

Current Economic Conditions in the U.S.

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Economic Growth in the U.S. Remains Strong.

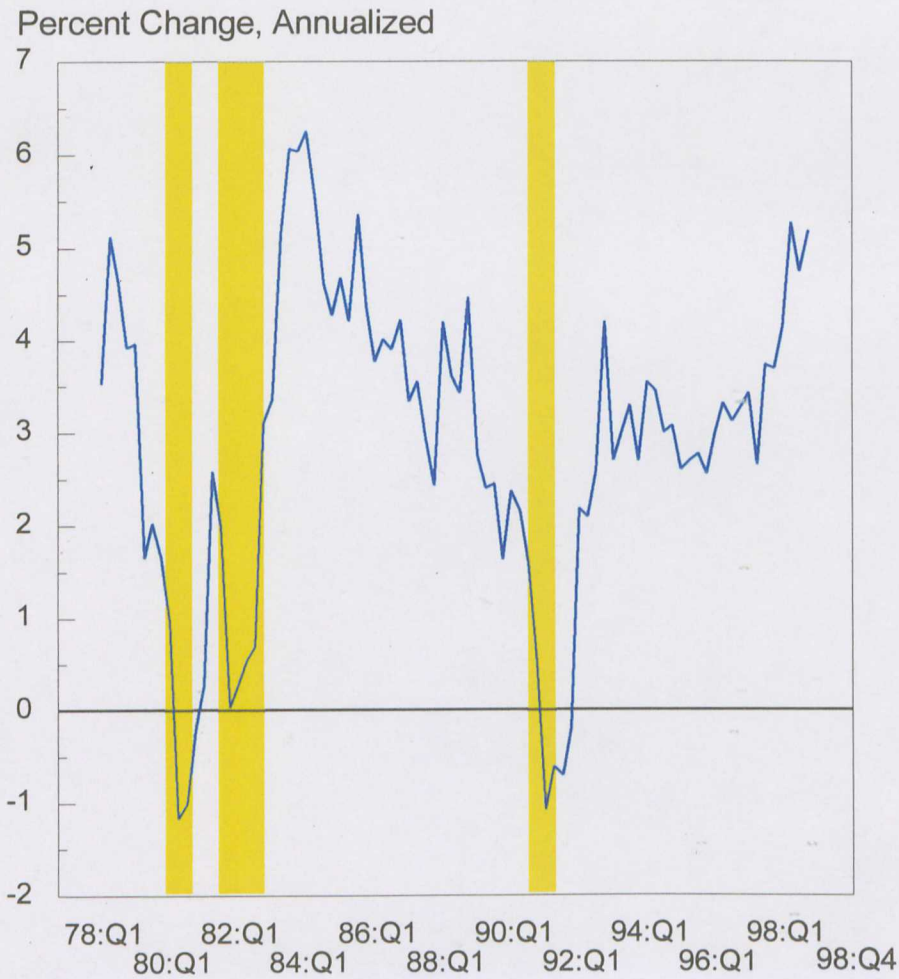
Current expansion is longest in U.S. peacetime history -- 8 years.

Excluding 1990/91 recession, current expansion is over 16 years.

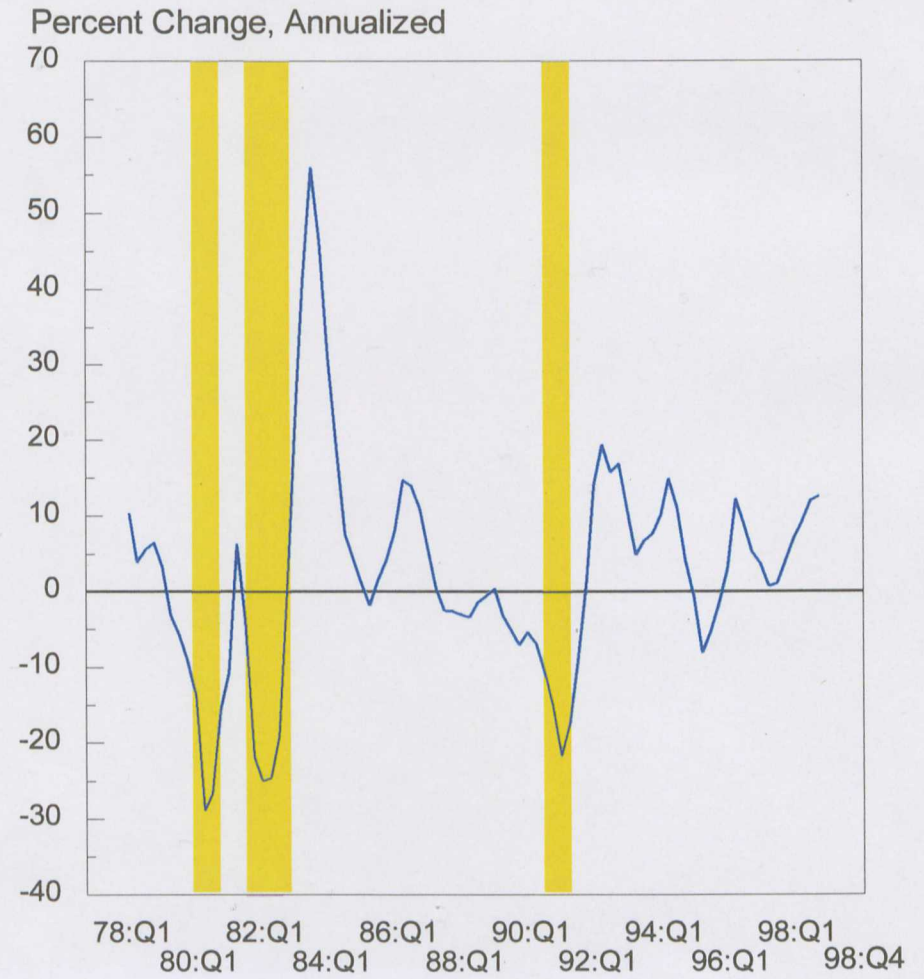


Consumers and Businesses Are Driving the Growth.

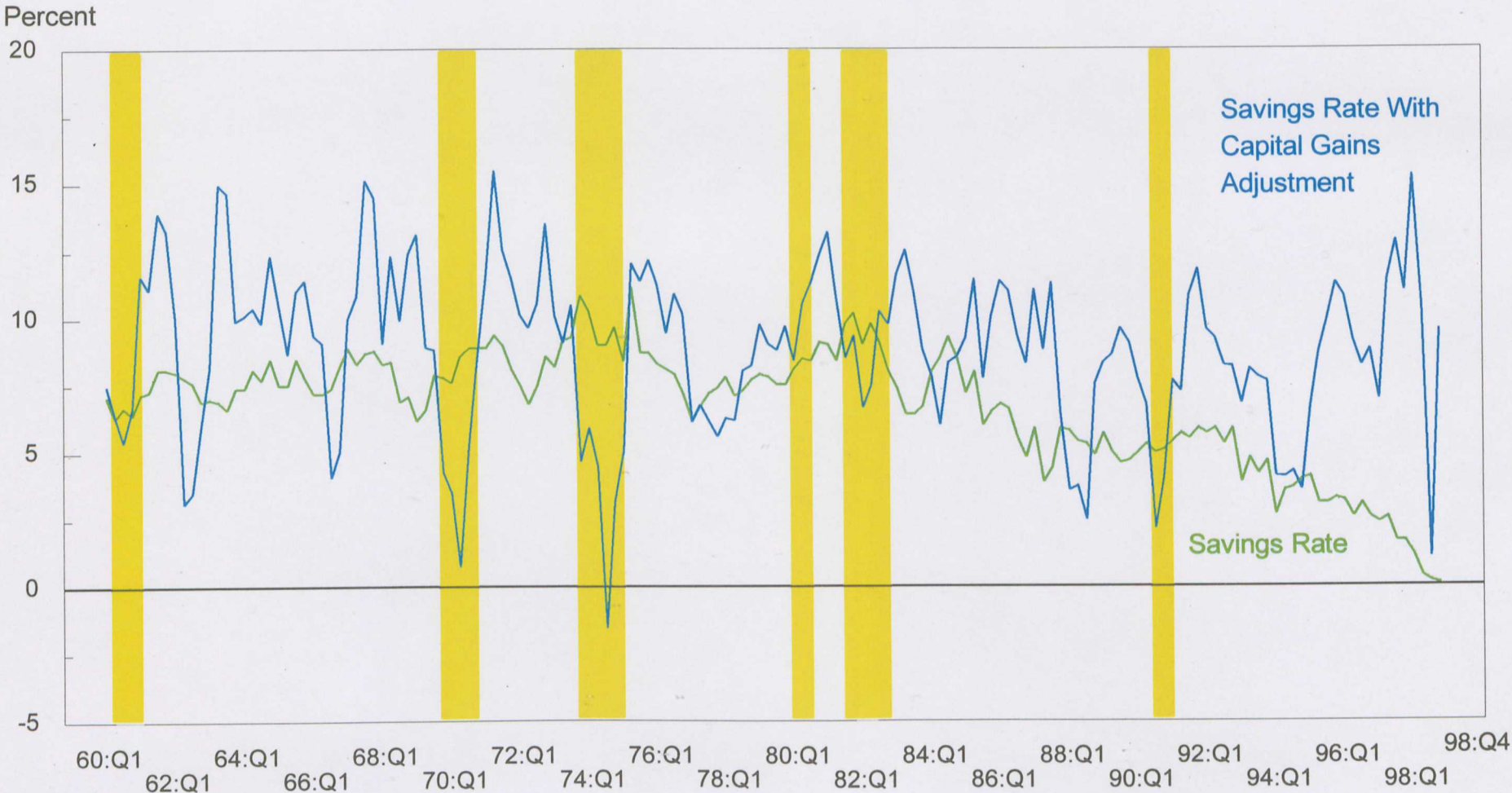
Personal Consumption Expenditures



Residential Investment



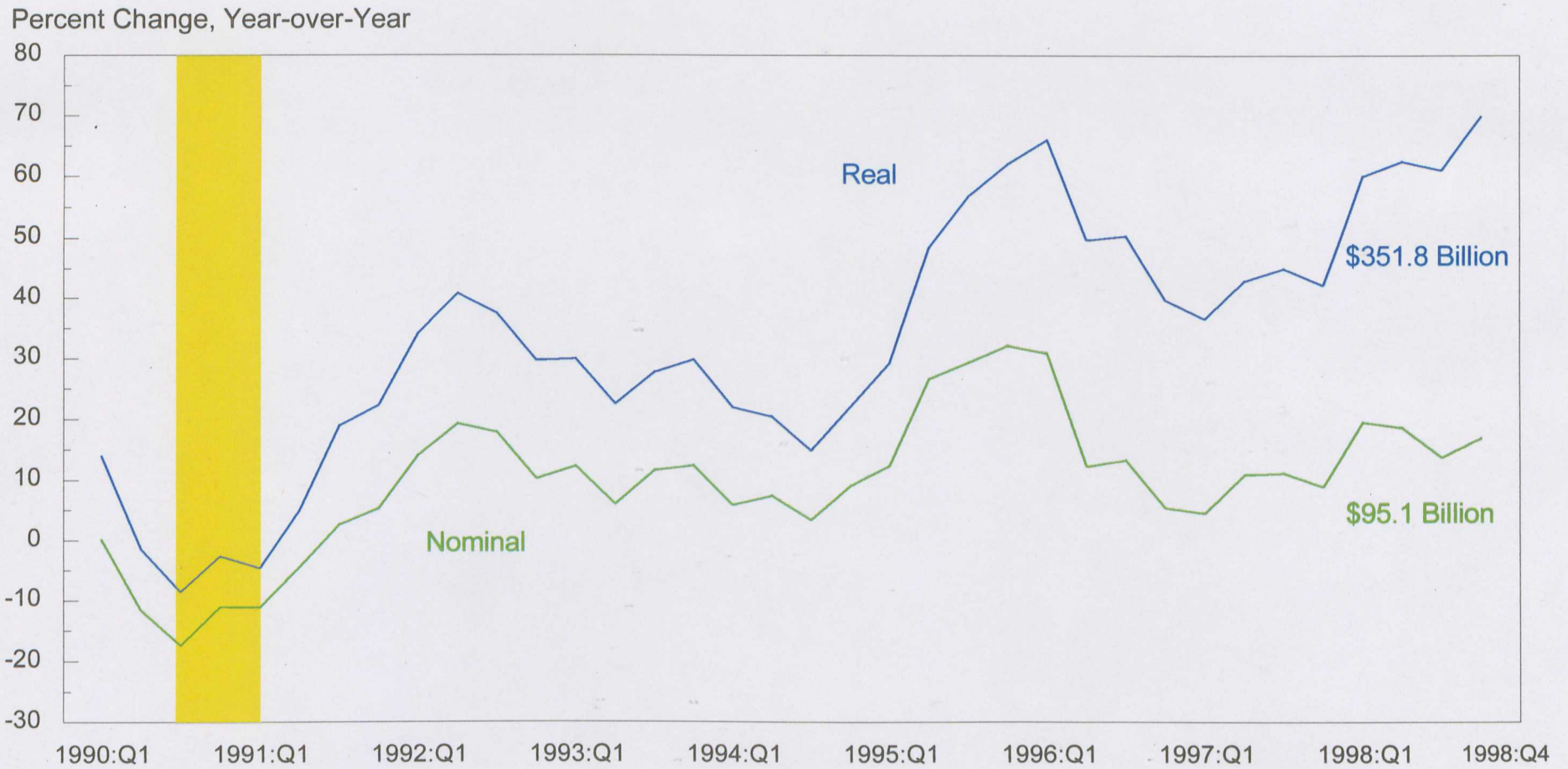
Households' Wealth and Savings



Source: Bureau of Economic Analysis, Flow of Funds, and Staff Calculations

Business investment is strong, especially in high technology.

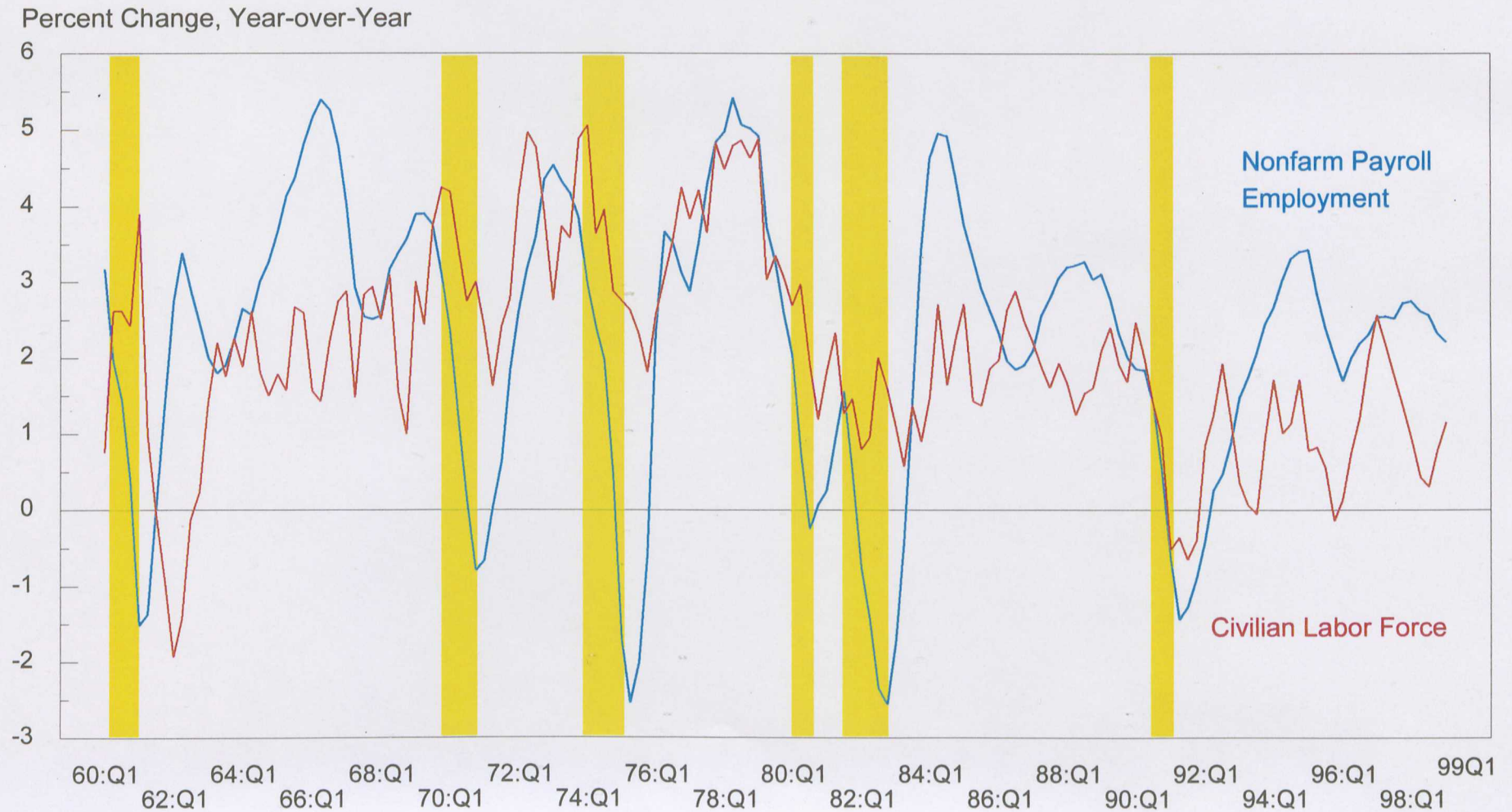
Business Spending on Computers



Employment Is Strong.

Employment grew 2.6 percent in 1998 and 2.4 percent over the past 3 years, while the labor force grew only 1.0 percent in 1998.

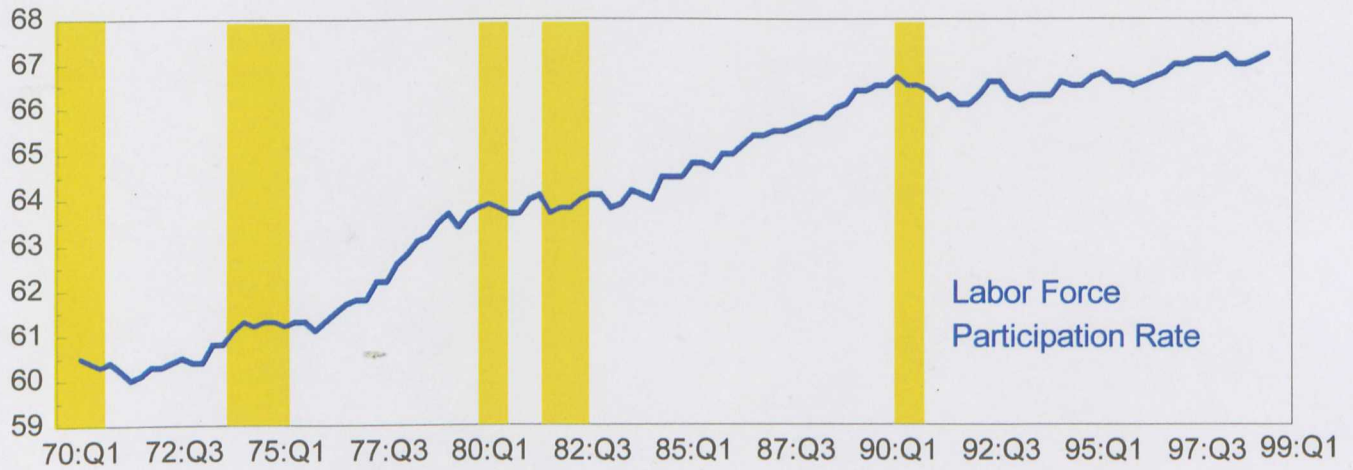
Payroll Employment and the Civilian Labor Force



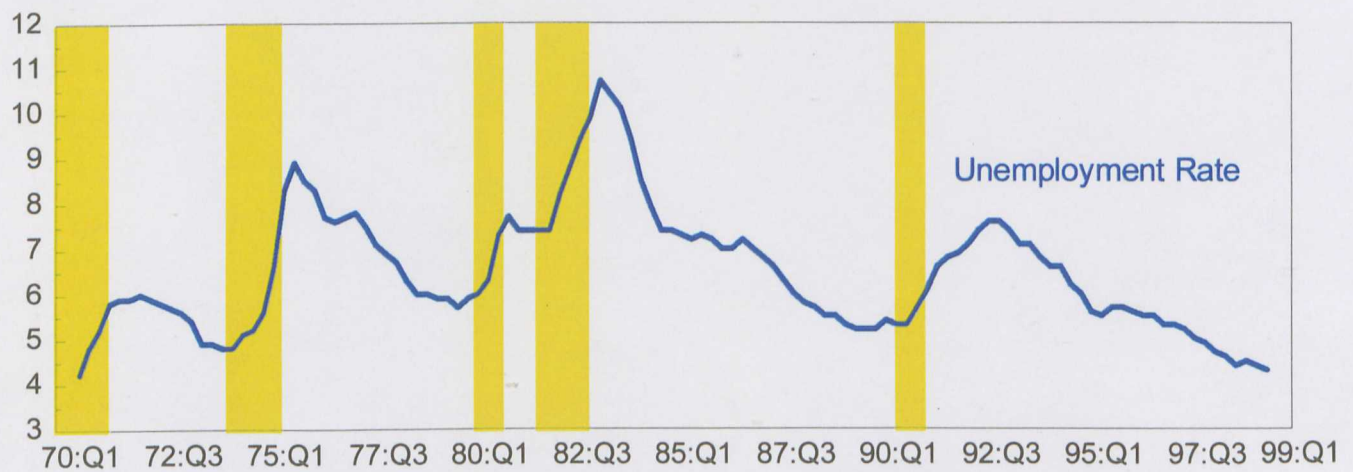
Labor Markets Are Tight.

Although there has been a rise in labor participation, the unemployment rate is at its lowest level in nearly 3 decades.

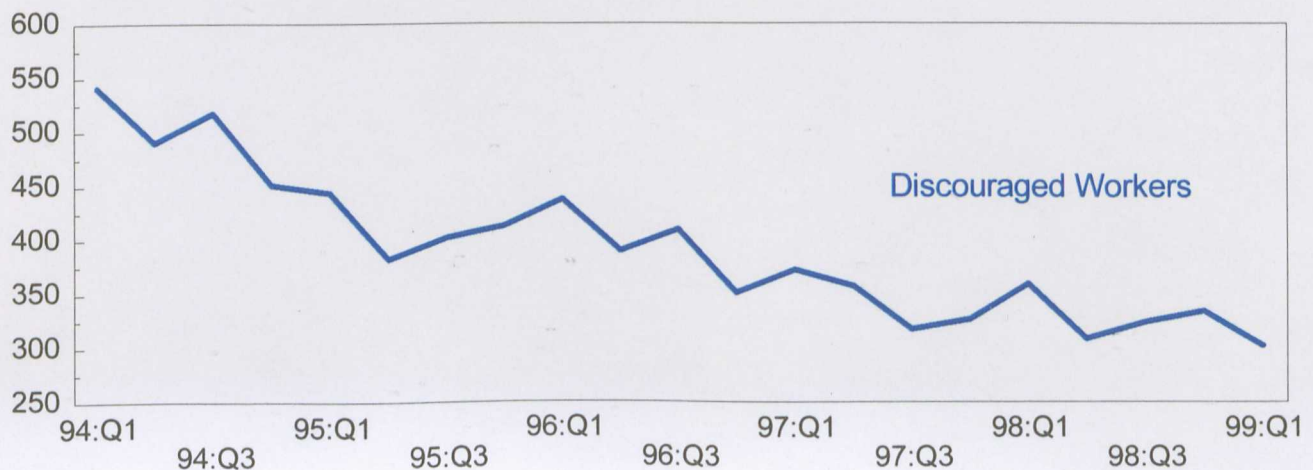
Percent



Percent



Thousands of Workers

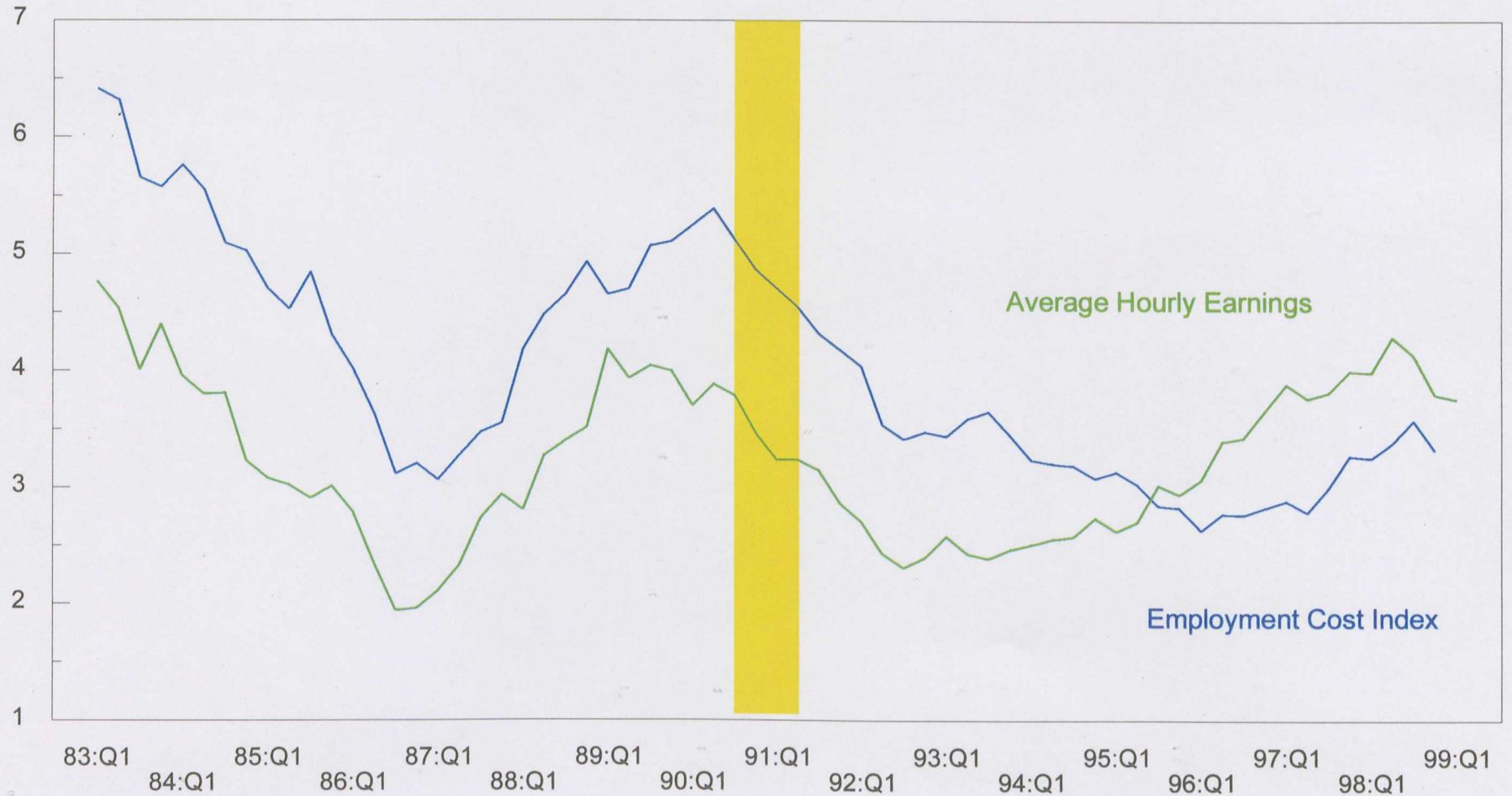


Source: Bureau of Labor Statistics

Tight Labor Markets Have Produced Rising Wages.

Employment Cost Index and Average Hourly Earnings

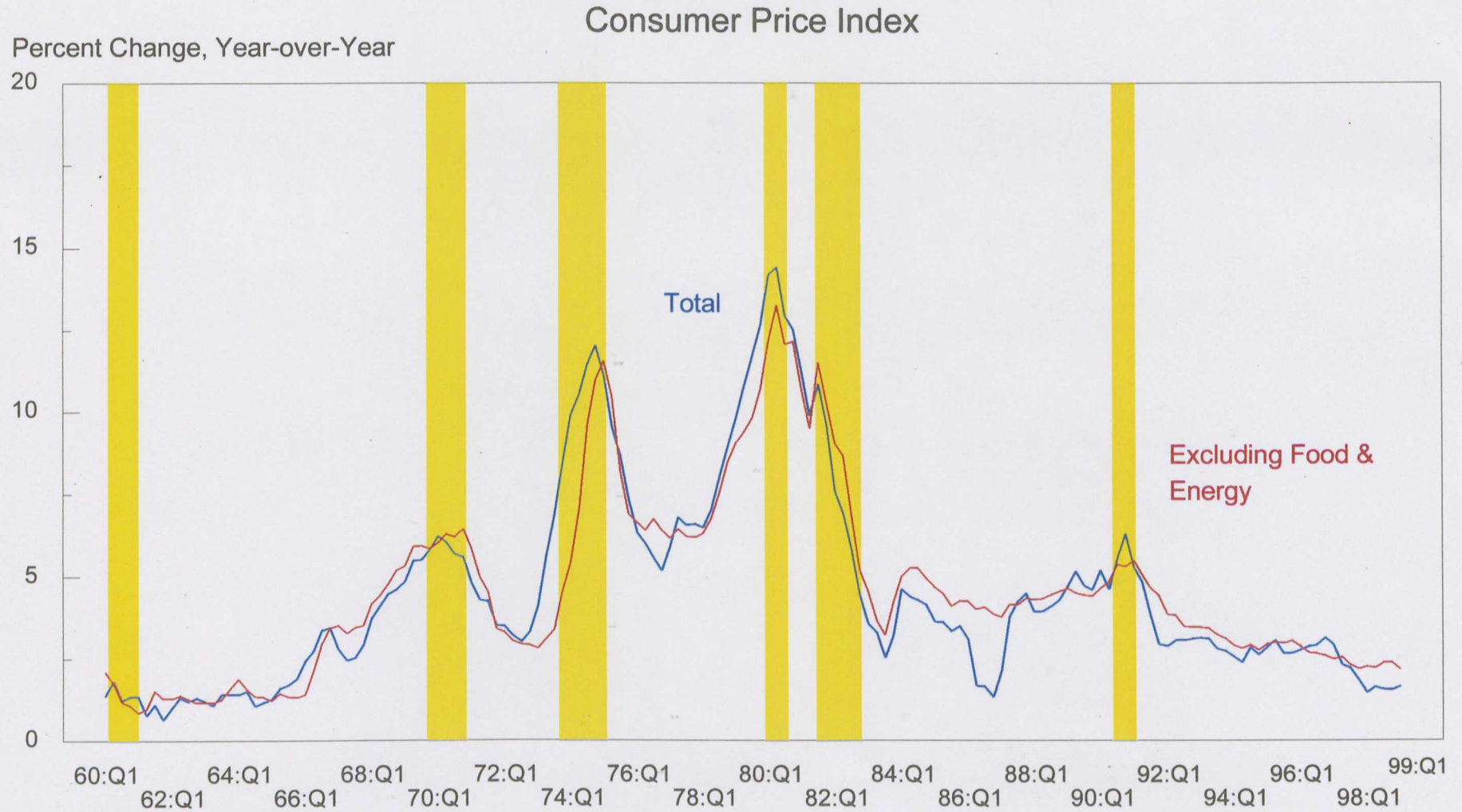
Percent Change, Year-over-Year



Inflation Remains Low.

Total inflation rose 1.6 percent in 1998.

Core inflation rose 2.3 percent in 1998.



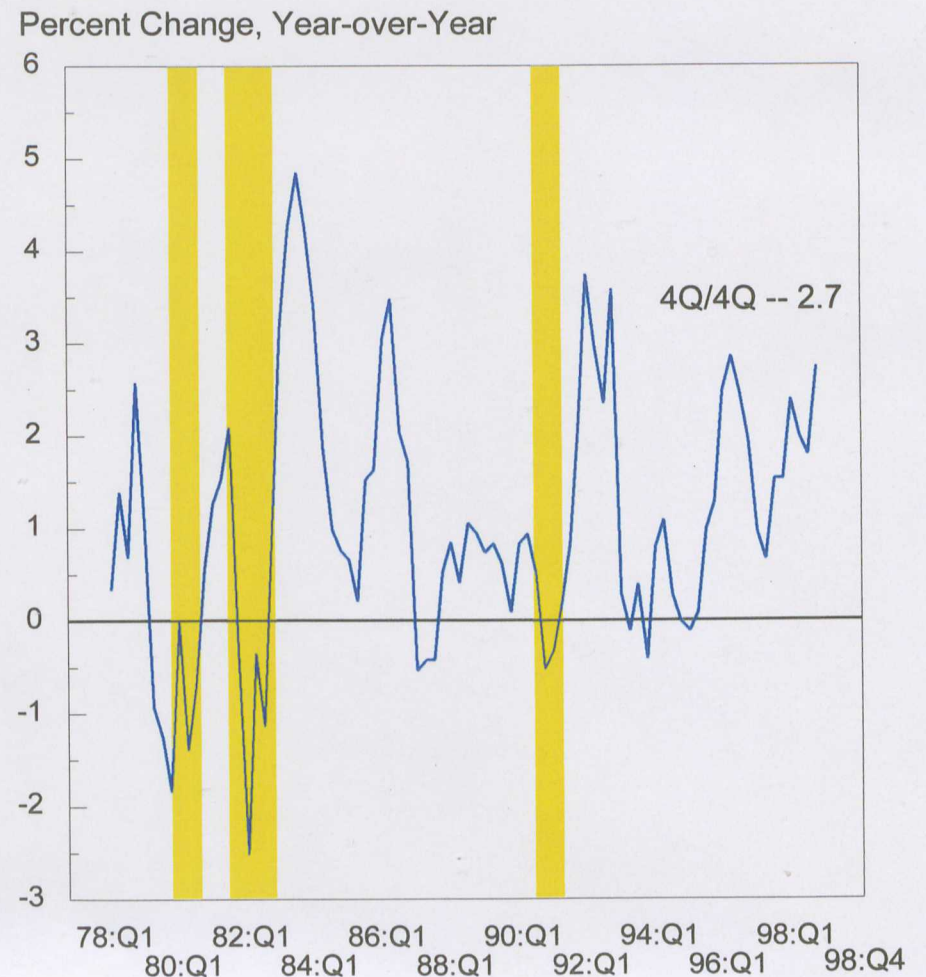
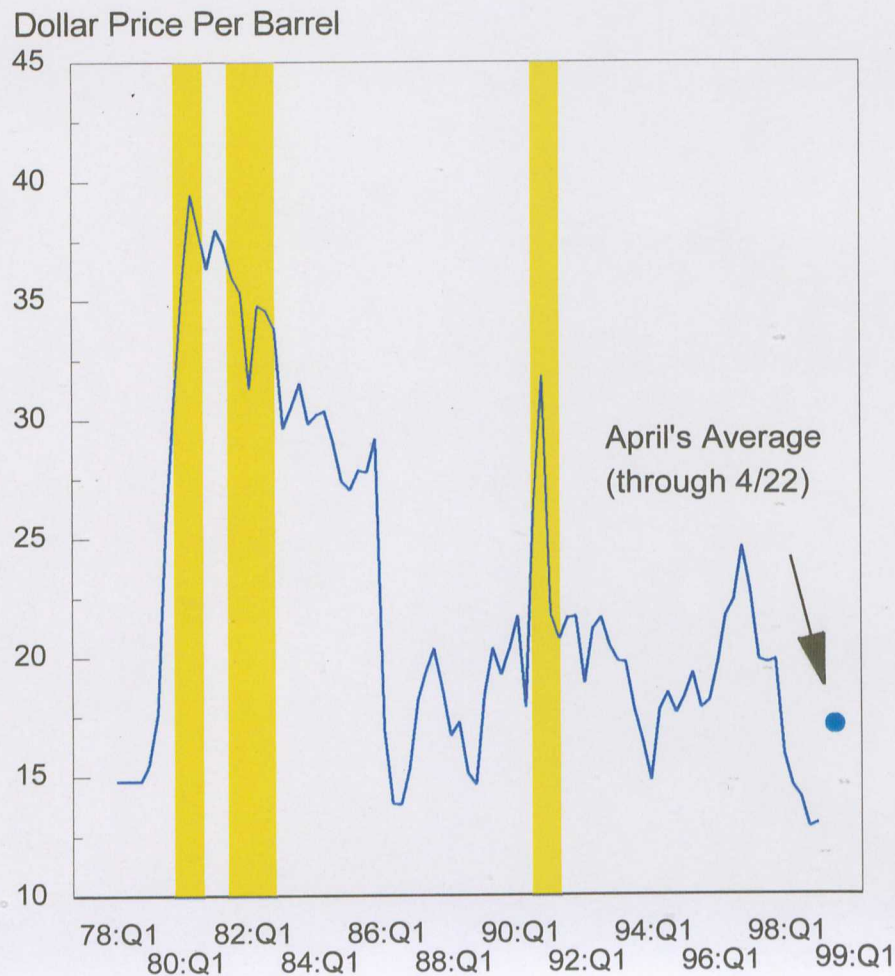
Why ?

Commodity prices, especially oil, have been falling.

Rising productivity has stabilized labor costs, even though wages are increasing.

Oil Prices

Productivity



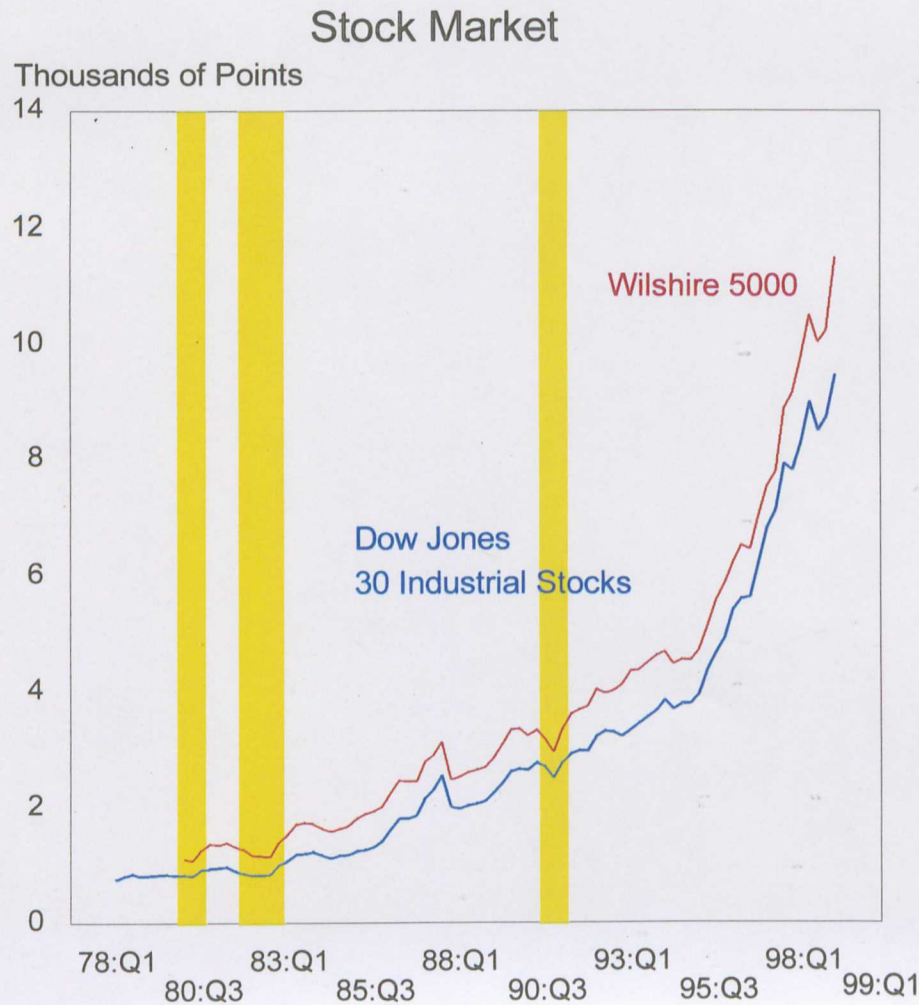
Source: Wall Street Journal

Source: Bureau of Labor Statistics

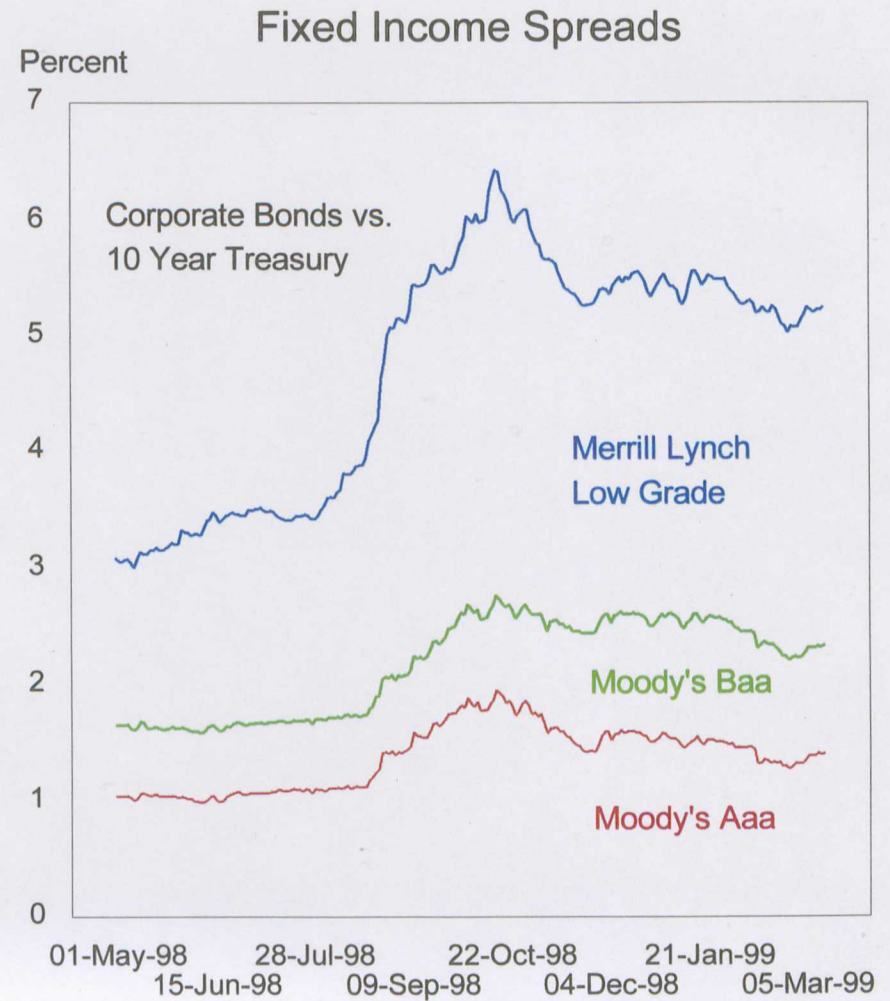
Financial Markets Are Exuberant.

The U.S. stock market has risen 100% over the past 5 Years.

Credit spreads have narrowed since the fall.



Source: Wall Street Journal



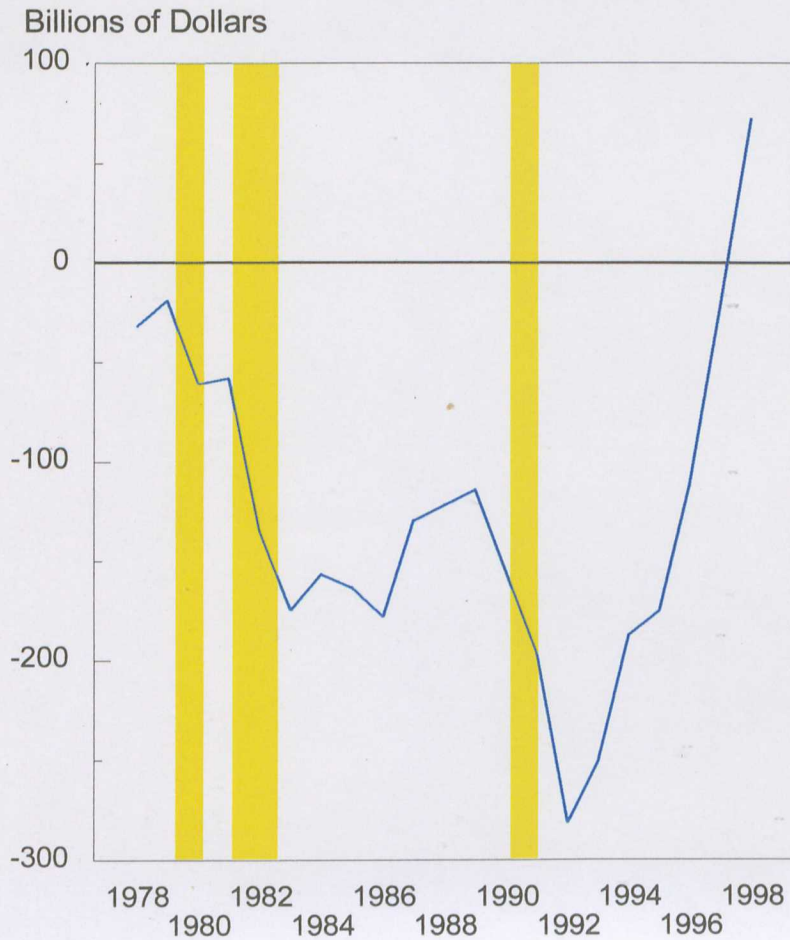
Source: FRB Statistical Release H.15, Merrill Lynch

Government Demands on Credit Markets are Down.

Federal and state budgets are in surplus.

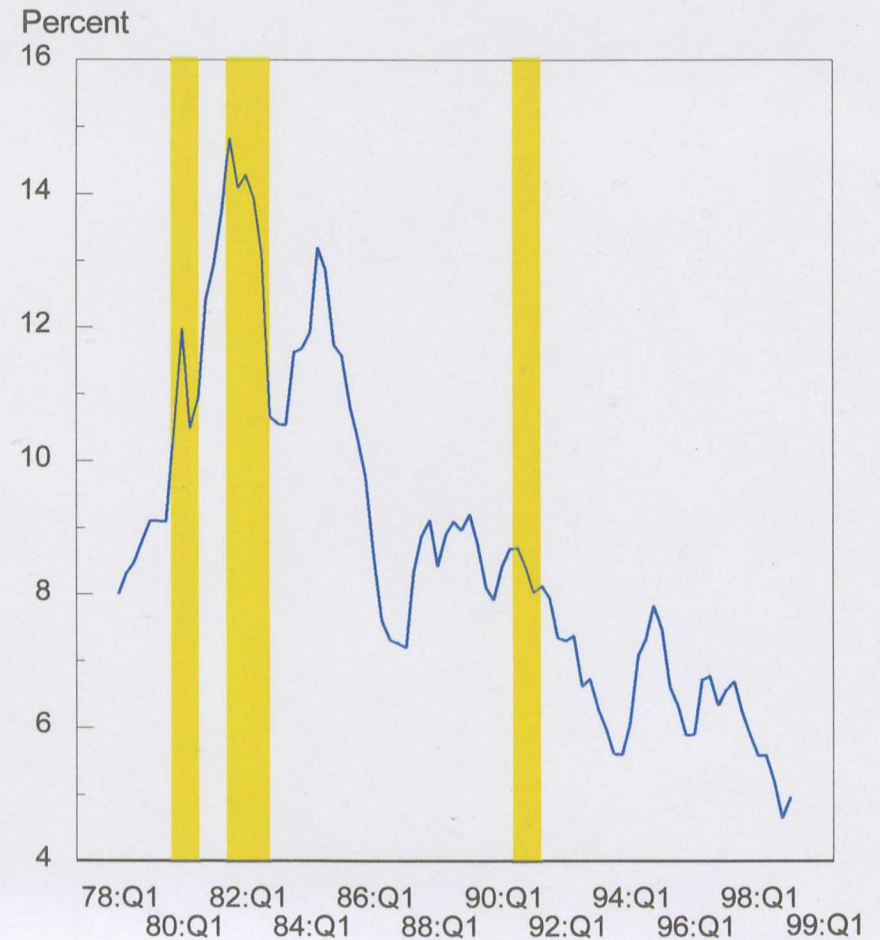
Nominal interest rates are low.

Federal Surplus or Deficit



Source: U.S. Department of Treasury

10 Year Treasury Bond



Source: FRB Statistical Release G.13

The External Deficit Looms as a Potential Problem.

Trade deficit hit new high in 1998 -- \$169.3 billion.

Deficit is political as well as economic issue.

Foreign Trade

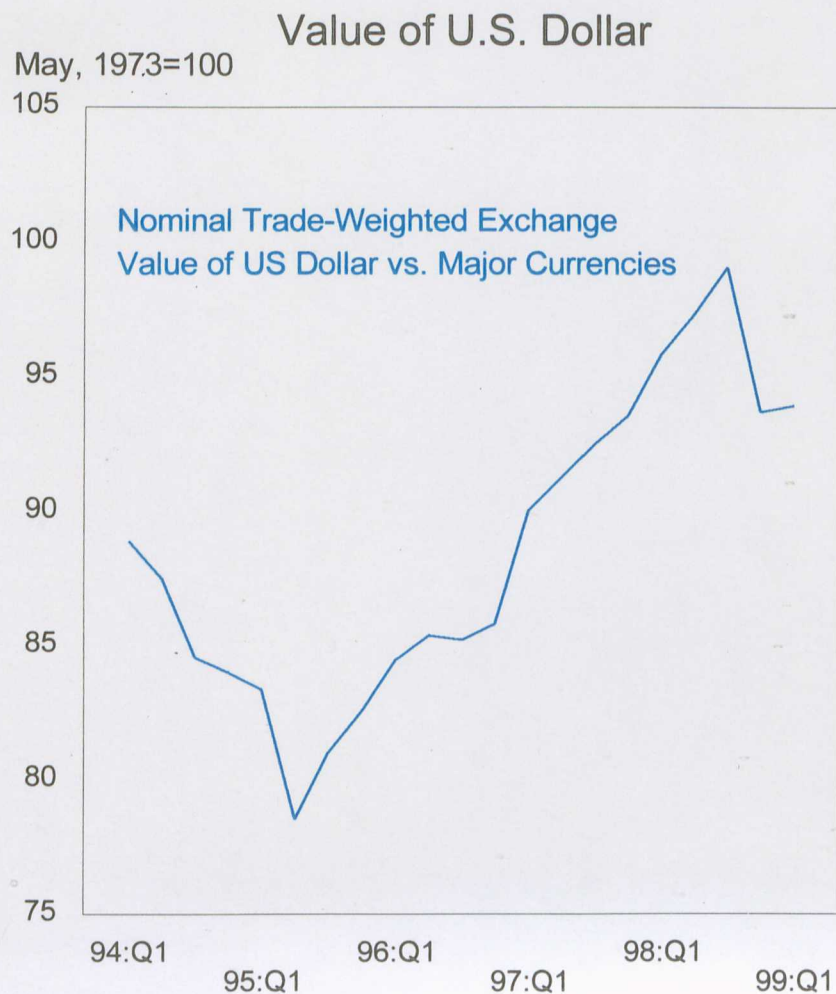


Worsening Trade Deficit Has Multiple Causes.

U.S. dollar remains strong.

Foreign GDP growth is weak.

U.S. propensity to consume remains strong.



Source: FRB



Source: Staff Calculations

1999 Forecast

Some slowing, perhaps to trend, reflecting

- slower consumer spending and residential investment
- reductions in business spending as profit margins are squeezed
- a continuing drag from trade

Continued tight labor markets

Some uptick in inflation

Other possibilities:

On the downside:

Could things slow down too much?

On the upside:

Will resource constraints hit before growth slows, driving up inflation?

Even better: Will continued productivity growth help to further blunt inflation forces?