

Part 1

March 14, 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

March 14, 2001

Summary and Outlook

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

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

Measure	2001:Q1		2001:Q2	
	Jan. GB	Mar. GB	Jan. GB	Mar. GB
Real GDP	-.5	.8	1.3	1.3
Private domestic final purchases	1.5	3.2	1.3	.7
Personal consumption expenditures	1.4	2.3	1.1	.6
Residential investment	-2.1	7.9	-.0	5.2
Business fixed investment	3.0	6.3	2.6	.2
Government outlays for consumption and investment	2.3	2.6	3.1	3.1
	Contribution to growth, percentage points			
Inventory investment	-2.6	-2.1	-.0	.5
Net exports	.4	-.3	-.3	-.4

manufacturing IP this quarter. At this stage, we have little reason to alter our projection for real GDP growth in the second quarter, and it remains around 1-1/4 percent.

Roughly one-third of the upward revision to GDP in the current quarter reflects developments in the motor vehicle sector, where sales have been running much higher than we had anticipated. The additional sales stem importantly from another round of incentives and from the moving forward of some fleet sales from later in the year. But, still, they lessen the production cuts that would otherwise have been required this quarter to bring bloated inventories under control. We now expect assemblies to fall from about 11-1/2 million units (annual rate) in the fourth quarter to about 10-1/2 million units this quarter; the decline is about 1/2 million units smaller than we had anticipated in January, but it still shaves about 1 percentage point from real GDP growth. The automakers' latest schedules call for assemblies to rise to 12 million units in the second quarter; however, given the likelihood that inventories (especially of light trucks) will still be high at the end of the current quarter, we are anticipating a much smaller increase--to 11 million units, which would be a small plus for next quarter's GDP.

Although inventory investment outside motor vehicles turned out to be substantially lower in the fourth quarter than we had anticipated, overhangs still were sizable at the turn of the year in a number of industries, including some types of equipment, metals, lumber, and chemicals. Thus, with businesses

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	1.6	1.1	2.9	3.7
Previous	5.2	2.1	0.4	3.1	3.8
Final sales	5.3	2.0	1.9	2.5	3.5
Previous	5.3	2.2	1.7	2.8	3.7
PCE	5.3	3.7	1.5	2.2	2.7
Previous	5.3	3.6	1.2	2.0	2.8
Residential investment	2.2	-6.4	6.5	0.1	3.0
Previous	2.2	-7.1	-1.1	0.0	0.7
BFI	17.7	3.2	3.2	4.5	9.3
Previous	17.7	4.0	2.8	6.1	9.1
Government purchases	1.8	0.7	2.9	3.3	3.5
Previous	1.8	0.7	2.7	3.1	3.3
Exports	10.2	3.4	0.9	7.1	8.1
Previous	10.2	4.1	2.8	9.3	9.9
Imports	15.2	7.8	2.9	6.2	8.2
Previous	15.2	7.8	1.8	6.5	8.2
Contribution to growth, percentage points					
Inventory change	-0.0	-0.4	-0.8	0.3	0.2
Previous	-0.0	-0.0	-1.3	0.3	0.2
Net exports	-1.0	-0.7	-0.3	-0.1	-0.3
Previous	-1.0	-0.7	0.1	0.1	-0.1

average about 2-1/4 percent in the second half of 2001 and about 2-3/4 percent in 2002. Consistent with a negative wealth effect, we project the personal saving rate to climb about 1-1/2 percentage points on an annual-average basis between 2000 and 2002.

We have strengthened the forecast for housing activity, as the effects of the very positive incoming data on our assessment of demand and the reduction in mortgage rates more than offset the restraint from lower levels of wealth. All told, we now expect single-family starts to rise from 1.27 million units in 2000

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	3.3	3.1	3.0
<i>Contributions¹</i>						
Capital deepening	.7	1.1	1.5	1.5	1.3	1.2
Previous	.7	1.1	1.5	1.5	1.3	1.2
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.

Wages and prices. Inflation is expected to recede over the projection period. We assume that the slightly larger than expected increases in consumer prices in recent months will be reversed in the near term. Thereafter, inflation will be restrained by lower levels of resource utilization.

The ECI for hourly compensation rose 4.4 percent in 2000, and we expect it to edge off only a tad in 2001. Despite the rising unemployment rate, workers' efforts to garner the benefits of structural productivity gains likely will persist, and the relatively rapid increase in consumer prices last year should continue to boost nominal wage demands. Moreover, all signs point to big increases in health insurance costs this year. But by 2002, with consumer price inflation having moderated and with some slack having developed in the labor market, we expect ECI growth to slow further, to 4 percent.

We have made some adjustments to the forecast of PCE energy prices, which now decline about 4-1/4 percent in 2001 and 2-3/4 percent in 2002. But the basic story is the same as that in the January Greenbook. Reflecting the path for crude oil prices, gasoline prices are expected to fall considerably this year and next. As noted, natural gas prices continued to soar through the beginning of the year, and they are likely to show another huge increase for the current quarter as a whole. But with spot prices having declined in February and March, we are looking for a sizable drop in natural gas prices in the second quarter and moderate declines thereafter as additional supplies come on line. Meanwhile, increases in food prices are expected to be in the range of 2-1/2 percent to 3 percent per year, about the same as the rise in 2000.

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

Measure	1999	2000	2001	2002
Output per hour, nonfarm business	3.8	3.4	2.1	3.1
Previous	4.1	3.6	1.9	3.1
Nonfarm payroll employment	2.2	1.6	0.5	0.7
Previous	2.2	1.6	0.2	0.8
Household employment survey	1.5	1.0	-0.3	0.5
Previous	1.5	1.0	-0.2	0.6
Labor force participation rate ¹	67.1	67.1	67.0	66.9
Previous	67.1	67.1	67.0	66.9
Civilian unemployment rate ¹	4.1	4.0	5.2	5.6
Previous	4.1	4.0	5.2	5.5

1. Percent, average for the fourth quarter.

The PCE chain price index excluding food and energy is projected to rise a little less than 2 percent in 2001 and 1-3/4 percent in 2002. We expect core inflation to be damped by the waning of the indirect effects of last year's higher energy costs and by the elimination of labor market tightness, although we continue to anticipate that a firming of prices of core non-oil imports will add a bit to domestic prices in 2002. The core CPI is expected to increase 2-1/2 percent this year and 2-1/4 percent in 2002.

In all, we expect the increase in total PCE prices to drop from about 2-1/4 percent in 2000 to about 1-3/4 percent per year in 2001 and 2002. The total CPI is projected to increase a bit more than 2 percent per year, on average, over this period after having risen 3-1/2 percent in 2000.

Financial Flows and Conditions

Debt of the domestic nonfinancial sectors is projected to increase 5 percent this year and decelerate to 4-1/4 percent next year. The federal government is expected to retire a substantial amount of debt over the next two years, and nonfederal borrowing moderates.

Nonfinancial business debt is projected to expand at an 8 percent annual rate during the forecast period. Firms are expected to rely heavily on external funding as capital expenditures outstrip internally generated funds by a wide margin. The pace of net equity retirements, both from mergers and share buybacks, will moderate from that of recent years reflecting slower economic growth and declining profit margins. Given our economic outlook, we expect

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	1.6
Previous	2.0	2.3	1.8	1.7
Food	2.0	2.5	3.0	2.4
Previous	2.0	2.5	2.8	2.5
Energy	12.0	15.9	-4.3	-2.8
Previous	12.0	15.4	-3.5	-3.5
Excluding food and energy	1.5	1.6	1.9	1.7
Previous	1.5	1.6	1.9	1.8
Consumer price index	2.6	3.4	2.2	2.0
Previous	2.6	3.4	2.3	2.0
Excluding food and energy	2.0	2.5	2.5	2.3
Previous	2.1	2.6	2.5	2.4
GDP chain-weighted price index	1.6	2.3	2.0	1.7
Previous	1.6	2.3	2.0	1.7
ECI for compensation of private industry workers ¹	3.4	4.4	4.3	4.0
Previous	3.4	4.4	4.3	4.1
NFB compensation per hour	4.4	5.7	5.2	4.9
Previous	4.8	5.6	5.3	5.0
Prices of core non-oil merchandise imports	.4	1.4	1.2	2.5
Previous	.4	1.5	1.6	2.7

1. December to December.

credit quality to erode somewhat further over the forecast period. Lower-tier firms will face considerable scrutiny by investors and banks, but financing should remain generally available, albeit at wide spreads and under relatively tight terms and standards. In contrast, capital-market financing for investment-grade firms should continue to be readily available at rates close to current levels. These relatively stringent overall financial conditions should damp business spending somewhat over the forecast period.

Household borrowing is expected to slow gradually over the next two years. Consumer credit growth will recede notably from the pace in recent years, damped in part by very weak nominal spending on consumer durable goods. In

Alternative Simulations

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

Measure	2001		2002	
	H1	H2	H1	H2
<i>Real GDP</i>				
Baseline	1.1	2.9	3.6	3.8
Recession in high tech	.7	2.4	3.0	3.2
Productivity slowdown	-.1	.6	1.4	1.9
Low consumer confidence	.2	1.6	2.7	3.3
Strong demand	2.7	4.5	5.1	5.1
Easier monetary policy	1.1	3.2	4.0	4.2
<i>Civilian unemployment rate¹</i>				
Baseline	4.6	5.2	5.5	5.6
Recession in high tech	4.6	5.3	5.7	6.0
Productivity slowdown	4.6	5.5	6.0	6.4
Low consumer confidence	4.7	5.6	6.2	6.5
Strong demand	4.4	4.6	4.5	4.2
Easier monetary policy	4.6	5.1	5.3	5.4
<i>PCE prices excluding food and energy</i>				
Baseline	2.0	1.9	1.7	1.7
Recession in high tech	2.0	1.9	1.7	1.7
Productivity slowdown	2.0	2.0	1.9	2.0
Low consumer confidence	2.0	1.9	1.6	1.4
Strong demand	2.0	1.9	1.9	2.2
Easier monetary policy	2.0	1.9	1.9	2.0

1. Average for the final quarter of the period.

Recession in high tech. In the staff projection, actual and desired stocks of capital are assumed to be in reasonably close alignment at the present time. However, one risk is that substantial overinvestment has in fact occurred, especially in computers and telecommunications equipment. In the first alternative scenario, current stocks of high-tech equipment are judged to be undesirably high given the outlook for profits, and firms seek to limit new investment as a result. Real investment in computers, software, and communications equipment is assumed to remain flat at the 2000:Q4 level through most of this year, compared with an increase over the same period of 7 percent (annual rate) in the baseline forecast; a flat profile is typically seen only in recessions. By the end of this year, high-tech spending begins to pick up, but growth does not return to the pace projected by the staff until late 2002. Despite the marked weakness in this sector, the economy as a whole skirts a recession this year, and overall output growth picks up (though more slowly

Strictly Confidential <FR>
Class II FOMC

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

March 14, 2001

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
	01/25/01	03/14/01	01/25/01	03/14/01	01/25/01	03/14/01	01/25/01	03/14/01	01/25/01	03/14/01
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	7.2	7.1	5.1	5.0	2.1	2.1	3.4	3.4	4.0	4.0
2001	3.8	3.9	1.7	1.8	2.1	2.1	2.7	2.7	4.8	4.8
2002	5.2	5.0	3.5	3.3	1.7	1.7	1.9	1.9	5.4	5.5
QUARTERLY										
1999 Q1	5.9	5.9	3.5	3.5	2.2	2.2	1.7	1.7	4.3	4.3
Q2	3.9	3.9	2.5	2.5	1.4	1.4	3.2	2.7	4.3	4.3
Q3	6.7	6.7	5.7	5.7	1.1	1.1	2.4	2.9	4.2	4.2
Q4	9.7	9.7	8.3	8.3	1.6	1.6	2.9	3.1	4.1	4.1
2000 Q1	8.3	8.3	4.8	4.8	3.3	3.3	4.3	4.3	4.1	4.1
Q2	8.2	8.2	5.6	5.6	2.4	2.4	3.6	2.8	4.0	4.0
Q3	3.8	3.8	2.2	2.2	1.6	1.6	3.1	3.5	4.0	4.0
Q4	4.1	2.9	2.0	1.0	2.0	1.9	2.8	3.0	4.0	4.0
2001 Q1	2.4	4.2	-0.5	0.8	3.0	3.4	3.9	3.6	4.4	4.3
Q2	3.0	2.7	1.3	1.3	1.8	1.3	1.8	1.3	4.7	4.6
Q3	4.3	4.1	2.6	2.4	1.6	1.6	1.5	1.8	5.0	4.9
Q4	5.3	5.0	3.6	3.3	1.6	1.7	1.8	1.9	5.2	5.2
2002 Q1	5.8	5.5	3.7	3.5	1.9	1.9	1.9	1.9	5.3	5.4
Q2	5.4	5.2	3.7	3.6	1.6	1.6	2.0	1.9	5.4	5.5
Q3	5.5	5.4	3.8	3.7	1.6	1.6	2.0	2.0	5.5	5.5
Q4	5.7	5.6	4.0	3.9	1.6	1.6	2.0	2.0	5.5	5.6
TWO-QUARTER³										
1999 Q2	4.9	4.9	3.0	3.0	1.8	1.8	2.5	2.2	-0.1	-0.1
Q4	8.2	8.2	7.0	7.0	1.3	1.3	2.7	3.0	-0.2	-0.2
2000 Q2	8.2	8.2	5.2	5.2	2.8	2.8	4.0	3.6	-0.1	-0.1
Q4	4.0	3.4	2.1	1.6	1.8	1.8	2.9	3.2	0.0	0.0
2001 Q2	2.7	3.4	0.4	1.1	2.4	2.3	2.9	2.5	0.7	0.6
Q4	4.8	4.6	3.1	2.9	1.6	1.7	1.7	1.9	0.5	0.6
2002 Q2	5.6	5.3	3.7	3.5	1.8	1.7	1.9	1.9	0.2	0.3
Q4	5.6	5.5	3.9	3.8	1.6	1.6	2.0	2.0	0.1	0.1
FOUR-QUARTER⁴										
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	6.1	5.8	3.7	3.4	2.3	2.3	3.4	3.4	-0.1	-0.1
2001 Q4	3.8	4.0	1.8	2.0	2.0	2.0	2.3	2.2	1.2	1.2
2002 Q4	5.6	5.4	3.8	3.7	1.7	1.7	2.0	2.0	0.3	0.4

1. For all urban consumers.

2. Level, except as noted.

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

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

Strictly Confidential <FR>
Class II FOMC

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

March 14, 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	9962.3	10350.6	10867.1
Real GDP	Bill. Ch. \$	7347.7	7543.8	7813.2	8159.5	8515.7	8875.8	9318.0	9481.8	9791.0
Real GDP	% change	4.1	2.2	4.1	4.3	4.6	5.0	3.4	2.0	3.7
Gross domestic purchases		4.3	1.7	4.3	5.0	5.7	5.9	4.1	2.1	3.9
Final sales		3.2	2.9	3.9	3.9	4.6	4.8	3.6	2.2	3.5
Priv. dom. final purchases		4.3	3.2	4.4	5.1	6.4	6.1	5.0	2.2	3.7
Personal cons. expenditures		3.6	2.8	3.1	4.1	5.0	5.6	4.5	1.8	2.7
Durables		6.4	3.7	5.0	8.8	12.6	11.1	5.2	-0.8	3.2
Nondurables		4.1	2.5	3.2	2.5	5.0	5.9	3.8	1.4	2.2
Services		2.7	2.7	2.7	3.9	3.4	4.2	4.7	2.5	2.8
Business fixed investment		9.2	7.5	12.1	11.8	12.9	10.1	10.2	3.9	9.3
Equipment & Software		12.0	8.9	11.8	13.7	15.8	14.1	9.7	2.7	11.2
Nonres. structures		1.1	3.3	12.8	6.5	4.9	-1.7	12.0	7.4	4.1
Residential structures		4.0	-1.5	5.6	3.5	10.3	2.8	-2.2	3.3	3.0
Exports		10.5	9.7	9.8	8.5	2.2	4.3	6.8	4.0	8.1
Imports		12.2	5.0	11.2	14.3	11.2	12.0	11.5	4.5	8.2
Gov't. cons. & investment		0.2	-0.8	2.7	2.4	2.6	4.4	1.3	3.1	3.5
Federal		-3.7	-5.3	2.0	0.1	0.8	4.8	-1.3	2.6	3.5
Defense		-5.9	-4.7	0.8	-1.4	-1.0	4.6	-2.0	1.7	2.6
State & local		2.8	2.1	3.0	3.7	3.6	4.2	2.7	3.3	3.6
Change in bus. inventories	Bill. Ch. \$	66.8	30.4	30.0	63.8	80.2	45.3	61.2	14.9	44.1
Nonfarm		53.6	42.6	22.1	60.6	78.7	44.9	56.1	12.1	42.8
Net exports		-86.5	-78.4	-89.0	-113.3	-221.0	-322.4	-412.7	-462.7	-502.7
Nominal GDP	% change	6.2	4.3	6.0	6.2	5.9	6.5	5.8	4.0	5.4
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	114.1	117.2	119.6	122.7	125.8	128.8	131.4	132.4	132.9
Unemployment rate	%	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.8	5.5
Industrial prod. index	% change	6.3	3.6	5.6	7.2	3.2	5.1	4.3	0.4	4.3
Capacity util. rate - mfg.	%	82.5	82.5	81.6	82.7	81.3	80.5	81.3	77.9	78.6
Housing starts	Millions	1.46	1.35	1.48	1.47	1.62	1.67	1.60	1.64	1.67
Light motor vehicle sales		15.01	14.77	15.05	15.06	15.45	16.76	17.25	15.81	15.37
North Amer. produced		12.88	12.87	13.34	13.12	13.43	14.28	14.38	12.87	12.51
Other		2.13	1.90	1.70	1.93	2.02	2.48	2.87	2.94	2.87
INCOME AND SAVING										
Nominal GNP	Bill. \$	7071.1	7420.9	7831.2	8325.4	8786.7	9288.2	9952.7	10329.9	10832.9
Nominal GNP	% change	6.2	4.4	5.9	6.0	5.7	6.5	5.8	3.9	5.3
Nominal personal income		5.1	4.3	5.9	6.3	6.3	5.6	5.7	4.7	5.2
Real disposable income		2.9	1.7	2.6	3.8	4.6	3.1	2.2	3.0	4.1
Personal saving rate	%	6.1	5.6	4.8	4.2	4.2	2.2	-0.1	-0.1	1.5
Corp. profits, IVA & CCAdj.	% change	12.3	11.3	11.4	9.9	-5.8	11.2	0.9	-2.1	5.3
Profit share of GNP	%	8.1	9.0	9.6	10.0	9.3	9.2	9.5	8.5	8.4
Excluding FR Banks		7.9	8.7	9.4	9.7	9.0	8.9	9.2	8.2	8.1
Federal surpl./deficit	Bill. \$	-212.3	-192.0	-136.8	-53.3	49.0	124.4	253.6	263.6	239.4
State & local surpl./def.		8.6	15.3	21.4	31.0	41.7	50.0	59.9	55.2	46.3
Ex. social ins. funds		4.0	11.4	18.7	29.9	41.3	50.4	60.3	55.4	46.1
Gross natl. saving rate	%	16.3	16.9	17.2	18.0	18.8	18.5	18.3	18.0	18.8
Net natl. saving rate		4.3	5.1	5.7	6.7	7.5	6.8	6.5	5.7	6.4
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										
chn.-wt. price index		2.1	2.1	1.9	1.4	0.8	1.9	2.4	1.7	1.6
PCE chn.-wt. price index		2.1	2.1	2.3	1.5	1.1	2.0	2.3	1.8	1.6
Ex. food and energy		2.3	2.3	1.8	1.7	1.6	1.5	1.6	1.9	1.7
CPI		2.6	2.7	3.2	1.9	1.5	2.6	3.4	2.2	2.0
Ex. food and energy		2.8	3.0	2.6	2.2	2.4	2.0	2.5	2.5	2.3
ECI, hourly compensation ²		3.1	2.6	3.1	3.4	3.5	3.4	4.4	4.3	4.0
Nonfarm business sector										
Output per hour		1.1	1.1	2.3	2.3	2.8	3.8	3.4	2.1	3.1
Compensation per Hour		2.2	2.6	3.2	3.5	5.1	4.4	5.7	5.2	4.9
Unit labor cost		1.0	1.5	0.9	1.1	2.3	0.6	2.4	3.0	1.8

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)

March 14, 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	-6.2	9.7	22.3	4.4
Residential structures		9.6	12.6	10.3	8.9	8.2	5.9	-3.1	0.5	3.2	1.3
Exports		1.0	-3.0	-3.2	15.1	-7.9	5.8	10.2	10.3	6.3	14.3
Imports		14.2	13.1	5.5	12.2	4.5	16.2	16.9	10.7	12.0	18.6
Gov't. cons. & investment		-1.0	7.3	1.4	2.8	3.7	0.8	4.8	8.5	-1.1	4.8
Federal		-9.1	12.9	-3.2	3.7	-2.2	2.0	6.9	13.2	-14.2	17.2
Defense		-17.7	13.1	5.8	-2.4	-3.1	-2.3	12.3	12.6	-19.8	16.9
State & local		3.8	4.4	4.0	2.3	7.0	0.1	3.7	6.1	6.6	-1.1
Change in bus. inventories	Bill. Ch. \$	117.3	60.9	73.1	69.4	48.1	13.1	39.1	80.9	36.6	78.6
Nonfarm		109.7	62.5	79.2	63.5	49.2	14.1	43.5	73.0	33.0	72.3
Net exports		-175.3	-219.8	-244.1	-244.9	-279.8	-314.6	-342.6	-352.5	-376.8	-403.4
Nominal GDP	% change	7.6	4.1	5.0	6.8	5.9	3.9	6.7	9.7	8.3	8.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	124.7	125.5	126.2	127.0	127.8	128.4	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		14.99	16.01	14.55	16.24	16.18	16.79	17.08	17.00	18.20	17.24
North Amer. produced		13.07	14.04	12.53	14.07	13.87	14.34	14.61	14.31	15.32	14.36
Other		1.93	1.97	2.02	2.17	2.31	2.45	2.47	2.69	2.88	2.88
INCOME AND SAVING											
Nominal GNP	Bill. \$	8640.3	8725.0	8814.9	8966.6	9097.2	9181.8	9327.3	9546.3	9745.0	9937.4
Nominal GNP	% change	7.8	4.0	4.2	7.1	6.0	3.8	6.5	9.7	8.6	8.1
Nominal personal income		7.7	6.2	5.9	5.7	4.3	5.4	5.2	7.6	6.9	6.9
Real disposable income		6.6	4.5	3.6	3.6	2.9	2.8	2.2	4.5	1.9	3.7
Personal saving rate	%	4.6	4.3	4.1	3.8	3.1	2.5	1.8	1.5	0.2	0.3
Corp. profits, IVA & CCAdj.	% change	-12.6	-5.0	2.0	-7.0	26.5	-6.9	2.5	26.6	20.7	12.2
Profit share of GNP	%	9.5	9.3	9.3	9.0	9.4	9.1	9.0	9.4	9.6	9.7
Excluding FR Banks		9.3	9.0	9.0	8.7	9.1	8.8	8.8	9.1	9.3	9.4
Federal surpl./deficit	Bill. \$	25.9	41.9	71.9	56.4	89.7	117.5	147.3	143.3	235.8	240.9
State & local surpl./def.		38.1	33.4	37.5	57.7	47.9	38.0	47.4	66.6	52.0	60.1
Ex. social ins. funds		37.5	32.9	37.2	57.6	48.1	38.3	47.9	67.2	52.5	60.6
Gross natl. saving rate	%	18.9	18.7	19.0	18.7	18.9	18.4	18.4	18.3	18.2	18.6
Net natl. saving rate		7.7	7.4	7.6	7.2	7.3	6.7	6.5	6.6	6.6	6.9
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.0	1.1	1.5	1.1	2.2	1.4	1.1	1.6	3.3	2.4
Gross Domestic Purchases		0.1	0.8	1.1	1.2	1.9	2.0	1.7	1.9	3.8	2.1
chn.-wt. price index											
PCE chn.-wt. price index		0.4	1.2	1.4	1.5	1.7	2.3	1.9	2.2	3.5	2.1
Ex. food and energy		1.2	1.8	1.8	1.7	1.8	1.3	1.3	1.7	2.2	1.4
CPI		1.0	1.2	1.7	2.0	1.7	2.7	2.9	3.1	4.3	2.8
Ex. food and energy		2.6	2.1	2.3	2.3	1.8	2.1	1.8	2.5	2.5	2.7
ECI, hourly compensation ¹		3.0	3.3	4.4	2.6	1.7	4.3	3.7	4.0	5.9	4.4
Nonfarm business sector											
Output per hour		4.7	1.6	1.6	3.2	2.0	0.2	5.0	8.0	2.1	6.3
Compensation per hour		6.3	5.3	4.9	4.0	3.8	4.5	5.2	4.2	4.1	6.0
Unit labor cost		1.6	3.6	3.3	0.7	1.8	4.3	0.2	-3.5	1.9	-0.2

1. Private-industry workers.

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

March 14, 2001

		----- Projected -----									
Item	Units	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	10039.4	10111.5	10216.7	10283.8	10386.8	10515.2	10657.5	10792.5	10934.6	11083.8
Real GDP	Bill. Ch. \$	9369.5	9391.9	9411.2	9442.2	9498.1	9575.8	9658.8	9743.6	9833.3	9928.4
Real GDP	% change	2.2	1.0	0.8	1.3	2.4	3.3	3.5	3.6	3.7	3.9
Gross domestic purchases		3.0	1.5	1.1	1.6	2.7	3.1	4.0	3.9	3.9	3.6
Final sales		2.4	1.6	3.0	0.8	2.0	3.1	3.1	3.3	3.5	4.1
Priv. dom. final purchases		4.2	2.0	3.2	0.7	2.1	2.8	3.6	3.7	3.8	3.8
Personal cons. expenditures		4.5	2.8	2.3	0.6	2.0	2.4	2.6	2.6	2.7	2.7
Durables		7.6	-3.1	2.4	-6.8	-0.4	2.0	2.8	2.9	3.3	3.6
Nondurables		4.7	1.0	2.4	-0.1	1.6	1.8	2.2	2.2	2.2	2.2
Services		3.7	5.0	2.3	2.4	2.7	2.7	2.8	2.8	2.8	2.8
Business fixed investment		7.7	-1.1	6.3	0.2	3.2	6.0	8.9	9.2	9.5	9.7
Equipment & Software		5.6	-3.7	3.9	-1.4	2.4	6.3	10.5	11.0	11.6	11.8
Nonres. structures		14.6	7.5	13.9	5.2	5.5	5.0	4.5	4.3	4.0	3.7
Residential structures		-10.6	-1.9	7.9	5.2	-0.3	0.5	3.0	3.6	2.7	2.6
Exports		13.9	-6.1	-1.7	3.5	5.1	9.2	4.6	7.8	8.4	11.6
Imports		17.0	-0.7	0.7	5.1	6.4	5.9	7.8	9.3	8.5	7.2
Gov't. cons. & investment		-1.4	2.9	2.6	3.1	3.2	3.3	3.5	3.5	3.6	3.6
Federal		-9.0	3.7	1.2	2.9	3.2	3.1	3.5	3.6	3.6	3.4
Defense		-9.7	8.8	-1.2	2.7	2.9	2.7	2.5	2.8	2.7	2.4
State & local		2.9	2.4	3.4	3.2	3.2	3.3	3.5	3.5	3.6	3.6
Change in bus. inventories	Bill. Ch. \$	72.5	56.9	0.4	11.1	21.8	26.4	37.2	44.2	49.5	45.6
Nonfarm		67.4	51.8	-3.5	8.2	19.3	24.4	35.7	42.6	48.4	44.5
Net exports		-427.7	-442.9	-450.4	-460.2	-471.2	-469.0	-487.0	-502.2	-512.7	-508.9
Nominal GDP	% change	3.8	2.9	4.2	2.7	4.1	5.0	5.5	5.2	5.4	5.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	131.6	131.8	132.2	132.3	132.4	132.5	132.6	132.8	133.0	133.4
Unemployment rate	%	4.0	4.0	4.3	4.6	4.9	5.2	5.4	5.5	5.5	5.6
Industrial prod. index	% change	3.5	-0.8	-4.5	0.1	2.3	4.0	4.6	4.6	4.1	3.9
Capacity util. rate - mfg.	%	81.7	80.3	78.4	77.7	77.7	78.0	78.3	78.5	78.7	78.8
Housing starts	Millions	1.53	1.55	1.65	1.64	1.63	1.64	1.66	1.66	1.67	1.68
Light motor vehicle sales		17.38	16.17	16.83	15.76	15.32	15.33	15.34	15.36	15.38	15.41
North Amer. produced		14.54	13.30	13.87	12.80	12.39	12.43	12.46	12.50	12.52	12.55
Other		2.84	2.87	2.96	2.96	2.93	2.90	2.88	2.86	2.86	2.86
INCOME AND SAVING											
Nominal GNP	Bill. \$	10030.5	10097.9	10197.4	10266.6	10366.5	10489.3	10627.4	10759.6	10899.3	11045.2
Nominal GNP	% change	3.8	2.7	4.0	2.7	3.9	4.8	5.4	5.1	5.3	5.5
Nominal personal income		5.3	3.7	5.5	4.1	4.4	4.9	5.6	5.1	5.0	5.1
Real disposable income		2.6	0.5	2.4	2.6	4.2	2.8	7.3	3.1	3.0	3.0
Personal saving rate	%	-0.2	-0.8	-0.8	-0.3	0.2	0.3	1.4	1.5	1.6	1.6
Corp. profits, IVA & CCAdj.	% change	2.8	-25.5	-3.9	-7.9	-0.8	4.5	3.3	4.7	5.9	7.5
Profit share of GNP	%	9.7	8.9	8.8	8.5	8.4	8.4	8.4	8.4	8.4	8.4
Excluding FR Banks		9.4	8.6	8.5	8.2	8.1	8.1	8.1	8.1	8.1	8.1
Federal surpl./deficit	Bill. \$	253.3	284.5	266.1	272.4	256.5	259.6	210.7	228.0	252.9	266.0
State & local surpl./def.		63.2	64.2	64.6	55.4	49.2	51.6	50.7	48.8	43.8	41.9
Ext. social ins. funds		63.6	64.6	64.9	55.6	49.3	51.6	50.6	48.6	43.5	41.6
Gross natl. saving rate	%	18.5	17.9	17.7	17.9	18.1	18.2	18.5	18.7	18.9	19.1
Net natl. saving rate		6.6	5.8	5.5	5.7	5.7	5.8	6.1	6.3	6.5	6.7
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.6	1.9	3.4	1.3	1.6	1.7	1.9	1.6	1.6	1.6
Gross Domestic Purchases											
chn.-wt. price index		2.0	1.8	2.7	1.2	1.5	1.6	1.9	1.5	1.6	1.6
PCE chn.-wt. price index		1.8	1.9	2.8	1.1	1.6	1.6	1.5	1.6	1.6	1.6
Ex. food and energy		1.1	1.6	2.4	1.7	1.9	1.9	1.7	1.7	1.7	1.7
CPI		3.5	3.0	3.6	1.3	1.8	1.9	1.9	1.9	2.0	2.0
Ex. food and energy		2.5	2.4	2.8	2.4	2.5	2.5	2.3	2.3	2.3	2.3
ECI, hourly compensation ¹		4.1	3.0	4.3	4.3	4.3	4.2	4.1	4.0	4.0	4.0
Nonfarm business sector											
Output per hour		3.0	2.0	-1.2	3.2	3.0	3.5	3.2	3.1	3.0	3.1
Compensation per hour		6.2	6.6	4.6	5.5	5.3	5.2	5.2	4.9	4.9	4.8
Unit labor cost		3.2	4.6	5.9	2.3	2.3	1.7	2.0	1.8	1.8	1.6

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	3.4
Gross dom. purchases	4.5	5.5	5.0	3.8	6.8	8.6	5.8	6.7	3.1	5.8	6.0	4.3
Final sales	2.9	5.8	4.4	3.9	4.5	6.5	6.6	3.9	2.4	4.6	4.8	3.6
Priv. dom. final purchases	3.7	5.3	5.3	5.2	4.7	5.2	7.9	4.0	3.6	5.3	5.1	4.2
Personal cons. expenditures	2.8	3.3	3.7	3.7	3.4	4.1	5.0	2.1	3.0	3.3	3.7	3.0
Durables	0.3	1.7	0.7	1.1	0.6	1.0	1.8	-0.4	0.6	1.0	0.9	0.4
Nondurables	0.8	1.0	1.5	0.8	1.0	1.5	1.2	0.7	0.9	1.0	1.2	0.8
Services	1.7	0.5	1.6	1.8	1.8	1.6	2.0	1.8	1.5	1.4	1.7	1.8
Business fixed investment	0.4	1.6	1.2	1.2	1.5	1.2	2.5	1.9	1.0	1.5	1.3	1.3
Equipment & Software	0.6	1.5	1.3	1.4	1.7	0.9	1.9	1.7	0.6	1.4	1.3	1.0
Nonres. structures	-0.2	0.1	-0.1	-0.2	-0.2	0.3	0.6	0.1	0.4	0.2	-0.1	0.4
Residential structures	0.4	0.4	0.3	0.3	-0.1	0.0	0.1	0.1	-0.5	0.4	0.1	-0.1
Net exports	-1.0	0.1	-1.4	-1.4	-1.1	-0.4	-0.9	-1.0	-0.9	-1.1	-1.1	-0.9
Exports	-0.4	1.5	-0.9	0.6	1.1	1.1	0.7	1.5	1.5	0.3	0.5	0.7
Imports	-0.7	-1.5	-0.6	-2.0	-2.1	-1.5	-1.6	-2.5	-2.4	-1.4	-1.5	-1.6
Government cons. & invest.	0.3	0.5	0.6	0.1	0.8	1.5	-0.2	0.9	-0.2	0.5	0.8	0.2
Federal	-0.2	0.2	-0.1	0.1	0.4	0.8	-0.9	1.0	-0.6	0.0	0.3	-0.1
Defense	0.2	-0.1	-0.1	-0.1	0.5	0.5	-0.9	0.6	-0.4	-0.0	0.2	-0.1
Nondefense	-0.4	0.3	-0.0	0.2	-0.1	0.3	-0.1	0.4	-0.2	0.1	0.1	0.0
State and local	0.5	0.3	0.8	0.0	0.4	0.7	0.8	-0.1	0.3	0.4	0.5	0.3
Change in bus. inventories	0.6	-0.2	-0.9	-1.4	1.2	1.8	-1.8	1.7	-0.2	0.0	0.2	-0.2
Nonfarm	0.8	-0.7	-0.6	-1.4	1.3	1.3	-1.6	1.6	-0.2	0.0	0.1	-0.2
Farm	-0.2	0.5	-0.3	0.0	-0.1	0.5	-0.2	0.1	-0.1	0.0	0.1	-0.0

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

Item	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	00Q4/ 99Q4	01Q4/ 00Q4	02Q4/ 01Q4
Real GDP	1.0	0.8	1.3	2.4	3.3	3.5	3.6	3.7	3.9	3.4	2.0	3.7
Gross dom. purchases	1.6	1.1	1.7	2.8	3.2	4.2	4.1	4.1	3.8	4.3	2.2	4.0
Final sales	1.6	2.9	0.8	2.0	3.1	3.1	3.3	3.5	4.1	3.6	2.2	3.5
Priv. dom. final purchases	1.7	2.8	0.6	1.8	2.4	3.1	3.2	3.2	3.3	4.2	1.9	3.2
Personal cons. expenditures	1.9	1.6	0.4	1.4	1.6	1.8	1.8	1.8	1.8	3.0	1.2	1.8
Durables	-0.3	0.2	-0.6	-0.0	0.2	0.2	0.2	0.2	0.3	0.4	-0.1	0.2
Nondurables	0.2	0.5	-0.0	0.3	0.4	0.4	0.4	0.4	0.4	0.8	0.3	0.4
Services	2.0	0.9	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.8	1.0	1.1
Business fixed investment	-0.1	0.8	0.0	0.4	0.8	1.2	1.2	1.3	1.3	1.3	0.5	1.3
Equipment & Software	-0.4	0.4	-0.1	0.2	0.6	1.0	1.1	1.1	1.2	1.0	0.3	1.1
Nonres. structures	0.2	0.4	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.4	0.2	0.2
Residential structures	-0.1	0.3	0.2	-0.0	0.0	0.1	0.1	0.1	0.1	-0.1	0.1	0.1
Net exports	-0.6	-0.3	-0.4	-0.4	0.1	-0.6	-0.5	-0.3	0.2	-0.9	-0.2	-0.3
Exports	-0.7	-0.2	0.4	0.5	1.0	0.5	0.8	0.9	1.2	0.7	0.4	0.9
Imports	0.1	-0.1	-0.7	-0.9	-0.9	-1.1	-1.4	-1.2	-1.1	-1.6	-0.7	-1.2
Government cons. & invest.	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.2	0.5	0.6
Federal	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	-0.1	0.2	0.2
Defense	0.3	-0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-0.1	0.1	0.1
Nondefense	-0.1	0.1	0.1	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	-0.7	-2.1	0.5	0.4	0.2	0.4	0.3	0.2	-0.2	-0.2	-0.2	0.2
Nonfarm	-0.6	-2.2	0.5	0.4	0.2	0.4	0.3	0.2	-0.1	-0.2	-0.3	0.2
Farm	-0.0	0.1	0.0	-0.0	-0.0	-0.0	0.0	-0.0	-0.0	-0.0	0.0	-0.0

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

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

Item	Fiscal year ¹				2000				2001				2002			
	1999 ^a	2000 ^a	2001	2002	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts ²	1827	2025	2105	2172	434	656	492	461	464	682	498	490	462	684	536	515
Outlays ²	1703	1789	1850	1930	449	444	431	464	478	463	446	492	484	480	473	506
Surplus/deficit ²	125	236	256	242	-15	212	60	-2	-13	219	53	-2	-22	204	63	8
On-budget	1	86	95	66	-45	147	50	-14	-74	148	35	-52	-50	128	40	-49
Off-budget	124	150	161	177	30	65	10	12	61	71	17	51	28	76	22	57
Surplus excluding deposit insurance	119	233	254	240	-18	211	60	-3	-14	218	52	-2	-23	203	62	8
Means of financing																
Borrowing	-89	-223	-230	-247	-27	-190	-54	-25	40	188	-56	19	8	157	-80	-32
Cash decrease	-18	4	12	-4	39	-13	5	32	-24	-11	16	16	5	-40	15	20
Other ³	-18	-17	-38	9	4	-10	11	-4	-2	19	12	5	9	7	2	3
Cash operating balance, end of period	56	53	41	45	45	57	53	21	45	57	41	25	20	60	45	25
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	1837	2024	2139	2193	2012	2055	2089	2110	2138	2155	2151	2183	2162	2195	2231	2268
Expenditures	1735	1806	1870	1955	1776	1814	1836	1829	1872	1882	1895	1923	1952	1967	1978	2002
Consumption expenditures	464	489	506	538	479	499	490	489	506	511	516	521	538	544	550	556
Defense	306	320	331	348	311	326	320	322	331	334	336	339	348	350	353	356
Nondefense	158	168	175	191	168	173	170	167	176	178	180	182	190	193	196	200
Other spending	1270	1317	1364	1417	1297	1315	1346	1340	1366	1371	1378	1402	1414	1423	1429	1447
Current account surplus	103	218	269	238	236	241	253	281	266	272	256	260	211	228	253	266
Gross investment	94	104	112	117	101	106	104	113	110	111	113	115	116	118	119	121
Current and capital account surplus	9	114	157	121	134	135	149	168	156	161	143	145	95	110	134	145
Fiscal indicators⁴																
High-employment (HEB) surplus/deficit	-67	8	103	122	31	20	39	78	90	120	123	136	94	116	143	158
Change in HEB, percent of potential GDP	-8	-8	-9	-1	-1	1	-2	-4	-1	-3	-0	-1	4	-2	-2	-1
Fiscal impetus (FI) percent, calendar year	5	2	7	9	-6	6	-2	3	3	5	5	2	3	1	8	1

1. Fiscal year data for the unified budget come from OMB; quarterly data come from the Monthly Treasury Statement and may not sum to OMB fiscal year totals.

2. OMB's February 2001 baseline surplus estimates are \$284 billion in FY2001 and \$283 billion in FY 2002. CBO's January 2001 baseline surplus estimates, assuming discretionary spending grows with inflation beginning in FY 2002, are \$281 billion in FY2001 and \$313 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)

March 14, 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	6.5	7.0	4.3	8.9	5.3	6.2
1998	6.9	-1.4	9.6	8.6	9.8	5.4	11.3	7.2	5.9
1999	6.9	-1.9	9.5	8.9	9.9	7.1	11.4	4.4	6.5
2000	5.0	-8.0	8.5	8.7	8.7	9.4	9.7	2.2	5.8
2001	4.9	-6.6	7.5	7.7	8.5	4.9	8.0	4.1	4.0
2002	4.3	-8.2	6.7	6.5	8.0	1.9	7.9	2.2	5.4
<i>Quarter</i>									
1999:3	7.0	-1.9	9.5	9.2	10.4	5.5	11.0	4.3	6.7
4	6.3	-0.9	8.3	7.7	8.4	7.8	10.2	2.7	9.7
2000:1	5.3	-5.9	8.3	8.0	7.1	10.1	10.3	0.3	8.3
2	5.5	-11.4	9.9	9.5	10.0	9.4	11.9	1.7	8.2
3	4.4	-6.2	6.9	8.0	8.5	8.2	6.8	1.9	3.8
4	4.6	-9.6	8.0	8.2	8.1	8.8	8.4	4.8	2.9
2001:1	6.7	1.6	7.9	8.5	8.8	7.5	7.6	5.6	4.2
2	4.2	-12.0	7.8	7.6	8.2	5.3	8.5	5.8	2.7
3	4.6	-7.0	7.0	7.1	8.1	3.8	7.7	2.7	4.1
4	3.8	-9.6	6.5	6.6	7.8	2.8	7.1	2.2	5.0
2002:1	5.2	-2.3	6.7	6.5	8.0	2.2	7.6	2.2	5.5
2	4.0	-9.0	6.5	6.3	7.7	1.9	7.5	2.2	5.2
3	3.9	-10.5	6.6	6.3	7.7	1.7	7.7	2.2	5.4
4	3.7	-12.1	6.5	6.1	7.6	1.6	7.7	2.2	5.6

Note. Quarterly data are at seasonally adjusted annual rates.

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

2. On a monthly average basis, total debt is projected to grow 5.0 percent in 2001 and 4.3 percent in 2002.

3. On a monthly average basis, federal debt is projected to grow -6.6 percent in 2001 and -8.0 percent in 2002.

4. On a monthly average basis, nonfederal debt is projected to grow 7.7 percent in 2001 and 6.7 percent in 2002.

2.6.3 FOF

1-24

Category	Calendar year				Seasonally adjusted annual rates									
					2000		2001				2002			
	1999	2000	2001	2002	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	978.0	724.7	791.0	731.7	704.3	484.9	1201.6	625.4	724.9	612.1	902.1	695.5	679.4	649.8
2 Net equity issuance	-143.5	-153.1	-106.0	-90.0	-75.6	-350.8	-28.0	156.0	-136.0	-104.0	-96.0	-88.0	-88.0	-88.0
3 Net debt issuance	1121.5	877.8	897.0	821.7	779.9	835.7	1229.6	781.4	860.9	716.1	998.1	783.5	767.4	737.8
<i>Borrowing sectors</i>														
<i>Nonfinancial business</i>														
4 Financing gap ¹	172.1	222.9	231.7	306.4	238.6	247.4	207.4	223.0	239.1	257.5	282.2	300.1	316.0	327.5
5 Net equity issuance	-143.5	-153.1	-106.0	-90.0	-75.6	-350.8	-28.0	156.0	136.0	104.0	-96.0	-88.0	-88.0	-88.0
6 Credit market borrowing	602.1	574.0	517.8	553.3	423.5	533.9	493.7	560.7	523.3	493.5	536.9	539.4	562.0	574.7
<i>Households</i>														
7 Net borrowing ²	538.2	572.5	550.3	498.7	552.2	576.0	611.9	554.1	531.2	504.1	503.5	496.9	500.0	494.7
8 Home mortgages	415.7	401.9	426.7	434.0	408.5	400.2	441.2	421.2	426.2	418.2	434.2	429.2	436.2	436.2
9 Consumer credit	94.4	134.7	77.3	30.8	122.9	134.2	118.0	84.2	61.3	45.8	36.5	31.9	28.0	26.7
10 Debt/DPI (percent) ³	95.0	98.4	102.0	103.3	98.6	100.2	101.0	102.1	102.5	103.1	102.6	103.0	103.5	103.9
<i>State and local governments</i>														
11 Net borrowing	52.3	27.1	52.9	29.4	23.6	60.3	71.1	75.4	35.8	29.4	29.4	29.4	29.4	29.4
12 Current surplus ⁴	196.8	221.2	231.9	232.0	225.6	230.2	238.2	231.0	226.9	231.5	232.8	233.2	230.7	231.3
<i>Federal government</i>														
13 Net borrowing	-71.2	-295.9	-224.0	-259.7	-219.5	-334.5	52.9	-408.8	-229.4	-310.9	-71.7	-282.2	-324.0	-361.0
14 Net borrowing (quarterly, n.s.a.)	-71.2	-295.9	-224.0	-259.7	-53.8	-25.0	39.6	188.3	-56.2	-19.1	8.5	-156.6	-79.9	-31.7
15 Unified deficit (quarterly, n.s.a.)	158.3	-254.8	-256.3	-252.4	-60.4	2.3	13.2	-218.7	-52.5	1.7	22.1	-203.5	-62.8	-8.3
<i>Depository institutions</i>														
16 Funds supplied	404.3	446.5	314.7	292.7	454.3	274.5	477.8	263.0	237.8	280.5	280.7	282.7	303.7	303.7
<i>Memo (percentage of GDP)</i>														
17 Domestic nonfinancial debt ⁵	181.4	179.6	181.6	180.8	179.5	180.3	181.1	182.3	182.5	182.1	181.7	181.5	180.9	180.2
18 Domestic nonfinancial borrowing	12.1	8.8	8.7	7.6	7.8	8.3	12.0	7.6	8.3	6.8	9.4	7.3	7.0	6.7
19 Federal government ⁶	-0.8	-3.0	-2.2	-2.4	-2.2	-3.3	0.5	-4.0	-2.2	-3.0	-0.7	-2.6	-3.0	-3.3
20 Nonfederal	12.8	11.8	10.8	10.0	10.0	11.6	11.5	11.6	10.5	9.8	10.0	9.9	10.0	9.9

Note. Data after 2000:Q4 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.

2.6.4 FOF

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

Growth abroad has weakened as foreign activity has been hit by spillovers from the U.S. slowdown, the global slump in high-tech industries, and softer domestic demand in some countries. Accordingly, the staff's projection of foreign growth for the first half of this year has been lowered from the January Greenbook. A large part of the downward revision reflects reduced growth prospects in Mexico in light of a contraction of exports in the fourth quarter that produced a sharp drop in Mexican GDP. Our outlook for growth in Japan was marked down as well. A fourth-quarter surge in private investment is likely to be reversed in response to weakness of both private consumption and external demand. The expected recovery of U.S. activity, lower oil prices, and some policy easing abroad should help boost foreign growth to near its potential rate in the second half of this year and in 2002. However, recent volatility in global financial markets has increased downside risks to this outlook. The near-term projection for foreign inflation has been lowered--partly because of a very abrupt deceleration of consumer prices in Mexico in recent months--but average foreign inflation is expected to return later this year to a rate of about 3 percent as global economic growth picks up.

Summary of Staff Projections

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

Indicator	2000		Projection			
	H1	H2	2001			2002
			Q1	Q2	H2	
Foreign output	5.5	2.9	1.8	2.7	3.5	3.7
<i>January GB</i>	5.8	3.2	2.3	3.1	3.5	3.7
Foreign CPI	2.1	3.6	2.0	2.7	3.0	2.8
<i>January GB</i>	2.0	3.8	3.0	2.8	3.0	3.0

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

Our oil price projection, in line with futures prices, continues to call for a gradual decline over the forecast period. The projected path of oil prices runs along a somewhat higher track than in the January Greenbook, however, as OPEC appears to have become more willing to trade off a smaller market share for higher prices. The foreign exchange value of the dollar once again is expected to decline over the forecast period. However, the dollar starts from a higher level and depreciates at a slower pace than projected in the January Greenbook, reflecting its recent resilience and softer growth abroad. The projected 2 percent depreciation of the real broad dollar index over the next seven quarters puts the dollar at a level that is 4 percent higher than in the January Greenbook.

restraining demand, but we expect a fairly quick bounceback spurred by stronger U.S. growth. Risks facing Argentina recently have become more pronounced, but we continue to expect the government's policies to be sufficient to allow the economy to record an anemic recovery beginning later this year. In developing Asia, weaker demand from industrial countries, especially for high-tech products, will continue to restrain growth in the near term. However, growth in the region should recover to a sustainable pace of about 5 percent.

Prices of internationally traded goods. We assume that OPEC will cut production targets modestly at its March 16 meeting and that, over the next few months, oil prices will remain near current levels. We continue to project that world oil production will exceed consumption and allow a gradual increase in stocks over the forecast period. Consistent with futures quotes, we project that, after midyear, oil prices will decline gradually over the forecast period. The end point of this projection is slightly higher than that in the January Greenbook, consistent with OPEC's apparent greater willingness to trade higher near-term oil prices for market share.

Selected Trade Prices

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

Trade category	2000		Projection			
	Q3	Q4	2001			2002
			Q1	Q2	H2	
<i>Exports</i>						
Nonagricultural (core)	1.2	.4	.3	.2	.5	.6
Agricultural	-12.5	10.7	.6	6.3	5.5	5.0
<i>Imports</i>						
Non-oil (core)	1.4	.9	1.6	.6	1.4	2.5
Oil (dollars per barrel)	28.73	29.11	25.82	25.65	24.54	21.92

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 0.9 percent at an annual rate in the fourth quarter of last year to 1.6 percent in the current quarter and to move back down in the second quarter. This pattern is influenced by sharp increases in prices of imported natural gas in December and January that are estimated to have reversed in February and March. Thereafter, prices of core imports are projected to accelerate gradually in the second half of this year until their growth levels off at about 2½ percent in 2002, in response to the projected path of the dollar and movements in prices abroad. Prices of exported core goods are

projected to increase at an average rate of about ½ percent throughout the forecast period, as declines in energy-related products are more than offset by modest increases in prices of other exported goods.

U.S. international transactions. Real exports of goods and services, which grew at an average annual rate of nearly 15 percent in the second and third quarters of last year, contracted in the fourth quarter. The abrupt swing was especially noticeable in exports of capital goods but was evident in all other major export categories as well. We expect that exports will decline a bit further in the current quarter, owing to somewhat slower-than-expected economic growth abroad late last year and in early 2001. As in our previous forecast, export growth is projected to accelerate thereafter as the pace of economic activity abroad moves back up and projected dollar depreciation reduces relative prices. Export growth is projected to average about 4 percent this year and about 8 percent in 2002.

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

Measure	2000		Projection			
	Q3	Q4	2001			2002
			Q1	Q2	H2	
Real exports	13.9	-6.1	-1.7	3.5	7.1	8.1
<i>January GB</i>	13.9	-4.7	.8	4.9	9.3	9.9
Real imports	17.0	-.7	.7	5.1	6.2	8.2
<i>January GB</i>	17.0	-.8	-2.3	6.0	6.5	8.2

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

After showing unusual strength during the first three quarters of 2000, growth of real imports of goods and services braked sharply and registered a small decline. The shift was attributable largely to fewer imports of automotive products, computers, semiconductors, oil, and other industrial supplies. Given the projected path of U.S. GDP, imports are forecast to record another sluggish quarter before rebounding in the second quarter and then expanding at an average 7 percent rate over the remainder of the forecast period. Expected dollar depreciation will make relative prices a slightly restraining factor by the end of next year.

We project that the contribution of exports to U.S. GDP growth will average ½ percentage point in 2001 and rise to 1 percentage point in 2002. Imports are

depreciation and lower investment spending in Japan has a direct effect on U.S. exports. This direct effect is reinforced through spillovers to other countries, particularly to Japan's major trading partners in Asia that are also important export markets for the United States. Even so, with no U.S. monetary policy response, U.S. output growth would decline only about $\frac{1}{4}$ percentage point in 2001 and by less in 2002. Core price inflation would drop slightly in 2001 and about $\frac{1}{4}$ percentage point in 2002. (The shock depresses the level of Japanese output 4 percent below baseline in 2001 and 2 percent below baseline in 2002.)

**Alternative Simulations:
Weaker Dollar**

(Percent change from previous period, annual rate)

Indicator and simulation	2001		2002	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	1.1	2.9	3.5	3.8
Immediate 15 percent depreciation				
Unchanged real funds rate	1.3	3.5	4.3	4.7
Taylor Rule	1.2	3.3	3.9	4.1
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	2.0	1.9	1.7	1.7
Immediate 15 percent depreciation				
Unchanged real funds rate	2.4	2.9	2.4	2.0
Taylor Rule	2.3	2.7	2.2	1.8

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

Alternative Simulations:
Yen Depreciation and Investment Decline in Japan
 (Percent change from previous period, annual rate)

Indicator and simulation	2001		2002	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	1.1	2.9	3.5	3.8
Yen/Investment Demand Shocks in Japan				
Unchanged real funds rate	.8	2.8	3.4	3.7
Taylor Rule	.9	2.9	3.5	3.9
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	2.0	1.9	1.7	1.7
Yen/Investment Demand Shocks in Japan				
Unchanged real funds rate	2.0	1.7	1.5	1.6
Taylor Rule	2.0	1.8	1.6	1.6

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

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

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

Total foreign	5.2	2.4	4.0	4.3	1.2	4.8	4.2	2.9	3.7
Industrial Countries	4.1	1.9	2.5	3.7	2.2	3.8	3.4	2.2	3.0
of which:									
Canada	5.5	1.4	2.4	4.8	3.2	4.9	4.0	2.5	3.6
Japan	1.7	2.6	2.9	0.7	-1.4	0.4	2.8	-0.5	1.2
United Kingdom	4.6	1.9	2.9	3.5	2.0	3.2	2.5	2.4	2.6
Euro-12	3.0	1.5	1.6	3.0	2.0	3.3	2.9	2.6	3.0
Germany	2.9	1.1	1.3	1.6	1.0	2.5	2.6	2.3	3.2
Developing Countries	6.9	3.1	6.2	5.1	-0.1	6.3	5.4	3.9	4.7
Asia	8.8	7.2	6.8	4.8	-1.8	8.9	6.3	4.4	5.1
Korea	9.2	7.4	6.1	3.1	-4.6	14.0	5.3	2.4	4.6
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	6.0	6.1	1.2	4.3	4.6	3.4	4.4
Mexico	5.2	-7.1	7.1	6.7	2.8	5.5	5.2	3.5	4.7
Brazil	10.2	-0.9	3.5	2.4	-0.8	3.4	4.3	3.3	4.0
CONSUMER PRICES (2)									

Industrial Countries	1.1	1.3	1.4	1.5	1.0	1.2	1.9	1.2	1.3
of which:									
Canada	-0.0	2.0	2.0	1.0	1.1	2.4	3.1	1.8	1.8
Japan	0.8	-0.8	0.1	2.0	0.8	-1.3	-1.1	-0.8	-0.4
United Kingdom (3)	2.2	2.9	3.2	2.7	2.5	2.2	2.1	2.1	2.4
Euro-12 (4)	NA	NA	NA	1.5	0.8	1.5	2.7	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	4.6	4.2	4.8	4.9
Asia	10.8	6.4	4.8	2.8	4.4	0.2	1.9	3.2	3.7
Korea	5.8	4.3	5.0	4.9	5.9	1.2	2.8	3.0	3.0
China	26.9	11.1	6.8	0.9	-1.2	-0.9	0.9	3.4	3.9
Latin America	54.0	42.1	25.9	15.6	15.5	12.6	8.5	6.7	6.5
Mexico	7.0	48.9	28.2	17.2	17.5	13.6	8.9	6.9	6.7
Brazil	1196.9	21.5	9.6	4.7	1.6	8.3	6.2	4.8	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	6.9	4.2	4.2	1.6	1.8	2.7	3.4	3.6	3.6	3.7	3.8	3.8
Industrial Countries	4.9	3.6	2.6	2.6	1.3	2.2	2.6	2.8	3.0	3.1	3.1	3.1
of which:												
Canada	4.8	4.3	4.5	2.6	1.6	2.0	2.9	3.4	3.6	3.6	3.6	3.6
Japan	10.0	0.9	-2.4	3.2	-3.8	1.5	0.2	0.3	1.0	1.2	1.3	1.3
United Kingdom	1.2	4.2	3.3	1.3	2.5	2.4	2.3	2.5	2.5	2.7	2.7	2.7
Euro-12	3.8	3.0	2.0	2.7	2.1	2.5	2.9	3.0	2.9	3.0	2.9	2.9
Germany	3.9	4.8	1.1	0.8	1.4	2.2	2.8	3.0	3.0	3.3	3.2	3.2
Developing Countries	9.9	5.0	6.6	0.2	2.6	3.5	4.8	4.7	4.6	4.6	4.8	4.8
Asia	11.3	4.3	7.3	2.3	2.8	4.0	5.6	5.4	4.9	5.0	5.3	5.3
Korea	7.1	4.8	14.0	-4.0	1.0	2.0	3.0	3.5	4.0	4.5	5.0	5.0
China	9.6	1.9	11.0	7.5	5.5	6.0	9.0	9.0	6.5	6.5	9.0	9.0
Latin America	9.2	5.5	5.9	-1.8	2.2	3.0	4.2	4.2	4.4	4.4	4.4	4.4
Mexico	11.1	6.4	6.7	-3.0	2.0	3.0	4.5	4.5	4.8	4.8	4.7	4.8
Brazil	3.8	3.9	8.9	0.9	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	1.7	1.4	1.2	1.1	1.2	1.3	1.3
of which:												
Canada	2.7	2.4	2.7	3.1	2.9	2.7	2.2	1.8	1.8	1.8	1.8	1.8
Japan	-0.8	-0.9	-1.1	-1.1	-0.5	-0.7	-0.8	-0.8	-1.2	-0.7	-0.5	-0.4
United Kingdom (3)	2.1	2.1	2.1	2.1	2.0	2.0	2.1	2.1	2.3	2.4	2.4	2.4
Euro-12 (4)	2.0	2.1	2.5	2.7	2.4	2.3	1.9	1.7	1.7	1.8	1.8	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	4.2	4.7	4.6	4.8	5.4	5.2	5.1	4.9
Asia	0.5	0.8	1.4	1.9	2.3	3.3	3.4	3.2	3.6	3.6	3.7	3.7
Korea	1.5	1.5	3.2	2.8	4.2	4.4	3.0	3.0	2.9	3.0	3.0	3.0
China	0.1	0.2	0.3	0.9	1.3	3.1	3.4	3.4	3.5	3.6	3.7	3.9
Latin America	10.0	9.1	8.7	8.5	7.3	7.2	6.8	6.7	7.9	7.4	7.0	6.5
Mexico	10.6	9.6	9.0	8.9	7.6	7.3	7.0	6.9	8.4	7.8	7.3	6.7
Brazil	7.8	6.6	7.7	6.2	6.5	7.6	5.4	4.8	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	-0.9	-0.2	-0.3
Exports of G&S	1.0	1.0	1.1	1.0	0.3	0.5	0.7	0.4	0.9
Imports of G&S	-1.3	-0.6	-1.3	-1.7	-1.4	-1.5	-1.6	-0.7	-1.2
Percentage change, Q4/Q4									
Exports of G&S	10.5	9.7	9.8	8.5	2.2	4.3	6.8	4.0	8.1
Services	8.2	8.8	8.9	1.4	2.8	0.2	1.9	2.6	6.1
Agricultural Goods	16.3	-4.0	3.8	1.0	-0.3	-0.5	7.6	0.3	2.8
Computers	27.4	39.1	21.6	25.8	7.0	13.3	23.9	19.7	33.6
Semiconductors	66.9	79.6	44.6	21.3	9.3	34.4	26.7	17.9	37.4
Other Goods 1/	6.9	5.7	7.8	10.9	1.3	4.1	6.1	2.3	4.2
Imports of G&S	12.2	5.0	11.2	14.3	11.2	12.0	11.5	4.5	8.2
Services	1.8	5.5	5.3	14.0	9.5	2.1	13.3	2.9	4.9
Oil	-0.2	2.4	7.8	3.9	4.6	-3.9	13.2	0.5	2.9
Computers	39.0	35.0	17.8	33.0	26.7	25.0	14.6	14.9	28.7
Semiconductors	54.5	92.4	56.7	32.9	-7.3	34.0	23.6	22.6	38.6
Other Goods 2/	12.3	-1.2	10.5	12.7	11.6	13.9	10.1	3.6	6.1
Billions of chained 1996 dollars									
Net Goods & Services	-86.5	-78.4	-89.0	-113.3	-221.0	-322.4	-412.7	-462.7	-502.7
Exports of G&S	732.8	808.2	874.2	981.5	1003.6	1033.0	1126.5	1156.9	1237.5
Imports of G&S	819.4	886.6	963.1	1094.8	1224.6	1355.3	1539.2	1619.6	1740.2
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-118.6	-109.5	-123.3	-140.5	-217.1	-331.5	-440.6	-483.4	-534.0
Current Acct as Percent of GDP	-1.7	-1.5	-1.6	-1.7	-2.5	-3.6	-4.4	-4.7	-4.9
Net Goods & Services (BOP)	-97.0	-96.0	-102.1	-105.9	-166.9	-265.0	-369.7	-400.2	-436.3
Investment Income, Net	21.1	25.0	23.4	11.1	-1.0	-13.1	-13.2	-24.5	-38.0
Direct, Net	55.2	64.9	69.4	71.9	67.7	62.7	77.6	82.0	86.5
Portfolio, Net	-34.1	-39.9	-46.0	-60.9	-68.8	-75.8	-90.8	-106.4	-124.5
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
PA 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	19.0	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.												
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.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2000				2001				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
FPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-0.9	-1.0	-0.9	-0.6	-0.3	-0.4	-0.4	0.1	-0.6	-0.5	-0.3	0.2
Exports of G&S	0.7	1.5	1.5	-0.7	-0.2	0.4	0.5	1.0	0.5	0.8	0.9	1.2
Imports of G&S	-1.6	-2.5	-2.4	0.1	-0.1	-0.7	-0.9	-0.9	-1.1	-1.4	-1.2	-1.1
Percentage change from previous period, s.a.a.r.												
Exports of G&S	6.3	14.3	13.9	-6.1	-1.7	3.5	5.1	9.2	4.6	7.8	8.4	11.6
Services	6.9	3.5	-2.8	0.4	-1.1	2.4	3.9	5.3	5.7	6.1	6.2	6.2
Agricultural Goods	25.3	-2.0	42.5	-23.4	-11.2	0.6	5.8	7.3	2.9	2.7	2.8	2.9
Computers	44.6	44.9	27.5	-11.8	4.1	12.6	32.4	32.4	33.6	33.6	33.6	33.6
Semiconductors	20.7	71.2	38.6	-10.0	-2.0	8.3	34.9	34.9	37.4	37.4	37.4	37.4
Other Goods 1/	0.7	14.9	17.2	-6.5	-1.6	3.1	0.8	6.9	-1.3	3.7	4.5	10.0
Imports of G&S	12.0	18.6	17.0	-0.7	0.7	5.1	6.4	5.9	7.8	9.3	8.5	7.2
Services	16.6	10.6	22.3	4.7	2.9	1.7	2.6	4.2	4.7	4.8	5.0	5.3
Oil	30.3	35.3	-4.9	-2.1	8.7	4.7	7.0	-16.4	-1.3	22.8	7.6	-13.9
Computers	2.8	44.5	28.7	-9.7	-2.0	11.5	26.3	26.3	28.7	28.7	28.7	28.7
Semiconductors	20.7	33.5	88.9	-23.5	8.3	12.6	36.1	36.1	38.6	38.6	38.6	38.6
Other Goods 2/	9.7	15.8	15.1	0.5	-0.9	5.0	4.4	5.9	6.3	6.0	6.0	6.2
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-376.8	-403.4	-427.7	-442.9	-450.4	-460.2	-471.2	-469.0	-487.0	-502.2	-512.7	-508.9
Exports of G&S	1084.8	1121.8	1158.8	1140.7	1135.9	1145.8	1160.1	1185.9	1199.3	1222.1	1247.0	1281.6
Imports of G&S	1461.7	1525.2	1586.4	1583.6	1586.3	1606.0	1631.3	1654.9	1686.4	1724.3	1759.6	1790.5
Billions of dollars, s.a.a.r.												
CURRENT ACCOUNT BALANCE	-406.8	-420.7	-452.4	-482.4	-470.3	-475.9	-487.5	-499.9	-511.3	-529.3	-542.1	-553.5
Current Account as % of GDP	-4.2	-4.2	-4.5	-4.8	-4.6	-4.6	-4.7	-4.8	-4.8	-4.9	-5.0	-5.0
Net Goods & Services (BOP)	-341.3	-355.2	-383.3	-399.0	-391.5	-398.8	-407.3	-403.1	-420.8	-435.5	-445.9	-443.0
Investment Income, Net	-11.9	-10.8	-12.7	-17.4	-23.1	-21.0	-24.1	-29.7	-33.9	-36.6	-39.1	-42.4
Direct, Net	68.3	76.1	86.2	79.8	76.4	82.9	84.7	83.8	84.1	86.0	87.7	88.3
Portfolio, Net	-80.2	-86.9	-98.9	-97.1	-99.6	-103.9	-108.8	-113.5	-118.0	-122.6	-126.8	-130.7
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

March 14, 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

March 14, 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	Q2 ¹	Dec.	Jan.	Feb.	Mar. ¹
U.S. production	12.8	11.6	10.7	12.0	11.0	10.4	10.4	11.4
Autos	5.7	5.0	4.9	5.0	4.7	4.9	4.8	5.0
Trucks	7.1	6.6	5.8	7.0	6.3	5.4	5.6	6.5
Days' supply ²	66.0	72.3	n.a.	n.a.	77.8	65.8	60.3	n.a.
Autos	55.9	60.6	n.a.	n.a.	65.9	54.9	48.9	n.a.
Light trucks ³	74.9	82.8	n.a.	n.a.	88.3	75.8	71.0	n.a.
Inventories ⁴	3.13	3.13	n.a.	n.a.	3.13	3.00	2.84	n.a.

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

1. Production rates reflect manufacturers' schedules for March and Q2.

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.

telecom service providers is beginning to damp chip production noticeably.⁶ In addition, a number of high-tech firms have announced layoffs and plant closings. For example, Intel and Cisco recently announced that they would cut jobs, and Motorola announced that it would lay off another 7,000 workers in its cell-phone division and close a semiconductor plant currently employing 4,000 workers. Many of these producers have also slashed capital spending plans for this year.⁷

Manufacturing IP outside of the transportation and high-tech industries, which began to contract in the third quarter of last year, continues to be weak. The

6. Weakening demand continues to put downward pressure on spot prices for memory chips, although recent declines were not nearly so steep as in October and November of last year. Most recently, Dataquest reports that spot prices picked up slightly the week of March 9, in response to rumors of a possible closure of a Hyundai semiconductor plant in Eugene, Oregon.

7. Dataquest predicts that North American capital spending by semiconductor producers will be flat this year in nominal terms. However, the Semiconductor Industry Association forecasts a 10 percent nominal decline relative to last year. Additionally, Semiconductor Equipment and Materials International reports that January shipments of equipment used to manufacture and assemble semiconductors outstripped new orders by nearly 20 percent; as a result, the semiconductor equipment book-to-bill ratio, which peaked in August, fell to 0.81 in January, its lowest reading since 1998.

**Bush Administration Budget Projections
and Economic Assumptions**

Category	2001	2002	2002-11
UNIFIED BUDGET SURPLUS (FISCAL YEARS)	Billions of dollars		
Administration proposal	281	231	3,433
On-budget	124	60	842
Off-budget	157	171	2,591
Administration baseline	284	283	5,644
On-budget	127	112	3,045
Off-budget	157	171	2,599
CBO baseline	281	313	5,610
On-budget	125	142	3,122
Off-budget	156	171	2,488
OMB ECONOMIC ASSUMPTIONS (CALENDAR YEARS)	Year-over-year percent change		
Real GDP	2.4	3.3	3.2
GDP price index	2.1	2.1	2.1
CPI-U	2.7	2.6	2.5
	Percent, annual average		
Unemployment rate	4.4	4.6	4.6
Treasury yields			
3-month	5.3	5.6	5.2
10-year	5.4	5.6	5.7

SOURCE. Office of Management and Budget, *A Blueprint for New Beginnings: A Responsible Budget for America's Priorities*, February 2001; and Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002-2011*, January 2001.

CPI AND PPI INFLATION RATES
(Percent)

	From 12 months earlier		2000		2000	2001
	Jan. 2000	Jan. 2001	Q3	Q4	Dec.	Jan.
			-Annual rate-		-Monthly rate-	
<u>CPI</u>						
All items (100.0) ¹	2.7	3.7	3.5	3.0	.2	.6
Food (15.2)	1.5	2.9	3.9	1.9	.5	.3
Energy (7.7)	14.7	17.8	13.0	10.7	.3	3.9
CPI less food and energy (77.1)	2.0	2.6	2.5	2.4	.1	.3
Commodities (22.8)	-.1	.8	.0	1.1	-.1	.1
New vehicles (4.7)	-.8	.3	-.2	-1.1	.2	.1
Used cars and trucks (1.9)	2.2	4.2	-.3	6.2	.9	.9
Apparel (4.5)	-.9	-1.1	-2.8	2.7	-.3	-.2
Tobacco (1.3)	5.9	7.8	5.6	.5	-3.5	1.9
Other Commodities (10.4)	-.5	.5	.6	.6	.0	-.1
Services (54.3)	3.0	3.4	3.7	3.0	.2	.4
Shelter (29.9)	3.0	3.3	3.2	3.3	.2	.2
Medical care (4.6)	3.5	5.0	4.9	4.3	.3	.6
Other Services (19.9)	2.8	3.3	4.2	2.2	.3	.6
<u>PPI</u>						
Finished goods (100.0) ²	2.5	4.8	2.6	3.9	.2	1.1
Finished consumer foods (22.5)	-.4	2.5	-2.0	3.0	-.4	.8
Finished energy (15.6)	17.5	21.6	14.5	18.7	.8	3.8
Finished goods less food and energy (61.9)	.8	2.0	1.9	.6	.1	.7
Consumer goods (38.0)	1.1	2.4	1.9	.8	.2	.8
Capital equipment (23.9)	.4	1.3	1.6	.6	.1	.3
Applications software	.9	6.0	13.6	6.5	-.5	2.0
Intermediate materials less food and energy	2.4	1.5	1.0	-.6	.0	.2
Crude materials less food and energy	16.3	-7.4	-13.9	-8.0	.3	.5

1. Relative importance weight for CPI, December 2000.
2. Relative importance weight for PPI, December 2000.

Gross Issuance of Securities by U.S. Corporations

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

Type of security	1998	1999	2000				Jan.	Feb. ^e
			H1	Q3	Q4	Dec.		
All U.S. corporations	94.0	89.4	80.0	80.9	73.1	61.4	128.9	94.9
Stocks ¹	10.6	11.0	14.1	9.1	7.8	2.7	7.5	6.8
Bonds	83.5	78.4	65.9	71.8	65.4	58.7	121.5	88.1
<i>Nonfinancial corporations</i>								
Stocks ¹	6.2	9.2	12.4	7.5	7.1	2.1	4.3	4.4
Initial public offerings	2.2	4.2	5.7	4.6	1.6	.4	.2	1.1
Seasoned offerings	4.0	5.0	6.7	3.0	5.5	1.8	4.1	3.2
Bonds ²	25.6	24.5	21.3	19.4	18.8	18.2	44.8	34.0
Investment grade ³	14.1	13.9	11.5	11.0	13.9	15.4	28.6	22.2
Speculative grade ³	10.2	7.5	5.4	4.9	2.4	1.8	14.6	9.0
Other (sold abroad/unrated)	1.3	3.1	4.4	3.5	2.6	1.0	1.6	2.8
<i>Financial corporations</i>								
Stocks ¹	4.4	1.8	1.6	1.6	.7	.5	3.1	2.4
Bonds	57.8	53.9	44.7	52.4	46.5	40.5	76.7	54.1
<i>Memo</i>								
Net issuance of commercial paper, nonfinancial corps. ⁴	2.3	3.6	6.4	5.2	.2	-8.2	-28.1	-15.5
Change in C&I loans at commercial banks ⁴	7.0	4.6	11.5	4.1	4.8	10.7	16.4	7.0

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.

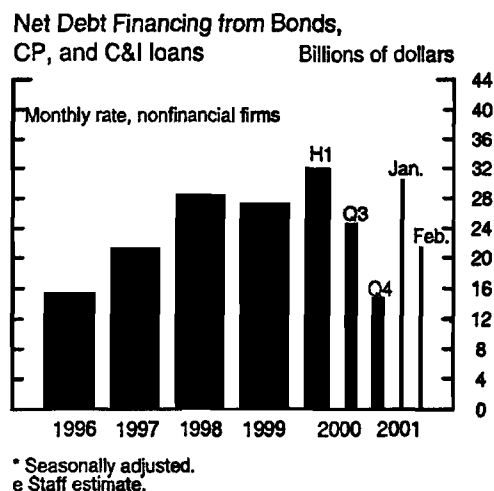
1. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings.

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.

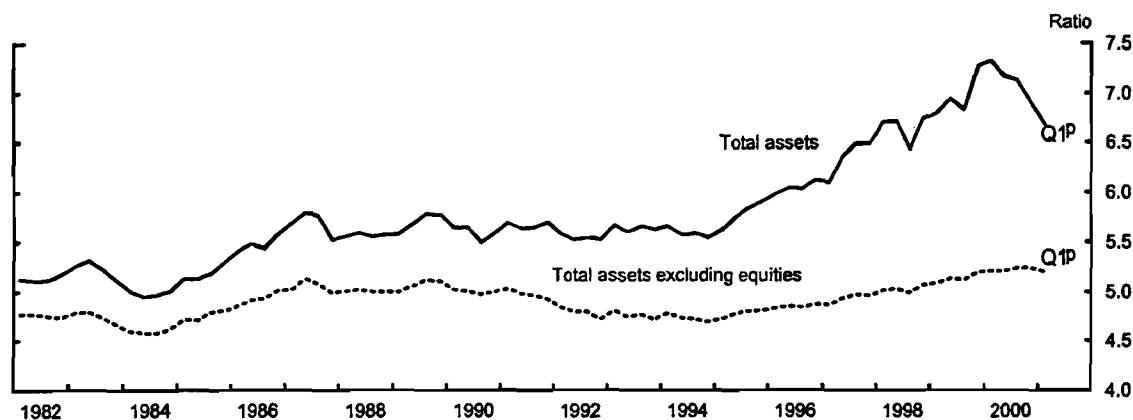
4. End-of-period basis, seasonally adjusted.

^e Staff estimate.



Household Assets Relative to Disposable Income

(Quarterly data; seasonally adjusted)



p. Staff projection.

Net Flows into Long-Term Mutual Funds

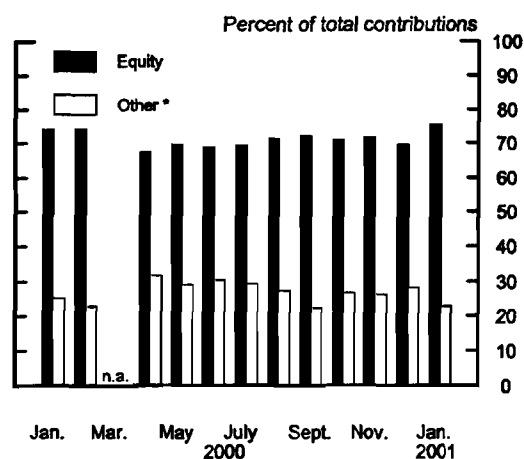
(Excluding reinvested dividends; billions of dollars, monthly rates.)

	1998	1999	2000	H1	H2	2000 Jan.	Feb. ^e	Assets Jan.
Total long-term funds	20.2	14.2	18.4	23.8	13.1	34.4	5.2	5,279
Equity funds	13.2	15.7	25.1	34.4	15.9	24.6	-4.2	4,093
Domestic	12.6	14.8	21.2	26.7	15.7	20.8	1.1	3,535
Capital appreciation	7.1	13.5	25.5	34.4	16.7	17.5	-0.7	2,236
Total return	5.5	1.4	-4.3	-7.6	-0.9	3.3	1.8	1,299
International	0.6	0.9	3.9	7.7	0.2	3.8	-5.3	558
Hybrid funds	0.9	-1.0	-2.6	-4.0	-1.3	1.2	0.9	358
Bond funds	6.2	-0.5	-4.0	-6.6	-1.5	8.6	8.5	828
International	-0.1	-0.2	-0.2	-0.2	-0.2	0.1	0.1	21
High-yield	1.1	-0.2	-1.0	-1.1	-0.9	4.4	1.5	100
Other taxable	3.9	1.0	-1.6	-2.8	-0.3	3.1	5.2	426
Municipals	1.3	-1.0	-1.2	-2.5	-0.0	1.0	1.7	280

e. Staff estimates based on confidential ICI weekly data.

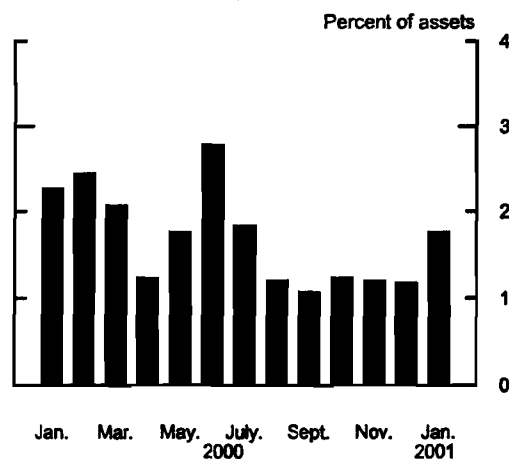
Source. Investment Company Institute (ICI).

Allocation of New Contributions to 401(k) Pension Plans



* Includes bond and money market funds and GICs.
Source. Hewitt Associates.

Transfers Among Existing 401(k) Pension Plan Assets*



* Includes money market funds and GICs.
Source. Hewitt Associates.

March 16, 2001

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

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

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

	2000 July	2000 Aug.	2000 Sept.	2000 Oct.	2000 Nov.	2000 Dec.	2001 Jan.	2001 Feb.	2001 Mar (p)
<hr/>									
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	108.3	107.3	106.8	105.8	107.6	98.4	94.7	90.6	91.8
Current conditions	114.2	112.4	112.0	113.6	116.9	110.5	107.7	105.8	104.1
Expected conditions	104.5	104.0	103.4	100.7	101.6	90.7	86.4	80.8	84.0
<hr/>									
Personal financial situation									
Now compared with 12 months ago*	130	126	124	129	133	126	123	122	116
Expected in 12 months*	139	139	132	132	137	131	126	129	132
Expected business conditions									
Next 12 months*	148	151	149	143	142	121	106	93	94
Next 5 years*	135	130	136	132	131	113	115	102	111
Appraisal of buying conditions									
Cars	141	147	145	144	149	146	133	137	147
Large household appliances*	167	166	167	166	170	161	157	152	153
Houses	136	138	144	134	152	139	149	149	145
Willingness to use credit	44	47	41	43	41	42	33	47	35
Willingness to use savings	70	71	70	62	72	67	55	66	53
Expected unemployment change - next 12 months	111	108	111	117	114	127	139	143	145
Prob. household will lose a job - next 5 years	23	21	21	19	20	19	20	23	21
Expected inflation - next 12 months									
Mean	3.7	3.5	3.7	4.1	3.8	3.4	3.8	3.2	3.4
Median	3.0	2.7	2.9	3.2	2.9	2.8	3.0	2.8	2.9
Expected inflation - next 5 to 10 years									
Mean	3.2	3.5	3.6	3.7	3.6	3.7	3.5	3.6	3.5
Median	2.8	2.9	3.0	3.0	2.9	3.0	2.9	3.0	3.0

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

(p) -- Preliminary

(f) -- Final

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