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Part 1

June 26, 1996

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

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

Strictly Confidential (FR) Class II FOMC

June 26, 1996

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee
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Overview

On the surface, the projection of economic activity herein is almost identical to that in the May Greenbook. Real GDP growth apparently is spurting in the current quarter, as we expected; and on the assumption that monetary policy will not change materially, we are still projecting that activity will run at roughly its trend rate of growth in coming quarters, a pattern that prevents any magnification of existing pressures on labor and capital resources. But with no cushion to absorb adverse shocks to aggregate supply--notably, the recent poor grain crops--the consumer price index is projected to increase a bit more than 3 percent this year and next.

Below the surface, however, is our concern that the risks surrounding this forecast may be more heavily weighted to the upside, particularly in the near term. The tenor of incoming information on economic activity has been more upbeat than we anticipated; notably, there is no indication that employment growth is flagging, and the demand for homes may not be responding to the rise in mortgage rates as quickly as we have predicted. Moreover, because inventories now appear to be fairly lean in a number of industries, sustained strength in final sales could put pressure on firms to build stocks more rapidly than in our baseline forecast; if that were to happen, the multiplier effects on jobs and income could raise aggregate demand over coming months, intensifying inflationary pressures.

This kind of scenario may well be what is worrying some bond market participants; certainly, some prominent Wall Street analysts are predicting that growth will remain relatively strong for a while. At this point, however, we are more comfortable sticking with the pack, and our baseline forecast does not differ greatly from the most recent Blue Chip consensus. We see the rise in long-term interest rates, continued modest fiscal restraint, the appreciation of the dollar since last summer, and the general maturing of the business cycle as arguing for only a moderate expansion of activity. Thus, we are projecting that real GDP growth, after posting a hefty increase in the current quarter, will drop back quickly and average just a little more than 2 percent during the next six quarters.

Although this baseline projection for activity does not, by itself, suggest that we should revise our inflation outlook, we have in fact shaved a bit off our wage and price forecasts. In part, this revision reflects our introduction of a technical adjustment for changes in the way the BLS will measure medical care inflation in the CPI beginning January 1997. In addition, we have incorporated a more favorable near-term outlook for energy prices associated with anticipated sales of Iraqi oil this summer; the resultant lowering of overall consumer price inflation helps in turn to damp the rise in compensation, thus diminishing cost pressures later this year and in 1997. As a result, we now are projecting that reported core CPI inflation will edge up only to 3.0 percent in 1997--a couple of tenths less than projected in the May Greenbook.

Key Background Factors in the Forecast

Our key financial assumptions are essentially unchanged from those in the last Greenbook. As a baseline for the Committee's discussion, we have continued to assume that the federal funds rate remains at or near 5-1/4 percent through 1997. Bond yields currently are a touch higher than we expected they would be, reflecting mainly the market's response to the upside surprises in employment and other recent indicators of activity; we are not anticipating any dramatic movements in long rates from here, but we do think that the markets will tend to respond favorably if growth moderates as we have forecast. On the other hand, if our concerns about more persistent strength in activity were to be realized, the response of the bond market would likely be quite negative.

Although we believe that the rise in intermediate- and long-term interest rates this year has been great enough to drain some energy from aggregate demand in coming months, there are no signs that households or businesses are finding borrowing costs prohibitive. Moreover, the availability of financing clearly is not an issue today for most of them. There is some anecdotal evidence that lenders are becoming a bit more cautious in extending credit to the household sector--especially with regard to new credit card issuance--but conditions are far from tight, and we don't foresee much further change in this direction. Meanwhile, lenders continue to be accommodative, sometimes even aggressive, toward business customers; barring a deterioration in credit quality, which seems unlikely in the projected economic environment, we don't view access to credit becoming an inhibition to business investment in inventories or fixed capital.

The recent hesitation in the stock market uptrend is consistent with our expectations. Market participants appear to have come increasingly to our view that prevailing share valuations may be stretching the fundamentals, and we continue to anticipate a mild correction in the nearer term. However, we expect that, with some growth in corporate profits and some easing of bond yields, stock prices will recover the lost ground in 1997. This path is the same as that in the May Greenbook.

Nor have we made any significant changes to our assumption that fiscal policy will exert some restraint over the projection period, albeit less than the modest amount imposed in the current fiscal year. In particular, we expect that discretionary spending will be somewhat higher than is envisaged in the recent congressional budget resolution, by $3 billion in fiscal 1997 and by $17 billion in fiscal 1998. Moreover, we continue to assume that the proposed cuts in taxes and mandatory spending in the resolution will fail to materialize--as happened this year. Under our policy and economic assumptions, we project that the unified budget deficit will be $128 billion in fiscal 1996 and $163 billion in fiscal 1997, somewhat higher than in the previous Greenbook. The strikingly small deficit in fiscal 1996 is due to events that we expect will be transitory--in particular, a surge in tax payments presumably associated with higher realized capital gains and an unusually slow rate of growth in nondiscretionary health care outlays.

With respect to the external sector, the trade-weighted value of the dollar in terms of other G-10 currencies has declined only slightly in recent weeks, and we have retained the assumption that it will be little changed through the end of 1997. The outlook for foreign economic growth is a touch stronger than in the last Greenbook, with foreign GDP (on a U.S. export-weighted basis) projected to increase 3-1/2 percent in 1996 and 3-3/4 percent in 1997, versus 1-3/4 percent in 1995. Although the reported surge in Japanese GDP in the first quarter caught everyone by surprise, the broader array of information on foreign activity seems generally consistent with our forecast of a moderate acceleration in world activity. Because of the recent agreement reached between Iraq and the United Nations, we have revised down our projection for oil prices over the remainder of this year. In particular, we expect the additional exports to push down the spot price for WTI crude from its recent level of around $20 per barrel to less than $17 per barrel. Oil prices are projected to move back up to about $19.50 per barrel by mid-1997 because of increases in demand associated with world economic growth.

Recent Developments and Prospects for the Current Quarter

Our projection in the May Greenbook was for a sizable advance in real GDP in the second quarter--roughly 3-1/2 percent at an annual rate. Thus far, the data we have received since the May FOMC have been mainly on the strong side of our expectations, and it now appears that GDP growth might be closer to 4 percent this quarter.[1] To be sure, much of the acceleration in output reflects special factors; the most important of these is the rebound in motor vehicle production after the March strike at GM, which accounts for a substantial positive swing in inventories this quarter. Indeed, the stepup in motor vehicle production contributes a percentage point to GDP growth. But the latest readings on the spending side suggest that final demand remained robust well into the quarter.

We would be more confident about our current-quarter projection were it not for the mixed signals coming from the labor market. As noted earlier, the gains in payrolls through May were impressive, outstripping our expectations; furthermore, the low level of initial claims for unemployment insurance in recent weeks suggests the likelihood of another solid gain in jobs this month. At the same time, however, the average workweek of private sector production workers has been on the short side recently, and aggregate hours were little changed in April and May. Nevertheless, cutting through the monthly volatility in the recent data, hours in May stood 1.6 percent (annual rate) above the fourth-quarter level--an increase we see as consistent with a substantial first-half gain in GDP--and on balance, we read the range of labor market indicators as relatively upbeat.

1. We now estimate that real GDP grew at a 2.2 percent annual rate in the first quarter rather than the 2.3 percent reported in the BEA's preliminary release. The change is due to a slight downward revision to exports associated with the revised data from the balance of payments accounts.

SUMMARY OF THE NEAR-TERM OUTLOOK
(Percent change, at annual rates, unless otherwise noted)

	1996:Q1			1996:Q2	
	May GB	BEA prel	June GB	May GB	June GB
Real GDP	2.5	2.3	2.2	3.5	3.8
Final sales	3.6	3.7	3.4	2.6	2.8
Change in billions of chained (1992) dollars					
Inventory investment	-17.3	-22.2	-20.0	14.3	17.3
Net exports	-15.7	-14.0	-19.4	-6.3	-10.7

Signs of strong second-quarter activity are especially evident in the industrial sector. The aforementioned rise in motor vehicle assemblies boosted industrial production sharply in April, and additional broad-based gains occurred in manufacturing in May. On net, industrial production is projected to be up about 5-1/2 percent at an annual rate this quarter, after a 3 percent rise in the first quarter.

Final sales are projected to grow at a 2-3/4 percent annual rate in the current quarter, with the household sector accounting for much of the gain. Non-auto retail sales registered healthy advances in April and May, and sales of light vehicles have remained at a surprisingly high level. All told, we now expect growth in consumer spending to approach 3 percent this quarter.

Although the sharp decline in housing starts in May may be a sign that higher mortgage rates have begun to bite quite forcefully, permits fell much less, and the range of available demand-side indicators for the sector suggests that the drop-off in housing activity has thus far been rather mild. In any event, given the robust level of starts before May and the typical lags between starts and construction, another substantial gain in residential investment outlays is pretty much assured for the current quarter.

Incoming information on business fixed investment has been consistent with the moderation we were expecting, and our forecast for growth in the current quarter--6 percent at an annual rate--differs little from our previous projection. Recent data on orders and shipments point to another sizable increase in computer purchases this quarter, but probably less than half the 50 percent (annual rate) gain recorded in the first quarter. Apart from computers, business spending on motor vehicles may be boosted by an uptick in fleet sales (after manufacturers favored retail customers during the strike-affected period); but shipments of nondefense capital goods other than computers have been relatively weak, and we expect that this component of equipment spending will post only a small increase. For nonresidential structures, construction put-in-place was up 1-1/2 percent in April, boosting the level of expenditures well above its first-quarter average.

Government expenditures on consumption and investment are projected to post another moderate rise in the current quarter. For the most part, the increase reflects a sharp bounceback in state and local purchases from a weather-depressed first-quarter level. But our estimate for the second quarter also has been boosted by the hiring of temporary election workers in some states and by evidence from the April construction data of a sizable advance in state and local infrastructure outlays. We continue to expect purchases on the federal side to drop back in the second quarter after an anomalous surge in the first; however, we have pushed some of the offset to the second half of the year in light of the indications of relatively strong outlays in April and May.

The recent monthly data on international trade, in combination with the annual revisions to the balance of payments accounts, have led us to revise down slightly our prediction of real net exports in the current quarter. Exports are projected to rise about 7 percent at an annual rate, while imports are expected to climb another 11 percent, in part owing to a rebuilding of oil inventories from low levels earlier in the year. On balance, real net exports are expected to decline almost $11 billion in the second quarter, roughly one-half the pace of decline registered in the first quarter.

As in the last forecast, a positive swing in nonfarm inventory investment is projected to provide a major boost to GDP growth in the current quarter. Motor vehicle inventories, which plummeted in the first quarter, are expected to be little changed as higher production levels match the pace of sales. With capacity constraining output of some of their more popular models, automakers may take a while longer to supply the stocks dealers desire; they've raised their third-quarter assembly schedules. Outside of motor vehicles, the pace of inventory investment is projected to moderate from its substantial first-quarter rate. But even here, inventory-sales ratios look rather lean in some sectors, and a little of the strength in production evident in non-auto IP could well have reflected efforts to rebuild stocks.

Continued reports of tightness in the labor market and recent statistics suggest that employers may be bidding up wages to attract workers. The latest monthly data on average hourly earnings reinforce the impression of an uptrend in wage inflation that was left by the jump in the first-quarter wage and salary figure from the Employment Cost Index. To date, however, there is no indication that any resultant cost pressures are feeding through to prices. Although the surge in energy prices likely will boost the CPI about 4 percent at an annual rate this quarter, excluding food and energy, the CPI is projected to rise just over 2-1/2 percent, a pace little different from that of recent quarters.

SUMMARY OF STAFF PROJECTIONS
(Percentage change at annual rate except as noted)

		1996		
	1995	H1	H2	1997
Real GDP	1.3	3.0	2.1	2.2
Previous		3.0	2.0	2.2
Final sales	1.9	3.1	1.7	2.2
Previous		3.1	1.6	2.1
PCE	2.0	3.2	2.7	2.5
Previous		3.2	2.6	2.5
BFI	6.7	9.7	4.8	4.2
Previous		8.9	4.7	4.4
Residential investment	-1.4	6.7	-3.1	-.2
Previous		7.2	-4.8	-.9
Civilian unemployment rate[1]	5.5	5.5	5.5	5.5
Previous		5.5	5.5	5.5

Note. Percentage change from final quarter of previous period to final quarter of period indicated except as noted.
1. Average level for the final quarter of period indicated.

The Outlook for the Second Half of 1996 and 1997

The contour of the projection for economic activity through 1997 is essentially the same as that in the last Greenbook. Growth in real GDP is forecast to slow sharply in the third quarter and to average just over 2 percent through 1997.[2] However, as noted in the overview, we have lowered our inflation forecast--in particular, for 1996. We emphasized in the last Greenbook the important uncertainties attending the price outlook, owing to the questions surrounding Iraqi oil exports and future grain crops. The question about grain remains largely unanswered, but the prospects for oil supplies have clarified considerably--and they point to less pressure on energy prices in the next half year.

Consumer spending. We are projecting that the growth of real personal consumption expenditures will slow from its estimated pace of 3-1/4 percent in the first half of this year to 2-1/2 percent in 1997. Such growth in spending would be in line with the projected gains in real disposable income, and the personal saving rate holds steady on an annual basis at 4-1/2 percent over the forecast period.

We still view the huge rise in stock market wealth over the past year and a half as implying some risk that spending could maintain a greater momentum than we have assumed and that the saving rate will decline. However, the saving rate has shown no clear trend in recent quarters, and it is conceivable that the wealth effects on consumer demand are being offset by other forces--such as heavier indebtedness or perhaps greater precautionary saving in light of job insecurity or concerns about retirement income. In any event, on our forecast of the stock market, the potential boost to consumption should tend to wane over the projection period. On the credit side, lenders appear to be getting a bit more cautious about extending credit to the household sector: for example, there are

2. We have not, at this juncture, assumed a strike in the motor vehicle industry this fall. Although a strike is a distinct possibility, its effects are likely to be transitory and of only minor importance in our projections of longer-term trends. Negotiations between the UAW and the "Big Three" automakers have just gotten under way, but serious talks are unlikely to take place much before the contract expires in September. Most analysts expect the UAW to choose Chrysler as its strike target, from whom the union feels it can obtain better terms on job protection issues--its major concern. However, even if Chrysler and the UAW were to reach a settlement, GM might not follow the pattern, and a dispute could emerge in those negotiations. In addition, GM will be negotiating this summer with the Canadian UAW, which is a much more militant union. A strike in Canada could also affect U.S. production by disrupting shipments of Canadian-made parts to U.S. assembly plants.

We do not think that the Olympics will have a material effect on third-quarter GDP growth, as some of the additional spending in Atlanta will be offset by lower expenditures elsewhere. Reported employment growth in July will also be little affected because the bulk of activity will take place after the survey week.

reports that banks are tightening standards for credit card issuance and that lenders are less enthusiastic about "B" and "C" rated mortgages. However, on balance, we aren't projecting a significant cutback in credit availability to households over the projection period. Consumer lending remains highly profitable for most institutions, and nothing in the general economic outlook suggests that they will want to curtail this lending substantially.

We expect that the long uptrend in the durable goods share of real consumer expenditures will be extended over the next year and a half. Purchases of electronic equipment are likely to remain robust, given substantial price declines (especially for computers this year) and a constant barrage of new products--and complementary services--to stir consumer interest. Apart from electronics, the forecast shows a deceleration in durables spending more typical of a mature business cycle. Demand for appliances and home furnishings is likely to be damped by the projected slide in housing activity. Light motor vehicle sales are projected to average a shade under 15 million units at an annual rate; although this pace is below the recent one, it still represents a sustained high level of net acquisitions.

Spending on nondurables exhibited very subdued growth last year, but trade reports suggest that consumers are now replenishing their wardrobes. However, we are projecting that real purchases of nondurables will decelerate from the almost 3 percent annual growth pace estimated for the first half of this year to about 2 percent in 1997. Spending on services has been boosted thus far this year by exceptionally high heating and cooling bills; assuming a return to normal weather, spending growth should slow in the near term and remain moderate thereafter.

<u>Residential investment</u>. Housing construction is projected to decline over the forecast period, reflecting the effects of higher mortgage interest rates. Single family starts will probably average just over 1.15 million units at an annual rate in the first half of this year, and we foresee a decline of roughly 8 percent from that pace by mid-1997. Gauging the effect of the increase in mortgage rates that has occurred is difficult. In recent months, more homebuyers have been turning to ARMs in order to avoid the increased initial cost of fixed-rate financing; we would not expect this to provide total insulation of demand from the effects of the steepening of the yield curve on expected ownership costs. However,

mortgage rates per se are only part of the demand story; sustained income growth, affordability ratios near their best levels of the past couple of decades, and lessened concern about falling house prices than prevailed a few years ago all should tend to keep homebuilding close to the underlying trends associated with demographic factors.

In the multifamily market, starts are expected to hold steady at a bit under 300,000 units at an annual rate. Although recent data show some increases in vacancy rates and slower absorption rates, anecdotal reports suggest that builders are not expecting to cut back on multifamily construction and that credit remains readily available for new projects.

Altogether, starts are projected to total something over 1.4 million units this year and something under that mark in 1997--averaging about the same in the two years as in 1994-95. Absent a further rise in mortgage rates, there might well be an upside risk to this forecast if the pace of net household formations, which appears to have fallen short of the trend over the first half of the decade, rebounds more than we expect. On the other hand, we've seen a substantial run-up in manufactured housing ("mobile home") sales in the past couple of years, and with population continuing to shift toward the Sunbelt, this lower-cost sector might absorb a disproportionate amount of any upside surprise in the pace of household formation.

Business fixed investment. Recent data have generally been in line with our expectations of a deceleration in business fixed investment, and thus we have not significantly altered our longer-term forecast. Growth in BFI is projected to slow to an annual rate of roughly 4-3/4 percent over the second half of this year and to 4-1/4 percent in 1997. The key factor in this forecast is the notion that the accelerator effects that had previously boosted investment are no longer present. The more modest increases in profits and cash flow in prospect for coming quarters might also argue for a moderation of spending growth, but the need for external finance is likely to be quite limited, and we do not foresee any major tightening of credit availability for those firms that must borrow. Indeed, in the near term, spending may be encouraged to a small degree by what is reportedly an aggressive posture among banks seeking lending opportunities in the small business market.

Real outlays for producers' durable equipment are projected to rise at a 5-1/2 percent rate over the next six quarters, well below the pace of growth registered over the last year or so. Spending on basic industrial and construction machinery is projected to be lackluster because of the absence of major pressures on capacity. In contrast, business spending on computers is projected to remain robust, although we don't think that the growth rates will match the extraordinary pace registered in recent quarters. Admittedly, as we have noted before, we have had a tendency to underestimate the potential for spending in this area. At this point, we see some upside risk in the possibility that the new version of Windows NT, the expansion of intranets, or the drop in memory prices will spur a more extensive upgrading of computing equipment.

Growth in nonresidential construction is also projected to slow sharply, from an average pace of about 5 percent at an annual rate in recent quarters to less than 1 percent in 1997. The recent widespread downturn in contracts might suggest a sharper slowing, but these data are erratic and of less than absolute reliability. Although retailers appear to have some excess capacity, indicators of market conditions in other sectors have been more upbeat. Vacancy rates for office buildings have continued to decline, prices for office buildings and warehouses have generally been firming, and financing for commercial construction remains readily available. Anecdotal information, such as that in the Beige Book, suggests, if anything, a more upbeat near-term outlook for construction than reflected in our forecast.

<u>Business inventories</u>. Inventory investment is expected to pick up sharply in the third quarter and then to rise at a relatively modest pace over the remainder of the projection period. As in the second quarter, much of the positive near-term swing in inventory investment occurs in the motor vehicle sector, where automakers have indicated that they will boost production further to raise stocks from their uncomfortably low second-quarter levels.[3] Outside of motor vehicles, stocks currently appear to be fairly lean, and so we're anticipating a moderate accumulation in the third quarter--somewhat above the pace we're predicting for the current quarter. Clearly, a great deal of uncertainty attaches to the forecast for

3. We have assumed that automakers will not accumulate additional stocks in anticipation of a UAW strike because the assembly lines for models for which stockouts might occur in the event of a strike likely will already be running at full speed in the third quarter.

this volatile component of GDP; one alternative scenario suggested by the rather hefty accumulation of non-auto stocks in April is a stronger boost to second-quarter GDP from inventory investment and a lesser contribution in the third. Beyond the third quarter, we have inventory investment stabilizing at a level consistent with a gradual downtrend in the stock-to-sales ratio and thus being essentially a neutral factor in the overall GDP projection for 1997. We are not anticipating that concerns about delivery lags or price increases will become great enough to prompt purchasing managers to raise their target inventory levels.

Government. Federal consumption and investment expenditures are expected to fall sharply in the third quarter--further retracing the bulge in first-quarter spending. This decline could be larger still if spending doesn't drop as we expect in June, but these near-term patterns reflect timing differences rather than any fundamental change in our view. Beyond next quarter, we expect spending to follow the trend indicated by appropriations, with real purchases down 4 percent in the fourth quarter and 3-1/2 percent in 1997; the defense and nondefense components are projected to decline at similar rates.

On the whole, the fiscal position of state and local governments remains relatively healthy. Thus, although there is political pressure to downsize governments and reduce taxes, we expect real purchases in this sector to trend up at roughly a 2-1/2 percent pace without generating significant budgetary strains. Major changes in the welfare and Medicaid programs haven't been anticipated in this forecast, but if such changes were enacted, they could have significant, and uneven, effects on the finances of various units; the possibility of federal legislation evidently is already affecting budget planning in at least some states.

Net exports. The external sector is projected to be a mild drag on real GDP growth over the projection period. Export growth somewhat lags the rise in imports in the second half of this year, and this slight deterioration in our real net export balance reduces real GDP growth about 1/4 percent at an annual rate. In 1997, however, the impetus from the pickup in foreign economic growth shows through more clearly to U.S. exports, and the external balance stabilizes. (A fuller discussion of these developments is contained in the International Developments Section.)

Labor markets. As has been noted, the recent data on labor demand have been difficult to interpret. It appears, however, that net hiring is still quite strong, and we have revised up our near-term projections for employment somewhat. Still, with output growth projected to moderate considerably from its first-half pace, the overall contour of the labor market projection remains one of a significant slackening in coming months. In particular, we expect gains in nonfarm payrolls to slow to around 110,000 per month by the fourth quarter and to remain at that pace through 1997. This forecast assumes that businesses will adjust hiring fairly promptly as sales growth slows, and thus nonfarm productivity growth is projected to dip only slightly below its trend rate over the second half of this year. In 1997, productivity is projected to rise at about its trend rate of 1-1/4 percent.[4]

The labor force participation rate is expected to hold steady at its recent average of 66.7 percent. Although the data have been volatile from month to month, our view is that the rise registered in the average rate for the first five months constituted a return to about the underlying trend, after a period of unusually low participation in 1995. Looking ahead, with the moderation in the growth of new job opportunities diminishing the incentives for additional labor force entry, we see little reason to expect labor force or employment gains to exceed population growth in future quarters. In these circumstances, the unemployment rate is projected to remain around 5-1/2 percent.

Wages and prices. We continue to see the levels of resource utilization in the forecast as consistent, ceteris paribus, with a gradual underlying acceleration in wages and prices over the projection period--indeed, so gradual that it could easily be lost in the noise of the reported data. However, in light of unfavorable developments in energy and agricultural markets, we still foresee a

4. Our estimate of trend growth in productivity on a true chain-weight basis is just over 1 percent per year. However, in the National Income and Product Accounts, output is currently being measured on a fixed-weight 1994 dollar basis (that is, we are in the so-called Laspeyres tail). As a result, shifts in the composition of output--toward computers, in particular--impart an upward bias to the growth rates of both output and productivity. We estimate that such mix shifts will cause the fixed-weight and chain-weight growth rates of productivity and potential GDP to differ by between 0.1 and 0.2 percentage point per year over the forecast period. The base weights will be moved forward to 1995 when the NIPA are revised in August.

noticeable uptick in overall consumer price inflation--to about 3.2 percent by 1997, a half percentage point faster than in 1995.

In the energy sector, the recent developments in oil markets have led us to lower the price path over the second half of this year. Indeed, as the Lundberg survey indicates, lower crude prices are already beginning to show up at gasoline stations, where the usual summer increase in prices did not occur. The additional declines in oil prices that we anticipate in coming months should be passed through fairly promptly to the retail level as well, and we now expect the CPI for energy to decline 5-1/2 percent at an annual rate over the second half of the year. In 1997, energy prices are projected to rise about 3-3/4 percent, reflecting the firming in crude oil costs that we have assumed for next year.

SUMMARY OF STAFF INFLATION PROJECTIONS
(Percentage change at an annual rate)

	1996				
	H1	H2	1995	1996	1997
Employment cost index[1]	2.8	3.2	2.8	3.0	3.3
Previous	2.9	3.4		3.1	3.5
Consumer price index[2]	3.6	2.7	2.7	3.1	3.2
Previous	3.7	3.1		3.4	3.2
Food	2.8	4.5	2.6	3.7	3.8
Previous	3.1	4.8		3.9	4.0
Energy	16.5	-5.5	-1.7	4.9	3.7
Previous	17.3	-1.2		7.6	1.5
Excluding food and energy	2.7	3.0	3.0	2.9	3.0
Previous	2.7	3.1		2.9	3.2
PCE chain-weight price index[2]	2.9	2.4	2.2	2.6	2.9
Previous	3.1	2.9		3.0	3.0
Excluding food and energy	2.1	2.6	2.4	2.4	2.7
Previous	2.3	3.0		2.7	3.0
GDP chain-weight price index[2]	2.2	2.7	2.5	2.5	2.8
Previous	2.5	3.0		2.8	2.9

1. Percentage change from final month of previous period to final month of period indicated.
2. Percentage change from final quarter of previous period to final quarter of period indicated.

Agricultural commodity markets have remained volatile in recent weeks. The spot prices of crops have backed away from the highs of a few weeks ago, and mixed patterns continue to be evident in the prices of livestock products. Meanwhile, the price war in the cereal business has escalated, with more producers announcing sizable price cuts. In view of these events, we've trimmed our food price forecast by a couple of tenths. Nonetheless, we still expect to see food price increases running noticeably to the high side of core inflation over the next several quarters, as lagged effects of high grain prices work their way through to the retail level. We probably can also anticipate another year of considerable volatility in farm prices, as recent weather adversities--notably the wet conditions in parts of the Corn Belt--have chipped away at the potential size of this year's harvest; as a result, rebuilding of grain stocks this year will likely be only modest at best.

Employment costs are still anticipated to accelerate a bit over the forecast period, given the tightness of the labor market. However, our current projection for the rise in the employment cost index for private industry workers--3 percent in 1996 and 3-1/4 percent in 1997--is a bit lower than that in the May Greenbook. This downward revision reflects primarily the lower near-term path for consumer food and energy prices, which reduces the dimension of the cost-of-living pass-through we had built into our previous projection.

The downward revision in the labor cost forecast has been carried through to our projection for the core CPI. As a result, core inflation is now projected to increase about 3 percent in both 1996 and 1997. However, as we noted in the last Greenbook, the projected pickup in core inflation is held down by an adjustment to the forecast to reflect technical changes being introduced by the BLS to eliminate formula bias in the CPI; in addition, we have included an adjustment in this forecast to account for the planned introduction next January of new procedures for estimating medical care inflation. Absent these adjustments, measured core price inflation would be 0.1 percentage point higher (at an annual rate) in the second half of this year and 0.2 percentage point higher in 1997.

There is currently discussion in the Congress of a variety of legislative initiatives that could raise employer costs, the most likely possibility being a hike in the minimum wage. As in May, we have not incorporated a minimum wage increase into the projection; there are indications that a minimum wage bill will be voted on in the Senate after the July 4th recess, but whether an agreement on the details can be worked out remains to be seen. As we reported in the last Greenbook, we think that the higher minimum wage under consideration would raise CPI inflation about 1/4 percentage point in 1997 if the federal funds rate were held at its current level. The effect would likely be a bit smaller if proposals intended to ameliorate the effects on employers--such as enlarging the number of small businesses that would be exempt from the legislation or increasing the extent to which tips can be counted toward the hourly minimum--are included in the final version of the legislation.

Money and credit flows. Growth of M2 is expected to be sustained over the projection period at a rate close to the 5 percent pace of the first half of 1996. The effect of a slight slowing in nominal GDP growth on M2 expansion is likely to be about offset by improved relative returns for retail time deposits. M3 growth, though expected to decline somewhat in coming months, should come in around 6 percent this year and near that pace during 1997.

The debt of domestic nonfinancial sectors is projected to expand 4-1/2 percent this year and next, roughly matching the growth rate of nominal GDP. Borrowing by both households and businesses should slow from last year, whereas federal debt growth is likely to be a bit lower on average this year but edge up in 1997. State and local debt is expected to continue contracting, on net, as a sizable volume of previous advance refundings is completed.

Aggregate borrowing by nonfinancial businesses is expected to remain near its restrained first-half pace over the forecast period as cash flow rises about in line with corporate capital outlays and debt-financed merger activity levels off. Few signs have emerged at this point to suggest that credit availability is posing a constraint for business activity, nor is it expected to do so in the outlook period. Bank profits and capital positions should remain healthy, providing a solid base for loan expansion. If bond rates remain near current levels--let alone edge downward, as we've projected--short-term borrowing is likely to be moderate, with the bond market remaining the most important source of credit.

Net borrowing by households is projected to drift lower over the next few quarters. Selective tightening of lending standards for credit cards and some other credit products will continue in response to rising delinquency and default rates, but the overall restraint on consumer spending and borrowing from such measures should be quite limited. Slower growth in consumer credit outstanding should be associated with the moderate growth projected for nominal expenditures on consumer durable goods and an upward tilt to debt repayments on the large volume of loans extended in the past several years. Growth in home mortgage debt is expected to slow a bit from the recent pace as home sales fall off.

Alternative Simulations

We have run two model simulations in which the funds rate is symmetrically raised or lowered relative to the assumption in the Greenbook. Deviations from baseline mount gradually to a total of 100 basis points by the end of this year and remain at that differential in 1997. In the lower-rate scenario, real GDP growth is little changed this year and 3/4 percentage point higher in 1997. The unemployment rate is lowered 0.4 percentage point by the end of 1997, and core CPI inflation is 1/2 percentage point higher than in the baseline forecast. The effects of the tighter policy scenario are symmetric.

ALTERNATIVE FEDERAL FUNDS RATE ASSUMPTIONS
(Percent change, Q4 to Q4, except as noted)

	1996	1997
Real GDP		
Baseline	2.5	2.2
Lower funds rate	2.6	3.0
Higher funds rate	2.4	1.4
Civilian unemployment rate		
Baseline	5.5	5.5
Lower funds rate	5.5	5.1
Higher funds rate	5.5	5.9
CPI excluding food and energy		
Baseline	2.9	3.0
Lower funds rate	2.9	3.4
Higher funds rate	2.9	2.6

1. Average for the fourth quarter.

An Accounting Note

As noted in footnote 4 on productivity, the real GDP growth rates in the projection are in terms of fixed-weight 1994 dollars rather than true chain-weight dollars and, other things equal, would be slightly lower when the BEA shifts to 1995 weights in August and to 1996 weights next summer. The effects of those changes would be to lower the GDP growth rates from what has been reported here to about 2.4 percent in 1996 and 2.0 percent in 1997.

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Class II FOMC

June 26, 1996

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

Interval		Nominal GDP		Real GDP		GDP Chain-weighted price index		Consumer price index[1]		Unemployment rate[2]	
		05/16/96	06/26/96	05/16/96	06/26/96	05/16/96	06/26/96	05/16/96	06/26/96	05/16/96	06/26/96
ANNUAL											
1993		4.9	4.9	2.2	2.2	2.6	2.6	3.0	3.0	6.9	6.9
1994		5.8	5.8	3.5	3.5	2.3	2.3	2.6	2.6	6.1	6.1
1995		4.5	4.5	2.0	2.0	2.5	2.5	2.8	2.8	5.6	5.6
1996		4.4	4.3	2.2	2.2	2.5	2.3	3.1	3.0	5.5	5.5
1997		4.7	4.5	2.2	2.2	2.9	2.7	3.3	3.1	5.5	5.5
QUARTERLY											
1994	Q1	5.4	5.4	2.5	2.5	2.8	2.8	1.9	1.9	6.6	6.6
	Q2	6.8	6.8	4.8	4.8	1.9	1.9	2.8	2.8	6.2	6.2
	Q3	6.1	6.1	3.6	3.6	2.4	2.4	3.6	3.6	6.0	6.0
	Q4	5.4	5.4	3.2	3.2	2.2	2.2	2.4	2.4	5.6	5.6
1995	Q1	3.9	3.9	0.6	0.6	3.3	3.3	2.7	2.7	5.5	5.5
	Q2	2.8	2.8	0.5	0.5	2.5	2.5	3.5	3.5	5.7	5.7
	Q3	5.8	5.8	3.6	3.6	2.2	2.2	2.1	2.1	5.6	5.6
	Q4	2.3	2.3	0.5	0.5	2.2	2.2	2.4	2.4	5.5	5.5
1996	Q1	4.8	4.5	2.5	2.2	2.5	2.3	3.2	3.2	5.6	5.6
	Q2	5.6	5.4	3.5	3.8	2.5	2.1	4.2	4.0	5.5	5.5
	Q3	4.7	4.5	2.0	2.3	3.2	2.6	3.1	2.6	5.5	5.5
	Q4	4.5	4.4	1.9	1.9	2.9	2.7	3.0	2.7	5.5	5.5
1997	Q1	5.0	4.4	2.3	2.1	3.1	2.8	3.3	3.2	5.5	5.5
	Q2	4.6	4.6	2.1	2.2	2.8	2.8	3.3	3.4	5.5	5.5
	Q3	4.3	4.4	1.8	2.0	2.9	2.8	3.2	3.1	5.5	5.5
	Q4	4.9	4.6	2.4	2.3	2.9	2.7	3.2	3.0	5.5	5.5
TWO-QUARTER[3]											
1994	Q2	6.1	6.1	3.7	3.7	2.3	2.4	2.3	2.3	-0.4	-0.4
	Q4	5.7	5.7	3.4	3.4	2.3	2.3	2.9	2.9	-0.6	-0.6
1995	Q2	3.3	3.3	0.5	0.5	2.9	2.9	3.2	3.2	0.1	0.1
	Q4	4.0	4.0	2.0	2.0	2.2	2.2	2.2	2.2	-0.2	-0.2
1996	Q2	5.2	5.0	3.0	3.0	2.5	2.2	3.7	3.6	-0.0	0.0
	Q4	4.6	4.4	2.0	2.1	3.1	2.7	3.1	2.7	0.0	-0.0
1997	Q2	4.8	4.5	2.2	2.1	3.0	2.8	3.3	3.3	0.0	0.0
	Q4	4.6	4.5	2.1	2.2	2.9	2.7	3.2	3.1	-0.0	-0.0
FOUR-QUARTER[4]											
1993	Q4	4.7	4.7	2.2	2.2	2.5	2.5	2.7	2.7	-0.8	-0.8
1994	Q4	5.9	5.9	3.5	3.5	2.3	2.3	2.6	2.6	-1.0	-1.0
1995	Q4	3.7	3.7	1.3	1.3	2.6	2.5	2.7	2.7	-0.1	-0.1
1996	Q4	4.9	4.7	2.5	2.5	2.8	2.5	3.4	3.1	-0.0	-0.0
1997	Q4	4.7	4.5	2.2	2.2	2.9	2.8	3.2	3.2	-0.0	-0.0

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

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

June 26, 1996

Item	Units[1]	1989	1990	1991	1992	1993	1994	1995	1996 (Projected)	1997 (Projected)
EXPENDITURES										
Nominal GDP	Bill. $	5438.7	5743.8	5916.7	6244.4	6550.2	6931.4	7245.8	7557.4	7898.5
Real GDP	Bill. Ch. $	6060.4	6138.7	6079.0	6244.4	6383.8	6604.2	6739.0	6889.4	7041.4
Real GDP	% change	2.4	-0.2	0.4	3.7	2.2	3.5	1.3	2.5	2.2
Gross domestic purchases		1.7	-0.8	-0.0	4.0	2.8	3.7	1.1	3.1	2.2
Final sales		2.3	0.6	-0.4	3.9	2.0	3.0	1.9	2.4	2.2
Priv. dom. final purchases		1.4	-0.6	-0.8	4.9	3.5	4.0	2.4	3.4	2.6
Personal cons. expenditures		1.6	0.5	-0.2	4.2	2.5	3.0	2.0	2.9	2.5
Durables		-0.1	-3.2	-3.1	9.4	7.3	7.0	1.8	6.2	5.2
Nondurables		1.6	-0.5	-1.0	3.4	1.5	3.6	1.1	2.7	2.1
Services		2.1	2.0	0.9	3.6	2.1	1.9	2.6	2.3	2.0
Business fixed investment		2.8	-2.5	-6.0	5.5	8.5	10.1	6.7	7.2	4.2
Producers' dur. equipment		2.3	-2.0	-2.6	9.6	11.5	12.6	7.3	8.2	5.4
Nonres. structures		3.7	-3.5	-12.5	-3.4	1.5	3.7	5.0	4.3	0.5
Residential structures		-7.0	-15.1	1.1	16.9	8.1	5.7	-1.4	1.7	-0.2
Exports		10.8	7.2	8.6	4.1	5.0	10.2	6.5	5.7	9.0
Imports		2.6	0.5	4.1	7.4	11.4	11.6	4.6	9.3	8.0
Gov't. cons. & investment		2.5	2.6	-0.7	1.7	-0.5	0.1	-1.3	0.5	0.4
Federal		0.8	1.6	-3.1	1.3	-5.5	-3.0	-6.6	-2.5	-3.4
Defense		-1.0	0.3	-5.3	-1.3	-6.9	-5.6	-6.6	-2.4	-3.3
State & local		3.9	3.3	1.0	2.0	3.1	2.2	2.1	2.2	2.5
Change in bus. inventories	Bill. Ch. $	33.3	10.4	-3.0	7.3	19.1	58.9	33.7	17.2	25.7
Nonfarm		33.5	7.8	-1.2	1.9	26.4	46.8	37.4	19.4	22.9
Net exports		-82.7	-61.9	-22.3	-29.5	-74.4	-108.1	-114.2	-128.2	-134.7
Nominal GDP	% change	6.4	4.4	3.8	6.3	4.7	5.9	3.7	4.7	4.5
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	107.9	109.4	108.3	108.6	110.7	114.2	117.2	119.3	120.8
Unemployment rate	%	5.3	5.6	6.9	7.5	6.9	6.1	5.6	5.5	5.5
Industrial prod. index	% change	-0.1	-0.2	0.2	4.0	3.2	6.6	1.6	3.9	3.1
Capacity util. rate - mfg.	%	83.2	81.3	78.0	79.5	80.6	83.3	83.0	81.9	81.8
Housing starts	Millions	1.38	1.19	1.01	1.20	1.29	1.46	1.35	1.42	1.36
Light motor vehicle sales		14.66	14.05	12.52	12.85	13.87	15.02	14.74	15.03	14.85
North Amer. produced		11.20	10.85	9.74	10.51	11.72	12.88	12.82	13.31	13.07
Other		3.46	3.20	2.77	2.34	2.15	2.13	1.91	1.72	1.78
INCOME AND SAVING										
Nominal GNP	Bill. $	5452.8	5764.9	5932.4	6255.5	6560.0	6922.4	7237.5	7554.6	7885.9
Nominal GNP	% change	6.5	4.6	3.5	6.2	4.6	5.7	3.9	4.6	4.4
Nominal personal income		6.8	6.4	3.7	7.3	3.6	5.1	5.4	5.2	4.9
Real disposable income		1.6	1.0	0.8	4.0	0.9	2.6	3.0	2.4	2.4
Personal saving rate	%	4.8	5.0	5.7	5.9	4.5	3.8	4.5	4.5	4.5
Corp. profits, IVA & CCAdj.	% change	-9.9	6.2	3.9	12.7	19.9	10.9	8.7	6.2	1.3
Profit share of GNP	%	6.5	6.4	6.4	6.4	7.1	7.6	8.1	8.7	8.4
(excluding FR banks)	%	6.2	6.0	6.1	6.1	6.8	7.4	7.8	8.4	8.1
Federal surpl./deficit	Bill. $	-113.4	-154.7	-196.0	-280.9	-254.7	-189.9	-162.6	-134.0	-144.2
State & local surpl./def.		95.1	80.1	75.8	86.3	94.9	99.7	95.0	91.6	87.5
Ex. social ins. funds		34.9	20.2	11.5	18.3	28.0	36.9	36.8	35.2	32.0
PRICES AND COSTS										
GDP implicit deflator	% change	3.9	4.6	3.4	2.6	2.5	2.3	2.4	2.1	2.3
GDP chn.-wt. price index		3.9	4.7	3.3	2.6	2.5	2.3	2.5	2.5	2.8
Gross Domestic Purchases chn.-wt. price index		4.0	5.2	2.7	2.7	2.3	2.4	2.4	2.3	2.7
CPI		4.6	6.3	3.0	3.1	2.7	2.6	2.7	3.1	3.2
Ex. food and energy		4.4	5.3	4.4	3.5	3.1	2.8	3.0	2.9	3.0
ECI, hourly compensation[2]		4.8	4.6	4.4	3.5	3.6	3.1	2.8	3.0	3.3
Nonfarm business sector										
Output per hour		0.1	-0.6	2.2	3.6	-0.4	0.5	0.3	1.5	1.2
Compensation per Hour		2.8	5.9	4.7	4.6	1.8	2.3	3.6	3.5	3.6
Unit labor cost		2.7	6.5	2.5	1.0	2.2	1.7	3.4	2.0	2.4

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

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Class II FOMC

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

June 26, 1996

Item	Units	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2
EXPENDITURES											
Nominal GDP	Bill. $	6442.8	6503.2	6571.3	6683.7	6772.8	6885.0	6987.6	7080.0	7147.8	7196.5
Real GDP	Bill. Ch. $	6327.0	6353.7	6390.4	6463.9	6504.6	6581.5	6639.5	6691.3	6701.6	6709.4
Real GDP	% change	-0.0	1.7	2.3	4.7	2.5	4.8	3.6	3.2	0.6	0.5
Gross domestic purchases		0.9	2.4	3.7	4.4	3.4	5.4	3.6	2.7	1.4	0.9
Final sales		-0.8	1.5	2.3	4.8	1.2	2.8	4.2	3.6	0.7	1.8
Priv. dom. final purchases		1.4	2.8	4.4	5.4	3.7	4.5	3.6	4.1	2.1	2.6
Personal cons. expenditures		0.7	2.7	3.8	2.8	2.6	3.6	2.5	3.3	0.8	3.4
Durables		0.8	11.2	7.3	10.2	5.8	4.3	5.6	12.6	-8.7	7.0
Nondurables		-0.9	2.3	2.9	1.7	3.8	3.3	4.0	3.2	2.4	1.9
Services		1.6	1.3	3.6	1.9	1.4	3.6	1.2	1.4	2.1	3.4
Business fixed investment		6.0	6.3	4.7	17.5	7.3	7.1	13.7	12.2	15.3	3.6
Producers' dur. equipment		7.1	11.4	6.3	21.7	15.6	4.1	19.3	11.9	17.4	3.7
Nonres. structures		3.5	-5.3	0.8	7.5	-11.8	15.7	0.2	13.0	9.9	3.4
Residential structures		2.1	-5.1	13.2	24.3	12.8	12.7	-1.8	-0.1	-6.3	-13.3
Exports		0.4	7.9	-7.9	21.5	-0.6	14.8	12.2	15.3	2.6	4.6
Imports		9.6	14.5	4.9	17.0	7.5	19.1	11.0	9.3	8.7	7.7
Gov't. cons. & investment		-4.7	0.2	1.0	1.5	-4.2	-0.8	7.0	-1.4	-1.1	0.9
Federal		-13.1	-4.9	-2.9	-0.7	-11.1	-5.3	11.5	-5.9	-6.3	-1.1
Defense		-15.6	-5.2	-5.8	-0.5	-17.0	0.7	13.3	-16.1	-7.0	0.9
State & local		1.7	3.9	3.8	3.0	0.7	2.2	4.2	1.6	2.3	2.1
Change in bus. inventories	Bill. Ch. $	18.5	20.8	19.5	17.4	40.1	74.1	64.0	57.3	54.5	30.6
Nonfarm		26.0	26.7	30.9	22.1	29.8	54.1	50.1	53.3	58.1	33.8
Net exports		-55.2	-67.0	-89.1	-86.2	-101.3	-112.2	-113.3	-105.8	-119.0	-126.8
Nominal GDP	% change	3.8	3.8	4.3	7.0	5.4	6.8	6.1	5.4	3.9	2.8
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	109.7	110.3	111.0	111.8	112.6	113.7	114.7	115.6	116.5	117.0
Unemployment rate	%	7.2	7.1	6.8	6.6	6.6	6.2	6.0	5.6	5.5	5.7
Industrial prod. index	% change	3.7	0.5	3.2	5.5	8.4	7.0	4.6	6.4	3.9	-1.4
Capacity util. rate - mfg.	%	80.6	80.3	80.4	81.1	82.2	83.2	83.4	84.3	84.3	83.0
Housing starts	Millions	1.17	1.27	1.30	1.43	1.38	1.47	1.46	1.48	1.31	1.29
Light motor vehicle sales		13.04	14.12	13.82	14.51	15.07	14.85	14.99	15.16	14.56	14.44
North Amer. produced		10.87	11.87	11.69	12.45	12.94	12.69	12.79	13.12	12.52	12.46
Other		2.17	2.25	2.14	2.06	2.13	2.16	2.20	2.05	2.04	1.97
INCOME AND SAVING											
Nominal GNP	Bill. $	6458.4	6512.3	6584.8	6684.5	6773.6	6876.3	6977.6	7062.2	7140.5	7187.0
Nominal GNP	% change	4.3	3.4	4.5	6.2	5.4	6.2	6.0	4.9	4.5	2.6
Nominal personal income		-4.8	8.5	3.1	8.1	-3.3	13.6	4.2	6.5	7.1	4.5
Real disposable income		-7.1	4.8	1.4	4.9	-5.3	10.1	2.1	4.0	3.6	0.0
Personal saving rate	%	4.3	4.8	4.3	4.7	2.8	4.2	4.1	4.2	4.8	4.0
Corp. profits, IVA & CCAdj.	% change	-1.2	22.9	19.7	42.2	-37.5	84.7	14.5	14.6	-6.4	1.1
Profit share of GNP	%	6.6	6.9	7.1	7.7	6.7	7.7	7.9	8.1	7.8	7.8
(excluding FR banks)	%	6.3	6.6	6.9	7.4	6.5	7.5	7.6	7.8	7.5	7.5
Federal surpl./deficit	Bill. $	-283.7	-249.2	-253.5	-232.4	-212.9	-169.9	-186.3	-190.4	-173.3	-160.5
State & local surpl./def.		80.5	89.1	94.9	115.0	94.8	105.2	99.6	99.3	99.0	99.0
Ex. social ins. funds		13.3	22.0	28.1	48.5	29.0	41.1	37.9	39.4	40.2	40.9
PRICES AND COSTS											
GDP implicit deflator	% change	3.8	2.1	1.9	2.2	2.8	1.9	2.4	2.2	3.2	2.3
GDP chn.-wt. price index		3.8	2.2	1.8	2.3	2.8	1.9	2.4	2.2	3.3	2.5
Gross Domestic Purchases chn.-wt. price index		3.1	2.4	1.3	2.2	2.3	2.3	3.0	2.1	2.9	2.9
CPI		3.1	2.8	1.7	3.4	1.9	2.8	3.6	2.4	2.7	3.5
Ex. food and energy		3.5	3.5	2.4	2.9	2.9	2.9	3.1	2.3	3.3	3.3
ECI, hourly compensation[1]		4.2	3.5	3.4	3.4	3.0	3.4	3.3	2.3	2.9	2.9
Nonfarm business sector											
Output per hour		-3.7	-2.1	1.6	2.5	-1.9	0.9	2.0	1.1	-1.4	1.6
Compensation per hour		1.3	2.1	1.7	1.9	2.9	1.9	0.7	3.5	3.5	4.1
Unit labor cost		5.2	4.3	0.1	-0.6	4.9	1.0	-1.3	2.4	4.9	2.5

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

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

June 26, 1996

Item	Units	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4
				- - - - - - Projected - - - - - -							
EXPENDITURES											
Nominal GDP	Bill. $	7298.5	7340.4	7421.5	7520.2	7603.3	7684.8	7768.5	7855.4	7940.6	8029.4
Real GDP	Bill. Ch. $	6768.3	6776.5	6813.9	6877.7	6916.7	6949.2	6985.4	7022.9	7058.5	7098.8
Real GDP	% change	3.6	0.5	2.2	3.8	2.3	1.9	2.1	2.2	2.0	2.3
Gross domestic purchases		2.8	-0.5	3.3	4.4	2.8	1.8	1.8	2.2	2.5	2.1
Final sales		3.4	1.6	3.4	2.8	1.3	2.1	2.3	2.2	1.8	2.5
Priv. dom. final purchases		3.3	1.6	5.0	3.5	2.8	2.5	2.4	2.6	2.7	2.7
Personal cons. expenditures		2.8	1.2	3.6	2.9	2.7	2.6	2.6	2.5	2.4	2.4
Durables		9.3	0.3	8.2	6.4	5.9	4.4	5.5	5.0	5.2	5.1
Nondurables		0.5	-0.3	3.6	2.0	2.8	2.4	2.2	2.1	2.0	2.0
Services		2.6	2.2	2.6	2.5	1.9	2.3	2.1	2.1	2.0	2.0
Business fixed investment		5.2	3.1	13.5	6.0	5.8	3.8	3.7	4.3	4.4	4.4
Producers' dur. equipment		4.9	4.0	15.2	6.5	6.8	4.6	4.9	5.5	5.7	5.6
Nonres. structures		6.2	0.9	8.6	4.4	2.9	1.3	0.0	0.4	0.7	0.7
Residential structures		9.2	6.4	6.6	6.8	-2.8	-3.3	-4.2	-0.8	1.4	2.8
Exports		8.0	11.0	2.4	6.7	2.6	11.2	7.5	11.2	5.4	12.0
Imports		1.0	1.3	11.2	10.7	6.2	9.1	4.5	10.2	8.1	9.3
Gov't. cons. & investment		-0.7	-4.1	2.6	2.7	-2.9	-0.1	0.1	0.5	0.5	0.6
Federal		-5.9	-12.8	8.5	-4.4	-9.1	-4.1	-4.0	-3.1	-3.1	-3.3
Defense		-8.1	-12.0	7.5	-4.0	-8.0	-4.5	-4.4	-2.9	-2.9	-3.0
State & local		2.7	1.5	-0.8	7.0	0.7	2.2	2.4	2.5	2.5	2.7
Change in bus. inventories	Bill. Ch. $	33.2	16.5	-3.5	13.8	31.0	27.4	24.6	24.7	28.5	24.9
Nonfarm		38.3	19.5	2.1	16.8	32.2	26.4	21.9	22.0	25.7	22.0
Net exports		-114.3	-96.6	-116.0	-126.7	-135.7	-134.6	-130.1	-131.4	-139.8	-137.4
Nominal GDP	% change	5.8	2.3	4.5	5.4	4.5	4.4	4.4	4.6	4.4	4.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	117.4	117.9	118.5	119.2	119.7	120.0	120.3	120.6	121.0	121.3
Unemployment rate	%	5.6	5.5	5.6	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Industrial prod. index	% change	3.2	0.6	3.0	5.5	4.4	2.8	3.1	3.1	2.9	3.3
Capacity util. rate - mfg.	%	82.6	82.0	81.6	82.0	82.1	81.8	81.8	81.8	81.8	81.9
Housing starts	Millions	1.42	1.41	1.47	1.46	1.39	1.37	1.35	1.35	1.36	1.37
Light motor vehicle sales		15.04	14.92	15.17	15.21	14.96	14.80	14.81	14.83	14.87	14.88
North Amer. produced		13.18	13.13	13.48	13.52	13.20	13.04	13.04	13.06	13.09	13.10
Other		1.86	1.79	1.69	1.69	1.76	1.76	1.77	1.77	1.78	1.78
INCOME AND SAVING											
Nominal GNP	Bill. $	7283.0	7339.6	7426.7	7518.9	7596.8	7676.1	7758.6	7843.9	7927.3	8013.9
Nominal GNP	% change	5.4	3.1	4.8	5.1	4.2	4.2	4.4	4.5	4.3	4.4
Nominal personal income		5.0	5.2	5.2	5.9	5.2	4.4	5.2	4.8	4.9	4.8
Real disposable income		4.5	3.8	2.6	1.1	4.2	1.8	3.8	1.7	2.1	2.0
Personal saving rate	%	4.4	4.9	4.7	4.3	4.6	4.4	4.7	4.6	4.5	4.4
Corp. profits, IVA & CCAdj.	% change	44.2	2.4	24.1	1.5	-3.0	4.0	0.3	2.2	0.5	2.3
Profit share of GNP	%	8.4	8.4	8.8	8.7	8.6	8.6	8.5	8.4	8.3	8.3
(excluding FR banks)	%	8.1	8.1	8.5	8.4	8.3	8.3	8.2	8.2	8.1	8.0
Federal surpl./deficit	Bill. $	-161.6	-154.9	-153.2	-124.9	-128.2	-129.8	-145.0	-142.3	-140.9	-148.4
State & local surpl./def.		93.9	88.1	87.0	97.3	92.8	89.3	88.6	89.1	86.4	86.0
Ex. social ins. funds		35.8	30.5	30.2	40.7	36.5	33.3	32.8	33.5	31.0	30.8
PRICES AND COSTS											
GDP implicit deflator	% change	2.2	1.8	2.3	1.6	2.2	2.4	2.3	2.3	2.3	2.2
GDP chn.-wt. price index		2.2	2.2	2.3	2.1	2.6	2.7	2.8	2.8	2.8	2.7
Gross Domestic Purchases chn.-wt. price index		1.7	2.1	2.3	2.2	2.4	2.4	2.9	2.8	2.7	2.6
CPI		2.1	2.4	3.2	4.0	2.6	2.7	3.2	3.4	3.1	3.0
Ex. food and energy		2.8	2.7	2.7	2.6	3.0	3.0	3.0	3.0	3.1	3.1
ECI, hourly compensation[1]		2.6	3.2	2.9	2.8	3.1	3.2	3.3	3.3	3.3	3.4
Nonfarm business sector											
Output per hour		1.7	-0.8	2.0	1.9	1.0	0.9	1.3	1.1	0.9	1.4
Compensation per hour		4.1	2.9	3.3	3.5	3.6	3.6	3.7	3.6	3.6	3.6
Unit labor cost		2.4	3.7	1.3	1.7	2.6	2.7	2.4	2.4	2.7	2.1

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	95Q4/ 94Q4	96Q4/ 95Q4	97Q4/ 96Q4
Real GDP	0.5	2.2	3.8	2.3	1.9	2.1	2.2	2.0	2.3	1.3	2.5	2.2
Gross dom. purchases	-0.5	3.3	4.4	2.8	1.8	1.8	2.2	2.5	2.2	1.1	3.1	2.2
Final sales	1.6	3.4	2.8	1.3	2.1	2.3	2.2	1.8	2.5	1.9	2.4	2.2
Priv. dom. final purchases	1.4	4.1	2.9	2.4	2.1	2.0	2.1	2.2	2.3	2.0	2.9	2.2
Personal cons. expenditures	0.8	2.4	2.0	1.8	1.8	1.7	1.7	1.7	1.6	1.4	2.0	1.7
Durables	0.0	0.7	0.6	0.5	0.4	0.5	0.4	0.5	0.5	0.2	0.5	0.5
Nondurables	-0.1	0.7	0.4	0.6	0.5	0.5	0.4	0.4	0.4	0.2	0.6	0.4
Services	0.9	1.0	1.0	0.7	0.9	0.8	0.8	0.8	0.8	1.0	0.9	0.8
Business fixed investment	0.3	1.4	0.6	0.6	0.4	0.4	0.5	0.5	0.5	0.7	0.8	0.5
Producers' dur. equip.	0.3	1.2	0.5	0.6	0.4	0.4	0.5	0.5	0.5	0.6	0.7	0.5
Nonres. structures	0.0	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0
Residential structures	0.2	0.3	0.3	-0.1	-0.1	-0.2	-0.0	0.1	0.1	-0.1	0.1	-0.0
Net exports	1.0	-1.1	-0.6	-0.5	0.1	0.3	-0.1	-0.5	0.1	0.1	-0.6	-0.0
Exports	1.2	0.3	0.8	0.3	1.3	0.9	1.3	0.7	1.5	0.7	0.7	1.1
Imports	-0.2	1.4	1.4	0.8	1.2	0.6	1.4	1.1	1.3	0.6	1.2	1.1
Government cons. & invest.	-0.8	0.5	0.5	-0.5	-0.0	0.0	0.1	0.1	0.1	-0.2	0.1	0.1
Federal	-0.9	0.6	-0.3	-0.6	-0.3	-0.3	-0.2	-0.2	-0.2	-0.5	-0.2	-0.2
Defense	-0.6	0.3	-0.2	-0.4	-0.2	-0.2	-0.1	-0.1	-0.1	-0.3	-0.1	-0.1
Nondefense	-0.4	0.2	-0.1	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1
State and local	0.2	-0.1	0.8	0.1	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.3
Change in bus. inventories	-1.1	-1.2	1.0	1.0	-0.2	-0.2	0.0	0.2	-0.2	-0.6	0.2	-0.0
Nonfarm	-1.1	-1.0	0.9	0.9	-0.3	-0.3	0.0	0.2	-0.2	-0.5	0.1	-0.1
Farm	0.1	-0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	-0.1	0.1	0.0
GDP residual	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	0.0

Components may not sum to total due to rounding.

Strictly Confidential (FR)
Class II FOMC

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

June 26, 1996

	Fiscal year[5]				1995				1996				1997			
Item	1994[a]	1995[a]	1996	1997	Q1[a]	Q2[a]	Q3[a]	Q4[a]	Q1							
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1258	1355	1449	1493	307	404	333	324	321	446	357	344	325	451	373	359
Outlays[1]	1461	1519	1576	1656	380	381	373	380	394	396	407	414	415	411	415	432
Surplus/deficit[1]	-203	-164	-128	-163	-73	23	-40	-56	-72	50	-50	-70	-91	40	-42	-73
On-budget	-259	-226	-191	-223	-85	-11	-43	-69	-84	14	-52	-76	-102	2	-47	-79
Off-budget	56	62	64	60	12	34	2	14	12	36	2	6	11	39	5	6
Surplus excluding deposit insurance[2]	-211	-182	-138	-167	-80	18	-42	-59	-75	47	-51	-71	-92	39	-43	-74
Means of financing																
Borrowing	185	171	141	181	66	26	20	33	80	-27	54	66	62	6	47	52
Cash decrease	17	-2	-5	-17	8	-42	23	17	-1	-17	-3	8	20	-45	0	25
Other[3]	1	-6	-9	-1	-1	-7	-2	5	-7	-6	-2	-3	8	-1	-5	-3
Cash operating balance, end of period	36	38	43	60	18	61	38	20	22	39	43	35	15	60	60	35
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1354	1459	1539	1601	1449	1483	1487	1495	1524	1568	1567	1585	1589	1607	1624	1643
Expenditures	1554	1630	1679	1741	1623	1644	1648	1650	1677	1693	1695	1715	1734	1749	1765	1791
Consumption expend.	450	455	451	442	455	456	453	451	457	452	444	442	443	442	441	440
Defense	307	304	300	296	303	305	301	300	302	301	297	296	297	296	296	296
Nondefense	143	151	151	146	152	151	152	151	155	151	147	146	147	146	145	144
Other expenditures	1104	1175	1228	1299	1168	1188	1195	1198	1220	1240	1252	1273	1290	1307	1324	1351
Current account surplus	-200	-171	-140	-140	-173	-161	-162	-155	-153	-125	-128	-130	-145	-142	-141	-148
Gross investment	67	65	61	61	65	67	63	56	64	62	61	61	61	60	60	60
Current and capital account surplus	-267	-237	-201	-200	-238	-227	-225	-211	-217	-187	-189	-191	-206	-203	-201	-208
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-268	-267	-239	-240	-265	-248	-253	-235	-245	-222	-229	-233	-250	-249	-250	-261
Change in HEB, percent of potential GDP	-.7	0	-.4	0	-.3	-.2	.1	-.2	.1	-.3	.1	.1	.2	0	0	.1
Fiscal impetus (FI), percent, cal. year	-6.3	-5.5	-5.8	-5.3	-1.9	-.8	-1.7	-3.6	1.5	-3	-2	-1.3	-1.3	-1	-1	-1

1. OMB's March 1996 baseline deficit estimates (assuming the enactment of the President's proposals) are $146 billion in FY96 and $140 billion in FY97. CBO's April 1996 baseline deficit estimates are $144 billion in FY96 and $171 billion in FY97. Budget receipts, outlays, and surplus/deficit include corresponding Social Security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's March 1996 baseline deficit estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are $154 billion in FY96 and $144 billion in FY97. CBO's April 1996 baseline deficit estimates, excluding deposit insurance spending, are $154 billion in FY96 and $176 billion in FY97.

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 generated by 1.8 percent real growth and an associated unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes (in chained (1992) dollars), scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.

5. *Fiscal year data for the unified budget come from OMB, quarterly data come from the Monthly Treasury Statement and may not sum to fiscal year totals.*

a--Actual.
b--Preliminary.

Confidential FR Class II
June 26, 1996

CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS [1]
(Percent)

			Nonfederal						MEMO
				Households					
	Total	Federal govt.	Total	Total	Home mtg.	Cons. credit	Business	State and local govt.	Nominal GDP
Year									
1986	12.2	13.6	11.8	11.5	13.8	9.6	12.2	10.8	5.0
1987	9.2	8.0	9.6	12.1	16.3	5.0	6.7	12.1	7.4
1988	8.8	8.0	9.1	9.3	10.9	7.2	9.7	6.5	7.6
1989	7.6	7.0	7.8	8.7	10.1	6.0	7.5	5.7	6.4
1990	6.6	11.0	5.3	7.9	10.1	2.0	3.1	4.9	4.4
1991	4.4	11.1	2.4	5.0	6.6	-1.7	-1.7	8.2	3.8
1992	4.8	10.9	2.8	5.2	6.1	0.6	0.5	2.0	6.3
1993	5.3	8.3	4.2	6.2	5.4	7.7	1.6	5.7	4.7
1994	4.9	4.7	5.0	8.5	6.5	14.5	3.8	-3.7	5.9
1995	5.6	4.1	6.1	8.3	6.4	14.5	6.4	-4.1	3.7
1996	4.8	4.8	4.8	6.6	6.2	9.2	4.3	-2.3	4.7
1997	4.6	4.4	4.6	6.0	6.0	6.9	4.6	-2.2	4.5
Quarter (seasonally adjusted annual rates)									
1995:1	6.7	7.6	6.3	7.7	6.0	14.0	7.7	-4.0	3.9
2	6.6	5.7	7.0	8.3	6.4	15.3	7.6	-1.0	2.8
3	4.3	1.8	5.2	9.3	7.9	14.9	4.5	-10.0	5.8
4	4.2	1.2	5.3	6.8	4.9	10.7	5.3	-1.5	2.3
1996:1	6.2	7.9	5.6	7.7	7.7	10.8	4.6	-0.3	4.5
2	3.8	0.9	4.8	6.7	6.3	8.8	3.9	-0.8	5.4
3	4.3	5.4	3.9	5.8	5.3	8.2	4.2	-6.7	4.5
4	4.4	4.5	4.4	5.6	5.1	7.6	4.4	-1.5	4.4
1997:1	5.0	6.8	4.3	5.7	5.6	6.9	4.5	-3.7	4.4
2	4.2	3.2	4.6	5.9	5.8	6.8	4.6	-2.7	4.6
3	4.6	4.4	4.6	5.9	6.0	6.7	4.5	-1.9	4.4
4	4.3	2.9	4.7	5.9	6.0	6.5	4.5	-0.8	4.6

1. Data after 1996:Q1 are staff projections. Changes are measured from end of the preceding period to end of period indicated except annual nominal GDP growth, which is Q4 to Q4. On a monthly average basis, total debt grows 5.6 percent in 1995, 4.6 percent in 1996, and 4.6 percent in 1997. Federal debt rises 4.4 percent in 1995, 4.1 percent in 1996, and 4.7 percent in 1997. Nonfederal debt increases 6.1 percent in 1995, 4.7 percent in 1996, and 4.6 percent in 1997.

2.6.3 FOF

Confidential FR Class II
June 26, 1996

FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS [1]
(Billions of dollars)

	Calendar year				1995		1996				1997	
	1994	1995	1996	1997	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
					Seasonally Adjusted Annual Rates							
Net funds raised by domestic nonfinancial sectors												
1 Total	574.0	658.7	597.5	592.7	492.0	505.4	745.5	536.6	548.9	559.1	595.2	590.3
2 Net equity issuance	-44.9	-74.2	-63.9	-73.8	-92.8	-72.8	-118.0	3.2	-62.8	-78.0	-76.0	-71.6
3 Net debt issuance	618.9	732.9	661.4	666.5	584.8	578.2	863.5	533.4	611.7	637.1	671.2	661.9
Borrowing sectors												
Nonfinancial business												
4 Financing gap [2]	3.8	57.7	20.9	22.3	60.5	13.7	1.6	17.3	38.1	26.6	21.0	23.7
5 Net equity issuance	-44.9	-74.2	-63.9	-73.8	-92.8	-72.8	-118.0	3.2	-62.8	-78.0	-76.0	-71.6
6 Credit market borrowing	144.3	250.6	181.3	201.0	181.5	217.4	190.7	165.8	180.2	188.2	199.4	202.6
Households												
7 Net borrowing, of which:	362.2	383.5	331.4	321.7	448.1	334.5	387.7	343.5	300.3	294.1	314.0	329.4
8 Home mortgages	194.5	203.8	210.1	213.8	258.2	162.9	259.4	215.0	185.0	181.0	205.1	222.5
9 Consumer credit	124.9	142.9	103.7	85.0	158.5	118.2	121.7	102.7	97.7	92.7	85.0	85.0
10 Debt/DPI (percent) [3]	88.7	90.9	93.1	94.0	91.4	92.0	92.6	93.4	93.4	93.7	93.7	94.3
State and local governments												
11 Net borrowing	-43.4	-45.7	-24.8	-23.5	-110.6	-16.0	-3.7	-8.4	-71.1	-16.0	-33.2	-13.7
12 Current surplus [4]	107.4	106.8	122.8	130.6	102.7	101.5	102.2	131.9	129.3	127.7	130.0	131.3
U.S. government												
13 Net borrowing	155.9	144.4	173.6	167.3	65.8	42.4	288.8	32.4	202.3	170.8	191.0	143.6
14 Net borrowing (quarterly, nsa)	155.9	144.4	173.6	167.3	19.9	33.3	80.5	-26.7	54.3	65.5	68.3	99.0
15 Unified deficit (quarterly, nsa)	185.2	146.4	141.6	166.2	40.2	55.9	72.3	-50.3	49.5	70.0	50.5	115.6
16 Funds supplied by depository institutions	198.3	275.0	175.7	213.4	292.5	110.8	128.6	155.7	194.7	223.7	209.3	217.5
MEMO: (percent of GDP)												
17 Domestic nonfinancial debt [3]	185.4	186.7	188.2	188.5	187.4	188.3	188.7	188.5	188.4	188.4	188.5	188.6
18 Domestic nonfinancial borrowing	8.9	10.1	8.8	8.4	8.0	7.9	11.6	7.1	8.0	8.3	8.6	8.3
19 U.S. government [5]	2.2	2.0	2.3	2.1	0.9	0.6	3.9	0.4	2.7	2.2	2.4	1.8
20 Private	6.7	8.1	6.5	6.3	7.1	7.3	7.7	6.7	5.4	6.1	6.1	6.5

1. Data after 1996:Q1 are staff projections.
2. For corporations: Excess of capital expenditures over U.S. internal funds.
3. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.
4. NIPA surplus less retirement funds plus consumption of fixed capital.
5. Excludes government-insured mortgage pool securities.

2.6.4 FOF

Recent Developments

The value of the dollar in terms of the other G-10 currencies has declined slightly since the May FOMC meeting. The dollar depreciated about 1 percent against the mark and other major European currencies, declined 1 percent against the Canadian dollar, and rose 2-1/4 percent on balance against the yen. The Mexican peso declined 2-1/2 percent against the dollar.

The mark strengthened as a recent pickup in German economic indicators damped market expectations of a further near-term easing by the Bundesbank. The downward tilt to near-term Euromark futures that prevailed at the time of the May meeting has since been reversed. In contrast, the yen weakened on balance despite the announcement of exceptionally strong GDP growth in the first quarter, as market opinion appeared to be swayed by a series of official statements that short-term interest rates would not be raised in the near term.

Short-term interest rates in Japan and Germany were little changed over the intermeeting period, but rates elsewhere in Europe eased when the Bank of England and the Bank of France cut their lending rates by 25 and 10 basis points, respectively, on June 6. Long-term rates moved up 20 basis points in Germany and less elsewhere in Europe but were about unchanged, on balance, in Japan.

. The Desk did not intervene.

On average, economic activity in the foreign G-7 countries in the first half of this year appears to have been about in line with our earlier expectations. First-quarter Japanese real GDP did exceed our expectations as it surged 12.7 percent (SAAR), reflecting a broad-based expansion of domestic demand as well as some transitory influences. A bunching of government spending, which accounted for one-third of the first-quarter expansion, is not thought to have extended beyond the first quarter. In addition, measurement practices associated with the leap year added about 2 percentage points (AR) to the first-quarter number and will be reversed in the second.[1] As a result, we estimate that GDP declined in the second quarter. Nevertheless, available indicators including industrial production, orders, and housing starts, point to strength in underlying activity.

German GDP fell 1-1/2 percent (SAAR) in the first quarter, because of a weather-related plunge in construction and a weakening of exports, but appears to have turned up in the second quarter. Construction has rebounded strongly, and in April industrial production was 1-1/4 percent above the first-quarter average. In France, GDP bounced back at an annual rate of nearly 5 percent in the first quarter from strike-depressed levels in the fourth quarter, although, as in Japan, leap-year effects accounted for about 2 percentage points. French industrial production and indicators of confidence have been soft so far in the second quarter. Sluggish to moderate GDP growth was recorded in the United Kingdom and Canada in the first quarter; indicators for the second quarter are mixed but, on balance, point to acceleration in both countries.

Inflation in the foreign G-7 countries on average remains below that in the United States. Japanese twelve-month inflation turned slightly positive in April and May as a result of the effects of the depreciation of the yen over the past year. Twelve-month inflation rates elsewhere (in most cases through May) have ranged from 1-1/4 percent in Germany (June) and 1-1/2 in Canada, to between 2-1/2 and 2-3/4 percent in France and the United Kingdom, to about 4 percent in Italy (June).

GDP growth in major U.S. trading partners among developing countries (weighted by U.S. nonagricultural export shares) continued at about 5-3/4 percent at an annual rate in the first quarter. Growth in several Asian countries picked up from moderate slowdowns in the second half of 1995. At the same time, Mexican GDP growth slowed to a still strong rate of 6-1/2 percent (SAAR) in the first quarter, following a 15 percent rate in the fourth quarter. The level of Mexico's GDP in the first quarter was 7-1/2 percent above

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1. Japan, France, and Italy do not make working-day adjustments, unlike other G-7 countries where seasonal adjustment includes adjustment for the number of working days in the quarter.

the mid-1995 recession trough, but still 4-1/2 percent below the previous peak.

The deficit on U.S. net exports of goods and services (in nominal terms) widened in April relative to the first-quarter rate. April data showed a broad-based expansion of exports; a slightly stronger expansion of imports was concentrated in oil imports as refiners began to replenish domestic stocks. The current account deficit in the first quarter exceeded the fourth-quarter rate but remained below the 1995 average as both the trade deficit and the deficit on net investment income showed improvement over last year.

A surge in grain prices caused U.S. export prices to accelerate somewhat in April-May over the first quarter despite declines in prices of industrial supplies and computers. Non-oil import prices fell somewhat in April-May as increases in food prices partly offset declines in the prices of capital goods and industrial supplies. The price of imported oil increased sharply further in April and declined a bit in May. The spot WTI price fell a total of $3.50 during May and June and has been trading around $20 per barrel recently. The decline in oil prices since April has reflected primarily the unwinding of temporary weather-related shocks to the oil market that occurred earlier in the year. The agreement Iraq reached with the United Nations in mid-May appears largely to have been priced into the futures market and in the event did not have much of an immediate effect on prices.

Outlook

We expect the recent signs of underlying strengthening in economic activity abroad to be followed by modest acceleration during the second half of the year. Growth should level off in 1997. The projected annual rate of expansion of total foreign GDP (weighted by U.S. nonagricultural export shares) over the next six quarters--3-1/2 percent at an annual rate--is a couple of tenths higher than that in the May Greenbook. As in the previous projection, we expect the dollar to remain near its current level through 1997. We project that export growth will pick up somewhat over the next six quarters, abstracting from residual seasonal fluctuations.[2] Stimulus from stronger growth abroad more than offsets the restraining effects of the appreciation of the dollar over the past year. Imports should expand even faster, however; we expect real net exports to make a moderately negative contribution to GDP growth.

The Dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies will remain little changed from its recent levels throughout the forecast period. This level is the same as that forecast in the previous Greenbook. We expect that the CPI-adjusted value of the dollar in terms of the currencies of key developing countries will depreciate at a moderate rate both this year and next. Notably, the peso is expected to appreciate in real terms over the forecast period, as its nominal exchange value against the dollar depreciates at a slower pace than the extent to which Mexican inflation exceeds U.S. inflation.

Foreign G-7 countries. We estimate that real GDP growth in the foreign G-7 countries on average slowed in the second quarter from the unexpectedly rapid pace in the first quarter, but we expect that it will pick up to an annual rate of nearly 2-3/4 percent on average over the next six quarters. Growth will be supported in general by lagged effects of monetary easing that has occurred over the past year; in Europe and Canada, this factor will more than offset the effects of ongoing fiscal contraction.

Japanese GDP likely declined in the second quarter as government spending and inventory investment receded from very strong first-quarter levels and private consumption paused following its rapid advance. Nevertheless, the breadth of the first-quarter advance and continued strength in new orders during the second quarter suggest that the underlying recovery in Japan has firmed, and we project GDP to resume positive growth in the second half of 1996. We expect growth to slow a bit in 1997 as fiscal policy shifts toward being contractionary.

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2. Our forecast incorporates seasonal fluctuations in exports and imports that are not captured in BEA's adjustment factors. While quarterly changes in exports and imports are affected quite noticeably, the impact on net exports is relatively small.

We estimate that German GDP advanced at a 2-3/4 percent rate in the second quarter and that growth will average somewhat less than that over the next six quarters. Recent gains in disposable income should bolster consumption spending, and both exports and investment are expected to benefit from the depreciation of the mark over the past year. In France and the United Kingdom, inventory cycles are expected to contribute to significant pickups of GDP growth in the second half of 1996. Growth over the next six quarters should average around 2-1/2 percent in France, Italy, and the United Kingdom. Our forecast assumes that the continental European countries will continue to strive to meet Maastricht budget reference levels for 1997. We foresee Germany and France but not Italy coming within striking distance of meeting those reference levels.[3]

Canadian GDP is estimated to have advanced at about a 2-3/4 percent rate in the second quarter, supported in part by recovery from the GM strike and strong growth in U.S. imports. Canadian growth should pick up a bit more over the period ahead as stimulus from the substantial easing of monetary conditions in that country over the past year more than offsets the effects of planned fiscal consolidation.

The outlook for inflation in the foreign G-7 countries remains subdued. Average consumer prices in these countries (weighted by U.S. bilateral import shares) are projected to rise about 1-1/2 percent during 1996 and 1-3/4 percent during 1997, about 1/4 percent more each year than we projected in May. Given the higher projected level for Japanese GDP, we expect inflation in Japan to reach nearly 1/2 percent this year and to rise to 1-1/2 percent next year--about 1/2 percentage point more per year than we projected previously. The projected pickup in Japanese inflation next year

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3. We expect that the average reduction of structural budget deficits per year during 1996 and 1997 (as a percent of GDP) will be around 1/2 percent in Germany, 3/4 percent in France, 1 percent in the United Kingdom, and roughly 1-1/4 percent in Italy and Canada. Japan's fiscal consolidation during 1997 should amount to about 3/4 percent of GDP, compared with a 1/2 percent expansion during 1996. These fiscal policy actions are projected to move the German and French deficits to about 3-1/2 percent, compared with the Maastricht reference level of 3 percent.

also reflects the effects of an increase in the consumption tax in the second quarter of 1997.

Our outlook for the foreign G-7 countries incorporates the assumption that short-term market interest rates on average are about at their trough and will rise moderately over the forecast period. Rates are assumed to remain around current levels in Germany before edging up late in 1997. In Japan, short-term market rates are assumed to increase late this year and in 1997 as the Bank of Japan tightens in response to firming aggregate demand. Long-term rates abroad are expected to rise only slightly over the forecast period.

Other countries. The real growth of GDP in major developing-countries is projected to slow during the second and third quarters of 1996 and to pick up to a bit less than a 6 percent rate during 1997. The near-term slowing reflects a pause from recent very rapid rates of expansion in Mexico and a return to more sustainable growth rates in Korea, Taiwan, and Singapore.

We project that real GDP in Mexico will expand around 4 percent during 1996 and 5 percent in 1997. The strength of the rebound in Mexico's private consumption and investment spending during the past three quarters while the trade balance has remained flat underlies our projection that Mexico's continued recovery will be driven by internal demand. Elsewhere in Latin America, Argentina appears to be emerging from its recent recession and is projected to continue to do so, while Venezuela is not expected to begin to recover from its recession until late this year. In Brazil, monetary restraint and an overvalued currency are expected to keep growth from exceeding 2 percent over the forecast period.

Real output of our major trading partners in Asia is expected to grow at a 6-1/2 to 7 percent rate over the forecast period.[4] These countries should experience less stimulus from net exports because of the appreciation of their currencies against the yen over

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4. Our outlook for the Asian developing countries assumes that China will uphold its promise that Hong Kong will retain a separate economic system after Hong Kong's sovereignty is transferred to China in July 1997. Any disruption to economic activity in Hong Kong is projected to be minimal.

the past year, but more stimulus from domestic demand induced by easing of monetary conditions in some cases.

U.S. real exports and imports of goods and services. Real exports of goods and services are projected to expand at an annual rate of nearly 7 percent in the second quarter and in the second half of 1996 and to accelerate to 9 percent growth in 1997.[5] The growth of real computer exports is expected to slow substantially in the second quarter from the torrid pace in the first quarter but should return to its longer-term trend over the period ahead. Real exports of semiconductors also are expected to recover to a robust rate of expansion after a pause related to global inventory adjustments in the first half of the year. The quantities of exports of other goods (excluding agricultural products) are estimated to have bounced back in the current quarter from their decline in the first quarter, in part a make-up of automobile

QUANTITIES OF GOODS AND SERVICES
(Percent change from end of previous period, SAAR)

		Projection			
	1995	1996			1997
		Q1	Q2	H2	
Exports of G&S	6.5	2.3	6.7	6.8	9.0
Services	1.6	1.9	-0.3	2.9	3.4
Computers	48.0	54.6	17.0	25.1	31.0
Semiconductors	30.0	0.1	0.0	23.8	30.9
Other goods[1]	2.5	-5.7	13.1	3.3	3.8
Imports of G&S	4.6	11.2	10.7	7.6	8.0
Services	3.9	11.3	2.2	2.2	2.7
Oil	-0.5	-16.2	63.9	8.5	2.2
Computers	43.5	26.3	18.3	23.8	21.5
Semiconductors	57.9	4.5	0.1	25.9	30.6
Other goods[2]	-3.0	12.5	8.3	4.2	4.7

Note: NIPA basis, chained (1992) dollars.
1. Merchandise exports excluding agriculture, computers, and semiconductors.
2. Merchandise imports excluding oil, computers, and semiconductors.

5. Given experience with the 1984 Olympics in Los Angeles and the 1994 World Cup, any effect of the Olympics in Atlanta is unlikely to be discernible in data on U.S. international transactions.

shipments after the resolution of the GM strike, and to average about 3-1/4 percent in the second half of 1996 and nearly 4 percent during 1997.

Real imports of goods and services are projected to have continued to advance rapidly in the second quarter as a surge in oil imports offset some slowing in most other categories from rapid rates recorded in the first quarter. Over the rest of the forecast period, real imports should expand at a slower (but still fairly strong) pace as oil import growth recedes and the growth of domestic demand slows. Imports of computers are projected to grow rapidly over the next six quarters in real terms, as are imports of semiconductors. Imports of other non-oil goods are projected to decelerate from their double-digit growth in the first half and to expand at a little under twice the rate of growth of U.S. real GDP (in line with recent historical trends) over the remainder of the forecast period.

We expect the quantity of oil imports to have surged in the second quarter and to continue to grow somewhat faster than normal in the second half of the year as stocks are rebuilt from low levels. In 1997, oil imports should expand more in line with the dictates of growth in U.S. economic activity and declines in U.S. oil production.

Oil prices. In light of the agreement reached between Iraq and the United Nations for limited oil exports, we assume that Iraq will begin to export some oil in August and will be shipping the full allotment of around 800,000 b/d by September.[6] We also assume that other oil producers will be unwilling to cut production to offset the price effects of Iraqi exports. Given these assumptions, the projected prices of imported oil for the third and fourth quarters have been revised down roughly $1.00 and $2.25, respectively, per barrel. We now expect the import price to drop

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6. The agreement with the United Nations actually is specified as $2 billion worth of oil to be shipped over a 6-month period. This works out to 800,000 b/d at an average price of $15 per barrel. We are assuming that the agreement will be renewed after six months and that Iraq will not reenter the market on an unlimited basis until sometime after 1997.

below $15 per barrel in the fourth quarter with the increased supply from Iraq. Trend increases in consumption, augmented by strong seasonal demand early in 1997, are expected to return oil prices fairly quickly to our long-run projection paths of $19.50/b for WTI and $17/b for the oil import unit value.

Prices of non-oil imports and exports. Prices of non-oil imports are projected to increase only slightly during 1996-97 as foreign inflation remains low and world commodity prices decline. Prices of nonagricultural exports (including computers and semiconductors) are projected to change little on balance this year and then to rise somewhat next year. We project agricultural export prices to decline moderately over the next six quarters, in line with futures prices for key U.S. export commodities. Prices of corn and soybeans, in particular, have declined recently on expectations of good fall harvests.

SELECTED PRICE INDICATORS
(Percent change from end of previous period except as noted, AR)

		Projection			
	1995	1996			1997
		Q1	Q2	H2	
Ag. exports[1]	15.1	6.7	22.4	-4.0	-2.5
Nonag. exports[1]	1.6	-2.0	1.0	-0.2	1.8
Non-oil imports[1]	1.0	-0.8	1.4	1.4	0.3
Oil imports (Q4 level, $/bl)	15.76	17.53	19.23	14.63	17.00

1. NIPA chain-weighted basis, including computers and semiconductors.

Nominal trade and current account balances. The nominal trade balance on goods and services is expected to widen somewhat over the forecast period, from its rate of $97 billion in the first quarter of 1996 to $115 billion in the fourth quarter of 1997. Net earnings from direct investment are projected to continue expanding, but that gain will be more than offset by an increasing deficit on portfolio income. Accordingly, the current account balance is projected to widen over 1996-97, reaching $175 billion, almost 2-1/4 percent of GDP, in 1997.

REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1994-97
(Percent; quarterly change at an annual rate except as noted)

						Projected					
			Projected		1995	1996				1997	
Measure and country	1994	1995	1996	1997	Q4	Q1	Q2	Q3	Q4	Q1	Q2
REAL GDP											
Canada	4.9	0.7	2.4	2.8	0.9	1.2	2.7	2.9	3.0	2.8	2.7
France	4.1	0.5	2.4	2.7	-1.6	4.9	0.2	2.0	2.4	2.6	2.6
Germany	3.7	1.0	1.4	2.3	-0.6	-1.5	2.7	2.3	2.2	2.2	2.4
Italy	2.6	2.3	2.0	2.2	-3.6	0.8	1.0	2.8	3.6	2.5	2.3
Japan	0.4	2.5	4.0	2.6	4.8	12.7	-2.0	2.4	3.3	4.0	1.3
United Kingdom	4.1	1.9	2.1	2.5	2.0	1.6	2.0	2.2	2.5	2.5	2.5
Average, weighted by 1987-89 GDP	2.7	1.7	2.6	2.5	1.0	4.9	0.5	2.4	2.9	3.0	2.1
Average, weighted by share of U.S. nonagricultural exports											
Total foreign	4.8	1.6	3.6	3.9	3.4	4.5	2.8	3.3	3.8	3.9	3.7
Foreign G-7	3.6	1.3	2.6	2.6	1.3	3.5	1.4	2.6	2.9	2.9	2.4
Developing countries	6.5	2.5	5.2	5.8	6.0	6.6	4.2	4.5	5.4	5.7	5.7
CONSUMER PRICES(1)											
Canada	0.0	2.1	1.8	1.6	0.1	1.7	3.0	1.6	1.0	1.6	1.8
France	1.6	1.9	1.8	1.9	2.3	2.9	3.6	0.4	0.2	2.1	1.9
Western Germany	2.5	1.6	1.5	1.8	-0.5	2.5	1.9	1.8	-0.2	3.3	2.3
Italy	3.8	5.9	4.1	3.5	5.0	3.3	4.6	2.1	6.4	2.5	3.9
Japan	0.8	-0.8	0.4	1.5	-0.5	-0.4	2.7	-0.6	-0.1	-0.4	6.9
United Kingdom(2)	2.2	2.9	2.7	2.7	1.4	3.0	5.8	0.8	1.4	2.0	6.3
Average, weighted by 1987-89 GDP	1.7	1.7	1.7	2.1	1.0	1.7	3.4	0.7	1.1	1.5	4.4
Average, weighted by share of U.S. non-oil imports	1.0	1.1	1.4	1.8	0.2	1.2	3.1	0.7	0.7	1.1	4.2

Note. Annual values are measured from Q4 to Q4.
1. Not seasonally adjusted.
2. CPI excluding mortgage interest payments, which is the targeted inflation rate. Previously the CPI including mortgage interest payments was shown.

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U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT
(Billions of dollars, seasonally adjusted annual rates)

	1993				1994				1995		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1992	1993	1994
NIPA Real Net Exports (Chained 1992 dollars)	-55.2	-67.0	-89.1	-86.2	-101.3	-112.2	-113.3	-105.8	-119.0	-126.8	-29.5	-74.4	-108.2
Exports of G&S	649.8	662.3	648.9	681.4	680.4	704.3	724.8	751.0	755.8	764.3	639.4	660.6	715.1
Goods	454.2	465.8	453.3	484.6	481.5	501.8	518.3	543.9	548.9	557.7	448.7	464.5	511.4
Agricultural	43.8	43.9	41.0	43.4	40.7	41.0	44.8	51.2	51.3	48.2	44.1	43.0	44.4
Computers	32.3	33.1	35.9	38.6	40.7	41.8	44.9	49.6	52.9	55.7	28.7	35.0	44.2
Semiconductors	20.6	22.3	25.5	28.2	33.5	35.4	39.5	47.2	50.7	53.3	16.0	24.1	38.9
Other Goods	357.5	366.5	350.9	374.4	366.6	383.6	389.1	395.9	394.0	400.5	359.9	362.3	383.8
Services	195.5	196.5	195.6	197.0	199.0	202.7	206.8	207.7	207.6	207.4	190.8	196.2	204.1
Imports of G&S	705.1	729.4	738.1	767.6	781.7	816.5	838.1	856.8	874.9	891.2	668.9	735.1	823.3
Goods	577.3	598.6	605.1	629.1	643.0	676.5	698.1	718.6	732.8	750.5	544.9	602.5	684.0
Oil	53.7	57.9	56.9	58.3	57.0	60.6	64.6	58.2	56.5	57.4	51.4	56.7	60.1
Computers	38.9	42.3	46.5	49.9	53.9	57.3	61.8	68.3	71.7	76.3	31.7	44.4	60.3
Semiconductors	19.2	21.2	22.4	25.0	27.3	28.5	31.6	36.9	39.4	45.3	15.5	22.0	31.1
Other Goods	465.5	477.2	479.3	495.9	504.8	530.1	540.1	555.2	565.2	571.5	446.3	479.5	532.6
Services	127.8	130.8	133.0	138.5	138.8	140.2	140.2	138.5	142.4	141.1	124.1	132.5	139.4
Memo: (Percent change 1/)													
Exports of G&S	0.4	7.9	-7.9	21.6	-0.6	14.8	12.2	15.3	2.6	4.6	4.1	5.0	10.2
Agricultural	-17.8	0.9	-23.9	25.6	-22.7	3.0	42.6	70.6	0.8	-22.1	10.6	-5.7	18.0
Computers	12.0	10.3	38.4	33.7	23.6	11.3	33.1	48.9	29.4	22.9	25.1	22.9	28.5
Semiconductors	34.4	39.3	68.4	50.1	100.8	23.7	55.5	103.3	33.5	22.1	64.8	47.5	67.4
Other Goods	-7.4	10.4	-15.9	29.6	-8.1	20.0	5.8	7.2	-1.9	6.8	2.6	2.7	5.7
Services	16.4	2.1	-1.8	2.9	4.1	7.6	8.3	1.8	-0.2	-0.4	-0.8	4.7	5.4
Imports of G&S	9.6	14.5	4.9	17.0	7.6	19.0	11.0	9.2	8.7	7.7	7.4	11.4	11.6
Oil	5.4	35.2	-6.7	10.2	-8.6	27.8	29.1	-34.1	-11.2	6.5	12.1	10.0	-0.2
Computers	41.0	39.8	46.0	32.6	36.1	27.7	35.3	49.2	21.4	28.2	45.1	39.8	36.9
Semiconductors	61.1	48.4	24.9	53.3	42.8	18.4	51.6	87.1	29.9	74.4	42.0	46.3	48.0
Other Goods	8.5	10.4	1.8	14.7	7.4	21.6	7.7	11.6	7.4	4.5	5.5	8.8	11.9
Services	1.3	9.7	6.9	17.6	0.9	4.1	0.0	-4.8	11.7	-3.6	1.4	8.7	0.0
Current Account Balance	-72.7	-96.9	-109.7	-120.5	-118.8	-144.1	-160.0	-170.6	-156.2	-163.9	-62.6	-99.9	-148.4
Goods & Serv (BOP), net	-54.2	-72.1	-84.8	-77.0	-90.8	-103.5	-113.8	-109.4	-118.1	-127.3	-38.3	-72.0	-104.4
Goods (BOP), net	-116.8	-133.5	-146.0	-134.1	-147.4	-164.3	-177.7	-175.1	-179.7	-191.7	-96.1	-132.6	-166.1
Services (BOP), net	62.6	61.4	61.2	57.1	56.5	60.8	63.9	65.7	61.6	64.4	57.8	60.6	61.7
Investment Income, net	15.1	9.4	12.0	2.6	4.7	-2.5	-6.4	-12.4	-3.6	-3.4	11.2	9.7	-4.2
Direct, net	61.3	53.6	58.9	49.8	49.5	46.0	47.4	46.9	57.4	59.9	51.6	55.9	47.4
Portfolio, net	-46.2	-44.2	-46.9	-47.3	-44.8	-48.5	-53.7	-59.3	-61.0	-63.3	-40.4	-46.2	-51.6
Unilateral Transfers, net	-33.5	-34.1	-36.9	-46.1	-32.7	-38.0	-39.9	-48.9	-34.6	-33.2	-35.5	-37.6	-39.9

1/ Percent change (AR) from previous period; percent changes for annual data are calculated Q4/Q4.

Strictly Confidential (FR) Class II-FOMC

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT
(Billions of dollars, seasonally adjusted annual rates)

			Projection								Projection		
	1995		1996				1997				ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1995	1996	1997
NIPA Real Net Exports (Chained 1992 dollars)	-114.3	-96.6	-116.0	-126.7	-135.7	-134.6	-130.1	-131.4	-139.8	-137.4	-114.2	-128.2	-134.7
Exports of G&S	779.1	799.8	804.5	817.5	822.9	845.0	860.3	883.4	895.1	920.8	774.7	822.5	889.9
Goods	570.7	589.8	593.5	606.7	610.9	631.2	644.6	665.8	675.7	699.8	566.8	610.6	671.5
Agricultural	50.0	49.4	50.5	48.0	47.7	48.9	49.4	49.9	50.4	50.9	49.7	48.7	50.1
Computers	65.2	73.4	81.8	85.1	89.8	95.2	101.8	109.0	116.6	124.7	61.8	88.0	113.0
Semiconductors	57.0	61.3	61.3	61.3	64.4	68.2	72.9	78.0	83.4	89.3	55.6	63.8	80.9
Other Goods	398.5	405.7	399.8	412.3	409.1	419.0	420.4	429.0	425.3	434.9	399.7	410.0	427.4
Services	209.4	211.1	212.1	211.9	213.0	214.9	216.9	218.7	220.5	222.1	208.9	213.0	219.6
Imports of G&S	893.4	896.4	920.5	944.2	958.6	979.6	990.4	1014.9	1034.9	1058.2	889.0	950.7	1024.6
Goods	752.2	752.8	772.9	795.9	809.4	829.6	839.5	863.1	882.1	904.2	747.1	802.0	872.2
Oil	60.7	57.9	55.4	62.7	66.1	65.3	62.9	68.2	71.2	66.8	58.1	62.4	67.3
Computers	88.0	98.0	103.9	108.3	114.3	120.5	126.6	132.9	139.5	146.5	83.5	111.8	136.3
Semiconductors	53.0	58.3	59.0	59.0	62.5	66.2	70.7	75.6	80.8	86.4	49.0	61.6	78.4
Other Goods	550.5	538.6	554.7	565.9	566.6	577.6	579.4	586.4	590.6	604.6	556.4	566.2	590.2
Services	141.6	143.9	147.8	148.6	149.5	150.2	151.2	152.1	153.1	154.2	142.2	149.0	152.7
Memo:(Percent change 1/)													
Exports of G&S	8.0	11.1	2.3	6.7	2.6	11.2	7.5	11.2	5.4	12.0	6.5	5.6	9.0
Agricultural	15.8	-4.7	9.2	-18.6	-2.5	10.5	4.2	4.1	4.1	4.0	-3.5	-1.1	4.1
Computers	87.7	60.6	54.6	17.0	23.9	26.2	31.0	31.0	31.0	31.0	48.0	29.7	31.0
Semiconductors	31.3	33.3	0.1	0.0	21.4	26.0	30.8	30.9	30.9	30.9	30.0	11.3	30.9
Other Goods	-2.0	7.5	-5.7	13.1	-3.1	10.0	1.4	8.4	-3.4	9.4	2.5	3.3	3.8
Services	3.9	3.3	1.9	-0.3	2.1	3.5	3.8	3.5	3.3	2.9	1.6	1.8	3.4
Imports of G&S	1.0	1.3	11.2	10.7	6.2	9.1	4.5	10.2	8.1	9.3	4.6	9.3	8.0
Oil	25.1	-17.2	-16.2	63.9	23.6	-4.3	-14.3	38.7	18.6	-22.7	-0.5	12.9	2.2
Computers	76.9	53.8	26.3	18.3	23.8	23.8	21.5	21.5	21.5	21.5	43.5	23.0	21.5
Semiconductors	86.9	46.8	4.5	0.1	25.8	25.8	30.6	30.6	30.6	30.7	57.9	13.4	30.6
Other Goods	-13.9	-8.4	12.5	8.3	0.5	8.0	1.2	4.9	2.9	9.9	-3.0	7.2	4.7
Services	1.4	6.7	11.3	2.2	2.3	2.1	2.5	2.4	2.7	3.0	3.9	4.4	2.7
			Projection								Projection		
Current Account Balance	-150.8	-121.7	-142.4	-152.6	-160.4	-163.6	-150.9	-155.3	-165.6	-175.4	-148.2	-154.7	-161.8
Goods & Serv (BOP), net	-97.3	-77.6	-97.4	-111.6	-114.1	-105.1	-104.3	-106.9	-115.5	-113.0	-105.1	-107.0	-109.9
Goods (BOP), net	-170.2	-152.1	-171.0	-185.2	-188.5	-181.2	-182.3	-186.8	-196.9	-195.9	-173.4	-181.5	-190.5
Services (BOP), net	72.9	74.5	73.5	73.6	74.4	76.1	78.0	79.8	81.5	82.9	68.4	74.4	80.5
Investment Income, net	-17.4	-7.6	-1.6	-8.1	-13.3	-15.4	-16.6	-18.3	-20.1	-22.3	-8.0	-9.6	-19.3
Direct, net	51.3	61.3	63.3	61.7	60.6	61.8	63.2	63.7	64.3	64.5	57.5	61.8	63.9
Portfolio, net	-68.7	-68.9	-64.8	-69.8	-73.9	-77.2	-79.8	-82.0	-84.4	-86.9	-65.5	-71.4	-83.3
Unilateral Transfers, net	-36.0	-36.6	-43.4	-33.0	-33.0	-43.0	-30.0	-30.0	-30.0	-40.0	-35.1	-38.1	-32.5

1/ Percent change (AR) from previous period; percent changes for annual data are calculated Q4/Q4.