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Confidential (FR) Class II FOMC

Part 1

January 27, 2000

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

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

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Domestic Developments

Overview

The U.S. economy entered the new year with a bang. The final quarter of 1999 saw real GDP growth probably in excess of 5 percent at an annual rate, and the positive momentum of domestic demand at this point is impressive. Consumers are brimming with confidence, perceiving job opportunities to be abundant and seeing their wealth boosted to new highs by rising prices of shares and houses. Businesses, having squashed the Y2K bug, are looking now toward exploiting new technological opportunities in an environment of growing product demand--with significant portions of the manufacturing sector benefiting from the strengthening of foreign economies as well as our own.

Oil prices have jumped recently, as we feared they might; increased demand associated with a winter cold snap has reinforced the pressures from indications that OPEC and its collaborators may extend their tight production limits further into the year than generally had been anticipated. Markets for some other industrial commodities also have seen further price increases, but the effects on goods prices downstream have been modest. Setting aside energy, consumer price inflation has remained subdued to this point.

Sizable increases in labor productivity obviously have been key in holding all of this together. And, looking forward, we are relatively sanguine about the prospects for continuing strong growth in aggregate supply; indeed, our analysis leads us to be much more optimistic than most about how fast output can grow over the next two years without intensifying the pressures in labor markets. However, in our view, even with a considerable further tightening of monetary conditions this year and an immediate halt to the uptrend in share prices, GDP may grow about as fast as "potential"--in part because a substantial demand for U.S. exports seems likely to offset the moderation of domestic demand growth.

We are projecting that real GDP will increase close to 4 percent on average this year and next, holding the jobless rate near 4 percent. In these circumstances, the underlying tendency will be toward an acceleration of wages and prices. Real wages will continue to be pushed upward by the bidding for workers, and inflationary pressures will be exacerbated by the lagged effects of the runup in oil prices, the firming of non-oil import prices, and higher medical costs. The direct effect of an anticipated easing of crude oil prices will damp headline inflation rates: We see overall PCE prices increasing 2 percent this year and next. However, core inflation measures are likely to move upward, with the increase in the chain price index for PCE excluding food and energy rising from 1-1/2 percent in 1999 to about 2 percent over the next two years.

Key Background Factors

As noted above, our baseline economic projection is conditioned on a considerable further increase in the federal funds rate over the coming year. Indeed, the rise is greater than was assumed in the December Greenbook forecast, though once again it is only a bit more than is embedded in the prevailing term structure of rates. The bond markets have telescoped forward all of the tightening we had assumed last time--and then some--with the yield on the thirty-year Treasury already moving up to about where we had thought it would be at the end of the year. We are projecting that long rates will rise further over coming quarters, owing to the assumed Fed tightening as well as an increasing recognition that inflation trends have turned unfavorable; however, it seems likely that there will be a substantial flattening of the yield curve if the System moves as quickly as we have assumed.

The steeper-than-anticipated rise in the funds rate also plays a role in our projection of an essentially flat stock market. The market has interpreted Fed actions and statements to date as indicating the likelihood of a rather tentative approach to reining in aggregate demand until core inflation has actually stepped up perceptibly--and certainly as not signaling an intention to curb the stock price advance per se. While we are not anticipating any change in policy rhetoric in the latter regard, our assumption is that the Fed will come to be perceived as somewhat less "friendly" and that this will help undermine the momentum of the equity market. We also expect that pressures on profit margins--coming partly from increased interest expenses--will produce a considerable number of earnings disappointments; however, the behavior of the market to date, with price-earnings multiples expanding even in the face of rising real interest rates, has not provided much support for the notion that this alone will damp share prices overall. As with previous forecasts, we think there are major upside and downside risks to this outlook and have included model-based simulations of alternative stock price paths later in this section.

Fiscal policy is expected to be slightly stimulative, at least in the earlier part of the forecast period--essentially the same assumption as that in the December Greenbook. Given the evident permeability of the existing spending caps, we expect that *real* discretionary outlays in fiscal 2001 will be maintained at fiscal 2000 levels, absorbing the bulk of the potential on-budget surplus using CBO's numbers. We now expect the unified budget surplus to rise to $186 billion in fiscal 2000 and to $223 billion in fiscal 2001. These figures translate into on-budget surpluses of $32 billion and $48 billion in fiscal 2000 and 2001, respectively. Should events unfold as we are projecting, there is a risk that the fiscal authorities will see the scope for a more stimulative budget package, incorporating tax cuts or more spending.

The spot price of WTI averaged almost $27 per barrel in the first three weeks of January. Prices anywhere close to this level would, over time, prompt considerable output increases by countries outside the cartel as well as greater conservation efforts by energy consumers. Although key members of OPEC are quite sensitive to that fact, the cartel seems to be headed toward an agreement to extend the current production limits. We have assumed that the existing quotas will run through June but also that compliance will weaken. With OPEC production rising over the course of the year, the spot price of WTI is forecast to fall back to $22.75 by the fourth quarter--$2.25 per barrel higher than in the December Greenbook--and to $19.50 by the end of 2001--an upward revision of almost $1 per barrel. Such a trajectory is broadly in line with futures prices.

On foreign exchange markets, the dollar has bounced around over the intermeeting period but on net is in line with our last projection. The dollar has strengthened vis-a-vis the yen and, after dipping in early January, has lately pierced parity with the euro. The demand for dollars apparently has been bolstered recently by a more bullish view of U.S. equity prices; interest rates have been moving upward abroad as they have here. Looking ahead, real interest rate differentials are not expected to move appreciably over the forecast period, and, with the U.S. economy continuing to grow briskly, we are expecting that the real foreign exchange value of the dollar will hold up over the balance of this year. However, in an economic environment in which the current account deficit is projected to continue to widen, the dollar seems likely to weaken eventually. The timing of such a depreciation is clearly very uncertain, and we have simply assumed that the real value of the dollar will fall 2 percent in 2001.

The outlook for foreign economic activity is little changed, though we have eliminated most of the near-term variations related to possible Y2K problems. Output growth abroad, which picked up noticeably last year, should be fairly well maintained. Although we continue to expect that the pace of recovery in Japan will remain weak, expansion in Europe will be solid despite cautious demand management. The recovery in East Asia is projected to continue--albeit at a slower pace than in the initial rebound phase of 1999--while growth in Latin America should be sustained at a moderate pace. On balance, after a 4 percent rise in 1999, foreign real GDP is expected to increase 3-3/4 percent this year and 3-1/2 percent in 2001.

Recent Developments and the Outlook for the Current Quarter

Real GDP probably increased at somewhere around a 5 to 5-1/2 percent annual rate in the fourth quarter. Although Y2K precautions evidently affected the composition of demand during the quarter--boosting consumption and inventory investment and holding down the growth in business purchases of equipment

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

Measure	1999:Q4		2000:Q1	
	Dec. GB	Jan. GB	Dec. GB	Jan. GB
Real GDP	**4.8**	**5.2**	**3.2**	**4.0**
Private domestic final purchases	4.8	4.8	3.2	5.6
Personal consumption expenditures	5.1	5.2	2.8	4.8
Residential investment	-2.3	2.8	-6.1	.7
Business fixed investment	5.6	3.4	9.6	11.6
Government outlays for consumption and investment	3.0	5.5	5.1	4.0
	Change, billions of chained (1996) dollars			
Inventory investment	11.0	14.0	12.5	-10.7
Net exports	-9.3	-12.2	-24.6	-25.1

and software--these effects were generally rather small and, we think, largely offsetting as far as GDP was concerned.

Consumer spending continued to increase rapidly--about 5-1/4 percent at an annual rate. Although consumer purchases of new cars and light trucks declined slightly from the very high third-quarter level, other retailers reported whopping holiday sales. Growth in business expenditures on high-tech equipment slowed sharply, at least partly as a result of Y2K influences, but spending on other types of capital goods strengthened. Residential construction failed to post its normal seasonal decline as unusually favorable weather and sizable backlogs of new projects buoyed homebuilding.

Government spending posted a large gain during the fourth quarter. We have some uncertainty about how to interpret Monthly Treasury Statement figures showing a remarkable surge in defense outlays in December--in particular, how much of it was an increase in deliveries (as opposed to progress payments)--but we are estimating that real federal purchases increased more than 6 percent (annual rate) in the quarter. Consumption and investment expenditures by state and local governments rose at a 5 percent rate, led by a big gain in construction spending, which evidently benefited from good weather.

With current-cost data available through November, inventory investment appears to have increased in the fourth quarter. Assuming that stockbuilding in December was modest, we estimate that the level of nonfarm inventory investment rose to $50 billion in the fourth quarter, adding about a half percentage point to the growth in real GDP. Such a pace of investment constitutes a 4-1/2 percent annual rate of increase in stocks, and the quarter probably saw some further decline in the aggregate ratio of inventories to final sales. Although there likely is an ongoing downtrend in this ratio, as firms continue to exploit information technologies to streamline production and distribution processes, anecdotal reports also suggest that some businesses have experienced larger-than-expected inventory drawdowns as a consequence of surprisingly strong sales.

In the current quarter, real GDP is projected to rise at roughly a 4 percent annual rate. This rate is appreciably stronger than that predicted in the last Greenbook because of greater-than-expected momentum in aggregate demand. Moreover, we have reduced the size of Y2K effects: The unwinding of Y2K-related stockpiling is expected to hold down growth to a lesser extent, and there were not even the minor production glitches we had previously assumed.

Real PCE is forecast to rise at a 4-3/4 percent annual rate in the current quarter. Sales of motor vehicles are expected to be boosted by the new incentive program instituted by GM, which we believe will precipitate competitive responses by other automakers unwilling to cede market share. Outside of motor vehicles, spending on other durable goods is projected to remain very strong, but purchases of nondurables are expected to be damped as households run off the supplies accumulated for Y2K contingencies.

Recent indicators of the demand for homes have been mixed, with the effect of higher mortgage rates seemingly being offset by generally strong economic conditions. Even if sales were to slip further in the near term, a considerable backlog of profitable projects should keep builders busy. We expect that housing starts this quarter will remain near the 1.65 million unit seasonally adjusted pace of the fourth quarter and that real residential investment outlays will be about unchanged.

Growth in real business fixed investment is expected to pick back up in the current quarter, to an 11-1/2 percent annual rate. The final phase of Y2K-related lockdowns is expected to restrain IT investment by some larger firms in the very near term, but underlying trends suggest that overall spending on computers and communications equipment will strengthen; meanwhile, outlays for motor vehicles (including consumer leases) and aircraft are likely to increase substantially as well. Weakness in construction contracts in recent months suggests a further small decline in spending on structures.

Although some businesses have Y2K-related stockpiles to run off in the first quarter, in the aggregate, inventory-to-sales ratios are low. Surveys suggest that businesses are quite upbeat about sales prospects for this year, and thus they are likely to see the need to build their stocks appreciably. An exception is the motor vehicle industry, in which dealer stocks for some models rose to uncomfortable levels in the fourth quarter. On balance, we expect nonfarm inventory investment to slow a bit this quarter.

Government spending is projected to rise fairly rapidly in the first quarter. Federal consumption and investment expenditures are expected to increase at a 3 percent rate, boosted by federal pay raises and a further ramping up of spending associated with the fiscal 2000 budget. State and local government purchases also are expected to rise briskly, though less so than in the fourth quarter.

After lessening in the fourth quarter, the negative contribution from the external sector is expected to increase again in the first quarter. Averaging the fourth and first quarters, real net exports are forecast to hold down GDP growth by about 3/4 percentage point--somewhat less than in the comparable year-earlier period.

Higher energy prices boosted price inflation at the end of 1999, but the core CPI also was a bit firmer, rising 2-1/2 percent at an annual rate on a quarterly average basis. The recent rise in crude oil prices is likely to add to inflation again in the current quarter, and we project that the CPI will rise at a 3 percent annual rate in the first quarter, while the core measure is expected to increase 2-1/4 percent. PCE prices are forecast to rise 2-1/2 percent at an annual rate in the first quarter, with a 1-3/4 percent increase in the core component. The fourth-quarter numbers on average hourly earnings showed no evidence of a change from the recent flat trend of wage inflation; we are expecting to see some firming of year-on-year changes in broader compensation measures in the fourth and first quarters, though the seasonal adjustment of bonuses and health insurance costs can make these series erratic.

The Outlook for Economic Activity beyond the Current Quarter

The projection for GDP growth averaging almost 4 percent over the next two years is a little stronger than that in the last Greenbook. The change reflects a reassessment of prospects on both the supply and demand sides of the ledger. On the supply side, we have become a little more bullish about the prospects for productivity growth. That, in effect, has fed through to the demand outlook, for it provides some foundation for a more upbeat assessment of stock market

Projections of Real GDP
(Percent change, compound annual rate)

Measure	1998	1999	2000	2001
Real GDP	**4.6**	**4.1**	**4.1**	**3.8**
Previous	4.6	4.0	3.8	3.8
Final sales	4.7	4.3	4.1	3.8
Previous	4.7	4.1	3.7	3.8
PCE	5.1	5.4	4.4	3.5
Previous	5.1	5.3	4.0	3.4
Residential investment	11.3	4.2	-3.6	-3.6
Previous	11.3	2.5	-5.2	-2.8
BFI	13.1	7.2	10.1	10.5
Previous	13.1	8.2	9.1	9.9
Government purchases	2.2	4.1	3.4	3.0
Previous	2.2	3.4	3.5	2.8
Exports	1.9	3.7	6.9	8.5
Previous	1.9	4.0	7.0	9.1
Imports	10.8	12.3	10.0	8.6
Previous	10.8	12.5	9.0	8.3
	Change, billions of chained (1996) dollars			
Inventory change	-2.0	-18.7	3.7	2.5
Previous	-2.0	-21.2	.7	-3.3
Net exports	-103.6	-118.1	-67.8	-37.7
Previous	-103.6	-116.9	-52.8	-24.0

prospects. As noted above, the stock market has managed to rise further since the December FOMC meeting in the face of an increase in bond yields. We have projected that the equity gains will be sustained, so that the wealth-income ratio is on a somewhat higher path this time than last, while interest rates are also higher.

With aggregate supply and demand having been raised virtually in tandem, resource utilization levels are little changed from the previous forecast, and so too are the projected rates of wage and price inflation.

Consumer spending. The projection of a declining ratio of household wealth to income implies that consumer demand is likely to moderate over the projection period. Lagged effects of earlier stock market gains are expected to continue boosting spending relative to disposable income for a few more quarters, however, and we are forecasting that real PCE will increase about 4-1/2 percent this year before dropping off to 3-1/2 percent in 2001.

Expenditure growth is likely to slow most sharply in the case of durables--the usual cyclical pattern. After increasing almost one-third over the past three years, real consumer spending on motor vehicles is expected to be flat over the forecast period. With the peaking of residential construction, spending on appliances and other household items likely will lose some steam.

Residential investment. In response to incoming data, we have raised our forecast of real residential investment in this Greenbook. The information now in hand suggests that backlogs of new home projects remain substantial, and the rising stock market and sustained growth in employment and real incomes apparently have thus far largely offset the depressing effects of higher mortgage rates on home sales. However, looking ahead, a flat stock market should take a toll of demand; and although rates on thirty-year, fixed-rate mortgages are not expected to increase greatly from current levels, the considerable rise in rates at the shorter end of the maturity spectrum should make ARMs a less attractive alternative than they have been to date for potential homebuyers.

After rising to 1.34 million units in 1999, single-family housing starts are projected to slip below 1.3 million this year and then to fall somewhat more sharply in 2001, by which time builders' backlogs should have been worked down to more normal levels. Multifamily starts slowed already in 1999, and we expect a little further decline in the next two years. Given these trends, as well as some moderation in the pace of remodeling activity, we expect real residential investment expenditures to fall about 3-1/2 percent per year over the next two years.

Business fixed investment. With Y2K problems resolved, business fixed investment is projected to accelerate over the forecast period: After an estimated 7-1/4 percent rise in 1999, real BFI is expected to increase 10 percent this year and 10-1/2 percent in 2001. The projected strength reflects rapid growth in real outlays for equipment and software, while investment in nonresidential structures declines, on balance, over the next two years.

Real investment in equipment and software is forecast to grow more than 13 percent in 2000 and again in 2001. The sustained rapid growth of such spending would appear inconsistent with the accelerator pattern, but two considerations override that element of the outlook. First, the simple accelerator model contemplates a steady rate of depreciation of capital, but the growing relative importance of short-lived, high-tech equipment is causing replacement demand to trend upward. Second, we are anticipating that the relative price of machines will continue to fall, raising desired capital-output ratios.

These influences are especially prominent in the computer sector. But demand for computing equipment will also be boosted by the ability of firms to shift their focus from Y2K repairs to pursuit of "Internet strategies" for internal information processing and e-commerce. We are anticipating that real outlays for computing equipment will increase 50 to 65 percent in 2000-2001, compared with about 40 percent last year.

Real spending on communications equipment is projected to grow more than 20 percent this year and next, a little slower than in 1999. Further growth in the Internet and broad-band services will continue to stimulate spending, as will the expansion of wireless communications networks. Indeed, if we were to give greater weight to the prospects implied by stock market valuations of firms in this sector, we probably would have to elevate our forecast of investment.

Outside of IT, the trends in equipment spending are more diverse. Business purchases of motor vehicles are projected to decline over the projection period, as consumer leasing activity and the demand for trucks weaken after the extraordinary growth of the past few years. On the latter score, one can already note a sharp drop in orders for the biggest trucks. Investment in other types of capital equipment is forecast to pick up as manufacturers find that the recovery of export demand is creating the need for new capacity in some sectors.

There also are significant cross-currents in the outlook for structures investment, which we believe net out to a modest downtrend overall. Office construction may have peaked; while most markets seem healthy now, oncoming supplies of space are significant, and the perception among lenders that this is so has contributed to a tightening of financing conditions. On the other hand, the deep decline in factory building may bottom out before too long as the result of the recovery in export demand. In addition, changes in distribution systems and in the location of population are creating requirements for new warehouse and retail structures, and the continuing need to expand electricity generation capacity is spurring investment by utilities.

Inventories. Generally, we are anticipating that ongoing improvements in supply chain management will yield a downward drift in target inventory-sales ratios through next year. There could be a little extra stock-building in the near term to the extent that some firms have found their shelves uncomfortably bare after an unexpectedly strong fourth quarter, but basically we are expecting that nonfarm inventories will grow 4 percent this year and next, a little slower than business final sales. This would imply no significant effect on GDP growth.

Farm inventories are projected to be essentially flat, with modest gains in exports helping to absorb some of the increase in agricultural output. We are assuming that federal farm subsidies will continue to bolster production in the face of relatively low prices for crops.

Government spending. After increasing at more than a 3 percent annual rate in the first half of 2000, real federal purchases are projected to fall slightly in the second half of this year and to rise just 3/4 percent in 2001. The near-term strength is concentrated in real nondefense expenditures and reflects the front-loaded nature of the budget legislation enacted last fall; after the third quarter, we anticipate little net change in real nondefense spending. In contrast, real defense spending is forecast to decline through the second quarter but to grow moderately thereafter.

The fiscal position of most states and localities has continued to improve, bolstered by strong growth in revenues. Given our overall economic forecast, the tax base should continue to grow quickly, and revenues will be further boosted over the next two years by $12 billion in payments from tobacco companies. In this environment, political pressures to cut taxes likely will be significant, and we anticipate further reductions in state sales and income taxes over the projection period. Nonetheless, even with these tax cuts, real state and local consumption and investment expenditures are expected to increase at an average rate of more than 4-1/4 percent over the next two years--down slightly from the 4-3/4 percent increase last year but well above the growth rates registered in the preceding five years. Priority is likely to continue to be given to capital improvement projects and to education.

Net exports. With the ongoing improvement in foreign economic activity, real exports are projected to accelerate from a 3-3/4 percent increase in 1999 to 7 percent in 2000 and 8-1/2 percent in 2001. In contrast, the growth of real imports is forecast to decrease from a pace of 12-1/4 percent in 1999 to 10 percent in 2000 and 8-1/2 percent in 2001. The slowdown reflects the moderation in the growth of private domestic demand as well as some improvement in the price competitiveness of U.S. goods, reflecting the depreciation of the dollar. (A fuller discussion of the outlook for net exports is contained in the International Developments section.)

Labor markets. With the 4.4 percent growth rate for output per hour that we now project for the fourth quarter, labor productivity in the nonfarm business

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

Measure	1998	1999	2000	2001
Output per hour, nonfarm business	3.1	3.1	3.1	2.8
Previous	3.1	2.9	2.8	2.8
Nonfarm payroll employment	2.4	2.1	1.8	1.6
Previous	2.4	2.1	1.8	1.5
Household employment survey	1.3	1.5	1.2	1.0
Previous	1.3	1.4	1.2	1.0
Labor force participation rate[1]	67.1	67.0	67.1	67.1
Previous	67.1	67.0	67.1	67.1
Civilian unemployment rate[1]	4.4	4.1	4.0	4.1
Previous	4.4	4.1	4.0	4.1

1. Percent, average for the fourth quarter.

sector appears to have increased 3.1 percent in 1999--matching the strong gain of 1998. There probably has been some "cyclical" element in this improvement: Many businesses surely have been surprised by the persistent strength of demand and, with workers often difficult to find, others have been unable to raise their labor forces to the levels that they might prefer in the longer run. However, we are inclined to believe that "structural" improvements explain the bulk of the recent efficiency gains, as firms have met competitive pressures by reorganizing operations, often capitalizing on the availability of labor-saving machines at improving relative costs. As we gauge it, these have translated into so-called trend labor productivity gains of about 2-3/4 percent for nonfarm businesses (NFB) over the past couple of years and trend potential GDP growth of about 3-3/4 percent per year. Feeding this growth rate into an Okun's law relation, one gets a close tracking of the actual performance of the unemployment rate to date.

In the current forecast, taking into account the likely increase in the contribution of capital deepening implied by our investment numbers, we have raised the trend NFB productivity growth rate for 2000-2001 to 3 percent and the growth of potential GDP to 4 percent. Given projected GDP growth at roughly this pace, we expect that the unemployment rate will remain at 4 percent. No significant change in labor force participation is projected, and we project growth in nonfarm payrolls to average 190,000 per month this year and 175,000 per month in 2001. (This is much higher than the stable-unemployment-rate job growth we once estimated and reflects our assumption that payroll gains will continue to outstrip employment increases measured in the household survey--

perhaps reflecting a downward bias in the latter associated with inaccurate population extrapolations from the 1990 Census.) We have assumed that most of the many workers required to complete the upcoming Census will be people who already hold other jobs, but there is the possibility that there could be a transitory uptick in labor force participation and also some squeeze on private employers.

Wages and prices. We are projecting that the PCE chain price index excluding food and energy will rise 1.9 percent this year and 2.1 percent in 2001--compared with 1.5 percent in 1999. As noted in the overview, tight labor markets, the lagged effects of the run-up in oil prices, the firming of non-oil import prices, and accelerating medical benefit costs are the major factors behind the expected step-up in core inflation. Indeed, our forecast would be higher still in the near term were it not for a couple of mitigating considerations. One is the allowance for some price-damping effect of the improving productivity trend; the other is the fact that manufacturing capacity utilization is still relatively low, limiting the "pricing leverage" of goods producers.

The core CPI should follow a pattern of acceleration similar to that for the core PCE price measure, but at a level perhaps a little more than a half percentage point higher. This would continue the gap we estimate for 1999, the product of a variety of coverage, data source, and weighting differences between the two indexes.

Overall PCE price inflation is expected to be little changed over the projection period. After accelerating to a 2 percent pace last year in response to the substantial rise in energy prices, PCE prices are forecast to increase 2 percent this year and next. Given the path for oil prices, consumer energy prices are projected to rise only 1.3 percent this year and to decline 2.5 percent in 2001. A similar pattern is evident in our forecast for the rise in the total CPI, which holds at around 2.4 percent for the next two years, after coming in at 2.6 percent in 1999.

Given the tightness of labor markets and the apparent steepening of the rise in employers' health-insurance costs, we expect hourly compensation to accelerate in 2000 and 2001. After a 3.3 percent rise in 1999, the ECI is projected to increase 3.8 percent this year and 4.2 percent in 2001. The magnitude of the pickup in nonfarm compensation per hour (as reported in the Productivity and Cost release) is expected to be similar, although from a higher initial level: After a 4.5 percent increase in 1999, nonfarm compensation per hour rises 4.9 percent this year and 5.1 percent in 2001.

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

Measure	1998	1999	2000	2001
PCE chain-weighted price index	1.0	2.0	2.0	2.0
Previous	1.0	2.0	1.9	2.1
Excluding food and energy	1.4	1.5	1.9	2.1
Previous	1.4	1.5	1.9	2.2
Consumer price index	1.5	2.6	2.4	2.4
Previous	1.5	2.6	2.3	2.5
Food	2.2	1.9	2.4	2.6
Previous	2.2	1.9	2.3	2.6
Energy	-9.2	11.3	1.3	-2.2
Previous	-9.2	11.3	-.6	-1.3
Excluding food and energy	2.4	2.1	2.5	2.7
Previous	2.4	2.1	2.5	2.8
GDP chain-weighted price index	1.1	1.5	1.9	1.9
Previous	1.1	1.5	1.8	1.9
ECI for compensation of private industry workers[1]	3.5	3.3	3.8	4.2
Previous	3.5	3.3	3.7	4.1
NFB compensation per hour	5.3	4.5	4.9	5.1
Previous	5.3	4.5	4.7	4.9
Prices of core non-oil merchandise imports	-1.9	.5	2.2	2.4
Previous	-1.9	.6	2.6	2.3
	Percentage points			
MEMO: *Adjustments for technical changes to the CPI*[2]				
Core CPI	-.2	.0	.0	.0

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

Labor remains the key cost for many industries, and from a conceptual point of view, compensation gains not ratified by productivity increases clearly should put upward pressure on prices. However, as we have noted before, neither of the standard compensation series is ideal as a measure of labor cost in this context.

For example, the ECI does not include stock options, while nonfarm compensation per hour measures stock options when they are realized rather than when they are granted. In a labor market where flexible--and, in the case of options, uncertain and deferred--pay arrangements are increasing in importance, neither compensation measure may give an accurate reading on the cost influence in short-run pricing decisions. Under the circumstances, while we see increased labor cost pressures as part of the story in our projection of prices, we have not attempted to tie these elements of the forecast together in a tight quantitative manner.

Money and Credit Flows

Growth of domestic nonfinancial debt proved to be a little faster at the end of last year than we had anticipated in the December Greenbook, largely because of strong borrowing by households. Looking ahead, higher interest rates and diminishing wealth effects on spending are likely to modestly restrain business and household borrowing over the forecast period. Net borrowing by state and local governments is also expected to slow with little advance refunding activity, although financing for infrastructure is likely to remain substantial. Moreover, the larger anticipated increase in the federal government surplus will lead to a greater contraction of Treasury debt. Overall, debt growth is projected to moderate to about 5 percent in both 2000 and 2001, after rising 6-3/4 percent in 1999.

Business borrowing was brisk in early December but then lapsed into a more-than-seasonal lull in the latter half of the month as market participants awaited Y2K. Once the century date change passed without incident, bond issuance picked up a bit; C&I loans and commercial paper outstandings have also increased lately. The rise in market financing has been a little short of our expectations, largely owing to bond issuers pulling back as bond yields have risen. Looking beyond the near term, we anticipate that equity issuance and business debt growth will remain robust in light of the continued strong outlook for capital investment and the rather sluggish profit picture. However, higher interest rates and a widening corporate financing gap should diminish the attractiveness of cash-financed merger and acquisition activity and share repurchases.

Our profits path is significantly lower than that predicted by the Wall Street strategists, and its realization should weigh on equity values and foster an edging up of risk premiums. As lagging profit growth is realized, junk bond default rates and delinquency rates on C&I loans may deteriorate slightly further over the forecast period, but we anticipate that this decline in credit quality will prompt only a modest tightening of credit supply. Thus, on balance, business debt growth is expected to average about 9 percent over 2000 and 2001--down from a 10-1/2 percent pace last year.

Household debt is expected to decelerate to 8-1/2 percent this year and 7-1/2 percent in 2000 as housing activity slows and as growth in durable goods spending becomes a little less buoyant. Debt growth will likely continue to outpace advances in personal income, and with higher interest rates, household debt-service burdens are expected to rise somewhat. Absent a major decline in the stock market or sharply higher interest rates, though, we do not anticipate either a significant erosion in credit quality or a tightening of credit availability to households over the forecast period.

State and local debt is projected to rise about 3 percent in each of the next two years. Although new issuance to fund capital spending is expected to be substantial, higher interest rates over the forecast period should keep advance refundings at very low levels. Moreover, a sizable volume of bonds that were advance refunded in the past few years will be retired over the next two years.

Federal debt was boosted in the closing weeks of 1999 by the Treasury's desire for an unusually large cash balance over the year-end. However, the underlying outlook for the federal budget implies that a sizable volume of debt will be paid down, and as the recent announcement of debt repurchase plans indicates, the Treasury will be continuing to focus considerable attention on maintaining highly liquid markets for its outstanding issues. The degree to which a growing scarcity of Treasury securities might be affecting yield spreads against corporate debt is not clear; certainly, the GSEs have been stepping in to meet any unsatisfied demand for liquid, low-risk securities.

The broad monetary aggregates were boosted by Y2K effects in December. The demand for liquid assets by the public, in the form of currency and money fund shares, rose appreciably, while banks financed strong asset growth through the issuance of large time deposits. These effects began to unwind over the first few weeks of the new year. M2 growth is expected to moderate this year and next in response to higher short-term interest rates, and M2 velocity increases modestly. M3 growth is projected to slow as well over the forecast period but still to outpace the anticipated growth in nominal income.

Alternative Simulations

We have performed three simulations with the FRB/US econometric model for this Greenbook. In the flat funds rate scenario, the fund rate remains at its current level through 2001. The 11,000 Wilshire scenario simulates the effects of a substantial and rapid decline in equity prices: The Wilshire 5000 stock index, which has averaged about 13,500 thus far this year, is assumed to fall to

Alternative Federal Funds Rate and Stock Market Assumptions
(Percent change, Q4 to Q4, except as noted)

Measure	2000	2001
Real GDP		
Baseline	4.1	3.8
Flat funds rate	4.6	5.7
11,000 Wilshire	3.6	2.7
16,000 Wilshire	4.2	4.4
Civilian unemployment rate[1]		
Baseline	4.0	4.1
Flat funds rate	3.8	3.3
11,000 Wilshire	4.1	4.6
16,000 Wilshire	4.0	3.9
PCE prices excluding food and energy		
Baseline	1.9	2.1
Flat funds rate	2.0	2.8
11,000 Wilshire	1.9	1.9
16,000 Wilshire	1.9	2.1

1. Average for the fourth quarter.

11,000 by the end of this summer and to hold at that level over the balance of the projection period. In contrast, in the other stock market simulation, the Wilshire 5000 index trends upward, reaching 16,000 by the late 2001.

With no change in the nominal federal funds rate over the projection period, the model projects real GDP to rise 4.6 percent this year and 5.7 percent in 2001. The added growth reduces the unemployment rate to 3.8 percent by the end of this year and to 3.3 percent by the fourth quarter of 2001. Given the further tightening of labor markets, the model expects a much larger step-up in inflation: after a 2 percent rise in 2000, core PCE prices accelerate to a 2.8 percent pace in 2001.

In the 11,000 Wilshire alternative, higher costs of equity finance and, especially, a steep decline in the household wealth-income ratio reduce real GDP growth to 3.6 percent this year and 2.7 percent in 2001. With the economy growing well below its potential rate, the unemployment rate moves up to 4.6 percent by the fourth quarter of 2001. However, this additional slack heads off a further pick-up in inflation: core PCE prices rise 1.9 percent in both 2000 and 2001.

In the 16,000 Wilshire alternative, real GDP growth moves up to 4.2 percent in 2000 and 4.4 percent in 2001. With the additional boost to demand, the unemployment drifts down to 3.9 percent by the end of next year. However, inflation is unchanged relative to the baseline. With the federal funds rate rising along its baseline path in this simulation, households and businesses believe the Fed is acting to head off inflation, and given the powerful role of such expectations in the model, this prevents any additional worsening of inflation in the short run.

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January 27, 2000

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

Interval		Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index[1]		Unemployment rate[2]	
		12/15/99	1/27/00	12/15/99	1/27/00	12/15/99	1/27/00	12/15/99	1/27/00	12/15/99	1/27/00
ANNUAL											
1997		6.2	6.2	4.5	4.5	1.7	1.7	2.3	2.3	4.9	4.9
1998		5.5	5.5	4.3	4.3	1.2	1.2	1.6	1.6	4.5	4.5
1999		5.5	5.5	4.0	4.0	1.4	1.4	2.2	2.2	4.2	4.2
2000		5.7	6.1	4.0	4.3	1.7	1.7	2.6	2.7	4.0	4.0
2001		5.6	5.8	3.8	3.9	1.8	1.9	2.3	2.3	4.1	4.1
QUARTERLY											
1998	Q1	7.7	7.7	6.7	6.7	1.0	1.0	1.0	1.0	4.6	4.7
	Q2	3.4	3.4	2.1	2.1	1.1	1.1	1.7	1.7	4.4	4.4
	Q3	5.4	5.4	3.8	3.8	1.4	1.4	1.7	1.7	4.5	4.5
	Q4	7.0	7.0	5.9	5.9	0.9	0.9	1.7	1.7	4.4	4.4
1999	Q1	5.7	5.7	3.7	3.7	2.0	2.0	1.5	1.5	4.3	4.3
	Q2	3.3	3.3	1.9	1.9	1.3	1.3	3.4	3.4	4.3	4.3
	Q3	6.6	6.8	5.6	5.7	1.2	1.1	2.7	2.7	4.2	4.2
	Q4	6.4	6.7	4.8	5.2	1.7	1.6	2.9	2.9	4.1	4.1
2000	Q1	5.4	6.1	3.2	4.0	2.1	2.1	2.6	2.9	4.1	4.0
	Q2	5.9	6.1	4.3	4.2	1.6	1.8	2.3	2.7	4.0	4.0
	Q3	5.5	6.1	3.8	4.1	1.7	1.9	1.9	1.9	4.0	4.0
	Q4	5.4	5.8	3.8	3.9	1.6	1.8	2.2	2.1	4.0	4.0
2001	Q1	5.9	6.0	3.8	3.8	2.1	2.1	2.3	2.2	4.1	4.1
	Q2	5.6	5.6	3.8	3.8	1.8	1.7	2.6	2.4	4.1	4.1
	Q3	5.6	5.7	3.8	3.8	1.9	1.8	2.5	2.4	4.1	4.1
	Q4	5.7	5.8	3.8	3.9	1.8	1.8	2.6	2.5	4.1	4.1
TWO-QUARTER[3]											
1998	Q2	5.5	5.5	4.4	4.4	1.1	1.1	1.4	1.4	-0.3	-0.3
	Q4	6.2	6.2	4.8	4.8	1.1	1.1	1.7	1.7	0.0	0.0
1999	Q2	4.5	4.5	2.8	2.8	1.7	1.7	2.5	2.5	-0.1	-0.1
	Q4	6.5	6.7	5.2	5.4	1.4	1.4	2.8	2.7	-0.2	-0.2
2000	Q2	5.7	6.1	3.7	4.1	1.9	1.9	2.5	2.8	-0.1	-0.1
	Q4	5.4	5.9	3.8	4.0	1.7	1.8	2.1	2.0	0.0	0.0
2001	Q2	5.7	5.8	3.8	3.8	1.9	1.9	2.4	2.3	0.1	0.1
	Q4	5.7	5.8	3.8	3.9	1.8	1.8	2.6	2.4	0.0	0.0
FOUR-QUARTER[4]											
1997	Q4	5.9	5.9	4.3	4.3	1.6	1.6	1.9	1.9	-0.6	-0.6
1998	Q4	5.9	5.9	4.6	4.6	1.1	1.1	1.5	1.5	-0.3	-0.3
1999	Q4	5.5	5.6	4.0	4.1	1.5	1.5	2.6	2.6	-0.3	-0.3
2000	Q4	5.6	6.0	3.8	4.1	1.8	1.9	2.3	2.4	-0.1	-0.1
2001	Q4	5.7	5.8	3.8	3.8	1.9	1.9	2.5	2.4	0.0	0.1

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)

January 27, 2000

Item	Units[1]	1993	1994	1995	1996	1997	1998	1999	2000	2001
								------ Projected	------	
EXPENDITURES										
Nominal GDP	Bill. $	6642.3	7054.3	7400.5	7813.2	8300.8	8759.9	9241.6	9805.0	10377.0
Real GDP	Bill. Ch. $	7054.1	7337.8	7537.1	7813.2	8165.1	8516.3	8857.8	9242.2	9602.7
Real GDP	% change	2.2	4.2	2.2	4.2	4.3	4.6	4.1	4.1	3.8
Gross domestic purchases		2.8	4.4	1.7	4.4	4.9	5.7	5.2	4.6	4.0
Final sales		2.3	3.3	3.0	4.0	3.8	4.7	4.3	4.1	3.8
Priv. dom. final purchases		3.9	4.4	3.2	4.6	4.9	6.5	5.6	4.8	4.2
Personal cons. expenditures		2.9	3.6	2.8	3.3	4.2	5.1	5.4	4.4	3.5
Durables		9.3	6.4	3.7	5.0	8.4	13.0	9.2	5.9	4.0
Nondurables		2.6	4.1	2.5	3.2	2.4	5.0	5.5	3.3	2.5
Services		1.9	2.9	2.8	3.0	4.2	3.6	4.6	4.6	3.9
Business fixed investment		8.7	9.2	7.5	12.1	9.6	13.1	7.2	10.1	10.5
Equipment & Software		11.5	12.0	8.9	11.8	11.3	16.8	11.2	13.7	13.3
Nonres. structures		1.2	1.1	3.3	12.8	4.7	2.9	-4.5	-1.9	0.3
Residential structures		7.8	4.0	-1.5	5.6	3.7	11.3	4.2	-3.6	-3.6
Exports		4.5	10.6	9.7	9.9	9.4	1.9	3.7	6.9	8.5
Imports		10.5	12.2	5.0	11.2	14.2	10.8	12.3	10.0	8.6
Gov't. cons. & investment		-0.9	0.2	-0.8	2.7	2.2	2.2	4.1	3.4	3.0
Federal		-5.3	-3.7	-5.3	2.0	0.2	0.6	3.0	1.5	0.7
Defense		-6.4	-5.9	-4.7	0.8	-1.3	-1.1	2.1	-1.2	0.6
State & local		2.3	2.8	2.1	3.1	3.4	3.2	4.7	4.5	4.2
Change in bus. inventories	Bill. Ch. $	20.0	66.8	30.4	30.0	69.1	74.3	38.5	51.0	56.8
Nonfarm		28.6	53.6	42.6	22.1	66.2	73.2	38.1	51.0	56.3
Net exports		-59.9	-87.6	-79.2	-89.0	-109.8	-215.1	-323.0	-401.1	-448.4
Nominal GDP	% change	5.0	6.2	4.3	6.0	5.9	5.9	5.6	6.0	5.8
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	110.7	114.1	117.2	119.6	122.7	125.8	128.6	131.2	133.2
Unemployment rate	%	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.1
Industrial prod. index	% change	3.4	6.4	3.5	5.3	6.8	2.9	4.5	4.1	3.8
Capacity util. rate - mfg.	%	80.5	82.5	82.6	81.5	82.4	80.9	79.8	80.6	81.2
Housing starts	Millions	1.29	1.46	1.35	1.48	1.47	1.62	1.67	1.61	1.54
Light motor vehicle sales		13.86	15.01	14.72	15.05	15.02	15.50	16.77	16.59	16.19
North Amer. produced		11.71	12.88	12.82	13.35	13.09	13.47	14.28	14.06	13.86
Other		2.15	2.13	1.90	1.70	1.92	2.04	2.49	2.54	2.33
INCOME AND SAVING										
Nominal GNP	Bill. $	6666.7	7071.1	7420.9	7831.2	8305.0	8750.0	9226.6	9785.9	10344.5
Nominal GNP	% change	4.9	6.2	4.4	5.9	5.7	5.6	5.6	6.0	5.6
Nominal personal income		3.7	5.1	4.3	5.9	6.4	6.0	6.1	5.9	5.9
Real disposable income		0.9	3.0	1.7	2.8	4.1	4.2	4.0	3.5	3.8
Personal saving rate	%	7.1	6.1	5.6	4.8	4.5	3.7	2.5	1.6	1.7
Corp. profits, IVA & CCAdj.	% change	18.0	12.5	11.2	11.2	10.2	-2.2	9.2	4.6	2.6
Profit share of GNP	%	7.6	8.1	9.0	9.6	10.1	9.7	9.6	9.5	9.3
Excluding FR Banks		7.4	7.8	8.7	9.3	9.8	9.4	9.3	9.3	9.1
Federal surpl./deficit	Bill. $	-274.1	-212.3	-192.0	-136.8	-48.8	46.9	113.0	162.9	225.9
State & local surpl./def.		1.5	8.6	15.3	21.4	27.5	41.7	49.0	53.6	45.6
Ex. social ins. funds		-2.7	4.0	11.4	18.7	26.4	40.8	48.3	52.8	44.8
Gross natl. saving rate	%	15.6	16.3	16.9	17.2	18.3	18.8	18.8	18.5	18.8
Net natl. saving rate		3.7	4.2	5.1	5.7	7.1	7.5	7.3	7.1	7.6
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.7	2.0	2.1	1.7	1.6	1.1	1.5	1.9	1.9
Gross Domestic Purchases chn.-wt. price index		2.5	2.1	2.0	1.7	1.1	0.7	1.8	1.8	1.7
PCE chn.-wt. price index		2.6	2.0	2.0	2.2	1.3	1.0	2.0	2.0	2.0
Ex. food and energy		2.9	2.1	2.2	1.6	1.4	1.4	1.5	1.9	2.1
CPI		2.7	2.6	2.7	3.1	1.9	1.5	2.6	2.4	2.4
Ex. food and energy		3.1	2.8	3.1	2.6	2.2	2.4	2.1	2.5	2.7
ECI, hourly compensation[2]		3.6	3.1	2.6	3.1	3.4	3.5	3.3	3.8	4.2
Nonfarm business sector										
Output per hour		-0.7	1.2	1.2	2.5	2.2	3.1	3.1	3.1	2.8
Compensation per Hour		1.3	2.2	2.7	3.2	4.2	5.3	4.5	4.9	5.1
Unit labor cost		2.0	0.9	1.5	0.7	2.0	2.1	1.4	1.8	2.4

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

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

January 27, 2000

Item	Units	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2
EXPENDITURES											
Nominal GDP	Bill. $	8125.9	8259.5	8364.5	8453.0	8610.6	8683.7	8797.9	8947.6	9072.7	9146.2
Real GDP	Bill. Ch. $	8033.4	8134.8	8214.8	8277.3	8412.7	8457.2	8536.0	8659.2	8737.9	8778.6
Real GDP	% change	4.9	5.1	4.0	3.1	6.7	2.1	3.8	5.9	3.7	1.9
Gross domestic purchases		5.7	5.6	4.8	3.5	8.6	4.1	4.6	5.5	5.8	3.2
Final sales		4.0	3.1	5.8	2.4	5.1	5.1	2.4	6.2	4.6	3.4
Priv. dom. final purchases		5.5	3.1	7.6	3.5	8.8	7.3	3.5	6.4	7.1	5.4
Personal cons. expenditures		4.9	1.8	6.6	3.4	5.6	6.1	3.9	4.6	6.5	5.1
Durables		10.9	-1.5	20.2	5.0	16.9	11.2	4.1	20.4	12.4	9.1
Nondurables		3.8	-0.2	5.7	0.3	5.8	6.7	2.4	5.0	8.9	3.3
Services		4.3	3.5	4.5	4.6	3.3	4.8	4.7	1.5	4.2	5.2
Business fixed investment		9.6	9.9	16.0	3.2	26.7	12.1	0.0	15.3	7.8	7.0
Equipment & Software		10.1	15.2	17.7	2.8	34.7	13.8	2.4	18.6	12.5	11.2
Nonres. structures		8.0	-4.0	11.2	4.3	5.7	7.1	-6.6	5.8	-5.8	-5.3
Residential structures		3.0	4.7	0.6	6.6	14.0	13.6	8.0	9.8	12.9	5.5
Exports		8.8	16.2	11.5	1.8	-1.5	-4.0	-1.7	16.1	-5.5	4.0
Imports		15.5	19.1	17.6	5.2	14.4	13.0	5.2	10.8	12.5	14.4
Gov't. cons. & investment		1.7	5.7	1.7	-0.1	-1.0	6.0	1.3	2.9	5.1	1.3
Federal		-2.8	9.9	-1.3	-4.2	-9.8	11.9	-2.3	3.9	-0.5	2.1
Defense		-11.3	9.6	-0.2	-2.4	-17.0	11.1	7.0	-2.9	-4.0	-2.6
State & local		4.4	3.4	3.5	2.4	4.1	3.0	3.3	2.3	8.2	0.9
Change in bus. inventories	Bill. Ch. $	51.5	93.1	59.2	72.7	107.3	43.1	76.1	70.7	50.1	14.0
Nonfarm		56.7	85.7	52.6	69.7	103.8	53.2	77.5	58.2	43.1	13.1
Net exports		-90.8	-100.9	-118.7	-128.7	-171.7	-218.4	-237.9	-232.3	-284.5	-319.0
Nominal GDP	% change	7.4	6.7	5.2	4.3	7.7	3.4	5.4	7.0	5.7	3.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	121.4	122.3	123.0	123.9	124.8	125.5	126.1	126.9	127.6	128.2
Unemployment rate	%	5.3	5.0	4.8	4.7	4.7	4.4	4.5	4.4	4.3	4.3
Industrial prod. index	% change	6.5	6.7	6.9	6.9	2.4	3.0	2.9	3.3	2.0	4.7
Capacity util. rate - mfg.	%	81.9	82.2	82.5	82.7	82.0	81.0	80.3	80.2	79.6	79.6
Housing starts	Millions	1.46	1.47	1.46	1.52	1.59	1.57	1.64	1.70	1.77	1.62
Light motor vehicle sales		15.32	14.54	15.19	15.02	15.08	16.07	14.55	16.31	16.20	16.71
North Amer. produced		13.41	12.68	13.20	13.08	13.13	14.07	12.54	14.11	13.94	14.28
Other		1.92	1.86	1.99	1.94	1.95	1.99	2.01	2.20	2.26	2.43
INCOME AND SAVING											
Nominal GNP	Bill. $	8131.1	8269.1	8366.5	8453.3	8613.7	8683.7	8772.2	8930.5	9058.2	9131.9
Nominal GNP	% change	6.8	7.0	4.8	4.2	7.8	3.3	4.1	7.4	5.8	3.3
Nominal personal income		8.0	5.6	5.5	6.4	5.3	5.8	6.6	6.5	5.4	5.5
Real disposable income		4.4	4.2	3.6	4.3	4.0	3.8	4.5	4.8	4.1	3.2
Personal saving rate	%	4.5	5.0	4.2	4.4	4.0	3.5	3.6	3.5	3.0	2.5
Corp. profits, IVA & CCAdj.	% change	15.9	14.7	15.9	-4.2	2.3	-4.8	-1.9	-4.4	24.9	-2.9
Profit share of GNP	%	9.9	10.1	10.3	10.1	10.0	9.8	9.6	9.3	9.7	9.6
Excluding FR Banks		9.6	9.8	10.0	9.8	9.7	9.5	9.3	9.1	9.5	9.3
Federal surpl./deficit	Bill. $	-87.4	-63.2	-27.9	-16.8	24.9	43.5	59.6	59.7	97.6	118.1
State & local surpl./def.		25.9	23.7	30.9	29.7	32.0	30.9	49.9	54.2	48.7	37.6
Ex. social ins. funds		24.3	22.4	29.9	28.9	31.1	29.9	48.9	53.4	48.2	36.8
Gross natl. saving rate	%	17.7	18.4	18.5	18.6	18.8	18.6	19.0	18.9	19.1	18.7
Net natl. saving rate		6.4	7.2	7.3	7.4	7.6	7.2	7.6	7.5	7.8	7.3
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.4	1.5	1.2	1.3	1.0	1.1	1.4	0.9	2.0	1.3
Gross Domestic Purchases chn.-wt. price index		1.9	0.6	1.0	1.1	0.1	0.8	1.1	1.0	1.6	1.9
PCE chn.-wt. price index		2.1	0.8	1.1	1.2	0.5	1.1	1.2	1.2	1.4	2.2
Ex. food and energy		1.9	1.9	0.8	1.0	1.3	1.7	1.4	1.4	1.4	1.3
CPI		2.5	1.3	1.8	2.0	1.0	1.7	1.7	1.7	1.5	3.4
Ex. food and energy		2.2	2.9	1.4	2.4	2.4	2.6	2.3	2.1	1.6	2.5
ECI, hourly compensation[1]		2.5	3.7	3.4	4.3	3.0	3.6	4.1	2.9	1.4	4.6
Nonfarm business sector											
Output per hour		0.9	3.3	3.3	1.2	4.4	0.9	3.1	4.1	2.7	0.6
Compensation per hour		3.6	2.6	4.4	6.4	4.8	5.6	6.2	4.6	4.2	4.8
Unit labor cost		2.7	-0.6	1.0	5.1	0.4	4.6	3.0	0.5	1.4	4.2

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

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

January 27, 2000

Item	Units	1999 Q3	1999 Q4	2000 Q1 (Projected)	2000 Q2 (Projected)	2000 Q3 (Projected)	2000 Q4 (Projected)	2001 Q1 (Projected)	2001 Q2 (Projected)	2001 Q3 (Projected)	2001 Q4 (Projected)
EXPENDITURES											
Nominal GDP	Bill. $	9297.8	9449.7	9590.6	9732.9	9878.1	10018.3	10164.5	10302.9	10445.6	10595.0
Real GDP	Bill. Ch. $	8900.6	9014.0	9102.0	9196.5	9290.1	9380.1	9468.1	9556.7	9646.3	9739.7
Real GDP	% change	5.7	5.2	4.0	4.2	4.1	3.9	3.8	3.8	3.8	3.9
Gross domestic purchases		6.3	5.4	4.8	4.9	4.6	4.0	4.2	4.2	4.0	3.7
Final sales		4.5	4.5	4.3	3.9	4.1	4.0	3.8	3.8	3.8	3.9
Priv. dom. final purchases		5.3	4.8	5.6	4.6	4.7	4.3	4.4	4.5	4.1	3.9
Personal cons. expenditures		4.9	5.2	4.8	4.5	4.4	3.8	3.9	3.9	3.3	3.0
Durables		7.7	7.7	8.4	5.5	6.0	3.7	4.3	4.4	4.0	3.2
Nondurables		3.6	6.3	3.2	3.4	3.3	3.1	3.0	2.9	2.1	2.1
Services		5.0	4.1	4.9	4.9	4.7	4.2	4.3	4.2	3.8	3.4
Business fixed investment		10.9	3.4	11.6	8.8	9.8	10.0	10.3	10.4	10.7	10.6
Equipment & Software		15.7	5.4	16.1	12.2	13.1	13.4	13.3	13.3	13.5	13.2
Nonres. structures		-3.8	-3.1	-2.4	-2.2	-1.2	-1.7	-0.2	-0.0	0.7	0.8
Residential structures		-3.8	2.8	0.7	-6.0	-4.8	-4.1	-4.8	-3.4	-3.3	-2.8
Exports		11.5	5.3	3.5	6.8	7.1	10.3	4.9	8.6	8.7	11.8
Imports		14.9	7.7	10.0	11.4	9.6	8.8	7.5	10.1	8.6	8.3
Gov't. cons. & investment		4.5	5.5	4.0	4.2	3.3	2.3	3.2	3.0	3.1	2.9
Federal		4.1	6.2	3.1	3.6	1.0	-1.8	1.0	0.7	0.7	0.4
Defense		11.2	4.7	-5.7	-0.6	1.4	0.3	1.1	0.6	0.7	0.2
State & local		4.8	5.2	4.4	4.5	4.5	4.6	4.3	4.2	4.3	4.2
Change in bus. inventories	Bill. Ch. $	38.0	52.0	41.3	51.9	55.1	55.6	56.2	55.8	56.9	58.1
Nonfarm		41.2	55.0	42.7	51.4	54.6	55.2	55.8	55.3	56.4	57.6
Net exports		-338.2	-350.5	-375.5	-397.4	-413.2	-418.3	-433.0	-447.8	-456.7	-456.0
Nominal GDP	% change	6.8	6.7	6.1	6.1	6.1	5.8	6.0	5.6	5.7	5.8
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	128.9	129.6	130.4	131.0	131.4	131.9	132.4	132.9	133.4	134.0
Unemployment rate	%	4.2	4.1	4.0	4.0	4.0	4.0	4.1	4.1	4.1	4.1
Industrial prod. index	% change	4.8	6.6	4.2	3.9	4.2	3.9	3.5	4.1	4.1	3.6
Capacity util. rate - mfg.	%	79.7	80.3	80.4	80.5	80.6	80.7	81.0	81.1	81.3	81.5
Housing starts	Millions	1.66	1.65	1.64	1.62	1.59	1.57	1.56	1.54	1.53	1.52
Light motor vehicle sales		17.27	16.90	16.92	16.68	16.52	16.26	16.13	16.14	16.24	16.24
North Amer. produced		14.82	14.09	14.23	14.10	14.02	13.88	13.84	13.90	13.85	13.85
Other		2.45	2.81	2.68	2.58	2.50	2.38	2.29	2.24	2.39	2.39
INCOME AND SAVING											
Nominal GNP	Bill. $	9282.3	9434.0	9575.0	9716.0	9856.7	9995.9	10135.6	10270.5	10412.7	10559.1
Nominal GNP	% change	6.8	6.7	6.1	6.0	5.9	5.8	5.7	5.4	5.7	5.7
Nominal personal income		5.2	8.5	6.1	5.6	5.9	6.0	6.4	5.8	5.5	5.9
Real disposable income		2.9	6.0	3.3	3.1	3.8	3.8	5.3	3.4	3.1	3.4
Personal saving rate	%	2.1	2.3	1.9	1.6	1.5	1.5	1.8	1.7	1.6	1.7
Corp. profits, IVA & CCAdj.	% change	1.7	15.5	0.5	7.4	5.4	5.2	-0.3	0.2	5.3	5.4
Profit share of GNP	%	9.5	9.7	9.5	9.6	9.6	9.5	9.4	9.3	9.3	9.3
Excluding FR Banks		9.2	9.4	9.3	9.3	9.3	9.3	9.1	9.0	9.0	9.0
Federal surpl./deficit	Bill. $	133.8	102.5	138.6	151.1	172.4	189.6	193.9	216.4	241.8	251.6
State & local surpl./def.		48.9	60.8	54.0	54.6	54.6	51.1	48.5	47.5	44.1	42.4
Ex. social ins. funds		48.1	60.0	53.2	53.8	53.8	50.3	47.7	46.7	43.3	41.6
Gross natl. saving rate	%	18.7	18.6	18.5	18.4	18.5	18.6	18.7	18.8	18.9	19.0
Net natl. saving rate		7.1	7.1	7.1	7.0	7.1	7.2	7.4	7.5	7.6	7.7
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.1	1.6	2.1	1.8	1.9	1.8	2.1	1.7	1.8	1.8
Gross Domestic Purchases chn.-wt. price index		1.7	2.1	2.5	1.7	1.4	1.4	1.9	1.6	1.6	1.7
PCE chn.-wt. price index		1.8	2.5	2.4	2.0	1.7	1.8	1.9	2.0	2.1	2.1
Ex. food and energy		1.2	2.1	1.8	2.0	1.9	2.0	2.1	2.1	2.2	2.2
CPI		2.7	2.9	2.9	2.7	1.9	2.1	2.2	2.4	2.4	2.5
Ex. food and energy		1.6	2.5	2.2	2.8	2.4	2.7	2.6	2.8	2.7	2.8
ECI, hourly compensation[1]		3.4	3.6	3.8	3.7	3.8	4.1	4.1	4.1	4.1	4.5
Nonfarm business sector											
Output per hour		5.0	4.4	2.5	3.6	3.0	3.0	2.6	2.7	2.8	3.0
Compensation per hour		4.7	4.3	5.0	4.7	4.7	5.1	5.1	5.3	4.9	5.2
Unit labor cost		-0.2	-0.1	2.5	1.1	1.7	2.1	2.6	2.6	2.1	2.2

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	97Q4/ 96Q4	98Q4/ 97Q4	99Q4/ 98Q4
Real GDP	4.0	3.1	6.7	2.1	3.8	5.9	3.7	1.9	5.7	4.3	4.6	4.1
Gross dom. purchases	4.8	3.5	8.7	4.2	4.6	5.6	5.9	3.3	6.4	4.9	5.7	5.3
Final sales	5.7	2.4	5.1	5.0	2.3	6.2	4.6	3.4	4.5	3.8	4.6	4.2
Priv. dom. final purchases	6.2	2.9	7.2	6.0	2.9	5.3	5.9	4.5	4.5	4.0	5.4	4.7
Personal cons. expenditures	4.3	2.2	3.8	4.0	2.6	3.1	4.3	3.4	3.3	2.8	3.4	3.6
Durables	1.4	0.4	1.2	0.8	0.3	1.5	1.0	0.7	0.6	0.6	1.0	0.7
Nondurables	1.1	0.1	1.2	1.3	0.5	1.0	1.7	0.6	0.7	0.5	1.0	1.1
Services	1.8	1.8	1.4	1.9	1.8	0.6	1.6	2.0	2.0	1.7	1.4	1.8
Business fixed investment	1.8	0.4	2.9	1.4	0.0	1.8	0.9	0.9	1.3	1.1	1.5	0.9
Equipment & Software	1.5	0.2	2.7	1.2	0.2	1.6	1.1	1.0	1.4	1.0	1.5	1.0
Nonres. structures	0.3	0.1	0.2	0.2	-0.2	0.2	-0.2	-0.2	-0.1	0.1	0.1	-0.1
Residential structures	0.0	0.3	0.5	0.5	0.3	0.4	0.5	0.2	-0.2	0.1	0.5	0.2
Net exports	-0.8	-0.4	-1.9	-2.0	-0.8	0.3	-2.1	-1.4	-0.7	-0.7	-1.1	-1.2
Exports	1.3	0.2	-0.2	-0.5	-0.2	1.7	-0.6	0.4	1.2	1.1	0.2	0.4
Imports	-2.1	-0.6	-1.7	-1.6	-0.7	-1.3	-1.5	-1.8	-1.9	-1.7	-1.3	-1.6
Government cons. & invest.	0.3	-0.0	-0.2	1.0	0.2	0.5	0.9	0.2	0.8	0.4	0.4	0.7
Federal	-0.1	-0.3	-0.6	0.7	-0.1	0.2	-0.0	0.1	0.3	0.0	0.0	0.2
Defense	-0.0	-0.1	-0.8	0.4	0.3	-0.1	-0.2	-0.1	0.4	-0.1	-0.0	0.1
Nondefense	-0.1	-0.2	0.1	0.3	-0.4	0.4	0.1	0.2	-0.2	0.1	0.1	0.1
State and local	0.4	0.3	0.5	0.3	0.4	0.3	0.9	0.1	0.6	0.4	0.4	0.5
Change in bus. inventories	-1.6	0.7	1.6	-2.8	1.4	-0.3	-0.8	-1.5	1.1	0.5	-0.0	-0.2
Nonfarm	-1.6	0.8	1.6	-2.3	1.1	-0.8	-0.6	-1.2	1.3	0.5	-0.1	-0.0
Farm	-0.0	-0.1	0.0	-0.5	0.3	0.6	-0.2	-0.2	-0.2	-0.0	0.1	-0.2

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	99Q4/ 98Q4	00Q4/ 99Q4	01Q4/ 00Q4
Real GDP	5.2	4.0	4.2	4.1	3.9	3.8	3.8	3.8	3.9	4.1	4.1	3.8
Gross dom. purchases	5.6	5.0	5.1	4.7	4.1	4.4	4.3	4.1	3.9	5.3	4.7	4.1
Final sales	4.5	4.3	3.9	4.0	3.9	3.8	3.8	3.7	3.9	4.2	4.0	3.8
Priv. dom. final purchases	4.1	4.7	3.9	4.0	3.7	3.8	3.8	3.5	3.3	4.7	4.1	3.6
Personal cons. expenditures	3.5	3.3	3.0	3.0	2.6	2.7	2.6	2.3	2.0	3.6	3.0	2.4
Durables	0.6	0.7	0.4	0.5	0.3	0.3	0.4	0.3	0.3	0.7	0.5	0.3
Nondurables	1.2	0.6	0.7	0.7	0.6	0.6	0.6	0.4	0.4	1.1	0.7	0.5
Services	1.6	1.9	1.9	1.8	1.6	1.7	1.7	1.5	1.4	1.8	1.8	1.6
Business fixed investment	0.4	1.4	1.1	1.2	1.2	1.3	1.3	1.4	1.4	0.9	1.2	1.3
Equipment & Software	0.5	1.5	1.2	1.2	1.3	1.3	1.3	1.3	1.3	1.0	1.3	1.3
Nonres. structures	-0.1	-0.1	-0.1	-0.0	-0.0	-0.0	-0.0	0.0	0.0	-0.1	-0.1	0.0
Residential structures	0.1	0.0	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	0.2	-0.2	-0.2
Net exports	-0.5	-1.0	-0.9	-0.6	-0.2	-0.5	-0.5	-0.3	0.1	-1.2	-0.6	-0.3
Exports	0.6	0.4	0.7	0.8	1.1	0.5	0.9	0.9	1.3	0.4	0.7	0.9
Imports	-1.0	-1.4	-1.6	-1.4	-1.2	-1.1	-1.4	-1.2	-1.2	-1.6	-1.4	-1.2
Government cons. & invest.	1.0	0.7	0.7	0.6	0.4	0.6	0.5	0.5	0.5	0.7	0.6	0.5
Federal	0.4	0.2	0.2	0.1	-0.1	0.1	0.0	0.0	0.0	0.2	0.1	0.0
Defense	0.2	-0.2	-0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	-0.0	0.0
Nondefense	0.2	0.4	0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0
State and local	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Change in bus. inventories	0.6	-0.4	0.4	0.1	0.0	0.0	-0.0	0.0	0.0	-0.2	0.0	0.0
Nonfarm	0.6	-0.5	0.4	0.1	0.0	0.0	-0.0	0.0	0.0	-0.0	0.0	0.0
Farm	-0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	0.0	0.0

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

Strictly Confidential (FR)
Class II FOMC

January 27, 2000

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

Item	Fiscal year[1]				1999				2000				2001			
	1998[a]	1999[a]	2000	2001	Q1[a]	Q2[a]	Q3[a]	Q4[p]	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts[2]	1722	1827	1961	2067	402	564	449	444	434	610	473	465	460	641	502	501
Outlays[2]	1653	1703	1775	1845	396	421	419	464	445	438	427	466	470	460	449	471
Surplus/deficit[2]	69	124	186	223	6	143	30	-21	-11	172	46	-1	-10	181	53	30
On-budget	-30	.7	32	48	-49	88	21	-64	-38	106	27	-49	-41	107	31	-22
Off-budget	99	124	155	174	55	55	9	43	27	65	19	48	31	73	23	52
Surplus excluding deposit insurance	65	119	184	219	5	142	29	-20	-12	171	45	-2	-11	180	52	29
Means of financing																
Borrowing	-51	-88	-192	-222	7	-108	-20	48	-51	-136	-52	-18	-1	-145	-58	-35
Cash decrease	5	-18	11	0	-4	-31	-3	-27	57	-27	8	20	5	-30	5	20
Other[3]	-23	-18	-6	-.9	-9	-4	-7	-.1	5	-9	-2	-1	6	-5	-.2	-15
Cash operating balance, end of period	39	56	45	45	22	53	56	83	26	53	45	25	20	50	45	25
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	1722	1839	1966	2086	1827	1853	1883	1915	1953	1981	2015	2048	2067	2098	2132	2167
Expenditures	1694	1737	1825	1876	1729	1735	1749	1813	1814	1830	1842	1858	1873	1882	1890	1915
Consumption expenditures	452	467	500	516	467	465	475	485	500	507	509	506	518	519	521	523
Defense	300	305	319	328	305	301	312	317	319	319	321	322	329	330	331	332
Nondefense	153	162	181	188	162	164	163	168	181	188	188	184	189	189	190	190
Other expenditures	1242	1270	1325	1360	1262	1270	1274	1328	1314	1323	1334	1352	1356	1362	1368	1393
Current account surplus	28	102	141	210	98	118	134	102	139	151	172	190	194	216	242	252
Gross investment	84	92	96	99	90	96	95	95	97	96	98	99	99	99	100	100
Current and capital account surplus	-56	10	45	111	7	22	39	8	42	55	74	91	95	117	142	151
Fiscal indicators[4]																
High-employment (HEB) surplus/deficit	-151	-109	-106	-62	-113	-93	-89	-132	-106	-100	-88	-76	-76	-58	-36	-32
Change in HEB, percent of potential GDP	-.8	-.6	-.1	-.5	-.4	-.2	-.1	.5	-.3	-.1	-.2	-.1	-0	-.2	-.2	-0
Fiscal impetus (FI) percent, calendar year	0	4	5	1	2	-.4	2	2	1	1	.5	-.7	-.2	.2	.2	.4

1. Fiscal year data for the unified budget come from OMB; quarterly data come from the Monthly Treasury Statement and may not sum to OMB fiscal year totals.
2. OMB's June 1999 surplus estimates (assuming the enactment of the President's proposals) are $99 billion in FY1999, $143 billion in FY2000 and $168 billion in FY2001. CBO's January 2000 baseline surplus estimates, assuming discretionary spending grows with inflation begining in FY 2001, are $176 billion in FY2000 and $177 billion in FY2001 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 FY1990.
3. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.
4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Real potential GDP growth is assumed to be 3.6 percent beginning 1998:Q1. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1996) dollars, scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.
a--Actual p--Preliminary

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

Period [1]	Total [2]	Federal government [3]	Nonfederal						Memo: Nominal GDP
			Total [4]	Households			Business	State and local governments	
				Total	Home mortgages	Consumer credit			
Year									
1991	4.3	11.1	2.2	4.5	6.1	-1.3	-1.6	8.6	4.0
1992	4.6	10.9	2.6	4.5	5.3	0.8	0.8	2.2	6.4
1993	4.9	8.3	3.8	5.4	4.5	7.3	1.4	6.0	5.0
1994	4.6	4.7	4.6	7.7	6.0	14.5	3.9	-4.0	6.2
1995	5.5	4.1	6.1	7.9	5.8	14.1	7.0	-4.6	4.3
1996	5.4	4.0	5.9	7.4	7.4	7.9	6.0	-0.6	6.0
1997	5.4	0.6	7.1	6.4	6.7	4.3	8.4	5.3	5.9
1998	6.7	-1.4	9.4	8.7	9.7	5.4	10.7	7.2	5.9
1999	6.8	-1.9	9.4	9.5	10.3	7.3	10.5	4.3	5.6
2000	5.0	-7.0	8.2	8.4	9.2	6.1	9.1	3.0	6.0
2001	4.9	-7.0	7.6	7.4	8.2	4.8	8.7	2.9	5.8
Quarter									
1999:3	6.7	-2.2	9.2	9.2	10.0	5.5	10.4	4.3	6.8
4	6.6	-0.5	8.5	9.5	9.8	8.8	8.7	2.4	6.7
2000:1	4.7	-8.1	8.2	8.6	9.4	6.1	8.7	3.5	6.1
2	5.3	-6.1	8.2	8.4	9.0	6.2	9.2	2.8	6.1
3	5.0	-6.3	7.9	8.0	8.7	5.9	8.7	2.9	6.1
4	4.6	-8.2	7.6	7.6	8.5	5.6	8.6	2.9	5.8
2001:1	5.7	-2.9	7.6	7.4	8.1	5.2	8.8	3.1	6.0
2	4.7	-7.5	7.4	7.2	8.0	4.8	8.6	2.9	5.6
3	4.7	-7.4	7.3	7.1	7.9	4.6	8.3	2.8	5.7
4	4.0	-10.9	7.2	7.0	7.9	4.2	8.1	2.7	5.8

Note. Quarterly data are at seasonally adjusted annual rates.
1. Data after 1999: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.
2. On a monthly average basis, total debt is projected to grow 6.6 percent in 1999, 5.3 percent in 2000, and 4.9 percent in 2001.
3. On a monthly average basis, federal debt is projected to grow -2.5 percent in 1999, -6.0 percent in 2000, and -6.7 percent in 2001.
4. On a monthly average basis, nonfederal debt is projected to grow 9.4 percent in 1999, 8.3 percent in 2000, and 7.6 percent in 2001.

2.6.3 FOF

Strictly Confidential (FR)
Class II FOMC

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

January 27, 2000

Category	Calendar year				Seasonally adjusted annual rates									
					1999		2000				2001			
	1998	1999	2000	2001	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net funds raised by domestic nonfinancial sectors														
1 Total	757.1	940.2	737.0	779.3	977.9	1047.8	676.1	762.4	790.9	718.5	928.0	763.0	768.4	657.7
2 Net equity issuance	-267.0	-166.8	-133.0	-108.0	-153.0	-74.4	-148.0	-168.0	-108.0	-108.0	-108.0	-108.0	-108.0	-108.0
3 Net debt issuance	1024.1	1106.9	870.0	887.3	1130.9	1122.2	824.1	930.4	898.9	826.5	1036.0	871.0	876.4	765.7
Borrowing sectors														
Nonfinancial business														
4 Financing gap [1]	134.4	155.2	182.4	241.9	180.1	160.3	166.8	174.7	185.7	202.5	217.8	235.3	247.9	266.5
5 Net equity issuance	-267.0	-166.8	-133.0	-108.0	-153.0	-74.4	-148.0	-168.0	-108.0	-108.0	-108.0	-108.0	-108.0	-108.0
6 Credit market borrowing	524.5	568.1	545.6	572.1	595.3	511.6	521.1	562.1	546.1	553.1	577.1	576.1	568.1	567.1
Households														
7 Net borrowing [2]	471.9	559.5	543.4	517.4	566.0	598.3	559.4	552.9	539.4	521.9	516.4	513.3	519.6	520.4
8 Home mortgages	359.8	417.7	410.7	402.5	425.7	426.2	421.2	410.2	406.2	405.2	394.2	400.2	403.2	412.2
9 Consumer credit	67.6	96.9	86.5	72.5	75.4	123.0	86.5	90.0	86.5	83.0	79.5	74.4	70.7	65.5
10 Debt/DPI (percent) [3]	90.3	93.2	95.7	97.5	93.7	93.9	94.7	95.5	96.1	96.7	96.7	97.2	97.7	98.1
State and local governments														
11 Net borrowing	80.3	51.3	38.1	37.4	52.8	29.3	43.4	35.4	36.4	37.4	40.4	37.4	36.4	35.4
12 Current surplus [4]	140.5	154.2	166.3	166.1	154.8	168.8	163.9	166.3	168.2	166.6	166.0	167.0	165.5	165.8
Federal government														
13 Net borrowing	-52.6	-71.9	-257.1	-239.6	-83.1	-17.0	-299.7	-220.0	-222.9	-285.8	-97.8	-255.8	-247.6	-357.1
14 Net borrowing (quarterly, n.s.a.)	-52.6	-71.9	-257.1	-239.6	-19.0	47.6	-51.4	-136.1	-51.9	-17.6	-1.0	-145.1	-58.1	-35.5
15 Unified deficit (quarterly, n.s.a.)	-54.4	-157.2	-205.7	-253.9	-29.0	20.6	11.1	-171.8	-46.1	1.1	10.0	-180.5	-53.2	-30.0
Depository institutions														
16 Funds supplied	360.5	361.8	373.4	337.1	534.8	449.9	379.9	380.9	364.9	367.9	337.9	334.9	335.9	339.9
Memo (percentage of GDP)														
17 Domestic nonfinancial debt [5]	180.1	182.3	181.9	180.3	182.6	182.6	182.5	182.1	181.7	181.3	181.0	180.9	180.5	179.9
18 Domestic nonfinancial borrowing	11.7	12.0	8.9	8.6	12.2	11.9	8.6	9.6	9.1	8.3	10.2	8.5	8.4	7.2
19 Federal government [6]	-0.6	-0.8	-2.6	-2.3	-0.9	-0.2	-3.1	-2.3	-2.3	-2.9	-1.0	-2.5	-2.4	-3.4
20 Nonfederal	12.3	12.8	11.5	10.9	13.1	12.1	11.7	11.8	11.4	11.1	11.2	10.9	10.8	10.6

Note. Data after 1999:Q3 are staff projections.
1. For corporations: Excess of capital expenditures over U.S. internal funds.
2. Includes change in liabilities not shown in lines 8 and 9.
3. Average debt levels in the period (computed as the average of period-end debt positions) divided by disposable personal income.
4. NIPA surplus less changes in retirement fund assets plus consumption of fixed capital.
5. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.
6. Excludes government-insured mortgage pool securities.

2.6.4 FOF

International Developments

Recent indicators suggest that foreign economic activity is continuing to expand at a favorable pace. Strong fourth-quarter performance in most foreign industrial countries, generally associated with firming domestic demand, is expected to ease only modestly going forward as the erosion of excess capacity and a mild pickup in inflationary pressures prompt some monetary policy tightening. The exception is Japan: While the Japanese economy appears to have expanded a bit in the fourth quarter, limited prospects for fiscal stimulus, exports, and private spending point to disappointingly low growth in the next two years. Recovery in the developing countries is on track to be maintained over the forecast period. On balance, foreign growth is projected to edge down from 4 percent in 1999 to 3-3/4 percent this year and 3-1/2 percent in 2001. The outlook is slightly stronger than that in the December Greenbook, reflecting both incoming data and a marking down of projected Y2K-related disruptions to economic activity.

Movements of dollar exchange rates over the intermeeting period have been roughly offsetting, with some strengthening of the dollar against the yen and weakening relative to the currencies of the United Kingdom, Canada, and Australia. The dollar was essentially unchanged against the euro, on balance, until very late in the period, when it rose sharply. We expect the real value of the dollar to decline over the forecast period, although by a smaller extent and later than written down in the December Greenbook, as the assumption of a stronger economy and tighter monetary conditions in the United States buoys the dollar's value in the near term. Over time, though, the expanding U.S. external deficit and attractive prospects for growth abroad should weigh on the market's demand for dollar assets. With U.S. competitiveness improving as a result of this projected depreciation, the negative contribution of net exports to U.S. growth is expected to diminish over time. In light of the decline in the dollar and a step-up in global commodity prices, core import prices are projected to continue to rise steadily during the forecast period. The recent surge in spot crude oil prices has led to some upward revisions in the projected path of imported oil prices, but these recent price increases are projected to be unwound over the next two years.

Recent Developments

International financial markets. The exchange value of the dollar has changed little, on balance, since the December FOMC meeting. The dollar gained 2-1/2 percent against the yen, in part reflecting official Japanese intervention. This rise was offset by a 3 percent loss against the Canadian dollar and somewhat smaller declines against the currencies of the United Kingdom and Australia. Despite favorable growth prospects in the euro area, the euro has dipped below parity with the dollar in recent days, putting it a bit weaker than its value at the beginning of the intermeeting period. The dollar changed little, on balance, relative to the currencies of our other important trading partners.

Money-market interest rates eased a bit in most foreign industrial economies with the peaceful passage of the century date change, although they rose slightly in the United Kingdom in response to a 25-basis point increase in the Bank of England's policy rate. Expectations that continued robust growth would lead to further monetary tightening caused long-term bond yields to back up significantly in all major industrial countries except Japan, where they have declined slightly over the intermeeting period. Notwithstanding higher long-term interest rates, most equity price indexes have picked up as well. In emerging market economies, financial conditions have remained stable; while spreads on sovereign bonds have been mixed, equity prices generally registered strong gains.

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

Economic activity abroad. Recent indicators point to continued robust expansion into the fourth quarter for most foreign industrial economies. Strong data on industrial production, new orders, and economic sentiment suggest that the pace of growth in the euro area, the United Kingdom, and Canada remained brisk. In Japan, the economy appears to have expanded a bit after contracting in the third quarter, but household demand remains weak. Headline measures of inflation have continued to move upward in most industrial countries in response to higher oil prices, although core inflation has generally remained subdued; indeed, inflation rates remain below the target ceilings established by the central banks of the euro area, the United Kingdom, and Canada. In Japan, though, consumer prices continue to trend somewhat lower and wholesale prices are falling more substantially.

Economic activity in the developing economies appears to have continued to pick up in recent months, although the pace of recovery has varied widely. In Latin America, Mexican output surged further in the third quarter, largely driven by the strong U.S. economy, while Argentina's recovery became more firmly established. However, Brazilian growth has slowed somewhat, and Venezuela's economy is only beginning to bottom out of its steep recession. Recent data suggest that Korea maintained its remarkable pace of expansion into the fourth quarter, while growth in China, Hong Kong, and Taiwan also appears to have been brisk; the growth picture in the ASEAN economies has been more mixed. Inflation remains relatively subdued in the developing economies, although the pace of deflation is easing in China and Hong Kong and inflation pressures are picking up slightly in Korea, the ASEAN economies, and Brazil.

U.S. net exports and prices. The nominal U.S. trade deficit widened significantly in November, bringing the deficit for October and November combined to $312 billion at a seasonally adjusted annual rate, nearly $20 billion larger than that for the third quarter. Exports moved up in October and November, largely owing to sales of industrial supplies as well as service receipts. However, imports rose more rapidly, in part reflecting increases in import prices, especially for industrial supplies. Nominal values of all major categories rose except automotive products, aircraft, and foods.

Prices of non-oil imported goods were unchanged in December, but a 1/2 percent jump in November boosted the fourth-quarter increase of these prices to nearly 2 percent at an annual rate, the first rise in four years; prices of core imported goods (which exclude computers, semiconductors, and oil) moved up slightly faster still. Nonagricultural export prices rose only slightly in December but at a 3 percent annual rate for the fourth quarter as a whole, well above their third-quarter pace.

The price of imported oil averaged over $21 per barrel in October and November, up $3 per barrel from the third quarter. Since November, spot oil prices have risen further, driven by Iraq's decision in December to halt exports for several weeks, and more recently, by the onset of cold weather in key consuming regions and speculation over a possible extension of OPEC production restraint agreements. Spot WTI is currently trading near $28 per barrel.

Outlook

We project that real net exports will continue to deteriorate over the forecast period, but more slowly than GDP expands. As a result, the negative contribution of net exports to GDP growth will shrink from more than 1 percentage point in 1999 to about 1/2 percentage point this year and 1/4 percentage point in 2001. These contributions to growth are somewhat more negative than those called for in the December Greenbook, as projections of U.S. GDP growth have been revised up a bit more than those of foreign growth and the value of the dollar moves along a higher track. Our forecast of a modest real depreciation of the dollar and the consequent improvement in the price competitiveness of U.S. goods results in some acceleration of exports and some deceleration of imports during the forecast period, thus moderating the deterioration in real net exports over time. Both foreign and U.S. real GDP growth rates are expected to move down a bit from their heated pace in recent quarters, but U.S. growth is projected to continue to outstrip that abroad, and U.S. imports should follow their historical tendency to be more responsive to income growth than are U.S. exports, thereby weighing on net exports. Prices of core U.S. imports, after declining for several years, are expected to rise steadily over the forecast period, reflecting the anticipated decline in the dollar and projected further increases in world commodity prices. The U.S. current account deficit is projected to rise to about 4-1/2 percent of GDP this year and next, a shade higher than called for in the December Greenbook.

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

Measure	1998	1999		Projection		
		H1	Q3	1999: Q4	2000	2001
Foreign output	0.8	4.2	3.5	4.0	3.7	3.6
December GB	*0.9*	*4.1*	*3.5*	*4.1*	*3.5*	*3.5*
Real exports	1.9	-0.9	11.5	5.3	6.9	8.5
December GB	*1.9*	*-0.9*	*10.8*	*7.3*	*7.0*	*9.1*
Real imports	10.8	13.5	14.9	7.7	10.0	8.6
December GB	*10.8*	*13.5*	*14.9*	*8.3*	*9.0*	*8.3*

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

The dollar. The real trade-weighted value of the dollar relative to the currencies of a broad group of our important trading partners is projected to hold around current levels this year before edging down about 2 percent next year. This anticipated depreciation is smaller and more backloaded than in the December Greenbook, consistent with the stronger projection for U.S. growth and more significant near-term U.S. policy tightening assumed in the current outlook. Over time, however, the deterioration in the U.S. current account–and the resulting accumulation of U.S. assets held abroad–should diminish investors' appetite for dollar investments. Much of the projected decline in the dollar is anticipated to take place against the euro, which is expected to reverse its recent weakness as the momentum of euro-area growth is sustained, and against the Canadian dollar, which will also benefit from continued firming of commodity prices. We expect little change in the dollar against the yen over the forecast period; the positive effect on the yen of persistently large current account imbalances is likely to be offset by disappointment over continued sluggish Japanese growth. The real exchange value of the dollar relative to the currencies of developing countries is projected to depreciate somewhat over the forecast period. Continued weakening of the dollar against the currencies of emerging Asian economies is expected to be partially offset by the dollar's firming against several Latin American currencies.

Activity in foreign industrial countries. Export-weighted real GDP growth in the foreign industrial countries is projected to edge down a bit during the forecast period from last year's estimated pace of 3-1/4 percent. Euro-area growth is projected to remain near its 1999 rate of about 3 percent during 2000 and 2001. Surging business sentiment and a positive effect of declining unemployment on consumer sentiment and spending should boost the contribution of domestic demand to growth in the euro area, while external demand will continue to be supported by the recovery in world growth and lagged effects of the euro's weakness. Growth in the United Kingdom will likely decline somewhat during the forecast period in response to monetary tightening and diminishing levels of excess capacity. The Canadian economy, which was supported this year by strong U.S. growth, is expected to slow to a pace more in line with its rate of potential growth as monetary policy responds to increased inflationary pressures.

Japanese growth is projected to average only a touch above 1 percent over the next two years. Fiscal policy is expected to provide no additional stimulus, as concerns over high public sector debt levels militate against further substantial increases in government spending. In the absence of fiscal support, and with job uncertainties related to corporate restructuring likely to restrain consumer spending, Japanese private domestic demand is expected to grow slowly. Lastly, the boost to the external sector from recovery in developing Asia will likely be offset to some extent by continuing effects of the yen's current strength.

Inflation. Continued strong activity should put further pressure on resources in most foreign industrial economies. This, along with recent increases in oil prices, is projected to raise average inflation in the foreign industrial countries to just above 1-1/2 percent in 2000 and 2001. This forecast is slightly higher than that in the December Greenbook, mainly because of the higher projected path of oil prices. Euro-area inflation is expected to peak early this year around the target ceiling of 2 percent before declining with oil prices to just above 1-1/2 percent by 2001. A weak economy and strong yen are expected to keep Japanese prices flat over the next two years.

Interest rates. We continue to assume that the Bank of Japan will keep short-term interest rates near zero throughout the forecast period as the performance of their economy proves disappointing. In response to relatively strong growth and some pickup in inflation, and as a signal to those negotiating for faster wage growth, the ECB is expected to raise its official rate a total of 100 basis points over the forecast period, roughly the same as anticipated by the market. Having already boosted its repurchase rate 25 basis points a few weeks ago, the Bank of England is projected to tighten policy a further 75 basis points, a bit more than projected in the December Greenbook, to keep inflation from rising above the target rate of 2-1/2 percent. The Bank of Canada is expected to match the now higher rise assumed for U.S. policy rates. Long-term interest rates, which already incorporate expectations of future monetary tightening, are projected to rise by less than short rates in most major foreign industrial economies. In contrast, Japanese long rates are expected to move up more noticeably even as short-term rates hold steady.

Other countries. The growth of real GDP for the major developing-country trading partners of the United States is projected to average about 4-3/4 percent over the next two years. In the Asian developing economies, we estimate that growth in 1999 was around 7-1/2 percent, as the region rebounded from its financial crises in the preceding two years. With the recovery in the former Asian crisis countries becoming more mature, and with unresolved banking and corporate-sector problems in several countries likely to weigh on future lending and investment, we expect growth in the region going forward to moderate to about 6 percent. In Latin America, growth is expected to edge up to about 4 percent during the forecast period as several countries–including Argentina, Chile, Colombia, and Venezuela–pull out of the recession that hit the region in late 1998. Growth in Mexico, which was among the economies least affected by the regional recession, is projected to slow from an estimated 5-3/4 percent pace in 1999 to a more sustainable 4-1/4 percent rate during the next two years.

Inflation in the developing countries is expected to pick up only modestly in response to rising activity and recent increases in oil prices, as inflationary pressures are limited by the still-high levels of excess capacity remaining from the previous downturn. Overall, a moderate rise in inflation in Asia, where recovery has progressed the furthest, is projected to be partially offset by continued disinflation in Latin America.

Real exports and imports of goods and services. After declining slightly in the first half of 1999, real exports of goods and services are estimated to have rebounded to an annual rate of growth of 8-1/2 percent in the second half, bringing growth for the year to 3-3/4 percent. Based on a projected modest decline in the dollar and strong foreign growth, shipments of U.S. core exports are expected to expand 4 percent in 2000 and 5-1/2 percent in 2001. Brisk sales of computers and semiconductors should contribute to raising total export growth to 7 percent in 2000 and 8-1/2 percent in 2001.

Real imports of goods and service are estimated to have increased at an annual rate of roughly 11 percent in the second half of 1999, a little slower than the rapid growth registered in the first half. With the pace of the U.S. expansion moderating from its brisk second-half clip and the real value of the dollar tailing off, growth of imported core goods, which also has been running high, is projected to slow to a rate of about 7 percent this year and 6 percent next year. This is a bit faster than projected in the December Greenbook, reflecting the slightly stronger dollar and higher U.S. growth assumed in the current forecast. The quantity of imported oil is forecast to grow strongly in the near term as stocks are replenished, and more moderately in 2001. With imports of computers and semiconductors continuing to expand sharply, total imports of goods and services are expected to grow 10 percent in 2000 and 8-1/2 percent in 2001, somewhat slower than their pace in recent years.

Oil prices. Oil prices have surged on speculation that OPEC and possibly other oil exporters might hold oil production near current levels beyond the March expiration of their production restraint agreements. Based on the widespread support among OPEC officials for an extension of the current production targets and their lack of consensus over the duration of such an extension, we maintain as a working assumption that OPEC will agree to a three-month extension of the current targets, but that compliance with the targets will gradually diminish during the first half of the year. Given these assumptions and the staff's stronger outlook for world economic activity, we have revised upward our outlook for oil prices. Assuming that OPEC increases production by 1-3/4 million barrels per day by the third quarter, we project that the price of imported oil will decline from nearly $25 per barrel in the current quarter to about $21 per barrel by the end of 2000 and to $17 per barrel by the end of 2001. However, there is a significant risk that the production restraint agreements will be extended beyond June, leading to a much higher path of oil prices than currently projected, particularly given low inventory levels.

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

Trade category	1998	1999		Projection		
		H1	Q3	1999: Q4	2000	2001
Exports						
Nonagricultural (core)	-1.9	0.8	2.5	4.2	1.2	1.0
Agricultural	-10.2	-8.9	-2.0	2.0	2.4	2.4
Imports						
Non-oil (core)	-1.9	-0.7	1.1	2.4	2.2	2.4
Oil (level, dollars per barrel)	11.40	14.70	18.60	21.80	20.60	17.30

NOTE. Prices for exports and non-oil imports of goods, excluding computers and semiconductors, are on a NIPA chain-weighted basis.

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

The price of imported oil for multi-quarter periods is the price for the final quarter of the period.

Prices of non-oil imports and nonagricultural exports. After turning positive in the third quarter, the rate of increase in core import prices is estimated to have risen to 2-1/2 percent at an annual rate in the fourth quarter of 1999. We project that the growth of these prices will edge up further to nearly 3 percent through the first half of this year and then ease somewhat over the remainder of the forecast period. The reappearance of increases in core import prices reflects increases in world non-oil commodity prices and the path of the dollar. Prices of core exports are estimated to have risen 4-1/4 percent at an annual rate in the fourth quarter of 1999, largely in response to rising prices of industrial supplies, including petroleum products and chemicals whose prices are sensitive to the price of oil. Over the longer run, core export prices are expected to rise more slowly, in part because of the projected decline in oil prices.

Strictly Confidential (FR) January 27, 2000
Class II FOMC

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

Measure and country	1993	1994	1995	1996	1997	1998	-----Projected---- 1999	2000	2001
REAL GDP (1)									
Total foreign	3.1	5.1	2.3	4.3	4.1	0.8	4.0	3.7	3.6
Industrial Countries	1.9	4.0	1.8	2.9	3.3	1.7	3.3	3.0	2.7
of which:									
Canada	2.9	5.5	1.4	2.4	4.4	2.8	4.0	3.3	2.9
Japan	0.5	0.9	2.5	5.2	-0.5	-3.1	1.8	0.9	1.3
United Kingdom	3.2	4.6	1.9	2.9	3.4	1.6	2.7	2.8	2.4
Euro-11	0.0	2.9	1.5	1.6	3.0	1.9	2.9	3.2	3.0
Germany	-0.2	2.8	1.0	1.3	1.4	1.2	2.4	3.2	2.9
Developing Countries	5.0	6.9	3.0	6.3	5.1	-0.3	5.1	4.7	4.8
Asia	7.6	8.8	7.2	6.9	4.8	-1.8	7.5	5.8	6.3
Korea	6.3	9.4	7.2	6.8	3.7	-5.3	12.8	6.0	7.0
China	6.1	16.3	12.6	9.2	8.2	9.5	6.2	7.1	7.5
Latin America	2.6	5.4	-3.9	6.3	6.1	1.0	3.7	3.8	4.0
Mexico	1.9	5.2	-7.1	7.2	6.7	2.6	5.7	4.3	4.3
Brazil	4.5	9.8	-1.9	5.5	2.2	-1.6	2.5	2.5	3.0
CONSUMER PRICES (2)									
Industrial Countries	2.1	1.1	1.3	1.5	1.6	1.0	1.1	1.6	1.6
of which:									
Canada	1.8	-0.0	2.1	2.0	1.0	1.1	2.4	2.4	2.5
Japan	1.2	0.8	-0.8	0.1	2.1	0.7	-1.2	0.0	0.0
United Kingdom (3)	2.7	2.2	2.9	3.2	2.8	2.6	2.2	2.4	2.5
Euro-11 (4)	NA	NA	NA	2.0	1.4	0.9	1.6	1.8	1.6
Germany	4.2	2.6	1.5	1.5	2.1	0.4	1.0	1.6	1.5
Developing Countries	24.7	23.0	17.0	11.2	6.9	9.1	4.8	6.3	6.5
Asia	7.7	10.7	6.4	4.8	2.8	4.5	0.3	3.6	4.1
Korea	5.5	5.8	4.4	5.1	5.1	6.0	1.3	3.0	4.8
China	17.1	26.9	11.1	7.0	1.0	-1.1	-0.6	3.0	3.9
Latin America	74.2	54.3	42.2	26.0	15.8	15.6	12.7	10.6	10.3
Mexico	8.6	6.9	48.8	28.1	17.2	17.6	13.7	11.3	11.2
Brazil	2287.6	1216.3	23.1	10.8	5.3	1.8	8.4	7.6	5.0

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

Strictly Confidential (FR)
Class II FOMC

January 27, 2000

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

					Projected							
	1999				2000				2001			
Measure and country	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	3.4	5.0	3.5	4.0	3.6	3.6	3.8	3.7	3.7	3.6	3.5	3.4
Industrial Countries	3.4	3.2	3.0	3.5	3.3	2.8	3.0	2.8	2.7	2.7	2.7	2.7
of which:												
Canada	4.1	3.1	4.7	4.0	3.6	3.4	3.4	3.0	2.9	2.9	2.9	2.9
Japan	6.3	3.9	-3.8	1.2	2.8	-1.0	0.8	1.0	1.2	1.3	1.3	1.3
United Kingdom	0.9	2.6	3.6	3.8	2.9	3.1	2.8	2.5	2.5	2.4	2.5	2.4
Euro-11	1.9	2.4	3.5	3.7	3.2	3.3	3.2	3.1	3.1	3.0	2.9	2.8
Germany	2.5	0.5	2.9	3.8	3.3	3.3	3.2	3.1	3.1	3.0	2.9	2.8
Developing Countries	3.5	7.8	4.3	4.8	4.1	4.8	4.9	4.9	5.0	4.9	4.7	4.5
Asia	7.0	12.0	4.1	7.2	5.1	5.8	6.1	6.2	6.3	6.3	6.2	6.3
Korea	13.9	16.5	12.9	8.0	6.0	6.0	6.0	6.0	7.0	7.0	7.0	7.0
China	2.2	1.1	11.4	10.6	6.1	6.5	8.0	8.0	7.5	7.5	7.5	7.5
Latin America	0.7	5.4	5.5	3.2	3.3	4.1	3.9	3.8	4.1	4.1	3.8	3.8
Mexico	1.8	8.2	8.4	4.4	4.1	4.7	4.2	4.2	4.5	4.5	4.1	4.1
Brazil	7.2	4.0	-0.7	-0.5	1.5	2.8	2.8	2.7	2.7	3.0	3.2	3.2
CONSUMER PRICES (2)	Four-quarter changes											
Industrial Countries	0.6	0.9	1.3	1.1	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6
of which:												
Canada	0.8	1.6	2.2	2.4	2.8	2.6	2.5	2.4	2.4	2.4	2.4	2.5
Japan	-0.2	-0.4	0.0	-1.2	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
United Kingdom (3)	2.6	2.3	2.2	2.2	2.3	2.4	2.4	2.4	2.4	2.4	2.5	2.5
Euro-11 (4)	0.9	1.0	1.2	1.6	2.0	1.9	1.9	1.8	1.7	1.6	1.6	1.6
Germany	0.3	0.5	0.6	1.0	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.5
Developing Countries	8.2	6.9	6.0	4.8	4.8	5.3	5.7	6.3	6.5	7.2	7.7	6.5
Asia	2.5	0.8	0.2	0.3	1.4	2.6	3.2	3.6	3.7	4.9	5.7	4.1
Korea	0.7	0.6	0.7	1.3	1.5	2.2	3.2	3.0	3.8	4.2	4.5	4.8
China	-1.4	-2.2	-1.2	-0.6	0.7	1.9	2.6	3.0	3.6	6.9	8.9	3.9
Latin America	16.4	15.7	14.7	12.7	10.5	9.7	9.6	10.6	11.4	11.4	11.1	10.3
Mexico	18.6	17.9	16.5	13.7	11.2	10.3	10.0	11.3	12.3	12.3	12.0	11.2
Brazil	2.3	3.3	5.5	8.4	8.2	7.9	8.3	7.6	7.0	6.5	5.5	5.0

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

Strictly Confidential (FR)
Class II FOMC

January 27, 2000

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1993	1994	1995	1996	1997	1998	-- 1999	- Projected 2000	------ 2001
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	-0.6	-0.3	0.4	-0.2	-0.7	-1.1	-1.2	-0.6	-0.3
Exports of G&S	0.4	1.1	1.0	1.1	1.1	0.2	0.4	0.7	0.9
Imports of G&S	-1.1	-1.3	-0.6	-1.3	-1.7	-1.3	-1.6	-1.4	-1.2
	Percentage change, Q4/Q4								
Exports of G&S	4.5	10.6	9.7	9.9	9.4	1.9	3.7	6.9	8.5
Services	4.9	8.4	9.0	9.4	3.0	2.3	2.6	3.1	3.8
Agricultural Goods	-5.4	16.3	-4.0	3.8	3.3	0.3	-1.3	2.0	2.1
Computers	17.0	27.4	39.1	21.6	26.2	7.1	11.7	38.0	36.1
Semiconductors	31.1	66.9	79.6	44.6	21.0	9.3	31.3	41.8	41.2
Other Goods 1/	3.5	6.9	5.7	7.8	11.4	1.1	2.1	4.0	5.5
Imports of G&S	10.5	12.2	5.0	11.2	14.2	10.8	12.3	10.0	8.6
Services	6.7	1.8	5.5	5.3	13.6	8.5	7.9	4.8	3.4
Oil	10.1	-0.2	2.4	7.8	4.0	4.0	-0.7	12.7	0.7
Computers	30.6	39.0	35.0	17.8	32.3	26.9	27.0	38.6	36.1
Semiconductors	33.6	54.5	92.4	56.7	32.8	-7.4	30.8	42.4	42.5
Other Goods 2/	9.4	12.3	-1.2	10.4	12.7	11.3	12.6	7.0	6.2
	Billions of chained 1996 dollars								
Net Goods & Services	-59.9	-87.6	-79.2	-89.0	-109.8	-215.1	-323.0	-401.1	-448.4
Exports of G&S	671.9	731.8	807.4	874.2	985.4	1007.1	1041.5	1107.5	1194.8
Imports of G&S	731.8	819.4	886.6	963.1	1095.2	1222.1	1364.6	1508.6	1643.2
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-85.3	-121.7	-113.6	-129.3	-143.5	-220.6	-337.0	-437.7	-476.5
Current Acct as Percent of GDP	-1.3	-1.7	-1.5	-1.7	-1.7	-2.5	-3.6	-4.5	-4.6
Net Goods & Services (BOP)	-69.9	-98.4	-97.5	-104.3	-104.7	-164.3	-271.4	-366.8	-392.1
Investment Income, Net	26.9	20.3	23.9	21.8	8.2	-7.0	-13.3	-17.7	-31.1
Direct, Net	58.6	54.4	63.8	67.7	69.2	59.4	61.3	76.9	91.9
Portfolio, Net	-31.7	-34.1	-39.9	-46.0	-61.0	-66.4	-74.5	-94.5	-123.0
Other Income & Transfers,Net	-42.2	-43.6	-39.9	-46.7	-46.9	-49.3	-52.3	-53.3	-53.3

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

Strictly Confidential (FR)
Class II FOMC

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OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	1998 Q3	1998 Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.0	-0.8	-1.3	2.1	-0.8	-0.5	-0.8	-0.5	-1.9	-2.0	-0.8	0.3
Exports of G&S	0.3	0.8	0.4	2.9	1.0	1.8	1.3	0.2	-0.2	-0.5	-0.2	1.6
Imports of G&S	-1.3	-1.6	-1.7	-0.8	-1.8	-2.2	-2.1	-0.7	-1.7	-1.6	-0.6	-1.3
Percentage change from previous period, SAAR												
Exports of G&S	2.3	6.9	3.5	29.0	8.8	16.2	11.5	1.8	-1.5	-4.0	-1.7	16.1
Services	-4.0	13.5	-6.7	41.0	-3.5	11.1	7.6	-2.5	1.7	8.8	-8.8	8.6
Agricultural Goods	15.2	-25.5	-4.1	40.9	-18.2	3.3	4.5	28.8	-10.9	-16.4	-16.4	62.7
Computers	41.0	4.8	17.3	26.1	56.2	46.4	28.7	-13.7	-13.0	11.1	19.1	14.2
Semiconductors	24.2	35.2	24.2	110.0	46.2	24.5	26.2	-6.7	1.3	-13.1	25.3	29.4
Other Goods 1/	-0.5	7.1	7.8	17.7	13.6	17.2	11.7	3.5	-1.2	-9.2	0.6	15.7
Imports of G&S	10.8	13.3	14.4	6.3	15.5	19.1	17.6	5.2	14.4	13.0	5.2	10.8
Services	5.6	4.1	11.8	0.0	20.6	8.6	20.7	5.3	16.7	9.7	6.4	1.6
Oil	-10.0	68.2	4.9	-15.0	-7.6	36.6	6.1	-12.7	6.4	41.8	2.4	-24.2
Computers	11.0	21.1	18.8	20.8	45.0	47.9	34.5	6.2	35.6	23.2	11.5	39.4
Semiconductors	30.0	18.9	58.4	146.3	77.6	28.1	28.8	6.1	1.3	-20.1	-3.0	-6.4
Other Goods 2/	13.5	10.2	13.8	4.6	11.9	16.6	15.6	6.9	13.5	12.9	4.9	14.1
Billions of chained 1996 dollars, SAAR												
Net Goods & Services	-75.6	-90.6	-115.8	-73.9	-90.8	-100.9	-118.7	-128.7	-171.7	-218.4	-237.9	-232.3
Exports of G&S	845.6	859.8	867.1	924.2	943.9	979.9	1006.8	1011.2	1007.3	997.2	993.0	1030.8
Imports of G&S	921.1	950.4	982.9	998.1	1034.7	1080.8	1125.5	1139.9	1179.0	1215.6	1231.0	1263.1
Billions of dollars, SAAR												
US CURRENT ACCOUNT BALANCE	-107.0	-125.8	-153.3	-131.1	-139.6	-125.9	-142.5	-165.9	-172.1	-209.6	-253.9	-246.7
Current Account as % of GDP	-1.4	-1.6	-2.0	-1.6	-1.7	-1.5	-1.7	-2.0	-2.0	-2.4	-2.9	-2.8
Net Goods & Services (BOP)	-89.4	-105.9	-125.9	-96.1	-106.4	-96.8	-102.9	-112.8	-133.4	-167.8	-182.9	-173.1
Investment Income, Net	30.4	21.3	15.1	20.2	9.0	13.7	5.8	4.2	6.1	2.9	-22.5	-14.3
Direct, Net	68.5	64.3	63.6	74.5	66.4	74.7	69.2	66.6	67.3	64.7	47.3	58.2
Portfolio, Net	-38.2	-43.0	-48.5	-54.3	-57.4	-60.9	-63.4	-62.4	-61.3	-61.8	-69.9	-72.5
Other Inc. & Transfers, Net	-48.0	-41.2	-42.5	-55.2	-42.1	-42.9	-45.4	-57.3	-44.8	-44.7	-48.5	-59.3

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

Strictly Confidential (FR)
Class II FOMC

January 27, 2000

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1999				Projected 2000				2001			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	Percentage point contribution to GDP growth											
Net Goods & Services	-2.1	-1.4	-0.7	-0.5	-1.0	-0.9	-0.6	-0.2	-0.5	-0.5	-0.3	0.1
Exports of G&S	-0.6	0.4	1.2	0.6	0.4	0.7	0.8	1.1	0.5	0.9	0.9	1.3
Imports of G&S	-1.5	-1.8	-1.9	-1.0	-1.4	-1.6	-1.4	-1.2	-1.1	-1.4	-1.2	-1.2
	Percentage change from previous period, SAAR											
Exports of G&S	-5 5	4.0	11.5	5.3	3.5	6.8	7.1	10.3	4.9	8.6	8.7	11.8
Services	4.1	3.2	0.0	3.2	3 5	3.2	3.0	2.9	3.8	4.1	3.9	3 5
Agricultural Goods	-37.9	28.7	27.4	-6.6	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1
Computers	-3.0	32.1	27.8	-4.9	33.6	43.8	38.6	36.1	36.1	36.1	36.1	36.1
Semiconductors	36.3	40.8	47.8	4.9	36.0	43.8	43.8	43.8	41.2	41.2	41.2	41.2
Other Goods 1/	-9.3	-2.0	12.8	8.6	-1.0	3.4	4.1	9.7	-0.3	5.6	5.8	11.3
Imports of G&S	12.5	14.4	14.9	7.7	10.0	11.4	9.6	8.8	7.5	10.1	8.6	8.3
Services	11.9	8.9	3.6	7.6	5.1	4.7	4.8	4.4	3.6	3.0	3.3	3.9
Oil	7.1	25.5	-11.6	-18.2	21.0	27.4	7.8	-2.9	-15.2	33.0	2.9	-11.3
Computers	28.7	52.3	20.0	10.6	33.6	38 6	41.2	41.2	36 1	36.1	36.1	36.1
Semiconductors	18.4	63.5	19.0	27.2	33.5	46.4	46.4	43.8	43.8	43.8	41.2	41.2
Other Goods 2/	11.3	10.3	19.7	9.4	7.2	7.6	6.7	6.7	6.4	6.0	6.0	6.4
	Billions of chained 1996 dollars, SAAR											
Net Goods & Services	-284.5	-319.0	-338.2	-350.5	-375.5	-397.4	-413.2	-418.3	-433.0	-447.8	-456.7	-456.0
Exports of G&S	1016.4	1026.4	1054.8	1068.5	1077.8	1095.7	1114.5	1142.0	1155.8	1179.8	1204.8	1238.9
Imports of G&S	1300.9	1345.4	1393.0	1419.0	1453.4	1493.0	1527.7	1560.3	1588.9	1627.5	1661.5	1694.9
	Billions of dollars, SAAR											
US CURRENT ACCOUNT BALANCE	-274.6	-323.6	-358.3	-391.4	-415.2	-436.7	-445 2	-453 8	-460.2	-475 3	-481.0	-489.7
Current Account as % of GDP	-3.0	-3.5	-3.9	-4.1	-4.3	-4.5	-4.5	-4.5	-4.5	-4.6	-4.6	-4.6
Net Goods & Services (BOP)	-215.9	-260.3	-293.8	-315.6	-350.5	-370.6	-374.7	-371.2	-382.2	-393.7	-398.9	-393.6
Investment Income, Net	-11.8	-12.9	-14.1	-14.2	-14.2	-15.5	-20.0	-21.0	-27 5	-31.0	-31.5	-34.5
Direct, Net	59.3	56.0	62.6	67.3	71.4	74.8	77.3	84.1	84.6	88.2	94.9	99.8
Portfolio, Net	-71.1	-68.9	-76.7	-81.5	-85.5	-90.4	-97.3	-105.0	-112.0	-119.2	-126.4	-134.3
Other Inc. & Transfers, Net	-46.9	-50.4	-50.4	-61.6	-50.6	-50.6	-50.6	-61.6	-50.6	-50.6	-50.6	-61.6

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