Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,[1] and then making the scanned versions text-searchable.[2] Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

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

[2] A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

Strictly Confidential (FR) Class II FOMC

Part 1

September 29, 1999

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

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

Strictly Confidential (FR) Class II FOMC

September 29, 1999

SUMMARY AND OUTLOOK

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

Domestic Developments

We had thought that the sub-2 percent real GDP growth recorded in the second quarter was something of a fluke, but the reacceleration of economic activity this summer has been even sharper than anticipated in the August Greenbook. Domestic final demand has remained strong, despite some damping effects of higher mortgage rates on home construction, and inventory investment has evidently recovered from the low pace of the spring; all told, domestic spending has been increasing faster than we expected. Exports have accelerated impressively of late, but, in terms of the contribution of the external sector to real GDP, that rise has been offset by stronger imports. Although the labor market has remained taut, and prices have continued to increase appreciably for oil some other commodities, core inflation has remained subdued.

The upcoming benchmark revisions to the national income accounts could change the recent numbers significantly, but at present real GDP appears to have risen at an annual rate of about 3-1/2 percent over the first three quarters of the year. We are expecting the trend to remain at least that strong in the next couple of quarters, although Y2K distortions could make it extremely difficult to see. Looking beyond the very near term, however, if stock prices fail to regain the ground they recently have lost--and we are assuming that they will not--waning wealth effects should begin to temper growth in demand growth as we move through next year.

In this forecast, revisions in our underlying assumptions about the outlook for the foreign exchange value of the dollar and for fiscal policy tend to work against a more marked slowing of GDP growth. With the dollar now assumed to decline noticeably over the forecast period, the external sector is expected to exert less drag than we previously projected. Moreover, we believe that the outcome of this autumn's budget process will be to leave federal spending higher than we had assumed--or, for that matter, than the current budget agreement allows. Thus, we are projecting--as before--that real GDP will expand at a rate of about 3 percent in the latter half of 2000. And, in an initial extension of our forecast, we are showing an increase in real GDP of 2-3/4 percent in 2001 as less stimulative financial conditions push the pace of expansion further below that of potential output.

However, the projected deceleration of activity is neither large enough nor soon enough to prevent further tightening of labor markets, and we expect that the unemployment rate will fall to 4 percent by early next year before edging back up to 4-1/4 percent during 2001. Because of the tighter rates of resource utilization and the more noticeable acceleration in the prices of non-oil imports that should accompany the declining dollar, we raised slightly our forecast of core inflation in 2000. We project that the core CPI will pick up from a pace of about 2 percent in 1999 to 2-3/4 percent in 2000, and then edge up further to just below 3 percent in 2001. An expected retreat of oil prices from their recent highs should lead to a deceleration in the overall CPI next year, to 2-1/4 percent, compared with this year's 2-3/4 percent rise. In 2001, the total CPI is projected to increase about 2-1/2 percent.

Key Background Factors

The tightening measures that we now have built into the forecast roughly match current expectations in financial markets.[1] They result in a cumulative increase since June in short-term interest rates that exceeds the rise in core inflation. We are projecting that long-term Treasury rates will fluctuate around recent levels through mid-year 2000 and then edge higher. In 2001, long-term rates are anticipated to be pushed up further by the drift up in core inflation and a growing perception that additional monetary tightening will be necessary to forestall a further increase in inflation.

Equity markets were fairly quiet over most of the intermeeting period before being hit in the second half of September by a widespread selloff prompted in part by concerns about the external sector of the U.S. economy, especially the dollar-yen exchange rate. The broad share price indexes generally are down about 5 percent from the time of the last FOMC meeting. The recent decline could be the start of a deeper correction, but we have witnessed other hesitations in this long-running bull market and see no pronounced negative shocks for investors in our near-term forecast.[2] Nonetheless, with valuations as high as they are and with growth of earnings likely to fall short of analysts' current expectations over the coming quarters, we have anticipated that share prices will remain around recent levels--resulting in poor yields and a significant decline in the ratio of household net worth to income.

The outlook for fiscal policy is less clear than it might be because progress has been slow on many important appropriations bills for fiscal 2000. Nonetheless, what is quite apparent is that the Congress and the Administration are unable to live within the existing budget constraints. As a result, we have raised to $30 billion our estimate of the amount by which discretionary spending will exceed budget caps currently in place for fiscal 2000, up from $20 billion in our August forecast. We see a number of ways in which this situation might play out, including a new budget deal or an increase in the $12 billion already

1. Two of the model-based, alternative scenarios that we present at the end of this section bracket our baseline assumption for monetary policy, showing the impact, first, of no change in the federal funds rate and, second, of a path for the funds rate that would stabilize core CPI inflation at a 2-1/2 percent rate in 2001.

2. We also present model-based, alternative scenarios that lay out the likely effects of a steeper decline and of a resumption of strong gains.

designated as "emergency" spending. Another possibility is that the Congress will handle unresolved appropriations bills through a series of continuing resolutions, in the hope that the CBO will forecast a higher on-budget surplus in January, paving the way for an increase in spending then.[3] As expected, the President vetoed the tax-cut bill, and we continue to base our forecast on an assumption of no significant changes in tax law.

With these changes and the revisions to our economic projections, we now expect that the unified budget will register surpluses of $160 billion in fiscal 2000 and $199 billion in fiscal 2001, after having recorded an upward-revised surplus of $125 billion in fiscal 1999. The on-budget accounts are anticipated to show a small deficit this fiscal year but then surpluses of $11 billion and $37 billion in fiscal years 2000 and 2001, respectively. Our projection for fiscal 1999 is close to CBO's estimate; however, our figure for the surplus in fiscal 2000 is about $30 billion higher, after accounting for differences in policy assumptions.

Regarding the external sector, foreign economic activity accelerated during the second quarter to an annual rate of 4-1/2 percent and is likely running at a 3 percent pace in the third quarter, well above our expectations at the time of the August Greenbook. Japan registered a small increase in real GDP in the second quarter rather than the moderate decline that we assumed in the last forecast, and developing Asia has rebounded more sharply than we projected. Economic growth in Europe has been modestly above our expectations. While we are carrying forward the higher level of foreign activity, we are not reading the recent news--particularly in the case of Japan--as a signal of a marked improvement in the pace of economic growth abroad over the coming year. We are projecting that foreign GDP will continue to rise at an annual rate of roughly 3-1/2 percent through the end of 2001.

The reassessment of our assumption for the foreign exchange value of the dollar rests importantly on our sense that market participants have once again become more sensitive to our burgeoning current account deficit, given that much of the foreign turmoil that had made U.S. assets attractive in recent years would appear to be behind us. Our projections now incorporate a depreciation in the inflation-adjusted value of the dollar against a broad range of currencies of about 1-3/4 percent per year in 2000 and 2001. The result is to limit the deterioration in the U.S. current account; that deficit is projected to be 3-3/4 percent of GDP in 1999 and 4-1/4 percent in 2000 and 2001.

3. An upward revision to the CBO's surplus projection is plausible because its current economic assumptions are significantly less favorable than ours.

In recent weeks, the price of crude oil climbed further. OPEC has been successful in restraining production, and, at their meeting last week, the members reemphasized their resolve to hold down production through March 2000. With inventories low and production restraint likely to hold in the near term, we anticipate that the price of WTI crude will average $24.80 per barrel during the fourth quarter, more than $3.00 per barrel higher than we previously projected. Prices at that level, however, are likely to spur an increase in crude oil production--either from non-OPEC producers or from OPEC members seeking to maintain their market share. Thus, we are projecting that, despite the continuing recovery in the world economy, increasing supply will lead to a moderate decline in the price of oil during 2000. We are projecting the WTI price will end next year at around $19.50 per barrel, still $1.00 higher than in the August forecast; prices are assumed to continue to drift lower during 2001. This pattern is consistent with quotes in the futures markets.

The Current Quarter

Over the intermeeting period, we accumulated a number of upside surprises to domestic spending and now expect that real GDP will increase at an annual rate of 4-1/2 percent in the current quarter--almost 1 percentage point higher than in the August Greenbook. Consumer and business spending and exports have outstripped our expectations enough to more than offset a surprisingly large "leakage" into imports. Real final sales are now projected to increase at an annual rate of 3-1/2 percent, compared with 2-1/2 percent in the August Greenbook. In addition, in line with our earlier expectations, a return to a moderate rate of inventory investment from a very low second-quarter pace contributes about 1 percentage point to our estimated current-quarter increase in real GDP.

The available labor market indicators would seem to point to an acceleration in real GDP in the current quarter. Nonfarm payroll employment increased substantially again in August, and we are expecting aggregate hours in the nonfarm business sector to rise at an annual rate of 3 percent this quarter, after having increased at a 1-1/4 percent pace over the first half of the year. With the acceleration in output, productivity growth is expected to rebound to an annual rate of 2-1/4 percent.[4]

Consumer spending has been running stronger in recent months than we had anticipated. The revised data for the second quarter are expected to show that real PCE increased at an annual rate of more than 4-1/2 percent rather than the

4. We are projecting that nonfarm business output, which is used in the productivity measure, will increase at an annual rate of 5 percent in the current quarter.

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

Measure	1999:Q2			1999:Q3	
	Aug. GB	BEA[1]	Sept. GB	Aug. GB	Sept. GB
Real GDP	**1.9**	**1.8**	**1.8**	**3.5**	**4.4**
Private domestic final purchases	4.8	5.6	5.6	3.2	4.9
Personal consumption expenditures	3.8	4.6	4.6	3.6	3.9
Residential investment	8.0	7.7	7.7	-4.8	-3.9
Business fixed investment	10.4	11.2	11.3	4.5	15.2
Government outlays for consumption and investment	-1.74	-1.7	-1.3	2.8	2.6
	Change, billions of chained (1992) dollars				
Inventory investment	-23.8	-26.5	-28.1	23.8	21.0
Net exports	-20.9	-33.8	-34.9	-22.0	-31.1

1. Preliminary release, published on August 26.

3-3/4 percent rate that we forecast in August. For the current quarter, we have boosted our estimated increase in consumer spending to 4 percent--matching the hefty rise in real disposable income implied by the large increase in hours worked. Not only have sales to consumers of light motor vehicles risen to an astonishing level, but outlays on other durable and nondurable goods have remained relatively brisk. Even assuming sluggish spending on energy goods and services, real PCE excluding new motor vehicles is projected to rise at an annual rate of 3-1/2 percent this quarter.

Housing construction stayed at a high level through August, when single-family starts were at an annual rate of 1.30 million units. Higher mortgage interest rates appear to have damped consumer sentiment about conditions for home buying, and mortgage applications for home purchase have dropped back some. While demand may have topped out now, we think that the considerable backlog of orders and unused permits, as of August, and a low inventory of unsold homes argue for only a slow retreat in new homebuilding and, thus, in spending on residential construction in the near term.

Real business fixed investment appears headed for another double-digit increase in the current quarter--far exceeding our earlier prediction. Although most categories of equipment spending are likely to post solid gains, the most important contributor should be a surge in spending on computing equipment. Nominal shipments of office and computing equipment in July and August were far above the second-quarter average. We have allowed for some offset to this surge in the fourth quarter, partly on the thought that the time profile of Y2K-related computer acquisitions is simply different from what we had assumed. But the recent numbers probably are also signaling a stronger underlying demand for computers, and we have raised the rate of business investment on computers for the second half as a whole.

In the government sector, we still expect that a bulge in defense outlays associated with operations in the Balkans will be recorded in this quarter, boosting federal purchases temporarily. At the state and local levels, we are projecting that spending increases at a moderate rate, on balance: Monthly employment gains were sizable in July and August, but despite a jump in outlays for highways, construction spending was down a bit in July.

Both exports and imports were stronger in July than we had expected. In the case of exports, sales of semiconductors and machinery were particularly brisk; rising economic activity abroad does seem to be helping U.S. manufacturers. At the same time, imports apparently were boosted by robust domestic demand. The figures for July, along with revisions to earlier months, led us to deepen our projected decline in real net exports of goods and services this quarter; the drop is now expected to shave 1-1/4 percentage points from the increase in real GDP, compared with just under 1 percentage point in the August Greenbook.

As in the case of net exports, the "hard" data for inventory investment in the current quarter are largely limited to those for July, which showed a considerable step-up in accumulation by manufacturers and distributors. We have built in only moderate increases in stocks for the remainder of the quarter: Inventory-sales ratios have dropped markedly in recent quarters, but we can find only a few sectors in which firms report that their inventories are too lean.

We still expect that the total CPI will increase at an annual rate of 2-1/2 percent in the third quarter. The August reading on the core CPI came in below our expectations, principally because of another especially small rise in owners' equivalent rent. However, the incoming data on retail energy prices in August and on prices of crude petroleum through late September now point to a faster rise than we had anticipated in the CPI for energy items through year-end. Moreover, tobacco companies have announced yet another large increase in prices that should work its way to the retail level over the next couple of months.

The Outlook for Economic Activity beyond the Current Quarter
Real GDP is projected to increase at an annual rate of 4-1/2 percent in the fourth quarter of this year before slowing to less than a 3 percent pace, on average, in 2000 and 2001.[5] In these circumstances, we now think it likely that the unemployment rate will edge lower over the next several months, reaching 4 percent, but that it will edge up to 4-1/4 percent in 2001. The changes to the

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

Measure	1999:H1	1999:H2	2000	2001
Real GDP	**3.1**	**4.5**	**2.9**	**2.8**
Previous	3.1	3.8	2.8	--
Final sales	3.8	3.4	3.0	2.9
Previous	3.8	2.8	2.9	--
PCE	5.6	4.1	3.1	2.8
Previous	5.2	4.1	3.3	--
Residential investment	11.5	-1.3	-4.9	-4.0
Previous	11.6	-4.3	-3.4	--
BFI	9.8	8.0	8.0	8.2
Previous	9.4	4.1	7.4	--
Government purchases	1.4	2.8	3.2	2.5
Previous	1.2	2.6	2.7	--
Exports	-.2	8.6	7.4	9.2
Previous	-.8	6.0	5.3	--
Imports	14.4	12.5	8.5	8.4
Previous	11.5	10.0	7.7	--
	Change, billions of chained (1992) dollars			
Inventory change	-16.9	22.3	-11.0	-13.9
Previous	-14.6	20.3	-12.5	--
Net exports	-44.3	-19.5	-43.7	-26.1
Previous	-37.3	-17.7	-52.6	--

5. We have altered the timing of our assumed effects of Y2K on real GDP to account for the acceleration of business spending on computing equipment in the current quarter. Excluding Y2K considerations, we assume that real GDP would increase at an annual rate of 4.1 percent in the current quarter, 4.2 percent next quarter, 3.3 percent in the first quarter of 2000, 2.9 percent in the second quarter, and 2.9 percent in the third.

outlook for resource utilization in this forecast led us to notch the inflation forecast up slightly: We added a 0.1 percentage point to core CPI inflation in 2000. We expect core inflation to move up a bit further in 2001.

Consumer spending. Smoothing through the quarterly fluctuations associated with Y2K, we are projecting that consumer spending will rise at an annual rate of about 3 percent over the forecast period.[6] That rise represents a marked step-down from the 5 percent pace in 1998 and 1999. As has been the case for some time, the most important element in this forecast is the behavior of the stock market.

Even with the flattening of stock prices in recent months, we estimate that the increase in real PCE this year will have been boosted about a percentage point by higher levels of household wealth.[7] The effect should wane considerably by early next year and turn negative thereafter. On net, the ongoing decline in the household wealth-to-income ratio implies a drag on the rate of increase in consumer spending of about 1/4 percentage point in 2000 and of 1/2 percentage point in 2001.

An important part of the additional strength in consumer spending that we have seen recently has been the stunning rise in sales of light motor vehicles. Even given the very favorable environment in that market, we view the pace of sales in the past several months to have been unsustainable, and we anticipate that sales will begin to retreat during the fourth quarter--restrained to some extent by low inventories of some models. Next year, we are projecting sales of light motor vehicles to slip gradually to an annual rate of just under 15-3/4 million units by year-end.

Excluding spending on new motor vehicles, real PCE is projected to increase 3-1/2 percent in 2000 and 2-3/4 percent in 2001--down noticeably from the 5 percent rise anticipated this year. In addition to the flattening in household wealth, a slower pace of housing activity should contribute to a marked deceleration in outlays for household goods--other than electronic goods for

---

6. In the fourth quarter of 1999, real PCE is projected to rise at an annual rate of 4-1/4 percent, boosted about 3/4 percentage point by precautionary purchases related to Y2K. In the first quarter, when the increase in real PCE dips to 1-3/4 percent, a drop-back in spending on precautionary items and declines in outlays on services where they have been disrupted account for almost 2 percentage points of the slower rise in spending. The return to a more normal level of spending in the second quarter boosts the rise in real PCE about 1 percentage point.

7. We calculate these estimates based on the change in the value of household wealth since 1994.

which prices are still expected to be falling. Spending for consumer services is expected to continue to rise at a moderate rate over the forecast period.

Residential investment. We are expecting that the decline in starts of new homes will be relatively gradual. We project that single-family starts will remain at an annual rate of 1.30 million units in the fourth quarter of this year--a level still a bit above the 1998 annual average. Thereafter, housing demand should weaken as, first, the stimulus from wealth fades, and then in 2001, mortgage rates rise further. The projection places single-family starts at an annual rate of 1.25 million units by the end of next year and under 1.20 million units by the end of 2001. An additional wrinkle in this projection is a small boost to residential construction over the next four quarters to repair the damage inflicted by Hurricane Floyd.

The contour of our projection of multifamily housing is much the same as that for single-family units. Over the next two years, higher interest rates and tighter credit supplies should lead to a gradual reduction in multifamily starts, from an annual rate of 320,000 units in the near term to just under 300,000 units by 2001.

Business fixed investment. As noted above, we anticipate that Y2K considerations will result in sizable swings in the pace of computer investment in the near term. Beyond those ups and downs, though, the ongoing advances in technology and the steep declines in the cost of computing should continue to foster impressive gains in spending. Many of the same fundamental considerations apply to the market for communications equipment, where we anticipate that new applications for voice and data transmission are spreading rapidly, supported by falling prices and the deregulation of telecommunications. The increases in real spending in these two high-tech areas account for nearly all of the 11-1/4 percent annual rate of increase in overall real PDE between mid-2000 and the end of the forecast period.

Business demand for industrial equipment may have begun to firm a bit. Some domestic manufacturers, who became quite cautious after the Asian shock, are likely to be more inclined to invest, especially as export demand continues to bolster their sales. In contrast, we expect that purchases of transportation equipment and aircraft, which have been strong of late, will slacken. As the expansion moderates, business outlays for motor vehicles are expected to taper, and purchases of aircraft are also anticipated to fall--a forecast that is in line with Boeing's schedules.

Our projection of nonresidential investment remains essentially flat through the end of the forecast period. Although the factory utilization rate should rise by 2001, the increase is not likely to be enough to spur a turnaround in industrial construction. Over time, with interest rates moving a bit higher, credit for office and commercial construction is likely to be less readily available, and we anticipate that office construction will flatten out. Spending by public utilities is likely to continue to rise throughout the projection period as new electric generation facilities are put in place.

Business inventories. We are anticipating that inventory investment will provide further impetus to production for the remainder of the year. As before, the upswing in inventory investment in the fourth quarter is exaggerated by some precautionary stockbuilding in advance of potential Y2K-related supply disruptions. We believe that our assumption is consistent with the reports from Reserve Bank contacts, but the economywide magnitude of the extra stockpiling remains very uncertain. A subsequent sharp step- down in business inventory investment, reversing the fourth-quarter Y2K effect, accounts for much of the drop in the rate of increase in real GDP in the first quarter of next year.

Abstracting from Y2K fluctuations, we are basically projecting that inventories will increase moderately over the projection period, broadly in line with final sales. This holds inventory-sales ratios overall fairly close to the recent, reduced levels, which we believe should be sustainable in light of improved management of production and distribution processes.

Government spending. Under our revised assumptions regarding fiscal policy, we have once again raised our projection of real federal expenditures on consumption and fixed investment. Defense spending is still expected to be little changed in real terms over the forecast period. However, nondefense purchases are now anticipated to increase 3-1/2 percent over the four quarters of 1999 and 4 percent in 2000; in June, when we were assuming stricter adherence to the budget caps, we were showing no net change in spending over these two years. Other things being equal, the cumulative changes in the last two forecasts have added 1/4 percentage point to the rate of increase in real GDP in 2000.

At the state and local level, we have for some time believed that real purchases would accelerate over the coming year. Because we have assumed that some of the greater federal spending in this forecast will take the form of grants to these entities, our new fiscal assumptions tend to edge purchases a bit higher. States and localities by and large are in excellent financial health, and their revenue inflows should be well-maintained under the economic scenario in this forecast. We are projecting a pickup in purchases from 3-1/2 percent in 1999 to 4 percent in 2000 and 3-3/4 percent in 2001.

The external sector. The lower path for the foreign exchange value of the dollar in this forecast produces over time a more marked improvement in real net exports of goods and services than shown in the August Greenbook. Exports are now projected to rise at an annual rate of 7-1/2 percent from late 1999 through 2000--almost 2 percentage points faster than we expected earlier--and to accelerate to a 9-1/4 percent rate in 2001. We continue to anticipate that the rate of increase in imports will drop back from the double-digits that have prevailed this year to a still-rapid 8-1/2 percent rate over the forecast period. On balance, the drag on the rate of increase in real GDP from net exports, which is expected to be 1-1/4 percentage points in 1999, falls to less than 1/2 percentage point in 2000 and shrinks to less than 1/4 percentage point in 2001. (The international developments section contains a more detailed discussion of the outlook for net exports.)

Labor markets. The higher GDP that we are now projecting for the second half of this year implies a further decline in the unemployment rate, and we now have it reaching 4 percent by early next year--1/4 percentage point lower than in the August Greenbook. With the rate of increase in real GDP running somewhat below its potential rate for the remainder of the forecast period, we are projecting that the unemployment rate will begin to tick up slightly later next year and reach 4-1/4 percent in the second half of 2001.

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

Measure	1998	1999	2000	2001
Output per hour, nonfarm business	2.6	2.2	2.2	2.1
Previous	2.6	1.9	2.2	--
Nonfarm payroll employment	2.4	2.1	1.4	1.2
Previous	2.4	2.1	1.2	--
Household employment survey	1.3	1.6	1.2	.9
Previous	1.3	1.5	.9	--
Labor force participation rate[1]	67.1	67.1	67.2	67.2
Previous	67.1	67.2	67.1	--
Civilian unemployment rate[1]	4.4	4.1	4.1	4.2
Previous	4.4	4.2	4.3	--

1. Percent, average for the fourth quarter.

Underlying our forecast for the unemployment rate are our projections for trends in labor force participation and productivity growth, which are unchanged from the last forecast. The labor force participation rate has dropped in the past few months, but in light of the "pull" of ample job availability and rising real wages, we are projecting that it will move back up. On balance, we are projecting that labor force participation will average 67.2 percent over the next two years--up just 0.1 percentage point from the 1998-99 average.

With the rebound in output per hour that we are projecting for the third quarter, the year-over-year change in nonfarm business productivity would be just over 2-1/2 percent--a little less than in the prior few quarters. Productivity gains likely will slow somewhat further if output growth moderates as we are predicting; however, we are anticipating a prompt enough adjustment of hiring to keep productivity growth from dipping much below the assumed underlying trend of 2-1/4 percent per year. We expect that monthly gains in payroll employment will remain above 200,000 per month in the near term, but they dwindle to 150,000 per month next year and 125,000 per month in 2001.

Prices and wages. The changes that we have incorporated in this forecast for economic activity, labor markets, and the foreign exchange value of the dollar add to our projected pickup in inflation next year. Moreover, we see the tendency for the acceleration in wages and prices extending into 2001, under our baseline assumptions for monetary policy.

As noted above, the prices of crude oil have run up more in recent months than we had previously projected, and these increases are now passing through to retail energy prices. Next year, as supply conditions improve in world oil markets, we expect that softer prices will lead to a gradual easing of retail energy costs. At the same time, prices of non-oil imports are projected to accelerate more noticeably. After having been little changed, on balance, to date this year, prices of core non-oil imports are projected to rise at an annual rate of 2-1/4 percent through the end of 2000, 1/2 percentage point more than in the August Greenbook; these prices are expected to increase 2 percent during 2001.

We continue to expect that the CPI for food will increase at a rate close to that of core inflation. The recent flooding should not give much of a boost to consumer food prices over the near term, and we expect that farm inventories will remain abundant in coming quarters. In these circumstances, the most important factors in our projection of food prices remain the trends in labor and energy costs, which underlie the processing and distribution of finished food products.

While core CPI inflation has been running a shade lower recently than we had expected, our forecast for 1999 as a whole is unchanged at 2.1 percent. In the very near term, responding to announcements of increases in the wholesale prices of cigarettes, prices of retail tobacco products should rise sharply in

September and October of this year.[8] We are assuming that some of this increase represents a shifting forward of increases that we had expected would occur early next year.

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

Measure	1998	1999	2000	2001
Consumer price index	1.5	2.7	2.3	2.6
Previous	1.5	2.6	2.3	--
Food	2.2	2.0	2.4	2.6
Previous	2.2	2.0	2.3	--
Energy	-9.2	12.2	-2.3	-0.7
Previous	-9.2	9.9	-1.7	--
Excluding food and energy	2.4	2.1	2.7	2.9
Previous	2.4	2.1	2.6	--
PCE chain-weighted price index	.7	1.9	1.9	2.2
Previous	.8	1.9	1.9	--
Excluding food and energy	1.2	1.4	2.1	2.3
Previous	1.2	1.4	2.0	--
GDP chain-weighted price index	.9	1.4	2.0	2.1
Previous	.9	1.5	1.9	--
ECI for compensation of private industry workers[1]	3.5	3.3	3.9	4.1
Previous	3.5	3.3	3.8	--
Prices of core non-oil merchandise imports	-2.1	.6	2.3	2.1
Previous	-2.1	.4	1.8	--
	Percentage points			
MEMO: *Adjustments for technical changes to the CPI*[2]				
Core CPI	-.2	.0	.0	.0

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

8. In each of those months, we now expect that higher tobacco prices will add roughly 0.05 percentage point to the change in the core CPI.

For 2000, we have edged up our projection of core CPI inflation to 2.7 percent, and we are expecting it to rise a bit further, to 2.9 percent, in 2001. The principal factors underlying the acceleration of core inflation in this forecast remain much the same as in our earlier forecasts--the persistence of a very tight labor market and an upswing in prices of non-oil imports. Measured in terms of either the jobless rate or the GDP gap, resource utilization is a bit tighter in this forecast; the projected acceleration of prices of non-oil imports is greater. Moreover, some of the downward pressure on inflation from low industrial capacity utilization should tend to diminish as higher export demand boosts manufacturing production and the factory utilization rate begins to rise.

Similarly, the underlying influences on hourly compensation remain much the same as in the August Greenbook. After having been restrained for a time by the deceleration in consumer prices that occurred during 1998, the ECI for compensation is projected to accelerate gradually over the projection period, from 3.3 percent this year to 3.9 percent in 2000 and 4.1 percent in 2001. Labor markets are expected to remain tight throughout, which should maintain pressures to keep real wages rising as price inflation moves a bit higher. In addition, we continue to assume that the federal minimum wage will be boosted 50 cents per hour in January of 2000 and in January of 2001; the increases contribute 0.2 percentage point to ECI inflation each year.

Money and Credit Flows

Consistent with our expectations, debt of the domestic nonfinancial sectors has continued to rise at a pace below the rate of 1998 and early 1999. Borrowing is expected to fall off further during the forecast period, in part because of the anticipated widening of federal budget surpluses but also because we foresee a tapering in the growth of nonfederal debt.

The slackening in business borrowing is limited by the growth of the corporate financial gap, as increases in capital expenditures outstrip those in internal funds generated. A falloff in share retirements, however, should temper business credit needs.

Credit quality in the business sector seems likely to deteriorate a bit as profit margins diminish. Defaults on junk bonds have risen in the last year, and we expect them to climb further, in part resulting from the seasoning of the sizable volume of speculative-grade bonds issued in the last couple years. Charge-off rates on business loans at banks have been edging up as well, and examiners have become more concerned about prospects for loan repayments by businesses; a recent supervisory letter has underscored those concerns to bankers. In this environment, we expect to see some tightening in credit supply in the form of wider risk spreads and less accommodative underwriting standards at banks and other lenders.

The expansion of household debt has continued at a robust pace, but we expect it to slow somewhat over the forecast period. A less ebullient stock market and higher interest rates should lead households to reassess their longer-run financial situation. Higher mortgage rates have already put a damper on refinancing activity, which in turn will depress the increase in mortgage debt by diminishing the quantity of "cash-out" refinancing activity. Slower housing activity and moderating demand for consumer durables should also be damping the rise in mortgage and consumer credit althrough 2001.

The Treasury is expected to issue some large cash management bills in the fourth quarter to hit its announced target of an $80 billion year-end cash balance. Thereafter, however, federal debt is expected to continue on a downward track.

We are also projecting that the increase in state and local government debt will slow. The retirement of outstanding debt that has been advance refunded in recent years is likely to pick up. At the same time, higher interest rates will damp further the volume of new advance refunding issues. Supporting a continued moderate expansion in the debt of the state and local sector are plans for significant amounts of new capital spending in many states, especially for education and transportation needs.

The growth of the broad monetary aggregates picked up over the intermeeting period and is projected to remain somewhat elevated in the fourth quarter. Concerns about Y2K, on balance, are expected to channel credit flows through depositories. Firms will draw more heavily on bank financing if and as conditions in the capital market tighten owing to caution on the parts of dealers and investors; among other things, investors may shift the composition of their portfolios toward deposits and other relatively safe assets included in the monetary aggregates. Over the forecast period, rising short-term interest rates should damp the growth of M2 and leave its velocity about flat--a departure from the declining trend in M2 velocity evident since 1997. M3 is projected to decelerate as well, but a solid expansion of bank credit and the associated increases in managed liabilities of banks are expected to contribute to a continued decline in M3 velocity.

Alternative Simulations

We have utilized the FRB/US econometric model to simulate four scenarios based on paths for the federal funds rate and stock market that differ from those in the baseline projection. In the first two, we have assumed, alternatively, that the Fed holds the nominal funds rate fixed at its current level through 2001 ("flat

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

Measure	1999	2000	2001
Real GDP			
Baseline	3.7	2.9	2.8
Flat funds rate	3.7	3.0	3.4
Tighter policy	3.7	2.6	2.1
15,000 Wilshire	3.7	3.3	3.8
20 percent stock price decline	3.7	1.8	1.9
Civilian unemployment rate[1]			
Baseline	4.1	4.1	4.2
Flat funds rate	4.1	4.0	4.0
Tighter policy	4.1	4.1	4.6
15,000 Wilshire	4.1	4.0	3.8
20 percent stock price decline	4.1	4.3	4.9
CPI excluding food and energy			
Baseline	2.1	2.7	2.9
Flat funds rate	2.1	2.8	3.1
Tighter policy	2.1	2.7	2.5
15,000 Wilshire	2.1	2.7	3.0
20 percent stock price decline	2.1	2.7	2.6

1. Average for the fourth quarter.

funds rate") or that it raises it more aggressively, to 6-1/4 percent by the end of next year ("tighter policy"). In the next two simulations, we have assumed that the stock market resumes its advance, pushing the Wilshire 5000 up to 15,000 by the end of 2001 or that it extends its recent retreat, with the Wilshire index dropping another 20 percent by early next year and then staying there.

Given the inflationary tendencies we have noted above, a stable nominal funds rate would imply falling real short-term interest rates through the projection period. With this additional monetary stimulus, the model suggests that demand growth would be boosted enough to hold the unemployment rate at around 4 percent over the next the next two years. Core CPI inflation would surpass 3 percent in 2001 and would be heading higher from there.

Even in the baseline forecast, the assumed tightening of policy would not be sufficient to prevent an ongoing upward drift of inflation. The "tighter policy" scenario is designed to suggest what it might take to hold core CPI inflation to 2-1/2 percent in 2001, given the economic tendencies embodied in the baseline projection. The rise in the nominal funds rate from 5-1/4 percent to 6-1/4 percent raises real short rates enough to drop real GDP growth by 2001 appreciably below potential and to push the jobless rate up a bit above 4-1/2 percent by the end of that year. Although this is still considerably below the NAIRU implicit in our forecast, inflation nonetheless is kept in check--and would probably remain so in an extension of the forecast into 2002. Apart from the effects of weaker aggregate demand on resource utilization, economic agents lower their inflation expectations as they perceive the more forceful anti-inflationary policy stance of the Fed. These disinflationary effects are reinforced by an appreciation of the dollar relative to the baseline--and, given the lags through import prices, this would continue to be a disinflationary element in 2002, while the jobless rate moves up to the NAIRU.

As we noted in the earlier discussion, we have seen corrections previously in this long bull market, and thus it is far from obvious that equity prices will remain flat going forward, as they essentially do in our baseline forecast. A rise in the Wilshire 5000 to 15,000 would constitute a gain of about 30 percent from today's level. Under this assumption, and with the funds rate held on the baseline path, the economy would continue to register above-potential growth, pushing the unemployment rate below 4 percent. The inflation consequences are small within the time frame shown here because, in the context of this model, the circumstances do not prompt a substantial revision of perceptions of monetary policy objectives; over time, however, inflation expectations would be elevated if and as the Fed failed to respond to the stronger expansion of aggregate demand, and inflation would rise considerably relative to a natural extension of the baseline projection.

The 20 percent drop in the stock market in the last scenario damps aggregate demand substantially, given the sharp decline in the household wealth-to-income ratio. The unemployment rate approaches 5 percent by the end of 2001, and core CPI inflation is held to 2-1/2 percent that year. The less favorable unemployment-inflation trade off in this scenario versus the higher funds rate scenario underscores the important role of monetary policy perceptions in the FRB/US model dynamics.

Strictly Confidential <FR>
Class II FOMC

September 29, 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]	
		8/18/99	9/29/99	8/18/99	9/29/99	8/18/99	9/29/99	8/18/99	9/29/99	8/18/99	9/29/99
ANNUAL											
1997		5.9	5.9	3.9	3.9	1.9	1.9	2.3	2.3	4.9	4.9
1998		4.9	4.9	3.9	3.9	1.0	1.0	1.6	1.6	4.5	4.5
1999		5.2	5.2	3.8	3.9	1.3	1.3	2.2	2.2	4.2	4.2
2000		4.7	5.0	2.8	3.1	1.8	1.8	2.4	2.6	4.2	4.1
2001			5.1		3.0		2.0		2.5		4.2
QUARTERLY											
1998	Q1	6.4	6.4	5.5	5.5	0.9	0.9	1.0	1.0	4.6	4.6
	Q2	2.7	2.7	1.8	1.8	0.9	0.9	1.7	1.7	4.4	4.4
	Q3	4.7	4.7	3.7	3.7	1.0	1.0	1.7	1.7	4.5	4.5
	Q4	6.9	6.9	6.0	6.0	0.8	0.8	1.7	1.7	4.4	4.4
1999	Q1	6.0	6.0	4.3	4.3	1.6	1.6	1.5	1.5	4.3	4.3
	Q2	3.5	3.3	1.9	1.8	1.6	1.6	3.4	3.4	4.3	4.3
	Q3	5.0	5.5	3.5	4.4	1.4	1.1	2.5	2.5	4.2	4.2
	Q4	5.8	6.1	4.1	4.5	1.6	1.4	2.8	3.3	4.2	4.1
2000	Q1	2.6	3.2	0.4	0.9	2.2	2.3	2.1	2.3	4.2	4.0
	Q2	6.3	6.4	4.4	4.5	1.8	1.9	2.2	2.2	4.2	4.0
	Q3	5.1	5.2	3.2	3.2	1.9	1.9	2.4	2.3	4.3	4.1
	Q4	5.1	4.8	3.1	2.9	1.9	1.9	2.5	2.5	4.3	4.1
2001	Q1		5.2		2.8		2.3		2.5		4.1
	Q2		4.8		2.8		2.0		2.6		4.2
	Q3		4.9		2.8		2.0		2.6		4.2
	Q4		4.9		2.8		2.0		2.6		4.2
TWO-QUARTER[3]											
1998	Q2	4.6	4.6	3.7	3.7	0.9	0.9	1.4	1.4	-0.3	-0.3
	Q4	5.8	5.8	4.8	4.8	0.9	0.9	1.7	1.7	0.0	0.0
1999	Q2	4.7	4.7	3.1	3.0	1.6	1.6	2.5	2.5	-0.1	-0.1
	Q4	5.4	5.8	3.8	4.5	1.5	1.3	2.7	2.9	-0.1	-0.2
2000	Q2	4.4	4.8	2.4	2.7	2.0	2.1	2.2	2.3	-0.0	-0.1
	Q4	5.1	5.0	3.1	3.0	1.9	1.9	2.4	2.4	0.1	0.1
2001	Q2		5.0		2.8		2.2		2.6		0.1
	Q4		4.9		2.8		2.0		2.6		0.0
FOUR-QUARTER[4]											
1997	Q4	5.6	5.6	3.8	3.8	1.7	1.7	1.9	1.9	-0.6	-0.6
1998	Q4	5.2	5.2	4.3	4.3	0.9	0.9	1.5	1.5	-0.3	-0.3
1999	Q4	5.1	5.2	3.4	3.7	1.5	1.4	2.6	2.7	-0.2	-0.3
2000	Q4	4.7	4.9	2.8	2.9	1.9	2.0	2.3	2.3	0.1	0.0
2001	Q4		4.9		2.8		2.1		2.6		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.

Strictly Confidential <FR>
Class II FOMC

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

September 29, 1999

Item	Units[1]	1993	1994	1995	1996	1997	1998	1999 (Projected)	2000 (Projected)	2001 (Projected)
EXPENDITURES										
Nominal GDP	Bill. $	6558.1	6947.0	7269.6	7661.6	8110.9	8511.0	8956.0	9402.3	9877.7
Real GDP	Bill. Ch. $	6389.6	6610.7	6761.7	6994.8	7269.8	7551.9	7849.1	8096.2	8335.2
Real GDP	% change	2.4	3.3	2.1	3.9	3.8	4.3	3.7	2.9	2.8
Gross domestic purchases		3.0	3.6	1.6	4.2	4.4	5.3	4.9	3.2	2.9
Final sales		2.1	2.7	2.7	3.7	3.4	4.6	3.6	3.0	2.9
Priv. dom. final purchases		3.7	3.7	2.9	4.3	4.6	6.5	5.4	3.3	3.1
Personal cons. expenditures		2.7	3.1	2.6	3.3	3.7	5.3	4.9	3.1	2.8
Durables		7.4	6.3	4.5	5.8	7.4	13.2	8.6	3.2	3.6
Nondurables		1.6	3.0	1.7	2.8	2.0	4.7	5.2	2.6	2.1
Services		2.3	2.5	2.6	3.0	3.8	4.0	3.9	3.4	2.9
Business fixed investment		9.9	7.6	7.3	11.7	9.8	11.9	8.9	8.0	8.2
Producers' dur. equipment		12.2	10.2	9.1	11.8	12.7	16.8	11.8	10.3	11.0
Nonres. structures		4.5	1.1	2.7	11.6	2.5	-0.3	1.0	1.6	0.1
Residential structures		7.8	4.2	-1.4	5.4	4.2	12.6	4.9	-4.9	-4.0
Exports		4.6	10.0	10.5	10.3	9.6	1.1	4.1	7.4	9.2
Imports		10.2	12.3	5.6	11.8	14.0	9.7	13.4	8.5	8.4
Gov't. cons. & investment		-1.4	0.1	-0.9	2.1	1.4	1.6	2.1	3.2	2.5
Federal		-6.1	-3.9	-5.6	1.1	-0.6	0.9	-0.3	1.6	0.1
Defense		-6.9	-6.0	-5.0	-0.1	-1.4	-1.3	-2.3	0.3	0.5
State & local		2.0	2.7	2.1	2.8	2.6	2.1	3.4	4.0	3.7
Change in bus. inventories	Bill. Ch. $	22.1	60.6	27.7	30.0	63.2	57.4	34.0	45.9	40.5
Nonfarm		29.5	49.0	37.7	23.2	58.8	50.1	31.1	44.1	39.2
Net exports		-70.2	-104.6	-96.5	-111.2	-136.1	-238.2	-347.4	-410.3	-444.2
Nominal GDP	% change	5.0	5.8	4.2	5.8	5.6	5.2	5.2	4.9	4.9
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	110.7	114.1	117.2	119.6	122.7	125.8	128.6	130.9	132.3
Unemployment rate	%	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.1	4.2
Industrial prod. index	% change	3.3	6.5	3.5	5.3	6.6	1.9	3.6	2.6	3.1
Capacity util. rate - mfg.	%	80.5	82.5	82.7	81.4	82.0	80.8	79.7	79.7	80.4
Housing starts	Millions	1.29	1.46	1.35	1.48	1.47	1.62	1.66	1.58	1.51
Light motor vehicle sales		13.86	15.01	14.72	15.05	15.02	15.50	16.62	15.81	15.66
North Amer. produced		11.71	12.88	12.82	13.35	13.09	13.47	14.28	13.66	13.57
Other		2.15	2.13	1.90	1.70	1.92	2.04	2.35	2.15	2.09
INCOME AND SAVING										
Nominal GNP	Bill. $	6576.8	6955.2	7287.1	7674.0	8102.9	8490.5	8933.9	9375.3	9845.4
Nominal GNP	% change	5.1	5.7	4.4	5.6	5.2	5.2	5.2	4.9	4.8
Nominal personal income		4.0	5.2	4.6	5.9	5.4	5.1	5.5	5.2	5.3
Real disposable income		1.2	2.5	2.1	2.7	2.9	3.5	3.2	3.2	3.1
Personal saving rate	%	4.4	3.5	3.4	2.9	2.1	0.5	-1.2	-1.3	-1.0
Corp. profits, IVA & CCAdj.	% change	19.0	14.1	14.6	7.7	7.7	0.1	7.1	3.7	2.4
Profit share of GNP	%	7.5	8.2	9.2	9.8	10.1	9.7	9.7	9.5	9.4
Excluding FR Banks		7.2	7.9	8.9	9.5	9.8	9.4	9.5	9.2	9.1
Federal surpl./deficit	Bill. $	-250.7	-186.7	-174.4	-110.3	-21.1	72.8	148.4	164.7	207.0
State & local surpl./def.		87.4	96.8	111.7	122.6	134.1	150.2	170.7	181.4	178.5
Ex. social ins. funds		19.7	27.9	37.0	52.2	66.0	82.5	102.9	113.6	110.7
Gross natl. saving rate	%	14.4	15.5	16.3	16.6	17.4	17.3	16.9	16.8	17.1
Net natl. saving rate		3.7	4.7	5.8	6.3	7.3	7.3	7.1	7.1	7.5
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.6	2.5	2.1	1.8	1.7	0.9	1.4	2.0	2.1
Gross Domestic Purchases chn.-wt. price index		2.3	2.5	2.0	1.8	1.3	0.4	1.7	1.7	1.9
CPI		2.7	2.6	2.7	3.1	1.9	1.5	2.7	2.3	2.6
Ex. food and energy		3.1	2.8	3.1	2.6	2.2	2.4	2.1	2.7	2.9
ECI, hourly compensation[2]		3.6	3.1	2.6	3.1	3.4	3.5	3.3	3.9	4.1
Nonfarm business sector										
Output per hour		-0.4	0.1	1.2	2.0	1.6	2.6	2.2	2.2	2.1
Compensation per Hour		1.6	2.1	2.9	3.6	3.7	4.1	4.5	4.4	4.5
Unit labor cost		2.0	2.0	1.6	1.6	2.1	1.5	2.3	2.2	2.5

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

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

Item	Units	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	- - - 1999 Q2
EXPENDITURES											
Nominal GDP	Bill. $	7955.0	8063.4	8170.8	8254.5	8384.2	8440.6	8537.9	8681.2	8808.7	8881.1
Real GDP	Bill. Ch. $	7166.7	7236.5	7311.2	7364.6	7464.7	7498.6	7566.5	7677.7	7759.6	7793.7
Real GDP	% change	4.2	4.0	4.2	3.0	5.5	1.8	3.7	6.0	4.3	1.8
Gross domestic purchases		5.5	4.4	4.6	3.2	7.8	3.9	4.2	5.4	6.6	3.1
Final sales		2.9	2.7	5.8	2.1	4.3	4.6	2.8	6.6	4.6	3.1
Priv. dom. final purchases		4.6	3.3	7.5	2.9	8.5	7.4	3.7	6.5	7.4	5.6
Personal cons. expenditures		4.3	1.6	6.2	2.8	6.1	6.1	4.1	5.0	6.7	4.6
Durables		12.3	-1.5	16.8	3.1	15.8	11.2	2.4	24.5	12.9	9.7
Nondurables		3.6	-0.2	5.1	-0.4	7.4	5.3	2.1	4.2	9.5	2.9
Services		3.1	3.2	4.7	4.3	3.5	5.4	5.4	1.7	4.1	4.3
Business fixed investment		7.0	14.0	17.0	1.8	22.2	12.8	-0.7	14.6	8.5	11.3
Producers' dur. equipment		8.3	22.8	18.8	2.2	34.3	18.8	-1.0	17.8	9.5	16.0
Nonres. structures		3.9	-6.2	12.4	0.9	-4.9	-2.3	0.2	6.0	5.7	-1.2
Residential structures		3.1	6.1	-0.4	8.2	15.6	15.0	9.9	10.0	15.4	7.7
Exports		8.3	15.5	10.6	4.4	-2.8	-7.7	-2.8	19.7	-5.1	4.9
Imports		18.6	17.9	13.5	6.3	15.7	9.3	2.3	12.0	13.5	15.2
Gov't. cons. & investment		2.1	2.1	1.4	0.1	-1.9	3.7	1.5	3.3	4.2	-1.3
Federal		-2.7	3.6	-1.2	-2.1	-8.8	7.3	-1.4	7.3	-1.9	-3.5
Defense		-9.9	9.1	-1.8	-2.0	-18.5	9.9	4.3	1.3	-6.6	-3.4
State & local		4.9	1.3	2.9	1.3	2.1	1.8	3.1	1.3	7.7	-0.3
Change in bus. inventories	Bill. Ch. $	56.3	79.0	51.0	66.5	91.4	38.2	55.7	44.2	38.7	10.6
Nonfarm		56.2	72.1	44.0	62.7	85.9	29.9	47.0	37.5	35.1	7.9
Net exports		-121.5	-131.6	-142.4	-149.0	-198.5	-245.2	-259.0	-250.0	-303.6	-338.6
Nominal GDP	% change	7.2	5.6	5.4	4.2	6.4	2.7	4.7	6.9	6.0	3.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	121.4	122.3	123.0	123.9	124.8	125.5	126.1	126.9	127.6	128.2
Unemployment rate	%	5.2	5.0	4.9	4.7	4.6	4.4	4.5	4.4	4.3	4.3
Industrial prod. index	% change	6.6	6.0	7.2	6.6	1.6	2.8	0.9	2.2	1.3	3.8
Capacity util. rate - mfg.	%	81.6	81.7	82.1	82.5	81.8	81.2	80.2	80.1	79.5	79.5
Housing starts	Millions	1.46	1.47	1.46	1.52	1.59	1.57	1.64	1.70	1.77	1.62
Light motor vehicle sales		15.32	14.54	15.19	15.02	15.08	16.07	14.55	16.31	16.22	16.73
North Amer. produced		13.41	12.68	13.20	13.08	13.13	14.07	12.54	14.11	13.95	14.31
Other		1.92	1.86	1.99	1.94	1.95	1.99	2.01	2.20	2.27	2.42
INCOME AND SAVING											
Nominal GNP	Bill. $	7952.4	8062.3	8162.0	8234.9	8369.4	8421.8	8510.9	8660.0	8788.4	8860.6
Nominal GNP	% change	6.5	5.6	5.0	3.6	6.7	2.5	4.3	7.2	6.1	3.3
Nominal personal income		7.3	4.7	4.7	5.0	5.9	4.5	4.5	5.5	5.1	5.2
Real disposable income		3.3	2.9	2.4	2.9	4.0	2.6	3.2	4.3	3.5	2.4
Personal saving rate	%	2.4	2.6	1.7	1.7	1.2	0.4	0.2	0.0	-0.7	-1.3
Corp. profits, IVA & CCAdj.	% change	18.1	11.1	13.1	-9.2	4.2	-4.1	3.2	-2.5	25.0	-3.9
Profit share of GNP	%	10.0	10.1	10.3	10.0	9.9	9.7	9.7	9.5	9.9	9.7
Excluding FR Banks		9.7	9.8	10.0	9.7	9.6	9.5	9.4	9.2	9.6	9.4
Federal surpl./deficit	Bill. $	-51.2	-34.8	-0.3	2.2	58.8	74.4	92.0	65.8	122.7	139.6
State & local surpl./def.		128.4	130.1	136.6	141.4	140.2	141.3	148.7	170.5	169.7	170.3
Ex. social ins. funds		59.8	61.6	68.7	73.8	72.7	73.6	81.3	102.6	101.9	102.3
Gross natl. saving rate	%	17.0	17.6	17.5	17.3	17.7	17.2	17.3	16.9	17.2	16.8
Net natl. saving rate		7.0	7.6	7.5	7.3	7.8	7.2	7.3	7.0	7.4	6.9
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.8	1.7	1.2	1.1	0.9	0.9	1.0	0.8	1.6	1.6
Gross Domestic Purchases chn.-wt. price index		2.2	0.9	1.1	1.0	-0.2	0.4	0.7	0.9	1.2	2.2
CPI		2.5	1.3	1.8	2.0	1.0	1.7	1.7	1.7	1.5	3.4
Ex. food and energy		2.2	2.9	1.4	2.4	2.4	2.6	2.3	2.1	1.6	2.5
ECI, hourly compensation[1]		2.5	3.7	3.4	4.3	3.0	3.6	4.1	2.9	1.4	4.6
Nonfarm business sector											
Output per hour		0.0	1.7	3.5	1.0	3.2	0.4	2.7	4.1	3.6	0.5
Compensation per hour		3.8	2.3	3.7	5.2	4.6	3.9	4.1	3.8	4.4	5.1
Unit labor cost		3.8	0.5	0.2	4.1	1.4	3.5	1.3	-0.4	0.8	4.6

1. Private-industry workers.

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

		Projected									
Item	Units	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4
EXPENDITURES											
Nominal GDP	Bill. $	9000.4	9133.7	9206.8	9350.6	9469.8	9582.2	9704.1	9818.0	9935.0	10053.8
Real GDP	Bill. Ch. $	7877.8	7965.4	7984.2	8071.7	8135.3	8193.6	8249.9	8306.4	8363.3	8421.4
Real GDP	% change	4.4	4.5	0.9	4.5	3.2	2.9	2.8	2.8	2.8	2.8
Gross domestic purchases		5.5	4.7	1.2	5.3	3.5	2.7	3.1	3.0	2.9	2.5
Final sales		3.4	3.4	1.9	3.7	3.1	3.3	2.7	2.8	2.9	3.3
Priv. dom. final purchases		4.9	3.7	1.6	4.8	3.5	3.4	3.2	3.2	3.1	3.1
Personal cons. expenditures		3.9	4.3	1.7	4.5	3.2	3.0	2.9	2.8	2.7	2.7
Durables		7.5	4.5	2.5	2.8	3.7	3.8	3.3	3.9	3.8	3.5
Nondurables		3.2	5.4	-1.2	5.9	3.1	2.5	2.2	2.1	2.1	2.1
Services		3.5	3.6	3.0	4.2	3.2	3.1	3.1	2.9	2.8	2.8
Business fixed investment		15.2	1.2	4.1	10.6	8.6	9.0	8.2	8.1	8.4	8.1
Producers' dur. equipment		21.1	1.5	5.0	13.4	11.2	11.7	11.1	11.0	11.2	10.8
Nonres. structures		-0.7	0.5	1.5	2.7	1.3	1.1	0.1	-0.2	0.2	0.2
Residential structures		-3.9	1.2	-5.6	-4.6	-4.2	-5.0	-3.6	-3.5	-4.4	-4.4
Exports		9.6	7.7	1.6	8.2	8.3	11.9	5.9	9.3	9.2	12.3
Imports		17.2	8.0	3.3	14.0	9.1	8.0	7.6	9.6	8.5	7.8
Gov't. cons. & investment		2.6	2.9	4.7	3.9	2.6	1.6	2.3	2.5	2.6	2.5
Federal		2.5	1.8	6.1	3.4	-0.2	-2.9	-0.6	0.3	0.4	0.5
Defense		4.1	-2.9	0.5	-1.1	1.2	0.4	0.2	0.6	0.6	0.6
State & local		3.0	3.5	4.0	4.1	4.1	4.0	3.8	3.7	3.7	3.6
Change in bus. inventories	Bill. Ch. $	31.6	55.2	35.3	50.8	53.2	44.2	45.5	44.7	41.5	30.4
Nonfarm		28.8	52.8	33.6	48.9	51.3	42.4	44.1	43.3	40.2	29.2
Net exports		-369.7	-377.6	-384.9	-412.0	-423.1	-421.3	-433.5	-444.5	-451.5	-447.4
Nominal GDP	% change	5.5	6.1	3.2	6.4	5.2	4.8	5.2	4.8	4.9	4.9
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	128.9	129.6	130.2	130.9	131.0	131.4	131.7	132.1	132.5	132.9
Unemployment rate	%	4.2	4.1	4.0	4.0	4.1	4.1	4.1	4.2	4.2	4.2
Industrial prod. index	% change	4.4	4.9	-1.8	4.6	4.1	3.6	3.3	3.0	3.1	3.2
Capacity util. rate - mfg.	%	79.7	80.1	79.2	79.6	79.9	80.1	80.2	80.3	80.4	80.5
Housing starts	Millions	1.65	1.61	1.60	1.59	1.58	1.56	1.54	1.52	1.50	1.47
Light motor vehicle sales		17.16	16.38	16.02	15.81	15.75	15.67	15.62	15.64	15.68	15.68
North Amer. produced		14.76	14.08	13.79	13.65	13.63	13.58	13.53	13.55	13.59	13.59
Other		2.39	2.30	2.23	2.16	2.12	2.09	2.09	2.09	2.09	2.09
INCOME AND SAVING											
Nominal GNP	Bill. $	8977.5	9109.0	9178.8	9322.9	9443.6	9556.0	9673.9	9786.4	9902.2	10018.9
Nominal GNP	% change	5.4	6.0	3.1	6.4	5.3	4.8	5.0	4.7	4.8	4.8
Nominal personal income		5.6	6.0	4.9	6.0	4.9	4.9	6.1	5.1	4.9	5.0
Real disposable income		4.0	3.1	3.7	3.8	2.5	2.6	5.0	2.6	2.3	2.5
Personal saving rate	%	-1.3	-1.5	-1.1	-1.2	-1.4	-1.5	-0.9	-1.0	-1.1	-1.1
Corp. profits, IVA & CCAdj.	% change	6.0	3.2	-10.8	11.8	9.8	5.8	-0.6	2.9	3.9	3.6
Profit share of GNP	%	9.7	9.7	9.3	9.4	9.5	9.6	9.4	9.4	9.4	9.3
Excluding FR Banks		9.5	9.4	9.0	9.2	9.3	9.3	9.2	9.1	9.1	9.1
Federal surpl./deficit	Bill. $	167.2	164.3	137.6	155.1	177.1	189.2	184.3	200.4	219.5	223.9
State & local surpl./def.		165.9	177.2	177.9	182.1	184.1	181.6	178.1	177.8	178.6	179.7
Ex. social ins. funds		98.1	109.4	110.1	114.3	116.3	113.8	110.3	110.0	110.8	111.9
Gross natl. saving rate	%	16.9	16.7	16.7	16.8	16.9	16.9	17.0	17.1	17.2	17.1
Net natl. saving rate		7.1	6.9	6.8	7.0	7.2	7.2	7.4	7.5	7.6	7.5
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.1	1.4	2.3	1.9	1.9	1.9	2.3	2.0	2.0	2.0
Gross Domestic Purchases chn.-wt. price index		1.4	2.0	2.1	1.6	1.6	1.7	2.2	1.8	1.8	1.8
CPI		2.5	3.3	2.3	2.2	2.3	2.5	2.5	2.6	2.6	2.6
Ex. food and energy		1.7	2.6	2.6	2.7	2.8	2.8	2.8	2.9	2.9	2.9
ECI, hourly compensation[1]		3.6	3.6	4.1	3.9	3.9	3.9	4.3	4.1	4.0	4.0
Nonfarm business sector											
Output per hour		2.2	2.4	0.2	3.4	2.7	2.4	2.1	2.1	2.1	2.1
Compensation per hour		4.2	4.3	4.5	4.3	4.4	4.4	4.9	4.5	4.4	4.4
Unit labor cost		2.0	1.9	4.3	0.9	1.7	2.0	2.8	2.4	2.4	2.3

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

September 29, 1999

Item	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	97Q4/ 96Q4	98Q4/ 97Q4	99Q4/ 98Q4
Real GDP	4.2	3.0	5.5	1.8	3.7	6.0	4.3	1.8	4.4	3.8	4.3	3.7
Gross dom. purchases	4.7	3.2	7.9	4.0	4.3	5.5	6.7	3.1	5.6	4.4	5.4	5.0
Final sales	5.7	2.1	4.3	4.6	2.8	6.6	4.6	3.1	3.4	3.3	4.5	3.6
Priv. dom. final purchases	6.1	2.4	7.0	6.1	3.1	5.4	6.2	4.7	4.1	3.8	5.4	4.5
Personal cons. expenditures	4.2	1.9	4.1	4.1	2.8	3.5	4.6	3.1	2.7	2.5	3.6	3.3
Durables	1.3	0.3	1.2	0.9	0.2	1.9	1.1	0.8	0.6	0.6	1.1	0.7
Nondurables	1.0	-0.1	1.4	1.0	0.4	0.8	1.8	0.6	0.6	0.4	0.9	1.0
Services	1.9	1.7	1.4	2.1	2.2	0.7	1.7	1.7	1.4	1.5	1.6	1.6
Business fixed investment	1.7	0.2	2.2	1.4	-0.1	1.5	0.9	1.2	1.6	1.0	1.2	1.0
Producers' dur. equip.	1.3	0.1	2.4	1.4	-0.1	1.4	0.8	1.2	1.6	0.9	1.3	0.9
Nonres. structures	0.4	0.0	-0.2	-0.1	0.0	0.2	0.2	-0.0	-0.0	0.1	-0.0	0.0
Residential structures	-0.0	0.3	0.6	0.6	0.4	0.4	0.7	0.3	-0.2	0.2	0.5	0.2
Net exports	-0.5	-0.3	-2.2	-2.1	-0.6	0.5	-2.2	-1.4	-1.2	-0.6	-1.1	-1.3
Exports	1.2	0.5	-0.3	-0.9	-0.3	2.0	-0.6	0.5	1.0	1.1	0.1	0.5
Imports	-1.7	-0.8	-1.9	-1.2	-0.3	-1.5	-1.7	-1.9	-2.2	-1.7	-1.2	-1.8
Government cons. & invest.	0.3	0.0	-0.3	0.6	0.3	0.6	0.7	-0.2	0.5	0.3	0.3	0.4
Federal	-0.1	-0.1	-0.6	0.4	-0.1	0.4	-0.1	-0.2	0.2	-0.0	0.1	-0.0
Defense	-0.1	-0.1	-0.8	0.4	0.2	0.1	-0.2	-0.1	0.2	-0.1	-0.1	-0.1
Nondefense	0.0	-0.1	0.3	0.1	-0.3	0.4	0.1	-0.1	-0.0	0.0	0.1	0.1
State and local	0.3	0.2	0.2	0.2	0.4	0.2	0.8	-0.0	0.3	0.3	0.2	0.4
Change in bus. inventories	-1.4	0.9	1.2	-2.7	0.9	-0.5	-0.3	-1.3	1.0	0.5	-0.3	0.1
Nonfarm	-1.5	1.0	1.2	-2.8	0.9	-0.5	-0.1	-1.3	1.0	0.5	-0.3	0.2
Farm	0.1	-0.1	0.0	0.1	0.0	-0.1	-0.1	-0.0	-0.0	0.0	0.0	-0.1

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

Strictly Confidential <FR>
Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

September 29, 1999

Item	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	99Q4/ 98Q4	00Q4/ 99Q4	01Q4/ 00Q4
Real GDP	4.5	0.9	4.5	3.2	2.9	2.8	2.8	2.8	2.8	3.7	2.9	2.8
Gross dom. purchases	4.8	1.2	5.5	3.6	2.7	3.2	3.1	3.0	2.6	5.0	3.3	3.0
Final sales	3.4	1.9	3.7	3.1	3.3	2.7	2.8	2.9	3.3	3.6	3.0	2.9
Priv. dom. final purchases	3.1	1.4	4.1	3.0	2.9	2.7	2.7	2.6	2.6	4.5	2.8	2.7
Personal cons. expenditures	2.9	1.2	3.1	2.2	2.1	2.0	1.9	1.9	1.9	3.3	2.2	1.9
Durables	0.4	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.7	0.3	0.3
Nondurables	1.1	-0.2	1.2	0.6	0.5	0.4	0.4	0.4	0.4	1.0	0.5	0.4
Services	1.5	1.2	1.7	1.3	1.3	1.2	1.2	1.2	1.2	1.6	1.4	1.2
Business fixed investment	0.1	0.5	1.1	0.9	1.0	0.9	0.9	0.9	0.9	1.0	0.9	0.9
Producers' dur. equip.	0.1	0.4	1.1	0.9	1.0	0.9	0.9	0.9	0.9	0.9	0.8	0.9
Nonres. structures	0.0	0.0	0.1	0.0	0.0	0.0	-0.0	0.0	0.0	0.0	0.0	0.0
Residential structures	0.1	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	0.2	-0.2	-0.2
Net exports	-0.3	-0.3	-1.0	-0.4	0.2	-0.4	-0.4	-0.2	0.2	-1.3	-0.4	-0.2
Exports	0.8	0.2	0.9	0.9	1.3	0.7	1.0	1.0	1.4	0.5	0.8	1.0
Imports	-1.1	-0.5	-1.9	-1.3	-1.1	-1.1	-1.4	-1.2	-1.1	-1.8	-1.2	-1.2
Government cons. & invest.	0.5	0.8	0.7	0.5	0.3	0.4	0.4	0.4	0.4	0.4	0.6	0.4
Federal	0.1	0.4	0.2	-0.0	-0.2	-0.0	0.0	0.0	0.0	-0.0	0.1	0.0
Defense	-0.1	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0
Nondefense	0.2	0.3	0.2	-0.1	-0.2	-0.0	-0.0	-0.0	0.0	0.1	0.1	-0.0
State and local	0.4	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.5	0.4
Change in bus. inventories	1.1	-0.9	0.7	0.1	-0.4	0.1	-0.0	-0.1	-0.5	0.1	-0.1	-0.2
Nonfarm	1.1	-0.9	0.7	0.1	-0.4	0.1	-0.0	-0.1	-0.5	0.2	-0.1	-0.2
Farm	-0.0	-0.0	0.0	0.0	0.0	-0.0	0.0	0.0	0.0	-0.1	-0.0	-0.0

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

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

Item	Fiscal year[1]				1999				2000				2001			
	1998[a]	1999	2000	2001	Q1[a]	Q2[p]	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts[2]	1722	1828	1927	2024	401	564	449	438	427	598	464	453	453	625	493	483
Outlays[2]	1653	1703	1767	1825	396	421	419	445	450	439	433	459	465	456	445	467
Surplus/deficit[2]	69	125	160	199	6	143	31	-8	-24	160	32	-5	-13	169	48	16
On-budget	-30	-3	11	37	-49	88	15	-49	-50	96	14	-50	-42	101	28	-30
Off-budget	99	128	149	162	55	55	16	41	26	64	18	44	29	68	20	46
Surplus excluding deposit insurance	65	120	156	195	5	142	30	-9	-25	159	31	-6	-14	168	47	15
Means of financing																
Borrowing	-51	-91	-170	-196	7	-108	-23	27	-36	-128	-34	-3	-3	-138	-52	-11
Cash decrease	5	-16	15	0	-4	-31	-2	-25	60	-25	5	10	10	-25	5	10
Other[3]	-23	-18	-5	-3	-9	-4	-6	6	-.7	-7	-3	-2	6	-6	-.9	-15
Cash operating balance, end of period	39	55	40	40	22	53	55	80	20	45	40	30	20	45	40	30
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	1818	1928	2038	2135	1915	1947	1981	2012	2013	2048	2079	2105	2118	2144	2173	2200
Expenditures	1761	1804	1879	1936	1792	1806	1814	1848	1876	1893	1902	1915	1933	1943	1953	1976
Consumption expenditures	458	472	497	513	472	470	476	479	499	506	506	503	514	516	518	520
Defense	301	304	311	321	304	300	306	305	313	313	314	315	322	323	325	326
Nondefense	157	168	186	191	168	170	169	174	186	193	192	188	192	192	193	194
Other expenditures	1303	1332	1382	1424	1320	1337	1338	1369	1377	1387	1396	1412	1420	1428	1435	1456
Current account surplus	57	124	158	198	123	141	167	164	138	155	177	189	184	200	219	224
Gross investment	60	63	63	64	65	63	62	62	64	63	64	64	64	64	64	64
Current and capital account surplus	-3	62	95	134	58	78	105	102	74	92	113	125	120	137	156	160
Fiscal indicators[4]																
High-employment (HEB) surplus/deficit	-99	-65	-48	-8	-71	-49	-29	-44	-62	-52	-33	-21	-24	-5	16	23
Change in HEB, percent of potential GDP	-.9	-.4	-.2	-.4	-.5	-.3	-.2	.2	.2	-.1	-.2	-.1	0	-.2	-.2	-.1
Fiscal impetus (FI) percent, calendar year	-1	4	5	.1	1	-1	.8	2	2	1	.5	-.8	-.3	.2	.2	.5

1. Fiscal year data for the unified budget come from OMB; quarterly data come from the Monthly Treasury Statement and may not sum to OMB fiscal year totals.
2. OMB's June 1999 surplus estimates (assuming the enactment of the President's proposals) are $99 billion in FY1999 and $143 billion in FY2000. CBO's July 1999 baseline surplus estimates are $120 billion in FY1999 and $161 billion in FY2000. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY1990.
3. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.
4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Real potential GDP growth is assumed to be 3.3 percent beginning 1998:Q1. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1992) dollars, scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.

a--Actual p--Preliminary

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

Period [1]	Total [2]	Federal government [3]	Nonfederal						
			Total [4]	Households			Business	State and local governments	Memo: Nominal GDP
				Total	Home mortgages	Consumer credit			
Year									
1991	4.3	11.1	2.2	4.5	6.1	-1.3	-1.6	8.6	3.8
1992	4.6	10.9	2.6	4.5	5.3	0.8	0.8	2.2	6.3
1993	4.9	8.3	3.8	5.4	4.5	7.3	1.4	6.0	5.0
1994	4.6	4.7	4.6	7.7	6.0	14.5	3.9	-4.0	5.8
1995	5.5	4.1	6.0	7.9	5.7	14.1	7.0	-4.6	4.2
1996	5.4	4.0	5.9	7.4	7.3	7.9	6.0	-0.6	5.8
1997	5.4	0.6	7.1	6.4	6.6	4.3	8.4	5.3	5.6
1998	6.7	-1.4	9.4	8.7	9.7	5.4	10.7	7.2	5.2
1999	6.0	-2.6	8.6	8.8	9.9	6.3	9.4	3.7	5.2
2000	4.6	-5.5	7.4	7.5	8.6	4.2	8.1	2.9	4.9
2001	4.3	-5.9	6.7	7.0	7.9	3.7	7.2	2.7	4.9
Quarter									
1998:3	5.7	-3.0	8.4	8.3	9.5	6.1	9.1	6.0	4.7
4	6.7	-1.4	9.2	9.1	10.6	5.3	9.9	6.4	6.9
1999:1	7.7	-2.0	10.6	9.4	10.0	9.5	12.6	7.3	6.0
2	5.2	-3.0	7.6	8.5	10.0	3.9	7.7	2.9	3.3
3	5.9	-2.7	8.3	8.5	9.2	6.1	9.1	3.7	5.5
4	4.8	-2.7	6.8	7.7	9.1	5.1	7.1	0.7	6.1
2000:1	4.6	-6.5	7.6	7.7	8.8	4.8	8.4	3.4	3.2
2	4.7	-5.2	7.3	7.6	8.6	4.2	7.9	2.7	6.4
3	4.7	-4.2	7.0	7.2	8.2	3.9	7.6	2.7	5.2
4	4.1	-6.4	6.7	6.8	7.8	3.7	7.5	2.7	4.8

Note. Quarterly data are at seasonally adjusted annual rates.
1 Data after 1999:Q2 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.
2. On a monthly average basis, total debt is projected to grow 6.2 percent in 1999 and 4.7 percent in 2000.
3. On a monthly average basis, federal debt is projected to grow -2.4 percent in 1999 and -5.0 percent in 2000.
4. On a monthly average basis, nonfederal debt is projected to grow 8.9 percent in 1999 and 7.4 percent in 2000.

2.6.3 FOF

Strictly Confidential Class II FOMC
September 29, 1999

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

Category	Calendar year				Seasonally adjusted annual rates									
					1998		1999				2000			
	1998	1999	2000	2001	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net funds raised by domestic nonfinancial sectors														
1 Total	755.5	810.7	725.4	736.4	590.8	581.6	1182.4	511.6	899.5	649.3	661.7	753.5	785.4	701.2
2 Net equity issuance	-267.0	-168.9	-75.0	-40.0	-308.4	-491.3	-65.7	-354.0	-90.0	-166.0	-140.0	-72.0	-48.0	-40.0
3 Net debt issuance	1022.5	979.6	800.4	776.4	899.2	1072.8	1248.1	865.6	989.5	815.3	801.7	825.5	833.4	741.2
Borrowing sectors														
Nonfinancial business														
4 Financing gap [1]	88.6	119.8	158.1	185.0	67.8	105.3	76.2	117.0	134.3	151.6	143.1	164.5	164.2	160.5
5 Net equity issuance	-267.0	-168.9	-75.0	-40.0	-308.4	-491.3	-65.7	-354.0	-90.0	-166.0	-140.0	-72.0	-48.0	-40.0
6 Credit market borrowing	524.5	511.9	480.4	464.6	470.7	524.6	682.6	431.1	517.6	416.4	501.1	480.1	469.1	471.1
Households														
7 Net borrowing [2]	470.3	519.4	483.8	480.7	471.9	527.3	553.3	511.0	525.3	488.0	494.8	498.1	480.4	462.0
8 Home mortgages	358.2	401.3	383.5	384.5	365.3	419.0	405.2	414.5	391.2	394.2	392.2	391.2	381.2	369.2
9 Consumer credit	67.6	83.8	59.7	54.6	79.6	69.9	126.6	53.2	84.0	71.3	67.9	60.2	56.5	54.1
10 Debt/DPI (percent) [3]	94.0	97.4	100.0	101.7	94.4	95.2	96.3	97.2	98.0	98.6	99.2	99.7	100.4	101.0
State and local governments														
11 Net borrowing	80.3	44.6	36.4	34.4	70.0	75.1	87.4	35.7	46.0	9.3	42.4	34.4	34.4	34.4
12 Current surplus [4]	174.0	200.5	212.0	213.1	178.1	199.9	199.9	202.4	193.6	206.1	208.0	212.4	214.5	213.2
Federal government														
13 Net borrowing	-52.6	-96.2	-200.1	-203.3	-113.5	-54.1	-75.2	-112.2	-99.3	-98.3	-236.5	-187.0	-150.5	-226.2
14 Net borrowing (quarterly, n.s.a.)	-52.6	-96.2	-200.1	-203.3	-28.8	32.1	7.5	-108.0	-23.0	27.3	-35.7	-127.9	-33.8	-2.7
15 Unified deficit (quarterly, n.s.a.)	-55.2	-171.7	-162.6	-219.9	-3.0	54.5	-5.8	-143.1	-30.6	7.7	23.6	-159.8	-31.7	5.3
Depository institutions														
16 Funds supplied	360.5	318.0	295.6	269.9	289.0	660.7	209.3	258.5	444.7	359.4	288.9	300.9	296.9	295.9
Memo (percentage of GDP)														
17 Domestic nonfinancial debt [5]	185.3	187.3	187.9	186.8	186.3	186.0	186.6	188.1	188.2	187.9	188.6	187.9	187.7	187.6
18 Domestic nonfinancial borrowing	12.0	10.9	8.5	7.9	10.5	12.4	14.2	9.7	11.0	8.9	8.7	8.8	8.8	7.7
19 Federal government [6]	-0.6	-1.1	-2.1	-2.1	-1.3	-0.6	-0.9	-1.3	-1.1	-1.1	-2.6	-2.0	-1.6	-2.4
20 Nonfederal	12.6	12.0	10.6	9.9	11.9	13.0	15.0	11.0	12.1	10.0	11.3	10.8	10.4	10.1

Note. Data after 1999:Q2 are staff projections.
1. For corporations: Excess of capital expenditures over U.S. internal funds.
2. Includes change in liabilities not shown in lines 8 and 9.
3. Average debt levels in the period (computed as the average of period-end debt positions) divided by disposable personal income.
4. NIPA surplus less changes in retirement fund assets plus consumption of fixed capital.
5. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.
6. Excludes government-insured mortgage pool securities.

2.6.4 FOF

International Developments

Recovery of the Asian emerging-market economies is moving ahead at a brisk pace, as improved performances have been evident in many countries in the region. The Japanese economy posted extremely strong first-half growth (in part the result of heavy fiscal spending), but recent yen strength and headwinds from corporate restructuring raise doubts about the durability and strength of the recovery. In Europe, activity appears to be firming in several key countries, including Germany, France, and Italy, which have been lagging behind the rest of the region.

New data indicate that this recent pickup in foreign growth has exceeded our previous expectations. Export-weighted foreign real GDP is estimated to have increased at an annual rate of 4 percent in the first half of 1999, more than 1/2 percentage point higher than projected for the August Greenbook. For the second half of this year, we have revised up our projection for foreign growth about 1/4 percentage point, to an annual rate of 3-1/4 percent (including about 1/2 percentage point that is attributable to Y2K effects). Growth in 2000 also is forecast to be slightly higher than was projected in August. Accordingly, with a lower path for the dollar, we have strengthened our forecast for U.S. net exports from 1999:Q4 onward. The projected near-term path for oil prices has been raised in reaction to recent market developments, primarily continued production discipline among OPEC countries.

Recent Developments

International financial markets. Since the August FOMC meeting, the weighted-average foreign exchange value of the dollar, as measured by the staff's broad nominal index, has been about unchanged, on balance, as movements in its two major components largely have offset one another. Relative to the major foreign currencies, the dollar has depreciated nearly 2-1/4 percent, while against the currencies of our other important trading partners it has appreciated about 1-1/4 percent.

Most of the dollar's decline against the major-currencies index came from a 4.4 percent depreciation, on balance, against the yen. (The dollar also lost more than 2 percent against the Canadian dollar and the U.K. pound.) Release in early September of stronger-than-expected data for Japanese second-quarter GDP produced a surge in yen demand. The Bank of Japan's resistance to these exchange market pressures through heavy intervention was largely ineffective. Later in the period the yen-dollar rate was buffeted by comments and rumors related to the policy debate in Japan--specifically whether the Bank of Japan should do unsterilized intervention or additional more-aggressive expansionary steps and whether the United States and others might collaborate with Japan in joint intervention operations. Market doubts that such steps would be taken seemed to have been confirmed with the release of a statement following the September 21 meeting of the Bank of Japan's Policy Board, in which the Board underlined its determination to resist pressures for additional expansionary measures. However, after the G-7 expressed concern about yen appreciation, Bank of Japan Governor Hayami indicated that there might be some room for maneuver that would allow the BOJ to respond to foreign exchange developments, and in recent days the yen has given back some of its earlier strength. The yen's net appreciation appears to have had a negative impact on Japanese stock prices, especially in the export and technology sectors, but bond prices rallied.

European financial market developments were less dramatic. The main policy event was the Bank of England's 25 basis-point increase in its official repo rate to 5.25 percent on September 8, a move described by the Bank as preemptive. The step surprised market participants, as any such increase had been expected to come later in the year. Ten-year government bond yields (both sterling- and euro-denominated) rose during the intermeeting period, narrowing spreads to comparable U.S. Treasuries, while share prices declined moderately in most European countries.

Economic news from the Asian emerging-market economies was largely positive, but some countries experienced sharp falls in the value of their currencies. The Indonesian rupiah declined nearly 10 percent during the intermeeting period in reaction to a banking scandal and troubles in East Timor. The Thai baht fell more than 7-1/2 percent in reaction to disappointing second-quarter growth and concerns about nonperforming loans and upcoming debt payments. Equity prices in both countries dropped sharply, and share prices were down more modestly in Hong Kong and Singapore.

In Latin America, the Brazilian *real* depreciated on balance about 3-1/4 percent over the intermeeting period, while equity prices rose about 12 percent. Although share prices in Mexico declined, higher crude oil prices helped the Mexican peso remain steady. Spreads on emerging market debt did not react noticeably to Ecuador's announcement that the government would pay only part of its Brady bond debt payments due on September 28; the Emerging Market Bond Index (EMBI) declined 120 basis points, on balance. During the intermeeting period, both Chile and Colombia abandoned their crawling-peg exchange rate regimes.

Gold prices were unusually volatile during the intermeeting period, trading most recently at over $315 per ounce. Announcement by the IMF that it does not plan to sell its gold holdings and the agreement among the ECB and fourteen other

European central banks to limit their gold sales to 400 tons a year for the next five years contributed to the upward pressure on gold prices.

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

Economic activity abroad. Economic activity in the major foreign industrial economies has strengthened. Second-quarter GDP in Japan did not show the extent of payback that many had expected following very strong first-quarter growth and instead registered an increase close to 1 percent at an annual rate. In particular, private consumption continued to be firm. Third-quarter Japanese indicators of activity and demand have been mixed: August industrial production was strong, but the unemployment rate remains at record levels.

Expansion in the euro area appears to have taken better hold in the major core countries. Data from the current quarter (industrial production) and more forward-looking indicators (orders and confidence) suggest that Germany should rebound from its disappointing second-quarter performance, and growth appears to have firmed in France and Italy. According to revised data, the pace of economic activity accelerated in the United Kingdom in the second quarter to an annual rate of 2-1/2 percent, and an array of third-quarter indicators (industrial production, retail sales, and confidence) point to a further quickening. The Canadian economy is slowing somewhat from its unsustainable pace earlier this year, but it still posted growth of 3-1/4 percent in the second quarter. Recent indicators are consistent with continued solid expansion.

Price pressures remain subdued, despite some passthrough of higher oil prices into broader price measures. Oil-price increases helped Japanese CPI inflation (twelve-month basis) turn positive in August, the first increase since January. Euro-area harmonized CPI inflation also moved up a bit, but still is only about 1 percent. Despite the pickup in activity and demand in the United Kingdom, retail price inflation at just over 2 percent is well below the official 2-1/2 percent target. Canadian headline inflation at 2 percent is comfortably within the official 1 to 3 percent target range, and core inflation is only 1-1/2 percent.

Many Asian countries have exhibited further signs of strong recoveries amid more favorable financial market conditions, although the region has been affected by several unrelated negative events. Another very strong GDP performance in the second quarter has confirmed that Korea is in the midst of a robust expansion. Boosted in part by recovery of the global electronics market, output also strengthened further in Malaysia, the Philippines, Hong Kong, and

Taiwan (although the economic effects of the Taiwan earthquake should become more apparent soon). China appears to have continued its recent slow but positive growth in the second quarter. In contrast, the Indonesian economy remains troubled by ongoing domestic turmoil.

In Latin America, there are indications that Mexican growth has been decelerating from the rapid pace seen earlier this year. In Brazil, signals have been mixed; recent declines in industrial production suggest that Brazil's first-half recovery may have lost some momentum in recent months. The Argentine economy still is struggling; GDP dropped 5 percent in the second quarter. Venezuela recorded a similar large contraction of second-quarter GDP.

Inflation rates vary widely across the emerging market economies, but there have been few indications of any increase in upward pressure. In Mexico and Venezuela, inflation rates are still well into double digits (about 17 and 23 percent, respectively) but have continued to track slowly downward. The weakness of the domestic economy and appreciation of the *real* has helped limit inflation in Brazil. Argentina's deflation deepened somewhat in August. Consumer prices also declined (twelve-month basis) in the most recent data for China, Taiwan, Hong Kong, and Thailand and increased less than 1 percent in Korea and Singapore. Inflation in Indonesia has come down sharply as the effect on prices of the prior sharp fall in the exchange rate have largely passed through.

U.S. net exports and prices. The nominal U.S. trade deficit widened in July for the third consecutive month to $25.2 billion, as imports increased more rapidly than exports once again. The trade deficit for the second quarter was $259 billion at a seasonally adjusted annual rate, $43 billion more than in the first quarter.

Exports of machinery (including semiconductors) helped boost the value of exports 1/2 percent in July, to a level 1 percent above the average in the second quarter. Exports of aircraft and consumer goods also increased, but exports of automotive products and industrial supplies (which had been strong in the second quarter) declined somewhat in July. The value of imports decelerated to a 1 percent increase in July, but they still were 4 percent higher than the second-quarter average. Consumer goods, industrial supplies, aircraft, and oil were the main sources of the July increase.

Prices of non-oil imports held steady in August for the second consecutive month, while prices of core goods imports (which exclude oil, computers, and semiconductors) also were about flat with close to zero change in all major trade categories. As a result, the price index of core goods for July-August combined was up about 3/4 percent at an annual rate from the second quarter, with industrial supplies (especially lumber) showing a particularly noticeable increase. Prices of goods exports went up slightly in August, as prices of agricultural products and industrial products rose, but the July-August average was down slightly from the second-quarter average. Sharply declining prices of exported computers, semiconductors, and agricultural products contributed to the fall. The export price index for core goods rose 1-1/4 percent at an annual rate during the same period.

The value of imported oil rose further in July, as higher prices more than offset a slight decline in quantity. The price of imported oil increased substantially in July, and further in August, reflecting the effects of reduced supplies (primarily from OPEC) and stronger global demand. On September 22, OPEC members reaffirmed their intentions to hold back production through March 2000. The monthly average spot price of West Texas intermediate (WTI) increased from around $20 per barrel in July to $21.25 in August, and spot WTI is currently trading just under $25 per barrel.

Outlook

Growth of foreign real GDP (weighted by U.S. nonagricultural export shares) is projected to average about 3-1/4 percent (annual rate) over the forecast period. The near-term forecast is stronger than projected for the August Greenbook, largely because of upward revisions for Japan and many emerging-market economies in Asia, including Korea, Thailand, Malaysia, and Hong Kong. Small upward revisions were made to the outlook for the euro area and the United Kingdom, as well. As in the August forecast, we assume that inventory accumulation in anticipation of possible Y2K problems will raise foreign growth in the second half of 1999 slightly, but these effects will be reversed in the first half of 2000 as stocks are run down.

The real broad dollar is expected to depreciate about 4-1/2 percent over the forecast period from its third-quarter average (rather than to remain flat, as projected in August). The lower projected path of the dollar reflects a perception that economic activity in our trading partners is strengthening relative to that of the U.S. economy. These conjunctural changes, as well as a settling down of financial markets abroad and increased investor awareness of widening global current account imbalances, should contribute to downward pressure on the dollar.

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

Measure	1998	Projection				
		1999			2000	2001
		H1	Q3	Q4		
Foreign output	0.9	4.0	3.0	3.6	3.1	3.6
August GB	*0.9*	*3.4*	*2.6*	*3.4*	*3.0*	
Real exports	1.1	-0.2	9.6	7.7	7.4	9.2
August GB	*1.1*	*-0.8*	*4.8*	*7.2*	*5.3*	
Real imports	9.7	14.4	17.2	8.0	8.5	8.4
August GB	*9.7*	*11.5*	*10.6*	*9.5*	*7.7*	

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

Declines in U.S. real net exports are expected to subtract 3/4 percentage point from U.S. real GDP growth in the second half of 1999, ½ percentage point in 2000, and 1/4 percentage point in 2001, as a rebound in exports and slower import growth moderate the negative contribution of the external sector.

The dollar. During the forecast period the nominal exchange value of the dollar against the major international currencies is projected to depreciate somewhat from its current level. We continue to assume that the dollar will edge lower against the euro, in response both to the growing current account deficit in the United States and expanding surplus in the euro area and to an expected pickup in European growth. The dollar also is expected to resume a modest trend decline against the Canadian dollar, which should gain some near-term support from the continuing recovery of commodity prices. We project the dollar to change little on average against the yen from its recent level through the first half of 2000 and then to depreciate slowly over the remainder of the forecast period. We believe that in the near term concerns over the fragility of economic recovery in Japan, along with a continued accommodative stance by the Bank of Japan, will help support the dollar. Over the longer term, the dollar remains vulnerable to a downward correction against the yen owing in part to the persistent large current account imbalances of the two countries.

The real exchange value of the dollar against the currencies of a wider group of U.S. trading partners, as measured by the staff's broad index, is projected to depreciate moderately 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. We continue to expect the dollar to appreciate in real terms against all major Latin American currencies except the Brazilian *real*. The dollar is projected to depreciate slightly in real terms against the currencies of the ASEAN group and more noticeably against the Korean won. This projection assumes that Chinese authorities will allow the renminbi to start depreciating gradually in nominal terms beginning next year. In contrast, we assume that the Argentine and Hong Kong currency pegs will hold.

Activity in foreign industrial countries. Real export-weighted GDP growth in foreign industrial countries is projected to average more than a 2-3/4 percent annual rate in the second half of 1999 (almost 1/2 percentage point less, when corrected for Y2K effects). Average growth is expected to continue at a rate of about 2-1/4 to 2-1/2 percent in 2000 and 2001. Relative to the August Greenbook, the forecast has been revised upward substantially for 1999 and is somewhat higher for both 2000 and 2001. Following its surprisingly strong first-half performance, we expect that Japan will record modest positive growth in the second half (rather than the decline previously projected), and will move ahead a bit faster in 2000 and 2001. Nonetheless, growth will rise to only about 1-1/4 percent by the latter part of the forecast period, as fiscal stimulus will be less than in recent years and the external sector will be held back by the yen's stronger value against other major currencies.

The forecast for the euro area also is slightly stronger than in the August Greenbook. In Germany, the second-half outlook has been raised, as third-quarter indicators suggest that recent growth has more than offset a somewhat disappointing performance in the second quarter. Modest upward revisions have been made to our projections for growth next year and in 2001 for France and Italy; the expansion that had been concentrated in the smaller euro-area countries appears to be extending to those larger economies as well. Abstracting from near-term Y2K effects, the euro area should record growth of about 2-3/4 percent through the end of the forecast period in 2001 and, thus, make a modest inroad into narrowing the area's persistent output gap. The forecast for U.K. growth also has been revised upward, mostly in response to expenditure data for the first half of the year, which were considerably stronger than initial indications.

After recording growth slightly above 3-1/2 percent this year, reflecting in part the strength of the U.S. economy as well as recovery of global demand, the Canadian economy should slow to a pace of about 2-3/4 percent in 2000 and 2001, more in line with its rate of potential growth.

Inflation. Average inflation in the major foreign industrial countries, weighted by U.S. non-oil imports, is projected to accelerate a bit to slightly above 1-1/4 percent in 2000 and 2001, reflecting a somewhat stronger growth outlook and the passthrough of higher oil prices. The greatest upward revision is for inflation in Japan, where we now expect prices to fall only slightly in 2000 (rather than the roughly 1 percent deflation that we had projected in the August Greenbook) and to be flat in 2001. The effects of firmer Japanese growth and higher oil prices more than offset the deflationary impact of yen appreciation on Japanese inflation.

Interest rates. We continue to assume that the Bank of Japan will need to keep short-term interest rates near zero throughout the forecast period to provide support for the economy's expected slow recovery and to offset the effects of recent yen strengthening. Euro short-term interest rates are assumed to stay steady until the second half of 2000, when the European Central Bank is projected to start to raise rates as the area's economy picks up momentum. The cumulative rise, though, is assumed to be 3/4 percentage point by the end of the forecast period in 2001, the same as we assumed in the August Greenbook. We have revised upward our short-term interest rate assumption for the United Kingdom to reflect the latest quarter-point rate hike by the Bank of England as well as new data showing greater strength in the underlying economy. We now expect the Bank of England to tighten policy 75 basis points over the next year and a half in order to keep inflation from rising above the 2-1/2 percent target rate. As in the previous forecast, the Bank of Canada is expected to increase rates 25 basis points over the next year. Assumed long-term interest rate paths have been moved up by varying amounts that average about 1/4 percentage point, mainly in reaction to recent increases in market rates and somewhat firmer outlooks for growth.

Other countries. Our forecast of real GDP growth of the major developing-country trading partners of the United States has been revised upward, primarily reflecting recent evidence of greater strength in the Asian developing countries. We now expect that on average real GDP in the developing countries will increase at a rate of about a 4-1/4 percent next year, rising to about 5 percent in 2001.

Activity in the Asian developing countries that experienced financial crises appears to be bouncing back from last year's steep drop much more quickly than previously anticipated. We now expect that real GDP in these economies will increase 7-1/4 percent this year (compared with an expectation of 5-3/4 percent growth in the last Greenbook), led by double-digit growth in Korea, Singapore, and Malaysia. Next year, when recovery will be more mature and cyclical factors such as inventory investment should be somewhat less favorable, growth in this area is expected to moderate to about 5 percent. In 2001, growth is expected to climb to about a 7 percent rate. However, still unresolved banking and corporate-sector problems in several of these countries could hold down growth somewhat.

Our Latin American outlook remains largely unchanged from that in the August Greenbook. We expect real GDP to expand at a rate of about 3-3/4 percent next year (nearly 1 percentage point higher than projected for this year), with growth edging up further in 2001. Mexico is expected to grow at an average rate just above 4 percent during the forecast period.

Inflation in the developing countries should continue to be held down by the high levels of excess capacity and unemployment that are the legacy of the weak activity in these countries over the past several years. Accordingly, we expect that average consumer price inflation in the developing countries should remain steady at about 6 percent throughout the forecast period, although inflation rates will continue to vary widely across countries.

Century date change. Our judgment regarding the magnitude of Y2K effects across countries is quite uncertain. We continue to assume that the approach of year 2000 and possible Y2K disruptions will affect the quarterly pattern of GDP growth abroad to varying extents. The net effect should be to give many countries a small impulse to demand in the second half of 1999, followed by a limited drop-off in the first quarter and subsequent return to trend. By the second half of 2000, we do not expect Y2K problems to have registered a perceptible net impact on the level of foreign GDP on balance.

Real exports and imports of goods and services. NIPA real net exports in the second quarter weakened more than estimated in the August Greenbook, but the negative contribution of net exports to GDP growth is still projected to diminish over the forecast period.

Real exports of goods and services are projected to expand at an annual rate of 8-1/2 percent in the second half, about 2-1/2 percentage points faster than projected in the August Greenbook. The change reflects mainly new data and stronger activity abroad. For 2000, real export growth is projected to be 7-1/2 percent, about 2 percentage points stronger than forecast in August. Real exports are forecast to accelerate further in 2001.

After showing surprising strength in the second quarter, growth of real non-oil imports is estimated to have surged again in the third quarter. Our expectation that non-oil imports will record double-digit growth in the third quarter reflects the strength of imports in July, particularly automotive products, aircraft, and consumer goods. We project that, in the fourth quarter, growth of non-oil imports will slow to a pace about half that estimated for the third quarter, reflecting a projected tailing off of U.S. gross domestic purchases. Over the four quarters of 1999, real non-oil imports are projected to grow 15 percent. For the remainder of the forecast period, real non-oil imports are projected to expand at a pace of roughly a 10 percent. This pattern reflects largely the effects of moderating growth of U.S. activity as well as increasing import prices.

The quantity of imported oil is projected to rise steadily over the forecast period. As oil consumption expands with economic activity and domestic production slowly declines, imports will continue to increase as a share of consumption. The assumed Y2K precautionary buildup of stocks increases oil imports about 3 percent during the fourth quarter of this year and decreases imports the same amount during the first quarter of 2000.

Oil prices. The staff has raised its forecast for the price of imported oil by about $3 per barrel for the fourth quarter of 1999 and the first quarter of 2000, and by smaller amounts in 2000 and 2001 ($2 and $1 per barrel, respectively). These revisions reflect lower-than-assumed OPEC production, stronger projected world economic activity, and a weaker path for the foreign exchange value of the dollar. We anticipate that OPEC will hold production near current levels for the rest of this year but then will increase output gradually in response to strengthening demand and lower inventories. The price of imported oil is expected to increase to around $21.65 per barrel in the fourth quarter of this year and then to decline gradually to around $17.50 per barrel by the end of 2000 and to $16 per barrel by the end of 2001, as production from OPEC and non-OPEC countries increases more rapidly than consumption.

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

Trade category	1998	1999 H1	Projection 1999 Q3	Projection 1999 Q4	Projection 2000	Projection 2001
Exports						
Nonagricultural (core)	-1.9	0.4	1.8	2.3	1.3	1.5
Agricultural	-9.8	-9.3	-4.9	2.0	2.4	2.4
Imports						
Non-oil (core)	-2.0	-0.5	1.0	2.7	2.3	2.1
Oil (level, dollars per barrel)	11.40	14.70	18.17	21.65	17.59	16.07

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

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

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

Prices of non-oil imports and non-agricultural exports. Prices of core imports are projected to increase at an annual rate of 1 percent in the third quarter and about 2-3/4 percent in the fourth quarter -- about 1/4 and 1 percentage point faster, respectively, than projected in the August Greenbook. These higher rates raise the projected increase of core prices for this year to 0.7 percent (Q4/Q4), compared with 0.4 percent in the August Greenbook. Core import prices are forecast to rise about 2-1/4 percent next year, and 2 percent in 2001. This projection is about ½ percentage point more than that projected in the August Greenbook and reflects mainly the weaker path for the dollar. Core export prices are projected to move up at a rate of 1-1/4 to 1-1/2 percent during the forecast period.

Nominal trade and current account balances. The nominal trade deficit for goods and services is projected to widen substantially from an annual rate of $259 billion in the second quarter of 1999 to $335 billion in the fourth quarter of 2000 and to $340 billion by the end of 2001. The deficit for net investment income also is expected to widen somewhat over the forecast period. Accordingly, the current account deficit, which was $220 billion (2.6 percent of GDP) in 1998, is projected to rise to $405 billion in 2000 (4.3 percent of GDP) and to $420 billion in 2001 (also 4.3 percent of GDP). The previous peak level of the current-account-deficit-to-GDP ratio was 3.5 percent in 1987.

Unchanged U.S. dollar. One of the most noteworthy changes in our latest forecast is a downward revision to the future path of the dollar. Rather than remaining flat, as was projected for the August Greenbook, we are projecting now that the real weighted-average dollar will move down about 4-1/2 percent from its third-quarter level by the end of the forecast horizon in 2001:Q4. To highlight the implications of the change in our assumptions, we have considered the implications of an alternative scenario in which the dollar, instead, remains unchanged at its third-quarter level. As may be seen in the summary table below, with an unchanged dollar (and assuming no change in U.S. monetary policy), both U.S. real GDP growth and CPI inflation would be slightly lower in both 2000 and 2001.

Impact of Unchanged Dollar Alternative
(Percent change, Q4 to Q4)

Measure	1999	2000	2001
U.S. real GDP			
Baseline	3.7	2.9	2.8
Alternative	3.7	2.7	2.6
U.S. CPI excluding food and energy			
Baseline	2.1	2.7	2.9
Alternative	2.0	2.5	2.7

NOTE. Simulation assumes nominal federal funds rate unchanged from baseline.

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

Measure and country	1993	1994	1995	1996	1997	1998	-----Projected---- 1999	2000	2001
REAL GDP (1)									
Total foreign	3.1	5.1	2.3	4.3	4.1	0.9	3.7	3.1	3.6
Industrial Countries	1.9	3.9	1.9	2.9	3.2	1.8	3.0	2.3	2.5
of which:									
Canada	2.9	5.5	1.4	2.4	4.4	2.8	3.6	2.7	2.7
Japan	0.5	0.9	2.5	5.1	-0.8	-3.0	2.4	0.7	1.2
United Kingdom	3.2	4.6	1.9	2.9	3.4	1.6	2.7	2.4	2.5
Euro-11	-0.0	2.9	1.5	1.6	2.9	1.9	2.3	2.5	2.7
Germany	-0.2	2.8	1.0	1.3	1.4	1.2	2.1	2.5	2.7
Developing Countries	5.0	7.0	2.9	6.4	5.2	-0.3	4.8	4.2	5.1
Asia	7.6	8.9	7.2	6.9	4.9	-1.7	7.3	5.0	6.9
Korea	6.3	9.4	7.2	6.8	3.7	-5.3	10.9	5.9	7.0
China	6.1	16.3	12.6	9.2	8.2	9.5	3.4	5.4	7.9
Latin America	2.7	5.5	-4.1	6.4	6.3	1.0	3.0	3.7	4.0
Mexico	1.9	5.1	-7.3	7.5	7.2	2.9	4.3	4.3	4.4
Brazil	4.5	9.8	-1.9	5.5	2.2	-1.6	2.8	2.2	3.0
CONSUMER PRICES (2)									
Industrial Countries	2.1	1.1	1.3	1.5	1.6	1.0	1.1	1.3	1.3
of which:									
Canada	1.8	-0.0	2.1	2.0	1.0	1.1	2.2	2.1	1.8
Japan	1.2	0.8	-0.8	0.1	2.1	0.7	-1.0	-0.3	0.0
United Kingdom (3)	2.7	2.2	2.9	3.2	2.8	2.6	2.2	2.3	2.5
Euro-11 (4)	NA	NA	NA	2.0	1.4	0.9	1.8	1.5	1.6
Germany	4.3	2.6	1.5	1.4	2.1	0.4	1.0	1.3	1.6
Developing Countries	24.7	23.0	17.0	11.2	6.9	9.1	5.5	6.1	6.2
Asia	7.7	10.7	6.4	4.8	2.8	4.5	0.8	3.3	3.8
Korea	5.5	5.8	4.4	5.1	5.1	6.0	1.9	3.7	4.9
China	17.1	26.9	11.1	7.0	1.0	-1.1	-0.1	2.4	3.6
Latin America	74.2	54.3	42.2	26.0	15.8	15.6	13.5	11.4	10.2
Mexico	8.6	6.9	48.8	28.1	17.2	17.6	14.8	12.2	11.2
Brazil	2287.6	1216.3	23.1	10.8	5.3	1.8	7.8	6.3	3.9

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

Strictly Confidential (FR)
Class II FOMC

September 29, 1999

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

	Projected											
	1999				2000				2001			
Measure and country	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	3.5	4.5	3.0	3.6	1.2	4.0	3.6	3.6	3.5	3.6	3.6	3.6
Industrial Countries	3.7	2.6	2.6	3.0	0.3	3.6	2.9	2.6	2.5	2.5	2.5	2.5
of which:												
Canada	4.2	3.3	3.2	3.6	0.4	4.2	3.4	2.8	2.7	2.7	2.7	2.7
Japan	8.1	0.9	0.2	0.6	-0.7	1.5	1.0	1.2	1.2	1.2	1.2	1.2
United Kingdom	0.9	2.6	3.3	3.9	0.6	3.8	2.6	2.5	2.5	2.4	2.5	2.4
Euro-11	1.8	1.8	2.8	2.8	0.5	3.8	3.1	2.8	2.7	2.7	2.7	2.7
Germany	1.8	0.2	3.6	3.0	0.7	3.4	3.1	3.0	2.7	2.7	2.7	2.7
Developing Countries	3.3	7.5	3.7	4.6	2.6	4.5	4.7	5.0	5.0	5.1	5.2	5.1
Asia	6.3	12.1	5.2	5.8	2.4	5.2	5.9	6.4	6.6	6.8	7.0	7.1
Korea	14.7	15.4	7.5	6.2	4.0	6.7	6.0	7.0	7.0	7.0	7.0	7.0
China	2.2	1.1	4.7	5.5	2.2	5.2	7.0	7.3	7.8	8.0	8.0	8.0
Latin America	1.0	4.6	2.7	3.9	2.9	4.1	3.9	3.9	3.7	4.0	4.1	4.1
Mexico	1.3	7.7	3.6	4.7	4.0	4.7	4.2	4.3	4.2	4.3	4.4	4.5
Brazil	3.1	3.8	1.2	3.1	0.6	2.8	2.7	2.8	2.7	3.0	3.2	3.2
CONSUMER PRICES (2)	Four-quarter changes											
Industrial Countries	0.6	0.9	1.2	1.1	1.3	1.3	1.3	1.3	1.4	1.4	1.3	1.3
of which:												
Canada	0.8	1.6	2.0	2.2	2.2	2.2	2.1	2.1	2.0	1.9	1.8	1.8
Japan	-0.2	-0.4	-0.1	-1.0	-0.5	-0.5	-0.4	-0.3	0.0	0.0	0.0	0.0
United Kingdom (3)	2.6	2.3	2.2	2.2	2.2	2.2	2.3	2.3	2.4	2.4	2.5	2.5
Euro-11 (4)	0.9	1.0	1.5	1.8	1.6	1.6	1.5	1.5	1.5	1.5	1.6	1.6
Germany	0.3	0.5	0.7	1.0	1.1	1.1	1.2	1.3	1.4	1.5	1.6	1.6
Developing Countries	8.2	7.0	6.1	5.5	5.5	5.7	6.0	6.1	6.0	6.1	6.2	6.2
Asia	2.6	0.8	0.3	0.8	1.5	2.4	3.1	3.3	3.3	3.5	3.6	3.8
Korea	0.7	0.6	0.7	1.9	2.8	3.4	4.3	3.7	3.8	4.1	4.4	4.9
China	-1.4	-2.2	-1.2	-0.1	0.8	1.6	2.1	2.4	3.0	3.6	3.6	3.6
Latin America	16.4	15.7	14.7	13.5	12.3	11.5	11.2	11.4	11.2	11.0	10.9	10.2
Mexico	18.6	17.9	16.5	14.8	13.3	12.4	12.0	12.2	12.1	12.0	11.9	11.2
Brazil	2.3	3.3	5.6	7.8	7.4	7.0	6.6	6.3	5.7	5.1	4.5	3.9

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

Strictly Confidential (FR)
Class II FOMC

September 29, 1999

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1993	1994	1995	1996	1997	1998	------ 1999	Projected 2000	------ 2001
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	-0.6	-0.4	0.5	-0.3	-0.6	-1.1	-1.3	-0.4	-0.2
Exports of G&S	0.5	1.0	1.1	1.2	1.1	0.1	0.5	0.8	1.0
Imports of G&S	-1.1	-1.4	-0.7	-1.4	-1.7	-1.2	-1.8	-1.2	-1.2
	Percentage change, Q4/Q4								
Exports of G&S	4.6	10.0	10.5	10.3	9.6	1.1	4.1	7.4	9.2
Services	4.1	6.0	9.8	7.5	1.5	-0.6	3.8	4.3	4.4
Agricultural Goods	-5.5	16.6	-4.3	4.8	2.8	-1.2	-3.9	2.2	2.3
Computers	23.7	32.0	55.5	35.9	40.7	6.4	29.4	43.6	41.0
Semiconductors	32.9	66.9	79.6	46.2	21.0	7.8	37.0	39.9	36.0
Other Goods 1/	3.6	7.0	5.8	8.0	11.6	1.3	0.9	3.9	6.6
Imports of G&S	10.2	12.3	5.6	11.8	14.0	9.7	13.4	8.5	8.4
Services	3.2	1.4	6.1	5.5	12.4	2.4	9.6	3.2	3.4
Oil	10.1	-0.2	2.4	7.9	4.0	5.9	6.8	3.0	2.5
Computers	39.3	44.8	48.1	24.4	30.3	28.3	49.8	46.4	41.2
Semiconductors	34.2	54.5	92.4	57.6	32.7	-7.8	34.6	43.7	41.2
Other Goods 2/	9.5	12.2	-1.1	10.4	13.0	11.0	11.1	5.6	5.2
	Billions of chained 1992 dollars								
Net Goods & Services	-70.2	-104.6	-96.5	-111.2	-136.1	-238.2	-347.4	-410.3	-444.2
Exports of G&S	658.2	712.4	792.6	860.0	970.0	984.7	1021.9	1089.6	1186.6
Imports of G&S	728.4	817.0	889.0	971.2	1106.1	1222.9	1369.3	1499.9	1630.9
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-85.3	-121.7	-113.6	-129.3	-143.5	-220.6	-337.5	-405.1	-422.2
Current Acct as Percent of GDP	-1.3	-1.7	-1.6	-1.7	-1.8	-2.6	-3.8	-4.3	-4.3
Net Goods & Services (BOP)	-69.9	-98.4	-97.5	-104.3	-104.7	-164.3	-271.5	-333.2	-344.9
Investment Income, Net	26.9	20.3	23.9	21.8	8.2	-7.0	-13.6	-18.6	-23.9
Direct, Net	58.6	54.4	63.8	67.7	69.2	59.4	61.0	74.1	91.9
Portfolio, Net	-31.7	-34.1	-39.9	-46.0	-61.0	-66.4	-74.6	-92.7	-115.8
Other Income & Transfers,Net	-42.2	-43.6	-39.9	-46.7	-46.9	-49.3	-52.4	-53.3	-53.3

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

September 29, 1999

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.1	-1.0	-1.4	2.4	-1.3	-0.4	-0.5	-0.3	-2.3	-2.1	-0.6	0.5
Exports of G&S	0.4	0.6	0.2	3.2	0.9	1.7	1.2	0.5	-0.3	-0.9	-0.3	2.0
Imports of G&S	-1.5	-1.6	-1.6	-0.9	-2.2	-2.2	-1.7	-0.8	-1.9	-1.2	-0.3	-1.5
Percentage change from previous period, SAAR												
Exports of G&S	3.7	5.8	2.1	32.0	8.3	15.5	10.6	4.4	-2.8	-7.7	-2.8	19.7
Services	-4.0	10.3	-9.9	39.8	-6.7	11.8	5.9	-4.0	-1.2	1.7	-10.4	8.3
Agricultural Goods	22.6	-32.8	-1.6	48.7	-16.1	-7.8	8.7	32.8	-9.9	-23.4	-14.5	61.3
Computers	57.6	24.7	27.7	35.9	70.2	78.7	41.9	-9.2	-15.5	8.7	20.6	15.7
Semiconductors	23.8	29.7	30.2	118.6	41.3	17.3	32.3	-2.2	-2.0	-14.3	23.9	29.9
Other Goods 1/	0.1	6.0	5.7	21.3	13.8	15.6	9.2	8.0	-1.6	-11.0	-1.2	21.9
Imports of G&S	13.1	13.5	13.6	7.0	18.6	17.9	13.5	6.3	15.7	9.3	2.3	12.0
Services	9.2	4.3	9.9	-1.1	17.8	10.6	15.8	5.8	9.3	-0.6	-0.6	2.0
Oil	-9.8	68.9	3.5	-14.0	-8.2	37.0	6.0	-12.2	8.8	41.4	-5.7	-13.2
Computers	22.5	22.9	18.8	33.8	54.5	39.0	30.6	2.9	38.8	22.4	9.8	45.3
Semiconductors	38.7	8.9	50.1	172.1	89.0	16.0	20.3	17.6	9.9	-27.8	-3.0	-6.4
Other Goods 2/	13.9	10.5	13.4	4.1	16.2	16.1	11.8	8.1	16.1	10.8	3.5	13.9
Billions of chained 1992 dollars, SAAR												
Net Goods & Services	-95.5	-113.5	-140.1	-95.9	-121.5	-131.6	-142.4	-149.0	-198.5	-245.2	-259.0	-250.0
Exports of G&S	833.6	845.5	849.9	911.1	929.4	963.6	988.1	998.8	991.9	972.1	965.3	1009.6
Imports of G&S	929.1	958.9	990.0	1007.0	1050.9	1095.2	1130.5	1147.8	1190.4	1217.3	1224.3	1259.6
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-107.0	-125.8	-153.3	-131.1	-139.6	-125.9	-142.5	-165.9	-172.1	-209.6	-253.9	-246.7
Current Account as % of GDP	-1.4	-1.6	-2.0	-1.7	-1.8	-1.6	-1.7	-2.0	-2.1	-2.5	-3.0	-2.8
Net Goods & Services (BOP)	-89.4	-105.9	-125.9	-96.1	-106.4	-96.8	-102.9	-112.8	-133.4	-167.8	-182.9	-173.1
Investment Income, Net	30.4	21.3	15.1	20.2	9.0	13.7	5.8	4.2	6.1	2.9	-22.5	-14.3
Direct, Net	68.5	64.3	63.6	74.5	66.4	74.7	69.2	66.6	67.3	64.7	47.3	58.2
Portfolio, Net	-38.2	-43.0	-48.5	-54.3	-57.4	-60.9	-63.4	-62.4	-61.3	-61.8	-69.9	-72.5
Other Inc. & Transfers, Net	-48.0	-41.2	-42.5	-55.2	-42.1	-42.9	-45.4	-57.3	-44.8	-44.7	-48.5	-59.3

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	Projected											
	1999				2000				2001			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-2.3	-1.4	-1.2	-0.3	-0.3	-1.0	-0.4	0.2	-0.4	-0.4	-0.2	0.2
Exports of G&S	-0.6	0.5	1.0	0.8	0.2	0.9	0.9	1.3	0.7	1.0	1.0	1.4
Imports of G&S	-1.7	-1.9	-2.2	-1.1	-0.5	-1.9	-1.3	-1.1	-1.1	-1.4	-1.2	-1.1
Percentage change from previous period, SAAR												
Exports of G&S	-5.1	4.9	9.6	7.7	1.6	8.2	8.3	11.9	5.9	9.3	9.2	12.3
Services	4.3	4.0	2.5	4.5	2.3	5.3	4.7	4.9	4.6	4.7	4.3	4.2
Agricultural Goods	-37.5	28.7	8.3	-1.9	2.1	2.1	2.2	2.2	2.2	2.3	2.3	2.3
Computers	0.2	50.2	47.5	26.2	35.9	46.2	46.2	46.2	41.0	41.0	41.0	41.0
Semiconductors	34.2	39.4	49.1	26.2	36.0	41.2	41.2	41.2	36.0	36.0	36.0	36.0
Other Goods 1/	-8.8	-1.8	7.9	7.3	-4.1	4.5	4.9	11.0	1.0	6.7	6.7	12.2
Imports of G&S	13.5	15.2	17.2	8.0	3.3	14.0	9.1	8.0	7.6	9.6	8.5	7.8
Services	11.8	7.2	13.3	6.0	0.9	4.7	4.0	3.3	3.4	3.2	3.6	3.6
Oil	7.0	25.3	-5.6	2.8	-20.6	43.0	5.4	-5.9	-8.7	31.3	3.6	-11.1
Computers	43.7	78.8	55.1	26.2	36.0	57.3	46.4	46.4	41.2	41.2	41.2	41.2
Semiconductors	17.5	62.1	34.0	28.6	36.0	46.4	46.4	46.4	41.2	41.2	41.2	41.2
Other Goods 2/	11.6	10.1	16.4	6.5	2.5	8.9	5.9	5.2	5.2	5.1	5.2	5.2
Billions of chained 1992 dollars, SAAR												
Net Goods & Services	-303.6	-338.6	-369.7	-377.6	-384.9	-412.0	-423.1	-421.3	-433.5	-444.5	-451.5	-447.4
Exports of G&S	996.5	1008.4	1031.7	1051.0	1055.2	1076.1	1097.8	1129.2	1145.5	1171.1	1197.3	1232.6
Imports of G&S	1300.1	1347.0	1401.4	1428.6	1440.1	1488.0	1521.0	1550.5	1579.0	1615.7	1648.8	1680.0
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-274.6	-321.8	-360.1	-393.7	-389.8	-407.6	-409.3	-413.7	-414.3	-421.9	-424.2	-428.2
Current Account as % of GDP	-3.1	-3.6	-4.0	-4.3	-4.2	-4.4	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3
Net Goods & Services (BOP)	-215.9	-259.1	-295.0	-315.8	-319.7	-337.7	-341.0	-334.4	-342.1	-348.2	-349.3	-340.2
Investment Income, Net	-11.8	-12.0	-14.4	-16.3	-19.5	-19.3	-17.7	-17.7	-21.7	-23.2	-24.3	-26.5
Direct, Net	59.3	56.4	63.0	65.1	65.4	70.2	77.3	83.5	85.0	89.1	94.3	99.0
Portfolio, Net	-71.1	-68.5	-77.5	-81.4	-84.9	-89.5	-95.0	-101.2	-106.7	-112.2	-118.6	-125.5
Other Inc. & Transfers, Net	-46.9	-50.6	-50.6	-61.6	-50.6	-50.6	-50.6	-61.6	-50.6	-50.6	-50.6	-61.6

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