baseline but only slightly--again because of lagging expectation adjustments. We have not, in this simulation, made allowance for financial repercussions of a stock market decline beyond what the model would generate endogenously. However, the international developments section contains a simulation in which the drop in stock prices is part of a broader retreat of investors from U.S. markets.

Alternative Federal Funds Rate and Stock Market Assumptions

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

Measure	1999	2000
Real GDP		
Baseline	3.5	2.6
Tighter monetary policy	3.3	1.5
15,000 Wilshire	3.6	3.7
25 percent stock price decline	2.7	1.3
Civilian unemployment rate[1]		
Baseline	4.0	4.2
Tighter monetary policy	4.0	4.7
15,000 Wilshire	4.0	3.9
25 percent stock price decline	4.2	4.8
CPI excluding food and energy		
Baseline	2.0	2.3
Tighter monetary policy	2.0	1.9
15,000 Wilshire	2.0	2.3
25 percent stock price decline	2.0	2.1

1. Average for the fourth quarter.

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Class II FOMC

May 13, 1999

STAFF PROJECTIONS OF CHANGES IN GDP, PRICES, AND UNEMPLOYMENT
(Percent, annual rate)

Interval		Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index[1]		Unemployment rate[2]	
		03/24/99	05/13/99	03/24/99	05/13/99	03/24/99	05/13/99	03/24/99	05/13/99	03/24/99	05/13/99
ANNUAL											
1996		5.4	5.4	3.4	3.4	1.9	1.9	3.0	3.0	5.4	5.4
1997		5.9	5.9	3.9	3.9	1.9	1.9	2.3	2.3	4.9	4.9
1998		4.9	4.9	3.9	3.9	1.0	1.0	1.6	1.6	4.5	4.5
1999		4.9	5.2	3.6	3.9	1.3	1.2	2.0	2.1	4.2	4.2
2000		4.1	4.3	2.3	2.6	1.7	1.6	2.4	2.2	4.4	4.2
QUARTERLY											
1997	Q1	7.2	7.2	4.2	4.2	2.8	2.8	2.0	2.0	5.2	5.2
	Q2	5.6	5.6	4.0	4.0	1.7	1.7	1.5	1.5	5.0	5.0
	Q3	5.4	5.4	4.2	4.2	1.2	1.2	1.8	1.8	4.9	4.9
	Q4	4.2	4.2	3.0	3.0	1.1	1.1	2.3	2.3	4.7	4.7
1998	Q1	6.4	6.4	5.5	5.5	0.9	0.9	0.5	0.5	4.6	4.6
	Q2	2.7	2.7	1.8	1.8	0.9	0.9	2.0	2.0	4.4	4.4
	Q3	4.7	4.7	3.7	3.7	1.0	1.0	1.7	1.7	4.5	4.5
	Q4	6.8	6.9	5.9	6.0	0.8	0.8	2.0	2.0	4.4	4.4
1999	Q1	5.1	5.6	3.4	4.1	1.6	1.5	1.6	1.5	4.3	4.3
	Q2	4.6	4.8	3.2	3.4	1.4	1.4	2.8	3.5	4.2	4.2
	Q3	3.8	4.3	2.3	2.8	1.5	1.5	2.3	2.3	4.2	4.1
	Q4	4.5	5.3	3.0	3.7	1.4	1.5	2.2	2.1	4.2	4.0
2000	Q1	2.8	1.9	0.7	0.1	2.1	1.8	2.3	1.7	4.3	4.1
	Q2	5.4	5.9	3.6	4.2	1.7	1.6	2.4	2.2	4.3	4.1
	Q3	4.0	4.8	2.2	3.1	1.8	1.6	2.4	2.3	4.4	4.2
	Q4	4.1	4.6	2.2	3.0	1.8	1.6	2.4	2.3	4.5	4.2
TWO-QUARTER[3]											
1997	Q2	6.4	6.4	4.1	4.1	2.2	2.2	1.9	1.9	-0.3	-0.3
	Q4	4.8	4.8	3.6	3.6	1.2	1.2	1.9	1.9	-0.3	-0.3
1998	Q2	4.6	4.6	3.7	3.7	0.9	0.9	1.4	1.4	-0.3	-0.3
	Q4	5.7	5.8	4.8	4.8	0.9	0.9	1.7	1.7	0.0	0.0
1999	Q2	4.9	5.2	3.3	3.7	1.5	1.4	2.2	2.5	-0.2	-0.2
	Q4	4.2	4.8	2.7	3.3	1.5	1.5	2.3	2.2	-0.0	-0.2
2000	Q2	4.1	3.9	2.1	2.1	1.9	1.7	2.3	1.9	0.1	0.1
	Q4	4.0	4.7	2.2	3.0	1.8	1.6	2.4	2.3	0.2	0.1
FOUR-QUARTER[4]											
1996	Q4	5.8	5.8	3.9	3.9	1.8	1.8	3.1	3.1	-0.3	-0.3
1997	Q4	5.6	5.6	3.8	3.8	1.7	1.7	1.9	1.9	-0.6	-0.6
1998	Q4	5.1	5.2	4.2	4.3	0.9	0.9	1.5	1.5	-0.3	-0.3
1999	Q4	4.5	5.0	3.0	3.5	1.5	1.5	2.2	2.3	-0.2	-0.4
2000	Q4	4.1	4.3	2.2	2.6	1.9	1.7	2.4	2.1	0.3	0.2

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

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

May 13, 1999

Item	Units[1]	1992	1993	1994	1995	1996	1997	1998	- Projected - 1999	2000
EXPENDITURES										
Nominal GDP	Bill. $	6244.4	6558.1	6947.0	7269.6	7661.6	8110.9	8511.0	8953.7	9336.8
Real GDP	Bill. Ch. $	6244.4	6389.6	6610.7	6761.7	6994.8	7269.8	7551.9	7849.0	8055.0
Real GDP	% change	3.6	2.4	3.3	2.1	3.9	3.8	4.3	3.5	2.6
Gross domestic purchases		4.0	3.0	3.6	1.6	4.2	4.4	5.3	4.7	3.1
Final sales		3.9	2.1	2.7	2.7	3.7	3.4	4.6	3.2	2.8
Priv. dom. final purchases		4.9	3.7	3.7	2.9	4.3	4.6	6.5	5.0	3.5
Personal cons. expenditures		4.2	2.7	3.1	2.6	3.3	3.7	5.3	5.0	3.3
Durables		9.4	7.4	6.3	4.5	5.8	7.4	13.2	8.1	4.5
Nondurables		3.4	1.6	3.0	1.7	2.8	2.0	4.7	5.7	2.9
Services		3.6	2.3	2.5	2.6	3.0	3.8	4.0	4.0	3.3
Business fixed investment		5.5	9.9	7.6	7.3	11.7	9.8	11.9	6.1	7.4
Producers' dur. equipment		9.6	12.2	10.2	9.1	11.8	12.7	16.8	8.0	9.7
Nonres. structures		-3.4	4.5	1.1	2.7	11.6	2.5	-0.3	0.8	0.8
Residential structures		16.9	7.8	4.2	-1.4	5.4	4.2	12.6	2.4	-2.3
Exports		4.1	4.6	10.0	10.5	10.3	9.6	1.1	0.4	4.3
Imports		7.4	10.2	12.3	5.6	11.8	14.0	9.7	10.5	8.1
Gov't. cons. & investment		1.7	-1.4	0.1	-0.9	2.1	1.4	1.6	1.9	2.2
Federal		1.3	-6.1	-3.9	-5.6	1.1	-0.6	0.9	-1.5	-0.5
Defense		-1.3	-6.9	-6.0	-5.0	-0.1	-1.4	-1.3	-2.1	-0.6
State & local		2.0	2.0	2.7	2.1	2.8	2.6	2.1	3.8	3.7
Change in bus. inventories	Bill. Ch. $	7.0	22.1	60.6	27.7	30.0	63.2	57.4	54.4	46.2
Nonfarm		2.0	29.5	49.0	37.7	23.2	58.8	50.1	50.9	44.9
Net exports		-29.5	-70.2	-104.6	-96.5	-111.2	-136.1	-238.2	-349.7	-425.6
Nominal GDP	% change	6.3	5.0	5.8	4.2	5.8	5.6	5.2	5.0	4.3
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	108.6	110.7	114.1	117.2	119.6	122.7	125.8	128.5	130.4
Unemployment rate	%	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.2
Industrial prod. index	% change	3.6	3.3	6.5	3.5	5.3	6.6	1.9	3.9	2.3
Capacity util. rate - mfg.	%	79.5	80.5	82.5	82.7	81.4	82.0	80.8	80.0	79.9
Housing starts	Millions	1.20	1.29	1.46	1.35	1.48	1.47	1.62	1.69	1.60
Light motor vehicle sales		12.85	13.86	15.01	14.72	15.05	15.02	15.50	15.85	15.29
North Amer. produced		10.51	11.71	12.88	12.82	13.35	13.09	13.47	13.63	13.25
Other		2.34	2.15	2.13	1.90	1.70	1.92	2.04	2.22	2.04
INCOME AND SAVING										
Nominal GNP	Bill. $	6255.5	6576.8	6955.2	7287.1	7674.0	8102.9	8490.5	8916.5	9282.6
Nominal GNP	% change	6.2	5.1	5.7	4.4	5.6	5.2	5.2	4.7	4.1
Nominal personal income		7.2	4.0	5.2	4.6	5.9	5.4	5.1	5.2	4.8
Real disposable income		4.0	1.2	2.5	2.1	2.7	2.9	3.5	3.5	3.2
Personal saving rate	%	5.7	4.4	3.5	3.4	2.9	2.1	0.5	-0.9	-1.2
Corp. profits, IVA & CCAdj.	% change	11.3	19.0	14.1	14.6	7.7	7.7	0.1	4.5	0.1
Profit share of GNP	%	6.8	7.5	8.2	9.2	9.8	10.1	9.7	9.6	9.0
Excluding FR Banks		6.6	7.2	7.9	8.9	9.5	9.8	9.4	9.4	8.8
Federal surpl./deficit	Bill. $	-280.9	-250.7	-186.7	-174.4	-110.3	-21.1	72.8	145.1	182.5
State & local surpl./def.		86.3	87.4	96.8	111.7	122.6	134.1	150.2	167.5	174.5
Ex. social ins. funds		18.3	19.7	27.9	37.0	52.2	66.0	82.5	99.6	106.6
Gross natl. saving rate	%	14.5	14.4	15.5	16.3	16.6	17.4	17.3	17.0	16.5
Net natl. saving rate		3.7	3.7	4.7	5.8	6.3	7.3	7.3	7.1	6.7
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.6	2.6	2.5	2.1	1.8	1.7	0.9	1.5	1.7
Gross Domestic Purchases chn.-wt. price index		2.7	2.3	2.5	2.0	1.8	1.3	0.4	1.4	1.5
CPI		3.1	2.7	2.6	2.7	3.1	1.9	1.5	2.3	2.1
Ex. food and energy		3.5	3.1	2.8	3.1	2.6	2.2	2.4	2.0	2.3
ECI, hourly compensation[2]		3.5	3.6	3.1	2.6	3.1	3.4	3.5	3.0	3.4
Nonfarm business sector										
Output per hour		3.5	-0.4	0.1	1.3	2.0	1.5	2.7	2.2	2.2
Compensation per Hour		4.5	1.6	2.1	2.9	3.6	3.7	4.2	3.8	4.0
Unit labor cost		1.0	2.0	2.0	1.6	1.6	2.1	1.5	1.6	1.8

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 13, 1999

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

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

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

May 13, 1999

Item	Units	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4
				- - - - - - - - - - - - - Projected - - - - - - - - - - - - -							
EXPENDITURES											
Nominal GDP	Bill. $	8537.9	8681.2	8800.4	8903.2	8996.9	9114.3	9157.0	9288.8	9397.2	9504.2
Real GDP	Bill. Ch. $	7566.5	7677.7	7755.7	7819.9	7873.9	7946.5	7947.6	8030.1	8091.2	8150.9
Real GDP	% change	3.7	6.0	4.1	3.4	2.8	3.7	0.1	4.2	3.1	3.0
Gross domestic purchases		4.2	5.4	6.6	4.7	3.7	3.9	0.7	5.1	3.7	3.0
Final sales		2.8	6.6	4.5	2.6	2.6	3.2	1.9	3.4	2.8	2.9
Priv. dom. final purchases		3.7	6.5	7.5	4.7	4.0	3.9	2.5	4.6	3.7	3.3
Personal cons. expenditures		4.1	5.0	6.8	4.2	4.4	4.5	2.6	4.4	3.4	3.0
Durables		2.4	24.5	12.5	7.6	5.7	6.7	4.8	4.6	4.5	4.1
Nondurables		2.1	4.2	9.2	3.0	5.2	5.6	1.0	4.8	3.4	2.4
Services		5.4	1.7	4.5	4.1	3.7	3.5	2.9	4.1	3.1	3.0
Business fixed investment		-0.7	14.6	8.2	9.2	5.1	2.1	4.0	8.7	8.6	8.2
Producers' dur. equipment		-1.0	17.8	9.8	13.2	7.1	2.4	5.4	11.5	11.4	10.8
Nonres. structures		0.2	6.0	3.7	-1.4	-0.4	1.3	0.0	1.3	0.7	1.0
Residential structures		9.9	10.0	15.6	1.3	-4.9	-1.3	-2.1	-2.1	-2.4	-2.7
Exports		-2.8	19.7	-7.7	0.5	2.9	6.6	-1.6	5.1	5.5	8.5
Imports		2.3	12.0	12.7	11.7	10.2	7.4	3.6	11.9	9.5	7.5
Gov't. cons. & investment		1.5	3.3	4.7	0.3	1.8	1.1	2.7	3.0	2.0	1.3
Federal		-1.4	7.3	-0.7	-0.8	-1.1	-3.2	0.7	1.8	-1.3	-3.3
Defense		4.3	1.3	-4.2	1.5	-1.7	-4.0	-1.7	-0.9	0.0	0.4
State & local		3.1	1.3	7.7	1.1	3.3	3.4	3.7	3.6	3.7	3.7
Change in bus. inventories	Bill. Ch. $	55.7	44.2	36.9	53.6	57.6	69.8	29.4	47.4	53.2	54.7
Nonfarm		47.0	37.5	32.0	49.3	54.5	67.8	28.2	46.0	51.8	53.4
Net exports		-259.0	-250.0	-308.3	-343.5	-369.3	-377.9	-394.1	-421.3	-440.7	-446.3
Nominal GDP	% change	4.7	6.9	5.6	4.8	4.3	5.3	1.9	5.9	4.8	4.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	126.1	126.8	127.6	128.1	128.7	129.4	129.8	130.5	130.6	130.9
Unemployment rate	%	4.5	4.4	4.3	4.2	4.1	4.0	4.1	4.1	4.2	4.2
Industrial prod. index	% change	0.9	2.2	0.7	5.2	4.5	5.1	-2.3	4.1	3.9	3.7
Capacity util. rate - mfg.	%	80.2	80.1	79.5	79.8	80.1	80.5	79.5	79.8	80.0	80.3
Housing starts	Millions	1.64	1.70	1.79	1.66	1.66	1.64	1.63	1.61	1.60	1.57
Light motor vehicle sales		14.55	16.31	16.22	15.99	15.67	15.52	15.40	15.30	15.25	15.21
North Amer. produced		12.54	14.11	13.95	13.70	13.47	13.39	13.32	13.25	13.23	13.21
Other		2.01	2.20	2.27	2.29	2.20	2.13	2.08	2.05	2.02	2.00
INCOME AND SAVING											
Nominal GNP	Bill. $	8510.9	8660.0	8770.4	8868.4	8957.4	9069.8	9108.5	9237.0	9341.5	9443.6
Nominal GNP	% change	4.3	7.2	5.2	4.5	4.1	5.1	1.7	5.8	4.6	4.4
Nominal personal income		4.5	5.5	5.2	5.6	4.7	5.4	4.7	5.1	4.6	4.6
Real disposable income		3.2	4.3	4.4	3.5	2.6	3.4	4.2	3.2	2.6	2.7
Personal saving rate	%	0.2	0.0	-0.6	-0.7	-1.1	-1.3	-0.9	-1.2	-1.3	-1.3
Corp. profits, IVA & CCAdj.	% change	3.2	-2.5	22.9	-2.2	-2.3	1.5	-20.4	12.4	6.4	5.3
Profit share of GNP	%	9.7	9.5	9.9	9.7	9.6	9.5	8.9	9.0	9.1	9.1
Excluding FR Banks		9.4	9.2	9.6	9.4	9.3	9.2	8.6	8.8	8.8	8.8
Federal surpl./deficit	Bill. $	92.0	65.8	114.5	134.8	157.8	173.4	152.8	175.2	195.4	206.6
State & local surpl./def.		148.7	170.5	169.0	163.5	164.6	173.0	172.4	174.7	175.6	175.5
Ex. social ins. funds		81.3	102.6	101.1	95.6	96.7	105.1	104.5	106.8	107.7	107.6
Gross natl. saving rate	%	17.3	16.9	17.2	17.0	16.8	16.7	16.4	16.5	16.6	16.6
Net natl. saving rate		7.3	7.0	7.3	7.1	7.0	6.9	6.5	6.7	6.8	6.9
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.0	0.8	1.5	1.4	1.5	1.5	1.8	1.6	1.6	1.6
Gross Domestic Purchases chn.-wt. price index		0.7	0.9	1.0	1.8	1.4	1.4	1.6	1.4	1.4	1.4
CPI		1.7	2.0	1.5	3.5	2.3	2.1	1.7	2.2	2.3	2.3
Ex. food and energy		2.3	2.3	1.6	1.8	2.3	2.3	1.9	2.5	2.5	2.5
ECI, hourly compensation[1]		4.1	2.9	1.4	3.6	3.3	3.6	3.4	3.4	3.4	3.6
Nonfarm business sector											
Output per hour		2.5	4.3	3.5	2.4	1.3	1.6	0.1	3.4	2.7	2.5
Compensation per hour		3.9	4.0	4.3	3.4	3.7	4.0	4.1	3.9	3.9	4.1
Unit labor cost		1.4	-0.4	0.8	1.0	2.4	2.4	4.0	0.5	1.2	1.6

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

May 13, 1999

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

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	98Q4/ 97Q4	99Q4/ 98Q4	0Q4/ 99Q4
Real GDP	6.0	4.1	3.4	2.8	3.7	0.1	4.2	3.1	3.0	4.3	3.5	2.6
Gross dom. purchases	5.5	6.7	4.8	3.8	4.0	0.7	5.3	3.8	3.1	5.4	4.8	3.2
Final sales	6.6	4.5	2.6	2.6	3.2	1.9	3.4	2.8	2.9	4.5	3.2	2.7
Priv. dom. final purchases	5.4	6.2	4.0	3.3	3.3	2.1	3.9	3.2	2.8	5.4	4.2	3.0
Personal cons. expenditures	3.5	4.6	2.9	3.0	3.1	1.8	3.0	2.3	2.1	3.6	3.4	2.3
Durables	1.9	1.0	0.6	0.5	0.6	0.4	0.4	0.4	0.3	1.1	0.7	0.4
Nondurables	0.9	1.7	0.6	1.0	1.1	0.2	0.9	0.7	0.5	0.9	1.1	0.6
Services	0.8	1.8	1.7	1.5	1.4	1.2	1.7	1.3	1.2	1.6	1.6	1.3
Business fixed investment	1.5	0.9	1.0	0.6	0.2	0.4	0.9	0.9	0.9	1.2	0.7	0.8
Producers' dur. equip.	1.3	0.8	1.0	0.6	0.2	0.4	0.9	0.9	0.9	1.3	0.6	0.8
Nonres. structures	0.2	0.1	-0.0	-0.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	0.0
Residential structures	0.4	0.7	0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	0.5	0.1	-0.1
Net exports	0.5	-2.5	-1.4	-1.0	-0.3	-0.7	-1.0	-0.7	-0.1	-1.1	-1.3	-0.6
Exports	2.0	-0.9	0.1	0.3	0.7	-0.2	0.5	0.6	0.9	0.1	0.0	0.5
Imports	-1.5	-1.6	-1.5	-1.3	-1.0	-0.5	-1.6	-1.3	-1.0	-1.2	-1.4	-1.1
Government cons. & invest.	0.6	0.8	0.1	0.3	0.2	0.5	0.5	0.3	0.2	0.3	0.3	0.4
Federal	0.5	-0.0	-0.0	-0.1	-0.2	0.0	0.1	-0.1	-0.2	0.1	-0.1	-0.0
Defense	0.1	-0.2	0.1	-0.1	-0.2	-0.1	-0.0	0.0	0.0	-0.1	-0.1	-0.0
Nondefense	0.4	0.1	-0.1	-0.0	-0.0	0.1	0.1	-0.1	-0.2	0.1	-0.0	-0.0
State and local	0.1	0.8	0.1	0.4	0.4	0.4	0.4	0.4	0.4	0.2	0.4	0.4
Change in bus. inventories	-0.5	-0.3	0.8	0.2	0.6	-1.8	0.8	0.3	0.1	-0.3	0.3	-0.2
Nonfarm	-0.5	-0.3	0.8	0.2	0.6	-1.8	0.8	0.3	0.1	-0.3	0.4	-0.2
Farm	-0.1	-0.1	-0.0	-0.1	-0.1	-0.0	-0.0	-0.0	-0.0	0.0	-0.1	-0.0

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

Strictly Confidential (FR)
Class II FOMC

May 13, 1999

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

	Fiscal Year[5]				1998				1999				2000			
Item	1997a	1998a	1999	2000	Q1a	Q2a	Q3a	Q4a	Q1b	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					------------------------- Not seasonally adjusted -----------------------											
Receipts[1]	1579	1722	1840	1924	378	544	412	413	401	582	444	433	428	600	464	451
Outlays[1]	1601	1653	1705	1736	409	407	409	468	396	422	419	440	444	432	420	451
Surplus/Deficit[1]	-22	69	135	188	-30	137	3	-55	5	161	25	-8	-17	168	44	0
On-budget	-103	-30	6	43	-53	87	3	-58	-50	105	9	-47	-41	106	25	-42
Off-budget	81	99	129	145	22	50	-0	3	55	55	16	40	25	62	19	42
Surplus excluding deposit insurance[2]	-36	65	130	184	-31	136	2	-57	4	159	24	-9	-18	167	43	-1
Means of financing																
Borrowing	38	-51	-105	-183	26	-82	-29	32	7	-117	-27	-8	11	-136	-51	-13
Cash decrease	1	5	-7	6	4	-45	33	21	-4	-35	11	16	10	-25	5	20
Other[3]	-17	-23	-24	-10	0	-10	-8	1	-8	-8	-8	-0	-4	-7	2	-7
Cash operating balance, end of period	44	39	46	40	28	72	39	18	22	57	46	30	20	45	40	20
NIPA FEDERAL SECTOR					-------------------- Seasonally adjusted annual rates -------------------											
Receipts	1687	1818	1922	2020	1809	1838	1859	1870	1911	1941	1965	1998	1996	2029	2056	2082
Expenditures	1728	1761	1803	1846	1750	1764	1767	1805	1794	1806	1808	1825	1844	1854	1861	1876
Consumption expend.	458	458	475	487	451	464	459	471	475	478	478	476	488	492	492	488
Defense	306	301	309	313	293	303	303	307	307	310	310	308	314	314	315	316
Nondefense	152	157	167	174	158	161	156	164	168	168	168	168	174	179	177	173
Other expenditures	1270	1303	1328	1359	1299	1300	1308	1334	1319	1328	1329	1349	1356	1362	1369	1387
Current account surplus	-41	57	119	174	-59	-74	-92	-66	-117	-135	-158	-173	-153	-175	-195	-207
Gross investment	61	60	61	59	61	57	61	60	64	60	60	59	59	58	59	59
Current and capital account surplus	-102	-3	58	115	2	-18	-31	-6	-53	-75	-98	-114	-93	-117	-137	-148
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-163	-99	-70	-15	-101	-81	-70	-112	-74	-58	-37	-27	-30	-12	10	22
Change in HEB, percent of potential GDP	-0.9	-0.9	-0.4	-0.7	-0.5	-0.3	-0.1	0.5	-0.5	-0.2	-0.3	-0.1	0.0	-0.2	-0.2	-0.1
Fiscal impetus (FI) percent, cal. year	-2.1	-1.7	2.4	-0.7	-2.1	1.1	0.4	0.9	1.7	-0.1	-0.5	-0.7	0.1	0.4	-0.3	-0.7

1. OMB's February 1999 surplus estimates (assuming the enactment of the President's proposals) are $79 billion in FY99 and $103 billion in FY2000. CBO's March 1999 baseline surplus estimates are $111 billion in FY99 and $133 billion in FY2000. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.
2. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.
3. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Real potential GDP growth is assumed to be 3.3 percent beginning 1998:Q1. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1992) dollars, scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.
4. Fiscal year data for the unified budget come from OMB; quarterly data come from the Monthly Treasury Statement and may not sum to OMB fiscal year totals.

a--Actual b--Preliminary

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

Period [1]	Total [2]	Federal government [3]	Nonfederal							Memo: Nominal GDP
			Total [4]	Households			Business	State and local governments		
				Total	Home mortgages	Consumer credit				
Year										
1990	6.4	11.0	5.2	7.5	9.6	1.5	3.1	5.0		4.4
1991	4.3	11.1	2.3	4.7	6.4	-1.3	-1.7	8.6		3.8
1992	4.6	10.9	2.6	4.3	5.2	0.5	0.8	2.2		6.3
1993	5.0	8.3	3.8	5.3	4.3	7.6	1.5	6.0		5.0
1994	4.6	4.7	4.6	7.6	5.8	14.5	4.1	-4.0		5.8
1995	5.4	4.1	5.9	7.8	5.6	14.1	6.7	-4.6		4.2
1996	5.2	4.0	5.7	7.5	7.7	7.9	5.3	-0.6		5.8
1997	5.1	0.6	6.7	6.5	6.8	4.3	7.3	5.3		5.6
1998	6.3	-1.4	8.8	8.9	9.9	5.4	9.2	7.2		5.2
1999	5.1	-3.9	7.8	8.7	9.5	6.2	7.5	5.2		5.0
2000	4.3	-5.2	6.8	7.4	8.0	4.5	6.6	4.8		4.3
Quarter										
1998:3	5.5	-3.6	8.4	7.9	9.0	6.4	9.3	6.2		4.7
4	7.1	0.7	9.0	10.2	11.1	5.1	8.3	6.4		6.9
1999:1	5.6	-3.2	8.3	9.6	10.3	7.7	7.4	5.9		5.6
2	4.9	-4.2	7.6	8.4	9.2	6.1	7.3	4.9		4.8
3	4.9	-4.4	7.5	8.1	8.9	5.6	7.5	4.9		4.3
4	4.6	-3.9	7.0	7.6	8.4	5.0	6.8	4.7		5.3
2000:1	5.1	-2.9	7.2	7.7	8.2	4.9	7.2	4.8		1.9
2	3.9	-6.4	6.6	7.3	7.9	4.5	6.2	4.6		5.9
3	3.7	-7.3	6.5	7.0	7.5	4.3	6.3	4.9		4.8
4	4.2	-4.7	6.4	6.8	7.4	4.0	6.3	4.6		4.6

Note. Quarterly data are at seasonally adjusted annual rates.
1. Data after 1998: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 estimated to have grown 6.2 percent in 1998 and is projected to grow 5.4 percent in 1999 and 4.3 percent in 2000.
3. On a monthly average basis, federal debt is estimated to have grown -1.2 percent in 1998 and is projected to grow -3.3 percent in 1999 and -5.1 percent in 2000.
4. On a monthly average basis, nonfederal debt is estimated to have grown 8.6 percent in 1998 and is projected to grow 8.0 percent in 1999 and 6.9 percent in 2000.

2.6.3 FOF

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

Category	Calendar year				Seasonally adjusted annual rates									
					1998		1999				2000			
	1997	1998	1999	2000	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net funds raised by domestic nonfinancial sectors														
1 Total	622.4	688.2	696.0	625.0	547.1	643.9	863.8	764.3	594.5	561.4	690.9	570.8	570.4	668.0
2 Net equity issuance	-114.4	-262.8	-129.8	-99.0	-308.4	-474.4	-47.3	-44.0	-212.0	-216.0	-166.0	-98.0	-70.0	-62.0
3 Net debt issuance	736.9	950.9	825.8	724.0	855.5	1118.3	911.1	808.3	806.5	777.4	856.9	668.8	640.4	730.0
Borrowing sectors														
Nonfinancial business														
4 Financing gap [1]	62.7	85.9	117.7	154.4	67.5	95.0	71.2	114.0	135.3	150.2	133.0	151.3	162.2	170.9
5 Net equity issuance	-114.4	-262.8	-129.8	-99.0	-308.4	-474.4	-47.3	-44.0	-212.0	-216.0	-166.0	-98.0	-70.0	-62.0
6 Credit market borrowing	324.1	438.2	389.0	372.6	466.6	423.3	385.0	390.7	403.7	376.7	403.1	355.1	364.1	368.1
Households														
7 Net borrowing [2]	333.6	485.0	519.2	479.3	452.7	592.7	574.1	515.3	504.0	483.7	498.4	484.8	469.8	464.2
8 Home mortgages	236.7	368.9	391.9	359.6	353.2	444.6	423.1	387.4	384.9	372.2	368.9	363.3	353.3	352.7
9 Consumer credit	52.5	67.9	83.2	63.8	83.4	66.6	102.9	83.0	77.0	70.0	69.0	65.0	62.0	59.0
10 Debt/DPI (percent) [3]	91.5	94.8	98.2	101.1	95.0	95.9	97.0	97.9	98.9	99.6	100.2	100.8	101.6	102.2
State and local governments														
11 Net borrowing	56.1	80.3	62.6	60.8	72.6	75.4	71.3	59.5	60.5	59.0	60.8	58.8	62.8	60.8
12 Current surplus [4]	135.6	182.4	199.1	207.4	182.7	198.2	200.3	189.3	199.0	207.9	205.8	207.7	207.8	208.4
Federal government														
13 Net borrowing	23.1	-52.6	-144.9	-188.6	-136.5	26.9	-119.2	-157.1	-161.6	-141.9	-105.4	-229.8	-256.2	-163.1
14 Net borrowing (quarterly, n.s.a.)	23.1	-52.6	-144.9	-188.6	-28.8	32.1	7.5	-117.4	-27.1	-8.0	11.0	-135.5	-50.7	-13.3
15 Unified deficit (quarterly, n.s.a.)	2.4	-54.7	-182.7	-195.6	-3.0	55.0	-5.1	-160.6	-24.7	7.8	16.6	-167.9	-44.2	-0.1
Depository institutions														
16 Funds supplied	336.3	364.3	236.4	286.1	296.9	683.9	162.6	235.6	276.2	270.9	282.4	289.4	285.4	287.4
Memo (percentage of GDP)														
17 Domestic nonfinancial debt [5]	182.6	183.9	184.7	185.5	184.4	184.2	184.6	184.8	185.2	185.0	186.3	185.7	185.3	185.0
18 Domestic nonfinancial borrowing	9.1	11.2	9.2	7.8	10.0	12.9	10.4	9.1	9.0	8.5	9.4	7.2	6.8	7.7
19 Federal government [6]	0.3	-0.6	-1.6	-2.0	-1.6	0.3	-1.4	-1.8	-1.8	-1.6	-1.2	-2.5	-2.7	-1.7
20 Nonfederal	8.8	11.8	10.8	9.8	11.6	12.6	11.7	10.8	10.8	10.1	10.5	9.7	9.5	9.4

Note. Data after 1998: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

Developments since the March FOMC meeting point to somewhat brighter prospects for economic growth in Asia and Latin America, and our outlook for foreign growth has been adjusted upward to reflect them. Recovery in Korea is proceeding more quickly than had been expected, and other Asian economies may be on the rebound. While economic activity in Brazil has slowed considerably in recent quarters, the downturn is now seen to be less severe, with interest rates declining and inflationary pressures surprisingly moderate. In Mexico, there are tentative signs that growth may be resuming. Global investors are also exhibiting greater confidence in emerging markets, absorbing new debt issues, bidding up the prices of existing debt and equity, and showing a greater willingness to hold emerging market currencies.

Faster foreign activity boosts real exports relative to our March projection. Nonetheless, the stronger outlook for U.S. domestic demand is expected to push real net exports of goods and services further into deficit over the forecast period.

Recent Developments

International financial markets. The weighted average foreign exchange value of the dollar, as measured by the staff's broad index, declined 1 percent during the period following the March FOMC meeting. An increase in commodity prices and an apparent reduction in investors' concerns about risk weighed against the dollar vis-a-vis the currencies of several key U.S. trading partners. The U.S. dollar declined about 3-1/2 percent against the Canadian dollar and 4-1/4 percent against the Australian dollar, as the prices of metals, oil, and lumber moved higher. The dollar also declined 12 percent against the Indonesian rupiah, about 7 percent against the Brazilian *real*, and 2-1/2 percent against the Mexican peso.

On balance, the dollar firmed nearly 1 percent against the euro and more than 1-1/2 percent against the yen during the period. Market perceptions of weak growth in the euro area and a reduction of 50 basis points in the refinancing rate of the Eurosystem weighed on the new European currency. The euro also seemed to fluctuate during the period with market views about the prospects for a near-term resolution of hostilities in the Balkans. The yen traded in a narrow range against the dollar through much of the period even as the yield spread between long-term U.S. and Japanese government bonds widened 65 basis points.

Markets for higher-risk assets generally rallied during the period. Equity prices in major foreign industrial countries, including Japan, moved up 5 percent or more. With a few exceptions, share prices in the emerging markets of Asia and Latin America were up between 20 and 50 percent over the intermeeting period.

Yield spreads over U.S. Treasuries on longer-term emerging market debt instruments moved lower as well. In addition, only three months after the abandonment of its crawling-peg exchange rate system and the collapse of the *real*, the Brazilian government was able to issue a five-year global bond at a yield spread of 675 basis points over U.S. Treasuries.

Monetary policy in foreign countries eased on average. In addition to the official rate cut in the euro area, monetary authorities in Canada, the United Kingdom, and Brazil also reduced policy rates. Movements in yields of long-term government bonds were mixed during the period. The yield on the ten-year bellwether security in Canada was up nearly15 basis points, matching the runup in the yield on the U.S. ten-year Treasury. Comparable yields edged lower in the euro area. In Japan, the yield on the bellwether government bond dropped more than 50 basis points, a move consistent with the current accommodative monetary stance and few signs that economic activity is set to recover.

Economic activity abroad. Recent evidence on growth in many of the major industrial countries indicates continued sluggishness. Japanese consumer spending plunged in the first quarter, and Japan's unemployment rate reached a post-war high in March, despite evidence that government measures to stimulate economic activity are coming on line. In the euro area, industrial production declined further in February, and German industrial production moved down again in March. Euro-area consumer confidence fell in March and April from its historically high levels in January and February, while industrial confidence improved somewhat in April from its depressed levels in recent months.

In contrast, while U.K. real GDP growth in the first quarter was barely positive and industrial output is estimated to have declined in the quarter, business surveys released in March and April indicate somewhat brighter prospects for activity in the months ahead. Economic growth in Canada appears to have been strong in the first quarter, albeit somewhat reduced from the post-strike surge in activity late last year.

The latest price data provide no significant indication yet of inflationary pressures in foreign industrial countries. Japan shows further evidence of price deflation with a 0.2 percent decline in consumer prices in April from a year earlier. Euro-area consumer prices rose 1.0 percent in the year to March, as did consumer prices in Canada. U.K. retail price inflation in the twelve months to March remained close to 2-1/2 percent, the official target of the Bank of England.

Signs emerged during the intermeeting period that the slowdown in Mexico may be ending and that the contraction of activity in Brazil may be diminishing.

Mexican industrial production grew in March, after virtually no growth in GDP in the fourth quarter and declines in industrial production in January and February. In addition, the rate of unemployment in Mexico moved lower in March. Industrial production in Brazil, which had been trending lower since May of last year, also rose in March. Data for Argentina, however, show no evidence of a break in the recent downward trend. Argentine industrial production declined 4 percent in the first quarter.

Economic activity in Korea grew vigorously in the first quarter, with industrial production rising substantially in March to a level higher than before the onset of the financial crisis in mid-1997. Recent indicators of industrial production and GDP for the ASEAN countries suggest that activity in the region had probably bottomed out by the first quarter, and for some countries recovery may have begun.

Inflation rates in much of Latin America moved lower in recent months. Mexican consumer price inflation was at an eleven-month low in March. Despite the 40 percent devaluation of the *real* early this year, consumer price inflation in Brazil was running at about a 14 percent annual rate in the first quarter (not seasonally adjusted) and appears to have slowed significantly by April. Deflation has emerged in Argentina, with first-quarter data showing a decline in consumer prices of 0.7 percent from a year earlier. In contrast, consumer price inflation in Venezuela remained high, at 25 percent in April from a year earlier, but the month-to-month price rise in April was the lowest in ten years. Consumer price inflation in most Asian economies moved lower in the first quarter, with prices in Korea and Thailand rising less than 1/2 percent in April from a year earlier. In the Philippines, inflation moved down to 8 percent in the year to April, while in Indonesia it dropped to 38 percent.

U.S. net exports and prices. In February, the nominal U.S. trade deficit in goods and services was $19.4 billion, a deficit much larger than in any of the preceding months. The value of imports rose sharply, and the value of exports declined to its lowest level since last August.

For January and February combined, the deficit at an annual rate was substantially larger than that in any quarter of last year. Imports for the two-month period rose strongly, led by large increases in consumer goods, automotive products, computers, and semiconductors. Exports during January-February declined 2-3/4 percent, partly reversing the surge recorded in the fourth quarter. The largest declines were in aircraft, machinery, industrial supplies, and agricultural products. Exports to Asia generally turned down in January-February from the peak levels in the fourth quarter, which had been boosted by record deliveries of aircraft.

The quantity of imported oil increased slightly in January-February, largely in response to low oil prices, declines in domestic production, and strong U.S. economic activity. Preliminary data from the Department of Energy indicate that imports in March and April remained near January and February rates.

After decreasing in January, the price of imported oil rose modestly in February. Along with the $6 increase in the spot price of WTI crude since February, the price of imported oil rose sharply in March and April. The March agreement of OPEC and non-OPEC producers to restrict production by two million barrels per day triggered this rapid run-up in price. Weaker-than-expected inventories in the United States and temporary supply disruptions also pushed the price higher over the intermeeting period.

For the first quarter, prices of non-oil imports decreased about 1-3/4 percent at an annual rate. Monthly data on imported goods prices indicate that prices fell further in April. Prices of "core" imports (which exclude oil, computers, and semiconductors) were about flat in the first quarter and April. Export prices declined 3/4 percent at an annual rate in the first quarter. Prices for exported goods rose slightly in April.

Outlook

Foreign real GDP (weighted by U.S. nonagricultural export shares) is projected to average a bit less than 2-1/4 percent in 1999 and to rise to 2-1/2 percent in 2000. Compared with the March Greenbook, this path for foreign growth is significantly higher in 1999, particularly in the second half of the year. Upward revisions to our outlook for developing economies in Latin America and Asia boosted growth in both years. We also assumed more substantial Y2K effects in this forecast. These have the effect of shifting growth to the second half of 1999 from the first half of 2000, making the upward revision to 1999 growth larger and masking some of the stronger underlying activity forecast for 2000. We project the dollar to remain essentially unchanged in real terms over the forecast period, with the path about 1 percent lower than in the March Greenbook.

We project that declines in U.S. real net exports will subtract 1-1/4 percentage points from U.S. real GDP growth in 1999 and about 1/2 percentage point in 2000. Import growth is higher than in the previous Greenbook because of the upward revision to projected U.S. growth. Export growth is also a bit higher on balance over the forecast period, in response to stronger foreign activity and a slightly weaker dollar.

Summary of Staff Projections
(Percent change, annual rate)

Measure	1998	Projection 1999 Q1	Projection 1999 Q2	Projection 1999 H2	Projection 2000
Foreign output	0.6	1.4	1.7	2.8	2.5
March GB	0.5	0.8	1.1	1.7	2.4
Real exports	1.1	-7.7	0.5	4.7	4.3
March GB	*0.9*	*-7.6*	*-0.1*	*3.0*	*4.0*
Real imports	9.7	12.7	11.7	8.8	8.1
March GB	*9.7*	*8.6*	*10.0*	*7.5*	*6.9*

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

The dollar. We project that during the forecast period the nominal exchange value of the dollar against the major international currencies will decline moderately from its current level. In part, this decline reflects our view, unchanged from previous Greenbooks, that growing current account imbalances among the major currency regions will eventually begin to exert some downward pressure on the dollar. In keeping with this view, the dollar is forecast to decline moderately against the euro.[1] Against the yen, the dollar is expected to change little on balance, as current account pressures are counterbalanced by easy monetary policy in Japan and our expectations that market participants are likely to be disappointed by the pace of recovery and restructuring in Japan. Rising commodity prices are expected to provide a bit more support to the Canadian dollar. On balance, the path forecast for the dollar

1. While concern over the conflict in the Balkans appears to have buffeted the euro in recent weeks, we view these developments as having only temporary effects on the value of the currency. The assumption underlying our baseline forecast is an outcome in which the air campaign gives way to a peacekeeping operation sometime later this year. The fiscal and economic effects of this scenario are not significant. There is a possibility, however, that the conflict will widen into a ground war, entailing the introduction of a significant number of U.S. and European ground troops in an operation lasting well into next year. Although we perceive this risk to be relatively small at this juncture, and have not conducted a separate simulation exercise to calibrate the effects of such an outcome, the Congressional Budget Office estimates that the cost of a ground campaign (with 27,000 soldiers on the ground) would be about $300 million per month. There might also be effects on consumer and business confidence that would influence economic activity in Europe and possibly the United States, but these effects are even more difficult to calibrate.

relative to other major currencies is little changed from that in the March Greenbook.

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

Activity in foreign industrial countries. Real export-weighted GDP in the foreign industrial countries is projected to grow 2-1/4 percent in 1999 and 2 percent in 2000. We have revised up slightly our forecast for Canadian GDP growth this year and next. The revised forecast incorporates the effects of recent and expected further interest rate reductions by the Bank of Canada, higher commodity prices, and the stronger outlook for the United States. Canadian GDP is now expected to rise 3 percent this year and 2-3/4 percent in 2000.

We are projecting that euro-area GDP growth will be about 2-1/4 percent this year and a little less in 2000. The decline in the exchange value of the euro and the recent monetary easing are expected to help support activity going forward. We are maintaining our view that economic activity in Japan will decline until mid-2000, although the mix of spending components is expected to change. In response to recent data, projected consumption spending has been revised down. The effect of this revision on growth is offset by evidence suggesting stronger fiscal stimulus in the near term and our assumption that another supplementary budget package will be implemented later this year.

U.K. GDP is projected to grow 1-3/4 percent in 1999 and slightly more than 2 percent in 2000. A slightly tighter monetary policy stance is expected to constrain GDP growth somewhat.

Inflation. Average consumer price inflation in the foreign industrial countries, weighted by U.S. non-oil import shares, is projected to decline to 3/4 percent in 1999 before returning to about 1 percent in 2000. That pattern is driven mainly by continued Japanese deflation: Consumer prices in Japan are expected to fall more than 1-1/2 percent in 1999 and to decline about 1 percent in 2000. This outlook for inflation in the industrial countries incorporates our revised oil price assumption and, as a consequence, is a bit higher than the inflation outlook in the March Greenbook.

Interest rates. Short-term interest rates in Japan are assumed to remain near zero throughout the forecast period. The Eurosystem rate reduction on April 8 was somewhat larger than assumed in our previous forecast, and no further official actions are assumed in this forecast. With Canadian inflation expected to remain near the bottom of the official target range and some continuing upward pressure on the Canadian dollar, we project that the Bank of Canada will reduce its Bank rate once more this year. After that, we assume the Bank of Canada will match the assumed U.S. monetary policy actions. Recent U.K. data indicating that the growth slowdown there will be less severe than had been anticipated has prompted us to remove our assumption of a further reduction in the Bank of England's repo rate. In addition, we now expect that in mid-2000 the Bank of England will begin to tighten monetary policy to prevent a pickup in inflation.

Other countries. The outlook for growth in the major developing-country trading partners of the United States has been revised up substantially from the March Greenbook, largely because of favorable developments in Brazil and growing evidence of recovery in the developing Asian economies. We now project that real GDP in the major developing countries will increase 2 percent in 1999, compared with only 1/2 percent in the March Greenbook. In 2000, growth in the developing countries is expected to be slightly stronger than in our previous Greenbook forecast, moving to 3-1/4 percent.

The improvement in our outlook for growth in Brazil is due to several positive developments, especially the strength of the *real* and lower-than-expected inflation pressures, which allowed the central bank to reduce short-term interest rates. While we still expect that the high real interest rates and fiscal constraint needed to contain inflation and restore confidence in the financial system will cause real GDP in Brazil to decline in 1999, a contraction of only 1-1/2 percent is now projected, compared with the drop of more than 7 percent forecast in March. Largely because of these favorable developments in Brazil and the upward revision to our projection for U.S. growth, the outlook for other Latin American countries has also improved. We now project that growth in Mexico will be 3 percent in 1999, up from the 1-1/2 percent forecast in the March Greenbook. In Latin America as a whole, real GDP is projected to increase 1-1/2 percent in 1999, compared with a decline of 3/4 percent in the March Greenbook. In 2000, average growth in Latin America is expected to rise to 3 percent.

The developing Asian economies that experienced sharp declines in output last year appear to have hit bottom or, in the case of Korea, to be recovering more briskly than previously anticipated. Korea is now projected to grow 5 percent in 1999, double the growth rate forecast in the last Greenbook. On average, real GDP growth in the Asian developing countries is expected to be 2-1/2 percent in 1999, twice the pace in the last Greenbook. In 2000, average growth in developing Asia is expected to rise to 3-1/2 percent.

Century date change. Our forecast assumes that Y2K effects will disrupt the quarterly pattern of GDP growth abroad in the second half of 1999 and the first half of 2000, much the same effects we assume for the United States. While we know very little about the likely magnitude of these effects across countries, many countries are less prepared than the United States to deal with these problems, but at the same time are also less dependent on computers than the U.S. economy.

Real exports and imports of goods and services. We project that, after falling in the first quarter, real exports of goods and services will increase slightly in the second quarter and rise at an annual rate of about 4-1/2 percent thereafter. Core exports (goods other than agricultural products, computers, and semiconductors) are projected to be little changed in the second quarter and to grow at a 2-3/4 percent pace over the remainder of the forecast period, reflecting in part our assumption of a pickup in the growth of foreign economic activity and also the waning of the depressing effects of past increases in the foreign exchange value of the dollar. Agricultural shipments this year are expected to fall short of last year's relatively high level and to remain little changed in 2000.

Growth of real imports of goods and services is projected to be about 12 percent at an annual rate in the first half of 1999 and to slow to an 8 percent pace over the rest of the forecast period, as the growth of U.S. economic activity moderates from its recent torrid pace. Core imports also slow, growing 9 percent in 1999 and 6 percent in 2000.

We expect the quantity of oil imports to increase more than 5 percent in 1999, as domestic production, which was cut in response to low oil prices in 1998 and earlier this year, fails to keep pace with the growth in domestic consumption. Relative to our previous forecast, oil imports in 1999 are somewhat lower, as the impact of a higher projected path for oil prices more than offsets the effect of stronger U.S. growth.

Oil prices. Over the rest of the year, the price of imported oil is expected to rise from its first-quarter levels in response to the supply restrictions agreed to by OPEC and non-OPEC producers. Stronger economic growth and lower inventories will also add support to oil prices over the next two years. The forecast assumes that OPEC will make about half of its pledged cuts during the second half of 1999. The price of imported oil is now expected to increase from around $10.30 per barrel in the first quarter of 1999 to a high of more than $15.00 per barrel in the third quarter. Thereafter, the price of imported oil should move down toward $14.75 per barrel as production from non-OPEC and OPEC countries increases more rapidly than consumption.

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

Trade category	1998	Projection			
		1999			2000
		Q1	Q2	H2	
Exports					
Nonagricultural (core)	-1.9	-0.2	2.1	0.9	1.1
Agricultural	-9.8	-7.9	-2.1	1.1	2.0
Imports					
Non-oil (core)	-2.0	0.0	-0.9	0.6	0.9
Oil (level, dollars per barrel)	11.38	10.32	14.44	15.13	14.75

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

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

Nominal trade and current account balances. The nominal trade deficit for goods and services is projected to widen substantially during the forecast period, from $173 billion in the fourth quarter of 1998 to more than $330 billion in the fourth quarter of 2000. The deficit for net investment income is also expected to widen this year and next. Accordingly, the current account deficit, which was $234 billion in 1998, is projected to rise to about $425 billion in 2000, more than 4-1/2 percent of projected GDP.

Risks to the Foreign Outlook

Stronger recovery of activity abroad. The downside risks to the outlook for emerging market economies appear to have diminished further since the time of the March FOMC meeting. Brazil is not yet out of the woods, but the scenario in which Brazil enters onto a path of explosive debt dynamics seems a bit more remote. In light of these developments, we revised up our forecast significantly, but our baseline for Brazil remains on the negative end of the spectrum of outside forecasts. We have also been surprised by the strength of the recovery in Korea and the buoyancy of Asian financial markets more generally. If business and consumer confidence gains strength from progress on structural reforms and upturns in financial markets, economic activity in these countries and their regions more broadly could recover a good deal more sharply than our baseline forecast envisions.

To analyze the effect of a stronger path for foreign GDP, we constructed an alternative scenario. In this scenario, we assume that foreign GDPs grow 1 to 2 percentage points faster, at an annual rate, relative to our baseline forecasts for individual countries over the next six quarters. With economic activity abroad on the mend, foreign interest rates will likely rise, and it is possible that more attention will be focused on the still burgeoning U.S. current account deficit. To account for these effects, we assume that the dollar depreciates 10 percent next quarter from our baseline path and is held at that lower level through the remainder of the forecast period. The impact of these alternative assumptions on our forecast for the U.S. economy is presented in the table below. Under the assumption that U.S. monetary policy does not respond to these changes in assumptions, U.S. GDP and inflation rise noticeably, particularly in 2000.

U.S. stock market correction triggers dollar depreciation. A substantial decline in U.S. equity prices might make investment opportunities in the United States seem less attractive and trigger a significant dollar depreciation. Once such a depreciation is started, concerns about the U.S. current account deficit might reinforce the decline. With this in mind, we assume a path for U.S. equity prices that declines 25 percent from baseline by the end of this quarter and remains at that lower level in subsequent quarters. This alternative assumption matches the one described earlier in the Domestic Developments section of this Greenbook. In addition, we assume that the exchange value of the dollar relative to baseline follows a pattern similar to stock prices but drops by half the magnitude of the stock market decline. In this scenario, U.S. growth is weaker than baseline in 1999, as the contractionary effect of the decline in stock prices dominates the stimulative effect of the dollar depreciation in the near term. In 2000, after the lagged effects of the dollar decline take hold, growth is higher than baseline. Inflation is higher in both years.

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

Measure	1999	2000
U.S. real GDP		
Baseline	3.5	2.6
Stronger foreign recovery and weaker dollar[1]	3.7	4.0
U.S. stock market correction and weaker dollar[2]	3.1	2.8
U.S. CPI excluding food and energy		
Baseline	2.0	2.3
Stronger foreign recovery and weaker dollar[1]	2.2	3.0
U.S. stock market correction and weaker dollar[2]	2.4	2.9

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

1. Assumes dollar path 10 percent below baseline.
2. Assumes dollar path 12-1/2 percent below baseline.

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

Measure and country	1992	1993	1994	1995	1996	1997	1998	-Projected- 1999	2000
REAL GDP (1)									
Total foreign	2.1	3.2	5.2	2.0	4.2	4.1	0.6	2.2	2.5
Industrial Countries	0.6	1.8	4.1	1.7	2.6	3.3	1.7	2.2	1.9
of which:									
Canada	0.9	2.9	5.5	1.1	1.7	4.4	2.8	3.2	2.6
Japan	0.1	0.5	0.9	2.5	5.1	-0.8	-3.0	-0.4	-0.3
United Kingdom	0.7	3.2	4.6	1.9	2.6	3.9	1.1	1.8	2.1
Euro-11	0.1	0.0	3.4	1.2	1.9	3.2	2.3	2.3	2.1
Germany	0.9	-0.2	3.4	0.1	2.1	2.3	1.8	2.0	2.1
Developing Countries	4.5	5.3	6.9	2.6	6.4	5.2	-0.9	2.1	3.3
Asia	6.7	7.8	8.8	6.9	7.0	4.9	-2.5	2.6	3.6
Korea	2.4	8.1	9.5	7.2	7.0	3.7	-5.3	5.0	5.0
China	14.6	6.3	16.3	12.6	9.2	8.2	9.5	5.1	6.0
Latin America	2.8	2.8	5.6	-4.1	6.4	6.3	0.8	1.6	3.1
Mexico	2.5	1.9	5.1	-7.3	7.5	7.2	2.9	2.9	3.4
Brazil	0.1	4.4	9.6	-1.5	5.0	2.0	-1.9	-1.5	1.8
CONSUMER PRICES (2)									
Industrial Countries	2.0	2.1	1.1	1.3	1.5	1.6	1.0	0.7	1.0
of which:									
Canada	1.8	1.8	-0.0	2.1	2.0	1.0	1.1	1.6	1.8
Japan	0.9	1.2	0.8	-0.8	0.1	2.1	0.7	-1.6	-1.1
United Kingdom (3)	3.7	2.7	2.2	2.9	3.2	2.8	2.6	2.4	2.5
Euro-11 (4)	NA	NA	NA	2.7	2.0	1.4	0.9	1.7	1.5
Germany	3.4	4.2	2.6	1.5	1.5	2.1	0.4	1.3	1.3
Developing Countries	21.7	24.8	23.1	17.0	11.2	6.9	8.9	6.1	6.6
Asia	5.5	7.7	10.7	6.4	4.8	2.8	4.6	1.7	3.8
Korea	4.7	5.5	5.8	4.4	5.1	5.1	6.0	1.7	2.6
China	8.2	17.1	26.9	11.1	7.0	1.0	-1.1	0.4	2.6
Latin America	72.4	74.5	54.6	42.2	26.0	15.6	15.6	14.4	11.8
Mexico	13.2	8.6	6.9	48.8	28.1	17.2	17.6	15.3	12.6
Brazil	1150.1	2321.7	1237.1	22.5	10.5	4.2	2.7	10.4	6.5

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)

	1998				Projected 1999				Projected 2000			
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	-0.4	0.4	1.0	1.3	1.4	1.7	2.3	3.3	0.2	3.7	3.2	3.0
Industrial Countries	2.0	1.1	1.6	2.1	1.8	2.0	2.1	3.0	-0.6	3.4	2.6	2.3
of which:												
Canada	3.2	1.5	1.7	4.6	3.3	3.0	2.8	3.8	-0.1	4.2	3.4	3.0
Japan	-4.8	-2.9	-1.2	-3.2	-1.5	-0.4	-0.2	0.3	-2.8	1.2	0.1	0.2
United Kingdom	1.7	1.2	1.1	0.3	0.4	1.5	2.1	3.2	-0.2	3.1	2.9	2.4
Euro-11	3.0	2.5	2.6	1.1	1.8	1.9	2.3	3.2	-0.2	3.5	2.7	2.5
Germany	5.3	-0.1	3.6	-1.5	1.1	1.5	2.3	3.2	0.2	3.3	2.6	2.5
Developing Countries	-3.7	-0.5	0.3	0.3	0.9	1.4	2.5	3.7	1.4	4.1	4.0	4.0
Asia	-10.3	-3.2	0.7	3.3	1.9	1.9	2.6	4.0	1.2	4.1	4.4	4.6
Korea	-22.1	-3.5	1.6	5.3	4.5	4.5	5.0	5.8	3.0	5.8	5.3	5.8
China	7.0	6.5	11.0	13.8	2.2	6.8	5.0	6.5	3.0	6.0	7.5	7.5
Latin America	4.2	2.3	0.1	-3.4	-0.8	1.0	2.7	3.8	1.4	4.3	3.6	3.0
Mexico	5.1	2.6	3.8	0.1	1.2	2.4	3.7	4.4	2.0	4.5	3.9	3.0
Brazil	0.0	5.4	-6.1	-6.4	-4.0	-4.0	0.0	2.3	0.0	3.0	2.3	2.0
CONSUMER PRICES (2)	Four-quarter changes											
Industrial Countries	1.5	1.1	0.8	1.0	0.6	0.8	0.9	0.7	0.9	0.9	0.9	1.0
of which:												
Canada	1.0	1.0	0.9	1.1	0.8	1.3	1.5	1.6	1.6	1.6	1.6	1.8
Japan	2.1	0.6	-0.1	0.7	-0.2	-0.7	-0.8	-1.6	-1.3	-1.3	-1.2	-1.1
United Kingdom (3)	2.5	3.0	2.6	2.6	2.6	2.4	2.4	2.4	2.5	2.4	2.5	2.5
Euro-11 (4)	1.2	1.4	1.2	0.9	0.9	1.5	1.6	1.7	1.7	1.6	1.5	1.5
Germany	1.2	1.4	0.7	0.4	0.3	1.0	1.3	1.3	1.3	1.3	1.3	1.3
Developing Countries	7.4	7.6	8.0	8.9	7.9	7.0	6.5	6.1	6.2	6.7	6.7	6.6
Asia	4.2	4.7	4.6	4.6	2.6	1.4	1.3	1.7	2.5	3.3	3.6	3.8
Korea	8.9	8.2	7.0	6.0	0.7	1.0	1.5	1.7	2.3	2.3	2.5	2.6
China	0.4	-0.9	-1.4	-1.1	-1.4	-1.2	-0.3	0.4	1.0	1.6	2.1	2.6
Latin America	14.1	14.2	14.3	15.6	16.4	15.8	15.3	14.4	12.8	12.8	12.6	11.8
Mexico	15.3	15.1	15.6	17.6	18.6	18.1	16.9	15.3	13.3	13.5	13.5	12.6
Brazil	4.4	4.5	3.6	2.7	3.0	4.5	7.5	10.4	10.0	8.5	7.4	6.5

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1992	1993	1994	1995	1996	1997	1998	Projected 1999	Projected 2000
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	-0.4	-0.6	-0.4	0.5	-0.3	-0.6	-1.1	-1.3	-0.6
Exports of G&S	0.4	0.5	1.0	1.1	1.2	1.1	0.1	0.0	0.5
Imports of G&S	-0.8	-1.1	-1.4	-0.7	-1.4	-1.7	-1.2	-1.4	-1.1
	Percentage change, Q4/Q4								
Exports of G&S	4.1	4.6	10.0	10.5	10.3	9.6	1.1	0.4	4.3
Services	-0.9	4.1	6.0	9.8	7.5	1.5	-0.6	1.0	1.7
Agricultural Goods	10.4	-5.5	16.6	-4.3	4.8	2.8	-1.2	-11.6	0.3
Computers	25.2	23.7	32.0	55.5	35.9	40.7	6.4	19.5	29.6
Semiconductors	64.8	32.9	66.9	79.6	46.2	21.0	9.4	23.8	23.6
Other Goods 1/	2.3	3.6	7.0	5.8	8.0	11.6	1.2	-1.8	2.4
Imports of G&S	7.4	10.2	12.3	5.6	11.8	14.0	9.7	10.5	8.1
Services	1.4	3.2	1.4	6.1	5.5	12.4	2.4	5.5	3.8
Oil	12.1	10.1	-0.2	2.4	7.9	4.0	5.9	6.2	5.8
Computers	45.1	39.3	44.8	48.1	24.4	30.3	28.3	36.9	34.8
Semiconductors	42.0	34.2	54.5	92.4	57.6	32.7	-7.6	29.3	27.4
Other Goods 2/	5.4	9.5	12.2	-1.1	10.4	13.0	10.9	9.0	6.0
	Billions of chained 1992 dollars								
Net Goods & Services	-29.5	-70.2	-104.6	-96.5	-111.2	-136.1	-238.2	-349.7	-425.6
Exports of G&S	639.4	658.2	712.4	792.6	860.0	970.0	984.7	998.0	1031.7
Imports of G&S	669.0	728.4	817.0	889.0	971.2	1106.1	1222.9	1347.8	1457.3
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-51.4	-86.1	-123.8	-115.3	-134.9	-155.2	-233.6	-353.4	-427.5
Net Goods & Services (BOP)	-38.7	-71.9	-100.9	-99.9	-108.6	-110.2	-169.3	-263.6	-320.8
Exports of G&S (BOP)	617.3	643.2	703.8	795.6	850.8	937.6	931.0	934.0	969.5
Imports of G&S (BOP)	656.0	715.2	804.7	895.5	959.3	1047.8	1100.3	1197.6	1290.3
Net Investment Income	22.5	23.9	16.5	19.3	14.2	-5.3	-22.5	-47.0	-64.0
Direct, Net	51.6	55.7	51.8	63.0	66.2	63.7	54.6	41.8	42.9
Portfolio, Net	-29.1	-31.7	-35.3	-43.7	-51.9	-69.1	-77.1	-88.8	-106.9
Net Transfers	-35.2	-38.1	-39.4	-34.6	-40.6	-39.7	-41.9	-42.8	-42.8

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

	1995				1996				1997			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-0.2	-0.3	1.6	0.7	-1.1	-1.0	-1.4	2.4	-1.3	-0.4	-0.5	-0.3
Exports of G&S	1.0	0.6	1.9	1.1	0.4	0.6	0.2	3.2	0.9	1.7	1.2	0.5
Imports of G&S	-1.2	-0.9	-0.3	-0.4	-1.5	-1.6	-1.6	-0.9	-2.2	-2.2	-1.7	-0.8
Percentage change from previous period, SAAR												
Exports of G&S	9.2	5.4	17.8	10.2	3.7	5.8	2.1	32.0	8.3	15.5	10.6	4.4
Services	9.1	2.9	21.7	6.4	-4.0	10.3	-9.9	39.8	-6.7	11.8	5.9	-4.0
Agricultural Goods	1.8	-13.4	5.0	-9.4	22.6	-32.8	-1.6	48.7	-16.1	-7.8	8.7	32.8
Computers	36.4	33.8	86.6	71.6	57.6	24.7	27.7	35.9	70.2	78.7	41.9	-9.2
Semiconductors	72.0	100.8	96.2	53.6	23.8	29.7	30.2	118.6	41.3	17.3	32.3	-2.2
Other Goods 1/	4.3	1.4	9.4	8.1	0.1	6.0	5.7	21.3	13.8	15.6	9.2	8.0
Imports of G&S	9.8	7.2	2.0	3.5	13.1	13.5	13.6	7.0	18.6	17.9	13.5	6.3
Services	20.5	-3.3	3.1	5.5	9.2	4.3	9.9	-1.1	17.8	10.6	15.8	5.8
Oil	-11.4	15.4	31.4	-18.2	-9.8	68.9	3.5	-14.0	-8.2	37.0	6.0	-12.2
Computers	15.4	51.6	62.7	69.3	22.5	22.9	18.8	33.8	54.5	39.0	30.6	2.9
Semiconductors	37.1	105.5	128.2	113.3	38.7	8.9	50.1	172.1	89.0	16.0	20.3	17.6
Other Goods 2/	7.2	1.5	-8.8	-3.8	13.9	10.5	13.4	4.1	16.2	16.1	11.8	8.1
Billions of chained 1992 dollars, SAAR												
Net Goods & Services	-109.5	-114.7	-86.8	-74.8	-95.5	-113.5	-140.1	-95.9	-121.5	-131.6	-142.4	-149.0
Exports of G&S	763.9	774.0	806.3	826.1	833.6	845.5	849.9	911.1	929.4	963.6	988.1	998.8
Imports of G&S	873.4	888.7	893.1	900.9	929.1	958.9	990.0	1007.0	1050.9	1095.2	1130.5	1147.8
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-123.7	-134.2	-115.5	-87.7	-112.9	-132.0	-161.6	-133.2	-148.0	-140.4	-152.4	-180.2
Net Goods & Services (BOP)	-109.3	-125.8	-90.0	-74.5	-92.4	-112.8	-132.3	-96.8	-112.5	-106.1	-108.4	-113.8
Exports of G&S (BOP)	765.4	782.0	809.7	825.6	833.6	845.3	837.5	886.7	904.7	936.1	951.7	957.8
Imports of G&S (BOP)	874.7	907.7	899.7	900.1	926.0	958.2	969.8	983.5	1017.3	1042.1	1060.1	1071.7
Net Investment Income	20.1	24.0	10.2	22.7	21.4	15.9	6.9	12.7	0.1	1.8	-6.2	-17.0
Direct, Net	59.9	67.2	56.5	68.3	64.8	64.4	61.9	73.6	64.2	69.6	65.5	55.6
Portfolio, Net	-39.8	-43.2	-46.2	-45.5	-43.3	-48.5	-55.0	-60.9	-64.2	-67.8	-71.7	-72.6
Net Transfers	-34.5	-32.4	-35.8	-35.9	-41.9	-35.1	-36.2	-49.1	-35.5	-36.1	-37.8	-49.3

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

Strictly Confidential (FR)
Class II FOMC

May 13, 1999

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

					Projected							
	1998				1999				2000			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-2.3	-2.1	-0.6	0.5	-2.5	-1.4	-1.0	-0.3	-0.7	-1.0	-0.7	-0.1
Exports of G&S	-0.3	-0.9	-0.3	2.0	-0.9	0.1	0.3	0.7	-0.2	0.5	0.6	0.9
Imports of G&S	-1.9	-1.2	-0.3	-1.5	-1.6	-1.5	-1.3	-1.0	-0.5	-1.6	-1.3	-1.0
Percentage change from previous period, SAAR												
Exports of G&S	-2.8	-7.7	-2.8	19.7	-7.7	0.5	2.9	6.6	-1.6	5.1	5.5	8.5
Services	-1.2	1.7	-10.4	8.3	1.8	-0.1	0.5	1.6	-0.7	3.1	2.3	2.3
Agricultural Goods	-9.9	-23.4	-14.5	61.3	-31.1	-21.7	11.3	1.8	-6.8	-2.6	8.4	2.8
Computers	-15.5	8.7	20.6	15.7	2.2	26.2	26.2	25.1	27.4	29.9	29.9	31.1
Semiconductors	-2.0	-19.7	29.7	40.3	30.6	21.6	21.6	21.6	22.7	23.9	23.9	23.9
Other Goods 1/	-1.6	-11.0	-1.2	21.4	-12.9	-0.5	0.3	7.1	-5.7	3.4	3.5	9.1
Imports of G&S	15.7	9.3	2.3	12.0	12.7	11.7	10.2	7.4	3.6	11.9	9.5	7.5
Services	9.3	-0.6	-0.6	2.0	5.8	6.1	4.9	5.1	0.8	5.6	4.5	4.2
Oil	8.8	41.4	-5.7	-13.2	10.1	24.7	18.8	-22.2	2.3	26.4	11.9	-13.5
Computers	38.8	22.4	9.8	45.3	62.0	38.6	31.1	19.3	26.3	38.6	38.6	36.1
Semiconductors	9.9	-28.8	-10.5	3.8	33.6	31.1	26.2	26.2	26.7	27.2	27.7	28.2
Other Goods 2/	16.1	10.8	3.5	13.8	9.9	9.1	8.3	8.8	1.4	9.3	7.1	6.5
Billions of chained 1992 dollars, SAAR												
Net Goods & Services	-198.5	-245.2	-259.0	-250.1	-308.3	-343.5	-369.3	-377.9	-394.1	-421.3	-440.7	-446.3
Exports of G&S	991.9	972.1	965.3	1009.6	989.6	990.8	997.8	1013.9	1009.9	1022.7	1036.5	1057.8
Imports of G&S	1190.4	1217.3	1224.3	1259.6	1297.9	1334.3	1367.2	1391.8	1404.0	1444.0	1477.2	1504.1
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-188.1	-227.9	-262.8	-255.7	-300.2	-346.2	-374.0	-393.3	-396.9	-421.0	-437.9	-454.3
Net Goods & Services (BOP)	-141.5	-176.9	-186.0	-172.7	-220.4	-261.6	-284.7	-287.9	-298.6	-319.3	-332.4	-332.9
Exports of G&S (BOP)	944.8	921.0	909.4	948.9	923.5	927.1	934.8	950.6	947.1	960.3	974.5	996.2
Imports of G&S (BOP)	1086.3	1097.9	1095.4	1121.6	1143.9	1188.6	1219.4	1238.5	1245.7	1279.6	1306.9	1329.0
Net Investment Income	-8.9	-13.4	-36.7	-31.0	-39.8	-44.6	-49.3	-54.3	-58.3	-61.7	-65.6	-70.5
Direct, Net	62.5	60.9	44.5	50.7	43.4	42.0	41.9	39.9	39.7	41.4	44.3	46.2
Portfolio, Net	-71.4	-74.2	-81.1	-81.8	-83.2	-86.7	-91.3	-94.3	-97.9	-103.1	-109.9	-116.6
Net Transfers	-37.7	-37.6	-40.1	-52.0	-40.0	-40.0	-40.0	-51.0	-40.0	-40.0	-40.0	-51.0

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