

## **Part 1**

September 27, 2001

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

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

September 27, 2001

## **Summary and Outlook**

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**Federal Receipts and Outlays**  
(Billions of dollars, fiscal years, unified basis)

Item	2001	2002	2003
Outlays	1,852	1,976	2,052
Previous	1,851	1,941	...
Receipts	1,988	2,046	2,091
Previous	2,007	2,108	...
Surplus (deficit, -)			
Total	136	70	38
Previous	156	167	...
On-budget	-30	-98	-143
Previous	-11	-7	...

... Not applicable.

The events of September 11 have altered the fiscal policy outlook importantly. Within days, the Congress passed an emergency appropriations bill, and last week it agreed on a package of direct assistance and loan guarantees for the airline industry.<sup>1</sup> Perhaps more significant, the members have set aside the objective of balancing the on-budget account — at least for the near term. A wide range of tax and spending options are now on the table, and we believe that some additional fiscal stimulus is in train. For the purposes of our baseline economic forecast, we have assumed a further increment to real federal purchases during fiscal 2002 totaling \$8 billion, and another increase in spending of \$22 billion in fiscal 2003. Of course, this added spending is merely a placeholder for the stimulus that would likely be delivered through some combination of higher spending and lower taxes. It comes on top of the emergency spending, airline assistance, and some new spending for extended unemployment insurance benefits (\$7 billion in fiscal 2002) that we now have incorporated in the baseline. All told, relative to current services, this forecast contains \$52 billion of fiscal policy initiatives for fiscal 2002 and \$76 billion in

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1. Of the \$40 billion in emergency budget authority already approved, we assume that \$20 billion will be used to fund the defense spending initiatives in fiscal years 2002 and 2003 that the Administration had proposed before the attacks; because we had already incorporated that proposal in our August fiscal policy assumptions, this portion of the new budget authority does not represent a change in our forecast. The other \$20 billion in new budget authority is expected to be used primarily to fund some additional defense spending, federal antiterrorism programs, and grants to help states and localities pay for post-disaster cleanup; the effects on outlays are expected to be spread roughly evenly between fiscal years 2002 and 2003. Regarding the separate airline rescue package, \$5 billion of cash assistance will show through in outlays in fiscal 2002. The airline legislation also included loan guarantees of up to \$10 billion; the subsidy value of the guarantees will eventually be included in the budget accounts.

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

Measure	2001:Q3		2001:Q4	
	Aug. GB	Sept. GB	Aug. GB	Sept. GB
<b>Real GDP</b>	<b>1.0</b>	<b>-.6</b>	<b>1.5</b>	<b>-.7</b>
Private domestic final purchases	.6	-.7	2.1	-1.9
Personal consumption	2.9	1.5	3.4	.4
Residential investment	-.2	-2.2	-.5	-11.5
Business fixed investment	-11.2	-11.6	-4.6	-10.9
Government outlays for consumption and investment	2.0	3.8	2.9	4.7
	Contribution to growth, percentage points			
Inventory investment	.5	-.3	-.7	.5
Net exports	-.4	-.3	-.1	-.4

Industrial production is projected to drop at an annual rate of 6-1/4 percent in the fourth quarter — about the same pace that has prevailed since the beginning of the year. Motor vehicle assemblies stepped down sharply in September, and we anticipate that, with sales slumping, producers will reduce them further in the next several months. We also should begin to see marked cutbacks in aircraft production. Downward adjustments to factory output elsewhere are expected to remain widespread.

In addition to the further loss of manufacturing jobs, we anticipate that a round of layoffs at airlines, in other travel-related services, and at retailers will steepen monthly declines in private payrolls to almost 250,000 per month in the October-to-December period. As a result, we are projecting that the unemployment rate, after having risen to 4.8 percent in the third quarter, will move up more sharply in the fourth quarter, to 5.4 percent.

With production adjustments in train, we are projecting another large drop in nonfarm inventories in the fourth quarter — although it is smaller than our estimates of the drawdowns in the second and third quarters. Given our forecast that final sales will decline at an annual rate of 1-1/4 percent, the progress that

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

Measure	2002		2003
	H1	H2	
<b>Real GDP</b>	<b>.6</b>	<b>3.3</b>	<b>3.5</b>
Previous	2.4	3.0	--
Final sales	.2	2.9	3.2
Previous	1.3	3.0	--
PCE	.6	2.5	3.2
Previous	1.7	2.7	--
Residential investment	-1.6	5.5	2.5
Previous	.6	1.9	--
BFI	-3.9	4.1	6.9
Previous	2.2	5.8	--
Government purchases	4.0	4.3	3.1
Previous	3.0	3.5	--
Exports	.4	5.9	6.8
Previous	1.5	6.4	--
Imports	3.4	6.6	8.3
Previous	6.6	6.3	--
Contribution to growth, percentage points			
Inventory change	.4	.4	.3
Previous	1.1	-.0	--
Net exports	-.4	-.3	-.4
Previous	-.7	-.2	--

6-1/4 percent in the second half of next year. Although real GDP in late 2002 and in 2003 is expected to increase somewhat faster than potential, the gap in resource utilization remains wide. We expect that the jobless rate will edge down to 6 percent in 2003 — but it will still be more than 1/2 percentage point above our estimate of the NAIRU — and that the capacity utilization rate in manufacturing will average about 75 percent — 5 percentage points below its longer-run average. In that environment, core inflation is projected to trend lower.

**Net exports.** Real exports have weakened markedly further in recent months, and we now expect that they will be down 8-1/4 percent during 2001. They are projected to turn up considerably during 2002 and to strengthen further in 2003 as foreign economic activity recovers. The firming in domestic spending over the same period should lead to a pickup in imports, which also have dropped off sharply so far this year. Taken together, real net exports, which are expected to be only a slight negative for real GDP this year, are projected to arithmetically subtract about 0.4 percentage point per year, on average, from the changes in real GDP for 2002 and 2003.

### **Aggregate Supply, the Labor Market, and the Outlook for Inflation**

The increase in potential GDP is now assumed to be 2.7 percent this year, to dip to 2.4 percent in 2002, and to be back up to 2.8 percent in 2003. Compared with the August Greenbook, the slightly slower rates of increase this year and next —

<b>Potential GDP</b> (Percent change, annual rate)						
Measure	1973-1995	1995-2000	2000	2001	2002	2003
<b>Potential GDP</b>	<b>2.9</b>	<b>3.6</b>	<b>3.7</b>	<b>2.7</b>	<b>2.4</b>	<b>2.8</b>
Previous	2.9	3.6	3.7	3.0	2.8	...
Potential labor hours	1.7	1.1	1.0	.8	1.0	1.0
Population	1.4	1.0	1.0	1.1	1.1	1.1
Labor force participation	.4	.0	.0	.0	.0	.0
Employment rate	.0	.1	.0	-.3	-.1	-.1
Workweek	-.2	.0	.0	.0	.0	.0
<b>Structural labor productivity</b>	<b>1.4</b>	<b>2.5</b>	<b>2.6</b>	<b>1.9</b>	<b>1.5</b>	<b>1.8</b>
Previous	1.4	2.5	2.6	2.1	1.8	...
Capital deepening	.6	1.2	1.3	.7	.2	.5
Previous	.6	1.2	1.3	.8	.5	...
Labor composition	.3	.3	.3	.3	.3	.3
MFP	.6	1.0	1.0	.9	.9	1.0
Previous	.6	1.0	1.0	1.0	1.0	...
Technical factors	-.1	.1	.1	.0	.0	.0
MEMO:						
Short-run NAIRU (percent)	5.8	5.0	4.8	5.0	5.2	5.3

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

... Not applicable.

0.3 percentage point — reflect lower estimates of the rise in structural labor productivity in this forecast. Structural labor productivity is now assumed to rise 1.9 percent in 2001, to slow to 1.5 percent in 2002, and then to pick up to 1.8 percent in 2003. Much of the adjustment is the result of revised estimates of capital deepening, which follow from our downward revisions to the forecast for business fixed investment. In addition, we have lowered our estimate of the growth of multifactor productivity this year and next. We believe that the changes in the allocation of capital and labor resources that will occur in the wake of the terrorist attacks — such as increased security — will add up to a minor, but permanent loss to the level of multifactor productivity.

**Productivity and the labor market.** Our productivity forecast tracks a typical cyclical pattern around the underlying structural trends noted above. Output per hour in the nonfarm business sector is projected to rise at an annual rate of 1 percent, on average, in the second half of this year — about the same rate as in the first half. It is expected to continue to increase at a below-trend pace of just 3/4 percent in the first half of 2002 as production is slow to recover. Thereafter, as the economy strengthens, businesses are assumed to be better able to bring work schedules and employment in line with sales and production, and productivity is expected to accelerate noticeably. Nonfarm business output per hour is projected to increase at an annual rate of more than 2-3/4 percent in the second half of next year — well above our estimated structural rate — and to continue to rise at a pace slightly above the structural increase in 2003.

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

Measure	2000	2001	2002	2003
Output per hour, nonfarm business	2.3	1.0	1.8	2.1
Previous	2.3	1.2	2.3	--
Nonfarm private payroll employment	1.8	-.8	-.3	1.5
Previous	1.8	-.4	.5	--
Household employment survey	1.0	-.9	.1	1.4
Previous	1.0	-.4	.5	--
Labor force participation rate <sup>1</sup>	67.1	66.7	66.7	66.7
Previous	67.1	66.9	66.9	--
Civilian unemployment rate <sup>1</sup>	4.0	5.4	6.2	6.0
Previous	4.0	5.1	5.6	--

1. Percent, average for the fourth quarter.

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

Measure	2000	2001	2002	2003
PCE chain-weighted price index	2.6	1.8	1.5	1.5
Previous	2.6	1.9	1.7	--
Food and beverages	2.5	3.2	2.3	2.2
Previous	2.5	3.3	2.6	--
Energy	15.4	-3.3	-4.8	-8
Previous	15.4	-2.6	-2.9	--
Excluding food and energy	1.9	1.8	1.6	1.5
Previous	1.9	1.9	1.8	--
Consumer price index	3.4	2.4	1.8	2.0
Previous	3.4	2.5	2.1	--
Excluding food and energy	2.5	2.7	2.3	2.2
Previous	2.5	2.7	2.5	--
GDP chain-weighted price index	2.4	2.3	1.6	1.7
Previous	2.4	2.2	1.9	--
ECI for compensation of private industry workers <sup>1</sup>	4.4	4.2	3.4	3.2
Previous	4.4	4.3	3.7	--
NFB compensation per hour	7.4	4.9	4.1	3.5
Previous	7.4	4.9	4.5	--
Prices of core non-oil merchandise imports	1.6	-2.5	1.9	1.1
Previous	1.6	-1.5	1.8	--

1. December to December.

Treasury debt is expected to decline only a little as smaller federal surpluses significantly reduce our estimates of paydowns.

In the household sector, mortgage debt is expected to continue to increase at a moderate pace, albeit below the surprisingly strong rate in the second quarter. Low mortgage interest rates should lend some support to the demand for financing of existing homes and new homes as well as to refinancing activity. In contrast, consumer credit has been very sluggish of late. The weakness that we are projecting in spending for durable goods, which extends into the middle of next year, is likely to hold down the rise in such credit over 2002. With household debt service burdens already near historically elevated levels, we anticipate that higher unemployment and further deterioration of household



**Alternative Scenario: Collapse in Consumer and Business Sentiment**  
(Percent change, annual rate, from end of preceding period, except as noted)

Measure	2001		2002			2003
	Q3	Q4	Q1	Q2	H2	
<i>Real GDP</i>						
<b>Baseline</b>	<b>- .6</b>	<b>- .7</b>	<b>- .1</b>	<b>1.4</b>	<b>3.3</b>	<b>3.5</b>
Collapse in sentiment, unchanged policy	- .6	-1.6	-1.6	-.3	2.3	3.2
Collapse in sentiment, policy easing	- .6	-1.6	-1.5	-.1	2.8	3.9
<i>Real personal consumption</i>						
<b>Baseline</b>	<b>1.5</b>	<b>.4</b>	<b>.1</b>	<b>1.1</b>	<b>2.5</b>	<b>3.2</b>
Collapse in sentiment, unchanged policy	1.5	-1.1	-1.6	-.5	1.7	3.2
Collapse in sentiment, policy easing	1.5	-1.1	-1.5	-.3	2.1	3.8
<i>Real residential investment</i>						
<b>Baseline</b>	<b>-2.2</b>	<b>-11.5</b>	<b>-5.3</b>	<b>2.1</b>	<b>5.5</b>	<b>2.5</b>
Collapse in sentiment, unchanged policy	-2.2	-15.1	-8.9	-1.5	2.9	.4
Collapse in sentiment, policy easing	-2.2	-15.1	-8.4	-.4	4.9	2.1
<i>Real business equipment and software</i>						
<b>Baseline</b>	<b>-13.0</b>	<b>-12.8</b>	<b>-6.6</b>	<b>-2.0</b>	<b>6.3</b>	<b>9.6</b>
Collapse in sentiment, unchanged policy	-13.0	-15.8	-10.0	-6.4	2.3	8.1
Collapse in sentiment, policy easing	-13.0	-15.8	-9.9	-6.4	2.8	9.2
<i>Civilian unemployment rate<sup>1</sup></i>						
<b>Baseline</b>	<b>4.8</b>	<b>5.4</b>	<b>5.8</b>	<b>6.1</b>	<b>6.2</b>	<b>6.0</b>
Collapse in sentiment, unchanged policy	4.8	5.5	6.0	6.4	6.7	6.8
Collapse in sentiment, policy easing	4.8	5.5	6.0	6.4	6.6	6.4
<i>PCE prices excluding food and energy</i>						
<b>Baseline</b>	<b>1.9</b>	<b>1.9</b>	<b>1.8</b>	<b>1.7</b>	<b>1.6</b>	<b>1.5</b>
Collapse in sentiment, unchanged policy	1.9	1.9	1.8	1.7	1.5	1.3
Collapse in sentiment, policy easing	1.9	1.9	1.8	1.7	1.6	1.5

1. Average for the final quarter of the period.

**Major fiscal stimulus.** Relative to the August Greenbook, the current staff projection incorporates a significantly higher level of federal government outlays for fiscal 2002 and fiscal 2003. However, in light of what appears to be bipartisan support for additional fiscal stimulus measures, we see a risk that we have not built enough fiscal stimulus into the outlook. The additional spending or tax cuts would likely boost output over the forecast period. However, investors might view a significant move toward fiscal expansion as signaling a sea change in long-run federal debt policy, thus prompting a backup in long-term interest rates. If so, the stimulus from tax cuts might prove smaller than expected.

**Alternative Scenario: Major Fiscal Stimulus**

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

Measure	2001		2002			2003
	Q3	Q4	Q1	Q2	H2	
<i>Real GDP</i>						
<b>Baseline</b>	<b>- .6</b>	<b>- .7</b>	<b>- .1</b>	<b>1.4</b>	<b>3.3</b>	<b>3.5</b>
Fiscal stimulus alone	- .6	- .4	1.3	3.2	3.4	4.4
Fiscal stimulus, adverse market reaction	- .6	- .4	1.0	2.5	2.7	3.7
<i>Real personal consumption</i>						
<b>Baseline</b>	<b>1.5</b>	<b>.4</b>	<b>.1</b>	<b>1.1</b>	<b>2.5</b>	<b>3.2</b>
Fiscal stimulus alone	1.5	.6	1.6	3.0	1.7	3.9
Fiscal stimulus, adverse market reaction	1.5	.6	1.3	2.6	1.2	3.3
<i>Real residential investment</i>						
<b>Baseline</b>	<b>-2.2</b>	<b>-11.5</b>	<b>-5.3</b>	<b>2.1</b>	<b>5.5</b>	<b>2.5</b>
Fiscal stimulus alone	-2.2	-11.5	-5.0	4.0	9.1	6.3
Fiscal stimulus, adverse market reaction	-2.2	-11.5	-8.3	-1.0	7.8	6.2
<i>Real business equipment and software</i>						
<b>Baseline</b>	<b>-13.0</b>	<b>-12.8</b>	<b>-6.6</b>	<b>-2.0</b>	<b>6.3</b>	<b>9.6</b>
Fiscal stimulus alone	-13.0	-10.2	-.8	3.3	11.8	13.6
Fiscal stimulus, adverse market reaction	-13.0	-10.2	-1.1	2.3	10.1	11.5
<i>Civilian unemployment rate<sup>1</sup></i>						
<b>Baseline</b>	<b>4.8</b>	<b>5.4</b>	<b>5.8</b>	<b>6.1</b>	<b>6.2</b>	<b>6.0</b>
Fiscal stimulus alone	4.8	5.4	5.7	5.9	5.9	5.3
Fiscal stimulus, adverse market reaction	4.8	5.4	5.7	5.9	6.0	5.8
<i>PCE prices excluding food and energy</i>						
<b>Baseline</b>	<b>1.9</b>	<b>1.9</b>	<b>1.8</b>	<b>1.7</b>	<b>1.6</b>	<b>1.5</b>
Fiscal stimulus alone	1.9	1.9	1.8	1.7	1.6	1.5
Fiscal stimulus, adverse market reaction	1.9	1.9	1.8	1.6	1.6	1.5

1. Average for the final quarter of the period.

To illustrate these risks, we consider a set of scenarios featuring a more substantial package of fiscal stimulus than is assumed in the baseline — one that exhausts the unified surplus in both fiscal 2002 and fiscal 2003. In particular, we assume a second round of tax rebates worth \$35 billion (the same size as in the first round), which would be paid in the first quarter of 2002, and a permanent investment tax credit (ITC) of 5 percent on business equipment retroactive to September 11. The direct cost to the Treasury of the ITC is about \$35 billion initially, but it rises over time as equipment spending increases. In

**Alternative Monetary Policy Scenarios**

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

Measure	2001		2002			2003
	Q3	Q4	Q1	Q2	H2	
<i>Real GDP</i>						
<b>Baseline</b>	<b>- .6</b>	<b>- .7</b>	<b>- .1</b>	<b>1.4</b>	<b>3.3</b>	<b>3.5</b>
Easier monetary policy	- .6	- .7	.1	1.7	3.7	4.1
Market-based funds rate	- .6	- .7	.0	1.7	3.5	2.8
<i>Real personal consumption</i>						
<b>Baseline</b>	<b>1.5</b>	<b>.4</b>	<b>.1</b>	<b>1.1</b>	<b>2.5</b>	<b>3.2</b>
Easier monetary policy	1.5	.4	.3	1.4	2.9	3.7
Market-based funds rate	1.5	.4	.2	1.3	2.6	2.6
<i>Real residential investment</i>						
<b>Baseline</b>	<b>-2.2</b>	<b>-11.5</b>	<b>-5.3</b>	<b>2.1</b>	<b>5.5</b>	<b>2.5</b>
Easier monetary policy	-2.2	-11.5	-3.8	3.9	7.4	4.2
Market-based funds rate	-2.2	-11.5	-4.3	3.6	5.7	-1.3
<i>Real business equipment and software</i>						
<b>Baseline</b>	<b>-13.0</b>	<b>-12.8</b>	<b>-6.6</b>	<b>-2.0</b>	<b>6.3</b>	<b>9.6</b>
Easier monetary policy	-13.0	-12.8	-6.4	-1.6	7.0	10.7
Market-based funds rate	-13.0	-12.8	-6.5	-1.7	6.7	8.7
<i>Civilian unemployment rate<sup>1</sup></i>						
<b>Baseline</b>	<b>4.8</b>	<b>5.4</b>	<b>5.8</b>	<b>6.1</b>	<b>6.2</b>	<b>6.0</b>
Easier monetary policy	4.8	5.4	5.8	6.1	6.1	5.6
Market-based funds rate	4.8	5.4	5.8	6.1	6.1	6.2
<i>PCE prices excluding food and energy</i>						
<b>Baseline</b>	<b>1.9</b>	<b>1.9</b>	<b>1.8</b>	<b>1.7</b>	<b>1.6</b>	<b>1.5</b>
Easier monetary policy	1.9	1.9	1.8	1.8	1.7	1.7
Market-based funds rate	1.9	1.9	1.8	1.7	1.7	1.4

1. Average for the final quarter of the period.

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

September 27, 2001

	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>1</sup>		
Interval	08/16/01	09/27/01	08/16/01	09/27/01	08/16/01	09/27/01	08/16/01	09/27/01	08/16/01	09/27/01	
ANNUAL											
1999	5.5	5.5	4.1	4.1	1.4	1.4	2.2	2.2	4.2	4.2	
2000	6.5	6.5	4.1	4.1	2.3	2.3	3.4	3.4	4.0	4.0	
2001	3.7	3.6	1.5	1.1	2.2	2.4	3.0	3.0	4.6	4.7	
2002	3.9	2.3	2.0	0.7	1.9	1.6	2.0	1.7	5.5	6.1	
2003		5.1		3.3		1.7		2.0		6.1	
QUARTERLY											
2000	Q1	6.3	6.3	2.3	2.3	3.8	3.8	4.3	4.3	4.1	4.1
	Q2	8.0	8.0	5.7	5.7	2.1	2.1	2.8	2.8	4.0	4.0
	Q3	3.3	3.3	1.3	1.3	1.9	1.9	3.5	3.5	4.0	4.0
	Q4	3.7	3.7	1.9	1.9	1.8	1.8	3.0	3.0	4.0	4.0
2001	Q1	4.6	4.6	1.3	1.3	3.3	3.3	4.2	4.2	4.2	4.2
	Q2	2.5	2.5	0.2	0.4	2.2	2.2	3.0	3.0	4.5	4.5
	Q3	2.5	3.0	1.0	-0.6	1.5	3.7	0.5	0.6	4.7	4.8
	Q4	3.3	-0.5	1.5	-0.7	1.8	0.1	2.1	1.6	5.1	5.4
2002	Q1	4.7	1.7	2.4	-0.1	2.2	1.8	2.1	1.6	5.3	5.8
	Q2	4.2	2.9	2.4	1.4	1.7	1.5	2.1	1.8	5.5	6.1
	Q3	4.7	4.8	2.9	3.2	1.8	1.6	2.1	1.9	5.6	6.2
	Q4	4.8	5.1	3.0	3.5	1.8	1.6	2.2	1.9	5.6	6.2
2003	Q1		5.6		3.5		2.1		2.0		6.2
	Q2		5.2		3.5		1.7		2.0		6.2
	Q3		5.2		3.5		1.6		2.0		6.1
	Q4		5.2		3.5		1.6		2.0		6.0
TWO-QUARTER <sup>3</sup>											
2000	Q2	7.2	7.2	4.0	4.0	2.9	2.9	3.6	3.6	-0.1	-0.1
	Q4	3.5	3.5	1.6	1.6	1.8	1.8	3.2	3.2	0.0	0.0
2001	Q2	3.5	3.6	0.8	0.8	2.7	2.7	3.6	3.6	0.5	0.5
	Q4	2.9	1.2	1.3	-0.6	1.6	1.9	1.3	1.1	0.6	0.9
2002	Q2	4.4	2.3	2.4	0.6	2.0	1.6	2.1	1.7	0.4	0.7
	Q4	4.8	5.0	3.0	3.3	1.8	1.6	2.1	1.9	0.1	0.1
2003	Q2		5.4		3.5		1.9		2.0		0.0
	Q4		5.2		3.5		1.6		2.0		-0.2
FOUR-QUARTER <sup>4</sup>											
1999	Q4	6.0	6.0	4.4	4.4	1.6	1.6	2.6	2.6	-0.3	-0.3
2000	Q4	5.3	5.3	2.8	2.8	2.4	2.4	3.4	3.4	-0.1	-0.1
2001	Q4	3.2	2.4	1.0	0.1	2.2	2.3	2.5	2.4	1.1	1.4
2002	Q4	4.6	3.6	2.7	2.0	1.9	1.6	2.1	1.8	0.5	0.9
2003	Q4		5.3		3.5		1.7		2.0		-0.2

1. For all urban consumers.

2. Level, except as noted.

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

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

Strictly Confidential <FR>  
Class II FOMC

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

September 27, 2001

Item	Units <sup>1</sup>	-----Projected-----								
		1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>EXPENDITURES</b>										
Nominal GDP	Bill. \$	7400.5	7813.2	8318.4	8781.5	9268.6	9872.9	10224.2	10460.1	10992.9
Real GDP	Bill. Ch. \$	7543.8	7813.2	8159.5	8508.9	8856.5	9224.0	9329.9	9391.2	9702.4
Real GDP	% change	2.2	4.1	4.3	4.8	4.4	2.8	0.1	2.0	3.5
Gross domestic purchases		1.7	4.3	5.0	5.8	5.3	3.5	0.1	2.2	3.8
Final sales		2.9	3.9	3.9	4.7	4.3	3.4	0.8	1.6	3.2
Priv. dom. final purchases		3.2	4.4	5.1	6.3	5.4	4.7	0.0	1.3	3.6
Personal cons. expenditures		2.8	3.1	4.1	5.0	5.2	4.2	1.8	1.5	3.2
Durables		3.7	5.0	8.8	12.7	11.3	5.3	2.7	3.2	5.3
Nondurables		2.5	3.2	2.5	5.0	5.0	3.6	1.0	1.0	3.0
Services		2.7	2.7	3.9	3.6	4.0	4.3	2.1	1.5	2.8
Business fixed investment		7.5	12.1	11.8	12.3	7.4	8.9	-9.3	0.0	6.9
Equipment & Software		8.9	11.8	13.7	14.9	11.2	8.3	-11.3	0.8	9.6
Monres. structures		3.3	12.8	6.5	4.9	-3.6	10.8	-3.5	-2.0	0.2
Residential structures		-1.5	5.6	3.5	10.0	3.4	-1.2	-0.1	1.9	2.5
Exports		9.7	9.8	8.5	2.3	4.5	7.0	-8.3	3.1	6.8
Imports		5.0	11.2	14.3	10.8	11.5	11.3	-5.9	5.0	8.3
Gov't. cons. & investment		-0.8	2.7	2.4	2.7	4.0	1.2	4.7	4.1	3.1
Federal		-5.3	2.0	0.1	0.6	4.5	-1.4	4.1	6.7	2.1
Defense		-4.7	0.8	-1.4	-0.8	4.7	-2.2	4.9	3.0	2.3
State & local		2.1	3.0	3.7	3.8	3.7	2.5	5.0	2.8	3.7
Change in bus. inventories	Bill. Ch. \$	--	--	63.8	76.7	62.1	50.6	-37.4	-6.7	32.8
Nonfarm		41.9	21.2	60.6	75.0	63.5	52.3	-35.7	-6.8	31.9
Net exports		-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-411.5	-450.8	-503.4
Nominal GDP	% change	4.3	6.0	6.2	6.0	6.0	5.3	2.4	3.6	5.3
<b>EMPLOYMENT AND PRODUCTION</b>										
Nonfarm payroll employment	Millions	117.2	119.6	122.7	125.8	128.9	131.8	132.3	131.5	132.9
Unemployment rate	%	5.6	5.4	4.9	4.5	4.2	4.0	4.7	6.1	6.1
Industrial prod. index	% change	3.6	5.6	7.2	3.2	5.1	4.2	-6.0	1.6	3.9
Capacity util. rate - mfg.	%	82.5	81.6	82.7	81.3	80.5	81.3	75.5	72.7	74.7
Housing starts	Millions	1.35	1.48	1.47	1.62	1.64	1.57	1.60	1.63	1.68
Light motor vehicle sales		14.77	15.05	15.06	15.43	16.78	17.25	16.10	14.66	15.43
North Amer. produced		12.87	13.34	13.12	13.41	14.30	14.39	13.16	11.98	12.58
Other		1.90	1.70	1.93	2.02	2.48	2.86	2.94	2.68	2.86
<b>INCOME AND SAVING</b>										
Nominal GNP	Bill. \$	7420.9	7831.2	8325.4	8778.1	9261.8	9860.8	10213.9	10458.8	10996.9
Nominal GNP	% change	4.4	5.9	6.0	5.8	6.0	5.4	2.3	3.7	5.3
Nominal personal income		4.3	5.9	6.3	6.7	4.8	7.3	3.3	3.9	4.6
Real disposable income		1.7	2.6	3.8	5.0	2.1	4.0	2.0	3.4	2.8
Personal saving rate	%	5.6	4.8	4.2	4.7	2.4	1.0	1.7	3.1	3.0
Corp. profits, IVA & CCAdj.	% change	11.3	11.4	9.9	-9.6	11.3	-1.2	-13.0	-1.3	7.2
Profit share of GNP	%	9.0	9.6	10.0	8.9	8.9	8.9	7.2	6.8	7.0
Excluding FR Banks		8.7	9.4	9.7	8.6	8.6	8.6	6.9	6.5	6.7
Federal surpl./deficit	Bill. \$	-192.0	-136.8	-53.3	43.8	119.2	218.6	123.0	15.9	37.2
State & local surpl./def.		15.3	21.4	31.0	40.7	42.1	32.8	16.0	9.4	6.1
Ex. social ins. funds		11.4	18.7	29.9	40.0	41.7	33.1	16.3	9.7	6.4
Gross natl. saving rate	%	16.9	17.2	18.0	18.8	18.4	18.1	16.8	16.6	17.1
Net natl. saving rate		5.1	5.7	6.7	7.5	6.8	6.3	4.2	3.9	4.3
<b>PRICES AND COSTS</b>										
GDP chn.-wt. price index	% change	2.1	1.9	1.8	1.1	1.6	2.4	2.3	1.6	1.7
Gross Domestic Purchases										
chn.-wt. price index		2.1	1.9	1.4	0.8	1.9	2.5	1.6	1.6	1.7
PCE chn.-wt. price index		2.1	2.3	1.5	1.1	2.0	2.6	1.8	1.5	1.5
Ex. food and energy		2.3	1.8	1.7	1.6	1.5	1.9	1.8	1.6	1.5
CPI		2.7	3.2	1.9	1.5	2.6	3.4	2.4	1.8	2.0
Ex. food and energy		3.0	2.6	2.2	2.4	2.0	2.5	2.7	2.3	2.2
ECI, hourly compensation <sup>2</sup>		2.6	3.1	3.4	3.5	3.4	4.4	4.2	3.4	3.2
Nonfarm business sector										
Output per hour		1.1	2.3	2.3	2.9	2.8	2.3	1.0	1.8	2.1
Compensation per Hour		2.6	3.2	3.5	5.3	4.3	7.4	4.9	4.1	3.5
Unit labor cost		1.5	0.9	1.1	2.3	1.5	5.0	3.9	2.4	1.4

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

Strictly Confidential <FR>  
Class II FOMC

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

September 27, 2001

		Projected									
Item	Units	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	9093.1	9161.4	9297.4	9522.5	9668.7	9857.6	9937.5	10027.9	10141.7	10205.2
Real GDP	Bill. Ch. \$	8733.5	8771.2	8871.5	9049.9	9102.5	9229.4	9260.1	9303.9	9334.5	9342.8
Real GDP	% change	3.1	1.7	4.7	8.3	2.3	5.7	1.3	1.9	1.3	0.4
Gross domestic purchases		4.8	2.9	5.3	8.2	3.5	6.3	2.0	2.2	0.7	0.4
Final sales		3.0	3.9	4.2	6.1	4.8	3.9	2.3	2.4	4.0	0.8
Priv. dom. final purchases		5.3	5.9	4.9	5.5	7.5	4.6	3.9	2.6	2.8	0.0
Personal cons. expenditures		4.9	5.7	4.4	5.7	5.9	3.6	4.3	3.1	3.0	2.5
Durables		7.1	15.7	9.0	13.7	19.0	-2.5	8.2	-2.1	10.6	7.0
Nondurables		5.6	4.3	2.6	7.6	5.1	4.7	4.2	0.6	2.4	0.4
Services		4.1	4.5	4.3	3.2	3.7	4.4	3.5	5.6	1.8	2.6
Business fixed investment		6.0	7.7	10.2	5.8	15.8	12.2	7.1	1.0	-0.2	-14.0
Equipment & Software		10.5	11.9	16.2	6.4	18.1	12.4	4.7	-1.1	-4.1	-14.9
Nonres. structures		-6.5	-4.3	-7.0	4.0	8.8	11.8	15.2	7.6	12.3	-11.3
Residential structures		10.3	3.0	-0.8	1.6	8.5	-0.8	-10.4	-1.1	8.5	6.1
Exports		-6.8	4.2	9.7	12.1	9.0	13.5	10.6	-4.0	-1.2	-12.0
Imports		8.4	13.3	13.8	10.5	17.1	16.4	13.0	-0.5	-5.0	-8.6
Gov't. cons. & investment		2.0	1.2	4.4	8.5	-1.1	4.4	-1.8	3.3	5.3	5.0
Federal		-3.7	0.8	7.2	14.5	-12.8	15.9	-10.4	4.6	3.2	1.5
Defense		-3.5	-3.5	12.8	14.3	-20.0	15.4	-10.4	10.5	7.5	2.2
State & local		5.2	1.4	2.9	5.4	5.6	-1.1	3.0	2.7	6.4	6.8
Change in bus. inventories	Bill. Ch. \$	83.4	32.7	39.6	92.7	28.9	78.9	51.7	42.8	-27.1	-39.7
Nonfarm		78.7	34.2	52.2	88.7	37.8	75.1	56.6	39.7	-27.3	-37.4
Net exports		-283.0	-313.4	-333.3	-337.8	-371.1	-392.8	-411.2	-421.1	-404.5	-405.9
Nominal GDP	% change	4.9	3.0	6.1	10.0	6.3	8.0	3.3	3.7	4.6	2.5
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	127.8	128.5	129.2	130.1	131.0	131.9	131.9	132.3	132.6	132.5
Unemployment rate	%	4.3	4.3	4.2	4.1	4.1	4.0	4.0	4.0	4.2	4.5
Industrial prod. index	% change	3.9	4.9	5.8	5.7	6.7	7.9	3.5	-0.9	-6.8	-4.4
Capacity util. rate - mfg.	%	80.2	80.3	80.5	80.9	81.3	81.9	81.7	80.3	77.9	76.4
Housing starts	Millions	1.71	1.57	1.65	1.66	1.67	1.59	1.51	1.54	1.63	1.62
Light motor vehicle sales		16.17	16.76	17.06	17.11	18.13	17.27	17.30	16.32	16.89	16.65
North Amer. produced		13.87	14.32	14.58	14.41	15.25	14.40	14.47	13.45	13.96	13.62
Other		2.30	2.44	2.47	2.70	2.87	2.87	2.83	2.87	2.93	3.03
INCOME AND SAVING											
Nominal GNP	Bill. \$	9089.5	9157.0	9283.8	9517.0	9650.7	9841.0	9919.4	10032.1	10131.3	10192.5
Nominal GNP	% change	5.2	3.0	5.7	10.4	5.7	8.1	3.2	4.6	4.0	2.4
Nominal personal income		3.0	4.7	5.2	6.3	8.6	8.5	5.5	6.8	5.8	3.7
Real disposable income		1.4	2.0	2.1	3.0	3.3	5.9	2.6	4.2	2.7	2.4
Personal saving rate	%	3.5	2.7	2.1	1.4	0.8	1.3	0.8	1.0	1.1	1.1
Corp. profits, IVA & CCAdj.	% change	36.1	-10.2	-4.9	31.9	6.1	10.7	1.0	-19.6	-24.6	-15.9
Profit share of GNP	%	9.2	8.8	8.6	9.0	9.0	9.1	9.0	8.4	7.8	7.4
Excluding FR Banks		8.9	8.6	8.3	8.7	8.7	8.8	8.7	8.1	7.5	7.1
Federal surpl./deficit	Bill. \$	85.2	116.5	132.0	143.1	212.8	209.1	229.9	222.5	205.3	186.6
State & local surpl./def.		48.9	36.2	38.3	44.9	33.2	34.7	34.8	28.6	22.3	20.4
Ex. social ins. funds		48.4	35.8	38.0	44.7	33.3	34.9	35.1	29.1	22.6	20.6
Gross natl. saving rate	%	19.0	18.5	18.3	18.0	18.0	18.3	18.2	17.9	17.3	17.1
Net natl. saving rate		7.6	6.9	6.4	6.3	6.3	6.6	6.4	6.0	5.1	4.6
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.7	1.4	1.4	1.8	3.8	2.1	1.9	1.8	3.3	2.2
Gross Domestic Purchases		1.5	2.0	2.0	2.2	4.2	1.9	2.3	1.7	2.7	1.4
chn.-wt. price index		1.3	2.0	2.2	2.4	4.0	2.1	2.4	2.0	3.2	1.6
PCE chn.-wt. price index		1.4	1.2	1.5	1.8	2.9	1.7	1.6	1.5	2.6	0.9
Ex. food and energy		1.7	2.7	2.9	3.1	4.3	2.8	3.5	3.0	4.2	3.0
CPI		1.8	2.1	1.8	2.5	2.5	2.7	2.5	2.4	3.1	2.6
Ex. food and energy		1.4	4.6	3.4	4.6	5.6	4.7	3.8	3.5	4.6	4.0
ECI, hourly compensation <sup>1</sup>		1.4	4.6	3.4	4.6	5.6	4.7	3.8	3.5	4.6	4.0
Nonfarm business sector		2.4	-1.4	3.0	7.4	-0.6	6.3	1.4	2.3	0.1	2.2
Output per hour		3.8	4.2	5.2	4.2	6.2	7.6	7.1	8.9	5.1	4.8
Compensation per hour		1.3	5.6	2.1	-2.9	6.8	1.2	5.6	6.4	5.0	2.6
Unit labor cost											

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)

September 27, 2001

		----- Projected -----									
	Units	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	10281.9	10267.9	10310.3	10384.4	10507.0	10638.9	10785.6	10922.8	11061.6	11201.6
Real GDP	Bill. Ch. \$	9329.0	9313.3	9310.3	9342.2	9415.7	9496.8	9578.3	9660.5	9743.4	9827.5
Real GDP	% change	-0.6	-0.7	-0.1	1.4	3.2	3.5	3.5	3.5	3.5	3.5
Gross domestic purchases		-0.2	-0.3	0.2	1.8	3.5	3.5	3.9	3.9	3.8	3.5
Final sales		-0.3	-1.2	-0.5	0.9	2.6	3.2	3.0	3.1	3.2	3.6
Priv. dom. final purchases		-0.7	-1.9	-0.9	0.7	2.7	2.9	3.6	3.6	3.6	3.7
Personal cons. expenditures		1.5	0.4	0.1	1.1	2.5	2.4	3.1	3.2	3.2	3.2
Durables		-1.2	-4.8	-4.4	3.3	7.5	6.9	6.1	4.6	5.1	5.3
Nondurables		2.8	-1.6	0.8	1.1	1.1	1.0	3.4	2.8	2.8	2.8
Services		1.4	2.4	0.7	0.7	2.2	2.2	2.4	3.1	3.0	3.0
Business fixed investment		-11.6	-10.9	-5.6	-2.1	3.2	4.9	5.9	6.5	7.4	7.8
Equipment & Software		-13.0	-12.8	-6.6	-2.0	5.4	7.1	8.9	9.2	10.0	10.4
Nonres. structures		-7.7	-5.8	-3.0	-2.5	-2.0	-0.5	-1.3	0.1	0.9	1.1
Residential structures		-2.2	-11.5	-5.3	2.1	5.3	5.7	5.7	2.8	1.0	0.6
Exports		-18.3	-0.3	-1.3	2.1	4.4	7.5	4.2	6.6	7.1	9.3
Imports		-12.2	2.9	1.4	5.5	6.9	6.2	7.5	9.2	8.9	7.4
Gov't. cons. & investment		3.8	4.7	3.5	4.5	4.0	4.6	3.0	3.2	3.2	2.9
Federal		4.8	7.2	5.4	7.8	7.4	6.4	2.0	2.2	2.2	1.8
Defense		4.6	5.1	2.7	3.7	3.3	2.3	2.0	2.6	2.6	2.0
State & local		3.4	3.4	2.5	2.8	2.3	3.7	3.6	3.7	3.8	3.5
Change in bus. inventories	Bill. Ch. \$	-48.1	-34.4	-24.9	-12.7	2.0	8.8	20.8	31.3	40.0	38.8
Nonfarm		-45.7	-32.5	-23.5	-13.4	1.3	8.2	20.3	30.4	39.1	37.7
Net exports		-412.2	-423.6	-432.1	-446.5	-460.4	-464.3	-481.4	-499.0	-514.6	-518.8
Nominal GDP	% change	3.0	-0.5	1.7	2.9	4.8	5.1	5.6	5.2	5.2	5.2
EMPLOYMENT AND PRODUCTION											
farm payroll employment	Millions	132.3	131.8	131.4	131.3	131.5	131.8	132.2	132.7	133.2	133.7
employment rate	%	4.8	5.4	5.8	6.1	6.2	6.2	6.2	6.2	6.1	6.0
Industrial prod. index	% change	-6.5	-6.2	-2.7	1.5	3.8	4.1	4.0	3.8	3.5	4.1
Capacity util. rate - mfg.	%	74.7	73.0	72.2	72.3	72.8	73.4	74.0	74.5	75.0	75.5
Housing starts	Millions	1.57	1.56	1.58	1.62	1.65	1.67	1.68	1.68	1.68	1.68
Light motor vehicle sales		15.78	15.09	14.42	14.38	14.77	15.05	15.30	15.36	15.47	15.60
North Amer. produced		12.81	12.25	11.81	11.74	12.08	12.28	12.45	12.50	12.61	12.74
Other		2.97	2.85	2.61	2.64	2.69	2.77	2.85	2.86	2.86	2.86
INCOME AND SAVING											
Nominal GNP	Bill. \$	10272.0	10260.0	10306.2	10382.6	10506.3	10639.9	10789.0	10928.4	11066.0	11204.3
Nominal GNP	% change	3.2	-0.5	1.8	3.0	4.8	5.2	5.7	5.3	5.1	5.1
Nominal personal income		2.3	1.5	4.3	3.4	3.8	4.2	5.0	4.5	4.4	4.3
Real disposable income		11.5	-7.8	6.9	2.4	2.0	2.4	3.8	2.5	2.5	2.4
Personal saving rate	%	3.4	1.3	2.9	3.2	3.1	3.1	3.3	3.1	3.0	2.8
Corp. profits, IVA & CCAdj.	% change	-37.6	44.9	-17.0	-6.3	13.5	7.7	10.5	7.7	5.3	5.2
Profit share of GNP	%	6.5	7.2	6.8	6.7	6.8	6.8	6.9	7.0	7.0	7.0
Excluding FR Banks		6.2	6.9	6.5	6.4	6.5	6.5	6.6	6.7	6.7	6.7
Federal surpl./deficit	Bill. \$	-7.7	107.8	29.6	8.1	16.7	9.1	11.7	30.7	47.6	58.7
State & local surpl./def.		9.0	12.3	9.3	6.8	10.1	11.6	11.2	7.5	5.4	-0.0
Ex. social ins. funds		9.4	12.7	9.6	7.1	10.4	11.9	11.5	7.8	5.7	0.3
Gross natl. saving rate	%	16.6	16.3	16.5	16.5	16.7	16.7	17.0	17.1	17.2	17.2
Net natl. saving rate		3.5	3.6	3.9	3.8	4.0	4.0	4.2	4.3	4.3	4.3
PRICES AND COSTS											
GDP chn.-wt. price index	% change	3.7	0.1	1.8	1.5	1.6	1.6	2.1	1.7	1.6	1.6
Gross Domestic Purchases											
chn.-wt. price index		0.9	1.3	1.9	1.5	1.6	1.6	2.0	1.6	1.6	1.5
PCE chn.-wt. price index		0.9	1.4	1.4	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Ex. food and energy		1.9	1.9	1.8	1.7	1.6	1.6	1.5	1.5	1.5	1.4
CPI		0.6	1.6	1.6	1.8	1.9	1.9	2.0	2.0	2.0	2.0
Ex. food and energy		2.5	2.5	2.4	2.3	2.3	2.2	2.2	2.2	2.1	2.1
, hourly compensation <sup>1</sup>		4.2	3.9	3.6	3.4	3.3	3.3	3.3	3.2	3.2	3.1
farm business sector											
Output per hour		1.3	0.5	0.2	1.3	2.9	2.7	2.4	2.2	2.1	2.0
Compensation per hour		4.8	4.8	4.5	4.2	4.0	3.8	3.7	3.6	3.5	3.4
Unit labor cost		3.6	4.3	4.3	2.9	1.1	1.2	1.3	1.4	1.4	1.4

1. Private-industry workers.

Item	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	99Q4/ 98Q4	0Q4/ 99Q4	1Q4/ 0Q4
Real GDP	4.7	8.3	2.3	5.7	1.3	1.9	1.3	0.4	-0.6	4.4	2.8	0.1
Gross dom. purchases	5.4	8.4	3.6	6.3	2.0	2.3	0.7	0.4	-0.2	5.4	3.6	0.2
Final sales	4.2	6.2	4.7	3.9	2.3	2.4	3.9	0.8	-0.3	4.2	3.3	0.8
Priv. dom. final purchases	4.2	4.8	6.2	4.0	3.3	2.2	2.4	0.0	-0.6	4.5	3.9	0.0
Personal cons. expenditures	3.0	4.0	3.9	2.5	2.9	2.1	2.1	1.7	1.0	3.5	2.9	1.2
Durables	0.7	1.1	1.5	-0.2	0.7	-0.2	0.8	0.6	-0.1	0.9	0.4	0.2
Nondurables	0.5	1.5	1.0	1.0	0.8	0.1	0.5	0.1	0.6	1.0	0.7	0.2
Services	1.7	1.4	1.5	1.8	1.4	2.2	0.7	1.0	0.5	1.6	1.7	0.8
Business fixed investment	1.3	0.8	1.9	1.5	0.9	0.1	-0.0	-1.9	-1.5	0.9	1.1	-1.2
Equipment & Software	1.5	0.6	1.6	1.2	0.5	-0.1	-0.4	-1.5	-1.2	1.0	0.8	-1.1
Nonres. structures	-0.2	0.1	0.3	0.4	0.5	0.2	0.4	-0.4	-0.3	-0.1	0.3	-0.1
Residential structures	-0.0	0.1	0.4	-0.0	-0.5	-0.1	0.4	0.3	-0.1	0.1	-0.1	-0.0
Net exports	-0.8	-0.2	-1.3	-0.8	-0.7	-0.4	0.6	-0.1	-0.3	-1.0	-0.8	-0.1
Exports	1.0	1.3	1.0	1.4	1.1	-0.5	-0.1	-1.4	-2.1	0.5	0.8	-0.9
Imports	-1.8	-1.4	-2.3	-2.3	-1.8	0.1	0.8	1.3	1.8	-1.5	-1.6	0.9
Government cons. & invest.	0.8	1.5	-0.2	0.8	-0.3	0.6	0.9	0.9	0.7	0.7	0.2	0.8
Federal	0.4	0.9	-0.8	0.9	-0.7	0.3	0.2	0.1	0.3	0.3	-0.1	0.2
Defense	0.5	0.6	-0.9	0.6	-0.4	0.4	0.3	0.1	0.2	0.2	-0.1	0.2
Nondefense	-0.1	0.3	0.0	0.3	-0.2	-0.1	-0.1	0.0	0.1	0.1	0.0	0.1
State and local	0.3	0.7	0.6	-0.1	0.3	0.3	0.7	0.8	0.4	0.4	0.3	0.6
Change in bus. inventories	0.4	2.2	-2.3	1.8	-1.0	-0.5	-2.6	-0.5	-0.3	0.2	-0.5	-0.7
Nonfarm	0.9	1.5	-2.0	1.5	-0.8	-0.7	-2.6	-0.4	-0.3	0.1	-0.5	-0.7
Farm	-0.4	0.6	-0.3	0.3	-0.2	0.2	0.0	-0.1	-0.0	0.0	-0.0	-0.0

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



Item	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	01Q4/ 00Q4	02Q4/ 01Q4	03Q4/ 02Q4
Real GDP	-0.7	-0.1	1.4	3.2	3.5	3.5	3.5	3.5	3.5	0.1	2.0	3.5
Gross dom. purchases	-0.3	0.2	1.9	3.7	3.6	4.1	4.0	4.0	3.6	0.2	2.3	3.9
Final sales	-1.2	-0.5	0.9	2.6	3.2	3.0	3.1	3.2	3.5	0.8	1.6	3.2
Priv. dom. final purchases	-1.6	-0.8	0.6	2.3	2.5	3.0	3.0	3.0	3.1	0.0	1.1	3.0
Personal cons. expenditures	0.3	0.1	0.8	1.7	1.7	2.1	2.2	2.2	2.2	1.2	1.1	2.2
Durables	-0.4	-0.4	0.3	0.6	0.5	0.5	0.4	0.4	0.4	0.2	0.3	0.4
Nondurables	-0.3	0.2	0.2	0.2	0.2	0.7	0.6	0.6	0.6	0.2	0.2	0.6
Services	1.0	0.3	0.3	0.9	0.9	1.0	1.3	1.2	1.2	0.8	0.6	1.2
Business fixed investment	-1.4	-0.7	-0.2	0.4	0.5	0.7	0.7	0.8	0.9	-1.2	0.0	0.8
Equipment & Software	-1.2	-0.6	-0.2	0.4	0.6	0.7	0.7	0.8	0.8	-1.1	0.1	0.8
Nonres. structures	-0.2	-0.1	-0.1	-0.1	-0.0	-0.0	0.0	0.0	0.0	-0.1	-0.1	0.0
Residential structures	-0.5	-0.2	0.1	0.2	0.2	0.2	0.1	0.0	0.0	-0.0	0.1	0.1
Net exports	-0.4	-0.3	-0.5	-0.5	-0.1	-0.6	-0.6	-0.5	-0.1	-0.1	-0.3	-0.4
Exports	-0.0	-0.1	0.2	0.4	0.7	0.4	0.6	0.7	0.9	-0.9	0.3	0.7
Imports	-0.4	-0.2	-0.7	-0.9	-0.8	-1.0	-1.2	-1.2	-1.0	0.9	-0.7	-1.1
Government cons. & invest.	0.8	0.6	0.8	0.8	0.9	0.6	0.6	0.6	0.6	0.8	0.8	0.6
Federal	0.4	0.3	0.5	0.5	0.4	0.1	0.1	0.1	0.1	0.2	0.4	0.1
Defense	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Nondefense	0.2	0.2	0.3	0.3	0.3	0.1	0.0	0.0	0.0	0.1	0.3	0.0
State and local	0.4	0.3	0.3	0.3	0.5	0.4	0.5	0.5	0.4	0.6	0.3	0.5
Change in bus. inventories	0.5	0.4	0.4	0.6	0.3	0.5	0.4	0.3	-0.0	-0.7	0.4	0.3
Nonfarm	0.5	0.3	0.4	0.6	0.3	0.5	0.4	0.3	-0.1	-0.7	0.4	0.3
Farm	0.0	0.0	0.1	-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 <sup>1</sup>				2001				2002				2003			
	2000 <sup>a</sup>	2001	2002	2003	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget</b>																
					Not seasonally adjusted											
Receipts <sup>2</sup>	2025	1988	2046	2091	460	660	407	483	440	635	487	467	452	658	514	499
Outlays <sup>2</sup>	1789	1852	1976	2052	482	467	439	504	494	492	487	522	512	512	507	540
Surplus/deficit <sup>2</sup>	236	136	70	38	-22	194	-33	-20	-54	144	1	-54	-60	146	6	-42
On-budget	87	-30	-98	-143	-88	119	-48	-72	-81	71	-16	-109	-89	67	-12	-103
Off-budget	150	166	168	181	65	75	15	51	27	73	16	55	29	79	18	62
Surplus excluding deposit insurance	233	135	68	36	-23	193	-33	-21	-55	143	0	-55	-61	146	6	-42
<b>Means of financing</b>																
Borrowing	-223	-92	-62	-28	24	-157	67	13	48	-113	-10	38	62	-109	-19	26
Cash decrease	4	7	1	0	-7	-15	-2	15	0	-30	15	20	-5	-30	15	15
Other <sup>3</sup>	-18	-51	-9	-10	6	-21	-32	-8	6	-2	-5	-3	3	-7	-3	1
Cash operating balance, end of period	53	46	45	45	28	44	46	31	30	60	45	25	30	60	45	30
<b>NIPA federal sector</b>																
					Seasonally adjusted annual rates											
Receipts	2012	2041	2032	2106	2087	2093	1905	2072	2011	2008	2036	2064	2090	2120	2151	2186
Expenditures	1813	1888	1990	2080	1882	1903	1912	1963	1980	1998	2019	2054	2076	2087	2101	2125
Consumption expenditures	492	507	550	595	508	510	516	527	546	558	570	581	596	600	605	608
Defense	322	337	357	375	338	340	343	347	357	360	363	366	375	378	381	383
Nondefense	170	170	193	220	169	170	173	179	189	198	206	215	221	222	224	225
Other spending	1321	1381	1440	1484	1375	1394	1396	1436	1434	1441	1449	1473	1480	1487	1496	1516
Current account surplus	199	152	42	26	205	189	-8	109	31	9	18	10	14	33	50	61
Gross investment	96	100	107	112	98	100	102	105	106	108	109	111	112	113	114	115
Current and capital account surplus	102	52	-65	-86	108	89	-110	4	-75	-98	-92	-101	-98	-80	-64	-54
<b>Fiscal indicators<sup>4</sup></b>																
High-employment (HEB)																
surplus/deficit	-9	-19	-44	-56	21	25	-144	-4	-56	-63	-52	-63	-68	-53	-40	-33
Change in HEB, percent of potential GDP	-.8	.1	.2	.1	0	-0	2	-1	.5	.1	-.1	.1	0	-.1	-.1	-.1
Fiscal impetus (FI)																
percent, calendar year	2	10	18	5	4	3	11	-5	13	2	2	2	1	.5	.7	.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 August 2001 baseline surplus estimates are \$158 billion in FY2001 and \$187 billion in FY 2002. CBO's August 2001 baseline surplus estimates, assuming discretionary spending grows with inflation beginning in FY 2002, are \$153 billion in FY2001 and \$176 billion in FY 2002. On September 26, CBO revised their FY 2001 surplus estimate to \$121 billion. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus and the Postal Service surplus are 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

Strictly Confidential (FR)  
Class II FOMC

Change in Debt of the Domestic Nonfinancial Sectors  
(Percent)

September 27, 2001

Period <sup>1</sup>	Total <sup>2</sup>	Federal government <sup>3</sup>	Nonfederal						Memo: Nominal GDP
			Total <sup>4</sup>	Households			Business	State and local governments	
				Total	Home mortgages	Consumer credit			
<i>Year</i>									
1994	4.5	4.7	4.5	7.4	5.7	14.5	3.7	-4.0	6.2
1995	5.4	4.1	5.9	7.4	5.1	14.1	7.2	-4.6	4.3
1996	5.3	4.0	5.8	6.9	6.7	7.9	6.3	-0.6	6.0
1997	5.6	0.6	7.3	6.2	6.6	4.3	9.2	5.3	6.2
1998	6.7	-1.4	9.4	8.2	9.1	5.4	11.3	7.2	6.0
1999	6.7	-1.9	9.3	8.4	9.2	7.1	11.5	4.4	6.0
2000	5.0	-8.0	8.5	8.4	8.3	9.3	10.0	2.2	5.3
2001	4.9	-1.3	6.3	7.3	9.2	4.3	5.3	5.4	2.4
2002	4.0	-1.1	5.1	5.8	7.4	1.6	4.8	2.7	3.6
2003	4.4	-1.2	5.5	6.4	7.6	3.7	5.2	2.6	5.3
<i>Quarter</i>									
2001:1	5.5	-0.1	6.7	7.8	7.8	10.1	5.4	7.8	4.6
2	5.6	-6.4	8.3	9.2	11.4	4.5	7.2	8.4	2.5
3	5.2	7.5	4.7	5.9	8.2	1.9	4.2	1.0	3.0
4	2.9	-6.0	4.8	5.7	8.1	0.6	4.1	4.0	-0.5
2002:1	4.5	2.8	4.9	5.6	7.5	1.1	4.3	3.4	1.7
2	3.6	-2.3	4.8	5.4	7.0	1.1	4.6	2.7	2.9
3	3.9	-1.8	5.0	5.7	7.0	1.9	4.9	2.1	4.8
4	3.9	-3.1	5.3	6.0	7.2	2.4	5.1	2.4	5.1
2003:1	5.3	4.5	5.4	6.2	7.3	3.0	5.2	2.6	5.6
2	4.2	-1.9	5.4	6.2	7.4	3.4	5.1	2.6	5.2
3	4.1	-2.8	5.4	6.2	7.3	3.9	5.0	2.6	5.2
4	3.8	-4.6	5.4	6.3	7.4	4.2	5.0	2.6	5.2

1-30

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2001:Q2 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 5.0 percent in 2001, 3.9 percent in 2002, and 4.4 percent in 2003.

3. On a monthly average basis, federal debt is projected to grow -1.8 percent in 2001, -1.5 percent in 2002, and -1.0 percent in 2003.

4. On a monthly average basis, nonfederal debt is projected to grow 6.6 percent in 2001, 5.0 percent in 2002, and 5.5 percent in 2003.

Category					Seasonally adjusted annual rates							
	Calendar year				2001				2002			
	2000	2001	2002	2003	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>												
1 Total	702.5	821.3	771.3	900.1	967.2	999.7	837.1	481.1	840.1	697.1	770.5	777.6
2 Net equity issuance	-166.6	-69.3	0.3	18.0	-33.9	-35.2	-140.0	-68.0	-22.0	1.0	14.0	8.0
3 Net debt issuance	869.1	890.5	771.1	882.1	1001.1	1034.9	977.1	549.1	862.1	696.1	756.5	769.6
<i>Borrowing sectors</i>												
<i>Nonfinancial business</i>												
4 Financing gap <sup>1</sup>	306.9	249.3	208.8	225.7	304.2	262.4	218.5	212.0	214.9	202.6	205.8	211.9
5 Net equity issuance	-166.6	-69.3	0.3	18.0	-33.9	-35.2	-140.0	-68.0	-22.0	1.0	14.0	8.0
6 Credit market borrowing	594.8	348.6	333.1	375.7	355.8	480.0	281.0	277.7	300.0	323.9	343.9	364.4
<i>Households</i>												
7 Net borrowing <sup>2</sup>	543.0	516.6	438.2	510.0	549.5	660.9	433.9	422.4	422.9	411.4	443.1	475.7
8 Home mortgages	377.3	452.4	395.2	436.0	385.1	572.1	424.2	428.2	404.2	383.2	387.2	406.2
9 Consumer credit	132.3	67.6	26.5	61.3	158.1	72.8	30.4	9.0	17.6	18.1	30.6	39.5
10 Debt/DPI (percent) <sup>3</sup>	96.5	98.6	101.0	102.8	97.8	98.9	97.8	100.9	100.3	100.7	101.2	101.7
<i>State and local governments</i>												
11 Net borrowing	27.2	69.2	36.4	36.4	100.1	110.1	14.0	52.8	45.4	37.4	29.4	33.4
12 Current surplus <sup>4</sup>	191.9	193.8	193.2	200.6	189.8	191.9	204.0	189.6	189.1	189.2	195.0	199.3
<i>Federal government</i>												
13 Net borrowing	-295.9	-44.0	-36.6	-40.0	-4.3	-216.0	248.3	-203.8	93.8	-76.5	-59.9	-103.9
14 Net borrowing (quarterly, n.s.a.)	-295.9	-44.0	-36.6	-40.0	23.7	-147.4	66.8	13.0	48.2	-112.5	-10.3	38.0
15 Unified deficit (quarterly, n.s.a.)	-254.8	-118.0	-35.8	-51.2	22.5	-193.7	32.9	20.4	54.0	-143.8	-0.5	54.5
<i>Depository institutions</i>												
16 Funds supplied	445.3	215.8	256.5	289.8	209.1	239.1	196.2	218.9	220.8	238.8	276.8	289.8
<i>Memo (percentage of GDP)</i>												
17 Domestic nonfinancial debt <sup>5</sup>	180.7	183.2	187.0	185.5	181.6	182.9	184.0	186.1	187.1	187.6	187.1	186.6
18 Domestic nonfinancial borrowing	8.8	8.7	7.4	8.0	9.9	10.1	9.5	5.3	8.4	6.7	7.2	7.2
19 Federal government <sup>6</sup>	-3.0	-0.4	-0.4	-0.4	-0.0	-2.1	2.4	-2.0	0.9	-0.7	-0.6	-1.0
20 Nonfederal	11.8	9.1	7.7	8.4	9.9	12.3	7.1	7.3	7.5	7.4	7.8	8.2

Note. Data after 2001:Q2 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

In constructing this forecast, we have worked to assess the implications of two broad sets of developments. First, data on foreign activity have come in weaker than we anticipated in the previous Greenbook. In particular, we were surprised on the downside by second-quarter GDP data for Canada and for several Asian emerging-market economies, and economic indicators for July and August point to continued weakness in many countries. Second, the terrorist attacks of September 11 have cast a long shadow across the foreign outlook. Our assessments of the economic implications of these events are surrounded by significant uncertainties. That said, we expect that the effects of these events will reduce growth in foreign economies through several channels: weaker import demand from the United States, in line with the lower near-term forecast for U.S. growth; disruptions in industries such as air travel and tourism; consequences of developments in financial markets, including both negative wealth effects due to falling stock prices and possible reductions in international capital flows; and retrenchments in consumer and business sentiment.

### Summary of Staff Projections

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

Indicator	2000		2001: H1	Projection		
	H1	H2		2001: H2	2002	2003
Foreign output	5.5	2.7	.1	.0	2.4	3.4
<i>August GB</i>	5.6	2.7	.6	1.4	2.9	...
Foreign CPI	2.2	3.4	2.5	2.0	2.2	2.3
<i>August GB</i>	2.2	3.5	2.6	2.5	2.5	...

NOTE. Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2.

... Not applicable.

In response to the weaker-than-expected data and to our assessment of the effects of the terrorist attacks, we have significantly reduced our projection for foreign growth in the second half of this year. We now anticipate that growth will remain at zero, down nearly 1-1/2 percentage points from the previous Greenbook. However, we project that the foreign economies will begin to heal in 2002 as the repercussions from the attacks wane, as the U.S. economy begins to recover, as global electronics demand strengthens, as energy prices trend down, and as the monetary and fiscal stimulus that many countries have put in place supports activity. Under these circumstances, we see foreign growth moving up next year, albeit to a lower rate than was projected in the August Greenbook. These same factors should allow for a further acceleration in 2003 with foreign output moving back toward potential.

we now expect that growth in both Latin America and developing Asia will remain negative in the second half of this year. Notably, we are projecting that Mexico will record its fourth and fifth consecutive quarters of contraction. In contrast, China is the one major economy where we expect growth to hold up fairly well in the second half, with domestic demand receiving support from ongoing fiscal stimulus. As 2002 progresses, the developing countries should begin to record modest recoveries, in line with the expected revival of U.S. growth, a rebound in global electronics demand, and an ebbing of global risk aversion.

**Prices of internationally traded goods.** Oil prices have dropped sharply in recent days and are now well below the level that prevailed before September 11. The decline in oil prices reflects concerns that world oil demand, along with economic activity, may be weaker than was previously anticipated. The markets seem to have discounted the possibility that potential military action may disrupt oil supplies in the Middle East. Given these developments, along with our expectation of rising production from non-OPEC members, OPEC's price target looks like it will be difficult to sustain. Thus, we have written down a significantly lower path for oil prices than in our last forecast. We now project that the spot price of WTI will average just over \$22 per barrel in the fourth quarter of this year, edge up about \$1 per barrel in the first half of next year, and then decline to \$20.50 per barrel by the end of 2003. This forecast closely tracks recent futures quotes.

#### Selected Trade Prices

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

Trade category	2000		2001: H1	Projection		
	H1	H2		2001: H2	2002	2003
<i>Exports</i>						
Core goods	2.7	.7	-.5	-1.4	.8	.7
<i>Imports</i>						
Non-oil core goods	1.7	1.5	-1.5	-3.5	1.9	1.1
Oil (dollars per barrel)	26.18	28.87	24.21	19.76	19.18	18.06

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.

Prices of imported core goods are estimated to have declined further during the third quarter of this year and are expected to remain at those lower levels during the fourth quarter, in line with the near-term weakness of materials prices. Next year, core import prices are projected to increase nearly 2 percent, driven by the

goods trade due to temporary port closures and the like will be subsequently made up. In contrast, we expect that real services imports will suffer some persistent loss, particularly in travel and passenger fares.

We expect real imports of goods and services to grow modestly during the next two quarters. This forecast is the synthesis of several offsetting factors. On the one hand, the weak near-term outlook for U.S. spending on investment goods suggests that imports of those products will remain depressed over the next couple of quarters. Also, as mentioned above, we expect certain categories of services imports, such as travel and passenger fares, to show marked declines in the aftermath of the terrorist attacks and to begin recovering early next year. On the other hand, we anticipate that some goods imports will be pushed from the third quarter into the fourth quarter, as discussed above. We also project that imports of consumer goods will increase somewhat, as fiscal stimulus boosts consumption.

As the recovery in U.S. activity takes hold in 2002, imports should rebound more robustly. Specifically, we project that imports will grow at a 6-1/4 percent pace through the last three quarters of 2002 and at an 8-1/4 percent pace in 2003. The lagged effects of the dollar's appreciation over the past six quarters are expected to result in relative prices providing some slight stimulus to imports, but the primary boost derives from revived U.S. growth and the high U.S. propensity to import.

### Summary of Staff Projections for Trade in Goods and Services

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

Measure	2000		2001: H1	Projection		
	H1	H2		2001: H2	2002	2003
Real exports	11.2	3.0	-6.7	-9.7	3.1	6.8
<i>August GB</i>	<i>11.2</i>	<i>3.0</i>	<i>-6.0</i>	<i>-.5</i>	<i>3.9</i>	<i>...</i>
Real imports	16.8	6.0	-6.8	-4.9	5.0	8.3
<i>August GB</i>	<i>16.8</i>	<i>6.0</i>	<i>-6.0</i>	<i>1.4</i>	<i>6.4</i>	<i>...</i>

NOTE. Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2.

... Not applicable.

We believe that in the third quarter exports of real goods and services declined at a double-digit rate for the second consecutive quarter. The recent drop in exports of high-tech goods and other capital equipment has been particularly pronounced as global investment has weakened markedly. Looking ahead, we

**Alternative Scenario:**  
**Fall in Domestic Demand Abroad**  
 (Percent change from previous period, annual rate)

Indicator and simulation	2001	2002		2003	
	H2	H1	H2	H1	H2
<i>U.S. real GDP</i>					
Baseline	-.6	.6	3.3	3.5	3.5
Alternative scenario					
Fixed real rates	-.8	.2	3.2	3.5	3.6
Taylor rule <sup>1</sup>	-.7	.4	3.3	3.6	3.6
<i>U.S. PCE prices excluding food and energy</i>					
Baseline	1.9	1.7	1.6	1.5	1.5
Alternative scenario					
Fixed real rates	1.9	1.7	1.5	1.4	1.3
Taylor rule <sup>1</sup>	1.9	1.7	1.5	1.4	1.5

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

1. Japan is assumed to increase fiscal spending by 1 percent of baseline GDP.



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

Measure and country							-----Projected-----		
	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>REAL GDP (1)</b>									
-----									
Total foreign	2.4	4.0	4.2	1.4	4.8	4.1	0.0	2.4	3.4
Industrial Countries	1.9	2.6	3.5	2.6	3.8	3.2	0.4	2.2	3.0
of which:									
Canada	1.5	2.6	4.5	4.2	5.1	3.5	0.6	2.5	3.5
Japan	2.6	2.9	0.7	-1.4	0.4	2.5	-2.0	0.3	1.3
United Kingdom	2.0	2.9	3.6	2.6	2.7	2.4	1.8	2.2	2.7
Euro Area (2)	1.5	1.6	3.1	1.9	3.6	2.9	0.7	2.2	2.7
Germany	1.1	1.4	1.7	0.6	3.0	2.5	0.2	1.8	2.5
Developing Countries	3.1	5.9	5.1	-0.1	6.2	5.4	-0.6	2.5	4.1
Asia	6.9	6.6	4.8	-1.9	8.6	6.1	-1.1	2.8	4.8
Korea	7.5	6.4	3.4	-5.2	13.8	5.2	0.4	1.6	4.6
China	10.4	5.3	8.7	9.5	4.1	8.0	7.3	7.4	7.5
Latin America	-3.7	5.9	6.2	1.2	4.3	4.8	-0.8	1.9	3.4
Mexico	-7.1	7.1	6.7	2.8	5.4	5.2	-1.1	2.1	4.0
Brazil	-0.7	3.3	2.4	-0.8	3.5	4.3	-0.5	2.1	2.6
<b>CONSUMER PRICES (3)</b>									
-----									
Industrial Countries	1.3	1.5	1.5	1.0	1.2	1.8	1.5	0.9	1.0
of which:									
Canada	2.0	2.0	1.0	1.1	2.3	3.1	2.3	1.5	1.5
Japan	-0.8	0.2	2.0	0.7	-1.2	-1.2	-0.7	-0.9	-0.9
United Kingdom (4)	2.9	3.2	2.7	2.5	2.2	2.1	2.0	2.1	2.4
Euro Area (2)	NA	NA	1.5	0.8	1.5	2.7	2.3	1.7	1.8
Germany	1.4	1.3	1.5	0.3	1.1	2.5	1.8	1.1	1.2
Developing Countries	16.9	11.1	6.8	9.0	4.6	4.1	3.4	3.9	4.1
Asia	6.4	4.8	2.7	4.4	0.2	1.9	1.4	2.4	3.4
Korea	4.3	5.0	4.9	5.9	1.2	2.8	4.3	2.4	3.0
China	11.1	6.8	0.9	-1.2	-0.9	0.9	0.6	2.3	3.8
Latin America	42.0	25.8	15.5	15.4	12.5	8.4	5.7	6.2	5.1
Mexico	48.7	28.0	17.0	17.4	13.6	8.8	5.6	6.3	5.0
Brazil	21.5	9.6	4.6	1.5	8.2	6.1	6.6	6.2	5.6

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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	2001				Projected 2002				2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	----- Quarterly changes at an annual rate -----											
Total foreign	0.8	-0.7	-0.0	0.1	1.0	2.1	3.1	3.2	3.4	3.4	3.5	3.5
Industrial Countries	1.6	-0.0	-0.1	0.1	0.9	2.0	2.9	3.1	3.0	3.0	3.0	3.0
of which:												
Canada	2.0	0.4	-0.2	0.2	0.8	2.3	3.4	3.5	3.5	3.5	3.5	3.5
Japan	0.5	-3.2	-3.1	-2.3	-0.5	0.0	0.7	1.1	1.2	1.3	1.3	1.3
United Kingdom	2.6	1.8	1.7	1.1	1.5	2.2	2.5	2.5	2.7	2.7	2.7	2.7
Euro Area (2)	2.1	0.2	0.5	0.3	0.8	1.9	2.9	3.1	2.8	2.8	2.6	2.6
Germany	1.6	-0.1	-0.3	-0.2	0.5	1.4	2.6	2.9	2.7	2.7	2.4	2.4
Developing Countries	-0.4	-1.7	-0.1	-0.0	1.1	2.3	3.3	3.5	4.0	4.1	4.2	4.2
Asia	-1.0	-3.2	-0.6	0.2	1.2	2.6	3.6	4.0	4.5	4.8	5.0	5.0
Korea	1.3	1.8	-0.5	-1.0	0.0	1.0	2.5	3.0	4.0	4.5	5.0	5.0
China	8.1	7.5	6.8	6.8	7.0	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Latin America	-0.7	-1.0	-0.3	-1.1	0.3	1.6	2.8	2.8	3.4	3.4	3.3	3.3
Mexico	-1.3	-1.0	-0.5	-1.4	0.3	1.8	3.2	3.3	4.1	4.1	4.0	4.0
Brazil	1.6	-3.9	0.5	-0.0	1.0	1.9	2.7	2.7	2.6	2.6	2.6	2.5
CONSUMER PRICES (3)	----- Four-quarter changes -----											
Industrial Countries	1.7	2.1	1.6	1.5	1.4	0.8	0.9	0.9	1.0	1.0	1.0	1.0
of which:												
Canada	2.8	3.6	2.7	2.3	2.3	1.3	1.5	1.5	1.5	1.5	1.5	1.5
Japan	-1.0	-1.2	-1.2	-0.7	-1.0	-0.7	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
United Kingdom (4)	1.9	2.3	2.2	2.0	2.1	1.7	1.9	2.1	2.3	2.3	2.4	2.4
Euro Area (2)	2.5	3.1	2.7	2.3	2.1	1.5	1.6	1.7	1.7	1.7	1.7	1.8
Germany	2.4	3.2	2.3	1.8	1.3	0.7	1.0	1.1	1.2	1.2	1.2	1.2
Developing Countries	3.8	4.1	3.7	3.4	3.9	3.8	3.9	3.9	4.0	4.1	4.1	4.1
Asia	1.8	2.4	2.1	1.4	1.7	1.8	2.1	2.4	2.8	3.0	3.2	3.4
Korea	4.2	5.3	4.4	4.3	4.0	3.1	2.5	2.4	2.5	2.7	2.8	3.0
China	0.6	1.6	1.2	0.6	1.0	1.4	1.8	2.3	2.7	3.1	3.5	3.8
Latin America	7.2	6.8	6.0	5.7	6.8	6.6	6.6	6.2	6.0	5.7	5.4	5.1
Mexico	7.5	6.9	5.9	5.6	6.9	6.7	6.7	6.3	6.0	5.6	5.3	5.0
Brazil	6.2	7.1	6.5	6.6	6.9	6.9	6.2	6.2	6.1	5.9	5.7	5.6

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

	1995	1996	1997	1998	1999	2000	----- 2001	Projected 2002	----- 2003
<b>NIPA REAL EXPORTS and IMPORTS</b>									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	0.4	-0.2	-0.8	-1.1	-1.0	-0.8	-0.1	-0.3	-0.4
Exports of G&S	1.0	1.1	1.0	0.3	0.5	0.8	-0.9	0.3	0.7
Imports of G&S	-0.6	-1.3	-1.7	-1.3	-1.5	-1.6	0.9	-0.7	-1.1
	Percentage change, Q4/Q4								
Exports of G&S	9.7	9.8	8.5	2.3	4.5	7.0	-8.3	3.1	6.8
Services	8.8	8.9	1.4	2.9	1.9	4.1	-5.7	7.7	5.2
Computers	39.1	21.6	25.8	8.1	13.8	23.1	-22.2	15.6	29.9
Semiconductors	79.6	44.6	21.3	9.1	34.6	26.9	-36.7	16.7	29.9
Other Goods 1/	4.6	7.3	9.8	1.3	3.2	5.7	-5.7	-0.6	4.7
Imports of G&S	5.0	11.2	14.3	10.8	11.5	11.3	-5.9	5.0	8.3
Services	5.5	5.3	14.0	8.5	2.8	12.2	-7.2	6.3	5.3
Oil	2.4	7.8	3.9	4.1	-3.4	12.4	-0.4	2.4	0.4
Computers	35.0	17.8	33.0	25.8	25.1	13.6	-16.2	15.6	29.9
Semiconductors	92.4	56.7	32.9	-8.7	33.5	22.5	-52.4	16.7	29.9
Other Goods 2/	-1.2	10.4	12.7	11.5	12.9	10.4	-3.3	4.0	7.7
	Billions of chained 1996 dollars								
Net Goods & Services	-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-411.5	-450.8	-503.4
Exports of G&S	808.2	874.2	981.5	1002.4	1034.8	1133.2	1089.6	1063.9	1126.0
Imports of G&S	886.6	963.1	1094.8	1223.5	1351.7	1532.3	1501.1	1514.7	1629.4
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-109.9	-120.9	-139.8	-217.5	-324.4	-444.7	-415.4	-436.3	-477.2
Current Acct as Percent of GDP	-1.5	-1.5	-1.7	-2.5	-3.5	-4.5	-4.1	-4.2	-4.3
Net Goods & Services (BOP)	-96.4	-101.8	-107.8	-166.8	-261.8	-375.7	-343.6	-371.2	-416.6
Investment Income, Net	25.0	25.5	13.6	-1.2	-8.5	-9.6	-14.3	-5.3	0.1
Direct, Net	64.9	69.4	72.4	66.3	67.0	81.2	90.3	92.5	91.2
Portfolio, Net	-39.9	-43.9	-58.8	-67.5	-75.6	-90.9	-104.5	-97.8	-91.1
Other Income & Transfers, Net	-38.6	-44.6	-45.7	-49.4	-54.0	-59.3	-57.6	-59.8	-60.7

1. Merchandise exports excluding computers, and semiconductors.

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

September 27, 2001

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1998				1999				2000			
	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	-1.8	-1.8	-0.8	0.2	-1.8	-1.2	-0.7	-0.1	-1.3	-0.8	-0.7	-0.4
Exports of G&S	0.1	-0.5	-0.2	1.7	-0.8	0.4	1.0	1.3	0.9	1.4	1.1	-0.5
Imports of G&S	-1.9	-1.4	-0.5	-1.5	-1.0	-1.6	-1.7	-1.3	-2.2	-2.2	-1.8	0.1
Percentage change from previous period, s.a.a.r.												
Exports of G&S	0.5	-4.0	-2.2	16.3	-6.8	4.2	9.7	12.1	9.0	13.5	10.6	-4.0
Services	2.4	8.0	-8.4	10.5	-3.9	3.8	2.0	6.0	10.3	9.9	-6.7	3.7
Computers	-8.3	8.2	12.0	22.8	0.5	26.8	18.3	11.0	32.7	49.2	25.8	-7.9
Semiconductors	5.9	-17.2	272.7	-56.6	45.4	31.6	36.5	25.8	29.9	64.5	35.0	-10.2
Other Goods 1/	0.0	-9.2	-9.3	27.8	-11.5	1.1	11.0	14.2	5.3	9.1	16.3	-6.5
Imports of G&S	15.9	11.3	4.2	12.2	8.4	13.3	13.8	10.5	17.1	16.4	13.0	-0.5
Services	21.3	6.7	7.0	0.1	-8.2	1.8	7.9	11.0	20.6	12.4	17.1	0.0
Oil	3.6	42.8	1.1	-21.6	3.9	29.8	-5.8	-31.5	29.7	40.3	-4.9	-7.7
Computers	38.4	18.5	6.4	43.6	40.6	41.1	8.3	13.8	12.8	34.4	18.4	-7.2
Semiconductors	8.5	-25.4	-6.3	-8.2	37.0	47.5	12.7	39.6	45.6	24.9	64.9	-24.9
Other Goods 2/	14.2	11.9	4.1	16.2	9.0	11.3	17.6	14.0	14.6	13.1	11.9	2.4
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-180.8	-223.1	-241.2	-239.2	-283.0	-313.4	-333.3	-337.8	-371.1	-392.8	-411.2	-421.1
Exports of G&S	1003.4	993.1	987.6	1025.6	1007.6	1018.0	1041.8	1072.1	1095.5	1130.6	1159.3	1147.5
Imports of G&S	1184.2	1216.2	1228.9	1264.8	1290.6	1331.4	1375.1	1409.8	1466.6	1523.4	1570.6	1568.5
Billions of dollars, s.a.a.r.												
JS CURRENT ACCOUNT BALANCE	-174.0	-209.6	-242.1	-244.1	-265.8	-309.5	-352.3	-369.9	-419.6	-432.5	-461.2	-465.3
Current Account as % of GDP	-2.0	-2.4	-2.7	-2.7	-2.9	-3.4	-3.8	-3.9	-4.3	-4.4	-4.6	-4.6
Net Goods & Services (BOP)	-139.5	-169.9	-181.9	-176.0	-211.5	-251.5	-284.5	-299.9	-349.3	-363.1	-389.4	-401.2
Investment Income, Net	9.9	5.8	-12.3	-8.3	-5.2	-6.6	-15.5	-6.8	-17.5	-14.4	-14.5	7.9
Direct, Net	74.2	69.8	57.8	63.3	66.2	63.0	63.3	75.7	65.5	72.5	84.2	102.8
Portfolio, Net	-64.2	-64.0	-70.1	-71.5	-71.4	-69.6	-78.8	-82.5	-83.0	-86.8	-98.7	-94.9
Other Inc. & Transfers, Net	-44.4	-45.5	-47.9	-59.8	-49.1	-51.5	-52.2	-63.3	-52.8	-55.0	-57.4	-72.0

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

September 27, 2001

	Projected											
	2001				2002				2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
JIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	0.6	-0.1	-0.3	-0.4	-0.3	-0.5	-0.5	-0.1	-0.6	-0.6	-0.5	-0.1
Exports of G&S	-0.1	-1.4	-2.1	-0.0	-0.1	0.2	0.4	0.7	0.4	0.6	0.7	0.9
Imports of G&S	0.8	1.3	1.8	-0.4	-0.2	-0.7	-0.9	-0.8	-1.0	-1.2	-1.2	-1.0
Percentage change from previous period, s.a.a.r.												
Exports of G&S	-1.2	-12.0	-18.3	-0.3	-1.3	2.1	4.4	7.5	4.2	6.6	7.1	9.3
Services	1.8	2.3	-17.0	-8.5	15.8	4.2	5.4	5.6	5.4	5.2	5.1	5.0
Computers	-5.8	-41.2	-28.4	-7.8	-0.4	17.0	21.6	26.2	28.6	28.6	31.1	31.1
Semiconductors	-22.4	-56.0	-47.8	-9.6	-0.4	17.0	26.2	26.2	28.6	28.6	31.1	31.1
Other Goods 1/	-0.1	-10.9	-15.7	5.2	-9.0	-0.6	1.7	6.1	0.7	4.5	5.1	8.7
Imports of G&S	-5.0	-8.6	-12.2	2.9	1.4	5.5	6.9	6.2	7.5	9.2	8.9	7.4
Services	4.9	-2.3	-18.3	-11.6	15.9	1.3	4.0	4.4	5.0	5.2	5.5	5.6
Oil	27.1	4.3	-21.4	-5.6	-7.8	25.0	9.6	-13.0	-9.4	19.9	11.2	-15.9
Computers	-11.0	-29.3	-18.5	-3.9	-0.4	17.0	21.5	26.2	28.6	28.6	31.1	31.1
Semiconductors	-31.8	-75.0	-63.0	-18.5	-0.4	17.0	26.2	26.2	28.6	28.6	31.1	31.1
Other Goods 2/	-8.4	-5.1	-7.0	8.2	-0.7	3.9	6.1	6.8	7.8	7.6	7.6	7.7
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-404.5	-405.9	-412.2	-423.6	-432.1	-446.5	-460.4	-464.3	-481.4	-499.0	-514.6	-518.8
Exports of G&S	1144.1	1108.1	1053.5	1052.7	1049.1	1054.7	1066.2	1085.6	1096.8	1114.4	1133.7	1159.1
Imports of G&S	1548.6	1514.0	1465.6	1476.2	1481.2	1501.2	1526.7	1549.8	1578.2	1613.4	1648.3	1677.9
Billions of dollars, s.a.a.r.												
JS CURRENT ACCOUNT BALANCE	-447.1	-425.4	-367.0	-422.0	-416.4	-429.2	-441.8	-457.7	-456.8	-469.1	-483.0	-500.0
Current Account as % of GDP	-4.4	-4.2	-3.6	-4.1	-4.0	-4.1	-4.2	-4.3	-4.2	-4.3	-4.4	-4.5
Net Goods & Services (BOP)	-380.1	-355.2	-298.7	-340.2	-352.5	-367.1	-380.8	-384.4	-398.9	-413.3	-426.0	-428.4
Investment Income, Net	-14.6	-16.6	-13.9	-11.9	-8.0	-5.7	-4.7	-2.9	-0.5	1.7	0.4	-1.2
Direct, Net	90.7	92.3	88.7	89.4	91.9	93.3	92.5	92.4	92.6	92.0	90.3	89.9
Portfolio, Net	-105.3	-109.0	-102.6	-101.3	-99.9	-99.0	-97.2	-95.2	-93.1	-90.4	-89.9	-91.1
Other Inc. & Transfers, Net	-52.4	-53.6	-54.4	-69.9	-55.9	-56.4	-56.4	-70.4	-57.4	-57.4	-57.4	-70.4

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

## **Part 2**

September 27, 2001

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

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

September 27, 2001

## **Recent Developments**

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### Production of Domestic Autos and Trucks

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

Item	2001			2001				
	Q1	Q2	Q3 <sup>1</sup>	June	July	Aug.	Sept. <sup>1</sup>	Oct. <sup>2</sup>
U.S. production	10.9	11.7	11.5	11.7	12.1	11.6	10.8	11.0
Autos	5.0	5.1	4.6	5.1	4.9	4.6	4.4	4.7
Trucks	6.0	6.6	6.9	6.6	7.2	7.0	6.4	6.4
Days' supply <sup>3</sup>	62.4	62.0	n.a.	60.0	63.9	64.4	n.a.	n.a.
Autos	50.9	49.3	n.a.	49.0	49.7	52.6	n.a.	n.a.
Light trucks <sup>4</sup>	72.8	73.0	n.a.	69.2	75.8	73.9	n.a.	n.a.
Inventories <sup>5</sup>	2.84	2.75	n.a.	2.75	2.78	2.77	n.a.	n.a.

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

1. Staff estimates.

2. Production rates reflect manufacturers' schedules.

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

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

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

n.a. Not available.

The attacks severely damaged prospects for commercial aircraft production. Before these events, Boeing expected aircraft deliveries to be down about 5 percent next year from the projected level for 2001. Since September 11, several customers have asked not to take aircraft slated for delivery later this year, and new orders are expected to decline. As a result, Boeing has announced that it plans to eliminate 30,000 jobs (a third of its commercial aircraft assembly workforce) in anticipation of a drop in deliveries in 2002 of another 20 percent. Production of commercial aircraft, which had already eased slightly this year, will likely fall further in coming months and plunge more noticeably next year.<sup>5</sup>

### Consumer Spending

Consumer spending seemed to be gaining a bit more vigor over the summer, likely buoyed to some extent by recent tax rebates.<sup>6</sup> In real terms, sales of goods excluding motor vehicles rose briskly in both July and August. Although sales of new light vehicles fell in both months, total real outlays for goods in the two months were an estimated 3-1/2 percent at an annual rate above their second-quarter average.

5. Even with near-term adjustments to production, Boeing may need to inventory some completed planes.

6. Real disposable personal income jumped 1.8 percent in July—boosted 1.3 percentage points by a combination of tax rebates and a reduction in tax rates. Tax rebates should further boost disposable personal income in August and September.



BROAD MEASURES OF INFLATION  
(4-quarter percent change)

	1998 Q2	1999 Q2	2000 Q2	2001 Q2
<u>Product prices</u>				
GDP chain price index	1.2	1.4	2.3	2.3
Less food and energy	1.3	1.4	2.2	1.7
Nonfarm business chain price index <sup>1</sup>	0.8	1.1	1.9	1.9
<u>Expenditure prices</u>				
Gross domestic purchases chain price index	0.8	1.4	2.6	2.0
Less food and energy	1.0	1.3	2.0	1.6
PCE chain price index	1.0	1.5	2.7	2.3
Less food and energy	1.4	1.4	2.0	1.7
PCE chain price index, market-based components	0.8	1.5	2.6	2.4
Less food and energy	1.2	1.4	1.7	1.7
CPI	1.6	2.1	3.3	3.4
Less food and energy	2.2	2.1	2.4	2.7
Current-methods CPI	1.3	2.0	3.3	3.4
Less food and energy	2.1	2.0	2.3	2.7
Median CPI	2.9	2.7	2.6	3.5
Trimmed mean CPI	2.0	1.7	2.5	3.0

1. Excluding housing.

SURVEYS OF (CPI) INFLATION EXPECTATIONS  
(Percent)

		University of Michigan				Professional forecasters (10-year) <sup>4</sup>
	Actual inflation <sup>1</sup>	1 year		5 to 10 years		
		Mean <sup>2</sup>	Median <sup>2</sup>	Mean <sup>3</sup>	Median <sup>3</sup>	
1999-Q4	2.6	3.5	2.9	3.3	2.9	2.5
2000-Q1	3.2	3.6	3.0	3.5	3.0	2.5
Q2	3.3	3.5	3.0	3.3	2.8	2.5
Q3	3.5	3.6	2.9	3.4	2.9	2.5
Q4	3.4	3.8	3.0	3.7	3.0	2.5
2001-Q1	3.4	3.4	2.9	3.6	3.0	2.5
Q2	3.4	3.9	3.1	3.6	3.0	2.5
Q3		3.0	2.6	3.4	2.9	2.5
Apr.	3.3	3.7	3.1	3.6	3.1	
May	3.6	3.9	3.2	3.6	3.0	
June	3.2	4.0	3.0	3.6	3.0	2.5
July	2.7	3.0	2.6	3.4	2.9	
Aug.	2.7	3.1	2.7	3.6	3.0	
Sept.		2.8	2.6	3.2	2.9	2.5

1. CPI; percent change from the same period in the preceding year.

2. Responses to the question: By about what percent do you expect prices to go up, on the average, during the next 12 months?

3. Responses to the question: By about what percent per year do you expect prices to go up, on the average, during the next 5 to 10 years?

4. Compiled by the Federal Reserve Bank of Philadelphia.

### Gross Issuance of Securities by U.S. Corporations

(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1998	1999	2000		2001		Aug.	Sept. <sup>e</sup>
			H1	H2	H1	July		
All U.S. corporations	94.0	89.4	80.0	77.0	123.6	91.5	92.5	n.a.
Stocks <sup>1</sup>	10.6	11.0	14.1	8.4	10.5	8.1	7.8	n.a.
Bonds	83.5	78.4	65.9	68.6	113.1	83.4	84.7	n.a.
<i>Nonfinancial corporations</i>								
Stocks <sup>1</sup>	6.2	9.2	12.4	7.3	7.5	4.2	5.4	.3
Initial public offerings	2.2	4.2	5.7	3.1	3.2	2.5	.4	.0
Seasoned offerings	4.0	5.0	6.7	4.2	4.2	1.7	5.0	.3
Bonds <sup>2</sup>	25.6	24.5	21.3	19.1	43.2	18.9	28.8	18.4
Investment grade <sup>3</sup>	14.1	13.9	11.5	12.4	28.9	14.2	21.7	17.2
Speculative grade <sup>3</sup>	10.2	7.5	5.4	3.7	11.9	4.0	6.1	.7
Other (sold abroad/unrated)	1.3	3.1	4.4	3.1	2.4	.7	1.0	.5
<i>Financial corporations</i>								
Stocks <sup>1</sup>	4.4	1.8	1.6	1.1	3.0	3.9	2.4	.1
Bonds	57.8	53.9	44.7	49.5	69.9	64.5	55.9	n.a.
<i>Memo</i>								
Net issuance of commercial paper, nonfinancial corporations <sup>4</sup>	2.3	3.6	6.4	2.7	-14.5	-11.4	1.7	-6.2
Change in C&I loans at commercial banks <sup>4</sup>	7.0	4.7	10.4	4.7	-3.7	-4.3	-8.1	1.0

Note. Components may not sum to totals because of rounding. These data include speculative-grade bonds issued privately under Rule 144A. All other private placements are excluded. Total reflects gross proceeds rather than par value of original discount bonds.

1. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings.

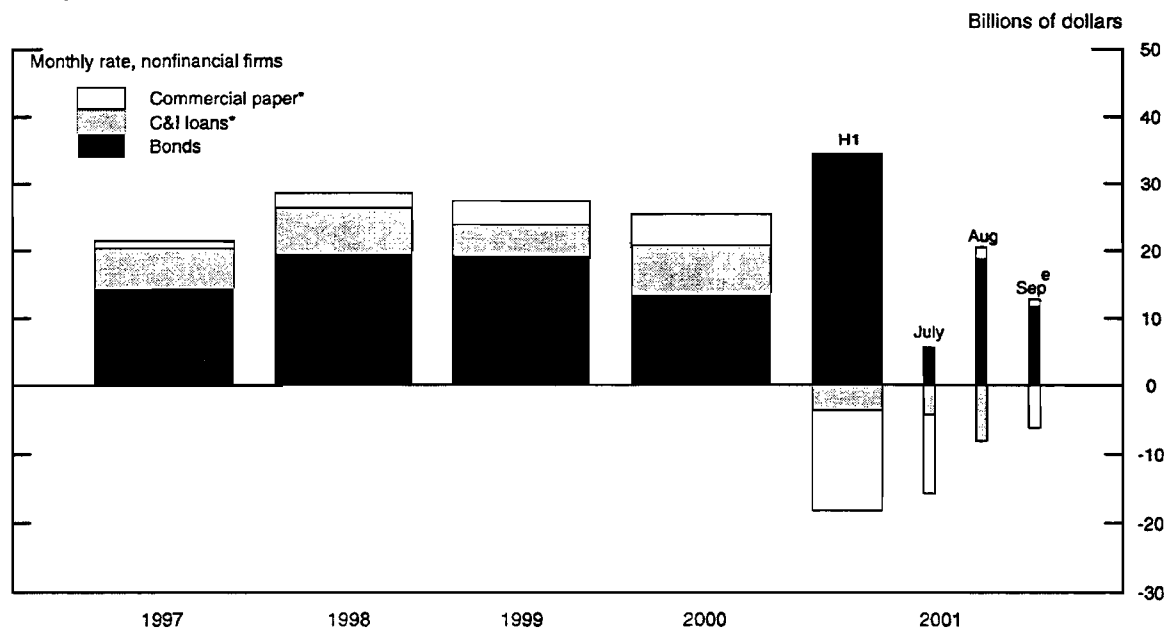
2. Excludes mortgage-backed and asset-backed bonds.

3. Bonds sold in U.S. categorized according to Moody's bond ratings, or to Standard Poor's if unrated by Moody's.

4. End-of-period basis, seasonally adjusted.

e Staff estimate.

### Components of Net Debt Financing

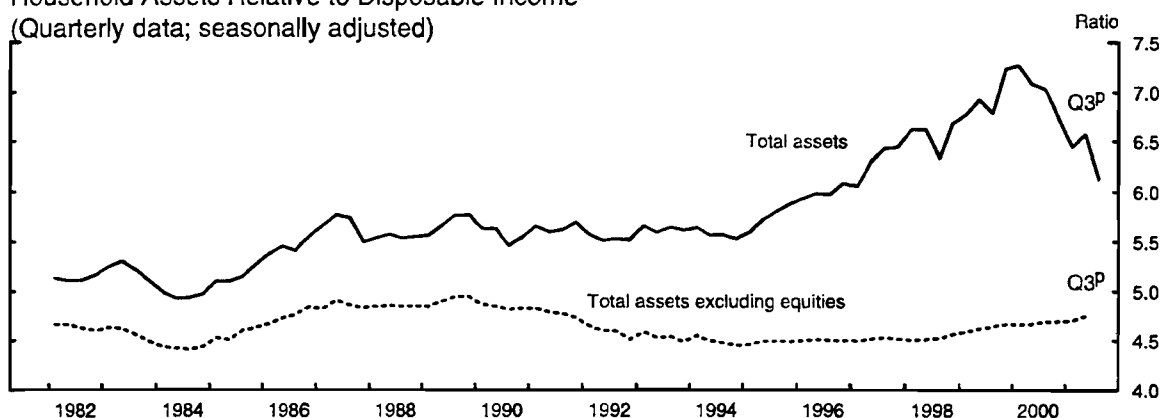


\* Seasonally adjusted.

<sup>e</sup> Staff estimate

## Household Assets

Household Assets Relative to Disposable Income  
(Quarterly data; seasonally adjusted)



p. Staff projection.

## Net Flows into Long-Term Mutual Funds (Excluding reinvested dividends; billions of dollars, monthly rates.)

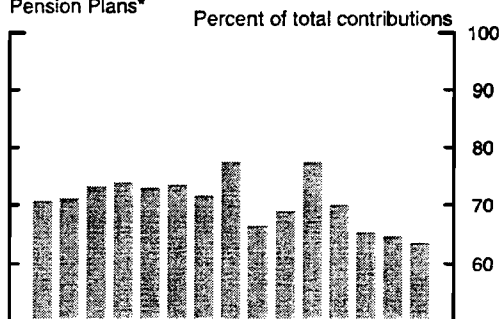
	1999	2000	2001 H1	July	2001 Aug. <sup>e</sup>	Sep. <sup>p</sup>	Assets Jul.
<b>Total long-term funds</b>	<b>14.2</b>	<b>18.4</b>	<b>15.2</b>	<b>9.4</b>	<b>11.2</b>	<b>-8.1</b>	<b>4,825</b>
<b>Equity funds</b>	<b>15.7</b>	<b>25.1</b>	<b>8.3</b>	<b>-1.2</b>	<b>-6.6</b>	<b>-35.9</b>	<b>3,590</b>
Domestic	14.8	21.2	9.2	2.4	-1.7	-25.5	3,128
Capital appreciation	13.5	25.5	5.3	-0.6	-3.8	n.a.	1,891
Total return	1.4	-4.3	3.9	3.0	2.1	n.a.	1,237
International	0.9	3.9	-0.8	-3.6	-4.9	-10.4	461
<b>Hybrid funds</b>	<b>-1.0</b>	<b>-2.6</b>	<b>1.0</b>	<b>1.3</b>	<b>0.9</b>	<b>2.0</b>	<b>352</b>
<b>Bond funds</b>	<b>-0.5</b>	<b>-4.0</b>	<b>5.9</b>	<b>9.3</b>	<b>16.9</b>	<b>25.8</b>	<b>883</b>
International	-0.2	-0.2	0.0	-0.1	-0.0	n.a.	20
High-yield	-0.2	-1.0	0.9	0.6	0.6	n.a.	96
Other taxable	1.0	-1.6	4.2	6.5	13.0	n.a.	474
Municipals	-1.0	-1.2	0.8	2.3	3.2	n.a.	292

e. Staff estimates based on confidential ICI weekly data.

p. Preliminary estimate, through Sep. 25.

Source. Investment Company Institute (ICI).

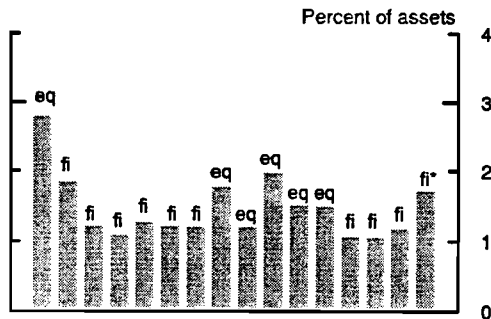
Equity Allocation of New Contributions to 401(k)  
Pension Plans\*



June Aug. Oct. Dec. Feb. Apr. June Aug.  
2000 2001

\* Includes equity mutual funds and company stock.  
Source. Hewitt Associates.

Transfers Among Existing 401(k) Pension Plan Assets



July Sep. Nov. Jan. Mar. May July Sep.  
2000 2001

p. Preliminary, through Sep. 25

\* Indicates predominant direction of transfers,  
eq = toward equity, fi = toward fixed income investments.  
Source. Hewitt Associates.

## Treasury and Agency Finance

### Treasury Financing (Billions of dollars)

Item	2000	2001				
	Q4	Q1	Q2	Jul.	Aug.	Sep. (e)
<b>Total surplus, deficit (-)</b>	<b>-2.3</b>	<b>-22.5</b>	<b>193.7</b>	<b>2.8</b>	<b>-80.0</b>	<b>n.a.</b>
Means of financing deficit						
Net borrowing	-25.1	23.7	-157.4	-7.5	74.1	.1
Nonmarketable	1.5	6.0	6.2	-3.6	-1.5	-2.2
Marketable	-26.6	17.6	-163.6	-3.5	75.6	2.3
Bills	30.4	65.0	-92.1	33.0	79.5	2.3
Coupons <sup>1</sup>	-48.2	-39.4	62.3	-32.3	-.3	0
Debt buybacks	-8.7	-8.0	-9.2	-4.2	-3.5	0
Decrease in cash balance	31.6	-7.2	-15.4	20.6	16.8	-39.6
Other <sup>2</sup>	-4.2	6.0	-20.9	-15.9	-10.9	n.a.
<b>MEMO</b>						
Cash balance, end of period	21.1	28.3	43.7	23.1	6.3	46.0

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

1. Does not include Treasury debt buybacks.

2. Direct loan financing, accrued items, checks issued less checks paid, and other transactions.

e. Estimated.

n.a. Not available.

### Net Borrowing of Government-Sponsored Enterprises (Billions of dollars)

Agency	2000	2001				
	Q4	Q1	Q2	Jul.	Aug.	Sep. (e)
FHLBs	13.8	8.4	-7.7	6.3	-2.4	n.a.
Freddie Mac	20.0	34.4	35.4	12.2	n.a.	n.a.
Fannie Mae	35.7	23.9	35.7	4.5	11.2	n.a.
Farm Credit Banks	3.1	0	2.2	0	0	n.a.
Sallie Mae	3.0	1.9	.4	n.a.	n.a.	n.a.
<b>MEMO</b>						
<i>Outstanding noncallable</i>						
<i>Reference and Benchmark</i>						
<i>Securities</i>						
Notes and Bonds	313.1	351.2	384.1	393.3	404.2	411.5
Bills	235.0	270.0	278.0	292.0	298.5	288.5
<b>Total</b>	<b>548.1</b>	<b>621.2</b>	<b>662.1</b>	<b>685.3</b>	<b>702.7</b>	<b>700.0</b>

NOTE. Excludes mortgage pass-through securities issued by Fannie Mae and Freddie Mac.

n.a. Not available

## State and Local Government Finance

### Gross Offerings of Municipal Securities (Billions of dollars; monthly rates, not seasonally adjusted)

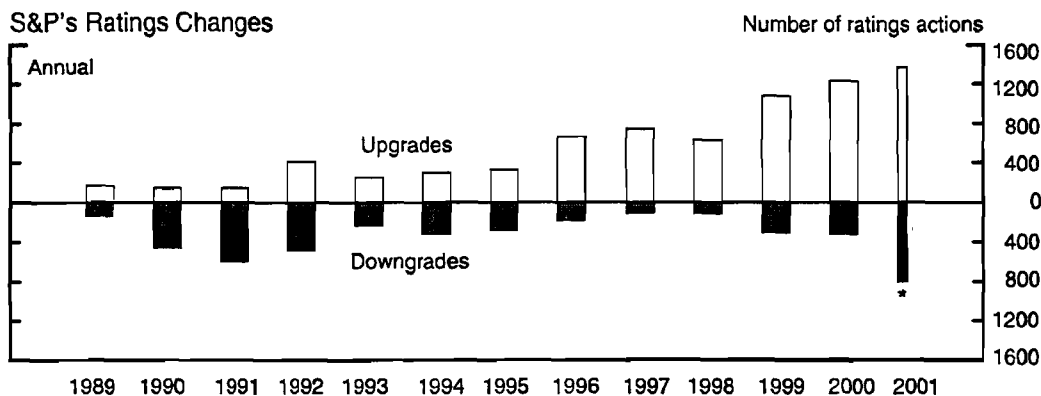
	1999	2000	2001				
			Q1	Q2	July	Aug.	Sept. <sup>e</sup>
Long-term <sup>1</sup>	18.0	15.0	18.5	24.2	19.2	21.2	14.5
Refundings <sup>2</sup>	4.5	2.2	6.0	6.7	4.2	7.6	4.0
New capital	13.5	12.9	12.5	17.4	15.0	13.5	10.5
Short-term	2.7	2.8	2.6	4.7	2.4	7.0	8.0
Total tax-exempt	20.6	17.9	21.2	28.9	21.6	28.1	22.5
Total taxable	1.1	0.7	1.0	1.4	1.0	0.3	0.1

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

e. Staff estimate based on data through Sep. 24.

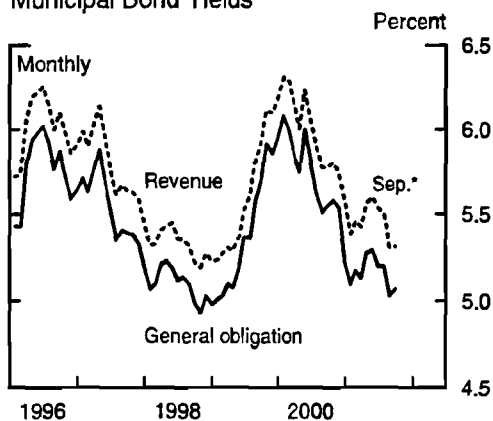
### S&P's Ratings Changes



Source. S&P's Credit Week Municipal.

\* Data through Sep. 19 at an annual rate.

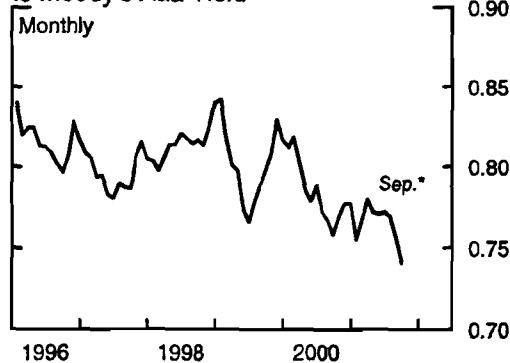
### Municipal Bond Yields



Note. Average of weekly data.

\* Data through Sep. 21.

### Ratio of 30-Year Revenue Bond Yield to Moody's Aaa Yield



Note. Average of weekly data.

\* Data through Sep. 21

**Monetary Aggregates**  
(Based on seasonally adjusted data)

Aggregate or component	2000	2001					Level (bil. \$) Sep. 01 (p)
		Q2	Q3 (p)	Jul.	Aug.	Sep. (p)	
<i>Aggregate</i>		<i>Percent change (annual rate)<sup>1</sup></i>					
1. M2 <sup>2</sup>	6.2	10.4	9.7	8.8	7.4	19.6	5371.1
2. M3	9.3	15.0	8.5	6.4	-1.0	19.6	7796.7
<i>Selected components</i>							
3. Currency	4.2	6.0	11.7	12.3	18.9	11.3	567.7
4. Liquid deposits <sup>3</sup>	3.2	17.2	18.7	14.7	18.6	34.3	2780.3
5. Small time deposits	9.5	-4.1	-9.7	-13.5	-10.7	-10.0	1004.6
6. Retail money market funds	12.2	11.2	5.3	14.1	-10.5	14.8	1009.9
7. M3 minus M2 <sup>4</sup>	17.1	25.2	6.0	1.1	-19.1	19.7	2425.6
8. Large time deposits, net <sup>5</sup>	13.6	0.7	-4.5	-7.6	-21.5	-3.0	800.1
9. Institution-only money market mutual funds	24.0	54.9	21.6	8.1	-20.9	58.1	1045.9
10. RPs	11.7	21.0	-9.1	-12.4	-12.2	-35.0	359.5
11. Eurodollars	17.9	7.7	2.0	25.2	-14.8	20.5	220.2
<i>Memo</i>							
12. M1	-1.7	5.4	12.2	13.6	7.9	40.2	1181.3
13. Sweep-adjusted M1 <sup>6</sup>	1.6	6.5	11.0	12.0	8.8	30.6	1617.7
14. Demand deposits	-10.9	-4.2	17.1	10.5	6.5	124.4	347.0
15. Other checkable deposits	-0.8	16.5	6.8	18.2	-13.4	2.3	258.0
16. Savings deposits	6.7	20.9	20.5	14.9	24.5	24.8	2175.3
17. Monetary base	1.4	5.4	14.8	11.6	15.2	48.4	640.2
<i>Selected managed liabilities at commercial banks</i>		<i>Average monthly change (billions of dollars)<sup>7</sup></i>					
18. Large time deposits, gross	8.7	1.3	-3.9	-6.5	-14.8	1.6	944.8
19. Net due to related foreign institutions	1.3	-10.2	-5.3	6.4	2.9	-43.8	149.9
20. U.S. government deposits at commercial banks	-1.4	-2.4	3.8	2.3	44.1	-53.0	6.1

1. For the years shown, Q4 to Q4 percent change. For the quarters shown, based on quarterly averages.

2. Sum of M1, retail money market funds, saving deposits, and small time deposits.

3. Sum of demand deposits, other checkable deposits, and saving deposits.

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5. Net of holdings of depository institutions, money market mutual funds, U.S. government and foreign banks and official institutions.

6. Sweep figures used to adjust these series are the estimated national total of transaction account balances initially swept into MMDAs owing to the introduction of new sweep programs on the basis of monthly averages of daily data.

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p--Preliminary

**Commercial Bank Credit**

(Percent change, annual rate, except as noted; seasonally adjusted)

Type of credit	2000	Q2 2001	Q3 <sup>p</sup> 2001	July 2001	Aug. 2001	Sept. <sup>p</sup> 2001	Level, Sept. 2001 <sup>p</sup> (\$ billions)
<b>Total</b>							
1. Adjusted <sup>1</sup>	9.3	3.1	2.3	3.1	-7	16.9	5,252
2. Reported	9.8	3.6	2.4	-5	2.5	19.3	5,410
<i>Securities</i>							
3. Adjusted <sup>1</sup>	1.9	3.8	13.2	20.9	17.5	7.4	1,281
4. Reported	4.2	6.0	12.5	5.1	28.3	17.4	1,439
5. Treasury & Agency	-2.4	-4.4	9.2	11.6	17.7	14.1	792
6. Other <sup>2</sup>	15.9	20.0	16.7	-2.9	41.6	21.5	647
<i>Loans<sup>3</sup></i>							
7. Total	11.9	2.8	-1.1	-2.4	-6.5	19.9	3,971
8. Business	9.0	-5.3	-10.5	-12.2	-8.2	3.1	1,061
9. Real estate	14.0	6.7	3.1	4.2	-3.3	9.4	1,718
10. Home equity	26.2	13.4	13.6	13.7	11.9	23.5	146
11. Other	13.0	6.1	2.2	3.4	-4.7	8.1	1,572
12. Consumer	9.8	7.4	-2.0	-1.5	-7.4	2.4	548
13. Adjusted <sup>4</sup>	6.9	8.2	.6	1.1	-3.2	-.1	873
14. Other <sup>5</sup>	13.3	2.8	4.5	-4.8	-11.9	95.8	645

Note. All data are adjusted for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates are percentage changes in consecutive levels, annualized but not compounded. These data have been benchmarked to the December 1999 Call Report.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FIN 115).

2. Includes securities of corporations, state and local governments, and foreign governments and any trading account assets that are not Treasury or Agency securities.

3. Excludes interbank loans.

4. Includes an estimate of outstanding loans securitized by commercial banks.

5. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

p Preliminary.

September 28, 2001

# CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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## **Supplemental Notes**

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



September 28, 2001

UNIVERSITY OF MICHIGAN SURVEY RESEARCH CENTER: SURVEY OF CONSUMER ATTITUDES  
(Not seasonally adjusted)

	2001 Jan.	2001 Feb.	2001 Mar.	2001 Apr.	2001 May	2001 June	2001 July	2001 Aug.	2001 Sept. (f)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	94.7	90.6	91.5	88.4	92.0	92.6	92.4	91.5	81.8
Current conditions	107.7	105.8	103.4	98.0	102.2	101.6	98.6	101.2	94.6
Expected conditions	86.4	80.8	83.9	82.2	85.4	86.9	88.4	85.2	73.5
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Personal financial situation									
Now compared with 12 months ago*	123	122	119	110	112	117	114	118	108
Expected in 12 months*	126	129	131	134	129	126	133	127	128
Expected business conditions									
Next 12 months*	106	93	97	92	99	114	115	102	71
Next 5 years*	115	102	109	104	115	109	107	113	95
Appraisal of buying conditions									
Cars	133	137	146	129	133	127	138	132	133
Large household appliances*	157	152	148	143	152	146	141	144	136
Houses	149	149	148	144	154	162	149	154	149
Willingness to use credit									
Willingness to use savings	33	47	37	34	45	43	41	47	39
Expected unemployment change - next 12 months									
Prob. household will lose a job - next 5 years	139	143	143	146	138	135	140	142	151
Expected inflation - next 12 months									
Mean	3.8	3.2	3.3	3.7	3.9	4.0	3.0	3.1	3.2
Median	3.0	2.8	2.8	3.1	3.2	3.0	2.6	2.7	2.8
Expected inflation - next 5 to 10 years									
Mean	3.5	3.6	3.6	3.6	3.6	3.6	3.4	3.6	3.4
Median	2.9	3.0	3.0	3.1	3.0	3.0	2.9	3.0	2.9

\* -- Indicates the question is one of the five equally-weighted components of the index of sentiment.

(p) -- Preliminary

(f) -- Final

Note: Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall, plus 100.

**Monetary Aggregates**  
(Based on seasonally adjusted data)

Aggregate or component	2000	2001					Level (bil. \$)
		Q2	Q3 (p)	Jul.	Aug.	Sep. (p)	Sep. 01 (p)
<i>Aggregate</i>	Percent change (annual rate) <sup>1</sup>						
1. M2 <sup>2</sup>	6.2	10.4	9.7	8.8	7.4	19.1	5284.9
2. M3	9.3	15.0	8.5	6.4	-1.0	19.3	7671.4
<i>Selected components</i>							
3. Currency	4.2	6.0	11.7	12.3	18.9	11.3	562.4
4. Liquid deposits <sup>3</sup>	3.2	17.2	18.6	14.7	18.6	33.4	2703.1
5. Small time deposits	9.5	-4.1	-9.7	-13.5	-10.7	-10.0	1013.0
6. Retail money market funds	12.2	11.2	5.3	14.1	-10.5	14.8	997.6
7. M3 minus M2 <sup>4</sup>	17.1	25.2	6.0	1.1	-19.1	19.7	2386.5
8. Large time deposits, net <sup>5</sup>	13.6	0.7	-4.5	-7.6	-21.5	-3.0	802.1
9. Institution-only money market mutual funds	24.0	54.9	21.6	8.1	-20.9	58.1	997.6
10. RPs	11.7	21.0	-9.1	-12.4	-12.2	-35.0	370.3
11. Eurodollars	17.9	7.7	2.0	25.2	-14.8	20.5	216.5
<i>Memo</i>							
12. M1	-1.7	5.4	12.2	13.6	7.9	39.7	1143.0
13. Sweep-adjusted M1 <sup>6</sup>	1.6	6.5	10.9	12.0	8.8	30.2	1577.5
14. Demand deposits	-10.9	-4.2	16.8	10.5	6.5	122.5	314.4
15. Other checkable deposits	-0.8	16.5	6.8	18.2	-13.4	2.3	257.5
16. Savings deposits	6.7	20.9	20.4	14.9	24.5	23.9	2131.3
17. Monetary base	1.4	5.4	14.8	11.6	15.2	48.2	615.4
Average monthly change (billions of dollars) <sup>7</sup>							
<i>Selected managed liabilities at commercial banks</i>							
18. Large time deposits, gross	8.7	1.3	-3.9	-6.5	-14.8	1.6	943.2
19. Net due to related foreign institutions	1.3	-10.2	-3.9	6.4	3.1	-31.9	193.9
20. U.S. government deposits at commercial banks	-1.4	-2.4	3.8	2.3	44.1	-53.0	59.1

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p--Preliminary