

## **Part 1**

September 18, 2002

---

## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

---

### **Summary and Outlook**

Confidential (FR) Class II FOMC

---

September 18, 2002

## **Summary and Outlook**

---

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

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

Measure	2002:Q3		2002:Q4	
	Aug. GB	Sept. GB	Aug. GB	Sept. GB
<b>Real GDP</b>	<b>2.7</b>	<b>3.2</b>	<b>2.2</b>	<b>2.0</b>
Private domestic final purchases	2.7	4.2	1.2	.5
Personal consumption expenditures	3.7	4.8	1.2	1.1
Residential investment	-2.8	-1.5	-4.2	-3.6
Business fixed investment	-.9	2.6	3.3	-1.6
Government outlays for consumption and investment	3.4	3.3	3.5	3.2
	Contribution to growth (percentage points)			
Inventory investment	.0	-.6	.3	.9
Net exports	-.3	-.4	.2	.0

release. A larger accumulation of nonfarm inventories and greater strength in net exports account for most of this expected revision. In the current quarter, spending indicators have come in stronger than we anticipated in the August Greenbook, most notably consumption spending and orders for durable goods. But industrial production outside motor vehicles leveled off over the summer, and firms still have not added any substantial number of workers, on net, to their payrolls. Our projection for real GDP to rise at an annual rate of 3-1/4 percent this quarter balances these considerations and implies that productivity will increase at an annual rate of about 4-1/4 percent.

Personal consumption expenditures have been strong this quarter, especially for motor vehicles. Consumers responded vigorously to the motor vehicle industry's zero percent financing incentives, and light vehicle sales averaged an annual pace of more than 18-1/4 million units in July and August. The manufacturers boosted production sharply to meet this demand, and that increase has been sufficient in itself to contribute 1 percentage point (annual rate) to GDP growth in the current quarter. Makers have now extended the incentives to 2003 models, though at somewhat less generous levels; we expect light vehicle sales to ease off in September but to remain at a very solid pace—near 17 million units—through year-end. The motor vehicle companies apparently expect a similar stepdown in sales, and they have scheduled lower production in the fourth quarter; that reduction is expected to hold down GDP growth 1 percentage point next quarter—a key factor explaining our projection that real GDP growth will slow to about 2 percent in that period.

Measure	2003		2004
	H1	H2	
<b>Real GDP</b>	<b>3.0</b>	<b>3.5</b>	<b>3.8</b>
Previous	3.3	3.7	--
Final sales	2.6	3.6	3.8
Previous	2.7	3.5	--
PCE	2.4	2.6	3.1
Previous	2.4	2.6	--
Residential investment	1.1	2.1	4.2
Previous	-.8	-.1	--
BFI	7.3	10.4	10.5
Previous	8.4	10.8	--
Government purchases	2.8	2.9	2.9
Previous	3.0	2.8	--
Exports	6.3	8.8	8.1
Previous	7.0	9.6	--
Imports	7.6	6.2	7.6
Previous	7.6	7.0	--
	Contribution to growth, percentage points		
Inventory change	.5	.0	.0
Previous	.6	.2	--
Net exports	-.5	.0	-.3
Previous	-.4	-.1	--

than this year's increase. In 2004, with employment rising more rapidly and the next phase of income-tax rate reductions coming into effect, we are looking for PCE growth to step up to about 3 percent.

Low mortgage interest rates have sustained spending on residential investment despite the reduction in economic growth and the decline in wealth, and we expect this situation to continue over the forecast period. Indeed, we project both the number of housing starts and the level of real expenditures on residential construction to edge higher over the next two years.

project that inventory investment will be a roughly neutral factor for the growth of output in 2004.

**Government spending.** We expect federal government expenditures in the second half of this year to increase at an annual rate of more than 5 percent, reflecting greater spending in both the defense and nondefense areas, much of it relating to security. But the step-up in security spending should be largely in place by the end of this year, and we expect federal spending in 2003 and 2004 to rise 3 percent and 2-1/4 percent, respectively. By contrast, spending by state and local governments should be restrained in the near term by current fiscal pressures; this stringency should ease as the economy expands, and we expect state and local spending to rise 2-3/4 percent in 2003 and 3-1/4 percent in 2004.

**Net exports.** Strengthening foreign GDP growth and the recent and projected dollar depreciation should help real exports to continue expanding at a rate of around 8 percent over the forecast period. Meanwhile, import growth is expected to slow notably from this year's elevated pace. On net, we expect the arithmetic contribution of net exports to real GDP growth to be around -1/4 percentage point in each of the next two years—a notably smaller drag than we are expecting for 2002. This projection is essentially the same as that in the August Greenbook. (*The International Developments section provides more detail on the outlook for net exports.*)

**Decomposition of Structural Labor Productivity**  
(Percent change, Q4 to Q4, except as noted)

Measure	1973-95	1996-99	2000	2001	2002	2003	2004
<b>Structural labor productivity</b>	<b>1.4</b>	<b>2.5</b>	<b>2.6</b>	<b>1.9</b>	<b>1.7</b>	<b>2.1</b>	<b>2.3</b>
Previous	1.4	2.5	2.6	1.9	1.7	2.1	--
<i>Contributions</i> <sup>1</sup>							
Capital deepening	.6	1.3	1.2	.4	.3	.4	.7
Previous	.6	1.3	1.2	.4	.3	.5	--
Multifactor productivity	.6	1.0	1.2	1.3	1.2	1.4	1.4
Previous	.6	1.0	1.2	1.3	1.2	1.4	--
Labor composition	.3	.3	.3	.3	.3	.3	.3
MEMO							
Potential GDP	2.9	3.5	3.6	2.9	2.7	3.1	3.3
Previous	2.9	3.5	3.6	2.9	2.7	3.1	--

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

1. Percentage points.

### Aggregate Supply, the Labor Market, and the Outlook for Inflation

Our assumptions for structural productivity and potential GDP are unchanged from the August Greenbook. Reflecting the pattern of capital spending, structural labor productivity growth slows to 1-3/4 percent this year but moves back to 2 percent in 2003 and 2-1/4 percent in 2004. Admittedly, productivity gains this year have been well in excess of our structural estimates; we have interpreted these increases as reflecting the reluctance of businesses to increase hiring at present rather than as evidence that our assumptions about structural productivity are not generous enough. However, one of our alternative simulations assesses the implications for our projection of more rapid structural productivity growth.

**Productivity and the labor market.** As the expansion gains traction next year, we expect firms' caution in hiring gradually to diminish and changes in private payroll employment to trend upward, reaching about 200,000 per month by the latter part of next year and remaining at that pace in 2004. Through the middle of next year, we expect the unemployment rate to drift upward, peaking at 6.1 percent, and then to edge back down to 5.7 percent by the end of 2004. This path for the unemployment rate is boosted about 0.2 percentage point throughout the projection period by the federal temporary extended unemployment compensation (TEUC) program, which we have now assumed will be continued through the end of 2004. (In the August Greenbook, we assumed that these benefits would expire in mid-2003.)

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

Measure	2001	2002	2003	2004
Output per hour, nonfarm business	1.9	3.7	1.5	1.6
Previous	2.0	2.8	1.3	--
Nonfarm private payroll employment	-1.4	-.3	1.9	2.2
Previous	-1.4	-.1	1.9	--
Household employment survey	-1.0	.1	1.4	1.5
Previous	-1.0	.0	1.6	--
Labor force participation rate <sup>1</sup>	66.9	66.6	66.7	66.8
Previous	66.9	66.6	66.7	--
Civilian unemployment rate <sup>1</sup>	5.6	6.0	6.0	5.7
Previous	5.6	6.0	5.7	--

1. Percent, average for the fourth quarter.

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

Measure	2001	2002	2003	2004
PCE chain-weighted price index	1.5	1.7	1.4	1.3
Previous	1.5	1.6	1.4	--
Food and beverages	3.1	1.4	2.0	1.9
Previous	3.1	1.6	2.0	--
Energy	-10.3	5.6	-2.0	-.4
Previous	-10.3	4.2	-1.6	--
Excluding food and energy	1.9	1.6	1.4	1.3
Previous	1.9	1.4	1.4	--
Consumer price index	1.9	2.2	1.8	1.7
Previous	1.9	2.1	1.8	--
Excluding food and energy	2.7	2.2	2.1	1.9
Previous	2.7	2.1	2.1	--
GDP chain-weighted price index	2.0	1.2	1.5	1.4
Previous	2.0	1.2	1.5	--
ECI for compensation of private industry workers <sup>1</sup>	4.2	3.8	3.4	3.4
Previous	4.2	3.8	3.4	--
NFB compensation per hour	1.4	3.7	3.3	3.2
Previous	1.4	3.3	3.2	--
Prices of core non-oil merchandise imports	-2.9	1.5	2.9	1.7
Previous	-2.9	2.3	2.9	--

1. December to December.

increase of 4-3/4 percent this year to 5-1/2 percent in 2003 and 5-3/4 percent in 2004.

### Financial Flows and Conditions

Domestic nonfinancial debt is projected to grow at a pace of around 6 percent through mid-2003 and to slow a bit thereafter. This general contour has changed little since the August Greenbook and reflects mostly the anticipated slowing of federal borrowing from its elevated pace in 2002 and the first half of 2003. Growth in nonfederal debt is expected to be about flat as slower growth in household and state and local debt is offset by an upturn in business borrowing.

**Alternative Scenarios**

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

Measure	2002		2003		2004
	H1	H2	H1	H2	
<i>Real GDP</i>					
<b>Baseline</b>	<b>3.2</b>	<b>2.6</b>	<b>3.0</b>	<b>3.5</b>	<b>3.8</b>
Weaker investment	3.2	2.5	2.4	2.5	2.9
Real estate slump	3.2	2.5	2.8	3.2	3.3
Stronger rebound	3.2	2.6	4.3	5.1	4.7
Faster productivity growth	3.2	2.9	3.8	4.3	4.5
Low NAIRU	3.2	2.7	3.1	3.6	3.7
Futures-based funds rate	3.2	2.6	3.2	3.6	3.4
<i>Civilian unemployment rate<sup>1</sup></i>					
<b>Baseline</b>	<b>5.9</b>	<b>6.0</b>	<b>6.1</b>	<b>6.0</b>	<b>5.7</b>
Weaker investment	5.9	6.0	6.2	6.3	6.4
Real estate slump	5.9	6.0	6.2	6.1	6.1
Stronger rebound	5.9	6.0	5.9	5.4	4.5
Faster productivity growth	5.9	6.1	6.2	5.9	5.5
Low NAIRU	5.9	6.0	6.1	5.9	5.6
Futures-based funds rate	5.9	6.0	6.1	5.9	5.8
<i>PCE prices excluding food and energy</i>					
<b>Baseline</b>	<b>1.5</b>	<b>1.7</b>	<b>1.5</b>	<b>1.4</b>	<b>1.3</b>
Weaker investment	1.5	1.7	1.5	1.4	1.3
Real estate slump	1.5	1.7	1.5	1.4	1.2
Stronger rebound	1.5	1.7	1.5	1.5	1.6
Faster productivity growth	1.5	1.6	1.3	1.1	.9
Low NAIRU	1.5	1.5	1.2	1.0	.8
Futures-based funds rate	1.5	1.7	1.5	1.5	1.3

1. Average for the final quarter of the period.

slowly. In effect, we have assumed that the equilibrium real funds rate will be unusually low for at least the next two years. In this scenario, we assume that the factors that have been holding down the equilibrium federal funds rate will fade more quickly. Specifically, we assume that private spending (particularly in the interest-sensitive sectors of the economy) increases more rapidly over the next two years, by an amount consistent with an equilibrium real rate that is close to its historical average. These spending surprises—which would not be exceptionally large by historical standards—cause real GDP to increase about 4-3/4 percent in both 2003 and 2004. As a result, the unemployment rate falls below the NAIRU in 2004, and inflation begins to edge up.

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>	
	08/07/02	09/18/02	08/07/02	09/18/02	08/07/02	09/18/02	08/07/02	09/18/02	08/07/02	09/18/02
<b>ANNUAL</b>										
2000	5.9	5.9	3.8	3.8	2.1	2.1	3.4	3.4	4.0	4.0
2001	2.6	2.6	0.3	0.3	2.4	2.4	2.8	2.8	4.8	4.8
2002	3.4	3.5	2.3	2.4	1.1	1.1	1.5	1.6	5.9	5.9
2003	4.4	4.3	2.9	2.8	1.4	1.4	1.9	2.0	5.8	6.1
2004		5.2		3.7		1.5		1.8		5.8
<b>QUARTERLY</b>										
2001	Q1	3.0	3.0	-0.6	-0.6	3.7	3.7	4.0	4.0	4.2
	Q2	0.9	0.9	-1.6	-1.6	2.5	2.5	3.2	3.2	4.5
	Q3	1.9	1.9	-0.3	-0.3	2.2	2.2	0.7	0.7	4.8
	Q4	2.2	2.2	2.7	2.7	-0.5	-0.5	-0.2	-0.2	5.6
2002	Q1	6.5	6.5	5.0	5.0	1.3	1.3	1.4	1.4	5.6
	Q2	2.3	2.6	1.2	1.5	1.2	1.1	3.4	3.4	5.9
	Q3	3.5	4.3	2.7	3.2	0.8	1.1	1.7	1.8	6.0
	Q4	3.4	3.2	2.2	2.0	1.3	1.2	1.9	2.2	6.0
2003	Q1	5.0	4.8	3.3	2.9	1.7	1.9	1.8	2.0	6.0
	Q2	4.8	4.6	3.4	3.1	1.4	1.5	1.8	1.8	6.1
	Q3	5.0	4.8	3.6	3.4	1.4	1.4	1.9	1.8	5.7
	Q4	5.3	5.1	3.8	3.7	1.4	1.4	1.9	1.8	5.7
2004	Q1		5.6		3.8		1.8		1.8	5.9
	Q2		5.3		3.9		1.4		1.8	5.9
	Q3		5.3		3.9		1.3		1.7	5.8
	Q4		4.8		3.5		1.3		1.7	5.7
<b>TWO-QUARTER<sup>3</sup></b>										
2001	Q2	1.9	1.9	-1.1	-1.1	3.1	3.1	3.5	3.5	0.5
	Q4	2.1	2.1	1.2	1.2	0.8	0.8	0.2	0.2	1.1
2002	Q2	4.4	4.5	3.1	3.2	1.3	1.2	2.4	2.4	0.3
	Q4	3.5	3.7	2.4	2.6	1.1	1.1	1.8	2.0	0.1
2003	Q2	4.9	4.7	3.3	3.0	1.6	1.7	1.8	1.9	-0.1
	Q4	5.1	5.0	3.7	3.5	1.4	1.4	1.9	1.8	-0.2
2004	Q2		5.5		3.8		1.6		1.8	-0.1
	Q4		5.1		3.7		1.3		1.7	-0.2
<b>FOUR-QUARTER<sup>4</sup></b>										
2000	Q4	4.6	4.6	2.3	2.3	2.3	2.3	3.4	3.4	-0.1
2001	Q4	2.0	2.0	0.1	0.1	2.0	2.0	1.9	1.9	1.6
2002	Q4	3.9	4.1	2.7	2.9	1.2	1.2	2.1	2.2	0.4
2003	Q4	5.0	4.9	3.5	3.3	1.5	1.5	1.8	1.8	-0.3
2004	Q4		5.3		3.8		1.4		1.7	-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.

Item	Units <sup>1</sup>	-- Projected --									
		1996	1997	1998	1999	2000	2001	2002	2003	2004	
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	7813.2	8318.4	8781.5	9274.3	9824.6	10082.2	10438.1	10887.0	11455.1	
Real GDP	Bill. Ch. \$	7813.2	8159.5	8508.9	8859.0	9191.4	9214.5	9437.3	9704.1	10062.6	
Real GDP	% change	4.1	4.3	4.8	4.3	2.3	0.1	2.9	3.3	3.8	
Gross domestic purchases		4.3	5.0	5.8	5.2	2.9	0.1	3.4	3.4	3.9	
Final sales		3.9	3.9	4.7	4.2	2.6	1.6	1.8	3.1	3.8	
Priv. dom. final purchases		4.4	5.1	6.3	5.2	3.7	0.9	2.1	3.2	4.1	
Personal cons. expenditures		3.1	4.1	5.0	5.0	3.5	2.8	2.7	2.5	3.1	
Durables		5.0	8.8	12.7	10.0	3.8	13.2	2.4	3.7	4.5	
Nondurables		3.2	2.5	5.0	4.9	3.0	1.7	3.1	2.5	2.7	
Services		2.7	3.9	3.6	4.0	3.8	1.3	2.6	2.3	3.0	
Business fixed investment		12.1	11.8	12.3	6.6	6.2	-9.3	-1.9	8.8	10.5	
Equipment & Software		11.8	13.7	14.9	9.7	5.2	-8.8	2.7	11.9	12.3	
Nonres. structures		12.8	6.5	4.9	-2.5	9.3	-10.6	-14.9	-1.2	4.2	
Residential structures		5.6	3.5	10.0	4.0	-1.2	1.0	2.8	1.6	4.2	
Exports		9.8	8.5	2.3	4.9	7.3	-11.4	7.3	7.6	8.1	
Imports		11.2	14.3	10.8	11.9	11.1	-8.0	10.3	6.9	7.6	
Gov't. cons. & investment		2.7	2.4	2.7	4.5	1.3	5.1	3.4	2.9	2.9	
Federal		2.0	0.1	0.6	4.0	-1.2	7.5	6.4	2.9	2.2	
Defense		0.8	-1.4	-0.8	4.4	-2.5	7.4	7.1	2.7	1.4	
State & local		3.0	3.7	3.8	4.8	2.6	3.9	1.8	2.8	3.3	
Change in bus. inventories	Bill. Ch. \$	30.0	63.8	76.7	62.8	65.0	-61.4	-2.1	40.7	48.4	
Nonfarm		21.2	60.6	75.0	64.1	67.2	-63.2	-3.7	39.5	46.8	
Net exports		-89.0	-113.3	-221.1	-320.5	-398.8	-415.9	-483.5	-524.4	-554.1	
Nominal GDP	% change	6.0	6.2	6.0	5.9	4.6	2.0	4.1	4.9	5.3	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	119.6	122.7	125.9	128.9	131.7	131.9	130.8	132.3	135.0	
Unemployment rate	%	5.4	4.9	4.5	4.2	4.0	4.8	5.9	6.1	5.8	
Industrial prod. index	% change	5.8	7.4	3.5	4.3	2.6	-5.9	2.8	4.0	4.4	
Capacity util. rate - mfg.	%	81.6	82.7	81.4	80.6	80.7	75.1	74.1	75.5	77.9	
Housing starts	Millions	1.48	1.47	1.62	1.64	1.57	1.60	1.68	1.70	1.75	
Light motor vehicle sales		15.05	15.06	15.43	16.78	17.24	17.02	16.89	17.07	17.22	
North Amer. produced		13.34	13.12	13.41	14.30	14.38	13.94	13.60	13.75	13.80	
Other		1.70	1.93	2.02	2.48	2.86	3.08	3.29	3.32	3.42	
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	7831.2	8325.4	8778.1	9297.1	9848.0	10104.1	10426.1	10871.9	11433.9	
Nominal GNP	% change	5.9	6.0	5.8	6.4	4.6	2.1	3.6	4.9	5.1	
Nominal personal income		5.9	6.3	6.7	5.1	7.7	1.4	4.2	4.6	4.8	
Real disposable income		2.6	3.8	5.0	2.4	4.8	0.3	5.6	2.2	3.5	
Personal saving rate	%	4.8	4.2	4.7	2.6	2.8	2.3	3.6	3.6	4.0	
Corp. profits, IVA & CCAdj.	% change	11.4	9.9	-9.6	7.0	-9.1	8.2	-2.6	5.4	3.5	
Profit share of GNP	%	9.6	10.0	8.9	8.7	8.0	7.2	7.6	7.5	7.5	
Excluding FR Banks		9.4	9.7	8.6	8.4	7.7	7.0	7.4	7.3	7.3	
Federal surpl./deficit	Bill. \$	-136.8	-53.3	43.8	111.9	206.9	72.0	-183.7	-152.4	-133.9	
State & local surpl./def.		21.4	31.0	40.7	38.3	18.0	-31.3	-42.9	-26.1	-4.5	
Ex. social ins. funds		18.7	29.9	40.0	37.4	17.8	-31.2	-42.8	-26.0	-4.4	
Gross natl. saving rate	%	17.2	18.0	18.8	18.3	18.4	16.5	15.4	16.0	16.8	
Net natl. saving rate		5.7	6.7	7.5	6.8	6.7	3.8	2.3	2.6	3.4	
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	1.9	1.8	1.1	1.6	2.3	2.0	1.2	1.5	1.4	
Gross Domestic Purchases chn.-wt. price index		1.9	1.4	0.8	1.9	2.5	1.3	1.6	1.5	1.4	
PCE chn.-wt. price index		2.3	1.5	1.1	2.0	2.5	1.5	1.7	1.4	1.3	
Ex. food and energy		1.8	1.7	1.6	1.5	1.8	1.9	1.6	1.4	1.3	
CPI		3.2	1.9	1.5	2.6	3.4	1.9	2.2	1.8	1.7	
Ex. food and energy		2.6	2.2	2.3	2.1	2.5	2.7	2.2	2.1	1.9	
ECI, hourly compensation <sup>2</sup>		3.1	3.4	3.5	3.4	4.4	4.2	3.8	3.4	3.4	
Nonfarm business sector											
Output per hour		2.3	2.2	2.9	2.9	2.1	1.9	3.7	1.5	1.6	
Compensation per Hour		3.2	3.4	5.3	4.3	7.2	1.4	3.7	3.3	3.2	
Unit labor cost		0.9	1.1	2.3	1.4	4.9	-0.5	0.1	1.8	1.6	

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

Item	Units	Projected											
		2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4
<b>EXPENDITURES</b>													
Nominal GDP	Bill. \$	9649.5	9820.7	9874.8	9953.6	10028.1	10049.9	10097.7	10152.9	10313.1	10379.0		
Real GDP	Bill. Ch. \$	9097.4	9205.7	9218.7	9243.8	9229.9	9193.1	9186.4	9248.8	9363.2	9397.2		
Real GDP	% change	2.6	4.8	0.6	1.1	-0.6	-1.6	-0.3	2.7	5.0	1.5		
Gross domestic purchases		3.6	5.7	1.2	1.3	-1.1	-1.1	-0.1	2.9	5.6	2.8		
Final sales		4.4	3.1	1.7	1.3	2.8	-0.4	-0.2	4.2	2.4	-0.0		
Priv. dom. final purchases		6.9	3.8	3.1	1.1	1.5	-1.2	0.3	3.0	2.5	1.3		
Personal cons. expenditures		5.3	3.0	3.8	2.1	2.4	1.4	1.5	6.0	3.1	1.8		
Durables		17.8	-3.7	8.1	-5.3	11.5	5.3	4.6	33.6	-6.3	1.9		
Nondurables		2.2	4.9	2.0	2.7	2.3	-0.3	1.3	3.6	7.9	-0.1		
Services		4.4	3.6	3.9	3.3	0.6	1.5	0.9	2.1	2.9	2.7		
Business fixed investment		15.0	10.2	3.5	-3.2	-5.4	-14.5	-6.0	-10.9	-5.8	-2.6		
Equipment & Software		15.5	10.9	0.9	-5.4	-6.3	-16.7	-9.2	-2.5	-2.7	3.2		
Nonres. structures		13.8	8.2	12.1	3.6	-3.1	-8.4	2.9	-30.1	-14.2	-18.2		
Residential structures		8.3	-3.0	-9.3	0.0	8.2	-0.5	0.4	-3.5	14.2	2.9		
Exports		7.7	14.6	11.6	-4.0	-6.0	-12.4	-17.3	-9.6	3.5	14.3		
Imports		14.7	18.6	13.8	-1.6	-7.9	-6.8	-11.8	-5.3	8.5	22.5		
Gov't. cons. & investment		-1.2	4.6	-1.0	2.9	5.7	5.6	-1.1	10.5	5.6	1.6		
Federal		-13.2	16.0	-7.2	2.0	9.5	6.0	1.2	13.5	7.4	7.7		
Defense		-19.9	15.0	-6.1	4.7	8.3	2.7	4.6	14.3	11.6	7.6		
State & local		5.6	-0.8	2.4	3.3	3.8	5.4	-2.3	8.9	4.6	-1.4		
Change in bus. inventories	Bill. Ch. \$	45.3	91.5	63.1	59.9	-26.9	-58.3	-61.8	-98.4	-28.9	8.6		
Nonfarm		58.9	88.6	64.6	56.8	-32.6	-54.9	-63.6	-101.5	-35.1	7.9		
Net exports		-368.8	-394.6	-413.1	-418.5	-404.5	-414.8	-419.0	-425.3	-446.6	-488.4		
Nominal GDP	% change	5.7	7.3	2.2	3.2	3.0	0.9	1.9	2.2	6.5	2.6		
<b>EMPLOYMENT AND PRODUCTION</b>													
Nonfarm payroll employment	Millions	131.0	131.8	131.9	132.2	132.4	132.2	131.9	131.1	130.8	130.7		
Unemployment rate	%	4.0	4.0	4.1	4.0	4.2	4.5	4.8	5.6	5.6	5.9		
Industrial prod. index	% change	5.8	7.0	0.6	-2.6	-6.1	-5.9	-4.7	-6.7	2.6	4.1		
Capacity util. rate - mfg.	%	81.2	81.6	80.7	79.1	77.2	75.6	74.5	73.1	73.5	74.0		
Housing starts	Millions	1.66	1.59	1.50	1.54	1.61	1.62	1.60	1.57	1.73	1.67		
Light motor vehicle sales		18.15	17.14	17.42	16.26	16.95	16.54	16.23	18.37	16.34	16.35		
North Amer. produced		15.29	14.27	14.56	13.41	14.04	13.51	13.23	15.00	13.04	13.10		
Other		2.86	2.87	2.86	2.85	2.90	3.04	3.00	3.37	3.31	3.25		
<b>INCOME AND SAVING</b>													
Nominal GNP	Bill. \$	9670.5	9846.4	9892.5	9982.8	10038.0	10081.0	10109.3	10188.1	10314.9	10362.7		
Nominal GNP	% change	5.3	7.5	1.9	3.7	2.2	1.7	1.1	3.2	5.1	1.9		
Nominal personal income		13.2	6.9	6.8	4.2	3.9	0.8	1.4	-0.2	5.1	5.0		
Real disposable income		8.4	4.8	4.3	1.8	-0.1	-0.6	10.5	-7.6	14.6	3.7		
Personal saving rate	%	2.6	2.9	2.9	2.9	2.4	1.9	4.0	0.8	3.5	3.9		
Corp. profits, IVA & CCAdj.	% change	-8.0	-0.1	-9.4	-17.9	-21.1	8.7	-17.7	94.4	-6.6	-3.6		
Profit share of GNP	%	8.4	8.2	8.0	7.5	7.0	7.2	6.8	8.0	7.7	7.6		
Excluding FR Banks		8.0	7.9	7.7	7.2	6.7	6.9	6.5	7.7	7.5	7.4		
Federal surpl./deficit	Bill. \$	223.2	197.2	213.2	193.8	173.8	144.4	-51.7	21.3	-143.5	-185.4		
State & local surpl./def.		32.7	20.2	19.2	-0.2	-16.5	-32.3	-46.2	-30.2	-51.7	-43.1		
Ex. social ins. funds		32.2	20.0	19.2	-0.1	-16.4	-32.2	-46.1	-30.0	-51.6	-43.0		
Gross natl. saving rate	%	18.8	18.4	18.5	17.8	16.9	16.6	16.5	15.8	15.6	15.6		
Net natl. saving rate		7.3	6.9	6.8	5.9	4.8	4.1	3.3	3.1	2.8	2.5		
<b>PRICES AND COSTS</b>													
GDP chn.-wt. price index	% change	3.1	2.3	1.6	2.1	3.7	2.5	2.2	-0.5	1.3	1.1		
Gross Domestic Purchases chn.-wt. price index		3.7	2.2	2.2	2.1	3.3	1.7	-0.2	0.4	1.2	2.2		
PCE chn.-wt. price index		3.4	2.3	2.1	2.2	3.3	1.8	-0.1	0.8	1.1	2.5		
Ex. food and energy		2.2	1.8	1.3	1.8	2.8	1.2	0.7	2.7	1.4	1.6		
CPI		3.9	3.3	3.5	2.8	4.0	3.2	0.7	-0.2	1.4	3.4		
Ex. food and energy		2.3	2.7	2.7	2.4	3.1	2.4	2.6	2.6	2.4	2.1		
ECI, hourly compensation <sup>1</sup>		5.6	4.7	4.1	3.5	4.6	4.0	3.7	4.2	3.6	4.4		
Nonfarm business sector		0.2	6.0	0.6	1.7	-1.5	-0.1	2.1	7.3	8.6	1.9		
Output per hour		15.2	2.2	8.7	3.1	2.8	0.1	1.0	1.5	3.6	3.7		
Compensation per hour		14.9	-3.6	8.0	1.4	4.3	0.3	-1.1	-5.4	-4.6	1.8		
Unit labor cost													

1. Private-industry workers.

Item	Units	Projected									
		2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	10488.7	10571.5	10697.1	10819.0	10947.2	11084.6	11237.6	11383.1	11531.6	11667.9
Real GDP	Bill. Ch. \$	9471.5	9517.5	9586.1	9660.5	9740.7	9829.2	9921.5	10016.2	10113.3	10199.5
Real GDP	% change	3.2	2.0	2.9	3.1	3.4	3.7	3.8	3.9	3.9	3.5
Gross domestic purchases		3.4	1.9	3.2	3.5	3.5	3.3	4.1	4.1	4.1	3.2
Final sales		3.8	1.0	2.4	2.7	3.2	3.9	3.6	3.7	4.0	3.9
Priv. dom. final purchases		4.2	0.5	2.6	3.2	3.5	3.7	4.0	4.3	4.4	3.7
Personal cons. expenditures		4.8	1.1	2.3	2.5	2.6	2.7	2.9	3.0	3.0	3.4
Durables		22.9	-6.3	2.4	3.8	5.3	3.2	5.3	3.6	2.9	6.4
Nondurables		2.5	2.1	2.4	2.4	2.4	2.7	2.7	2.7	2.7	2.7
Services		2.6	2.2	2.2	2.2	2.2	2.5	2.6	3.0	3.2	3.2
Business fixed investment		2.6	-1.6	6.7	7.9	9.4	11.5	11.2	11.7	13.2	6.1
Equipment & Software		10.2	0.7	10.0	11.3	12.3	14.2	13.5	14.3	15.7	6.0
Nonres. structures		-18.0	-8.9	-3.5	-3.1	-0.2	2.3	3.3	2.6	4.5	6.3
Residential structures		-1.5	-3.6	-1.2	3.5	2.9	1.2	3.5	5.8	5.2	2.3
Exports		3.9	8.1	5.2	7.4	7.7	10.0	6.0	8.2	8.2	10.1
Imports		5.5	5.6	6.5	8.7	7.2	5.2	7.1	8.8	8.3	6.0
Gov't. cons. & investment		3.3	3.2	2.9	2.8	2.9	2.9	3.0	2.9	2.9	2.9
Federal		5.9	4.7	3.4	2.8	2.9	2.4	2.4	2.3	2.1	2.0
Defense		5.1	4.0	3.4	3.1	2.2	2.0	1.0	1.7	1.9	1.2
State & local		1.9	2.4	2.6	2.8	3.1	3.3	3.3	3.3	3.3	3.3
Change in bus. inventories	Bill. Ch. \$	-6.1	17.9	32.3	43.2	46.6	40.7	48.0	52.1	52.0	41.4
Nonfarm		-5.2	17.6	31.5	42.0	45.3	39.2	46.5	50.5	50.4	39.7
Net exports		-499.3	-499.8	-511.2	-525.6	-533.5	-527.2	-539.5	-552.6	-563.8	-560.4
Nominal GDP	% change	4.3	3.2	4.8	4.6	4.8	5.1	5.6	5.3	5.3	4.8
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	130.8	131.0	131.4	132.0	132.7	133.3	134.0	134.6	135.3	136.1
Unemployment rate	%	5.8	6.0	6.1	6.1	6.0	6.0	5.9	5.9	5.8	5.7
Industrial prod. index	% change	3.2	1.4	2.9	3.7	4.4	4.8	4.9	4.6	4.2	3.8
Capacity util. rate - mfg.	%	74.4	74.4	74.7	75.2	75.8	76.5	77.1	77.7	78.2	78.6
Housing starts	Millions	1.67	1.67	1.68	1.69	1.70	1.71	1.73	1.74	1.76	1.76
Light motor vehicle sales		17.92	16.96	17.00	17.00	17.14	17.14	17.22	17.22	17.22	17.22
North Amer. produced		14.58	13.70	13.70	13.70	13.80	13.80	13.80	13.80	13.80	13.80
Other		3.33	3.26	3.30	3.30	3.34	3.34	3.42	3.42	3.42	3.42
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	10470.5	10556.3	10681.9	10803.0	10932.9	11069.6	11222.2	11365.7	11509.1	11638.7
Nominal GNP	% change	4.2	3.3	4.8	4.6	4.9	5.1	5.6	5.2	5.1	4.6
Nominal personal income		3.3	3.5	5.7	4.1	4.2	4.3	6.0	4.5	4.5	4.4
Real disposable income		2.3	2.3	2.0	2.1	2.2	2.3	5.6	2.7	2.8	2.7
Personal saving rate	%	3.3	3.7	3.6	3.6	3.5	3.5	4.1	4.0	4.0	3.9
Corp. profits, IVA & CCAdj.	% change	5.2	-4.8	2.4	4.2	6.8	8.3	4.1	4.3	4.9	0.9
Profit share of GNP	%	7.6	7.5	7.4	7.4	7.5	7.5	7.5	7.5	7.5	7.4
Excluding FR Banks		7.4	7.3	7.2	7.2	7.3	7.3	7.3	7.3	7.3	7.2
Federal surpl./deficit	Bill. \$	-189.5	-216.4	-185.2	-165.2	-135.1	-124.2	-163.3	-146.0	-127.8	-98.6
State & local surpl./def.		-41.5	-35.2	-32.6	-29.9	-23.8	-18.1	-12.9	-5.4	-1.4	1.8
Ex. social ins. funds		-41.4	-35.1	-32.5	-29.8	-23.7	-18.0	-12.8	-5.3	-1.3	1.9
Gross natl. saving rate	%	15.2	15.3	15.6	15.8	16.1	16.3	16.5	16.7	17.0	17.0
Net natl. saving rate		2.0	2.0	2.3	2.5	2.7	2.9	3.1	3.3	3.5	3.5
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	1.1	1.2	1.9	1.5	1.4	1.4	1.8	1.4	1.3	1.3
Gross Domestic Purchases chn.-wt. price index		1.4	1.6	1.9	1.4	1.3	1.3	1.7	1.3	1.3	1.3
PCE chn.-wt. price index		1.6	1.7	1.5	1.3	1.3	1.3	1.3	1.4	1.3	1.3
Ex. food and energy		1.8	1.6	1.5	1.5	1.4	1.4	1.4	1.3	1.3	1.3
CPI		1.8	2.2	2.0	1.8	1.8	1.8	1.8	1.8	1.7	1.7
Ex. food and energy		2.1	2.2	2.1	2.1	2.1	2.0	2.0	1.9	1.9	1.8
ECI, hourly compensation <sup>1</sup>		3.7	3.5	3.5	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Nonfarm business sector		4.3	0.0	1.1	1.4	1.5	1.8	1.7	1.7	1.7	1.3
Output per hour		4.2	3.5	3.4	3.2	3.2	3.3	3.2	3.2	3.2	3.2
Compensation per hour		-0.1	3.4	2.3	1.8	1.7	1.4	1.6	1.5	1.5	1.8
Unit labor cost											

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

September 18, 2002

Item	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	00Q4/ 99Q4	01Q4/ 00Q4	02Q4/ 01Q4
Real GDP	0.6	1.1	-0.6	-1.6	-0.3	2.7	5.0	1.5	3.2	2.3	0.1	2.9
Gross dom. purchases	1.3	1.3	-1.1	-1.2	-0.1	3.0	5.8	2.9	3.6	3.0	0.2	3.6
Final sales	1.7	1.2	2.7	-0.5	-0.2	4.1	2.5	-0.0	3.8	2.6	1.6	1.8
Priv. dom. final purchases	2.6	1.0	1.2	-1.0	0.3	2.6	2.2	1.1	3.5	3.1	0.8	1.8
Personal cons. expenditures	2.5	1.4	1.5	0.9	1.0	4.1	2.2	1.2	3.3	2.4	1.9	1.9
Durables	0.6	-0.4	0.9	0.4	0.4	2.5	-0.6	0.2	1.7	0.3	1.0	0.2
Nondurables	0.4	0.5	0.5	-0.1	0.3	0.7	1.6	-0.0	0.5	0.6	0.3	0.6
Services	1.5	1.3	0.2	0.6	0.4	0.9	1.2	1.1	1.1	1.5	0.5	1.1
Business fixed investment	0.5	-0.4	-0.7	-1.9	-0.7	-1.3	-0.7	-0.7	-0.3	0.3	0.8	-0.2
Equipment & Software	0.1	-0.5	-0.6	-1.6	-0.8	-0.2	-0.2	-0.2	0.3	0.5	-0.8	0.2
Nonres. structures	0.4	0.1	-0.1	-0.3	0.1	-1.1	-0.4	-0.4	-0.5	0.3	-0.4	-0.4
Residential structures	-0.4	0.0	0.3	-0.0	0.0	-0.2	0.6	0.1	-0.1	-0.1	0.0	0.1
Net exports	-0.7	-0.2	0.5	-0.4	-0.2	-0.3	-0.8	-1.5	-0.4	-0.8	-0.1	-0.7
Exports	1.3	-0.5	-0.7	-1.4	-1.9	-1.0	0.3	1.3	0.4	0.8	-1.3	0.7
Imports	-2.0	0.2	1.2	1.0	1.7	0.7	-1.1	-2.8	-0.8	-1.5	1.2	-1.4
Government cons. & invest.	-0.2	0.5	1.0	0.0	-0.2	1.9	1.0	0.3	0.6	0.2	0.9	0.6
Federal	-0.5	0.1	0.5	0.4	0.1	0.8	0.5	0.5	0.4	-0.1	0.4	0.4
Defense	-0.2	0.2	0.3	0.1	0.2	0.5	0.5	0.3	0.2	-0.1	0.3	0.3
Nondefense	-0.2	0.4	0.2	0.3	0.1	0.3	0.0	0.2	0.2	0.0	0.2	0.1
State and local	0.3	0.5	0.5	0.6	-0.3	1.1	0.6	-0.2	0.2	0.3	0.5	0.2
Change in bus. inventories	-1.1	-0.1	-3.3	-1.1	-0.1	-1.4	2.6	1.5	-0.6	-0.3	-1.5	1.1
Nonfarm	-1.0	-0.3	-3.4	-0.8	-0.3	-1.4	2.5	1.7	-0.5	-0.4	-1.6	1.2
Farm	-0.2	0.2	0.2	-0.3	0.2	0.1	0.1	-0.2	-0.1	0.1	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

Item	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2004/ 01Q4	03Q4/ 02Q4	04Q4/ 03Q4
Real GDP	2.0	2.9	3.1	3.4	3.7	3.8	3.9	3.9	3.5	2.9	3.3	3.8
Gross dom. purchases	2.0	3.3	3.6	3.6	3.5	4.2	4.3	4.3	3.3	3.6	3.5	4.0
Final sales	1.1	2.4	2.7	3.2	3.9	3.5	3.7	3.9	3.8	1.8	3.1	3.8
Priv. dom. final purchases	0.4	2.2	2.7	3.0	3.1	3.4	3.6	3.7	3.1	1.8	2.8	3.5
Personal cons. expenditures	0.8	1.6	1.7	1.9	1.9	2.1	2.1	2.1	2.4	1.9	1.8	2.1
Durables	-0.6	0.2	0.3	0.4	0.3	0.4	0.3	0.2	0.5	0.2	0.3	0.4
Nondurables	0.4	0.5	0.5	0.5	0.5	0.6	0.5	0.5	0.5	0.6	0.5	0.5
Services	0.9	0.9	0.9	1.1	1.1	1.1	1.3	1.3	1.3	1.1	1.0	1.2
Business fixed investment	-0.2	0.7	0.8	1.0	1.2	1.2	1.2	1.4	0.7	-0.2	0.9	1.1
Equipment & Software	0.1	0.8	1.0	1.1	1.1	1.2	1.2	1.3	0.5	0.2	1.0	1.0
Nonres. structures	-0.2	-0.1	-0.1	-0.0	0.1	0.1	0.1	0.1	0.1	-0.4	-0.0	0.1
Residential structures	-0.2	-0.1	0.2	0.1	0.1	0.2	0.3	0.2	0.1	0.1	0.1	0.2
Net exports	-0.0	-0.4	-0.5	-0.3	0.2	-0.4	-0.4	-0.4	0.1	-0.7	-0.2	-0.3
Exports	-0.8	0.5	0.7	0.8	1.0	0.6	0.8	0.8	1.0	0.7	0.8	1.1
Imports	-0.8	-0.9	-1.2	-1.0	-0.7	-1.0	-1.0	-1.3	-0.9	-1.4	-1.0	-1.1
Government cons. & invest.	0.6	0.5	0.5	0.6	0.5	0.6	0.6	0.6	0.5	0.6	0.5	0.6
Federal	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.4	0.2	0.1
Defense	0.2	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.3	0.1	0.1
Nondefense	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
State and local	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.2	0.4	0.4
Change in bus. inventories	0.9	0.5	0.4	0.1	-0.2	0.3	0.1	-0.0	-0.4	1.1	0.2	0.0
NonFarm	0.9	0.5	0.4	0.1	-0.1	0.3	0.1	-0.0	-0.4	1.1	0.2	0.0
Farm	0.0	0.0	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	0.0

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

Item	Fiscal year <sup>1</sup>			2002				2003				2004				
	2001 <sup>a</sup>	2002	2003	2004	Q1 <sup>a</sup>	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget</b>																
Receipts <sup>2</sup>	1991	1858	1951	2065	413	523	457	435	433	605	478	467	456	642	500	495
Outlays <sup>2</sup>	1864	2010	2112	2189	510	507	490	532	536	528	516	552	555	547	535	575
Surplus/deficit <sup>2</sup>	127	-152	-161	-125	-97	16	-33	-97	-103	77	-38	-86	-99	95	-35	-79
On-budget	-33	-310	-328	-312	-127	-28	-44	-137	-141	2	-53	-130	-141	12	-52	-125
Off-budget	161	158	167	187	30	73	10	39	38	74	15	44	42	83	18	46
Surplus excluding deposit insurance	126	-152	-162	-125	-97	15	-34	-97	-103	76	-38	-86	-99	94	-35	-79
Means of financing																
Borrowing	-90	215	175	142	51	21	83	102	100	-53	26	81	94	-61	28	74
Cash decrease	8	-5	4	0	38	-26	-9	9	0	-20	15	15	0	-30	15	15
Other <sup>3</sup>	-45	-59	-18	-17	8	-11	-41	-14	3	-4	-4	-10	5	-4	-8	-10
Cash operating balance, end of period	44	49	45	45	14	40	49	40	40	60	45	30	30	60	45	30
<b>NIPA federal sector</b>																
Receipts	2024	1915	1968	2097	1887	1890	1892	1896	1954	1989	2032	2072	2071	2105	2140	2188
Expenditures	1909	2039	2143	2237	2031	2074	2082	2113	2139	2154	2167	2196	2234	2251	2268	2287
Consumption expenditures	517	569	610	639	566	581	587	594	610	615	620	624	640	644	649	653
Defense	337	374	399	417	372	383	385	390	399	403	406	408	417	419	422	424
Nondefense	180	196	211	223	194	199	202	205	211	212	214	216	223	225	226	228
Other spending	1392	1470	1533	1598	1464	1493	1495	1518	1528	1539	1547	1572	1594	1607	1619	1634
Current account surplus	115	-124	-175	-140	-144	-185	-189	-216	-185	-165	-135	-124	-163	-146	-128	-99
Gross investment	98	107	118	123	106	108	113	115	117	119	120	121	123	124	125	127
Current and capital account surplus	17	-232	-293	-264	-249	-293	-303	-331	-302	-284	-255	-246	-286	-270	-253	-225
<b>Fiscal indicators<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-39	-233	-293	-282	-256	-291	-306	-331	-301	-283	-257	-254	-302	-292	-281	-257
Change in HEB, percent of potential GDP	0	2	.5	-2	2	.3	.1	.2	-.3	-.2	-.3	-.1	.4	-.1	-.1	-.2
Fiscal impetus (FI) percent, calendar year	11	20	10	7	10	6	.9	3	3	2	2	1	3	1	2	-4

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 July 2002 baseline surplus estimates are -\$62 billion in FY 2003 and \$17 billion in FY 2004. CBO's August 2002 baseline surplus estimates are -\$145 billion in FY 2004. 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, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1996) dollars, scaled by real federal consumption plus investment. For FI and the change in HEB, negative values indicate aggregate demand restraint.

a-Actual

**Strictly Confidential (FR)  
Class II FOMC**

**Change in Debt of the Domestic Nonfinancial Sectors  
(Percent)**

September 18, 2002

Period <sup>1</sup>	Total	Federal government	Nonfederal				State and local governments	Business	Consumer credit	Home mortgages	Households	Mimeo: Nominal GDP
			Total	Federal government	Nonfederal	Business						
<i>Year</i>												
1997	5.6	0.6	7.3	6.4	6.7	4.7	9.0	5.3	6.2	11.8	7.2	6.0
1998	6.8	-1.4	9.6	8.2	8.9	5.9	11.1	4.4	5.9	11.1	2.2	4.6
1999	6.6	-1.9	9.1	8.3	9.0	7.4	9.9	5.9	5.9	11.1	2.2	4.6
2000	4.9	-8.0	8.4	8.3	8.2	9.6	9.9	4.6	4.6	9.9	2.2	4.6
2001	6.1	-0.2	7.5	8.6	9.7	6.9	6.1	8.1	2.0	6.1	2.7	4.1
2002	6.2	7.1	6.1	8.7	9.8	6.1	5.7	8.8	4.1	6.1	5.1	4.9
2003	5.6	4.2	5.9	6.6	7.4	5.7	5.1	5.8	4.9	7.4	5.4	5.3
2004	5.6	3.6	6.0	6.7	7.3	5.4	5.5	4.5	5.3	7.3	4.4	4.8
<i>Quarter</i>												
2002:1	4.8	1.2	5.6	9.2	10.3	4.8	1.9	4.5	6.5	12.4	2.6	2.6
2	7.8	13.3	6.7	9.0	10.8	5.9	2.9					
3	5.8	6.9	5.6	8.2	8.7	7.3	1.8	9.5	4.3			
4	6.0	6.2	5.9	7.3	7.9	6.0	4.0	7.6	3.2			
2003:1	5.9	6.5	5.8	6.6	7.5	5.8	4.6	7.0	4.8			
2	5.9	6.3	5.8	6.3	7.2	5.6	5.0	6.1	4.6			
3	4.9	0.3	5.8	6.5	7.0	5.6	5.1	5.3	4.8			
4	5.4	3.6	5.7	6.4	7.1	5.4	5.2	4.4	5.1			
2004:1	5.9	5.6	5.9	6.6	7.3	5.4	5.4	4.4	5.6			
2	5.8	5.2	5.9	6.5	7.2	5.4	5.4	4.4	5.3			
3	4.9	0.5	5.8	6.5	7.1	5.2	5.4	4.4	5.3			
4	5.3	2.9	5.8	6.4	7.0	5.3	5.4	4.4	4.8			

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2002:Q2 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

**Strictly Confidential (FR)  
Class II FOMC**

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

Category	Calendar year			2002				Seasonally adjusted annual rates				
	2001	2002	2003	2004	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>												
1 Total	1045.9	1183.8	1063.3	1149.1	933.8	1594.0	1077.8	1129.5	1133.0	1138.1	935.3	1046.6
2 Net equity issuance	-61.8	-27.0	-91.3	-64.0	-3.7	62.5	-82.8	-84.0	-80.0	-85.0	-95.0	-105.0
3 Net debt issuance	1107.8	1210.8	1154.5	1213.1	937.5	1531.5	1160.6	1213.5	1213.0	1223.1	1030.3	1151.6
<i>Borrowing sectors</i>												
Nonfinancial business	141.4	73.7	112.9	151.8	68.9	76.8	64.4	84.7	96.8	108.8	120.4	125.7
4 Financing gap <sup>1</sup>	-61.8	-27.0	-91.3	-64.0	-3.7	62.5	-82.8	-84.0	-80.0	-85.0	-95.0	-105.0
5 Net equity issuance	399.8	185.7	361.7	412.8	132.4	201.1	124.3	285.1	324.7	360.7	373.7	387.5
6 Credit market borrowing	610.3	665.3	551.6	593.5	703.0	705.5	657.6	595.2	548.0	538.1	562.1	558.4
Households	477.8	525.1	435.5	465.5	554.2	595.7	493.2	457.2	441.2	430.2	430.2	440.2
7 Net borrowing <sup>2</sup>	110.2	104.6	103.2	104.1	81.4	101.9	127.6	107.4	104.5	102.5	103.5	102.2
8 Home mortgages	99.8	102.5	106.2	108.3	101.3	102.0	103.2	104.2	105.0	105.8	106.6	107.3
9 Consumer credit	103.2	121.4	87.5	71.3	62.3	173.6	137.1	112.7	104.8	93.8	81.8	69.8
10 Debt/DPI (percent) <sup>3</sup>	140.6	137.6	162.0	193.6	128.2	135.8	138.9	147.4	152.3	157.1	165.5	173.3
<i>State and local governments</i>												
11 Net borrowing	-5.6	238.3	153.7	135.6	39.8	451.3	241.7	220.5	235.5	230.6	12.7	136.0
12 Current surplus <sup>4</sup>	-5.6	238.3	153.7	135.6	50.8	2.4	83.4	101.7	99.7	-52.8	26.2	80.6
<i>Federal government</i>												
13 Net borrowing	-92.3	211.7	149.3	118.6	96.6	-15.6	33.5	97.3	102.7	-76.6	37.7	85.5
14 Net borrowing (quarterly, n.s.a.)	289.4	327.9	301.8	321.3	254.5	396.7	340.5	319.9	196.2	362.1	366.9	282.0
15 Unified deficit (quarterly, n.s.a.)	11.0	9.3	9.2	9.4	8.7	10.4	8.8	9.4	9.1	9.2	9.3	9.2
<i>Depository institutions</i>												
16 Funds supplied	186.7	191.4	194.4	195.1	189.0	190.8	192.0	193.3	193.9	194.5	194.8	194.8
Memo (percentage of GDP)	11.0	11.6	10.6	9.1	14.8	11.1	11.5	11.3	11.3	9.4	10.4	10.4
17 Domestic nonfinancial debt <sup>5</sup>	-0.1	2.3	1.4	1.2	0.4	4.3	2.3	2.1	2.2	2.1	0.1	1.2
18 Domestic nonfinancial borrowing	11.0	9.3	9.2	9.4	8.7	10.4	8.8	9.4	9.1	9.2	9.3	9.2
19 Federal government <sup>6</sup>	20 Nonfederal											

Note. Data after 2002: Q2 are staff projections.

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

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

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

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

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

6. Excludes government-insured mortgage pool securities.

## International Developments

The elevated volatility of global financial markets that appeared early in the summer has persisted through the intermeeting period. Generalized uncertainty about economic prospects, as well as specific factors such as renewed concerns about terrorism, tensions in the Middle East, and South American politics have continued to weigh on investor sentiment. Equity prices in most foreign industrial countries have fallen, and the price of oil has risen since our August forecast, leading us to shave a bit more off the outlook for foreign growth. Although spreads on bond yields in emerging markets have declined from their summertime peaks, they remain high relative to the first half of the year.

**Summary of Staff Projections**  
(Percent change from end of previous period, s.a.a.r.)

Indicator	2001		2002: H1	Projection		
	H1	H2		2002: H2	2003	2004
Foreign output	-0.1	0.3	3.1	2.7	3.2	3.4
<i>Previous GB</i>	<i>-0.2</i>	<i>0.3</i>	<i>3.3</i>	<i>2.9</i>	<i>3.4</i>	
Foreign CPI	2.6	0.8	2.6	2.3	2.1	1.9
<i>Previous GB</i>	<i>2.6</i>	<i>0.8</i>	<i>2.6</i>	<i>2.2</i>	<i>2.1</i>	

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

The markdown of growth projections for the second half of this year and for next year is shared about equally among all major regions. Recent data suggest that foreign economies are continuing to grow, albeit at a somewhat sluggish pace. We expect that activity will accelerate in 2003 and 2004 in Mexico, Europe, and developing Asia in an environment of supportive monetary policy stances and rising exports to the United States. In Canada, where economic performance has been stronger, we project that output growth will stabilize as buoyant consumer demand ebbs and the impetus from inventories recedes. For Japan and South America, we project weak growth but continuing substantial excess capacity throughout the forecast period. In Japan, structural problems will continue to weigh on activity, and monetary and fiscal policies will continue to be hamstrung. Even if the financial situation in Brazil does not melt down, economic activity will likely be subdued. There are no signs that the Argentine and Venezuelan economies are bottoming out.

Higher oil prices have boosted foreign consumer price inflation this year, but we expect that continued excess capacity and a gradual decline in oil prices will cause foreign inflation to subside over the forecast period. As growth picks up in 2003 and 2004, central banks in most foreign industrial countries are

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

Trade category	2001		2002: H1	Projection		
	H1	H2		2002: H2	2003	2004
<i>Exports</i>						
Core goods	-0.5	-2.5	1.1	3.7	1.3	0.9
<i>Imports</i>						
Non-oil core goods	-1.3	-4.5	.0	3.0	2.9	1.7
Oil (dollars per barrel)	24.21	18.39	24.02	27.71	23.19	21.37

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

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

**Trade in goods and services.** Real exports of goods and services grew about 14 percent at an annual rate in the second quarter, with the increase primarily in core goods, particularly exported industrial supplies, machinery, and automotive parts. Service exports also showed a sizable gain for the second consecutive quarter, as expenditures on travel and passenger fares continued to recover from the low levels at the end of last year. Over the forecast period, foreign economic activity is projected to expand at an average pace of around 3 percent, whereas exports of core goods are projected to grow at an average rate of around 5 percent. The relatively rapid growth in exports largely owes to the reversal of a pattern that emerged over the past year or so: U.S. goods exports more closely tracked the pronounced decline in foreign industrial production than the stagnation in foreign GDP. Hence, as industrial production abroad recovers, core goods exports (60 percent of which are industrial supplies and capital equipment) are expected to rise as well. Exports will also be boosted by the recent and projected depreciation of the dollar. After falling sharply last year, real exports of computers and semiconductors are also projected to rise this year and next, and service receipts should continue to recover. We thus project that real exports of all goods and services, after declining 11½ percent in 2001, will increase 7½ percent in 2002 and 2003 and about 8 percent in 2004.

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

Measure	2001		2002: H1	Projection		
	H1	H2		2002: H2	2003	2004
Real exports	-9.3	-13.5	8.7	6.0	7.6	8.1
<i>Previous GB</i>	<i>-9.3</i>	<i>-13.5</i>	<i>7.2</i>	<i>6.5</i>	<i>8.2</i>	--
Real imports	-7.3	-8.6	15.3	5.6	6.9	7.6
<i>Previous GB</i>	<i>-7.3</i>	<i>-8.6</i>	<i>15.2</i>	<i>5.0</i>	<i>7.3</i>	--

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

Real imported goods and services registered an even larger increase in the second quarter than in the previous quarter, rising at an annual rate of nearly 23 percent. All major trade categories except aircraft posted gains. Particularly notable growth was recorded in imported automotive products (due to the strength of U.S. motor vehicle sales), consumer goods, and machinery. For the latter, increases were not only in high-tech goods but also in imports of basic industrial and service equipment, which rose for the first time in more than a year. A portion of the second-quarter strength in imports may have reflected efforts to accelerate shipments into the spring in order to avoid a possible dock strike on the West Coast, but we have found no firm evidence of such behavior. Given the elevated level of second-quarter imports, we expect growth to slow to about 5½ percent at an annual rate in the second half of the year. There is a risk of an even greater slowdown in import growth in the near term, if a dock strike occurs or if importers turn out to have significantly accelerated shipments into the second quarter.

Growth of core goods imports is projected to average about 6 percent over the forecast period, as the effects of continued recovery in the U.S. economy and the rebound from last year's sharp fall in the level of imports are only slightly offset by the effect of recent and projected dollar depreciation. Real imports of computers and semiconductors should grow briskly over the next two years, and service imports are expected to pick up gradually.

The U.S. current account deficit as a share of nominal GDP is projected to rise from 5 percent in the second quarter of this year to 5¼ percent by the end of the year and to increase a bit further to 5½ percent by the end of 2004.

**Alternative Simulations:**  
**50 Percent Rise in Price of Oil<sup>1</sup>**  
(Percent change from previous period, annual rate)

Indicator and simulation	2002		2003		2004	
	H1	H2	H1	H2	H1	H2
<i>U.S. real GDP</i>						
Baseline	3.2	2.6	3.0	3.5	3.8	3.7
Simulation 1: Temporary rise in price of oil	3.2	2.6	2.6	3.8	4.0	3.7
Simulation 2: Persistent rise in price of oil	3.2	2.6	2.6	3.5	4.0	3.9
<i>U.S. PCE prices excl. food and energy</i>						
Baseline	1.5	1.7	1.5	1.4	1.4	1.3
Simulation 1: Temporary rise in price of oil	1.5	1.7	1.9	1.2	1.4	1.3
Simulation 2: Persistent rise in price of oil	1.5	1.7	1.9	1.6	1.5	1.4

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

1. In these simulations, the nominal federal funds rate remains unchanged from baseline, and the monetary authorities in major foreign economies adjust their policy rates according to a Taylor rule.

Measure and country	1996	1997	1998	1999	2000	2001	2002	2003	2004	Projected-----
<b>REAL GDP (1)</b>										
Total foreign	4.1	4.2	1.6	5.0	4.0	0.1	2.9	3.2	3.4	
Industrial Countries	2.8	3.5	2.7	4.2	3.1	0.4	2.6	2.5	2.6	
of which:										
Canada	2.7	4.4	4.4	5.7	3.5	0.8	4.0	2.9	2.9	
Japan	3.7	0.5	-1.3	0.6	2.3	-1.5	1.0	1.1	1.2	
United Kingdom	2.8	3.7	2.6	3.2	2.2	1.5	2.1	2.5	3.0	
Euro Area (2)	1.6	3.1	2.0	3.8	2.7	0.4	1.4	2.4	2.7	
Germany	1.4	1.7	0.7	3.3	1.9	0.1	1.0	2.1	2.6	
Developing Countries	6.2	5.3	-0.2	6.2	5.2	-0.4	3.3	4.1	4.6	
Asia	6.6	4.9	-2.0	8.8	6.3	0.8	5.4	5.3	5.5	
Korea	6.4	3.4	-5.2	13.8	5.1	4.4	6.0	5.9	5.2	
China	5.3	8.7	9.5	4.1	8.0	7.5	8.0	7.2	7.5	
Latin America	6.3	6.1	1.2	4.3	4.5	-1.5	1.7	3.2	3.9	
Mexico	7.1	6.7	2.8	5.4	4.9	-1.5	2.9	3.9	4.7	
Brazil	5.4	2.4	-1.6	3.7	3.8	-0.6	1.0	1.4	1.5	
<b>CONSUMER PRICES (3)</b>										
Industrial Countries	1.5	1.5	0.9	1.2	1.9	0.9	1.8	1.2	1.1	
of which:										
Canada	2.0	1.0	1.1	2.3	3.1	1.1	3.3	2.2	1.9	
Japan	0.2	2.1	0.7	-1.2	-1.2	-1.3	-0.8	-0.9	-0.9	
United Kingdom (4)	3.2	2.7	2.5	2.2	2.1	2.0	2.3	2.3	2.5	
Euro Area (2)	1.9	1.5	0.8	1.5	2.7	2.1	2.2	1.6	1.4	
Germany	1.3	1.5	0.3	1.1	2.5	1.7	1.3	1.0	0.8	
Developing Countries	11.1	6.8	9.0	4.6	4.1	2.8	3.0	3.0	2.8	
Asia	4.8	2.7	4.4	0.4	1.8	1.0	1.1	1.9	2.1	
Korea	5.0	4.9	5.8	1.2	2.5	3.3	3.6	3.1	3.0	
China	6.8	0.9	-1.2	-0.9	0.9	-0.2	-0.2	1.0	1.2	
Latin America	25.8	15.5	15.4	12.5	8.4	5.4	6.1	5.2	4.2	
Mexico	28.0	17.0	17.3	13.5	8.8	5.2	5.1	4.6	3.6	
Brazil	9.6	4.6	2.0	8.4	6.4	7.5	6.9	4.3	4.3	

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.

Measure and country	2002				Projected				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>REAL GDP (1)</b>												
Total foreign	2.8	3.5	2.7	2.7	3.1	3.2	3.2	3.4	3.4	3.4	3.4	3.4
Industrial Countries	3.3	2.9	2.1	2.1	2.5	2.5	2.6	2.7	2.7	2.7	2.6	2.6
of which:												
Canada	-6.2	4.3	2.9	2.6	3.2	2.9	2.8	2.8	2.8	2.8	2.9	2.9
Japan	-0.0	2.6	0.6	0.9	1.0	1.0	1.1	1.1	1.2	1.2	1.2	1.2
United Kingdom	0.6	2.3	3.2	2.3	2.4	2.5	2.5	2.9	3.1	2.9	2.8	2.8
Euro Area (2)	1.4	1.4	1.3	1.6	1.9	2.3	2.6	2.8	2.8	2.8	2.7	2.7
Germany	1.1	1.1	0.6	1.1	1.4	1.9	2.4	2.7	2.8	2.7	2.6	2.5
Developing Countries	2.0	4.3	3.5	3.6	4.0	4.1	4.2	4.2	4.4	4.6	4.6	4.6
Asia	5.8	6.1	4.7	5.0	5.2	5.4	5.4	5.4	5.5	5.5	5.5	5.5
Korea	7.8	5.6	5.0	5.5	6.0	6.0	5.5	5.5	5.3	5.2	5.2	5.2
China	8.5	9.3	7.2	7.2	7.3	7.2	7.2	7.2	7.5	7.5	7.5	7.5
Latin America	-1.2	2.9	2.4	2.6	3.2	3.2	3.3	3.3	3.8	4.0	4.0	4.0
Mexico	-0.0	4.7	3.5	3.5	3.9	3.9	3.9	3.9	4.5	4.8	4.8	4.8
Brazil	3.5	2.4	-1.0	-1.0	1.2	1.2	1.5	1.5	1.5	1.5	1.5	1.5
<b>CONSUMER PRICES (3)</b>												
Industrial Countries	1.1	1.0	1.2	1.8	1.6	1.3	1.2	1.2	1.2	1.1	1.1	1.1
of which:												
Canada	1.5	1.3	2.0	3.3	3.1	2.5	2.3	2.2	2.1	2.0	1.9	1.9
Japan	-1.5	-1.1	-1.0	-0.8	-0.8	-1.0	-1.2	-0.9	-0.9	-0.9	-0.9	-0.9
United Kingdom	-2.4	1.9	1.9	2.3	2.1	2.4	2.3	2.3	2.4	2.4	2.5	2.5
Euro Area (2)	2.6	2.1	2.1	2.2	2.2	1.9	1.5	1.6	1.5	1.5	1.4	1.4
Germany	2.0	1.1	1.1	1.3	0.7	0.9	1.1	1.0	0.9	0.8	0.8	0.8
Developing Countries	2.6	2.5	2.7	3.0	3.3	3.1	3.0	3.0	3.0	2.9	2.8	2.8
Asia	0.8	0.6	0.7	1.1	1.4	1.5	1.7	1.9	2.0	2.1	2.1	2.1
Korea	2.5	2.7	2.4	3.6	3.9	3.9	3.3	3.1	3.0	3.0	3.0	3.0
China	-0.6	-1.0	-0.4	-0.2	0.2	0.5	0.6	1.0	1.2	1.2	1.2	1.2
Latin America	5.1	5.4	6.0	6.1	6.9	6.2	5.4	5.2	5.0	4.7	4.4	4.2
Mexico	4.8	4.8	5.2	5.1	6.0	5.5	4.7	4.6	4.4	4.1	3.8	3.6
Brazil	7.7	7.9	7.6	6.9	6.4	5.8	4.6	4.3	4.3	4.3	4.3	4.3

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

NIPA REAL EXPORTS and IMPORTS	Percentage point contribution to GDP growth, Q4/Q4				Projected				
	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Exports of G&amp;S Services</b>									
Net Goods & Services Exports of G&S	-0.2	-0.8	-1.1	-1.0	-0.8	-0.1	-0.7	-0.2	-0.3
Exports of G&S	-1.1	-1.0	0.3	0.5	0.8	-1.3	0.7	0.8	0.8
Imports of G&S	-1.3	-1.7	-1.3	-1.5	-1.5	1.2	-1.4	-1.0	-1.1
<b>Imports of G&amp;S Goods 1/</b>									
Exports of G&S Services	9.8	8.5	2.3	4.9	7.3	-11.4	7.3	7.6	8.1
Computers	8.9	1.4	2.9	3.2	4.8	-9.2	10.5	5.6	5.7
Semiconductors	21.6	25.8	8.1	13.4	23.0	-23.4	3.4	32.6	33.6
Other Goods 1/	44.6	21.6	9.1	34.6	26.9	-34.9	29.6	34.2	36.0
Imports of G&S Services	7.3	9.8	1.3	3.1	5.7	-9.3	4.8	5.2	5.3
Oil	11.2	14.3	10.8	11.9	11.1	-8.0	10.3	6.9	7.6
Computers	5.3	14.0	8.5	5.9	10.9	-8.6	7.4	2.5	3.8
Semiconductors	7.8	3.9	4.1	-3.4	13.3	0.1	0.5	3.0	3.2
Other Goods 2/	17.8	33.0	25.8	26.0	13.6	-13.8	21.7	32.6	33.6
Imports of G&S Services	56.7	32.9	-8.7	34.2	22.5	-51.4	31.3	34.2	36.0
Computers	10.4	12.7	11.5	12.7	10.4	-6.2	10.7	5.8	5.9
Semiconductors									
<b>Billions of chained 1996 dollars</b>									
Net Goods & Services Exports of G&S	-89.0	-113.3	-221.1	-320.5	-398.8	-415.9	-483.5	-524.4	-554.1
Imports of G&S	874.2	981.5	1002.4	1036.3	1137.2	1076.1	1067.2	1143.3	1234.6
	963.1	1094.8	1223.5	1356.8	1536.0	1492.0	1550.7	1667.7	1788.7

US CURRENT ACCOUNT BALANCE Current Acct as Percent of GDP	Billions of dollars				Projected	
	1996	1997	1998	1999	2000	2001
Net Goods & Services (BOP)	-117.8	-128.4	-203.8	-292.9	-410.3	-393.4
	-1.5	-1.5	-2.3	-3.2	-4.2	-3.9
Investment Income, Net Direct, Net Portfolio, Net	-101.8	-107.8	-166.9	-262.2	-378.7	-358.3
						-439.7
Other Income & Transfers, Net	28.6	25.1	12.7	23.9	27.6	20.5
	69.4	72.4	65.5	75.0	88.9	102.6
	-40.8	-47.3	-52.9	-51.1	-61.2	-82.1
						-92.5
						-103.0
						-117.2

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1999								2000								2001											
	Q1				Q2				Q3				Q4				Q1				Q2				Q3			
	NIPA REAL EXPORTS and IMPORTS								Percentage point contribution to GDP growth								s.a.a.r.											
Net Goods & Services	-1.8	-1.4	-0.7	0.1	-1.1	-0.7	-0.7	-0.2	0.5	-0.4	-0.2	-0.3					-0.4	-0.2	-0.3									
Exports of G&S	-0.8	0.4	1.1	1.3	0.8	1.5	1.2	0.5	-0.7	-0.7	-2.0	-1.0					-1.4	-2.0	-1.0									
Imports of G&S	-1.0	-1.9	-1.8	-1.2	-1.9	-2.5	-1.9	-0.3	1.2	1.2	-0.5	1.7					1.0	1.7	0.7									
Exports of G&S Services	-6.9	4.3	10.6	12.6	7.7	14.6	11.6	-4.0	-6.0	-12.4	-17.3	-9.6																
Computers	-1.5	3.4	4.7	6.4	10.2	11.2	-5.9	4.4	-6.0	-2.5	-13.9	-13.8																
Semiconductors	0.8	24.7	20.6	9.2	33.5	45.9	28.8	-8.8	-7.3	-41.7	-22.8	-17.6																
Other Goods 1/	34.2	45.2	41.3	19.0	14.6	9.0	43.4	-17.5	-34.6	-47.3	-40.9	-11.7																
Imports of G&S Services	-12.1	0.7	10.7	15.4	4.2	9.2	16.7	-5.9	-2.9	-10.5	-16.5	-6.9																
Oil	8.4	15.4	14.5	9.4	14.7	18.6	13.8	-1.6	-7.9	-6.8	-11.8	-5.3																
Computers	3.9	6.8	9.7	7.1	20.7	9.6	15.1	-0.5	0.3	8.5	-23.2	-16.5																
Semiconductors	35.0	43.7	14.4	13.5	28.6	40.4	-2.3	-6.5	23.3	7.2	-26.9	3.9																
Other Goods 2/	23.0	67.9	16.3	35.0	2.5	40.4	27.9	-9.5	-21.6	-24.5	-18.7	14.6																
Imports of G&S Services	7.8	12.2	17.4	13.4	13.1	15.5	50.0	69.8	-28.5	-43.9	-68.8	-55.9																
Net Goods & Services	-283.2	-319.6	-339.6	-339.5	-368.8	-394.6	-413.1	-418.5	-404.5	-414.8	-419.0	-425.3																
Exports of G&S	1007.5	1018.1	1044.1	1075.6	1095.8	1133.9	1165.5	1153.7	1135.8	1098.8	1048.0	1021.8																
Imports of G&S	1290.7	1337.7	1383.7	1415.2	1464.6	1528.5	1578.6	1572.2	1540.3	1513.6	1467.0	1447.2																
US CURRENT ACCOUNT BALANCE	-238.7	-280.6	-320.6	-331.6	-376.4	-392.3	-428.7	-443.9	-430.9	-396.9	-365.3	-380.3																
Current Account as % of GDP	-2.6	-3.1	-3.4	-3.5	-3.9	-4.0	-4.3	-4.5	-4.3	-3.9	-3.6	-3.7																
Net Goods & Services (BOP)	-209.5	-253.4	-286.5	-299.6	-348.7	-367.7	-393.3	-405.0	-388.6	-373.3	-319.1	-352.1																
Investment Income, Net	20.8	24.9	18.3	31.5	25.1	30.6	22.1	32.8	10.3	30.1	9.4	32.4																
Direct, Net	72.3	71.4	71.3	85.0	79.0	86.9	89.2	100.3	89.0	111.3	95.6	114.4																
Portfolio, Net	-51.5	-46.5	-53.0	-53.5	-53.9	-56.3	-67.1	-67.5	-78.7	-81.2	-86.3	-82.0																
Other Inc. & Transfers, Net	-50.0	-52.1	-52.4	-63.5	-52.8	-55.3	-57.5	-71.7	-52.5	-53.7	-55.6	-60.6																

1. Merchandise exports excluding computers, and semiconductors.

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

	2002				Projected				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>NIPA REAL EXPORTS and IMPORTS</b>												
Net Goods & Services	-0.7	-1.4	-0.4	0.0	-0.4	-0.5	-0.3	0.2	-0.4	-0.4	-0.4	0.1
Exports of G&S	0.3	1.3	0.4	0.8	0.5	0.7	0.8	1.0	0.6	0.8	0.8	1.0
Imports of G&S	-1.1	-2.7	-0.7	-0.8	-0.9	-1.2	-1.0	-0.7	-1.0	-1.2	-1.2	-0.9
Exports of G&S Services	3.5	14.3	3.9	8.1	5.2	7.4	7.7	10.0	6.0	8.2	8.2	10.1
Computers	21.7	11.0	5.0	5.1	5.7	5.5	5.4	5.6	5.8	5.7	5.7	5.7
Semiconductors	-21.1	-11.2	-30.1	46.4	31.1	32.3	33.6	33.6	33.6	33.6	33.6	33.6
Other Goods 1/	-13.7	65.1	31.1	14.8	31.1	33.5	36.0	36.0	36.0	36.0	36.0	36.0
Imports of G&S Services	-3.1	14.1	1.8	7.2	1.8	5.1	5.3	8.7	2.1	5.5	5.4	8.3
Oil	8.5	22.5	5.5	5.6	6.5	8.7	7.2	5.2	7.1	8.8	8.3	6.0
Computers	35.7	35.1	-0.5	-1.0	-1.1	1.0	2.3	3.0	3.6	3.9	4.0	3.3
Semiconductors	52.4	5.4	12.6	21.6	21.6	27.8	7.5	-19.7	2.1	24.3	10.6	-19.2
Other Goods 2/	45.2	41.6	6.1	36.0	31.1	32.3	33.6	33.6	33.6	33.6	33.6	33.6
Net Goods & Services	1.9	28.7	7.2	6.8	6.0	6.0	5.5	5.4	5.5	5.8	6.2	5.9
Exports of G&S	-446.6	-488.4	-499.3	-499.8	-511.2	-525.6	-533.5	-527.2	-539.5	-552.6	-563.8	-560.4
Imports of G&S	1030.6	1065.6	1075.7	1096.8	1110.7	1130.8	1152.0	1179.7	1197.0	1220.8	1245.2	1275.4
Net Goods & Services	1477.1	1554.0	1575.0	1596.7	1622.0	1656.4	1685.5	1706.9	1736.5	1773.4	1809.1	1835.8
<b>Billions of chained 1996 dollars, s.a.a.r.</b>												
US CURRENT ACCOUNT BALANCE	-449.8	-519.1	-538.8	-563.2	-563.9	-576.9	-581.7	-588.9	-601.6	-616.8	-633.2	-637.4
Current Account as % of GDP	-4.4	-5.0	-5.1	-5.3	-5.3	-5.3	-5.3	-5.3	-5.3	-5.4	-5.5	-5.5
Net Goods & Services (BOP)	-382.0	-441.8	-460.9	-474.3	-488.1	-500.2	-506.8	-500.3	-512.5	-525.7	-537.0	-534.6
Investment Income, Net	2.7	-18.5	-20.4	-17.3	-17.3	-18.2	-16.4	-17.2	-17.6	-19.5	-24.7	-31.3
Direct, Net	88.3	70.7	76.2	81.4	83.2	83.6	87.2	88.9	91.1	93.0	94.6	96.8
Portfolio, Net	-85.6	-89.2	-96.5	-98.8	-100.5	-101.8	-103.7	-106.1	-108.6	-112.6	-119.3	-128.1
Other Inc. & Transfers, Net	-70.5	-58.9	-57.5	-71.5	-58.5	-58.5	-71.5	-71.5	-71.5	-71.5	-71.5	-71.5

1. Merchandise exports excluding computers, and semiconductors.

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

## **Part 2**

September 18, 2002

---

## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

---

### **Recent Developments**

Confidential (FR) Class III FOMC

---

September 18, 2002

## **Recent Developments**

---

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

**Production of Domestic Autos and Trucks**  
 (Millions of units at an annual rate except as noted; FRB seasonal basis)

Item	2002			2002			
	Q1	Q2	Q3 <sup>1</sup>	June	July	Aug.	Sept. <sup>1</sup>
U.S. production	12.2	12.4	12.9	12.7	13.2	12.9	12.5
Autos	5.2	5.2	5.2	5.3	5.4	5.1	5.2
Trucks	7.0	7.2	7.6	7.4	7.8	7.8	7.3
Total days' supply <sup>2</sup>	57.5	62.7	n.a.	63.1	55.7	50.6	n.a.
Inventories <sup>3</sup>	2.44	2.68	n.a.	2.68	2.66	2.53	n.a.

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

1. Production rates reflect Ward's Communications' latest estimates for Q3 and September.

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

3. End-of-period stocks; excludes medium and heavy trucks (classes 3-8).

n.a. Not available.

other automakers. Job security is the most important issue, and negotiations with Ford may prove difficult; Ford has announced plans to shut an Ontario truck plant and to lay off between 1,000 and 1,500 workers (roughly 10 percent of Ford's unionized workforce in Canada). A strike against Ford in Canada would quickly shut down the company's assembly and parts plants in the United States. The last strike by the CAW was in 1996, when the union clashed with GM over outsourcing.

### Consumer Spending

Consumer spending on goods aside from motor vehicles appears to be increasing at a moderate pace in the third quarter. In August, nominal retail sales in the so-called control category of stores, which excludes sales at motor vehicle dealers and building supply outlets, rose 0.3 percent.<sup>8</sup> Spending moved up noticeably at furniture and home furnishing stores and at general merchandise outlets but declined at electronic and appliance stores and at clothing and accessory outlets. We estimate that real PCE for the control items advanced 0.2 percent in August after slightly larger increases in the preceding two months.

Outlays on services rose 0.3 percent in July (the most recent available data); the gain was led by a surge in estimated expenditures on brokerage and investment

---

8. The increase in nominal retail control was revised down 0.2 percentage point in both June and July.

**CBO BUDGET PROJECTIONS AND ECONOMIC ASSUMPTIONS**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Budget projections under current policies<sup>1</sup> (fiscal years)</b>											
Billions of dollars											
Total surplus	-157	-145	-111	-39	15	52	88	133	177	323	522
On-budget	-314	-315	-299	-246	-209	-190	-174	-147	-122	4	185
Off-budget	157	170	188	207	224	242	262	280	299	319	337
<b>Economic assumptions (calendar years)</b>											
Percent change, year over year											
Nominal GDP	3.4	4.6	5.2	5.2	5.3	5.4	5.4	5.3	5.3	5.2	5.2
Real GDP	2.3	3.0	3.3	3.1	3.2	3.2	3.2	3.2	3.1	3.1	3.0
CPI-U	1.6	2.9	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Percent, annual average											
Unemployment rate	5.9	5.9	5.5	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
<b>Treasury yields</b>											
Three-month	1.7	3.0	4.8	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Ten-year	5.0	5.5	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8

1. The on-budget surplus excludes the social security surplus and the Postal Service (which are off-budget). The current policies baseline assumes that budget authority for discretionary spending grows at the rate of inflation after 2002 and no new mandatory spending or tax legislation is enacted. Baseline includes the budget effects of the economic stimulus legislation enacted in March 2002 and supplemental appropriations enacted in January 2002 and August 2002.

Source. Congressional Budget Office, The Budget and Economic Outlook: An Update (August 2002).

## State and Local Government Finance

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

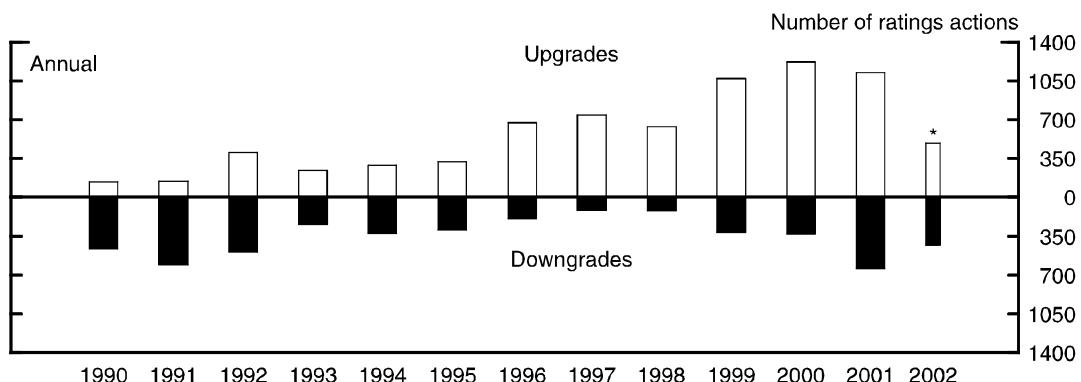
	1999	2000	2001	Q1	Q2	2002	Sept. e
Long-term <sup>1</sup>	18.0	15.0	22.5	21.5	30.8	28.9	31.3
Refundings <sup>2</sup>	4.5	2.2	6.5	6.6	10.3	9.5	9.9
New capital	13.5	12.9	16.0	14.9	20.5	19.4	21.4
Short-term	2.7	2.8	4.3	1.9	7.6	8.5	2.4
Total tax-exempt	20.6	17.9	26.9	23.4	38.4	37.4	33.7
Total taxable	1.1	0.7	1.1	1.0	1.2	1.1	0.3

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

e Staff estimate based on preliminary data through September 12.

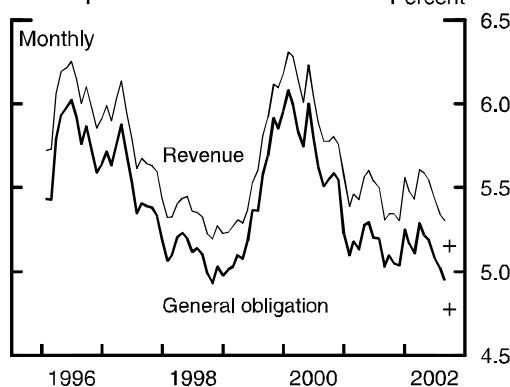
### Bond Rating Changes



\* Data through Sept. 4 at an annual rate.

Source: S&P's Credit Week Municipal and Ratings Direct.

### Municipal Bond Yields

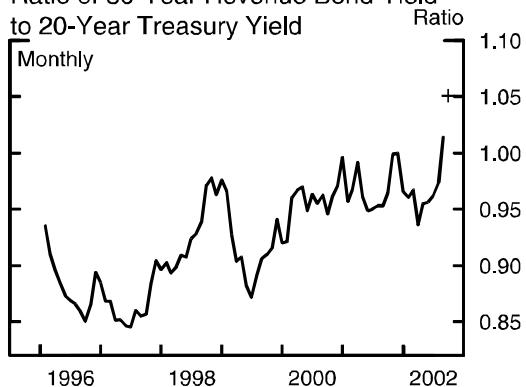


Note. Average of weekly data.

+ Last observation is for week of Sep. 12 .

### Percent

### Ratio of 30-Year Revenue Bond Yield to 20-Year Treasury Yield



Note. Average of weekly data.

+ Last observation is for week of Sep. 12 .