

## **Part 1**

October 31, 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

October 31, 2001

## **Summary and Outlook**

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

Item	2001	2002	2003
Outlays	1,863	1,984	2,049
Previous	1,852	1,976	2,052
Receipts	1,990	1,986	2,063
Previous	1,988	2,046	2,091
Surplus, deficit (-)			
Total	127	2	14
Previous	136	70	38
On-budget	-34	-161	-165
Previous	-30	-98	-143

with last Greenbook, we have added to our package a second tax rebate—paid in the first quarter of 2002 and targeted at low-income tax filers who did not receive the full benefit of the first rebate. The cost of this provision is \$14 billion in fiscal 2002, consistent with the bill that has passed the House. Also in line with that bill, our expanded package includes a temporary tax incentive for investment in equipment and software that allows firms to expense 30 percent of the cost of eligible capital items ordered during the three years following September 11, 2001. Our package includes additional spending for extended unemployment insurance benefits, increased subsidies for health insurance, and some additional federal purchases for increased security and infrastructure.

The temporary expensing provision has a major influence on the contour of the projection. To illustrate this influence, we later present an alternative simulation that omits the temporary expensing provision; this simulation produces substantially slower output growth in 2002 and 2003.

Together with the softer economy, our new fiscal package implies a marked reduction in the unified budget surplus, from \$127 billion in fiscal 2001 to \$2 billion in fiscal 2002 and \$14 billion in fiscal 2003; on-budget deficits (that is, excluding the Postal Service and social security) are forecast to deepen from \$34 billion in fiscal 2001 to \$165 billion in fiscal 2003.

Measured against the currencies of a broad group of our trading partners, the real trade-weighted foreign exchange value of the dollar has risen about 1 percent since the last Greenbook, despite negative news on the state of the U.S. economy. In light of this development, we project a flat path for the real

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

Measure	2001:Q4		2002:Q1	
	Sept. GB	Oct. GB	Sept. GB	Oct. GB
<b>Real GDP</b>	<b>-.7</b>	<b>-2.4</b>	<b>-.1</b>	<b>-.1</b>
Private domestic final purchases	-1.9	-3.2	-.9	-1.6
Personal consumption expenditures	.4	1.3	.1	-.6
Residential investment	-11.5	-16.2	-5.3	-5.8
Business fixed investment	-10.9	-22.3	-5.6	-6.3
Government outlays for consumption and investment	4.7	7.9	3.5	2.8
	Contribution to growth, percentage points			
Inventory investment	.5	-.8	.4	1.3
Net exports	-.4	-.3	-.3	-.5

through the first quarter of next year, as businesses move aggressively to eliminate inventory overhangs.

The BLS will publish the employment report for October on Friday, and given the sharp rise in new claims for unemployment insurance, we anticipate another large decline in payrolls. We are projecting a cumulative decline in private nonfarm employment of close to 3/4 million over the October-to-December period, followed by additional job losses in the first quarter of 2002. As a result, the unemployment rate is projected to move up sharply, to 5.4 percent in the fourth quarter and to 5.9 percent in the first quarter.

We estimate that, among the components of final demand, consumer expenditures rose at an annual rate of only 1-1/2 percent in the third quarter, reflecting the steep declines in September retail sales and the drop in unit sales of light motor vehicles. We assume some bounceback in the fourth quarter from the depressed level of spending that followed the terrorist attacks. Indeed, automakers are reporting that sales of light vehicles in October skyrocketed to 19-1/2 million units (annual rate) as households responded to the special zero-percent financing packages; elevated sales should last through mid-November, when the new incentive plans are scheduled to expire. We estimate that the incentives will boost unit sales nearly a million units on net in the fourth quarter, but the temporary nature of the program likely is pulling forward sales from future months, and the resultant payback period is expected to extend into the second quarter of next year.

**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>1.3</b>	<b>3.5</b>	<b>3.7</b>
Previous	.6	3.3	3.5
Final sales	.5	2.7	3.2
Previous	.2	2.9	3.2
PCE	1.5	2.5	3.2
Previous	.6	2.5	3.2
Residential investment	-1.5	5.5	2.4
Previous	-1.6	5.5	2.5
BFI	-3.7	6.5	9.2
Previous	-3.9	4.1	6.9
Government purchases	3.4	3.6	3.1
Previous	4.0	4.3	3.1
Exports	-1.1	4.9	6.8
Previous	.4	5.9	6.8
Imports	4.6	8.9	9.8
Previous	3.4	6.6	8.3
Contribution to growth, percentage points			
Inventory change	.8	.8	.4
Previous	.4	.4	.3
Net exports	-.7	-.7	-.6
Previous	-.4	-.3	-.4

points below its longer-run average. Against such a background, wage and price pressures will remain weak, and indeed, core inflation is projected to edge lower.

**Household spending.** As noted earlier, real PCE is projected to contract slightly in the first quarter of next year. Thereafter, several powerful factors are expected to support a more robust pace of consumer spending over the remainder of the forecast period. Real disposable income will receive a boost from the assumed fiscal actions as well as from lower energy prices. By 2003,

**Government purchases.** Real federal purchases are projected to increase 4-3/4 percent in 2002, reflecting the recently enacted emergency supplemental as well as our assumed package of additional spending on security and infrastructure. Purchases receive a further small boost from policy actions in 2003 and are projected to increase just 2 percent. State and local spending is expected to increase 2-3/4 percent in 2002 and 3-1/2 percent in 2003—a slowdown from the 5 percent rise expected for this year. These jurisdictions no doubt are experiencing downward pressure on revenues that will persist into next year and, as a result, will restrain spending a bit.

**Net exports.** Real exports have weakened markedly further in recent months, and we now expect that they will be down more than 8 percent during 2001. Exports are projected to turn up 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 this year. Taken together, real net exports, which are expected to be a slight positive for real GDP this year, are projected to arithmetically subtract about 2/3 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

We have made a number of minor adjustments to our forecast of structural labor productivity and potential output in this Greenbook. As a result of the terrorist acts to date and the country's initial response, we have raised our estimate of the negative shock to the level of multifactor productivity from 1/8 percent in the September Greenbook to roughly 1/4 percent. The range of uncertainty about

### Decomposition of Structural Labor Productivity

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

Measure	1973-95	1996-98	1999	2000	2001	2002	2003
<b>Structural labor productivity</b>	<b>1.4</b>	<b>2.4</b>	<b>2.8</b>	<b>2.7</b>	<b>1.9</b>	<b>1.4</b>	<b>1.9</b>
Previous	1.4	2.4	2.8	2.6	1.9	1.5	1.8
<i>Contributions<sup>1</sup></i>							
Capital deepening	.6	1.1	1.5	1.4	.6	.2	.6
Previous	.6	1.1	1.5	1.3	.7	.2	.5
Multifactor productivity	.6	1.0	1.0	1.0	.9	.8	1.0
Previous	.6	1.0	1.0	1.0	.9	.9	1.0
Labor composition	.3	.3	.3	.3	.3	.3	.3

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

1. Percentage points.

this estimate is obviously huge, and additional terrorist acts likely would increase the magnitude of this adjustment. The effect begins in the fourth quarter of 2001 and lasts until the end of next year. Thereafter, growth in structural MFP returns to the 1.0 percent pace that prevailed prior to September 11. In contrast, the upward revision to our investment forecast results in a larger contribution of capital deepening in 2002 and 2003. On net, we now are projecting structural productivity to rise 1.4 percent in 2002 and 1.9 percent in 2003.

**Productivity and the labor market.** Our productivity forecast follows the 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 1/2 percent, on average, in the second half of this year. It is expected to increase at roughly its structural pace of 1-1/2 percent in the first half of 2002. 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.

Nonfarm payroll employment is expected to drop sharply through year-end and to continue declining into the first quarter of next year. Thereafter we expect employment to start rising again as spending and production stabilize and then turn upward. In the second half of 2002, rehiring should be well under way,

**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	.7	2.0	2.2
Previous	2.3	1.0	1.8	2.1
Nonfarm private payroll employment	1.7	-.9	.1	1.6
Previous	1.7	-.8	-.3	1.5
Household employment survey	1.0	-.8	.2	1.3
Previous	1.0	-.9	.1	1.4
Labor force participation rate <sup>1</sup>	67.1	66.8	66.8	66.7
Previous	67.1	66.7	66.7	66.7
Civilian unemployment rate <sup>1</sup>	4.0	5.4	6.1	5.9
Previous	4.0	5.4	6.2	6.0

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	1.4	1.5	1.4
Previous	2.6	1.8	1.5	1.5
Food and beverages	2.5	3.2	2.2	2.0
Previous	2.5	3.2	2.3	2.2
Energy	15.3	-7.8	-.8	.5
Previous	15.4	-3.3	-4.8	-.8
Excluding food and energy	1.9	1.6	1.5	1.3
Previous	1.9	1.8	1.6	1.5
Consumer price index	3.4	2.0	2.0	1.9
Previous	3.4	2.4	1.8	2.0
Excluding food and energy	2.5	2.7	2.2	2.0
Previous	2.5	2.7	2.3	2.2
GDP chain-weighted price index	2.4	2.0	1.8	1.6
Previous	2.4	2.3	1.6	1.7
ECI for compensation of private industry workers <sup>1</sup>	4.4	4.0	3.3	3.2
Previous	4.4	4.2	3.4	3.2
NFB compensation per hour	7.4	4.6	4.0	3.5
Previous	7.4	4.9	4.1	3.5
Prices of core non-oil merchandise imports	1.6	-2.9	.6	1.3
Previous	1.6	-2.5	1.9	1.1

1. December to December.

riskier credits, as the economy weakens and delinquencies mount. However, we do not expect a significant dislocation in the supply of credit. While net borrowing from commercial banks and in the commercial paper market will likely remain very light for a while, investment-grade firms, responding to the low level of long-term interest rates, are expected to continue to raise substantial amounts in the bond market. Selected below-investment-grade firms should also be able to raise funds in the bond market, as well as in the syndicated loan market, although on stringent terms. As the economy is seen to be recovering later next year, restraint by lenders should begin to be relaxed somewhat.

State and local government debt is projected to expand at a sluggish pace over the projection period. Fiscal pressures likely will lead some jurisdictions to



**Alternative Scenario: No Expensing Provision**

(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>-.4</b>	<b>-2.4</b>	<b>-.1</b>	<b>2.8</b>	<b>3.5</b>	<b>3.7</b>
No expensing provision, unchanged policy	-.4	-2.4	-.3	2.3	2.8	3.0
No expensing provision, policy easing	-.4	-2.4	-.3	2.3	2.9	3.2
<i>Real business equipment and software</i>						
<b>Baseline</b>	<b>-12.8</b>	<b>-19.8</b>	<b>-4.6</b>	<b>1.2</b>	<b>10.3</b>	<b>12.3</b>
No expensing provision, unchanged policy	-12.8	-19.8	-6.2	-1.8	5.9	8.6
No expensing provision, policy easing	-12.8	-19.8	-6.2	-1.7	5.9	8.9
<i>Civilian unemployment rate<sup>1</sup></i>						
<b>Baseline</b>	<b>4.8</b>	<b>5.4</b>	<b>5.9</b>	<b>6.0</b>	<b>6.1</b>	<b>5.9</b>
No expensing provision, unchanged policy	4.8	5.4	5.9	6.0	6.3	6.3
No expensing provision, policy easing	4.8	5.4	5.9	6.0	6.2	6.2
<i>PCE prices excluding food and energy</i>						
<b>Baseline</b>	<b>.3</b>	<b>3.0</b>	<b>1.6</b>	<b>1.5</b>	<b>1.5</b>	<b>1.3</b>
No expensing provision, unchanged policy	.3	3.0	1.6	1.5	1.5	1.3
No expensing provision, policy easing	.3	3.0	1.6	1.5	1.5	1.4

1. Average for the final quarter of the period.

increased labor market slack offset by the reduction in labor productivity, inflation is unchanged from its baseline path.

Because both aggregate demand and supply are depressed, a Taylor rule would prescribe a cut of only 25 basis points in the funds rate relative to baseline, starting in the second half of 2002. Such a modest policy response (“no expensing provision, policy easing”) would have little effect on the economy relative to an unchanged policy, slightly elevating output growth in 2003 and leaving inflation little changed.

**Weaker household spending.** In the second scenario, households react more adversely than we anticipate to rising unemployment, past declines in wealth, and growing consumer indebtedness, leading to a much slower pace of consumer spending and residential investment in both the near and longer term. Under the baseline funds rate assumption, this increased restraint is sufficient to raise the personal saving rate 1 percentage point relative to baseline by the middle of next year and to keep it at this more elevated level through the end of 2003. As shown in the “weaker spending, unchanged policy” scenario, real activity continues to contract appreciably through the first quarter of next year,

**Alternative Scenario: Weaker Household Spending**  
(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>-.4</b>	<b>-2.4</b>	<b>.1</b>	<b>2.8</b>	<b>3.5</b>	<b>3.7</b>
Weaker spending, unchanged policy	-.4	-3.4	-1.7	.9	1.8	2.6
Weaker spending, policy easing	-.4	-3.4	-1.6	1.1	2.3	3.7
<i>Real personal consumption</i>						
<b>Baseline</b>	<b>1.4</b>	<b>1.3</b>	<b>-.6</b>	<b>3.7</b>	<b>2.5</b>	<b>3.2</b>
Weaker spending, unchanged policy	1.4	-.1	-2.6	1.4	.5	2.1
Weaker spending, policy easing	1.4	-.1	-2.5	1.6	1.0	3.1
<i>Civilian unemployment rate<sup>1</sup></i>						
<b>Baseline</b>	<b>4.8</b>	<b>5.4</b>	<b>5.9</b>	<b>6.0</b>	<b>6.1</b>	<b>5.9</b>
Weaker spending, unchanged policy	4.8	5.5	6.1	6.3	6.8	7.2
Weaker spending, policy easing	4.8	5.5	6.1	6.3	6.7	6.6
<i>PCE prices excluding food and energy</i>						
<b>Baseline</b>	<b>.3</b>	<b>3.0</b>	<b>1.6</b>	<b>1.5</b>	<b>1.5</b>	<b>1.3</b>
Weaker spending, unchanged policy	.3	3.0	1.6	1.5	1.4	.9
Weaker spending, policy easing	.3	3.0	1.6	1.5	1.5	1.1

1. Average for the final quarter of the period.

and past that point, output growth remains anemic. As a result, the unemployment rate climbs steadily to more than 7 percent by the end of 2003, and the resultant labor market slack lowers core PCE price inflation below 1 percent in 2003.

Monetary policy could cushion this weakness should it emerge, but probably not to an appreciable extent before the second half of next year. Under the Taylor rule, the funds rate is reduced 100 basis points by the end of next year relative to baseline and somewhat more in 2003. As shown by the “weaker spending, policy easing” scenario, this extra stimulus brings the growth rate of output back to baseline during 2003, but because of the earlier, more depressed pace of activity, the unemployment rate remains above 6-1/2 percent. Core inflation is roughly 1 percent during 2003.

**Stronger sentiment.** In the baseline outlook, we assume that consumer confidence has been shaken by recent events and will remain unusually weak through next year. But October’s surge in auto sales and the recent strengthening in equity prices raise the possibility that we have misread the public’s mood and that households, investors, and firms may in fact be less

**Alternative Scenario: Stronger 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>-.4</b>	<b>-2.4</b>	<b>-.1</b>	<b>2.8</b>	<b>3.5</b>	<b>3.7</b>
Stronger sentiment, unchanged policy	-.4	-1.6	1.5	4.5	4.5	4.3
Stronger sentiment, policy tightening	-.4	-1.6	1.4	4.3	4.0	3.6
<i>Real personal consumption</i>						
<b>Baseline</b>	<b>1.4</b>	<b>1.3</b>	<b>-.6</b>	<b>3.7</b>	<b>2.5</b>	<b>3.2</b>
Stronger sentiment, unchanged policy	1.4	2.6	1.2	5.2	3.4	3.7
Stronger sentiment, policy tightening	1.4	2.6	1.2	5.0	3.0	3.1
<i>Civilian unemployment rate<sup>1</sup></i>						
<b>Baseline</b>	<b>4.8</b>	<b>5.4</b>	<b>5.9</b>	<b>6.0</b>	<b>6.1</b>	<b>5.9</b>
Stronger sentiment, unchanged policy	4.8	5.3	5.7	5.7	5.6	5.0
Stronger sentiment, policy tightening	4.8	5.3	5.7	5.7	5.7	5.5
<i>PCE prices excluding food and energy</i>						
<b>Baseline</b>	<b>.3</b>	<b>3.0</b>	<b>1.6</b>	<b>1.5</b>	<b>1.5</b>	<b>1.3</b>
Stronger sentiment, unchanged policy	.3	3.0	1.6	1.5	1.6	1.5
Stronger sentiment, policy tightening	.3	3.0	1.6	1.5	1.5	1.3

1. Average for the final quarter of the period.

pessimistic than we have assumed. If so, the current slowdown might be less pronounced than we anticipate and the subsequent rebound more robust—particularly given the supportive monetary and fiscal policies built into the baseline outlook.

To illustrate this risk, this simulation eliminates the exogenous shock to consumer sentiment that we built into the baseline forecast. This more upbeat mood directly contributes to higher consumer spending and housing investment, particularly in the near term. It also prompts both stronger business investment and higher share prices (roughly 15 percent on the Wilshire by early next year relative to baseline). Under the Greenbook funds rate assumption (“stronger sentiment, unchanged policy”), these forces are sufficient to moderate the current-quarter decline in real GDP and to produce a more vigorous recovery thereafter: Starting in the second quarter of next year, real GDP growth averages close to 4-1/2 percent through the end of 2003. As a result, the unemployment rate peaks at 5-3/4 percent early next year and then falls to 5 percent by the end of the forecast period; core inflation remains roughly stable at just over 1-1/2 percent.

With growth appreciably stronger in this scenario, the Taylor rule calls for a 60-basis-point increase in the funds rate relative to baseline by the end of next year. As shown in the “stronger sentiment, policy tightening” scenario, this policy response moderates the strength of the recovery, causing the unemployment rate to settle at 5-1/2 percent in 2003. As a result, core inflation differs little from the baseline forecast.

**Alternative monetary policies.** The “easier monetary policy” scenario assumes that the funds rate is reduced an additional 50 basis points beyond what is incorporated in the baseline. Under this alternative, growth of real GDP would be stronger, with the unemployment rate declining to 5-1/2 percent by the end of 2003. If policy were to follow the “market-based funds rate” path embodied in current futures prices, real output growth would on average be a touch more subdued than in the baseline.

### 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>-4</b>	<b>-2.4</b>	<b>-.1</b>	<b>2.8</b>	<b>3.5</b>	<b>3.7</b>
Easier monetary policy	-4	-2.4	.1	3.1	3.9	4.2
Market-based funds rate	-4	-2.4	.1	3.1	3.7	3.3
<i>Civilian unemployment rate<sup>1</sup></i>						
<b>Baseline</b>	<b>4.8</b>	<b>5.4</b>	<b>5.9</b>	<b>6.0</b>	<b>6.1</b>	<b>5.9</b>
Easier monetary policy	4.8	5.4	5.9	6.0	6.0	5.5
Market-based funds rate	4.8	5.4	5.9	6.0	6.0	5.9
<i>PCE prices excluding food and energy</i>						
<b>Baseline</b>	<b>.3</b>	<b>3.0</b>	<b>1.6</b>	<b>1.5</b>	<b>1.5</b>	<b>1.3</b>
Easier monetary policy	.3	3.0	1.6	1.5	1.6	1.5
Market-based funds rate	.3	3.0	1.6	1.5	1.6	1.2

1. Average for the final quarter of the period.

Strictly Confidential <FR>  
Class II POMC

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

October 31, 2001

	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>		
Interval	09/27/01	10/31/01	09/27/01	10/31/01	09/27/01	10/31/01	09/27/01	10/31/01	09/27/01	10/31/01	
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	3.6	3.3	1.1	1.0	2.4	2.2	3.0	2.9	4.7	4.7	
2002	2.3	2.3	0.7	0.7	1.6	1.6	1.7	1.6	6.1	6.0	
2003	5.1	5.3	3.3	3.5	1.7	1.7	2.0	2.0	6.1	6.0	
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	2.4	0.4	0.3	2.2	2.1	3.0	3.0	4.5	4.5
	Q3	3.0	1.6	-0.6	-0.4	3.7	2.1	0.6	0.7	4.8	4.8
	Q4	-0.5	-2.0	-0.7	-2.4	0.1	0.4	1.6	0.3	5.4	5.4
2002	Q1	1.7	2.0	-0.1	-0.1	1.8	2.0	1.6	1.9	5.8	5.9
	Q2	2.9	4.5	1.4	2.8	1.5	1.7	1.8	2.1	6.1	6.0
	Q3	4.8	5.3	3.2	3.5	1.6	1.7	1.9	2.1	6.2	6.1
	Q4	5.1	5.2	3.5	3.5	1.6	1.6	1.9	2.0	6.2	6.1
2003	Q1	5.6	5.6	3.5	3.5	2.1	2.0	2.0	2.0	6.2	6.1
	Q2	5.2	5.3	3.5	3.7	1.7	1.5	2.0	1.9	6.2	6.0
	Q3	5.2	5.3	3.5	3.7	1.6	1.5	2.0	1.9	6.1	5.9
	Q4	5.2	5.3	3.5	3.8	1.6	1.5	2.0	1.9	6.0	5.9
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	3.6	3.5	0.8	0.8	2.7	2.7	3.6	3.6	0.5	0.5
	Q4	1.2	-0.2	-0.6	-1.4	1.9	1.2	1.1	0.5	0.9	0.9
2002	Q2	2.3	3.2	0.6	1.3	1.6	1.9	1.7	2.0	0.7	0.6
	Q4	5.0	5.2	3.3	3.5	1.6	1.6	1.9	2.1	0.1	0.1
2003	Q2	5.4	5.4	3.5	3.6	1.9	1.8	2.0	1.9	0.0	-0.1
	Q4	5.2	5.3	3.5	3.7	1.6	1.5	2.0	1.9	-0.2	-0.1
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	2.4	1.6	0.1	-0.3	2.3	2.0	2.4	2.0	1.4	1.4
2002	Q4	3.6	4.2	2.0	2.4	1.6	1.8	1.8	2.0	0.9	0.7
2003	Q4	5.3	5.4	3.5	3.7	1.7	1.6	2.0	1.9	-0.2	-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 <PR>  
Class II FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES  
(Seasonally adjusted annual rate)

October 31, 2001

Item	Units <sup>1</sup>	-----Projected-----								
		1995	1996	1997	1998	1999	2000	2001	2002	2003
EXPENDITURES										
Nominal GDP	Bill. \$	7400.5	7813.2	8318.4	8781.5	9268.6	9872.9	10194.8	10426.5	10977.9
Real GDP	Bill. Ch. \$	7543.8	7813.2	8159.5	8508.9	8856.5	9224.0	9320.7	9381.5	9713.6
Real GDP	% change	2.2	4.1	4.3	4.8	4.4	2.8	-0.3	2.4	3.7
Gross domestic purchases		1.7	4.3	5.0	5.8	5.3	3.5	-0.5	3.0	4.2
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	-0.3	1.9	3.9
Personal cons. expenditures		2.8	3.1	4.1	5.0	5.2	4.2	2.1	2.0	3.2
Durables		3.7	5.0	8.8	12.7	11.3	5.3	7.4	0.1	6.1
Nondurables		2.5	3.2	2.5	5.0	5.0	3.6	0.7	2.0	2.5
Services		2.7	2.7	3.9	3.6	4.0	4.3	1.7	2.5	2.9
Business fixed investment		7.5	12.1	11.8	12.3	7.4	8.9	-12.8	1.2	9.2
Equipment & Software		8.9	11.8	13.7	14.9	11.2	8.3	-13.2	4.1	12.3
Nonres. structures		3.3	12.8	6.5	4.9	-3.6	10.8	-11.4	-6.4	0.2
Residential structures		-1.5	5.6	3.5	10.0	3.4	-1.2	-0.5	1.9	2.4
Exports		9.7	9.8	8.5	2.3	4.5	7.0	-8.4	1.9	6.8
Imports		5.0	11.2	14.3	10.8	11.5	11.3	-7.4	6.7	9.8
Gov't. cons. & investment		-0.8	2.7	2.4	2.7	4.0	1.2	5.0	3.5	3.1
Federal		-5.3	2.0	0.1	0.6	4.5	-1.4	4.5	4.8	2.1
Defense		-4.7	0.8	-1.4	-0.8	4.7	-2.2	5.1	3.0	2.3
State & local		2.1	3.0	3.7	3.8	3.7	2.5	5.2	2.8	3.6
Change in bus. inventories	Bill. Ch. \$	--	--	63.8	76.7	62.1	50.6	-46.9	-13.7	47.1
Nonfarm		41.9	21.2	60.6	75.0	63.5	52.3	-45.0	-13.7	46.1
Net exports		-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-401.4	-448.7	-533.4
Nominal GDP	% change	4.3	6.0	6.2	6.0	6.0	5.3	1.6	4.2	5.4
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	117.2	119.6	122.7	125.8	128.9	131.8	132.3	131.6	133.4
Unemployment rate	%	5.6	5.4	4.9	4.5	4.2	4.0	4.7	6.0	6.0
Industrial prod. index	% change	3.6	5.6	7.2	3.2	5.1	4.2	-6.7	2.3	4.3
Capacity util. rate - mfg.	%	82.5	81.6	82.7	81.3	80.5	81.3	75.4	72.3	75.0
Housing starts	Millions	1.35	1.48	1.47	1.62	1.64	1.57	1.59	1.61	1.68
Light motor vehicle sales		14.77	15.05	15.06	15.43	16.78	17.25	16.48	14.66	15.69
North Amer. produced		12.87	13.34	13.12	13.41	14.30	14.39	13.52	11.92	12.77
Other		1.90	1.70	1.93	2.02	2.48	2.86	2.95	2.74	2.92
INCOME AND SAVING										
Nominal GNP	Bill. \$	7420.9	7831.2	8325.4	8778.1	9261.8	9860.8	10185.9	10424.1	10978.1
Nominal GNP	% change	4.4	5.9	6.0	5.8	6.0	5.4	1.5	4.2	5.4
Nominal personal income		4.3	5.9	6.3	6.7	4.8	7.3	3.1	4.2	4.7
Real disposable income		1.7	2.6	3.8	5.0	2.1	4.0	2.2	3.7	2.9
Personal saving rate	%	5.6	4.8	4.2	4.7	2.4	1.0	1.8	3.3	3.0
Corp. profits, IVA & CCAdj.	% change	11.3	11.4	9.9	-9.6	11.3	-1.2	-19.4	5.6	6.2
Profit share of GNP	%	9.0	9.6	10.0	8.9	8.9	8.9	7.2	6.7	6.8
Excluding FR Banks		8.7	9.4	9.7	8.6	8.6	8.6	6.9	6.4	6.5
Federal surpl./deficit	Bill. \$	-192.0	-136.8	-53.3	43.8	119.2	218.6	114.5	-61.2	3.2
State & local surpl./def.		15.3	21.4	31.0	40.7	42.1	32.8	16.8	9.7	7.2
Ex. social ins. funds		11.4	18.7	29.9	40.0	41.7	33.1	17.0	10.0	7.5
Gross natl. saving rate	%	16.9	17.2	18.0	18.8	18.4	18.1	16.9	16.3	17.0
Net natl. saving rate		5.1	5.7	6.7	7.5	6.8	6.3	4.2	3.5	4.1
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.1	1.9	1.8	1.1	1.6	2.4	2.0	1.8	1.6
Gross Domestic Purchases										
chn.-wt. price index		2.1	1.9	1.4	0.8	1.9	2.5	1.3	1.7	1.6
PCE chn.-wt. price index		2.1	2.3	1.5	1.1	2.0	2.6	1.4	1.5	1.4
Ex. food and energy		2.3	1.8	1.7	1.6	1.5	1.9	1.6	1.5	1.3
CPI		2.7	3.2	1.9	1.5	2.6	3.4	2.0	2.0	1.9
Ex. food and energy		3.0	2.6	2.2	2.4	2.0	2.5	2.7	2.2	2.0
ECI, hourly compensation <sup>2</sup>		2.6	3.1	3.4	3.5	3.4	4.4	4.0	3.3	3.2
Nonfarm business sector										
Output per hour		1.1	2.3	2.3	2.9	2.8	2.3	0.7	2.0	2.2
Compensation per Hour		2.6	3.2	3.5	5.3	4.3	7.4	4.6	4.0	3.5
Unit labor cost		1.5	0.9	1.1	2.3	1.5	5.0	3.9	2.0	1.3

1. Changes are from fourth quarter to fourth quarter.

2. 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)

October 31, 2001

Item	Units	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	9093.1	9161.4	9297.4	9522.5	9668.7	9857.6	9937.5	10027.9	10141.7	10202.6
Real GDP	Bill. Ch. \$	8733.5	8771.2	8871.5	9049.9	9102.5	9229.4	9260.1	9303.9	9334.5	9341.7
Real GDP	% change	3.1	1.7	4.7	8.3	2.3	5.7	1.3	1.9	1.3	0.3
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	0.7
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	0.3
Services		4.1	4.5	4.3	3.2	3.7	4.4	3.5	5.6	1.8	2.8
Business fixed investment		6.0	7.7	10.2	5.8	15.8	12.2	7.1	1.0	-0.2	-14.6
Equipment & Software		10.5	11.9	16.2	6.4	18.1	12.4	4.7	-1.1	-4.1	-15.4
Nonres. structures		-6.5	-4.3	-7.0	4.0	8.8	11.8	15.2	7.6	12.3	-12.2
Residential structures		10.3	3.0	-0.8	1.6	8.5	-0.8	-10.4	-1.1	8.5	5.9
Exports		-6.8	4.2	9.7	12.1	9.0	13.5	10.6	-4.0	-1.2	-11.9
Imports		8.4	13.3	13.8	10.5	17.1	16.4	13.0	-0.5	-5.0	-8.4
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	1.8
Defense		-3.5	-3.5	12.8	14.3	-20.0	15.4	-10.4	10.5	7.5	2.3
State & local		5.2	1.4	2.9	5.4	5.6	-1.1	3.0	2.7	6.4	6.6
Change in bus. inventories	Bill. Ch. \$	83.4	32.7	39.6	92.7	28.9	78.9	51.7	42.8	-27.1	-38.3
Nonfarm		78.7	34.2	52.2	88.7	37.8	75.1	56.6	39.7	-27.3	-35.8
Net exports		-283.0	-313.4	-333.3	-337.8	-371.1	-392.8	-411.2	-421.1	-404.5	-406.7
Nominal GDP	% change	4.9	3.0	6.1	10.0	6.3	8.0	3.3	3.7	4.6	2.4
<b>EMPLOYMENT AND PRODUCTION</b>											
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
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	9089.5	9157.0	9283.8	9517.0	9650.7	9841.0	9919.4	10032.1	10131.3	10190.9
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	3.5
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	-14.3
Profit share of GNP	%	9.2	8.8	8.6	9.0	9.0	9.1	9.0	8.4	7.8	7.5
Excluding FR Banks	%	8.9	8.6	8.3	8.7	8.7	8.8	8.7	8.1	7.5	7.2
Federal surpl./deficit	Bill. \$	85.2	116.5	132.0	143.1	212.8	209.1	229.9	222.5	205.3	186.7
State & local surpl./def.		48.9	36.2	38.3	44.9	33.2	34.7	34.8	28.6	22.3	21.3
Ex. social ins. funds		48.4	35.8	38.0	44.7	33.3	34.9	35.1	29.1	22.6	21.4
Gross natl. saving rate	%	19.0	18.5	18.3	18.0	18.0	18.3	18.2	17.9	17.3	17.2
Net natl. saving rate		7.6	6.9	6.4	6.3	6.3	6.6	6.4	6.0	5.1	4.6
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	1.7	1.4	1.4	1.8	3.8	2.1	1.9	1.8	3.3	2.1
Gross Domestic Purchases		1.5	2.0	2.0	2.2	4.2	1.9	2.3	1.7	2.7	1.3
chn.-wt. price index											
PCE chn.-wt. price index		1.3	2.0	2.2	2.4	4.0	2.1	2.4	2.0	3.2	1.3
Ex. food and energy		1.4	1.2	1.5	1.8	2.9	1.7	1.6	1.5	2.6	0.7
CPI		1.7	2.7	2.9	3.1	4.3	2.8	3.5	3.0	4.2	3.0
Ex. food and energy		1.8	2.1	1.8	2.5	2.5	2.7	2.5	2.4	3.1	2.6
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											
Output per hour		2.4	-1.4	3.0	7.4	-0.6	6.3	1.4	2.3	0.1	2.0
Compensation per hour		3.8	4.2	5.2	4.2	6.2	7.6	7.1	8.9	5.1	4.5
Unit labor cost		1.3	5.6	2.1	-2.9	6.8	1.2	5.6	6.4	5.0	2.7

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)

October 31, 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. \$	10243.0	10191.8	10241.6	10354.6	10488.2	10621.7	10766.2	10906.3	11047.7	11191.5
Real GDP	Bill. Ch. \$	9331.8	9274.7	9273.0	9336.1	9417.6	9499.1	9581.0	9668.7	9757.3	9847.5
Real GDP	% change	-0.4	-2.4	-0.1	2.8	3.5	3.5	3.5	3.7	3.7	3.8
Gross domestic purchases		-0.8	-2.1	0.4	3.6	4.3	3.8	4.2	4.3	4.2	3.8
Final sales		0.1	-1.6	-1.3	2.3	2.5	2.9	3.0	3.0	3.2	3.7
Priv. dom. final purchases		-0.7	-3.2	-1.6	3.0	3.2	3.1	3.9	3.8	3.8	4.0
Personal cons. expenditures		1.4	1.3	-0.6	3.7	2.8	2.3	3.0	3.0	3.2	3.3
Durables		2.8	9.1	-22.4	10.8	10.1	5.9	5.7	5.5	6.4	6.6
Nondurables		0.8	-0.8	2.3	2.4	1.5	1.7	2.3	2.4	2.6	2.7
Services		1.4	0.8	2.9	3.0	2.0	1.9	2.9	2.9	3.0	3.0
Business fixed investment		-12.7	-22.3	-6.3	-1.0	5.2	7.8	9.1	8.9	8.8	10.1
Equipment & Software		-12.8	-19.8	-4.6	1.2	8.9	11.7	12.6	12.2	11.6	13.1
Nonres. structures		-12.1	-28.7	-11.0	-7.0	-4.7	-2.8	-0.5	-0.4	0.6	1.3
Residential structures		1.8	-16.2	-5.8	3.0	5.7	5.4	5.2	3.6	1.1	-0.1
Exports		-16.3	-3.2	-3.3	1.1	3.3	6.5	3.9	6.6	7.3	9.6
Imports		-15.2	-0.6	1.0	8.3	9.7	8.0	9.3	10.8	10.5	8.6
Gov't. cons. & investment		1.7	7.9	2.8	4.0	3.6	3.5	3.0	3.2	3.3	2.9
Federal		4.5	8.7	3.5	6.4	6.3	3.2	2.0	2.2	2.3	1.8
Defense		5.0	5.6	2.7	3.6	3.4	2.2	1.8	2.6	2.6	2.0
State & local		0.4	7.5	2.4	2.8	2.3	3.6	3.5	3.6	3.7	3.5
Change in bus. inventories	Bill. Ch. \$	-50.9	-71.3	-38.8	-28.4	-1.5	14.0	25.9	43.9	58.3	60.4
Nonfarm		-47.3	-69.4	-37.3	-28.9	-2.1	13.4	25.3	42.8	57.2	59.0
Net exports		-393.9	-400.3	-412.7	-439.0	-465.4	-478.0	-502.6	-526.4	-547.8	-556.7
Nominal GDP	% change	1.6	-2.0	2.0	4.5	5.3	5.2	5.6	5.3	5.3	5.3
EMPLOYMENT AND PRODUCTION											
arm payroll employment	Millions	132.3	131.7	131.2	131.4	131.7	132.1	132.6	133.1	133.6	134.2
ployment rate	%	4.8	5.4	5.9	6.0	6.1	6.1	6.1	6.0	5.9	5.9
Industrial prod. index	% change	-6.2	-9.5	-3.4	2.4	5.0	5.2	4.5	4.3	4.2	4.3
Capacity util. rate - mfg.	%	74.7	72.5	71.5	71.8	72.6	73.4	74.1	74.7	75.3	76.0
Housing starts	Millions	1.59	1.51	1.56	1.59	1.63	1.66	1.68	1.68	1.68	1.67
Light motor vehicle sales		16.12	16.25	13.95	14.33	15.03	15.32	15.49	15.60	15.76	15.90
North Amer. produced		13.15	13.37	11.32	11.64	12.25	12.47	12.60	12.69	12.83	12.95
Other		2.97	2.88	2.63	2.69	2.78	2.85	2.89	2.91	2.93	2.95
INCOME AND SAVING											
Nominal GNP	Bill. \$	10234.5	10187.1	10239.0	10352.0	10485.4	10620.0	10765.6	10907.6	11048.3	11191.0
Nominal GNP	% change	1.7	-1.8	2.1	4.5	5.3	5.2	5.6	5.4	5.3	5.3
Nominal personal income		2.7	0.3	4.8	3.6	4.1	4.5	4.8	4.7	4.7	4.5
Real disposable income		12.6	-7.8	11.7	-1.3	2.2	2.5	3.4	2.8	2.9	2.6
Personal saving rate	%	3.7	1.4	4.2	3.1	3.0	3.0	3.1	3.1	3.0	2.9
Corp. profits, IVA & CCAdj.	% change	-29.1	-7.6	-4.6	10.1	11.6	6.0	5.7	7.9	5.2	5.8
Profit share of GNP	%	6.8	6.7	6.6	6.7	6.8	6.8	6.8	6.8	6.8	6.8
Excluding FR Banks		6.5	6.4	6.3	6.4	6.5	6.5	6.5	6.5	6.5	6.6
Federal surpl./deficit	Bill. \$	-21.9	87.9	-110.3	-53.8	-41.5	-39.2	-23.6	-4.2	14.0	26.7
State & local surpl./def.		16.5	7.0	4.8	8.4	12.3	13.5	12.7	8.6	6.5	1.0
Ex. social ins. funds		16.6	7.4	5.1	8.7	12.6	13.8	13.0	8.9	6.8	1.3
Gross natl. saving rate	%	17.0	15.9	16.3	16.2	16.4	16.5	16.8	17.0	17.1	17.1
Net natl. saving rate		3.8	3.1	3.5	3.3	3.5	3.6	3.9	4.0	4.2	4.1
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.1	0.4	2.0	1.7	1.7	1.6	2.0	1.5	1.5	1.5
Gross Domestic Purchases		-0.3	1.4	1.9	1.6	1.6	1.6	1.9	1.5	1.5	1.5
chn.-wt. price index											
PCE chn.-wt. price index		-0.4	1.4	1.4	1.6	1.6	1.5	1.4	1.4	1.4	1.4
Ex. food and energy		0.3	3.0	1.6	1.5	1.5	1.4	1.4	1.3	1.3	1.3
CPI		0.7	0.3	1.9	2.1	2.1	2.0	2.0	1.9	1.9	1.9
Ex. food and energy		2.6	2.5	2.4	2.2	2.2	2.1	2.1	2.0	2.0	2.0
hourly compensation <sup>1</sup>		3.7	3.8	3.5	3.3	3.3	3.3	3.3	3.2	3.2	3.2
arm business sector											
Output per hour		2.4	-1.6	0.3	2.4	3.0	2.4	2.1	2.4	2.1	2.2
Compensation per hour		4.0	4.7	4.4	4.2	3.9	3.8	3.7	3.6	3.5	3.4
Unit labor cost		1.6	6.3	4.1	1.8	0.9	1.4	1.6	1.2	1.4	1.2

1. Private-industry workers.



CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

October 31, 2001

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	0.3	-0.4	4.4	2.8	-0.3
Gross dom. purchases	5.4	8.4	3.6	6.5	2.0	2.3	0.7	0.4	-0.8	5.4	3.6	-0.5
Final sales	4.2	6.2	4.7	3.9	2.3	2.4	3.9	0.7	0.1	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	-0.3
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	1.4
Durables	0.7	1.1	1.5	-0.2	0.7	-0.2	0.8	0.6	0.2	0.9	0.4	0.6
Nondurables	0.5	1.5	1.0	1.0	0.8	0.1	0.5	0.1	0.2	1.0	0.7	0.1
Services	1.7	1.4	1.5	1.8	1.4	2.2	0.7	1.1	0.6	1.6	1.7	0.7
Business fixed investment	1.3	0.8	1.9	1.5	0.9	0.1	-0.0	-2.0	-1.6	0.9	1.1	-1.7
Equipment & Software	1.5	0.6	1.6	1.2	0.5	-0.1	-0.4	-1.6	-1.2	1.0	0.8	-1.3
Nonres. structures	-0.2	0.1	0.3	0.4	0.5	0.2	0.4	-0.4	-0.4	-0.1	0.3	-0.4
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	0.4	-1.0	-0.8	0.2
Exports	1.0	1.3	1.0	1.4	1.1	-0.5	-0.1	-1.4	-1.8	0.5	0.8	-0.9
Imports	-1.8	-1.4	-2.3	-2.3	-1.8	0.1	0.8	1.3	2.3	-1.5	-1.6	1.1
Government cons. & invest.	0.8	1.5	-0.2	0.8	-0.3	0.6	0.9	0.9	0.3	0.7	0.2	0.9
Federal	0.4	0.9	-0.8	0.9	-0.7	0.3	0.2	0.1	0.3	0.3	-0.1	0.3
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	0.0	0.4	0.3	0.6
Change in bus. inventories	0.4	2.2	-2.3	1.8	-1.0	-0.5	-2.6	-0.4	-0.5	0.2	-0.5	-1.1
Nonfarm	0.9	1.5	-2.0	1.5	-0.8	-0.7	-2.6	-0.3	-0.4	0.1	-0.5	-1.1
Farm	-0.4	0.6	-0.3	0.3	-0.2	0.2	0.0	-0.1	-0.1	0.0	-0.0	-0.0

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

October 31, 2001

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	-2.4	-0.1	2.8	3.5	3.5	3.5	3.7	3.7	3.8	-0.3	2.4	3.7
Gross dom. purchases	-2.2	0.4	3.7	4.4	3.9	4.3	4.5	4.4	4.0	-0.5	3.1	4.3
Final sales	-1.6	-1.3	2.4	2.5	2.9	3.0	3.1	3.2	3.7	0.8	1.6	3.2
Priv. dom. final purchases	-2.7	-1.4	2.6	2.7	2.7	3.3	3.2	3.2	3.4	-0.3	1.6	3.3
Personal cons. expenditures	0.9	-0.4	2.5	1.9	1.6	2.1	2.1	2.2	2.3	1.4	1.4	2.2
Durables	0.7	-2.1	0.8	0.8	0.5	0.5	0.4	0.5	0.5	0.6	0.0	0.5
Nondurables	-0.2	0.5	0.5	0.3	0.3	0.5	0.5	0.5	0.5	0.1	0.4	0.5
Services	0.3	1.2	1.2	0.9	0.8	1.2	1.2	1.2	1.2	0.7	1.0	1.2
Business fixed investment	-2.9	-0.7	-0.1	0.6	0.8	1.0	1.0	0.9	1.1	-1.7	0.1	1.0
Equipment & Software	-1.9	-0.4	0.1	0.7	0.9	1.0	1.0	0.9	1.1	-1.3	0.3	1.0
Nonres. structures	-1.0	-0.3	-0.2	-0.1	-0.1	-0.0	-0.0	0.0	0.0	-0.4	-0.2	0.0
Residential structures	-0.8	-0.3	0.1	0.2	0.2	0.2	0.2	0.1	-0.0	-0.0	0.1	0.1
Net exports	-0.3	-0.5	-0.9	-0.9	-0.4	-0.8	-0.8	-0.7	-0.2	0.2	-0.7	-0.6
Exports	-0.3	-0.3	0.1	0.3	0.6	0.4	0.6	0.7	0.9	-0.9	0.2	0.7
Imports	0.1	-0.1	-1.0	-1.2	-1.0	-1.2	-1.4	-1.4	-1.2	1.1	-0.9	-1.3
Government cons. & invest.	1.4	0.5	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.9	0.6	0.6
Federal	0.5	0.2	0.4	0.4	0.2	0.1	0.1	0.2	0.1	0.3	0.3	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	0.3	0.1	0.3	0.3	0.1	0.1	0.0	0.0	0.0	0.1	0.2	0.0
State and local	0.9	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	-0.8	1.3	0.4	1.0	0.6	0.4	0.7	0.5	0.1	-1.1	0.8	0.4
Nonfarm	-0.9	1.3	0.3	1.0	0.6	0.4	0.7	0.5	0.1	-1.1	0.8	0.4
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 <sup>a</sup>	2002	2003	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget</b>					Not seasonally adjusted											
Receipts <sup>2</sup>	2025	1990	1986	2063	460	660	409	474	419	621	473	454	455	651	503	488
Outlays <sup>2</sup>	1789	1863	1984	2049	482	467	451	501	501	494	488	521	514	510	504	537
Surplus/deficit <sup>2</sup>	236	127	2	14	-22	194	-42	-27	-82	127	-15	-68	-60	142	-0	-48
On-budget	87	-34	-161	-165	-88	119	-51	-77	-108	54	-30	-122	-88	63	-19	-110
Off-budget	150	161	163	179	65	75	10	49	26	72	16	54	28	79	18	61
Surplus excluding deposit insurance	233	126	0	12	-23	193	-42	-28	-83	126	-15	-68	-60	141	-1	-49
<b>Means of financing</b>																
Borrowing	-223	-90	19	-1	24	-157	69	34	76	-97	6	52	62	-104	-11	33
Cash decrease	4	8	-1	0	-7	-15	-1	15	-3	-28	15	20	-5	-30	15	15
Other <sup>3</sup>	-18	-45	-21	-13	6	-21	-26	-22	9	-2	-6	-4	2	-8	-3	-0
Cash operating balance, end of period	53	44	45	45	28	44	44	30	32	60	45	25	30	60	45	30
<b>NIPA federal sector</b>					Seasonally adjusted annual rates											
Receipts	2012	2043	1965	2063	2087	2092	1916	2030	1885	1957	1987	2019	2047	2077	2109	2145
Expenditures	1813	1895	1994	2076	1882	1905	1937	1942	1995	2011	2028	2058	2070	2082	2095	2118
Consumption expenditures	492	507	547	584	508	510	517	528	544	554	564	570	585	589	593	597
Defense	322	337	357	375	338	340	345	347	356	360	363	366	375	378	381	383
Nondefense	170	170	191	210	169	171	172	181	188	194	201	204	210	211	213	214
Other spending	1321	1388	1446	1492	1375	1395	1420	1414	1451	1456	1464	1488	1485	1493	1502	1521
Current account surplus	199	148	-29	-13	205	187	-21	88	-110	-54	-42	-39	-24	-4	14	27
Gross investment	96	100	106	111	98	100	100	104	105	107	108	109	110	111	113	114
Current and capital account surplus	102	49	-136	-124	108	87	-122	-16	-216	-161	-150	-148	-134	-116	-99	-87
<b>Fiscal indicators<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-9	-22	-110	-98	21	23	-156	-16	-189	-125	-112	-114	-107	-92	-79	-72
Change in HEB, percent of potential GDP	-8	.1	.8	-.2	0	-0	2	-1	2	-6	-.1	0	-.1	-.1	-.1	-.1
Fiscal impetus (FI) percent, calendar year	2	11	25	9	4	3	12	-5	17	5	1	1	3	2	2	2

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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 August 2001 baseline surplus estimates are \$187 billion in FY 2002 and \$211 billion in FY 2003. CBO's August 2001 baseline surplus estimates, assuming discretionary spending grows with inflation beginning in FY 2002, are \$176 billion in FY 2002 and \$172 billion in FY 2003. 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)

October 31, 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	5.2	-0.9	6.6	7.7	9.5	4.4	5.5	6.2	1.6
2002	4.3	1.1	5.0	5.7	7.4	1.3	4.6	2.8	4.2
2003	4.4	-0.6	5.5	6.4	7.6	3.9	4.9	2.6	5.4
<i>Quarter</i>									
2001:1	5.5	-0.1	6.7	7.8	7.8	10.1	5.4	7.8	4.6
2	5.4	-7.6	8.3	9.2	11.4	4.5	7.2	8.4	2.4
3	5.7	7.7	5.3	7.0	9.5	1.5	3.8	3.3	1.6
4	3.8	-3.5	5.4	6.0	8.1	1.4	4.9	4.8	-2.0
2002:1	5.1	6.2	4.8	5.3	7.6	0.1	4.5	3.9	2.0
2	3.8	-0.4	4.7	5.4	7.1	0.6	4.4	3.0	4.5
3	4.1	0.1	4.9	5.7	7.0	2.0	4.5	2.1	5.3
4	3.9	-1.4	5.0	5.9	7.1	2.6	4.6	2.1	5.2
2003:1	5.2	4.4	5.4	6.2	7.4	3.2	4.9	2.6	5.6
2	4.2	-1.2	5.3	6.1	7.3	3.6	4.9	2.6	5.3
3	4.2	-1.9	5.4	6.3	7.4	4.1	4.8	2.6	5.3
4	3.9	-3.6	5.4	6.4	7.4	4.5	4.8	2.6	5.3

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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 5.3 percent in 2001, 4.3 percent in 2002, and 4.4 percent in 2003.

3. On a monthly average basis, federal debt is projected to grow -1.6 percent in 2001, 0.9 percent in 2002, and -0.3 percent in 2003.

4. On a monthly average basis, nonfederal debt is projected to grow 6.9 percent in 2001, 5.0 percent in 2002, and 5.4 percent in 2003.

2.6.3 FOF

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	886.7	824.0	920.7	967.2	959.7	961.0	659.1	949.7	746.5	812.5	787.2
2 Net equity issuance	-166.6	-62.8	0.3	30.0	-33.9	-35.2	-114.0	-68.0	-22.0	1.0	14.0	8.0
3 Net debt issuance	869.1	949.5	823.7	890.7	1001.1	994.9	1075.0	727.1	971.7	745.5	798.5	779.2
<i>Borrowing sectors</i>												
<i>Nonfinancial business</i>												
4 Financing gap <sup>1</sup>	306.9	230.0	164.4	234.7	304.2	252.3	183.1	180.7	170.3	141.8	156.9	188.7
5 Net equity issuance	-166.6	-62.8	0.3	30.0	-33.9	-35.2	-114.0	-68.0	-22.0	1.0	14.0	8.0
6 Credit market borrowing	594.8	357.5	316.5	357.7	355.8	480.0	259.7	334.5	311.0	305.3	318.7	330.7
<i>Households</i>												
7 Net borrowing <sup>2</sup>	543.0	543.2	432.3	516.1	549.5	660.9	516.0	446.5	400.5	413.8	446.6	468.5
8 Home mortgages	377.3	468.1	398.1	437.4	385.1	572.1	490.2	425.0	408.6	389.8	389.6	404.5
9 Consumer credit	132.3	69.7	21.8	64.7	158.1	72.8	24.5	23.4	1.0	10.6	32.7	43.0
10 Debt/DPI (percent) <sup>3</sup>	96.5	98.8	101.0	102.9	97.8	98.9	98.1	101.3	99.6	100.9	101.3	101.8
<i>State and local governments</i>												
11 Net borrowing	27.2	79.7	38.4	36.4	100.1	110.1	43.7	64.8	53.4	41.4	29.4	29.4
12 Current surplus <sup>4</sup>	191.9	197.4	200.4	210.6	189.8	192.9	216.9	190.2	190.9	197.4	204.4	208.8
<i>Federal government</i>												
13 Net borrowing	-295.9	-30.8	36.6	-19.5	-4.3	-256.0	255.7	-118.7	206.9	-15.0	3.8	-49.3
14 Net borrowing (quarterly, n.s.a.)	-295.9	-30.8	36.6	-19.5	23.7	-157.4	68.6	34.3	76.5	-97.1	5.7	51.6
15 Unified deficit (quarterly, n.s.a.)	-254.8	-102.1	37.9	-33.1	22.5	-193.7	41.8	27.4	82.4	-126.8	14.8	67.5
<i>Depository institutions</i>												
16 Funds supplied	445.3	207.3	235.0	282.8	209.1	239.1	166.2	214.9	161.8	230.8	276.8	270.8
<i>Memo (percentage of GDP)</i>												
17 Domestic nonfinancial debt <sup>5</sup>	180.7	184.0	188.5	186.8	181.6	182.9	184.7	187.9	189.0	189.0	188.5	188.0
18 Domestic nonfinancial borrowing	8.8	9.3	7.9	8.1	9.9	9.8	10.5	7.1	9.5	7.2	7.6	7.3
19 Federal government <sup>6</sup>	-3.0	-0.3	0.4	-0.2	-0.0	-2.5	2.5	-1.2	2.0	-0.1	0.0	-0.5
20 Nonfederal	11.8	9.6	7.5	8.3	9.9	12.3	8.0	8.3	7.5	7.3	7.6	7.8

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

Foreign economic activity appears to be contracting during the second half of this year, as the ongoing slowdown in the global economy has been exacerbated by uncertainty following the events of September 11. Although we still have little hard information on foreign real output after August, anecdotal reports and confidence indicators suggest some negative effect on both employment and sentiment. In addition, the anticipated contraction in U.S. activity in the second half of this year is expected to depress foreign exports. However, foreign equity markets have rebounded to levels close to those before September 11, relieving concerns about a substantial additional negative wealth effect.

We expect that some support from both monetary and fiscal policy as well as the lower level of oil prices will lead to a small positive rate of growth in foreign activity by early 2002. Growth is then expected to improve gradually to rates close to potential later in the year as the U.S. economy revives. Nevertheless, in most parts of the world, sizable negative output gaps are expected to persist through 2003, and inflation should remain muted. This forecast is somewhat weaker than our previous projection.

### 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	5.4	2.9	.0	-.5	2.1	3.4
<i>September GB</i>	5.5	2.7	.1	.0	2.4	3.4
Foreign CPI	2.2	3.4	2.5	1.7	2.1	2.3
<i>September GB</i>	2.2	3.4	2.5	2.0	2.2	2.3

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

We continue to expect oil prices to edge down over the next two years, in line with futures quotes, although the projection's endpoint is a bit higher than in the September Greenbook. We are projecting the dollar to change little over the forecast period, in contrast to the small decline assumed in the previous forecast. We expect the arithmetic contribution of the external sector to U.S. GDP growth to be a little more negative in both 2002 and 2003 than it was in the previous forecast. After declining sharply this year, both exports and imports should pick up next year and show further expansion in 2003.

**International financial markets.** Foreign short-term interest rates in the major industrial countries generally declined during the intermeeting period, most

expect real GDP to increase at an average annual rate of about 2 percent in 2002 and 3½ percent in 2003.

**Prices of internationally traded goods.** The prices of both imported non-oil goods and core goods fell about 6 percent at an annual rate in the third quarter, similar to the rate of decline in the second quarter. The declines were led by decreases in the price of imported industrial supplies, with smaller price declines recorded in all other major trade categories. Import prices should continue declining in the fourth quarter, largely because of near-term weakness in materials prices. Next year, core import prices are projected to begin to rise as primary commodity prices move back up and foreign inflation rates rise slightly.

The price of U.S. core goods exports declined about 1½ percent at an annual rate in the third quarter, a bit more than in the second quarter, as a larger drop in the price of exported industrial supplies was only partly offset by a swing from negative to positive in the change in the price of agricultural exports. Core goods export prices are projected to continue to decline through the first quarter of 2002 and then to rise at less than a 1 percent pace over the remainder of the forecast period, reflecting the very moderate increases projected for U.S. goods prices.

### 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	-2.0	.6	.8
<i>Imports</i>						
Non-oil core goods	1.7	1.5	-1.5	-4.2	.6	1.3
Oil (dollars per barrel)	26.18	28.87	24.21	20.23	19.64	19.05

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.

**Trade in goods and services.** The U.S. trade deficit in goods and services for July and August combined was \$338 billion (s.a.a.r.), considerably smaller than that for the second quarter, as imports fell more than exports. The average value of imports for the two months was down 14 percent at an annual rate from the

an increase in domestic consumption from fiscal stimulus. As the recovery in U.S. activity takes hold in 2002, imports should begin to rise again in the first quarter and rebound more robustly thereafter. Specifically, we project that imports will grow at a 8½ percent annual rate through the last three quarters of 2002 and at a 10 percent pace in 2003. The lagged effects on relative prices of the dollar's appreciation over the past six quarters provide some 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	-10.0	1.9	6.8
<i>September GB</i>	<i>11.2</i>	<i>3.0</i>	<i>-6.7</i>	<i>-9.7</i>	<i>3.1</i>	<i>6.8</i>
Real imports	16.8	6.0	-6.7	-8.2	6.7	9.8
<i>September GB</i>	<i>16.8</i>	<i>6.0</i>	<i>-6.8</i>	<i>-4.9</i>	<i>5.0</i>	<i>8.3</i>

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

Exports of real goods and services are estimated to have declined at a double-digit rate in the third quarter for the second consecutive quarter. The drop in exports of high-tech goods and other capital equipment has been particularly pronounced as global investment has weakened markedly. Looking ahead, we expect export growth to remain slightly negative through the first quarter of 2002 in response to projected sluggish foreign activity, the lagged effects of past dollar appreciation, and subdued exports of services (particularly travel and passenger fares). As foreign growth recovers, exports of goods and services should rebound, growing 3¼ percent through the last three quarters of 2002 and picking up to 7 percent in 2003.



**Alternative Scenario: More Expansionary Fiscal Policy 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	-1.4	1.3	3.5	3.6	3.7
Alternative scenario					
Fixed real rates	-1.4	1.7	3.8	3.8	3.9
Taylor rule	-1.4	1.6	3.5	3.6	3.7
<i>U.S. PCE prices excl. food and energy</i>					
Baseline	1.6	1.6	1.5	1.4	1.3
Alternative scenario					
Fixed real rates	1.6	1.6	1.5	1.5	1.5
Taylor rule	1.6	1.6	1.6	1.5	1.4

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

1. Foreign policy follows a Taylor rule and U.S. policy keeps real rates fixed.

**Stronger dollar.** In this scenario, there is a shock to the risk premium on U.S. assets (relative to foreign assets) that would raise the value of the real dollar by 10 percent immediately if both domestic and foreign real interest rates remained unchanged. Again, we consider two monetary policy responses for the United States. In the first, the United States has a fixed real rate, whereas major foreign industrial countries follow a Taylor rule. In the second, both foreign and U.S. monetary policies follow a Taylor rule. In the first case, real GDP growth falls 0.3 percentage point on average in both 2002 and 2003. Core price inflation falls a few tenths below baseline for most of the simulation period. In the Taylor rule case, the response of U.S. GDP and core prices is more muted. Real GDP growth is down only about 0.2 percentage point from baseline growth on average in 2002, while core price inflation does not drop as much as in the fixed real rate case. In this case, the federal funds rate is down 60 basis points by the second half of 2002 relative to the baseline and is lower by about 25 basis points at the end of 2003.

**Alternative Scenario: Ten Percent Dollar Appreciation**

(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	-1.4	1.3	3.5	3.6	3.7
Alternative scenario					
Fixed real rates	-1.5	1.0	3.2	3.2	3.5
Taylor rule	-1.5	1.1	3.4	3.6	3.7
<i>U.S. PCE prices excl. food and energy</i>					
Baseline	1.6	1.6	1.5	1.4	1.3
Alternative scenario					
Fixed real rates	1.6	1.3	1.1	1.2	1.2
Taylor rule	1.6	1.3	1.2	1.3	1.3

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

1. Foreign policy follows a Taylor rule and U.S. policy keeps real rates fixed.

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
REAL GDP (1)									
-----									
Total foreign	2.4	4.0	4.2	1.4	4.8	4.1	-0.2	2.1	3.4
Industrial Countries	2.0	2.6	3.5	2.6	3.8	3.1	0.3	1.8	2.9
of which:									
Canada	1.5	2.6	4.5	4.2	5.1	3.5	0.3	2.1	3.4
Japan	2.6	2.9	0.7	-1.4	0.4	2.5	-2.1	0.1	1.2
United Kingdom	2.0	2.9	3.6	2.6	2.7	2.4	2.0	2.2	2.7
Euro Area (2)	1.4	1.6	3.1	2.0	3.6	2.8	0.8	1.6	2.8
Germany	1.1	1.4	1.7	0.6	3.0	2.5	0.2	1.3	2.7
Developing Countries	3.0	6.0	5.0	-0.2	6.2	5.5	-1.0	2.4	4.1
Asia	6.9	6.6	4.8	-1.9	8.6	6.1	-1.7	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	-3.8	6.0	6.0	1.2	4.4	4.8	-0.8	2.0	3.6
Mexico	-7.1	7.1	6.7	2.8	5.4	5.2	-1.2	2.2	4.0
Brazil	-0.8	2.9	2.1	-1.1	4.0	4.3	0.3	2.1	2.6
CONSUMER PRICES (3)									
-----									
Industrial Countries	1.3	1.5	1.5	1.0	1.2	1.8	1.5	1.0	1.0
of which:									
Canada	2.0	2.0	1.0	1.1	2.3	3.1	2.2	1.6	1.5
Japan	-0.8	0.2	2.0	0.7	-1.2	-1.2	-0.6	-0.9	-0.9
United Kingdom (4)	2.9	3.2	2.7	2.5	2.2	2.1	2.2	2.1	2.4
Euro Area (2)	NA	NA	1.5	0.8	1.5	2.7	2.3	1.7	1.7
Germany	1.5	1.3	1.5	0.3	1.1	2.5	1.8	1.1	1.1
Developing Countries	16.9	11.1	6.8	9.0	4.6	4.1	3.0	3.7	4.1
Asia	6.4	4.8	2.7	4.4	0.2	1.9	0.8	2.3	3.4
Korea	4.3	5.0	4.9	5.9	1.2	2.8	3.9	2.4	3.0
China	11.1	6.8	0.9	-1.2	-0.9	0.9	-0.7	2.3	3.8
Latin America	42.0	25.8	15.5	15.4	12.5	8.4	5.9	5.7	5.1
Mexico	48.7	28.0	17.0	17.4	13.6	8.8	5.9	5.7	5.0
Brazil	21.5	9.6	4.6	1.5	8.2	6.1	6.8	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	-0.5	-0.4	0.7	1.9	2.7	3.0	3.4	3.5	3.4	3.4
Industrial Countries	1.6	-0.1	0.0	-0.5	0.6	1.6	2.4	2.7	3.0	3.0	2.9	2.9
of which:												
Canada	2.0	0.4	-0.2	-0.9	0.4	2.0	2.7	3.2	3.5	3.5	3.3	3.3
Japan	0.5	-3.2	-3.0	-2.6	-0.8	-0.3	0.5	1.0	1.1	1.2	1.3	1.3
United Kingdom	2.6	1.8	2.4	1.4	1.7	2.3	2.5	2.5	2.7	2.7	2.7	2.7
Euro Area (2)	2.0	0.3	0.8	0.1	0.5	1.2	2.2	2.5	2.9	2.9	2.8	2.7
Germany	1.6	-0.1	-0.2	-0.5	0.1	0.8	2.1	2.3	2.8	2.9	2.6	2.5
Developing Countries	-0.6	-1.6	-1.3	-0.5	0.8	2.2	3.2	3.4	4.0	4.1	4.2	4.2
Asia	-1.0	-3.2	-2.4	-0.2	1.0	2.5	3.6	4.0	4.5	4.7	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	6.9	6.8	7.0	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Latin America	-0.9	-0.6	-0.7	-1.2	0.4	1.7	2.8	2.9	3.6	3.6	3.6	3.6
Mexico	-1.3	-1.0	-1.0	-1.5	0.5	2.0	3.2	3.3	4.1	4.1	4.0	4.0
Brazil	0.7	0.1	0.5	-0.0	1.0	1.9	2.7	2.7	2.5	2.6	2.6	2.6
CONSUMER PRICES (3)	----- Four-quarter changes -----											
Industrial Countries	1.7	2.1	1.7	1.5	1.4	0.9	0.9	1.0	1.0	1.0	1.0	1.0
of which:												
Canada	2.8	3.6	2.7	2.2	2.2	1.3	1.5	1.6	1.6	1.5	1.5	1.5
Japan	-1.0	-1.2	-1.1	-0.6	-0.9	-0.6	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
United Kingdom (4)	1.9	2.3	2.4	2.2	2.3	1.9	1.9	2.1	2.3	2.3	2.4	2.4
Euro Area (2)	2.5	3.1	2.7	2.3	2.2	1.5	1.6	1.7	1.7	1.7	1.7	1.7
Germany	2.4	3.2	2.4	1.8	1.4	0.7	1.0	1.1	1.1	1.1	1.1	1.1
Developing Countries	3.8	4.1	3.5	3.0	3.3	3.2	3.3	3.7	3.9	4.0	4.1	4.1
Asia	1.8	2.4	1.9	0.8	1.0	1.1	1.5	2.3	2.7	3.0	3.2	3.4
Korea	4.2	5.3	4.3	3.9	3.6	2.7	2.2	2.4	2.5	2.7	2.8	3.0
China	0.6	1.6	0.8	-0.7	-0.3	0.1	0.9	2.3	2.7	3.1	3.5	3.8
Latin America	7.2	6.8	6.0	5.9	7.0	6.7	6.4	5.7	5.5	5.4	5.2	5.1
Mexico	7.5	6.9	6.0	5.9	7.0	6.7	6.5	5.7	5.4	5.3	5.1	5.0
Brazil	6.2	7.1	6.6	6.8	7.2	7.2	6.4	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	0.2	-0.7	-0.6
Exports of G&S	1.0	1.1	1.0	0.3	0.5	0.8	-0.9	0.2	0.7
Imports of G&S	-0.6	-1.3	-1.7	-1.3	-1.5	-1.6	1.1	-0.9	-1.3
Percentage change, Q4/Q4									
Exports of G&S	9.7	9.8	8.5	2.3	4.5	7.0	-8.4	1.9	6.8
Services	8.8	8.9	1.4	2.9	1.9	4.1	-5.6	5.6	5.3
Computers	39.1	21.6	25.8	8.1	13.8	23.1	-22.1	14.6	29.9
Semiconductors	79.6	44.6	21.3	9.1	34.6	26.9	-37.6	15.7	29.9
Other Goods 1/	4.6	7.3	9.8	1.3	3.2	5.7	-5.9	-1.5	4.7
Imports of G&S	5.0	11.2	14.3	10.8	11.5	11.3	-7.4	6.7	9.8
Services	5.5	5.3	14.0	8.5	2.8	12.2	-8.7	7.3	5.6
Oil	2.4	7.8	3.9	4.1	-3.4	12.4	-1.0	3.4	0.8
Computers	35.0	17.8	33.0	25.8	25.1	13.6	-19.2	14.6	29.9
Semiconductors	92.4	56.7	32.9	-8.7	33.5	22.5	-53.4	15.7	29.9
Other Goods 2/	-1.2	10.4	12.7	11.5	12.9	10.4	-4.8	6.2	9.8
Billions of chained 1996 dollars									
Net Goods & Services	-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-401.4	-448.7	-533.4
Exports of G&S	808.2	874.2	981.5	1002.4	1034.8	1133.2	1091.0	1053.5	1110.6
Imports of G&S	886.6	963.1	1094.8	1223.5	1351.7	1532.3	1492.4	1502.2	1644.0
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-109.9	-120.9	-139.8	-217.5	-324.4	-444.7	-405.6	-424.0	-496.4
Current Acct as Percent of GDP	-1.5	-1.5	-1.7	-2.5	-3.5	-4.5	-4.0	-4.1	-4.5
Net Goods & Services (BOP)	-96.4	-101.8	-107.8	-166.8	-261.8	-375.7	-334.4	-356.9	-431.0
Investment Income, Net	25.0	25.5	13.6	-1.2	-8.5	-9.6	-13.6	-7.3	-4.7
Direct, Net	64.9	69.4	72.4	66.3	67.0	81.2	90.8	88.0	84.7
Portfolio, Net	-39.9	-43.9	-58.8	-67.5	-75.6	-90.9	-104.4	-95.3	-89.4
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.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1998				1999				2000			
	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	-1.8	-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

	2001				Projected 2002				2003			
	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	0.6	-0.1	0.4	-0.2	-0.5	-0.9	-0.9	-0.4	-0.8	-0.8	-0.7	-0.2
Exports of G&S	-0.1	-1.4	-1.8	-0.3	-0.3	0.1	0.3	0.6	0.4	0.6	0.7	0.9
Imports of G&S	0.8	1.3	2.3	0.1	-0.1	-1.0	-1.2	-1.0	-1.2	-1.4	-1.4	-1.1
Percentage change from previous period, s.a.a.r.												
Exports of G&S	-1.2	-11.9	-16.3	-3.2	-3.3	1.1	3.3	6.5	3.9	6.6	7.3	9.6
Services	1.8	2.4	-13.5	-12.0	11.5	2.6	4.0	4.6	5.2	5.4	5.4	5.4
Computers	-5.8	-41.1	-21.9	-15.1	-3.9	17.0	21.5	26.2	28.6	28.6	31.1	31.1
Semiconductors	-22.4	-56.1	-45.3	-18.5	-3.9	17.0	26.2	26.2	28.6	28.6	31.1	31.1
Other Goods 1/	-0.1	-10.8	-14.8	3.3	-9.8	-1.4	0.6	5.2	0.3	4.4	5.2	9.0
Imports of G&S	-5.0	-8.4	-15.2	-0.6	1.0	8.3	9.7	8.0	9.3	10.8	10.5	8.6
Services	4.9	-2.0	-28.9	-4.9	14.3	4.3	5.4	5.5	5.5	5.7	5.7	5.7
Oil	27.1	4.3	-27.2	-0.4	-6.7	29.2	9.9	-13.8	-6.9	18.9	11.4	-16.3
Computers	-11.0	-29.1	-23.6	-11.5	-3.9	17.0	21.5	26.2	28.6	28.6	31.1	31.1
Semiconductors	-31.8	-75.0	-63.0	-25.2	-3.9	17.0	26.2	26.2	28.6	28.6	31.1	31.1
Other Goods 2/	-8.4	-4.8	-7.6	1.8	-0.6	6.7	9.6	9.2	10.1	9.8	9.7	9.6
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-404.5	-406.7	-393.9	-400.3	-412.7	-439.0	-465.4	-478.0	-502.6	-526.4	-547.8	-556.7
Exports of G&S	1144.1	1108.3	1060.2	1051.5	1042.8	1045.7	1054.3	1071.1	1081.4	1098.7	1118.2	1144.2
Imports of G&S	1548.6	1515.0	1454.0	1451.8	1455.4	1484.7	1519.6	1549.0	1584.0	1625.1	1666.0	1700.8
Billions of dollars, s.a.a.r.												
IS CURRENT ACCOUNT BALANCE	-447.1	-425.4	-353.5	-396.4	-389.3	-412.4	-435.3	-458.8	-467.1	-485.9	-505.5	-526.9
Current Account as % of GDP	-4.4	-4.2	-3.4	-3.9	-3.8	-4.0	-4.1	-4.3	-4.3	-4.4	-4.6	-4.7
Net Goods & Services (BOP)	-380.1	-355.2	-285.6	-316.8	-325.8	-348.5	-371.2	-381.8	-404.1	-425.0	-443.8	-451.1
Investment Income, Net	-14.6	-16.6	-13.4	-9.7	-7.5	-7.5	-7.7	-6.6	-5.5	-3.5	-4.4	-5.4
Direct, Net	90.7	92.3	88.7	91.5	91.1	89.4	86.5	85.1	85.1	85.3	84.2	84.2
Portfolio, Net	-105.3	-109.0	-102.1	-101.1	-98.6	-96.9	-94.2	-91.7	-90.7	-88.8	-88.5	-89.7
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**

October 31, 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



October 31, 2001

## **Recent Developments**

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assemblies slipped to a 10-3/4 million unit annual pace in October; relative to schedules at the beginning of the month, this is an underbuild of about 4 percent. Current schedules for the last two months of the fourth quarter average nearly 11-1/2 million units (annual rate), but in our view the risk that schedules might be revised down outweighs the upside risk at this point.

### Production of Domestic Autos and Trucks

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

Item	2001			2001				
	Q2	Q3	Q4 <sup>1</sup>	June	July	Aug.	Sept.	Oct. <sup>1</sup>
U.S. production	11.7	11.6	11.2	11.7	12.1	11.6	11.2	10.8
Autos	5.1	4.7	4.7	5.1	4.9	4.6	4.6	4.5
Trucks	6.6	6.9	6.5	6.6	7.2	7.0	6.6	6.3
Days' supply <sup>2</sup>	62.0	n.a.	n.a.	60.0	63.9	64.5	64.1	n.a.
Autos	49.3	n.a.	n.a.	49.0	49.7	52.6	50.4	n.a.
Light trucks <sup>3</sup>	73.0	n.a.	n.a.	69.2	75.8	73.9	75.2	n.a.
Inventories <sup>4</sup>	2.75	n.a.	n.a.	2.75	2.78	2.77	2.69	n.a.

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

1. Production rates reflect Ward's Communications' latest estimates.

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.

In the high-tech area, conditions in the semiconductor industry remain weak. According to the Semiconductor Industry Association, capital spending by chip makers in 2001 is now likely to be 40 percent below the 2000 level; at midyear, the forecast was for a 25 percent to 30 percent decline. New orders for equipment by semiconductor manufacturers fell 11 percent in September after having been flat since May. The weakness in the semiconductor industry is attributable, in part, to the poor performance in downstream industries, such as communications equipment and computers. According to Dataquest, personal computer (PC) sales for the third quarter fell 9.2 percent (not at an annual rate, FRB seasonals).<sup>9</sup> Since the fourth quarter of last year, PC sales have declined 18.7 percent.

After September 11, manufacturers apparently became markedly more pessimistic about their prospects. By our count, manufacturing firms announced job losses totaling 103,000 in October, compared with 61,700 in September and

9. Most desktop PCs sold in the United States are assembled here.

# Federal Government Receipts and Outlays

(Unified basis; billions of dollars)

Function or Source	September			12 months ending in Sept.		
	2000	2001	Percent change	2000	2001	Percent change
Outlays	153.7	123.1	-19.9	1,788.1	1,863.0	4.2
Deposit insurance	-0.2	-0.1	...	-3.1	-1.5	...
Spectrum auctions	0.0	12.4	...	-0.2	-1.0	...
Sale of major assets	0.0	0.0	...	0.0	0.0	...
Other	153.9	110.8	-28.0	1,791.3	1,865.5	4.1
Receipts	219.5	158.5	-27.8	2,025.0	1,990.2	-1.7
Surplus	65.7	35.4	...	236.9	127.2	-46.3
Outlays excluding deposit insurance, spectrum auction, and sale of major assets are adjusted for payment timing shifts <sup>1</sup>						
Outlays	147.2	146.9	-0.2	1,784.2	1,869.8	4.8
National defense	25.7	26.7	4.0	291.3	307.4	5.5
Net interest	12.6	9.1	-27.6	223.4	206.1	-7.8
Social security	34.8	36.4	4.5	409.4	433.0	5.7
Medicare	15.5	18.6	19.8	197.1	214.7	8.9
Medicaid	10.5	10.5	-0.3	117.9	129.4	9.7
Other health	3.1	3.6	18.1	36.3	42.5	17.2
Income security	17.7	18.3	3.4	245.0	265.8	8.5
Agriculture	6.8	-1.1	-116.8	38.5	28.3	-26.3
Other	20.5	24.9	21.7	225.2	242.6	7.7
Receipts	219.5	158.5	-27.8	2,025.0	1,990.2	-1.7
Individual income and payroll taxes	159.7	136.4	-14.6	1,620.1	1,651.1	1.9
Withheld + FICA	109.3	98.7	-9.7	1,361.5	1,413.9	3.8
Nonwithheld + SECA	54.0	51.8	-4.2	392.7	419.5	6.8
Refunds (-)	3.6	14.1	291.8	134.0	182.3	36.0
Corporate	43.4	7.5	-82.8	207.3	151.1	-27.1
Gross	46.2	9.5	-79.4	235.7	186.7	-20.8
Refunds (-)	2.7	2.1	-25.1	28.4	35.7	25.7
Other	16.3	14.6	-10.3	197.6	188.0	-4.8
Surplus	72.3	11.6	...	240.9	120.4	-50.0

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

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

... Not applicable.

# Gross Issuance of Securities by U.S. Corporations

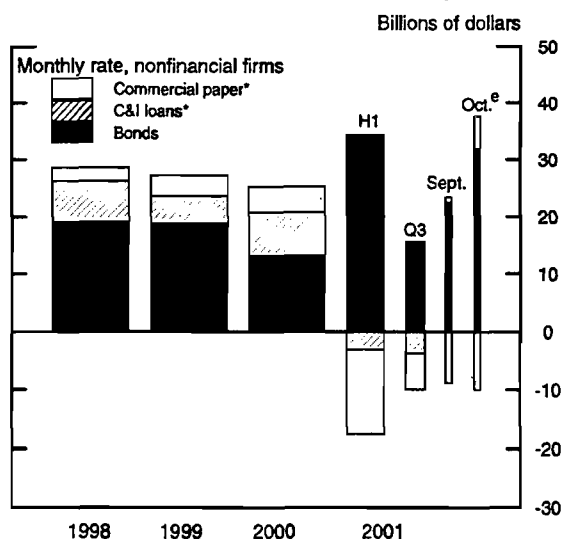
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1998	1999	2000		2001		Sept.	Oct. <sup>e</sup>
			H1	H2	H1	Q3		
All U.S. corporations	94.0	89.4	80.0	77.0	123.6	92.6	86.4	n.a.
Stocks <sup>1</sup>	10.6	11.0	14.1	8.4	10.5	7.2	5.1	n.a.
Bonds	83.5	78.4	65.9	68.6	113.1	85.4	81.3	n.a.
<i>Nonfinancial corporations</i>								
Stocks <sup>1</sup>	6.2	9.2	12.4	7.3	7.5	3.3	.1	3.5
Initial public offerings	2.2	4.2	5.7	3.1	3.2	1.0	.0	.5
Seasoned offerings	4.0	5.0	6.7	4.2	4.2	2.3	.1	3.0
Bonds <sup>2</sup>	25.6	24.5	21.3	19.1	43.2	26.2	31.1	42.0
Investment grade <sup>3</sup>	14.1	13.9	11.5	12.4	28.9	20.9	27.1	35.0
Speculative grade <sup>3</sup>	10.2	7.5	5.4	3.7	11.9	3.8	1.2	6.5
Other (sold abroad/unrated)	1.3	3.1	4.4	3.1	2.4	1.5	2.8	.5
<i>Financial corporations</i>								
Stocks <sup>1</sup>	4.4	1.8	1.6	1.1	3.0	4.0	5.0	n.a.
Bonds	57.8	53.9	44.7	49.5	69.9	59.2	50.2	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	-6.2	-8.8	5.7
Change in C&I loans at commercial banks <sup>4</sup>	7.0	4.7	10.4	4.7	-3.0	-3.7	.9	-10.0

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.

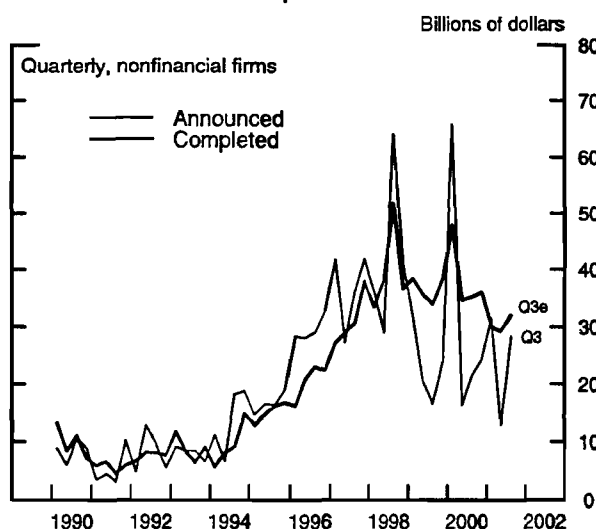
1. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings.
  2. Excludes mortgage-backed and asset-backed bonds.
  3. Bonds sold in U.S. categorized according to Moody's bond ratings, or to Standard Poor's if unrated by Moody's.
  4. End-of-period basis, seasonally adjusted.
- e Staff estimate.

## Components of Net Debt Financing



\* Seasonally adjusted.  
e Staff estimate.

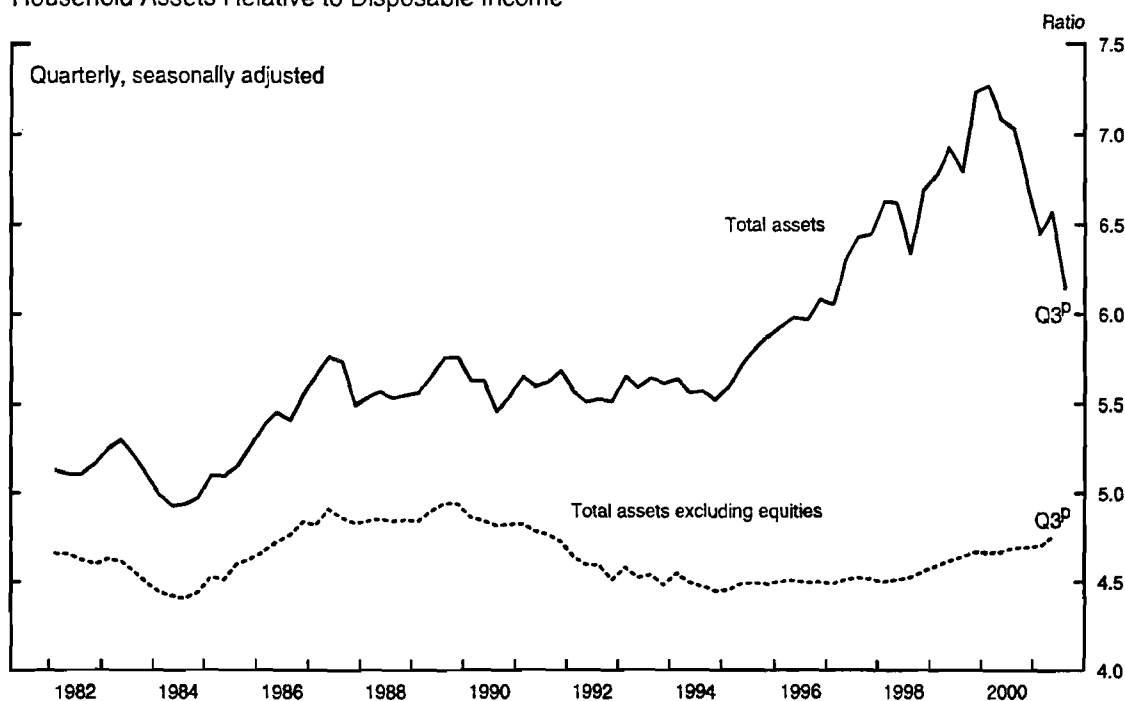
## Share Repurchases



Source. Compustat & Securities Data Company.  
e Staff estimate.

## Household Assets

Household Assets Relative to Disposable Income



p. Staff projection.

## Net Flows into Long-Term Mutual Funds

(Excluding reinvested dividends; billions of dollars, monthly rates.)

	1999	2000	2001 H1	Aug.	2001 Sept.	Oct. <sup>e</sup>	Assets Sept.
<b>Total long-term funds</b>	<b>14.2</b>	<b>18.4</b>	<b>15.2</b>	<b>11.2</b>	<b>-23.1</b>	<b>16.5</b>	<b>4,254</b>
<b>Equity funds</b>	<b>15.7</b>	<b>25.1</b>	<b>8.3</b>	<b>-4.8</b>	<b>-29.5</b>	<b>1.7</b>	<b>3,020</b>
Domestic	14.8	21.2	9.2	-1.3	-27.0	4.9	2,627
Capital appreciation	13.5	25.5	5.3	-4.1	-21.0	1.5	1,548
Total return	1.4	-4.3	3.9	2.8	-6.1	3.4	1,079
International	0.9	3.9	-0.8	-3.5	-2.5	-3.2	393
<b>Hybrid funds</b>	<b>-1.0</b>	<b>-2.6</b>	<b>1.0</b>	<b>-0.7</b>	<b>-1.3</b>	<b>1.1</b>	<b>324</b>
<b>Bond funds</b>	<b>-0.5</b>	<b>-4.0</b>	<b>5.9</b>	<b>16.7</b>	<b>7.6</b>	<b>13.7</b>	<b>910</b>
International	-0.2	-0.2	0.0	0.1	-0.2	-0.1	20
High-yield	-0.2	-1.0	0.9	0.3	-2.0	1.1	88
Other taxable	1.0	-1.6	4.2	13.3	10.1	10.6	505
Municipals	-1.0	-1.2	0.8	3.0	-0.3	2.1	297

e. Staff estimates based on confidential ICI weekly data.

Source. Investment Company Institute (ICI).

## Treasury and Agency Finance

Treasury Financing  
(Billions of dollars)

Item	2001					
	Q1	Q2	Q3	Aug.	Sept.	Oct.(e)
Total surplus, deficit (-)	-22.5	193.7	-41.8	-80.0	35.4	n.a.
Means of financing deficit						
Net borrowing	23.7	-157.4	68.6	74.1	.5	-8.1
Nonmarketable	6.0	6.2	-5.7	-1.5	-1.7	1.4
Marketable	17.6	-163.6	74.4	75.6	2.3	-9.5
Bills	65.0	-92.1	114.8	79.5	2.3	1.3
Coupons <sup>1</sup>	-39.4	62.3	-32.6	-.3	.0	-8.3
Debt buybacks	-8.0	-9.2	-7.7	-3.5	.0	-2.5
Decrease in cash balance	-7.2	-15.4	-.5	16.8	-37.9	17.2
Other <sup>2</sup>	6.0	-20.9	-26.3	-10.9	.5	n.a.
MEMO						
Cash balance, end of period	28.3	43.7	44.2	6.3	44.2	27.0

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	2001					
	Q1	Q2	Q3	Aug.	Sept.	Oct.
FHLBs	8.4	-7.7	19.2	-2.4	15.3	n.a.
Freddie Mac	34.4	35.4	37.7	6.7	18.8	n.a.
Fannie Mae	23.9	35.7	24.7	11.2	9.0	n.a.
Farm Credit Banks	.0	2.2	.1	.0	.1	n.a.
Sallie Mae	1.9	.4	1.7	1.9	-1.0	n.a.
MEMO						
<i>Outstanding noncallable reference and benchmark securities</i>						
Notes and Bonds	351.2	384.1	411.5	404.2	411.5	426.5
Bills	270.0	278.0	288.5	298.5	288.5	296.5
Total	621.2	662.1	700.0	702.7	700.0	723.0

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)

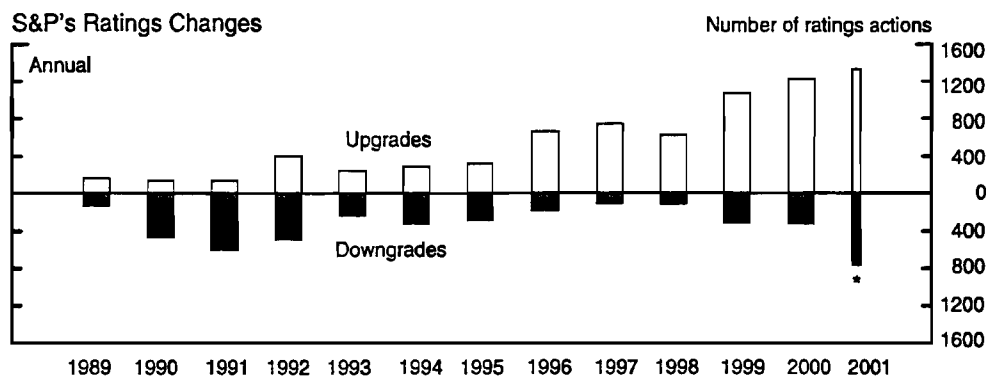
	1999	2000	2001				
			H1	Q3	Aug.	Sept.	Oct. <sup>e</sup>
Long-term <sup>1</sup>	18.0	15.0	21.4	17.8	21.2	13.2	27.0
Refundings <sup>2</sup>	4.5	2.2	6.4	5.0	7.6	3.0	8.0
New capital	13.5	12.9	15.0	12.9	13.5	10.1	19.0
Short-term	2.7	2.8	3.7	5.9	7.0	8.5	8.0
Total tax-exempt	20.6	17.9	25.0	23.8	28.1	21.7	35.0
Total taxable	1.1	0.7	1.2	0.7	0.3	0.7	0.7

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

e. Staff estimate based on data through Oct. 25.

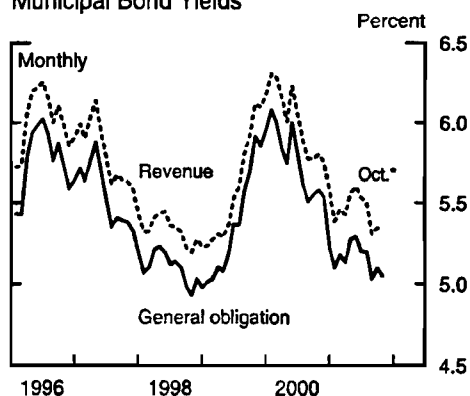
### S&P's Ratings Changes



Source. S&P's Credit Week Municipal.

\* Data through Oct. 11 at an annual rate.

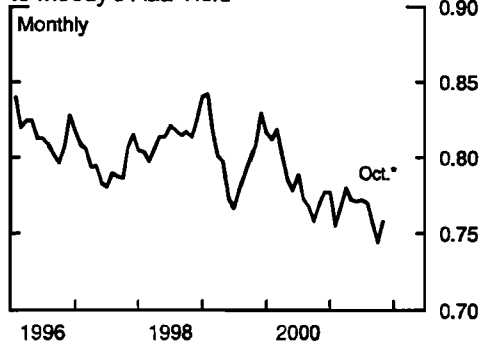
### Municipal Bond Yields



Note. Average of weekly data.

\* Data through Oct. 25.

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



Note. Average of weekly data.

\* Data through Oct. 25.

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

Aggregate or component	2000	2001					Level (bil. \$) Oct. 01 (p)
		Q2	Q3 (p)	Aug.	Sept.	Oct. (p)	
<i>Aggregate</i>	Percent change (annual rate) <sup>1</sup>						
1. M2 <sup>2</sup>	6.2	10.4	10.5	7.7	25.1	-1.3	5397.6
2. M3	9.3	15.0	9.1	-0.3	22.5	9.3	7821.1
<i>Selected components</i>							
3. Currency	4.2	6.0	11.7	18.9	11.5	7.4	567.8
4. Liquid deposits <sup>3</sup>	3.2	17.2	20.0	19.1	43.8	-6.3	2803.4
5. Small time deposits	9.5	-4.1	-9.4	-10.2	-9.0	-11.9	1006.0
6. Retail money market funds	12.2	11.2	5.6	-10.5	17.3	18.5	1012.0
7. M3 minus M2 <sup>4</sup>	17.2	25.3	6.1	-17.7	16.7	33.0	2423.4
8. Large time deposits, net <sup>5</sup>	13.6	0.7	-3.2	-17.3	-1.9	12.5	804.0
9. Institution-only money market mutual funds	24.0	54.9	21.0	-20.9	52.9	77.8	1041.6
10. RPs	11.7	21.0	-9.7	-11.9	-40.8	-21.8	358.0
11. Eurodollars	17.9	7.9	1.8	-14.8	17.7	-15.3	219.8
<i>Memo</i>							
12. M1	-1.7	5.4	13.6	8.1	52.3	-43.4	1192.9
13. Sweep-adjusted M1 <sup>6</sup>	1.6	6.5	12.0	9.0	39.6	-22.5	1629.9
14. Demand deposits	-10.9	-4.2	22.4	6.1	171.4	-124.2	359.3
15. Other checkable deposits	-0.8	16.5	6.4	-12.9	-0.9	-43.4	257.3
16. Savings deposits	6.7	20.9	21.3	24.9	30.4	17.4	2186.8
17. Monetary base	1.4	5.4	14.7	15.4	47.3	-15.8	639.7
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	-4.0	-14.3	-0.9	14.7	943.1
19. Net due to related foreign institutions	1.3	-10.3	-3.0	3.1	-24.3	-3.3	169.7
20. U.S. government deposits at commercial banks	-1.4	-2.4	5.3	44.1	-39.4	-9.7	19.7

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.

4. Sum of large time deposits, institutional money funds, RP liabilities of depository institutions, and Eurodollars held by U.S. addressees.

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.

7. For the years shown, "average monthly change" is the Q4 to Q4 dollar change divided by 12. For the quarters shown, it is the quarter-to-quarter dollar change, divided by 3.

p--Preliminary



**Commercial Bank Credit**

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

Type of credit	2000	Q2 2001	Q3 2001	Aug. 2001	Sept. 2001	Oct. <sup>p</sup> 2001	Level, Oct. 2001 <sup>p</sup> (\$ billions)
<b>Total</b>							
1. Adjusted <sup>1</sup>	9.4	2.7	1.9	-4	13.5	-10.3	5,195
2. Reported	10.0	3.2	2.5	3.3	17.1	-9.0	5,371
<i>Securities</i>							
3. Adjusted <sup>1</sup>	1.7	4.2	11.6	16.7	7.1	4.0	1,278
4. Reported	4.5	6.1	13.1	29.3	21.2	7.2	1,454
5. Treasury & Agency	-2.4	-3.3	10.6	20.3	16.5	6.6	802
6. Other <sup>2</sup>	16.7	18.7	16.2	40.7	27.1	8.0	652
<i>Loans<sup>3</sup></i>							
7. Total	12.0	2.2	-1.2	-5.9	15.6	-14.9	3,917
8. Business	9.0	-4.3	-9.9	-7.9	2.9	-16.6	1,049
9. Real estate	14.1	6.2	3.1	-3.4	4.1	4.2	1,721
10. Home equity	27.4	13.3	13.2	10.9	20.0	23.8	149
11. Other	13.1	5.6	2.1	-4.7	2.6	2.4	1,571
12. Consumer	10.5	3.9	-2.0	-3.5	.4	1.8	548
13. Adjusted <sup>4</sup>	7.2	5.1	2.1	-.3	1.5	5.5	879
14. Other <sup>5</sup>	13.4	1.6	3.4	-11.5	84.7	-77.2	599

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.

November 2, 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

Durable goods inventories fell sharply in September, led by a whopping \$30.9 billion drawdown at manufacturers of computers and electronic products. Although the inventory-shipments ratio in this industry moved down, stocks remain quite bloated relative to shipments. Inventories declined in most other durable goods categories as well, but many stock-sales ratios rose sharply further. Nondurable goods inventories fell at a \$10.8 billion pace in September, led by a large liquidation at food stores. Nonetheless, the ratio of inventories to shipments at nondurable goods manufacturers also increased in September.

### **Staff Forecast Update**

Since the publication of the Greenbook, we have received not only the details underlying the BEA's advance estimate of third-quarter real GDP, but also a number of pieces of information that were not available for that estimate. These include September data on manufacturers' inventories, construction put in place, and revised shipments of nondefense capital goods. On net, the information did not alter our thinking about third-quarter real GDP.

However, the October labor market report has led us to reevaluate the near-term forecast. The report suggested that job losses in travel and related industries in the wake of September 11 were as large, if not larger, than we had anticipated. The substantial drop in factory hours was not altogether surprising, but given the weakness in the orders component of the National Association of Purchasing Managers report, we are inclined to deepen the drop in industrial production projected for the fourth quarter. Apart from those cutbacks, the payroll report more generally was weaker than we anticipated. We now expect that real GDP will decline at an annual rate of about 3 percent in the fourth quarter, with final sales likely to decline somewhat more than we previously thought and the drawdown in inventories a bit larger. Some of the additional weakness in demand likely will carry over to early next year, and real GDP is now expected to edge down at an annual rate of about 1/2 percent in the first quarter.

BROAD MEASURES OF INFLATION  
(4-quarter percent change)

	1998 Q3	1999 Q3	2000 Q3	2001 Q3
<u>Product prices</u>				
GDP chain price index	1.2	1.4	2.4	2.3
Less food and energy	1.4	1.4	2.3	1.9
Nonfarm business chain price index <sup>1</sup>	0.8	1.0	2.1	1.8
<u>Expenditure prices</u>				
Gross domestic purchases chain price index	0.8	1.6	2.7	1.3
Less food and energy	1.1	1.4	2.1	1.2
PCE chain price index	1.1	1.7	2.7	1.5
Less food and energy	1.5	1.4	2.0	1.2
PCE chain price index, market-based components	0.9	1.7	2.7	1.9
Less food and energy	1.4	1.3	1.8	1.7
CPI	1.6	2.3	3.5	2.7
Less food and energy	2.3	2.0	2.6	2.7
Current-methods CPI	1.3	2.3	3.4	2.7
Less food and energy	2.1	2.0	2.5	2.7
Median CPI	3.0	2.4	2.8	3.7
Trimmed mean CPI	2.0	1.7	2.7	3.0

1. Excluding housing.

SURVEYS OF (CPI) INFLATION EXPECTATIONS  
(Percent)

		University of Michigan				Professional forecasters (10-year) <sup>4</sup>
		1 year		5 to 10 years		
		Mean <sup>2</sup>	Median <sup>2</sup>	Mean <sup>3</sup>	Median <sup>3</sup>	
Actual inflation <sup>1</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	2.7	3.1	2.7	3.5	2.9	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.	2.6	3.2	2.8	3.4	2.9	2.5
Oct.		1.6	1.0	2.8	2.7	

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.