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Part 1

March 15, 2000

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

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

Confidential (FR) Class II FOMC

March 15, 2000

Summary and Outlook

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Domestic Developments

The U.S. economic expansion appears to have lost little, if any, of its powerful momentum. Rising employment, income, and wealth have continued to boost personal consumption and residential construction. And coming off the accelerated growth of sales and profits of late 1999--and freed of Y2K concerns--businesses have again stepped up their capital spending. Consequently, we not only have carried forward the sizable upside surprise we experienced with respect to the level of real GDP in the fourth quarter, but we have also raised our projection of the near-term growth of economic activity somewhat.

But if the trend of demand has remained strong, so too has that of aggregate supply--thereby putting a damper on inflation. Business productivity soared as output accelerated in the latter half of 1999; the resulting decline in unit labor costs helped to reverse much of the erosion of profit margins that had occurred over the prior two years. Despite anecdotal evidence that a tight labor market is forcing many employers to grant bigger pay increases, the aggregate wage statistics have yet to confirm a significant movement in that direction. And, although there are reports that the near tripling in the cost of crude oil over the past year has begun to spill over more to prices outside the energy sector, neither the core consumer price measures nor readings on inflation expectations have exhibited any clear pickup to this point.

Looking ahead, our baseline forecast for economic activity now shows real GDP growth running around 4-1/4 percent this year and about 3-3/4 percent in 2001--a rather mild slackening from the 4-1/2 percent pace of the past few years, but probably enough to prevent an ongoing buildup of pressures on labor resources. Given the anticipated improvement in the external sector, achieving even this limited slowing of GDP expansion may necessitate a good deal more restraint on domestic demand than is in train from the monetary policy actions taken since last June. Quite conceivably, an autonomous decline in equity prices could provide the needed restraint: One of these days, with valuations on many stocks so stretched, investors might decide to cash out rather than to buy on a market dip. But experience suggests that it would be wiser to view this as a possibility rather than as a likely outcome. So we have assumed, instead, that the federal funds rate will be raised substantially further in the coming months, putting upward pressure on longer-term rates and helping to hold share prices, overall, in the recent range.

Inflation is likely to exhibit an underlying tendency to move higher as labor markets remain tight, the indirect effects of the run-up in oil prices feed through, and non-oil import prices continue to firm. In fact, we have nudged up the projection for the chain price index for PCE excluding food and energy, mainly to reflect the effects of a higher path of crude oil prices than we had built into our previous forecasts. This measure, having risen 1-1/2 percent in 1999, is now expected to rise 2 percent in 2000 and 2-1/4 percent in 2001. The increase in total PCE prices, which was 2 percent last year, is projected to pick up somewhat this year but then to back off temporarily to just under 2 percent in 2001 as energy prices ease.

Key Background Factors

Because of the greater near-term momentum in domestic demand, and in light of the additional inflationary impulse we see coming from the energy sector, we have assumed a little larger and faster increase in the federal funds rate than we did in the last Greenbook. The rise in the funds rate is considerably more aggressive than what is currently built into the market's forward rate structure. Long-term rates likely will rise appreciably, reflecting both the actual movement in short rates and what we anticipate will be a perception that rates may have to rise still more to fully contain inflationary forces.

Equity prices remain a central uncertainty in the outlook. The prospect of still-higher interest rates may have added to the recent disenchantment with many "old economy" industries, but investors who have been suffering disappointing returns (often losses) on those stocks have not been moving to the sidelines. Instead, they have been responding to the siren song of the "new economy" firms. Ignoring the astronomical valuations of what are in many cases nonexistent earnings, investors increasingly are engaged in sheer momentum trading. When and why the bubble will stop expanding, let alone burst, is anyone's guess. Our projections of corporate earnings, though revised upward considerably in light of the apparent fourth-quarter surge, are well short of those of security analysts, and as noted, we are anticipating some surprises from monetary policy. As in previous Greenbooks, we have allowed our skepticism about the underpinnings of the bull market to show through in a projection that share prices overall will remain close to the recent level from here forward, but we explore other scenarios through model-generated stimulations later in this report.

On the fiscal front, we have raised our projections of the total unified budget surplus to $207 billion in fiscal 2000 and $250 billion in fiscal 2001. The projected on-budget surpluses, which exclude social security and the Postal Service, are $55 billion and $78 billion respectively. These projections are substantially above those in the January Greenbook. The revision is attributable in part to the higher nominal incomes we are now forecasting; in addition, we have made some technical adjustments to reflect the information in the updated budget projections from the Administration and the Congressional Budget Office. However, because the Administration and the CBO are basing their budget projections on economic assumptions that are less favorable than ours, they are projecting much smaller surpluses than we are. On a current-services basis, which has discretionary spending growing with inflation, the Administration now estimates on-budget surpluses of $32 billion in fiscal 2000 and $11 billion in fiscal 2001, while the CBO projects on-budget surpluses of $26 billion and $15 billion for those years.

The assumptions regarding fiscal policy actions that underlie our surplus estimates are essentially the same as those in the January Greenbook--namely, that discretionary spending will be raised in line with inflation between fiscal years 2000 and 2001 and that any changes in the laws governing mandatory spending and taxes will have no net effect on the surplus. This path for discretionary spending would represent a continuation of the trends of the past few years, and it would be broadly consistent with the President's proposed budget for fiscal 2001. The congressional budget deliberations are only now getting under way, but there appears to be substantial support among the Republicans for a budget resolution that would spend less than we are assuming and would include a small tax cut. In any event, whatever plan the Congress adopts, it likely will be constrained by the CBO's assessment of the budget outlook, which currently leaves little room for further spending increases or tax cuts if the on-budget accounts are to remain at least in balance. Of course, as we noted previously, if the CBO should later move its budget projections toward ours, there is a risk that a somewhat more expansive fiscal policy would be adopted.

With the notable exception of Japan, the incoming data suggest greater near-term strength for a number of our key trading partners, and we have adjusted our forecast of foreign economic activity in response. All told, we now expect overall foreign GDP to rise nearly 4 percent in both 2000 and 2001. This would be about the same pace as in 1999, with solid increases, on average, in both the industrial and the developing countries. The dollar has been little changed, on net, since the January Greenbook; we expect it to remain around recent levels over the balance of this year and to decline modestly in 2001.

The spot price of West Texas intermediate crude oil is currently running around $31 per barrel, well above the path in the January Greenbook. We expect it to change little in the near term but, on the assumption that OPEC will raise production quotas, to recede somewhat thereafter. Even so, it looks as though OPEC has set its sights on a higher price objective than it might have contemplated earlier, and because we anticipate only a gradual further weakening of compliance, WTI is expected to fall only to $25 per barrel by the fourth quarter of this year ($2-1/2 per barrel higher than in the last forecast). We still foresee some easing of prices in 2001 as production increases further--

especially outside of OPEC--but the $21 per barrel WTI price in the fourth quarter is $1-1/2 per barrel higher than last time. Our trajectory for oil prices through next year is broadly consistent with current quotes in futures markets.

The Current Quarter

We have edged up our projection for the increase in real GDP in the current quarter to 4-1/4 percent at an annual rate--1/4 percentage point higher than in the January Greenbook.[1] Consumption and private fixed investment appear to be running much stronger than we anticipated, but we think there likely will be some offsets. BEA's procedures for estimating defense spending may have exaggerated the increase in real GDP in the fourth quarter, and an unwinding of that phenomenon would subtract about a percentage point from real GDP growth in the current quarter.[2] And although the pickup in inventory investment in the fourth quarter may have been attributable mainly to efforts of some firms to keep stocks in reasonable alignment with strong sales, there probably also was a little extra Y2K-related accumulation that will be unwinding; in any event, the 5-3/4 percent annualized pace of nonfarm business stockpiling in the fourth quarter surely exceeded the steady-state rate for firms that are trying to streamline supply chains. Finally, the strong demand for goods appears likely to be reflected in a big increase in imports.

Our guess is that private domestic final sales will post an increase this quarter of about 7-1/2 percent. Some of the gain is coming from light vehicle sales, which soared in January and February and are expected to average 18 million units (annual rate) for the quarter as a whole, about 1 million units above the already hefty fourth-quarter pace. The sales will show up partly in business investment, partly in consumer spending.

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1. The below-trend increase in nonfarm business productivity in our forecast for this quarter (about 2-1/4 percent at an annual rate after adjusting for the anomalous measurement of defense spending) might be seen as an upside risk, but some step-down in productivity growth seems reasonable after the spurt in the second half of 1999.

2. Most of the reported surge in defense spending in the fourth quarter appears to reflect some advance payments to firms scheduled to provide services to the Defense Department in the first quarter of this year, rather than services actually provided in the fourth quarter. These advance payments were picked up in the Monthly Treasury Statement (MTS) for December, which is a key input for the NIPA. Defense payments dropped well below trend in the MTS for January, which, given BEA's procedures, implies a sizable drop in NIPA defense spending in the current quarter. We estimate that the discrepancy between the payments recorded in the MTS and the amount of services that were actually provided is large enough to have added about 1/2 percentage point at an annual rate to real GDP growth in the fourth quarter, to have subtracted about 1 percentage point in the current quarter, and to add about 1/2 percentage point in the second quarter as payments return to trend on a quarterly average basis.

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

Measure	1999:Q4 Jan. GB	1999:Q4 Mar. GB	2000:Q1 Jan. GB	2000:Q1 Mar. GB
Real GDP	**5.2**	**7.0**	**4.0**	**4.3**
Private domestic final purchases	4.8	5.2	5.6	7.5
Personal consumption expenditures	5.2	6.0	4.8	6.1
Residential investment	2.8	1.3	0.7	8.2
Business fixed investment	3.4	2.0	11.6	14.8
Government outlays for consumption and investment	5.5	9.4	4.0	0.1
	Change, billions of chained (1996) dollars			
Inventory investment	14.0	29.2	-10.7	-7.8
Net exports	-12.2	-11.5	-25.1	-41.2

The strength of consumer demand, of course, is not limited to motor vehicles. The February retail sales report shows that outlays for other goods are also rising rapidly, and a sizable advance in outlays on services--especially on brokerage services--appears probable as well. All told, we now expect real PCE to rise at about a 6 percent annual rate this quarter, a bit above the sizzling 5-1/2 percent pace over 1999 as a whole.

Housing demand has given up little ground in the face of the appreciable increase in mortgage interest rates over the past year. Aided by continued good weather, single-family housing starts declined only a little in January after having posted a big increase in December. We expect them to remain quite high in the ensuing two months, in part because builders still have sizable backlogs of orders. Reflecting the lagged effects of the recent steep rise in starts, residential investment should increase considerably this quarter.

Apart from the strike-related delays in aircraft deliveries, business fixed investment appears to be surging.[3] Orders and shipments for high-tech equipment posted huge increases in January, after having slowed in late 1999 (perhaps because of Y2K "lock-downs"), and the recent spate of orders for industrial and other machinery points to a robust quarter for those types of capital goods. Spending on motor vehicles also is likely to be up, on net, as higher purchases of light vehicles (some of which reflect consumer leasing) more than offset a drop in outlays on medium and heavy trucks. In addition, even anticipating some dropback in construction put in place after the jump in January, outlays on nonresidential structures are likely to rise for the first time in more than a year.

Real government expenditures on consumption and gross investment are likely to be little changed, on balance, this quarter after having risen about 9-1/2 percent (annual rate) in the fourth. The state and local sector will probably post another big increase, given that hiring has remained brisk in recent months and that the late-1999 surge in construction extended into January. However, federal purchases will likely plummet as the fourth-quarter bulge in defense spending estimated by the BEA is unwound.

We have few data on international trade beyond December; however, we now expect real net exports to subtract more than 1-1/2 percentage points from real GDP growth this quarter. Real exports are projected to rise somewhat despite the Boeing strike. But continued strong domestic demand is likely to keep real imports rising at a double-digit rate, with a particularly large increase in imports of vehicles from Canada and Mexico.

Abstracting from the effects of the Boeing strike, we expect a slowing in inventory investment to subtract about 1 percentage point from real GDP growth in the current quarter. The surprising strength of auto sales evidently has drawn down dealer stocks. Outside motor vehicles, the book-value inventory figures imply only a modest real accumulation at manufacturing and trade establishments in January; our projection anticipates a somewhat higher rate of stockbuilding in February and March.

We now expect the CPI to increase at an annual rate of nearly 4 percent in the current quarter; this would be nearly a percentage point above our previous

3. Although the strike at Boeing appears to be having little effect on aircraft production and thus on GDP, the effects on key components of GDP are significant. In particular, we estimate that delays in deliveries of completed planes are chopping about 2-1/2 percentage points at an annual rate from the change in real business fixed investment this quarter and a similar percentage from the growth in real exports, offset by about $15 billion in additional real inventory investment.

projection and reflects the greater-than-expected increase in energy prices. Retail energy prices rose about 1 percent in January, and survey evidence points to a much larger rise in the February CPI, which will be released on Friday. We have made only minor changes to our projections outside food and energy: We expect the core CPI to rise about 2-1/4 percent at an annual rate this quarter and core PCE prices to rise 2 percent. Data on average hourly earnings indicate little change in wage trends through February, with the twelve-month increase at 3.6 percent--essentially where it has been for the past year--and the three-month rise being just a few tenths faster than that. Of course, this measure of wages excludes most bonuses and many other forms of pay that employers reportedly are increasingly using to attract and retain employees.

The Outlook for the Economy beyond the Current Quarter

In terms of the broad contours, we have made only minor modifications to our longer-range projection since the last Greenbook. The performance of domestic demand in late 1999 and early 2000 points to a more positive thrust than we anticipated, but the bigger leakage of income to the oil-exporting countries and the greater assumed firming of monetary policy are offsetting factors going forward. On the supply side, the upside surprise in productivity in the fourth quarter is cause for more optimism about the future; however, having already raised our projection of structural improvements for 2000-01 in January, and still awaiting publication of updated capital stock data, we have responded cautiously to the one quarter of additional experience. On balance, the outlook for resource utilization has not changed much in this forecast, and therefore the inflation picture also is about the same.

Consumer spending. Consumer spending got off to a strong start this year, but we still anticipate some moderation of growth over the projection period. The key element in our analysis is the waning of the wealth effect as a consequence of the flat stock market we are assuming. All told, we now expect real PCE growth to average about 5 percent at an annual rate in the first half of this year, close to the 1998-99 pace. But it is projected to drop to about 4 percent, on average, in the second half and to 3-1/2 percent in 2001. Although the surge in gasoline prices has attracted a good deal of attention recently, its effects to date on household sentiment and spending behavior have been imperceptible, perhaps because the increased cost is being viewed as temporary. But we shall be watching the upcoming consumer survey releases with extra interest.

So, too, will the automakers. They, like us, have been surprised by the extraordinary strength of light vehicle sales, and they have raised their forecasts of demand for the near term. If consumers begin to worry more about fuel costs, those forecasts--and ours--could be in some jeopardy. But even without any further drag from higher operating costs, we (and the automakers) expect light

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

Measure	1998	1999	2000	2001
Real GDP	**4.6**	**4.5**	**4.2**	**3.7**
Previous	4.6	4.1	4.1	3.8
Final sales	4.7	4.5	4.3	3.7
Previous	4.7	4.3	4.1	3.8
PCE	5.1	5.6	4.6	3.4
Previous	5.1	5.4	4.4	3.5
Residential investment	11.3	3.8	-2.0	-4.4
Previous	11.3	4.2	-3.6	-3.6
BFI	13.1	6.9	12.4	9.8
Previous	13.1	7.2	10.1	10.5
Government purchases	2.2	5.0	2.9	3.4
Previous	2.2	4.1	3.4	3.0
Exports	1.9	4.5	7.2	8.7
Previous	1.9	3.7	6.9	8.5
Imports	10.8	13.0	11.3	8.5
Previous	10.8	12.3	10.0	8.6
	Change, billions of chained (1996) dollars			
Inventory change	-2.0	-3.6	-9.4	-3.2
Previous	-2.0	-18.7	3.7	2.5
Net exports	-103.6	-117.4	-82.7	-34.2
Previous	-103.6	-118.1	-67.8	-37.7

vehicle sales to drop back in coming quarters. Given the strong start, we are projecting that 2000 sales will total 17 million units, 1/4 million units above the record pace of 1999, and then run a still hefty 16-1/4 million units in 2001. A deceleration in outlays for non-auto consumer durables also appears to be in store after the steep run-up to high levels in recent years, but ongoing price declines and design innovations should keep purchases of electronic goods growing rapidly.

Residential investment. We have raised our housing forecast for the next few quarters and now expect single-family starts to total close to 1.35 million units this year, about the same as in 1999, before falling to 1.25 million units in 2001. The sustained growth of jobs and incomes, and the sizable builder backlogs, should keep the pace of building elevated for a while longer. But by later this year, the impetus to housing demand from the stock market should begin to fade, mortgage rates are expected to be still higher, and backlogs should be closer to normal levels. Multifamily starts are also expected to hold steady this year at the 1999 level and then to drop some in 2001.

Business fixed investment. Real business fixed investment is projected to increase about 12-1/2 percent in 2000 and 10 percent in 2001. Although nonfinancial corporations are increasingly seeing internal cash flows fall short of what is needed to cover capital outlays, external financing to fill the gap generally remains abundantly available. Taken at face value, the higher costs of debt and equity finance we are forecasting for coming quarters may represent only a moderate speed bump, but they should help limit the more aggressive provision of funding through IPOs and other speculative channels.

Virtually all of the rise in investment is expected to be in equipment and software--especially the information technology components. Computer demand has been resurgent of late; one potential negative going forward would be the recent pattern of slower price decline, but we expect the drop in computer prices to regain speed before long and to move somewhat closer to the pace seen during much of the past couple of years. We have boosted our projection for spending on communications equipment this year, not only because the backlog of orders is enormous but also because we are impressed by reports of the planned expansion of the transmission infrastructure and of the potential demand for new devices and services. In addition, spending on industrial and other types of equipment appears to have firmed lately and may remain on an uptrend as the farm sector stabilizes and as manufacturers benefit from an improving international trade performance while attempting to stay current technologically.

Spending on transportation equipment, however, is likely to slacken considerably. Purchases of light vehicles almost certainly will drop below their recent spectacular pace, and shrinking backlogs of orders for medium and heavy trucks imply a substantial decline in sales in coming quarters. Deliveries of planes to domestic carriers are expected to spurt in the second quarter once the Boeing strike is settled, but given the information on orders placed with Boeing and Airbus by domestic airlines, the general trend in aircraft spending is downward.

Our forecast for investment in nonresidential structures remains essentially flat through the end of next year. To be sure, the recent data on space rents, vacancy rates, and property prices suggest that the market is not generally overbuilt at this time, and the perceived need to lay more cables for telecom services and to build special warehousing and distribution facilities for e-commerce are giving a boost to spending. However, as some lenders and investors apparently have recognized, construction of office and other commercial structures has already risen to a level that will produce a substantial expansion of available space over the next couple of years. And although the contraction in industrial construction seems to be ending as capacity utilization rates have firmed, we see little prospect of a significant upturn in this sector.

Business inventories. Business inventory investment picked up to a considerable clip in the fourth quarter. Even so, stocks grew less rapidly than did sales, and the overall inventory-sales ratio dropped a bit further. Over the projection period as a whole, we expect that further improvements in supply chain management, in some cases facilitated by "B2B" Internet connections, will enable firms to trim their normal inventory-sales ratios. Consequently, nonfarm inventories are projected to grow a little less than the pace of business final sales.

Government spending. Real federal consumption and investment expenditures are likely to post a sizable increase in the second quarter as defense spending returns to trend after the fluctuations of the previous two quarters and as nondefense outlays are boosted by the 2000 Census. Given our policy assumptions, real federal purchases are expected to rise only a little over the ensuing year and a half.

Real state and local consumption and investment expenditures should rise relatively slowly in the second quarter as construction falls back toward trend after two quarters of outsized gains, which probably reflected at least in part favorable weather. However, in the forecast, spending growth subsequently flattens out at about 4-1/2 percent per year--only slightly below the pace recorded in 1999. Most state and local governments continue to be in exceptionally good fiscal shape, and their revenues over the next two years will be sufficient both to sustain robust increases in spending and to continue the series of tax reductions evident over the past several years.

Net exports. Real net exports are estimated to have subtracted nearly 1-1/4 percentage points from GDP growth in 1999, but that negative contribution is expected to drop to about 3/4 percentage point in 2000 and to about 1/4 percentage point in 2001. An ebbing of the effects of the earlier dollar appreciation should help translate continued moderate foreign growth into increasing gains in real exports, while the dollar movement and less robust domestic demand should yield a marked slowing in the rate of real import growth. (A more detailed discussion of the outlook for net exports is contained in the international developments section.)

Labor markets. We now estimate that nonfarm business productivity rose 3.7 percent in 1999, surpassing by more than 1/2 percentage point the number expected in the last Greenbook. We have responded to the surprise by raising our assumption for structural improvements in productivity over the projection period just 0.2 percentage point, to 3.2 percent per year. Apart from the fact that "past records are no guarantee of future performance," we hesitate to respond more strongly because the new data pertain to just one quarter--and, in this case, one that is distorted by the aberration in defense spending. Moreover, bursts in output tend to be accompanied by transitory spurts in productivity, as workers put in extra effort. Our forecast for actual productivity growth exhibits some choppiness in the first half of this year, but it subsequently settles out at around 3 percent per year. With the somewhat slower growth of output, firms should be able to make a little progress in bringing their labor forces--which by many reports have been severely stretched--into better alignment.

Employment growth is expected to receive an additional boost in the near term from hiring for the 2000 Census, but this influence will be reversed in the second half of the year.[4] After having totaled 2-3/4 million in 1999, the increase in payrolls is projected to drop to 2-1/4 million this year and to something less than 2 million (or roughly 1-1/2 percent) in 2001.

As in the January Greenbook, we expect the unemployment rate to average 4 percent in the current quarter and to remain there through the end of this year; we also continue to show a slight increase in 2001 as output growth drops a little below its trend rate. As for the labor force, we have raised our forecast in response to the jump in the participation rate over the past couple of months. Granted, a bulge in early 1999 turned out to be transitory. But we have tentatively fed through part of the latest--and larger--surprise into the projection for coming months on the thought that the data may--at long last--be revealing the response we had thought should have accompanied the combination of intense demand for workers, rising real wages, and welfare reform. The participation rate is now expected to average 67.3 percent over 2000-01, 0.2 percentage point above the average for 1998-99; in the January Greenbook, we had expected participation to remain at 67.1 percent through the end of next year. We obviously shall be looking at the next monthly observations on the participation rate for confirmation that we are on the right track, but the assessment may be complicated for a little while by the effects of Census

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4. We expect the level of Census employment to average 325,000 in the second quarter. We assume that about one-quarter of these persons would otherwise have taken jobs in the private sector, resulting in a net addition to payroll employment of a bit less than 250,000. We also expect Census hiring to raise household employment and the labor force, but those effects are likely to be smaller because many Census workers probably will hold other jobs.

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

Measure	1998	1999	2000	2001
Output per hour, nonfarm business	3.1	3.7	3.0	2.8
Previous	3.1	3.1	3.1	2.8
Nonfarm payroll employment	2.4	2.2	1.8	1.4
Previous	2.4	2.1	1.8	1.6
Household employment survey	1.3	1.5	1.3	0.9
Previous	1.3	1.5	1.2	1.0
Labor force participation rate[1]	67.1	67.0	67.3	67.3
Previous	67.1	67.0	67.1	67.1
Civilian unemployment rate[1]	4.4	4.1	4.0	4.2
Previous	4.4	4.1	4.0	4.1

1. Percent, average for the fourth quarter.

recruiting efforts, which have been targeted in part at persons outside the labor force.

Wages and prices. The headline inflation numbers are likely to be bounced around by movements in energy prices, but core inflation is expected to trend higher over the next two years. Moreover, with labor still in short supply, we anticipate that the underlying inflation trend will continue to point upward beyond the forecast period.

The basic forces shaping the outlook for hourly compensation are the same as in previous Greenbooks. Reports of still big year-on-year profit growth in the next few quarters, not to mention of huge executive compensation packages, may reinforce workers' sense that they have not shared fully in the fruits of enhanced productivity; the tightness of the labor market may force employers to accede to some degree to demands for bigger real increases in pay. Moreover, nominal wage increases also will tend simply to reflect the larger price increases registered last year and, in our forecast, this year; those pressures will be intensified by assumed hikes in the federal minimum wage, which we see adding 0.1 percentage point to the increases in the ECI this year and 0.2 percentage point in 2001. Meanwhile, benefit costs are being boosted by what appears to be a continuing step-up in employer payments for health insurance. All told, we expect the increases in the ECI for hourly compensation to pick up from about 3-1/2 percent in 1998-99 to about 4 percent this year and 4-1/2 percent in 2001.

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

Measure	1998	1999	2000	2001
PCE chain-weighted price index	1.0	2.0	2.3	1.9
Previous	1.0	2.0	2.0	2.0
Excluding food and energy	1.4	1.5	2.0	2.2
Previous	1.4	1.5	1.9	2.1
Consumer price index	1.5	2.6	2.8	2.3
Previous	1.5	2.6	2.4	2.4
Food	2.3	1.9	2.3	2.7
Previous	2.2	1.9	2.4	2.6
Energy	-9.2	11.2	6.1	-4.8
Previous	-9.2	11.3	1.3	-2.2
Excluding food and energy	2.4	2.1	2.5	2.8
Previous	2.4	2.1	2.5	2.7
GDP chain-weighted price index	1.1	1.6	2.2	1.9
Previous	1.1	1.5	1.9	1.9
ECI for compensation of private industry workers[1]	3.5	3.4	3.9	4.4
Previous	3.5	3.3	3.8	4.2
NFB compensation per hour	5.3	4.3	4.9	5.3
Previous	5.3	4.5	4.9	5.1
Prices of core non-oil merchandise imports	-1.9	0.2	2.0	2.4
Previous	-1.9	0.5	2.2	2.4
	Percentage points			
MEMO: *Adjustments for technical changes to the CPI*[2]				
Core CPI	-0.2	0.0	0.0	0.0

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

Nonfarm compensation per hour as reported in the Productivity and Cost (P&C) release is now estimated to have risen about 4-1/4 percent in 1999, nearly 1 percentage point more than the ECI. As we have noted repeatedly, the two measures may diverge for several reasons, including mix shifts and coverage differences, and some of the recent divergence may be occurring because the P&C measure includes--albeit imperfectly--compensation in the form of stock options whereas the ECI does not. In any event, we are not expecting much change in the gap between the two measures over the next two years and, as a result, are projecting increases in P&C compensation of about 5 percent in 2000 and 5-1/4 percent in 2001.

On the price side of the ledger, we are projecting that retail energy prices will rise at an annual rate of nearly 30 percent, on average, during the first half of this year, with most of that increase being reversed over the next six quarters as crude oil prices recede. On net, retail energy prices are about 2 percent higher at the end of 2001 than they were in the January Greenbook. Increases in food prices are expected to run close to core inflation in the next two years, as they usually do in the absence of dramatic developments in prices at the farm level.

We are predicting that the increase in the PCE chain price index excluding food and energy will move up from 1-1/2 percent in 1999 to 2 percent this year and 2-1/4 percent in 2001. This projection is a tad higher than the one in the January Greenbook, but the major factors underlying the acceleration remain much the same: mounting labor costs that are only partly offset by rising productivity, the indirect effects of the higher oil prices (especially over the next few quarters), and a firming of prices of core non-oil imports. To be sure, the incoming data indicate less of an upturn in import prices than we had anticipated, but the turnaround from the declines of a few years ago is big enough to leave a mark on domestic prices. The core CPI should follow a pattern of acceleration similar to that for the core PCE price measure, but with rates of increase that are about 1/2 percentage point higher; this differential would be about the same as in 1999.

In all, we now expect total PCE prices to rise roughly 2-1/4 percent in 2000 and 2 percent in 2001. The projection for 2000 is about 1/4 percentage point higher than that in the January Greenbook, mainly because of the higher energy prices. The total CPI is projected to increase 2-3/4 percent this year, a little above the increase in that series in 1999, before dropping back to 2-1/4 percent in 2001.

Money and Credit Flows

Growth of domestic nonfinancial sector debt this quarter has been a little faster than we had anticipated at the time of the January Greenbook, mainly reflecting somewhat heavier-than-expected borrowing by households and businesses. Nonetheless, debt growth is projected to slow from 6-3/4 percent last year to about 5 percent this year and next. The slowdown is due importantly to substantial paydowns of debt by the federal government, reflecting the burgeoning budget surplus. Still, we expect borrowing by households and firms, while remaining strong, to decelerate a bit over the forecast period, along with economic activity.

After getting off to a slow start in early January, business borrowing has expanded smartly, with bond issuance and bank loans picking up and commercial paper surging. Gross equity issuance has also been extremely strong so far this quarter, reflecting high levels of both IPOs and seasoned offerings. Looking forward, projected strong growth in capital expenditures and a flattening of profits are expected to curb the accumulation of financial assets and to keep the demand for external funds rising. Nonetheless, there will be restraint on business borrowing because of less hospitable market conditions, which may make firms less willing to enter into cash transactions for mergers and acquisitions; also, with softer cash flows, firms may be less inclined to make share repurchases. As a result, net equity retirements are projected to be smaller than in recent years, and despite the growing financing gap, the pace of business debt growth is expected to slow to 9-1/2 percent this year and 9 percent in 2001.

Household debt growth has picked up to about 9-1/2 percent at an annual rate this quarter, as an acceleration in spending on consumer durables appears to have given a fillip to consumer credit and as home mortgage borrowing has remained strong. Nonetheless, with higher interest rates weighing on the housing sector and growth in durable goods spending slowing somewhat, household debt growth is expected to edge down to 9 percent this year and 7-1/2 percent in 2001.

Higher interest rates and relatively rapid debt growth are expected to raise debt-service burdens for both the business and the household sectors over the forecast period. We anticipate some modest deterioration in measures of credit quality--including junk bond default rates and consumer and business delinquency and loan loss rates--reflecting both the increase in debt burdens and the seasoning of the large volume of credit extended of late. However, barring more untoward economic developments than are anticipated in the forecast, concerns about credit quality are unlikely to intensify enough to prompt a notable tightening of credit supply conditions for either businesses or households.

Following a 4-1/2 percent rise in 1999, state and local government debt is expected to grow about 1-1/2 percent this year and 2 percent next. There should be continued substantial new issuance to fund capital spending. However, debt growth will be trimmed by the retirement of a sizable volume of bonds that were advance refunded in recent years, while relatively high interest rates on municipal bonds are expected to keep new issuance for advance refunding at a very low level.

Federal debt, which declined about 2 percent in 1999, is projected to tumble about 7-1/2 percent in 2000 and 2001. The pickup in debt retirement this year reflects, in part, the Treasury's need to work down the unusually large cash balance held over year-end 1999. This adjustment aside, the federal surplus is expected to be substantial both this year and next, allowing for a sizable contraction of federal debt.

Growth in the broad monetary aggregates was damped in February by the unwinding of Y2K effects. For the year as a whole, M2 is expected to decelerate fairly substantially as rising interest rates boost its opportunity cost and velocity. With short-term rates about flat next year, M2 growth is expected to pick up a bit, although lagged interest rate effects should induce a further modest rise in its velocity. M3 growth is projected to slow somewhat as well, but it is expected to remain a little faster than growth in nominal income over the forecast period.

Alternative Simulations

Two of the simulations we have prepared explore the implications of alternative monetary policies. The first is our standard simulation that assumes that the federal funds rate is held at its current level through 2001. Under this assumption, the FRB/US model projects GDP growth of about 4-1/2 percent in 2000 and 5 percent in 2001, which pushes the unemployment rate down almost to 3-1/2 percent by the end of next year. Core PCE prices rise about 2-3/4 percent in 2001, 1/2 percentage point more than in our baseline Greenbook projection.

In the "tighter policy" scenario, the federal funds rate is raised to a level that is 1 percentage point above that in the baseline throughout 2001. The additional tightening trims only a little from real GDP growth in 2000 but holds growth to about 3 percent in 2001. As a result, the unemployment rate rises to about 4-1/2 percent by the end of next year. Core inflation is the same as in the baseline in 2000 but edges down to 1-3/4 percent in 2001.

The next two scenarios simulate the effects of alternative paths for equity prices, while assuming that the federal funds rate rises along its baseline path. In the "stock market correction" scenario, we assume that the recent market volatility turns into a sudden drop in the Wilshire 5000 index of roughly 20 percent, to 11,000, in the next few weeks; it remains at that level through the end of next year. The decline in wealth produces a sharper slowdown in real GDP growth--to a touch less than 4 percent in 2000 and 3 percent in 2001. This GDP path is similar to that in the "tighter policy" simulation, but in this case the effects on core inflation are minimal. The reason is that, in the model, a negative stock market shock does not have the same short-run disinflationary effect as a

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

Measure	2000	2001
Real GDP		
Baseline	4.2	3.7
Flat funds rate	4.4	5.0
Tighter policy	4.1	2.9
Stock market correction	3.9	3.0
Stock market boom-bust	4.3	3.9
Faster productivity growth	5.0	5.1
Higher oil price	4.2	3.7
Civilian unemployment rate[1]		
Baseline	4.0	4.2
Flat funds rate	3.9	3.6
Tighter policy	4.0	4.6
Stock market correction	4.1	4.5
Stock market boom-bust	4.0	4.1
Faster productivity growth	4.0	3.9
Higher oil price	4.0	4.2
PCE prices excluding food and energy		
Baseline	2.0	2.2
Flat funds rate	2.1	2.8
Tighter policy	2.0	1.8
Stock market correction	2.0	2.1
Stock market boom-bust	2.0	2.2
Faster productivity growth	1.8	1.6
Higher oil price	2.0	2.4

1. Average for the fourth quarter.

monetary tightening, which alters private agents' views of Federal Reserve policy objectives.

In the "stock market boom-bust" scenario, we assume that momentum continues to drive the stock market for a while longer, pushing the Wilshire 5000 to 16,000 by the end of this year--roughly 20 percent above its current level. However, that increase is assumed to be more than retraced over the course of 2001, with the index finishing the year around 11,000. Under these circumstances, real GDP increases about 4-1/4 percent this year and about 4 percent in 2001. On balance, the impetus to demand from wealth effects remains positive in 2001 because the lagged effects of this year's surge in stock prices outweigh the initial restraining effects from the downturn in 2001, which gather speed as we move into 2002 (we have not built in any dramatic loss of confidence on the parts of either households or firms). As in the market correction scenario--and for the same reasons--core inflation is about the same as in the baseline forecast despite the difference in real output.

Obviously, a good deal of uncertainty surrounds the outlook for productivity growth. Particularly in light of the extraordinary productivity performance in 1999, it may be of interest to consider the macro effects of an even greater improvement in structural productivity than we have assumed in the Greenbook. Thus, we have included a scenario that raises the productivity trend for 2000-01 to 4 percent, 3/4 percentage point above our current estimate, while holding the federal funds rate on its baseline path. Under these circumstances, real GDP increases about 5 percent in both 2000 and 2001. The impetus to demand comes about as households and businesses begin to recognize the structural productivity improvement and thus adjust their spending to the better prospects for permanent income and multiplier/accelerator effects kick in; the prospect of a larger corporate earnings stream is reflected in the stock market and reinforces the demand boost. The unemployment rate is a little lower than in the baseline as the effects of stronger demand outweigh the reduced need for additional employees in the face of higher productivity. But with unit labor costs significantly lower than in the baseline, the inflation performance is much better, with core PCE prices rising only about 1-3/4 percent in 2000 and 1-1/2 percent in 2001. Over the longer term, however, real wage increases will tend to catch up with the improvements in productivity, and monetary policy will have to be tightened to restore sufficient slack to keep inflation from snapping back.

The final scenario explores the effects of a higher oil price path based on a pooling of the results of simulations of the FRB/US and the FRB/Global models. It is assumed that the price of oil will be $5 per barrel above the level in the baseline beginning in the second quarter of this year, while the federal funds rate is assumed to remain on its baseline path. Under these assumptions, the path of real GDP is about the same as in the baseline, as the restraint from the adverse terms-of-trade effect of higher oil prices is offset by the stimulus from lower real interest rates. Core PCE inflation is about the same as in the baseline in 2000 and about 0.2 percentage point higher in 2001.

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March 15, 2000

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

Interval		Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index[1]		Unemployment rate[2]	
		1/27/00	3/15/00	1/27/00	3/15/00	1/27/00	3/15/00	1/27/00	3/15/00	1/27/00	3/15/00
ANNUAL											
1997		6.2	6.2	4.5	4.5	1.7	1.7	2.3	2.3	4.9	4.9
1998		5.5	5.5	4.3	4.3	1.2	1.2	1.6	1.6	4.5	4.5
1999		5.5	5.6	4.0	4.1	1.4	1.4	2.2	2.2	4.2	4.2
2000		6.1	7.0	4.3	4.8	1.7	2.1	2.7	3.1	4.0	4.0
2001		5.8	5.7	3.9	3.8	1.9	1.9	2.3	2.1	4.1	4.1
QUARTERLY											
1998	Q1	7.7	7.7	6.7	6.7	1.0	1.0	1.0	1.0	4.7	4.7
	Q2	3.4	3.4	2.1	2.1	1.1	1.1	1.7	1.7	4.4	4.4
	Q3	5.4	5.4	3.8	3.8	1.4	1.4	1.7	1.7	4.5	4.5
	Q4	7.0	7.0	5.9	5.9	0.9	0.9	1.7	1.7	4.4	4.4
1999	Q1	5.7	5.7	3.7	3.7	2.0	2.0	1.5	1.7	4.3	4.3
	Q2	3.3	3.3	1.9	1.9	1.3	1.3	3.4	3.2	4.3	4.3
	Q3	6.8	6.8	5.7	5.7	1.1	1.1	2.7	2.4	4.2	4.2
	Q4	6.7	9.1	5.2	7.0	1.6	2.0	2.9	2.9	4.1	4.1
2000	Q1	6.1	7.3	4.0	4.3	2.1	2.9	2.9	3.9	4.0	4.0
	Q2	6.1	7.6	4.2	4.9	1.8	2.6	2.7	4.4	4.0	4.0
	Q3	6.1	5.4	4.1	3.8	1.9	1.6	1.9	1.1	4.0	4.0
	Q4	5.8	5.5	3.9	3.8	1.8	1.7	2.1	1.7	4.0	4.0
2001	Q1	6.0	5.7	3.8	3.7	2.1	2.0	2.2	1.9	4.1	4.1
	Q2	5.6	5.4	3.8	3.6	1.7	1.8	2.4	2.3	4.1	4.1
	Q3	5.7	5.7	3.8	3.7	1.8	1.9	2.4	2.3	4.1	4.1
	Q4	5.8	5.8	3.9	3.7	1.8	1.9	2.5	2.5	4.1	4.2
TWO-QUARTER[3]											
1998	Q2	5.5	5.5	4.4	4.4	1.1	1.1	1.4	1.3	-0.3	-0.3
	Q4	6.2	6.2	4.8	4.8	1.1	1.1	1.7	1.7	0.0	0.0
1999	Q2	4.5	4.5	2.8	2.8	1.7	1.7	2.5	2.5	-0.1	-0.1
	Q4	6.7	7.9	5.4	6.3	1.4	1.5	2.7	2.7	-0.2	-0.2
2000	Q2	6.1	7.4	4.1	4.6	1.9	2.8	2.8	4.1	-0.1	-0.1
	Q4	5.9	5.5	4.0	3.8	1.8	1.6	2.0	1.4	0.0	0.0
2001	Q2	5.8	5.6	3.8	3.6	1.9	1.9	2.3	2.1	0.1	0.1
	Q4	5.8	5.7	3.9	3.7	1.8	1.9	2.4	2.4	0.0	0.1
FOUR-QUARTER[4]											
1997	Q4	5.9	5.9	4.3	4.3	1.6	1.6	1.9	1.9	-0.6	-0.6
1998	Q4	5.9	5.9	4.6	4.6	1.1	1.1	1.5	1.5	-0.3	-0.3
1999	Q4	5.6	6.2	4.1	4.5	1.5	1.6	2.6	2.6	-0.3	-0.3
2000	Q4	6.0	6.4	4.1	4.2	1.9	2.2	2.4	2.8	-0.1	-0.1
2001	Q4	5.8	5.6	3.8	3.7	1.9	1.9	2.4	2.3	0.1	0.2

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

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Class II FOMC

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

March 15, 2000

Item	Units[1]	1993	1994	1995	1996	1997	1998	------ Projected ------ 1999	2000	2001
EXPENDITURES										
Nominal GDP	Bill. $	6642.3	7054.3	7400.5	7813.2	8300.8	8759.9	9254.8	9903.9	10468.1
Real GDP	Bill. Ch. $	7054.1	7337.8	7537.1	7813.2	8165.1	8516.3	8867.3	9293.3	9643.5
Real GDP	% change	2.2	4.2	2.2	4.2	4.3	4.6	4.5	4.2	3.7
Gross domestic purchases		2.8	4.4	1.7	4.4	4.9	5.7	5.6	4.8	3.8
Final sales		2.3	3.3	3.0	4.0	3.8	4.7	4.5	4.3	3.7
Priv. dom. final purchases		3.9	4.4	3.2	4.6	4.9	6.5	5.7	5.4	4.0
Personal cons. expenditures		2.9	3.6	2.8	3.3	4.2	5.1	5.6	4.6	3.4
Durables		9.3	6.4	3.7	5.0	8.4	13.0	10.5	7.7	3.0
Nondurables		2.6	4.1	2.5	3.2	2.4	5.0	5.8	3.4	2.7
Services		1.9	2.9	2.8	3.0	4.2	3.6	4.5	4.6	3.8
Business fixed investment		8.7	9.2	7.5	12.1	9.6	13.1	6.9	12.4	9.8
Equipment & Software		11.5	12.0	8.9	11.8	11.3	16.8	10.8	16.0	12.7
Nonres. structures		1.2	1.1	3.3	12.8	4.7	2.9	-5.0	0.6	-0.9
Residential structures		7.8	4.0	-1.5	5.6	3.7	11.3	3.8	-2.0	-4.4
Exports		4.5	10.6	9.7	9.9	9.4	1.9	4.5	7.2	8.7
Imports		10.5	12.2	5.0	11.2	14.2	10.8	13.0	11.3	8.5
Gov't. cons. & investment		-0.9	0.2	-0.8	2.7	2.2	2.2	5.0	2.9	3.4
Federal		-5.3	-3.7	-5.3	2.0	0.2	0.6	4.9	-0.7	1.3
Defense		-6.4	-5.9	-4.7	0.8	-1.3	-1.1	5.0	-3.5	0.8
State & local		2.3	2.8	2.1	3.1	3.4	3.2	5.1	4.8	4.4
Change in bus. inventories	Bill. Ch. $	20.0	66.8	30.4	30.0	69.1	74.3	42.3	59.0	54.9
Nonfarm		28.6	53.6	42.6	22.1	66.2	73.2	42.7	59.5	54.9
Net exports		-59.9	-87.6	-79.2	-89.0	-109.8	-215.1	-322.9	-413.8	-460.9
Nominal GDP	% change	5.0	6.2	4.3	6.0	5.9	5.9	6.2	6.4	5.6
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	110.7	114.1	117.2	119.6	122.7	125.8	128.6	131.3	133.1
Unemployment rate	%	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.1
Industrial prod. index	% change	3.4	6.4	3.5	5.3	6.8	2.9	4.2	5.4	4.0
Capacity util. rate - mfg.	%	80.5	82.5	82.6	81.5	82.4	80.9	79.8	81.0	81.5
Housing starts	Millions	1.29	1.46	1.35	1.48	1.47	1.62	1.67	1.66	1.55
Light motor vehicle sales		13.87	15.01	14.77	15.05	15.05	15.45	16.76	17.04	16.33
North Amer. produced		11.72	12.88	12.87	13.35	13.12	13.43	14.28	14.40	13.94
Other		2.15	2.13	1.90	1.70	1.94	2.02	2.48	2.64	2.39
INCOME AND SAVING										
Nominal GNP	Bill. $	6666.7	7071.1	7420.9	7831.2	8305.0	8750.0	9239.8	9881.8	10432.8
Nominal GNP	% change	4.9	6.2	4.4	5.9	5.7	5.6	6.2	6.3	5.5
Nominal personal income		3.7	5.1	4.3	5.9	6.4	6.0	5.8	6.6	5.9
Real disposable income		0.9	3.0	1.7	2.8	4.1	4.2	3.7	4.1	3.7
Personal saving rate	%	7.1	6.1	5.6	4.8	4.5	3.7	2.3	1.2	1.5
Corp. profits, IVA & CCAdj.	% change	18.0	12.5	11.2	11.2	10.2	-2.2	13.5	5.2	2.0
Profit share of GNP	%	7.6	8.1	9.0	9.6	10.1	9.7	9.7	10.0	9.6
Excluding FR Banks		7.4	7.8	8.7	9.3	9.8	9.4	9.4	9.7	9.3
Federal surpl./deficit	Bill. $	-274.1	-212.3	-192.0	-136.8	-48.8	46.9	115.6	169.2	224.1
State & local surpl./def.		1.5	8.6	15.3	21.4	27.5	41.7	51.3	55.5	47.0
Ex. social ins. funds		-2.7	4.0	11.4	18.7	26.4	40.8	50.5	54.5	46.0
Gross natl. saving rate	%	15.6	16.3	16.9	17.2	18.3	18.8	18.8	18.5	18.8
Net natl. saving rate		3.7	4.2	5.1	5.7	7.1	7.5	7.3	7.1	7.6
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.7	2.0	2.1	1.7	1.6	1.1	1.6	2.2	1.9
Gross Domestic Purchases chn.-wt. price index		2.5	2.1	2.0	1.7	1.1	0.7	1.9	2.1	1.7
PCE chn.-wt. price index		2.6	2.0	2.0	2.2	1.3	1.0	2.0	2.3	1.9
Ex. food and energy		2.9	2.1	2.2	1.6	1.4	1.4	1.5	2.0	2.2
CPI		2.7	2.6	2.7	3.1	1.9	1.5	2.6	2.8	2.3
Ex. food and energy		3.1	2.8	3.0	2.6	2.2	2.4	2.1	2.5	2.8
ECI, hourly compensation[2]		3.6	3.1	2.6	3.1	3.4	3.5	3.4	3.9	4.4
Nonfarm business sector										
Output per hour		-0.7	1.2	1.2	2.5	2.2	3.1	3.7	3.0	2.8
Compensation per Hour		1.3	2.2	2.7	3.2	4.2	5.3	4.3	4.9	5.3
Unit labor cost		2.0	0.9	1.5	0.7	2.0	2.1	0.7	1.9	2.6

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. $	8125.9	8259.5	8364.5	8453.0	8610.6	8683.7	8797.9	8947.6	9072.7	9146.2
Real GDP	Bill. Ch. $	8033.4	8134.8	8214.8	8277.3	8412.7	8457.2	8536.0	8659.2	8737.9	8778.6
Real GDP	% change	4.9	5.1	4.0	3.1	6.7	2.1	3.8	5.9	3.7	1.9
Gross domestic purchases		5.7	5.6	4.8	3.5	8.6	4.1	4.6	5.5	5.8	3.2
Final sales		4.0	3.1	5.8	2.4	5.1	5.1	2.4	6.2	4.6	3.4
Priv. dom. final purchases		5.5	3.1	7.6	3.5	8.8	7.3	3.5	6.4	7.1	5.4
Personal cons. expenditures		4.9	1.8	6.6	3.4	5.6	6.1	3.9	4.6	6.5	5.1
Durables		10.9	-1.5	20.2	5.0	16.9	11.2	4.1	20.4	12.4	9.1
Nondurables		3.8	-0.2	5.7	0.3	5.8	6.7	2.4	5.0	8.9	3.3
Services		4.3	3.5	4.5	4.6	3.3	4.8	4.7	1.5	4.2	5.2
Business fixed investment		9.6	9.9	16.0	3.2	26.7	12.1	0.0	15.3	7.8	7.0
Equipment & Software		10.1	15.2	17.7	2.8	34.7	13.8	2.4	18.6	12.5	11.2
Nonres. structures		8.0	-4.0	11.2	4.3	5.7	7.1	-6.6	5.8	-5.8	-5.3
Residential structures		3.0	4.7	0.6	6.6	14.0	13.6	8.0	9.8	12.9	5.5
Exports		8.8	16.2	11.5	1.8	-1.5	-4.0	-1.7	16.1	-5.5	4.0
Imports		15.5	19.1	17.6	5.2	14.4	13.0	5.2	10.8	12.5	14.4
Gov't. cons. & investment		1.7	5.7	1.7	-0.1	-1.0	6.0	1.3	2.9	5.1	1.3
Federal		-2.8	9.9	-1.3	-4.2	-9.8	11.9	-2.3	3.9	-0.5	2.1
Defense		-11.3	9.6	-0.2	-2.4	-17.0	11.1	7.0	-2.9	-4.0	-2.6
State & local		4.4	3.4	3.5	2.4	4.1	3.0	3.3	2.3	8.2	0.9
Change in bus. inventories	Bill. Ch. $	51.5	93.1	59.2	72.7	107.3	43.1	76.1	70.7	50.1	14.0
Nonfarm		56.7	85.7	52.6	69.7	103.8	53.2	77.5	58.2	43.1	13.1
Net exports		-90.8	-100.9	-118.7	-128.7	-171.7	-218.4	-237.9	-232.3	-284.5	-319.0
Nominal GDP	% change	7.4	6.7	5.2	4.3	7.7	3.4	5.4	7.0	5.7	3.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	121.4	122.3	123.0	123.9	124.8	125.5	126.1	126.9	127.6	128.2
Unemployment rate	%	5.3	5.0	4.8	4.7	4.7	4.4	4.5	4.4	4.3	4.3
Industrial prod. index	% change	6.5	6.7	6.9	6.9	2.4	3.0	2.9	3.3	2.0	4.7
Capacity util. rate - mfg.	%	81.9	82.2	82.5	82.7	82.0	81.0	80.3	80.2	79.6	79.6
Housing starts	Millions	1.43	1.48	1.46	1.53	1.56	1.57	1.63	1.72	1.76	1.59
Light motor vehicle sales		15.35	14.54	15.26	15.06	15.18	16.09	14.52	16.01	16.24	16.74
North Amer. produced		13.43	12.68	13.25	13.11	13.21	14.10	12.52	13.88	13.98	14.32
Other		1.92	1.86	2.01	1.96	1.97	1.99	2.00	2.13	2.26	2.42
INCOME AND SAVING											
Nominal GNP	Bill. $	8131.1	8269.1	8366.5	8453.3	8613.7	8683.7	8772.2	8930.5	9058.2	9131.9
Nominal GNP	% change	6.8	7.0	4.8	4.2	7.8	3.3	4.1	7.4	5.8	3.3
Nominal personal income		8.0	5.6	5.5	6.4	5.3	5.8	6.6	6.5	5.4	5.5
Real disposable income		4.4	4.2	3.6	4.3	4.0	3.8	4.5	4.8	4.1	3.2
Personal saving rate	%	4.5	5.0	4.2	4.4	4.0	3.5	3.6	3.5	3.0	2.5
Corp. profits, IVA & CCAdj.	% change	15.9	14.7	15.9	-4.2	2.3	-4.8	-1.9	-4.4	24.9	-2.9
Profit share of GNP	%	9.9	10.1	10.3	10.1	10.0	9.8	9.6	9.3	9.7	9.6
Excluding FR Banks		9.6	9.8	10.0	9.8	9.7	9.5	9.3	9.1	9.5	9.3
Federal surpl./deficit	Bill. $	-87.4	-63.2	-27.9	-16.8	24.9	43.5	59.6	59.7	97.6	118.1
State & local surpl./def.		25.9	23.7	30.9	29.7	32.0	30.9	49.9	54.2	48.7	37.6
Ex. social ins. funds		24.3	22.4	29.9	28.9	31.1	29.9	48.9	53.4	48.2	36.8
Gross natl. saving rate	%	17.7	18.4	18.5	18.6	18.8	18.6	19.0	18.9	19.1	18.7
Net natl. saving rate		6.4	7.2	7.3	7.4	7.6	7.2	7.6	7.5	7.8	7.3
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.4	1.5	1.2	1.3	1.0	1.1	1.4	0.9	2.0	1.3
Gross Domestic Purchases chn.-wt. price index		1.9	0.6	1.0	1.1	0.1	0.8	1.1	1.0	1.6	1.9
PCE chn.-wt. price index		2.1	0.8	1.1	1.2	0.5	1.1	1.2	1.2	1.4	2.2
Ex. food and energy		1.9	1.9	0.8	1.0	1.3	1.7	1.4	1.4	1.4	1.3
CPI		2.5	1.3	1.8	2.0	1.0	1.7	1.7	1.7	1.7	3.2
Ex. food and energy		2.2	2.6	1.7	2.1	2.8	2.3	2.3	2.1	1.8	2.1
ECI, hourly compensation[1]		2.8	3.4	3.0	4.6	2.7	3.6	4.1	2.9	1.4	4.6
Nonfarm business sector											
Output per hour		0.9	3.3	3.3	1.2	4.4	0.9	3.1	4.1	2.7	0.6
Compensation per hour		3.6	2.6	4.4	6.4	4.8	5.6	6.2	4.6	4.2	4.8
Unit labor cost		2.7	-0.6	1.0	5.1	0.4	4.6	3.0	0.5	1.4	4.2

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

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

March 15, 2000

			- - - 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. $	9297.8	9502.5	9671.1	9849.3	9980.2	10115.0	10256.9	10392.7	10537.1	10685.7
Real GDP	Bill. Ch. $	8900.6	9052.0	9146.7	9256.0	9341.8	9428.9	9513.8	9597.9	9686.5	9775.8
Real GDP	% change	5.7	7.0	4.3	4.9	3.8	3.8	3.7	3.6	3.7	3.7
Gross domestic purchases		6.3	7.2	5.7	5.2	4.6	3.8	4.0	3.9	3.9	3.5
Final sales		4.5	5.6	4.7	5.1	3.4	4.1	3.8	3.7	3.7	3.8
Priv. dom. final purchases		5.3	5.2	7.5	5.4	4.4	4.3	4.3	4.2	3.9	3.6
Personal cons. expenditures		4.9	6.0	6.1	4.1	4.4	3.8	3.9	3.6	3.2	2.9
Durables		7.7	13.0	21.4	1.0	5.6	3.8	3.7	2.2	2.3	3.6
Nondurables		3.6	7.6	2.9	4.0	3.5	3.1	3.2	3.4	2.2	2.1
Services		5.0	3.8	4.8	4.8	4.6	4.2	4.4	4.0	3.9	3.1
Business fixed investment		10.9	2.0	14.8	15.1	8.4	11.5	9.8	9.9	9.6	9.7
Equipment & Software		15.7	4.2	19.0	19.5	10.9	15.0	12.8	13.0	12.5	12.5
Nonres. structures		-3.8	-4.9	1.7	1.1	0.0	-0.5	-0.8	-1.2	-1.0	-0.5
Residential structures		-3.8	1.3	8.2	-1.4	-6.2	-7.7	-5.9	-4.0	-3.8	-3.9
Exports		11.5	8.7	3.0	12.1	3.9	10.2	5.1	8.7	9.0	12.2
Imports		14.9	10.0	14.5	12.5	9.7	8.4	7.4	10.0	8.6	8.0
Gov't. cons. & investment		4.5	9.4	0.1	5.4	3.5	2.6	3.3	3.4	3.4	3.3
Federal		4.1	14.2	-13.2	11.7	1.6	-1.1	1.1	1.3	1.4	1.4
Defense		11.2	16.7	-23.8	11.8	1.5	0.3	0.5	0.9	1.0	0.9
State & local		4.8	6.8	7.9	2.2	4.5	4.6	4.5	4.4	4.5	4.4
Change in bus. inventories	Bill. Ch. $	38.0	67.1	59.3	55.3	63.6	57.7	55.4	53.4	56.1	54.5
Nonfarm		41.2	73.5	61.3	55.3	63.6	57.7	55.4	53.4	56.1	54.5
Net exports		-338.2	-349.7	-390.9	-403.6	-428.4	-432.4	-446.6	-460.8	-469.4	-466.7
Nominal GDP	% change	6.8	9.1	7.3	7.6	5.4	5.5	5.7	5.4	5.7	5.8
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	128.9	129.6	130.4	131.2	131.5	132.0	132.4	132.9	133.4	133.8
Unemployment rate	%	4.2	4.1	4.0	4.0	4.0	4.0	4.1	4.1	4.1	4.2
Industrial prod. index	% change	4.8	5.4	7.8	5.1	4.2	4.3	3.5	4.4	4.2	3.9
Capacity util. rate - mfg.	%	79.7	80.3	80.9	81.0	81.0	81.1	81.3	81.4	81.5	81.7
Housing starts	Millions	1.66	1.68	1.74	1.68	1.63	1.60	1.58	1.56	1.54	1.52
Light motor vehicle sales		17.16	16.89	18.03	17.01	16.68	16.43	16.35	16.33	16.31	16.31
North Amer. produced		14.71	14.09	15.14	14.36	14.13	13.97	13.95	13.95	13.93	13.93
Other		2.45	2.80	2.89	2.65	2.55	2.46	2.40	2.38	2.38	2.38
INCOME AND SAVING											
Nominal GNP	Bill. $	9282.3	9486.8	9653.4	9829.4	9955.7	10088.6	10224.4	10357.4	10501.8	10647.8
Nominal GNP	% change	6.8	9.1	7.2	7.5	5.2	5.5	5.5	5.3	5.7	5.7
Nominal personal income		5.2	7.2	7.0	7.5	5.9	6.0	6.7	5.6	5.5	5.8
Real disposable income		2.9	4.5	4.1	3.7	4.4	4.2	5.2	3.2	3.2	3.3
Personal saving rate	%	2.1	1.7	1.3	1.2	1.1	1.2	1.5	1.5	1.4	1.5
Corp. profits, IVA & CCAdj.	% change	1.7	34.4	8.3	9.0	1.3	2.4	-2.8	0.8	5.2	5.0
Profit share of GNP	%	9.5	10.0	10.0	10.0	9.9	9.9	9.7	9.6	9.6	9.5
Excluding FR Banks		9.2	9.7	9.7	9.8	9.7	9.6	9.4	9.3	9.3	9.3
Federal surpl./deficit	Bill. $	133.8	113.1	166.2	155.4	170.0	185.3	193.9	213.9	238.8	249.8
State & local surpl./def.		48.9	69.8	55.0	58.8	56.8	51.2	51.9	48.5	44.6	42.8
Ex. social ins. funds		48.1	68.8	54.0	57.8	55.8	50.2	50.9	47.5	43.6	41.8
Gross natl. saving rate	%	18.7	18.6	18.6	18.4	18.5	18.5	18.7	18.7	18.9	19.0
Net natl. saving rate		7.1	7.2	7.2	7.1	7.1	7.2	7.4	7.4	7.6	7.8
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.1	2.0	2.9	2.6	1.6	1.7	2.0	1.8	1.9	1.9
Gross Domestic Purchases chn.-wt. price index		1.7	2.3	3.3	2.8	1.1	1.3	1.9	1.6	1.7	1.8
PCE chn.-wt. price index		1.8	2.5	3.3	3.4	1.1	1.5	1.7	1.9	2.0	2.1
Ex. food and energy		1.2	2.0	2.0	2.3	1.9	2.0	2.1	2.2	2.2	2.3
CPI		2.4	2.9	3.9	4.4	1.1	1.7	1.9	2.3	2.3	2.5
Ex. food and energy		2.1	2.3	2.2	2.8	2.5	2.7	2.6	3.0	2.8	3.0
ECI, hourly compensation[1]		3.4	4.3	3.8	3.8	3.8	4.1	4.3	4.3	4.3	4.6
Nonfarm business sector											
Output per hour		5.0	6.4	1.2	4.6	3.0	3.0	2.6	2.6	2.8	3.0
Compensation per hour		4.7	3.7	4.9	4.7	4.8	5.2	5.7	5.2	5.1	5.3
Unit labor cost		-0.3	-2.7	3.8	0.0	1.8	2.2	3.0	2.6	2.3	2.3

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

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

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	99Q4/ 98Q4	00Q4/ 99Q4	01Q4/ 00Q4
Real GDP	7.0	4.3	4.9	3.8	3.8	3.7	3.6	3.7	3.7	4.5	4.2	3.7
Gross dom. purchases	7.4	5.9	5.4	4.7	3.9	4.2	4.1	4.0	3.6	5.7	5.0	4.0
Final sales	5.6	4.7	5.0	3.4	4.0	3.7	3.7	3.6	3.8	4.5	4.3	3.7
Priv. dom. final purchases	4.4	6.3	4.6	3.7	3.7	3.7	3.6	3.3	3.1	4.8	4.6	3.4
Personal cons. expenditures	4.0	4.1	2.8	3.0	2.6	2.7	2.4	2.2	1.9	3.8	3.1	2.3
Durables	1.0	1.6	0.1	0.5	0.3	0.3	0.2	0.2	0.3	0.8	0.6	0.2
Nondurables	1.5	0.6	0.8	0.7	0.6	0.6	0.7	0.4	0.4	1.1	0.7	0.5
Services	1.5	1.9	1.9	1.8	1.6	1.7	1.6	1.6	1.2	1.8	1.8	1.5
Business fixed investment	0.3	1.8	1.8	1.1	1.4	1.2	1.3	1.2	1.3	0.9	1.5	1.3
Equipment & Software	0.4	1.7	1.8	1.1	1.4	1.3	1.3	1.3	1.3	1.0	1.5	1.3
Nonres. structures	-0.1	0.0	0.0	0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.2	0.0	-0.0
Residential structures	0.1	0.3	-0.1	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	0.2	-0.1	-0.2
Net exports	-0.4	-1.6	-0.5	-0.9	-0.1	-0.5	-0.5	-0.3	0.1	-1.2	-0.8	-0.3
Exports	0.9	0.3	1.3	0.4	1.1	0.6	0.9	1.0	1.3	0.5	0.8	1.0
Imports	-1.4	-2.0	-1.7	-1.4	-1.2	-1.1	-1.4	-1.2	-1.2	-1.7	-1.6	-1.2
Government cons. & invest.	1.6	0.0	0.9	0.6	0.5	0.6	0.6	0.6	0.6	0.9	0.5	0.6
Federal	0.8	-0.9	0.7	0.1	-0.1	0.1	0.1	0.1	0.1	0.3	-0.0	0.1
Defense	0.6	-1.1	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.2	-0.1	0.0
Nondefense	0.2	0.2	0.3	0.0	-0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0
State and local	0.8	0.9	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.5
Change in bus. inventories	1.3	-0.3	-0.2	0.3	-0.2	-0.1	-0.1	0.1	-0.1	-0.0	-0.1	-0.0
Nonfarm	1.4	-0.5	-0.2	0.3	-0.2	-0.1	-0.1	0.1	-0.1	0.2	-0.2	-0.0
Farm	-0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	0.0	0.0

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

Strictly Confidential (FR)
Class II FOMC

March 15, 2000

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

Item	Fiscal year[1]				1999				2000				2001			
	1998[a]	1999[a]	2000	2001	Q1[a]	Q2[a]	Q3[a]	Q4[p]	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts[2]	1722	1827	1977	2090	402	564	449	444	434	622	477	471	462	651	506	507
Outlays[2]	1653	1703	1770	1839	396	421	419	464	443	438	424	464	468	462	446	478
Surplus/deficit[2]	69	124	207	250	6	143	30	-21	-10	184	53	7	-6	189	60	29
On-budget	-30	1	55	78	-49	88	21	-64	-37	120	36	-42	-35	116	39	-23
Off-budget	99	124	152	172	55	55	9	43	27	64	18	48	29	73	21	52
Surplus excluding deposit insurance	65	119	205	249	5	142	29	-20	-12	183	53	7	-6	189	60	29
Means of financing																
Borrowing	-51	-88	-206	-250	7	-108	-20	48	-34	-174	-46	-26	-5	-154	-65	-34
Cash decrease	5	-18	11	0	-4	-31	-3	-27	46	-2	-5	20	5	-30	5	20
Other[3]	-23	-19	-12	-1	-9	-4	-7	-0	-2	-7	-2	-1	6	-5	-0	-15
Cash operating balance, end of period	39	56	45	45	22	53	56	83	38	40	45	25	20	50	45	25
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	1722	1839	1974	2095	1827	1853	1883	1925	1960	1993	2020	2051	2079	2109	2142	2176
Expenditures	1694	1737	1823	1887	1729	1735	1749	1810	1794	1838	1850	1866	1886	1895	1903	1926
Consumption expenditures	452	467	498	517	467	465	475	492	487	505	508	507	518	521	524	526
Defense	300	305	320	331	305	301	312	326	310	322	324	325	332	333	334	336
Nondefense	153	162	178	186	162	164	163	166	177	183	184	182	187	188	189	190
Other expenditures	1242	1270	1325	1370	1262	1270	1274	1318	1307	1333	1342	1360	1367	1374	1380	1400
Current account surplus	28	102	152	208	98	118	134	115	166	155	170	185	194	214	239	250
Gross investment	84	92	101	104	90	96	95	101	100	100	102	103	104	104	105	105
Current and capital account surplus	-56	10	51	104	7	22	39	14	66	56	68	82	90	110	134	144
Fiscal indicators[4]																
High-employment (HEB) surplus/deficit	-151	-109	-114	-83	-113	-93	-89	-136	-93	-118	-111	-101	-96	-78	-58	-50
Change in HEB, percent of potential GDP	-.8	-.6	-0	-.4	-.4	-.2	-.1	.5	-.5	.3	-.1	-.1	-.1	-.2	-.2	-.1
Fiscal impetus (FI) percent, calendar year	0	5	4	2	2	-.4	2	4	-3	3	.7	-.5	.5	.3	.3	.8

1. Fiscal year data for the unified budget come from OMB; quarterly data come from the Monthly Treasury Statement and may not sum to OMB fiscal year totals.
2. OMB's February 2000 surplus estimates (assuming the enactment of the President's proposals) are $167 billion in FY2000 and $184 billion in FY2001. CBO's March 2000 baseline surplus estimates, assuming discretionary spending grows with inflation begining in FY 2001, are $179 billion in FY2000 and $181 billion in FY2001. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget surplus and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY1990.
3. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.
4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1996) dollars, scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.
a--Actual p--Preliminary

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

Period [1]	Total [2]	Federal government [3]	Nonfederal						Memo: Nominal GDP
				Households					
			Total [4]	Total	Home mortgages	Consumer credit	Business	State and local governments	
Year									
1991	4.3	11.1	2.2	4.5	6.1	-1.3	-1.6	8.6	4.0
1992	4.6	10.9	2.6	4.5	5.3	0.8	0.8	2.2	6.4
1993	4.9	8.3	3.7	5.4	4.5	7.3	1.4	6.0	5.0
1994	4.6	4.7	4.5	7.7	6.0	14.5	3.7	-4.0	6.2
1995	5.5	4.1	6.0	7.9	5.8	14.1	6.8	-4.6	4.3
1996	5.4	4.0	5.9	7.4	7.4	7.9	5.7	-0.6	6.0
1997	5.4	0.6	7.0	6.4	6.7	4.3	8.2	5.3	5.9
1998	6.6	-1.4	9.3	8.7	9.7	5.4	10.5	7.2	5.9
1999	6.8	-1.9	9.4	9.4	10.4	7.3	10.6	4.4	6.2
2000	5.1	-7.6	8.5	9.0	9.2	8.8	9.4	1.4	6.4
2001	4.9	-7.6	7.7	7.5	8.3	5.2	9.0	2.1	5.6
Quarter									
1999:3	7.0	-2.2	9.6	9.9	11.3	5.6	10.2	4.6	6.8
4	6.5	-0.5	8.4	8.4	8.8	8.3	9.6	2.5	9.1
2000:1	5.4	-6.2	8.5	9.5	9.2	10.2	9.3	-0.3	7.3
2	4.5	-10.3	8.4	8.8	9.1	8.6	9.2	1.9	7.6
3	5.4	-5.6	8.1	8.5	8.8	8.3	8.9	2.0	5.4
4	4.6	-9.1	7.8	7.9	8.4	7.1	8.9	2.1	5.5
2001:1	5.7	-3.4	7.8	7.7	8.3	6.4	9.0	2.3	5.7
2	4.6	-8.6	7.6	7.4	8.1	5.4	8.9	2.1	5.4
3	4.6	-8.4	7.4	7.2	7.9	4.6	8.6	2.0	5.7
4	4.1	-10.9	7.2	7.0	7.9	4.1	8.4	1.9	5.8

Note. Quarterly data are at seasonally adjusted annual rates.
1. Data after 1999:Q4 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.
2 On a monthly average basis, total debt is projected to grow 5.4 percent in 2000 and 4.9 percent in 2001.
3. On a monthly average basis, federal debt is projected to grow -6.5 percent in 2000 and -7.4 percent in 2001.
4. On a monthly average basis, nonfederal debt is projected to grow 8.6 percent in 2000 and 7.8 percent in 2001.

2.6.3 FOF

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

Category	Calendar year 1998	1999	2000	2001	Seasonally adjusted annual rates: 1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4
Net funds raised by domestic nonfinancial sectors														
1 Total	744.3	963.3	830.6	805.1	1029.6	1065.8	940.0	704.6	908.7	769.2	967.8	778.2	777.9	696.5
2 Net equity issuance	-267.0	-142.7	-51.0	-82.0	-138.6	-41.6	0.0	-92.0	-56.0	-56.0	-82.0	-82.0	-82.0	-82.0
3 Net debt issuance	1011.3	1105.9	881.6	887.1	1168.2	1107.4	940.0	796.6	964.7	825.2	1049.8	860.2	859.9	778.5
Borrowing sectors														
Nonfinancial business														
4 Financing gap [1]	134.4	155.4	197.4	264.6	174.5	167.8	178.6	187.0	203.5	220.4	243.0	258.9	271.1	285.6
5 Net equity issuance	-267.0	-142.7	-51.0	-82.0	-138.6	-41.6	0.0	-92.0	-56.0	-56.0	-82.0	-82.0	-82.0	-82.0
6 Credit market borrowing	511.7	568.5	562.9	589.4	579.7	559.8	555.4	563.4	560.4	572.4	590.4	594.4	586.4	586.4
Households														
7 Net borrowing [2]	471.9	556.6	580.3	529.6	614.6	533.8	617.1	582.1	578.1	544.1	544.1	530.1	524.1	520.1
8 Home mortgages	359.8	421.7	410.5	407.5	482.4	385.9	411.2	416.2	410.2	404.2	408.2	406.2	404.2	411.2
9 Consumer credit	67.6	96.8	126.3	81.3	77.3	115.9	146.0	126.0	124.0	109.0	99.0	85.0	74.0	67.0
10 Debt/DPI (percent) [3]	90.3	93.2	95.5	97.6	93.8	94.3	94.7	95.2	95.9	96.6	96.8	97.4	97.9	98.3
State and local governments														
11 Net borrowing	80.3	52.7	18.1	26.4	57.0	30.7	-3.6	24.4	25.4	26.4	29.4	26.4	25.4	24.4
12 Current surplus [4]	140.5	156.3	167.9	167.1	154.8	177.5	164.6	170.3	170.2	166.5	169.1	167.7	165.7	165.9
Federal government														
13 Net borrowing	-52.6	-71.8	-279.7	-258.2	-83.1	-16.9	-228.8	-373.2	-199.2	-317.6	-114.0	-290.6	-275.9	-352.3
14 Net borrowing (quarterly, n.s.a.)	-52.6	-71.8	-279.7	-258.2	-19.0	47.7	-33.7	-174.4	-46.0	-25.6	-5.0	-153.8	-65.2	-34.3
15 Unified deficit (quarterly, n.s.a.)	-54.4	-158.3	-234.3	-272.5	-30.1	20.6	9.8	-183.9	-53.4	-6.8	5.9	-189.2	-60.3	-28.8
Depository institutions														
16 Funds supplied	360.5	407.9	417.7	356.0	533.0	636.0	564.6	390.4	367.9	347.9	364.4	359.9	347.9	351.9
Memo (percentage of GDP)														
17 Domestic nonfinancial debt [5]	179.7	181.7	180.0	178.7	182.3	181.5	181.0	179.9	179.8	179.6	179.4	179.3	178.9	178.3
18 Domestic nonfinancial borrowing	11.5	11.9	8.9	8.5	12.6	11.7	9.7	8.1	9.7	8.2	10.2	8.3	8.2	7.3
19 Federal government [6]	-0.6	-0.8	-2.8	-2.5	-0.9	-0.2	-2.4	-3.8	-2.0	-3.1	-1.1	-2.8	-2.6	-3.3
20 Nonfederal	12.1	12.7	11.7	10.9	13.5	11.8	12.1	11.9	11.7	11.3	11.3	11.1	10.8	10.6

Note. Data after 1999:Q4 are staff projections.
1. For corporations: Excess of capital expenditures over U.S. internal funds.
2. Includes change in liabilities not shown in lines 8 and 9.
3. Average debt levels in the period (computed as the average of period-end debt positions) divided by disposable personal income.
4. NIPA surplus less changes in retirement fund assets plus consumption of fixed capital.
5. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.
6. Excludes government-insured mortgage pool securities.

2.6.4 FOF

International Developments

Overview

Foreign economic growth remains buoyant. Although the expansion abroad continues to be uneven, with the Asian developing economies still registering the strongest gains, there are signs that the worst may be over for the hardest-hit Latin American countries. Among the industrial countries, momentum in Europe appears to be spreading beyond the peripheral countries that benefited most last year from monetary union, while Canada remains on a path of solid expansion. The Japanese economy is still the notable exception to the global expansion, but even there some signs of improvement have appeared.

With oil prices near all-time highs, headline inflation abroad has spiked up, but so far the spillover into core prices has been minimal. Nevertheless, several major central banks have raised short-term rates since the February FOMC meeting, roughly matching the increase in the United States, in an effort to contain inflationary pressures. The aggregate foreign exchange value of the dollar has changed little since the February FOMC meeting, with a small amount of appreciation relative to the industrial country currencies roughly offsetting some depreciation versus the currencies of our other important trading partners.

Although the global expansion has fueled increasing demand for U.S. exports, the U.S. appetite for imports has remained stronger, contributing to a further deterioration in both real net exports and the nominal current account deficit in the fourth quarter. Higher prices of imports, both oil and non-oil, also contributed to a worsening nominal trade balance. However, the drop in real net exports was smaller than that in the third quarter, thus subtracting a smaller amount from real GDP growth.

The persistent external imbalance remains a major risk factor for the value of the dollar in our forecast. In our outlook, we have tried to balance the conflicting pressures influencing the exchange rate, including upward impetus from strong U.S. growth and the relatively attractive returns on investment in the United States, with concerns about the sustainability of the external deficit. Although we are uncertain about how these forces will play out, we have assumed a modest depreciation of the dollar, most of which occurs next year.

Although the current account balance is projected to climb to a record high of 4¾ percent of GDP later this year from the current rate of about 4 percent, we expect it to remain near that level over the forecast period as U.S. economic growth and, consequently, U.S. imports slow and growth abroad remains near the present rate of about 4 percent. Further increases in the cost of imports, reflecting both higher non-oil commodity prices and the projected depreciation of the dollar, should also contribute to a slowing in U.S. import demand. The negative contribution of real net exports to GDP growth is thus anticipated to shrink to zero by the end of 2001.

We have raised our forecast for oil prices in this Greenbook in response to both higher-than-expected spot prices and a dicier outlook for OPEC production. However, the effect of the higher projected oil prices on the outlook for foreign growth is largely outweighed by indications that near-term momentum continues to exceed our prior expectations. As a result, our forecast for foreign economic activity is actually a bit higher than that in the January Greenbook.

Recent Developments

International financial markets. Since the February FOMC meeting, the nominal exchange value of the dollar has appreciated about ½ percent, on balance, in terms of the major currencies index. The largest appreciation has come against the British pound, with smaller gains registered against the euro and the Canadian dollar. In contrast, the dollar has dropped against the yen, despite intervention by Japanese authorities late in the period to weaken their currency. The dollar has also declined against the currencies of other important trading partners, particularly the Mexican peso.

A number of foreign central banks raised policy rates immediately after the February FOMC meeting. All of the major industrial country central banks with the exception of the Bank of Japan moved to tighten, and several developing country central banks also followed the U.S. rate hike. Nevertheless, ten-year government bond yields in continental Europe have edged lower and have fallen significantly in both Canada and the United Kingdom since the February FOMC meeting. Meanwhile, favorable reviews by rating agencies led to a substantial decline in bond yields for Mexico and Brazil. A surge in telecommunications stocks lifted continental European equity prices over the past month. In contrast, Japanese bond and stock prices have declined a bit.

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

Economic activity abroad. Recent information has highlighted the continued dichotomy between the resurgent Canadian and European economies and the sputtering Japanese economy. Although recent employment data suggest that Canadian growth has slowed to a more sustainable pace after a gain of nearly 5 percent last year, the rate of growth remains well above that of estimated potential. In the euro area, recent confidence measures suggest that activity continues to expand at a robust pace this year. The latest GDP data also indicate that the expansion has become more broadly based, with growth in Germany and Italy picking up markedly since the middle of last year. In the United Kingdom, domestic demand growth shows little sign of slackening, although a substantial appreciation of the pound against the euro over the past year has contributed to a recent decline in exports.

In marked contrast to the rest of the industrial world, Japanese real GDP fell in the fourth quarter for the second consecutive quarter. However, industrial production continued to rise in the fourth quarter, led by strong growth in capital-goods-producing industries, and more recent indicators of both output and demand have been positive.

Core inflation measures remain well behaved across the industrial countries, although higher energy prices have boosted headline inflation. In the euro area, twelve-month consumer price inflation hit the ECB ceiling of 2 percent in January but is expected to come back down as oil prices retreat from their recent peaks. Prices in Japan continue to decline.

Among the developing countries, the Asian recovery appears to have broadened and deepened. Korea and China continue to grow robustly, while growth has picked up in a number of other countries. Recovery in Latin America remains spottier, with Mexico and Brazil still in the lead and Argentina growing more slowly. Inflation remains well contained in both regions despite the runup in oil prices.

U.S. international transactions. The current account deficit widened by $43 billion to a seasonally adjusted annual rate of $399 billion, a little more than 4 percent of GDP, in the fourth quarter of 1999. About one-quarter of the increase in the deficit was in trade in goods and services, and nearly half was from an increase in net investment income payments. Although higher oil prices were a factor in the deterioration of the trade balance, the more important element was an increase in non-oil imports that was much larger than the gain in exports. Real imports on a national accounts basis also grew by more than real exports, and real net exports declined as a result. However, growth in real imports slowed more than growth in exports, and the negative contribution of the change in real net exports to GDP growth consequently fell to 0.4 percent in the fourth quarter from 0.7 percent in the third.

Although imports decelerated more sharply than exports in the fourth quarter, they still expanded at a double-digit annual rate, with robust increases in all major trade categories except automotive products, which were already at a very high level. Nearly half of the rise in the value of exports in the fourth quarter was accounted for by shipments of industrial supplies, partly in response to increasing production abroad.

Over the four quarters of 1999, real exports rose 4½ percent, with most of the increase going to Mexico and Canada. Real imports rose 13 percent, reflecting the strength of U.S. economic activity.

Trade data for January will be released on March 21, the day of the FOMC meeting.

Prices of internationally traded goods. Oil prices have continued to rise, with spot West Texas intermediate breaking through $34 per barrel on March 7 to set a new post-Gulf War high. Spot WTI is currently trading around $31 per barrel. A reported disagreement between Saudi Arabia and Iran over whether to increase production after OPEC's scheduled meeting on March 27 and indications that proposed production increases may be smaller than previously anticipated helped to drive prices higher. Production disruptions in the North Sea, caused by bad weather, and export disruptions in Nigeria, caused by a labor strike, also exacerbated tight oil market conditions.

Prices of imports of goods excluding oil declined slightly in January after showing no change in December. Most notably, prices of imported non-oil industrial supplies rose only marginally in January, the second month of very small changes, following five months of rapid price increases. There were small price declines in most other major trade categories. The price index for imports excluding oil, as well as for imports of core goods (which also exclude computers and semiconductors), was the same in January as the average for the fourth quarter of last year.

In January, prices of total exports of goods were unchanged for the second consecutive month. Prices of exports of core goods (which exclude computers, semiconductors, and agricultural products) rose 0.2 percent, reflecting a moderate increase in the price of industrial supplies. The index for prices of nonagricultural exports in January was marginally higher than the average for the fourth quarter of last year.

February price data for merchandise trade were released today and will be discussed in the Greenbook supplement.

Outlook

The dollar. The dollar is likely to be influenced by conflicting forces over the forecast period, but we give a slight edge to the factors favoring some depreciation, most notably the persistently large current account imbalance. The modest projected depreciation occurs primarily against the euro and the Canadian dollar. The decline against the euro is expected next year, as excess capacity in the euro area continues to shrink while U.S. economic growth slows. The Canadian dollar is expected to gain against the U.S. dollar through the end of this year, boosted by the continued large Canadian current account surplus. Much of the real depreciation of the dollar against the euro and the Canadian dollar is offset by a real appreciation against the yen as inflation in the United States continues to outstrip that in Japan, while the nominal exchange rate remains near current levels. Although the persistence of large current account imbalances should put upward pressure on the yen, this effect is likely to be offset by disappointment in the markets over the pace of recovery of Japanese economic activity.

The real exchange value of the dollar is projected to depreciate slightly against the currencies of our other important trading partners, especially the emerging Asian economies. Our path for the dollar relative to the Mexican peso is lower than in the January Greenbook in the near term, reflecting the market response to higher oil prices and an upgrade of Mexico's foreign-currency debts to investment grade. Beyond the current quarter, the dollar is little changed in real terms against the Mexican peso over the forecast period.

Foreign economic activity and prices. Total foreign real output (weighted by U.S. bilateral export shares) is projected to moderate only a little this year and next following a spectacular rebound in 1999. Growth should slow in some areas of the world that are furthest along in the most recent phase of economic expansion, notably developing Asia, Canada, and the United Kingdom, reflecting both waning cyclical momentum and some policy tightening. However, total foreign growth is sustained by a projected improvement in Japan and Latin America. Aggregate foreign inflation is expected to increase somewhat in 2000 and 2001 relative to 1999, primarily reflecting a rise in Asia and a smaller pickup in Europe.

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

	1998	1999			2000	2001
		H1	Q3	Q4		
Foreign output	0.8	4.4	4.2	3.8	3.9	3.8
January GB	*0.8*	*4.2*	*3.5*	*4.0*	*3.7*	*3.6*
Foreign CPI	4.3	2.7	1.8	3.2	3.2	3.4
January GB	*4.3*	*2.7*	*1.8*	*3.3*	*3.5*	*3.6*

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

Industrial countries. Export-weighted real GDP growth in the foreign industrial countries is projected to average about 3 percent during the forecast period, down about ½ percent from last year's pace. The forecast is a bit stronger on average than that in the January Greenbook, with modest upward revisions to growth in the euro area and Canada offset in part by a downward revision to the forecast for Japanese growth. Growth in the euro area is projected to pick up a bit from its 1999 rate of about 3 percent as surging business sentiment and declining unemployment boost domestic demand, while external demand is supported by strong world growth and lagged effects of the euro's weakness. Growth in the United Kingdom will likely edge lower during the forecast period in response to monetary tightening and the continued strength of the pound. The Canadian economy, which surged last year in concert with the U.S. economy, is expected to slow to a pace more in line with its rate of potential growth in response to tighter monetary policy and slower U.S. growth.

Japanese GDP growth is expected to edge up from zero in 1999 to ¾ percent in 2000 and 1¼ percent in 2001 as private domestic demand makes a slow recovery led by investment spending. Fiscal policy is expected to be roughly neutral this year and next, constrained by high levels of public sector debt. Consumption spending is expected to remain quite weak in the absence of fiscal support, the weakness exacerbated by job uncertainties related to corporate restructuring. The yen's current strength is likely to restrain the external sector from contributing significantly to Japanese growth.

Inflation. Continued strong activity should put further pressure on resources in most foreign industrial economies, leading to an increase in core inflation rates. However, oil price increases, which have elevated headline inflation rates during the past year, are projected to be reversed in part during the next two years, more than offsetting the impact of the rise in core inflation on the headline measures. Inflation in the euro area is expected to peak around the ECB's target ceiling of 2 percent before declining with oil prices to about 1½ percent by year-end. A modest decline in inflation also is projected in Canada. In the United Kingdom, where wage growth has picked up in response to low unemployment rates, inflation is projected to rise to the Bank of England's 2½ percent ceiling by the end of 2001. Japanese prices are expected to be little changed over the next two years after falling more than 1 percent last year, as the deflationary effect of past yen appreciation wanes but the substantial slack in the Japanese economy restrains price increases. The projected end to Japanese deflation accounts for most of the rise in the import-weighted average of foreign industrial country inflation rates from just over 1 percent in 1999 to about 1½ percent in 2000 and 2001.

Interest rates. We assume that the Bank of Japan will maintain its zero short-term interest rate policy over the rest of this year and will begin to edge rates up in the second half of 2001 as the economy begins to show signs of a sustainable recovery. In response to a rise in core inflation, strong growth, and a weak euro, the ECB is expected to tighten policy soon. We expect the refinancing rate to be increased from its March 15 level of 3¼ percent to 4½ percent by the end of 2001, 50 basis points higher than assumed in the January Greenbook. The Bank of England is assumed to tighten policy a further 75 basis points, a bit more than assumed in the January Greenbook, to contain inflationary pressures. The Bank of Canada is expected to match the rise assumed for U.S. policy rates. Long-term interest rates, which already incorporate expectations of future monetary tightening, should rise by less than short rates in most major foreign industrial economies. In contrast, Japanese long rates are expected to move up more than short rates in anticipation of further tightening beyond the current forecast period.

Other countries. The growth of real GDP for the major developing country trading partners of the United States is projected to average about 5¼ percent over the next two years, little changed from the 5½ percent pace estimated for 1999. Growth in the Asian developing economies is expected to moderate from the rate of about 8 percent estimated for 1999 to about 6½ percent as cyclical expansions in this region become more mature. In contrast, growth in Latin America is expected to pick up from 3½ percent last year to about 4 percent during the forecast period as several countries–including Argentina, Chile, Colombia, and Venezuela–pull out of the recession that hit the region in late 1998. Growth in Mexico is projected to slow from a 5¼ percent pace in 1999 to a still-strong 4½ percent rate during the next two years, along with decelerating activity in the United States.

Inflation in the developing countries is expected to pick up only modestly over the forecast period in response to rising activity and recent increases in oil prices, as inflationary pressures are limited by the still-high levels of economic slack remaining from the previous downturn. We expect a moderate rise in inflation in Asia, where recovery has progressed the furthest. In contrast, we project continued disinflation in Latin America.

U.S. international transactions. The U.S. current account deficit is projected to rise to 4.6 percent of GDP this year and 4.7 percent next year. While most of the projected deterioration is in goods and services, the net outflow of investment income also increases as a sharp runup in net payments on portfolio investments outweighs a much smaller rise in net receipts on direct investments.

Real net exports are expected to weaken over the forecast period, but at a lessening rate, largely because the declining dollar and lower relative U.S. inflation lead to greater price competitiveness for U.S. goods. As a result, the negative contribution of net exports to GDP growth is projected to shrink from 1¼ percentage point in 1999 to ¾ percentage point this year and ¼ percentage point in 2001.

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

	1998	1999			2000	2001
		H1	Q3	Q4		
Real exports	1.9	-0.9	11.5	8.7	7.2	8.7
January GB	*1.9*	*-0.9*	*11.5*	*5.3*	*6.9*	*8.5*
Real imports	10.8	13.5	14.9	10.0	11.3	8.5
January GB	*10.8*	*13.5*	*14.9*	*7.7*	*10.0*	*8.6*

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

Real exports of goods and services are projected to grow a little more than 7 percent this year and 8¾ percent next year. The projected acceleration comes largely in the core goods component, and results primarily from the swing in relative prices noted above. Strong foreign growth also helps to boost core exports, while the booming worldwide market for semiconductors contributes to the strengthening in overall export growth.

Real imports of goods and services increased at an annual rate of 12½ percent in the second half of 1999. With the pace of the U.S. expansion projected to moderate from its brisk second-half clip and the real value of the dollar tailing off, growth of imported core goods, which also has been running high, is projected to slow from an annual rate of 10 percent in the first half of this year to 7 percent in the second half and to 6 percent in 2001. The quantity of imported oil is forecast to grow strongly in the near term, as stocks are replenished, and more moderately in 2001. With imports of computers and semiconductors continuing to expand sharply, total real imports of goods and services are expected to grow by more than 11 percent in 2000 and 8½ percent in 2001, a bit slower than last year's pace.

Prices of internationally traded goods. Our outlook for oil prices has been revised upward since the previous Greenbook in response to both temporary supply disruptions and indications that future OPEC production may be somewhat lower than previously expected. Lower estimates of OPEC's surplus production capacity as well as the cartel's apparent hesitation to increase production too rapidly both suggest that OPEC production will increase somewhat more slowly over the forecast period than previously anticipated. Our oil price projection tracks the path of quotes in futures markets. The price of imported oil peaks at $27.30 per barrel in the second quarter of this year and gradually declines to $22.65 per barrel by the fourth quarter of this year and to $18.35 per barrel by the end of 2001. The primary factor in the projected price decline is expected increases in production from both OPEC and non-OPEC countries. However, given very low inventory levels, there is a significant risk that unforeseen fluctuations in supply or demand could cause oil prices to move higher than we predict.

Prices of core imports rose 1.2 percent at an annual rate in the fourth quarter of 1999, the second consecutive quarterly increase in these prices following a string of declines. The swing from decreases to increases in core import prices in the middle of last year reflects the turnaround in world non-oil commodity prices as well as some weakening in the dollar. Looking ahead, the expected decline in the dollar should contribute to a further acceleration in prices for core imports over the forecast period, to 2 percent this year and 2½ percent next year. This path is somewhat lower in the near-term than that in the January Greenbook, reflecting favorable price data for both the fourth quarter of last year and for January of this year.

Prices of exports of core goods rose about 3 percent at an annual rate in the fourth quarter of 1999, largely reflecting rising prices of industrial supplies, which include petroleum products as well as chemicals, the prices of which are sensitive to the price of oil. For the current quarter, we estimate that prices are rising at a somewhat slower rate. Over the longer run, core export prices are expected to continue to decelerate, in part because of the spillover from the projected decline in oil prices.

Selected Trade Prices

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

Trade category	1998	1999			2000	2001
		H1	Q3	Q4		
Exports						
Nonagricultural (core)	-1.9	0.8	2.5	2.9	1.4	0.9
Agricultural	-10.2	-8.9	-2.0	0.6	2.4	2.4
Imports						
Non-oil (core)	-1.9	-0.7	1.1	1.2	2.0	2.4
Oil (level, dollars per barrel)	11.40	14.70	18.63	22.00	22.65	18.35

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.

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

							-----Projected----		
Measure and country	1993	1994	1995	1996	1997	1998	1999	2000	2001
REAL GDP (1)									
Total foreign	3.2	5.1	2.3	4.3	4.1	0.8	4.2	3.9	3.8
Industrial Countries	1.9	4.0	1.8	2.9	3.3	1.7	3.4	3.0	2.9
of which:									
Canada	2.9	5.5	1.4	2.4	4.4	2.8	4.7	3.5	3.1
Japan	0.5	0.9	2.5	5.2	-0.5	-3.1	0.0	0.7	1.2
United Kingdom	3.2	4.6	1.9	2.9	3.4	1.5	2.9	2.7	2.5
Euro-11	0.1	3.0	1.5	1.7	3.1	1.9	3.0	3.3	3.3
Germany	-0.3	2.8	1.1	1.4	1.5	1.2	2.3	3.2	3.3
Developing Countries	5.1	6.9	3.0	6.4	5.1	-0.3	5.5	5.2	5.1
Asia	7.7	8.9	7.2	7.0	4.7	-1.9	8.0	6.4	6.4
Korea	6.3	9.4	7.2	6.8	3.7	-5.3	12.8	7.5	7.0
China	6.1	16.3	12.6	9.2	8.2	9.5	6.2	7.0	7.5
Latin America	2.6	5.4	-3.9	6.3	6.1	1.0	3.5	4.1	4.2
Mexico	1.9	5.2	-7.1	7.1	6.7	2.6	5.2	4.5	4.5
Brazil	4.5	9.8	-1.9	5.5	2.2	-1.6	3.2	3.0	3.4
CONSUMER PRICES (2)									
Industrial Countries	2.1	1.1	1.3	1.5	1.6	1.0	1.1	1.5	1.5
of which:									
Canada	1.8	-0.0	2.1	2.0	1.0	1.1	2.4	2.3	2.2
Japan	1.2	0.8	-0.8	0.1	2.1	0.7	-1.2	0.0	0.2
United Kingdom (3)	2.7	2.2	2.9	3.2	2.8	2.6	2.2	2.4	2.5
Euro-11 (4)	NA	NA	NA	2.0	1.4	0.9	1.5	1.5	1.6
Germany	4.2	2.6	1.5	1.5	2.1	0.4	1.0	1.1	1.4
Developing Countries	24.7	23.0	17.0	11.2	6.9	9.1	4.7	5.6	6.1
Asia	7.7	10.7	6.4	4.8	2.8	4.5	0.3	3.6	4.3
Korea	5.5	5.8	4.4	5.1	5.1	6.0	1.3	3.0	4.8
China	17.1	26.9	11.1	7.0	1.0	-1.1	-0.8	3.0	4.0
Latin America	74.2	54.3	42.2	26.0	15.8	15.6	12.7	9.3	9.2
Mexico	8.6	6.9	48.8	28.1	17.2	17.6	13.7	9.8	9.8
Brazil	2287.6	1216.3	23.1	10.8	5.3	1.8	8.4	6.4	5.0

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

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

	1999				Projected 2000				2001			
Measure and country	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	3.8	5.1	4.2	3.8	4.1	3.7	3.9	3.9	3.9	3.8	3.7	3.7
Industrial Countries	3.9	3.3	3.5	2.7	3.7	2.7	3.0	2.8	2.9	2.9	2.8	2.8
of which:												
Canada	5.1	3.6	5.5	4.6	3.9	3.7	3.4	3.1	3.1	3.1	3.1	3.1
Japan	6.3	3.9	-3.9	-5.5	4.8	-3.0	0.6	0.6	1.2	1.2	1.2	1.2
United Kingdom	1.5	3.0	3.9	3.1	2.3	3.0	2.8	2.6	2.5	2.4	2.5	2.4
Euro-11	2.3	2.2	4.0	3.5	3.3	3.4	3.4	3.4	3.3	3.3	3.2	3.2
Germany	2.7	0.3	3.5	2.7	3.1	3.2	3.3	3.3	3.4	3.4	3.3	3.3
Developing Countries	3.6	7.8	5.2	5.3	4.8	5.2	5.3	5.3	5.3	5.2	4.9	4.9
Asia	7.0	11.5	5.0	8.6	6.1	6.4	6.4	6.5	6.5	6.4	6.3	6.4
Korea	13.9	16.5	12.9	8.0	8.0	8.0	7.0	7.0	7.0	7.0	7.0	7.0
China	2.2	1.1	11.4	10.6	6.0	6.0	8.0	8.0	7.5	7.5	7.5	7.5
Latin America	0.6	4.9	6.0	2.5	3.5	4.3	4.3	4.3	4.3	4.3	4.1	4.1
Mexico	2.5	7.6	8.9	2.2	3.8	4.7	4.7	4.7	4.7	4.7	4.3	4.3
Brazil	3.8	3.4	0.1	5.8	2.7	3.0	3.0	3.2	3.3	3.3	3.5	3.7
CONSUMER PRICES (2)	Four-quarter changes											
Industrial Countries	0.6	0.9	1.3	1.1	1.7	1.6	1.5	1.5	1.5	1.5	1.5	1.5
of which:												
Canada	0.8	1.6	2.2	2.4	2.5	2.5	2.4	2.3	2.2	2.2	2.2	2.2
Japan	-0.2	-0.4	0.0	-1.2	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2
United Kingdom (3)	2.6	2.3	2.2	2.2	2.3	2.4	2.4	2.4	2.4	2.4	2.5	2.5
Euro-11 (4)	0.9	1.0	1.2	1.5	2.1	1.8	1.5	1.5	1.4	1.4	1.5	1.6
Germany	0.3	0.5	0.6	1.0	1.7	1.4	1.1	1.1	1.1	1.2	1.3	1.4
Developing Countries	8.2	6.9	6.0	4.7	4.3	4.8	5.1	5.6	6.0	6.2	6.2	6.1
Asia	2.5	0.8	0.2	0.3	1.0	2.4	3.2	3.6	3.7	3.9	4.1	4.3
Korea	0.7	0.6	0.7	1.3	1.5	2.2	3.2	3.0	3.9	4.2	4.5	4.8
China	-1.4	-2.2	-1.2	-0.8	0.6	1.9	2.6	3.0	3.1	3.6	3.8	4.0
Latin America	16.4	15.7	14.7	12.7	10.0	8.9	8.5	9.3	10.1	10.4	10.1	9.2
Mexico	18.6	17.9	16.5	13.7	10.6	9.3	8.8	9.8	10.9	11.2	10.9	9.8
Brazil	2.3	3.3	5.5	8.4	8.2	7.6	7.3	6.4	5.8	5.7	5.3	5.0

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

March 15, 2000

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1993	1994	1995	1996	1997	1998	------ Projected ------ 1999	2000	2001
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	-0.6	-0.3	0.4	-0.2	-0.7	-1.1	-1.2	-0.8	-0.3
Exports of G&S	0.4	1.1	1.0	1.1	1.1	0.2	0.5	0.8	1.0
Imports of G&S	-1.1	-1.3	-0.6	-1.3	-1.7	-1.3	-1.7	-1.6	-1.2
	Percentage change, Q4/Q4								
Exports of G&S	4.5	10.6	9.7	9.9	9.4	1.9	4.5	7.2	8.7
Services	4.9	8.4	9.0	9.4	3.0	2.3	2.9	2.6	4.4
Agricultural Goods	-5.4	16.3	-4.0	3.8	3.3	0.3	-1.9	2.0	2.0
Computers	17.0	27.4	39.1	21.6	26.2	7.1	12.0	37.9	36.0
Semiconductors	31.1	66.9	79.6	44.6	21.0	9.3	32.8	41.8	41.1
Other Goods 1/	3.5	6.9	5.7	7.8	11.4	1.1	3.4	4.9	5.5
Imports of G&S	10.5	12.2	5.0	11.2	14.2	10.8	13.0	11.3	8.5
Services	6.7	1.8	5.5	5.3	13.6	8.5	9.5	5.5	3.1
Oil	10.1	-0.2	2.4	7.8	4.0	4.0	-2.9	12.8	0.4
Computers	30.6	39.0	35.0	17.8	32.3	26.9	26.0	38.6	36.1
Semiconductors	33.6	54.5	92.4	56.7	32.8	-7.4	35.4	43.7	42.4
Other Goods 2/	9.4	12.3	-1.2	10.5	12.7	11.3	13.2	8.6	6.0
	Billions of chained 1996 dollars								
Net Goods & Services	-59.9	-87.6	-79.2	-89.0	-109.8	-215.1	-322.9	-413.8	-460.9
Exports of G&S	671.9	731.8	807.4	874.2	985.4	1007.1	1043.6	1121.0	1209.8
Imports of G&S	731.8	819.4	886.6	963.1	1095.2	1222.1	1366.5	1534.8	1670.7
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-85.3	-121.7	-113.6	-129.3	-143.5	-220.6	-336.9	-453.4	-493.0
Current Acct as Percent of GDP	-1.3	-1.7	-1.5	-1.7	-1.7	-2.5	-3.6	-4.6	-4.7
Net Goods & Services (BOP)	-69.9	-98.4	-97.5	-104.3	-104.7	-164.3	-271.3	-379.3	-405.9
Investment Income, Net	26.9	20.3	23.9	21.8	8.2	-7.0	-13.3	-20.7	-33.8
Direct, Net	58.6	54.4	63.8	67.7	69.2	59.4	61.2	75.0	91.6
Portfolio, Net	-31.7	-34.1	-39.9	-46.0	-61.0	-66.4	-74.5	-95.7	-125.4
Other Income & Transfers,Net	-42.2	-43.6	-39.9	-46.7	-46.9	-49.3	-52.3	-53.3	-53.3

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1996				1997				1998			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL *EXPORTS* and *IMPORTS*												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.0	-0.8	-1.3	2.1	-0.8	-0.5	-0.8	-0.5	-1.9	-2.0	-0.8	0.3
Exports of G&S	0.3	0.8	0.4	2.9	1.0	1.8	1.3	0.2	-0.2	-0.5	-0.2	1.6
Imports of G&S	-1.3	-1.6	-1.7	-0.8	-1.8	-2.2	-2.1	-0.7	-1.7	-1.6	-0.6	-1.3
Percentage change from previous period, SAAR												
Exports of G&S	2.3	6.9	3.5	29.0	8.8	16.2	11.5	1.8	-1.5	-4.0	-1.7	16.1
Services	-4.0	13.5	-6.7	41.0	-3.5	11.1	7.6	-2.5	1.7	8.8	-8.8	8.6
Agricultural Goods	15.2	-25.5	-4.1	40.9	-18.2	3.3	4.5	28.8	-10.9	-16.4	-16.4	62.7
Computers	41.0	4.8	17.3	26.1	56.2	46.4	28.7	-13.7	-13.0	11.1	19.1	14.2
Semiconductors	24.2	35.2	24.2	110.0	46.2	24.5	26.2	-6.7	1.3	-13.1	25.3	29.4
Other Goods 1/	-0.5	7.1	7.8	17.7	13.6	17.2	11.7	3.5	-1.2	-9.2	0.6	15.7
Imports of G&S	10.8	13.3	14.4	6.3	15.5	19.1	17.6	5.2	14.4	13.0	5.2	10.8
Services	5.6	4.1	11.8	0.0	20.6	8.6	20.7	5.3	16.7	9.7	6.4	1.6
Oil	-10.0	68.2	4.9	-15.0	-7.6	36.6	6.1	-12.7	6.4	41.8	2.4	-24.2
Computers	11.0	21.1	18.8	20.8	45.0	47.9	34.5	6.2	35.6	23.2	11.5	39.4
Semiconductors	30.0	18.9	58.4	146.3	77.6	28.1	28.8	6.1	1.3	-20.1	-3.0	-6.4
Other Goods 2/	13.5	10.2	13.8	4.6	11.9	16.6	15.6	6.9	13.5	12.9	4.9	14.2
Billions of chained 1996 dollars, SAAR												
Net Goods & Services	-75.6	-90.6	-115.8	-73.9	-90.8	-100.9	-118.7	-128.7	-171.7	-218.4	-237.9	-232.3
Exports of G&S	845.6	859.8	867.1	924.2	943.9	979.9	1006.8	1011.2	1007.3	997.2	993.0	1030.8
Imports of G&S	921.1	950.4	982.9	998.1	1034.7	1080.8	1125.5	1139.9	1179.0	1215.6	1231.0	1263.1
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-107.0	-125.8	-153.3	-131.1	-139.6	-125.9	-142.5	-165.9	-172.1	-209.6	-253.9	-246.7
Current Account as % of GDP	-1.4	-1.6	-2.0	-1.6	-1.7	-1.5	-1.7	-2.0	-2.0	-2.4	-2.9	-2.8
Net Goods & Services (BOP)	-89.4	-105.9	-125.9	-96.1	-106.4	-96.8	-102.9	-112.8	-133.4	-167.8	-182.9	-173.1
Investment Income, Net	30.4	21.3	15.1	20.2	9.0	13.7	5.8	4.2	6.1	2.9	-22.5	-14.3
Direct, Net	68.5	64.3	63.6	74.5	66.4	74.7	69.2	66.6	67.3	64.7	47.3	58.2
Portfolio, Net	-38.2	-43.0	-48.5	-54.3	-57.4	-60.9	-63.4	-62.4	-61.3	-61.8	-69.9	-72.5
Other Inc. & Transfers, Net	-48.0	-41.2	-42.5	-55.2	-42.1	-42.9	-45.4	-57.3	-44.8	-44.7	-48.5	-59.3

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

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OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1999				Projected 2000				Projected 2001			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-2.1	-1.4	-0.7	-0.4	-1.6	-0.5	-0.9	-0.1	-0.5	-0.5	-0.3	
Exports of G&S	-0.6	0.4	1.2	0.9	0.3	1.3	0.4	1.1	0.6	0.9	1.0	
Imports of G&S	-1.5	-1.8	-1.9	-1.4	-2.0	-1.7	-1.4	-1.2	-1.1	-1.4	-1.2	
Percentage change from previous period, SAAR												
Exports of G&S	-5.5	4.0	11.5	8.7	3.0	12.1	3.9	10.2	5.1	8.7	9.0	12.2
Services	4.1	3.2	0.0	4.4	2.9	1.9	2.5	2.9	4.4	4.7	4.4	4.1
Agricultural Goods	-37.9	28.7	27.4	-9.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Computers	-3.0	32.1	27.8	-3.9	33.5	43.8	38.6	36.0	36.0	36.0	36.0	36.0
Semiconductors	36.3	40.8	47.8	9.8	36.0	43.7	43.7	43.8	41.1	41.1	41.1	41.1
Other Goods 1/	-9.3	-2.0	12.8	13.9	-1.5	13.6	-1.2	9.5	-0.5	5.5	5.8	11.5
Imports of G&S	12.5	14.4	14.9	10.0	14.5	12.5	9.7	8.4	7.4	10.0	8.6	8.0
Services	11.9	8.9	3.6	14.0	7.9	6.0	4.3	4.0	3.0	2.5	3.2	3.5
Oil	7.1	25.5	-11.6	-25.2	12.3	48.7	4.1	-6.8	-14.9	32.7	2.7	-12.5
Computers	28.7	52.3	20.0	7.1	33.6	38.6	41.2	41.2	36.1	36.1	36.1	36.1
Semiconductors	18.4	63.5	19.0	45.9	38.6	46.4	46.4	43.7	43.7	43.7	41.1	41.1
Other Goods 2/	11.3	10.3	19.7	11.9	13.7	6.9	7.3	6.7	6.3	5.7	5.9	6.1
Billions of chained 1996 dollars, SAAR												
Net Goods & Services	-284.5	-319.0	-338.2	-349.7	-390.9	-403.6	-428.4	-432.4	-446.6	-460.8	-469.4	-466.7
Exports of G&S	1016.4	1026.4	1054.8	1077.0	1085.1	1116.6	1127.3	1155.0	1169.4	1194.1	1220.0	1255.7
Imports of G&S	1300.9	1345.4	1393.0	1426.7	1476.0	1520.2	1555.7	1587.5	1616.0	1655.0	1689.5	1722.4
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-275.3	-324.4	-359.0	-388.9	-427.6	-448.1	-464.6	-473.2	-479.1	-492.9	-496.6	-503.4
Current Account as % of GDP	-3.0	-3.5	-3.9	-4.1	-4.4	-4.5	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7
Net Goods & Services (BOP)	-216.6	-261.1	-294.5	-313.1	-360.9	-379.0	-390.8	-386.7	-397.5	-408.4	-412.2	-405.3
Investment Income, Net	-11.8	-12.9	-14.1	-14.3	-16.2	-18.5	-23.2	-24.9	-31.0	-33.8	-33.9	-36.4
Direct, Net	59.3	56.0	62.6	67.0	69.9	72.9	75.5	81.8	82.9	87.5	95.2	100.8
Portfolio, Net	-71.1	-68.9	-76.7	-81.3	-86.1	-91.4	-98.7	-106.7	-113.9	-121.3	-129.1	-137.3
Other Inc. & Transfers, Net	-46.9	-50.4	-50.4	-61.6	-50.6	-50.6	-50.6	-61.6	-50.6	-50.6	-50.6	-61.6

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