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Strictly Confidential (FR) Class II FOMC

Part 1

December 12, 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

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SUMMARY AND OUTLOOK

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Overview

As best we can tell, the economy has remained on a moderate growth trajectory this quarter, buoyed by a rebound in consumer spending after a summer lull. The sustained momentum of the expansion is most clearly evident in the continued solid gains in private payrolls in recent months, and reports of competition for scarce labor abound. Nonetheless, inflation remains almost negligible in the markets for goods, and the core CPI has continued to rise at little more than a 2-1/2 percent annual rate.

Our forecast for 1997-98 has been modified only slightly since the last Greenbook; basically, under the assumption of stable money market conditions, real GDP growth is projected to average about 2 percent and overall CPI inflation to run at about 2-3/4 percent. The main innovations in this projection are an upward revision to the level of share prices and introduction of a fiscal policy path more compatible with the goal of budget balance. The new fiscal assumption has led us to carry forward the recent lower range for long-term interest rates, providing some ongoing support for the equity markets and interest-sensitive expenditures.

In this economic scenario, pressures on productive resources are little changed over the next two years. Unemployment is projected to remain in the vicinity of 5-1/4 percent, and hourly compensation rates are expected to accelerate gradually through 1998, boosted in part by the further minimum wage hike late next year. Because of the high levels of investment in recent years, physical plant capacity should not be a problem, but core price inflation is likely to drift upward as a consequence of rising labor costs and a less favorable trend of import prices than experienced in 1995-96. Core CPI inflation is predicted to move up only about 1/4 percentage point over the forecast period, but the pickup would be almost twice that amount were it not for the damping influence of planned revisions to the index.

Key Background Factors in the Forecast

The record-setting performance of the stock market has been perhaps the most striking development of the intermeeting period. Once again, the rise in share prices has outstripped our expectations. Although third-quarter corporate profits were stronger than we expected, market valuations still seem rather aggressive. Our response has been to carry a higher level of share prices through the projection period, but with a modest dip in the next few quarters and no net gain between now and the end of 1998. Whether even a mild setback is a realistic expectation is far from clear, in the absence of a significant tightening of monetary policy or a more serious erosion of corporate profitability than we foresee. Thus, we view the possibility of a more buoyant stock market as posing an important upside risk to output and inflation in the near term, with an associated risk of a subsequent hard landing occurring in the wake of a policy tightening.

Although bond yields have been lower of late than we anticipated in the last forecast, the term structure has not been extraordinarily flat, and we have no reason to question the sustainability of the lesser slope--particularly in view of our modified fiscal policy assumptions. In recent forecasts, we have assumed some ongoing restraint on discretionary spending, but not the kind of overall fiscal program required to put the federal budget on a path to balance by the early part of the next century. However, in light of the high priority that President Clinton has assigned to eliminating the deficit, not to mention the possibility that a Balanced Budget Amendment will be passed by the Congress, we have shifted back to an assumption that the next budget agreement will be framed in terms of a multiyear package that targets balance by fiscal 2002. Reaching this target would require a less ambitious set of spending cuts than was thought necessary earlier this year, because of a more favorable baseline outlook.

We assume that, by next fall, the Administration and the Congress will have agreed on a set of further cuts in discretionary spending programs and some moderate trimming of entitlements. Our package includes some tax cuts for individuals but also some reductions in "corporate welfare." The budget-balancing schedule would be heavily backloaded, but the change in assumptions cuts the better part of $20 billion from our projection of the fiscal 1998 deficit. We now expect the unified deficit in fiscal 1998 to be up only slightly from the $112 billion projected for the current fiscal year.

We also see a modicum of restraint on effective demand coming from credit supply conditions. Although funds should remain readily available to most creditworthy borrowers, we suspect that the easing trend in terms and standards for loans to businesses will be drawing to a close and that the recent tilt toward greater caution in lending to consumers will carry a bit further.

The external sector is expected to remain a drag on domestic growth--but less so than in 1996. We are predicting that foreign GDP growth will be between 3-3/4 percent and 4 percent in both 1997 and 1998, marginally faster than it appears to have been this year. The dollar's average exchange value against the other G-10 currencies is assumed to remain near its recent levels, somewhat higher than in the last Greenbook.

Our current-quarter forecast of the WTI crude oil price is $24-1/2 per barrel, up a dollar from the projection in the last Greenbook. However, a renewed flow of Iraqi oil was initiated on December 10--earlier than we had been assuming--and oil prices weakened substantially in yesterday's trading. We now are expecting the spot price of WTI crude to fall to the $19 to $20 range by the start of the second quarter of next year. As in the last Greenbook, prices, once down, are expected to be flat over the balance of the forecast period.

Recent Developments and Prospects for the Current Quarter

Our guess is that growth of real GDP will be somewhere around 2-1/4 percent in the current quarter--in line with our estimate of third-quarter growth. Central to our assessment that GDP growth will remain moderate this quarter is the fact that, with a further small gain in December, aggregate hours of production and nonsupervisory workers would be up nearly 1-1/2 percent at an annual rate for the quarter. We are expecting that productivity growth will turn up again after flattening in the summer.

On the expenditure side, the key information is that on consumer spending. Owing in part to the negative effects of strikes on auto supplies, sales of light vehicles have been off a little from the third-quarter pace; however, the shortfall apparently hit business fleets the hardest, as automakers have favored more lucrative consumer transactions. Meanwhile, retail sales, excluding those of auto dealers and building supply stores, have posted a solid gain since late summer. Assuming that holiday sales are reasonably brisk, we are projecting that real PCE growth will reach 3 percent this quarter.

A surprisingly sharp decline in single-family housing starts in October has caused us to lower our forecast of building activity this quarter. Given the backdrop of healthy employment gains and lower mortgage rates, we anticipate some rebound in starts over the remainder of the quarter--but not one sharp enough to avert a fall in real residential investment on the order of 10 percent at an annual rate.

SUMMARY OF THE NEAR-TERM OUTLOOK
(Percentage change at annual rates except as noted)

	1996:Q3			1996:Q4	
	Nov. GB	BEA prel.	Dec. GB	Nov. GB	Dec. GB
Real GDP	2.5	2.0	2.3	1.8	2.3
Personal consumption expenditures	.4	.6	.6	3.8	3.2
Residential investment	-6.6	-5.9	-5.9	-6.0	-9.8
Business fixed investment	16.2	16.9	16.9	3.6	5.0
Change in billions of chained (1992) dollars					
Inventory investment	33.6	25.7	29.0	-18.1	-7.2
Government outlays for consumption and investment	-1.5	-.8	-.7	-2.4	1.7
Net exports	-18.9	-24.1	-24.5	6.1	6.5

After a tremendous surge this summer, real business fixed investment appears likely to post a more moderate advance in the current quarter. Admittedly, this prediction is largely guesswork at this point, because few data are available beyond October. Through that month, trends in orders and shipments of nondefense capital goods at domestic manufacturers were somewhat divergent--still quite positive for computers and communications equipment but weakening for other, less high-tech machinery. As noted above, business purchases of motor vehicles apparently have been on the soft side thus far this quarter. Private nonresidential construction-put-in-place was up smartly early in the fall, leading us to expect another noticeable increase in the structures component of BFI.

Given the data in hand, inventory investment apparently was a little smaller in the third quarter than initially thought; at the end of the quarter, stocks in most sectors remained at comfortable levels relative to sales. Fragmentary statistics for October show a moderate rise in the inventories held by manufacturers and a reversal of the September decline in the stocks held by wholesalers. We are projecting that total nonfarm stocks will accumulate at an annual rate of about 2-1/2 percent this quarter--somewhat less than the third-quarter rate.

Incoming data on prices have been broadly consistent with the assumptions that went into the November Greenbook. We project that the CPI excluding food and energy will increase at an annual rate of about 2-3/4 percent this quarter. The projected quarterly rise in the total CPI--3-1/4 percent at an annual rate--is unchanged from the forecast in the last Greenbook. At earlier stages of processing, industrial materials prices remain subdued, and the core intermediate goods component of the PPI has been essentially flat for several months. However, average hourly earnings have risen at an accelerated pace--4 percent at an annual rate over the past three months--evidently boosted of late by the increase in the minimum wage.

The Outlook for the Economy beyond the Current Quarter

As in the last Greenbook, we are projecting that real GDP will rise about 2-1/4 percent over the four quarters of 1997; but we now foresee a slightly greater slowing in 1998, with growth that year expected to fall a touch short of 2 percent. Consistent with our revised stock market forecast, consumer spending for 1997 has been raised a little. By late 1997, however, effects of the revised fiscal assumptions start kicking in, causing federal purchases to fall at a steeper rate than we had predicted previously and restraining the growth of private spending to some degree. The forecast of CPI inflation is a touch lower than last time, in light of the more ample profit margins as of the third quarter and indications that the prices of manufactured goods are still quite subdued.

Consumer spending. The prospects for consumer demand seem key in the assessment of the macro outlook. We have been surprised by the reported increase in the personal saving rate this year, which occurred in the face of an enormous increase in household net worth. Perhaps this combination of events is simply an error in measurement: The widening of the statistical discrepancy in the national income accounts could be revised away next summer, with additional consumer spending filling the gap. But we have no evidence to support that thesis. At this point, we must admit the possibility that, in fact, people have not responded fully to the increase in wealth or that their response has been overridden by other influences. The truth likely involves a combination of these two possibilities.

SUMMARY OF STAFF PROJECTIONS
(Percentage change, Q4 to Q4, except as noted)

	1996	1997	1998
Real GDP	2.8	2.3	1.9
Previous	2.7	2.2	2.1
Final sales	2.6	2.2	1.9
Previous	2.6	2.2	2.2
PCE	2.7	3.0	2.2
Previous	2.8	2.7	2.4
BFI	9.2	5.1	5.8
Previous	8.7	5.1	5.6
Residential investment	1.5	-1.2	1.0
Previous	2.3	-1.1	1.3
Change in billions of chained (1992) dollars			
Net exports	-47.7	-35.8	-22.0
Previous	-42.6	-24.3	-18.8

A number of hypotheses can be marshaled to explain why the rise in stock market wealth might have generated less spending than is suggested by traditional rules of thumb. For one thing, investors may question whether all of the gains in their portfolios will be permanent, yet may not be inclined to sell because they have been persuaded that they cannot and should not attempt to time the market. Moreover, a greater portion of those shareholdings are now in retirement accounts; psychologically, and in view of tax penalties, owners therefore are probably more reluctant to tap them for spending.

Meanwhile, as we have noted in previous Greenbooks, a number of factors may be offsetting the effect of increased wealth. First, for a segment of the population, especially at the lower part of the income distribution, improved access to credit may have contributed to a surge in purchases of durables and a burdensome accumulation of debt earlier in the expansion; more recently, banks have been granting fewer credit lines to marginally qualified households.

Second, households may be giving greater attention to the need to provide for retirement and medical expenses--a concern reinforced by talk of cuts in federal entitlements. Finally, even though consumer surveys point to widespread optimism about aggregate economic prospects, job insecurity at the personal level may still be a weight on spending decisions.

All that said, we continue to believe that the increase in asset values implies some upside risk to our spending forecast--even with the noticeable decline in the wealth-to-income ratio implied by our stock price path. We have consumption expenditures growing pretty much in line with disposable income over the next two years, implying no significant retracement of the rise in the saving rate. Real PCE increases 3 percent in 1997 and about 2-1/4 percent in 1998--in both cases appreciably faster than overall GDP, as the labor share of total income moves up in a tight labor market and personal taxes are cut.

Residential investment. Single-family starts are expected to decline from an average of about 1.17 million units (annual rate) in the first three quarters of 1996 to a little less than 1.1 million units by next spring and to remain at that rate in 1998. The most recent (October) figures on starts, permits, and sales were on the negative side, but they presumably reflected the lagged effects of the upswing in mortgage rates that occurred earlier this year. Rates on fixed-rate loans this week are down roughly 3/4 percentage point from the peak of last summer, and this decline should stabilize housing demand in coming months even as job gains moderate further.

Multifamily starts are projected to drop back to somewhat under 300,000 units per year. Market conditions in the multifamily sector vary considerably across the country, but a rise in the aggregate rental vacancy rate suggests that builders may be more cautious in the period ahead.

Business fixed investment. This past year brought another large increase in real business fixed investment, probably on the order of 9 percent. We expect smaller gains in 1997 and 1998--more in the neighborhood of 5 to 6 percent. Although the cost of external financing is expected to change little, on balance, and prices on high-tech equipment should remain attractive, further advances in investment outlays will be damped by a slowing in growth of corporate profits and cash flow.

Business investment in most types of equipment already has slowed substantially from the pace seen earlier in the expansion; strength in aggregate investment this past year has come mainly from outsized increases in just two categories--office and computing equipment and communications equipment. Looking ahead, we are predicting annual increases in office and computing equipment of "only" 20 to 25 percent in 1997 and 1998, after two years of gains that were considerably larger. We anticipate further large increases in outlays for communications equipment and a surge in commercial aircraft. Gains in spending for other types of equipment are expected to be quite modest, on balance.

We expect to see only small changes in nonresidential structures investment over the next two years. With no capacity pressures looming in manufacturing, spending on industrial structures is projected to drift lower in 1997 and 1998. However, we anticipate moderate increases in office construction and oil drilling.

Inventory investment. If production and final sales in the fourth quarter are in line with our projections, firms should be heading into early 1997 largely free of inventory problems, and our longer-run inventory forecast is relatively uneventful. Inventory-sales ratios are expected to be roughly stable.

Farm inventories, which account for less than 10 percent of total business inventories but are more volatile than the total, are expected to rise moderately over the next two years. Absent serious weather problems, crop production should be large enough to permit some further accumulation of crop inventories. However, on the livestock side, the drawdown in cattle inventories that began this year will likely persist at least through 1997; past contractions in the size of the herd commonly have lasted two years or more.

Government. Federal outlays for consumption and investment are projected to fall 2-1/2 percent in real terms over the four quarters of 1997 and about 4-1/2 percent in 1998. The 1998 decline is about a percentage point larger than we were projecting in the last Greenbook. Substantial reductions are anticipated over the two-year period in both defense and nondefense purchases.

Real purchases by state and local governments are projected to rise 2-1/2 percent in both 1997 and 1998, about the same as in 1996. These are larger increases than those seen early in the 1990s, but they are not especially big by historical standards. Although most states and localities are in sound financial condition and are likely to benefit from a growing tax base in the period ahead, spending plans likely will be restrained by voter desires to keep taxes down. Hourly compensation of state and local employees has risen less rapidly over the past year than hourly pay in the private sector, and consumption outlays of state and local governments have moved up less than 2 percent in real terms. However, investment outlays have been rising somewhat more briskly, spurred by the need for more schools, prisons, and basic infrastructure--a pattern likely to continue.

Net exports of goods and services. GDP growth in foreign countries is expected to be strong enough over the next few quarters to keep exports moving up at a somewhat faster pace than they have of late. Growth of imports in 1997 is projected to be maintained at about the same pace as in 1996, but growth slows somewhat in 1998. Real net exports of goods and services continue to fall over the next two years but at a slower rate than in 1996; negative effects of the declines in net exports on real GDP growth in 1997 and 1998 are expected to be somewhat smaller than the projected drag of 0.7 percentage point this year. (A more detailed discussion of the prospects for net exports is contained in the International Developments section.)

Labor markets. As we have noted in recent Greenbooks, measured productivity growth at this point in the expansion has been sufficiently sluggish to call into question our assumption that the cyclically adjusted trend is still 1 percent. Part of the explanation may be that, with labor markets tight, firms are having to reach deeper into the pool of less-qualified labor for their new hires. However, this explanation would still seem to leave the underlying trend rate of productivity increase surprisingly low at a time when restructuring continues and high levels of investment in new capital seemingly should have been boosting the efficiency of workers. We are left thinking that measurement problems could be seriously distorting the data: Notably, productivity growth during the current expansion is somewhat stronger if gross domestic income is used as the output measure in place of gross domestic product, and the differences are especially striking in recent quarters. For the present, we are sticking with our assumption that, going forward, productivity gains are likely to be close to the postulated trend of 1 percent. With gains of that magnitude and little change in weekly hours, businesses would need to boost payroll employment at an average rate of about 1-1/4 percent to achieve the rise in output that we are predicting. If productivity gains continue to be disappointing--and are accurately reflecting business realities--pressures on labor resources would likely be more intense than we are predicting and the associated inflation pressures would be greater.

LABOR MARKET PROJECTIONS
(Percent change, Q4 to Q4, unless otherwise noted)

	1996	1997	1998
Output per hour, nonfarm business sector	.8	.9	1.0
Previous	.6	.9	1.0
Nonfarm payroll employment	2.1	1.4	1.1
Previous	2.1	1.3	1.2
Household employment	2.0	1.3	1.0
Previous	2.1	1.1	1.1
Memo:			
Labor force participation rate[1]	66.9	67.0	67.1
Previous	66.8	66.9	66.9
Civilian unemployment rate[1]	5.3	5.2	5.2
Previous	5.2	5.2	5.2

1. Average for the fourth quarter.

This past year, sizable employment gains were accompanied by a pickup in growth of the civilian labor force, and the participation rate has moved up. As has happened in other cyclical expansions, tightness of the labor market and the associated increases in wages and other financial inducements apparently are pulling into the work force persons who previously had been on the sidelines. In contrast to our earlier assumption that the participation rate would remain flat through 1997 and 1998, we have boosted it slightly in this forecast; a projected rate of 67.1 percent in the latter part of 1998 is two-tenths higher than the prediction in the last Greenbook.

Wages and prices. Our thinking about the prospects for wages and prices continues to be heavily influenced by the historical relationship between labor market slack and inflation. What gives us pause in the present circumstances, however, is the striking absence of capacity pressures in manufacturing. We have responded to these circumstances by putting less upward tilt into our price forecast than we would have if our focus had been solely on the unemployment rate. Nonetheless, we still anticipate that the general trend of the next two years will be toward gradual acceleration of both hourly compensation and prices.

With the unemployment rate on about the same path as we previously were predicting, the increases forecast for wages and benefits also remain on about the same trajectories as before. Hourly compensation, as measured by the employment cost index, is projected to accelerate from 2.9 percent over the twelve months ended in September 1996 to 3.4 percent and 3.6 percent respectively during 1997 and 1998. Growth of wages and salaries, which has picked up noticeably this past year, is projected to increase a bit further over the next couple of years. We also anticipate that increases in benefits will pick up somewhat, with the twelve-month rise moving up from less than 2 percent over the twelve months ended in September to almost 3 percent by the end of 1998. Nothing that we have heard in the anecdotal reports seems to seriously challenge our view that acceleration of compensation is in progress, and reports that the cost of medical benefits will turn up moderately seem to be appearing with increased frequency.

Although many businesses say that this year's hike in the minimum wage had only a limited effect on labor costs because wages already were above the minimum, the recent data on hourly earnings suggest rather strongly that effects have been present in some parts of the economy, especially certain types of retail establishments. We continue to anticipate that direct and indirect effects of the legislated hikes will be filtering through the pay structure in 1997 and 1998, keeping hourly compensation rising a couple of tenths faster than would otherwise be the case.

The rate of rise in the published core CPI is expected move up only 1/4 percentage point between 1996 and 1998. However, if adjustment is made for technical changes that have been implemented since the start of 1995 or are planned for the next two years, the degree of acceleration is about twice as great; the cumulative effect of the technical changes on the core inflation rate rises from 0.2 percentage point this year to 0.4 percentage point in 1998. Passthrough of rising labor costs is one factor that is expected to push core inflation higher. In addition, price competition from abroad, which has helped to restrain domestic price increases this past year, is expected to be less of a limiting influence moving forward--we are projecting that the noticeable decline in non-oil import prices seen in 1996 will be followed by a much smaller decrease in 1997 and a small rise in 1998.

STAFF INFLATION PROJECTIONS
(Percent change, Q4 to Q4, unless otherwise noted)

	1995	1996	1997	1998
Consumer price index	2.7	3.2	2.7	2.7
Previous	2.7	3.2	2.8	2.8
Food	2.6	4.2	2.8	2.7
Previous	2.6	3.9	2.9	2.8
Energy	-1.7	7.4	.4	.9
Previous	-1.7	7.1	.3	1.0
Excluding food and energy	3.0	2.7	2.8	2.9
Previous	3.0	2.7	3.0	3.0
ECI for compensation of private industry workers[1]	2.6	3.0	3.4	3.6
Previous	2.6	3.0	3.4	3.6
Prices of non-oil merchandise imports	.8	-2.9	-.4	.8
Previous	.8	-2.7	-.1	1.0
Memo:	- - - - percentage points - - -			
Adjustment to the core CPI for methodology changes	.1	.2	.3	.4
Previous	.1	.2	.3	.4

1. December to December.

Like our path for crude oil prices, our forecast of retail energy prices exhibits some changes in timing but otherwise is much the same as the forecast in the last Greenbook. Increases over the very near term are expected to be somewhat larger than we previously were forecasting, but, with oil prices dropping, declines should start showing up later in the winter. We continue to project that a 1996 rise in CPI energy prices of more than 7 percent will be followed by only small increases in 1997 and 1998.

In response to incoming data, our food price forecast for 1996 has been raised a touch, to about 4-1/4 percent. But looking further ahead we continue to anticipate a sharp slowdown. Grain prices are down substantially from the highs of last summer, and signs of price deceleration or outright declines are starting to show up in the markets for various livestock products. On the assumption that harvests in 1997 and 1998 will be large enough to keep upward pressures on crop prices from resurfacing, we are projecting food price increases of around 2-3/4 percent in both those years, about in line with the rate of core inflation.

Monetary and Credit Flows

Growth of M2 appears to have been about 4-1/4 percent this year, in the upper half of its annual range but a little slower than growth of nominal GDP. Expansion of this aggregate is projected to pick up a bit in the next two years, to a pace about in line with that of nominal GDP; although the opportunity costs of holding M2 are expected to be unchanged, household enthusiasm for equity mutual funds is expected to diminish. M3 is estimated to have grown 6-1/4 percent in 1996, exceeding the upper end of its range. Over the next two years, growth of this aggregate is expected to remain fairly robust.

Debt of the domestic nonfinancial sector appears to have grown 5 percent this year, a little faster than nominal GDP. In 1997 and 1998, overall debt growth is expected to soften somewhat and align more closely with the expansion of nominal GDP. In particular, noticeably weaker borrowing should be evident in the household sector, and federal borrowing is expected to moderate further.

Growth of consumer credit is projected to pick up only modestly from the sluggish pace of September and October. Moderate growth of spending on consumer durables, at a pace well below that seen earlier in the expansion when households were restocking, should help to hold credit growth in check over the next couple of years, as will continuation of the recent trend toward tighter consumer loan supply conditions. Although the recent uptick in mortgage refinancings could give a little boost to net borrowing, as some homeowners cash out a portion of their accumulated equity, the lower level of homebuilding in 1997-98 is expected to be associated with a reduced overall pace of home mortgage debt formation. A risk, however, is that--in an environment of moderate growth, fiscal tightening, and inflation of less than 3 percent--a swing in bond market sentiment could at least temporarily drive long-term rates well below recent levels and trigger a sizable wave of refinancing. This could give a significant added boost to consumer spending.

Growth of nonfinancial business debt has softened somewhat of late; but looking ahead, the sector's financing needs are expected to be boosted by slower profit growth and sustained increases in capital spending. A further hefty volume of merger and acquisition deals is also likely to add to business borrowing over the forecast period. For the better-rated firms, borrowing conditions should remain quite accommodative, with favorable terms and standards on bank lending and continued narrow rate spreads in securities markets. Smaller businesses whose profits have already flattened out and larger firms with lower debt ratings may experience some gradual tightening in lending terms and widening in risk spreads on their debt issues over the forecast period.

Growth of federal government debt is expected to edge down further from its current moderate pace over the next two years; the federal deficit is projected to change little on a calendar-year basis, and we are not expecting further additions to the government's cash balances. Outstanding debt of state and local governments is expected to remain about flat in 1997; retirements of advance-refunded debt, which contributed to declines in indebtedness in recent years, are expected to wane in the coming year. Net borrowing of state and local governments is projected to turn mildly positive in 1998.

Alternative Simulations

Our alternative simulations depict the consequences of different assumptions about the federal funds rate. In the first simulation, increases in the funds rate begin at the start of 1997 and cumulate to a rise of 100 basis points by the end of next year. The higher level is then maintained throughout 1998. Under these assumptions, growth of real GDP in 1997 is 0.4 percentage point less than in the baseline forecast, and in 1998 it is 0.7 percentage point less than in the baseline. The civilian unemployment rate at the end of 1998 is 1/2 percentage point higher than in the baseline forecast. The additional slack reduces CPI inflation by a small amount in 1997 and more substantially in 1998. The second simulation assumes that the funds rate is lowered 100 basis points during 1997 and then held steady in 1998. Economic effects of this alternative are symmetric to that in which the funds rate was raised.

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

	1996	1997	1998
Real GDP			
Baseline	2.8	2.3	1.9
Higher funds rate	2.8	1.9	1.2
Lower funds rate	2.8	2.7	2.6
Civilian unemployment rate[1]			
Baseline	5.3	5.2	5.2
Higher funds rate	5.3	5.3	5.7
Lower funds rate	5.3	5.1	4.7
CPI			
Baseline	3.2	2.7	2.7
Higher funds rate	3.2	2.6	2.3
Lower funds rate	3.2	2.8	3.1

1. Average for the fourth quarter.

Strictly Confidential <FR>
Class II FOMC

December 12, 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]	
		11/06/96	12/12/96	11/06/96	12/12/96	11/06/96	12/12/96	11/06/96	12/12/96	11/06/96	12/12/96
ANNUAL											
1994		5.8	5.8	3.5	3.5	2.3	2.3	2.6	2.6	6.1	6.1
1995		4.6	4.6	2.0	2.0	2.5	2.5	2.8	2.8	5.6	5.6
1996		4.4	4.4	2.4	2.4	2.2	2.2	2.9	2.9	5.4	5.4
1997		4.6	4.7	2.4	2.4	2.5	2.5	2.9	2.8	5.2	5.2
1998		4.3	4.3	2.1	2.1	2.6	2.5	2.8	2.7	5.2	5.2
QUARTERLY											
1995	Q1	3.8	3.8	0.4	0.4	3.3	3.3	2.7	2.7	5.5	5.5
	Q2	3.1	3.1	0.7	0.7	2.4	2.4	3.5	3.5	5.7	5.7
	Q3	6.0	6.0	3.8	3.8	2.1	2.1	2.1	2.1	5.6	5.6
	Q4	2.3	2.3	0.3	0.3	2.1	2.1	2.4	2.4	5.5	5.5
1996	Q1	4.2	4.2	2.0	2.0	2.3	2.3	3.2	3.2	5.6	5.6
	Q2	6.5	6.5	4.7	4.7	2.2	2.2	3.9	3.9	5.4	5.4
	Q3	4.1	3.7	2.5	2.3	1.9	1.9	2.3	2.3	5.2	5.2
	Q4	4.0	4.5	1.8	2.3	2.5	2.5	3.3	3.3	5.2	5.3
1997	Q1	5.4	5.3	2.4	2.1	2.9	3.2	3.1	3.0	5.2	5.2
	Q2	4.4	4.5	2.2	2.3	2.4	2.3	2.6	2.3	5.2	5.2
	Q3	4.3	4.3	2.2	2.3	2.4	2.3	2.6	2.6	5.2	5.2
	Q4	4.1	4.3	2.1	2.2	2.4	2.3	2.9	2.7	5.2	5.2
1998	Q1	4.4	4.5	2.1	2.1	2.7	2.6	2.8	2.7	5.2	5.2
	Q2	4.3	4.2	2.1	1.9	2.5	2.5	2.8	2.7	5.2	5.2
	Q3	4.3	4.1	2.1	1.9	2.7	2.6	2.8	2.8	5.2	5.2
	Q4	4.4	4.2	2.1	1.9	2.7	2.7	2.9	2.8	5.2	5.2
TWO-QUARTER[3]											
1995	Q2	3.5	3.5	0.6	0.6	2.9	2.9	3.2	3.2	0.1	0.1
	Q4	4.1	4.1	2.0	2.0	2.1	2.1	2.2	2.2	-0.2	-0.2
1996	Q2	5.4	5.4	3.3	3.3	2.3	2.2	3.5	3.5	-0.1	-0.1
	Q4	4.1	4.1	2.2	2.3	2.2	2.2	2.8	2.8	-0.2	-0.1
1997	Q2	4.9	4.9	2.3	2.2	2.7	2.7	2.9	2.6	0.0	-0.1
	Q4	4.2	4.3	2.1	2.3	2.4	2.3	2.7	2.7	0.0	-0.0
1998	Q2	4.4	4.3	2.1	2.0	2.6	2.6	2.8	2.7	-0.0	0.0
	Q4	4.4	4.2	2.1	1.9	2.7	2.6	2.9	2.8	-0.0	0.0
FOUR-QUARTER[4]											
1994	Q4	5.9	5.9	3.5	3.5	2.3	2.3	2.6	2.6	-1.0	-1.0
1995	Q4	3.8	3.8	1.3	1.3	2.5	2.5	2.7	2.7	-0.1	-0.1
1996	Q4	4.7	4.7	2.7	2.8	2.2	2.2	3.2	3.2	-0.3	-0.2
1997	Q4	4.5	4.6	2.2	2.3	2.5	2.5	2.8	2.7	0.0	-0.1
1998	Q4	4.4	4.3	2.1	1.9	2.7	2.6	2.8	2.7	-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.

Strictly Confidential <FR>
Class II FOMC

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

December 12, 1996

Item	Units[1]	1990	1991	1992	1993	1994	1995	1996	1997	1998
								- - - Projected	- - -	
EXPENDITURES										
Nominal GDP	Bill. $	5743.8	5916.7	6244.4	6553.0	6935.7	7253.8	7571.0	7925.5	8268.1
Real GDP	Bill. Ch. $	6138.7	6079.0	6244.4	6386.4	6608.7	6742.9	6902.1	7067.5	7215.7
Real GDP	% change	-0.2	0.4	3.7	2.2	3.5	1.3	2.8	2.3	1.9
Gross domestic purchases		-0.8	-0.0	4.0	2.9	3.8	1.0	3.4	2.7	2.2
Final sales		0.6	-0.4	3.9	2.0	2.9	1.9	2.6	2.2	1.9
Priv. dom. final purchases		-0.6	-0.8	4.9	3.5	4.0	2.3	3.5	3.2	2.7
Personal cons. expenditures		0.5	-0.2	4.2	2.5	3.1	1.9	2.7	3.0	2.2
Durables		-3.2	-3.1	9.4	7.3	7.0	1.3	6.0	4.9	2.7
Nondurables		-0.5	-1.0	3.4	1.5	3.5	1.1	1.6	2.6	2.0
Services		2.0	0.9	3.6	2.1	2.0	2.4	2.5	2.8	2.2
Business fixed investment		-2.5	-6.0	5.5	8.5	10.1	6.4	9.2	5.1	5.8
Producers' dur. equipment		-2.0	-2.6	9.6	11.5	12.6	6.9	10.9	7.0	7.5
Nonres. structures		-3.5	-12.5	-3.4	1.6	3.6	5.1	4.6	-0.2	0.5
Residential structures		-15.1	1.1	16.9	8.1	5.7	-1.5	1.5	-1.2	1.0
Exports		7.2	8.6	4.1	4.8	9.9	7.4	4.0	6.6	6.4
Imports		0.5	4.1	7.4	10.5	11.8	4.2	9.0	9.4	7.5
Gov't. cons. & investment		2.6	-0.7	1.7	-0.5	0.0	-1.3	2.4	0.7	0.0
Federal		1.6	-3.1	1.3	-5.4	-3.1	-6.7	1.7	-2.5	-4.4
Defense		0.3	-5.3	-1.3	-6.8	-5.7	-6.8	0.7	-2.1	-4.9
State & local		3.3	1.0	2.0	3.1	2.2	2.1	2.6	2.5	2.4
Change in bus. inventories	Bill. Ch. $	10.4	-3.0	7.3	19.1	58.9	33.1	17.2	30.3	31.9
Nonfarm		7.8	-1.2	1.9	26.4	46.8	37.2	19.4	26.6	27.0
Net exports		-61.9	-22.3	-29.5	-72.0	-105.7	-107.6	-122.6	-155.7	-182.1
Nominal GDP	% change	4.4	3.8	6.3	4.8	5.9	3.8	4.7	4.6	4.3
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	109.4	108.3	108.6	110.7	114.2	117.2	119.5	121.5	122.9
Unemployment rate	%	5.6	6.8	7.5	6.9	6.1	5.6	5.4	5.2	5.2
Industrial prod. index	% change	-0.2	0.2	4.0	3.2	6.6	1.6	4.0	3.1	3.1
Capacity util. rate - mfg.	%	81.3	78.0	79.5	80.6	83.3	83.0	82.0	81.9	81.8
Housing starts	Millions	1.19	1.01	1.20	1.29	1.46	1.35	1.46	1.38	1.36
Light motor vehicle sales		14.05	12.52	12.85	13.87	15.02	14.74	15.01	14.96	14.71
North Amer. produced		10.85	9.74	10.51	11.72	12.88	12.82	13.32	13.19	12.98
Other		3.20	2.77	2.34	2.15	2.13	1.91	1.70	1.77	1.73
INCOME AND SAVING										
Nominal GNP	Bill. $	5764.9	5932.4	6255.5	6563.5	6931.9	7246.7	7562.1	7910.5	8245.7
Nominal GNP	% change	4.6	3.5	6.2	4.7	5.7	3.9	4.7	4.5	4.2
Nominal personal income		6.4	3.7	7.3	3.6	5.2	5.6	5.5	4.8	4.4
Real disposable income		1.0	0.8	4.0	0.9	2.7	3.1	2.5	2.9	2.1
Personal saving rate	%	5.0	5.7	5.9	4.5	3.8	4.7	4.9	5.2	5.0
Corp. profits, IVA & CCAdj.	% change	6.2	3.9	12.7	19.9	11.3	7.2	5.1	3.0	3.9
Profit share of GNP	%	6.4	6.4	6.4	7.1	7.6	8.1	8.6	8.4	8.3
(excluding FR banks)	%	6.0	6.1	6.1	6.8	7.4	7.8	8.3	8.2	8.0
Federal surpl./deficit	Bill. $	-154.7	-196.0	-280.9	-255.6	-190.2	-161.7	-125.9	-128.1	-109.6
State & local surpl./def.		80.1	75.8	86.3	94.9	99.7	95.0	92.6	87.0	76.6
Ex. social ins. funds		20.2	11.5	18.3	28.0	36.9	36.8	36.7	32.4	22.8
PRICES AND COSTS										
GDP implicit deflator	% change	4.6	3.4	2.6	2.5	2.3	2.5	1.9	2.3	2.3
GDP chn.-wt. price index		4.7	3.3	2.6	2.5	2.3	2.5	2.2	2.5	2.6
Gross Domestic Purchases chn.-wt. price index		5.2	2.7	2.7	2.3	2.4	2.3	2.2	2.2	2.5
CPI		6.3	3.0	3.1	2.7	2.6	2.7	3.2	2.7	2.7
Ex. food and energy		5.3	4.4	3.5	3.1	2.8	3.0	2.7	2.8	2.9
ECI, hourly compensation[2]		4.6	4.4	3.5	3.6	3.1	2.6	3.0	3.4	3.6
Nonfarm business sector										
Output per hour		-0.6	2.2	3.6	-0.3	0.3	-0.1	0.8	0.9	1.0
Compensation per Hour		5.8	4.8	4.6	1.8	2.3	3.7	3.7	3.7	3.6
Unit labor cost		6.4	2.5	1.0	2.1	2.0	3.7	3.0	2.9	2.5

1. Changes are from fourth quarter to fourth quarter.
2. 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)

December 12, 1996

Item	Units	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2
EXPENDITURES											
Nominal GDP	Bill. $	6776.0	6890.5	6993.1	7083.2	7149.8	7204.9	7309.8	7350.6	7426.8	7545.1
Real GDP	Bill. Ch. $	6508.5	6587.6	6644.9	6693.9	6701.0	6713.5	6776.4	6780.7	6814.3	6892.6
Real GDP	% change	2.5	4.9	3.5	3.0	0.4	0.7	3.8	0.3	2.0	4.7
Gross domestic purchases		3.5	5.3	3.7	2.5	1.4	0.7	2.6	-0.7	3.0	5.2
Final sales		1.2	3.0	4.2	3.5	0.6	2.1	3.6	1.4	3.0	4.1
Priv. dom. final purchases		3.9	4.4	3.8	4.0	2.3	2.3	3.0	1.4	4.7	4.1
Personal cons. expenditures		2.8	3.5	2.8	3.1	1.0	3.1	2.4	1.1	3.5	3.4
Durables		5.8	4.3	5.6	12.4	-8.9	7.0	9.3	-1.0	8.2	11.4
Nondurables		3.9	3.2	3.8	3.2	2.4	1.8	0.5	-0.4	3.7	1.3
Services		1.6	3.5	1.6	1.2	2.4	3.0	2.0	2.3	2.4	2.7
Business fixed investment		7.3	7.1	13.8	12.2	15.4	3.5	4.9	2.5	11.6	3.8
Producers' dur. equipment		15.5	4.1	19.4	11.9	17.4	3.5	4.3	3.0	13.1	6.7
Nonres. structures		-11.8	15.7	0.2	13.0	9.9	3.4	6.3	1.0	7.7	-3.7
Residential structures		12.8	12.7	-1.8	-0.1	-6.3	-13.4	9.2	6.4	7.4	16.3
Exports		-1.5	15.9	9.7	16.5	2.6	5.9	10.7	10.7	1.8	5.6
Imports		8.2	18.4	10.7	10.3	11.2	4.5	-0.0	1.6	10.6	9.9
Gov't. cons. & investment		-4.3	-0.8	7.0	-1.4	-1.2	0.8	-0.6	-4.3	1.6	7.7
Federal		-11.4	-5.3	11.5	-5.9	-6.5	-1.3	-5.6	-13.2	6.0	9.4
Defense		-17.4	0.7	13.5	-16.1	-7.4	0.6	-7.6	-12.3	4.1	10.0
State & local		0.7	2.2	4.2	1.6	2.3	2.1	2.7	1.5	-0.9	6.7
Change in bus. inventories	Bill. Ch. $	40.5	74.5	64.5	56.1	54.5	30.5	33.0	14.6	-3.0	7.1
Nonfarm		29.7	54.0	50.5	53.0	57.4	33.7	38.6	19.0	2.9	11.7
Net exports		-99.3	-107.3	-111.7	-104.3	-122.5	-121.4	-101.6	-84.9	-104.0	-114.7
Nominal GDP	% change	5.3	6.9	6.1	5.3	3.8	3.1	6.0	2.3	4.2	6.5
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	112.6	113.7	114.7	115.6	116.5	117.0	117.4	117.9	118.5	119.3
Unemployment rate	%	6.6	6.2	6.0	5.6	5.5	5.7	5.6	5.5	5.6	5.4
Industrial prod. index	% change	8.4	7.0	4.6	6.4	3.9	-1.4	3.2	0.6	3.0	6.7
Capacity util. rate - mfg.	%	82.2	83.2	83.4	84.3	84.3	83.0	82.6	82.0	81.6	82.2
Housing starts	Millions	1.38	1.47	1.46	1.48	1.31	1.29	1.42	1.41	1.47	1.49
Light motor vehicle sales		15.07	14.85	14.99	15.16	14.56	14.44	15.04	14.92	15.18	15.13
North Amer. produced		12.94	12.69	12.79	13.12	12.52	12.46	13.18	13.13	13.49	13.41
Other		2.13	2.16	2.20	2.05	2.04	1.97	1.86	1.79	1.69	1.72
INCOME AND SAVING											
Nominal GNP	Bill. $	6781.0	6888.3	6987.0	7071.4	7146.8	7202.4	7293.4	7344.3	7426.6	7537.5
Nominal GNP	% change	5.4	6.5	5.9	4.9	4.3	3.1	5.1	2.8	4.6	6.1
Nominal personal income		-3.4	13.3	4.9	6.7	7.1	4.7	4.9	5.8	4.8	6.8
Real disposable income		-5.4	9.7	2.9	4.2	3.7	0.3	4.3	4.4	2.0	1.3
Personal saving rate	%	2.7	4.0	4.1	4.3	4.9	4.1	4.5	5.2	4.8	4.3
Corp. profits, IVA & CCAdj.	% change	-35.4	82.5	14.8	13.5	-7.4	1.7	40.8	-0.5	23.6	6.8
Profit share of GNP	%	6.8	7.8	7.9	8.1	7.8	7.8	8.4	8.3	8.7	8.7
(excluding FR banks)	%	6.5	7.5	7.7	7.8	7.5	7.5	8.1	8.0	8.4	8.4
Federal surpl./deficit	Bill. $	-212.7	-169.6	-188.5	-190.1	-172.6	-161.1	-158.5	-154.5	-155.2	-126.7
State & local surpl./def.		94.8	105.2	99.6	99.3	99.0	99.0	93.9	88.1	91.0	101.0
Ex. social ins. funds		29.0	41.1	37.9	39.4	40.2	40.9	35.8	30.5	34.1	44.6
PRICES AND COSTS											
GDP implicit deflator	% change	2.8	1.9	2.5	2.2	3.4	2.4	2.1	2.0	2.2	1.8
GDP chn.-wt. price index		2.9	1.9	2.4	2.1	3.3	2.4	2.1	2.1	2.3	2.2
Gross Domestic Purchases chn.-wt. price index		2.4	2.3	3.0	2.0	2.8	2.8	1.6	1.9	2.3	2.1
CPI		1.9	2.8	3.6	2.4	2.7	3.5	2.1	2.4	3.2	3.9
Ex. food and energy		2.9	2.9	3.1	2.3	3.3	3.3	2.8	2.7	2.7	2.7
ECI, hourly compensation[1]		3.0	3.4	3.3	2.3	2.9	2.9	2.6	2.6	2.9	3.2
Nonfarm business sector											
Output per hour		-1.8	1.0	1.7	0.4	-2.3	1.5	1.8	-1.2	1.9	0.6
Compensation per hour		2.9	1.3	1.8	3.3	2.9	4.0	3.7	4.0	3.4	3.9
Unit labor cost		4.9	0.3	0.1	2.9	5.3	2.5	1.9	5.2	1.5	3.3

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)

December 12, 1996

Item	Units	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4
		Projected									
EXPENDITURES											
Nominal GDP	Bill. $	7614.2	7698.0	7797.8	7883.7	7967.9	8052.7	8141.8	8225.8	8309.1	8395.6
Real GDP	Bill. Ch. $	6931.4	6970.4	7006.8	7047.4	7088.4	7127.6	7165.0	7199.3	7232.5	7265.9
Real GDP	% change	2.3	2.3	2.1	2.3	2.3	2.2	2.1	1.9	1.9	1.9
Gross domestic purchases		3.6	1.9	2.6	2.7	3.1	2.5	2.3	2.1	2.4	1.9
Final sales		0.5	2.7	1.9	2.5	2.3	2.3	2.0	1.9	1.9	2.0
Priv. dom. final purchases		2.4	2.7	3.3	3.2	3.3	2.9	2.7	2.7	2.7	2.6
Personal cons. expenditures		0.6	3.2	3.4	3.0	3.0	2.5	2.3	2.2	2.1	2.1
Durables		-1.8	6.9	6.4	4.1	5.4	3.6	3.3	2.8	2.3	2.4
Nondurables		0.4	1.2	2.8	2.9	2.6	2.2	2.0	2.0	2.0	2.0
Services		1.3	3.5	3.1	2.8	2.7	2.4	2.3	2.2	2.1	2.1
Business fixed investment		16.9	5.0	4.1	6.3	4.7	5.4	5.6	5.6	6.0	6.0
Producers' dur. equipment		20.4	4.2	6.4	8.3	6.2	7.0	7.3	7.3	7.7	7.8
Nonres. structures		7.5	7.4	-2.3	0.5	0.5	0.6	0.4	0.5	0.5	0.5
Residential structures		-5.9	-9.8	-3.4	-2.8	0.8	0.7	0.5	0.9	1.2	1.3
Exports		-1.3	10.4	6.5	8.0	2.2	9.8	4.6	8.9	2.3	10.0
Imports		9.7	5.9	10.0	9.5	7.4	10.6	5.4	9.4	6.0	9.1
Gov't. cons. & investment		-0.2	0.5	-1.1	1.2	1.5	1.1	-0.3	-0.2	1.2	-0.6
Federal		-3.4	-4.5	-7.0	-1.0	-0.2	-1.6	-5.3	-4.9	-1.1	-6.1
Defense		-5.2	-5.3	-9.9	-1.0	0.3	2.4	-6.3	-6.8	-1.0	-5.3
State & local		1.4	3.6	2.4	2.4	2.5	2.6	2.5	2.5	2.4	2.4
Change in bus. inventories	Bill. Ch. $	36.0	28.8	31.7	28.9	30.5	30.1	32.3	32.5	32.4	30.5
Nonfarm		36.2	26.9	28.4	25.7	26.8	25.5	27.7	27.8	27.3	25.3
Net exports		-139.2	-132.7	-142.7	-149.1	-162.6	-168.5	-172.4	-177.3	-188.2	-190.4
Nominal GDP	% change	3.7	4.5	5.3	4.5	4.3	4.3	4.5	4.2	4.1	4.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	120.0	120.4	120.8	121.3	121.7	122.1	122.5	122.8	123.1	123.4
Unemployment rate	%	5.2	5.3	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Industrial prod. index	% change	4.4	2.2	4.1	2.8	2.7	2.9	3.3	3.1	2.9	3.2
Capacity util. rate - mfg.	%	82.4	81.8	82.1	82.0	81.9	81.8	81.8	81.8	81.8	81.8
Housing starts	Millions	1.48	1.41	1.40	1.38	1.38	1.37	1.36	1.36	1.36	1.36
Light motor vehicle sales		14.95	14.80	15.03	15.01	14.91	14.89	14.84	14.74	14.67	14.60
North Amer. produced		13.30	13.06	13.27	13.24	13.13	13.11	13.08	13.00	12.95	12.90
Other		1.65	1.73	1.76	1.77	1.78	1.78	1.76	1.74	1.72	1.70
INCOME AND SAVING											
Nominal GNP	Bill. $	7597.2	7687.3	7786.1	7869.9	7951.9	8034.1	8123.6	8203.3	8285.3	8370.7
Nominal GNP	% change	3.2	4.8	5.2	4.4	4.2	4.2	4.5	4.0	4.1	4.2
Nominal personal income		5.7	4.8	5.7	4.6	4.7	4.2	4.7	4.2	4.1	4.5
Real disposable income		4.9	1.9	4.6	2.6	2.5	1.8	3.5	1.6	1.4	1.8
Personal saving rate	%	5.3	5.1	5.3	5.2	5.1	5.0	5.2	5.1	4.9	4.9
Corp. profits, IVA & CCAdj.	% change	1.4	-8.7	17.5	-0.2	-3.0	-1.2	5.8	3.9	3.1	2.9
Profit share of GNP	%	8.7	8.4	8.6	8.5	8.4	8.2	8.3	8.3	8.2	8.2
(excluding FR banks)	%	8.4	8.1	8.3	8.2	8.1	8.0	8.0	8.0	8.0	8.0
Federal surpl./deficit	Bill. $	-120.2	-101.6	-131.2	-130.0	-128.5	-122.7	-120.7	-111.9	-105.8	-100.1
State & local surpl./def.		89.3	89.3	91.1	89.5	86.6	80.7	79.3	78.2	76.5	72.2
Ex. social ins. funds		33.9	34.2	36.2	34.8	32.1	26.4	25.2	24.3	22.8	18.7
PRICES AND COSTS											
GDP implicit deflator	% change	1.3	2.2	3.1	2.1	2.0	2.0	2.3	2.2	2.2	2.3
GDP chn.-wt. price index		1.9	2.5	3.2	2.3	2.3	2.3	2.6	2.5	2.6	2.7
Gross Domestic Purchases chn.-wt. price index		1.8	2.6	2.6	1.9	2.1	2.2	2.5	2.4	2.5	2.5
CPI		2.3	3.3	3.0	2.3	2.6	2.7	2.7	2.7	2.8	2.8
Ex. food and energy		2.4	2.7	2.7	2.8	2.9	2.9	2.8	2.9	2.9	3.0
ECI, hourly compensation[1]		2.5	3.5	3.4	3.3	3.7	3.5	3.5	3.6	3.6	3.7
Nonfarm business sector											
Output per hour		-0.0	0.6	0.4	0.7	1.2	1.2	1.1	1.0	1.0	1.0
Compensation per hour		3.4	4.0	4.0	3.5	3.7	3.8	3.6	3.6	3.6	3.6
Unit labor cost		3.4	3.3	3.6	2.8	2.5	2.6	2.5	2.6	2.6	2.6

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	0.3	2.0	4.7	2.3	2.3	2.1	2.3	2.3	2.2	1.3	2.8	2.3
Gross dom. purchases	-0.7	3.1	5.3	3.7	1.9	2.7	2.7	3.1	2.6	1.0	3.5	2.8
Final sales	1.4	3.0	4.1	0.5	2.7	1.9	2.5	2.3	2.3	1.9	2.6	2.2
Priv. dom. final purchases	1.2	3.9	3.4	2.0	2.2	2.7	2.7	2.8	2.4	1.8	2.9	2.6
Personal cons. expenditures	0.7	2.4	2.3	0.4	2.2	2.3	2.0	2.1	1.7	1.3	1.8	2.0
Durables	-0.1	0.7	0.9	-0.2	0.6	0.6	0.4	0.5	0.3	0.1	0.5	0.4
Nondurables	-0.1	0.7	0.3	0.1	0.2	0.6	0.6	0.5	0.5	0.2	0.3	0.5
Services	0.8	0.9	1.1	0.5	1.3	1.2	1.1	1.0	0.9	0.9	0.9	1.1
Business fixed investment	0.2	1.1	0.4	1.7	0.6	0.5	0.7	0.5	0.6	0.7	1.0	0.6
Producers' dur. equip.	0.2	0.9	0.5	1.6	0.4	0.5	0.7	0.5	0.6	0.5	0.9	0.6
Nonres. structures	0.0	0.2	-0.1	0.2	0.2	-0.1	0.0	0.0	0.0	0.1	0.1	-0.0
Residential structures	0.2	0.3	0.6	-0.2	-0.4	-0.1	-0.1	0.0	0.0	-0.1	0.1	-0.0
Net exports	0.9	-1.1	-0.6	-1.4	0.4	-0.6	-0.4	-0.8	-0.3	0.3	-0.7	-0.5
Exports	1.1	0.2	0.6	-0.2	1.2	0.8	0.9	0.3	1.2	0.8	0.5	0.8
Imports	-0.2	-1.3	-1.2	1.3	0.8	1.3	1.3	1.0	1.5	0.5	1.2	1.3
Government cons. & invest.	-0.8	0.3	1.4	-0.0	0.1	-0.2	0.2	0.3	0.2	-0.3	0.4	0.1
Federal	-0.9	0.4	0.6	-0.2	-0.3	-0.5	-0.1	-0.0	-0.1	-0.5	0.1	-0.2
Defense	-0.6	0.2	0.4	-0.2	-0.2	-0.5	-0.0	0.0	0.1	-0.3	0.0	-0.1
Nondefense	-0.3	0.2	0.2	0.0	-0.1	-0.0	-0.0	-0.0	-0.2	-0.2	0.1	-0.1
State and local	0.2	-0.1	0.8	0.2	0.4	0.3	0.3	0.3	0.3	0.2	0.3	0.3
Change in bus. inventories	-1.0	-1.0	0.5	1.7	-0.4	0.2	-0.2	0.1	-0.0	-0.6	0.2	0.0
Nonfarm	-1.2	-0.9	0.5	1.4	-0.5	0.1	-0.2	0.1	-0.1	-0.5	0.1	-0.0
Farm	0.1	-0.1	0.1	0.3	0.1	0.1	0.0	0.0	0.1	-0.1	0.1	0.0
GDP residual	-0.0	0.0	-0.0	0.1	-0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.1

Components may not sum to total due to rounding.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	96Q4/ 95Q4	97Q4/ 96Q4	98Q4/ 97Q4
Real GDP	2.3	2.1	2.3	2.3	2.2	2.1	1.9	1.9	1.9	2.8	2.3	1.9
Gross dom. purchases	1.9	2.7	2.7	3.1	2.6	2.3	2.2	2.5	2.0	3.5	2.8	2.2
Final sales	2.7	1.9	2.5	2.3	2.3	2.0	1.9	1.9	2.0	2.6	2.2	1.9
Priv. dom. final purchases	2.2	2.7	2.7	2.8	2.4	2.3	2.2	2.3	2.2	2.9	2.6	2.2
Personal cons. expenditures	2.2	2.3	2.0	2.1	1.7	1.6	1.5	1.4	1.4	1.8	2.0	1.5
Durables	0.6	0.6	0.4	0.5	0.3	0.3	0.3	0.2	0.2	0.5	0.4	0.2
Nondurables	0.2	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.5	0.4
Services	1.3	1.2	1.1	1.0	0.9	0.9	0.8	0.8	0.8	0.9	1.1	0.8
Business fixed investment	0.6	0.5	0.7	0.5	0.6	0.6	0.6	0.7	0.7	1.0	0.6	0.7
Producers' dur. equip.	0.4	0.5	0.7	0.5	0.6	0.6	0.6	0.7	0.7	0.9	0.6	0.7
Nonres. structures	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	-0.0	0.0
Residential structures	-0.4	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	-0.0	0.0
Net exports	0.4	-0.6	-0.4	-0.8	-0.3	-0.2	-0.3	-0.6	-0.1	-0.7	-0.5	-0.3
Exports	1.2	0.8	0.9	0.3	1.2	0.6	1.1	0.3	1.2	0.5	0.8	0.8
Imports	0.8	1.3	1.3	1.0	1.5	0.8	1.4	0.9	1.4	1.2	1.3	1.1
Government cons. & invest.	0.1	-0.2	0.2	0.3	0.2	-0.1	-0.0	0.2	-0.1	0.4	0.1	0.0
Federal	-0.3	-0.5	-0.1	-0.0	-0.1	-0.3	-0.3	-0.1	-0.4	0.1	-0.2	-0.3
Defense	-0.2	-0.5	-0.0	0.0	0.1	-0.3	-0.3	-0.0	-0.2	0.0	-0.1	-0.2
Nondefense	-0.1	-0.0	-0.0	-0.0	-0.2	-0.1	-0.0	-0.0	-0.2	0.1	-0.1	-0.1
State and local	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Change in bus. inventories	-0.4	0.2	-0.2	0.1	-0.0	0.1	0.0	-0.0	-0.1	0.2	0.0	0.0
Nonfarm	-0.5	0.1	-0.2	0.1	-0.1	0.1	0.0	-0.0	-0.1	0.1	-0.0	-0.0
Farm	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0
GDP residual	-0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.1	-0.0	0.0	0.1	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)

December 12, 1996

Item	Fiscal year[5]				1996				1997				1998			
	1995[a]	1996[a]	1997	1998	Q1[a]	Q2[a]	Q3[b]	Q4								
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1355	1453	1525	1575	322	446	362	353	333	459	379	364	345	474	392	384
Outlays[1]	1519	1560	1637	1692	393	392	395	412	413	405	407	424	420	426	423	435
Surplus/deficit[1]	-164	-107	-112	-117	-72	54	-33	-59	-80	54	-28	-60	-75	48	-31	-51
On-budget	-226	-174	-181	-190	-84	14	-36	-67	-93	13	-34	-69	-88	4	-37	-63
Off-budget	62	67	68	73	12	39	2	8	13	41	6	9	13	44	7	12
Surplus excluding deposit insurance[2]	-182	-116	-120	-119	-75	52	-34	-65	-81	53	-29	-60	-75	48	-31	-52
Means of financing																
Borrowing	171	130	126	146	80	-23	39	43	80	-35	37	46	82	-30	47	25
Cash decrease	-2	-6	4	0	-1	-16	-6	13	11	-15	-5	10	10	-15	-5	10
Other[3]	-5	-16	-18	-29	-7	-14	0	3	-12	-5	-4	3	-18	-3	-12	16
Cash operating balance, end of period	38	44	40	40	22	38	44	32	20	35	40	30	20	35	40	30
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1459	1544	1626	1683	1523	1576	1583	1625	1610	1626	1643	1660	1671	1690	1709	1728
Expenditures	1629	1683	1749	1798	1678	1702	1704	1727	1741	1756	1771	1783	1792	1802	1814	1828
Consumption expend.	455	458	461	462	454	463	462	461	459	461	463	463	463	461	463	459
Defense	304	303	302	305	299	307	305	303	301	301	303	306	306	303	304	302
Nondefense	151	155	159	158	155	156	157	157	159	159	160	157	157	158	159	156
Other expenditures	1175	1226	1288	1335	1225	1239	1242	1266	1282	1296	1308	1320	1329	1341	1352	1369
Current account surplus	-171	-139	-123	-115	-155	-127	-120	-102	-131	-130	-128	-123	-121	-112	-106	-100
Gross investment	65	63	62	61	65	66	64	63	61	61	62	63	62	61	61	60
Current and capital account surplus	-236	-202	-185	-177	-220	-193	-184	-165	-192	-191	-190	-186	-182	-172	-166	-160
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-268	-242	-236	-249	-246	-233	-230	-217	-247	-250	-254	-253	-250	-241	-236	-230
Change in HEB, percent of potential GDP	0	-.4	-.1	.2	.1	-.2	0	-.2	.4	0	0	0	0	-.1	-.1	-.1
Fiscal impetus (FI), percent, cal. year	-5.6	-1.7	-3.4	-5.5	1.3	1.8	-.2	-1.5	-1.9	-.2	0	-2.4	-1.9	-1.4	-.4	-2

1. OMB's July 1996 deficit estimates (assuming the enactment of the President's proposals) are $126 billion in FY97 and $94 billion in FY98. CBO'S April 1996 baseline deficit estimates are $171 billion in FY97 and $194 billion in FY98. 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 July 1996 deficit estimates (assuming the enactment of the President's proposals), excluding deposit insurance spending, are $134 billion in FY97 and $96 billion in FY98. CBO'S April 1996 baseline deficit estimates, excluding deposit insurance, are $175 billion in FY97 and $196 billion in FY98.

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 1995 data for the unified budget come from OMB, fiscal 1996 and quarterly data come from the Monthly Treasury Statement and may not sum to OMB fiscal year totals.

a--Actual.
b--Preliminary.

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

			Nonfederal						
				Households					Memo:
	Total	Federal government	Total	Total	Home mortgages	Consumer credit	Business	State and local governments	Nominal GDP
Year									
1986	12.1	13.6	11.7	11.4	13.8	9.2	12.2	10.8	5.0
1987	9.2	8.0	9.6	12.2	16.3	5.1	6.7	12.1	7.4
1988	9.0	8.0	9.3	9.6	10.9	8.6	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	6.4	5.5	7.7	1.4	5.7	4.8
1994	5.0	4.7	5.1	8.7	6.7	14.6	3.6	-3.7	5.9
1995	5.5	4.1	6.0	8.2	6.3	14.3	6.2	-4.4	3.8
1996	5.2	3.8	5.7	7.4	7.5	7.3	5.2	-0.7	4.7
1997	4.7	3.4	5.1	5.7	6.3	4.7	5.7	0.1	4.6
1998	4.7	3.2	5.3	5.6	6.1	5.1	5.7	1.7	4.3
Quarter (seasonally adjusted annual rates)									
1995:1	6.4	7.1	6.2	8.2	6.5	13.9	6.9	-4.9	3.8
2	6.5	5.2	6.9	8.2	6.0	15.1	7.6	-0.8	3.1
3	4.3	2.4	4.9	8.8	7.1	14.7	4.4	-10.0	6.0
4	4.3	1.6	5.3	6.8	4.8	10.7	5.3	-1.9	2.3
1996:1	6.3	6.6	6.2	9.2	9.6	11.6	4.5	-1.2	4.2
2	4.9	1.7	6.1	7.7	7.2	7.5	4.8	2.8	6.5
3	4.7	4.3	4.8	6.3	6.4	5.9	6.0	-7.1	3.6
4	4.4	2.5	5.1	5.6	6.2	3.5	5.0	2.7	4.6
1997:1	5.3	5.9	5.0	5.4	6.1	4.1	5.8	-0.3	5.3
2	4.2	1.4	5.2	5.6	6.1	4.5	5.6	1.7	4.5
3	4.4	3.6	4.7	5.6	6.2	4.8	5.5	-3.4	4.3
4	4.5	2.6	5.2	5.7	6.2	5.2	5.3	2.2	4.3

1. Data after 1996:Q3 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.
On a monthly average basis, total debt grows 5.1 percent in 1996, 4.7 percent in 1997, and 4.8 percent in 1998.
Federal debt rises 3.7 percent in 1996, 3.4 percent in 1997, and 3.6 percent in 1998.
Nonfederal debt increases 5.6 percent in 1996, 5.1 percent in 1997, and 5.3 percent in 1998.

2.6.3 FOF

Confidential FR Class II
December 12, 1996

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

	Calendar year						1996				1997	
	1993	1994	1995	1996	1997	1998	Q1	Q2	Q3	Q4	H1	H2
Net funds raised by domestic nonfinancial sectors												
1 Total	648.3	576.3	646.6	652.5	586.6	638.9	789.3	677.7	572.0	571.1	616.7	556.4
2 Net equity issuance	21.3	-44.9	-73.8	-66.9	-97.9	-86.5	-85.2	-16.0	-98.4	-68.0	-79.0	-116.8
3 Net debt issuance	627.0	621.2	720.4	719.4	684.5	725.4	874.5	693.7	670.4	639.1	695.7	673.2
Borrowing sectors												
Nonfinancial business												
4 Financing gap [2]	3.8	2.4	57.7	16.0	44.0	71.0	5.1	2.5	30.4	25.9	36.6	51.4
5 Net equity issuance	21.3	-44.9	-73.8	-66.9	-97.9	-86.5	-85.2	-16.0	-98.4	-68.0	-79.0	-116.8
6 Credit market borrowing	52.7	136.4	241.5	215.2	248.3	261.9	186.2	202.7	255.9	215.9	251.5	245.0
Households												
7 Net borrowing, of which:	255.9	372.4	383.1	372.4	306.6	321.2	461.0	398.4	329.7	300.6	298.6	314.6
8 Home mortgages	153.7	198.1	198.4	253.9	227.7	235.2	322.4	249.5	223.7	220.2	222.7	232.7
9 Consumer credit	61.5	126.3	141.6	82.9	57.5	65.5	131.5	87.8	70.2	42.0	52.5	62.5
10 Debt/DPI (percent) [3]	86.6	88.9	91.0	93.5	94.5	95.5	92.9	93.8	94.0	94.4	94.2	94.7
State and local governments												
11 Net borrowing	62.3	-43.4	-48.6	-7.7	0.6	17.8	-12.5	30.1	-76.5	28.2	7.8	-6.7
12 Current surplus [4]	106.7	103.4	108.4	109.2	107.7	100.6	117.3	111.8	101.0	106.7	109.7	105.6
Federal government												
13 Net borrowing	256.1	155.9	144.4	139.5	129.0	124.6	239.9	62.4	161.3	94.3	137.7	120.3
14 Net borrowing (quarterly, n.s.a.)	256.1	155.9	144.4	139.5	129.0	124.6	80.5	-23.5	39.3	43.1	45.5	83.5
15 Unified deficit (quarterly, n.s.a.)	226.3	185.0	146.3	110.6	113.0	108.1	72.0	-53.7	33.3	59.1	25.5	87.5
16 Funds supplied by depository institutions	140.6	198.2	274.6	220.4	208.9	219.9	177.9	270.0	249.1	184.7	212.3	205.5
Memo: (percent of GDP)												
17 Domestic nonfinancial debt [3]	186.4	185.3	186.4	188.2	188.6	189.3	188.4	188.1	188.7	188.7	188.5	188.8
18 Domestic nonfinancial borrowing	9.6	9.0	9.9	9.5	8.6	8.8	11.8	9.2	8.8	8.3	8.9	8.4
19 Federal government [5]	3.9	2.2	2.0	1.8	1.6	1.5	3.2	0.8	2.1	1.2	1.8	1.5
20 Nonfederal	5.7	6.7	7.9	7.7	7.0	7.3	8.5	8.4	6.7	7.1	7.1	6.9

1. Data after 1996:Q3 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 changes in retirement fund assets plus consumption of fixed capital.
5. Excludes government-insured mortgage pool securities.

2.6.4 FOF

Recent Developments

The weighted-average foreign exchange value of the dollar in terms of the other G-10 currencies has increased about 2 percent on balance since the November FOMC meeting. The dollar has risen somewhat more against the mark and the French franc, partly in reaction to statements by French and German officials concerning the undervaluation of the dollar against those currencies. The mark and franc may also have been depressed by Italy's return to the ERM currency arrangement on November 24 and somewhat improved prospects for Italy's inclusion in the first round of EMU. These developments bolstered the lira but also raised fears about the ultimate strength of the euro.

The dollar has risen 1-1/2 percent against the yen, which weakened when a lackluster Tankan report for October and other data releases seemed to further reduce the prospects for a firming action by the Bank of Japan any time soon. The Canadian dollar and the pound also depreciated moderately against the dollar.

Foreign long-term interest rates moved in a wide range, particularly late in the period, but ended about unchanged on average. Japanese long-term rates fell 20 basis points, Canadian rates rose 30 basis points, and those of major European countries were little changed on balance. Short-term rates declined further in Italy, rose moderately in Canada, and were little changed in other major countries.

Stock prices in the major foreign industrial countries generally rose early in the period, fell sharply immediately after Chairman Greenspan's remarks on December 5 concerning "irrational exuberance" in asset values, and subsequently recovered some of those declines. Continental European stock markets finished up 1 to 3 percent on balance, while British stocks fell slightly and Japanese stocks were down 3 percent.

. The Desk did not intervene.

Output growth in the foreign G-7 countries picked up on average in the third quarter from the modest pace recorded in the first half of the year but appears to have moderated a bit in the fourth quarter. Japan was an exception to this general pattern, as GDP growth was sluggish in the third quarter, with a decline in private consumption nearly offsetting substantial increases in government consumption and exports. However, Japan's industrial production and orders picked up strongly in October. German GDP advanced 3.3 percent at an annual rate in the third quarter, led by a surge in exports. Industrial production dipped in September and October, suggesting that growth is likely to have slowed in the fourth quarter. However, orders and indicators of business confidence strengthened in October. French GDP grew at a 3-3/4 percent rate in the third quarter following a sluggish second quarter, with private domestic expenditures as well as net exports contributing to the pickup. However, consumption of manufactured goods turned down in October with the expiration of a government subsidy on car purchases. Robust consumer expenditures pushed GDP growth in the United Kingdom above 3 percent in the third quarter as well, but retail sales grew only moderately in October. Canadian GDP also advanced at a rate of more than 3 percent in the third quarter, as strong investment growth more than offset significant declines in net exports and government spending; preliminary indicators for the fourth quarter suggest a more moderate pace of expansion.

Inflation in the foreign G-7 countries has remained generally low. Recent twelve-month rates of consumer price inflation have been running near zero in Japan and between 1-1/2 percent and 1-3/4 percent in Germany, France, and Canada. Italian inflation dropped significantly further, to 2-1/2 percent in November, and U.K. underlying inflation picked up to 3-1/4 percent in October-November.

Activity in key developing countries has been robust on average. In Latin America, growth rose sharply in the third quarter, with that in Mexico and Brazil coming in considerably stronger than was generally expected; GDP was up 7-1/2 percent over its year-earlier level in Mexico and 6-1/2 percent in Brazil and Argentina. In Asia, growth has moderated somewhat from the strong pace recorded for 1995.

The nominal deficit in U.S. international trade in goods and services widened significantly in the third quarter as exports declined and imports rose moderately. Shipments of gold and aircraft more than accounted for the decline in exports. Most other categories of exports were little changed, with the notable exception of automotive shipments, which rose somewhat. Consumer goods and automotive products accounted for most of the rise in imports.

Prices of both exports and non-oil imports extended their recent downtrend through October, with agricultural export prices dropping further and a broad array of import categories registering declines. The price of imported oil rose another 6 percent in October to a level 37 percent above that in October 1995.

Spot oil prices declined ahead of the return of Iraq to the market on December 10 and declined substantially further subsequently. Spot prices had risen considerably in late November, partly because of strike-induced disruptions to French refineries. On balance, the WTI spot price has declined $0.50 per barrel since the November FOMC meeting and is currently trading at $23.60 per barrel; the contract for March delivery has declined $0.60 per barrel to $22.75.

SUMMARY OF STAFF PROJECTIONS
(Percent change from end of previous period)

	Projection				
	1996			1997	1998
	H1	Q3	Q4		
Foreign output	2.9	4.3	3.5	3.9	3.7
Previous	*3.1*	*3.5*	*3.6*	*3.9*	*3.6*
Real exports	3.7	-1.3	10.4	6.6	6.4
Previous	*3.7*	*0.4*	*11.7*	*6.7*	*6.3*
Real imports	10.3	9.6	5.9	9.4	7.5
Previous	*10.3*	*8.7*	*7.3*	*8.3*	*7.2*

Outlook

The staff projects that growth of real GDP in our major trading partners (weighted by U.S. nonagricultural export shares) will pick up to a 3-3/4 to 4 percent annual rate during 1997-98. This outlook is little changed from that in the November Greenbook. The projected path of the dollar is higher than it was in November and has led us to mark down the path of real net exports a bit. The effects of some residual seasonality and the CAW/UAW auto strike lead us to expect that real net exports will rise somewhat in the fourth quarter. Beyond the current quarter, however, we see net exports resuming their downtrend and subtracting 0.5 percentage point from the GDP growth rate during 1997, about two-tenths more than we projected in November.

The dollar. We project the foreign exchange value of the dollar in terms of the other G-10 currencies to remain little changed from its recent levels throughout the forecast period. This path is higher than that in the November Greenbook and 3 percent higher than in the September 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 throughout the forecast period.

Foreign G-7 countries. We project real GDP in the foreign G-7 countries (weighted by U.S. nonagricultural export shares) to expand at an annual rate of around 2-3/4 percent during 1997 and 1998. Stimulus to private domestic demand from declines in interest rates should support moderate GDP growth in most countries despite ongoing fiscal contraction. On the whole, this outlook is the same as that in November, though there have been some offsetting changes across countries.

Real GDP growth in Germany and France is projected to average a little more than 2 percent at an annual rate over the forecast period, with the composition of spending shifting from net exports to private domestic demand, particularly investment. Both countries are expected to reduce their budget deficits to near 3 percent of GDP next year. Because the recent decline in Italian interest rates probably will not be enough to offset the relatively large fiscal contraction projected in that country, we expect Italian GDP growth to be sluggish--a rate in the vicinity of 1-1/2 percent--over the forecast period.[1] We expect the recent strong growth of final domestic demand in the United Kingdom to hold up through 1997 and then to slow a bit in 1998 in response to a rise in interest rates.

Real GDP growth in Japan is expected to be boosted in the first quarter of 1997 by consumer spending in anticipation of the planned increase in the consumption tax on April 1; growth should slow after the tax takes effect. We project that Japanese net exports will continue to make a positive contribution to GDP growth in response to past depreciation of the yen. However, prospects for a larger fiscal contraction than we had previously assumed have led us to reduce Japanese GDP growth for 1997 by several tenths. In Canada, robust investment stimulated by past declines in interest rates is expected to sustain moderate GDP growth in the face of ongoing fiscal cuts.

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[1] One cannot rule out the possibility that even sharper budget cuts will be forthcoming. Under current policies, Italy will probably not be able to get its budget deficit much below 4 percent of GDP in 1997 (even at that level, the improvement in the deficit from the 1996 level would amount to 3 percent of GDP).

We forecast that average consumer price inflation for the foreign G-7 countries (weighted by bilateral U.S. import shares) will rise, from a little less than 1-1/4 percent this year to about 1-1/2 percent next year as the Japanese price level jumps because of the rise in the consumption tax. Average inflation in the foreign G-7 countries is expected to move back below 1-1/4 percent in 1998.

We assume that average short-term market interest rates in the major foreign industrial countries will decline somewhat in the near term, with Italy accounting for most of the drop. Rates in most countries begin to rise by late next year and during 1998 as the economic expansion abroad progresses. One exception is Italy, where we assume rates decline further through 1998. Long-term rates abroad on average are projected to remain little changed from recent levels over the forecast period, with sizable further declines in Italy offsetting increases in Japan.

Other countries. Real GDP of major U.S. trading partners among developing countries (weighted by U.S. exports) is projected to grow about 5-3/4 percent per year during 1997 and 1998, a bit faster than in 1996. Most of the pickup reflects faster growth in Venezuela, which is expected to recover from this year's recession, and moderate acceleration in Singapore and several other Asian countries. Real GDP in Latin America is expected to continue to expand at about a 4-1/2 percent rate during 1997-98. We project Mexican GDP to grow about 4-1/2 percent per year over the forecast period, about the same as in 1996. We expect Asian growth to rise from 6 percent this year to 6-3/4 percent over the next two years as monetary policy is eased in some countries and as the negative effects of past currency appreciations against the yen diminish.

U.S. trade in goods and services. We project growth of exports of real goods and services to strengthen from 4 percent during 1996 to about 6-1/2 percent during 1997 and 1998. The projection for the next two years is about the same as in November; weaker outlooks for "core" exports (nonagricultural exports of goods excluding computers and semiconductors) and for service exports are offset by stronger growth in exports of semiconductors.

In the fourth quarter, total exports are expected to rebound from their decline in the third quarter, boosted by the return of aircraft shipments to more normal levels and by a residual seasonal increase in other categories that more than offset a decline in auto shipments to Canada associated with the CAW/UAW strike.

Our projection for the growth of core exports has been revised down a bit because of the higher path of the dollar. Nevertheless growth of these exports should pick up in 1997, compared with its average rate in 1996, because of stronger growth abroad and recovery of automotive exports from strike-depressed levels in the fourth quarter of 1996. Exports of computers are expected to continue growing rapidly in real terms. Exports of semiconductors are projected to recover from their slump earlier this year at a faster rate than we had projected in November because of reports of strengthening orders.

Growth of real imports of goods and services is projected to slow somewhat over the forecast period from the rapid rate observed earlier this year as the growth of U.S. domestic demand slows. The decline is less than projected previously because of the higher level of the dollar in this forecast.

We expect import growth to slow in the fourth quarter primarily as a result of the auto strike. We believe the strike depressed imports by more than exports and that shortfalls in both will be made up in the first quarter. Beyond the near-term, we expect total import growth to pick up a bit in 1997 relative to 1996 as imports of semiconductors resume strong growth in real terms after declining this year. Imports of computers should continue to expand rapidly, and oil imports will rise a bit faster than U.S. economic activity as U.S. oil production trends down. Imports of other ("core") goods and of services will be stimulated by declines in the relative prices of imports in 1997 and less so in 1998.

Oil prices. In light of movements in spot oil prices over the past month, we have raised the projected price of imported oil for the fourth quarter about $0.30 per barrel, to a little more than $21.50 per barrel. Thereafter, the import price is projected to return to $18 per barrel by the second quarter and to $17 per barrel by the fourth quarter of 1997, a level consistent with $19.50 per barrel for WTI. The near-term declines come a bit sooner than in our previous projection in light of the earlier return of Iraqi shipments. We assume that increases in oil production will be sufficient to hold oil prices about unchanged from their end-of-1997 levels during 1998.

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

	1996 H1	1996 Q3	1996 Q4	Projection 1997	Projection 1998
Ag. exports[1]	18.4	-12.99	-11.33	-2.05	4.07
Nonag. exports[1]	-2.4	-2.38	1.28	0.59	1.58
Non-oil imports[1]	-3.4	-3.15	-1.60	-0.42	0.83
Oil imports (Q4 level, $/bl)	19.52	19.57	21.55	17.00	17.00

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

Prices of non-oil imports and exports. Prices of nonagricultural exports, held down by price declines for computers and semiconductors, should be little changed over the second half of this year and should rise only slightly over the remainder of the forecast period. Prices of agricultural exports are projected to decline moderately through most of next year before turning up in 1998. We anticipate that the prices of non-oil imports will decline about one-half percent during 1997 and then rise only slightly in 1998 as inflation abroad remains very low.

Nominal trade and current account balances. The nominal trade deficit on goods and services is projected to narrow somewhat in the near term from its third-quarter level of $135 billion and then to widen to $145 billion by 1998. The balance on net investment income is projected to deteriorate slightly as well. Accordingly, the current account balance should move from a deficit of about $190 billion in the third quarter to more than $200 billion in 1998. This projection for 1998 is nearly $30 billion larger than that in the November forecast, with roughly two-thirds of the deterioration in goods and services and the remainder in investment income and transfers.

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

Measure and Country	1990	1991	1992	1993	1994	1995	---- Projected ---- 1996	1997	1998 ----
REAL GDP									
Canada	-1.9	0.0	0.5	3.1	4.9	0.7	2.0	3.2	3.1
France	1.5	1.3	0.0	-0.6	4.2	0.4	1.9	2.4	2.1
Germany (1)	6.8	3.3	1.0	-0.4	3.7	1.1	2.2	2.1	2.3
Italy	0.5	1.9	-0.8	-0.0	2.6	2.4	0.5	1.2	1.8
Japan	5.1	2.5	0.1	0.4	0.8	2.6	2.7	2.3	2.2
United Kingdom	-0.7	-1.5	0.3	2.8	4.2	1.9	2.6	3.1	2.4
Average weighted by 1987-89 GDP	2.7	1.6	0.2	0.6	2.8	1.8	2.1	2.3	2.3
Average weighted by share of U.S. nonagricultural exports									
Total foreign	2.4	2.5	1.9	3.0	5.0	1.8	3.4	3.9	3.7
Foreign G-7	0.7	0.8	0.3	1.8	3.8	1.3	2.2	2.8	2.7
Developing Countries	6.0	6.1	4.8	5.3	6.9	2.4	5.4	5.8	5.8
CONSUMER PRICES									
Canada	4.9	4.1	1.8	1.8	0.0	2.1	1.8	1.3	1.3
France	3.5	3.0	1.8	2.1	1.6	1.9	1.5	1.7	1.8
Germany (1)	3.0	4.0	3.4	4.2	2.6	1.7	1.4	1.5	1.6
Italy	6.4	6.2	4.8	4.2	3.8	5.8	2.8	2.5	2.8
Japan	3.2	3.2	0.9	1.2	0.8	-0.8	-0.0	1.5	0.2
United Kingdom (2)	9.2	5.7	3.7	2.7	2.2	2.9	3.3	2.7	3.0
Average weighted by 1987-89 GDP	4.7	4.1	2.4	2.5	1.8	1.7	1.5	1.8	1.5
Average weighted by share of U.S. non-oil imports	4.3	3.9	1.9	2.0	1.0	1.1	1.2	1.6	1.1

1. West German CPI through 1991, All German thereafter.
2. CPI excluding mortgage interest payments, which is the targeted inflation rate.

OUTLOOK FOR FOREIGN REAL GDP AND CONSUMER PRICES: SELECTED COUNTRIES
(Percent, quarterly change at an annual rate)

	1996				Projected 1997				Projected 1998			
Measure and Country	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP												
Canada	1.1	1.2	3.3	2.5	3.5	2.9	3.0	3.2	3.1	3.1	3.1	3.1
France	4.6	-0.6	3.7	0.0	2.5	2.2	2.4	2.3	2.1	2.2	2.2	2.1
Germany (1)	-1.6	6.0	3.3	1.4	2.2	1.9	2.1	2.3	2.3	2.3	2.3	2.3
Italy	1.7	-1.6	2.0	-0.2	1.5	1.5	1.0	1.0	1.5	1.5	2.0	2.0
Japan	8.4	-1.1	0.4	3.3	3.7	1.3	2.1	2.0	2.4	2.3	2.1	2.0
United Kingdom	2.3	1.9	3.1	3.1	3.2	3.2	3.0	2.8	2.6	2.4	2.4	2.2
Average weighted by 1987-89 GDP	3.7	0.6	2.2	1.9	2.9	1.9	2.2	2.2	2.3	2.2	2.3	2.2
Average weighted by share of U.S. nonagricultural exports												
Total foreign	3.9	2.1	4.3	3.5	4.0	3.7	3.8	3.9	3.9	3.8	3.7	3.6
Foreign G-7	2.7	1.0	2.7	2.4	3.3	2.4	2.6	2.7	2.7	2.7	2.7	2.6
Developing Countries	6.9	2.5	6.9	5.4	5.8	5.9	5.8	5.8	5.8	5.8	5.7	5.7
CONSUMER PRICES (2)												
Canada	1.4	1.4	1.4	1.8	1.6	1.3	1.6	1.3	1.3	1.3	1.3	1.3
France	2.1	2.4	1.8	1.5	1.9	1.8	1.7	1.7	1.8	1.8	1.8	1.8
Germany (1)	1.6	1.5	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.6	1.6	1.6
Italy	5.0	4.2	3.4	2.8	2.7	2.8	2.5	2.5	2.8	2.8	2.8	2.8
Japan	-0.3	0.1	0.0	-0.0	0.0	1.5	1.5	1.5	1.5	0.1	0.2	0.2
United Kingdom (3)	2.9	2.8	2.9	3.3	3.2	3.0	2.8	2.7	2.7	2.8	3.0	3.0
Average weighted by 1987-89 GDP	1.7	1.7	1.5	1.5	1.5	1.9	1.8	1.8	1.9	1.4	1.5	1.5
Average weighted by share of U.S. non-oil imports	1.1	1.2	1.1	1.2	1.1	1.6	1.7	1.6	1.6	1.0	1.1	1.1

1. West German CPI through 1991, all German thereafter.
2. Year/Year changes.
3. CPI excluding mortgage interest payments, which is the targeted inflation rate.

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OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1990	1991	1992	1993	1994	1995	------- Projected ------- 1996	1997	1998
NIPA REAL EXPORTS and IMPORTS									
	percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	0.6	0.4	-0.4	-0.7	-0.4	0.3	-0.7	-0.5	-0.3
Exports of G&S	0.6	0.8	0.4	0.5	1.0	0.8	0.5	0.8	0.8
Imports of G&S	-0.1	-0.4	-0.8	-1.1	-1.4	-0.5	-1.2	-1.3	-1.1
	percent change, Q4/Q4								
Exports of G&S	7.2	8.6	4.1	4.8	9.9	7.4	4.0	6.6	6.4
Services	8.9	7.1	-0.9	3.9	4.8	5.1	1.2	2.6	2.5
Agricultural Goods	-7.3	10.1	10.4	-5.4	17.1	-3.1	-2.8	2.1	4.1
Computers	12.3	21.7	25.2	22.7	28.8	49.4	30.7	29.9	28.7
Semiconductors	61.5	41.8	64.8	45.1	68.7	29.7	0.2	26.2	26.2
Other Goods 1/	6.0	7.0	2.3	3.6	7.4	5.2	3.8	4.5	3.1
Imports of G&S	0.5	4.0	7.5	10.5	11.8	4.2	9.0	9.4	7.5
Services	5.8	-2.7	1.5	3.6	0.8	4.1	4.8	3.4	2.8
Oil	-15.8	8.1	12.1	10.1	-0.2	0.9	6.9	4.9	4.1
Computers	2.9	35.9	45.1	38.8	37.3	43.8	24.5	27.4	23.9
Semiconductors	60.9	55.3	42.0	44.9	47.4	57.1	-9.9	26.2	26.2
Other Goods 2/	-0.3	2.5	5.4	9.4	12.5	-1.2	9.9	7.8	5.0
	in billions of chained 1992$								
Net Goods & Services	-61.9	-22.3	-29.5	-72.0	-105.7	-107.6	-122.7	-155.7	-182.1
Exports of G&S	564.4	599.9	639.4	658.3	712.0	775.4	818.8	868.6	923.4
Imports of G&S	626.3	622.2	668.9	730.2	817.6	883.0	941.5	1024.3	1105.5
	in billions of dollars								
US CURRENT ACCOUNT BALANCE	-94.7	-9.5	-62.6	-99.9	-148.4	-148.2	-169.4	-185.6	-206.6
Net Goods & Services (BOP)	-80.3	-29.9	-38.3	-72.0	-104.4	-105.1	-119.1	-131.3	-145.0
Exports of G&S (BOP)	536.8	580.7	617.7	643.0	698.3	786.5	829.7	871.1	927.9
Imports of G&S (BOP)	617.1	610.6	655.9	715.0	802.7	891.6	948.8	1002.4	1072.9
Net Investment Income	20.9	15.8	11.2	9.7	-4.2	-8.0	-9.9	-16.8	-24.1
Direct, Net	55.9	55.6	51.6	55.9	47.4	57.5	61.9	68.0	70.2
Portfolio, Net	-35.0	-39.8	-40.4	-46.2	-51.6	-65.5	-71.7	-84.9	-94.3
Net Transfers	-35.2	4.5	-35.5	-37.6	-39.9	-35.1	-40.4	-37.5	-37.5

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

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OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1993				1994				1995			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	percentage point contribution to GDP growth											
Net Goods & Services	-1.1	-0.5	-0.3	0.4	-1.1	0.1	1.2	1.0	-1.1	-0.6	-1.4	0.4
Exports of G&S	-0.2	1.6	1.0	1.7	0.3	0.7	1.2	1.2	0.2	0.7	-0.2	1.2
Imports of G&S	-0.9	-2.1	-1.3	-1.2	-1.4	-0.6	0.0	-0.2	-1.3	-1.3	-1.3	-0.8
	percent change, Q4/Q4											
Exports of G&S	-1.6	15.9	9.7	16.5	2.6	5.9	10.8	10.6	1.8	5.7	-1.3	10.4
Services	0.8	9.7	3.4	5.5	-1.1	4.0	18.7	-0.3	2.7	2.8	-3.8	3.3
Agricultural Goods	-24.4	6.8	43.0	62.9	-0.6	-19.8	16.4	-4.9	9.3	-33.7	9.1	13.0
Computers	24.5	16.6	27.6	48.6	33.0	30.1	79.0	61.0	58.7	21.0	18.3	28.7
Semiconductors	131.4	16.2	45.8	106.7	43.6	19.9	28.8	27.6	-0.0	-20.7	2.6	23.9
Other Goods 1/	-6.6	20.2	6.6	11.1	0.1	7.6	0.6	13.3	-4.2	13.9	-3.7	10.5
Imports of G&S	8.2	18.4	10.7	10.3	11.2	4.5	-0.0	1.6	10.7	10.0	9.6	5.9
Services	1.8	7.5	-1.6	-4.0	21.7	-6.7	5.8	-2.4	13.0	1.3	2.7	2.9
Oil	-8.6	27.2	33.5	-36.2	-2.4	5.3	22.0	-17.2	-22.2	59.9	7.2	-2.2
Computers	45.0	30.9	24.8	49.9	29.6	31.9	64.7	51.8	27.7	23.0	23.7	23.9
Semiconductors	65.3	7.3	43.4	85.8	49.3	61.0	76.4	43.6	4.6	-38.5	-19.0	26.2
Other Goods 2/	7.0	19.9	9.5	14.1	6.9	2.4	-10.9	-2.3	12.1	11.6	12.0	4.3
	in billions of chained 1992$											
Net Goods & Services	-99.3	-107.3	-111.7	-104.3	-122.5	-121.4	-101.5	-84.9	-104.1	-114.8	-139.2	-132.7
Exports of G&S	677.6	703.1	719.6	747.6	752.3	763.2	783.0	803.1	806.7	817.9	815.1	835.5
Imports of G&S	777.0	810.4	831.3	851.9	874.9	884.6	884.5	888.0	910.8	932.7	954.3	968.2
	in billions of dollars											
US CURRENT ACCOUNT BALANCE	-118.8	-144.1	-160.0	-170.6	-156.2	-163.9	-150.8	-121.7	-139.5	-160.8	-191.8	-185.4
Net Goods & Services (BOP)	-90.8	-103.5	-113.8	-109.4	-118.1	-127.3	-97.3	-77.6	-96.9	-114.3	-135.3	-129.9
Exports of G&S (BOP)	662.3	686.1	708.3	736.5	755.9	778.9	796.8	814.5	820.6	836.0	822.1	840.2
Imports of G&S (BOP)	753.1	789.6	822.1	845.9	874.0	906.2	894.2	892.0	917.5	950.3	957.5	970.1
Net Investment Income	4.7	-2.5	-6.4	-12.4	-3.6	-3.4	-17.4	-7.6	1.0	-9.1	-18.8	-12.6
Direct, Net	49.5	46.0	47.4	46.9	57.4	59.9	51.3	61.3	66.1	59.2	56.3	65.9
Portfolio, Net	-44.8	-48.5	-53.7	-59.3	-61.0	-63.3	-68.7	-68.9	-65.0	-68.3	-75.1	-78.5
Net Transfers	-32.7	-38.0	-39.9	-48.9	-34.6	-33.2	-36.0	-36.6	-43.6	-37.5	-37.7	-43.0

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

Strictly Confidential (FR) Class II-FOMC

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1996			Projected								
					1997				1998			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	percentage point contribution to GDP growth											
Net Goods & Services	-1.1	-0.6	-1.4	0.4	-0.6	-0.4	-0.8	-0.3	-0.2	-0.3	-0.6	-0.1
Exports of G&S	0.2	0.7	-0.2	1.2	0.8	0.9	0.3	1.2	0.6	1.1	0.3	1.2
Imports of G&S	-1.3	-1.3	-1.3	-0.8	-1.3	-1.3	-1.0	-1.5	-0.8	-1.4	-0.9	-1.4
	percent change, Q4/Q4											
Exports of G&S	1.8	5.7	-1.3	10.4	6.5	8.0	2.2	9.8	4.6	8.9	2.3	10.0
Services	2.7	2.8	-3.8	3.3	2.1	2.8	2.8	2.7	2.7	2.7	2.4	2.1
Agricultural Goods	9.3	-33.7	9.1	13.0	-4.1	4.4	4.4	4.1	4.0	4.0	4.0	4.1
Computers	58.7	21.0	18.3	28.7	31.1	31.1	28.7	28.7	28.7	28.7	28.7	28.7
Semiconductors	-0.0	-20.7	2.6	23.9	26.2	26.2	26.2	26.2	26.2	26.2	26.2	26.2
Other Goods 1/	-4.2	13.9	-3.7	10.5	5.6	6.6	-3.5	9.8	0.2	7.6	-4.2	9.4
Imports of G&S	10.7	10.0	9.6	5.9	10.0	9.5	7.4	10.6	5.4	9.4	6.0	9.1
Services	13.0	1.3	2.7	2.9	4.1	3.3	3.0	3.1	3.0	2.7	2.8	2.9
Oil	-22.2	59.9	7.2	-2.2	-17.6	44.9	14.8	-11.8	-5.5	32.8	13.8	-17.6
Computers	27.7	23.0	23.7	23.9	28.6	28.6	26.2	26.2	23.9	23.9	23.9	23.9
Semiconductors	4.6	-38.5	-19.0	26.2	26.2	26.2	26.2	26.2	26.2	26.2	26.2	26.2
Other Goods 2/	12.1	11.6	12.0	4.3	10.9	5.1	4.2	11.4	3.0	5.7	1.9	9.5
	in billions of chained 1992$											
Net Goods & Services	-104.1	-114.8	-139.2	-132.7	-142.7	-149.1	-162.6	-168.5	-172.4	-177.3	-188.2	-190.4
Exports of G&S	806.7	817.9	815.1	835.5	848.8	865.2	869.9	890.6	900.6	920.0	925.3	947.6
Imports of G&S	910.8	932.7	954.3	968.2	991.5	1014.3	1032.6	1059.0	1073.1	1097.3	1113.5	1138.0
	in billions of dollars											
US CURRENT ACCOUNT BALANCE	-139.5	-160.8	-191.8	-185.4	-175.2	-175.8	-188.2	-203.3	-194.2	-201.3	-211.0	-220.2
Net Goods & Services (BOP)	-96.9	-114.3	-135.3	-129.9	-126.7	-125.3	-135.3	-137.9	-139.1	-142.0	-150.3	-148.6
Exports of G&S (BOP)	820.6	836.0	822.1	840.2	852.0	867.3	871.7	893.3	904.1	924.6	929.9	953.1
Imports of G&S (BOP)	917.5	950.3	957.5	970.1	978.7	992.5	1007.0	1031.2	1043.2	1066.6	1080.2	1101.6
Net Investment Income	1.0	-9.1	-18.8	-12.6	-13.5	-15.6	-17.9	-20.4	-20.0	-24.2	-25.7	-26.6
Direct, Net	66.1	59.2	56.3	65.9	67.7	68.1	68.2	68.2	70.7	68.7	69.8	71.6
Portfolio, Net	-65.0	-68.3	-75.1	-78.5	-81.2	-83.6	-86.1	-88.6	-90.7	-92.9	-95.4	-98.2
Net Transfers	-43.6	-37.5	-37.7	-43.0	-35.0	-35.0	-35.0	-45.0	-35.0	-35.0	-35.0	-45.0

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