

Part 1

January 25, 2001

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

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

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

Measure	2000:Q4		2001:Q1	
	Dec. GB	Jan. GB	Dec. GB	Jan. GB
Real GDP	2.4	2.0	2.2	-.5
Private domestic final purchases	3.2	2.1	3.0	1.5
Personal consumption expenditures	2.9	2.8	2.9	1.4
Residential investment	-4.8	-3.4	-5.1	-2.1
Business fixed investment	7.5	.5	5.7	3.0
Government outlays for consumption and investment	2.5	2.8	3.7	2.3
	Contribution to growth, percentage points			
Inventory investment	-.7	.1	-.5	-2.6
Net exports	-.1	-.4	-.5	.4

suggest that consumer spending stabilized in early January, and motor vehicle sales appear to be rebounding some this month. Our projection calls for real PCE to rise at an annual rate of about 1-1/2 percent this quarter.

Investment spending looks to have decelerated especially sharply late last year. We now believe that equipment and software expenditures declined at an annual rate of 1-1/2 percent in the fourth quarter--versus the nearly 15 percent rate of increase seen over the several preceding years. Shipments of computer and communications equipment slowed markedly in October and November from the rapid increases seen earlier, consistent with anecdotal evidence that demand for high-tech equipment has slackened considerably. There were outright declines in expenditures on motor vehicles last quarter, and orders and shipments for a wide variety of other capital goods turned down as well. We expect this weakness to persist in the current quarter and look for real investment in equipment and software to rise at an annual rate of just 1-1/4 percent.

In contrast, construction activity appears to have remained reasonably strong. Demand in the residential sector has been supported by lower mortgage interest rates, and single-family starts were solid in the fourth quarter despite adverse weather that may have held down activity in November and December. Indeed, we expect starts in the current quarter to recoup some of their weather-related losses and to exceed their fourth-quarter average. Meanwhile, outlays for

Projections of Real GDP

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

Measure	2000		2001		2002
	H1	H2	H1	H2	
Real GDP	5.2	2.1	.4	3.1	3.8
Previous	5.2	2.3	2.7	3.5	3.9
Final sales	5.3	2.2	1.7	2.8	3.7
Previous	5.3	2.8	2.8	3.7	3.9
PCE	5.3	3.6	1.2	2.0	2.8
Previous	5.3	3.7	2.9	3.0	3.0
Residential investment	2.2	-7.1	-1.1	0.0	.7
Previous	2.2	-7.7	-1.8	1.0	-.4
BFI	17.7	4.0	2.8	6.1	9.1
Previous	17.7	7.4	6.5	7.7	9.6
Government purchases	1.8	.7	2.7	3.1	3.3
Previous	1.8	.6	3.6	3.5	3.4
Exports	10.2	4.1	2.8	9.3	9.9
Previous	10.2	11.9	4.4	9.3	10.3
Imports	15.2	7.8	1.8	6.5	8.2
Previous	15.2	12.0	7.5	7.6	8.3
Contribution to growth, percentage points					
Inventory change	.0	-.1	-1.3	.3	.2
Previous	.0	-.4	-.1	-.2	.0
Net exports	-1.0	-.7	.1	.1	-.1
Previous	-1.0	-.4	-.6	-.1	-.1

and the resultant reduction in the net worth of households should by now be depressing consumer spending. The household wealth-to-income ratio is projected to move lower and be a fairly constant drag on spending throughout the projection period. In the case of durable goods, spending may be held down as well by some retrenchment following the rapid pace of spending over the past few years. Partly for this reason, light vehicle sales are now expected to be 15-1/4 million units this year and next--far below last year's record sales of 17-1/4 million units.

growth from the external sector should be near zero this year and next after subtracting about 3/4 percentage point from growth in 2000. (The International Developments section provides a more detailed discussion of the outlook for the external sector.)

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

Our reduced forecast for business investment spending implies a slower pace of capital accumulation than we had projected in the December Greenbook, and as a result, we have further reduced our assumption about structural productivity growth to an increase of 3.1 percent this year and 3 percent in 2002. The associated growth of potential GDP now is 4.2 percent in 2001 and 4.1 percent in 2002.

Productivity and the labor market. Productivity growth remained relatively robust in the second half of last year despite the substantial deceleration of output, as firms moved to reduce hours worked. We anticipate that firms will continue to adjust their workweeks and hiring promptly in response to production cutbacks this quarter, and we look for private payrolls to edge down over the first quarter. Nevertheless, we do expect a pronounced cyclical slowing in productivity growth; indeed, we project productivity to be flat this quarter and to rise at an annual rate of 1-1/2 percent in the second quarter. Productivity is expected to accelerate thereafter and to rise near its trend rate in 2002. Hiring is also likely to pick up as activity strengthens, although we still expect to see payroll gains of less than 100,000 per month through most of 2002. With this very weak employment picture, the unemployment rate is projected to move up notably, to 5-1/4 percent by the end of this year and to 5-1/2 percent by the end of 2002.

Decomposition of Structural Labor Productivity

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

Measure	1973-95	1996-98	1999	2000	2001	2002
Structural labor productivity	1.4	2.5	3.2	3.3	3.1	3.0
Previous	1.4	2.5	3.2	3.4	3.3	3.2
<i>Contributions¹</i>						
Capital deepening	.7	1.1	1.5	1.5	1.3	1.2
Previous	.7	1.1	1.5	1.6	1.5	1.4
Multifactor productivity	.4	1.1	1.4	1.5	1.5	1.5
Previous	.4	1.1	1.4	1.5	1.5	1.5
Labor quality	.3	.3	.3	.3	.3	.3

1. Percentage points.

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

Measure	1999	2000	2001	2002
Output per hour, nonfarm business	4.1	3.6	1.9	3.1
Previous	4.1	3.4	2.5	3.2
Nonfarm payroll employment	2.2	1.6	.2	.8
Previous	2.2	1.6	.9	1.2
Household employment survey	1.5	1.1	-.2	.6
Previous	1.5	1.0	.5	.8
Labor force participation rate ¹	67.0	67.1	67.0	66.9
Previous	67.0	67.0	67.1	67.0
Civilian unemployment rate ¹	4.1	4.0	5.2	5.5
Previous	4.1	4.0	4.7	5.0

1. Percent, average for the fourth quarter.

Wages and prices. We now project lower wage and price inflation than in the December Greenbook. This reflects both the lower levels of resource utilization in this projection and the fact that we have dropped our assumption of an increase in the minimum wage during the forecast period.²

We now expect the ECI for hourly compensation to increase 4.3 percent this year and 4.1 percent in 2002. Although employers' health insurance costs likely will continue to rise rapidly, the reduction in labor market tightness should ease pressure on wages; the energy-related decline in consumer price inflation also should be an important factor in holding down nominal wage increases by next year.

Regarding energy prices, we continue to expect reductions in prices of gasoline and heating oil throughout the forecast period, in line with the projected downtrend in crude oil prices. And although we look for further increases in prices of natural gas for the next couple of months, futures markets for natural gas suggest that these prices, too, will decline notably thereafter.

2. In the December Greenbook, we assumed that the minimum wage would be increased from \$5.15 per hour to \$5.65 per hour in January 2002. Although such an outcome certainly remains possible as part of budget negotiations, it looks increasingly unlikely in the face of a weakening economy. This change in assumptions lowers the projected increase in ECI hourly compensation in 2002 by 0.2 percentage point and lowers the increase in the core PCE price index by 0.1 percentage point.

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

Measure	1999	2000	2001	2002
PCE chain-weighted price index	2.0	2.3	1.8	1.7
Previous	2.0	2.5	1.7	1.9
Excluding food and energy	1.5	1.6	1.9	1.8
Previous	1.5	1.8	2.0	2.0
Consumer price index	2.6	3.4	2.3	2.0
Previous	2.6	3.4	2.1	2.2
Food	1.9	2.5	2.9	2.5
Previous	1.9	2.6	2.6	2.6
Energy	11.2	15.2	-2.1	-3.7
Previous	11.2	14.9	-4.2	-2.9
Excluding food and energy	2.1	2.6	2.5	2.4
Previous	2.1	2.6	2.6	2.6
GDP chain-weighted price index	1.6	2.3	2.0	1.7
Previous	1.6	2.5	1.9	1.8
ECI for compensation of private industry workers ¹	3.4	4.4	4.3	4.1
Previous	3.4	4.7	4.6	4.6
NFB compensation per hour	4.8	5.6	5.3	5.0
Previous	4.8	5.4	5.5	5.5
Prices of core non-oil merchandise imports	.4	1.5	1.6	2.7
Previous	.4	1.2	2.4	2.8

1. December to December.

We project that increases in the PCE chain price index excluding food and energy will be 1.9 percent this year and will edge slightly lower to 1.8 percent in 2002. These rates are down 0.1 and 0.2 percentage point, respectively, from our previous projection. We continue to expect that a firming of prices of core non-oil imports will exert a bit of upward pressure on domestic prices going forward. But this pressure is likely to be offset by the indirect effects of the turnaround in energy costs between last year and this year and by the elimination of excess tightness in the labor market. In all, we expect total PCE prices to rise about 1-3/4 percent both this year and next. The CPI is expected to show a similar pattern to that for PCE prices but to run roughly 1/2 percentage point higher: We expect the core CPI to rise around 2-1/2 percent both this year and in 2002 and the total CPI to rise about 2-1/4 percent this year and 2 percent next year.

Alternative Simulations:
Aggregate Demand, Monetary Policy, Productivity, and the NAIRU
 (Percent change, annual rate, from end of preceding period, except as noted)

Measure	2000	2001		2002	
	H2	H1	H2	H1	H2
<i>Real GDP</i>					
Baseline	2.1	.4	3.1	3.7	3.9
Recession, no policy response	2.1	-1.2	.1	3.9	4.4
Recession, with policy response	2.1	-1.1	.6	4.8	5.5
Growth pause	2.1	1.2	3.8	4.1	4.3
Easier monetary policy	2.1	.5	3.8	4.8	5.1
Productivity slowdown	2.1	.0	2.0	2.3	1.9
Low NAIRU	2.1	.5	3.3	4.0	4.2
<i>Civilian unemployment rate¹</i>					
Baseline	4.0	4.7	5.2	5.4	5.5
Recession, no policy response	4.0	4.9	6.0	6.4	6.6
Recession, with policy response	4.0	4.9	5.9	6.1	6.1
Growth pause	4.0	4.6	4.9	5.0	4.9
Easier monetary policy	4.0	4.7	5.1	5.0	4.9
Productivity slowdown	4.0	4.7	5.3	5.7	6.0
Low NAIRU	4.0	4.7	5.1	5.3	5.2
<i>PCE prices excluding food and energy</i>					
Baseline	1.4	1.9	1.9	1.8	1.8
Recession, no policy response	1.4	1.9	1.9	1.6	1.3
Recession, with policy response	1.4	1.9	2.0	1.9	1.8
Growth pause	1.4	1.9	1.9	1.9	2.0
Easier monetary policy	1.4	1.9	2.1	2.2	2.3
Productivity slowdown	1.4	1.9	1.9	1.8	1.9
Low NAIRU	1.4	1.6	1.5	1.2	1.0

1. Average for the final quarter of the period.

of output and limits the rise in unemployment.³ In contrast to the first scenario, output rebounds more strongly and the unemployment rate rises to only about 6 percent next year.

Growth pause. In this scenario, final demand is fundamentally stronger than assumed in the staff outlook. Consequently, compared to baseline, a more severe inventory drawdown takes place in the near term, but greater final sales

3. In this scenario, the Taylor rule is used to adjust the nominal funds rate relative to its baseline path in response to the greater weakness in output.

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

January 25, 2001

Interval		Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
		12/13/00	01/25/01	12/13/00	01/25/01	12/13/00	01/25/01	12/13/00	01/25/01	12/13/00	01/25/01
ANNUAL											
1998		5.7	5.7	4.4	4.4	1.3	1.3	1.6	1.6	4.5	4.5
1999		5.8	5.8	4.2	4.2	1.5	1.5	2.2	2.2	4.2	4.2
2000		7.3	7.2	5.1	5.1	2.2	2.1	3.4	3.4	4.0	4.0
2001		5.0	3.8	2.9	1.7	2.1	2.1	2.5	2.7	4.5	4.8
2002		5.5	5.2	3.7	3.5	1.8	1.7	2.1	1.9	4.9	5.4
QUARTERLY											
1999	Q1	5.9	5.9	3.5	3.5	2.2	2.2	1.7	1.7	4.3	4.3
	Q2	3.9	3.9	2.5	2.5	1.4	1.4	3.2	3.2	4.3	4.3
	Q3	6.7	6.7	5.7	5.7	1.1	1.1	2.4	2.4	4.2	4.2
	Q4	9.7	9.7	8.3	8.3	1.6	1.6	2.9	2.9	4.1	4.1
2000	Q1	8.3	8.3	4.8	4.8	3.3	3.3	4.3	4.3	4.1	4.1
	Q2	8.2	8.2	5.6	5.6	2.4	2.4	3.6	3.6	4.0	4.0
	Q3	4.3	3.8	2.3	2.2	1.9	1.6	3.1	3.1	4.0	4.0
	Q4	4.7	4.1	2.4	2.0	2.3	2.0	2.8	2.8	4.0	4.0
2001	Q1	4.9	2.4	2.2	-0.5	2.7	3.0	2.5	3.9	4.3	4.4
	Q2	5.0	3.0	3.1	1.3	1.8	1.8	1.9	1.8	4.4	4.7
	Q3	5.0	4.3	3.3	2.6	1.6	1.6	1.9	1.5	4.6	5.0
	Q4	5.3	5.3	3.6	3.6	1.7	1.6	2.0	1.8	4.7	5.2
2002	Q1	5.9	5.8	3.7	3.7	2.1	1.9	2.1	1.9	4.8	5.3
	Q2	5.6	5.4	3.8	3.7	1.7	1.6	2.2	2.0	4.9	5.4
	Q3	5.7	5.5	3.9	3.8	1.7	1.6	2.3	2.0	4.9	5.5
	Q4	5.8	5.7	4.0	4.0	1.7	1.6	2.3	2.0	5.0	5.5
TWO-QUARTER ³											
1999	Q2	4.9	4.9	3.0	3.0	1.8	1.8	2.5	2.5	-0.1	-0.1
	Q4	8.2	8.2	7.0	7.0	1.3	1.3	2.7	2.7	-0.2	-0.2
2000	Q2	8.2	8.2	5.2	5.2	2.8	2.8	4.0	4.0	-0.1	-0.1
	Q4	4.5	4.0	2.3	2.1	2.1	1.8	2.9	2.9	0.0	0.0
2001	Q2	5.0	2.7	2.7	0.4	2.2	2.4	2.2	2.9	0.4	0.7
	Q4	5.2	4.8	3.5	3.1	1.6	1.6	1.9	1.7	0.3	0.5
2002	Q2	5.7	5.6	3.8	3.7	1.9	1.8	2.1	1.9	0.2	0.2
	Q4	5.8	5.6	4.0	3.9	1.7	1.6	2.3	2.0	0.1	0.1
FOUR-QUARTER ⁴											
1998	Q4	5.9	5.9	4.6	4.6	1.2	1.2	1.5	1.5	-0.3	-0.3
1999	Q4	6.5	6.5	5.0	5.0	1.6	1.6	2.6	2.6	-0.3	-0.3
2000	Q4	6.3	6.1	3.8	3.7	2.5	2.3	3.4	3.4	-0.1	-0.1
2001	Q4	5.1	3.8	3.1	1.8	1.9	2.0	2.1	2.3	0.7	1.2
2002	Q4	5.7	5.6	3.9	3.8	1.8	1.7	2.2	2.0	0.3	0.3

1. For all urban consumers.

2. Level, except as noted.

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

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

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

January 25, 2001

Item	Units ¹	-----Projected-----								
		1994	1995	1996	1997	1998	1999	2000	2001	2002
EXPENDITURES										
Nominal GDP	Bill. \$	7054.3	7400.5	7813.2	8318.4	8790.2	9299.2	9969.7	10347.1	10886.8
Real GDP	Bill. Ch. \$	7347.7	7543.8	7813.2	8159.5	8515.7	8875.8	9324.0	9479.7	9807.7
Real GDP	% change	4.1	2.2	4.1	4.3	4.6	5.0	3.7	1.8	3.8
Gross domestic purchases		4.3	1.7	4.3	5.0	5.7	5.9	4.3	1.6	3.8
Final sales		3.2	2.9	3.9	3.9	4.6	4.8	3.7	2.3	3.7
Priv. dom. final purchases		4.3	3.2	4.4	5.1	6.4	6.1	5.1	2.0	3.7
Personal cons. expenditures		3.6	2.8	3.1	4.1	5.0	5.6	4.5	1.6	2.8
Durables		6.4	3.7	5.0	8.8	12.6	11.1	4.6	-1.6	3.9
Nondurables		4.1	2.5	3.2	2.5	5.0	5.9	3.7	1.2	2.4
Services		2.7	2.7	2.7	3.9	3.4	4.2	4.8	2.5	2.9
Business fixed investment		9.2	7.5	12.1	11.8	12.9	10.1	10.7	4.5	9.1
Equipment & Software		12.0	8.9	11.8	13.7	15.8	14.1	10.3	3.7	10.9
Nonres. structures		1.1	3.3	12.8	6.5	4.9	-1.7	11.9	6.8	4.1
Residential structures		4.0	-1.5	5.6	3.5	10.3	2.8	-2.5	-0.5	0.7
Exports		10.5	9.7	9.8	8.5	2.2	4.3	7.2	6.0	9.9
Imports		12.2	5.0	11.2	14.3	11.2	12.0	11.4	4.1	8.2
Gov't. cons. & investment		0.2	-0.8	2.7	2.4	2.6	4.4	1.2	2.9	3.3
Federal		-3.7	-5.3	2.0	0.1	0.8	4.8	-1.3	2.1	2.7
Defense		-5.9	-4.7	0.8	-1.4	-1.0	4.6	-3.0	1.2	2.1
State & local		2.8	2.1	3.0	3.7	3.6	4.2	2.6	3.3	3.5
Change in bus. inventories	Bill. Ch. \$	66.8	30.4	30.0	63.8	80.2	45.3	66.0	13.4	40.8
Nonfarm		53.6	42.6	22.1	60.6	78.7	44.9	61.0	10.6	39.4
Net exports		-86.5	-78.4	-89.0	-113.3	-221.0	-322.4	-411.6	-434.7	-453.8
Nominal GDP	% change	6.2	4.3	6.0	6.2	5.9	6.5	6.1	3.8	5.6
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	114.1	117.2	119.6	122.7	125.8	128.8	131.4	132.0	132.8
Unemployment rate	%	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.8	5.4
Industrial prod. index	% change	6.3	3.6	5.6	7.2	3.2	5.1	4.2	0.2	3.9
Capacity util. rate - mfg.	%	82.5	82.5	81.6	82.7	81.3	80.5	81.3	77.4	77.9
Housing starts	Millions	1.46	1.35	1.48	1.47	1.62	1.67	1.61	1.57	1.60
Light motor vehicle sales		15.01	14.77	15.05	15.06	15.45	16.76	17.24	15.32	15.24
North Amer. produced		12.88	12.87	13.34	13.12	13.43	14.28	14.38	12.52	12.52
Other		2.13	1.90	1.70	1.93	2.02	2.48	2.86	2.81	2.73
INCOME AND SAVING										
Nominal GNP	Bill. \$	7071.1	7420.9	7831.2	8325.4	8786.7	9288.2	9960.3	10333.2	10861.8
Nominal GNP	% change	6.2	4.4	5.9	6.0	5.7	6.5	6.1	3.7	5.5
Nominal personal income		5.1	4.3	5.9	6.3	6.3	5.6	5.8	4.7	5.3
Real disposable income		2.9	1.7	2.6	3.8	4.6	3.1	2.4	3.1	4.4
Personal saving rate	%	6.1	5.6	4.8	4.2	4.2	2.2	-0.1	0.4	2.1
Corp. profits, IVA & CCAdj.	% change	12.3	11.3	11.4	9.9	-5.8	11.2	3.0	-2.8	6.0
Profit share of GNP	%	8.1	9.0	9.6	10.0	9.3	9.2	9.5	8.5	8.5
Excluding FR Banks		7.9	8.7	9.4	9.7	9.0	8.9	9.2	8.2	8.2
Federal surpl./deficit	Bill. \$	-212.3	-192.0	-136.8	-53.3	49.0	124.4	249.2	238.0	219.4
State & local surpl./def.		8.6	15.3	21.4	31.0	41.7	50.0	59.9	48.0	39.9
Ex. social ins. funds		4.0	11.4	18.7	29.9	41.3	50.4	60.3	48.0	39.6
Gross natl. saving rate	%	16.3	16.9	17.2	18.0	18.8	18.5	18.3	18.2	19.1
Net natl. saving rate		4.3	5.1	5.7	6.7	7.5	6.8	6.5	5.9	6.8
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.1	2.1	1.9	1.8	1.2	1.6	2.3	2.0	1.7
Gross Domestic Purchases		2.1	2.1	1.9	1.4	0.8	1.9	2.5	1.7	1.7
chn.-wt. price index										
PCE chn.-wt. price index		2.1	2.1	2.3	1.5	1.1	2.0	2.3	1.8	1.7
Ex. food and energy		2.3	2.3	1.8	1.7	1.6	1.5	1.6	1.9	1.8
CPI		2.6	2.7	3.1	1.9	1.5	2.6	3.4	2.3	2.0
Ex. food and energy		2.8	3.0	2.6	2.2	2.4	2.1	2.6	2.5	2.4
ECI, hourly compensation ²		3.1	2.6	3.1	3.4	3.5	3.4	4.4	4.3	4.1
Nonfarm business sector										
Output per hour		1.1	1.1	2.3	2.1	2.9	4.1	3.6	1.9	3.1
Compensation per Hour		2.2	2.7	3.1	3.2	5.3	4.8	5.6	5.3	5.0
Unit labor cost		1.0	1.5	0.8	1.1	2.3	0.7	2.0	3.4	1.9

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

Strictly Confidential <FR>
Class II FOMC

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

January 25, 2001

Item	Units	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	8634.7	8722.0	8829.1	8974.9	9104.5	9191.5	9340.9	9559.7	9752.7	9945.7
Real GDP	Bill. Ch. \$	8404.9	8465.6	8537.6	8654.5	8730.0	8783.2	8905.8	9084.1	9191.8	9318.9
Real GDP	% change	6.5	2.9	3.4	5.6	3.5	2.5	5.7	8.3	4.8	5.6
Gross domestic purchases		8.1	4.8	4.4	5.4	4.9	3.8	6.6	8.4	5.6	6.5
Final sales		4.1	5.6	2.9	5.9	4.5	4.0	4.5	6.4	6.7	3.9
Priv. dom. final purchases		7.2	7.5	4.4	6.3	6.4	6.2	5.6	6.2	9.3	4.7
Personal cons. expenditures		4.8	5.8	4.3	4.9	5.7	5.6	5.0	5.9	7.6	3.1
Durables		9.4	13.9	4.1	23.9	8.6	15.0	8.0	13.0	23.6	-5.0
Nondurables		4.7	5.8	4.3	5.2	7.8	3.8	4.9	7.4	6.0	3.6
Services		4.0	4.3	4.3	1.3	4.1	4.6	4.5	3.8	5.2	4.6
Business fixed investment		20.1	15.6	3.5	13.2	9.5	9.6	11.8	9.5	21.0	14.6
Equipment & Software		24.6	16.1	6.5	16.7	14.1	15.2	18.0	9.5	20.6	17.9
Nonres. structures		7.9	14.1	-4.7	3.3	-3.4	-6.2	9.7	22.3	4.4	4.4
Residential structures		9.6	12.6	10.3	8.9	8.2	5.9	-3.1	0.5	3.2	1.3
Exports		1.0	-3.0	-3.2	15.1	-7.9	5.8	10.2	10.3	6.3	14.3
Imports		14.2	13.1	5.5	12.2	4.5	16.2	16.9	10.7	12.0	18.6
Gov't. cons. & investment		-1.0	7.3	1.4	2.8	3.7	0.8	4.8	8.5	-1.1	4.8
Federal		-9.1	12.9	-3.2	3.7	-2.2	2.0	6.9	13.2	-14.2	17.2
Defense		-17.7	13.1	5.8	-2.4	-3.1	-2.3	12.3	12.6	-19.8	16.9
State & local		3.8	4.4	4.0	2.3	7.0	0.1	3.7	6.1	6.6	-1.1
Change in bus. inventories	Bill. Ch. \$	117.3	60.9	73.1	69.4	48.1	13.1	39.1	80.9	36.6	78.6
Nonfarm		109.7	62.5	79.2	63.5	49.2	14.1	43.5	73.0	33.0	72.3
Net exports		-175.3	-219.8	-244.1	-244.9	-279.8	-314.6	-342.6	-352.5	-376.8	-403.4
Nominal GDP	% change	7.6	4.1	5.0	6.8	5.9	3.9	6.7	9.7	8.3	8.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	124.7	125.5	126.2	127.0	127.8	128.4	129.1	129.8	130.6	131.6
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	1.76	1.59	1.66	1.69	1.73	1.61
Light motor vehicle sales		15.00	16.01	14.55	16.24	16.18	16.79	17.08	17.00	18.20	17.24
North Amer. produced		13.07	14.04	12.53	14.07	13.87	14.34	14.61	14.31	15.32	14.36
Other		1.93	1.97	2.02	2.17	2.31	2.45	2.47	2.69	2.88	2.88
INCOME AND SAVING											
Nominal GNP	Bill. \$	8640.3	8725.0	8814.9	8966.6	9097.2	9181.8	9327.3	9546.3	9745.0	9937.4
Nominal GNP	% change	7.8	4.0	4.2	7.1	6.0	3.8	6.5	9.7	8.6	8.1
Nominal personal income		7.7	6.2	5.9	5.7	4.3	5.4	5.2	7.6	6.9	6.9
Real disposable income		6.6	4.5	3.6	3.6	2.9	2.8	2.2	4.5	1.9	3.7
Personal saving rate	%	4.6	4.3	4.1	3.8	3.1	2.5	1.8	1.5	0.2	0.3
Corp. profits, IVA & CCAdj.	% change	-12.6	-5.0	2.0	-7.0	26.5	-6.9	2.5	26.6	20.7	12.2
Profit share of GNP	%	9.5	9.3	9.3	9.0	9.4	9.1	9.0	9.4	9.6	9.7
Excluding FR Banks		9.3	9.0	9.0	8.7	9.1	8.8	8.8	9.1	9.3	9.4
Federal surpl./deficit	Bill. \$	25.9	41.9	71.9	56.4	89.7	117.5	147.3	143.3	235.8	240.9
State & local surpl./def.		38.1	33.4	37.5	57.7	47.9	38.0	47.4	66.6	52.0	60.1
Ex. social ins. funds		37.5	32.9	37.2	57.6	48.1	38.3	47.9	67.2	52.5	60.6
Gross natl. saving rate	%	18.9	18.7	19.0	18.7	18.9	18.4	18.4	18.3	18.2	18.6
Net natl. saving rate		7.7	7.4	7.6	7.2	7.3	6.7	6.5	6.6	6.6	6.9
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.0	1.1	1.5	1.1	2.2	1.4	1.1	1.6	3.3	2.4
Gross Domestic Purchases		0.1	0.8	1.1	1.2	1.9	2.0	1.7	1.9	3.8	2.1
chn.-wt. price index		0.4	1.2	1.4	1.5	1.7	2.3	1.9	2.2	3.5	2.1
PCE chn.-wt. price index		1.2	1.8	1.8	1.7	1.8	1.3	1.3	1.7	2.2	1.4
Ex. food and energy		1.0	1.7	1.7	1.7	1.7	3.2	2.4	2.9	4.3	3.6
CPI		2.8	2.3	2.3	2.1	1.8	2.1	2.1	2.3	2.5	2.9
Ex. food and energy		3.0	3.3	4.4	2.6	1.7	4.3	3.7	4.0	5.9	4.4
ECI, hourly compensation ¹		4.5	1.6	1.8	3.6	2.6	0.6	5.2	8.0	1.9	6.1
Nonfarm business sector		6.1	5.3	5.2	4.5	4.5	5.0	5.5	4.2	3.9	5.9
Output per hour		1.5	3.6	3.3	0.8	1.8	4.3	0.3	-3.5	1.9	-0.2
Compensation per hour											
Unit labor cost											

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)

January 25, 2001

Item	Units	----- Projected -----									
		2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	10039.4	10141.2	10201.7	10278.3	10386.7	10521.8	10670.0	10810.8	10956.5	11109.9
Real GDP	Bill. Ch. \$	9369.5	9415.8	9404.6	9435.1	9496.8	9582.1	9670.5	9759.2	9851.4	9949.6
Real GDP	% change	2.2	2.0	-0.5	1.3	2.6	3.6	3.7	3.7	3.8	4.0
Gross domestic purchases		3.0	2.3	-0.9	1.6	2.7	3.2	4.1	3.9	3.8	3.5
Final sales		2.4	1.9	2.1	1.3	2.3	3.3	3.3	3.5	3.7	4.2
Priv. dom. final purchases		4.2	2.1	1.5	1.3	2.3	2.8	3.7	3.7	3.8	3.7
Personal cons. expenditures		4.5	2.8	1.4	1.1	1.8	2.2	2.8	2.8	2.9	2.9
Durables		7.6	-5.2	-5.3	-3.6	0.3	2.4	3.5	3.6	4.5	4.1
Nondurables		4.7	0.8	1.5	0.6	1.0	1.8	2.4	2.4	2.4	2.4
Services		3.7	5.6	2.7	2.3	2.4	2.4	2.9	2.9	2.9	2.9
Business fixed investment		7.7	0.5	3.0	2.6	5.6	6.6	8.9	9.0	9.3	9.2
Equipment & Software		5.6	-1.5	1.3	1.0	5.4	7.1	10.4	10.7	11.2	11.2
Nonres. structures		14.6	7.1	8.6	7.3	6.2	5.2	4.6	4.2	3.8	3.6
Residential structures		-10.6	-3.4	-2.1	-0.0	-0.2	0.2	1.3	1.6	0.6	-0.5
Exports		13.9	-4.7	0.8	4.9	7.2	11.5	6.3	9.7	10.2	13.6
Imports		17.0	-0.8	-2.3	6.0	6.6	6.4	7.9	9.4	8.6	7.1
Gov't. cons. & investment		-1.4	2.8	2.3	3.1	3.0	3.1	3.2	3.2	3.3	3.3
Federal		-9.0	3.6	0.4	2.8	2.5	2.8	2.7	2.6	2.7	2.7
Defense		-9.7	4.4	-1.5	2.2	2.0	2.1	2.1	2.0	2.1	2.1
State & local		2.9	2.3	3.3	3.2	3.2	3.3	3.5	3.5	3.6	3.6
Change in bus. inventories	Bill. Ch. \$	72.5	76.2	8.6	6.5	15.0	23.4	35.1	42.2	45.2	40.6
Nonfarm		67.4	71.1	4.8	3.7	12.6	21.4	33.5	40.5	44.0	39.5
Net exports		-427.7	-438.4	-426.7	-436.1	-441.5	-434.3	-447.2	-456.7	-461.4	-449.9
Nominal GDP	% change	3.8	4.1	2.4	3.0	4.3	5.3	5.8	5.4	5.5	5.7
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	131.6	131.9	132.0	132.0	132.0	132.1	132.3	132.6	132.9	133.2
Unemployment rate	%	4.0	4.0	4.4	4.7	5.0	5.2	5.3	5.4	5.5	5.5
Industrial prod. index	% change	3.5	-1.1	-6.5	0.9	3.1	3.8	4.0	4.2	3.6	3.6
Capacity util. rate - mfg.	%	81.7	80.2	77.7	77.2	77.3	77.5	77.8	77.9	78.0	78.0
Housing starts	Millions	1.53	1.56	1.59	1.56	1.57	1.58	1.59	1.60	1.60	1.60
Light motor vehicle sales		17.37	16.17	15.72	15.26	15.16	15.15	15.16	15.21	15.27	15.33
North Amer. produced		14.54	13.30	12.80	12.44	12.41	12.42	12.44	12.49	12.54	12.60
Other		2.83	2.87	2.92	2.82	2.75	2.73	2.72	2.72	2.73	2.73
INCOME AND SAVING											
Nominal GDP	Bill. \$	10030.5	10128.5	10186.7	10267.1	10374.1	10504.8	10649.2	10787.4	10930.5	11080.2
Nominal personal income	% change	3.8	4.0	2.3	3.2	4.2	5.1	5.6	5.3	5.4	5.6
Real disposable income		5.3	4.2	5.5	4.0	4.4	4.7	5.8	5.1	5.0	5.2
Personal saving rate	%	2.6	1.2	4.2	2.3	2.8	2.9	8.4	3.0	3.0	3.1
Excluding FR Banks		-0.2	-0.6	0.1	0.3	0.6	0.7	2.1	2.1	2.1	2.2
Corp. profits, IVA & CCAdj.	% change	2.8	-19.3	-16.5	-3.7	1.6	9.4	3.5	6.1	6.4	8.1
Profit share of GNP	%	9.7	9.1	8.6	8.5	8.4	8.5	8.5	8.5	8.5	8.6
Excluding FR Banks		9.4	8.8	8.3	8.2	8.1	8.2	8.2	8.2	8.2	8.3
Federal surpl./deficit	Bill. \$	253.3	266.7	226.0	229.1	245.3	251.4	187.2	209.4	233.3	247.6
State & local surpl./def.		63.2	64.2	55.0	49.3	43.4	44.3	44.9	41.3	38.5	34.9
Ex. social ins. funds		63.6	64.5	55.2	49.4	43.4	44.2	44.7	41.0	38.2	34.6
Gross natl. saving rate	%	18.5	18.0	17.9	18.0	18.3	18.5	18.8	19.0	19.2	19.4
Net natl. saving rate		6.6	6.0	5.6	5.7	5.9	6.2	6.5	6.7	6.9	7.0
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.6	2.0	3.0	1.8	1.6	1.6	1.9	1.6	1.6	1.6
Gross Domestic Purchases		2.0	1.9	2.5	1.4	1.4	1.5	1.9	1.6	1.6	1.7
chn.-wt. price index											
PCE chn.-wt. price index		1.8	2.0	2.6	1.5	1.4	1.5	1.6	1.7	1.7	1.7
Ex. food and energy		1.1	1.8	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.8
CPI		3.1	2.8	3.9	1.8	1.5	1.8	1.9	2.0	2.0	2.0
Ex. food and energy		2.5	2.4	2.6	2.6	2.5	2.5	2.4	2.4	2.4	2.4
ECI, hourly compensation ¹		4.1	3.0	4.3	4.3	4.3	4.2	4.2	4.1	4.1	4.1
Nonfarm business sector											
Output per hour		2.9	3.2	-0.1	1.5	2.6	3.7	3.2	3.1	3.1	3.2
Compensation per hour		6.3	6.5	5.8	5.3	5.2	5.1	5.3	5.0	5.0	4.9
Unit labor cost		2.9	3.3	5.9	3.7	2.6	1.5	2.1	1.9	1.9	1.7

1. Private-industry workers.

Item	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	98Q4/ 97Q4	99Q4/ 98Q4	0Q4/ 99Q4
Real GDP	3.4	5.6	3.5	2.5	5.7	8.3	4.8	5.6	2.2	4.6	5.0	3.7
Gross dom. purchases	4.5	5.5	5.0	3.8	6.8	8.6	5.8	6.7	3.1	5.8	6.0	4.5
Final sales	2.9	5.8	4.4	3.9	4.5	6.5	6.6	3.9	2.4	4.6	4.8	3.7
Priv. dom. final purchases	3.7	5.3	5.3	5.2	4.7	5.2	7.9	4.0	3.6	5.3	5.1	4.3
Personal cons. expenditures	2.8	3.3	3.7	3.7	3.4	4.1	5.0	2.1	3.0	3.3	3.7	3.0
Durables	0.3	1.7	0.7	1.1	0.6	1.0	1.8	-0.4	0.6	1.0	0.9	0.4
Nondurables	0.8	1.0	1.5	0.8	1.0	1.5	1.2	0.7	0.9	1.0	1.2	0.8
Services	1.7	0.5	1.6	1.8	1.8	1.6	2.0	1.8	1.5	1.4	1.7	1.9
Business fixed investment	0.4	1.6	1.2	1.2	1.5	1.2	2.5	1.9	1.0	1.5	1.3	1.4
Equipment & Software	0.6	1.5	1.3	1.4	1.7	0.9	1.9	1.7	0.6	1.4	1.3	1.0
Nonres. structures	-0.2	0.1	-0.1	-0.2	-0.2	0.3	0.6	0.1	0.4	0.2	-0.1	0.4
Residential structures	0.4	0.4	0.3	0.3	-0.1	0.0	0.1	0.1	-0.5	0.4	0.1	-0.1
Net exports	-1.0	0.1	-1.4	-1.4	-1.1	-0.4	-0.9	-1.0	-0.9	-1.1	-1.1	-0.8
Exports	-0.4	1.5	-0.9	0.6	1.1	1.1	0.7	1.5	1.5	0.3	0.5	0.8
Imports	-0.7	-1.5	-0.6	-2.0	-2.1	-1.5	-1.6	-2.5	-2.4	-1.4	-1.5	-1.6
Government cons. & invest.	0.3	0.5	0.6	0.1	0.8	1.5	-0.2	0.9	-0.2	0.5	0.8	0.2
Federal	-0.2	0.2	-0.1	0.1	0.4	0.8	-0.9	1.0	-0.6	0.0	0.3	-0.1
Defense	0.2	-0.1	-0.1	-0.1	0.5	0.5	-0.9	0.6	-0.4	-0.0	0.2	-0.1
Nondefense	-0.4	0.3	-0.0	0.2	-0.1	0.3	-0.1	0.4	-0.2	0.1	0.1	0.0
State and local	0.5	0.3	0.8	0.0	0.4	0.7	0.8	-0.1	0.3	0.4	0.5	0.3
Change in bus. inventories	0.6	-0.2	-0.9	-1.4	1.2	1.8	-1.8	1.7	-0.2	0.0	0.2	-0.0
Nonfarm	0.8	-0.7	-0.6	-1.4	1.3	1.3	-1.6	1.6	-0.2	0.0	0.1	-0.0
Farm	-0.2	0.5	-0.3	0.0	-0.1	0.5	-0.2	0.1	-0.1	0.0	0.1	-0.0

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

Item	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	00Q4/ 99Q4	01Q4/ 00Q4	02Q4/ 01Q4
Real GDP	2.0	-0.5	1.3	2.6	3.6	3.7	3.7	3.8	4.0	3.7	1.8	3.8
Gross dom. purchases	2.4	-0.9	1.6	2.8	3.3	4.2	4.0	4.0	3.6	4.5	1.7	3.9
Final sales	1.9	2.1	1.3	2.3	3.3	3.3	3.4	3.7	4.2	3.7	2.2	3.7
Priv. dom. final purchases	1.8	1.2	1.1	1.9	2.4	3.1	3.2	3.3	3.2	4.3	1.7	3.2
Personal cons. expenditures	1.9	0.9	0.8	1.2	1.5	1.9	1.9	1.9	1.9	3.0	1.1	1.9
Durables	-0.4	-0.4	-0.3	0.0	0.2	0.3	0.3	0.3	0.3	0.4	-0.1	0.3
Nondurables	0.2	0.3	0.1	0.2	0.4	0.5	0.5	0.5	0.5	0.8	0.2	0.5
Services	2.2	1.1	0.9	1.0	1.0	1.1	1.1	1.1	1.1	1.9	1.0	1.2
Business fixed investment	0.1	0.4	0.3	0.8	0.9	1.2	1.2	1.3	1.3	1.4	0.6	1.2
Equipment & Software	-0.2	0.1	0.1	0.5	0.7	1.0	1.1	1.1	1.1	1.0	0.4	1.1
Nonres. structures	0.2	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.4	0.2	0.1
Residential structures	-0.1	-0.1	-0.0	-0.0	0.0	0.1	0.1	0.0	-0.0	-0.1	-0.0	0.0
Net exports	-0.4	0.4	-0.3	-0.2	0.3	-0.4	-0.3	-0.1	0.4	-0.8	0.1	-0.1
Exports	-0.5	0.1	0.5	0.8	1.2	0.7	1.1	1.1	1.5	0.8	0.7	1.1
Imports	0.1	0.4	-0.9	-1.0	-0.9	-1.1	-1.4	-1.3	-1.1	-1.6	-0.6	-1.2
Government cons. & invest.	0.5	0.4	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.2	0.5	0.6
Federal	0.2	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	-0.1	0.1	0.2
Defense	0.2	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-0.1	0.0	0.1
Nondefense	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1
State and local	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.4
Change in bus. inventories	0.1	-2.6	-0.0	0.3	0.3	0.5	0.3	0.1	-0.2	-0.0	-0.5	0.2
Nonfarm	0.1	-2.6	-0.0	0.4	0.3	0.5	0.3	0.1	-0.2	-0.0	-0.5	0.2
Farm	-0.0	0.0	0.0	-0.0	-0.0	-0.0	0.0	-0.0	-0.0	-0.0	0.0	-0.0

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

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

January 25, 2001

Item	Fiscal year ¹				2000				2001				2002			
	1999 ^a	2000 ^a	2001	2002	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts ²	1827	2025	2104	2178	434	656	492	461	463	674	506	505	459	679	534	521
Outlays ²	1703	1789	1855	1914	449	444	431	464	476	466	449	485	478	479	472	498
Surplus/deficit ²	125	236	249	264	-15	212	60	-2	-13	208	57	20	-19	200	62	23
On-budget	1	86	91	89	-45	147	50	-14	-72	137	40	-28	-48	124	40	-28
Off-budget	124	150	158	175	30	65	10	12	59	70	17	48	29	75	22	51
Surplus excluding deposit insurance	119	233	248	262	-18	211	60	-3	-14	207	57	20	-19	199	62	23
Means of financing																
Borrowing	-89	-223	-215	-273	-27	-190	-54	-25	40	-190	-40	-45	5	-153	-79	-46
Cash decrease	-18	4	8	0	39	-13	5	32	-9	-1	-14	20	5	-40	15	20
Other ³	-18	-17	-42	9	4	-10	-11	-4	-18	-17	-3	5	9	-7	2	3
Cash operating balance, end of period	56	53	45	45	45	57	53	21	30	31	45	25	20	60	45	25
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	1837	2024	2122	2173	2012	2055	2089	2112	2108	2123	2148	2179	2140	2170	2204	2238
Expenditures	1735	1806	1881	1953	1776	1814	1836	1845	1882	1894	1902	1928	1952	1961	1970	1991
Consumption expenditures	464	489	508	536	479	499	490	496	507	512	517	522	536	541	545	550
Defense	306	320	331	346	311	326	320	325	331	333	336	338	346	348	351	354
Nondefense	158	168	177	190	168	173	170	171	177	179	181	184	190	192	194	197
Other spending	1270	1317	1373	1417	1297	1315	1346	1349	1374	1381	1386	1406	1417	1420	1425	1440
Current account surplus	103	218	242	220	236	241	253	267	226	229	245	251	187	209	233	248
Gross investment	94	104	110	114	101	106	104	108	109	110	111	113	114	115	116	117
Current and capital account surplus	9	114	132	106	134	135	149	158	117	119	134	139	73	94	117	130
Fiscal indicators⁴																
High-employment (HEB)																
surplus/deficit	-67	8	78	104	31	20	39	63	53	81	114	130	70	95	120	135
Change in HEB, percent of potential GDP	-8	-.8	-.7	-.2	-1	.1	-.2	-.2	.1	-.3	-.3	-.1	.6	-.2	-.2	-.1
Fiscal impetus (FI)																
percent, calendar year	5	2	4	11	-6	6	-2	2	.4	.7	.5	1	9	.5	.6	.5

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 January 2001 baseline surplus estimates are \$256 billion in FY2001 and \$277 billion in FY 2002. CBO's July 2000 baseline surplus estimates, assuming discretionary spending grows with inflation beginning in FY 2001 are \$268 billion in FY2001 and \$312 billion in FY 2002. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.

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

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

a--Actual

Strictly Confidential (FR)
Class II FOMC

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

January 25, 2001

Period ¹	Total ²	Federal government ³	Nonfederal						Memo: Nominal GDP
			Total ⁴	Households			Business	State and local governments	
				Total	Home mortgages	Consumer credit			
<i>Year</i>									
1995	5.5	4.1	6.0	8.0	6.0	14.1	6.6	-4.6	4.3
1996	5.3	4.0	5.8	7.3	7.3	7.9	5.7	-0.6	6.0
1997	5.6	0.6	7.3	6.6	7.0	4.3	8.7	5.3	6.2
1998	6.8	-1.4	9.6	8.8	9.8	5.4	11.1	7.2	5.9
1999	6.9	-1.9	9.5	9.0	9.9	7.1	11.2	4.4	6.5
2000	4.7	-8.0	8.1	8.8	9.0	8.7	8.7	2.0	6.1
2001	4.1	-6.9	6.6	7.2	8.7	3.2	6.7	2.5	3.8
2002	3.9	-8.7	6.3	6.2	7.8	1.6	7.4	1.6	5.6
<i>Quarter</i>									
1999:3	6.9	-1.9	9.4	9.3	10.4	5.5	10.7	4.3	6.7
4	6.4	-0.9	8.4	7.9	8.4	7.8	10.1	2.7	9.7
2000:1	5.4	-5.9	8.4	8.1	7.1	10.0	10.5	0.3	8.3
2	5.4	-11.4	9.8	9.7	10.2	9.2	11.6	1.7	8.2
3	4.2	-6.2	6.8	8.2	8.8	8.1	6.2	2.0	3.8
4	3.5	-9.7	6.6	8.2	9.0	6.6	5.5	3.8	4.1
2001:1	5.8	1.6	6.7	7.7	8.9	4.5	6.2	3.2	2.4
2	3.0	-12.2	6.4	7.4	8.7	3.6	6.0	2.6	3.0
3	4.4	-4.9	6.5	6.8	8.2	2.5	6.9	2.3	4.3
4	3.0	-12.8	6.3	6.4	7.8	1.9	7.0	1.9	5.3
2002:1	4.7	-2.7	6.2	6.3	7.8	1.6	7.1	1.6	5.8
2	3.8	-8.6	6.2	6.1	7.6	1.6	7.1	1.6	5.4
3	3.6	-10.5	6.2	6.0	7.4	1.6	7.2	1.6	5.5
4	3.1	-14.1	6.2	5.9	7.3	1.7	7.3	1.6	5.7

1-24

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2000:Q3 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2. On a monthly average basis, total debt is projected to grow 5.3 percent in 2000, 4.1 percent in 2001 and 3.8 percent in 2002.

3. On a monthly average basis, federal debt is projected to grow -6.7 percent in 2000, -6.6 percent in 2001 and -8.5 percent in 2002.

4. On a monthly average basis, nonfederal debt is projected to grow 8.5 percent in 2000, 6.6 percent in 2001 and 6.4 percent in 2002.

2.6.3 FOF

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	976.9	666.9	657.4	681.8	670.9	285.8	943.1	446.1	745.5	494.8	851.1	679.1	642.1	554.9
2 Net equity issuance	-143.5	-156.4	-91.0	-52.0	-87.6	-350.0	-108.0	-104.0	-84.0	-68.0	-52.0	-52.0	-52.0	-52.0
3 Net debt issuance	1120.4	823.3	748.4	733.8	758.5	635.8	1051.1	550.1	829.5	562.8	903.1	731.1	694.1	606.9
<i>Borrowing sectors</i>														
<i>Nonfinancial business</i>														
4 Financing gap ¹	172.1	219.0	223.1	291.5	227.4	242.9	206.8	209.9	227.7	248.0	273.5	288.8	300.6	303.1
5 Net equity issuance	-143.5	-156.4	-91.0	-52.0	-87.6	-350.0	-108.0	-104.0	-84.0	-68.0	-52.0	-52.0	-52.0	-52.0
6 Credit market borrowing	591.2	513.5	429.3	504.7	387.5	347.7	399.6	391.4	457.2	469.0	484.2	496.2	513.2	525.2
<i>Households</i>														
7 Net borrowing ²	548.1	581.2	521.7	481.2	564.8	575.1	556.1	541.0	505.9	483.8	483.2	481.1	481.1	479.7
8 Home mortgages	415.9	417.3	436.5	424.5	422.3	441.2	450.2	446.2	429.2	420.2	428.2	423.2	423.2	423.2
9 Consumer credit	94.4	124.5	49.2	25.8	120.4	100.7	69.2	57.1	40.0	30.5	25.2	25.1	25.1	27.7
10 Debt/DPI (percent) ³	95.4	98.7	101.8	102.6	99.1	100.4	100.7	101.6	102.4	102.9	102.0	102.4	102.8	103.1
<i>State and local governments</i>														
11 Net borrowing	52.3	24.5	32.2	21.4	25.2	48.0	40.8	33.4	29.4	25.4	21.4	21.4	21.4	21.4
12 Current surplus ⁴	156.8	176.5	173.0	173.8	181.4	184.1	176.9	173.2	169.4	172.5	175.3	174.0	173.6	172.5
<i>Federal government</i>														
13 Net borrowing	-71.2	-295.9	-234.8	-273.5	-219.0	-335.0	54.6	-415.6	-163.0	-415.4	-85.6	-267.6	-321.5	-419.4
14 Net borrowing (quarterly, n.s.a.)	-71.2	-295.9	-234.8	-273.5	-53.6	-25.7	40.0	-190.0	-39.6	-45.2	5.0	-153.0	-79.3	-46.2
15 Unified deficit (quarterly, n.s.a.)	-158.3	-254.9	-272.0	-266.3	-60.5	2.3	13.2	-207.7	-57.3	-20.2	18.7	-199.9	-62.2	-22.9
<i>Depository institutions</i>														
16 Funds supplied	404.3	476.6	275.1	288.7	468.5	381.0	312.7	268.0	261.8	258.0	283.2	284.2	293.2	294.2
<i>Memo (percentage of GDP)</i>														
17 Domestic nonfinancial debt ⁵	181.4	179.2	180.3	178.1	179.5	179.5	180.5	181.1	180.8	180.2	179.4	178.9	178.2	177.2
18 Domestic nonfinancial borrowing	12.0	8.3	7.2	6.7	7.6	6.3	10.3	5.4	8.0	5.3	8.5	6.8	6.3	5.5
19 Federal government ⁶	-0.8	-3.0	-2.3	-2.5	-2.2	-3.3	0.5	-4.0	-1.6	-3.9	-0.8	-2.5	-2.9	-3.8
20 Nonfederal	12.8	11.2	9.5	9.3	9.7	9.6	9.8	9.4	9.6	9.3	9.3	9.2	9.3	9.2

Note. Data after 2000:Q3 are staff projections.

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

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

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

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

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

6. Excludes government-insured mortgage pool securities.

International Developments

Overview

Foreign growth appears to have slowed more than expected. The step-down in U.S. economic growth has cast a noticeable shadow abroad, especially in countries with relatively strong trade links with the United States. As a result, the staff has lowered the forecast for foreign activity once again. Compared with the December Greenbook, total foreign growth has been reduced ½ percentage point for the second half of last year and almost a full percentage point for the current quarter. The largest downward revision is to projected growth in developing Asia, where the high-tech shakeout is taking a toll on exports. In Japan, private demand stagnated in the second half of last year, and there appears to be little reason to project more than anemic growth going forward. European growth also has slowed, but the outlook remains positive. On balance, the foreign slowdown is expected to be relatively mild, and total foreign growth should return to trend as U.S. economic activity revives, oil prices decline, and domestic demand picks up again abroad.

Summary of Staff Projections

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

Indicator	2000		Projection			
	H1	Q3	2000	2001		2002
			Q4	H1	H2	
Foreign output	5.8	3.9	2.6	2.7	3.5	3.7
<i>December GB</i>	5.8	4.4	3.2	3.3	3.7	3.7
Foreign CPI	2.0	4.1	3.5	2.9	3.0	3.0
<i>December GB</i>	2.0	4.1	3.6	3.2	3.2	3.2

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

Rates of foreign consumer price inflation appear to have peaked during the second half of 2000 and are expected to ease during the forecast period because of lower energy prices and lessening pressures on capacity. The benign inflation picture and the slower pace of foreign growth are likely to prompt some foreign central banks to ease monetary policy this year.

Our oil price projection, in line with futures prices, continues to call for a gradual decline over the forecast period. The staff has maintained the overall contour of our projected exchange rate path. The real broad dollar index is projected to weaken about 5 percent during the forecast period, with around two-thirds of its decline coming in 2001 when U.S. growth is expected to fall short of average growth in the other major industrial countries.

recorded earlier in the year. In the current quarter, growth is expected to remain subdued but it is then forecast to firm gradually to almost 5 percent by the end of 2002. In developing Asia, weaker demand from industrial countries, particularly the United States, should slow exports, especially high-tech products, in the near term. Growth in China is expected to remain robust. In Latin America, the forecast for Mexican growth for this year has been lowered mainly because of slower projected U.S. growth.

Prices of internationally traded goods. The announced reduction in OPEC supply has put upward pressure on oil prices, and our near-term outlook for oil prices is a bit above what we projected in the December Greenbook. However, weaker prospects for world economic growth are consistent with a slightly steeper downward trajectory, and thus the endpoint of our projection is a bit below the December Greenbook forecast.

Selected Trade Prices						
(Percent change from end of previous period except as noted; s.a.)						
Trade category	2000		Projection			
	H1	Q3	2000	2001		2002
			Q4	H1	H2	
<i>Exports</i>						
Nonagricultural (core)	2.8	1.2	-.1	.0	.4	.7
Agricultural	.6	-12.5	10.8	7.6	5.1	4.4
<i>Imports</i>						
Non-oil (core)	1.6	1.5	1.1	1.5	1.7	2.7
Oil (dollars per barrel)	26.15	28.73	29.20	25.88	23.17	20.86

NOTE. Prices for exports and non-oil imports of goods, excluding 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.

Core import price inflation is projected to rise from an estimated 1 percent at an annual rate in the fourth quarter of last year to 2 percent in the current quarter. This increase reflects the sharp rise in prices of industrial supplies (especially natural gas) in December. The rate of increase of core import prices should drop back to around 1 percent in the second quarter as natural gas prices retrace part of their recent rise. Core import prices are projected to accelerate to a 2¾ percent growth rate in 2002 as the effects of the projected dollar depreciation feed through. Prices of exported core goods are expected to change little through the first half of this year as the reversal of the recent run-up in prices of industrial supplies (which include petroleum products and petrochemicals)

offsets increases in other components. Some acceleration of prices of core exports is expected later in the forecast period.

U.S. international transactions. Real exports of goods and services are estimated to have fallen about 4¾ percent at an annual rate in the fourth quarter compared with a projected increase of 8½ percent in the December Greenbook. This surprisingly weak export performance reflects slower growth abroad, the effects of past dollar appreciation, and some retrenchment from unusually strong export growth earlier last year. We expect that export growth will be close to zero in the current quarter, owing in large part to the decline in production in the automotive sector. The growth rate of exports is projected to pick up beginning in the second quarter of 2001, mainly because the rate of economic growth abroad is expected to move back up. Exports are forecast to grow 6 percent this year and nearly 10 percent in 2002, boosted by the projected depreciation of the dollar.

**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	Q3	2000	2001		2002
			Q4	H1	H2	
Real exports	10.2	13.9	-4.7	2.8	9.3	9.9
<i>December GB</i>	10.2	15.4	8.5	4.4	9.3	10.3
Real imports	15.2	17.0	-.8	1.8	6.5	8.2
<i>December GB</i>	15.2	17.4	6.9	7.5	7.6	8.3

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

Growth of real imports of goods and services came to a halt in the fourth quarter. This slowdown was broadly based among trade categories, although a notable exception was imported non-auto consumer goods, which continued to expand. Given the projected path of U.S. GDP, and particularly developments in the automotive sector, we forecast that imports will decline at an annual rate of 2¼ percent in the first quarter before rebounding in the second quarter. Imports are expected to grow 4 percent in 2001 and 8¼ percent in 2002. Relative prices, which have been boosting growth of core imports in recent quarters, will become a slightly restraining factor next year as a result of the dollar's expected depreciation.

Alternative Simulations: Lower Dollar
(Percent change from previous period, annual rate)

Indicator and simulation	2001		2002	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	.4	3.1	3.7	3.9
Immediate 10 percent depreciation				
No U.S. policy response	.5	3.5	4.2	4.5
U.S. policy response	.5	3.4	3.9	4.1
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	1.9	1.9	1.8	1.8
Immediate 10 percent depreciation				
No U.S. policy response	2.2	2.5	2.2	2.0
U.S. policy response	2.2	2.5	2.2	1.8

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

For the second scenario we extend the case of U.S. recession (repeated in the second table below for comparison) to include a more pronounced slowdown in foreign growth than in our baseline forecast. As in the U.S. recession scenario, we assume a temporary shock to foreign consumer and investor confidence that lowers overall foreign demand by a slightly smaller magnitude than the U.S. demand shock in the domestic recession scenario, but it is differentiated by region. The foreign demand shock is specified to fall more heavily on developing Asia than the rest of the world. The simulation assumes policy responses by both U.S. and foreign monetary authorities. U.S. GDP growth is $\frac{1}{4}$ percentage point lower in 2001 and a bit lower in 2002 than in the case where the United States alone experiences recession. Core PCE inflation is essentially unchanged from its baseline level in either case shown.

Alternative Simulations: Lower Growth
(Percent change from previous period, annual rate)

Indicator and simulation	2001		2002	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
U.S. recession, with policy response	-1.1	.6	4.8	5.5
U.S. recession and lower foreign growth, with policy responses	-1.3	.3	4.7	5.5
<i>U.S. PCE prices excl. food and energy</i>				
U.S. recession, with policy response	1.9	2.0	1.9	1.8
U.S. recession and lower foreign growth, with policy responses	1.9	1.9	1.8	1.7

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

January 25, 2001

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

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

Total foreign	5.2	2.3	4.0	4.3	1.2	4.8	4.5	3.1	3.7
Industrial Countries	4.1	1.9	2.5	3.7	2.2	3.8	3.6	2.4	3.0
of which:									
Canada	5.5	1.4	2.4	4.8	3.2	4.9	4.5	2.3	3.4
Japan	1.7	2.6	2.9	0.7	-1.4	0.4	2.0	0.9	1.2
United Kingdom	4.6	1.9	2.9	3.5	2.0	3.2	2.9	2.5	2.5
Euro-12	3.0	1.5	1.6	3.0	1.9	3.2	2.8	2.8	3.0
Germany	2.9	1.1	1.3	1.6	0.9	2.5	2.9	2.6	3.2
Developing Countries	6.8	3.0	6.2	5.1	-0.2	6.2	6.0	4.1	4.8
Asia	8.8	7.2	6.8	4.8	-1.9	8.7	6.1	4.5	5.2
Korea	9.2	7.4	6.1	3.1	-4.6	14.0	5.8	3.0	4.7
China	16.3	12.6	9.2	8.2	9.5	6.2	7.4	7.4	7.7
Latin America	5.4	-3.7	6.1	6.0	1.1	4.2	6.0	3.8	4.4
Mexico	5.2	-7.1	7.1	6.7	2.7	5.3	7.2	4.0	4.7
Brazil	10.0	-0.6	4.6	2.0	-1.4	3.5	3.9	3.3	4.0
CONSUMER PRICES (2)									

Industrial Countries	1.1	1.3	1.4	1.5	1.0	1.1	1.9	1.2	1.4
of which:									
Canada	-0.0	2.1	2.0	1.0	1.1	2.4	3.1	1.7	1.9
Japan	0.8	-0.8	0.1	2.0	0.8	-1.3	-0.9	-0.7	-0.3
United Kingdom (3)	2.2	2.9	3.2	2.7	2.5	2.2	2.1	2.4	2.4
Euro-12 (4)	NA	NA	NA	1.5	0.8	1.5	2.6	1.7	1.9
Germany	2.8	1.4	1.3	1.5	0.3	1.1	2.5	1.4	1.5
Developing Countries	22.9	16.9	11.1	6.8	9.1	4.7	4.2	5.4	5.3
Asia	10.7	6.4	4.8	2.8	4.5	0.2	1.9	3.7	3.9
Korea	5.8	4.4	5.0	5.0	5.9	1.3	2.9	2.7	3.0
China	26.9	11.0	6.8	0.9	-1.2	-0.9	0.9	3.8	4.2
Latin America	54.0	42.1	25.9	15.6	15.5	12.6	8.5	8.0	7.7
Mexico	7.0	48.9	28.2	17.2	17.5	13.6	8.9	8.5	8.1
Brazil	1196.9	21.5	9.6	4.7	1.6	8.3	6.2	5.0	4.9

1-37

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

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

Measure and country	2000				2001				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	----- Quarterly changes at an annual rate -----											
Total foreign	7.4	4.3	3.9	2.6	2.3	3.1	3.5	3.6	3.6	3.6	3.7	3.8
Industrial Countries	5.3	3.7	2.7	2.5	1.6	2.5	2.6	2.8	3.0	3.0	3.0	3.0
of which:												
Canada	5.5	4.6	4.8	3.1	0.9	2.3	2.9	3.2	3.4	3.4	3.4	3.4
Japan	10.0	0.9	-2.6	0.2	0.9	1.8	0.5	0.6	1.2	1.2	1.3	1.3
United Kingdom	1.6	4.1	2.8	3.2	2.4	2.5	2.5	2.6	2.5	2.5	2.5	2.5
Euro-12	3.5	3.3	2.3	2.0	2.4	2.8	2.9	3.0	3.0	3.0	3.0	3.0
Germany	3.6	4.6	2.3	1.3	2.0	2.7	2.8	3.1	3.1	3.2	3.1	3.2
Developing Countries	10.6	5.2	5.6	2.8	3.2	3.9	4.7	4.7	4.6	4.6	4.9	4.9
Asia	12.3	4.7	6.2	1.4	2.9	4.3	5.4	5.4	5.0	5.0	5.4	5.5
Korea	7.1	4.8	14.0	-2.0	1.0	3.0	4.0	4.0	4.0	4.5	5.0	5.5
China	9.5	1.9	11.0	7.5	5.5	6.0	9.0	9.0	6.5	6.5	9.0	9.0
Latin America	9.9	5.5	4.8	4.0	3.3	3.4	4.2	4.2	4.4	4.4	4.4	4.4
Mexico	11.8	6.7	5.8	4.5	3.5	3.5	4.6	4.6	4.8	4.7	4.8	4.8
Brazil	5.6	2.1	4.8	3.0	3.0	3.2	3.5	3.7	4.0	4.0	4.0	4.0
CONSUMER PRICES (2)	----- Four-quarter changes -----											
Industrial Countries	1.6	1.5	1.7	1.9	1.8	1.8	1.4	1.2	1.2	1.3	1.4	1.4
of which:												
Canada	2.7	2.4	2.7	3.1	3.0	2.8	2.1	1.7	1.7	1.8	1.8	1.9
Japan	-0.8	-1.0	-1.1	-0.9	-0.9	-0.6	-0.7	-0.7	-0.5	-0.4	-0.3	-0.3
United Kingdom (3)	2.1	2.1	2.1	2.1	2.2	2.3	2.3	2.4	2.4	2.4	2.4	2.4
Euro-12 (4)	2.1	2.1	2.5	2.6	2.4	2.3	1.9	1.7	1.7	1.8	1.9	1.9
Germany	2.0	1.7	2.2	2.5	2.0	2.1	1.6	1.4	1.3	1.4	1.5	1.5
Developing Countries	3.9	3.8	4.0	4.2	4.9	5.4	5.3	5.4	5.5	5.5	5.5	5.3
Asia	0.5	0.8	1.4	1.9	2.7	3.7	3.8	3.7	3.7	3.8	3.9	3.9
Korea	1.5	1.4	3.2	2.9	4.1	4.6	3.0	2.7	3.0	3.0	3.0	3.0
China	0.1	0.1	0.3	0.9	1.6	3.4	3.6	3.8	3.8	3.9	4.1	4.2
Latin America	10.0	9.1	8.7	8.5	8.8	8.6	8.2	8.0	8.1	7.9	7.8	7.7
Mexico	10.6	9.6	9.0	8.9	9.2	8.9	8.6	8.5	8.6	8.5	8.3	8.1
Brazil	7.8	6.6	7.7	6.2	6.7	7.8	5.7	5.0	4.9	4.9	4.9	4.9

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1994	1995	1996	1997	1998	1999	----- 2000	Projected 2001	----- 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	-1.1	-0.8	0.1	-0.1
Exports of G&S	1.0	1.0	1.1	1.0	0.3	0.5	0.8	0.7	1.1
Imports of G&S	-1.3	-0.6	-1.3	-1.7	-1.4	-1.5	-1.6	-0.6	-1.2
Percentage change, Q4/Q4									
Exports of G&S	10.5	9.7	9.8	8.5	2.2	4.3	7.2	6.0	9.9
Services	8.2	8.8	8.9	1.4	2.8	0.2	1.5	4.2	7.0
Agricultural Goods	16.3	-4.0	3.8	1.0	-0.3	-0.5	8.2	-1.4	2.9
Computers	27.4	39.1	21.6	25.8	7.0	13.3	23.4	21.4	33.5
Semiconductors	66.9	79.6	44.6	21.3	9.3	34.4	27.2	21.3	37.3
Other Goods 1/	6.9	5.7	7.8	10.9	1.3	4.1	7.0	4.8	6.9
Imports of G&S	12.2	5.0	11.2	14.3	11.2	12.0	11.4	4.1	8.2
Services	1.8	5.5	5.3	14.0	9.5	2.1	12.8	1.2	4.9
Oil	-0.2	2.4	7.8	3.9	4.6	-3.9	10.4	2.9	3.7
Computers	39.0	35.0	17.8	33.0	26.7	25.0	18.2	18.9	28.6
Semiconductors	54.5	92.4	56.7	32.9	-7.3	34.0	22.9	24.3	38.6
Other Goods 2/	12.3	-1.2	10.5	12.7	11.6	13.9	10.2	2.6	6.0
Billions of chained 1996 dollars									
Net Goods & Services	-86.5	-78.4	-89.0	-113.3	-221.0	-322.4	-411.6	-434.7	-453.8
Exports of G&S	732.8	808.2	874.2	981.5	1003.6	1033.0	1127.5	1175.8	1279.9
Imports of G&S	819.4	886.6	963.1	1094.8	1224.6	1355.3	1539.1	1610.4	1733.7
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-118.6	-109.5	-123.3	-140.5	-217.1	-331.5	-438.3	-451.0	-477.8
Current Acct as Percent of GDP	-1.7	-1.5	-1.6	-1.7	-2.5	-3.6	-4.4	-4.4	-4.4
Net Goods & Services (BOP)	-97.0	-96.0	-102.1	-105.9	-166.9	-265.0	-367.6	-374.5	-389.4
Investment Income, Net	21.1	25.0	23.4	11.1	-1.0	-13.1	-13.0	-17.7	-28.8
Direct, Net	55.2	64.9	69.4	71.9	67.7	62.7	77.7	89.4	98.0
Portfolio, Net	-34.1	-39.9	-46.0	-60.9	-68.8	-75.8	-90.7	-107.2	-126.7
Other Income & Transfers, Net	-42.7	-38.6	-44.6	-45.7	-49.2	-53.4	-57.7	-58.7	-59.7

1. Merchandise exports excluding agricultural products, 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	-0.9	-0.9	-1.6	-1.9	-1.0	0.1	-1.4	-1.4	-1.1	-0.4
Exports of G&S	0.8	1.9	1.2	-0.1	0.1	-0.3	-0.4	1.5	-0.9	0.6	1.0	1.1
Imports of G&S	-1.8	-2.2	-2.1	-0.8	-1.7	-1.6	-0.7	-1.5	-0.6	-2.0	-2.1	-1.4
Percentage change from previous period, s.a.a.r.												
Exports of G&S	7.5	17.6	10.6	-0.8	1.0	-3.0	-3.2	15.1	-7.9	5.8	10.2	10.3
Services	-5.8	9.4	6.0	-3.3	5.2	6.4	-10.0	10.8	-3.8	2.8	-2.5	4.6
Agricultural Goods	-19.4	6.7	12.0	7.9	-2.7	-13.8	-12.5	34.7	-33.4	33.1	38.0	-19.9
Computers	60.0	44.5	25.7	-14.0	-7.5	7.6	14.7	14.7	5.2	26.7	22.2	1.2
Semiconductors	50.3	22.1	19.6	-1.4	2.1	-13.6	18.9	35.9	38.7	39.1	37.8	22.5
Other Goods 1/	12.2	20.6	10.8	0.9	0.0	-6.6	-1.2	14.3	-11.1	1.4	11.9	16.3
Imports of G&S	15.3	18.8	17.3	6.4	14.2	13.1	5.5	12.2	4.5	16.2	16.9	10.7
Services	20.0	5.6	23.1	8.3	20.0	6.7	9.8	2.2	-7.7	2.5	6.3	8.2
Oil	-7.5	36.8	5.7	-12.9	6.4	41.2	2.1	-22.0	2.4	29.4	-5.8	-31.5
Computers	46.6	45.8	32.4	10.5	32.5	22.6	10.6	43.2	28.8	48.5	14.8	11.2
Semiconductors	78.1	26.0	31.6	5.6	2.0	-22.9	0.1	-6.1	17.8	53.8	24.1	43.3
Other Goods 2/	11.6	17.2	14.8	7.5	12.6	14.0	4.5	15.6	5.0	14.6	21.5	14.9
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-94.0	-100.6	-119.6	-139.2	-175.3	-219.7	-244.1	-244.9	-279.8	-314.6	-342.6	-352.5
Exports of G&S	940.3	979.2	1004.2	1002.1	1004.5	996.8	988.8	1024.1	1003.3	1017.6	1042.6	1068.4
Imports of G&S	1034.3	1079.8	1123.8	1141.2	1179.8	1216.6	1232.9	1269.0	1283.1	1332.2	1385.2	1420.9
Billions of dollars, s.a.a.r.												
IS CURRENT ACCOUNT BALANCE	-137.5	-119.9	-133.6	-171.1	-169.6	-205.9	-245.2	-247.9	-266.5	-315.9	-358.6	-384.9
Current Account as % of GDP	-1.7	-1.4	-1.6	-2.0	-2.0	-2.4	-2.8	-2.8	-2.9	-3.4	-3.8	-4.0
Net Goods & Services (BOP)	-108.2	-94.3	-101.1	-120.1	-134.5	-166.4	-185.3	-181.4	-210.7	-253.2	-290.9	-305.1
Investment Income, Net	11.5	16.3	10.7	5.7	9.1	6.0	-12.1	-7.3	-7.1	-11.3	-16.8	-17.3
Direct, Net	68.9	76.6	74.1	68.1	74.9	72.4	59.0	64.7	64.1	58.8	62.8	65.1
Portfolio, Net	-57.4	-60.3	-63.4	-62.4	-65.7	-66.4	-71.1	-71.9	-71.2	-70.0	-79.6	-82.4
Other Inc. & Transfers, Net	-40.8	-41.9	-43.2	-56.7	-44.3	-45.5	-47.8	-59.2	-48.7	-51.5	-51.0	-62.5

1. Merchandise exports excluding agricultural products, computers, and semiconductors.

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

January 25,

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2000				2001				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
PA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-0.9	-1.0	-0.9	-0.4	0.4	-0.3	-0.2	0.3	-0.4	-0.3	-0.1	0.4
Exports of G&S	0.7	1.5	1.5	-0.5	0.1	0.5	0.8	1.2	0.7	1.1	1.1	1.5
Imports of G&S	-1.6	-2.5	-2.4	0.1	0.4	-0.9	-1.0	-0.9	-1.1	-1.4	-1.3	-1.1
Percentage change from previous period, s.a.a.r.												
Exports of G&S	6.3	14.3	13.9	-4.7	0.8	4.9	7.2	11.5	6.3	9.7	10.2	13.6
Services	6.9	3.5	-2.8	-1.5	0.3	3.5	5.6	7.6	7.5	7.0	6.8	6.7
Agricultural Goods	25.3	-2.0	42.5	-21.7	-6.2	0.8	-1.0	1.1	3.0	2.8	2.9	3.0
Computers	44.6	44.9	27.5	-13.3	8.2	12.5	33.5	33.5	33.5	33.5	33.5	33.5
Semiconductors	20.7	71.2	38.6	-8.7	4.1	12.6	36.0	36.0	37.3	37.3	37.3	37.3
Other Goods 1/	0.7	15.0	17.1	-3.4	0.8	4.5	3.9	10.1	0.7	6.6	7.4	13.4
Imports of G&S	12.0	18.6	17.0	-0.8	-2.3	6.0	6.6	6.4	7.9	9.4	8.6	7.1
Services	16.6	10.6	22.3	2.6	-0.7	0.6	1.4	3.6	4.8	4.9	4.9	5.1
Oil	30.3	35.3	-4.9	-11.5	-11.1	32.8	9.6	-13.4	-2.9	25.3	11.0	-14.3
Computers	2.8	44.5	28.7	2.0	10.4	11.5	27.4	27.4	28.6	28.6	28.6	28.6
Semiconductors	20.7	33.5	88.9	-25.2	10.4	12.6	38.6	38.6	38.6	38.6	38.6	38.6
Other Goods 2/	9.7	15.8	15.1	1.0	-3.3	3.8	4.3	6.0	6.3	6.0	5.8	5.9
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-376.8	-403.4	-427.7	-438.4	-426.7	-436.1	-441.5	-434.3	-447.2	-456.7	-461.4	-449.9
Exports of G&S	1084.8	1121.8	1158.8	1144.8	1147.2	1161.0	1181.2	1213.7	1232.3	1261.2	1292.2	1334.1
Imports of G&S	1461.7	1525.2	1586.4	1583.2	1573.9	1597.0	1622.7	1648.1	1679.5	1717.8	1753.6	1784.0
Billions of dollars, s.a.a.r.												
CURRENT ACCOUNT BALANCE	-406.0	-419.9	-451.6	-475.8	-448.9	-448.9	-450.0	-456.1	-462.6	-475.6	-484.0	-489.3
Current Account as % of GDP	-4.2	-4.2	-4.5	-4.7	-4.4	-4.4	-4.3	-4.3	-4.3	-4.4	-4.4	-4.4
Net Goods & Services (BOP)	-340.5	-354.4	-382.5	-393.2	-374.6	-377.8	-377.6	-368.2	-381.4	-391.3	-397.0	-387.7
Investment Income, Net	-11.9	-10.8	-12.7	-16.5	-18.7	-15.0	-16.3	-20.8	-24.6	-27.2	-29.8	-33.5
Direct, Net	68.3	76.1	86.2	80.1	80.9	89.4	93.5	94.0	95.0	97.3	99.3	100.4
Portfolio, Net	-80.2	-86.9	-98.9	-96.6	-99.7	-104.4	-109.8	-114.8	-119.6	-124.4	-129.1	-133.8
Other Inc. & Transfers, Net	-53.6	-54.7	-56.4	-66.1	-55.6	-56.1	-56.1	-67.1	-56.6	-57.1	-57.1	-68.1

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

Part 2

January 25, 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

January 25, 2001

Recent Developments

Production of Domestic Autos and Trucks

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

Item	2000		2001	2000		2001		
	Q3	Q4	Q1 ¹	Nov.	Dec.	Jan. ¹	Feb. ¹	Mar. ¹
U.S. production	12.8	11.7	11.3	11.7	11.1	10.4	11.3	12.2
Autos	5.7	5.0	5.1	5.0	4.7	4.9	5.1	5.3
Trucks	7.1	6.7	6.2	6.6	6.4	5.5	6.2	7.0
Days' supply ²								
Autos	55.9	60.6	n.a.	59.0	65.9	n.a.	n.a.	n.a.
Light trucks ³	74.9	82.8	n.a.	81.0	88.3	n.a.	n.a.	n.a.

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

1. Production rates reflect manufacturers' schedules for Q1.

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

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

n.a. Not available.

motor vehicle assemblies over the period directly subtracted almost 1/2 percentage point from IP; the drop in motor vehicle parts and the estimated effects on upstream industries contributed an additional loss of nearly 3/4 percentage point.² Despite the fourth-quarter production cutbacks, dealer stocks of domestic light vehicles continued to edge up in December, and days' supply jumped to 78 days in December. The backup in inventories of light trucks was particularly sharp: Days' supply of light trucks shot up to 112 days at GM and 90 days at Ford last month. Information on automakers' assembly plans for the first quarter is incomplete, in part because Chrysler will not issue public reports until after the company's restructuring plans are announced on February 26. Factoring in the confidential reports that we have compiled from our industry sources, we estimate that scheduled assemblies for the first quarter are now around 11 million units (annual rate). However, the latest available weekly data for January suggest that assemblies were running at only about a 10.4 million unit rate for the first three weeks of the year. Elsewhere in the transportation equipment sector, aircraft and parts production has been an area of strength recently.³

2. We estimate that the effects of lower motor vehicle assemblies on parts producers and upstream industries are 2-1/2 times the change in assemblies. However, the timing of these effects is uncertain and, in the recent period, muddled by the diffusion of production adjustments across industries. About three-fifths of the indirect effects implied by the reduction in assemblies between September and December appear to have been realized by mid-December.

3. Looking forward, we expect some near-term moderation in aircraft production because plane completions at Boeing are, on net, ahead of schedule.

ADMINISTRATION BUDGET AND ECONOMIC PROJECTIONS

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
BUDGET PROJECTIONS (fiscal years)											
	----- Billions of dollars -----										
Current services surplus	256	277	307	343	380	446	509	570	638	717	810
On-budget	98	104	113	133	146	198	243	288	341	402	479
Off-budget	158	173	194	210	234	248	266	282	297	315	331
	----- Percent of GDP -----										
Current services surplus	2.5	2.5	2.7	2.8	3.0	3.3	3.6	3.8	4.1	4.3	4.7
On-budget	0.9	0.9	1.0	1.1	1.1	1.5	1.7	1.9	2.2	2.4	2.8
Off-budget	1.5	1.6	1.7	1.7	1.8	1.8	1.9	1.9	1.9	1.9	1.9
ECONOMIC ASSUMPTIONS (calendar years)											
	----- Percent change, Q4 to Q4 -----										
Nominal GDP	5.3	5.4	5.4	5.4	5.4	5.3	5.2	5.1	5.1	5.1	5.1
Real GDP	3.2	3.2	3.2	3.2	3.2	3.1	3.0	2.9	2.9	2.9	2.9
CPI-U	2.5	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
	-----Percent, annual average-----										
Unemployment rate	4.1	4.4	4.6	4.7	4.8	4.9	5.0	5.1	5.1	5.1	5.1
Treasury yields											
Three-month	6.0	5.7	5.4	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Ten-year	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8

Note. The on-budget surplus excludes the social security surplus and the Postal Service (which are off-budget). The current services baseline assumes that budget authority for discretionary spending grows at the rate of inflation after 2001.

Source. Office of Management and Budget, FY 2002 Economic Outlook, Highlights from FY 1994 to FY 2001, FY 2002 Baseline Projections, January 2001.

BROAD MEASURES OF INFLATION
(4-quarter percent change)

	1997 Q3	1998 Q3	1999 Q3	2000 Q3
<u>Product prices</u>				
GDP chain price index	1.9	1.3	1.4	2.2
Less food and energy	2.0	1.4	1.5	2.1
Nonfarm business chain price index ¹	2.1	0.8	1.2	1.9
<u>Expenditure prices</u>				
Gross domestic purchases chain price index	1.6	0.8	1.7	2.5
Less food and energy	1.6	1.1	1.4	1.9
PCE chain price index	1.9	1.1	1.8	2.4
Less food and energy	2.0	1.5	1.5	1.6
PCE chain price index - market-based components	1.5	0.9	1.8	2.6
Less food and energy	1.5	1.3	1.4	1.8
CPI	2.2	1.6	2.3	3.5
Less food and energy	2.3	2.4	2.0	2.5
Current-methods CPI	1.9	1.4	2.3	3.4
Less food and energy	2.0	2.2	2.0	2.5
Median CPI	2.9	2.9	2.3	2.9
Trimmed mean CPI	2.4	2.0	1.8	2.6

1. Excluding housing.

SURVEYS OF (CPI) INFLATION EXPECTATIONS
(Percent)

		University of Michigan				Professional forecasters (10-year) ⁴
		1 year		5 to 10 years		
	Actual inflation ¹	Mean ²	Median ²	Mean ³	Median ³	
1999-Q1	1.7	3.0	2.6	3.3	2.8	2.3
Q2	2.1	3.1	2.7	3.3	2.8	2.5
Q3	2.3	3.1	2.7	3.4	2.9	2.5
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
July	3.7	3.7	3.0	3.2	2.8	
Aug.	3.4	3.5	2.7	3.5	2.9	
Sept.	3.5	3.7	2.9	3.6	3.0	2.5
Oct.	3.4	4.1	3.2	3.7	3.0	
Nov.	3.4	3.8	2.9	3.6	2.9	
Dec.	3.4	3.4	2.8	3.7	3.0	2.5
2001-Jan.		4.0	3.0	4.1	3.0	

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

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

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

4. Compiled by the Federal Reserve Bank of Philadelphia.

Gross Issuance of Securities by U.S. Corporations

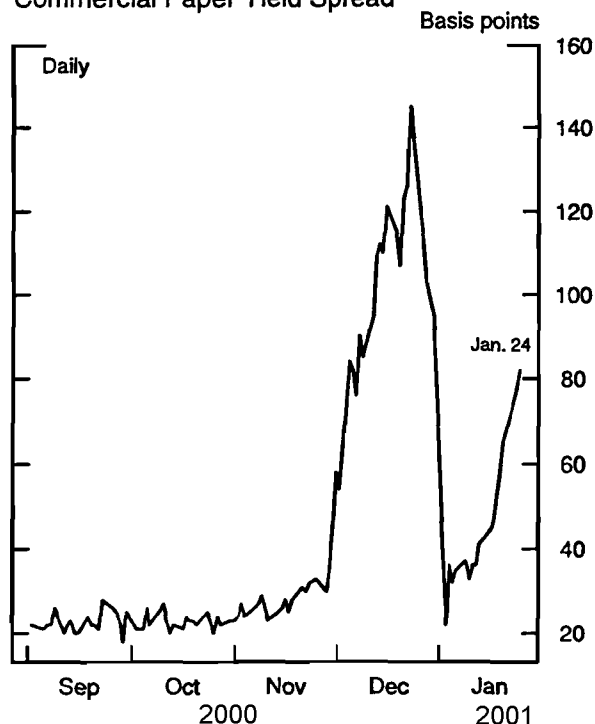
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1999	2000	H1	Q3	2000 Q4	Nov.	Dec.	2001 Jan. ^e
All U.S. corporations	89.4	78.5	80.0	80.9	73.0	95.5	61.0	78.0
Stocks ¹	11.0	11.2	14.1	9.1	7.7	11.5	2.6	5.0
Bonds	78.4	67.2	65.9	71.8	65.3	84.0	58.5	73.0
<i>Nonfinancial corporations</i>								
Stocks ¹	9.2	9.9	12.4	7.5	7.1	10.8	2.2	4.7
Initial public offerings	4.2	4.4	5.7	4.6	1.6	1.7	.5	.7
Seasoned offerings	5.0	5.5	6.7	3.0	5.5	9.0	1.8	4.0
Bonds ²	24.5	20.3	21.3	19.4	19.4	25.8	19.8	32.0
Investment grade ³	13.9	11.9	11.5	11.0	13.7	19.3	15.0	20.0
Speculative grade ³	7.5	4.5	5.4	4.9	2.4	2.4	1.8	9.0
Other (sold abroad/unrated)	3.1	3.9	4.4	3.5	3.3	4.1	3.0	3.0
<i>Financial corporations</i>								
Stocks ¹	1.8	1.4	1.6	1.6	.6	.7	.3	.3
Bonds	53.9	46.9	44.7	52.4	45.9	58.2	38.7	41.0
<i>Memo</i>								
Net issuance of commercial paper, nonfinancial corporations ⁴	3.6	4.5	6.4	5.2	.2	6.3	-8.2	-11.8
Change in C&I loans at commercial banks ⁴	4.6	7.9	11.2	4.3	4.3	.9	10.2	9.1

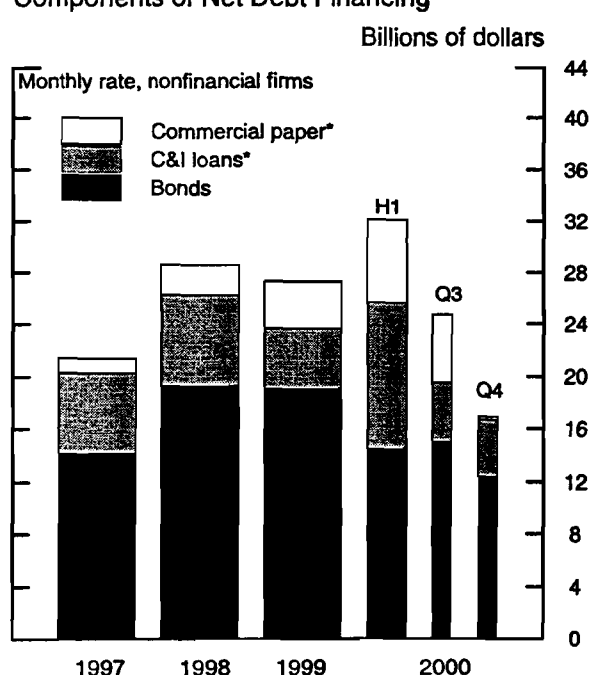
Note. Components may not sum to totals because of rounding. These data include speculative-grade bonds issued privately under Rule 144A. All other private placements are excluded. Total reflects gross proceeds rather than par value of original discount bonds.

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 for month based on data through Jan. 25.

Commercial Paper Yield Spread*



Components of Net Debt Financing



* Seasonally adjusted.

Treasury and Agency Finance

Treasury Financing (Billions of dollars)

Item	2000					
	Q2	Q3	Q4	Oct.	Nov.	Dec.
Total surplus, deficit (-)	211.8	60.4	-2.3	-11.3	-23.7	32.7
Means of financing deficit						
Net borrowing	-189.6	-53.6	-25.1	-29.7	41.3	-36.7
Nonmarketable	5.1	-5.5	1.5	0.9	-0.5	1.1
Marketable	-194.7	-48.1	-26.6	-30.6	41.8	-37.8
Bills	-126.6	-14.1	30.4	2.3	63.4	-35.3
Coupons ¹	-57.1	-25.7	-48.2	-28.9	-19.4	0.0
Debt buybacks	-11.0	-8.2	-8.7	-4.0	-2.2	-2.5
Decrease in cash balance	-12.7	4.8	31.6	42.7	-1.4	-9.6
Other ²	-9.6	-11.5	-4.2	-1.6	-16.2	13.7
MEMO						
Cash balance, end of period	57.4	52.7	21.1	10.0	11.4	21.1

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

1. Does not include Treasury debt buybacks.

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

e. Estimated.

n.a. Not available.

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

Agency	2000					2001
	Q2	Q3	Q4	Nov.	Dec.	Jan.*
FHLBs	33.2	12.1	13.8	4.3	13.4	n.a.
Freddie Mac	6.3	22.7	n.a.	6.7	n.a.	n.a.
Fannie Mae	21.0	28.5	35.7	17.6	9.6	n.a.
Farm Credit Banks	2.4	1.5	3.1	0.3	2.5	n.a.
Sallie Mae	-0.8	5.2	3.0	1.0	-4.6	n.a.
MEMO						
<i>Outstanding noncallable reference and benchmark securities</i>						
Notes and bonds	238.6	274.1	313.1	303.1	313.1	322.1
Bills	200.0	222.5	235.0	228.0	235.0	249.0
Total	438.6	496.6	548.1	531.1	548.1	571.1

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

* As of January 25, 2001

n.a. Not available.

Commercial Bank Credit

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

Type of credit	2000	Q3 2000	Q4 2000	Nov. 2000	Dec. 2000	Jan. ^p 2001	Level, Jan. 2001 ^p (\$ billions)
Total							
1. Adjusted ¹	9.7	10.8	2.5	4.0	11.0	2.6	5,114
2. Reported	10.0	10.3	3.7	2.7	14.4	5.9	5,242
<i>Securities</i>							
3. Adjusted ¹	2.9	6.9	-8.0	-2.8	16.9	2.4	1,223
4. Reported	4.5	5.1	-2.6	-7.0	29.7	15.4	1,352
5. U.S. government	-2.7	-1.0	-13.4	-15.4	3.2	-3.1	783
6. Other ²	17.5	15.3	14.7	5.8	70.0	41.5	569
<i>Loans³</i>							
7. Total	12.0	12.1	6.0	6.0	9.2	2.7	3,890
8. Business	9.0	8.8	1.9	1.3	8.4	11.0	1,098
9. Real estate	13.7	11.8	4.3	8.2	4.8	-2.2	1,647
10. Home equity	22.0	9.1	22.0	16.8	13.7	15.4	126
11. Other	13.0	12.0	2.9	7.7	3.9	-3.5	1,521
12. Consumer	10.2	12.4	5.9	8.6	2.9	8.1	540
13. Adjusted ⁴	7.6	11.2	3.6	6.3	12.1	5.2	852
14. Other ⁵	14.8	19.2	18.6	6.5	28.1	-3.8	606

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 U.S. government 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.

BA:LRC

Monetary Aggregates
(Based on seasonally adjusted data)

Aggregate or component	2000	2000		2000		2001	Level (bil. \$) Dec. 00
		Q3	Q4	Nov.	Dec.	Jan. (pe)	
Aggregate	Percent change (annual rate) ¹						
1. M2 ²	6.1	5.6	6.5	4.2	9.6	11.9	4937.2
2. M3	9.1	8.8	7.0	4.2	12.5	15.8	7081.0
Selected components							
3. Currency	4.3	3.6	3.5	3.2	5.5	8.1	530.2
4. Liquid deposits ³	3.3	4.6	5.1	1.4	7.8	10.5	2426.1
5. Small time deposits	9.4	10.8	7.2	7.8	7.6	7.0	1045.8
6. Retail money market funds	11.5	3.1	11.7	8.3	18.9	23.3	927.1
7. M3 minus M2 ⁴	16.5	16.4	8.2	4.3	19.3	24.9	2143.8
8. Large time deposits, net ⁵	13.4	12.6	4.1	5.5	23.0	26.5	823.7
9. Institution-only money market mutual funds	24.2	29.4	18.7	12.9	24.7	46.9	767.7
10. RPs	9.1	8.2	-3.9	-15.5	10.7	-9.3	361.6
11. Eurodollars	17.1	0.6	9.2	3.8	-1.3	-7.5	190.9
Memo							
12. M1	-1.6	-3.6	-2.8	-8.0	2.3	4.9	1091.1
13. Sweep-adjusted M1 ⁶	1.8	0.7	1.0	-3.7	4.0	4.9	1507.4
14. Demand deposits	-10.3	-12.4	-12.7	-25.7	-4.9	-6.9	313.9
15. Other checkable deposits	-1.0	-8.3	-1.3	-7.0	5.5	12.5	239.1
16. Savings deposits	6.7	9.6	9.1	7.3	10.3	13.1	1873.2
17. Monetary base	1.5	2.7	2.2	-1.6	5.3	19.6	582.7
Selected managed liabilities at commercial banks	Average monthly change (billions of dollars) ⁷						
18. Large time deposits, gross	8.8	10.6	4.6	8.5	18.6	22.9	950.6
19. Net due to related foreign institutions	1.3	6.2	-9.2	-10.5	-17.0	-3.1	224.4
20. U.S. government deposits at commercial banks	-1.4	-3.1	-1.6	1.1	-2.1	12.7	18.2

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.

pe--Preliminary Estimate

The above monetary data incorporate revisions associated with the annual benchmark and seasonal review and are strictly confidential until released on February 1.

U.K. Economic Indicators

(Percent change from previous period except as noted, s.a.)

Indicator	2000						
	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.
Industrial production	1.3	.7	n.a.	-.2	.1	n.a.	n.a.
Retail sales	.3	1.3	1.2	.0	.7	.1	n.a.
Unemployment rate ¹							
Claims-based	3.8	3.6	3.6	3.6	3.6	3.6	n.a.
Labor force survey ²	5.5	5.4	n.a.	5.3	n.a.	n.a.	n.a.
Business confidence ³	-4.0	3.3	5.3	3.0	1.0	12.0	14.0
Retail prices ⁴	2.1	2.1	2.1	2.0	2.2	2.0	n.a.
Producer input prices ⁵	11.4	12.1	n.a.	13.0	10.8	n.a.	n.a.
Average earnings ⁵	4.1	4.1	n.a.	4.1	4.4	n.a.	n.a.

1. Percent.

2. Three-month average centered on month shown.

3. Percentage of firms expecting output to increase in the next four months less percentage expecting output to decrease.

4. Excluding mortgage interest payments. Percent change from year earlier.

5. Percent change from year earlier.

n.a. Not available.

Labor market conditions remain tight. The official claims-based unemployment rate remained at 3.6 percent in December, the lowest rate in 25 years. However, average annual earnings growth in November remained below the 4½ percent rate that the Bank of England believes to be compatible with the inflation target. Producer input prices have been rising sharply, in part reflecting higher oil prices. Nevertheless, the twelve-month rate of retail price inflation (excluding mortgage interest payments) remains below the 2½ percent target, as price discounting has continued in the goods sector.

In **Canada**, indicators available for the fourth quarter suggest that economic activity continued to expand at a solid pace, although weak external demand and softening consumption slowed growth from earlier in the year. Real GDP, measured at factor cost, rose 6.2 percent (s.a.a.r.) in October. A broad-based advance in manufacturing production, particularly in the electronics sector, and continued gains in business services drove the strong growth. However, data on merchandise trade and manufacturing shipments suggest that, outside of the energy sector, manufacturing activity failed to expand in November. In addition, new orders for manufactured goods fell in November, while inventories