

Part 1

June 20, 2001

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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**Staff Tax-Policy Assumptions in
the May and June Greenbooks**
(Billions of dollars)

Tax cut	Fiscal 2001		Fiscal 2002	
	May GB	June GB	May GB	June GB
Temporary	-50	-38	0	0
Permanent	-10	-3	-60	-71
Corporate tax timing	0	-28	0	28

figures would be \$10 billion and \$60 billion respectively.¹ The legislation also included a shift in the timing of corporate tax payments, which the staff now estimates will move roughly \$28 billion of revenues from fiscal 2001 to fiscal 2002. Recent readings on spending have been in line with our expectations, and we have not made any material changes to our outlook for federal outlays this round. The incoming data on corporate tax receipts have been very weak, but we have not received any important surprises on other revenues. All told, our projection for the unified budget surplus is \$185 billion in fiscal 2001 and \$214 billion in fiscal 2002. Our current on-budget surplus projections (that is, excluding social security and the Postal Service) are \$21 billion in fiscal 2001 and \$40 billion in fiscal 2002.²

Measured against a broad group of our trading partners, the real trade-weighted exchange value of the dollar has strengthened slightly over the intermeeting period. We forecast that, in real terms, the dollar will depreciate about 1 percent over the projection period; nominal exchange rates change little, but foreign inflation is expected to run a bit above that in the United States. This decline leaves the real exchange value of the dollar at the end of 2002 about 1 percent higher than the level we had in the May Greenbook.

The slower pace of foreign activity that emerged in late 2000 appears to have continued into early 2001. Foreign real GDP is forecast to rise at just a

1. We estimate that in the NIPA, the tax cuts taken together will boost the level of disposable personal income at annual rates of \$162 billion in the third quarter of 2001, \$10 billion in the fourth quarter, and \$80 billion per quarter in 2002.

2. According to our projections, the on-budget surplus excluding the Medicare Hospital Insurance trust fund would be close to balance in fiscal 2002. This measure of the surplus has gained some traction in the Congress as a benchmark when considering the budgetary consequences of policy actions. If this benchmark constrains policy, then under our economic assumptions, we do not see room for much more fiscal stimulus than we have already incorporated.

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

Measure	2001:Q2		2001:Q3	
	May GB	June GB	May GB	June GB
Real GDP	.7	.6	1.5	1.3
Private domestic final purchases	.1	-.1	1.4	1.5
Personal consumption expenditures	.4	1.6	1.6	2.3
Residential investment	-.3	.7	.3	-.8
Business fixed investment	-1.5	-8.4	.9	-2.1
Government outlays for consumption and investment	1.5	2.2	3.0	2.9
	Contribution to growth, percentage points			
Inventory investment	.7	1.0	.4	.1
Net exports	-.4	-.7	-.7	-.6

just statistical noise, and we are expecting the rate to move up again in June; for the quarter as a whole, we expect the unemployment rate to average 4-1/2 percent, up from 4-1/4 percent in the first quarter.

The manufacturing sector has continued to contract sharply. In May, manufacturing employment posted another large drop, and the workweek moved down further. Factory output fell 3/4 percent last month, and with inventory-shipping ratios still high and the orders picture bleak, output probably will move down further in the months ahead. All told, we are projecting that manufacturing IP will fall at an annual rate of 6-1/2 percent this quarter, a substantially larger decline than we had projected in the previous Greenbook.

We expect nonfarm inventory investment to be negative in the current quarter. However, the liquidation is not nearly as large as in the first quarter, and the resultant swing in inventory investment adds 1 percentage point to real GDP growth in the second quarter. Most of this swing reflects developments in the motor vehicle sector, where inventories are projected to change little after the substantial correction brought about by last winter's production cuts and sales incentives. The most recent inventory data outside of motor vehicles are for April, when book-value stocks rose somewhat and the aggregate inventory-sales ratio moved up further. The weak industrial production figures and reports from purchasing managers suggest that some businesses succeeded in trimming stocks in late spring. However, these efforts likely were not adequate to resolve

Projections of Real GDP
(Percent change at annual rate from end of preceding period
except as noted)

Measure	2000		2001		2002
	H1	H2	H1	H2	
Real GDP	5.2	1.6	.9	2.1	3.5
Previous	5.2	1.6	1.3	2.4	3.5
Final sales	5.3	2.1	2.1	2.0	3.0
Previous	5.3	2.1	2.5	2.6	2.7
PCE	5.3	3.6	2.3	2.8	2.7
Previous	5.3	3.6	1.8	3.2	2.3
Residential investment	2.2	-7.2	2.2	.3	3.0
Previous	2.2	-7.2	1.6	1.3	2.5
BFI	17.7	3.7	-2.8	-.9	6.8
Previous	17.7	3.7	.6	2.1	7.2
Government purchases	1.8	.7	3.6	2.9	3.5
Previous	1.8	.7	3.3	3.0	3.5
Exports	10.2	3.2	-1.8	2.9	5.3
Previous	10.2	3.2	-.7	4.9	6.5
Imports	15.2	7.5	-2.6	4.5	7.4
Previous	15.2	7.5	-4.1	6.5	7.9
Contribution to growth, percentage points					
Inventory change	-.0	-.4	-1.2	.0	.5
Previous	-.0	-.4	-1.1	-.2	.8
Net exports	-1.0	-.7	.2	-.3	-.5
Previous	-1.0	-.7	.5	-.4	-.4

we had assumed in the May Greenbook.³ These changes have been offsetting, and our outlook for 2002 is unchanged from the previous forecast.

Household spending. We have altered the path for household spending in response to the provisions of the new tax act. Although the temporary tax

3. Currently, we are assuming that the tax bill will raise real GDP growth 0.4 percentage point in both 2001 and 2002. In the May Greenbook, these figures were 0.5 percentage point in 2001 and 0.1 percentage point in 2002.

Net exports. We expect that the sluggish pace of foreign economic activity will result in little change in U.S. exports over the near term, but as growth abroad recovers, real exports are projected to rise a moderate 5-1/4 percent in 2002. After moving up just 3/4 percent in 2001, real imports are projected to increase 7-1/2 percent in 2002, reflecting the recovery of domestic demand and the lagged effects of the earlier appreciation of the dollar. On balance, we expect that net exports will make little arithmetic contribution to U.S. GDP growth in 2001 but will subtract 1/2 percentage point in 2002. (The International Developments section provides a more detailed discussion of the outlook for the external sector.)

Aggregate Supply, the Labor Market, and the Prospects for Inflation

As noted earlier, we have revised down our forecast of structural labor productivity growth. The changes in our investment forecast have lowered the contribution of capital deepening to overall labor productivity growth. In addition, further analysis of the BLS data on multifactor productivity that we received this spring prompted us to eliminate the slight pickup in MFP growth that had been a feature of earlier forecasts. We now estimate potential GDP growth at 3.4 percent in both 2001 and 2002; in the May Greenbook, these rates were 3.8 percent this year and 3.7 percent in 2002.⁶

Decomposition of Structural Labor Productivity

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

Measure	1973-95	1996-98	1999	2000	2001	2002
Structural labor productivity	1.4	2.5	3.1	3.2	2.5	2.5
Previous	1.4	2.5	3.2	3.2	2.8	2.7
<i>Contributions¹</i>						
Capital deepening	.7	1.2	1.6	1.7	1.0	1.0
Previous	.7	1.2	1.6	1.6	1.2	1.1
Multifactor productivity	.4	1.0	1.2	1.2	1.2	1.2
Previous	.4	1.0	1.3	1.3	1.3	1.3
Labor quality	.3	.3	.3	.3	.3	.3

1. Percentage points.

6. The weaker path for productivity also has led us to reassess our assumptions concerning the near-term effective NAIRU, which we have raised to 5.0 percent in 2001 and to 5.2 percent in 2002. In the May Greenbook, these figures were 4.9 percent and 5.0 percent respectively.

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

Measure	1999	2000	2001	2002
Output per hour, nonfarm business	3.8	3.3	1.5	2.9
Previous	3.8	3.3	2.0	2.8
Nonfarm payroll employment	2.5	1.7	-.1	.8
Previous	2.2	1.6	-.0	.7
Household employment survey	1.5	1.0	-.4	.5
Previous	1.5	1.1	-.3	.5
Labor force participation rate ¹	67.1	67.1	67.0	66.9
Previous	67.1	67.1	67.0	66.9
Civilian unemployment rate ¹	4.1	4.0	5.2	5.6
Previous	4.1	4.0	5.1	5.5

1. Percent, average for the fourth quarter.

Productivity and the labor market. The recent quarterly pattern of labor productivity growth has been distorted by volatility in the data on hours worked by the self-employed. Excluding the influence of these hours, we think that actual productivity growth averaged about 3/4 percent (annual rate) in the first half of the year, down substantially from the 2-3/4 percent rise recorded in 2000. When measured relative to the rate of gain in structural productivity, this path for output per hour represents a fairly typical cyclical response to the slower pace of output growth. Productivity growth is expected to pick up as activity recovers; for 2002, we are projecting that output per hour will rise nearly 3 percent, a pace that would leave the levels of actual and structural productivity in fairly close alignment by the end of the forecast period.

Private nonfarm payrolls are expected to fall about 85,000 per month, on average, through the third quarter and then edge off a bit further in the fourth. Job growth should resume as we move into 2002, but we expect the pace of hiring to remain subdued, as firms will be hesitant to add staffing until they are convinced that a recovery is firmly in place. With the sustained weakness in labor demand, the unemployment rate is projected to rise more than a full percentage point over the next year.

Wages and prices. The wage and price projections are essentially the same as in the May Greenbook. We are looking for the increases in aggregate measures of wages and prices in the second half of 2001 and in 2002 to be more moderate than during the first half of this year. The smaller increases reflect, in part, energy prices, which appear to be turning down after rising sharply for more

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

Measure	1999	2000	2001	2002
PCE chain-weighted price index	2.0	2.3	2.0	1.7
Previous	2.0	2.3	2.1	1.7
Food	2.0	2.5	3.1	2.5
Previous	2.0	2.5	3.1	2.6
Energy	12.0	15.9	-.5	-4.4
Previous	12.0	15.9	-.2	-5.2
Excluding food and energy	1.5	1.6	2.0	1.9
Previous	1.5	1.6	2.1	1.9
Consumer price index	2.6	3.4	2.6	2.0
Previous	2.6	3.4	2.6	2.0
Excluding food and energy	2.0	2.5	2.6	2.5
Previous	2.0	2.5	2.7	2.5
GDP chain-weighted price index	1.6	2.3	2.2	1.8
Previous	1.6	2.3	2.2	1.8
ECI for compensation of private industry workers ¹	3.4	4.4	4.4	3.9
Previous	3.4	4.4	4.4	4.1
NFB compensation per hour	4.4	5.7	5.4	4.8
Previous	4.4	5.7	5.4	5.0
Prices of core non-oil merchandise imports	.4	1.4	-.2	2.1
Previous	.4	1.4	.3	2.2

1. December to December.

than two years. In addition to their direct effects on inflation, the lower energy prices reduce input costs and restrain inflation expectations--though these effects occur with some lag. The projected updrift in the unemployment rate leads to the opening of some slack in labor markets as we move through next year, and provides some additional restraint on wages and prices.

We have not changed our projection of energy prices much this round. We think the PCE price index for energy will change little in 2001 and fall 4-1/2 percent in 2002. Nonetheless, we feel that the up-side risks to that forecast have been reduced substantially. In response to higher prices, natural

Alternative Simulations

(Percent change, annual rate, from end of preceding period, except as noted)

Measure	2001		2002	
	H1	H2	H1	H2
<i>Real GDP</i>				
Baseline	.9	2.1	3.2	3.7
Earnings disappointment	.9	2.0	2.4	2.6
Smaller tax response	.9	1.7	3.1	3.8
Faster tax response	.9	2.6	3.1	3.6
Continued monetary easing	.9	2.3	4.0	4.7
Market-based funds rate	.9	2.2	3.6	3.9
Multifactor productivity slowdown	.9	.7	1.6	2.3
Low NAIRU	.9	2.3	3.4	3.9
<i>Civilian unemployment rate¹</i>				
Baseline	4.5	5.2	5.5	5.6
Earnings disappointment	4.5	5.2	5.6	5.9
Smaller tax response	4.5	5.3	5.6	5.7
Faster tax response	4.5	5.1	5.4	5.5
Continued monetary easing	4.5	5.2	5.3	5.2
Market-based funds rate	4.5	5.2	5.4	5.4
Multifactor productivity slowdown	4.5	5.2	5.7	6.0
Low NAIRU	4.5	5.1	5.3	5.3
<i>PCE prices excluding food and energy</i>				
Baseline	2.1	1.8	1.9	1.9
Earnings disappointment	2.1	1.8	1.9	1.9
Smaller tax response	2.1	1.8	1.9	1.9
Faster tax response	2.1	1.8	1.9	2.0
Continued monetary easing	2.1	1.8	2.1	2.3
Market-based funds rate	2.1	1.8	2.0	2.1
Multifactor productivity slowdown	2.1	1.9	2.1	2.3
Low NAIRU	2.1	1.7	1.6	1.4

1. Average for the final quarter of the period.

with GDP growth off about 1 percentage point in 2002. As a result, the unemployment rate climbs to almost 6 percent by the end of next year.

Tax cuts and household spending. In the baseline, the new tax act provides considerable impetus to consumer spending. But there is a good deal of uncertainty about both the magnitude and timing of these tax effects. In the “smaller tax response” scenario, we assume that spending out of the rebates will be only half as great as in the baseline and that households will take a more gradual approach to consuming their gains in permanent income. In this

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

June 20, 2001

		Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
Interval		05/09/01	06/20/01	05/09/01	06/20/01	05/09/01	06/20/01	05/09/01	06/20/01	05/09/01	06/20/01
ANNUAL											
1998		5.7	5.7	4.4	4.4	1.3	1.3	1.6	1.6	4.5	4.5
1999		5.8	5.8	4.2	4.2	1.5	1.5	2.2	2.2	4.2	4.2
2000		7.1	7.1	5.0	5.0	2.1	2.1	3.4	3.4	4.0	4.0
2001		4.2	3.9	1.8	1.6	2.3	2.3	3.1	3.0	4.7	4.7
2002		4.8	4.6	3.0	2.8	1.7	1.7	1.8	1.9	5.4	5.5
QUARTERLY											
1999 Q1		5.9	5.9	3.5	3.5	2.2	2.2	1.7	1.7	4.3	4.3
Q2		3.9	3.9	2.5	2.5	1.4	1.4	2.7	2.7	4.3	4.3
Q3		6.7	6.7	5.7	5.7	1.1	1.1	2.9	2.9	4.2	4.2
Q4		9.7	9.7	8.3	8.3	1.6	1.6	3.1	3.1	4.1	4.1
2000 Q1		8.3	8.3	4.8	4.8	3.3	3.3	4.3	4.3	4.1	4.1
Q2		8.2	8.2	5.6	5.6	2.4	2.4	2.8	2.8	4.0	4.0
Q3		3.8	3.8	2.2	2.2	1.6	1.6	3.5	3.5	4.0	4.0
Q4		3.0	3.0	1.0	1.0	2.0	2.0	3.0	3.0	4.0	4.0
2001 Q1		5.4	4.6	2.0	1.2	3.2	3.2	4.2	4.2	4.2	4.2
Q2		3.8	3.5	0.7	0.6	3.1	2.9	3.4	2.9	4.6	4.5
Q3		2.8	2.5	1.5	1.3	1.3	1.3	1.6	1.5	4.9	4.9
Q4		4.7	4.2	3.4	2.9	1.3	1.3	1.2	1.6	5.1	5.2
2002 Q1		5.4	5.2	3.3	3.2	2.0	1.9	1.6	1.8	5.3	5.4
Q2		5.1	4.9	3.3	3.2	1.7	1.7	1.9	1.9	5.4	5.5
Q3		5.4	5.6	3.5	3.7	1.8	1.8	2.1	2.1	5.4	5.6
Q4		5.6	5.7	3.7	3.8	1.8	1.8	2.2	2.1	5.5	5.6
TWO-QUARTER ³											
1999 Q2		4.9	4.9	3.0	3.0	1.8	1.8	2.2	2.2	-0.1	-0.1
Q4		8.2	8.2	7.0	7.0	1.3	1.3	3.0	3.0	-0.2	-0.2
2000 Q2		8.2	8.2	5.2	5.2	2.8	2.8	3.6	3.6	-0.1	-0.1
Q4		3.4	3.4	1.6	1.6	1.8	1.8	3.2	3.2	0.0	0.0
2001 Q2		4.6	4.1	1.3	0.9	3.2	3.1	3.8	3.6	0.6	0.5
Q4		3.8	3.4	2.4	2.1	1.3	1.3	1.4	1.6	0.5	0.7
2002 Q2		5.2	5.1	3.3	3.2	1.8	1.8	1.8	1.9	0.3	0.3
Q4		5.5	5.6	3.6	3.7	1.8	1.8	2.1	2.1	0.1	0.1
FOUR-QUARTER ⁴											
1998 Q4		5.9	5.9	4.6	4.6	1.2	1.2	1.5	1.5	-0.3	-0.3
1999 Q4		6.5	6.5	5.0	5.0	1.6	1.6	2.6	2.6	-0.3	-0.3
2000 Q4		5.8	5.8	3.4	3.4	2.3	2.3	3.4	3.4	-0.1	-0.1
2001 Q4		4.2	3.7	1.9	1.5	2.2	2.2	2.6	2.6	1.1	1.2
2002 Q4		5.3	5.3	3.5	3.5	1.8	1.8	2.0	2.0	0.3	0.4

1. For all urban consumers.

2. Level, except as noted.

3. Percent change from two quarters earlier; for unemployment rate, change in percentage points.

4. Percent change from four quarters earlier; for unemployment rate, change in percentage points.

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

June 20, 2001

Item	Units ¹	-----Projected-----								
		1994	1995	1996	1997	1998	1999	2000	2001	2002
EXPENDITURES										
Nominal GDP	Bill. \$	7054.3	7400.5	7813.2	8318.4	8790.2	9299.2	9963.1	10355.3	10831.9
Real GDP	Bill. Ch. \$	7347.7	7543.8	7813.2	8159.5	8515.7	8875.8	9318.5	9465.1	9733.3
Real GDP	% change	4.1	2.2	4.1	4.3	4.6	5.0	3.4	1.5	3.5
Gross domestic purchases		4.3	1.7	4.3	5.0	5.7	5.9	4.1	1.5	3.8
Final sales		3.2	2.9	3.9	3.9	4.6	4.8	3.7	2.1	3.0
Priv. dom. final purchases		4.3	3.2	4.4	5.1	6.4	6.1	5.0	1.8	3.3
Personal cons. expenditures		3.6	2.8	3.1	4.1	5.0	5.6	4.5	2.6	2.7
Durables		6.4	3.7	5.0	8.8	12.6	11.1	5.2	2.7	3.5
Nondurables		4.1	2.5	3.2	2.5	5.0	5.9	3.8	2.0	2.7
Services		2.7	2.7	2.7	3.9	3.4	4.2	4.6	2.8	2.5
Business fixed investment		9.2	7.5	12.1	11.8	12.9	10.1	10.5	-1.8	6.8
Equipment & Software		12.0	8.9	11.8	13.7	15.8	14.1	9.8	-4.3	8.9
Monres. structures		1.1	3.3	12.8	6.5	4.9	-1.7	12.7	5.5	1.4
Residential structures		4.0	-1.5	5.6	3.5	10.3	2.8	-2.6	1.3	3.0
Exports		10.5	9.7	9.8	8.5	2.2	4.3	6.7	0.5	5.3
Imports		12.2	5.0	11.2	14.3	11.2	12.0	11.3	0.8	7.4
Gov't. cons. & investment		0.2	-0.8	2.7	2.4	2.6	4.4	1.3	3.2	3.5
Federal		-3.7	-5.3	2.0	0.1	0.8	4.8	-1.3	3.0	3.6
Defense		-5.9	-4.7	0.8	-1.4	-1.0	4.6	-2.0	2.4	2.6
State & local		2.8	2.1	3.0	3.7	3.6	4.2	2.7	3.4	3.5
Change in bus. inventories	Bill. Ch. \$	66.8	30.4	30.0	63.8	80.2	45.3	60.9	-8.9	41.2
Nonfarm		53.6	42.6	22.1	60.6	78.7	44.9	55.8	-13.9	39.7
Net exports		-86.5	-78.4	-89.0	-113.3	-221.0	-322.4	-412.4	-435.1	-493.0
Nominal GDP	% change	6.2	4.3	6.0	6.2	5.9	6.5	5.8	3.7	5.3
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	114.1	117.2	119.6	122.7	125.8	128.9	131.8	132.4	132.7
Unemployment rate	%	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.7	5.5
Industrial prod. index	% change	6.3	3.6	5.6	7.2	3.2	5.1	4.2	-4.2	3.3
Capacity util. rate - mfg.	%	82.5	82.5	81.6	82.7	81.3	80.5	81.3	75.8	75.0
Housing starts	Millions	1.46	1.35	1.48	1.47	1.62	1.64	1.57	1.62	1.65
Light motor vehicle sales		15.01	14.77	15.05	15.06	15.45	16.76	17.25	16.29	15.66
North Amer. produced		12.88	12.87	13.34	13.12	13.43	14.28	14.38	13.35	12.76
Other		2.13	1.90	1.70	1.93	2.02	2.48	2.87	2.94	2.90
INCOME AND SAVING										
Nominal GNP	Bill. \$	7071.1	7420.9	7831.2	8325.4	8786.7	9288.2	9958.7	10340.9	10791.8
Nominal GNP	% change	6.2	4.4	5.9	6.0	5.7	6.5	6.0	3.4	5.2
Nominal personal income		5.1	4.3	5.9	6.3	6.3	5.6	5.7	4.4	5.0
Real disposable income		2.9	1.7	2.6	3.8	4.6	3.1	2.2	2.1	4.7
Personal saving rate	%	6.1	5.6	4.8	4.2	4.2	2.2	-0.1	-0.5	0.8
Corp. profits, IVA & CCAdj.	% change	12.3	11.3	11.4	9.9	-5.8	11.2	2.4	-7.4	1.2
Profit share of GNP	%	8.1	9.0	9.6	10.0	9.3	9.2	9.5	8.3	7.9
Excluding FR Banks		7.9	8.7	9.4	9.7	9.0	8.9	9.2	8.0	7.6
Federal surpl./deficit	Bill. \$	-212.3	-192.0	-136.8	-53.3	49.0	124.4	251.8	228.5	174.9
State & local surpl./def.		8.6	15.3	21.4	31.0	41.7	50.0	59.6	40.4	42.4
Ex. social ins. funds		4.0	11.4	18.7	29.9	41.3	50.4	60.1	40.7	42.6
Gross natl. saving rate	%	16.3	16.9	17.2	18.0	18.8	18.5	18.3	17.1	17.4
Net natl. saving rate		4.3	5.1	5.7	6.7	7.5	6.8	6.5	4.8	4.8
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.1	2.1	1.9	1.8	1.2	1.6	2.3	2.2	1.8
Gross Domestic Purchases										
chn.-wt. price index		2.1	2.1	1.9	1.4	0.8	1.9	2.4	1.9	1.7
PCE chn.-wt. price index		2.1	2.1	2.3	1.5	1.1	2.0	2.3	2.0	1.7
Ex. food and energy		2.3	2.3	1.8	1.7	1.6	1.5	1.6	2.0	1.9
CPI		2.6	2.7	3.2	1.9	1.5	2.6	3.4	2.6	2.0
Ex. food and energy		2.8	3.0	2.6	2.2	2.4	2.0	2.5	2.6	2.5
ECI, hourly compensation ²		3.1	2.6	3.1	3.4	3.5	3.4	4.4	4.4	3.9
Nonfarm business sector										
Output per hour		1.1	1.1	2.3	2.3	2.8	3.8	3.3	1.5	2.9
Compensation per Hour		2.2	2.6	3.2	3.5	5.1	4.4	5.7	5.4	4.8
Unit labor cost		1.0	1.5	0.9	1.1	2.3	0.6	2.3	3.9	1.9

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

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

June 20, 2001

Item	Units	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	8634.7	8722.0	8829.1	8974.9	9104.5	9191.5	9340.9	9559.7	9752.7	9945.7
Real GDP	Bill. Ch. \$	8404.9	8465.6	8537.6	8654.5	8730.0	8783.2	8905.8	9084.1	9191.8	9318.9
Real GDP	% change	6.5	2.9	3.4	5.6	3.5	2.5	5.7	8.3	4.8	5.6
Gross domestic purchases		8.1	4.8	4.4	5.4	4.9	3.8	6.6	8.4	5.6	6.5
Final sales		4.1	5.6	2.9	5.9	4.5	4.0	4.5	6.4	6.7	3.9
Priv. dom. final purchases		7.2	7.5	4.4	6.3	6.4	6.2	5.6	6.2	9.3	4.7
Personal cons. expenditures		4.8	5.8	4.3	4.9	5.7	5.6	5.0	5.9	7.6	3.1
Durables		9.4	13.9	4.1	23.9	8.6	15.0	8.0	13.0	23.6	-5.0
Nondurables		4.7	5.8	4.3	5.2	7.8	3.8	4.9	7.4	6.0	3.6
Services		4.0	4.3	4.3	1.3	4.1	4.6	4.5	3.8	5.2	4.6
Business fixed investment		20.1	15.6	3.5	13.2	9.5	9.6	11.8	9.5	21.0	14.6
Equipment & Software		24.6	16.1	6.5	16.7	14.1	15.2	18.0	9.5	20.6	17.9
Monres. structures		7.9	14.1	-4.7	3.3	-3.4	-6.2	-6.2	9.7	22.3	4.4
Residential structures		9.6	12.6	10.3	8.9	8.2	5.9	-3.1	0.5	3.2	1.3
Exports		1.0	-3.0	-3.2	15.1	-7.9	5.8	10.2	10.3	6.3	14.3
Imports		14.2	13.1	5.5	12.2	4.5	16.2	16.9	10.7	12.0	18.6
Gov't. cons. & investment		-1.0	7.3	1.4	2.8	3.7	0.8	4.8	8.5	-1.1	4.8
Federal		-9.1	12.9	-3.2	3.7	-2.2	2.0	6.9	13.2	-14.2	17.2
Defense		-17.7	13.1	5.8	-2.4	-3.1	-2.3	12.3	12.6	-19.8	16.9
State & local		3.8	4.4	4.0	2.3	7.0	0.1	3.7	6.1	6.6	-1.1
Change in bus. inventories	Bill. Ch. \$	117.3	60.9	73.1	69.4	48.1	13.1	39.1	80.9	36.6	78.6
Nonfarm		109.7	62.5	79.2	63.5	49.2	14.1	43.5	73.0	33.0	72.3
Net exports		-175.3	-219.8	-244.1	-244.9	-279.8	-314.6	-342.6	-352.5	-376.8	-403.4
Nominal GDP	% change	7.6	4.1	5.0	6.8	5.9	3.9	6.7	9.7	8.3	8.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	124.7	125.5	126.2	127.0	127.8	128.5	129.2	130.1	131.0	131.9
Unemployment rate	%	4.7	4.4	4.5	4.4	4.3	4.3	4.2	4.1	4.1	4.0
Industrial prod. index	% change	3.6	3.0	3.4	2.9	3.9	4.9	5.8	5.7	6.7	7.9
Capacity util. rate - mfg.	%	82.4	81.5	80.8	80.5	80.2	80.3	80.5	80.9	81.3	81.9
Housing starts	Millions	1.56	1.57	1.63	1.72	1.71	1.57	1.65	1.66	1.67	1.59
Light motor vehicle sales		14.99	16.01	14.55	16.24	16.18	16.79	17.08	17.00	18.20	17.24
North Amer. produced		13.07	14.04	12.53	14.07	13.87	14.34	14.61	14.31	15.32	14.36
Other		1.93	1.97	2.02	2.17	2.31	2.45	2.47	2.69	2.88	2.88
INCOME AND SAVING											
Nominal GNP	Bill. \$	8640.3	8725.0	8814.9	8966.6	9097.2	9181.8	9327.3	9546.3	9745.0	9937.4
Nominal GNP	% change	7.8	4.0	4.2	7.1	6.0	3.8	6.5	9.7	8.6	8.1
Nominal personal income		7.7	6.2	5.9	5.7	4.3	5.4	5.2	7.6	6.9	6.9
Real disposable income		6.6	4.5	3.6	3.6	2.9	2.8	2.2	4.5	1.9	3.7
Personal saving rate	%	4.6	4.3	4.1	3.8	3.1	2.5	1.8	1.5	0.2	0.3
Corp. profits, IVA & CCAdj.	% change	-12.6	-5.0	2.0	-7.0	26.5	-6.9	2.5	26.6	20.7	12.2
Profit share of GNP	%	9.5	9.3	9.3	9.0	9.4	9.1	9.0	9.4	9.6	9.7
Excluding FR Banks	%	9.3	9.0	9.0	8.7	9.1	8.8	8.8	9.1	9.3	9.4
Federal surpl./deficit	Bill. \$	25.9	41.9	71.9	56.4	89.7	117.5	147.3	143.3	235.8	240.9
State & local surpl./def.		38.1	33.4	37.5	57.7	47.9	38.0	47.4	66.6	52.0	60.1
Ex. social ins. funds		37.5	32.9	37.2	57.6	48.1	38.3	47.9	67.2	52.5	60.6
Gross natl. saving rate	%	18.9	18.7	19.0	18.7	18.9	18.4	18.4	18.3	18.2	18.6
Net natl. saving rate	%	7.7	7.4	7.6	7.2	7.3	6.7	6.5	6.6	6.6	6.9
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.0	1.1	1.5	1.1	2.2	1.4	1.1	1.6	3.3	2.4
Gross Domestic Purchases											
chn.-wt. price index		0.1	0.8	1.1	1.2	1.9	2.0	1.7	1.9	3.8	2.1
PCE chn.-wt. price index		0.4	1.2	1.4	1.5	1.7	2.3	1.9	2.2	3.5	2.1
Ex. food and energy		1.2	1.8	1.8	1.7	1.8	1.3	1.3	1.7	2.2	1.4
CPI		1.0	1.2	1.7	2.0	1.7	2.7	2.9	3.1	4.3	2.8
Ex. food and energy		2.6	2.1	2.3	2.3	1.8	2.1	1.8	2.5	2.5	2.7
ECI, hourly compensation ¹		3.0	3.3	4.4	2.6	1.4	4.6	3.4	4.6	5.6	4.7
Nonfarm business sector											
Output per hour		4.7	1.6	1.6	3.2	2.0	0.2	5.0	8.0	2.1	6.3
Compensation per hour		6.3	5.3	4.9	4.0	3.8	4.5	5.2	4.2	4.1	6.0
Unit labor cost		1.6	3.6	3.3	0.7	1.8	4.3	0.2	-3.5	1.9	-0.2

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)

June 20, 2001

		----- Projected -----									
Item	Units	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	10039.4	10114.4	10228.8	10318.1	10383.0	10491.2	10624.3	10753.1	10899.5	11051.0
Real GDP	Bill. Ch. \$	9369.5	9393.7	9422.7	9437.0	9466.7	9534.2	9609.1	9685.5	9773.9	9864.8
Real GDP	% change	2.2	1.0	1.2	0.6	1.3	2.9	3.2	3.2	3.7	3.8
Gross domestic purchases		3.0	1.5	0.1	1.3	1.8	2.8	3.8	3.8	4.1	3.6
Final sales		2.4	1.7	4.6	-0.4	1.2	2.9	1.9	2.4	3.6	4.0
Priv. dom. final purchases		4.2	2.0	3.1	-0.1	1.5	2.8	2.3	2.9	4.1	3.9
Personal cons. expenditures		4.5	2.8	3.0	1.6	2.3	3.3	1.9	2.2	3.5	3.1
Durables		7.6	-3.1	12.3	-1.8	-1.4	2.2	1.8	1.7	5.8	4.9
Nondurables		4.7	1.0	1.9	0.4	2.1	3.5	1.9	2.8	3.1	3.1
Services		3.7	4.9	1.8	2.9	3.2	3.5	1.9	2.0	3.3	2.8
Business fixed investment		7.7	-0.1	3.1	-8.4	-2.1	0.4	4.9	6.2	7.8	8.2
Equipment & Software		5.6	-3.3	-0.6	-13.0	-3.3	0.3	6.8	8.3	10.1	10.4
Nonres. structures		14.6	10.4	15.2	5.6	1.2	0.5	0.1	1.0	2.1	2.6
Residential structures		-10.6	-3.6	3.8	0.7	-0.8	1.4	2.2	3.8	3.2	2.8
Exports		13.9	-6.4	-2.6	-0.9	0.4	5.4	1.7	4.8	5.6	9.1
Imports		17.0	-1.2	-9.0	4.2	4.7	4.2	6.5	8.5	8.1	6.4
Gov't. cons. & investment		-1.4	2.9	4.9	2.2	2.9	3.0	3.4	3.5	3.5	3.6
Federal		-9.0	3.8	4.9	1.1	3.1	3.0	3.6	3.5	3.5	3.6
Defense		-9.7	8.9	5.4	-1.0	2.6	2.5	2.7	2.7	2.5	2.7
State & local		2.9	2.5	5.0	2.7	2.8	3.0	3.3	3.4	3.5	3.6
Change in bus. inventories	Bill. Ch. \$	72.5	55.7	-26.8	-2.4	-1.4	-4.9	26.7	46.6	48.6	43.1
Nonfarm		67.4	50.5	-33.1	-8.1	-6.2	-8.0	24.1	45.0	47.5	42.0
Net exports		-427.7	-441.7	-412.3	-431.0	-448.0	-449.3	-469.9	-489.7	-506.1	-506.5
Nominal GDP	% change	3.8	3.0	4.6	3.5	2.5	4.2	5.2	4.9	5.6	5.7
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	131.9	132.3	132.6	132.4	132.2	132.2	132.3	132.6	132.9	133.2
Unemployment rate	%	4.0	4.0	4.2	4.5	4.9	5.2	5.4	5.5	5.6	5.6
Industrial prod. index	% change	3.5	-0.9	-6.7	-6.1	-4.2	0.5	3.1	3.4	3.7	3.2
Capacity util. rate - mfg.	%	81.7	80.3	77.9	76.1	74.8	74.5	74.6	74.9	75.2	75.4
Housing starts	Millions	1.51	1.54	1.63	1.62	1.61	1.62	1.64	1.65	1.65	1.66
Light motor vehicle sales		17.38	16.17	17.12	16.45	15.90	15.70	15.59	15.59	15.69	15.77
North Amer. produced		14.54	13.30	14.19	13.46	13.02	12.74	12.72	12.70	12.78	12.83
Other		2.84	2.87	2.93	3.00	2.88	2.96	2.87	2.89	2.91	2.94
INCOME AND SAVING											
Nominal GNP	Bill. \$	10030.5	10121.8	10228.2	10309.9	10363.1	10462.5	10589.1	10714.8	10857.8	11005.6
Nominal GNP	% change	3.8	3.7	4.3	3.2	2.1	3.9	4.9	4.8	5.4	5.6
Nominal personal income		5.3	3.9	6.0	4.3	4.2	3.1	5.5	4.8	4.9	5.0
Real disposable income		2.6	0.7	2.2	1.8	11.9	-6.6	10.4	2.8	2.8	2.8
Personal saving rate	%	-0.2	-0.7	-1.0	-0.9	1.3	-1.2	0.8	0.9	0.7	0.7
Corp. profits, IVA & CCAdj.	% change	2.8	-21.0	-9.6	-12.1	-10.3	3.3	3.0	-0.3	0.5	1.8
Profit share of GNP	%	9.7	9.0	8.7	8.4	8.1	8.1	8.1	8.0	7.9	7.8
Excluding FR Banks		9.4	8.7	8.4	8.1	7.8	7.8	7.8	7.7	7.6	7.5
Federal surpl./deficit	Bill. \$	253.3	277.0	276.1	269.5	101.2	267.2	158.4	168.7	185.4	186.9
State & local surpl./def.		63.2	63.1	40.3	44.5	35.6	41.0	40.5	39.6	42.9	46.6
Ex. social ins. funds		63.6	63.5	40.7	44.8	35.9	41.3	40.7	39.8	43.1	46.8
Gross natl. saving rate	%	18.5	18.0	17.4	17.2	17.0	16.8	17.2	17.4	17.5	17.5
Net natl. saving rate		6.6	6.0	5.3	4.9	4.5	4.3	4.7	4.9	4.9	4.8
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.6	2.0	3.2	2.9	1.3	1.3	1.9	1.7	1.8	1.8
Gross Domestic Purchases											
chn.-wt. price index		2.0	1.9	2.8	2.0	1.3	1.4	2.0	1.6	1.7	1.7
PCE chn.-wt. price index		1.8	1.9	3.2	2.1	1.3	1.4	1.6	1.6	1.7	1.8
Ex. food and energy		1.1	1.6	2.6	1.6	1.7	1.9	1.9	1.9	1.9	1.9
CPI		3.5	3.0	4.2	2.9	1.5	1.6	1.8	1.9	2.1	2.1
Ex. food and energy		2.5	2.4	3.1	2.5	2.3	2.5	2.5	2.5	2.5	2.5
ECI, hourly compensation ¹		3.8	3.5	4.6	4.3	4.3	4.2	4.0	4.0	3.9	3.9
Nonfarm business sector											
Output per hour		3.0	2.0	-0.9	2.3	1.5	3.0	3.1	2.8	2.9	2.9
Compensation per hour		6.2	6.6	5.1	6.0	5.3	5.1	5.0	4.8	4.7	4.6
Unit labor cost		3.2	4.5	6.0	3.7	3.8	2.1	2.0	2.0	1.8	1.7

1. Private-industry workers.

Item	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	98Q4/ 97Q4	99Q4/ 98Q4	00Q4/ 99Q4
Real GDP	3.4	5.6	3.5	2.5	5.7	8.3	4.8	5.6	2.2	4.6	5.0	3.4
Gross dom. purchases	4.5	5.5	5.0	3.8	6.8	8.6	5.8	6.7	3.1	5.8	6.0	4.3
Final sales	2.9	5.8	4.4	3.9	4.5	6.5	6.6	3.9	2.4	4.6	4.8	3.6
Priv. dom. final purchases	3.7	5.3	5.2	5.1	4.8	5.3	7.7	4.1	3.5	5.3	5.1	4.3
Personal cons. expenditures	2.8	3.3	3.7	3.7	3.4	4.1	5.0	2.1	3.0	3.3	3.7	3.0
Durables	0.3	1.7	0.7	1.1	0.6	1.0	1.8	-0.4	0.6	1.0	0.9	0.4
Nondurables	0.8	1.0	1.5	0.8	1.0	1.5	1.2	0.7	0.9	1.0	1.2	0.8
Services	1.7	0.5	1.6	1.8	1.8	1.6	2.0	1.8	1.5	1.4	1.7	1.8
Business fixed investment	0.4	1.6	1.2	1.2	1.5	1.2	2.5	1.9	1.0	1.5	1.3	1.4
Equipment & Software	0.6	1.5	1.3	1.4	1.7	0.9	1.9	1.7	0.6	1.4	1.3	1.0
Nonres. structures	-0.2	0.1	-0.1	-0.2	-0.2	0.3	0.6	0.1	0.4	0.2	-0.1	0.4
Residential structures	0.4	0.4	0.3	0.3	-0.1	0.0	0.1	0.1	-0.5	0.4	0.1	-0.1
Net exports	-1.0	0.1	-1.4	-1.4	-1.1	-0.4	-0.9	-1.0	-0.9	-1.1	-1.1	-0.9
Exports	-0.4	1.5	-0.9	0.6	1.1	1.1	0.7	1.5	1.5	0.3	0.5	0.7
Imports	-0.7	-1.5	-0.6	-2.0	-2.1	-1.5	-1.6	-2.5	-2.4	-1.4	-1.5	-1.6
Government cons. & invest.	0.3	0.5	0.6	0.1	0.8	1.5	-0.2	0.9	-0.2	0.5	0.8	0.2
Federal	-0.2	0.2	-0.1	0.1	0.4	0.8	-0.9	1.0	-0.6	0.0	0.3	-0.1
Defense	0.2	-0.1	-0.1	-0.1	0.5	0.5	-0.9	0.6	-0.4	-0.0	0.2	-0.1
Nondefense	-0.4	0.3	-0.0	0.2	-0.1	0.3	-0.1	0.4	-0.2	0.1	0.1	0.0
State and local	0.5	0.3	0.8	0.0	0.4	0.7	0.8	-0.1	0.3	0.4	0.5	0.3
Change in bus. inventories	0.6	-0.2	-0.9	-1.4	1.2	1.8	-1.8	1.7	-0.2	0.0	0.2	-0.2
Nonfarm	0.8	-0.7	-0.6	-1.4	1.3	1.3	-1.6	1.6	-0.2	0.0	0.1	-0.2
Farm	-0.2	0.5	-0.3	0.0	-0.1	0.5	-0.2	0.1	-0.1	0.0	0.1	0.0

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

Item	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	00Q4/ 99Q4	01Q4/ 00Q4	02Q4/ 01Q4
Real GDP	1.0	1.2	0.6	1.3	2.9	3.2	3.2	3.7	3.8	3.4	1.5	3.5
Gross dom. purchases	1.6	0.1	1.3	1.9	2.9	3.9	3.9	4.3	3.8	4.3	1.6	4.0
Final sales	1.7	4.6	-0.4	1.2	2.9	1.9	2.4	3.6	4.0	3.6	2.1	3.0
Priv. dom. final purchases	1.7	2.6	-0.1	1.3	2.4	2.0	2.5	3.5	3.3	4.3	1.6	2.8
Personal cons. expenditures	1.9	2.0	1.1	1.6	2.3	1.3	1.5	2.4	2.1	3.0	1.7	1.6
Durables	-0.3	0.9	-0.2	-0.1	0.2	0.1	0.1	0.4	0.4	0.4	0.2	0.3
Nondurables	0.2	0.4	0.1	0.4	0.7	0.4	0.6	0.6	0.6	0.8	0.4	0.5
Services	1.9	0.7	1.2	1.3	1.4	0.8	0.8	1.3	1.2	1.8	1.1	1.0
Business fixed investment	-0.0	0.4	-1.2	-0.3	0.1	0.6	0.8	1.0	1.0	1.4	-0.2	0.9
Equipment & Software	-0.4	-0.1	-1.4	-0.3	0.0	0.6	0.8	0.9	1.0	1.0	-0.4	0.8
Nonres. structures	0.3	0.5	0.2	0.0	0.0	0.0	0.0	0.1	0.1	0.4	0.2	0.1
Residential structures	-0.2	0.2	0.0	-0.0	0.1	0.1	0.2	0.1	0.1	-0.1	0.1	0.1
Net exports	-0.6	1.1	-0.7	-0.6	-0.0	-0.7	-0.7	-0.6	0.0	-0.9	-0.1	-0.5
Exports	-0.7	-0.3	-0.1	0.0	0.6	0.2	0.5	0.6	0.9	0.7	0.1	0.6
Imports	0.2	1.4	-0.6	-0.7	-0.6	-0.9	-1.2	-1.1	-0.9	-1.6	-0.1	-1.0
Government cons. & invest.	0.5	0.8	0.4	0.5	0.5	0.6	0.6	0.6	0.7	0.2	0.6	0.6
Federal	0.2	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2	-0.1	0.2	0.2
Defense	0.3	0.2	-0.0	0.1	0.1	0.1	0.1	0.1	0.1	-0.1	0.1	0.1
Nondefense	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1
State and local	0.3	0.6	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.4
Change in bus. inventories	-0.6	-3.3	1.0	0.1	-0.0	1.3	0.8	0.1	-0.2	-0.2	-0.6	0.5
Nonfarm	-0.6	-3.3	1.0	0.1	-0.1	1.3	0.8	0.1	-0.2	-0.2	-0.6	0.5
Farm	0.0	-0.0	-0.0	0.0	0.0	0.0	-0.0	-0.0	0.0	0.0	0.0	-0.0

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

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

Item	Fiscal year ¹				2000				2001				2002			
	1999 ^a	2000 ^a	2001	2002	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1 ^a	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts ²	1827	2025	2070	2154	434	656	492	461	460	670	478	515	452	666	521	497
Outlays ²	1703	1789	1884	1940	449	444	431	464	482	463	476	494	486	483	477	511
Surplus/deficit ²	125	236	185	214	-15	212	60	-2	-22	207	3	21	-34	183	45	-14
On-budget	1	87	21	40	-45	147	50	-14	-88	138	-15	-29	-62	107	23	-70
Off-budget	124	150	164	174	30	65	10	12	65	69	18	50	27	75	21	56
Surplus excluding deposit insurance	119	233	183	212	-18	211	60	-3	-23	207	2	21	-35	182	44	-14
Means of financing																
Borrowing	-89	-223	-154	-195	-27	-190	-54	-25	24	-161	9	-30	20	-133	-52	-6
Cash decrease	-18	4	9	-1	39	-13	5	32	-7	-20	5	14	10	-40	15	20
Other ³	-18	-18	-40	-18	4	-10	-12	-4	6	-26	-16	-5	4	-10	-7	0
Cash operating balance, end of period	56	53	44	45	45	57	53	21	28	48	44	30	20	60	45	25
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	1837	2024	2105	2152	2012	2055	2089	2107	2141	2157	2014	2190	2113	2138	2168	2198
Expenditures	1735	1806	1873	1957	1776	1814	1836	1830	1862	1887	1912	1923	1954	1969	1982	2012
Consumption expenditures	464	489	506	538	479	499	490	489	508	511	516	521	538	543	549	555
Defense	306	320	332	348	311	326	320	322	334	335	337	340	349	351	354	357
Nondefense	158	168	174	189	168	173	170	167	173	177	179	181	189	192	195	198
Other spending	1270	1317	1367	1419	1297	1315	1346	1341	1354	1376	1396	1402	1416	1426	1433	1457
Current account surplus	103	218	232	195	236	241	253	277	279	269	101	267	159	169	185	187
Gross investment	94	104	112	117	101	106	104	113	110	112	113	115	117	118	119	121
Current and capital account surplus	9	114	120	78	134	135	149	164	170	158	-12	152	42	51	66	66
Fiscal indicators⁴																
High-employment (HEB)																
surplus/deficit	-67	5	54	57	29	17	35	69	90	101	-45	125	23	34	48	45
Change in HEB, percent of potential GDP	-.8	-.8	-.5	-0	-1	.1	-.2	-.3	-.2	-.1	1	-2	1	-.1	-.1	0
Fiscal impetus (FI)																
percent, calendar year	5	2	9	12	-6	6	-2	.3	2	2	12	-8	10	1	.8	1

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 April 2001 baseline surplus estimates are \$284 billion in FY2001 and \$283 billion in FY 2002. CBO's May 2001 baseline surplus estimates, assuming discretionary spending grows with inflation beginning in FY 2002, are \$275 billion in FY2001 and \$304 billion in FY 2002. These baseline estimates exclude the recently enacted tax bill which, according to estimates from the Joint Committee on Taxation, will reduce the surplus by \$74 billion in FY 2001 and by \$38 billion in FY 2002. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.

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

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

a--Actual

Period ¹	Total ²	Federal government ³	Nonfederal						Memo: Nominal GDP
			Total ⁴	Households			Business	State and local governments	
				Total	Home mortgages	Consumer credit			
<i>Year</i>									
1995	5.5	4.1	6.0	8.0	6.0	14.1	6.6	-4.6	4.3
1996	5.3	4.0	5.8	7.3	7.3	7.9	5.7	-0.6	6.0
1997	5.6	0.6	7.3	6.5	7.0	4.3	8.9	5.3	6.2
1998	6.6	-1.4	9.3	8.5	9.6	5.4	10.7	7.2	5.9
1999	6.7	-1.9	9.3	8.8	9.8	7.1	10.9	4.4	6.5
2000	5.0	-8.0	8.5	8.6	8.6	9.3	9.6	2.2	5.8
2001	4.7	-4.7	6.8	7.2	7.5	6.6	6.5	6.1	3.7
2002	4.5	-5.3	6.5	6.4	7.3	4.2	7.5	2.5	5.3
<i>Quarter</i>									
1999:3	6.9	-1.9	9.3	9.1	10.3	5.5	10.7	4.3	6.7
4	6.1	-0.9	8.1	7.6	8.3	7.8	9.8	2.7	9.7
2000:1	5.3	-5.9	8.3	7.9	6.9	10.2	10.4	0.3	8.3
2	5.4	-11.4	9.8	9.5	9.9	9.4	11.8	1.7	8.2
3	4.2	-6.2	6.8	8.0	8.5	8.2	6.4	1.9	3.8
4	4.6	-9.6	8.0	8.1	8.1	8.1	8.5	4.8	3.0
2001:1	5.3	-0.3	6.6	7.8	7.8	9.9	5.1	7.0	4.6
2	4.1	-8.9	7.0	7.3	7.2	7.4	7.1	4.8	3.5
3	5.6	0.9	6.6	6.6	7.0	4.9	6.4	8.0	2.5
4	3.4	-10.6	6.4	6.4	7.1	3.4	6.9	4.0	4.2
2002:1	5.1	-0.8	6.3	6.2	7.0	4.4	7.2	2.5	5.2
2	4.3	-5.8	6.3	6.1	7.0	3.8	7.3	2.4	4.9
3	4.3	-6.7	6.4	6.3	7.1	4.2	7.4	2.4	5.6
4	4.1	-8.3	6.4	6.3	7.1	4.3	7.3	2.4	5.7

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2001:Q1 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2. On a monthly average basis, total debt is projected to grow 4.9 percent in 2001 and 4.4 percent in 2002.

3. On a monthly average basis, federal debt is projected to grow -4.5 percent in 2001 and -5.7 percent in 2002.

4. On a monthly average basis, nonfederal debt is projected to grow 7.0 percent in 2001 and 6.5 percent in 2002.

Category	Calendar year				Seasonally adjusted annual rates									
					2000		2001				2002			
	1999	2000	2001	2002	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	945.3	696.0	810.1	821.1	664.5	434.3	931.6	672.0	1025.8	611.0	922.3	785.4	801.2	775.6
2 Net equity issuance	-143.5	-166.6	-46.7	-45.1	-87.7	-394.8	-33.9	-90.4	-25.7	-36.7	-53.9	-47.6	-42.0	-36.8
3 Net debt issuance	1088.8	862.7	856.8	866.2	752.2	829.1	965.5	762.4	1051.5	647.7	976.2	833.0	843.2	812.4
<i>Borrowing sectors</i>														
<i>Nonfinancial business</i>														
4 Financing gap ¹	205.3	265.5	241.0	297.5	281.2	299.8	217.2	247.3	254.2	245.2	277.1	291.8	308.9	312.2
5 Net equity issuance	-143.5	-166.6	-46.7	-45.1	-87.7	-394.8	-33.9	-90.4	-25.7	-36.7	-53.9	-47.6	-42.0	-36.8
6 Credit market borrowing	575.3	565.2	420.6	516.2	397.6	537.9	326.5	466.5	423.7	465.7	492.7	510.7	529.6	531.7
<i>Households</i>														
7 Net borrowing ²	532.4	566.2	516.3	488.1	550.5	565.2	559.9	532.8	492.2	480.6	475.6	476.5	494.1	506.5
8 Home mortgages	409.8	397.8	374.0	390.5	407.3	399.5	390.3	365.2	365.2	375.2	376.2	385.2	395.2	405.2
9 Consumer credit	94.4	132.3	102.7	70.7	122.5	123.7	155.6	118.7	79.7	57.0	73.4	64.0	71.6	74.0
10 Debt/DPI (percent) ³	94.9	98.1	101.1	102.4	98.4	99.8	100.5	101.4	100.0	103.1	101.7	102.2	102.6	103.0
<i>State and local governments</i>														
11 Net borrowing	52.3	27.2	78.2	33.4	23.6	60.4	89.9	62.8	105.8	54.4	33.4	33.4	33.4	33.4
12 Current surplus ⁴	196.8	220.9	216.9	229.2	225.6	229.1	211.5	220.7	214.0	221.7	223.5	225.0	230.8	237.3
<i>Federal government</i>														
13 Net borrowing	-71.2	-295.9	-158.4	-171.5	-219.5	-334.5	-10.8	-299.7	29.8	-353.0	-25.4	-187.6	-213.9	-259.2
14 Net borrowing (quarterly, n.s.a.)	-71.2	-295.9	-158.4	-171.5	-53.8	-25.0	23.7	-161.0	8.6	-29.7	20.0	-132.9	-52.4	-6.2
15 Unified deficit (quarterly, n.s.a.)	-158.3	-254.8	-208.8	-178.8	-60.4	2.3	22.5	-207.3	-2.7	-21.2	34.3	-182.5	-44.6	14.1
<i>Depository institutions</i>														
16 Funds supplied	404.3	446.6	242.5	279.2	456.0	268.8	197.9	228.0	265.8	278.5	258.7	273.7	291.7	292.7
<i>Memo (percentage of GDP)</i>														
17 Domestic nonfinancial debt ⁵	180.9	178.9	180.5	180.5	178.8	179.5	179.7	180.3	181.3	181.5	181.1	181.0	180.5	179.9
18 Domestic nonfinancial borrowing	11.7	8.7	8.3	8.0	7.5	8.2	9.4	7.4	10.1	6.2	9.2	7.7	7.7	7.4
19 Federal government ⁶	-0.8	-3.0	-1.5	-1.6	-2.2	-3.3	-0.1	-2.9	0.3	-3.4	-0.2	-1.7	-2.0	-2.3
20 Nonfederal	12.5	11.6	9.8	9.6	9.7	11.5	9.5	10.3	9.8	9.5	9.4	9.5	9.7	9.7

Note. Data after 2001:Q1 are staff projections.

1. For corporations: Excess of capital expenditures over U.S. internal funds.

2. Includes change in liabilities not shown in lines 8 and 9.

3. Average debt levels in the period (computed as the average of period-end debt positions) divided by disposable personal income.

4. NIPA surplus less changes in retirement fund assets plus consumption of fixed capital.

5. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.

6. Excludes government-insured mortgage pool securities.

International Developments

Overview

Once again, we have marked down our estimate of foreign economic growth in the first half of this year, as recent data from Latin America, Japan, and many Asian developing countries have been weaker than anticipated. Canada is the only major trading partner for which data have surprised us on the upside, but Canadian growth is still weaker than in the previous few years.

We have adjusted down our projections for growth in the second half of 2001 nearly everywhere, reflecting our revised assessment of the implications of the high-tech slowdown for the United States and the rest of the world. With reduced high-tech investment and with inflation data coming in a little higher than expected in many countries, we have also lowered our estimates of the levels and growth rates of foreign potential output.

With the projected return of U.S. output growth to its potential rate and some stimulus from macroeconomic policy abroad, we expect foreign economic growth to pick up in 2002 to roughly the rate of potential growth. Because foreign activity should remain a little below potential over the rest of the forecast period, we do not expect a generalized acceleration of foreign price pressures in 2002.

Summary of Staff Projections

(Percent change from end of previous period, s.a.a.r.)

Indicator	2000		Projection			
	H1	H2	2001			2002
			Q1	Q2	H2	
Foreign output	5.5	2.7	1.1	1.4	2.3	3.4
<i>May GB</i>	5.6	2.9	1.7	1.7	2.9	3.7
Foreign CPI	2.1	3.5	1.5	3.0	3.1	2.7
<i>May GB</i>	2.1	3.5	1.4	2.5	3.0	2.7

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

Oil prices have held fairly steady in the past few weeks. In line with futures prices, we continue to project a gradual decline over the forecast period toward roughly the same level we projected in the May Greenbook. The foreign exchange value of the dollar has strengthened slightly since our last projection. We are forecasting a 1 percent depreciation of the broad real dollar index over the next six quarters, to a level in 2002:Q4 that is a bit higher than its projected value in the May Greenbook.

emerging market economies of high-tech products. We now estimate that average real GDP in the major developing countries increased at only a 1 percent rate in the first half of this year, a percentage point slower than forecast in the May Greenbook. Growth is then expected to strengthen gradually, moving up to 4½ percent by the end of next year, led by exports. For these countries, recovery depends importantly on the projected strengthening in global growth, particularly growth in the United States. For several of the developing Asian economies, recovery in the global high-tech sector is critical. Our outlook for Latin America assumes that developments in Argentina do not have significant additional spillover effects.

Prices of internationally traded goods. In line with recent futures quotes, we project that the spot price of WTI will hold near \$28 per barrel into the fourth quarter of this year, but will then decline to around \$25 per barrel by the end of next year. Prices of non-oil core imports are projected to decline in the current quarter, moving in response to swings in natural gas prices, before rising a bit during the second half of the year. In 2002, core prices accelerate to a 2 percent rate, reflecting the slight depreciation of the dollar and a modest acceleration of non-oil commodity prices. Prices of exported core goods are projected to decline a bit through most of this year and increase at an average rate of about 1 percent next year, as declines in energy-related products are eventually more than offset by modest increases in the prices of other exported goods.

Selected Trade Prices

(Percent change from end of previous period except as noted; s.a.a.r.)

Trade category	2000		Projection			
	Q3	Q4	2001			2002
			Q1	Q2	H2	
<i>Exports</i>						
Core goods	.1	1.1	.0	-1.3	-.2	.9
<i>Imports</i>						
Non-oil core goods	1.4	1.0	1.9	-5.2	1.4	2.1
Oil (dollars per barrel)	28.73	29.11	25.28	24.38	24.65	21.95

NOTE. Prices for core exports and non-oil core imports, which exclude computers and semiconductors, are on a NIPA chain-weighted basis.

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

U.S. international transactions. Real imports of goods and services are estimated to have declined 9 percent at an annual rate in the first quarter, a somewhat smaller decline than we had written down in the May Greenbook. This decline was broadly based, with the steepest declines recorded in high-tech

products and other machinery, automotive products, and consumer goods, consistent with the marked slowdown of U.S. activity. The modest pickup in real imports estimated to have begun in the current quarter is attributable primarily to the effects of the strong dollar. Imports should accelerate further next year as U.S. growth gathers momentum.

**Summary of Staff Projections
for Trade in Goods and Services**
(Percent change from end of previous period, s.a.a.r.)

Measure	2000		Projection			
	Q3	Q4	2001			2002
			Q1	Q2	H2	
Real exports	13.9	-6.4	-2.6	-0.9	2.9	5.3
<i>May GB</i>	<i>13.9</i>	<i>-6.4</i>	<i>-2.0</i>	<i>0.6</i>	<i>4.9</i>	<i>6.5</i>
Real imports	17.0	-1.2	-9.0	4.2	4.5	7.4
<i>May GB</i>	<i>17.0</i>	<i>-1.2</i>	<i>-10.8</i>	<i>3.2</i>	<i>6.5</i>	<i>7.9</i>

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

We estimate that real exports of goods and services declined 2½ percent (a.r.) in the first quarter after a 6½ percent decline in the previous quarter. The downward shift in real exports during those quarters was shared by many categories, with the largest declines in high-tech goods and automotive products. This decline owes to weak foreign growth and the dollar's strength. These factors are also expected to hold down exports in the current quarter. Going forward, despite the lingering contractionary effects of past dollar appreciation, exports are projected to accelerate by the end of this year, as foreign economic growth rebounds.

We project that the contribution of exports to U.S. GDP growth will be negligible in 2001 and rise to ½ percentage point in 2002. Imports are also expected to make a negligible contribution in 2001 and a negative arithmetic contribution of 1 percentage point in 2002. Overall, the arithmetic contribution of the foreign sector to GDP growth is near zero in 2001 and moves to a negative ½ percentage point next year. The U.S. current account deficit as a share of GDP is projected to drop in the first two quarters of this year to just over 4 percent (compared with 4½ percent in the second half of last year), reflecting a larger drop in imports than exports. We expect the deficit will increase to over 4½ percent of GDP in the second half of 2001 and rise to nearly 5 percent in 2002. Much of the projected movement in the current account is in the goods and services account, but the net outflow of investment income also increases substantially as the U.S. net liability position expands.

Alternative Simulations:**Asian Gloom**

(Percent change from previous period, annual rate)

Indicator and simulation	2001		2002	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	0.9	2.1	3.2	3.7
Currency and domestic demand shocks in Japan and developing Asia				
Unchanged real funds rate	0.9	1.8	2.9	3.4
Taylor rule	0.9	1.8	2.9	3.7
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	2.1	1.8	1.9	1.9
Currency and domestic demand shocks in Japan and developing Asia				
Unchanged real funds rate	2.1	1.7	1.5	1.5
Taylor rule	2.1	1.7	1.5	1.5

NOTE. H1 is Q2/Q4; H2 is Q4/Q2.

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

Measure and country	1994	1995	1996	1997	1998	1999	2000	--Projected--	
								2001	2002
REAL GDP (1)									

Total foreign	5.1	2.4	4.1	4.2	1.4	4.8	4.1	1.8	3.4
Industrial Countries	4.0	1.9	2.6	3.5	2.6	3.8	3.1	1.6	2.7
of which:									
Canada	5.3	1.5	2.6	4.5	4.2	5.1	3.5	2.2	3.1
Japan	1.7	2.6	2.9	0.7	-1.4	0.4	2.5	-1.1	1.0
United Kingdom	4.6	1.9	2.9	3.5	2.0	3.2	2.6	2.0	2.6
Euro Area (2)	3.0	1.4	1.6	3.1	2.1	3.4	2.9	1.8	2.6
Germany	2.9	1.1	1.3	1.6	1.0	2.5	2.6	1.2	2.2
Developing Countries	6.8	3.1	6.2	5.1	-0.2	6.2	5.4	1.9	4.4
Asia	8.8	7.2	7.0	4.7	-2.0	8.8	6.1	1.9	4.7
Korea	9.1	7.5	6.4	3.4	-5.2	13.8	5.2	2.0	4.2
China	16.3	12.6	9.2	8.2	9.5	6.2	7.4	7.3	7.6
Latin America	5.3	-3.7	6.0	6.1	1.3	4.3	4.8	1.7	4.1
Mexico	5.2	-7.1	7.1	6.7	2.8	5.5	5.2	1.6	4.4
Brazil	10.2	-0.7	3.4	2.3	-0.8	3.5	4.2	1.6	2.9
CONSUMER PRICES (3)									

Industrial Countries	1.1	1.3	1.4	1.5	1.0	1.1	1.9	1.5	1.2
of which:									
Canada	-0.0	2.0	2.0	1.0	1.1	2.4	3.1	2.2	1.9
Japan	0.8	-0.8	0.1	2.0	0.8	-1.3	-1.1	-0.6	-0.7
United Kingdom (4)	2.2	2.9	3.2	2.7	2.5	2.2	2.1	2.2	2.4
Euro Area (2)	NA	NA	1.9	1.5	0.8	1.5	2.7	2.3	1.9
Germany	2.8	1.4	1.3	1.5	0.3	1.1	2.5	2.3	1.3
Developing Countries	22.9	16.9	10.7	6.8	9.0	4.6	4.2	4.2	4.8
Asia	10.8	6.4	4.2	2.8	4.4	0.2	1.9	2.5	3.7
Korea	5.8	4.3	5.0	4.9	5.9	1.2	2.8	4.1	3.0
China	26.9	11.1	6.8	0.9	-1.2	-0.9	0.9	1.6	3.8
Latin America	54.0	42.0	25.8	15.5	15.4	12.5	8.4	6.4	6.5
Mexico	7.0	48.7	28.0	17.0	17.4	13.6	8.8	6.5	6.7
Brazil	1196.9	21.5	9.6	4.6	1.5	8.2	6.1	5.9	5.0

1. Foreign GDP aggregates calculated using shares of U.S. exports.
2. Harmonized data for euro area from Eurostat.
3. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.
4. CPI excluding mortgage interest payments, which is the targeted inflation rate.

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

Measure and country	2000				2001				Projected 2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	----- Quarterly changes at an annual rate -----											
Total foreign	7.5	3.5	3.8	1.5	1.1	1.4	1.9	2.8	3.4	3.2	3.5	3.6
Industrial Countries of which:	5.7	2.4	2.4	2.0	1.8	1.1	1.3	2.3	2.7	2.7	2.8	2.8
Canada	6.1	1.9	4.5	1.6	2.5	1.3	1.8	3.0	3.1	3.1	3.2	3.2
Japan	10.0	0.5	-2.7	2.6	-0.8	-1.2	-2.3	-0.2	1.1	0.7	1.0	1.3
United Kingdom	1.6	3.6	3.4	1.6	1.7	1.5	2.3	2.6	2.5	2.7	2.7	2.7
Euro Area (2)	3.8	3.0	2.4	2.4	2.2	1.4	1.7	2.1	2.5	2.5	2.6	2.6
Germany	3.9	4.8	1.1	0.8	1.5	0.7	1.0	1.7	2.2	2.2	2.3	2.3
Developing Countries	10.3	5.0	5.8	0.6	0.0	1.7	2.6	3.5	4.3	4.0	4.5	4.7
Asia	10.9	4.4	6.5	2.7	0.2	1.3	2.4	3.5	4.7	4.0	4.8	5.1
Korea	6.6	6.4	9.8	-1.7	1.2	2.0	2.0	3.0	3.5	4.0	4.5	5.0
China	9.6	1.9	11.0	7.5	12.3	2.0	7.5	7.5	12.0	3.0	7.5	8.0
Latin America	10.4	5.5	4.8	-1.3	-0.9	1.7	2.5	3.4	4.0	4.0	4.1	4.1
Mexico	12.0	6.0	5.7	-2.4	-1.4	1.5	2.5	3.8	4.4	4.4	4.5	4.5
Brazil	5.4	5.9	4.5	1.0	0.4	2.0	2.0	2.0	2.5	2.7	3.0	3.2
CONSUMER PRICES (3)	----- Four-quarter changes -----											
Industrial Countries of which:	1.6	1.5	1.7	1.9	1.8	2.0	1.7	1.5	1.5	1.3	1.3	1.2
Canada	2.7	2.4	2.7	3.1	2.8	2.8	2.4	2.2	2.4	2.3	2.1	1.9
Japan	-0.8	-0.9	-1.1	-1.1	-0.6	-0.5	-0.7	-0.6	-1.1	-0.8	-0.8	-0.7
United Kingdom (4)	2.1	2.1	2.1	2.1	1.9	2.1	2.2	2.2	2.4	2.4	2.4	2.4
Euro Area (2)	2.0	2.1	2.5	2.7	2.5	3.0	2.6	2.3	2.3	1.7	1.8	1.9
Germany	2.0	1.7	2.2	2.5	2.4	3.2	2.6	2.3	1.8	1.2	1.2	1.3
Developing Countries	3.9	3.8	4.0	4.2	3.8	4.1	4.1	4.2	5.1	5.2	5.1	4.8
Asia	0.5	0.8	1.4	1.9	1.8	2.5	2.5	2.5	3.2	3.6	3.7	3.7
Korea	1.5	1.5	3.2	2.8	4.2	5.2	4.1	4.1	3.9	3.3	3.0	3.0
China	0.1	0.2	0.3	0.9	0.6	1.5	1.6	1.6	2.4	3.3	3.7	3.8
Latin America	10.0	9.2	8.7	8.4	7.2	6.9	6.5	6.4	7.6	7.5	7.0	6.5
Mexico	10.5	9.6	9.0	8.8	7.5	7.0	6.6	6.5	8.0	7.8	7.3	6.7
Brazil	7.8	6.7	7.6	6.1	6.2	6.9	5.8	5.9	6.0	5.9	5.4	5.0

1. Foreign GDP aggregates calculated using shares of U.S. exports.
2. Harmonized data for euro area from Eurostat.
3. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.
4. CPI excluding mortgage interest payments, which is the targeted inflation rate.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1994	1995	1996	1997	1998	1999	2000	--Projected-- 2001	2002
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NIPA REAL EXPORTS and IMPORTS	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	-0.3	0.4	-0.2	-0.8	-1.1	-1.1	-0.9	-0.1	-0.5
Exports of G&S	1.0	1.0	1.1	1.0	0.3	0.5	0.7	0.1	0.6
Imports of G&S	-1.3	-0.6	-1.3	-1.7	-1.4	-1.5	-1.6	-0.1	-1.0
Percentage change, Q4/Q4									
Exports of G&S	10.5	9.7	9.8	8.5	2.2	4.3	6.7	0.5	5.3
Services	8.2	8.8	8.9	1.4	2.8	0.2	2.7	1.3	5.6
Computers	27.4	39.1	21.6	25.8	7.0	13.3	23.7	5.6	25.1
Semiconductors	66.9	79.6	44.6	21.3	9.3	34.4	26.3	-8.8	25.7
Other Goods 1/	7.9	4.6	7.3	9.8	1.2	3.7	5.8	0.6	2.1
Imports of G&S	12.2	5.0	11.2	14.3	11.2	12.0	11.3	0.8	7.4
Services	1.8	5.5	5.3	14.0	9.5	2.1	13.2	3.4	5.1
Oil	-0.2	2.4	7.8	3.9	4.6	-3.9	12.6	2.9	2.1
Computers	39.0	35.0	17.8	33.0	26.7	25.0	14.7	-1.5	25.1
Semiconductors	54.5	92.4	56.7	32.9	-7.3	34.0	23.4	-14.6	25.7
Other Goods 2/	12.3	-1.2	10.5	12.7	11.6	13.9	10.0	0.9	6.4
Billions of chained 1996 dollars									
Net Goods & Services	-86.5	-78.4	-89.0	-113.3	-221.0	-322.4	-412.4	-435.1	-493.0
Exports of G&S	732.8	808.2	874.2	981.5	1003.6	1033.0	1126.3	1134.4	1175.1
Imports of G&S	819.4	886.6	963.1	1094.8	1224.6	1355.3	1538.7	1569.6	1668.1
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Billions of dollars									
US CURRENT ACCOUNT BALANCE	-118.6	-109.5	-123.3	-140.5	-217.1	-331.5	-435.8	-452.4	-533.0
Current Acct as Percent of GDP	-1.7	-1.5	-1.6	-1.7	-2.5	-3.6	-4.4	-4.4	-4.9
Net Goods & Services (BOP)	-97.0	-96.0	-102.1	-105.9	-166.9	-265.0	-368.9	-373.9	-427.6
Investment Income, Net	21.1	25.0	23.4	11.1	-1.0	-13.1	-8.1	-18.7	-44.5
Direct, Net	55.2	64.9	69.4	71.9	67.7	62.7	83.8	90.4	80.6
Portfolio, Net	-34.1	-39.9	-46.0	-60.9	-68.8	-75.8	-91.9	-109.1	-125.1
Other Income & Transfers, Net	-42.7	-38.6	-44.6	-45.7	-49.2	-53.4	-58.8	-59.8	-60.8

1. Merchandise exports excluding computers, and semiconductors.

2. Merchandise imports excluding oil, computers, and semiconductors.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1997				1998				1999			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
PIPA REAL EXPORTS and IMPORTS												
	Percentage point contribution to GDP growth											
Net Goods & Services	-1.0	-0.3	-0.8	-0.9	-1.6	-1.9	-1.0	0.1	-1.4	-1.3	-1.0	-0.3
Exports of G&S	0.8	1.9	1.2	-0.1	0.1	-0.3	-0.4	1.5	-0.9	0.6	1.1	1.1
Imports of G&S	-1.8	-2.2	-2.0	-0.8	-1.7	-1.6	-0.7	-1.5	-0.6	-1.9	-2.1	-1.4
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	7.5	17.6	10.6	-0.8	1.0	-3.0	-3.2	15.1	-7.9	5.8	10.2	10.3
Services	-5.8	9.4	6.0	-3.3	5.2	6.4	-10.0	10.8	-3.8	2.8	-2.5	4.6
Computers	60.0	44.5	25.7	-14.0	-7.5	7.6	14.7	14.7	5.2	26.7	22.2	1.2
Semiconductors	50.3	22.1	19.6	-1.4	2.1	-13.6	18.9	35.9	38.7	39.1	37.8	22.5
Other Goods 1/	8.4	19.2	10.9	1.5	-0.3	-7.2	-2.3	15.9	-13.2	3.7	13.9	12.8
Imports of G&S	15.3	18.8	17.3	6.4	14.2	13.1	5.5	12.2	4.5	16.2	16.9	10.7
Services	20.0	5.6	23.1	8.3	20.0	6.7	9.8	2.2	-7.7	2.5	6.3	8.2
Oil	-7.5	36.8	5.7	-12.9	6.4	41.2	2.1	-22.0	2.4	29.4	-5.8	-31.5
Computers	46.6	45.8	32.4	10.5	32.5	22.6	10.6	43.2	28.8	48.5	14.8	11.2
Semiconductors	78.1	26.0	31.6	5.6	2.0	-22.9	0.1	-6.1	17.8	53.8	24.1	43.3
Other Goods 2/	11.6	17.2	14.8	7.5	12.6	14.0	4.5	15.6	5.0	14.6	21.5	14.9
	Billions of chained 1996 dollars, s.a.a.r.											
Net Goods & Services	-94.0	-100.6	-119.6	-139.2	-175.3	-219.7	-244.1	-244.9	-279.8	-314.6	-342.6	-352.5
Exports of G&S	940.3	979.2	1004.2	1002.1	1004.5	996.8	988.8	1024.1	1003.3	1017.6	1042.6	1068.4
Imports of G&S	1034.3	1079.8	1123.8	1141.2	1179.8	1216.6	1232.9	1269.0	1283.1	1332.2	1385.2	1420.9
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-137.5	-119.9	-133.6	-171.1	-169.6	-205.9	-245.2	-247.9	-266.5	-315.9	-358.6	-384.9
Current Account as % of GDP	-1.7	-1.4	-1.6	-2.0	-2.0	-2.4	-2.8	-2.8	-2.9	-3.4	-3.8	-4.0
Net Goods & Services (BOP)	-108.2	-94.3	-101.1	-120.1	-134.5	-166.4	-185.3	-181.4	-210.7	-253.2	-290.9	-305.1
Investment Income, Net	11.5	16.3	10.7	5.7	9.1	6.0	-12.1	-7.3	-7.1	-11.3	-16.8	-17.3
Direct, Net	68.9	76.6	74.1	68.1	74.9	72.4	59.0	64.7	64.1	58.8	62.8	65.1
Portfolio, Net	-57.4	-60.3	-63.4	-62.4	-65.7	-66.4	-71.1	-71.9	-71.2	-70.0	-79.6	-82.4
Other Inc. & Transfers, Net	-40.8	-41.9	-43.2	-56.7	-44.3	-45.5	-47.8	-59.2	-48.7	-51.5	-51.0	-62.5

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2000				2001				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
IIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-0.9	-1.0	-0.9	-0.5	1.1	-0.7	-0.6	-0.0	-0.7	-0.7	-0.5	0.0
Exports of G&S	0.7	1.5	1.5	-0.7	-0.3	-0.1	0.0	0.6	0.2	0.5	0.6	0.9
Imports of G&S	-1.6	-2.5	-2.3	0.2	1.4	-0.6	-0.7	-0.6	-0.9	-1.2	-1.1	-0.9
Percentage change from previous period, s.a.a.r.												
Exports of G&S	6.3	14.3	13.9	-6.4	-2.6	-0.9	0.4	5.4	1.7	4.8	5.6	9.1
Services	6.9	3.5	-2.8	3.4	2.2	-0.0	0.2	2.9	4.9	5.4	5.9	6.0
Computers	44.6	44.9	27.5	-12.4	-0.2	-0.4	9.1	14.8	21.6	26.3	26.3	26.3
Semiconductors	20.7	71.2	38.6	-11.0	-27.4	-20.3	4.1	14.8	24.0	26.3	26.3	26.3
Other Goods 1/	2.5	13.5	19.0	-9.5	-2.5	0.4	-0.5	5.2	-2.8	1.4	2.3	7.9
Imports of G&S	12.0	18.6	17.0	-1.2	-9.0	4.2	4.7	4.2	6.5	8.5	8.1	6.4
Services	16.6	10.6	22.3	4.0	-2.8	7.2	3.9	5.5	5.5	4.6	5.1	5.2
Oil	30.3	35.3	-4.9	-4.3	26.6	4.3	5.7	-19.6	-7.0	22.5	11.7	-14.7
Computers	2.8	44.5	28.7	-9.6	-21.2	-2.0	8.2	12.6	21.6	26.3	26.2	26.2
Semiconductors	20.7	33.5	88.9	-23.8	-44.3	-20.3	4.1	14.8	23.9	26.3	26.3	26.3
Other Goods 2/	9.7	15.8	15.1	0.1	-10.9	5.2	4.5	5.8	6.5	6.1	6.3	6.6
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-376.8	-403.4	-427.7	-441.7	-412.3	-431.0	-448.0	-449.3	-469.9	-489.7	-506.1	-506.5
Exports of G&S	1084.8	1121.8	1158.8	1139.8	1132.2	1129.5	1130.5	1145.5	1150.4	1163.9	1179.9	1206.0
Imports of G&S	1461.7	1525.2	1586.4	1581.5	1544.4	1560.5	1578.5	1594.8	1620.2	1653.6	1686.0	1712.5
Billions of dollars, s.a.a.r.												
JS CURRENT ACCOUNT BALANCE	-407.1	-420.9	-452.4	-462.6	-426.2	-432.7	-461.7	-489.2	-504.4	-526.1	-543.1	-558.5
Current Account as % of GDP	-4.2	-4.2	-4.5	-4.6	-4.2	-4.2	-4.4	-4.7	-4.7	-4.9	-5.0	-5.1
Net Goods & Services (BOP)	-341.0	-355.0	-382.5	-397.0	-365.1	-363.5	-380.9	-385.9	-407.8	-425.8	-439.4	-437.6
Investment Income, Net	-12.2	-11.1	-12.7	3.5	-5.0	-12.6	-24.2	-33.2	-39.6	-42.7	-46.1	-49.7
Direct, Net	68.1	75.9	86.1	105.0	97.5	93.9	87.1	82.9	80.7	81.3	80.9	79.5
Portfolio, Net	-80.3	-87.0	-98.9	-101.5	-102.4	-106.5	-111.4	-116.1	-120.3	-124.0	-127.0	-129.3
Other Inc. & Transfers, Net	-53.8	-54.9	-57.2	-69.1	-56.1	-56.6	-56.6	-70.1	-57.1	-57.6	-57.6	-71.1

1. Merchandise exports excluding computers, and semiconductors.

2. Merchandise imports excluding oil, computers, and semiconductors.

Part 2

June 20, 2001

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

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

June 20, 2001

Recent Developments

Production of Domestic Autos and Trucks

(Millions of units at an annual rate except as noted; FRB seasonal basis)

Item	2001			2001				
	Q1	Q2 ¹	Q3 ¹	Feb.	Mar.	Apr.	May	June ¹
U.S. production	10.9	11.5	11.8	10.8	11.4	11.5	11.8	11.3
Autos	5.0	5.0	5.0	4.9	5.1	5.1	5.1	5.0
Trucks	6.0	6.5	6.8	6.0	6.4	6.5	6.7	6.3
Days' supply ²	60.7	n.a.	n.a.	60.9	61.1	62.7	62.4	n.a.
Autos	49.8	n.a.	n.a.	49.3	52.0	50.0	49.1	n.a.
Light trucks ³	70.5	n.a.	n.a.	71.9	68.8	74.2	74.2	n.a.
Inventories ⁴	2.80	n.a.	n.a.	2.87	2.80	2.74	2.75	n.a.

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

1. Production rates reflect manufacturers' schedules for June and Q3.

2. Quarterly average calculated using end-of-period stocks and average reported sales.

3. Excludes medium and heavy (classes 3-8) trucks.

4. End-of-period stocks; excludes medium and heavy (class 3-8) trucks.

n.a. Not available.

before.⁶ On the other hand, a softening labor market and negative wealth effects point to a further downshift in sales in coming months. In addition, the increases in gasoline prices so far this year could produce a small drag on overall motor vehicle demand, and car-buying attitudes in the University of Michigan survey of consumer sentiment declined in early June.

The overhang of motor vehicle inventories that developed late last year was largely worked off by the end of the first quarter. Currently, auto stocks largely appear to be at comfortable levels. However, as a result of the increases in light truck production in April and May, inventory imbalances have re-emerged in that segment of the market. Days' supply of light trucks was 74 in May—above the dealers' desired range of 65 to 70. Current production schedules call for motor vehicle output to step up from an annual rate of 11.5 million units in the second quarter to an 11.8 million unit rate in 2001:Q3. However, most industry analysts expect sales of domestically produced vehicles to weaken further next quarter, and assemblies may well come in below scheduled levels.⁷

6. With prices for new vehicles falling, prices for used cars and trucks have declined in recent months as well.

7. Reducing output at this time of the year is not difficult because factory downtime for summer vacations can be extended. In addition, start-up problems are not uncommon when new models are introduced.

Government Sector

Federal. According to Treasury data, the federal government ran a surplus of \$137 billion over the first eight months of fiscal year 2001 (FY2001)—\$16 billion more than during the same period of FY2000. Although receipts have continued to increase more rapidly than outlays so far this fiscal year, they have, nevertheless, decelerated sharply for the fiscal year-to-date, reflecting the slowdown in economic activity; receipts are up 4-1/2 percent relative to the first eight months of FY2000 compared with a 12 percent advance in the preceding year. The gains in receipts from individual taxes have continued to be robust, owing primarily to a surge in non-withheld receipts collected during the April-May filing season. However, net corporate receipts during April and May dropped significantly from the same period last year, reflecting continued weakness in corporate profits. (Daily Treasury data indicate that corporate payments for the first half of June were again noticeably below last year.)

Revenue Loss from Tax Cut
(Billions of dollars, fiscal years)

Revenue loss	2001	2002	2001-11
Rate reductions	-40	-55	-875
10 percent bracket	-38	-33	-421
Other rates	-2	-21	-421
Miscellaneous	0	0	-33
Other reductions	-1	-15	-474
Child credit	-1	-9	-172
Marriage penalty	0	0	-63
Education	0	-2	-29
Estate and gift	0	-0	-138
Pension and IRA	0	-2	-50
Alternative minimum tax	0	-2	-14
Miscellaneous	0	-0	-8
Corporate timing shift	-33	33	0
Total	-74	-38	-1,349

Source. Joint Committee on Taxation

President Bush recently signed the Economic Growth and Tax Relief Reconciliation Act of 2001, which provides fiscal stimulus in the near term; according to estimates from the Joint Committee on Taxation (JCT), the new law will reduce tax collections by \$1.35 trillion over the 2001-2011 period. The act includes reductions in personal income tax rates, expansion of the child credit, marriage penalty relief, education provisions, elimination of the estate

FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS
(Unified basis; billions of dollars)

	April-May			FY-to-date ending in May		
	2000	2001	Percent change	2000	2001	Percent change
Outlays	285.3	295.1	3.5	1197.8	1240.9	3.6
Deposit insurance	-0.6	-0.3	...	-2.6	-1.4	...
Spectrum auction	0.0	0.0	...	0.0	-1.0	...
Sale of major assets	0.0	0.0	...	0.0	0.0	...
Other	285.9	295.4	3.3	1200.5	1243.3	3.6
Receipts	441.2	457.0	3.6	1318.5	1378.0	4.5
Surplus	155.9	161.9	...	120.7	137.1	13.6
Outlays excluding deposit insurance, spectrum auction, and sale of major assets are adjusted for payment timing shifts ¹						
Outlays	297.1	307.2	3.4	1200.4	1250.4	4.2
National defense	47.4	50.8	7.0	192.1	201.3	4.8
Net interest	40.7	36.2	-11.2	155.7	146.3	-6.0
Social security	69.1	72.4	4.7	267.7	283.8	6.0
Medicare	34.5	39.2	13.5	130.5	140.8	7.9
Medicaid	19.1	21.9	14.7	76.5	84.7	10.7
Other health	5.9	7.9	34.6	23.7	27.8	17.5
Income security	39.5	44.0	11.4	174.6	186.7	6.9
Agriculture	1.8	2.0	9.5	28.0	22.1	-21.1
Other	39.0	32.9	-15.8	151.6	156.8	3.4
Receipts	441.2	457.0	3.6	1318.5	1378.0	4.5
Individual income and payroll taxes	361.4	386.9	7.0	1071.6	1141.2	6.5
Withheld + FICA	220.1	231.9	5.3	918.7	972.3	5.8
Nonwithheld + SECA	194.2	216.8	11.6	276.0	305.7	10.8
Refunds (-)	53.0	61.8	16.7	123.1	136.8	11.1
Corporate	33.5	28.8	-13.8	113.6	110.3	-3.0
Gross	37.7	33.1	-12.0	134.4	136.0	1.2
Refunds (-)	4.2	4.3	1.9	20.8	25.7	23.9
Other	46.3	41.3	-10.8	133.3	126.6	-5.0
Surplus	144.0	149.8	...	118.1	127.7	8.1

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

1. A shift in payment timing occurs when the first of the month falls on a weekend or holiday, or when the first three days of a month are nonworking days. Outlays for defense, social security, Medicare, income security, and "other" have been adjusted to account for these shifts.

... Not applicable.