

Part 1

May 9, 2001

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

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

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on business loans overall, but the move toward tightening has lessened some in recent months. Conditions in the commercial paper market have improved following the strong negative reaction to defaults in January. After sharp declines in the amount of commercial paper outstanding over the first three months of the year, the paydown slowed in April.

Recent progress in the Congress on a compromise budget plan has caused us to significantly revise our fiscal assumptions for this year and next. We are now assuming that a temporary tax cut of \$50 billion (about \$500 per taxpayer) will be paid out just before the end of the current fiscal year. In line with our assumption in the March Greenbook, we continue to anticipate that the separate permanent tax cut will include a piece that reduces payments in the current fiscal year. Beyond that, we have boosted the size of the permanent income tax cut in fiscal 2002 from \$40 billion to \$60 billion, consistent with the budget resolution agreed to by House and Senate conferees. Based on that agreement, we now expect that the permanent tax cut will total \$1.25 trillion over the next ten fiscal years (2002 to 2011).

Staff Tax-Cut Assumptions in March and May Greenbooks
(Billions of dollars)

Tax cut	Fiscal 2001		Fiscal 2002	
	March GB	May GB	March GB	May GB
Temporary	0	50	0	0
Permanent	10	10	40	60

We continue to project that discretionary spending will rise about 5 percent in fiscal 2002, in line with the assumptions in the budget resolution. On the receipts side, one important piece of news is the absence of an "April surprise," unlike the past several years, when receipts came in well above expectations. On the contrary, recent receipts have been running, if anything, a little on the soft side. All told, we now expect the unified budget to show a surplus of \$203 billion in fiscal 2001 and \$206 billion in fiscal 2002--off about \$53 billion and \$36 billion, respectively, from our assumptions in the March Greenbook. The projected on-budget surpluses, which exclude social security and the Postal Service, are \$36 billion and \$33 billion, respectively.

We have revised down our estimate of structural productivity growth for this year and next by 0.3 percentage point in each year, based on new data on multifactor productivity growth and our somewhat more pessimistic assessment of the outlook for investment in equipment. That said, in light of the extent to

which productivity growth has held up during the current deceleration in activity, we still view the outlook for productivity growth as bright. Indeed, even after these adjustments, we are still assuming that structural productivity growth will average 2-3/4 percent over this year and next.

The global high-tech slump and the slowdown in the U.S. economy have contributed to a significant downshift in the pace of economic activity abroad. We now expect foreign growth to be only about 1-3/4 percent at an annual rate during the first half of this year, about 1/2 percentage point below our projection in the March Greenbook. As the U.S. economy rebounds and oil prices decline, the pace of growth abroad should gradually regain some momentum. We project that foreign GDP will increase at an annual rate of about 3 percent in the second half of this year, down about 3/4 percentage point from our March Greenbook forecast. In 2002, foreign activity is projected to rise 3-3/4 percent, unchanged from the previous projection.

Despite the substantial easing of monetary policy in the United States, the foreign exchange value of the dollar has held steady against the currencies of a broad group of our trading partners and is now, in real terms, almost 2-1/2 percent above the level that we projected in the March Greenbook. Nonetheless, we project that the real value of the dollar will depreciate about 1-1/2 percent over the forecast period. As a result of the higher jumping off point and the somewhat more moderate projected rate of depreciation, the real value of the dollar is on average about 2-3/4 percent above that projected in the March Greenbook.

The spot price of West Texas intermediate crude oil has not changed much since the time of the March FOMC meeting. WTI prices are expected to remain near their current level of just over \$28 per barrel into the fourth quarter of this year, and then to decline to about \$24.50 per barrel by the end of 2002. This projection closely tracks the prices implied by futures markets and is about unchanged from the March Greenbook.

Recent Developments and the Near-Term Outlook

We now project that real GDP is increasing at an annual rate of 3/4 percent in the current quarter, 1/2 percentage point below the March Greenbook projection. The weakness in the labor market figured prominently in our marking down the near-term projection. Private payrolls are estimated to have fallen 261,000 in April. While we believe this reading overstates the true degree of weakening in labor markets, it seems clear that employers are now actively reducing their staffing levels to deal with the economic slowdown. Indeed, initial claims for unemployment insurance are at levels consistent with another noticeable decline in payrolls in May. Based on the data on hours worked and other indicators of production, manufacturing output appears to have fallen slightly in April.

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

Measure	2001:Q2		2001:Q3	
	March GB	May GB	March GB	May GB
Real GDP	1.3	.7	2.4	1.5
Private domestic final purchases	.7	.1	2.1	1.4
Personal consumption expenditures	.6	.4	2.0	1.6
Residential investment	5.2	-.3	-.3	.3
Business fixed investment	.2	-1.5	3.2	.9
Government outlays for consumption and investment	3.1	1.5	3.2	3.0
	Contribution to growth, percentage points			
Inventory investment	.5	.7	.4	.4
Net exports	-.4	-.4	-.4	-.7

Businesses have been aggressively dealing with their inventory imbalances. Production adjustments in the motor vehicle industry brought days' supply of light vehicles down to reasonably comfortable levels by the end of the first quarter, and subsequent increases in assemblies should make a small positive contribution to real GDP growth in the current quarter. But with signs that demand may be slipping, we expect days' supply to move up in the near term, prompting additional cuts in assemblies in the third quarter.¹ Several other manufacturing industries have had less success in bringing inventories under control, and we anticipate that the need to trim excessive stocks will restrain production through the fall.

Consumer spending, which has been a stalwart source of strength thus far, may now be softening. In April, light vehicle sales stepped down, and consumer sentiment fell back after having strengthened briefly in late March. Widespread layoff announcements and the rise in the unemployment rate suggest consumer attitudes are unlikely to improve much in the near term. High prices for energy continue to sap households' purchasing power, and if our expectation is borne out that nominal labor income will slow this quarter, growth in real incomes will remain sluggish. Factoring in the declines in household net worth over the past

1. New motor vehicle output held down real GDP growth in the first quarter by 0.4 percentage point. We are projecting a 0.3 percentage point positive contribution in the second quarter and a drag of 0.9 percentage point in the third quarter.

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	1.3	2.4	3.5
Previous	5.2	1.6	1.1	2.9	3.7
Final sales	5.3	2.1	2.5	2.6	2.7
Previous	5.3	2.0	1.9	2.5	3.5
PCE	5.3	3.6	1.8	3.2	2.3
Previous	5.3	3.7	1.5	2.2	2.7
Residential investment	2.2	-7.2	1.6	1.3	2.5
Previous	2.2	-6.4	6.5	.1	3.0
BFI	17.7	3.7	.6	2.1	7.2
Previous	17.7	3.2	3.2	4.5	9.3
Government purchases	1.8	.7	3.3	3.0	3.5
Previous	1.8	.7	2.9	3.3	3.5
Exports	10.2	3.2	-.7	4.9	6.5
Previous	10.2	3.4	.9	7.1	8.1
Imports	15.2	7.5	-4.1	6.5	7.9
Previous	15.2	7.8	2.9	6.2	8.2
Contribution to growth, percentage points					
Inventory change	-.0	-.4	-1.1	-.2	.8
Previous	-.0	-.4	-.8	.3	.2
Net exports	-1.0	-.7	.5	-.4	-.4
Previous	-1.0	-.7	-.3	-.1	-.3

waned, the level of real PCE is only 0.6 percent higher than it would have been in the absence of the tax changes.

Aside from the wiggles induced by fiscal policy, the dominant influences on our forecast for consumer spending center on the paths for growth in real incomes and in household net worth. The pickup in real income growth and the waning of uncertainty about the economic outlook should boost spending next year. But the declines in equity prices over the past year likely began to have a significant negative effect on consumer spending only in early 2001; we expect

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	3.2	2.8	2.7
Previous	1.4	2.5	3.2	3.3	3.1	3.0
<i>Contributions¹</i>						
Capital deepening	.7	1.2	1.6	1.6	1.2	1.1
Previous	.7	1.1	1.5	1.5	1.3	1.2
Multifactor productivity	.4	1.0	1.3	1.3	1.3	1.3
Previous	.4	1.1	1.4	1.5	1.5	1.5
Labor quality	.3	.3	.3	.3	.3	.3

1. Percentage points.

year and next. All in all, we now are projecting structural productivity growth of 2.8 percent in 2001 and 2.7 percent in 2002--in both years 0.3 percentage point below the corresponding March Greenbook assumptions.

Productivity and the labor market. We expect actual (as opposed to structural) productivity in the nonfarm business sector to increase at an annual rate of 3 percent in the second quarter after having declined at a 1/4 percent rate in the first quarter. Part of the swing in these figures reflects some volatility in the reported hours of self-employed workers. For the year as a whole, we expect labor productivity to increase nearly 2 percent--depressed vis-a-vis its structural pace by some cyclical hoarding of labor. With economic growth moving back toward potential, labor productivity growth rises to 2-3/4 percent, equaling the assumed pace of structural productivity growth.

Wages and prices. We expect prices to decelerate modestly over the projection period, reflecting the partial reversal of the recent run-up in energy prices and restraint from increasing slack in labor markets.⁴ We project that the PCE chain price index will increase 2 percent this year and 1-3/4 percent in 2002, after a 2-1/4 percent rise in 2000. The downtrend in overall CPI inflation is somewhat

4. In this forecast, we have revised upward our estimates of the NAIRU. The NAIRU is now assumed to be 4.9 percent in 2001 and 5 percent in 2002--up from 4.8 percent (in both years) in the March Greenbook. The upward revisions reflect the cumulative changes we have made to structural productivity growth over the past few Greenbooks. Changes in structural productivity growth do not affect the NAIRU in the long run, but they do have a short-run effect until workers' real wage aspirations have caught up with the change in structural productivity.

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	3.3	2.0	2.8
Previous	3.8	3.4	2.1	3.1
Nonfarm payroll employment	2.2	1.6	-.0	.7
Previous	2.2	1.6	.5	.7
Household employment survey	1.5	1.0	-.3	.5
Previous	1.5	1.0	-.3	.5
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	5.1	5.5
Previous	4.1	4.0	5.2	5.6

1. Percent, average for the fourth quarter.

steeper, with CPI inflation expected to be 2-1/2 percent in 2001 and 2 percent in 2002, after a 3-1/2 percent increase last year.

Continuing the upward spiral of the past two years, PCE energy prices rose at an annual rate of nearly 11 percent in the first quarter of this year, and gasoline and electricity prices have moved up sharply so far in the current quarter.

Nevertheless, we expect energy prices to begin turning down in the coming months as high gasoline margins unwind in step with expectations in futures markets. We then look for energy prices to decline further, reflecting the movements in crude oil prices and a moderation in the price of natural gas.

The PCE chain price index excluding food and energy is expected to rise 2.1 percent this year and 1.9 percent in 2002. Both figures are 0.2 percentage point above the corresponding March Greenbook projections, a revision resulting from the slower growth of structural productivity that we are now projecting. The rise in the dollar has helped to keep core non-oil goods import prices in check this year, but with dollar depreciation in the offing, we expect that these prices will accelerate and will no longer be a restraining influence on domestic prices in 2002. Nonetheless, we still expect core PCE inflation to edge down as the indirect effects of higher energy prices wane and as slack in labor markets emerges. The core CPI is expected to increase about 2-3/4 percent this year and 2-1/2 percent in 2002.

We expect the ECI for hourly compensation to increase 4.4 percent this year, the same rate of increase recorded last year. The partial catchup in real wages to the

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

Measure	1999	2000	2001	2002
PCE chain-weighted price index	2.0	2.3	2.1	1.7
Previous	2.0	2.3	1.8	1.6
Food	2.0	2.5	3.1	2.6
Previous	2.0	2.5	3.0	2.4
Energy	12.0	15.9	-.2	-5.2
Previous	12.0	15.9	-4.3	-2.8
Excluding food and energy	1.5	1.6	2.1	1.9
Previous	1.5	1.6	1.9	1.7
Consumer price index	2.6	3.4	2.6	2.0
Previous	2.6	3.4	2.2	2.0
Excluding food and energy	2.0	2.5	2.7	2.5
Previous	2.0	2.5	2.5	2.3
GDP chain-weighted price index	1.6	2.3	2.2	1.8
Previous	1.6	2.3	2.0	1.7
ECI for compensation of private industry workers ¹	3.4	4.4	4.4	4.1
Previous	3.4	4.4	4.3	4.0
NFB compensation per hour	4.4	5.7	5.4	5.0
Previous	4.4	5.7	5.2	4.9
Prices of core non-oil merchandise imports	.4	1.4	.3	2.2
Previous	.4	1.4	1.2	2.5

1. December to December.

acceleration in structural productivity in the second half of the 1990s, rapid increases in health insurance costs, and the passthrough of the pickup in inflation last year all add to the increases in hourly compensation in the near term. But with inflation edging back down and the unemployment rate rising, we expect the ECI to decelerate to a 4.1 percent pace in 2002.

Financial Flows and Conditions

We project that the growth of nonfinancial debt will slow gradually over the forecast period, from 5-1/4 percent this year to 4-1/2 percent in 2002, even though economic activity picks up. Federal debt contracts more rapidly in 2002 than in 2001, largely reflecting the impact of the assumed one-time tax rebate to

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	1.3	2.4	3.3	3.6
Weak household demand	.6	.9	2.4	3.0
High-tech meltdown	1.2	2.0	2.5	2.4
Productivity slowdown	1.2	.3	.8	1.0
Rapid rebound	1.3	3.8	4.3	4.7
Higher inflation expectations	1.3	2.6	3.5	3.8
Lower NAIRU	1.3	2.5	3.3	3.6
Market-based funds path	1.3	2.5	3.5	3.5
<i>Civilian unemployment rate¹</i>				
Baseline	4.6	5.1	5.4	5.5
Weak household demand	4.7	5.5	6.0	6.3
High-tech meltdown	4.6	5.2	5.6	5.9
Productivity slowdown	4.6	5.3	5.9	6.3
Rapid rebound	4.6	4.9	5.0	4.8
Higher inflation expectations	4.6	5.1	5.3	5.3
Lower NAIRU	4.6	5.1	5.4	5.4
Market-based funds path	4.6	5.1	5.3	5.4
<i>PCE prices excluding food and energy</i>				
Baseline	2.3	1.9	1.9	1.9
Weak household demand	2.3	1.9	1.8	1.6
High-tech meltdown	2.3	1.9	1.9	1.9
Productivity slowdown	2.3	2.0	2.1	2.3
Rapid rebound	2.3	1.9	1.9	2.0
Higher inflation expectations	2.3	2.0	2.3	2.5
Lower NAIRU	2.3	1.8	1.6	1.4
Market-based funds path	2.3	1.9	2.0	2.0

1. Average for the final quarter of the period.

sentiment--are much weaker than we have assumed in the forecast. We next consider the possibility of a "high-tech meltdown," in which spending on IT capital falls by more than in the staff forecast this year and recovers far less next year. In the "productivity slowdown" scenario, we couple this slower pace of IT investment with less-rapid growth in technical innovation. Of course, not all of the risks to the outlook are negative, and in the fourth scenario ("rapid rebound"), we consider the possibility that final demand will grow more quickly this year than anticipated in the baseline staff outlook. In the fifth scenario

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

May 9, 2001

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
	03/14/01	05/09/01	03/14/01	05/09/01	03/14/01	05/09/01	03/14/01	05/09/01	03/14/01	05/09/01
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	7.1	7.1	5.0	5.0	2.1	2.1	3.4	3.4	4.0	4.0
2001	3.9	4.2	1.8	1.8	2.1	2.3	2.7	3.1	4.8	4.7
2002	5.0	4.8	3.3	3.0	1.7	1.7	1.9	1.8	5.5	5.4
QUARTERLY										
1999 Q1	5.9	5.9	3.5	3.5	2.2	2.2	1.7	1.7	4.3	4.3
Q2	3.9	3.9	2.5	2.5	1.4	1.4	2.7	2.7	4.3	4.3
Q3	6.7	6.7	5.7	5.7	1.1	1.1	2.9	2.9	4.2	4.2
Q4	9.7	9.7	8.3	8.3	1.6	1.6	3.1	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	2.8	2.8	4.0	4.0
Q3	3.8	3.8	2.2	2.2	1.6	1.6	3.5	3.5	4.0	4.0
Q4	2.9	3.0	1.0	1.0	1.9	2.0	3.0	3.0	4.0	4.0
2001 Q1	4.2	5.4	0.8	2.0	3.4	3.2	3.6	4.2	4.3	4.2
Q2	2.7	3.8	1.3	0.7	1.3	3.1	1.3	3.4	4.6	4.6
Q3	4.1	2.8	2.4	1.5	1.6	1.3	1.8	1.6	4.9	4.9
Q4	5.0	4.7	3.3	3.4	1.7	1.3	1.9	1.2	5.2	5.1
2002 Q1	5.5	5.4	3.5	3.3	1.9	2.0	1.9	1.6	5.4	5.3
Q2	5.2	5.1	3.6	3.3	1.6	1.7	1.9	1.9	5.5	5.4
Q3	5.4	5.4	3.7	3.5	1.6	1.8	2.0	2.1	5.5	5.4
Q4	5.6	5.6	3.9	3.7	1.6	1.8	2.0	2.2	5.6	5.5
TWO-QUARTER³										
1999 Q2	4.9	4.9	3.0	3.0	1.8	1.8	2.2	2.2	-0.1	-0.1
Q4	8.2	8.2	7.0	7.0	1.3	1.3	3.0	3.0	-0.2	-0.2
2000 Q2	8.2	8.2	5.2	5.2	2.8	2.8	3.6	3.6	-0.1	-0.1
Q4	3.4	3.4	1.6	1.6	1.8	1.8	3.2	3.2	0.0	0.0
2001 Q2	3.4	4.6	1.1	1.3	2.3	3.2	2.5	3.8	0.6	0.6
Q4	4.6	3.8	2.9	2.4	1.7	1.3	1.9	1.4	0.6	0.5
2002 Q2	5.3	5.2	3.5	3.3	1.7	1.8	1.9	1.8	0.3	0.3
Q4	5.5	5.5	3.8	3.6	1.6	1.8	2.0	2.1	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	5.8	5.8	3.4	3.4	2.3	2.3	3.4	3.4	-0.1	-0.1
2001 Q4	4.0	4.2	2.0	1.9	2.0	2.2	2.2	2.6	1.2	1.1
2002 Q4	5.4	5.3	3.7	3.5	1.7	1.8	2.0	2.0	0.4	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)

May 9, 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	9963.1	10384.2	10880.7
Real GDP	Bill. Ch. \$	7347.7	7543.8	7813.2	8159.5	8515.7	8875.8	9318.5	9490.4	9775.6
Real GDP	% change	4.1	2.2	4.1	4.3	4.6	5.0	3.4	1.9	3.5
Gross domestic purchases		4.3	1.7	4.3	5.0	5.7	5.9	4.1	1.8	3.9
Final sales		3.2	2.9	3.9	3.9	4.6	4.8	3.7	2.6	2.7
Priv. dom. final purchases		4.3	3.2	4.4	5.1	6.4	6.1	5.0	2.3	3.0
Personal cons. expenditures		3.6	2.8	3.1	4.1	5.0	5.6	4.5	2.5	2.3
Durables		6.4	3.7	5.0	8.8	12.6	11.1	5.2	2.4	1.7
Nondurables		4.1	2.5	3.2	2.5	5.0	5.9	3.8	2.1	1.9
Services		2.7	2.7	2.7	3.9	3.4	4.2	4.6	2.7	2.6
Business fixed investment		9.2	7.5	12.1	11.8	12.9	10.1	10.5	1.3	7.2
Equipment & Software		12.0	8.9	11.8	13.7	15.8	14.1	9.8	-1.3	8.4
Nonres. structures		1.1	3.3	12.8	6.5	4.9	-1.7	12.7	9.3	4.1
Residential structures		4.0	-1.5	5.6	3.5	10.3	2.8	-2.6	1.5	2.5
Exports		10.5	9.7	9.8	8.5	2.2	4.3	6.7	2.1	6.5
Imports		12.2	5.0	11.2	14.3	11.2	12.0	11.3	1.1	7.9
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	3.0	3.6
Defense		-5.9	-4.7	0.8	-1.4	-1.0	4.6	-2.0	2.1	2.7
State & local		2.8	2.1	3.0	3.7	3.6	4.2	2.7	3.2	3.5
Change in bus. inventories	Bill. Ch. \$	66.8	30.4	30.0	63.8	80.2	45.3	60.9	-5.8	45.7
Nonfarm		53.6	42.6	22.1	60.6	78.7	44.9	55.8	-10.7	44.2
Net exports		-86.5	-78.4	-89.0	-113.3	-221.0	-322.4	-412.4	-420.6	-478.1
Nominal GDP	% change	6.2	4.3	6.0	6.2	5.9	6.5	5.8	4.2	5.3
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	114.1	117.2	119.6	122.7	125.8	128.8	131.4	131.9	132.3
Unemployment rate	%	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.7	5.4
Industrial prod. index	% change	6.3	3.6	5.6	7.2	3.2	5.1	4.2	-1.4	4.0
Capacity util. rate - mfg.	%	82.5	82.5	81.6	82.7	81.3	80.5	81.3	77.2	77.5
Housing starts	Millions	1.46	1.35	1.48	1.47	1.62	1.67	1.59	1.63	1.67
Light motor vehicle sales		15.01	14.77	15.05	15.06	15.45	16.76	17.25	16.14	15.56
North Amer. produced		12.88	12.87	13.34	13.12	13.43	14.28	14.38	13.22	12.71
Other		2.13	1.90	1.70	1.93	2.02	2.48	2.87	2.92	2.85
INCOME AND SAVING										
Nominal GNP	Bill. \$	7071.1	7420.9	7831.2	8325.4	8786.7	9288.2	9958.7	10369.4	10839.8
Nominal GNP	% change	6.2	4.4	5.9	6.0	5.7	6.5	6.0	3.8	5.2
Nominal personal income		5.1	4.3	5.9	6.3	6.3	5.6	5.7	4.4	5.4
Real disposable income		2.9	1.7	2.6	3.8	4.6	3.1	2.2	2.3	4.4
Personal saving rate	%	6.1	5.6	4.8	4.2	4.2	2.2	-0.1	-0.2	0.9
Corp. profits, IVA & CCAdj.	% change	12.3	11.3	11.4	9.9	-5.8	11.2	2.4	-2.6	1.1
Profit share of GNP	%	8.1	9.0	9.6	10.0	9.3	9.2	9.5	8.6	8.3
Excluding FR Banks		7.9	8.7	9.4	9.7	9.0	8.9	9.2	8.3	8.0
Federal surpl./deficit	Bill. \$	-212.3	-192.0	-136.8	-53.3	49.0	124.4	251.8	215.6	213.7
State & local surpl./def.		8.6	15.3	21.4	31.0	41.7	50.0	59.6	40.6	45.1
Ex. social ins. funds		4.0	11.4	18.7	29.9	41.3	50.4	60.1	40.8	45.1
Gross natl. saving rate	%	16.3	16.9	17.2	18.0	18.8	18.5	18.3	17.3	17.9
Net natl. saving rate		4.3	5.1	5.7	6.7	7.5	6.8	6.5	5.0	5.4
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.1	2.1	1.9	1.8	1.2	1.6	2.3	2.2	1.8
Gross Domestic Purchases										
chn.-wt. price index		2.1	2.1	1.9	1.4	0.8	1.9	2.4	1.9	1.7
PCE chn.-wt. price index		2.1	2.1	2.3	1.5	1.1	2.0	2.3	2.1	1.7
Ex. food and energy		2.3	2.3	1.8	1.7	1.6	1.5	1.6	2.1	1.9
CPI		2.6	2.7	3.2	1.9	1.5	2.6	3.4	2.6	2.0
Ex. food and energy		2.8	3.0	2.6	2.2	2.4	2.0	2.5	2.7	2.5
ECI, hourly compensation ²		3.1	2.6	3.1	3.4	3.5	3.4	4.4	4.4	4.1
Nonfarm business sector										
Output per hour		1.1	1.1	2.3	2.3	2.8	3.8	3.4	2.0	2.8
Compensation per Hour		2.2	2.6	3.2	3.5	5.1	4.4	5.7	5.4	5.0
Unit labor cost		1.0	1.5	0.9	1.1	2.3	0.6	2.3	3.4	2.1

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)

May 9, 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											
chn.-wt. price index		0.1	0.8	1.1	1.2	1.9	2.0	1.7	1.9	3.8	2.1
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	1.4	4.6	3.4	4.6	5.6	4.7
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 FOMC

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

May 9, 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	10114.4	10247.3	10342.1	10413.4	10534.3	10672.8	10805.4	10947.3	11097.4
Real GDP	Bill. Ch. \$	9369.5	9393.7	9441.3	9456.9	9491.5	9571.8	9650.8	9730.4	9815.4	9905.6
Real GDP	% change	2.2	1.0	2.0	0.7	1.5	3.4	3.3	3.3	3.5	3.7
Gross domestic purchases		3.0	1.5	0.5	1.0	2.1	3.5	4.0	3.9	3.9	3.5
Final sales		2.4	1.7	5.1	-0.1	1.1	4.2	1.8	3.1	2.3	3.8
Priv. dom. final purchases		4.2	2.0	3.1	0.1	1.4	4.5	2.3	3.7	2.5	3.6
Personal cons. expenditures		4.5	2.8	3.1	0.4	1.6	4.9	1.5	3.1	1.7	2.8
Durables		7.6	-3.1	11.9	-5.0	-1.9	5.6	0.5	2.9	0.4	3.0
Nondurables		4.7	1.0	2.6	0.0	1.6	4.1	1.0	2.7	1.4	2.5
Services		3.7	4.9	1.7	1.8	2.3	5.1	1.9	3.3	2.1	2.9
Business fixed investment		7.7	-0.1	2.8	-1.5	0.9	3.2	6.5	7.1	7.0	8.1
Equipment & Software		5.6	-3.3	-1.7	-5.2	-0.8	2.5	7.2	8.3	8.3	9.9
Nonres. structures		14.6	10.4	17.5	9.3	5.5	5.1	4.7	4.1	3.9	3.6
Residential structures		-10.6	-3.6	3.5	-0.3	0.3	2.3	2.5	3.1	2.2	2.3
Exports		13.9	-6.4	-2.0	0.6	2.4	7.4	2.6	6.1	6.8	10.7
Imports		17.0	-1.2	-10.8	3.2	6.6	6.4	7.7	9.1	8.3	6.6
Gov't. cons. & investment		-1.4	2.9	5.0	1.5	3.0	3.0	3.5	3.5	3.6	3.6
Federal		-9.0	3.8	5.7	0.4	3.1	2.8	3.6	3.7	3.7	3.4
Defense		-9.7	8.9	4.9	-1.1	2.7	2.2	2.7	2.9	2.8	2.3
State & local		2.9	2.5	4.7	2.1	2.9	3.1	3.4	3.5	3.5	3.7
Change in bus. inventories	Bill. Ch. \$	72.5	55.7	-17.7	-0.3	7.8	-13.2	25.8	31.5	63.3	62.3
Nonfarm		67.4	50.5	-23.7	-5.9	3.2	-16.3	23.2	29.9	62.3	61.3
Net exports		-427.7	-441.7	-402.6	-413.0	-431.2	-435.5	-458.2	-476.6	-490.5	-487.1
Nominal GDP	% change	3.8	3.0	5.4	3.8	2.8	4.7	5.4	5.1	5.4	5.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	131.6	131.8	132.2	132.0	131.8	131.8	131.9	132.1	132.4	132.7
Unemployment rate	%	4.0	4.0	4.2	4.6	4.9	5.1	5.3	5.4	5.4	5.5
Industrial prod. index	% change	3.5	-0.9	-6.4	-0.9	-1.2	3.1	4.5	4.0	3.8	3.7
Capacity util. rate - mfg.	%	81.7	80.3	78.3	77.1	76.5	76.7	77.1	77.4	77.6	77.8
Housing starts	Millions	1.53	1.56	1.64	1.62	1.63	1.64	1.66	1.66	1.67	1.68
Light motor vehicle sales		17.38	16.17	17.12	16.23	15.52	15.70	15.61	15.65	15.48	15.51
North Amer. produced		14.54	13.30	14.19	13.28	12.66	12.74	12.74	12.76	12.66	12.69
Other		2.84	2.87	2.93	2.94	2.86	2.96	2.87	2.89	2.82	2.82
INCOME AND SAVING											
Nominal GNP	Bill. \$	10030.5	10121.8	10244.6	10332.5	10393.6	10506.7	10637.1	10766.3	10904.9	11050.9
Nominal GNP	% change	3.8	3.7	4.9	3.5	2.4	4.4	5.1	4.9	5.2	5.5
Nominal personal income		5.3	3.9	5.9	3.6	4.6	3.5	6.0	5.1	5.2	5.4
Real disposable income		2.6	0.7	1.9	0.7	16.3	-8.4	8.9	3.0	2.9	3.0
Personal saving rate	%	-0.2	-0.7	-1.1	-1.0	2.3	-1.0	0.7	0.7	1.0	1.0
Corp. profits, IVA & CCAdj.	% change	2.8	-21.0	-10.0	4.7	-7.2	2.9	-0.1	2.0	1.7	1.0
Profit share of GNP	%	9.7	9.0	8.7	8.7	8.5	8.5	8.4	8.3	8.2	8.2
Excluding FR Banks		9.4	8.7	8.4	8.4	8.2	8.2	8.1	8.0	8.0	7.9
Federal surpl./deficit	Bill. \$	253.3	277.0	276.8	280.4	44.3	260.9	189.5	205.6	226.5	233.1
State & local surpl./def.		63.2	63.1	40.3	41.3	36.3	44.4	43.5	44.6	44.8	47.4
Ex. social ins. funds		63.6	63.5	40.7	41.5	36.4	44.5	43.6	44.7	44.8	47.4
Gross natl. saving rate	%	18.5	18.0	17.4	17.5	17.4	17.1	17.6	17.7	18.1	18.2
Net natl. saving rate		6.6	6.0	5.1	5.2	5.0	4.7	5.2	5.3	5.6	5.6
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.6	2.0	3.2	3.1	1.3	1.3	2.0	1.7	1.8	1.8
Gross Domestic Purchases											
chn.-wt. price index		2.0	1.9	2.8	2.3	1.4	1.2	1.9	1.6	1.7	1.8
PCE chn.-wt. price index		1.8	1.9	3.3	2.7	1.5	1.1	1.4	1.7	1.8	1.8
Ex. food and energy		1.1	1.6	2.7	1.9	1.9	1.9	1.9	1.9	1.9	1.9
CPI		3.5	3.0	4.2	3.4	1.6	1.2	1.6	1.9	2.1	2.2
Ex. food and energy		2.5	2.4	3.1	2.6	2.5	2.5	2.5	2.5	2.5	2.5
ECI, hourly compensation ¹		3.8	3.5	4.6	4.3	4.3	4.2	4.1	4.1	4.1	4.1
Nonfarm business sector											
Output per hour		3.0	2.0	-0.2	2.9	1.5	3.6	3.1	2.8	2.7	2.8
Compensation per hour		6.2	6.6	5.2	5.8	5.3	5.2	5.3	4.9	4.9	4.9
Unit labor cost		3.2	4.5	5.4	2.9	3.8	1.6	2.2	2.1	2.1	2.1

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

May 9, 2001

Item	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	98Q4/ 97Q4	99Q4/ 98Q4	00Q4/ 99Q4
Real GDP	3.4	5.6	3.5	2.3	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	5.0	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	4.3
Personal cons. expenditures	2.8	3.3	3.7	3.7	3.4	4.1	5.0	2.1	3.0	3.3	3.7	3.0
Durables	0.3	1.7	0.7	1.1	0.6	1.0	1.8	-0.4	0.6	1.0	0.9	0.4
Nondurables	0.8	1.0	1.5	0.8	1.0	1.5	1.2	0.7	0.9	1.0	1.2	0.8
Services	1.7	0.5	1.6	1.8	1.8	1.6	2.0	1.8	1.5	1.4	1.7	1.8
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	1.4
Equipment & Software	0.6	1.5	1.3	1.4	1.7	0.9	1.9	1.7	0.6	1.4	1.3	1.0
Nonres. structures	-0.2	0.1	-0.1	-0.2	-0.2	0.3	0.6	0.1	0.4	0.2	-0.1	0.4
Residential structures	0.4	0.4	0.3	0.3	-0.1	0.0	0.1	0.1	-0.5	0.4	0.1	-0.1
Net exports	-1.0	0.1	-1.4	-1.4	-1.1	-0.4	-0.9	-1.0	-0.9	-1.1	-1.1	-0.9
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.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

May 9, 2001

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	2.0	0.7	1.5	3.4	3.3	3.3	3.5	3.7	3.4	1.9	3.5
Gross dom. purchases	1.6	0.5	1.0	2.2	3.6	4.2	4.0	4.1	3.7	4.3	1.8	4.0
Final sales	1.7	5.1	-0.1	1.1	4.2	1.8	3.1	2.3	3.8	3.6	2.5	2.7
Priv. dom. final purchases	1.7	2.7	0.1	1.2	3.8	2.0	3.2	2.2	3.1	4.3	1.9	2.6
Personal cons. expenditures	1.9	2.1	0.3	1.1	3.3	1.0	2.1	1.1	1.9	3.0	1.7	1.6
Durables	-0.3	0.9	-0.4	-0.2	0.4	0.0	0.2	0.0	0.2	0.4	0.2	0.1
Nondurables	0.2	0.5	0.0	0.3	0.8	0.2	0.5	0.3	0.5	0.8	0.4	0.4
Services	1.9	0.7	0.7	0.9	2.0	0.8	1.3	0.8	1.2	1.8	1.1	1.0
Business fixed investment	-0.0	0.4	-0.2	0.1	0.4	0.8	0.9	0.9	1.1	1.4	0.2	0.9
Equipment & Software	-0.4	-0.2	-0.5	-0.1	0.2	0.7	0.8	0.8	0.9	1.0	-0.1	0.8
Nonres. structures	0.3	0.6	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.4	0.3	0.2
Residential structures	-0.2	0.1	-0.0	0.0	0.1	0.1	0.1	0.1	0.1	-0.1	0.1	0.1
Net exports	-0.6	1.5	-0.4	-0.7	-0.1	-0.8	-0.6	-0.5	0.1	-0.9	0.1	-0.4
Exports	-0.7	-0.2	0.1	0.3	0.8	0.3	0.6	0.7	1.1	0.7	0.2	0.7
Imports	0.2	1.7	-0.5	-0.9	-0.9	-1.1	-1.3	-1.2	-1.0	-1.6	-0.2	-1.1
Government cons. & invest.	0.5	0.9	0.3	0.5	0.5	0.6	0.6	0.6	0.6	0.2	0.6	0.6
Federal	0.2	0.3	0.0	0.2	0.2	0.2	0.2	0.2	0.2	-0.1	0.2	0.2
Defense	0.3	0.2	-0.0	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	0.5	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.4
Change in bus. inventories	-0.6	-3.0	0.7	0.4	-0.7	1.6	0.2	1.3	-0.0	-0.2	-0.6	0.8
Nonfarm	-0.6	-2.9	0.7	0.4	-0.8	1.6	0.3	1.3	-0.0	-0.2	-0.7	0.8
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 ^a	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts ²	1827	2025	2110	2145	434	656	492	461	460	688	501	486	460	672	528	505
Outlays ²	1703	1789	1907	1939	449	444	431	464	482	467	495	494	486	483	476	510
Surplus/deficit ²	125	236	203	206	-15	212	60	-2	-22	221	7	-8	-27	189	52	-5
On-budget	1	87	36	33	-45	147	50	-14	-88	149	-10	-58	-54	114	31	-61
Off-budget	124	150	166	173	30	65	10	12	65	72	17	50	27	74	21	56
Surplus excluding deposit insurance	119	233	201	204	-18	211	60	-3	-23	220	6	-8	-27	188	52	-5
Means of financing																
Borrowing	-89	-223	-179	-199	-27	-190	-54	-25	24	-179	2	-10	7	-150	-46	-11
Cash decrease	-18	4	-8	0	39	-13	5	32	-7	-27	-5	15	15	-30	0	15
Other ³	-18	-18	-16	-7	4	-10	-12	-4	6	-14	-4	3	5	-9	-6	1
Cash operating balance, end of period	56	53	60	60	45	57	53	21	28	56	60	45	30	60	60	45
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	1837	2024	2091	2174	2012	2055	2089	2107	2140	2163	1955	2181	2139	2170	2205	2240
Expenditures	1735	1806	1871	1953	1776	1814	1836	1830	1862	1883	1911	1921	1950	1965	1978	2006
Consumption expenditures	464	489	506	537	479	499	490	489	507	511	516	521	537	543	549	554
Defense	306	320	331	347	311	326	320	322	333	333	336	338	347	350	353	355
Nondefense	158	168	174	190	168	173	170	167	174	177	180	182	190	193	196	199
Other spending	1270	1317	1366	1416	1297	1315	1346	1341	1355	1372	1395	1400	1413	1422	1429	1452
Current account surplus	103	218	220	221	236	241	253	277	278	280	44	261	190	206	227	233
Gross investment	94	104	112	117	101	106	104	113	112	112	114	115	117	118	120	121
Current and capital account surplus	9	114	108	103	134	135	149	164	167	168	-69	146	73	87	107	112
Fiscal indicators⁴																
High-employment (HEB) surplus/deficit	-68	6	42	83	30	18	36	69	86	112	-99	119	53	71	91	96
Change in HEB, percent of potential GDP	-8	-8	-4	-4	-1	.1	-.2	-.3	-.2	-.2	2	-2	.6	-.2	-.2	-0
Fiscal impetus (FI) percent, calendar year	5	2	8	12	-6	6	-2	.3	3	1	5	2	6	1	.8	1

I-25

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

2. OMB's April 2001 baseline surplus estimates are \$284 billion in FY2001 and \$283 billion in FY 2002. CBO's 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

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	5.3	-4.8	7.6	7.5	8.6	5.0	8.1	6.1	4.2
2002	4.6	-6.2	6.8	6.9	8.0	2.8	7.5	2.5	5.3
<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	3.0
2001:1	6.9	-0.3	8.6	8.8	9.3	9.1	8.6	7.0	5.4
2	4.3	-11.0	7.7	7.4	8.1	5.5	8.3	6.2	3.8
3	5.8	0.1	7.0	6.6	8.0	3.1	7.5	6.5	2.8
4	4.0	-8.4	6.5	6.4	7.9	1.9	7.2	4.0	4.7
2002:1	5.2	-2.4	6.7	6.8	8.0	3.2	7.5	2.5	5.4
2	4.2	-8.0	6.6	6.7	7.8	2.6	7.3	2.4	5.1
3	4.6	-6.0	6.6	6.7	7.7	2.5	7.3	2.4	5.4
4	4.2	-9.0	6.6	6.7	7.6	2.7	7.2	2.4	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 5.3 percent in 2001 and 4.6 percent in 2002.

3. On a monthly average basis, federal debt is projected to grow -5.1 percent in 2001 and -6.1 percent in 2002.

4. On a monthly average basis, nonfederal debt is projected to grow 7.7 percent in 2001 and 6.8 percent in 2002.

Category					Seasonally adjusted annual rates									
	Calendar year				2000		2001				2002			
	1999	2000	2001	2002	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	978.0	724.7	878.2	799.0	704.3	484.9	1236.9	656.6	957.1	662.1	907.2	728.9	822.7	737.2
2 Net equity issuance	-143.5	-153.1	-101.3	-95.3	-75.6	-350.8	-34.0	-141.0	-136.0	-94.0	-96.0	-95.0	-95.0	-95.0
3 Net debt issuance	1121.5	877.8	979.4	894.3	779.9	835.7	1270.9	797.6	1093.1	756.1	1003.2	823.9	917.7	832.2
<i>Borrowing sectors</i>														
<i>Nonfinancial business</i>														
4 Financing gap ¹	172.1	225.9	201.2	290.3	238.6	259.4	194.0	193.6	214.9	202.4	256.9	270.8	309.7	323.7
5 Net equity issuance	-143.5	-153.1	-101.3	-95.3	-75.6	-350.8	-34.0	-141.0	-136.0	-94.0	-96.0	-95.0	-95.0	-95.0
6 Credit market borrowing	602.1	574.0	528.3	529.3	423.5	533.9	560.7	550.7	507.3	494.5	525.9	523.4	536.0	531.7
<i>Households</i>														
7 Net borrowing ²	538.2	572.5	537.3	531.5	552.2	576.0	630.9	540.1	496.1	482.1	521.5	522.9	536.0	545.7
8 Home mortgages	415.7	401.9	430.7	437.0	408.5	400.2	467.2	415.2	418.2	422.2	436.2	432.2	439.2	440.2
9 Consumer credit	94.4	134.7	77.8	46.0	122.9	134.2	142.0	88.2	50.2	30.8	53.5	43.9	42.0	44.7
10 Debt/DPI (percent) ³	95.0	98.3	101.3	103.2	98.6	100.1	101.0	102.1	99.7	103.3	102.4	103.0	103.5	104.0
<i>State and local governments</i>														
11 Net borrowing	52.3	27.1	77.7	33.4	23.6	60.3	90.1	80.4	85.8	54.4	33.4	33.4	33.4	33.4
12 Current surplus ⁴	196.8	221.0	217.6	231.2	225.6	229.2	214.3	217.3	214.3	224.7	226.0	229.4	232.0	237.2
<i>Federal government</i>														
13 Net borrowing	-71.2	-295.9	-163.8	-199.9	-219.5	-334.5	-10.8	-373.6	3.9	-274.9	-77.6	-255.7	-187.6	-278.6
14 Net borrowing (quarterly, n.s.a.)	-71.2	-295.9	-163.8	-199.9	-53.8	-25.0	23.7	-179.5	2.1	-10.1	7.0	-150.0	-45.8	-11.1
15 Unified deficit (quarterly, n.s.a.)	-158.3	-254.8	-196.9	-209.2	-60.4	2.3	22.5	-220.8	-6.6	8.1	26.6	-188.6	-52.1	4.9
<i>Depository institutions</i>														
16 Funds supplied	404.3	446.5	307.7	308.9	454.3	274.5	403.8	269.0	277.8	280.5	285.7	302.7	323.7	323.7
<i>Memo (percentage of GDP)</i>														
17 Domestic nonfinancial debt ⁵	181.4	179.6	181.4	181.7	179.5	180.3	180.6	181.4	182.4	182.5	182.2	182.1	181.7	181.2
18 Domestic nonfinancial borrowing	12.1	8.8	9.4	8.2	7.8	8.3	12.4	7.7	10.5	7.2	9.4	7.6	8.4	7.5
19 Federal government ⁶	-0.8	-3.0	-1.6	-1.8	-2.2	-3.3	-0.1	-3.6	0.0	-2.6	-0.7	-2.4	-1.7	-2.5
20 Nonfederal	12.8	11.8	11.0	10.1	10.0	11.6	12.5	11.3	10.5	9.8	10.1	10.0	10.1	10.0

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.

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 GDI

6. Excludes government-insured mortgage pool securities.

International Developments

Overview

Economic growth abroad appears to have slowed further, as plunging global demand for high-tech products and softening domestic demand in many countries has weighed on activity. Relative to the March Greenbook, we have cut our projections of foreign growth for the remainder of 2001. These markdowns have been spread across all major regions but have been particularly large for the emerging Asian economies, many of which have faced a sharp drop in external demand. We now expect that total foreign growth will trough at 1-3/4 percent (annual rate) during the first two quarters of this year. However, the projected strengthening of the U.S. economy, lower oil prices next year, and stimulative macroeconomic policies abroad should allow foreign growth to recover to about 3 percent during the second half of 2001 and to 3-3/4 percent during 2002.

Foreign consumer price inflation declined sharply during the first quarter, moving in line with the weaker pace of activity, a step down in the level of oil prices, and a sharp--and likely to be reversed--drop in Mexican food prices. Inflation is expected to move back to around 3 percent during the second half of this year and through 2002.

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	5.6	2.9	1.7	1.7	2.9	3.7
<i>March GB</i>	5.5	2.6	1.6	2.7	3.6	3.7
Foreign CPI	2.1	3.5	1.4	2.5	3.0	2.7
<i>March GB</i>	2.1	3.6	2.0	2.7	3.0	2.8

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

The numbers for foreign output reported in the table are calculated with weights that are based on shares of U.S. *total* exports. (The March Greenbook output figures are recalculated.) In previous Greenbooks, weights were based on shares of U.S. *nonagricultural* exports. The change has only a small effect on aggregate measures of foreign growth.

Relative to the March Greenbook, we have shifted up the starting point for the broad real dollar, as the exchange value of the dollar in the second quarter has been higher than what we had projected in the previous forecast. We have also flattened the dollar's path of depreciation. The dollar is now projected to edge down about 1-1/2 percent over the forecast period but to remain strong.

dollar and a modest acceleration of non-oil commodity prices. Prices of exported core goods are projected to be about flat through most of this year and increase at an average rate of about 1 percent next year, with declines in energy-related products eventually more than offset by modest increases in the prices of other exported goods.

Selected Trade Prices

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

Trade category	2000		Projection			
	Q3	Q4	2001			2002
			Q1	Q2	H2	
<i>Exports</i>						
Goods (core)	.1	1.1	-.0	0.3	.0	1.1
<i>Imports</i>						
Non-oil goods (core)	1.5	1.0	2.2	-2.3	0.6	2.2
Oil (dollars per barrel)	28.73	29.11	25.26	23.89	24.64	22.18

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

U.S. international transactions. After growing robustly during the first three quarters of 2000, real imports of goods and services turned down slightly in the fourth quarter of last year and are estimated (based largely on trade data for January and February) to have plunged more than 10 percent (a.r.) in the first quarter. Despite our estimate of a partial rebound in most trade categories in March, the gap between our estimate of first-quarter real imports and a projection based on historical relationships is the largest in a decade. The drop in imports was broadly based, with the steepest declines recorded in high-tech products and other machinery, consumer goods, and automotive products. For the second quarter, we expect that the recent strength of U.S. automobile production will push up imports of automotive products and that the drop in imports of consumer goods will begin to be reversed as inventory positions are adjusted. However, with U.S. investment spending remaining weak, imports of capital goods are likely to remain at low levels. On balance, we expect that imports will pick up only a bit during the second quarter. Imports are projected to move up more strongly during the second half of this year and then to expand at an average rate of nearly 8 percent next year, with support from strengthening U.S. GDP growth. The lagged impact of the dollar's appreciation over the past six quarters will allow relative prices to provide some slight stimulus to imports through the middle of next year.

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 6-1/2 percent in the fourth quarter and are estimated to have declined another 2 percent in the first quarter. The first-quarter drop in exports was widespread across categories, with the largest declines recorded in high-tech and automotive products. In contrast to what has occurred with imports, recent export performance has been more or less in line with historical relationships. Factors holding down export growth in 2001 include lagged effects of dollar appreciation and the cyclical slowing of foreign growth below potential. However, as in our previous forecast, exports are projected to accelerate in 2002, as foreign economic growth rebounds. All told, we expect exports to expand about 2 percent this year and 6-1/2 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	-6.4	-2.0	.6	4.9	6.5
<i>March GB</i>	<i>13.9</i>	<i>-6.9</i>	<i>-.8</i>	<i>3.5</i>	<i>7.1</i>	<i>8.1</i>
Real imports	17.0	-1.2	-10.8	3.2	6.5	7.9
<i>March GB</i>	<i>17.0</i>	<i>-.7</i>	<i>0.7</i>	<i>5.1</i>	<i>6.2</i>	<i>8.2</i>

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

The U.S. current account deficit as a share of GDP is expected to decline in the first half of this year to 4 percent (compared with 4-1/2 percent in the second half of last year), owing to the sharp drop in imports. We expect the share to move back up to 4-1/2 percent in the second half of 2001 and then to rise to nearly 5 percent by the end of 2002. The projected evolution of the current account deficit is broadly in line with changes in the goods and services account, but the net outflow of investment income also increases as the U.S. net liability position expands.

Alternative simulations. In our baseline forecast, we project that the real value of the U.S. dollar will remain roughly stable against the currencies of the major industrial countries. In this section, we consider an alternative scenario in which heightened confidence in the prospects for major industrial countries (excluding Japan) causes their currencies to appreciate against the dollar. In particular, the shock consists of an exogenous decline in the risk premium on euro- and sterling-denominated assets that induces an immediate 15 percent real

appreciation of these currencies against the dollar in 2001:Q3. There is also a decline in the risk premium on Canadian assets that results in an immediate 5 percent appreciation of the Canadian dollar in real terms.

In this scenario, the broad real value of the dollar declines about 6 percent initially. Afterwards, the path of the real exchange rate depends on the response of monetary policy at home and abroad. We consider two cases. The first case holds the real federal funds rate unchanged from its baseline path, while the second case assumes that policy is adjusted according to a Taylor rule. (In both cases, the major foreign central banks adjust their policy rates according to a Taylor rule.) When U.S. monetary policy does not respond, annual real GDP growth is 1/4 percentage point higher in 2002:H1 and a little more than 1/2 percentage point higher in 2002:H2 than in the baseline. Rising import prices and higher rates of resource utilization put upward pressure on inflation; the core PCE inflation rate rises about 1/4 percentage point in 2002. When monetary policy does respond, the initial effects on output and inflation are similar to those in the first case, but eventually real interest rates rise noticeably, restraining spending and inducing an appreciation of the real exchange rate that partially offsets the effects of the shock. Real GDP growth in 2002:H2 is only about 1/4 percentage point above baseline, roughly half the magnitude of the response under a fixed real funds rate, as the Taylor rule prescribes a 30 basis point rise in the real funds rate by year-end.

**Alternative Simulation:
Weaker Dollar**

(Percent change from previous period, annual rate)

Indicator and simulation	2001		2002	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	1.3	2.4	3.3	3.6
Weaker dollar				
Unchanged real funds rate	1.3	2.5	3.6	4.1
Taylor rule	1.3	2.5	3.5	3.9
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	2.3	1.9	1.9	1.9
Weaker dollar				
Unchanged real funds rate	2.3	2.0	2.2	2.2
Taylor rule	2.3	2.0	2.2	2.1

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	1.1	4.8	4.2	2.3	3.7
Industrial Countries	4.0	1.9	2.5	3.6	2.2	3.8	3.4	1.7	3.0
of which:									
Canada	5.5	1.4	2.4	4.8	3.2	4.9	4.0	1.9	3.5
Japan	1.7	2.6	2.9	0.7	-1.4	0.4	2.8	0.1	1.1
United Kingdom	4.6	1.9	2.9	3.5	2.0	3.2	2.6	1.9	2.6
Euro-12	3.0	1.5	1.6	3.0	2.0	3.3	3.0	2.0	2.7
Germany	2.9	1.1	1.3	1.6	1.0	2.5	2.6	1.6	2.5
Developing Countries	6.8	3.2	6.2	5.1	-0.2	6.3	5.3	3.0	4.6
Asia	8.8	7.2	7.0	4.7	-2.0	8.8	6.1	2.9	5.0
Korea	9.1	7.5	6.4	3.4	-5.2	13.8	5.2	2.4	4.6
China	16.3	12.6	9.2	8.2	9.5	6.2	7.4	7.5	7.7
Latin America	5.4	-3.7	6.0	6.2	1.2	4.3	4.7	2.9	4.3
Mexico	5.2	-7.1	7.1	6.7	2.8	5.5	5.2	3.0	4.7
Brazil	10.2	-0.9	3.5	2.4	-0.8	3.4	4.3	2.7	3.0
CONSUMER PRICES (2)									

Industrial Countries	1.1	1.3	1.4	1.5	1.0	1.1	1.9	1.2	1.2
of which:									
Canada	-0.0	2.0	2.0	1.0	1.1	2.4	3.1	1.6	1.7
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	2.0	1.7
Germany	2.8	1.4	1.3	1.5	0.3	1.1	2.5	2.1	1.3
Developing Countries	22.9	16.9	11.1	6.8	9.1	4.6	4.2	4.2	4.8
Asia	10.8	6.4	4.8	2.8	4.4	0.2	1.9	2.6	3.7
Korea	5.8	4.3	5.0	4.9	5.9	1.2	2.8	4.0	3.0
China	26.9	11.1	6.8	0.9	-1.2	-0.9	0.9	2.1	3.9
Latin America	54.1	42.0	25.9	15.6	15.5	12.6	8.5	6.2	6.5
Mexico	7.0	48.8	28.2	17.2	17.5	13.6	8.9	6.5	6.7
Brazil	1196.9	21.5	9.6	4.7	1.6	8.3	6.2	4.8	5.0

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1. Foreign GDP aggregates calculated using shares of U.S. 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 Projected				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	----- Quarterly changes at an annual rate -----											
Total foreign	7.0	4.1	4.1	1.7	1.7	1.7	2.5	3.2	3.5	3.6	3.7	3.8
Industrial Countries	5.2	3.5	2.5	2.5	1.8	1.2	1.7	2.3	2.9	2.9	3.0	3.0
of which:												
Canada	4.8	4.3	4.5	2.6	1.6	1.1	2.2	2.8	3.5	3.5	3.5	3.5
Japan	10.0	0.9	-2.4	3.0	2.0	-0.8	-1.0	0.1	1.0	1.0	1.3	1.3
United Kingdom	1.6	3.6	3.4	1.6	1.2	2.0	2.0	2.4	2.5	2.7	2.7	2.7
Euro-12	3.9	3.1	2.2	2.6	2.0	1.7	2.1	2.3	2.7	2.7	2.7	2.8
Germany	3.9	4.8	1.1	0.8	1.5	1.1	1.7	2.0	2.4	2.5	2.5	2.6
Developing Countries	9.9	5.0	6.4	0.3	1.5	2.4	3.7	4.4	4.4	4.6	4.8	4.8
Asia	11.0	4.4	6.6	2.5	1.3	2.0	3.7	4.5	4.6	4.9	5.3	5.3
Korea	6.6	6.4	9.8	-1.7	1.5	2.3	2.5	3.5	4.0	4.5	5.0	5.0
China	9.6	1.9	11.0	7.5	12.3	2.0	8.0	8.0	6.5	6.5	9.0	9.0
Latin America	9.4	5.5	6.1	-1.8	1.3	2.6	3.5	4.3	4.3	4.3	4.3	4.3
Mexico	11.1	6.4	6.7	-3.0	1.0	2.5	3.8	4.8	4.8	4.8	4.8	4.8
Brazil	3.8	3.9	8.9	0.9	2.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
CONSUMER PRICES (2)	----- Four-quarter changes -----											
Industrial Countries	1.6	1.5	1.7	1.9	1.8	1.8	1.4	1.2	1.1	1.1	1.2	1.2
of which:												
Canada	2.7	2.4	2.7	3.1	2.8	2.5	2.0	1.6	1.7	1.8	1.8	1.7
Japan	-0.8	-0.9	-1.1	-1.1	-0.6	-0.7	-0.8	-0.8	-1.1	-0.7	-0.5	-0.4
United Kingdom (3)	2.1	2.1	2.1	2.1	1.9	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	2.5	2.8	2.3	2.0	1.8	1.6	1.6	1.7
Germany	2.0	1.7	2.2	2.5	2.4	3.0	2.5	2.1	1.7	1.2	1.3	1.3
Developing Countries	3.9	3.8	4.0	4.2	3.9	4.1	4.1	4.2	5.2	5.2	5.1	4.8
Asia	0.5	0.8	1.4	1.9	1.9	2.6	2.7	2.6	3.4	3.7	3.7	3.7
Korea	1.5	1.5	3.2	2.8	4.2	5.1	4.0	4.0	3.8	3.2	3.0	3.0
China	0.1	0.2	0.3	0.9	0.7	1.8	2.0	2.1	2.8	3.6	3.7	3.9
Latin America	10.0	9.1	8.7	8.5	7.2	6.8	6.3	6.2	7.6	7.4	7.0	6.5
Mexico	10.6	9.6	9.0	8.9	7.5	6.9	6.6	6.5	8.1	7.8	7.3	6.7
Brazil	7.8	6.6	7.7	6.2	6.2	7.0	5.2	4.8	5.3	5.5	5.2	5.0

1. Foreign GDP aggregates calculated using shares of U.S. 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	Projected 2002
NIPA REAL EXPORTS and IMPORTS									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.3	0.4	-0.2	-0.8	-1.1	-1.1	-0.9	0.1	-0.4
Exports of G&S	1.0	1.0	1.1	1.0	0.3	0.5	0.7	0.2	0.7
Imports of G&S	-1.3	-0.6	-1.3	-1.7	-1.4	-1.5	-1.6	-0.2	-1.1
Percentage change, Q4/Q4									
Exports of G&S	10.5	9.7	9.8	8.5	2.2	4.3	6.7	2.1	6.5
Services	8.2	8.8	8.9	1.4	2.8	0.2	2.7	2.4	5.7
Computers	27.4	39.1	21.6	25.8	7.0	13.3	23.7	12.2	29.6
Semiconductors	66.9	79.6	44.6	21.3	9.3	34.4	26.3	-1.0	32.1
Other Goods 1/	7.9	4.6	7.3	9.8	1.2	3.7	5.8	1.1	2.0
Imports of G&S	12.2	5.0	11.2	14.3	11.2	12.0	11.3	1.1	7.9
Services	1.8	5.5	5.3	14.0	9.5	2.1	13.2	3.5	5.0
Oil	-0.2	2.4	7.8	3.9	4.6	-3.9	12.6	-0.7	3.0
Computers	39.0	35.0	17.8	33.0	26.7	25.0	14.7	-0.0	28.0
Semiconductors	54.5	92.4	56.7	32.9	-7.3	34.0	23.4	-6.3	32.0
Other Goods 2/	12.3	-1.2	10.5	12.7	11.6	13.9	10.0	1.2	6.6
Billions of chained 1996 dollars									
Net Goods & Services	-86.5	-78.4	-89.0	-113.3	-221.0	-322.4	-412.4	-420.6	-478.1
Exports of G&S	732.8	808.2	874.2	981.5	1003.6	1033.0	1126.3	1144.0	1201.1
Imports of G&S	819.4	886.6	963.1	1094.8	1224.6	1355.3	1538.7	1564.6	1679.2
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-118.6	-109.5	-123.3	-140.5	-217.1	-331.5	-435.8	-443.5	-526.1
Current Acct as Percent of GDP	-1.7	-1.5	-1.6	-1.7	-2.5	-3.6	-4.4	-4.3	-4.8
Net Goods & Services (BOP)	-97.0	-96.0	-102.1	-105.9	-166.9	-265.0	-368.9	-364.8	-420.4
Investment Income, Net	21.1	25.0	23.4	11.1	-1.0	-13.1	-8.1	-18.8	-44.9
Direct, Net	55.2	64.9	69.4	71.9	67.7	62.7	83.8	90.1	79.0
Portfolio, Net	-34.1	-39.9	-46.0	-60.9	-68.8	-75.8	-91.9	-108.9	-123.9
Other Income & Transfers, Net	-42.7	-38.6	-44.6	-45.7	-49.2	-53.4	-58.8	-59.8	-60.8

1. Merchandise exports excluding computers, and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1997				1998				1999			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA 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
Computers	60.0	44.5	25.7	-14.0	-7.5	7.6	14.7	14.7	5.2	26.7	22.2	1.2
Semiconductors	50.3	22.1	19.6	-1.4	2.1	-13.6	18.9	35.9	38.7	39.1	37.8	22.5
Other Goods 1/	8.4	19.2	10.9	1.5	-0.3	-7.2	-2.3	15.9	-13.2	3.7	13.9	12.8
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.												
US 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 computers, and semiconductors.
2. Merchandise imports excluding oil, computers, and semiconductors.

May 9, 2001

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2000				2001				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-0.9	-1.0	-0.9	-0.5	1.5	-0.4	-0.7	-0.1	-0.8	-0.6	-0.5	0.1
Exports of G&S	0.7	1.5	1.5	-0.7	-0.2	0.1	0.3	0.8	0.3	0.6	0.7	1.1
Imports of G&S	-1.6	-2.5	-2.4	0.2	1.7	-0.5	-0.9	-0.9	-1.1	-1.3	-1.2	-1.0
Percentage change from previous period, s.a.a.r.												
Exports of G&S	6.3	14.3	13.9	-6.4	-2.0	0.6	2.4	7.4	2.6	6.1	6.8	10.7
Services	6.9	3.5	-2.8	3.4	1.8	1.7	2.1	4.1	5.2	5.8	5.9	5.9
Computers	44.6	44.9	27.5	-12.4	1.2	6.1	17.0	26.3	28.7	29.9	29.9	29.9
Semiconductors	20.7	71.2	38.6	-11.0	-20.9	-4.0	8.3	17.0	31.2	32.4	32.4	32.4
Other Goods 1/	2.5	13.5	19.0	-9.6	-1.6	0.1	0.6	5.5	-2.9	1.4	2.2	7.7
Imports of G&S	12.0	18.6	17.0	-1.2	-10.8	3.2	6.6	6.4	7.7	9.1	8.3	6.6
Services	16.6	10.6	22.3	4.0	-2.6	7.5	3.7	5.6	5.3	4.6	4.9	5.2
Oil	30.3	35.3	-4.9	-4.3	19.0	-10.7	12.5	-18.7	-3.0	21.9	11.2	-14.2
Computers	2.8	44.5	28.7	-9.6	-22.6	-0.0	10.4	17.0	26.3	28.6	28.6	28.6
Semiconductors	20.7	33.5	88.9	-23.8	-36.7	-4.0	8.2	17.0	31.1	32.3	32.3	32.3
Other Goods 2/	9.7	15.8	15.1	0.1	-13.2	4.5	6.3	8.5	7.2	6.5	6.3	6.4
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-376.8	-403.4	-427.7	-441.7	-402.6	-413.0	-431.2	-435.5	-458.2	-476.6	-490.5	-487.1
Exports of G&S	1084.8	1121.8	1158.8	1139.8	1134.2	1135.9	1142.7	1163.2	1170.6	1187.9	1207.5	1238.5
Imports of G&S	1461.7	1525.2	1586.4	1581.5	1536.8	1548.9	1573.9	1598.7	1628.8	1664.5	1698.0	1725.6
Billions of dollars, s.a.a.r.												
CURRENT ACCOUNT BALANCE	-407.1	-420.9	-452.4	-462.6	-420.4	-420.8	-453.0	-479.7	-496.0	-518.5	-536.5	-553.4
Current Account as % of GDP	-4.2	-4.2	-4.5	-4.6	-4.1	-4.1	-4.4	-4.6	-4.6	-4.8	-4.9	-5.0
Net Goods & Services (BOP)	-341.0	-355.0	-382.5	-397.0	-357.8	-350.7	-372.7	-378.1	-399.3	-417.8	-432.5	-431.9
Investment Income, Net	-12.2	-11.1	-12.7	3.5	-6.6	-13.5	-23.8	-31.5	-39.6	-43.0	-46.4	-50.4
Direct, Net	68.1	75.9	86.1	105.0	96.1	93.1	87.4	83.7	79.4	79.7	79.3	77.7
Portfolio, Net	-80.3	-87.0	-98.9	-101.5	-102.6	-106.6	-111.1	-115.3	-119.1	-122.7	-125.7	-128.0
Other Inc. & Transfers, Net	-53.8	-54.9	-57.2	-69.1	-56.1	-56.6	-56.6	-70.1	-57.1	-57.6	-57.6	-71.1

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

Part 2

May 9, 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

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Recent Developments

a depressed level, while orders for medium trucks fell further. Backlogs have changed little on balance since late last year.

The overhang in inventories of motor vehicles that developed late last year was largely worked off by the end of the first quarter. However, with production up further in April and with sales down, days' supply increased a bit, especially for light trucks. Current assembly schedules point to little change in production in

Production of Domestic Autos and Trucks

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

Item	2000	2001		2001				
	Q4	Q1	Q2 ¹	Feb.	Mar.	Apr. ²	May ¹	June ¹
U.S. production	11.6	10.8	11.7	10.5	11.4	11.6	11.5	12.1
Autos	5.0	4.9	5.0	4.8	5.1	5.0	4.9	5.1
Trucks	6.6	5.9	6.7	5.8	6.3	6.6	6.6	7.0
Days' supply ³	72.3	60.7	n.a.	60.9	61.1	64.4	n.a.	n.a.
Autos	60.6	49.8	n.a.	49.3	52.0	52.4	n.a.	n.a.
Light trucks ⁴	82.8	70.5	n.a.	71.9	68.8	75.4	n.a.	n.a.
Inventories ⁵	3.13	2.80	n.a.	2.87	2.80	2.81	n.a.	n.a.

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

1. Production rates reflect manufacturers' schedules for Q2.

2. Staff estimates.

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

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

5. End of period stocks and excludes medium and heavy (class 3-8) trucks.

n.a. Not available.

May and a rise in June. However, with sales expected to ease further, automakers likely will trim these plans some. Nonetheless, because of commitments to parts suppliers, cutbacks in production could be insufficient to keep inventories in line with sales. Consequently, the re-emergence of a moderate inventory overhang by the end of the quarter, particularly for light trucks, cannot be ruled out; indeed, days' supply of light trucks in April—at 75 days—already was a bit above the industry's target range of 65 to 70 days.

State and Local Government Finance

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

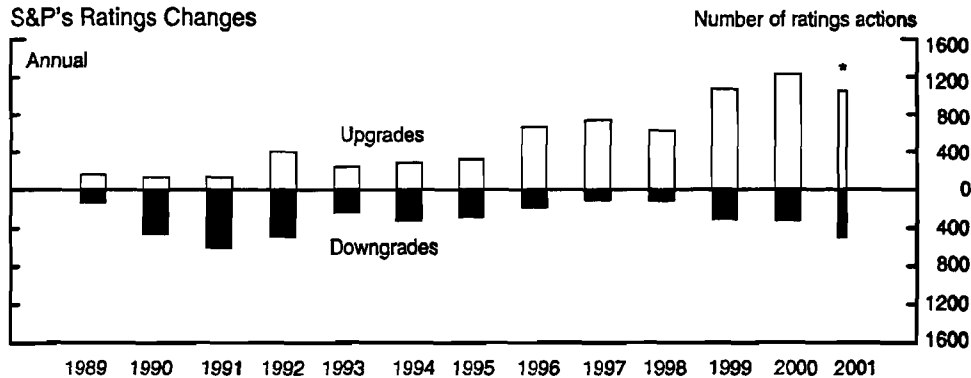
	1999	2000	2000		2001		
			H2	Q4	Q1	Mar.	Apr. ^e
Long-term ¹	18.0	15.0	15.9	17.2	18.5	24.5	10.5
Refundings ²	4.5	2.2	2.2	2.4	6.0	9.1	2.6
New capital	13.5	12.9	13.6	14.7	12.5	15.4	7.9
Short-term	2.7	2.8	3.0	2.5	2.6	2.0	0.1
Total tax-exempt	20.6	17.9	18.9	19.7	21.2	26.5	11.5
Total taxable	1.1	0.7	0.8	0.8	1.0	1.7	0.3

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

e. Staff estimate.

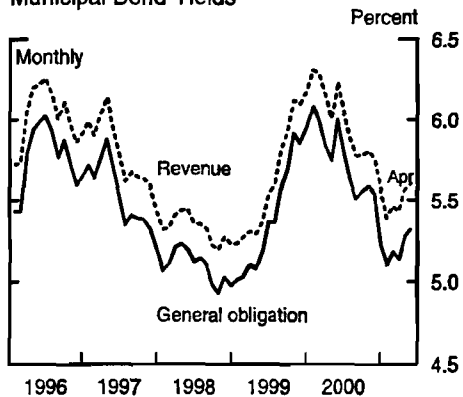
S&P's Ratings Changes



Source. S&P's Credit Week Municipal.

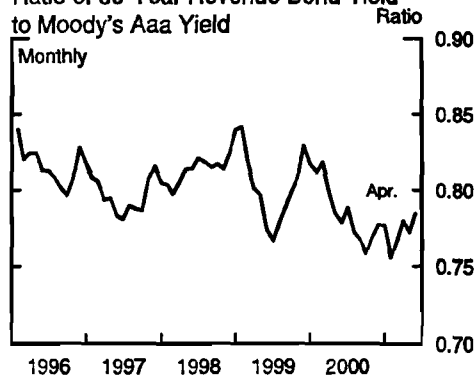
* Data through Apr. 19 at an annual rate.

Municipal Bond Yields



Note. Average of weekly data.

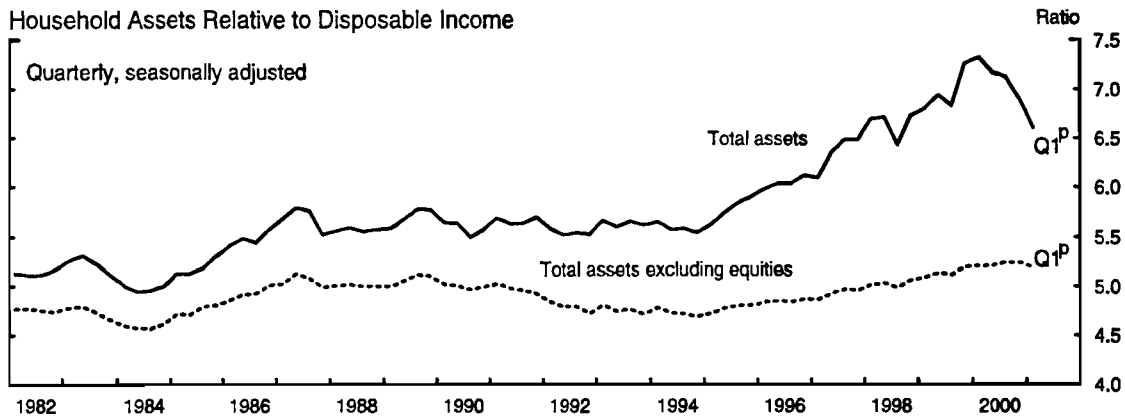
Ratio of 30-Year Revenue Bond Yield to Moody's Aaa Yield



Note. Average of weekly data.

Household Assets

Household Assets Relative to Disposable Income



p. Staff projection.

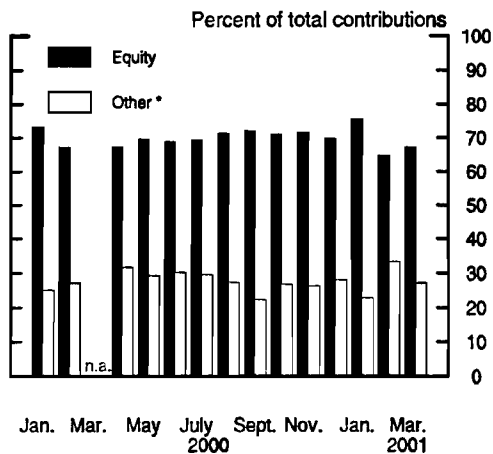
Net Flows into Long-Term Mutual Funds
(Excluding reinvested dividends; billions of dollars, monthly rates.)

	1998	1999	2000	2001 Q1	2001 Feb.	2001 Mar.	2001 Apr. ^e	Assets Mar.
Total long-term funds	20.2	14.2	18.4	9.6	6.7	-13.0	16.9	4,600
Equity funds	13.2	15.7	25.1	0.5	-3.3	-20.6	13.8	3,408
Domestic	12.6	14.8	21.2	2.3	1.2	-15.7	15.8	2,940
Capital appreciation	7.1	13.5	25.5	0.4	-3.0	-14.2	9.4	1,783
Total return	5.5	1.4	-4.3	1.9	4.2	-1.5	6.3	1,156
International	0.6	0.9	3.9	-1.8	-4.5	-4.9	-2.0	468
Hybrid funds	0.9	-1.0	-2.6	0.6	1.2	-0.4	0.3	334
Bond funds	6.2	-0.5	-4.0	8.5	8.8	8.0	2.7	859
International	-0.1	-0.2	-0.2	0.1	0.3	-0.2	-0.2	21
High-yield	1.1	-0.2	-1.0	1.7	1.1	-0.5	0.4	98
Other taxable	3.9	1.0	-1.6	5.4	5.6	7.6	3.3	455
Municipals	1.3	-1.0	-1.2	1.4	1.9	1.0	-0.8	286

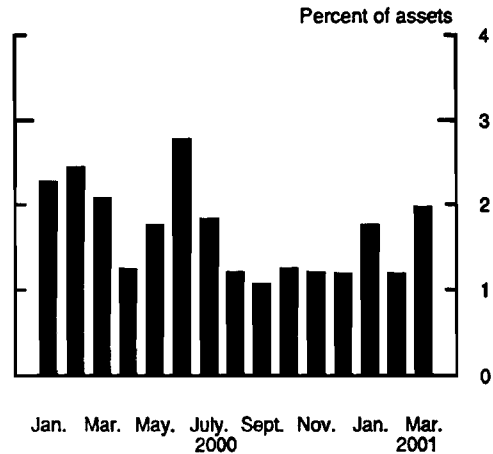
e. Staff estimates based on confidential ICI weekly data.

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.

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Supplemental Notes

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

	2000 Sept.	2000 Oct.	2000 Nov.	2000 Dec.	2001 Jan.	2001 Feb.	2001 Mar.	2001 Apr.	2001 May (p)
Indexes of consumer sentiment (Feb. 1966=100)									
Composite of current and expected conditions	106.8	105.8	107.6	98.4	94.7	90.6	91.5	88.4	92.6
Current conditions	112.0	113.6	116.9	110.5	107.7	105.8	103.4	98.0	102.1
Expected conditions	103.4	100.7	101.6	90.7	86.4	80.8	83.9	82.2	86.5

Personal financial situation									
Now compared with 12 months ago*	124	129	133	126	123	122	119	110	114
Expected in 12 months*	132	132	137	131	126	129	131	134	129
Expected business conditions									
Next 12 months*	149	143	142	121	106	93	97	92	102
Next 5 years*	136	132	131	113	115	102	109	104	116
Appraisal of buying conditions									
Cars	145	144	149	146	133	137	146	129	135
Large household appliances*	167	166	170	161	157	152	148	143	151
Houses	144	134	152	139	149	149	148	144	156
Willingness to use credit									
Willingness to use savings	41	43	41	42	33	47	37	34	43
Expected unemployment change - next 12 months									
Prob. household will lose a job - next 5 years	70	62	72	67	55	66	52	55	59
Expected unemployment change - next 12 months	111	117	114	127	139	143	143	146	138
Expected inflation - next 12 months									
Mean	21	19	20	19	20	23	22	21	22
Median	3.7	4.1	3.8	3.4	3.8	3.2	3.3	3.7	3.8
Expected inflation - next 5 to 10 years	2.9	3.2	2.9	2.8	3.0	2.8	2.8	3.1	3.1
Mean	3.6	3.7	3.6	3.7	3.5	3.6	3.6	3.6	3.4
Median	3.0	3.0	2.9	3.0	2.9	3.0	3.0	3.1	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.