

Part 1

December 5, 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

December 5, 2001

Summary and Outlook

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

Measure	2001:Q4		2002:Q1	
	Oct. GB	Dec. GB	Oct. GB	Dec. GB
Real GDP	-2.4	-2.1	-.1	-.1
Private domestic final purchases	-3.2	-.5	-1.6	-3.4
Personal consumption expenditures	1.3	3.7	-.6	-2.6
Residential investment	-16.2	- 8.7	-5.8	-7.5
Business fixed investment	-22.3	-19.3	-6.3	-7.1
Government outlays for consumption and investment	7.9	8.4	2.8	3.0
	Contribution to growth, percentage points			
Inventory investment	-.8	-2.4	1.3	3.0
Net exports	-.3	-.7	-.5	-.6

basically transitional as the economy shifts from contraction to renewed expansion; as before, we expect aggregate activity to be about unchanged.

There has been some recalibration of final sales and inventories in the near-term forecast. Final sales in the current quarter rise at an annual rate of about 1/2 percent rather than falling noticeably as we previously had projected. However, in the first quarter of next year, final sales are expected to decline more sharply than forecast in the previous Greenbook, leaving the level of sales about the same as previously predicted. With much of this quarter's increment to sales expected to come out of inventories, nonfarm stocks are worked off at an even faster rate in the fourth quarter than we had been forecasting in the October Greenbook—about 8-1/2 percent at an annual rate. In the first quarter, the rate of liquidation slows dramatically, to 3-1/4 percent; the arithmetic contribution of this positive inventory swing to first-quarter GDP growth is 3 percentage points.

Once again, as in late October, our Greenbook forecast is closing out just a couple of days before a monthly labor market report. The October report showed a heftier drop in employment and a larger increase in the unemployment rate than we had anticipated. Although initial claims have come down over the past few weeks, they remain in a range consistent with further deterioration in labor market conditions. Total job losses during the quarter are expected to climb to about 800,000, and further losses of more than 200,000 are projected for the first quarter of 2002. The civilian unemployment rate, which was 5.4

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

Measure	2002		2003
	H1	H2	
Real GDP	1.6	4.1	3.7
Previous	1.3	3.5	3.7
Final sales	-.2	3.3	3.2
Previous	.5	2.7	3.2
PCE	.8	3.7	2.9
Previous	1.5	2.5	3.2
Residential investment	-3.8	3.6	2.4
Previous	-1.5	5.5	2.4
BFI	-3.9	7.1	10.4
Previous	-3.7	6.5	9.2
Government purchases	3.4	3.4	3.0
Previous	3.4	3.6	3.1
Exports	-.5	4.9	6.9
Previous	-1.1	4.9	6.8
Imports	6.1	9.8	9.6
Previous	4.6	8.9	9.8
Contribution to growth, percentage points			
Inventory change	1.9	.7	.4
Previous	.8	.8	.4
Net exports	-.8	-.8	-.6
Previous	-.7	-.7	-.6

Household spending. We now expect gains in real personal consumption expenditures of about 2-1/4 percent in 2002 (up from the last Greenbook) and about 3 percent in 2003 (slightly less than was projected last time). Overall, the level of real PCE in the fourth quarter of 2003 ends up 1/2 percent higher than we previously were forecasting. The upward revision is a reflection of both the higher level of stock prices that we are assuming and slightly more income growth in this forecast than in the last one.

Decomposition of Structural Labor Productivity

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

Measure	1973-95	1996-98	1999	2000	2001	2002	2003
Structural labor productivity	1.4	2.4	2.8	2.7	1.9	1.5	2.1
Previous	1.4	2.4	2.8	2.7	1.9	1.4	1.9
<i>Contributions¹</i>							
Capital deepening	.6	1.1	1.5	1.4	.7	.3	.8
Previous	.6	1.1	1.5	1.4	.6	.2	.6
Multifactor productivity	.6	1.0	1.0	1.0	.9	.8	1.0
Previous	.6	1.0	1.0	1.0	.9	.8	1.0
Labor composition	.3	.3	.3	.3	.3	.3	.3

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

1. Percentage points.

2001 to 1.5 percent in 2002 but then rebounds to 2.1 percent in 2003, up a couple of tenths from the last forecast. The increase in potential GDP this year is estimated to be 2.7 percent, and increases over the next two years are projected to be 2.4 percent and 3.1 percent, respectively.

Productivity and the labor market. Reflecting the weakness of output, actual labor productivity is projected to be about flat, on balance, this quarter and next. When the economy starts to recover in the second quarter of next year, businesses boost output faster than labor input for a time, and the growth of labor productivity increases temporarily to a pace that is above the rate of growth in structural productivity. By the end of 2002, most of the cyclical effects have wound down, and desired relationships between hours and output have been largely restored. The rise in actual labor productivity in 2003 is projected to be 2.2 percent, only a shade faster than the growth of structural productivity.

The further cutbacks in payroll employment that we anticipate over the next few months would leave the level of employment at the end of the first quarter of 2002 down more than 1 percent from its peak of a year earlier. As typically happens, businesses probably will be cautious at first about boosting employment back to its earlier levels. Nonetheless, we expect hiring to pick up fast enough in the spring of next year to bring the rise in the unemployment rate to a halt. After having averaged 5.9 percent in the first quarter of 2002, the rate is projected to average 6.1 percent over the middle quarters of the year and then turn down in the fourth quarter. In 2003, employment accelerates a bit further,

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

Measure	2000	2001	2002	2003
Output per hour, nonfarm business	2.3	1.0	2.0	2.2
Previous	2.3	.7	2.0	2.2
Nonfarm private payroll employment	1.7	-.5	.6	1.6
Previous	1.7	-.4	.3	1.6
Household employment survey	1.0	-.9	.5	1.2
Previous	1.0	-.8	.2	1.3
Labor force participation rate ¹	67.1	66.8	66.8	66.7
Previous	67.1	66.8	66.8	66.7
Civilian unemployment rate ¹	4.0	5.5	6.0	5.8
Previous	4.0	5.4	6.1	5.9

1. Percent, average for the fourth quarter.

and the unemployment rate drops back to 5.8 percent in the second half, a tenth lower than we were forecasting in the October Greenbook.

Prices and wages. We have marked down our forecasts of prices and hourly compensation in this Greenbook. Core inflation, as measured by the PCE price index, is now expected to slow to a rate of 1.1 percent in 2003, down 0.2 percentage point from the last forecast. The employment cost index for hourly compensation decelerates to a rate of 3 percent by 2003; this projection also is down a couple of tenths from what we were showing in the October Greenbook.

Although we continue to think that labor market slack will contribute importantly to the slowdown of inflation over the next couple of years, the sharper price deceleration that we have built into the forecast this month was prompted by other factors. One such factor is the further downward revision to oil prices, which should translate over time into lower costs for processing, storing, and transporting a wide range of goods and services. A second factor is the slight upward revision to structural productivity, which we think should have a more immediate effect on prices than on wages. A third factor is the sharp and strikingly abrupt break in inflation expectations that has been reported in the Michigan survey of consumers over the past couple of months. In the last Greenbook, when only the October survey results were in hand, we thought that the survey might have been an aberration. But the November survey results had price expectations moving down still further; the median of the responses to that survey showed an expected price rise of only 0.4 percent over the coming year.

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

Measure	2000	2001	2002	2003
PCE chain-weighted price index	2.6	1.3	1.4	1.2
Previous	2.6	1.4	1.5	1.4
Food and beverages	2.5	3.4	2.0	1.8
Previous	2.5	3.2	2.2	2.0
Energy	15.4	-10.2	-.3	1.9
Previous	15.3	-7.8	-.8	.5
Excluding food and energy	1.9	1.6	1.3	1.1
Previous	1.9	1.6	1.5	1.3
Consumer price index	3.4	1.8	1.9	1.8
Previous	3.4	2.0	2.0	1.9
Excluding food and energy	2.5	2.7	2.0	1.8
Previous	2.5	2.7	2.2	2.0
GDP chain-weighted price index	2.4	1.9	1.6	1.4
Previous	2.4	2.0	1.8	1.6
ECI for compensation of private industry workers ¹	4.4	4.0	3.1	3.0
Previous	4.4	4.0	3.3	3.2
NFB compensation per hour	7.4	4.4	3.8	3.3
Previous	7.4	4.6	4.0	3.5
Prices of core non-oil merchandise imports	1.6	-3.2	.8	1.4
Previous	1.6	-2.9	.6	1.3

1. December to December.

Although we are wary of making too much of a survey indicator that could jump back up as abruptly as it came down, some of the equations that we use in price forecasting suggest that we should not completely ignore the survey information. The expectations adjustment that we built into the forecast this month lowers core inflation a tenth in both 2002 and 2003.

The deceleration of prices over the next couple of years, combined with the persistence of slack in the labor market, should lead to a marked deceleration in wages and hourly compensation. After increasing 4.0 percent in 2001, the employment cost index for hourly compensation in private industry is projected to rise 3.1 percent in 2002 and 3.0 percent in 2003. The rate of increase in the ECI for wages is projected to slow to 2.5 percent by 2003. Hourly benefits also

Alternative Scenarios

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

Measure	2001	2002			2003
	Q4	Q1	Q2	H2	
<i>Real GDP</i>					
Baseline	-2.1	-1	3.3	4.1	3.7
No expensing provision	-2.1	-.3	2.8	3.4	3.0
No fiscal package	-2.1	-.9	1.8	3.0	3.2
Futures-based GDP outlook	-2.1	-.1	3.3	4.5	4.2
Low inflation expectations	-2.1	-.1	3.3	4.2	3.7
Weaker stock market	-2.1	-.1	3.0	3.3	2.8
Stronger stock market	-2.1	-.1	3.4	4.3	4.0
<i>Civilian unemployment rate¹</i>					
Baseline	5.5	5.9	6.1	6.0	5.8
No expensing provision	5.5	5.9	6.1	6.2	6.2
No fiscal package	5.5	6.0	6.3	6.4	6.4
Futures-based GDP outlook	5.5	5.9	6.1	5.9	5.5
Low inflation expectations	5.5	5.9	6.1	6.0	5.8
Weaker stock market	5.5	5.9	6.1	6.1	6.3
Stronger stock market	5.5	5.9	6.1	6.0	5.6
<i>PCE prices excluding food and energy</i>					
Baseline	3.0	1.5	1.3	1.2	1.1
No expensing provision	3.0	1.5	1.3	1.2	1.1
No fiscal package	3.0	1.5	1.3	1.2	1.0
Futures-based GDP outlook	3.0	1.5	1.3	1.2	1.2
Low inflation expectations	3.0	1.4	1.1	.7	.5
Weaker stock market	3.0	1.5	1.3	1.2	1.0
Stronger stock market	3.0	1.5	1.3	1.2	1.1

1. Average for the final quarter of the period.

Futures-based GDP outlook. Developments in financial markets since the last Greenbook suggest that investors may have boosted their outlook for real activity by more than the staff has. Our objective in this scenario is to determine what the implications would be if the economic outlook has changed in the way that the markets seem to be suggesting while policy proceeds along the path assumed in the Greenbook. In crafting this scenario, we have used the fed funds futures data to back out a rough assessment of the revisions to the market's output expectations, under the assumption that investors expect that policy will adhere to the Taylor rule.

Relative to expectations prevailing at the time of the publication of the last Greenbook, markets now expect (as of the close on December 4) the funds rate

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

December 5, 2001

	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²		
Interval	10/31/01	12/05/01	10/31/01	12/05/01	10/31/01	12/05/01	10/31/01	12/05/01	10/31/01	12/05/01	
ANNUAL											
1999	5.5	5.5	4.1	4.1	1.4	1.4	2.2	2.2	4.2	4.2	
2000	6.5	6.5	4.1	4.1	2.3	2.3	3.4	3.4	4.0	4.0	
2001	3.3	3.2	1.0	1.0	2.2	2.2	2.9	2.8	4.7	4.7	
2002	2.3	2.4	0.7	0.9	1.6	1.5	1.6	1.3	6.0	6.0	
2003	5.3	5.3	3.5	3.7	1.7	1.5	2.0	1.9	6.0	5.9	
QUARTERLY											
2000	Q1	6.3	6.3	2.3	2.3	3.8	3.8	4.3	4.3	4.1	4.1
	Q2	8.0	8.0	5.7	5.7	2.1	2.1	2.8	2.8	4.0	4.0
	Q3	3.3	3.3	1.3	1.3	1.9	1.9	3.5	3.5	4.0	4.0
	Q4	3.7	3.7	1.9	1.9	1.8	1.8	3.0	3.0	4.0	4.0
2001	Q1	4.6	4.6	1.3	1.3	3.3	3.3	4.2	4.2	4.2	4.2
	Q2	2.4	2.4	0.3	0.3	2.1	2.1	3.0	3.0	4.5	4.5
	Q3	1.6	1.1	-0.4	-1.1	2.1	2.2	0.7	0.7	4.8	4.8
	Q4	-2.0	-1.8	-2.4	-2.1	0.4	0.3	0.3	-0.6	5.4	5.5
2002	Q1	2.0	1.8	-0.1	-0.1	2.0	1.9	1.9	1.3	5.9	5.9
	Q2	4.5	5.0	2.8	3.3	1.7	1.6	2.1	2.2	6.0	6.1
	Q3	5.3	6.1	3.5	4.5	1.7	1.5	2.1	2.1	6.1	6.1
	Q4	5.2	5.1	3.5	3.6	1.6	1.5	2.0	2.0	6.1	6.0
2003	Q1	5.6	5.4	3.5	3.5	2.0	1.8	2.0	1.9	6.1	6.0
	Q2	5.3	5.0	3.7	3.7	1.5	1.3	1.9	1.8	6.0	5.9
	Q3	5.3	5.1	3.7	3.7	1.5	1.3	1.9	1.8	5.9	5.8
	Q4	5.3	5.1	3.8	3.7	1.5	1.3	1.9	1.8	5.9	5.8
TWO-QUARTER ³											
2000	Q2	7.2	7.2	4.0	4.0	2.9	2.9	3.6	3.6	-0.1	-0.1
	Q4	3.5	3.5	1.6	1.6	1.8	1.8	3.2	3.2	0.0	0.0
2001	Q2	3.5	3.5	0.8	0.8	2.7	2.7	3.6	3.6	0.5	0.5
	Q4	-0.2	-0.4	-1.4	-1.6	1.2	1.2	0.5	0.0	0.9	1.0
2002	Q2	3.2	3.4	1.3	1.6	1.9	1.7	2.0	1.7	0.6	0.6
	Q4	5.2	5.6	3.5	4.1	1.6	1.5	2.1	2.0	0.1	-0.1
2003	Q2	5.4	5.2	3.6	3.6	1.8	1.6	1.9	1.9	-0.1	-0.1
	Q4	5.3	5.1	3.7	3.7	1.5	1.3	1.9	1.8	-0.1	-0.1
FOUR-QUARTER ⁴											
1999	Q4	6.0	6.0	4.4	4.4	1.6	1.6	2.6	2.6	-0.3	-0.3
2000	Q4	5.3	5.3	2.8	2.8	2.4	2.4	3.4	3.4	-0.1	-0.1
2001	Q4	1.6	1.6	-0.3	-0.4	2.0	1.9	2.0	1.8	1.4	1.5
2002	Q4	4.2	4.5	2.4	2.8	1.8	1.6	2.0	1.9	0.7	0.5
2003	Q4	5.4	5.1	3.7	3.7	1.6	1.4	1.9	1.8	-0.2	-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)

December 5, 2001

Item	Units ¹	-----Projected-----								
		1995	1996	1997	1998	1999	2000	2001	2002	2003
EXPENDITURES										
Nominal GDP	Bill. \$	7400.5	7813.2	8318.4	8781.5	9268.6	9872.9	10189.9	10433.4	10983.2
Real GDP	Bill. Ch. \$	7543.8	7813.2	8159.5	8508.9	8856.5	9224.0	9315.0	9395.7	9745.1
Real GDP	% change	2.2	4.1	4.3	4.8	4.4	2.8	-0.4	2.8	3.7
Gross domestic purchases		1.7	4.3	5.0	5.8	5.3	3.5	-0.3	3.5	4.1
Final sales		2.9	3.9	3.9	4.7	4.3	3.4	1.2	1.5	3.2
Priv. dom. final purchases		3.2	4.4	5.1	6.3	5.4	4.7	0.5	2.0	3.9
Personal cons. expenditures		2.8	3.1	4.1	5.0	5.2	4.2	2.6	2.2	2.9
Durables		3.7	5.0	8.8	12.7	11.3	5.3	11.6	-2.5	6.7
Nondurables		2.5	3.2	2.5	5.0	5.0	3.6	0.7	2.9	3.0
Services		2.7	2.7	3.9	3.6	4.0	4.3	1.7	2.9	2.2
Business fixed investment		7.5	12.1	11.8	12.3	7.4	8.9	-11.0	1.4	10.4
Equipment & Software		8.9	11.8	13.7	14.9	11.2	8.3	-11.3	5.0	13.0
Nonres. structures		3.3	12.8	6.5	4.9	-3.6	10.8	-10.0	-8.1	2.9
Residential structures		-1.5	5.6	3.5	10.0	3.4	-1.2	2.1	-0.2	2.4
Exports		9.7	9.8	8.5	2.3	4.5	7.0	-8.9	2.2	6.9
Imports		5.0	11.2	14.3	10.8	11.5	11.3	-6.1	7.9	9.6
Gov't. cons. & investment		-0.8	2.7	2.4	2.7	4.0	1.2	4.6	3.4	3.0
Federal		-5.3	2.0	0.1	0.6	4.5	-1.4	4.2	5.3	2.0
Defense		-4.7	0.8	-1.4	-0.8	4.7	-2.2	4.5	3.5	2.2
State & local		2.1	3.0	3.7	3.8	3.7	2.5	4.9	2.4	3.5
Change in bus. inventories	Bill. Ch. \$	--	--	63.8	76.7	62.1	50.6	-61.5	-13.4	55.4
Nonfarm		41.9	21.2	60.6	75.0	63.5	52.3	-59.7	-13.4	54.5
Net exports		-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-411.6	-485.8	-576.4
Nominal GDP	% change	4.3	6.0	6.2	6.0	6.0	5.3	1.6	4.5	5.1
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	117.2	119.6	122.7	125.8	128.9	131.8	132.2	131.7	133.7
Unemployment rate	%	5.6	5.4	4.9	4.5	4.2	4.0	4.7	6.0	5.9
Industrial prod. index	% change	3.5	5.8	7.4	3.5	4.3	2.6	-6.4	2.5	4.9
Capacity util. rate - mfg.	%	82.6	81.6	82.7	81.4	80.6	80.7	74.9	72.5	75.5
Housing starts	Millions	1.35	1.48	1.47	1.62	1.64	1.57	1.60	1.61	1.67
Light motor vehicle sales		14.77	15.05	15.06	15.43	16.78	17.25	16.91	14.95	15.69
North Amer. produced		12.87	13.34	13.12	13.41	14.30	14.39	13.86	12.15	12.77
Other		1.90	1.70	1.93	2.02	2.48	2.86	3.05	2.80	2.92
INCOME AND SAVING										
Nominal GNP	Bill. \$	7420.9	7831.2	8325.4	8778.1	9261.8	9860.8	10180.7	10426.9	10971.6
Nominal GNP	% change	4.4	5.9	6.0	5.8	6.0	5.4	1.4	4.5	5.0
Nominal personal income		4.3	5.9	6.3	6.7	4.8	7.3	2.9	4.3	4.6
Real disposable income		1.7	2.6	3.8	5.0	2.1	4.0	2.2	3.9	2.9
Personal saving rate	%	5.6	4.8	4.2	4.7	2.4	1.0	1.7	3.1	2.8
Corp. profits, IVA & CCAdj.	% change	11.3	11.4	9.9	-9.6	11.3	-1.2	-17.3	7.2	5.1
Profit share of GNP	%	9.0	9.6	10.0	8.9	8.9	8.9	7.2	6.9	7.1
Excluding FR Banks		8.7	9.4	9.7	8.6	8.6	8.6	7.0	6.6	6.8
Federal surpl./deficit	Bill. \$	-192.0	-136.8	-53.3	43.8	119.2	218.6	111.7	-73.5	-5.0
State & local surpl./def.		15.3	21.4	31.0	40.7	42.1	32.8	15.7	9.6	13.5
Ex. social ins. funds		11.4	18.7	29.9	40.0	41.7	33.1	15.9	9.9	13.8
Gross natl. saving rate	%	16.9	17.2	18.0	18.8	18.4	18.1	16.8	16.2	16.8
Net natl. saving rate		5.1	5.7	6.7	7.5	6.8	6.3	4.1	3.4	3.9
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.1	1.9	1.8	1.1	1.6	2.4	1.9	1.6	1.4
Gross Domestic Purchases										
chn.-wt. price index		2.1	1.9	1.4	0.8	1.9	2.5	1.2	1.5	1.4
PCE chn.-wt. price index		2.1	2.3	1.5	1.1	2.0	2.6	1.3	1.4	1.2
Ex. food and energy		2.3	1.8	1.7	1.6	1.5	1.9	1.6	1.3	1.1
CPI		2.7	3.2	1.9	1.5	2.6	3.4	1.8	1.9	1.8
Ex. food and energy		3.0	2.6	2.2	2.4	2.0	2.5	2.7	2.0	1.8
ECI, hourly compensation ²		2.6	3.1	3.4	3.5	3.4	4.4	4.0	3.1	3.0
Nonfarm business sector										
Output per hour		1.1	2.3	2.3	2.9	2.8	2.3	1.0	2.0	2.2
Compensation per Hour		2.6	3.2	3.5	5.3	4.3	7.4	4.4	3.8	3.3
Unit labor cost		1.5	0.9	1.1	2.3	1.5	5.0	3.4	1.8	1.1

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)

December 5, 2001

Item	Units	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	9093.1	9161.4	9297.4	9522.5	9668.7	9857.6	9937.5	10027.9	10141.7	10202.6
Real GDP	Bill. Ch. \$	8733.5	8771.2	8871.5	9049.9	9102.5	9229.4	9260.1	9303.9	9334.5	9341.7
Real GDP	% change	3.1	1.7	4.7	8.3	2.3	5.7	1.3	1.9	1.3	0.3
Gross domestic purchases		4.8	2.9	5.3	8.2	3.5	6.3	2.0	2.2	0.7	0.4
Final sales		3.0	3.9	4.2	6.1	4.8	3.9	2.3	2.4	4.0	0.7
Priv. dom. final purchases		5.3	5.9	4.9	5.5	7.5	4.6	3.9	2.6	2.8	-0.0
Personal cons. expenditures		4.9	5.7	4.4	5.7	5.9	3.6	4.3	3.1	3.0	2.5
Durables		7.1	15.7	9.0	13.7	19.0	-2.5	8.2	-2.1	10.6	7.0
Nondurables		5.6	4.3	2.6	7.6	5.1	4.7	4.2	0.6	2.4	0.3
Services		4.1	4.5	4.3	3.2	3.7	4.4	3.5	5.6	1.8	2.8
Business fixed investment		6.0	7.7	10.2	5.8	15.8	12.2	7.1	1.0	-0.2	-14.6
Equipment & Software		10.5	11.9	16.2	6.4	18.1	12.4	4.7	-1.1	-4.1	-15.4
Nonres. structures		-6.5	-4.3	-7.0	4.0	8.8	11.8	15.2	7.6	12.3	-12.2
Residential structures		10.3	3.0	-0.8	1.6	8.5	-0.8	-10.4	-1.1	8.5	5.9
Exports		-6.8	4.2	9.7	12.1	9.0	13.5	10.6	-4.0	-1.2	-11.9
Imports		8.4	13.3	13.8	10.5	17.1	16.4	13.0	-0.5	-5.0	-8.4
Gov't. cons. & investment		2.0	1.2	4.4	8.5	-1.1	4.4	-1.8	3.3	5.3	5.0
Federal		-3.7	0.8	7.2	14.5	-12.8	15.9	-10.4	4.6	3.2	1.8
Defense		-3.5	-3.5	12.8	14.3	-20.0	15.4	-10.4	10.5	7.5	2.3
State & local		5.2	1.4	2.9	5.4	5.6	-1.1	3.0	2.7	6.4	6.6
Change in bus. inventories	Bill. Ch. \$	83.4	32.7	39.6	92.7	28.9	78.9	51.7	42.8	-27.1	-38.3
Nonfarm		78.7	34.2	52.2	88.7	37.8	75.1	56.6	39.7	-27.3	-35.8
Net exports		-283.0	-313.4	-333.3	-337.8	-371.1	-392.8	-411.2	-421.1	-404.5	-406.7
Nominal GDP	% change	4.9	3.0	6.1	10.0	6.3	8.0	3.3	3.7	4.6	2.4
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	127.8	128.5	129.2	130.1	131.0	131.9	131.9	132.3	132.6	132.5
Unemployment rate	%	4.3	4.3	4.2	4.1	4.1	4.0	4.0	4.0	4.2	4.5
Industrial prod. index	% change	3.6	3.3	4.7	5.8	5.8	7.0	0.6	-2.6	-6.1	-5.9
Capacity util. rate - mfg.	%	80.5	80.4	80.5	81.0	81.2	81.6	80.7	79.1	77.2	75.6
Housing starts	Millions	1.71	1.57	1.65	1.66	1.67	1.59	1.51	1.54	1.63	1.62
Light motor vehicle sales		16.17	16.76	17.06	17.11	18.13	17.27	17.30	16.32	16.89	16.65
North Amer. produced		13.87	14.32	14.58	14.41	15.25	14.40	14.47	13.45	13.96	13.62
Other		2.30	2.44	2.47	2.70	2.87	2.87	2.83	2.87	2.93	3.03
INCOME AND SAVING											
Nominal GNP	Bill. \$	9089.5	9157.0	9283.8	9517.0	9650.7	9841.0	9919.4	10032.1	10131.3	10190.9
Nominal GNP	% change	5.2	3.0	5.7	10.4	5.7	8.1	3.2	4.6	4.0	2.4
Nominal personal income		3.0	4.7	5.2	6.3	8.6	8.5	5.5	6.8	5.8	3.5
Real disposable income		1.4	2.0	2.1	3.0	3.3	5.8	2.6	4.2	2.7	2.4
Personal saving rate	%	3.5	2.7	2.1	1.4	0.8	1.3	0.8	1.0	1.1	1.1
Corp. profits, IVA & CCAdj.	% change	36.1	-10.2	-4.9	31.9	6.1	10.7	1.0	-19.6	-24.6	-14.3
Profit share of GNP	%	9.2	8.8	8.6	9.0	9.0	9.1	9.0	8.4	7.8	7.5
Excluding FR Banks		8.9	8.6	8.3	8.7	8.7	8.8	8.7	8.1	7.5	7.2
Federal surpl./deficit	Bill. \$	85.2	116.5	132.0	143.1	212.8	209.1	229.9	222.5	205.3	186.7
State & local surpl./def.		48.9	36.2	38.3	44.9	33.2	34.7	34.8	28.6	22.3	21.3
Ex. social ins. funds		48.4	35.8	38.0	44.7	33.3	34.9	35.1	29.1	22.6	21.4
Gross natl. saving rate	%	19.0	18.5	18.3	18.0	18.0	18.3	18.2	17.9	17.3	17.2
Net natl. saving rate		7.6	6.9	6.4	6.3	6.3	6.6	6.4	6.0	5.1	4.6
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.7	1.4	1.4	1.8	3.8	2.1	1.9	1.8	3.3	2.1
Gross Domestic Purchases		1.5	2.0	2.0	2.2	4.2	1.9	2.3	1.7	2.7	1.3
chn.-wt. price index		1.3	2.0	2.2	2.4	4.0	2.1	2.4	2.0	3.2	1.3
PCE chn.-wt. price index		1.4	1.2	1.5	1.8	2.9	1.7	1.6	1.5	2.6	0.7
Ex. food and energy		1.7	2.7	2.9	3.1	4.3	2.8	3.5	3.0	4.2	3.0
CPI		1.8	2.1	1.8	2.5	2.5	2.7	2.5	2.4	3.1	2.6
Ex. food and energy		1.4	4.6	3.4	4.6	5.6	4.7	3.8	3.5	4.6	4.0
ECI, hourly compensation ¹		2.4	-1.4	3.0	7.4	-0.6	6.3	1.4	2.3	0.1	2.2
Nonfarm business sector		3.8	4.2	5.2	4.2	6.2	7.6	7.1	8.9	5.1	4.8
Output per hour		1.3	5.6	2.1	-2.9	6.8	1.2	5.6	6.4	5.0	2.6
Compensation per hour											
Unit labor cost											

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

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

December 5, 2001

		Projected									
	Units	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	10231.3	10183.9	10229.2	10355.2	10508.5	10640.9	10780.8	10914.3	11050.2	11187.5
Real GDP	Bill. Ch. \$	9316.3	9267.6	9265.7	9342.3	9445.0	9529.6	9612.4	9699.6	9789.1	9879.4
Real GDP	% change	-1.1	-2.1	-0.1	3.3	4.5	3.6	3.5	3.7	3.7	3.7
Gross domestic purchases		-0.9	-1.4	0.5	4.3	5.4	4.0	4.2	4.3	4.3	3.8
Final sales		-0.3	0.4	-3.0	2.6	3.3	3.3	2.4	3.2	3.4	3.9
Priv. dom. final purchases		-0.2	-0.5	-3.4	3.4	4.5	3.8	3.2	4.0	4.0	4.1
Personal cons. expenditures		1.1	3.7	-2.6	4.3	4.5	2.9	2.2	3.1	3.2	3.2
Durables		0.7	30.0	-31.5	10.3	10.4	8.4	4.7	7.1	7.5	7.6
Nondurables		0.5	-0.4	1.9	3.6	3.3	2.9	2.7	3.2	3.1	3.1
Services		1.5	0.9	2.4	3.5	3.9	1.9	1.5	2.4	2.4	2.4
Business fixed investment		-8.7	-19.3	-7.1	-0.6	5.3	8.8	9.3	10.1	10.7	11.7
Equipment & Software		-9.3	-15.8	-3.3	2.6	8.9	12.4	11.8	12.6	13.2	14.5
Nonres. structures		-6.9	-28.4	-16.8	-9.3	-4.6	-1.1	2.1	2.6	3.5	3.3
Residential structures		3.3	-8.7	-7.5	-0.0	2.8	4.4	4.6	3.4	1.4	0.3
Exports		-17.7	-3.6	-2.1	1.2	3.3	6.6	3.9	6.6	7.4	9.7
Imports		-12.9	2.6	3.1	9.2	11.0	8.6	9.2	10.6	10.2	8.4
Gov't. cons. & investment		0.0	8.4	3.0	3.9	3.4	3.3	2.9	3.0	3.1	3.0
Federal		2.7	9.3	4.7	6.9	6.4	3.3	2.1	2.1	2.1	1.8
Defense		2.6	5.7	4.5	3.9	3.4	2.2	2.0	2.4	2.3	1.9
State & local		-1.3	8.0	2.1	2.4	1.9	3.3	3.3	3.5	3.7	3.7
Change in bus. inventories	Bill. Ch. \$	-58.2	-122.6	-45.2	-25.0	4.1	12.4	41.0	53.8	64.8	62.1
Nonfarm		-55.2	-120.6	-43.6	-25.5	3.6	11.9	40.5	52.7	63.8	60.8
Net exports		-408.2	-427.1	-443.8	-473.6	-505.3	-520.6	-545.6	-569.6	-590.9	-599.5
Nominal GDP	% change	1.1	-1.8	1.8	5.0	6.1	5.1	5.4	5.0	5.1	5.1
EMPLOYMENT AND PRODUCTION											
farm payroll employment	Millions	132.3	131.6	131.2	131.4	131.8	132.4	132.9	133.4	134.0	134.6
employment rate	%	4.8	5.5	5.9	6.1	6.1	6.0	6.0	5.9	5.8	5.8
industrial prod. index	% change	-4.8	-8.8	-3.6	3.3	5.4	5.2	5.0	4.9	4.7	5.0
Capacity util. rate - mfg.	%	74.4	72.5	71.5	71.9	72.8	73.6	74.3	75.1	75.8	76.6
Housing starts	Millions	1.60	1.54	1.57	1.60	1.63	1.66	1.67	1.67	1.67	1.66
Light motor vehicle sales		16.12	17.99	14.42	14.73	15.13	15.52	15.49	15.60	15.76	15.90
North Amer. produced		13.15	14.70	11.65	11.94	12.35	12.67	12.60	12.69	12.83	12.95
Other		2.97	3.29	2.77	2.79	2.78	2.85	2.89	2.91	2.93	2.95
INCOME AND SAVING											
Nominal GNP	Bill. \$	10223.2	10177.3	10222.7	10349.0	10501.2	10634.9	10776.2	10905.0	11035.8	11169.3
Nominal GNP	% change	1.3	-1.8	1.8	5.0	6.0	5.2	5.4	4.9	4.9	4.9
Nominal personal income		2.7	-0.4	4.6	3.7	4.2	4.9	4.9	4.6	4.4	4.4
Real disposable income		12.5	-7.6	10.5	1.7	0.8	3.0	3.4	2.8	2.7	2.8
Personal saving rate	%	3.7	0.9	4.0	3.4	2.6	2.6	2.9	2.8	2.8	2.7
Corp. profits, IVA & CCAdj.	% change	-29.1	2.2	-8.7	12.8	20.0	6.7	5.0	4.9	6.1	4.2
Profit share of GNP	%	6.8	6.9	6.7	6.8	7.0	7.1	7.1	7.1	7.1	7.1
Excluding FR Banks		6.6	6.6	6.4	6.5	6.7	6.8	6.8	6.8	6.8	6.8
Federal surpl./deficit	Bill. \$	-10.4	65.0	-101.2	-97.8	-49.9	-45.1	-26.0	-10.6	4.3	12.4
State & local surpl./def.		2.3	16.9	1.6	5.5	15.5	15.7	12.8	12.9	15.6	12.7
Ex. social ins. funds		2.4	17.3	1.9	5.8	15.8	16.0	13.1	13.2	15.9	13.0
Gross natl. saving rate	%	17.1	15.6	16.3	16.1	16.1	16.2	16.6	16.7	16.9	16.9
Net natl. saving rate		3.9	2.8	3.5	3.3	3.3	3.4	3.8	3.9	4.0	4.0
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.2	0.3	1.9	1.6	1.5	1.5	1.8	1.3	1.3	1.3
Gross Domestic Purchases		-0.2	1.0	1.6	1.6	1.5	1.5	1.8	1.3	1.3	1.3
chn.-wt. price index		-0.3	1.1	1.0	1.6	1.5	1.4	1.3	1.3	1.2	1.2
PCE chn.-wt. price index		0.4	3.0	1.5	1.3	1.3	1.2	1.1	1.1	1.1	1.1
Ex. food and energy		0.7	-0.6	1.3	2.2	2.1	2.0	1.9	1.8	1.8	1.8
CPI		2.6	2.4	2.2	2.1	2.0	1.9	1.9	1.8	1.8	1.8
Ex. food and energy		3.7	3.7	3.3	3.2	3.1	3.0	3.0	3.0	3.0	2.9
hourly compensation ¹											
farm business sector		1.6	0.3	-0.4	2.7	3.5	2.1	2.0	2.2	2.3	2.3
Output per hour		3.8	4.0	4.2	3.8	3.7	3.6	3.6	3.3	3.2	3.2
Compensation per hour		2.2	3.7	4.6	1.1	0.2	1.5	1.6	1.1	0.9	0.9
Unit labor cost											

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

December 5, 2001

Item	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	99Q4/ 98Q4	00Q4/ 99Q4	01Q4/ 00Q4
Real GDP	4.7	8.3	2.3	5.7	1.3	1.9	1.3	0.3	-1.1	4.4	2.8	-0.4
Gross dom. purchases	5.4	8.4	3.6	6.5	2.0	2.3	0.7	0.4	-0.9	5.4	3.6	-0.3
Final sales	4.2	6.2	4.7	3.9	2.3	2.4	3.9	0.7	-0.3	4.2	3.3	1.2
Priv. dom. final purchases	4.2	4.8	6.2	4.0	3.3	2.2	2.4	-0.0	-0.2	4.5	3.9	0.4
Personal cons. expenditures	3.0	4.0	3.9	2.5	2.9	2.1	2.1	1.7	0.8	3.5	2.9	1.8
Durables	0.7	1.1	1.5	-0.2	0.7	-0.2	0.8	0.6	0.1	0.9	0.4	0.9
Nondurables	0.5	1.5	1.0	1.0	0.8	0.1	0.5	0.1	0.1	1.0	0.7	0.1
Services	1.7	1.4	1.5	1.8	1.4	2.2	0.7	1.1	0.6	1.6	1.7	0.7
Business fixed investment	1.3	0.8	1.9	1.5	0.9	0.1	-0.0	-2.0	-1.1	0.9	1.1	-1.4
Equipment & Software	1.5	0.6	1.6	1.2	0.5	-0.1	-0.4	-1.6	-0.9	1.0	0.8	-1.1
Nonres. structures	-0.2	0.1	0.3	0.4	0.5	0.2	0.4	-0.4	-0.2	-0.1	0.3	-0.3
Residential structures	-0.0	0.1	0.4	-0.0	-0.5	-0.1	0.4	0.3	0.1	0.1	-0.1	0.1
Net exports	-0.8	-0.2	-1.3	-0.8	-0.7	-0.4	0.6	-0.1	-0.2	-1.0	-0.8	-0.1
Exports	1.0	1.3	1.0	1.4	1.1	-0.5	-0.1	-1.4	-2.0	0.5	0.8	-1.0
Imports	-1.8	-1.4	-2.3	-2.3	-1.8	0.1	0.8	1.3	1.8	-1.5	-1.6	0.9
Government cons. & invest.	0.8	1.5	-0.2	0.8	-0.3	0.6	0.9	0.9	0.0	0.7	0.2	0.8
Federal	0.4	0.9	-0.8	0.9	-0.7	0.3	0.2	0.1	0.2	0.3	-0.1	0.2
Defense	0.5	0.6	-0.9	0.6	-0.4	0.4	0.3	0.1	0.1	0.2	-0.1	0.2
Nondefense	-0.1	0.3	0.0	0.3	-0.2	-0.1	-0.1	0.0	0.1	0.1	0.0	0.1
State and local	0.3	0.7	0.6	-0.1	0.3	0.3	0.7	0.8	-0.2	0.4	0.3	0.6
Change in bus. inventories	0.4	2.2	-2.3	1.8	-1.0	-0.5	-2.6	-0.4	-0.8	0.2	-0.5	-1.6
Nonfarm	0.9	1.5	-2.0	1.5	-0.8	-0.7	-2.6	-0.3	-0.7	0.1	-0.5	-1.6
Farm	-0.4	0.6	-0.3	0.3	-0.2	0.2	0.0	-0.1	-0.0	0.0	-0.0	0.0

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

December 5, 2001

Item	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	01Q4/ 00Q4	02Q4/ 01Q4	03Q4/ 02Q4
Real GDP	-2.1	-0.1	3.3	4.5	3.6	3.5	3.7	3.7	3.7	-0.4	2.8	3.7
Gross dom. purchases	-1.4	0.5	4.4	5.6	4.1	4.4	4.5	4.4	4.0	-0.3	3.6	4.3
Final sales	0.4	-3.1	2.6	3.4	3.3	2.5	3.2	3.3	3.8	1.2	1.5	3.2
Priv. dom. final purchases	-0.4	-3.0	2.9	3.8	3.2	2.8	3.4	3.4	3.5	0.4	1.7	3.3
Personal cons. expenditures	2.5	-1.8	3.0	3.1	2.1	1.6	2.2	2.2	2.2	1.8	1.6	2.0
Durables	2.2	-3.2	0.8	0.8	0.7	0.4	0.6	0.6	0.6	0.9	-0.2	0.5
Nondurables	-0.1	0.4	0.7	0.7	0.6	0.5	0.6	0.6	0.6	0.1	0.6	0.6
Services	0.4	1.0	1.5	1.6	0.8	0.6	1.0	1.0	1.0	0.7	1.2	0.9
Business fixed investment	-2.5	-0.8	-0.1	0.6	1.0	1.0	1.1	1.2	1.3	-1.4	0.2	1.2
Equipment & Software	-1.5	-0.3	0.2	0.7	1.0	1.0	1.0	1.1	1.2	-1.1	0.4	1.1
Nonres. structures	-1.0	-0.5	-0.3	-0.1	-0.0	0.1	0.1	0.1	0.1	-0.3	-0.2	0.1
Residential structures	-0.4	-0.3	0.0	0.1	0.2	0.2	0.1	0.1	0.0	0.1	-0.0	0.1
Net exports	-0.7	-0.6	-1.0	-1.1	-0.5	-0.8	-0.8	-0.7	-0.2	-0.1	-0.8	-0.6
Exports	-0.4	-0.2	0.1	0.3	0.6	0.4	0.6	0.7	0.9	-1.0	0.2	0.7
Imports	-0.3	-0.4	-1.2	-1.4	-1.1	-1.2	-1.4	-1.4	-1.1	0.9	-1.0	-1.3
Government cons. & invest.	1.5	0.5	0.7	0.6	0.6	0.5	0.6	0.6	0.6	0.8	0.6	0.6
Federal	0.5	0.3	0.4	0.4	0.2	0.1	0.1	0.1	0.1	0.2	0.3	0.1
Defense	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Nondefense	0.3	0.1	0.3	0.3	0.1	0.1	0.0	0.0	0.0	0.1	0.2	0.0
State and local	0.9	0.3	0.3	0.2	0.4	0.4	0.4	0.5	0.5	0.6	0.3	0.4
Change in bus. inventories	-2.4	3.0	0.8	1.1	0.3	1.1	0.5	0.4	-0.1	-1.6	1.3	0.5
Nonfarm	-2.4	3.0	0.7	1.1	0.3	1.1	0.4	0.4	-0.1	-1.6	1.3	0.4
Farm	-0.0	-0.0	0.1	-0.0	-0.0	-0.0	0.0	-0.0	0.0	0.0	0.0	0.0

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

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

Item	Fiscal year ¹				2001				2002				2003			
	2000 ^a	2001 ^a	2002	2003	Q1 ^a	Q2 ^a	Q3 ^a	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts ²	2025	1990	1960	2048	460	660	409	455	424	611	469	450	451	648	499	485
Outlays ²	1789	1863	1992	2055	482	467	451	507	502	495	488	524	517	510	504	541
Surplus/deficit ²	236	127	-32	-7	-22	194	-42	-51	-78	117	-19	-74	-66	138	-5	-57
On-budget	87	-34	-191	-183	-88	119	-51	-100	-103	45	-34	-127	-94	60	-22	-117
Off-budget	150	161	159	176	65	75	10	48	25	71	14	53	27	78	17	61
Surplus excluding deposit insurance	233	126	-34	-9	-23	193	-42	-52	-79	116	-20	-74	-67	138	-5	-57
Means of financing																
Borrowing	-223	-90	46	27	24	-157	69	46	76	-84	9	60	69	-99	-4	42
Cash decrease	4	8	-1	0	-7	-15	-1	15	-5	-25	15	20	-5	-30	15	15
Other ³	-18	-45	-13	-20	6	-21	-26	-9	7	-7	-4	-6	2	-9	-7	-0
Cash operating balance, end of period	53	44	45	45	28	44	44	30	35	60	45	25	30	60	45	30
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	2012	2041	1954	2064	2087	2092	1909	2018	1897	1917	1983	2019	2050	2079	2110	2144
Expenditures	1813	1890	2000	2084	1882	1905	1919	1953	1998	2015	2033	2064	2076	2089	2105	2131
Consumption expenditures	492	506	547	585	508	510	513	527	544	554	564	570	586	590	594	597
Defense	322	336	356	375	338	340	343	346	356	360	363	366	375	378	380	383
Nondefense	170	170	191	210	169	171	170	181	188	195	201	205	211	212	213	215
Other spending	1321	1384	1452	1499	1375	1395	1406	1426	1455	1460	1468	1493	1490	1499	1511	1534
Current account surplus	199	151	-46	-19	205	187	-10	65	-101	-98	-50	-45	-26	-11	4	12
Gross investment	96	100	106	110	98	100	102	103	105	106	108	109	110	111	112	113
Current and capital account surplus	102	51	-151	-130	108	87	-112	-38	-206	-204	-158	-154	-136	-121	-107	-100
Fiscal indicators⁴																
High-employment (HEB) surplus/deficit	-9	-19	-127	-113	21	23	-143	-35	-177	-169	-126	-127	-118	-108	-99	-97
Change in HEB, percent of potential GDP	-.8	.1	1	-.2	0	-0	2	-1	1	-.1	-.4	-0	-.1	-.1	-.1	-0
Fiscal impetus (FI) percent, calendar year	2	9	26	8	3	3	9	-2	18	6	1	.7	2	2	2	1

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

2. OMB's August 2001 baseline surplus estimates are \$187 billion in FY 2002 and \$211 billion in FY 2003. CBO's August 2001 baseline surplus estimates, assuming discretionary spending grows with inflation beginning in FY 2002, are \$176 billion in FY 2002 and \$172 billion in FY 2003. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus and the Postal Service surplus are excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.

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

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

a--Actual

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

December 5, 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>									
1996	5.4	4.0	5.8	7.0	6.8	8.1	6.2	-0.6	6.0
1997	5.6	0.6	7.3	6.4	6.7	4.7	9.0	5.3	6.2
1998	6.9	-1.4	9.6	8.4	9.2	5.9	11.6	7.2	6.0
1999	6.8	-1.9	9.3	8.6	9.3	7.4	11.3	4.4	6.0
2000	5.0	-8.0	8.5	8.5	8.4	9.6	9.9	2.2	5.3
2001	5.8	-0.6	7.2	8.3	9.7	4.9	6.2	6.8	1.6
2002	4.6	1.8	5.2	5.8	7.8	0.4	4.7	3.5	4.5
2003	4.8	0.2	5.7	6.4	7.6	3.4	5.4	3.0	5.1
<i>Quarter</i>									
2000:3	4.4	-6.4	7.1	8.1	8.4	8.4	7.0	1.9	3.3
4	4.3	-9.6	7.5	7.4	7.4	8.7	8.4	4.2	3.7
2001:1	5.5	-0.1	6.8	7.8	7.8	10.0	5.4	8.1	4.6
2	5.5	-7.6	8.4	9.3	11.5	4.5	7.5	8.3	2.4
3	6.8	7.7	6.6	8.3	9.7	1.3	5.3	3.2	1.1
4	5.0	-2.1	6.5	6.8	8.4	3.4	6.1	6.9	-1.8
2002:1	5.2	6.1	5.0	6.0	8.2	-0.7	4.2	3.6	1.8
2	4.3	1.0	5.0	5.5	7.6	-0.5	4.7	4.2	5.0
3	4.3	0.5	5.1	5.6	7.2	1.0	4.9	3.5	6.1
4	4.2	-0.4	5.1	5.8	7.2	1.9	4.9	2.7	5.1
2003:1	5.5	5.2	5.5	6.1	7.4	2.4	5.3	3.0	5.4
2	4.5	-0.6	5.5	6.2	7.3	3.1	5.3	3.0	5.0
3	4.5	-1.0	5.6	6.3	7.4	3.7	5.2	3.0	5.1
4	4.3	-2.6	5.6	6.4	7.4	4.2	5.2	3.0	5.1

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2001: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 5.5 percent in 2001, 4.6 percent in 2002, and 5.0 percent in 2003.

3. On a monthly average basis, federal debt is projected to grow -1.4 percent in 2001, 1.5 percent in 2002, and 0.5 percent in 2003.

4. On a monthly average basis, nonfederal debt is projected to grow 7.2 percent in 2001, 5.2 percent in 2002, and 5.9 percent in 2003.

Flow of Funds Projections: Highlights
(Billions of dollars except as noted)

December 5, 2001

Category					Seasonally adjusted annual rates									
	Calendar year				2001				2002				2003	
	2000	2001	2002	2003	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	722.8	1002.4	928.6	1013.6	980.9	946.0	1157.0	925.6	1032.2	890.0	912.3	879.9	1064.2	963.0
2 Net equity issuance	-150.6	-61.2	40.0	50.0	-25.6	-72.6	-118.5	-28.0	28.0	40.0	54.0	38.0	50.0	50.0
3 Net debt issuance	873.4	1063.6	888.6	963.6	1006.5	1018.6	1275.5	953.6	1004.2	850.0	858.3	841.9	1014.2	913.0
<i>Borrowing sectors</i>														
<i>Nonfinancial business</i>														
4 Financing gap ¹	286.9	207.2	179.4	252.9	284.9	218.9	178.6	146.2	185.8	163.1	170.9	197.9	236.8	268.9
5 Net equity issuance	-150.6	-61.2	40.0	50.0	-25.6	-72.6	-118.5	-28.0	28.0	40.0	54.0	38.0	50.0	50.0
6 Credit market borrowing	587.2	407.0	329.6	390.1	352.6	494.7	360.6	419.9	290.6	327.7	345.3	354.7	389.4	390.8
<i>Households</i>														
7 Net borrowing ²	554.9	588.9	449.9	522.8	554.4	671.2	616.2	513.9	459.0	429.3	447.2	464.3	504.6	541.0
8 Home mortgages	382.6	478.9	421.5	444.0	387.8	581.0	502.3	444.3	444.6	420.5	406.5	414.4	436.0	452.1
9 Consumer credit	139.0	77.7	7.4	57.2	159.9	73.6	21.3	56.1	-11.3	-8.0	16.6	32.3	46.7	67.7
10 Debt/DPI (percent) ³	97.1	99.9	102.4	104.4	98.5	99.7	99.0	102.6	101.4	102.0	102.8	103.2	103.8	105.0
<i>State and local governments</i>														
11 Net borrowing	27.2	86.9	48.4	42.8	103.9	108.7	43.0	92.2	49.4	57.4	49.4	37.4	42.8	42.8
12 Current surplus ⁴	191.9	189.4	192.6	207.4	189.8	192.9	181.5	193.6	180.8	187.2	199.8	202.8	204.0	210.8
<i>Federal government</i>														
13 Net borrowing	-295.9	-19.3	60.7	8.0	-4.3	-256.0	255.7	-72.4	205.2	35.6	16.5	-14.5	77.5	-61.5
14 Net borrowing (quarterly, n.s.a.)	-295.9	-19.3	60.7	8.0	23.7	-157.4	68.6	45.8	76.0	-84.5	8.8	60.3	-29.9	37.9
15 Unified deficit (quarterly, n.s.a.)	-254.8	-78.3	54.8	-10.8	22.5	-193.7	41.8	51.3	78.0	-116.6	19.4	74.0	-72.0	61.3
<i>Depository institutions</i>														
16 Funds supplied	445.3	203.9	252.7	296.1	228.5	198.8	290.5	97.9	178.0	249.0	296.0	287.8	293.6	298.6
<i>Memo (percentage of GDP)</i>														
17 Domestic nonfinancial debt ⁵	181.0	185.0	190.1	189.0	181.9	183.3	185.6	189.2	190.7	190.7	189.9	189.5	189.2	188.9
18 Domestic nonfinancial borrowing	8.8	10.4	8.5	8.8	9.9	10.0	12.5	9.4	9.8	8.2	8.2	7.9	9.3	8.2
19 Federal government ⁶	-3.0	-0.2	0.6	0.1	-0.0	-2.5	2.5	-0.7	2.0	0.3	0.2	-0.1	0.7	-0.6
20 Nonfederal	11.8	10.6	7.9	8.7	10.0	12.5	10.0	10.1	7.8	7.9	8.0	8.0	8.6	8.8

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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.

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

Early indicators for October and November suggest that foreign economic activity is likely to decline again in the current quarter, reflecting in part the continuing effect of the events of September 11. At the same time, however, a few bright spots are appearing, perhaps signaling the emergence of a turning point in the global growth cycle. Economic activity in some Asian economies particularly exposed to the downturn in the high-tech sector appears to be stabilizing. And financial markets, though not completely shrugging off the negative readings on recent activity, may be pricing in a somewhat stronger outlook than they had at the time of the November FOMC meeting, with equity prices and longer-term bond yields generally higher.

We again project that foreign growth will resume early next year, as a number of factors appear set to boost activity. These include the anticipated pickup in U.S. GDP, lower oil prices, the considerable macroeconomic policy easing that has taken place in many countries, and the eventual ending of inventory liquidations and high-tech investment overhangs. As positive momentum develops, average foreign growth rates are expected to approach potential growth rates by the end of next year and move somewhat higher in 2003, shrinking output gaps a bit by the end of the forecast period. Inflation should remain subdued, however, with output remaining below potential throughout the period.

Summary of Staff Projections

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

Indicator	2001		Projection				
	H1	Q3	2001: Q4	2002			2003
				Q1	Q2	H2	
Foreign output	0.0	-0.3	-0.6	0.5	1.8	2.9	3.4
<i>October GB</i>	<i>0.0</i>	<i>-0.5</i>	<i>-0.4</i>	<i>0.7</i>	<i>1.9</i>	<i>2.9</i>	<i>3.4</i>
Foreign CPI	2.5	1.8	1.6	1.6	2.0	2.1	2.2
<i>October GB</i>	<i>2.5</i>	<i>1.8</i>	<i>1.6</i>	<i>1.9</i>	<i>2.1</i>	<i>2.2</i>	<i>2.3</i>

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

Over the forecast period, we expect the arithmetic contribution of the external sector to U.S. GDP growth to be negative. After declining significantly this year, both exports and imports should pick up next year and expand further in 2003.

Oil prices. The spot price of West Texas intermediate fell sharply in mid November following OPEC's announced decision to make additional production cuts only if key non-OPEC countries limited their production as well. Mexico, Norway, and Oman have agreed to cooperate with OPEC. Russia has just

Selected Trade Prices

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

Trade category	2001		Projection				
	H1	Q3	2001: Q4	2002			2003
				Q1	Q2	H2	
<i>Exports</i>							
Core goods	-0.5	-1.5	-3.8	-0.3	0.9	1.4	0.8
<i>Imports</i>							
Non-oil core goods	-1.5	-6.0	-3.8	-0.3	0.6	1.5	1.4
Oil (dollars per barrel)	24.21	23.51	18.65	17.53	17.95	18.41	18.87

NOTE. Prices for core exports and non-oil core imports, which exclude computers and semiconductors, are on a NIPA chain-weighted basis.

The price of imported oil for multiquarter periods is the price for the final quarter of the period.

Trade in goods and services. In September, the U.S. trade deficit in goods and services was \$18.7 billion, as net service import payments were reduced by a one-time large estimated insurance receipt (reported on an accrual basis) from foreign insurers related to the events of September 11.¹ Excluding BEA's assumptions regarding insurance payments, the trade deficit in September was \$29.7 billion, larger than it was in August. For the third quarter, the U.S. trade deficit in goods and services was \$300 billion, s.a.a.r. Excluding the estimated insurance payment, the deficit was \$344 billion, about \$10 billion smaller than in the second quarter. We estimate that the U.S. current account deficit as a share of GDP declined in the third quarter to 3½ percent before returning to 4 percent in the fourth quarter and expect that the current account deficit as a share of GDP will rise to 5 percent in 2003.

Though NIPA real exports and imports of goods and services were not affected by the payments of foreign insurers on claims resulting from the events of September 11, the terrorist attacks nonetheless made some contribution to the

1. The "insurance payment" component of imported services is calculated as the value of premiums paid to foreign companies less the amount of losses recovered from foreign companies. In the third quarter, the estimated size of "losses recovered" far exceeded the amount paid for insurance premiums, resulting in a "negative" recorded insurance payment. According to NIPA accounting, the entire amount of an insurance payment is recorded in the quarter in which the incident occurred.

double-digit declines in exports and imports in the third quarter, owing to the temporary port closures and other transportation disruptions.²

Real imports of goods and services are expected to rise slightly in the fourth quarter as reduced travel and continued weakness in U.S. spending on investment goods are offset by an increase in domestic consumption and, to a lesser extent, some rebound in goods trade that was disrupted in September. As the recovery in U.S. activity kicks in next year, import growth should increase to a more robust pace. Specifically, we project that imports will grow at an annual rate of 8 percent in 2002 and 9½ percent in 2003, with growth widespread across all major categories. The lagged effects on relative prices of the dollar's appreciation also provide some stimulus to imports.

We expect real export growth to remain slightly negative through the first quarter of 2002 in response to weak global activity, the lagged effects of past dollar appreciation, and subdued exports of services (particularly travel and passenger fares). As foreign growth recovers, however, exports of goods and services should rebound, growing 2¼ percent in 2002 and picking up to 7 percent in 2003. In 2002, real export growth is projected to be concentrated in services and high-tech goods, as core exports are more sensitive to the lagged effects of the dollar's appreciation.

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

Measure	2001		Projection				
	H1	Q3	2001: Q4	2002			2003
				Q1	Q2	H2	
Real exports	-6.7	-17.7	-3.6	-2.1	1.2	4.9	6.9
<i>October GB</i>	-6.7	-16.3	-3.2	-3.3	1.1	4.9	6.8
Real imports	-6.7	-12.9	2.6	3.1	9.2	9.8	9.6
<i>October GB</i>	-6.7	-15.2	-0.6	1.0	8.3	8.9	9.8

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

2. According to NIPA accounting, the value of insurance payments by foreign insurers is not reflected in NIPA real imports of services. The deflator for service imports is thus adjusted down in the third quarter to offset the lower value of service imports and returns to its underlying value in the fourth quarter.

similar magnitude as in the fixed real rate case in 2002:H2 and 2003:H1 but is up only 0.1 percentage point from baseline in 2003:H2.

Alternative Simulation:

Stronger Euro

(Percent change from previous period, annual rate)

Indicator and simulation	2002		2003	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	1.6	4.1	3.6	3.7
Fixed real rate	1.6	4.4	4.1	4.4
Taylor rule	1.6	4.3	3.9	4.0
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	1.4	1.2	1.1	1.1
Fixed real rate	1.4	1.5	1.4	1.3
Taylor rule	1.4	1.5	1.4	1.2

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

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

Measure and country							-----Projected-----		
	1995	1996	1997	1998	1999	2000	2001	2002	2003
REAL GDP (1)									

Total foreign	2.4	4.1	4.2	1.4	4.8	4.1	-0.2	2.0	3.4
Industrial Countries	2.0	2.7	3.5	2.6	3.9	3.1	0.1	1.7	2.9
of which:									
Canada	1.5	2.6	4.5	4.2	5.1	3.5	0.2	2.1	3.4
Japan	2.5	3.7	0.5	-1.3	0.6	2.3	-2.4	-0.4	1.1
United Kingdom	2.0	2.9	3.6	2.6	2.7	2.4	1.9	2.2	2.7
Euro Area (2)	1.5	1.6	3.1	2.0	3.6	2.8	0.6	1.6	2.8
Germany	1.1	1.4	1.7	0.6	3.0	2.5	0.0	1.3	2.7
Developing Countries	3.0	5.9	5.1	-0.2	6.2	5.5	-0.8	2.4	4.0
Asia	6.9	6.6	4.8	-1.9	8.6	6.1	-1.0	2.8	4.8
Korea	7.5	6.4	3.4	-5.2	13.8	5.2	1.6	1.7	4.6
China	10.4	5.3	8.7	9.5	4.1	8.0	7.4	7.4	7.5
Latin America	-3.8	6.0	6.0	1.2	4.4	4.8	-1.0	1.9	3.4
Mexico	-7.1	7.1	6.7	2.8	5.5	5.2	-1.3	2.2	3.8
Brazil	-0.8	2.9	2.1	-1.1	4.0	4.3	0.2	2.1	2.6
CONSUMER PRICES (3)									

Industrial Countries	1.3	1.5	1.5	1.0	1.2	1.8	1.3	0.8	0.9
of which:									
Canada	2.0	2.0	1.0	1.1	2.3	3.1	2.1	1.5	1.6
Japan	-0.8	0.2	2.0	0.7	-1.2	-1.2	-1.1	-1.2	-1.2
United Kingdom (4)	2.9	3.2	2.7	2.5	2.2	2.1	2.1	2.1	2.4
Euro Area (2)	NA	NA	1.5	0.8	1.5	2.7	2.2	1.4	1.4
Germany	1.5	1.3	1.5	0.3	1.1	2.5	1.8	0.9	0.9
Developing Countries	16.9	11.1	6.8	9.0	4.6	4.1	3.1	3.6	4.0
Asia	6.4	4.8	2.7	4.4	0.2	1.9	1.3	2.3	3.3
Korea	4.3	5.0	4.9	5.9	1.2	2.8	3.6	2.2	2.7
China	11.1	6.8	0.9	-1.2	-0.9	0.9	-0.1	2.4	3.8
Latin America	42.0	25.8	15.5	15.4	12.5	8.4	5.8	5.4	5.0
Mexico	48.7	28.0	17.0	17.4	13.6	8.8	5.7	5.4	4.8
Brazil	21.5	9.6	4.6	1.5	8.2	6.1	7.2	6.1	5.6

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1. Foreign GDP aggregates calculated using shares of U.S. exports.
2. Harmonized data for euro area from Eurostat.
3. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.
4. CPI excluding mortgage interest payments, which is the targeted inflation rate.

December 5, 2001

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

Measure and country	2001				Projected 2002				2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	----- Quarterly changes at an annual rate -----											
Total foreign	1.0	-1.0	-0.3	-0.6	0.5	1.8	2.7	3.1	3.3	3.4	3.4	3.4
Industrial Countries	2.1	-0.8	-0.3	-0.6	0.3	1.5	2.3	2.8	2.9	2.9	2.8	2.8
of which:												
Canada	1.7	0.6	-0.8	-0.8	0.3	2.0	2.7	3.5	3.5	3.5	3.3	3.3
Japan	4.1	-8.0	-2.7	-2.8	-1.3	-0.6	-0.1	0.4	0.9	1.1	1.2	1.3
United Kingdom	2.6	1.8	2.0	1.1	1.6	2.3	2.5	2.5	2.7	2.7	2.7	2.7
Euro Area (2)	2.1	0.3	0.4	-0.1	0.1	1.2	2.3	2.7	2.9	2.9	2.8	2.7
Germany	1.6	-0.1	-0.6	-0.8	-0.5	0.9	2.3	2.5	2.8	2.8	2.6	2.6
Developing Countries	-0.7	-1.5	-0.2	-0.6	0.8	2.1	3.3	3.4	3.8	4.0	4.1	4.2
Asia	-0.9	-2.9	0.1	-0.3	1.3	2.3	3.6	4.0	4.5	4.7	5.0	5.0
Korea	1.2	1.8	5.1	-1.5	0.5	1.0	2.5	3.0	4.0	4.5	5.0	5.0
China	8.1	7.5	6.9	7.0	7.0	7.1	7.6	7.8	7.5	7.5	7.5	7.5
Latin America	-1.2	-0.6	-0.8	-1.4	0.1	1.7	3.0	2.8	3.2	3.4	3.4	3.5
Mexico	-1.8	-1.0	-0.9	-1.7	0.2	2.0	3.5	3.2	3.6	3.8	3.8	3.9
Brazil	0.7	0.1	0.2	-0.1	0.8	2.2	2.7	2.7	2.6	2.5	2.6	2.5
CONSUMER PRICES (3)	----- Four-quarter changes -----											
Industrial Countries	1.7	2.1	1.7	1.3	1.1	0.6	0.6	0.8	0.9	0.9	0.9	0.9
of which:												
Canada	2.8	3.6	2.7	2.1	1.9	1.0	1.3	1.5	1.6	1.7	1.6	1.6
Japan	-1.0	-1.2	-1.1	-1.1	-1.5	-1.3	-1.6	-1.2	-1.2	-1.2	-1.2	-1.2
United Kingdom (4)	1.9	2.3	2.4	2.1	2.2	1.8	1.8	2.1	2.3	2.3	2.4	2.4
Euro Area (2)	2.5	3.1	2.7	2.2	2.0	1.3	1.3	1.4	1.4	1.4	1.4	1.4
Germany	2.4	3.2	2.4	1.8	1.2	0.5	0.7	0.9	0.9	0.9	0.9	0.9
Developing Countries	3.8	4.1	3.5	3.1	3.5	3.4	3.5	3.6	3.8	3.9	4.0	4.0
Asia	1.8	2.4	1.9	1.3	1.5	1.6	2.0	2.3	2.7	3.0	3.2	3.3
Korea	4.2	5.3	4.3	3.6	3.1	2.1	1.6	2.2	2.3	2.4	2.5	2.7
China	0.6	1.6	0.8	-0.1	0.3	0.7	1.6	2.4	2.7	3.1	3.5	3.8
Latin America	7.2	6.8	6.0	5.8	6.6	6.3	6.0	5.4	5.3	5.2	5.1	5.0
Mexico	7.5	6.9	6.0	5.7	6.7	6.3	6.0	5.4	5.3	5.1	5.0	4.8
Brazil	6.2	7.1	6.6	7.2	7.4	7.4	6.6	6.1	6.1	5.9	5.7	5.6

1. Foreign GDP aggregates calculated using shares of U.S. exports.
2. Harmonized data for euro area from Eurostat.
3. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.
4. CPI excluding mortgage interest payments, which is the targeted inflation rate.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1995	1996	1997	1998	1999	2000	----- 2001	Projected 2002	----- 2003
NIPA REAL EXPORTS and IMPORTS									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	0.4	-0.2	-0.8	-1.1	-1.0	-0.8	-0.1	-0.8	-0.6
Exports of G&S	1.0	1.1	1.0	0.3	0.5	0.8	-1.0	0.2	0.7
Imports of G&S	-0.6	-1.3	-1.7	-1.3	-1.5	-1.6	0.9	-1.0	-1.3
Percentage change, Q4/Q4									
Exports of G&S	9.7	9.8	8.5	2.3	4.5	7.0	-8.9	2.2	6.9
Services	8.8	8.9	1.4	2.9	1.9	4.1	-5.8	5.5	5.3
Computers	39.1	21.6	25.8	8.1	13.8	23.1	-20.3	21.5	29.9
Semiconductors	79.6	44.6	21.3	9.1	34.6	26.9	-35.9	20.4	29.9
Other Goods 1/	4.6	7.3	9.8	1.3	3.2	5.7	-6.9	-1.7	4.5
Imports of G&S	5.0	11.2	14.3	10.8	11.5	11.3	-6.1	7.9	9.6
Services	5.5	5.3	14.0	8.5	2.8	12.2	-9.1	7.8	5.4
Oil	2.4	7.8	3.9	4.1	-3.4	12.4	-1.1	5.9	1.2
Computers	35.0	17.8	33.0	25.8	25.1	13.6	-16.1	20.4	29.9
Semiconductors	92.4	56.7	32.9	-8.7	33.5	22.5	-48.9	21.5	29.9
Other Goods 2/	-1.2	10.4	12.7	11.5	12.9	10.4	-3.3	7.0	9.4
Billions of chained 1996 dollars									
Net Goods & Services	-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-411.6	-485.8	-576.4
Exports of G&S	808.2	874.2	981.5	1002.4	1034.8	1133.2	1088.4	1051.1	1108.6
Imports of G&S	886.6	963.1	1094.8	1223.5	1351.7	1532.3	1500.1	1536.9	1685.0
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-109.9	-120.9	-139.8	-217.5	-324.4	-444.7	-414.5	-455.9	-547.9
Current Acct as Percent of GDP	-1.5	-1.5	-1.7	-2.5	-3.5	-4.5	-4.1	-4.4	-5.0
Net Goods & Services (BOP)	-96.4	-101.8	-107.8	-166.8	-261.8	-375.7	-342.7	-384.0	-470.0
Investment Income, Net	25.0	25.5	13.6	-1.2	-8.5	-9.6	-14.3	-12.1	-17.3
Direct, Net	64.9	69.4	72.4	66.3	67.0	81.2	90.2	83.8	79.6
Portfolio, Net	-39.9	-43.9	-58.8	-67.5	-75.6	-90.9	-104.5	-95.9	-96.8
Other Income & Transfers, Net	-38.6	-44.6	-45.7	-49.4	-54.0	-59.3	-57.6	-59.8	-60.7

1. Merchandise exports excluding computers, and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1995	1996	1997	1998	1999	2000	----- 2001	Projected 2002	----- 2003
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NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	0.4	-0.2	-0.8	-1.1	-1.0	-0.8	-0.1	-0.8	-0.6
Exports of G&S	1.0	1.1	1.0	0.3	0.5	0.8	-1.0	0.2	0.7
Imports of G&S	-0.6	-1.3	-1.7	-1.3	-1.5	-1.6	0.9	-1.0	-1.3
	Percentage change, Q4/Q4								
Exports of G&S	9.7	9.8	8.5	2.3	4.5	7.0	-8.9	2.2	6.9
Services	8.8	8.9	1.4	2.9	1.9	4.1	-5.8	5.5	5.3
Computers	39.1	21.6	25.8	8.1	13.8	23.1	-20.3	21.5	29.9
Semiconductors	79.6	44.6	21.3	9.1	34.6	26.9	-35.9	20.4	29.9
Other Goods 1/	4.6	7.3	9.8	1.3	3.2	5.7	-6.9	-1.7	4.5
Imports of G&S	5.0	11.2	14.3	10.8	11.5	11.3	-6.1	7.9	9.6
Services	5.5	5.3	14.0	8.5	2.8	12.2	-9.1	7.8	5.4
Oil	2.4	7.8	3.9	4.1	-3.4	12.4	-1.1	5.9	1.2
Computers	35.0	17.8	33.0	25.8	25.1	13.6	-16.1	20.4	29.9
Semiconductors	92.4	56.7	32.9	-8.7	33.5	22.5	-48.9	21.5	29.9
Other Goods 2/	-1.2	10.4	12.7	11.5	12.9	10.4	-3.3	7.0	9.4
	Billions of chained 1996 dollars								
Net Goods & Services	-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-411.6	-485.8	-576.4
Exports of G&S	808.2	874.2	981.5	1002.4	1034.8	1133.2	1088.4	1051.1	1108.6
Imports of G&S	886.6	963.1	1094.8	1223.5	1351.7	1532.3	1500.1	1536.9	1685.0
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	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-109.9	-120.9	-139.8	-217.5	-324.4	-444.7	-414.5	-455.9	-547.9
Current Acct as Percent of GDP	-1.5	-1.5	-1.7	-2.5	-3.5	-4.5	-4.1	-4.4	-5.0
Net Goods & Services (BOP)	-96.4	-101.8	-107.8	-166.8	-261.8	-375.7	-342.7	-384.0	-470.0
Investment Income, Net	25.0	25.5	13.6	-1.2	-8.5	-9.6	-14.3	-12.1	-17.3
Direct, Net	64.9	69.4	72.4	66.3	67.0	81.2	90.2	83.8	79.6
Portfolio, Net	-39.9	-43.9	-58.8	-67.5	-75.6	-90.9	-104.5	-95.9	-96.8
Other Income & Transfers, Net	-38.6	-44.6	-45.7	-49.4	-54.0	-59.3	-57.6	-59.8	-60.7

1. Merchandise exports excluding computers, and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1998				1999				2000			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
	Percentage point contribution to GDP growth											
Net Goods & Services	-1.8	-1.8	-0.8	0.2	-1.8	-1.2	-0.7	-0.1	-1.3	-0.8	-0.7	-0.4
Exports of G&S	0.1	-0.5	-0.2	1.7	-0.8	0.4	1.0	1.3	0.9	1.4	1.1	-0.5
Imports of G&S	-1.9	-1.4	-0.5	-1.5	-1.0	-1.6	-1.7	-1.3	-2.2	-2.2	-1.8	0.1
	Percentage change from previous period, s.a.a.r.											
Exports of G&S	0.5	-4.0	-2.2	16.3	-6.8	4.2	9.7	12.1	9.0	13.5	10.6	-4.0
Services	2.4	8.0	-8.4	10.5	-3.9	3.8	2.0	6.0	10.3	9.9	-6.7	3.7
Computers	-8.3	8.2	12.0	22.8	0.5	26.8	18.3	11.0	32.7	49.2	25.8	-7.9
Semiconductors	5.9	-17.2	272.7	-56.6	45.4	31.6	36.5	25.8	29.9	64.5	35.0	-10.2
Other Goods 1/	0.0	-9.2	-9.3	27.8	-11.5	1.1	11.0	14.2	5.3	9.1	16.3	-6.5
Imports of G&S	15.9	11.3	4.2	12.2	8.4	13.3	13.8	10.5	17.1	16.4	13.0	-0.5
Services	21.3	6.7	7.0	0.1	-8.2	1.8	7.9	11.0	20.6	12.4	17.1	0.0
Oil	3.6	42.8	1.1	-21.6	3.9	29.8	-5.8	-31.5	29.7	40.3	-4.9	-7.7
Computers	38.4	18.5	6.4	43.6	40.6	41.1	8.3	13.8	12.8	34.4	18.4	-7.2
Semiconductors	8.5	-25.4	-6.3	-8.2	37.0	47.5	12.7	39.6	45.6	24.9	64.9	-24.9
Other Goods 2/	14.2	11.9	4.1	16.2	9.0	11.3	17.6	14.0	14.6	13.1	11.9	2.4
	Billions of chained 1996 dollars, s.a.a.r.											
Net Goods & Services	-180.8	-223.1	-241.2	-239.2	-283.0	-313.4	-333.3	-337.8	-371.1	-392.8	-411.2	-421.1
Exports of G&S	1003.4	993.1	987.6	1025.6	1007.6	1018.0	1041.8	1072.1	1095.5	1130.6	1159.3	1147.5
Imports of G&S	1184.2	1216.2	1228.9	1264.8	1290.6	1331.4	1375.1	1409.8	1466.6	1523.4	1570.6	1568.5
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-174.0	-209.6	-242.1	-244.1	-265.8	-309.5	-352.3	-369.9	-419.6	-432.5	-461.2	-465.3
Current Account as % of GDP	-2.0	-2.4	-2.7	-2.7	-2.9	-3.4	-3.8	-3.9	-4.3	-4.4	-4.6	-4.6
Net Goods & Services (BOP)	-139.5	-169.9	-181.9	-176.0	-211.5	-251.5	-284.5	-299.9	-349.3	-363.1	-389.4	-401.2
Investment Income, Net	9.9	5.8	-12.3	-8.3	-5.2	-6.6	-15.5	-6.8	-17.5	-14.4	-14.5	7.9
Direct, Net	74.2	69.8	57.8	63.3	66.2	63.0	63.3	75.7	65.5	72.5	84.2	102.8
Portfolio, Net	-64.2	-64.0	-70.1	-71.5	-71.4	-69.6	-78.8	-82.5	-83.0	-86.8	-98.7	-94.9
Other Inc. & Transfers, Net	-44.4	-45.5	-47.9	-59.8	-49.1	-51.5	-52.2	-63.3	-52.8	-55.0	-57.4	-72.0

1. Merchandise exports excluding computers, and semiconductors.

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

December 5, 2001

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2001				Projected 2002				2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	0.6	-0.1	-0.1	-0.7	-0.6	-1.0	-1.1	-0.5	-0.8	-0.8	-0.7	-0.2
Exports of G&S	-0.1	-1.4	-2.0	-0.4	-0.2	0.1	0.3	0.6	0.4	0.6	0.7	0.9
Imports of G&S	0.8	1.3	1.9	-0.3	-0.4	-1.2	-1.4	-1.1	-1.2	-1.4	-1.4	-1.1
Percentage change from previous period, s.a.a.r.												
Exports of G&S	-1.2	-11.9	-17.7	-3.6	-2.1	1.2	3.3	6.6	3.9	6.6	7.4	9.7
Services	1.8	2.4	-13.5	-12.5	11.3	2.5	3.8	4.5	5.0	5.3	5.3	5.4
Computers	-5.8	-41.1	-24.2	-3.9	19.2	19.2	21.5	26.2	28.6	28.6	31.1	31.1
Semiconductors	-22.4	-56.1	-46.7	-6.8	12.6	17.0	26.2	26.2	28.6	28.6	31.1	31.1
Other Goods 1/	-0.1	-10.8	-16.9	1.4	-10.2	-1.6	0.5	5.2	0.1	4.3	5.1	8.9
Imports of G&S	-5.0	-8.4	-12.9	2.6	3.1	9.2	11.0	8.6	9.2	10.6	10.2	8.4
Services	4.9	-2.0	-29.7	-5.4	14.2	5.2	6.8	5.3	5.3	5.5	5.5	5.3
Oil	27.1	4.3	-28.4	0.9	-2.9	31.9	10.8	-11.4	-7.1	18.9	11.2	-14.7
Computers	-11.0	-29.1	-24.5	4.1	17.0	17.0	21.5	26.2	28.6	28.6	31.1	31.1
Semiconductors	-31.8	-75.0	-58.5	-3.9	17.0	17.0	26.2	26.2	28.6	28.6	31.1	31.1
Other Goods 2/	-8.4	-4.8	-3.9	4.5	0.0	7.7	10.9	9.6	9.8	9.4	9.3	9.0
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-404.5	-406.7	-408.2	-427.1	-443.8	-473.6	-505.3	-520.6	-545.6	-569.6	-590.9	-599.5
Exports of G&S	1144.1	1108.3	1055.5	1045.9	1040.4	1043.3	1051.8	1068.8	1079.2	1096.6	1116.3	1142.4
Imports of G&S	1548.6	1515.0	1463.6	1473.0	1484.1	1517.0	1557.1	1589.4	1624.8	1666.2	1707.2	1741.9
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-447.1	-425.4	-368.0	-417.6	-413.0	-440.7	-471.2	-498.6	-508.4	-535.8	-561.1	-586.1
Current Account as % of GDP	-4.4	-4.2	-3.6	-4.1	-4.0	-4.2	-4.5	-4.7	-4.7	-4.9	-5.1	-5.2
Net Goods & Services (BOP)	-380.1	-355.2	-299.9	-335.5	-345.0	-372.6	-401.9	-416.6	-440.8	-463.5	-483.7	-491.9
Investment Income, Net	-14.6	-16.6	-13.7	-12.2	-12.1	-11.8	-12.9	-11.6	-10.2	-14.9	-20.1	-23.8
Direct, Net	90.7	92.3	88.8	89.1	88.2	85.9	81.3	79.6	79.9	80.1	79.0	79.3
Portfolio, Net	-105.3	-109.0	-102.5	-101.3	-100.3	-97.7	-94.2	-91.2	-90.1	-95.0	-99.0	-103.2
Other Inc. & Transfers, Net	-52.4	-53.6	-54.4	-69.9	-55.9	-56.4	-56.4	-70.4	-57.4	-57.4	-57.4	-70.4

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

Part 2

December 5, 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

December 5, 2001

Recent Developments

Production of Domestic Autos and Trucks

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

Item	2001		2002	2001			2002
	Q3	Q4 ¹	Q1 ¹	Oct.	Nov. ¹	Dec. ¹	Jan. ¹
U.S. production	11.6	11.3	11.5	10.7	11.6	11.5	12.2
Autos	4.7	4.8	5.0	4.4	4.8	5.1	5.1
Trucks	6.9	6.5	6.5	6.3	6.9	6.4	7.1
Days' supply ²							
Autos	49.1	n.a.	n.a.	30.3	35.5	n.a.	n.a.
Light trucks ³	74.0	n.a.	n.a.	47.0	52.9	n.a.	n.a.
Inventories ⁴	2.69	n.a.	n.a.	2.26	2.14	n.a.	n.a.

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

1. Production rates reflect Ward's Communications' latest estimates for November and schedules for December and the first quarter.

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.

Despite having improved, most of the recent data on production, new orders, and other indicators still point to continued weakness in the industrial sector.

One noticeable plus in November is the production of motor vehicles:

Assemblies rose to about 11-1/2 million units (annual rate) in November, nearly 1 million units higher than in October. Nonetheless, dealer stocks are estimated to have declined more than 50,000 units (not at an annual rate) from the level at the end of the third quarter to the end of November and were at the lowest level since August 1991. Although anecdotal reports indicate that dealer inventories of 2001 model-year vehicles were liquidated quickly, no reports of shortages of 2002 vehicles have surfaced. Current schedules, as published by Ward's, suggest little change in the pace of assemblies in December and in the first quarter of next year from November's rate. However, because of the magnitude and timing of the drop in sales that likely will accompany the reduction in sales incentives, the balance of risks to scheduled motor vehicle production early next year is more heavily weighted on the downside.

Government Sector

Federal. The federal government recorded a \$9 billion unified deficit during October 2001. Although this deficit is slightly smaller than the year-earlier figure (\$11 billion), the reduction is more than explained by special factors that boosted receipts to a level 16 percent above last October. In particular, the Economic Growth and Tax Relief Reconciliation Act of 2001 allowed corporations to shift about \$23 billion in estimated payments from September 15 to October 1, and an extra business day this October added roughly \$5 billion to receipts. Excluding these special factors, receipts this October were slightly below a year earlier, and the unified deficit would have been \$37 billion.

Adjusted for routine timing shifts, outlays were nearly 9 percent higher in October than they were twelve months earlier. While defense spending was up about 10 percent, an increase of this magnitude was expected before September 11, suggesting that the terrorism-related operations did not have a material effect on October outlays. Outlays for Medicaid and income security also rose briskly.

Stimulus Packages Proposed in the Congress for Fiscal 2002 (Billions of dollars)

Package element	House	Senate		
		Democrats	Republicans	Moderates
Total	102	67	100	75
Partial expensing	39	14	26	26
New rebate checks	14	14	0	14
UI / COBRA	2	21	15	18
Eliminate corporate AMT	25	0	9	0
Accelerate TRRA ¹	13	0	13	12
Payroll tax holiday	0	0	37	0
Other	9	18	0	5

1. Economic Growth and Tax Relief Reconciliation Act of 2001.

The Congress has been grappling with several fiscal initiatives. President Bush signed a bill that federalizes approximately 28,000 airport security personnel at an annual budget cost of roughly \$2 billion.¹² This outlay will be financed by a ticket surcharge of up to \$10 per roundtrip.

12. The bill stipulates that the federal takeover be phased in over the next year. Two years after the plan is fully phased in, airports may opt out of the federal system and re-hire private contractors.

Gross Issuance of Securities by U.S. Corporations

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

Type of security	1998	1999	2000		2001		Oct.	Nov. ^e
			H1	H2	H1	Q3		
All U.S. corporations	94.0	89.4	80.0	77.0	123.6	93.5	137.2	105.4
Stocks ¹	10.6	11.0	14.1	8.4	10.5	7.3	11.8	11.4
Bonds	83.5	78.4	65.9	68.6	113.1	86.2	125.4	94.0
<i>Nonfinancial corporations</i>								
Stocks ¹	6.2	9.2	12.4	7.3	7.5	3.3	4.2	6.7
Initial public offerings	2.2	4.2	5.7	3.1	3.2	1.0	.5	.6
Seasoned offerings	4.0	5.0	6.7	4.2	4.2	2.3	3.7	6.1
Bonds ²	25.6	24.5	21.3	19.1	43.2	26.4	45.0	50.0
Investment grade ³	14.1	13.9	11.5	12.4	28.9	20.9	36.9	43.0
Speculative grade ³	10.2	7.5	5.4	3.7	11.9	3.8	7.6	6.5
Other (sold abroad/unrated)	1.3	3.1	4.4	3.1	2.4	1.7	.6	.5
<i>Financial corporations</i>								
Stocks ¹	4.4	1.8	1.6	1.1	3.0	4.0	7.6	4.7
Bonds	57.8	53.9	44.7	49.5	69.9	59.7	80.4	49.0
<i>Memo</i>								
Net issuance of commercial paper, nonfinancial corporations ⁴	2.3	3.6	6.4	2.7	-14.5	-6.2	2.6	-2.4
Change in C&I loans at commercial banks ⁴	7.0	4.7	10.4	4.7	-3.0	-3.6	-18.3	-9.0

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

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

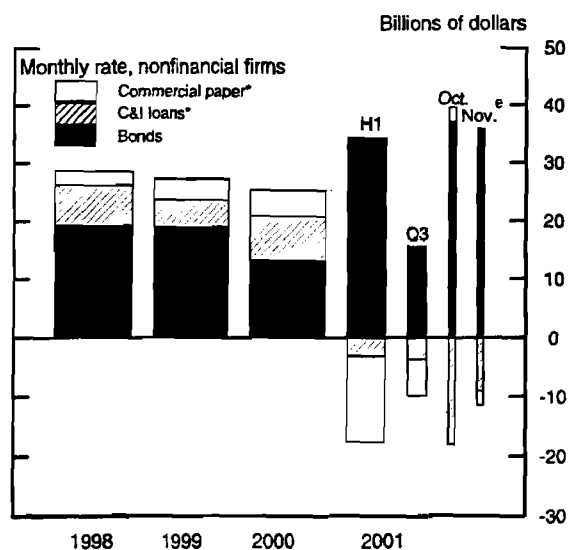
2. Excludes mortgage-backed and asset-backed bonds.

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

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

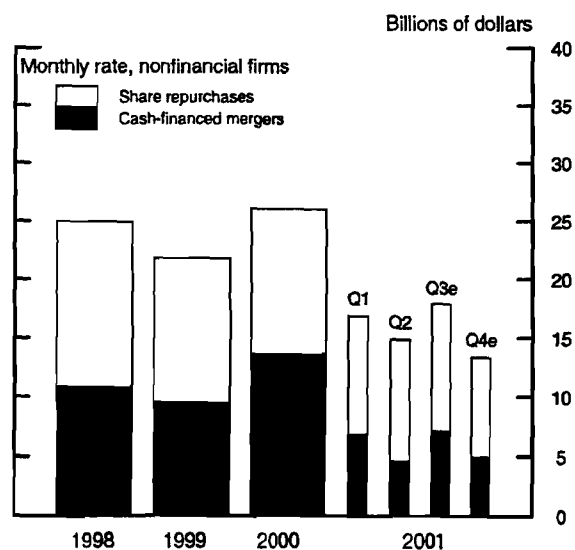
^e Staff estimate.

Components of Net Debt Financing



* Seasonally adjusted.
^e Staff estimate.

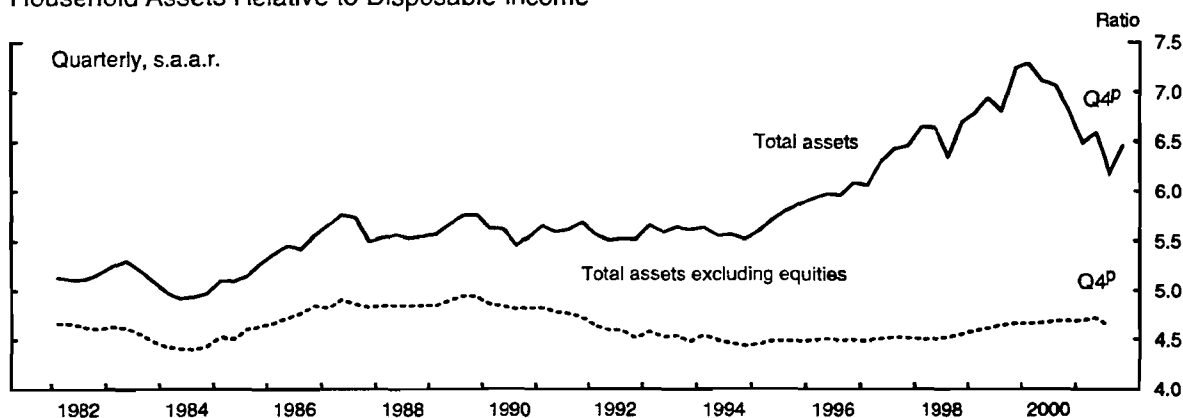
Equity Retirements



^e Staff estimate.

Household Assets

Household Assets Relative to Disposable Income



p. Staff projection.

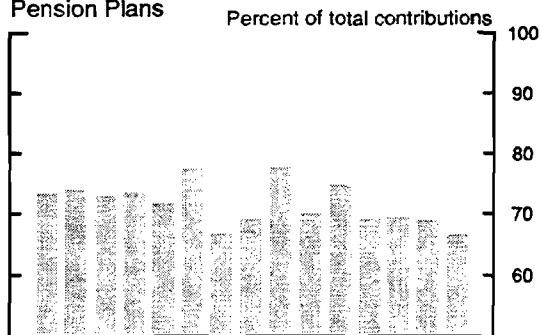
Net Flows into Long-Term Mutual Funds (Excluding reinvested dividends; billions of dollars, monthly rates)

	1999	2000	2001				Assets
			Q3	Sept.	Oct.	Nov. ^e	Oct.
Total long-term funds	14.2	18.4	-0.6	-23.0	15.8	16.0	4,376
Equity funds	15.7	25.1	-11.6	-29.4	0.8	6.9	3,111
Domestic	14.8	21.2	-8.3	-26.7	5.0	7.0	2,710
Capital appreciation	13.5	25.5	-8.3	-20.6	1.2	5.0	1,613
Total return	1.4	-4.3	-0.0	-6.1	3.8	2.0	1,098
International	0.9	3.9	-3.3	-2.7	-4.2	-0.1	401
Hybrid funds	-1.0	-2.6	-0.2	-1.3	1.6	1.3	330
Bond funds	-0.5	-4.0	11.3	7.7	13.5	7.8	935
International	-0.2	-0.2	-0.1	-0.2	-0.2	-0.1	20
High-yield	-0.2	-1.0	-0.3	-2.0	0.6	2.8	90
Other taxable	1.0	-1.6	10.0	10.1	11.1	4.5	523
Municipals	-1.0	-1.2	1.7	-0.3	2.0	0.6	301

e. Staff estimates based on confidential ICI weekly data.

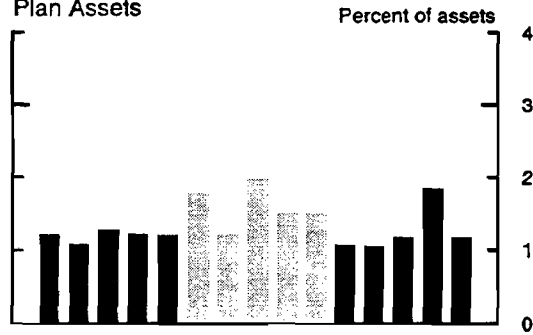
Source. Investment Company Institute (ICI).

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



Note. Consists of equity mutual funds and company stock.
Source. Hewitt Associates.

Transfers Among Existing 401(k) Pension Plan Assets



Note. Shading indicates predominant direction of transfers:
dark bars indicate transfers toward fixed income investments,
light bars indicate transfers toward equity.
Source. Hewitt Associates.

Treasury and Agency Finance

Treasury Financing (Billions of dollars)

Item	2001					
	Q1	Q2	Q3	Sep.	Oct.	Nov.(e)
Total surplus, deficit (-)	-22.5	193.7	-41.9	35.2	-9.4	n.a.
Means of financing deficit						
Net borrowing	23.7	-157.4	68.6	2.0	-3.7	68.4
Nonmarketable	6.0	6.2	-5.7	-0.3	5.8	-1.0
Marketable	17.7	-163.6	74.4	2.3	-9.5	69.4
Bills	65.0	-92.1	114.8	2.3	1.3	77.1
Coupons ¹	-39.3	-62.3	-32.6	0	-8.3	-5.9
Debt buybacks	-8.0	-9.2	-7.7	0	-2.5	-1.7
Decrease in cash balance	-7.2	-15.4	-.5	-37.9	16.6	-2.9
Other ²	6.0	-20.9	-26.2	.6	-3.5	n.a.
MEMO						
Cash balance, end of period	28.3	43.7	44.2	44.2	27.6	30.5

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

1. Does not include Treasury debt buybacks.

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

e. Estimated.

n.a. Not available.

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

Agency	2001					
	Q1	Q2	Q3	Sep.	Oct.	Nov.
FHLBs	8.4	-7.7	19.2	15.3	3.7	n.a.
Freddie Mac	34.4	35.4	37.7	18.8	5.9	n.a.
Fannie Mae	23.9	35.7	24.7	9.0	-.8	n.a.
Farm Credit Banks	0	2.2	.1	.1	0	n.a.
Sallie Mae	1.9	.4	1.7	-1.0	n.a.	n.a.
MEMO						
<i>Outstanding noncallable reference and benchmark securities</i>						
Notes and bonds	351.2	384.1	411.5	411.5	426.5	440.9
Bills	270.0	278.0	288.5	288.5	296.5	287.0
Total	621.2	662.1	700.0	700.0	723.0	727.9

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

e. Estimated

n.a. Not available

State and Local Government Finance

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

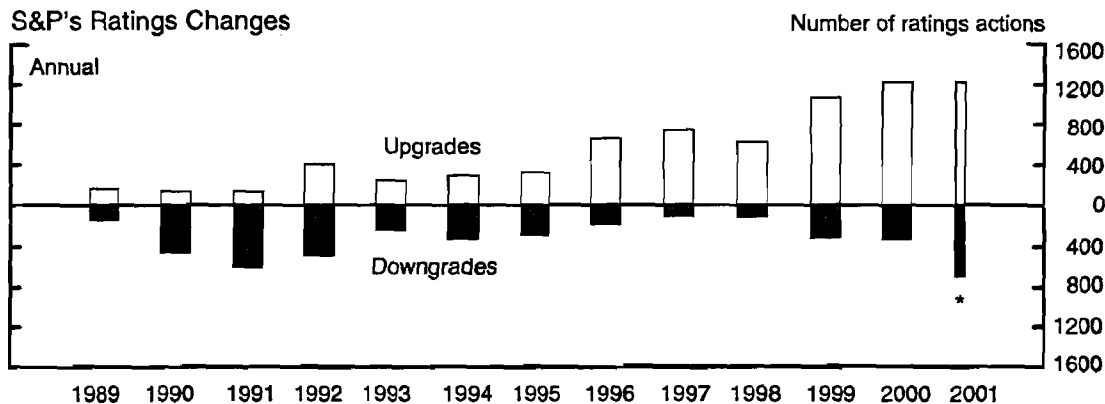
	1999	2000	2001				
			H1	Q3	Sept.	Oct.	Nov. ^e
Long-term ¹	18.0	15.0	21.4	17.8	13.2	30.4	23.5
Refundings ²	4.5	2.2	6.4	5.0	3.0	9.2	7.0
New capital	13.5	12.9	15.0	12.9	10.1	21.2	16.5
Short-term	2.7	2.8	3.7	5.9	8.5	6.6	3.0
Total tax-exempt	20.6	17.9	25.0	23.8	21.7	37.1	26.0
Total taxable	1.1	0.7	1.2	0.7	0.7	1.2	1.6

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

e. Staff estimate based on data through Nov. 30.

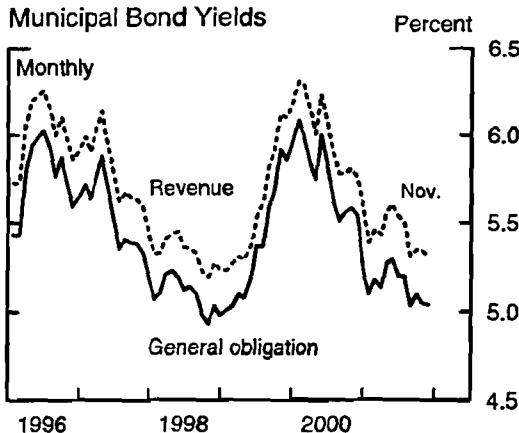
S&P's Ratings Changes



Source. S&P's Credit Week Municipal.

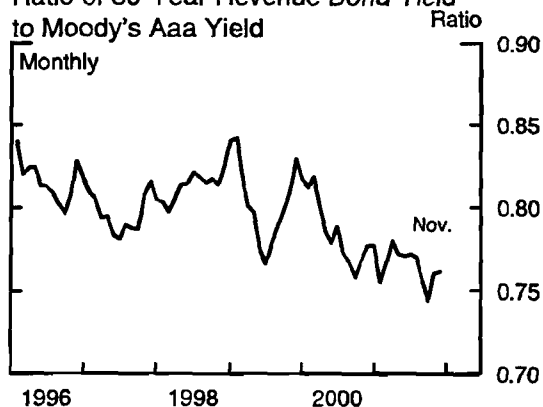
* Data through Nov. 15 at an annual rate.

Municipal Bond Yields



Note. Average of weekly data.

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



Note. Average of weekly data.

Monetary Aggregates
(Based on seasonally adjusted data)

Aggregate or component	2000	2001					Level (bil. \$) Oct. 01
		Q2	Q3	Sep.	Oct.	Nov. (p)	
<i>Aggregate</i>		Percent change (annual rate) ¹					
1. M2 ²	6.2	10.4	10.5	25.2	0.0	8.3	5398.3
2. M3	9.3	15.0	9.4	23.6	11.5	15.5	7908.3
<i>Selected components</i>							
3. Currency	4.2	6.0	11.7	11.5	7.4	7.6	571.3
4. Liquid deposits ³	3.2	17.2	20.0	44.0	-3.0	19.2	2796.8
5. Small time deposits	9.5	-4.1	-9.5	-8.9	-13.2	-17.5	994.9
6. Retail money market funds	12.2	11.2	5.6	17.3	18.1	4.1	1027.3
7. M3 minus M2 ⁴	17.2	25.3	7.1	20.1	36.7	31.1	2509.9
8. Large time deposits, net ⁵	13.6	0.7	-1.6	5.5	20.1	12.9	825.0
9. Institution-only money market mutual funds	24.0	54.9	21.0	52.9	76.7	29.3	1108.2
10. RPs	11.7	21.0	-9.7	-40.8	-11.1	65.0	354.7
11. Eurodollars	17.9	8.1	6.6	27.9	-12.3	52.9	222.1
<i>Memo</i>							
12. M1	-1.7	5.4	13.8	54.0	-37.8	-0.9	1157.0
13. Sweep-adjusted M1 ⁶	1.6	6.5	12.1	40.8	-18.4	1.1	1606.6
14. Demand deposits	-10.9	-4.2	23.0	177.5	-114.7	-11.8	326.4
15. Other checkable deposits	-0.8	16.5	6.4	0.0	-29.4	-5.3	251.2
16. Savings deposits	6.7	20.9	21.3	29.7	18.5	26.6	2219.2
17. Monetary base	1.4	5.4	14.7	47.3	-19.2	2.8	629.5
		Average monthly change (billions of dollars) ⁷					
<i>Selected managed liabilities at commercial banks</i>							
18. Large time deposits, gross	8.7	1.3	-4.0	-0.7	18.2	13.9	961.5
19. Net due to related foreign institutions	1.3	-10.3	-3.0	-24.2	4.4	-24.7	174.2
20. U.S. government deposits at commercial banks	-1.4	-2.4	5.3	-39.4	20.9	-26.6	40.6

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

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

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

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

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

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

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

p--Preliminary

Commercial Bank Credit

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

Type of credit	2000	Q2 2001	Q3 2001	Sept. 2001	Oct. 2001	Nov. ^P 2001	Level, Nov. 2001 ^P (\$ billions)
Total							
1. Adjusted ¹	9.4	2.7	1.8	13.2	-7.3	4.8	5,224
2. Reported	10.0	3.2	2.3	15.3	-6.0	7.6	5,408
<i>Securities</i>							
3. Adjusted ¹	1.8	4.1	11.5	7.6	15.3	9.8	1,297
4. Reported	4.6	6.1	12.4	15.9	17.6	19.9	1,480
5. Treasury & Agency	-2.3	-3.3	10.5	15.9	24.5	15.8	824
6. Other ²	16.9	18.7	14.8	16.0	9.0	24.8	656
<i>Loans³</i>							
7. Total	12.0	2.2	-1.2	15.0	-14.5	3.1	3,927
8. Business	9.0	-4.4	-9.6	3.6	-18.5	-13.4	1,037
9. Real estate	14.1	6.3	3.0	4.0	8.5	8.4	1,740
10. Home equity	27.2	12.5	13.3	21.5	29.6	19.8	148
11. Other	13.1	5.7	2.1	2.4	6.6	7.4	1,592
12. Consumer	10.5	3.8	-2.5	-.2	6.4	14.4	555
13. Adjusted ⁴	7.3	5.1	1.7	1.2	12.2	18.9	896
14. Other ⁵	13.4	1.6	3.2	81.0	-87.7	6.3	595

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.

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

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

3. Excludes interbank loans.

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

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

p Preliminary.

December 7, 2001

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

December 7, 2001

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

	2001 Apr.	2001 May	2001 June	2001 July	2001 Aug.	2001 Sept.	2001 Oct.	2001 Nov.	2001 Dec (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	88.4	92.0	92.6	92.4	91.5	81.8	82.7	83.9	85.8
Current conditions	98.0	102.2	101.6	98.6	101.2	94.6	94.0	95.3	95.9
Expected conditions	82.2	85.4	86.9	88.4	85.2	73.5	75.5	76.6	79.3

Personal financial situation									
Now compared with 12 months ago*	110	112	117	114	118	108	107	107	102
Expected in 12 months*	134	129	126	133	127	128	128	134	132
Expected business conditions									
Next 12 months*	92	99	114	115	102	71	77	76	84
Next 5 years*	104	115	109	107	113	95	98	97	101
Appraisal of buying conditions									
Cars	129	133	127	138	132	133	152	164	165
Large household appliances*	143	152	146	141	144	136	136	140	146
Houses	144	154	162	149	154	149	159	161	169
Willingness to use credit									
	34	45	43	41	47	39	52	54	36
Willingness to use savings									
	55	58	64	60	55	47	62	56	55
Expected unemployment change - next 12 months									
	146	138	135	140	142	151	150	143	141
Prob. household will lose a job - next 5 years									
	21	21	22	24	23	24	21	24	23
Expected inflation - next 12 months									
Mean	3.7	3.9	4.0	3.0	3.1	3.2	1.6	1.0	1.6
Median	3.1	3.2	3.0	2.6	2.7	2.8	1.0	.4	1.6
Expected inflation - next 5 to 10 years									
Mean	3.6	3.6	3.6	3.4	3.6	3.4	2.8	3.2	3.0
Median	3.1	3.0	3.0	2.9	3.0	2.9	2.7	2.8	2.9

* -- Indicates the question is one of the five equally-weighted components of the index of sentiment.
(p) -- Preliminary
(f) -- Final

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