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Part 1

June 21, 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

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Domestic Developments

Overview

A confluence of weak indicators has sparked hopes, importantly among financial market participants, that the economy is moving onto a path of more moderate growth--and that the Federal Reserve may have little additional work to do over coming months to hold inflation in check. In our view, this is too optimistic. We do believe that domestic demand is decelerating, but the recent data likely overstate the degree of that slowdown. Thus, we think that additional increases in short-term rates will be needed to relieve pressures on resources and to curb what appears at this point to be a gradual pickup of trend inflation.

Our guess is that second-quarter real GDP growth will be around 4 percent, only a little below the growth of potential. That rate is slower than anticipated last month, but the first-quarter upside surprise to growth mutes the amount by which the projected expansion of output over the first half of the year falls short of our previous expectation. Moreover, recent rallies in the bond and stock markets have eased financing conditions and bolstered household wealth. In addition, judging from survey evidence, household sentiment remains upbeat. Meanwhile, foreign economies, on the whole, have registered stronger gains in activity than we predicted, which bodes well for export demand.

All told, on essentially the same assumptions regarding monetary policy firming as in the May Greenbook, we project that GDP growth will increase 3-3/4 percent in the second half of this year and will slow further in 2001. This output path is expected only to hold the unemployment rate near its recent range, leaving the labor market extremely taut; factory utilization also is expected to remain near its recent level, which might be viewed as essentially neutral with regard to inflationary pressures. As before, we are anticipating a modest downtrend in the weighted-average foreign exchange value of the dollar, which contributes to some pickup in the pace of non-oil import price increases. The surprising tightness of the global market for crude oil has pushed the spot price for West Texas intermediate above \$30 per barrel, and although we share the widespread view that supplies will eventually be expanded enough to bring prices down, we have followed the futures markets in elevating the path of crude prices through next year. In sum, although the expected decline in oil prices should damp headline inflation later this year and in 2001, the core PCE inflation rate is likely to continue moving upward--from about 1-1/2 percent over the past four quarters to 2-1/4 percent over the course of 2001.

Some Important Background Factors

Although the announcement of the 50-basis-point tightening at the May FOMC meeting certainly did not come as much of a surprise to the markets, it spawned perceptions that the Committee was signaling a more "aggressive" tightening posture. But the weak tone to some economic indicators during the ensuing

weeks—most notably the May labor market report—prompted a reassessment of the policy prospects. Fears of aggressive tightening actions in the near term gave way to the view that the Committee would likely stand pat this month and that chances of further increases over the next few quarters had diminished considerably.

As noted, we continue to believe that more tightening will be needed to ease underlying inflationary pressures than the market currently anticipates. If our assumptions are correct, long-term bond and mortgage rates, most of which have fallen 1/4 to over 1/2 percentage point on net since the May meeting, are expected to more than retrace those declines. In the stock market, the combination of higher interest rates and decelerating corporate profits are expected to work against an extension of the recent rally. We have assumed that share prices will remain in the range observed thus far this year—albeit on a path that is somewhat higher than that incorporated in the May projection. As usual, we note that substantial two-sided risks attend this assumption: On the one hand, we cannot rule out the possibility that irrational exuberance will drive the market even higher; but on the other, given the very high PE ratios prevailing in some sectors, the market still seems vulnerable to a sharp reversal on bad news. Given these risks, we have explored the economic implications of alternative trajectories for share prices in model simulations at the end of this section.

Similar uncertainties attend the outlook for the dollar on exchange markets. During the intermeeting period, the dollar has depreciated overall in real terms against the currencies of major industrial countries—most notably the euro and the yen; offsetting these movements has been an appreciation against some emerging-market currencies, particularly the Mexican peso. Although concerns continue to be widely expressed that the growing U.S. current account deficit will eventually prompt a sharp depreciation of the dollar, not much has happened to date. The U.S. external position remains a point of vulnerability, but in light of the considerable uncertainties, especially with regard to timing, we have not projected an abrupt realignment in the dollar. Rather, we have essentially retained our previous path of gradual depreciation over the forecast period.

As indicated, crude oil prices have risen above \$30 per barrel, a development we did not anticipate a month ago. There have not been significant supply disruptions over the intermeeting period; the primary story behind the higher prices appears to be more robust global demand. Faced with a significant firming of prices, OPEC met today (June 21) and agreed (after our forecast was finalized) to raise production; however, because OPEC already has been producing above its quota, uncertainty remains about how much production will actually increase. For the third quarter, we forecast that the price of WTI will be nearly \$30, about \$4 above the projection in the last Greenbook. Longer term,

we expect that production will rise enough to bring prices down to \$23.50 by the end of next year; that level of prices is about \$2 above the May projection.

The Congress has been working on the fiscal 2001 budget and, with new projections due from OMB and CBO shortly, the debate over spending and taxes should intensify this summer. We have not seen anything to date that is sufficiently concrete to prompt us to appreciably alter our fiscal policy assumptions. We are expecting discretionary spending to rise a bit in real terms over the next year and a half, but this increase should not give a major boost to demand during the projection period. As in the last Greenbook, we have assumed a tax cut of about \$10 billion in fiscal 2001, on the expectation that congressional support for some form of tax reduction will solidify this summer. Although our policy assumptions are little changed, revenue growth in the incoming data has been stronger than expected, and we have revised up our projection of the unified federal surplus. We are now projecting the unified federal surplus to total \$233 billion in fiscal 2000 before rising to \$270 billion in fiscal 2001; on-budget surpluses are expected to come in at \$83 billion for fiscal 2000 and \$105 billion for fiscal 2001.

Recent Developments

Given the gaps in the data for the current quarter, there could still be a sizable surprise in the GDP outcome. At this juncture, however, we see the slowing of growth to be rather mild compared with some of the weak quarters that have been recorded in the midst of the strong growth trend of the past several years. For example, the second quarter of last year came in at less than 2 percent.

Although the decline of 116,000 in private payrolls and the sharp drop in aggregate production-worker hours in May are consistent with a slowdown in growth, we do not believe that labor markets were anywhere near so soft as these numbers suggest. The weak performance last month came on the heels of big job gains in March and April, and the continuing low level of initial unemployment claims bolsters the view that labor demand did not turn down sharply in May. Indeed, we are looking for a bounceback in employment in June.

On the spending side, we had been expecting a marked deceleration in real personal consumption expenditures this quarter, as the upward impetus from earlier increases in equity wealth subsided and as consumers took a breather after the recent blistering pace. Indeed, at a growth rate of 3-1/4 percent in the current quarter, the predicted slowing is somewhat greater than we showed in the May Greenbook. On the other hand, the indicators of sentiment have been more upbeat than would be expected if a major retrenchment in consumption were under way, and balancing all of the information, we have not altered our longer-run view of the consumer sector.

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

Measure	2000:Q1			2000:Q2	
	May GB	BEA ¹	June GB	May GB	June GB
Real GDP	4.9	5.4	5.5	5.3	4.1
Private domestic final purchases	10.0	9.9	10.0	4.7	4.2
Personal consumption expenditures	7.6	7.5	7.5	4.0	3.2
Residential investment	6.3	5.2	6.5	-2.2	-2.9
Business fixed investment	24.8	25.2	25.8	10.6	12.7
Government outlays for consumption and investment	-1.4	-1.2	-1.4	3.9	3.8
MEMO					
Real GDP adjusted for defense spending anomaly	5.8	6.3	6.4	4.8	3.6
	Change, billions of chained (1996) dollars				
Inventory investment	-45.3	-36.2	-38.8	32.9	14.8
Net exports	-34.1	-28.8	-24.9	-21.0	-21.7

1. Preliminary release, published May 25.

The housing market provides the clearest evidence of a slowing in the growth of aggregate demand. The decline in single-family starts to 1.25 million units in May suggests that higher mortgage rates are beginning to bind more tightly for some buyers. Nonetheless, the deceleration of activity to date has been relatively small, as past increases in employment and wealth have supported housing demand. On net, we are projecting a decline of 3 percent in real residential outlays this quarter.

In the business sector, huge increases in technology investment have continued to boost orders and shipments of nondefense capital goods. Following a strike-related slowdown in the first quarter, a catch-up in jet deliveries by Boeing is adding to equipment outlays this quarter. On the structures side as well, construction figures point to very large increases. Overall, we think it likely that real business fixed investment will post a rise of 12-3/4 percent at an annual rate; although this figure represents a strong increase, it is roughly half the growth pace of the first quarter, when firms took delivery of computing and communications equipment for which purchases had been deferred because of the century date change. Inventory accumulation fell

off considerably in the first quarter, and we are expecting some pickup this period, mainly reflecting stockbuilding of motor vehicles.

Federal purchases were weak in the first quarter, largely because of a drop in outlays for defense services after a pre-Y2K surge (which we continue to think is an incorrect accounting in the NIPA of the timing of the delivery of the services); the large increase this quarter reflects the expected return of defense spending to trend. In the state and local sector, we expect some payback for the surge in public construction that appears to have been facilitated by favorable weather in late 1999 and early 2000. On balance, total government purchases in the second quarter appear to be coming in just under the appreciable 4 percent growth pace we expected previously.

Net exports are expected to subtract about 3/4 percentage point from the growth of real GDP in the second quarter. Imports are expected to post another large increase. At the same time, exports are projected to rise at a substantial clip, partly reflecting a recovery in deliveries following the earlier strike at Boeing.

The news about core price inflation has been a tad better than our expectations in the last Greenbook. Readings for the core CPI of 0.2 percent in April and May put us on track for what we think will be an increase of 2-3/4 percent (annual rate) on a quarterly average basis, versus 3-1/4 percent in the last Greenbook. However, the recent surge in oil prices and a widening of margins are pushing up prices at the pump, and we are anticipating a substantial rise in the total CPI for June--enough to bring the quarterly average increase to about 3-1/2 percent. Our prediction for core PCE price inflation this quarter is a little more than 2 percent, continuing the pattern of somewhat faster increases than were registered last year. Since the last Greenbook, we also have received average hourly earnings figures for May, which showed a minimal increase; however, the narrowness of this measure and the weight of the anecdotal evidence lead us to discount this reading on pay trends. Our sense is that, in one form or another, employers have stepped up the rate of compensation increases this year.

The Longer-term Outlook for Real Economic Activity

We project that real GDP will grow at an annual rate of about 3-3/4 percent during the second half of this year and will slow to a 3-1/2 percent pace next year. This forecast is a touch lower than our May projection. As was noted, however, the basic story of moderation in domestic demand--partly offset by the lessening drag from the foreign sector--remains unchanged, reflecting the effects of higher interest rates and the flattening of equity prices.

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

Measure	2000		2001
	H1	H2	
Real GDP	4.8	3.8	3.5
Previous	5.1	4.0	3.6
Final sales	5.3	3.7	3.7
Previous	5.3	4.1	3.8
PCE	5.3	3.8	3.2
Previous	5.8	4.1	3.3
Residential investment	1.7	-5.8	-5.5
Previous	1.9	-4.9	-3.6
BFI	19.1	11.3	10.1
Previous	17.5	12.4	10.0
Government purchases	1.2	3.1	3.5
Previous	1.2	3.2	3.5
Exports	8.7	6.9	8.5
Previous	5.5	6.7	8.4
Imports	13.5	9.5	8.0
Previous	12.2	9.6	8.1
MEMO			
Real GDP adjusted for defense spending anomaly	5.0	3.8	3.5
	Change, billions of chained (1996) dollars		
Inventory change	-12.0	3.3	-13.1
Previous	-6.2	-.6	-12.5
Net exports	-23.3	-15.9	-27.4
Previous	-27.5	-17.4	-31.7

Household demand. After increasing 5-1/4 percent in the first half of the year, real consumer spending is anticipated to grow at a pace of about 3-3/4 percent in the second half of this year and about 3-1/4 percent next year. These rates are down just a bit from the May Greenbook. For the most part, the deceleration reflects the waning of the wealth effects that had continued to spur consumer spending last year. Given our rule of thumb, the impetus to consumption

growth from wealth diminishes considerably this year and then turns negative next year. Within durables, where consumption has been at a very high level recently, accelerator and stock-adjustment effects should also help to rein in growth, while the projected deceleration in housing should reinforce the slowing in demand for household appliances and furnishings. With this deceleration of consumption, the saving rate--which we project will come in at 0.8 percent in the second quarter--is expected to move up some next year.

The demand for housing should be held back by the same factors restraining consumption spending: higher interest rates, diminished wealth effects, and a slowdown of employment and income growth. In the initial phase of the recent interest rate rise, the availability of a wide array of ARM products appears to have reduced the pinch from less favorable terms on fixed-rate mortgages for some buyers. In addition, wealth accumulated from the earlier run-up in equity prices apparently has continued to bolster demand. The latest data suggest that we are beginning to see meaningful softening in demand; however, a backlog of projects should keep starts near their second-quarter level for the remainder of this year. As the backlog diminishes and demand continues to weaken, single-family starts are projected to drop to 1.22 million units next year. Multifamily starts also are expected to move a bit lower.

Business spending. Growth in real BFI is projected to slow only a little over the forecast period, increasing about 11-1/4 percent in the second half of the year and about 10 percent next year. Although the slowing economy and the less favorable financial conditions are expected to damp growth in business investment, we believe that real outlays will receive considerable support from further increases in spending for high-tech capital.

Real purchases of equipment and software are anticipated to continue increasing robustly, rising 13-3/4 percent in the second half of this year and 12-3/4 percent in 2001. These outlays are propelled upward by rapid increases in the high-tech category, as the continuing convergence of computer and communications technologies--along with further price declines--spurs purchases of efficiency-enhancing equipment. Within the transportation sector, real outlays for aircraft--after trending down for some time--are expected to flatten out next year. Business purchases of motor vehicles, which recently have reached high levels, are expected to drop back, on balance, over the projection period as consumer leasing activity weakens and the demand for heavy trucks ebbs further. Growth in real purchases of other types of equipment, too, should slow as accelerator effects kick in.

Following the decline in outlays last year, real spending for nonresidential structures increased sharply in the first quarter, and the latest indicators point to a further large advance in the second quarter. Some bounceback from the weak

performance in 1999 might have been expected, but the boom in this sector in the first half of the year has been surprising. There are no signs yet of overbuilding in these markets, and we think that the additional space can be readily absorbed. Nonetheless, we expect increases in nonresidential construction to slow significantly in the second half of this year and in 2001, as higher interest rates, combined with reduced corporate cash flow and less-generous provision of credit, temper the demand for nonresidential construction.

Aggregate inventory-sales ratios have moved sharply lower over the past year. Although some of this decline could reflect unanticipated drawdowns related to sales surprises, there is little anecdotal evidence to suggest that firms consider their stocks to be too lean. Instead, we suspect that many businesses have continued to hold down their "equilibrium" stocks through better inventory management. Going forward, we expect nonfarm stocks to grow more slowly than sales, on balance, as firms keep inventories under relatively tight control.

With an improved outlook for this year's crops, we have revised up somewhat our estimate of farm inventory investment. However, we still have a drawdown this year, reflecting sizable increases in domestic spending on food and further gains in world demand for U.S. farm products. By the end of next year, farm stocks are expected to be rising a little.

Government. Our forecast for real federal spending is little changed from that in the last Greenbook. Real nondefense purchases are projected to continue rising at a moderate rate, and real defense spending--which had been trending down, on balance, in recent years--is expected to begin rising next year. Overall, federal spending is projected to be flat in the second half of this year and then to rise about 1-1/2 percent next year.

With relatively few exceptions, state and local governments remain in good fiscal shape. Although we expect some additional tax-cutting, especially as the campaign season prompts action on popular proposals, state and local coffers should still be full enough to support continued sizable increases in spending, particularly for schools and road construction. Overall, we expect real spending to rise at an annual rate of about 4-3/4 percent over the next six quarters.

Net exports. As indicated, the projections for exchange rates and foreign activity are little changed from the last Greenbook, except for the upside surprise in foreign economic growth in the first quarter. Thus, the forecast for the trade sector is about the same as the one we offered last month. After subtracting about 1 percentage point from the growth of real GDP last year, we expect net exports to deduct about 3/4 percentage point from growth this year and about 1/4 percentage point next year. (The International Developments

section provides a more detailed discussion of the outlook for the external sector.)

Prospects for the Supply Side of the Economy and Inflation

We continue to estimate that potential GDP growth currently is running at 4-1/4 percent. Even at that rate, however, the slowdown in demand that we are projecting is insufficient to eliminate the pressures arising from very high levels of resource utilization in the economy. We expect those pressures to become more visible in the inflation numbers during the projection period, as the favorable factors that have helped to damp inflation in recent years wane.

Labor markets. We expect labor productivity in the nonfarm business sector to increase at an annual rate of about 3-1/2 percent in the second quarter on a published basis. Although output growth has been revised down, the increase in hours also is smaller than in the May Greenbook, and our second-quarter figure for productivity growth is about the same as in the last projection. Of course, the return of federal spending to a level that is no longer distorted by the defense anomaly pushes up the second-quarter productivity figure; adjusting for that implies an increase in output per hour of 2-3/4 percent.

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

Measure	1999	2000	2001
Output per hour, nonfarm business	3.7	2.8	2.6
Previous	3.7	2.8	2.7
Nonfarm payroll employment	2.2	2.0	1.4
Previous	2.2	2.1	1.4
Household employment survey	1.5	1.4	.9
Previous	1.5	1.7	1.0
Labor force participation rate ¹	67.0	67.3	67.3
Previous	67.0	67.4	67.4
Civilian unemployment rate ¹	4.1	3.9	4.1
Previous	4.1	3.8	4.0
MEMO			
Output per hour, nonfarm business, adjusted for defense spending anomaly	3.6	2.9	2.6

1. Percent, average for the fourth quarter.

If our projection for productivity growth this quarter is correct, output per hour will have increased at an average rate of 3-1/2 percent in the first half of this year, after adjusting for the quirky pattern of defense spending. Such a pace would be a little above our estimate of the rate of improvement in structural productivity but well below the stunning advances in actual labor productivity in the second half of last year. Even though firms have been aggressively boosting efficiency--particularly through substantial investments in high-tech capital and further improvements in their production processes--we attribute a portion of the surge in productivity late last year to cyclical factors. We suspect that, in the very tight labor market, businesses were not able to hire fast enough to keep up with galloping demand and so extracted more work from their current employees.

Given ongoing difficulties in hiring, we expect that businesses will adjust employment slowly in response to the deceleration in output that we have projected. Consequently, we anticipate that productivity growth will slow to below the rate of structural improvement over the remainder of the forecast period. All told, we expect output per hour to rise 2-3/4 percent this year and 2-1/2 percent next year.

After surging to a record level earlier this year, the labor force participation rate fell back considerably in May. We have largely discounted the drop in participation last month because we suspect that the latest figure includes some statistical noise and because the decline runs against the very rapid pace of Census hiring. Thus we have lowered our forecast for the labor force participation rate just a touch, to 67.3 percent over the next six quarters.

The unemployment rate is expected to remain near 4 percent over the forecast period. Even though GDP growth drops noticeably below its assumed potential rate next year, unemployment tends to lag movements in output, and this lag mutes the upswing in the jobless rate next year. An unemployment rate in the neighborhood of 4 percent will provide little relief to employers from the very tight labor market that has prevailed for some time.

Wages and prices. Oil prices have been on a higher track than we anticipated in the last Greenbook, which will significantly boost headline consumer price inflation in the next couple of months. As for core price inflation, the incoming news has been a touch better than expected. In coming quarters, however, core import prices are projected to accelerate further, and the indirect effects of the energy price increases also are likely to provide an upward boost to core inflation. In addition, resource utilization remains high, and we anticipate that continuing efforts by businesses to attract and retain workers will lead to additional upward pressure on labor cost increases and, ultimately, on core price

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

Measure	1999	2000	2001
PCE chain-weighted price index	2.0	2.6	2.0
Previous	2.0	2.4	2.2
Excluding food and energy	1.5	2.1	2.3
Previous	1.5	2.2	2.4
Consumer price index	2.6	3.2	2.2
Previous	2.6	3.0	2.4
Food	1.9	2.6	2.7
Previous	1.9	2.8	2.7
Energy	11.2	11.5	-4.9
Previous	11.2	6.4	-3.2
Excluding food and energy	2.1	2.6	2.8
Previous	2.1	2.7	2.9
GDP chain-weighted price index	1.6	2.3	1.9
Previous	1.6	2.3	2.0
ECI for compensation of private industry workers ¹	3.4	4.4	4.6
Previous	3.4	4.4	4.6
NFB compensation per hour	4.3	4.7	5.4
Previous	4.3	4.9	5.5
Prices of core non-oil merchandise imports	.2	1.8	3.0
Previous	.2	1.8	3.0

1. December to December.

inflation.¹ All things considered, we expect core price inflation to remain on an uptrend over the forecast period.

Except for some minor tweaks, our compensation forecast is little changed from that in the last Greenbook. Both the ECI and the productivity and cost (P&C) measures of hourly compensation are expected to accelerate more than

1. As we have noted before, the difficulties in the definition and measurement of hourly compensation these days have led us to downweight the direct quantitative link between any of the compensation measures and our price projection.

1 percentage point from 1999 to 2001. Although we have heavily discounted the large first-quarter increase in the ECI, we still expect a considerable acceleration this year: After rising 3.4 percent in 1999, we are projecting an increase of 4.4 percent in 2000 and 4.6 percent next year.² With a pickup from here in quarterly rates of increase, we are looking for P&C hourly compensation to accelerate from a rise of 4.3 percent last year to a gain of 4.7 percent in 2000 and 5.4 percent in 2001.

On the price side, we have a slightly lower projection for food prices this year than in the last Greenbook. Because of recent substantial rain in parts of the Midwest, the likelihood of drought damage to crops has diminished, although it is still early in the growing season. We now expect that the consumer price index for food will rise 2-1/2 percent this year and 2-3/4 percent in 2001. In contrast to the news about food prices, the upward revision to our oil price path and the ongoing tightness in markets for natural gas suggest a less favorable outlook for energy prices. We now project that consumer energy prices will rise significantly further through July and will post a low double-digit increase over the year as a whole. Energy prices are higher at the end of this year than in the last Greenbook and should drop more rapidly in 2001. Thus, this year, headline inflation rates will accelerate more than the core; next year, increases in the overall measures drop below those for the core as energy prices retreat.

For core PCE prices, which rose 1-1/2 percent last year, we project an acceleration to 2-1/4 percent next year. We anticipate a similar acceleration in the core CPI, which would push that measure up to a pace of 2-3/4 percent in 2001. Compared with the last Greenbook, our core inflation forecasts are down a tenth this year and next, reflecting slightly better incoming data and a touch higher path for the unemployment rate.

Financial Flows and Conditions

Growth of domestic nonfinancial debt appears to have slowed in the second quarter to a pace of about 4 percent, reflecting the large paydown of federal debt. However, excluding the federal sector, we estimate that debt growth has held close to the 8-1/2 percent pace of recent quarters, as heavy corporate borrowing has offset a modest slowing of household borrowing and a transitory paydown of state and local obligations.

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

Looking ahead, nonfinancial debt is projected to expand at a rate of about 4-1/2 percent over the next year and a half, down from the nearly 7 percent pace in 1998 and 1999. The debt growth projected through 2001 runs somewhat below the anticipated rise in nominal GDP, owing--as in the current quarter--to the substantial runoff of federal debt. Federal debt is now projected to tumble 8-3/4 percent in 2000 and 9 percent in 2001.

Among the other sectors, household borrowing is likely to diminish somewhat as the demand for consumer durables and housing moderates; even so, we expect household debt to expand at a pace of roughly 7 percent on average over the forecast period, outstripping the growth in disposable income. In the business sector, increasing investment outlays and large net equity retirements are expected to keep corporate debt growth close to a double-digit rate. Finally, net borrowing by state and local units should turn positive next quarter, but we still expect the sector's debt growth to be sluggish compared with the robust outlays for public investment. High interest rates have halted nearly all advance-refunding bonds, and retirements from earlier advance refundings are slated to pick up over the forecast period.

We expect credit supply to become a bit less accommodative in coming quarters but not enough to exert a substantial restraint on spending. Bond investors and banks are anticipated to become a little more cautious about business lending in light of further deterioration in debt repayment performance. With regard to households, loan delinquency rates suggest that repayment problems remain isolated at present. As households continue to accumulate debt at a rate that exceeds their income, debt-service burdens are anticipated to rise, though not by enough to reduce credit quality measurably under our macroeconomic forecast. The financial health of the state and local sector, which has been improving for the past four years, is expected to remain quite good and should exert no restraint on the sector's ability to raise new funds.

Growth of the broad monetary aggregates apparently rebounded in June, after an up-and-down pattern in April and May that reflected the effects on deposits of above-average tax payments. For the year as a whole, higher short-term interest rates are expected to damp growth of M2 relative to that of nominal income, though these interest rate effects attenuate in 2001. M3 growth is expected to outpace the growth of income in both years.

Alternative Simulations

For this Greenbook, we prepared four alternative simulations with the FRB/US econometric model. In the first scenario, the federal funds rate remains at its current level through 2001. The second scenario assumes tighter monetary policy than in the baseline forecast, with the funds rate rising to 8 percent by the end of this year. A third scenario examines the implications of a stock market

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

Measure	2000	2001
<i>Real GDP</i>		
Baseline	4.3	3.5
Flat funds rate	4.4	4.2
Tighter policy	4.2	2.8
Stock market correction	4.2	2.9
Continued stock market gains	4.3	3.8
<i>Civilian unemployment rate¹</i>		
Baseline	3.9	4.1
Flat funds rate	3.9	3.8
Tighter policy	3.9	4.4
Stock market correction	3.9	4.3
Continued stock market gains	3.9	4.0
<i>PCE prices excluding food and energy</i>		
Baseline	2.1	2.3
Flat funds rate	2.1	2.6
Tighter policy	2.1	2.0
Stock market correction	2.1	2.3
Continued stock market gains	2.1	2.3

1. Average for the fourth quarter.

correction, with the Wilshire 5000 (which closed today at 13,862) dropping in the latter part of the third quarter to a level of 11,000 and remaining at that level through the end of 2001. In the fourth scenario, the market trends upward, with the Wilshire reaching 16,000 by the end of next year.

With no change in the nominal federal funds rate over the projection period, the FRB/US model projects that real GDP will rise at a pace of 4.2 percent next year, well above the baseline rate. With the additional growth, the unemployment rate edges down next year, and core PCE inflation picks up to a 2.6 percent pace next year. Under this scenario, inflation would step up rapidly beyond the forecast horizon.

In the "tighter policy" scenario, real GDP growth slows to 2.8 percent next year, and the unemployment rate rises to 4.4 percent by the end of 2001. Under this scenario, the model projects that inflation would edge down rather than picking up as in the baseline projection. Besides the lower level of resource utilization in this scenario, the favorable inflation performance also reflects the influence

of tighter monetary policy on the exchange rate and on long-run inflation expectations.

In the scenario with a stock market correction, equity prices drop roughly 20 percent from their current level. Such a decline would pare the household wealth-income ratio considerably and would raise the cost of equity finance. In this scenario, real GDP growth slows further next year, to 2.9 percent. As in the tighter policy scenario, the unemployment rate rises noticeably by the end of 2001; however, the disinflationary benefits are smaller because perceptions of the long-run inflation goal of monetary policy are unchanged by the drop in share prices.

The final scenario considers the implications of an additional increase in the stock market. In this scenario, real GDP increases 3.8 percent next year, 0.3 percentage point more than in the baseline projection. Although the unemployment rate in this scenario is a touch lower than in the baseline case, the long-run goal of monetary policy has not changed in this scenario, and the projection of inflation is the same as in the baseline scenario.

Strictly Confidential <FR>
Class II FOMC

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

June 21, 2000

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²		
	5/11/00	6/21/00	5/11/00	6/21/00	5/11/00	6/21/00	5/11/00	6/21/00	5/11/00	6/21/00	
ANNUAL											
1997	6.2	6.2	4.2	4.2	1.9	1.9	2.3	2.3	4.9	4.9	
1998	5.5	5.5	4.3	4.3	1.2	1.2	1.6	1.6	4.5	4.5	
1999	5.7	5.7	4.1	4.1	1.4	1.4	2.2	2.2	4.2	4.2	
2000	7.3	7.3	5.1	5.0	2.1	2.2	3.1	3.3	3.9	4.0	
2001	5.9	5.7	3.8	3.7	2.0	2.0	2.4	2.3	3.9	4.1	
QUARTERLY											
1998	Q1	7.7	7.7	6.9	6.9	0.9	0.9	1.0	1.0	4.7	4.7
	Q2	3.4	3.4	2.2	2.2	1.1	1.1	1.7	1.7	4.4	4.4
	Q3	5.4	5.4	3.8	3.8	1.3	1.3	1.7	1.7	4.5	4.5
	Q4	7.0	7.0	5.9	5.9	0.8	0.8	1.7	1.7	4.4	4.4
1999	Q1	5.7	5.7	3.7	3.7	2.0	2.0	1.7	1.7	4.3	4.3
	Q2	3.3	3.3	1.9	1.9	1.3	1.3	3.2	3.2	4.3	4.3
	Q3	6.8	6.8	5.7	5.7	1.1	1.1	2.4	2.4	4.2	4.2
	Q4	9.4	9.4	7.3	7.3	2.0	2.0	2.9	2.9	4.1	4.1
2000	Q1	7.7	8.4	4.9	5.5	2.6	2.7	4.1	4.1	4.1	4.1
	Q2	7.9	6.8	5.3	4.1	2.7	2.6	3.5	3.6	3.9	4.0
	Q3	6.1	6.2	4.1	3.8	1.9	2.3	2.1	3.7	3.8	3.9
	Q4	5.9	5.6	4.0	3.8	1.8	1.7	2.3	1.6	3.8	3.9
2001	Q1	5.8	5.6	3.6	3.5	2.1	2.0	2.2	1.9	3.9	4.0
	Q2	5.6	5.5	3.6	3.5	1.9	1.8	2.5	2.3	3.9	4.0
	Q3	5.6	5.4	3.6	3.5	2.0	1.8	2.4	2.3	3.9	4.1
	Q4	5.7	5.5	3.6	3.5	2.0	1.9	2.6	2.5	4.0	4.1
TWO-QUARTER³											
1998	Q2	5.5	5.5	4.5	4.5	1.0	1.0	1.3	1.3	-0.3	-0.3
	Q4	6.2	6.2	4.9	4.9	1.1	1.1	1.7	1.7	0.0	0.0
1999	Q2	4.5	4.5	2.8	2.8	1.7	1.7	2.5	2.5	-0.1	-0.1
	Q4	8.1	8.1	6.5	6.5	1.5	1.5	2.7	2.7	-0.2	-0.2
2000	Q2	7.8	7.6	5.1	4.8	2.7	2.7	3.7	3.8	-0.2	-0.1
	Q4	6.0	5.9	4.0	3.8	1.9	2.0	2.2	2.6	-0.1	-0.1
2001	Q2	5.7	5.5	3.6	3.5	2.0	1.9	2.3	2.1	0.1	0.1
	Q4	5.7	5.5	3.6	3.5	2.0	1.9	2.5	2.4	0.1	0.1
FOUR-QUARTER⁴											
1997	Q4	5.9	5.9	4.1	4.1	1.8	1.8	1.9	1.9	-0.6	-0.6
1998	Q4	5.9	5.9	4.7	4.7	1.0	1.0	1.5	1.5	-0.3	-0.3
1999	Q4	6.3	6.3	4.6	4.6	1.6	1.6	2.6	2.6	-0.3	-0.3
2000	Q4	6.9	6.7	4.5	4.3	2.3	2.3	3.0	3.2	-0.3	-0.2
2001	Q4	5.7	5.5	3.6	3.5	2.0	1.9	2.4	2.2	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.

Strictly Confidential <FR>
Class II FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES
(Seasonally adjusted annual rate)

June 21, 2000

Item	Units ¹									-- Projected --	
		1993	1994	1995	1996	1997	1998	1999	2000	2001	
EXPENDITURES											
Nominal GDP	Bill. \$	6642.3	7054.3	7400.5	7813.2	8300.8	8759.9	9256.1	9930.5	10495.0	
Real GDP	Bill. Ch. \$	7062.6	7347.7	7543.8	7813.2	8144.8	8495.7	8848.2	9294.1	9634.9	
Real GDP	% change	2.5	4.1	2.2	4.1	4.1	4.7	4.6	4.3	3.5	
Gross domestic purchases		3.1	4.3	1.7	4.3	4.7	5.7	5.6	4.9	3.6	
Final sales		2.6	3.2	2.9	3.9	3.6	4.7	4.6	4.5	3.7	
Priv. dom. final purchases		4.2	4.3	3.2	4.4	4.7	6.6	5.7	5.7	3.8	
Personal cons. expenditures		3.4	3.6	2.8	3.1	3.9	5.1	5.6	4.5	3.2	
Durables		9.3	6.4	3.7	5.0	8.4	13.0	10.5	6.8	2.9	
Nondurables		2.6	4.1	2.5	3.2	2.4	5.0	5.8	3.3	2.4	
Services		2.6	2.7	2.7	2.7	3.8	3.7	4.5	4.7	3.6	
Business fixed investment		8.7	9.2	7.5	12.1	9.6	13.1	7.1	15.1	10.1	
Equipment & Software		11.5	12.0	8.9	11.8	11.3	16.8	10.8	17.0	12.7	
Nonres. structures		1.2	1.1	3.3	12.8	4.7	2.9	-3.9	8.9	1.3	
Residential structures		7.8	4.0	-1.5	5.6	3.7	11.3	3.9	-2.2	-5.5	
Exports		4.8	10.5	9.7	9.8	9.2	2.0	4.8	7.8	8.5	
Imports		10.5	12.2	5.0	11.2	14.2	10.8	12.6	11.5	8.0	
Gov't. cons. & investment		-0.8	0.2	-0.8	2.7	2.2	2.3	5.0	2.1	3.5	
Federal		-5.3	-3.7	-5.3	2.0	0.2	0.6	5.0	-2.0	1.4	
Defense		-6.4	-5.9	-4.7	0.8	-1.3	-1.1	5.1	-4.3	0.9	
State & local		2.5	2.8	2.1	3.0	3.3	3.2	5.0	4.4	4.7	
Change in bus. inventories	Bill. Ch. \$	20.0	66.8	30.4	30.0	69.1	74.3	42.2	44.5	44.0	
Nonfarm		28.6	53.6	42.6	22.1	66.2	73.2	42.4	48.7	43.6	
Net exports		-59.1	-86.5	-78.4	-89.0	-112.2	-217.6	-323.0	-400.0	-448.3	
Nominal GDP	% change	5.0	6.2	4.3	6.0	5.9	5.9	6.3	6.7	5.5	
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	110.7	114.1	117.2	119.6	122.7	125.8	128.8	131.7	133.5	
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	5.2	3.9	
Capacity util. rate - mfg.	%	80.5	82.5	82.6	81.5	82.4	80.9	79.8	81.0	81.2	
Housing starts	Millions	1.29	1.46	1.35	1.48	1.47	1.62	1.67	1.63	1.53	
Light motor vehicle sales		13.87	15.01	14.77	15.05	15.05	15.45	16.76	17.32	16.53	
North Amer. produced		11.72	12.88	12.87	13.35	13.12	13.43	14.28	14.56	14.01	
Other		2.15	2.13	1.90	1.70	1.94	2.02	2.48	2.76	2.52	
INCOME AND SAVING											
Nominal GNP	Bill. \$	6666.7	7071.1	7420.9	7831.2	8305.0	8750.0	9236.2	9901.7	10449.1	
Nominal GNP	% change	4.9	6.2	4.4	5.9	5.7	5.6	6.1	6.8	5.3	
Nominal personal income		3.7	5.1	4.3	5.9	6.4	6.0	5.9	6.3	6.0	
Real disposable income		1.3	2.9	1.7	2.6	3.9	4.3	3.7	3.3	4.0	
Personal saving rate	%	7.1	6.1	5.6	4.8	4.5	3.7	2.4	0.7	1.2	
Corp. profits, IVA & CCAdj.	% change	18.0	12.3	11.3	11.4	10.1	-1.8	9.6	10.0	0.8	
Profit share of GNP	%	7.7	8.1	9.0	9.6	10.1	9.7	9.7	10.0	9.7	
Excluding FR Banks		7.4	7.9	8.7	9.4	9.8	9.4	9.4	9.8	9.5	
Federal surpl./deficit	Bill. \$	-274.1	-212.3	-192.0	-136.8	-48.8	46.9	115.4	187.5	213.8	
State & local surpl./def.		1.5	8.6	15.3	21.4	27.5	41.7	51.0	53.4	49.9	
Ex. social ins. funds		-2.7	4.0	11.4	18.7	26.4	40.8	50.2	52.1	48.5	
Gross natl. saving rate	%	15.6	16.3	16.9	17.2	18.3	18.8	18.7	18.3	18.7	
Net natl. saving rate		3.8	4.3	5.1	5.7	7.1	7.5	7.3	7.0	7.4	
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.4	2.1	2.1	1.9	1.8	1.0	1.6	2.3	1.9	
Gross Domestic Purchases											
chn.-wt. price index		2.2	2.1	2.1	1.9	1.3	0.7	1.9	2.4	1.8	
PCE chn.-wt. price index		2.1	2.1	2.1	2.3	1.6	0.9	2.0	2.6	2.0	
Ex. food and energy		2.4	2.3	2.3	1.8	1.7	1.3	1.5	2.1	2.3	
CPI		2.7	2.6	2.7	3.1	1.9	1.5	2.6	3.2	2.2	
Ex. food and energy		3.1	2.8	3.0	2.6	2.2	2.4	2.1	2.6	2.8	
ECI, hourly compensation ²		3.6	3.1	2.6	3.1	3.4	3.5	3.4	4.4	4.6	
Nonfarm business sector											
Output per hour		-0.2	1.1	1.1	2.3	1.9	3.3	3.7	2.8	2.6	
Compensation per Hour		1.3	2.2	2.7	3.2	4.3	5.4	4.3	4.7	5.4	
Unit labor cost		1.6	1.0	1.5	0.9	2.3	2.0	0.6	1.9	2.8	

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

Strictly Confidential <FR>
Class II POMC

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

June 21, 2000

Item	Units	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	8125.9	8259.5	8364.5	8453.0	8610.6	8683.7	8797.9	8947.6	9072.7	9146.2
Real GDP	Bill. Ch. \$	8018.7	8115.4	8192.2	8253.2	8391.1	8436.3	8515.7	8639.5	8717.6	8758.3
Real GDP	% change	4.5	4.9	3.8	3.0	6.9	2.2	3.8	5.9	3.7	1.9
Gross domestic purchases		5.4	5.4	4.6	3.4	8.8	4.2	4.6	5.5	5.8	3.2
Final sales		3.5	2.9	5.6	2.4	5.2	5.1	2.4	6.3	4.6	3.4
Priv. dom. final purchases		5.0	2.8	7.4	3.4	9.0	7.4	3.6	6.4	7.0	5.4
Personal cons. expenditures		4.4	1.5	6.4	3.3	5.8	6.1	4.0	4.6	6.5	5.1
Durables		10.9	-1.5	20.2	5.0	16.9	11.2	4.1	20.4	12.4	9.1
Nondurables		3.8	-0.2	5.7	0.3	5.8	6.7	2.4	5.0	8.9	3.3
Services		3.4	3.0	4.2	4.5	3.7	4.9	4.7	1.5	4.2	5.2
Business fixed investment		9.6	9.9	16.0	3.2	26.7	12.1	0.0	15.3	7.8	7.0
Equipment & Software		10.1	15.2	17.7	2.8	34.7	13.8	2.4	18.6	12.5	11.2
Nonres. structures		8.0	-4.0	11.2	4.3	5.7	7.1	-6.6	5.8	-5.8	-5.3
Residential structures		3.0	4.7	0.6	6.6	14.0	13.6	8.0	9.8	12.9	5.5
Exports		8.3	15.9	11.3	1.7	-1.5	-3.9	-1.6	16.3	-5.5	4.0
Imports		15.5	19.1	17.6	5.2	14.4	13.0	5.2	10.8	12.5	14.4
Gov't. cons. & investment		1.5	5.6	1.6	-0.1	-1.0	6.0	1.3	2.9	5.1	1.3
Federal		-2.9	9.8	-1.4	-4.2	-9.8	11.9	-2.3	3.9	-0.5	2.1
Defense		-11.3	9.6	-0.2	-2.4	-17.0	11.1	7.0	-2.9	-4.0	-2.6
State & local		4.1	3.3	3.4	2.3	4.1	3.0	3.3	2.4	8.2	0.9
Change in bus. inventories	Bill. Ch. \$	51.5	93.1	59.2	72.7	107.3	43.1	76.1	70.7	50.1	14.0
Nonfarm		56.7	85.7	52.6	69.7	103.8	53.2	77.5	58.2	43.1	13.1
Net exports		-92.6	-103.2	-121.3	-131.5	-174.5	-221.0	-240.3	-234.4	-286.6	-321.1
Nominal GDP	% change	7.4	6.7	5.2	4.3	7.7	3.4	5.4	7.0	5.7	3.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	121.4	122.3	123.0	124.0	124.7	125.5	126.2	127.0	127.8	128.4
Unemployment rate	%	5.3	5.0	4.8	4.7	4.7	4.4	4.5	4.4	4.3	4.3
Industrial prod. index	% change	6.5	6.7	6.9	6.9	2.4	3.0	2.9	3.3	2.0	4.7
Capacity util. rate - mfg.	%	81.9	82.2	82.5	82.7	82.0	81.0	80.3	80.2	79.6	79.6
Housing starts	Millions	1.43	1.48	1.46	1.53	1.56	1.57	1.63	1.72	1.76	1.59
Light motor vehicle sales		15.35	14.54	15.26	15.06	15.18	16.09	14.52	16.01	16.24	16.74
North Amer. produced		13.43	12.68	13.25	13.11	13.21	14.10	12.52	13.88	13.98	14.32
Other		1.92	1.86	2.01	1.96	1.97	1.99	2.00	2.13	2.26	2.42
INCOME AND SAVING											
Nominal GNP	Bill. \$	8131.1	8269.1	8366.5	8453.3	8613.7	8683.7	8772.2	8930.5	9058.2	9131.9
Nominal GNP	% change	6.8	7.0	4.8	4.2	7.8	3.3	4.1	7.4	5.8	3.3
Nominal personal income		8.0	5.6	5.5	6.4	5.3	5.8	6.6	6.5	5.4	5.5
Real disposable income		3.9	3.9	3.4	4.3	4.2	3.8	4.5	4.8	4.1	3.2
Personal saving rate	%	4.5	5.0	4.2	4.4	4.0	3.5	3.6	3.5	3.0	2.5
Corp. profits, IVA & CCAdj.	% change	15.6	14.4	15.9	-4.1	1.9	-4.1	-1.2	-3.6	24.9	-2.9
Profit share of GNP	%	9.9	10.1	10.3	10.1	10.0	9.8	9.7	9.4	9.8	9.6
Excluding FR Banks		9.6	9.8	10.0	9.8	9.7	9.5	9.4	9.1	9.5	9.4
Federal surpl./deficit	Bill. \$	-87.4	-63.2	-27.9	-16.8	24.9	43.5	59.6	59.7	97.6	118.1
State & local surpl./def.		25.9	23.7	30.9	29.7	32.0	30.9	49.9	54.2	48.7	37.6
Ex. social ins. funds		24.3	22.4	29.9	28.9	31.1	29.9	48.9	53.4	48.2	36.8
Gross natl. saving rate	%	17.7	18.4	18.5	18.6	18.8	18.6	19.0	18.9	19.1	18.7
Net natl. saving rate		6.4	7.2	7.3	7.4	7.6	7.2	7.6	7.6	7.8	7.3
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.8	1.8	1.3	1.3	0.9	1.1	1.3	0.8	2.0	1.3
Gross Domestic Purchases											
chn.-wt. price index		2.3	0.8	1.2	1.2	-0.1	0.8	1.0	0.9	1.6	1.9
PCE chn.-wt. price index		2.6	1.1	1.3	1.2	0.3	1.1	1.1	1.1	1.5	2.2
Ex. food and energy		2.5	2.3	1.0	1.1	1.1	1.6	1.3	1.3	1.5	1.3
CPI		2.5	1.3	1.8	2.0	1.0	1.7	1.7	1.7	1.7	3.2
Ex. food and energy		2.2	2.6	1.7	2.1	2.8	2.3	2.3	2.1	1.8	2.1
ECI, hourly compensation ¹		2.8	3.4	3.0	4.6	3.0	3.3	4.4	2.6	1.7	4.3
Nonfarm business sector											
Output per hour		0.3	3.0	3.2	1.1	4.7	1.0	3.2	4.1	2.7	0.5
Compensation per hour		3.6	2.6	4.4	6.4	4.9	5.6	6.2	4.6	4.2	4.7
Unit labor cost		3.3	-0.3	1.2	5.2	0.2	4.5	3.0	0.4	1.5	4.2

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES
(Seasonally adjusted, annual rate except as noted)

June 21, 2000

Item	Units	----- Projected -----									
		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	9507.9	9700.8	9861.3	10011.7	10148.1	10286.8	10424.3	10562.9	10706.1
Real GDP	Bill. Ch. \$	8879.8	9037.2	9158.7	9251.6	9338.8	9427.3	9509.5	9592.6	9676.5	9761.0
Real GDP	% change	5.7	7.3	5.5	4.1	3.8	3.8	3.5	3.5	3.5	3.5
Gross domestic purchases		6.2	7.2	6.3	4.8	4.7	3.9	4.0	3.9	3.5	3.2
Final sales		4.5	6.0	7.2	3.5	3.2	4.2	3.6	3.6	3.7	3.8
Priv. dom. final purchases		5.3	5.3	10.0	4.2	4.3	4.5	4.1	4.0	3.7	3.5
Personal cons. expenditures		4.9	5.9	7.5	3.2	4.0	3.6	3.6	3.3	3.0	2.7
Durables		7.7	13.0	22.4	-2.3	5.5	3.2	3.9	2.5	2.6	2.5
Nondurables		3.6	7.6	5.6	1.9	2.6	3.1	3.0	2.6	2.1	1.9
Services		5.0	3.7	5.6	5.0	4.3	3.9	3.9	3.8	3.6	3.1
Business fixed investment		10.9	2.9	25.8	12.7	10.3	12.2	10.5	10.5	10.0	9.3
Equipment & Software		15.7	4.0	27.0	14.1	12.4	15.2	13.1	13.2	12.7	11.9
Nonres. structures		-3.8	-0.5	22.0	8.1	3.9	2.8	2.0	1.7	1.1	0.5
Residential structures		-3.8	1.8	6.5	-2.9	-6.8	-4.9	-7.8	-5.1	-5.3	-3.6
Exports		11.5	10.1	5.8	11.7	4.6	9.3	4.7	8.5	8.8	12.2
Imports		14.9	8.7	11.8	15.1	10.9	8.1	7.4	9.5	7.5	7.5
Gov't. cons. & investment		4.5	9.3	-1.4	3.8	3.1	3.1	3.5	3.5	3.6	3.6
Federal		4.1	14.7	-15.1	8.7	0.2	-0.2	1.1	1.3	1.5	1.5
Defense		11.2	17.2	-22.3	5.9	1.6	0.5	0.5	0.8	1.1	1.1
State & local		4.8	6.4	6.7	1.4	4.7	4.8	4.7	4.6	4.7	4.7
Change in bus. inventories	Bill. Ch. \$	38.0	66.7	27.9	42.7	57.9	49.4	48.7	47.3	43.4	36.4
Nonfarm		41.2	72.3	34.1	48.0	61.4	51.3	49.7	47.4	42.6	34.7
Net exports		-340.4	-344.1	-369.0	-390.7	-417.8	-422.6	-437.7	-450.5	-454.9	-450.0
Nominal GDP	% change	6.8	9.4	8.4	6.8	6.2	5.6	5.6	5.5	5.4	5.5
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	129.1	129.8	130.6	131.7	131.9	132.4	132.8	133.3	133.7	134.2
Unemployment rate	%	4.2	4.1	4.1	4.0	3.9	3.9	4.0	4.0	4.1	4.1
Industrial prod. index	% change	4.8	5.3	6.6	6.6	3.7	3.8	3.5	4.1	4.0	3.9
Capacity util. rate - mfg.	%	79.7	80.3	80.8	81.2	81.1	81.0	81.0	81.1	81.3	81.4
Housing starts	Millions	1.66	1.69	1.73	1.61	1.61	1.59	1.56	1.54	1.52	1.51
Light motor vehicle sales		17.16	16.89	18.13	17.30	17.04	16.81	16.68	16.56	16.49	16.38
North Amer. produced		14.71	14.09	15.28	14.46	14.30	14.21	14.11	14.04	14.00	13.90
Other		2.45	2.80	2.85	2.84	2.74	2.60	2.57	2.52	2.49	2.48
INCOME AND SAVING											
Nominal GNP	Bill. \$	9282.3	9472.3	9671.4	9835.1	9985.6	10114.8	10248.0	10379.7	10515.2	10653.4
Nominal GNP	% change	6.8	8.4	8.7	6.9	6.3	5.3	5.4	5.2	5.3	5.4
Nominal personal income		5.2	7.4	6.1	7.0	6.9	5.1	7.1	5.7	5.6	5.7
Real disposable income		2.9	4.7	2.2	4.3	3.5	3.3	6.4	3.3	3.1	3.1
Personal saving rate	%	2.1	1.8	0.6	0.8	0.7	0.6	1.2	1.2	1.2	1.3
Corp. profits, IVA & CCAAdj.	% change	1.6	17.0	19.8	13.3	6.5	1.3	-1.3	1.3	2.0	1.3
Profit share of GNP	%	9.5	9.7	9.9	10.1	10.1	10.0	9.8	9.7	9.7	9.6
Excluding FR Banks		9.2	9.4	9.7	9.8	9.8	9.7	9.6	9.5	9.4	9.3
Federal surpl./deficit	Bill. \$	133.8	112.2	186.7	177.9	180.7	204.7	184.3	204.4	228.0	238.7
State & local surpl./def.		48.9	68.8	57.0	51.3	51.8	53.6	55.1	52.9	47.4	44.1
Ex. social ins. funds		48.1	67.7	55.7	50.0	50.4	52.2	53.7	51.5	46.0	42.7
Gross natl. saving rate	%	18.7	18.3	18.2	18.4	18.3	18.4	18.5	18.6	18.7	18.8
Net natl. saving rate		7.1	6.9	6.8	7.0	7.0	7.1	7.2	7.3	7.4	7.5
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.1	2.0	2.7	2.6	2.3	1.7	2.0	1.8	1.8	1.9
Gross Domestic Purchases											
chn.-wt. price index		1.7	2.3	3.2	2.4	2.5	1.4	1.9	1.7	1.7	1.8
PCE chn.-wt. price index		1.8	2.5	3.1	2.6	3.0	1.6	1.8	2.0	2.1	2.2
Ex. food and energy		1.2	2.0	1.8	2.1	2.1	2.3	2.3	2.4	2.3	2.4
CPI		2.4	2.9	4.1	3.6	3.7	1.6	1.9	2.3	2.3	2.5
Ex. food and energy		2.1	2.3	2.3	2.8	2.4	2.8	2.7	3.0	2.8	2.9
ECI, hourly compensation ¹		3.7	4.0	5.9	3.5	3.9	4.3	4.5	4.5	4.5	4.7
Nonfarm business sector											
Output per hour		5.0	6.9	2.9	3.4	2.3	2.7	2.7	2.7	2.6	2.6
Compensation per hour		4.6	3.8	4.1	4.6	4.8	5.2	5.5	5.3	5.3	5.5
Unit labor cost		-0.3	-2.9	1.2	1.3	2.5	2.5	2.9	2.6	2.6	2.9

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

June 21, 2000

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

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

June 21, 2000

Item	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	99Q4/ 98Q4	00Q4/ 99Q4	01Q4/ 00Q4
Real GDP	7.3	5.5	4.1	3.8	3.8	3.5	3.5	3.5	3.5	4.6	4.3	3.5
Gross dom. purchases	7.4	6.5	5.0	4.9	4.0	4.1	4.0	3.7	3.3	5.7	5.1	3.8
Final sales	6.0	7.1	3.5	3.2	4.2	3.6	3.6	3.7	3.8	4.6	4.5	3.7
Priv. dom. final purchases	4.5	8.4	3.6	3.7	3.8	3.5	3.4	3.2	3.0	4.8	4.9	3.3
Personal cons. expenditures	4.1	5.0	2.2	2.7	2.4	2.5	2.3	2.1	1.8	3.7	3.1	2.2
Durables	1.0	1.7	-0.2	0.4	0.3	0.3	0.2	0.2	0.2	0.8	0.6	0.2
Nondurables	1.5	1.1	0.4	0.5	0.6	0.6	0.5	0.4	0.4	1.1	0.7	0.5
Services	1.5	2.2	2.0	1.7	1.5	1.5	1.5	1.4	1.3	1.8	1.9	1.5
Business fixed investment	0.4	3.0	1.6	1.3	1.6	1.4	1.4	1.3	1.3	0.9	1.9	1.3
Equipment & Software	0.4	2.4	1.3	1.2	1.5	1.3	1.3	1.3	1.2	1.0	1.6	1.3
Nonres. structures	-0.0	0.6	0.2	0.1	0.1	0.1	0.1	0.0	0.0	-0.1	0.3	0.0
Residential structures	0.1	0.3	-0.1	-0.3	-0.2	-0.3	-0.2	-0.2	-0.1	0.2	-0.1	-0.2
Net exports	-0.1	-1.0	-0.8	-1.0	-0.2	-0.6	-0.5	-0.1	0.2	-1.1	-0.7	-0.2
Exports	1.1	0.6	1.2	0.5	1.0	0.5	0.9	1.0	1.3	0.5	0.9	0.9
Imports	-1.2	-1.6	-2.1	-1.5	-1.2	-1.1	-1.4	-1.1	-1.1	-1.6	-1.6	-1.2
Government cons. & invest.	1.6	-0.3	0.7	0.5	0.5	0.6	0.6	0.6	0.6	0.9	0.4	0.6
Federal	0.9	-1.0	0.5	0.0	-0.0	0.1	0.1	0.1	0.1	0.3	-0.1	0.1
Defense	0.7	-1.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.2	-0.2	0.0
Nondefense	0.2	-0.0	0.3	-0.0	-0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
State and local	0.8	0.8	0.2	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.5	0.5
Change in bus. inventories	1.2	-1.7	0.6	0.6	-0.3	-0.0	-0.1	-0.1	-0.3	-0.0	-0.2	-0.1
Nonfarm	1.4	-1.6	0.6	0.5	-0.4	-0.1	-0.1	-0.2	-0.3	0.2	-0.2	-0.2
Farm	-0.1	-0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	-0.2	0.0	0.0

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

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

Item	Fiscal year ¹				1999				2000				2001			
	1998 ^a	1999 ^a	2000	2001	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1 ^p	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Not seasonally adjusted																
Unified budget																
Receipts ²	1722	1827	2020	2113	402	564	449	444	434	661	482	477	468	656	512	515
Outlays ²	1653	1703	1787	1843	396	421	419	464	449	442	433	460	471	464	448	480
Surplus/deficit ²	69	125	233	270	6	143	30	-21	-15	219	50	16	-2	192	64	35
On-budget	-30	1	83	105	-49	88	21	-64	-45	158	34	-30	-30	121	45	-16
Off-budget	99	124	150	165	55	55	9	43	30	61	16	47	27	71	19	50
Surplus excluding deposit insurance	65	119	230	268	5	142	29	-20	-18	218	49	16	-3	191	63	34
Means of financing																
Borrowing	-51	-88	-235	-277	7	-108	-20	48	-27	-190	-66	-37	-10	-159	-71	-62
Cash decrease	5	-18	11	0	-4	-31	-3	-27	39	-31	30	20	5	-30	5	20
Other ³	-23	-19	-9	8	-9	-4	-7	-0	4	1	-14	1	7	-3	2	8
Cash operating balance, end of period	39	56	45	45	22	53	56	83	45	76	45	25	20	50	45	25
Seasonally adjusted annual rates																
NIPA federal sector																
Receipts	1722	1839	1985	2096	1827	1853	1883	1922	1977	2003	2037	2065	2075	2106	2137	2168
Expenditures	1694	1737	1820	1890	1729	1735	1749	1810	1791	1825	1856	1860	1891	1901	1909	1930
Consumption expenditures	452	467	493	510	467	465	475	492	483	497	499	499	511	514	516	519
Defense	300	305	318	328	305	301	312	326	311	317	320	322	328	330	331	332
Nondefense	153	162	174	182	162	164	163	167	173	180	178	177	183	184	185	187
Other spending	1242	1270	1328	1380	1262	1270	1274	1318	1307	1328	1357	1361	1380	1388	1393	1411
Current account surplus	28	102	164	205	98	118	134	112	186	178	181	205	184	204	228	239
Gross investment	84	92	99	102	90	96	95	102	97	98	100	101	102	103	104	105
Current and capital account surplus	-56	10	65	103	7	22	39	11	90	80	81	104	82	102	124	134
Fiscal indicators⁴																
High-employment (HEB) surplus/deficit	-139	-91	-73	-40	-94	-74	-69	-116	-47	-63	-67	-44	-60	-40	-14	-3
Change in HEB, percent of potential GDP	-9	-6	-2	-4	-4	-2	-1	.5	-8	.2	0	-.2	.2	-.2	-.3	-.1
Fiscal impetus (FI) percent, calendar year	0	5	3	5	2	-4	2	4	-4	3	.7	.9	2	.5	.4	.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 beginning in FY 2001, are \$179 billion in FY2000 and \$181 billion in FY2001. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget surplus and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY1990.

3. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.

4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1996) dollars, scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate aggregate demand restraint.

a--Actual p--Preliminary

Period ¹	Total ²	Federal government ³	Nonfederal						Memo: Nominal GDP
			Total ⁴	Households			Business	State and local governments	
				Total	Home mortgages	Consumer credit			
<i>Year</i>									
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	5.3	4.4	7.3	1.4	6.0	5.0
1994	4.6	4.7	4.5	7.6	5.9	14.5	3.8	-4.0	6.2
1995	5.5	4.1	6.0	7.9	5.7	14.1	6.8	-4.6	4.3
1996	5.3	4.0	5.8	7.3	7.2	7.9	5.8	-0.6	6.0
1997	5.6	0.6	7.3	6.5	6.8	4.3	8.7	5.3	5.9
1998	6.8	-1.4	9.5	8.8	9.9	5.4	10.9	7.2	5.9
1999	6.9	-1.9	9.5	9.2	10.1	7.1	11.0	4.4	6.3
2000	4.6	-8.7	8.1	7.7	7.8	8.3	10.0	1.3	6.7
2001	4.5	-9.0	7.6	7.0	7.8	5.3	9.4	0.9	5.5
<i>Quarter</i>									
1999:3	7.0	-2.2	9.6	9.7	11.0	5.5	10.6	4.6	6.8
4	6.5	-0.4	8.4	8.1	8.6	7.8	10.0	2.5	9.3
2000:1	5.5	-5.5	8.4	7.8	7.0	10.0	10.6	1.2	8.4
2	4.2	-12.0	8.4	7.6	8.1	7.9	11.4	-2.6	6.8
3	4.3	-7.9	7.3	7.5	7.7	7.6	7.7	4.6	6.2
4	3.9	-10.6	7.4	7.0	7.6	6.6	8.8	2.1	5.6
2001:1	5.3	-4.0	7.4	7.0	7.6	6.2	9.1	0.9	5.6
2	4.4	-9.4	7.4	6.8	7.5	5.5	9.2	0.9	5.5
3	4.5	-9.2	7.3	6.7	7.6	4.9	9.1	0.9	5.4
4	3.6	-14.6	7.3	6.6	7.6	4.3	9.1	0.9	5.5

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2000:Q1 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 4.9 percent in 2000 and 4.6 percent in 2001.

3. On a monthly average basis, federal debt is projected to grow -7.4 percent in 2000 and -8.6 percent in 2001.

4. On a monthly average basis, nonfederal debt is projected to grow 8.3 percent in 2000 and 7.6 percent in 2001.

Category	Calendar year				Seasonally adjusted annual rates									
					1999		2000				2001			
	1998	1999	2000	2001	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	771.1	976.9	712.2	749.6	1052.5	1068.7	1019.4	532.4	678.5	618.4	899.9	736.3	759.2	602.8
2 Net equity issuance	-267.0	-143.5	-84.3	-74.0	-128.4	-55.0	62.8	-216.0	-92.0	-92.0	-74.0	-74.0	-74.0	-74.0
3 Net debt issuance	1038.1	1120.4	796.5	823.6	1180.9	1123.7	956.6	748.4	770.5	710.4	973.9	810.3	833.2	676.8
<i>Borrowing sectors</i>														
<i>Nonfinancial business</i>														
4 Financing gap ¹	134.2	152.2	211.2	290.1	164.6	174.3	169.7	204.5	226.9	243.6	266.0	284.9	297.7	311.6
5 Net equity issuance	-267.0	-143.5	-84.3	-74.0	-128.4	-55.0	62.8	-216.0	-92.0	-92.0	-74.0	-74.0	-74.0	-74.0
6 Credit market borrowing	533.5	595.9	604.1	628.7	606.2	591.5	643.5	711.2	490.2	571.2	608.2	625.2	636.2	645.2
<i>Households</i>														
7 Net borrowing ²	476.9	542.9	496.2	486.1	600.9	515.5	502.5	504.1	501.1	477.1	488.1	485.1	486.1	485.1
8 Home mortgages	364.8	411.0	350.9	376.5	469.7	376.2	314.2	367.2	360.2	362.2	369.2	371.2	379.2	386.2
9 Consumer credit	67.6	94.4	118.3	82.5	76.2	109.5	143.1	115.0	114.0	101.0	96.0	86.0	78.0	70.0
10 Debt/DPI (percent) ³	90.4	93.3	95.3	96.2	93.8	94.3	94.9	95.1	95.3	95.9	95.7	96.1	96.4	96.8
<i>State and local governments</i>														
11 Net borrowing	80.3	52.8	16.6	11.4	57.0	31.0	14.6	-32.6	58.0	26.5	11.4	11.4	11.4	11.4
12 Current surplus ⁴	140.5	156.2	166.5	171.4	154.8	176.9	167.0	163.4	165.9	169.8	173.4	173.3	170.0	168.8
<i>Federal government</i>														
13 Net borrowing	-52.6	-71.2	-320.3	-302.6	-83.1	-14.3	-204.0	-434.3	-278.8	-364.3	-133.8	-311.4	-300.5	-464.8
14 Net borrowing (quarterly, n.s.a.)	-52.6	-71.2	-320.3	-302.6	-19.0	48.3	-27.5	-189.7	-65.9	-37.3	-10.0	-159.0	-71.3	-62.4
15 Unified deficit (quarterly, n.s.a.)	-54.4	-158.3	-270.2	-287.9	-30.1	20.6	15.0	-219.0	-49.8	-16.4	2.4	-191.8	-63.8	-34.6
<i>Depository institutions</i>														
16 Funds supplied	360.5	404.4	471.9	390.5	526.0	628.9	466.3	520.4	465.9	434.9	394.4	392.9	381.9	392.9
<i>Memo (percentage of GDP)</i>														
17 Domestic nonfinancial debt ⁵	180.1	182.3	179.8	177.8	182.9	182.1	181.2	180.4	179.6	179.0	178.6	178.4	178.0	177.4
18 Domestic nonfinancial borrowing	11.8	12.1	8.0	7.8	12.7	11.8	9.9	7.6	7.7	7.0	9.5	7.8	7.9	6.3
19 Federal government ⁶	-0.6	-0.8	-3.2	-2.9	-0.9	-0.2	-2.1	-4.4	-2.8	-3.6	-1.3	-3.0	-2.8	-4.3
20 Nonfederal	12.5	12.9	11.2	10.7	13.6	12.0	12.0	12.0	10.5	10.6	10.8	10.8	10.7	10.7

Note. Data after 2000:Q1 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.

International Developments

Overview

Evidence that has emerged since the May Greenbook paints a generally favorable picture of the foreign outlook. Growth abroad is now estimated to have averaged 5-1/4 percent during the first half of the year, about 1/2 percentage point stronger than projected in the May Greenbook. While the expansion of activity has been particularly rapid in the Asian developing countries, strong growth appears to have been recorded in all major regions of the world. Even the beleaguered Japanese economy has rebounded. Moving forward, we expect total foreign growth to settle in at around 4 percent, a projection unchanged from that in the previous Greenbook, as growth in Japan fades once again and as central banks continue to tighten monetary policy. The upward revision to our first half estimate, coupled with the unchanged forecast for the pace of growth going forward, translates into a slightly higher level of foreign activity throughout the forecast period than was the case in the May Greenbook.

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

Measure	1999	Projection		
		2000		2001
		H1	H2	
Foreign output	4.4	5.2	4.1	3.9
<i>May GB</i>	4.4	4.7	4.1	3.9
Foreign CPI	2.6	1.7	3.7	3.3
<i>May GB</i>	2.6	2.3	3.6	3.4

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

Spot WTI prices have recently moved above \$30 per barrel. The latest increase appears to have been triggered by rising demand for oil, as inventories remain low, and by uncertainty about OPEC's production plans. We expect these pressures on oil prices to attenuate, allowing the price of WTI to ease to \$23.50 per barrel by the end of 2001. The projected path of oil prices about tracks that in futures markets but is \$2 to \$4 a barrel higher than in the previous forecast.

Notwithstanding the high level of oil prices and the strong pace of foreign activity, inflation abroad has remained muted. Indeed, we have marked down our estimate of foreign inflation for the first half of the year, mainly in response

to incoming data from some Asian developing countries, but we still expect that inflation will move higher later in the forecast period.

As in previous Greenbooks, we anticipate that the broad real value of the dollar will decline gradually over the forecast period, but from a slightly higher initial value. The stronger starting point stems from the dollar's recent appreciation against several developing country currencies, reflecting market anxieties about political developments in those countries, and from the markdown of estimated foreign inflation during the first half of the year. These factors have more than offset the dollar's recent depreciation against major industrial country currencies. On balance, the broad real value of the dollar is projected to weaken nearly 4-1/2 percent from its second-quarter average by the end of next year, with the dollar recording declines against most industrial country currencies and, as political uncertainties recede, against emerging-market currencies as well. Our projected depreciation of the dollar and moderation of U.S. growth, against a backdrop of strong foreign activity, implies that the negative arithmetic contribution from net exports to real GDP growth vanishes by the end of the forecast period. Core import prices are projected to rise 1-3/4 percent this year and 3 percent next year.

Recent Developments

International financial markets. Since the May FOMC meeting, the dollar has depreciated 2-1/2 percent against the currencies of the major industrial countries, with declines of about 3-1/2 percent against both the yen and the euro. These moves appear to be linked to a string of U.S. data releases that, taken together, seem to have moderated market expectations regarding the extent of forthcoming monetary tightening in the United States relative to that abroad. By contrast, the dollar has appreciated 3-1/4 percent against the Mexican peso, largely because of heightened political uncertainty in the run-up to Mexico's July 2 presidential election.

A number of central banks—including those of Mexico, Canada, New Zealand, and Hong Kong—tightened policy, following close on the heels of the FOMC's 50 basis point firming at its May meeting. Subsequently, on June 8, the European Central Bank outstripped market expectations by also raising official interest rates 50 basis points. Not long after the move by the ECB, the central banks in Denmark, Norway, and Switzerland announced similar increases. In contrast, Brazil's central bank lowered its overnight rate 100 basis points. Long-term interest rates in most foreign industrial countries have declined over the past month or so because of a shift down in inflation expectations in response to higher short-term policy rates in many countries and evidence that U.S. economic growth may be slowing, and as U.S. rates have moved down.

Global equity market indexes have posted mixed changes over the intermeeting period.

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

Economic activity abroad. The Japanese economy recorded 10 percent growth during the first quarter, after a sharp contraction during the second half of last year. The first-quarter rebound was boosted an estimated 2 percentage points by inadequate adjustment for leap year, but the data suggest some strength in both private consumption and private investment. Indicators for the second quarter point to continued expansion, albeit at a much slower pace. In the euro area, first-quarter GDP growth slowed a bit from the 3-1/2 percent rate registered in the second half of last year, but activity appears to have accelerated in the second quarter. Canadian growth during the first quarter was on par with last year's strong pace, and recent indicators show that the economy continues to grow briskly. In the United Kingdom, in contrast, incoming data suggest that the effects of past monetary tightening and the strong pound are weighing on activity.

Measures of twelve-month consumer price inflation have eased a bit recently in most foreign industrial countries, partially reflecting fluctuations of oil prices. In the euro area, inflation has moved back below the target ceiling of 2 percent. Japanese consumer prices have continued to decline, while inflation in the United Kingdom has remained well below the Bank of England's 2-1/2 percent ceiling.

A diverse set of emerging-market economies, including Mexico and a number of developing Asian economies, registered double-digit growth during the first quarter. This strong performance was fueled by the ongoing buoyancy of exports but was also marked by a firming of domestic demand in these economies. More recent data, however, have indicated a bit of payback for this first-quarter surge, particularly in Mexico, China, Hong Kong, and some of the ASEAN economies. In Argentina, the economy's sluggish recent performance has raised doubts about the vigor of its fledgling recovery.

The recent expansion of activity in the developing countries has not triggered significant inflationary pressures. In Latin America, twelve-month inflation has trended down in Mexico and Brazil, and Argentina continues to experience deflation. In developing Asia, incoming data have caused us to mark down our inflation estimates for the first half of the year for a number of economies, including China, Hong Kong, Taiwan, and South Korea.

Prices of internationally traded goods. Prices of non-oil imports edged down in May after three consecutive monthly increases. For April and May combined, non-oil import prices rose 1 percent at an annual rate, compared with an increase about twice as fast in the previous two quarters. This deceleration reflects smaller increases in prices of industrial supplies and slightly larger declines in prices of imported consumer goods and foods.

Prices of total exports rose slightly in May. For April and May together, the move up was 2 percent at an annual rate, a bit less than in the previous two quarters. The largest increases were posted in agricultural products and industrial supplies.

U.S. international transactions. The U.S. current account deficit rose to \$409 billion (s.a.a.r.) in the first quarter of 2000, an increase of \$24 billion over the fourth quarter (revised). The increase in the current account deficit was driven by a \$40 billion decline in the balance on goods and services. In contrast, the deficits on investment income and on other income and unilateral transfers narrowed in the first quarter.

In April, the U.S. trade deficit in goods and services was \$30.4 billion, roughly unchanged from March (revised). At an annual rate, the deficit in April was \$20 billion larger than in the first quarter (revised). The value of exports in April remained steady at the strong level recorded in March. Exports of aircraft rose sharply in April from their strike-affected March low. The value of imports in April was about the same as in March, as an increase in imported capital goods (primarily computers) largely offset a decline in oil imports caused by a sharp decline in oil prices.

Outlook

The dollar. Given the recent softening of market sentiment toward the dollar and our continued concern about the growing net international indebtedness of the United States, we project that the real trade-weighted value of the dollar will decline about 5 percent against the major currencies over the forecast period. This decline stems mainly from a projected real appreciation of the euro, as well as from moderate real appreciations of the Canadian dollar, the Swiss franc, and sterling. Against the yen, in contrast, the real value of the dollar is expected to rise, on balance, as the yen-dollar exchange rate records little net change and Japanese inflation continues to run lower than that in the United States.

In terms of the broad real index, which includes the currencies of developing country trading partners, we expect that the dollar will end the forecast period at about the same level as in the May Greenbook, about 4-1/2 percent below its

second-quarter average. However, the projected path for this index is higher in the near term, as market anxieties about political developments in several emerging market economies, particularly Mexico, continue to weigh on those currencies. Over time, such uncertainties are expected to abate, and these currencies should rise in real terms against the dollar.

Industrial countries. Export-weighted real GDP growth in the foreign industrial countries is expected to decline from an annual rate of 4-1/4 percent during the first half of this year to about 3 percent by the end of the forecast period. Our estimate for the first half of this year is stronger than in the last Greenbook, largely reflecting incoming data, but the projected pace of growth in subsequent quarters has changed little from the previous forecast.

In Japan, we expect growth to continue in the near term at a moderate pace, supported by a sizable fiscal stimulus package that is now coming on line. Moving into 2001, however, we project a marked slowing of Japanese growth, as fiscal stimulus wanes and as weak income growth and job insecurity (related to corporate restructuring) weigh on private expenditure.

During the first half of this year, growth in the euro area is estimated to have maintained the 3-1/2 percent pace recorded in the second half of 1999. We expect growth to edge up over the remainder of this year, as domestic demand gains momentum and external demand contributes positively, before moving back down next year in response to recent and prospective tightening of monetary conditions. The U.K. economy has slowed during the first half of 2000, but the recent retreat of the pound is expected to boost growth a bit in coming quarters. We continue to expect that tighter Canadian monetary policy and a slowing in the pace of U.S. activity will temper Canadian growth going forward.

Inflation. Continued strong activity should intensify pressure on resources in most foreign industrial economies, leading to a moderate increase in core inflation rates. However, the effect on headline inflation should be offset by the projected decline in oil prices. Japanese consumer prices are expected to continue to decline over the forecast period, but at a slower rate than last year, as the deflationary effect of past yen appreciation wanes. This slowing of Japanese deflation accounts for most of the rise in the average inflation rate of the foreign industrial countries from just over 1 percent in 1999 to about 1-1/4 percent this year and 1-1/2 percent in 2001.

Interest rates. The Bank of Japan seems poised to nudge short-term interest rates above zero during the second half of this year, as data confirm a return to positive growth. Japanese rate increases, however, are expected to total just 25 basis points through the end of the forecast period, since economic performance

in 2001 is expected to provide little rationale for further tightening. The ECB is expected to pause briefly, following its recent interest rate hike, but evidence of diminishing slack will likely prompt another 25 basis points of tightening this year and a further 50 basis points during the first half of 2001. These moves would bring the ECB's refinancing rate to 5 percent. We assume that the Bank of England will tighten policy an additional 25 basis points, half of what was assumed in the May Greenbook, and the Bank of Canada is expected to match the increases that are assumed for U.S. policy rates.

Other countries. Real GDP for the major developing-country trading partners of the United States is estimated to have expanded at a brisk 6-1/2 percent pace during the first half of this year, nearly 1 percentage point stronger than projected in the last Greenbook. This growth has been led by an estimated 7-3/4 percent expansion in the Asian developing countries. The pace of activity in this region is expected to moderate only slightly over the remainder of the forecast period, with domestic demand in these countries continuing to firm. In Latin America, average growth will hover around 4-1/4 percent over the forecast period, with growth in Mexico and Chile a little above this pace and with growth in Brazil and Argentina somewhat below.

Inflation in the developing countries is expected to pick up only modestly in response to rising activity, as pressures on resources are not expected to become excessive. In addition, monetary authorities in these countries are generally prepared to tighten policies if inflationary pressures emerge.

Prices of internationally traded goods. The recent run-up in spot oil prices and a revised outlook for supply and demand conditions in global oil markets have prompted us to shift up the projected path of oil prices, matching the shift in futures markets. The higher level of global activity embedded in the staff forecast, coupled with the low prevailing level of oil inventories, should bolster demand for oil through the rest of this year and next. Two supply considerations have also affected our outlook. First, production from countries that are not members of OPEC is expected to be a bit weaker than previously anticipated, owing to a surprisingly slow pickup of development activity. Second, although OPEC as a whole has sufficient production capacity to meet increases in demand, the unequal distribution of this capacity may hinder the

Selected Trade Prices

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

Trade category	1999 Q4	2000 Q1	Projection		
			2000		2001
			Q2	H2	
<i>Exports</i>					
Nonagricultural (core)	3.0	3.5	1.9	0.8	0.8
Agricultural	0.9	-2.7	8.2	2.6	5.1
<i>Imports</i>					
Non-oil (core)	1.3	1.3	1.0	2.5	3.0
Oil (level, dollars per barrel)	22.08	26.01	25.93	25.17	21.25

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

cartel's ability to reach agreements to increase output. Based on this outlook for supply and demand, along with information obtained from futures markets, we project that the price of imported oil will peak in the third quarter of this year at nearly \$28 per barrel and will then decline to around \$25 per barrel in the fourth quarter and to around \$21 per barrel by the end of 2001. OPEC met today, June 21, to review its production targets. The outcome of these deliberations, an increase in targets of 0.7 million barrels per day, was about in line with the Greenbook projection of 0.5 million barrels per day.

Prices of core imports should flatten out in the second quarter and then rise, driven largely by the projected movements of the dollar. Prices of core export goods are expected to decelerate as the run-up in prices of industrial supplies (which include petroleum products and petrochemicals) slows.

U.S. international transactions. The growth of real exports of goods and services slowed in the first quarter, but the resolution of the Boeing strike should contribute to a sharp rebound in the current quarter. Looking ahead, our forecast calls for export growth to remain strong. Core export growth should continue to firm, sustained by the strong pace of foreign activity. In addition, relative prices are expected to shift from imparting slight restraint on the growth of core exports during the first half of this year to stimulating their growth at rising rates over the forecast period. A projected acceleration of service exports also should contribute to the strengthening of total export growth next year.

Real imports of goods and services are projected to decelerate over the forecast period from about 13 percent growth in 1999 and the first half of 2000 to 8 percent growth in 2001. This pattern reflects the slower expected growth of imports of non-oil core goods and of services. The projected slowing of U.S. real GDP growth partly accounts for the deceleration. In addition, we expect that relative prices here and abroad, which have been strongly boosting the growth of non-oil imports in recent quarters, will continue to do so only in the near term and will change to a slightly restraining factor next year. The quantity of imported oil should expand strongly in the near term, as stocks are replenished, but more moderately in 2001.

Given our expectation of upward trending export growth, coupled with the projected deceleration of imports, the arithmetic contribution of net exports to U.S. growth should steadily contract from a negative 1.1 percentage points last year to a negative 0.9 percentage point in the first half of this year and to zero in the second half of 2001.

The U.S. current account deficit is projected to rise from 3.6 percent of GDP in 1999 to 4.4 percent this year and to 4.7 percent (or about \$500 billion) in 2001. Much of the projected change is in goods and services, but the net outflow of investment income also increases notably. Net investment income payments are projected to rise significantly, as these large current account deficits translate into an increase in the U.S. net liability position.

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

Measure	1999	Projection		
		2000		2001
		H1	H2	
Real exports	4.8	8.7	6.9	8.5
<i>May GB</i>	4.8	5.5	6.7	8.4
Real imports	12.6	13.5	9.5	8.0
<i>May GB</i>	12.6	12.2	9.7	8.1

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

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

Measure and country	1993	1994	1995	1996	1997	1998	Projected		
							1999	2000	2001
REAL GDP (1)									

Total foreign	3.2	5.1	2.3	4.3	4.1	1.0	4.4	4.6	3.9
Industrial Countries	1.9	3.9	1.9	2.9	3.5	1.9	3.5	3.8	3.1
of which:									
Canada	2.9	5.5	1.4	2.4	4.8	3.2	4.9	4.2	3.4
Japan	0.5	0.9	2.5	5.2	-0.5	-3.1	-0.2	3.9	1.1
United Kingdom	3.2	4.6	1.9	2.9	3.4	1.5	3.0	2.4	2.7
Euro-11	0.1	3.0	1.6	1.8	3.0	2.0	3.0	3.6	3.5
Germany	-0.3	2.9	1.1	1.4	1.5	1.1	2.3	3.6	3.6
Developing Countries	5.1	6.8	3.0	6.3	5.0	-0.3	5.9	5.8	5.2
Asia	7.9	8.8	7.3	6.8	4.6	-1.8	8.3	7.1	6.5
Korea	7.2	9.2	7.4	6.1	3.1	-4.6	14.0	7.3	6.5
China	6.1	16.3	12.6	9.2	8.2	9.5	6.2	7.6	8.0
Latin America	2.6	5.4	-3.9	6.3	6.1	1.0	3.9	5.0	4.3
Mexico	1.9	5.2	-7.1	7.1	6.7	2.6	5.2	5.8	4.7
Brazil	4.5	9.8	-1.9	5.5	2.2	-1.6	3.8	3.6	3.2
CONSUMER PRICES (2)									

Industrial Countries	2.1	1.1	1.3	1.4	1.6	1.0	1.1	1.3	1.4
of which:									
Canada	1.8	-0.0	2.1	2.0	1.0	1.1	2.4	2.1	2.1
Japan	1.2	0.8	-0.8	0.1	2.0	0.8	-1.3	-0.5	-0.4
United Kingdom (3)	2.7	2.2	2.9	3.2	2.7	2.5	2.2	2.2	2.4
Euro-11 (4)	NA	NA	NA	2.0	1.5	0.8	1.5	1.8	1.6
Germany	4.2	2.6	1.5	1.4	2.0	0.4	0.9	1.4	1.5
Developing Countries	24.7	22.7	17.0	11.0	6.9	9.0	4.7	4.7	6.0
Asia	7.7	10.5	6.4	4.7	2.9	4.4	0.3	2.3	4.3
Korea	5.5	5.8	4.4	5.0	5.0	5.9	1.3	1.6	4.3
China	17.3	26.9	11.0	6.8	0.9	-1.2	-0.9	1.1	4.2
Latin America	73.9	54.0	42.1	25.9	15.6	15.5	12.6	9.0	9.1
Mexico	8.6	7.0	48.9	28.2	17.2	17.5	13.6	9.5	9.7
Brazil	2272.4	1196.9	21.5	9.6	4.7	1.6	8.3	4.9	5.1

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

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

Measure and country	1999				2000				2001			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
----- Quarterly changes at an annual rate -----												
REAL GDP (1)												
Total foreign	3.9	5.0	4.5	4.4	6.7	3.7	4.1	4.0	3.9	3.9	3.9	3.9
Industrial Countries	3.8	3.3	3.9	2.9	4.8	3.8	3.5	3.2	3.1	3.1	3.1	3.0
of which:												
Canada	4.8	3.3	6.5	5.1	4.9	4.5	3.8	3.6	3.5	3.5	3.4	3.3
Japan	6.3	3.9	-3.9	-6.4	10.0	2.8	2.6	0.6	0.9	1.0	1.3	1.3
United Kingdom	1.6	3.0	4.1	3.1	2.2	2.0	2.8	2.7	2.8	2.6	2.7	-2.6
Euro-11	2.5	2.5	3.7	3.3	3.1	3.9	3.8	3.8	3.6	3.6	3.5	3.4
Germany	2.8	0.5	3.1	2.9	2.7	4.0	3.8	3.8	3.8	3.8	3.5	3.5
Developing Countries	4.1	7.6	5.4	6.4	9.6	3.6	4.9	5.3	5.2	5.2	5.2	5.2
Asia	7.3	11.1	5.8	9.2	11.8	3.7	6.3	6.8	6.4	6.4	6.7	6.7
Korea	13.0	17.5	14.0	11.7	7.3	7.5	7.5	7.0	6.5	6.5	6.5	6.5
China	2.2	1.1	11.4	10.6	9.6	2.0	9.0	10.0	7.0	7.0	9.0	9.0
Latin America	1.4	4.8	5.7	3.8	8.9	3.4	3.8	4.2	4.4	4.4	4.2	4.2
Mexico	2.5	7.6	8.9	2.2	11.1	3.4	4.1	4.7	4.9	4.9	4.7	4.5
Brazil	8.2	1.7	-3.7	9.4	5.0	3.2	3.0	3.0	3.0	3.0	3.0	3.7
----- Four-quarter changes -----												
CONSUMER PRICES (2)												
Industrial Countries	0.7	0.9	1.3	1.1	1.5	1.3	1.3	1.3	1.3	1.3	1.3	1.4
of which:												
Canada	0.8	1.6	2.2	2.4	2.7	2.3	2.2	2.1	2.0	1.9	2.0	2.1
Japan	-0.2	-0.4	0.1	-1.3	-0.8	-0.9	-0.7	-0.5	-0.5	-0.4	-0.4	-0.4
United Kingdom (3)	2.6	2.3	2.2	2.2	2.1	2.1	2.1	2.2	2.2	2.3	2.3	2.4
Euro-11 (4)	0.8	1.0	1.1	1.5	2.1	1.8	1.8	1.8	1.7	1.7	1.6	1.6
Germany	0.3	0.5	0.6	0.9	1.8	1.4	1.4	1.4	1.5	1.5	1.5	1.5
Developing Countries	8.2	7.0	6.0	4.7	3.9	3.7	4.1	4.7	5.6	6.4	6.2	6.0
Asia	2.6	0.9	0.2	0.3	0.5	0.8	1.6	2.3	3.2	4.5	4.5	4.3
Korea	0.7	0.6	0.7	1.3	1.5	1.3	1.9	1.6	3.5	4.4	4.3	4.3
China	-1.5	-2.1	-1.1	-0.9	0.1	0.1	0.2	2.1	1.8	4.2	4.4	4.2
Latin America	16.4	15.8	14.7	12.6	10.0	9.1	8.9	9.0	9.8	9.9	9.4	9.1
Mexico	18.6	18.0	16.5	13.6	10.6	9.5	9.3	9.5	10.4	10.4	9.9	9.7
Brazil	2.0	3.4	5.7	8.3	7.8	6.8	6.3	4.9	5.6	6.5	5.9	5.1

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1993	1994	1995	1996	1997	1998	1999	Projected 2000	Projected 2001
NIPA REAL EXPORTS and IMPORTS									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.6	-0.3	0.4	-0.2	-0.7	-1.1	-1.1	-0.7	-0.2
Exports of G&S	0.5	1.0	1.0	1.1	1.0	0.2	0.5	0.9	0.9
Imports of G&S	-1.1	-1.3	-0.6	-1.3	-1.7	-1.3	-1.6	-1.6	-1.2
Percentage change, Q4/Q4									
Exports of G&S	4.8	10.5	9.7	9.8	9.2	2.0	4.8	7.8	8.5
Services	6.0	8.2	8.8	8.9	2.3	2.6	3.7	3.5	4.7
Agricultural Goods	-5.4	16.3	-4.0	3.8	3.3	0.3	-1.7	3.2	2.6
Computers	16.9	27.4	39.1	21.6	26.2	7.1	12.1	40.2	36.1
Semiconductors	31.1	66.9	79.6	44.6	21.0	9.3	33.4	36.9	41.3
Other Goods 1/	3.5	6.9	5.7	7.8	11.4	1.1	3.5	5.6	5.1
Imports of G&S	10.5	12.2	5.0	11.2	14.2	10.8	12.6	11.5	8.0
Services	6.7	1.8	5.5	5.3	13.6	8.5	6.9	7.5	2.6
Oil	10.1	-0.2	2.4	7.8	4.0	4.0	-3.3	13.5	2.6
Computers	30.5	39.0	35.0	17.8	32.3	26.9	26.1	29.3	36.1
Semiconductors	33.6	54.5	92.4	56.7	32.8	-7.4	35.4	34.4	42.5
Other Goods 2/	9.4	12.3	-1.2	10.5	12.7	11.3	13.4	9.6	5.5
Billions of chained 1996 dollars									
Net Goods & Services	-59.1	-86.5	-78.4	-89.0	-112.2	-217.6	-323.0	-400.1	-448.5
Exports of G&S	672.7	732.8	808.2	874.2	983.1	1004.6	1042.3	1129.4	1216.0
Imports of G&S	731.8	819.4	886.6	963.1	1095.2	1222.1	1365.4	1529.5	1664.5
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-82.7	-118.6	-109.5	-123.3	-140.5	-217.1	-331.5	-438.0	-496.2
Current Acct as Percent of GDP	-1.2	-1.7	-1.5	-1.6	-1.7	-2.5	-3.6	-4.4	-4.7
Net Goods & Services (BOP)	-68.9	-97.0	-95.9	-102.1	-105.9	-166.9	-265.0	-370.9	-411.4
Investment Income, Net	27.6	21.1	25.0	23.4	11.1	-1.0	-13.1	-10.6	-27.8
Direct, Net	59.3	55.2	64.9	69.4	71.9	67.7	62.7	81.7	99.1
Portfolio, Net	-31.7	-34.1	-39.9	-46.0	-60.9	-68.8	-75.8	-92.3	-126.9
Other Income & Transfers, Net	-41.3	-42.7	-38.6	-44.6	-45.7	-49.2	-53.4	-56.6	-57.0

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	-0.9	-0.5	-0.8	-0.5	-1.9	-2.0	-0.8	0.3
Exports of G&S	0.3	0.7	0.4	2.9	0.9	1.7	1.3	0.2	-0.2	-0.4	-0.2	1.7
Imports of G&S	-1.3	-1.6	-1.7	-0.8	-1.8	-2.2	-2.1	-0.7	-1.7	-1.6	-0.6	-1.3
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	2.3	6.7	3.3	28.7	8.3	15.9	11.3	1.7	-1.5	-3.9	-1.6	16.3
Services	-4.0	12.9	-7.4	39.8	-4.9	10.4	7.2	-2.7	1.6	9.0	-8.5	9.2
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, s.a.a.r.											
Net Goods & Services	-75.0	-90.4	-115.9	-74.6	-92.6	-103.2	-121.3	-131.5	-174.5	-221.0	-240.3	-234.4
Exports of G&S	846.1	860.1	867.0	923.5	942.1	977.6	1004.2	1008.4	1004.5	994.5	990.6	1028.7
Imports of G&S	921.1	950.4	982.9	998.1	1034.7	1080.8	1125.5	1139.9	1179.0	1215.6	1231.0	1263.1
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-101.1	-119.5	-146.6	-126.1	-137.5	-119.9	-133.6	-171.1	-169.6	-205.9	-245.2	-247.9
Current Account as % of GDP	-1.3	-1.5	-1.9	-1.6	-1.7	-1.5	-1.6	-2.0	-2.0	-2.4	-2.8	-2.8
Net Goods & Services (BOP)	-87.0	-103.2	-123.1	-95.2	-108.2	-94.3	-101.1	-120.1	-134.5	-166.4	-185.3	-181.4
Investment Income, Net	32.2	23.2	16.8	21.5	11.5	16.3	10.7	5.7	9.1	6.0	-12.1	-7.3
Direct, Net	70.4	66.2	65.3	75.8	68.9	76.6	74.1	68.1	74.9	72.4	59.0	64.7
Portfolio, Net	-38.2	-43.0	-48.5	-54.3	-57.4	-60.3	-63.4	-62.4	-65.7	-66.4	-71.1	-71.9
Other Inc. & Transfers, Net	-46.4	-39.5	-40.3	-52.4	-40.8	-41.9	-43.2	-56.7	-44.3	-45.5	-47.8	-59.2

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1999				2000				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	Percentage point contribution to GDP growth											
Net Goods & Services	-2.1	-1.4	-0.7	-0.1	-1.0	-0.8	-1.0	-0.2	-0.6	-0.5	-0.1	0.2
Exports of G&S	-0.6	0.4	1.2	1.1	0.6	1.2	0.5	1.0	0.5	0.9	1.0	1.3
Imports of G&S	-1.5	-1.8	-1.9	-1.2	-1.6	-2.1	-1.5	-1.2	-1.1	-1.4	-1.1	-1.1
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	-5.5	4.0	11.5	10.1	5.8	11.7	4.6	9.3	4.7	8.4	8.8	12.2
Services	4.1	3.2	0.0	7.6	6.7	2.7	1.1	3.5	4.8	4.8	4.6	4.4
Agricultural Goods	-37.9	28.7	27.4	-8.3	24.8	-14.4	9.3	-2.7	0.9	3.0	3.4	3.1
Computers	-3.0	32.1	27.8	-3.5	39.6	46.5	38.7	36.1	36.1	36.1	36.1	36.1
Semiconductors	36.3	40.8	47.8	11.7	18.0	43.9	43.9	43.9	41.3	41.3	41.3	41.3
Other Goods 1/	-9.3	-2.0	12.8	14.4	0.5	14.1	0.2	8.2	-1.1	5.0	5.4	11.4
Imports of G&S	12.5	14.4	14.9	8.7	11.8	15.1	10.9	8.1	7.4	9.5	7.5	7.5
Services	11.9	8.9	3.6	3.4	13.7	8.1	5.2	3.2	2.1	2.5	2.8	2.9
Oil	7.1	25.5	-11.6	-26.3	29.1	19.8	16.9	-8.0	-6.6	26.5	-2.4	-3.8
Computers	28.7	52.3	20.0	7.4	3.0	41.3	38.7	38.7	36.1	36.1	36.1	36.1
Semiconductors	18.4	63.5	19.0	45.9	20.5	31.1	43.8	43.8	43.8	43.8	41.2	41.2
Other Goods 2/	11.3	10.3	19.7	12.6	10.2	13.4	8.0	7.1	6.1	5.5	5.3	5.2
	Billions of chained 1996 dollars, s.a.a.r.											
Net Goods & Services	-286.6	-321.1	-340.4	-344.1	-369.0	-390.7	-417.9	-422.7	-437.8	-450.7	-455.2	-450.4
Exports of G&S	1014.3	1024.3	1052.6	1078.2	1093.6	1124.3	1137.1	1162.7	1176.2	1200.3	1225.9	1261.6
Imports of G&S	1300.9	1345.4	1393.0	1422.3	1462.6	1515.1	1554.9	1585.4	1614.0	1651.0	1681.2	1712.0
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-266.5	-315.9	-358.6	-384.9	-409.2	-420.8	-453.1	-469.0	-479.1	-494.9	-501.1	-509.8
Current Account as % of GDP	-2.9	-3.5	-3.9	-4.0	-4.2	-4.3	-4.5	-4.6	-4.7	-4.8	-4.7	-4.8
Net Goods & Services (BOP)	-210.7	-253.2	-290.9	-305.1	-344.7	-358.8	-390.7	-389.3	-403.9	-413.9	-417.0	-410.8
Investment Income, Net	-7.1	-11.3	-16.8	-17.3	-11.3	-8.0	-7.9	-15.2	-20.7	-26.5	-29.5	-34.5
Direct, Net	64.1	58.8	62.8	65.1	70.7	80.2	87.1	88.8	91.7	94.8	102.0	107.7
Portfolio, Net	-71.2	-70.0	-79.6	-82.4	-82.0	-88.3	-95.0	-104.0	-112.4	-121.3	-131.5	-142.2
Other Inc. & Transfers, Net	-48.7	-51.5	-51.0	-62.5	-53.2	-54.0	-54.5	-64.5	-54.5	-54.5	-54.5	-64.5

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