

Part 1

August 16, 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

August 16, 2001

Summary and Outlook

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

Measure	2001:Q2			2001:Q3	
	June GB	BEA ¹	Aug. GB	June GB	Aug. GB
Real GDP	.6	.7	.2	1.3	1.0
Private domestic final purchases	-.1	-.1	-.2	1.5	.6
Personal consumption expenditures	1.6	2.1	2.1	2.3	2.9
Residential investment	.7	7.4	4.8	-.8	-.2
Business fixed investment	-8.4	-13.6	-13.4	-2.1	-11.2
Government outlays for consumption and investment	2.2	5.5	5.4	2.9	2.0
	Contribution to growth, percentage points				
Inventory investment	1.0	.0	-.4	.1	.5
Net exports	-.7	-.1	-.2	-.6	-.4

1. Release, July 27, 2001.

likely to make another negative contribution to growth. However, we anticipate that real PCE will be bolstered by the tax cut. Also, even though we expect that firms will continue liquidating inventories this quarter, we think the runoff in nonfarm inventories will be less rapid than it was in the second quarter.

Private payrolls declined further in June and July, about in line with our expectations. Overall, we see labor market developments as consistent with sluggish growth in the economy. As for August, the latest readings on initial claims point to a further decline in payrolls at about the same pace as in July. We are a bit puzzled by the recent behavior of the unemployment rate — in particular, by the fact that it has held at 4.5 percent for a while. As usual, however, we believe that the payroll survey is sending the more-reliable signal about high-frequency changes in labor market conditions and that the underlying weakness will show through to the unemployment rate in coming months. For the third quarter as a whole, we expect the unemployment rate to average 4.7 percent.

Manufacturing production has contracted further since the last Greenbook, and we expect additional declines in coming months. Orders have been quite soft, and despite ongoing liquidation, inventories still appear excessive in many industries. For the third quarter as a whole, we are looking for manufacturing IP to drop at an annual rate of about 5 percent, somewhat less than the average

Projections of Real GDP

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

Measure	2001		2002
	H1	H2	
Real GDP	.8	1.3	2.7
Previous	.9	2.1	3.5
Final sales	2.3	1.3	2.2
Previous	2.1	2.0	3.0
PCE	2.6	3.1	2.2
Previous	2.3	2.8	2.7
Residential investment	6.7	-.4	1.3
Previous	2.2	.3	3.0
BFI	-7.0	-8.0	4.0
Previous	-2.8	-.9	6.8
Government purchases	5.4	2.5	3.3
Previous	3.6	2.9	3.5
Exports	-6.0	-0.5	3.9
Previous	-1.8	2.9	5.3
Imports	-6.0	1.4	6.4
Previous	-2.6	4.5	7.4
Contribution to growth, percentage points			
Inventory change	-1.5	-.1	.5
Previous	-1.2	.0	.5
Net exports	.2	-.3	-.5
Previous	.2	-.3	-.5

attractive. However, the recovery we have penciled in for next year — an increase of 13½ percent in high-tech investment — is mild by historical standards. We do not expect real outlays outside high-tech and transportation to turn up until the second half of next year, in line with the timing of accelerator effects. Attractive borrowing rates also should provide some support for spending in this category next year.

Nonresidential structures. We expect that real spending for nonresidential structures will be flat next year, as a small decline in outlays for buildings is

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	2.4	2.8	2.6	2.1	1.8
Previous	1.4	2.5	3.1	3.2	2.5	2.5
<i>Contributions¹</i>						
Capital deepening	.6	1.1	1.5	1.3	.8	.5
Previous	.6	1.2	1.6	1.7	1.0	1.0
Multifactor productivity	.6	.9	1.0	1.0	1.0	1.0
Previous	.6	1.0	1.2	1.2	1.2	1.2
Labor composition	.3	.3	.3	.3	.3	.3

1. Percentage points. Components may not sum to totals because of rounding.

labor productivity will increase at an average of only about 2 percent this year and next. As for potential output, we now estimate that growth will average a little less than 3 percent this year and next, down an average of ½ percentage point from the June Greenbook.

As discussed in the recent special memo to the FOMC, our assumptions about the short-run NAIRU have changed little since the last Greenbook. However, we have moved down our estimate of the long-run NAIRU to 5¼ percent from the 5½ percent that we had previously assumed. Briefly, the post-1995 productivity acceleration now explains only a smaller part of the favorable inflation experience of that time. But because the inflation picture was not revised appreciably, other, more structural factors appear to have played a larger role in holding down inflation. For the purposes of our forecast, we reduced our long-run NAIRU assumption as a way of capturing the greater contribution of these other factors.

Productivity and the labor market. Although the second-quarter pickup in productivity growth and the upward revision to the first-quarter figure were received with considerable fanfare in many media accounts, our reading of those numbers is a bit more subdued. In particular, recent readings on labor productivity in the nonfarm business sector have been bounced around by swings in the reported data for hours worked by the self-employed. Abstracting from these swings, we think that output per hour rose at an annual rate of about 1 percent in the first half of this year, down substantially from the average rates that prevailed during the past several years. Though sizable, the amount of slowing over the past year appears to be about in line with typical cyclical behavior. We expect that, as the economy strengthens, productivity growth will

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

Measure	2000	2001	2002
Output per hour, nonfarm business	2.3	1.2	2.3
Previous	3.3	1.5	2.9
Nonfarm private payroll employment	1.8	-.4	.5
Previous	1.8	-.3	.6
Household employment survey	1.0	-.4	.5
Previous	1.0	-.4	.5
Labor force participation rate ¹	67.1	66.9	66.9
Previous	67.1	67.0	66.9
Civilian unemployment rate ¹	4.0	5.1	5.6
Previous	4.0	5.2	5.6

1. Percent, average for the fourth quarter.

pick up to a slightly faster-than-trend rate of 2¼ percent next year; by the end of next year the level of actual productivity is expected to come back into line with structural productivity.

Private payroll employment is forecast to fall about 80,000 per month through the end of the third quarter. By the autumn, the pace of decline should begin to taper off, and we project that payrolls will begin turning up around the middle of next year. However, increases are expected to be tepid as firms wait to see that the economy truly is improving. With labor demand sluggish, we anticipate that the unemployment rate will rise to 5½ percent by the end of next year.

Wages and prices. We project that the broad measures of wage and price inflation will decelerate this year and next. Falling energy prices obviously hold down price inflation directly; they also imply less upward pressure on costs, even for non-energy items, and help put a damper on inflation expectations. Resource utilization rates in both labor and product markets are expected to drop over the forecast period, which should be a restraining influence on wage and price increases. The compensation forecast has been marked down somewhat since the June Greenbook, owing in part to the lower path for structural labor productivity but also to incoming data for the second quarter that suggested lower trends going forward.

After increasing 1.9 percent this year, core PCE prices are expected to increase 1.8 percent next year. The small deceleration reflects the slack that is projected to open up in labor and product markets. The forecast for core PCE inflation

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

Measure	2000	2001	2002
PCE chain-weighted price index	2.6	1.9	1.7
Previous	2.3	2.0	1.7
Food	2.5	3.3	2.6
Previous	2.5	3.1	2.5
Energy	15.4	-2.6	-2.9
Previous	15.9	-.5	-4.4
Excluding food and energy	1.9	1.9	1.8
Previous	1.6	2.0	1.9
Consumer price index	3.4	2.5	2.1
Previous	3.4	2.6	2.0
Excluding food and energy	2.5	2.7	2.5
Previous	2.5	2.6	2.5
GDP chain-weighted price index	2.4	2.2	1.9
Previous	2.3	2.2	1.8
ECI for compensation of private industry workers ¹	4.4	4.3	3.7
Previous	4.4	4.4	3.9
NFB compensation per hour	7.4	4.9	4.5
Previous	5.7	5.4	4.8
Prices of core non-oil merchandise imports	1.6	-1.5	1.8
Previous	1.4	-.2	2.1

1. December to December.

has been revised down 0.1 percentage point for this year and next from the June Greenbook. All else equal, the lower path for structural productivity growth would have pushed up price inflation; however, that effect was offset by the change in our long-run NAIRU assumption. In addition, core import prices are expected to be a little more favorable than in our last projection.

As a result of the NIPA revision, the discrepancy between the ECI and compensation per hour in 2000 is even larger than previously reported. While the ECI rose 4.4 percent in 2000, compensation per hour is now estimated to have increased a whopping 7.4 percent. In part, we think that this gap can be explained by the different treatment of stock options in the two measures: Stock

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	.8	1.3	2.4	3.0
Slower technological innovation	.8	.9	1.3	1.9
Less capital deepening	.8	.7	.8	1.1
Stronger investment rebound	.8	1.4	2.8	3.7
Low NAIRU	.8	1.4	2.6	3.2
Compensation-led inflation	.8	1.3	2.4	3.0
P-E ratio adjustment	.8	1.2	1.9	2.1
Further monetary easing	.8	1.3	2.6	3.2
Market-based funds rate expectations	.8	1.3	2.7	3.2
<i>Civilian unemployment rate¹</i>				
Baseline	4.5	5.1	5.5	5.6
Slower technological innovation	4.5	5.1	5.6	5.8
Less capital deepening	4.5	5.1	5.7	6.0
Stronger investment rebound	4.5	5.1	5.4	5.4
Low NAIRU	4.5	5.1	5.4	5.4
Compensation-led inflation	4.5	5.1	5.5	5.6
P-E ratio adjustment	4.5	5.1	5.6	5.8
Further monetary easing	4.5	5.1	5.5	5.5
Market-based funds rate expectations	4.5	5.1	5.4	5.5
<i>PCE prices excluding food and energy</i>				
Baseline	1.8	1.9	1.8	1.8
Slower technological innovation	1.8	1.9	1.9	2.0
Less capital deepening	1.8	1.9	1.9	2.0
Stronger investment rebound	1.8	1.9	1.8	1.8
Low NAIRU	1.8	1.8	1.6	1.4
Compensation-led inflation	1.8	2.1	2.1	2.2
P-E ratio adjustment	1.8	1.9	1.8	1.8
Further monetary easing	1.8	1.9	1.8	1.9
Market-based funds rate expectations	1.8	1.9	1.9	1.9

1. Average for the final quarter of the period.

and, hence, less household spending. Overall, aggregate spending is held down more than potential output, causing the rise in the unemployment rate to be somewhat steeper than in the staff forecast. However, inflation is slightly higher as a consequence of the greater unit labor costs implied by smaller structural productivity gains.

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

August 16, 2001

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
	06/20/01	08/16/01	06/20/01	08/16/01	06/20/01	08/16/01	06/20/01	08/16/01	06/20/01	08/16/01
ANNUAL										
1998	5.7	5.6	4.4	4.3	1.3	1.2	1.6	1.6	4.5	4.5
1999	5.8	5.5	4.2	4.1	1.5	1.4	2.2	2.2	4.2	4.2
2000	7.1	6.5	5.0	4.1	2.1	2.3	3.4	3.4	4.0	4.0
2001	3.9	3.7	1.6	1.5	2.3	2.2	3.0	3.0	4.7	4.6
2002	4.6	3.9	2.8	2.0	1.7	1.9	1.9	2.0	5.5	5.5
QUARTERLY										
1999	Q1	5.9	4.9	3.5	3.1	2.2	1.7	1.7	4.3	4.3
	Q2	3.9	3.0	2.5	1.7	1.4	1.4	2.7	4.3	4.3
	Q3	6.7	6.1	5.7	4.7	1.1	1.4	2.9	4.2	4.2
	Q4	9.7	10.0	8.3	8.3	1.6	1.8	3.1	4.1	4.1
2000	Q1	8.3	6.3	4.8	2.3	3.3	3.8	4.3	4.1	4.1
	Q2	8.2	8.0	5.6	5.7	2.4	2.1	2.8	4.0	4.0
	Q3	3.8	3.3	2.2	1.3	1.6	1.9	3.5	4.0	4.0
	Q4	3.0	3.7	1.0	1.9	2.0	1.8	3.0	4.0	4.0
2001	Q1	4.6	4.6	1.2	1.3	3.2	3.3	4.2	4.2	4.2
	Q2	3.5	2.5	0.6	0.2	2.9	2.2	2.9	4.5	4.5
	Q3	2.5	2.5	1.3	1.0	1.3	1.5	1.5	4.9	4.7
	Q4	4.2	3.3	2.9	1.5	1.3	1.8	1.6	5.2	5.1
2002	Q1	5.2	4.7	3.2	2.4	1.9	2.2	1.8	5.4	5.3
	Q2	4.9	4.2	3.2	2.4	1.7	1.7	1.9	5.5	5.5
	Q3	5.6	4.7	3.7	2.9	1.8	1.8	2.1	5.6	5.6
	Q4	5.7	4.8	3.8	3.0	1.8	1.8	2.1	5.6	5.6
TWO-QUARTER³										
1999	Q2	4.9	4.0	3.0	2.4	1.8	1.5	2.2	2.2	-0.1
	Q4	8.2	8.0	7.0	6.5	1.3	1.6	3.0	3.0	-0.2
2000	Q2	8.2	7.2	5.2	4.0	2.8	2.9	3.6	3.6	-0.1
	Q4	3.4	3.5	1.6	1.6	1.8	1.8	3.2	3.2	0.0
2001	Q2	4.1	3.5	0.9	0.8	3.1	2.7	3.6	3.6	0.5
	Q4	3.4	2.9	2.1	1.3	1.3	1.6	1.6	1.3	0.7
2002	Q2	5.1	4.4	3.2	2.4	1.8	2.0	1.9	2.1	0.3
	Q4	5.6	4.8	3.7	3.0	1.8	1.8	2.1	2.1	0.1
FOUR-QUARTER⁴										
1998	Q4	5.9	6.0	4.6	4.8	1.2	1.1	1.5	1.5	-0.3
1999	Q4	6.5	6.0	5.0	4.4	1.6	1.6	2.6	2.6	-0.3
2000	Q4	5.8	5.3	3.4	2.8	2.3	2.4	3.4	3.4	-0.1
2001	Q4	3.7	3.2	1.5	1.0	2.2	2.2	2.6	2.5	1.2
2002	Q4	5.3	4.6	3.5	2.7	1.8	1.9	2.0	2.1	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)

August 16, 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	8781.5	9268.6	9872.9	10240.8	10643.5
Real GDP	Bill. Ch. \$	7347.7	7543.8	7813.2	8159.5	8508.9	8856.5	9224.0	9359.1	9549.5
Real GDP	% change	4.1	2.2	4.1	4.3	4.8	4.4	2.8	1.0	2.7
Gross domestic purchases		4.3	1.7	4.3	5.0	5.8	5.3	3.5	1.0	3.1
Final sales		3.2	2.9	3.9	3.9	4.7	4.3	3.4	1.8	2.2
Priv. dom. final purchases		4.3	3.2	4.4	5.1	6.3	5.4	4.7	1.3	2.4
Personal cons. expenditures		3.6	2.8	3.1	4.1	5.0	5.2	4.2	2.9	2.2
Durables		6.4	3.7	5.0	8.8	12.7	11.3	5.3	4.5	4.3
Nondurables		4.1	2.5	3.2	2.5	5.0	5.0	3.6	2.6	1.4
Services		2.7	2.7	2.7	3.9	3.6	4.0	4.3	2.7	2.2
Business fixed investment		9.2	7.5	12.1	11.8	12.3	7.4	8.9	-7.5	4.0
Equipment & Software		12.0	8.9	11.8	13.7	14.9	11.2	8.3	-9.0	5.5
Nonres. structures		1.1	3.3	12.8	6.5	4.9	-3.6	10.8	-3.2	0.0
Residential structures		4.0	-1.5	5.6	3.5	10.0	3.4	-1.2	3.1	1.3
Exports		10.5	9.7	9.8	8.5	2.3	4.5	7.0	-3.3	3.9
Imports		12.2	5.0	11.2	14.3	10.8	11.5	11.3	-2.3	6.4
Gov't. cons. & investment		0.2	-0.8	2.7	2.4	2.7	4.0	1.2	3.9	3.3
Federal		-3.7	-5.3	2.0	0.1	0.6	4.5	-1.4	3.2	2.9
Defense		-5.9	-4.7	0.8	-1.4	-0.8	4.7	-2.2	3.7	2.3
State & local		2.8	2.1	3.0	3.7	3.8	3.7	2.5	4.3	3.5
Change in bus. inventories	Bill. Ch. \$	--	--	--	63.8	76.7	62.1	50.6	-32.1	14.4
Nonfarm		--	41.9	21.2	60.6	75.0	63.5	52.3	-30.6	14.3
Net exports		-86.5	-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-413.1	-465.5
Nominal GDP	% change	6.2	4.3	6.0	6.2	6.0	6.0	5.3	3.2	4.6
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	114.1	117.2	119.6	122.7	125.8	128.9	131.8	132.4	132.6
Unemployment rate	%	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.6	5.5
Industrial prod. index	% change	6.3	3.6	5.6	7.2	3.2	5.1	4.2	-4.5	2.7
Capacity util. rate - mfg.	%	82.5	82.5	81.6	82.7	81.3	80.5	81.3	75.9	74.7
Housing starts	Millions	1.46	1.35	1.48	1.47	1.62	1.64	1.57	1.63	1.65
Light motor vehicle sales		15.01	14.77	15.05	15.06	15.43	16.78	17.25	16.23	15.38
North Amer. produced		12.88	12.87	13.34	13.12	13.41	14.90	14.99	13.27	12.52
Other		2.13	1.90	1.70	1.93	2.02	2.48	2.86	2.95	2.86
INCOME AND SAVING										
Nominal GNP	Bill. \$	7071.1	7420.9	7831.2	8325.4	8778.1	9261.8	9860.8	10232.2	10624.2
Nominal GNP	% change	6.2	4.4	5.9	6.0	5.8	6.0	5.4	3.0	4.5
Nominal personal income		5.1	4.3	5.9	6.3	6.7	4.8	7.3	3.8	4.5
Real disposable income		2.9	1.7	2.6	3.8	5.0	2.1	4.0	2.2	3.7
Personal saving rate	%	6.1	5.6	4.8	4.2	4.7	2.4	1.0	1.4	2.1
Corp. profits, IVA & CCAdj.	% change	12.3	11.3	11.4	9.9	-9.6	11.3	-1.2	-12.9	0.7
Profit share of GNP	%	8.1	9.0	9.6	10.0	8.9	8.9	8.9	7.3	7.0
Excluding FR Banks		7.9	8.7	9.4	9.7	8.6	8.6	8.6	7.0	6.7
Federal surpl./deficit	Bill. \$	-212.3	-192.0	-136.8	-53.3	43.8	119.2	218.6	150.7	97.6
State & local surpl./def.		8.6	15.3	21.4	31.0	40.7	42.1	32.8	16.9	16.3
Ex. social ins. funds		4.0	11.4	18.7	29.9	40.0	41.7	33.1	17.2	16.6
Gross natl. saving rate	%	16.3	16.9	17.2	18.0	18.8	18.4	18.1	16.8	16.7
Net natl. saving rate		4.3	5.1	5.7	6.7	7.5	6.8	6.3	4.4	4.2
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.1	2.1	1.9	1.8	1.1	1.6	2.4	2.2	1.9
Gross Domestic Purchases		2.1	2.1	1.9	1.4	0.8	1.9	2.5	1.7	1.8
chn.-wt. price index		2.1	2.1	1.9	1.4	0.8	1.9	2.5	1.7	1.8
PCE chn.-wt. price index		2.1	2.1	2.3	1.5	1.1	2.0	2.6	1.9	1.7
Ex. food and energy		2.3	2.3	1.8	1.7	1.6	1.5	1.9	1.9	1.8
CPI		2.6	2.7	3.2	1.9	1.5	2.6	3.4	2.5	2.1
Ex. food and energy		2.8	3.0	2.6	2.2	2.4	2.0	2.5	2.7	2.5
ECI, hourly compensation ²		3.1	2.6	3.1	3.4	3.5	3.4	4.4	4.3	3.7
Nonfarm business sector										
Output per hour		1.1	1.1	2.3	2.3	2.9	2.8	2.3	1.2	2.3
Compensation per Hour		2.2	2.6	3.2	3.5	5.3	4.3	7.4	4.9	4.5
Unit labor cost		1.0	1.5	0.9	1.1	2.3	1.5	5.0	3.7	2.2

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

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

August 16, 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. \$	8627.8	8697.3	8816.5	8984.5	9093.1	9161.4	9297.4	9522.5	9668.7	9857.6
Real GDP	Bill. Ch. \$	8396.3	8442.9	8528.5	8667.9	8733.5	8771.2	8871.5	9049.9	9102.5	9229.4
Real GDP	% change	6.1	2.2	4.1	6.7	3.1	1.7	4.7	8.3	2.3	5.7
Gross domestic purchases		7.9	4.0	4.8	6.4	4.8	2.9	5.3	8.2	3.5	6.3
Final sales		4.0	5.4	2.8	6.5	3.0	3.9	4.2	6.1	4.8	3.9
Priv. dom. final purchases		7.7	7.2	3.8	6.6	5.3	5.9	4.9	5.5	7.5	4.6
Personal cons. expenditures		5.1	6.2	3.8	5.1	4.9	5.7	4.4	5.7	5.9	3.6
Durables		7.0	16.6	4.2	24.0	7.1	15.7	9.0	13.7	19.0	-2.5
Nondurables		5.6	6.0	3.2	5.2	5.6	4.3	2.6	7.6	5.1	4.7
Services		4.5	4.3	4.1	1.5	4.1	4.5	4.3	3.2	3.7	4.4
Business fixed investment		21.6	12.5	1.5	14.4	6.0	7.7	10.2	5.8	15.8	12.2
Equipment & Software		28.0	11.6	3.0	18.4	10.5	11.9	16.2	6.4	18.1	12.4
Nonres. structures		4.9	14.9	-2.7	3.3	-6.5	-4.3	-7.0	4.0	8.8	11.8
Residential structures		10.4	9.2	11.1	9.3	10.3	3.0	-0.8	1.6	8.5	-0.8
Exports		0.5	-4.0	-2.2	16.3	-6.8	4.2	9.7	12.1	9.0	13.5
Imports		15.9	11.3	4.2	12.2	8.4	13.3	13.8	10.5	17.1	16.4
Gov't. cons. & investment		-2.5	7.5	2.0	4.1	2.0	1.2	4.4	8.5	-1.1	4.4
Federal		-9.7	12.2	-3.9	5.3	-3.7	0.8	7.2	14.5	-12.8	15.9
Defense		-17.6	12.6	5.3	-0.8	-3.5	-3.5	12.8	14.3	-20.0	15.4
State & local		1.7	5.0	5.3	3.4	5.2	1.4	2.9	5.4	5.6	-1.1
Change in bus. inventories	Bill. Ch. \$	113.1	42.0	71.8	80.0	83.4	32.7	39.6	92.7	28.9	78.9
Nonfarm		106.7	47.4	70.8	75.1	78.7	34.2	52.2	88.7	37.8	75.1
Net exports		-180.8	-223.1	-241.2	-239.2	-283.0	-313.4	-333.3	-337.8	-371.1	-392.8
Nominal GDP	% change	7.2	3.3	5.6	7.8	4.9	3.0	6.1	10.0	6.3	8.0
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	1.63	1.65	1.67	1.59
Light motor vehicle sales		14.88	16.03	14.58	16.23	16.17	16.76	17.06	17.11	18.13	17.27
North Amer. produced		12.96	14.07	12.55	14.06	13.87	14.32	14.58	14.41	15.25	14.40
Other		1.92	1.96	2.02	2.17	2.30	2.44	2.47	2.70	2.87	2.87
INCOME AND SAVING											
Nominal GNP	Bill. \$	8634.5	8700.3	8802.1	8975.4	9089.5	9157.0	9283.8	9517.0	9650.7	9841.0
Nominal GNP	% change	7.5	3.1	4.8	8.1	5.2	3.0	5.7	10.4	5.7	8.1
Nominal personal income		9.1	7.2	6.0	4.6	3.0	4.7	5.2	6.3	8.6	8.5
Real disposable income		8.1	6.0	3.7	2.4	1.4	2.0	2.1	3.0	3.3	5.9
Personal saving rate	%	4.9	4.9	4.9	4.3	3.5	2.7	2.1	1.4	0.8	1.3
Corp. profits, IVA & CCAdj.	% change	-27.3	-8.7	6.5	-5.6	36.1	-10.2	-4.9	31.9	6.1	10.7
Profit share of GNP	%	9.1	8.8	8.9	8.6	9.2	8.8	8.6	9.0	9.0	9.1
Excluding FR Banks		8.8	8.6	8.6	8.3	8.9	8.6	8.3	8.7	8.7	8.8
Federal surpl./deficit	Bill. \$	19.6	33.0	65.7	57.0	85.2	116.5	132.0	143.1	212.8	209.1
State & local surpl./def.		36.7	32.0	35.6	58.4	48.9	36.2	38.3	44.9	33.2	34.7
Ex. social ins. funds		36.0	31.3	34.9	57.9	48.4	35.8	38.0	44.7	33.3	34.9
Gross natl. saving rate	%	18.6	18.6	19.1	18.7	19.0	18.5	18.3	18.0	18.0	18.3
Net natl. saving rate		7.4	7.3	7.8	7.4	7.6	6.9	6.4	6.3	6.3	6.6
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.1	1.0	1.4	1.1	1.7	1.4	1.4	1.8	3.8	2.1
Gross Domestic Purchases		0.1	0.7	1.1	1.2	1.5	2.0	2.0	2.2	4.2	1.9
chn.-wt. price index											
PCE chn.-wt. price index		0.6	1.0	1.4	1.4	1.3	2.0	2.2	2.4	4.0	2.1
Ex. food and energy		1.6	1.7	1.6	1.5	1.4	1.2	1.5	1.8	2.9	1.7
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	0.5	2.2	4.5	2.4	-1.4	3.0	7.4	-0.6	6.3
Compensation per hour		6.8	5.6	5.0	4.0	3.8	4.2	5.2	4.2	6.2	7.6
Unit labor cost		2.0	5.1	2.7	-0.4	1.3	5.6	2.1	-2.9	6.8	1.2

1. Private-industry workers.

Strictly Confidential <PR>
Class II FOMC

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

August 16, 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. \$	9937.5	10027.9	10141.7	10203.8	10267.1	10350.7	10469.1	10577.1	10700.3	10827.5
Real GDP	Bill. Ch. \$	9260.1	9303.9	9334.5	9339.8	9363.7	9398.3	9454.8	9511.2	9580.1	9651.8
Real GDP	% change	1.3	1.9	1.3	0.2	1.0	1.5	2.4	2.4	2.9	3.0
Gross domestic purchases		2.0	2.2	0.7	0.4	1.4	1.6	3.1	3.0	3.3	2.8
Final sales		2.3	2.4	4.0	0.6	0.5	2.2	0.9	1.7	2.8	3.3
Priv. dom. final purchases		3.9	2.6	2.8	-0.2	0.6	2.1	1.4	2.1	3.1	3.0
Personal cons. expenditures		4.3	3.1	3.0	2.1	2.9	3.4	1.7	1.8	2.8	2.6
Durables		8.2	-2.1	10.6	5.9	0.4	1.2	2.3	3.4	6.4	4.9
Nondurables		4.2	0.6	2.4	0.3	4.1	3.5	1.2	1.4	1.7	1.6
Services		3.5	5.6	1.8	2.3	2.8	3.8	1.7	1.7	2.6	2.6
Business fixed investment		7.1	1.0	-0.2	-13.4	-11.2	-4.6	0.3	4.1	5.8	5.8
Equipment & Software		4.7	-1.1	-4.1	-13.2	-12.8	-5.3	0.8	5.6	7.9	8.0
Nonres. structures		15.2	7.6	12.3	-13.7	-6.7	-2.8	-0.8	0.3	0.4	0.1
Residential structures		-10.4	-1.1	8.5	4.8	-0.2	-0.5	-0.5	1.7	1.8	2.0
Exports		10.6	-4.0	-1.2	-10.5	-3.7	2.8	-0.3	3.3	4.5	8.4
Imports		13.0	-0.5	-5.0	-6.9	-0.2	3.1	5.4	7.8	7.2	5.4
Gov't. cons. & investment		-1.8	3.3	5.3	5.4	2.0	2.9	2.7	3.4	3.5	3.6
Federal		-10.4	4.6	3.2	1.6	3.4	4.6	1.8	3.3	3.2	3.2
Defense		-10.4	10.5	7.5	1.9	2.8	2.6	2.7	2.2	2.1	2.1
State & local		3.0	2.7	6.4	7.4	1.3	2.1	3.1	3.5	3.6	3.7
Change in bus. inventories	Bill. Ch. \$	51.7	42.8	-27.1	-37.2	-23.8	-40.4	-0.4	18.6	23.0	16.3
Nonfarm		56.6	39.7	-27.3	-35.2	-21.2	-38.5	1.1	18.1	22.4	15.7
Net exports		-411.2	-421.1	-404.5	-408.3	-417.9	-421.9	-443.0	-463.4	-478.6	-476.8
Nominal GDP	% change	3.3	3.7	4.6	2.5	2.5	3.3	4.7	4.2	4.7	4.8
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	131.9	132.3	132.6	132.5	132.3	132.2	132.2	132.4	132.7	133.0
Unemployment rate	%	4.0	4.0	4.2	4.5	4.7	5.1	5.3	5.5	5.6	5.6
Industrial prod. index	% change	3.5	-0.9	-6.8	-4.2	-4.6	-2.5	1.5	2.9	3.4	3.2
Capacity util. rate - mfg.	%	81.7	80.3	77.9	76.4	75.1	74.2	74.2	74.4	74.8	75.2
Housing starts	Millions	1.51	1.54	1.63	1.62	1.64	1.64	1.64	1.65	1.65	1.66
Light motor vehicle sales		17.30	16.32	16.89	16.65	15.98	15.38	15.29	15.29	15.46	15.46
North Amer. produced		14.47	13.45	13.96	13.62	13.03	12.49	12.42	12.42	12.61	12.61
Other		2.83	2.87	2.93	3.03	2.96	2.89	2.87	2.87	2.85	2.85
INCOME AND SAVING											
Nominal GNP	Bill. \$	9919.4	10032.1	10131.3	10202.6	10257.3	10337.4	10453.4	10558.1	10679.6	10805.9
Nominal GNP	% change	3.2	4.6	4.0	2.8	2.2	3.2	4.6	4.1	4.7	4.8
Nominal personal income		5.5	6.8	5.8	3.5	2.8	3.2	4.9	4.1	4.4	4.5
Real disposable income		2.7	4.2	2.7	2.2	10.6	-5.9	8.2	2.1	2.4	2.4
Personal saving rate	%	0.8	1.0	1.1	1.1	2.9	0.6	2.1	2.2	2.1	2.1
Corp. profits, IVA & CCAdj.	% change	1.0	-19.6	-24.6	-23.7	-9.3	10.0	2.3	-1.0	-1.5	3.0
Profit share of GNP	%	9.0	8.4	7.8	7.2	7.0	7.1	7.1	7.0	6.9	6.9
Excluding FR Banks	%	8.7	8.1	7.5	6.9	6.7	6.8	6.8	6.7	6.6	6.6
Federal surpl./deficit	Bill. \$	229.9	222.5	205.3	176.3	46.4	174.8	85.1	94.2	106.2	104.8
State & local surpl./def.		34.8	28.6	22.3	17.2	11.7	16.4	18.6	15.7	15.2	15.8
Ex. social ins. funds		35.1	29.1	22.6	17.4	12.1	16.8	18.9	16.0	15.5	16.1
Gross natl. saving rate	%	18.2	17.9	17.3	16.9	16.7	16.3	16.6	16.7	16.8	16.8
Net natl. saving rate		6.4	6.0	5.1	4.4	4.2	3.8	4.1	4.2	4.2	4.2
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.9	1.8	3.3	2.2	1.5	1.8	2.2	1.7	1.8	1.8
Gross Domestic Purchases											
chn.-wt. price index		2.3	1.7	2.7	1.5	1.0	1.8	2.1	1.7	1.7	1.7
PCE chn.-wt. price index		2.4	2.0	3.2	1.7	0.7	1.8	1.7	1.7	1.7	1.7
Ex. food and energy		1.6	1.5	2.6	1.1	1.9	1.9	1.9	1.8	1.8	1.8
CPI		3.5	3.0	4.2	3.0	0.5	2.1	2.1	2.1	2.1	2.2
Ex. food and energy		2.5	2.4	3.1	2.6	2.5	2.6	2.6	2.5	2.5	2.5
ECI, hourly compensation ¹		3.8	3.5	4.6	4.0	4.3	4.1	3.9	3.8	3.7	3.7
onfarm business sector											
Output per hour		1.4	2.3	0.1	1.9	1.2	1.8	2.4	2.2	2.2	2.3
Compensation per hour		7.1	8.9	5.1	4.8	5.0	4.9	4.7	4.5	4.4	4.4
Unit labor cost		5.6	6.4	5.0	2.9	3.8	3.1	2.4	2.3	2.2	2.0

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	4.1	6.7	3.1	1.7	4.7	8.3	2.3	5.7	1.3	4.8	4.4	2.8
Gross dom. purchases	4.9	6.5	4.9	2.9	5.4	8.4	3.6	6.5	2.0	5.9	5.4	3.6
Final sales	2.8	6.4	2.9	3.9	4.2	6.2	4.7	3.9	2.3	4.6	4.2	3.3
Priv. dom. final purchases	3.2	5.5	4.4	4.8	4.2	4.8	6.2	4.0	3.3	5.2	4.5	3.9
Personal cons. expenditures	2.6	3.4	3.2	3.8	3.0	4.0	3.9	2.5	2.9	3.4	3.5	2.9
Durables	0.3	1.7	0.6	1.2	0.7	1.1	1.5	-0.2	0.7	1.0	0.9	0.4
Nondurables	0.6	1.0	1.1	0.8	0.5	1.5	1.0	1.0	0.8	1.0	1.0	0.7
Services	1.6	0.7	1.6	1.8	1.7	1.4	1.5	1.8	1.4	1.4	1.6	1.7
Business fixed investment	0.2	1.7	0.7	0.9	1.3	0.8	1.9	1.5	0.9	1.5	0.9	1.1
Equipment & Software	0.3	1.6	0.9	1.1	1.5	0.6	1.6	1.2	0.5	1.3	1.0	0.8
Nonres. structures	-0.1	0.1	-0.2	-0.1	-0.2	0.1	0.3	0.4	0.5	0.2	-0.1	0.3
Residential structures	0.4	0.4	0.4	0.1	-0.0	0.1	0.4	-0.0	-0.5	0.4	0.1	-0.1
Net exports	-0.8	0.2	-1.8	-1.2	-0.8	-0.2	-1.3	-0.8	-0.7	-1.1	-1.0	-0.8
Exports	-0.2	1.7	-0.8	0.4	1.0	1.3	1.0	1.4	1.1	0.3	0.5	0.8
Imports	-0.5	-1.5	-1.0	-1.6	-1.8	-1.4	-2.3	-2.3	-1.8	-1.3	-1.5	-1.6
Government cons. & invest.	0.4	0.7	0.4	0.2	0.8	1.5	-0.2	0.8	-0.3	0.5	0.7	0.2
Federal	-0.2	0.3	-0.2	0.1	0.4	0.9	-0.8	0.9	-0.7	0.0	0.3	-0.1
Defense	0.2	-0.0	-0.1	-0.1	0.5	0.6	-0.9	0.6	-0.4	-0.0	0.2	-0.1
Nondefense	-0.5	0.4	-0.1	0.2	-0.1	0.3	0.0	0.3	-0.2	0.1	0.1	0.0
State and local	0.6	0.4	0.6	0.2	0.3	0.7	0.6	-0.1	0.3	0.4	0.4	0.3
Change in bus. inventories	1.3	0.3	0.1	-2.1	0.4	2.2	-2.3	1.8	-1.0	0.2	0.2	-0.5
Nonfarm	1.1	0.1	0.2	-1.9	0.9	1.5	-2.0	1.5	-0.8	0.2	0.1	-0.5
Farm	0.2	0.2	-0.0	-0.2	-0.4	0.6	-0.3	0.3	-0.2	-0.0	0.0	-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	1.9	1.3	0.2	1.0	1.5	2.4	2.4	2.9	3.0	2.8	1.0	2.7
Gross dom. purchases	2.3	0.7	0.4	1.4	1.6	3.2	3.1	3.5	2.9	3.6	1.0	3.2
Final sales	2.4	3.9	0.6	0.5	2.2	0.9	1.7	2.8	3.3	3.3	1.8	2.2
Priv. dom. final purchases	2.2	2.4	-0.2	0.5	1.8	1.2	1.8	2.7	2.5	3.9	1.1	2.0
Personal cons. expenditures	2.1	2.1	1.4	2.0	2.3	1.2	1.3	1.9	1.8	2.9	2.0	1.5
Durables	-0.2	0.8	0.5	0.0	0.1	0.2	0.3	0.5	0.4	0.4	0.4	0.3
Nondurables	0.1	0.5	0.1	0.8	0.7	0.2	0.3	0.3	0.3	0.7	0.5	0.3
Services	2.2	0.7	0.9	1.1	1.5	0.7	0.7	1.1	1.1	1.7	1.1	0.9
Business fixed investment	0.1	-0.0	-1.8	-1.5	-0.6	0.0	0.5	0.7	0.7	1.1	-1.0	0.5
Equipment & Software	-0.1	-0.4	-1.3	-1.2	-0.5	0.1	0.5	0.6	0.7	0.8	-0.9	0.5
Nonres. structures	0.2	0.4	-0.5	-0.2	-0.1	-0.0	0.0	0.0	0.0	0.3	-0.1	0.0
Residential structures	-0.1	0.4	0.2	-0.0	-0.0	-0.0	0.1	0.1	0.1	-0.1	0.1	0.1
Net exports	-0.4	0.6	-0.2	-0.4	-0.1	-0.8	-0.7	-0.5	0.1	-0.8	-0.0	-0.5
Exports	-0.5	-0.1	-1.2	-0.4	0.3	-0.0	0.3	0.5	0.8	0.8	-0.4	0.4
Imports	0.1	0.8	1.0	0.0	-0.4	-0.7	-1.0	-1.0	-0.8	-1.6	0.3	-0.9
Government cons. & invest.	0.6	0.9	0.9	0.4	0.5	0.5	0.6	0.6	0.7	0.2	0.7	0.6
Federal	0.3	0.2	0.1	0.2	0.3	0.1	0.2	0.2	0.2	-0.1	0.2	0.2
Defense	0.4	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-0.1	0.1	0.1
Nondefense	-0.1	-0.1	0.0	0.1	0.2	0.0	0.1	0.1	0.1	0.0	0.0	0.1
State and local	0.3	0.7	0.9	0.2	0.3	0.4	0.4	0.4	0.5	0.3	0.5	0.4
Change in bus. inventories	-0.5	-2.6	-0.4	0.5	-0.7	1.5	0.7	0.2	-0.2	-0.5	-0.8	0.5
Nonfarm	-0.7	-2.6	-0.3	0.6	-0.7	1.5	0.7	0.2	-0.2	-0.5	-0.8	0.5
Farm	0.2	0.0	-0.1	-0.0	-0.0	-0.0	0.1	-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 ^a	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts ²	1827	2025	2007	2108	434	656	492	461	460	660	426	501	440	663	504	481
Outlays ²	1703	1789	1851	1941	449	444	431	464	482	467	439	494	486	483	477	511
Surplus/deficit ²	125	236	156	167	-15	212	60	-2	-22	194	-13	7	-47	180	27	-31
On-budget	1	87	-11	-7	-44	148	46	-13	-88	119	-29	-45	-76	105	9	-87
Off-budget	124	150	168	174	29	64	14	11	65	75	17	52	29	75	18	57
Surplus excluding deposit insurance	119	233	154	165	-18	211	60	-3	-23	193	-13	7	-47	179	27	-31
Means of financing																
Borrowing	-89	-223	-111	-130	-27	-190	-54	-25	24	-157	47	2	36	-135	-32	24
Cash decrease	-18	4	8	0	39	-13	5	32	-7	-15	-1	15	10	-40	15	20
Other ³	-18	-18	-52	-37	4	-10	-12	-4	6	-21	-33	-23	0	-4	-10	-14
Cash operating balance, end of period	56	53	45	45	45	57	53	21	28	44	45	30	20	60	45	25
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	1836	2012	2046	2069	2003	2043	2064	2078	2087	2080	1938	2097	2037	2058	2082	2109
Expenditures	1738	1813	1882	1953	1790	1833	1834	1855	1882	1900	1891	1923	1952	1964	1976	2004
Consumption expenditures	463	492	507	537	483	504	494	494	508	511	515	523	537	542	547	553
Defense	306	322	337	353	314	327	321	325	338	341	342	345	354	356	359	361
Nondefense	157	170	171	184	170	176	173	169	169	171	173	178	183	186	189	192
Other spending	1275	1321	1375	1416	1307	1330	1341	1361	1375	1388	1376	1400	1415	1422	1428	1451
Current account surplus	98	199	164	115	213	209	230	223	205	180	47	175	85	94	107	105
Gross investment	91	96	99	105	95	97	94	100	98	99	101	103	104	105	107	108
Current and capital account surplus	7	102	64	11	118	112	136	122	108	81	-55	72	-19	-11	-0	-3
Fiscal indicators⁴																
High-employment (HEB) surplus/deficit	-83	-9	-9	-11	12	-7	24	24	21	18	-98	40	-41	-27	-16	-19
Change in HEB, percent of potential GDP	-.7	-.8	-0	0	-.8	.2	-.3	0	0	0	1	-1	.8	-.1	-.1	0
Fiscal impetus (FI) percent, calendar year	6	2	9	12	-6	6	-2	-.4	3	2	11	-7	10	.7	.8	1

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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 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

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>									
1991	4.3	11.1	2.2	5.1	6.8	-1.3	-2.2	8.6	4.0
1992	4.6	10.9	2.6	4.8	5.8	0.8	0.3	2.2	6.4
1993	4.9	8.3	3.7	5.5	4.7	7.3	1.1	6.0	5.0
1994	4.5	4.7	4.4	7.6	5.9	14.5	3.5	-4.0	6.2
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	6.0
1999	6.7	-1.9	9.3	8.8	9.8	7.1	10.9	4.4	6.0
2000	5.0	-8.0	8.5	8.6	8.6	9.3	9.6	2.2	5.3
2001	4.0	-2.0	5.4	6.1	6.9	5.1	4.6	5.7	3.2
2002	3.7	-3.2	5.1	5.6	6.8	3.0	5.2	2.2	4.6
<i>Quarter</i>									
2000:3	4.2	-6.2	6.8	8.0	8.5	8.2	6.4	1.9	3.3
4	4.6	-9.6	8.0	8.1	8.1	8.1	8.5	4.8	3.7
2001:1	5.3	-0.3	6.6	7.9	7.8	10.2	5.1	7.0	4.6
2	3.4	-6.6	5.6	6.0	6.4	4.5	4.5	8.7	2.5
3	4.8	5.6	4.6	5.2	6.3	3.5	4.1	3.3	2.5
4	2.5	-6.7	4.5	4.6	6.7	1.8	4.5	3.1	3.3
2002:1	4.1	1.1	4.7	5.1	6.5	3.0	4.8	2.2	4.7
2	3.0	-5.9	4.9	5.2	6.4	2.7	5.1	2.2	4.2
3	3.7	-4.0	5.2	5.8	6.8	3.1	5.2	2.2	4.7
4	3.7	-4.2	5.3	5.9	6.7	3.2	5.2	2.1	4.8

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 4.3 percent in 2001 and 3.5 percent in 2002.

3. On a monthly average basis, federal debt is projected to grow -2.5 percent in 2001 and -3.6 percent in 2002.

4. On a monthly average basis, nonfederal debt is projected to grow 5.9 percent in 2001 and 5.0 percent in 2002.

Category					Seasonally adjusted annual rates									
	Calendar year				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	712.1	693.3	664.5	434.3	936.4	586.1	855.9	470.2	791.2	572.3	700.4	709.3
2 Net equity issuance	-143.5	-166.6	-23.4	-3.1	-87.7	-394.8	-33.9	-35.2	-32.0	7.5	18.1	-7.6	-10.0	-12.8
3 Net debt issuance	1088.8	862.7	735.5	696.4	752.2	829.1	970.3	621.3	887.9	462.7	773.1	579.9	710.4	722.1
<i>Borrowing sectors</i>														
<i>Nonfinancial business</i>														
4 Financing gap ¹	260.0	308.3	281.4	271.0	322.1	335.0	304.8	292.2	278.2	250.4	258.3	266.7	282.5	276.7
5 Net equity issuance	-143.5	-166.6	-23.4	-3.1	-87.7	-394.8	-33.9	-35.2	-32.0	7.5	18.1	-7.6	-10.0	-12.8
6 Credit market borrowing	575.3	565.2	298.2	350.2	397.6	537.9	326.5	291.8	272.7	301.7	322.7	349.7	361.6	366.7
<i>Households</i>														
7 Net borrowing ²	532.4	566.2	434.1	423.6	550.5	565.2	564.8	439.1	385.9	346.8	383.3	398.0	450.4	462.7
8 Home mortgages	409.8	397.8	347.7	362.7	407.3	399.5	390.3	325.2	325.2	350.2	350.2	350.2	375.2	375.2
9 Consumer credit	94.4	132.3	79.8	49.9	122.5	123.7	160.5	72.3	56.4	30.2	49.1	44.5	51.9	54.2
10 Debt/DPI (percent) ³	95.2	97.5	99.2	100.2	97.8	98.4	99.0	99.7	98.4	100.7	99.5	99.9	100.2	100.7
<i>State and local governments</i>														
11 Net borrowing	52.3	27.2	72.3	29.4	23.6	60.4	89.9	113.8	43.8	41.8	29.4	29.4	29.4	29.4
12 Current surplus ⁴	188.6	192.3	190.4	200.3	195.0	192.0	190.6	190.2	186.9	194.0	198.7	198.3	200.4	203.8
<i>Federal government</i>														
13 Net borrowing	-71.2	-295.9	-69.1	-106.8	-219.5	-334.5	-10.8	-223.4	185.5	-227.6	37.7	-197.2	-131.0	-136.6
14 Net borrowing (quarterly, n.s.a.)	-71.2	-295.9	-69.1	-106.8	-53.8	-25.0	23.7	-157.4	47.5	1.7	35.8	-135.4	-31.7	24.4
15 Unified deficit (quarterly, n.s.a.)	-158.6	-254.8	-165.5	-129.4	-60.4	2.3	22.5	-193.7	12.7	-6.9	46.6	-179.6	-27.0	30.6
<i>Depository institutions</i>														
16 Funds supplied	404.3	446.6	160.5	246.7	456.0	268.8	197.9	149.9	115.8	178.5	198.7	233.7	271.7	282.7
<i>Memo (percentage of GDP)</i>														
17 Domestic nonfinancial debt ⁵	181.5	180.5	181.9	181.8	180.6	181.1	181.3	182.1	182.8	183.0	182.4	182.1	181.5	181.1
18 Domestic nonfinancial borrowing	11.7	8.7	7.2	6.5	7.6	8.3	9.6	6.1	8.6	4.5	7.4	5.5	6.6	6.7
19 Federal government ⁶	-0.8	-3.0	-0.7	-1.0	-2.2	-3.3	-0.1	-2.2	1.8	-2.2	0.4	-1.9	-1.2	-1.3
20 Nonfederal	12.5	11.7	7.9	7.5	9.8	11.6	9.7	8.3	6.8	6.7	7.0	7.3	7.9	7.9

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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

We have again substantially marked down our forecast for foreign economic growth but continue to expect a return to moderate expansion next year. In assessing the magnitude of the downward revision over the forecast period, we have taken into account three factors. First, incoming data on activity abroad have been substantially weaker than expected for both industrial and developing countries. Second, the outlook for growth in the United States has worsened, with more protracted weakness in the U.S. high-tech sector expected to have a particularly adverse impact on the exports of Asian emerging-market economies. Third, in light of recent events, it now appears that Argentina will not be able to avoid a severe economic crisis and related substantial drop in activity, with some negative spillover to neighboring Latin American countries. The projected revival in foreign growth is based on an expected strengthening of U.S. growth as well as somewhat stimulative macroeconomic policy abroad. Lower energy prices are also expected to provide some support to activity, although oil prices are being held up to some extent by OPEC's apparent willingness to cut back production in response to reduced world demand for oil.

The dollar has depreciated about 2 percent on balance in terms of the broad index of our trading-partner currencies since the June Greenbook, as market concerns about the relative strength of the U.S. economy have mounted. We project that the dollar will decline somewhat further between now and the end of next year. The possibility of a sharp fall rather than moderate decline in the dollar remains an important risk to the outlook. (See the alternative scenario discussion at the end of this section.)

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

Indicator	2000		Projection		
	H1	H2	2001		2002
			H1	H2	
Foreign output	5.6	2.7	.6	1.4	2.9
<i>June GB</i>	5.5	2.7	1.2	2.3	3.4
Foreign CPI	2.2	3.5	2.6	2.5	2.5
<i>June GB</i>	2.1	3.5	2.2	3.1	2.7

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

As a consequence of the weakening global economy and the still-elevated level of the dollar, exports are expected to make an unusual negative contribution to U.S. real output growth this year. Very low U.S. growth should result in a

Prices of internationally traded goods. Our forecast for oil prices is little changed from that in the June Greenbook. In line with recent futures quotes, we project that the spot price of West Texas intermediate will remain above \$27 per barrel for the rest of this year and will gradually decline to around \$24 per barrel by the end of next year. Core import prices will decline further during the second half of this year largely owing to near-term weakness in materials prices. Next year, core import prices are projected to increase nearly 2 percent, reflecting the expected depreciation of the dollar. Prices of exported core goods are projected to decline a bit through most of this year and then increase at an average rate of nearly 1 percent next year.

Selected Trade Prices

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

Trade category	2000		Projection		
	H1	H2	2001		2002
			H1	H2	
<i>Exports</i>					
Core goods	2.7	.7	-.3	-.5	.7
<i>Imports</i>					
Non-oil core goods	1.7	1.5	-1.2	-1.9	1.8
Oil (dollars per barrel)	26.18	28.87	24.16	24.18	21.75

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. The decline in real imports of goods and services that occurred in the first quarter was repeated in the second quarter. This exceptional weakness mainly reflects the cyclical downturn in U.S. investment. The decline in imports was concentrated in computers, semiconductors and capital goods. We project that the continued weak near-term outlook for U.S. spending on investment goods should keep imports of those products declining in the second half of this year before increasing moderately next year. In contrast, imported consumer goods were about flat in the second quarter and are expected to bounce back in the second half of the year, largely in response to the boost to consumption from fiscal stimulus. On balance, total real imports of goods and services are forecast to be about unchanged in the current quarter and to pick up modestly in the fourth quarter. We project that imports will respond to the rebound in U.S. output growth next year and will rise more than 6 percent. The lagged effect of the dollar's appreciation over the past six quarters is expected to result in relative prices

providing some slight stimulus to imports through the middle of next year, but the primary boost derives from revived U.S. growth and the high U.S. marginal propensity to import.

Real exports of goods and services declined an estimated 10 percent at an annual rate in the second quarter, as foreign growth slowed abruptly. The drop in exports of high-tech goods was particularly pronounced. We expect that exports will decrease slightly further in the second half of this year, owing to continued sluggish economic growth abroad and the lagged effects of past dollar appreciation. However, export growth is projected to accelerate next year, as foreign economic growth moves up along with U.S. growth.

Summary of Staff Projections for Trade in Goods and Services

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

Measure	2000		Projection		
	H1	H2	2001		2002
			H1	H2	
Real exports	11.2	3.0	-6.0	-.5	3.9
<i>June GB</i>	10.2	3.2	-1.8	2.9	5.3
Real imports	16.8	6.0	-6.0	1.4	6.4
<i>June GB</i>	15.2	7.5	-2.6	4.5	7.4

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

The U.S. current account deficit as a share of GDP is projected to be about 4-1/4 percent this year, down slightly from last year as the nominal trade deficit narrows. We expect that the current account deficit as a share of GDP will resume its rise next year.

Alternative simulation. We consider an alternative scenario in which declining confidence in the prospects for the United States relative to the other major industrial countries and some key developing economies causes the dollar to depreciate substantially. In particular, the shock consists of an exogenous 30 percent decline in the risk premium on euro-, sterling-, and yen-denominated assets. The assets of major Asian developing economies are assumed to experience a similar 30 percent decline in their risk premium, while that on the Canadian dollar falls by half as much. Risk premiums on the assets of Latin American countries are assumed unchanged.

These changes in risk premiums cause the broad real value of the dollar to experience a decline of nearly 25 percent by early next year. Afterwards, the path of the real exchange rate depends on the response of monetary policy at home and abroad. We consider two cases. The first case holds the real federal funds rate unchanged from its baseline path, and the second assumes that policy is adjusted according to a Taylor rule. (In both cases, the major foreign central banks adjust their policy rates according to a Taylor rule.) When U.S. monetary policy does not respond, real GDP growth is $\frac{3}{4}$ percentage point higher at an annual rate than in the baseline in the first half of next year and about $1\frac{1}{2}$ percentage points higher in the second half of the year. Rising import prices and higher rates of resource utilization put upward pressure on inflation; the core PCE inflation rate rises about $1\frac{1}{4}$ percentage points by the second half of next year. Under a Taylor rule the federal funds rate rises more than 200 basis points by the end of next year, nearly twice the magnitude of the response under the policy that keeps the real funds rate unchanged. Accordingly, in this case output growth rises only about 1 percentage point above baseline in the second half of next year. Because the effects of policy actions on inflation occur with a somewhat longer lag than those on output, there is little difference in the responses of core PCE inflation across the monetary policy cases considered through the end of next year.

**Alternative Simulation:
Weaker Dollar**
(Percent change from previous period, annual rate)

Indicator and simulation	2001		2002	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	0.8	1.3	2.4	3.0
Unchanged real funds rate	0.8	1.4	3.1	4.5
Taylor rule	0.8	1.4	3.1	4.1
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	1.9	1.9	1.9	1.8
Unchanged real funds rate	1.9	1.9	2.7	3.2
Taylor rule	1.9	1.9	2.7	3.2

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	5.3	2.4	4.0	4.2	1.4	4.8	4.1	1.0	2.9
Industrial Countries	4.0	1.9	2.6	3.5	2.6	3.8	3.2	1.2	2.6
of which:									
Canada	5.3	1.5	2.6	4.5	4.2	5.1	3.5	1.9	3.0
Japan	1.7	2.6	2.9	0.7	-1.4	0.4	2.5	-1.3	0.8
United Kingdom	4.6	1.9	2.9	3.5	2.0	3.2	2.6	1.7	2.5
Euro Area (2)	3.0	1.4	1.6	3.1	2.1	3.4	2.9	1.1	2.4
Germany	2.9	1.1	1.3	1.6	1.0	2.5	2.6	0.5	2.1
Developing Countries	7.1	3.0	6.0	5.1	-0.2	6.2	5.5	0.7	3.2
Asia	9.5	6.9	6.6	4.8	-2.0	8.6	6.2	0.8	3.6
Korea	9.1	7.5	6.4	3.4	-5.2	13.8	5.2	0.9	3.0
China	23.3	10.4	5.3	8.7	9.5	4.1	8.0	7.3	7.4
Latin America	5.3	-3.7	5.9	6.2	1.2	4.3	4.8	0.1	2.6
Mexico	5.2	-7.1	7.1	6.7	2.8	5.5	5.2	0.1	3.0
Brazil	10.2	-0.7	3.3	2.4	-0.8	3.5	4.3	-0.2	2.5
CONSUMER PRICES (3)									

Industrial Countries	1.1	1.3	1.4	1.5	1.0	1.1	1.9	1.8	1.1
of which:									
Canada	-0.0	2.0	2.0	1.0	1.1	2.3	3.1	2.8	1.7
Japan	0.8	-0.8	0.1	2.0	0.8	-1.3	-1.1	-0.8	-0.9
United Kingdom (4)	2.3	2.9	3.2	2.7	2.5	2.2	2.1	2.3	2.4
Euro Area (2)	NA	NA	1.9	1.5	0.8	1.5	2.7	2.4	1.8
Germany	2.8	1.4	1.3	1.5	0.3	1.1	2.5	2.2	1.3
Developing Countries	22.8	16.5	11.1	6.8	9.0	4.6	4.2	3.5	4.4
Asia	10.7	5.8	4.8	2.7	4.4	0.2	1.9	2.1	3.3
Korea	5.8	4.3	5.0	4.9	5.9	1.2	2.8	4.4	2.7
China	26.9	11.1	6.8	0.9	-1.2	-0.9	0.9	1.4	3.7
Latin America	54.0	42.0	25.8	15.5	15.4	12.5	8.4	5.4	6.2
Mexico	7.0	48.7	28.0	17.0	17.4	13.6	8.8	5.2	6.3
Brazil	1196.9	21.5	9.6	4.6	1.5	8.2	6.1	6.6	6.2

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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	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	7.6	3.6	3.8	1.7	1.0	0.2	1.1	1.8	2.4	2.7	3.1	3.2
Industrial Countries	5.8	2.4	2.7	2.1	1.9	0.6	0.7	1.6	2.3	2.4	2.8	2.9
of which:												
Canada	6.1	1.9	4.5	1.6	2.5	1.7	1.3	2.1	2.6	2.9	3.2	3.3
Japan	10.0	0.5	-2.7	2.6	0.5	-2.7	-2.7	-0.2	0.9	0.5	0.7	1.1
United Kingdom	1.7	3.7	3.4	1.8	1.8	1.2	1.9	2.0	2.4	2.4	2.6	2.6
Euro Area (2)	3.8	3.2	2.4	2.4	2.0	0.4	0.8	1.3	1.8	2.1	2.9	2.8
Germany	3.9	4.8	1.1	0.8	1.5	-0.5	0.0	0.9	1.5	1.7	2.6	2.5
Developing Countries	10.4	5.4	5.3	1.0	-0.4	-0.5	1.6	2.0	2.6	3.1	3.4	3.6
Asia	11.1	5.2	6.0	2.6	-0.4	-0.4	1.6	2.4	3.1	3.4	3.7	4.0
Korea	6.6	6.4	9.8	-1.7	1.2	0.0	1.0	1.5	2.5	2.8	3.1	3.5
China	11.3	8.1	7.5	5.2	8.1	7.5	6.8	6.8	7.0	7.5	7.5	7.5
Latin America	10.4	5.5	4.9	-1.2	-0.9	-1.0	1.2	1.3	1.8	2.6	3.1	3.1
Mexico	12.0	6.0	5.7	-2.4	-1.4	-1.0	1.2	1.5	2.0	3.0	3.5	3.5
Brazil	5.2	5.8	4.7	1.3	1.0	-3.9	1.0	1.0	2.0	2.3	2.8	3.0
CONSUMER PRICES (3)	----- Four-quarter changes -----											
Industrial Countries	1.6	1.5	1.7	1.9	1.8	2.3	1.9	1.8	1.6	1.2	1.1	1.1
of which:												
Canada	2.7	2.4	2.7	3.1	2.8	3.6	3.1	2.8	2.9	1.9	1.8	1.7
Japan	-0.8	-0.9	-1.1	-1.1	-0.6	-0.7	-0.8	-0.8	-1.3	-0.9	-0.9	-0.9
United Kingdom (4)	2.1	2.1	2.1	2.1	1.9	2.3	2.3	2.3	2.3	2.3	2.4	2.4
Euro Area (2)	2.1	2.1	2.5	2.7	2.5	3.1	2.7	2.4	2.4	1.7	1.8	1.8
Germany	2.0	1.7	2.2	2.5	2.4	3.2	2.6	2.2	1.8	1.2	1.3	1.3
Developing Countries	3.9	3.8	4.0	4.2	3.8	4.1	3.7	3.5	4.2	4.3	4.4	4.4
Asia	0.5	0.8	1.4	1.9	1.8	2.4	2.3	2.1	2.6	3.0	3.1	3.3
Korea	1.5	1.5	3.2	2.8	4.2	5.3	4.5	4.4	4.0	3.1	2.6	2.7
China	0.1	0.2	0.3	0.9	0.6	1.6	1.7	1.4	2.1	2.9	3.3	3.7
Latin America	10.0	9.2	8.7	8.4	7.2	6.8	5.8	5.4	6.5	6.3	6.5	6.2
Mexico	10.5	9.6	9.0	8.8	7.5	6.9	5.7	5.2	6.5	6.3	6.6	6.3
Brazil	7.8	6.7	7.6	6.1	6.2	7.1	6.6	6.6	7.0	7.0	6.2	6.2

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	Projected 2002
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	-1.0	-0.8	-0.0	-0.5
Exports of G&S	1.0	1.0	1.1	1.0	0.3	0.5	0.8	-0.4	0.4
Imports of G&S	-1.3	-0.6	-1.3	-1.7	-1.3	-1.5	-1.6	0.3	-0.9
Percentage change, Q4/Q4									
Exports of G&S	10.5	9.7	9.8	8.5	2.3	4.5	7.0	-3.3	3.9
Services	8.2	8.8	8.9	1.4	2.9	1.9	4.1	1.0	4.6
Computers	27.4	39.1	21.6	25.8	8.1	13.8	23.1	-17.4	21.5
Semiconductors	66.9	79.6	44.6	21.3	9.1	34.6	26.9	-27.0	22.7
Other Goods 1/	7.9	4.6	7.3	9.8	1.3	3.2	5.7	-2.0	1.3
Imports of G&S	12.2	5.0	11.2	14.3	10.8	11.5	11.3	-2.3	6.4
Services	1.8	5.5	5.3	14.0	8.5	2.8	12.2	3.1	3.4
Oil	-0.2	2.4	7.8	3.9	4.1	-3.4	12.4	0.7	1.7
Computers	39.0	35.0	17.8	33.0	25.8	25.1	13.6	-11.5	21.5
Semiconductors	54.5	92.4	56.7	32.9	-8.7	33.5	22.5	-43.6	22.7
Other Goods 2/	12.3	-1.2	10.4	12.7	11.5	12.9	10.4	-1.2	6.2
Billions of chained 1996 dollars									
Net Goods & Services	-86.5	-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-413.1	-465.5
Exports of G&S	732.8	808.2	874.2	981.5	1002.4	1034.8	1133.2	1117.3	1127.8
Imports of G&S	819.4	886.6	963.1	1094.8	1223.5	1351.7	1532.3	1530.4	1593.2
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-118.2	-109.9	-120.9	-139.8	-217.5	-324.4	-444.7	-429.3	-480.0
Current Acct as Percent of GDP	-1.7	-1.5	-1.5	-1.7	-2.5	-3.5	-4.5	-4.2	-4.5
Net Goods & Services (BOP)	-96.7	-96.4	-101.8	-107.8	-166.8	-261.8	-375.7	-365.8	-403.5
Investment Income, Net	21.1	25.0	25.5	13.6	-1.2	-8.5	-9.6	-5.1	-15.7
Direct, Net	55.2	64.9	69.4	72.4	66.3	67.0	81.2	91.2	89.5
Portfolio, Net	-34.1	-39.9	-43.9	-58.8	-67.5	-75.6	-90.9	-96.3	-105.2
Other Income & Transfers, Net	-42.7	-38.6	-44.6	-45.7	-49.4	-54.0	-59.3	-58.4	-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
IPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.0	-0.3	-0.8	-0.9	-1.8	-1.8	-0.8	0.2	-1.8	-1.2	-0.7	-0.1
Exports of G&S	0.8	1.9	1.2	-0.1	0.1	-0.5	-0.2	1.7	-0.8	0.4	1.0	1.3
Imports of G&S	-1.8	-2.2	-2.0	-0.8	-1.9	-1.4	-0.5	-1.5	-1.0	-1.6	-1.7	-1.3
Percentage change from previous period, s.a.a.r.												
Exports of G&S	7.5	17.6	10.6	-0.8	0.5	-4.0	-2.2	16.3	-6.8	4.2	9.7	12.1
Services	-5.8	9.4	6.0	-3.3	2.4	8.0	-8.4	10.5	-3.9	3.8	2.0	6.0
Computers	60.0	44.5	25.7	-14.0	-8.3	8.2	12.0	22.8	0.5	26.8	18.3	11.0
Semiconductors	50.3	22.1	19.6	-1.4	5.9	-17.2	272.7	-56.6	45.4	31.6	36.5	25.8
Other Goods 1/	8.4	19.2	10.9	1.5	0.0	-9.2	-9.3	27.8	-11.5	1.1	11.0	14.2
Imports of G&S	15.3	18.8	17.3	6.4	15.9	11.3	4.2	12.2	8.4	13.3	13.8	10.5
Services	20.0	5.6	23.1	8.3	21.3	6.7	7.0	0.1	-8.2	1.8	7.9	11.0
Oil	-7.5	36.8	5.7	-12.9	3.6	42.8	1.1	-21.6	3.9	29.8	-5.8	-31.5
Computers	46.6	45.8	32.4	10.5	38.4	18.5	6.4	43.6	40.6	41.1	8.3	13.8
Semiconductors	78.1	26.0	31.6	5.6	8.5	-25.4	-6.3	-8.2	37.0	47.5	12.7	39.6
Other Goods 2/	11.6	17.2	14.8	7.5	14.2	11.9	4.1	16.2	9.0	11.3	17.6	14.0
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-94.0	-100.6	-119.6	-139.2	-180.8	-223.1	-241.2	-239.2	-283.0	-313.4	-333.3	-337.8
Exports of G&S	940.3	979.2	1004.2	1002.1	1003.4	993.1	987.6	1025.6	1007.6	1018.0	1041.8	1072.1
Imports of G&S	1034.3	1079.8	1123.8	1141.2	1184.2	1216.2	1228.9	1264.8	1290.6	1331.4	1375.1	1409.8
Billions of dollars, s.a.a.r.												
U.S. CURRENT ACCOUNT BALANCE	-138.0	-119.3	-133.3	-168.7	-174.0	-209.6	-242.1	-244.1	-265.8	-309.5	-352.3	-369.9
Current Account as % of GDP	-1.7	-1.4	-1.6	-2.0	-2.0	-2.4	-2.7	-2.7	-2.9	-3.4	-3.8	-3.9
Net Goods & Services (BOP)	-110.6	-96.8	-103.1	-120.6	-139.5	-169.9	-181.9	-176.0	-211.5	-251.5	-284.5	-299.9
Investment Income, Net	13.5	19.4	13.0	8.6	9.9	5.8	-12.3	-8.3	-5.2	-6.6	-15.5	-6.7
Direct, Net	69.3	76.8	74.4	69.0	74.2	69.8	57.8	63.3	66.2	63.0	63.3	75.7
Portfolio, Net	-55.8	-57.4	-61.4	-60.4	-64.2	-64.0	-70.1	-71.5	-71.4	-69.6	-78.8	-82.5
Other Inc. & Transfers, Net	-40.8	-41.9	-43.2	-56.7	-44.4	-45.5	-47.9	-59.8	-49.1	-51.5	-52.2	-63.3

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2000				2001				Projected 2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
IPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.3	-0.8	-0.7	-0.4	0.6	-0.2	-0.4	-0.1	-0.8	-0.7	-0.5	0.1
Exports of G&S	0.9	1.4	1.1	-0.5	-0.1	-1.2	-0.4	0.3	-0.0	0.3	0.5	0.8
Imports of G&S	-2.2	-2.2	-1.8	0.1	0.8	1.0	0.0	-0.4	-0.7	-1.0	-1.0	-0.7
Percentage change from previous period, s.a.a.r.												
Exports of G&S	9.0	13.5	10.6	-4.0	-1.2	-10.5	-3.7	2.8	-0.3	3.3	4.5	8.4
Services	10.3	9.9	-6.7	3.7	1.8	0.2	-0.3	2.5	3.8	4.5	5.0	5.1
Computers	32.7	49.2	25.8	-7.9	-5.8	-41.6	-15.1	-0.4	17.0	21.6	21.6	26.2
Semiconductors	29.9	64.5	35.0	-10.2	-22.4	-47.3	-28.4	-3.0	17.0	21.6	26.2	26.2
Other Goods 1/	5.3	9.1	16.3	-6.5	-0.1	-8.7	-2.4	3.5	-4.4	0.4	1.8	7.7
Imports of G&S	17.1	16.4	13.0	-0.5	-5.0	-6.9	-0.2	3.1	5.4	7.8	7.2	5.4
Services	20.6	12.4	17.1	0.0	4.9	2.9	2.0	2.5	3.2	2.8	3.6	3.8
Oil	29.7	40.3	-4.9	-7.7	27.1	1.3	-6.7	-14.6	-8.6	22.7	11.8	-14.7
Computers	12.8	34.4	18.4	-7.2	-11.0	-25.2	-7.8	-0.2	17.0	21.5	21.5	26.2
Semiconductors	45.6	24.9	64.9	-24.9	-31.8	-76.4	-34.4	-3.9	17.0	21.6	26.2	26.2
Other Goods 2/	14.6	13.1	11.9	2.4	-8.4	-3.6	1.9	5.9	6.4	6.3	6.1	6.0
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-371.1	-392.8	-411.2	-421.1	-404.5	-408.3	-417.9	-421.9	-443.0	-463.4	-478.6	-476.8
Exports of G&S	1095.5	1130.6	1159.3	1147.5	1144.1	1112.7	1102.4	1109.9	1109.1	1118.0	1130.5	1153.5
Imports of G&S	1466.6	1523.4	1570.6	1568.5	1548.6	1521.0	1520.2	1531.8	1552.1	1581.4	1609.0	1630.3
Billions of dollars, s.a.a.r.												
Current Account Balance	-419.6	-432.5	-461.2	-465.3	-438.3	-413.2	-421.8	-443.7	-453.2	-474.9	-489.9	-502.1
Current Account as % of GDP	-4.3	-4.4	-4.6	-4.6	-4.3	-4.0	-4.1	-4.3	-4.3	-4.5	-4.6	-4.6
Net Goods & Services (BOP)	-349.3	-363.1	-389.4	-401.2	-380.1	-360.0	-359.0	-364.0	-383.9	-401.9	-415.2	-413.0
Investment Income, Net	-17.5	-14.4	-14.5	7.9	-6.9	2.4	-6.2	-9.6	-12.1	-15.4	-17.2	-18.0
Direct, Net	65.5	72.5	84.2	102.8	93.1	95.1	88.5	88.2	88.9	88.7	89.6	90.8
Portfolio, Net	-83.0	-86.8	-98.7	-94.9	-100.0	-92.7	-94.7	-97.8	-101.1	-104.1	-106.8	-108.9
Other Inc. & Transfers, Net	-52.8	-55.0	-57.4	-72.0	-51.3	-55.6	-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

August 16, 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**

August 16, 2001

Recent Developments

Inventories of automobiles are, if anything, on the lean side. For light trucks, however, the combination of a dropback in sales and a spurt in assemblies in July pushed the days' supply above the comfortable range of 65 to 70 days. Despite these developments, manufacturers have revised up scheduled truck production in August and September from already high levels. If third-quarter assemblies of these vehicles come in as scheduled and sales ease further (as we expect), a steep cutback in production seems likely to ensue.

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 ¹	May	June	July	Aug. ¹	Sept. ¹
U.S. production	10.9	11.7	12.1	11.8	11.7	12.1	12.2	12.0
Autos	5.0	5.1	5.0	5.1	5.1	4.9	5.1	5.0
Trucks	6.0	6.6	7.1	6.7	6.6	7.2	7.1	7.0
Days' supply ²	62.4	62.0	n.a.	63.5	60.1	63.9	n.a.	n.a.
Autos	50.9	49.3	n.a.	50.3	49.0	49.7	n.a.	n.a.
Light trucks ³	72.8	73.0	n.a.	75.4	69.2	75.8	n.a.	n.a.
Inventories ⁴	2.84	2.75	n.a.	2.78	2.75	2.80	n.a.	n.a.

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

1. Production rates reflect manufacturers' schedules for 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.

Other manufacturing. Outside of the motor vehicle and high-tech industries, production cutbacks this year have been widespread, and the diffusion index of three-month percent changes in IP—at 32.2 percent—remained in July at a level typically associated with recessions. The recent cutbacks in industrial materials and business supplies have been less severe than the earlier declines, on average, while business equipment production has been dropping off at a more pronounced rate.

Aggregate inventories. After a sizable liquidation in the first quarter, the overall pace of inventory decumulation was a bit more rapid in the second quarter. We now estimate that real nonfarm inventories decreased at an annual rate of around \$35 billion in the second quarter, following a drop of \$27 billion

August 17, 2001

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

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

August 17, 2001

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

	2000 Dec.	2001 Jan.	2001 Feb.	2001 Mar.	2001 Apr.	2001 May	2001 June	2001 July	2001 Aug (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	98.4	94.7	90.6	91.5	88.4	92.0	92.6	92.4	93.5
Current conditions	110.5	107.7	105.8	103.4	98.0	102.2	101.6	98.6	101.7
Expected conditions	90.7	86.4	80.8	83.9	82.2	85.4	86.9	88.4	88.3

Personal financial situation									
Now compared with 12 months ago*	126	123	122	119	110	112	117	114	118
Expected in 12 months*	131	126	129	131	134	129	126	133	127
Expected business conditions									
Next 12 months*	121	106	93	97	92	99	114	115	109
Next 5 years*	113	115	102	109	104	115	109	107	119
Appraisal of buying conditions									
Cars	146	133	137	146	129	133	127	138	137
Large household appliances*	161	157	152	148	143	152	146	141	145
Houses	139	149	149	148	144	154	162	149	153
Willingness to use credit	42	33	47	37	34	45	43	41	44
Willingness to use savings	67	55	66	52	55	58	64	60	62
Expected unemployment change - next 12 months	127	139	143	143	146	138	135	140	139
Prob. household will lose a job - next 5 years	19	20	23	22	21	21	22	24	22
Expected inflation - next 12 months									
Mean	3.4	3.8	3.2	3.3	3.7	3.9	4.0	3.0	3.3
Median	2.8	3.0	2.8	2.8	3.1	3.2	3.0	2.6	2.7
Expected inflation - next 5 to 10 years									
Mean	3.7	3.5	3.6	3.6	3.6	3.6	3.6	3.4	3.7
Median	3.0	2.9	3.0	3.0	3.1	3.0	3.0	2.9	3.0

* -- 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.