

## **Part 1**

November 3, 2004

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## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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### **Summary and Outlook**

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

Measure	2004:Q3		2004:Q4	
	Sept. GB	Nov. GB	Sept. GB	Nov. GB
<b>Real GDP</b>	<b>3.6</b>	<b>3.4</b>	<b>4.1</b>	<b>3.4</b>
Private domestic final purchases	4.2	5.2	4.8	3.7
Personal consumption expenditures	3.7	4.6	4.1	2.9
Residential investment	-.8	2.1	-.5	.8
Business fixed investment	10.9	11.2	12.6	10.6
Government outlays for consumption and investment	3.9	1.0	1.2	1.1
Inventory investment	-.7	-.5	.2	.2
Net exports	.0	-.7	-.4	-.1

goods and services advanced. Our forecast has real PCE growth slowing to 3 percent in the fourth quarter, mainly because of a drop in spending on motor vehicles. Sales of light vehicles appear to have slipped in October as the manufacturers trimmed incentives; they are likely to remain subdued over the next couple of months unless the automakers backtrack and sweeten the incentive pot. Real disposable personal income (DPI) is expected to increase at an annual rate of 8 percent in the fourth quarter, but the increase is attributable mainly to the one-time Microsoft dividend payout, which is expected to have little effect on consumption.

Housing starts fell sharply in September, but other key indicators of housing activity—in particular, adjusted permits and home sales—were robust. In addition, mortgage rates remain low. Accordingly, we expect single-family starts to rebound in October and to average 1.63 million units at an annual rate in the fourth quarter, the same as in the third quarter. Real residential investment rose at an annual rate of 2 percent in the third quarter after surging earlier in the year; it is expected to increase a little further in the fourth quarter, in part because of post-hurricane rebuilding and repair efforts.

Real investment in equipment and software rose at an annual rate of 15 percent in the third quarter. Although real high-tech spending barely grew, outlays for transportation equipment—especially medium and heavy trucks—advanced briskly, and spending on other capital goods posted an enormous increase—likely in part because of the partial-

<b>Projections of Real GDP</b> (Percent change at annual rate from end of preceding period except as noted)				
Measure	2004: H2	2005: H1	2005	2006
<b>Real GDP</b>	<b>3.4</b>	<b>3.5</b>	<b>3.7</b>	<b>4.0</b>
Previous	3.8	3.7	3.8	4.0
Final sales	3.6	3.9	4.0	3.9
Previous	4.1	3.8	4.0	4.0
PCE	3.8	3.5	3.7	4.0
Previous	3.9	4.0	3.9	4.1
Residential investment	1.5	2.4	2.3	3.9
Previous	-.6	1.8	2.5	3.9
BFI	10.9	5.5	8.1	9.0
Previous	11.8	6.1	9.4	9.9
Government purchases	1.1	3.4	2.9	2.5
Previous	2.5	2.3	2.4	2.7
Exports	7.4	6.7	7.6	7.0
Previous	9.6	6.5	7.2	6.4
Imports	7.7	3.6	5.8	8.3
Previous	7.8	5.1	6.8	8.6
Contribution to growth (percentage points)				
Inventory change	-.2	-.5	-.3	.1
Previous	-.3	-.1	-.2	.0
Net exports	-.4	.1	-.1	-.6
Previous	-.2	-.1	-.3	-.7

upgrade aging equipment and software and take advantage of productivity-enhancing innovations. We expect E&S to rise 11 percent in 2006, with solid increases anticipated for both high-tech and other types of spending. (The new corporate tax legislation is expected to have little effect on equipment spending over the next few years both because the legislation provides only a small, phased-in reduction in marginal tax rates and because the firms that will benefit from the one-time drop in taxes on repatriated earnings are large corporations that already have access to financing from various sources.)

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

Measure	1974-95	1996-2001	2002	2003	2004	2005	2006
<b>Structural labor productivity</b>	<b>1.5</b>	<b>2.7</b>	<b>3.2</b>	<b>3.7</b>	<b>3.0</b>	<b>2.7</b>	<b>2.8</b>
Previous	1.5	2.7	3.2	3.7	3.0	2.7	2.8
<i>Contributions</i> <sup>1</sup>							
Capital deepening	.7	1.3	.6	.6	.8	.9	1.0
Previous	.7	1.4	.6	.6	.8	.9	1.0
Multifactor productivity	.5	1.1	2.4	2.8	2.0	1.6	1.5
Previous	.5	1.1	2.4	2.8	2.0	1.6	1.5
Labor composition	.3	.3	.3	.3	.3	.3	.3
MEMO							
Potential GDP	3.0	3.4	3.4	3.8	3.4	3.2	3.3
Previous	3.0	3.4	3.4	3.8	3.4	3.3	3.4

NOTE. Components may not sum to totals because of rounding. For multiyear periods, the percent change is the annual average from Q4 of the year preceding the first year shown to Q4 of the last shown.

1. Percentage points.

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

Measure	2003	2004	2005	2006
Output per hour, nonfarm business	5.6	2.5	1.9	2.5
Previous	5.6	2.2	1.8	2.6
Nonfarm private payroll employment	-.2	1.5	2.1	2.1
Previous	-.2	1.9	2.5	2.2
Household survey employment	1.2	1.2	1.8	1.5
Previous	1.2	1.4	1.8	1.7
Labor force participation rate <sup>1</sup>	66.1	66.1	66.4	66.5
Previous	66.1	66.2	66.5	66.6
Civilian unemployment rate <sup>1</sup>	5.9	5.5	5.4	5.1
Previous	5.9	5.5	5.3	5.1
MEMO				
GDP gap <sup>2</sup>	1.7	1.4	.9	.2
Previous	1.7	1.2	.7	.1

1. Percent, average for the fourth quarter

2. Percent difference between potential and actual GDP in the fourth quarter of the year indicated. A positive number indicates that the economy is operating below potential.

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

Measure	2003	2004	2005	2006
PCE chain-weighted price index	1.7	2.5	1.2	1.3
Previous	1.7	2.2	1.3	1.3
Food and beverages	2.7	2.8	1.9	1.8
Previous	2.7	2.8	1.9	1.7
Energy	7.2	18.8	-5.5	-1.0
Previous	7.2	11.0	-2.4	-1.4
Excluding food and energy	1.2	1.5	1.5	1.4
Previous	1.2	1.6	1.4	1.3
Consumer price index	1.9	3.3	1.4	1.6
Previous	1.9	2.8	1.5	1.5
Excluding food and energy	1.2	2.1	1.9	1.8
Previous	1.2	2.0	1.8	1.7
GDP chain-weighted price index	1.7	2.2	1.4	1.6
Previous	1.7	2.0	1.7	1.6
ECI for compensation of private industry workers <sup>1</sup>	4.0	4.0	4.2	4.1
Previous	4.0	4.1	4.1	4.2
NFB compensation per hour	5.4	3.6	4.2	4.2
Previous	5.4	3.6	4.1	4.2
Prices of core nonfuel imports	1.6	4.0	.5	.2
Previous	1.6	3.7	.2	.1

1. December to December.

### **Financial Flows and Conditions**

Total domestic nonfinancial debt is on track to grow about 8 percent this year, broadly consistent with our previous forecast. We continue to project that debt growth will slow to a 7 percent pace in 2005 and 2006. The forecasts for household and business borrowing have been revised down slightly since the last Greenbook, but we have revised up the path for government borrowing.

The limited data on household borrowing that we received during the intermeeting period were consistent with our expectations. We expect total household debt to expand nearly 10 percent during 2004, led by a double-digit increase in mortgage debt. Going forward, we expect mortgage borrowing to slow as a result of smaller projected increases in house

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

Measure and scenario	2004		2005		2006
	H1	H2	H1	H2	
<i>Real GDP</i>					
<b>Baseline</b>	<b>3.9</b>	<b>3.4</b>	<b>3.5</b>	<b>3.9</b>	<b>4.0</b>
Faltering expansion	3.9	2.7	2.6	4.1	4.3
Stronger investment	3.9	3.4	4.2	4.3	4.5
Higher productivity	3.9	3.5	3.9	4.4	4.6
Productivity slowdown	3.9	3.4	3.5	3.6	3.2
More inflation	3.9	3.4	3.5	4.1	4.3
Market-based funds rate	3.9	3.4	3.4	3.6	3.6
<i>Civilian unemployment rate<sup>1</sup></i>					
<b>Baseline</b>	<b>5.6</b>	<b>5.5</b>	<b>5.4</b>	<b>5.4</b>	<b>5.1</b>
Faltering expansion	5.6	5.6	5.8	5.8	5.3
Stronger investment	5.6	5.5	5.3	5.2	4.7
Higher productivity	5.6	5.5	5.3	5.3	5.1
Productivity slowdown	5.6	5.5	5.4	5.3	5.1
More inflation	5.6	5.5	5.4	5.4	4.9
Market-based funds rate	5.6	5.5	5.4	5.5	5.4
<i>PCE prices excluding food and energy</i>					
<b>Baseline</b>	<b>1.9</b>	<b>1.1</b>	<b>1.5</b>	<b>1.4</b>	<b>1.4</b>
Faltering expansion	1.9	1.1	1.5	1.3	1.3
Stronger investment	1.9	1.1	1.5	1.4	1.4
Higher productivity	1.9	1.1	1.4	1.3	1.3
Productivity slowdown	1.9	1.1	1.5	1.5	1.7
More inflation	1.9	1.1	1.8	1.7	1.8
Market-based funds rate	1.9	1.1	1.5	1.3	1.3

1. Average for the final quarter of the period.

supply-side risk: the possibility that this year's run-up in energy prices will be more inflationary than we expect. In all these scenarios, the nominal funds rate is assumed to follow its baseline path. The final scenario assumes that the funds rate follows a path consistent with current readings from the futures market.

**Faltering expansion.** As discussed earlier, we believe that this year's run-up in oil prices has significantly restrained real activity. However, we may have underestimated its adverse effects: In the 1970s and early 1980s, large increases in oil prices were

**Selected Greenbook Projections and  
70 Percent Confidence Intervals Derived from  
Historical Forecast Errors and FRB/US Simulations**

Measure	2004	2005	2006
<i>Real GDP</i> <i>(percent change, Q4 to Q4)</i>			
Projection	3.7	3.7	4.0
Confidence interval			
Greenbook forecast errors <sup>1</sup>	3.1–4.2	1.9–5.5	2.1–5.8
FRB/US stochastic simulations	3.0–4.2	2.2–5.3	2.2–5.8
<i>Civilian unemployment rate</i> <i>(percent, Q4)</i>			
Projection	5.5	5.4	5.1
Confidence interval			
Greenbook forecast errors <sup>1</sup>	5.4–5.6	4.6–6.1	4.0–6.2
FRB/US stochastic simulations	5.2–5.7	4.5–6.1	4.0–6.1
<i>PCE prices</i> <i>excluding food and energy</i> <i>(percent change, Q4 to Q4)</i>			
Projection	1.5	1.5	1.4
Confidence interval			
Greenbook forecast errors <sup>2</sup>	1.3–1.7	.8–2.2	.4–2.4
FRB/US stochastic simulations	1.3–1.7	.8–2.2	.5–2.3

NOTE. Shocks underlying stochastic simulations are randomly drawn from the 1978–2003 set of model equation residuals.

1. 1978–2003.

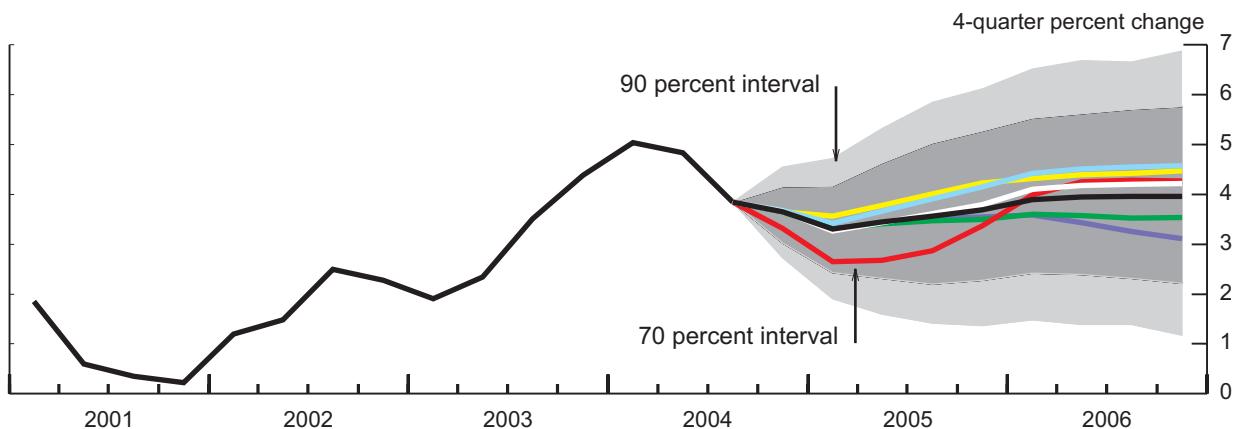
2. 1981–2003.

## Forecast Confidence Intervals and Alternative Scenarios

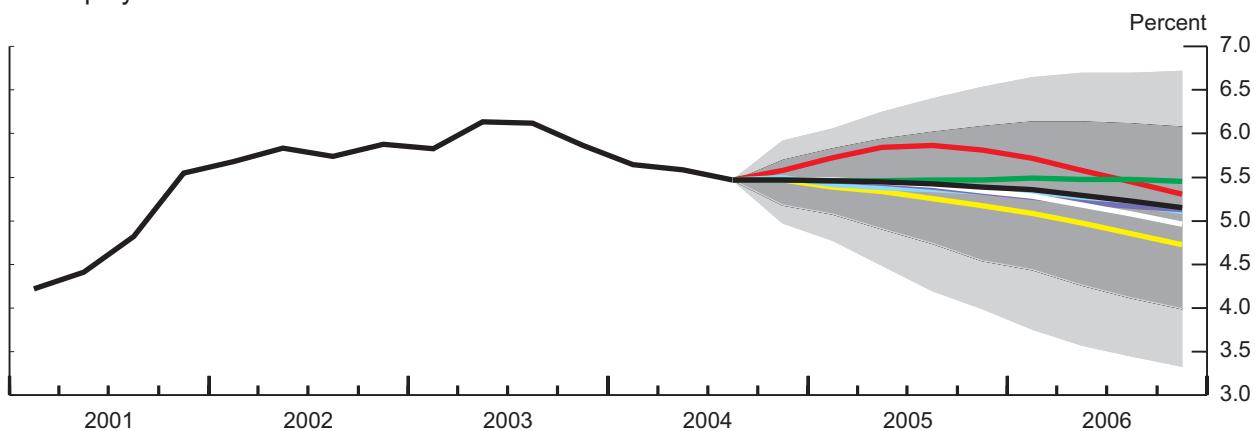
Confidence Intervals Based on FRB/US Stochastic Simulations

- |  |  |
|--|--|
| <span style="color: black;">█</span> Greenbook baseline<br><span style="color: red;">█</span> Faltering expansion<br><span style="color: yellow;">█</span> Stronger investment<br><span style="color: lightblue;">█</span> Higher productivity | <span style="color: purple;">█</span> Productivity slowdown<br><span style="color: white;">█</span> More inflation<br><span style="color: green;">█</span> Market-based funds rate |
|--|--|

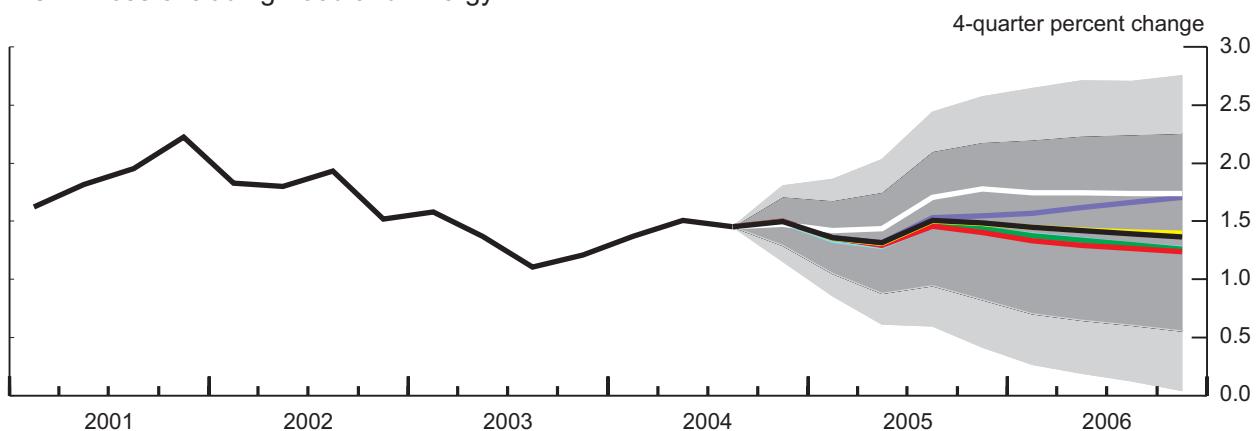
**Real GDP**



**Unemployment Rate**



**PCE Prices excluding Food and Energy**



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

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>		
	09/15/04	11/03/04	09/15/04	11/03/04	09/15/04	11/03/04	09/15/04	11/03/04	09/15/04	11/03/04	
<b>ANNUAL</b>											
2002		3.5	3.5	1.9	1.9	1.7	1.7	1.6	1.6	5.8	5.8
2003		4.9	4.9	3.0	3.0	1.8	1.8	2.3	2.3	6.0	6.0
2004		6.4	6.5	4.4	4.3	2.0	2.1	2.5	2.7	5.5	5.5
2005		5.5	5.2	3.8	3.5	1.6	1.6	1.7	2.0	5.4	5.4
2006		5.7	5.6	4.0	3.9	1.6	1.6	1.5	1.5	5.2	5.3
<b>QUARTERLY</b>											
2003	Q1	4.9	4.9	1.9	1.9	2.7	2.7	3.8	3.8	5.8	5.8
	Q2	5.3	5.3	4.1	4.1	1.1	1.1	0.7	0.7	6.1	6.1
	Q3	8.8	8.8	7.4	7.4	1.4	1.4	2.4	2.4	6.1	6.1
	Q4	5.7	5.7	4.2	4.2	1.6	1.6	0.7	0.7	5.9	5.9
2004	Q1	7.4	7.4	4.5	4.5	2.8	2.8	3.5	3.5	5.6	5.6
	Q2	6.6	6.6	3.3	3.3	3.2	3.2	4.8	4.8	5.6	5.6
	Q3	4.5	4.8	3.6	3.4	0.8	1.3	1.8	1.9	5.5	5.5
	Q4	5.2	5.2	4.1	3.4	1.1	1.7	1.1	3.2	5.5	5.5
2005	Q1	5.8	4.8	3.7	3.1	2.1	1.6	1.6	1.6	5.4	5.5
	Q2	5.5	5.2	3.8	3.8	1.7	1.3	1.5	1.1	5.4	5.4
	Q3	5.5	5.4	3.9	3.9	1.5	1.4	1.5	1.3	5.4	5.4
	Q4	5.5	5.5	3.9	3.9	1.5	1.5	1.5	1.5	5.3	5.4
2006	Q1	6.0	5.8	4.0	3.9	1.9	1.8	1.5	1.5	5.3	5.4
	Q2	5.6	5.6	4.0	4.0	1.5	1.5	1.5	1.6	5.2	5.3
	Q3	5.6	5.5	4.0	4.0	1.5	1.5	1.5	1.5	5.2	5.2
	Q4	5.5	5.4	4.0	4.0	1.4	1.4	1.5	1.6	5.1	5.1
<b>TWO-QUARTER<sup>3</sup></b>											
2003	Q2	5.1	5.1	3.0	3.0	1.9	1.9	2.2	2.2	0.2	0.2
	Q4	7.2	7.2	5.8	5.8	1.5	1.5	1.5	1.5	-0.2	-0.2
2004	Q2	7.0	7.0	3.9	3.9	3.0	3.0	4.2	4.2	-0.3	-0.3
	Q4	4.8	5.0	3.8	3.4	1.0	1.5	1.5	2.5	-0.1	-0.1
2005	Q2	5.7	5.0	3.7	3.5	1.9	1.4	1.6	1.3	-0.1	-0.1
	Q4	5.5	5.4	3.9	3.9	1.5	1.4	1.5	1.4	-0.1	0.0
2006	Q2	5.8	5.7	4.0	4.0	1.7	1.7	1.5	1.5	-0.1	-0.1
	Q4	5.5	5.5	4.0	4.0	1.4	1.5	1.5	1.6	-0.1	-0.2
<b>FOUR-QUARTER<sup>4</sup></b>											
2002	Q4	3.8	3.8	2.3	2.3	1.6	1.6	2.2	2.2	0.3	0.3
2003	Q4	6.2	6.2	4.4	4.4	1.7	1.7	1.9	1.9	0.0	0.0
2004	Q4	5.9	6.0	3.9	3.7	2.0	2.2	2.8	3.3	-0.4	-0.4
2005	Q4	5.6	5.2	3.8	3.7	1.7	1.4	1.5	1.4	-0.1	-0.1
2006	Q4	5.7	5.6	4.0	4.0	1.6	1.6	1.5	1.6	-0.2	-0.2

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.

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

Item	Units <sup>1</sup>	Projected - - - - -									
		1998	1999	2000	2001	2002	2003	2004	2005	2006	
<b>Expenditures</b>											
Nominal GDP	Bill. \$	8747.0	9268.4	9817.0	10128.0	10487.0	11004.0	11717.4	12321.2	13006.0	
Real GDP	Bill. Ch. \$	9066.9	9470.3	9817.0	9890.7	10074.8	10381.3	10831.3	11210.9	11652.5	
Real GDP	% change	4.5	4.7	2.2	0.2	2.3	4.4	3.7	3.7	4.0	
Gross domestic purchases		5.5	5.5	3.0	0.4	3.1	4.3	4.2	3.6	4.3	
Final sales		4.8	4.2	2.9	1.5	1.2	4.5	3.3	4.0	3.9	
Priv. dom. final purchases		6.4	5.3	4.3	1.0	1.7	4.9	4.2	4.1	4.6	
Personal cons. expenditures		5.4	4.9	4.1	2.8	2.5	3.8	3.3	3.7	4.0	
Durables		14.4	7.3	4.7	10.8	1.5	9.9	5.0	6.6	6.1	
Nondurables		4.7	4.9	3.0	1.9	2.3	4.6	3.6	4.0	4.7	
Services		3.8	4.4	4.5	1.6	2.9	2.2	2.8	2.9	3.2	
Business fixed investment		10.9	7.7	7.8	-9.6	-6.0	9.4	9.5	8.1	9.0	
Equipment & Software		13.5	10.8	7.5	-9.0	-2.2	12.1	12.4	8.7	11.2	
Nonres. structures		4.0	-0.9	8.8	-11.1	-16.1	1.5	0.5	6.4	2.0	
Residential structures		10.3	3.6	-1.9	1.4	6.9	12.0	5.9	2.3	3.9	
Exports		2.6	5.6	6.5	-11.9	3.5	6.1	7.3	7.6	7.0	
Imports		11.0	12.1	11.2	-7.6	9.7	4.9	9.6	5.8	8.3	
Gov't. cons. & investment		3.3	4.2	0.4	5.0	3.8	2.2	1.7	2.9	2.5	
Federal		0.1	4.2	-2.2	6.4	8.2	5.5	3.6	3.5	2.0	
Defense		-1.2	4.3	-3.5	6.5	8.5	8.5	4.9	4.3	2.4	
State & local		5.1	4.2	1.7	4.2	1.6	0.4	0.6	2.5	2.8	
Change in bus. inventories	Bill. Ch. \$	72.6	68.9	56.5	-31.7	11.7	-0.8	49.7	28.2	30.4	
Nonfarm		71.2	71.5	57.8	-31.8	13.5	-1.1	47.0	25.8	28.4	
Net exports		-203.8	-296.2	-379.5	-399.1	-472.1	-518.5	-583.6	-605.4	-659.6	
Nominal GDP	% change	5.7	6.3	4.6	2.7	3.8	6.2	6.0	5.2	5.6	
GDP Gap <sup>2</sup>	%	-1.6	-2.4	-2.5	0.1	1.6	2.2	1.4	1.2	0.5	
<b>Employment and Production</b>											
Nonfarm payroll employment	Millions	125.9	129.0	131.8	131.8	130.3	129.9	131.2	133.3	136.0	
Unemployment rate	%	4.5	4.2	4.0	4.7	5.8	6.0	5.5	5.4	5.3	
Industrial prod. index	% change	4.4	4.9	2.3	-5.2	1.3	1.5	4.7	4.9	4.5	
Capacity util. rate - mfg.	%	82.0	81.4	81.1	75.4	73.9	73.4	76.1	78.2	80.4	
Housing starts	Millions	1.62	1.64	1.57	1.60	1.70	1.85	1.95	1.94	1.96	
Light motor vehicle sales		15.52	16.90	17.35	17.12	16.79	16.62	16.72	17.39	17.95	
North Amer. produced		13.48	14.41	14.48	14.04	13.49	13.32	13.37	13.88	14.38	
Other		2.03	2.49	2.87	3.08	3.30	3.31	3.36	3.52	3.57	
<b>Income and Saving</b>											
Nominal GNP	Bill. \$	8768.3	9302.2	9855.9	10171.6	10514.1	11059.2	11753.6	12321.1	12971.5	
Nominal GNP	% change	5.5	6.5	4.7	2.9	3.5	6.5	5.2	5.1	5.2	
Nominal personal income		7.0	5.5	7.1	2.2	1.9	4.6	6.0	5.0	6.5	
Real disposable income		5.6	2.8	4.4	1.2	2.9	3.9	3.5	3.2	5.0	
Personal saving rate	%	4.3	2.4	2.3	1.8	2.0	1.4	1.1	1.1	2.3	
Corp. profits, IVA & CCAdj.	% change	-10.0	9.6	-8.6	-0.2	15.4	23.3	6.2	-0.4	-0.9	
Profit share of GNP	%	9.1	9.2	8.3	7.5	8.3	9.2	9.8	9.7	9.2	
Excluding FR Banks		8.9	8.9	8.0	7.3	8.1	9.1	9.7	9.6	9.0	
Federal surpl./deficit	Bill. \$	38.8	103.6	189.5	46.7	-254.5	-364.5	-378.0	-275.1	-339.5	
State & local surpl./def.		52.0	50.4	50.0	4.8	-25.0	-3.2	13.3	8.0	11.1	
Ex. social ins. funds		50.3	48.7	47.9	2.2	-26.6	-4.3	11.9	6.4	9.5	
Gross natl. saving rate	%	18.2	18.0	18.0	16.3	14.1	13.5	13.6	13.6	13.8	
Net natl. saving rate		7.4	6.9	6.7	4.2	2.0	1.4	1.7	2.0	2.2	
<b>Prices and Costs</b>											
GDP chn.-wt. price index	% change	1.1	1.6	2.2	2.4	1.6	1.7	2.2	1.4	1.6	
Gross Domestic Purchases chn.-wt. price index		0.7	2.0	2.4	1.6	1.8	1.8	2.8	1.3	1.3	
PCE chn.-wt. price index		0.9	2.1	2.3	1.7	1.8	1.7	2.5	1.2	1.3	
Ex. food and energy		1.4	1.6	1.5	2.2	1.5	1.2	1.5	1.5	1.4	
CPI		1.5	2.6	3.4	1.8	2.2	1.9	3.3	1.4	1.6	
Ex. food and energy		2.3	2.0	2.6	2.7	2.0	1.2	2.1	1.9	1.8	
ECI, hourly compensation <sup>3</sup>		3.5	3.4	4.4	4.2	3.2	4.0	4.0	4.2	4.1	
Nonfarm business sector		2.7	3.4	2.1	3.3	3.5	5.6	2.5	1.9	2.5	
Output per hour		5.5	5.2	6.4	3.5	2.9	5.4	3.6	4.2	4.2	
Compensation per Hour		2.7	1.7	4.3	0.3	-0.6	-0.2	1.0	2.3	1.7	
Unit labor cost											

1. Changes are from fourth quarter to fourth quarter.

2. Percent difference between potential and actual. A positive number indicates that the economy is operating below potential.

3. Private-industry workers.

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

Item	Units	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2
<b>Expenditures</b>											
Nominal GDP	Bill. \$	10338.2	10445.7	10546.5	10617.5	10744.6	10884.0	11116.7	11270.9	11472.6	11657.5
Real GDP	Bill. Ch. \$	9993.5	10052.6	10117.3	10135.9	10184.4	10287.4	10472.8	10580.7	10697.5	10784.7
Real GDP	% change	3.4	2.4	2.6	0.7	1.9	4.1	7.4	4.2	4.5	3.3
Gross domestic purchases		4.4	2.8	2.9	2.4	1.7	4.4	6.4	4.7	5.0	4.2
Final sales		0.3	1.8	2.0	0.7	2.4	5.2	6.8	3.7	3.3	2.5
Priv. dom. final purchases		0.7	1.7	2.4	1.9	2.6	5.1	7.2	4.8	4.2	3.7
Personal cons. expenditures		1.8	2.8	2.9	2.5	2.7	3.9	5.0	3.6	4.1	1.6
Durables		-8.5	4.4	14.0	-2.4	-0.1	20.6	16.5	3.9	2.2	-0.3
Nondurables		3.8	0.8	-0.6	5.3	5.0	1.6	6.9	5.1	6.7	0.1
Services		3.3	3.5	2.4	2.2	2.1	1.8	1.9	2.8	3.3	2.7
Business fixed investment		-9.7	-9.6	-1.1	-3.2	-0.2	11.8	15.7	11.0	4.2	12.5
Equipment & Software		-6.3	-4.5	4.6	-2.0	4.5	11.0	21.7	12.0	8.0	14.2
Nonres. structures		-18.5	-22.6	-16.0	-6.6	-13.0	14.5	-1.3	7.9	-7.6	6.9
Residential structures		9.3	11.3	2.8	4.2	7.5	9.1	22.4	9.6	5.0	16.5
Exports		4.7	11.0	3.1	-4.2	-1.5	-1.6	11.3	17.5	7.3	7.3
Imports		12.5	11.4	5.4	9.6	-1.9	2.5	2.9	17.1	10.6	12.6
Gov't. cons. & investment		4.7	4.4	2.1	4.0	0.2	7.2	0.1	1.6	2.5	2.2
Federal		8.2	12.8	2.9	9.2	0.3	22.1	-3.3	4.8	7.1	2.7
Defense		5.9	11.4	3.4	13.5	-2.8	38.4	-7.7	11.6	10.6	1.9
State & local		2.9	0.3	1.7	1.4	0.1	-0.5	2.2	-0.1	-0.0	1.9
Change in bus. inventories	Bill. Ch. \$	-7.4	7.9	22.7	23.8	9.6	-17.6	-3.5	8.6	40.0	61.1
Nonfarm		-11.9	16.1	24.6	25.3	9.6	-15.7	-2.7	4.6	34.5	58.8
Net exports		-444.9	-458.1	-469.8	-515.4	-511.7	-525.2	-508.7	-528.3	-550.1	-580.3
Nominal GDP <sup>1</sup>	% change	4.4	4.2	3.9	2.7	4.9	5.3	8.8	5.7	7.4	6.6
GDP Gap <sup>1</sup>	%	1.2	1.4	1.6	2.3	2.7	2.6	1.8	1.7	1.4	1.4
<b>Employment and Production</b>											
Nonfarm payroll employment	Millions	130.4	130.4	130.3	130.2	130.0	129.9	129.8	130.0	130.4	131.1
Unemployment rate	%	5.7	5.8	5.7	5.9	5.8	6.1	6.1	5.9	5.6	5.6
Industrial prod. index	% change	1.9	4.2	1.2	-1.9	0.9	-4.0	3.8	5.6	6.6	4.9
Capacity util. rate - mfg.	%	73.7	74.1	74.2	73.5	73.5	72.7	73.2	74.1	75.1	76.1
Housing starts	Millions	1.72	1.68	1.70	1.74	1.74	1.75	1.88	2.04	1.94	1.92
Light motor vehicle sales		16.60	16.54	17.41	16.60	16.09	16.38	17.23	16.80	16.51	16.54
North Amer. produced		13.29	13.29	14.08	13.31	12.71	13.10	13.89	13.57	13.25	13.14
Other		3.32	3.25	3.32	3.29	3.38	3.28	3.34	3.23	3.26	3.40
<b>Income and Saving</b>											
Nominal GNP	Bill. \$	10361.7	10461.6	10571.7	10661.2	10781.3	10929.0	11168.3	11358.1	11546.1	11693.6
Nominal GNP	% change	2.4	3.9	4.3	3.4	4.6	5.6	9.1	7.0	6.8	5.2
Nominal personal income		2.2	4.3	-0.1	1.1	3.8	4.7	4.6	5.3	5.0	6.0
Real disposable income		10.8	2.7	-1.7	0.2	1.8	4.3	8.2	1.4	2.4	2.4
Personal saving rate	%	2.7	2.7	1.6	1.2	1.0	1.1	1.9	1.3	1.0	1.2
Corp. profits, IVA & CCAdj.	% change	24.8	15.2	3.6	19.1	-1.5	36.7	32.0	30.2	13.6	2.9
Profit share of GNP	%	8.1	8.3	8.3	8.6	8.5	9.0	9.5	9.9	10.1	10.0
Excluding FR Banks		7.9	8.1	8.1	8.4	8.3	8.8	9.3	9.8	9.9	9.9
Federal surpl./deficit	Bill. \$	-208.5	-251.6	-255.1	-302.7	-281.6	-364.4	-433.0	-379.2	-391.0	-382.9
State & local surpl./def.		-28.8	-23.6	-21.3	-26.3	-49.0	-5.7	6.5	35.3	11.8	18.3
Ex. social ins. funds		-30.8	-25.3	-22.8	-27.6	-50.1	-6.7	5.4	34.1	10.6	16.9
Gross natl. saving rate	%	15.0	14.6	13.7	13.2	12.8	13.1	13.6	14.3	13.6	13.7
Net natl. saving rate		2.9	2.5	1.5	0.9	0.4	0.9	1.6	2.5	2.1	2.2
<b>Prices and Costs</b>											
GDP chn.-wt. price index	% change	1.4	1.5	1.7	2.0	2.7	1.1	1.4	1.6	2.8	3.2
Gross Domestic Purchases chn.-wt. price index		1.2	2.5	1.8	1.9	3.7	0.4	1.7	1.4	3.4	3.5
PCE chn.-wt. price index		0.9	2.9	2.0	1.4	3.2	0.7	1.6	1.2	3.3	3.1
Ex. food and energy		1.2	2.0	2.0	0.9	1.5	1.1	0.9	1.3	2.1	1.7
CPI		1.4	3.4	2.2	2.0	3.8	0.7	2.4	0.7	3.5	4.8
Ex. food and energy		2.1	2.3	2.1	1.7	1.3	1.0	1.5	0.8	1.9	2.9
ECI, hourly compensation <sup>2</sup>		3.6	4.4	2.5	3.3	5.5	3.4	4.4	3.1	4.3	4.0
Nonfarm business sector		6.9	1.1	4.5	1.6	3.7	6.7	9.0	3.1	3.7	3.8
Output per hour		5.5	3.4	1.5	1.2	5.3	5.7	6.1	4.4	2.0	4.9
Compensation per hour		-1.4	2.3	-2.9	-0.3	1.6	-1.0	-2.7	1.2	-1.6	1.0

1. Percent difference between potential and actual. A positive number indicates that the economy is operating below potential.  
 2. Private-industry workers.

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

Item	Units	Projected									
		2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	11795.1	11944.5	12084.1	12237.0	12398.9	12564.8	12744.0	12919.3	13092.9	13267.5
Real GDP	Bill. Ch. \$	10875.5	10967.6	11051.7	11155.8	11263.5	11372.7	11482.4	11595.9	11708.8	11823.2
Real GDP	% change	3.4	3.4	3.1	3.8	3.9	3.9	3.9	4.0	4.0	4.0
Gross domestic purchases		4.0	3.5	2.9	3.4	4.0	4.2	4.5	3.9	4.3	4.5
Final sales		4.0	3.3	3.4	4.5	4.1	3.8	3.6	4.3	3.9	3.7
Priv. dom. final purchases		5.2	3.7	2.9	4.5	4.6	4.5	4.6	4.6	4.6	4.6
Personal cons. expenditures		4.6	2.9	3.3	3.8	3.8	3.9	3.9	4.0	4.0	4.0
Durables		16.8	2.1	6.9	6.5	6.6	6.2	6.4	5.7	6.2	
Nondurables		3.9	3.7	3.8	4.0	4.1	4.2	4.5	4.7	4.8	4.8
Services		2.7	2.8	2.3	3.1	3.1	3.1	3.1	3.2	3.2	
Business fixed investment		11.2	10.6	0.5	10.7	11.5	10.1	9.3	9.0	9.0	9.0
Equipment & Software		15.1	12.5	-0.8	12.2	12.5	11.4	11.1	11.3	11.2	11.3
Nonres. structures		-1.1	4.2	5.2	6.1	8.4	5.8	3.4	1.6	1.7	1.5
Residential structures		2.1	0.8	2.9	1.9	1.9	2.3	3.8	3.9	3.9	
Exports		4.5	10.4	5.6	7.8	7.9	9.0	5.8	7.0	6.9	8.2
Imports		7.9	7.4	3.6	3.6	6.9	9.4	9.4	5.5	8.0	10.4
Gov't. cons. & investment		1.0	1.1	4.5	2.3	2.4	2.4	2.5	2.5	2.5	2.6
Federal		4.5	0.2	8.4	2.1	2.1	1.7	1.9	2.0	2.0	2.2
Defense		9.3	-1.7	10.9	2.2	2.3	2.1	2.1	2.3	2.4	2.8
State & local		-1.0	1.7	2.2	2.4	2.6	2.8	2.8	2.8	2.8	
Change in bus. inventories	Bill. Ch. \$	46.6	51.3	44.4	25.6	19.8	23.0	33.5	25.8	27.5	34.8
Nonfarm		46.2	48.4	41.4	22.8	18.0	21.1	31.4	23.9	25.5	32.7
Net exports		-600.4	-603.6	-603.2	-596.5	-603.7	-618.2	-642.6	-646.9	-662.7	-686.1
Nominal GDP	% change	4.8	5.2	4.8	5.2	5.4	5.5	5.8	5.6	5.5	5.4
GDP Gap <sup>1</sup>	%	1.4	1.4	1.4	1.3	1.1	0.9	0.8	0.6	0.4	0.2
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	131.5	131.8	132.3	132.9	133.6	134.4	135.0	135.7	136.4	136.9
Unemployment rate	%	5.5	5.5	5.5	5.4	5.4	5.4	5.4	5.3	5.2	5.1
Industrial prod. index	% change	2.9	4.6	4.7	4.8	5.0	5.0	4.6	4.4	4.4	4.6
Capacity util. rate - mfg.	%	76.5	76.8	77.3	77.9	78.5	79.2	79.7	80.2	80.6	81.2
Housing starts	Millions	1.97	1.98	1.93	1.94	1.94	1.95	1.96	1.96	1.96	1.97
Light motor vehicle sales		17.06	16.78	17.10	17.29	17.49	17.69	17.82	17.94	17.96	18.08
North Amer. produced		13.80	13.28	13.60	13.78	13.97	14.15	14.28	14.38	14.48	
Other		3.27	3.50	3.50	3.51	3.52	3.54	3.54	3.56	3.58	3.60
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	11824.9	11949.9	12091.5	12236.7	12397.9	12558.3	12724.2	12891.6	13055.0	13215.2
Nominal GNP	% change	4.6	4.3	4.8	4.9	5.4	5.3	5.4	5.4	5.2	5.0
Nominal personal income		2.7	10.6	1.6	6.0	6.3	6.2	8.1	6.2	5.9	5.8
Real disposable income		1.3	8.1	-0.9	4.7	4.7	4.6	6.4	4.7	4.4	4.3
Personal saving rate	%	0.5	1.7	0.7	1.0	1.3	1.5	2.1	2.3	2.4	2.5
Corp. profits, IVA & CCAdj.	% change	-26.0	47.0	1.5	-2.4	-0.7	0.1	-1.1	0.6	-1.2	-1.9
Profit share of GNP	%	9.2	10.0	10.0	9.8	9.6	9.5	9.4	9.3	9.1	9.0
Excluding FR Banks		9.0	9.9	9.8	9.6	9.5	9.4	9.2	9.1	9.0	8.8
Federal surpl./deficit	Bill. \$	-394.4	-343.5	-297.6	-277.7	-260.9	-264.5	-332.6	-337.8	-341.9	-345.6
State & local surpl./def.		11.2	11.8	8.7	5.6	8.1	9.5	9.8	9.8	10.9	13.8
Ex. social ins. funds		9.7	10.2	7.1	4.0	6.5	7.9	8.2	8.2	9.3	12.2
Gross natl. saving rate	%	13.5	13.4	13.4	13.5	13.7	13.7	13.7	13.8	13.8	13.8
Net natl. saving rate		0.9	1.8	1.8	1.9	2.1	2.2	2.1	2.3	2.3	2.3
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	1.3	1.7	1.6	1.3	1.4	1.5	1.8	1.5	1.5	1.4
Gross Domestic Purchases chn.-wt. price index		1.8	2.5	1.7	1.1	1.2	1.3	1.6	1.3	1.2	1.2
PCE chn.-wt. price index		1.1	2.5	1.3	1.0	1.1	1.3	1.3	1.3	1.3	1.3
Ex. food and energy		0.7	1.5	1.6	1.5	1.5	1.4	1.4	1.4	1.3	1.3
CPI		1.9	3.2	1.6	1.1	1.3	1.5	1.5	1.6	1.5	1.6
Ex. food and energy		1.6	2.3	2.0	1.9	1.9	1.8	1.8	1.8	1.7	1.7
ECI, hourly compensation <sup>2</sup>		3.5	4.0	4.2	4.2	4.2	4.2	4.2	4.1	4.1	4.1
Nonfarm business sector		1.0	1.6	1.5	2.1	1.9	2.0	2.2	2.5	2.5	2.7
Output per hour		3.5	3.9	4.3	4.2	4.2	4.2	4.2	4.2	4.1	4.1
Compensation per hour		2.4	2.3	2.7	2.1	2.3	2.2	2.0	1.6	1.6	1.4
Unit labor cost											

1. Percent difference between potential and actual. A positive number indicates that the economy is operating below potential.  
 2. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	Projected												
	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	02Q4/01Q4	03Q4/02Q4	04Q4/03Q4
Real GDP Gross dom. purchases	2.6	0.7	1.9	4.1	7.4	4.2	4.5	3.3	3.4	2.3	4.4	4.5	3.7
Final sales	2.0	0.7	2.4	5.1	6.8	3.7	3.3	2.5	3.9	1.2	4.5	4.2	3.3
Priv. dom. final purchases	2.1	1.6	2.2	4.3	6.2	4.1	3.6	3.2	4.5	1.4	4.2	3.6	3.6
Personal cons. expenditures	2.0	1.7	1.8	2.7	3.6	2.5	2.9	1.1	3.2	1.8	2.7	2.3	2.3
Durables	1.2	-0.2	-0.0	1.6	1.4	0.5	0.2	-0.1	1.3	0.1	0.8	0.1	0.4
Nondurables	-0.1	1.0	1.0	0.3	1.4	1.0	1.3	0.0	0.8	0.5	0.9	0.5	0.7
Services	1.0	0.9	0.9	0.8	0.8	1.2	1.4	1.1	1.1	1.2	0.9	1.2	1.2
Business fixed investment	-0.1	-0.3	-0.0	1.1	1.5	1.1	0.4	1.2	1.1	-0.6	0.9	1.0	1.0
Equipment & Software	0.3	-0.2	-0.3	0.8	1.5	0.9	0.6	1.1	1.1	-0.2	0.9	1.0	1.0
Nonresidential structures	-0.5	-0.2	-0.3	0.3	0.5	0.0	-0.2	0.2	0.2	-0.5	0.0	0.0	0.0
Residential structures	0.1	0.2	0.4	0.4	1.1	0.5	0.3	0.9	0.1	0.3	0.6	0.3	0.3
Net exports	-0.4	-1.7	0.1	-0.5	0.6	-0.7	-0.8	-1.1	-0.7	-0.9	-0.1	-0.7	-0.7
Exports	0.3	-0.4	-0.2	-0.2	1.0	1.6	0.7	0.7	0.4	0.3	0.6	0.7	0.7
Imports	-0.7	-1.3	0.3	-0.3	-0.4	-2.2	-1.5	-1.8	-1.2	-1.3	-0.7	-1.4	-1.4
Government cons. & invest.	0.4	0.8	0.1	1.4	0.0	0.3	0.5	0.4	0.2	0.7	0.4	0.3	0.3
Federal	0.2	0.6	0.0	1.4	-0.2	0.3	0.5	0.2	0.3	0.5	0.4	0.2	0.2
Defense	0.1	0.5	-0.1	1.5	-0.4	0.5	0.5	0.1	0.4	0.3	0.4	0.2	0.2
Nondefense	0.1	0.0	0.2	-0.1	0.1	-0.2	0.0	0.1	-0.1	-0.0	0.2	0.0	0.0
State and local	0.2	0.2	0.0	-0.1	0.3	-0.0	0.0	0.2	-0.1	0.2	0.1	0.1	0.1
Change in bus. inventories	0.6	0.1	-0.5	-1.0	0.6	0.5	1.2	0.8	-0.5	1.1	-0.1	0.4	0.4
Nonfarm	0.4	0.1	-0.5	-0.9	0.5	0.3	1.1	0.9	-0.5	1.0	-0.2	0.4	0.4
Farm	0.2	0.0	0.1	-0.1	0.1	0.2	0.1	-0.1	0.0	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	Projected								Projected	
	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2006 Q4/03Q4
Real GDP Gross dom. purchases	3.4	3.1	3.8	3.9	3.9	4.0	4.0	4.0	4.7	4.0/4.5
Final sales Priv. dom. final purchases	3.3	3.3	4.5	4.1	3.8	3.6	4.3	3.9	3.7	3.9/4.5
Personal cons. expenditures	2.1	2.3	2.6	2.7	2.7	2.7	2.8	2.8	2.3	2.6/4.0
Durables	0.2	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.6/0.5
Nondurables	0.7	0.8	0.8	0.8	0.9	0.9	1.0	1.0	0.7	0.8/0.9
Services	1.1	0.9	1.3	1.3	1.3	1.3	1.4	1.4	1.2	1.2/1.3
Business fixed investment	1.1	0.1	1.1	1.2	1.0	1.0	1.0	1.0	1.0	0.8/1.0
Equipment & Software	1.0	-0.1	0.9	1.0	0.9	0.9	0.9	0.9	1.0	0.7/0.9
Nonresidential structures	0.1	0.1	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.2/0.1
Residential structures	0.0	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.2/0.2
Net exports	-0.1	0.0	0.2	-0.3	-0.5	-0.8	-0.1	-0.5	-0.7	-0.6/0.7
Exports	-1.0	0.6	0.8	-0.8	-0.9	-0.6	-0.7	-0.7	-0.7	-0.7/0.7
Imports	-1.1	-0.6	-0.6	-1.1	-1.4	-1.4	-0.9	-1.2	-1.4	-1.3/-1.3
Government cons. & invest.	0.2	0.8	0.4	0.5	0.5	0.5	0.5	0.5	0.3	0.5/0.5
Federal	0.0	0.6	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2/0.1
Defense	-0.1	0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2/0.1
Nondefense	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0/0.0
State and local	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.1	0.3/0.3
Change in bus. inventories	0.2	-0.2	-0.7	-0.2	0.1	0.4	-0.3	0.1	0.2	-0.3/0.1
Nonfarm	0.1	-0.3	-0.7	-0.2	0.1	0.4	-0.3	0.1	0.4	-0.2/0.1
Farm	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)

November 3, 2004

Item	Fiscal year			2004				2005				2006				
	2003 <sup>a</sup>	2004 <sup>a</sup>	2005	2006	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget</b>																
Receipts <sup>1</sup>	1782	1880	2025	2196	410	550	480	453	440	624	509	515	475	667	539	528
Outlays <sup>1</sup>	2159	2292 <sup>2</sup>	2437	2588	580	576	565	609	615	606	608	628	651	641	673	-102
Surplus/deficit <sup>1</sup>	-377	-413	-412	-392	-171	-26	-86	-156	-175	18	-99	-113	-193	16	-144	-144
On-budget	-538	-568	-577	-576	-193	-99	-96	-196	-210	-59	-112	-156	-233	-69	-118	-192
Off-budget	161	155	165	184	23	73	10	40	34	77	13	43	40	85	16	48
Means of financing																
Borrowing	374	379	423	399	136	41	83	145	137	41	101	93	193	18	95	129
Cash decrease	26	-1	-9	0	12	-23	8	11	14	-49	15	15	0	-30	15	15
Other <sup>2</sup>	-22	35	-2	-7	23	8	-6	-0	24	-9	-17	5	0	-4	-8	-0
Cash operating balance, end of period	35	36	45	45	21	45	36	25	11	60	45	30	30	60	45	30
<b>NIPA federal sector</b>																
Receipts	1863	1927	2140	2290	1915	1946	1944	2026	2026	2138	2174	2220	2247	2287	2323	2348
Expenditures	2209	2313	2434	2609	2306	2329	2338	2370	2436	2452	2480	2512	2619	2640	2665	2693
Consumption expenditures	646	694	739	775	691	700	713	716	742	747	753	758	775	786	793	
Defense	425	469	504	530	465	474	487	486	506	510	514	518	530	534	539	545
Nondefense	221	225	235	244	226	227	227	230	236	237	239	240	245	246	247	248
Other spending	1563	1619	1695	1834	1615	1629	1625	1654	1694	1705	1728	1754	1845	1859	1879	1900
Current account surplus	-345	-387	-295	-319	-391	-383	-394	-344	-298	-278	-261	-264	-333	-338	-342	-346
Gross investment	92	102	109	114	102	104	104	106	109	110	112	112	113	115	116	117
Gross saving less gross investment <sup>3</sup>	-347	-396	-308	-333	-402	-394	-405	-355	-312	-292	-275	-279	-347	-352	-356	-360
<b>Fiscal indicators<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-271	-346	-265	-310	-354	-349	-360	-309	-265	-249	-237	-247	-320	-332	-342	-353
Change in HEB, percent of potential GDP	1.2	0.5	-0.8	0.3	0.2	-0.1	0.1	-0.5	-0.4	-0.2	-0.1	0.1	0.6	0.1	0.0	0.0
Fiscal impetus (FI) percent of GDP	1.0	0.9	0.1	0.2	0.2	0.1	0.1	0.1	-0.2	0.0	0.0	0.0	0.1	0.1	0.1	0.0

1. OMB's July 2004 baseline surplus estimates are -\$44 billion in FY 2004, -\$292 billion in FY 2005, and -\$234 billion in FY 2006, and surplus estimates under enactment of its proposed policies are -\$45 billion, -\$331 billion, and -\$261 billion respectively. CBO's September 2004 baseline surplus estimates are -\$422 billion in FY 2004, -\$348 billion in FY 2005 and -\$298 billion in FY 2006. 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.

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

3. Gross saving is the current account surplus plus consumption of fixed capital of the general government as well as government enterprises.

4. HEB is gross saving less gross investment (NIPA) of the federal government in current dollars, with cyclically sensitive receipts and outlays adjusted to the staff's measure of potential output and the NAIRU. 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 (2000) dollars, scaled by real GDP. The annual FI estimates are on a calendar year basis. Also, for FI and the change in HEB, positive values indicate aggregate demand stimulus.

a-Actual

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

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

November 3, 2004

Period <sup>1</sup>	Total	Federal government	Nonfederal				State and local governments	Memo: Nominal GDP
			Total	Households	Home mortgages	Consumer credit		
<i>Year</i>								
1999	6.3	-1.9	8.8	8.1	9.1	7.4	10.6	3.4
2000	4.9	-8.0	8.4	8.7	8.3	10.7	9.4	1.3
2001	6.2	-0.2	7.7	9.0	9.8	8.0	6.1	8.9
2002	6.9	7.6	6.7	9.6	11.9	4.1	2.8	11.1
2003	8.1	10.9	7.5	10.2	12.7	4.3	4.3	3.8
2004	8.1	10.0	7.6	9.6	11.1	4.7	5.2	6.2
2005	6.9	8.4	6.6	7.4	8.2	5.4	6.0	5.2
2006	6.9	9.0	6.4	6.9	7.5	5.2	6.5	5.6
<i>Quarter</i>								
2004:1	9.1	12.0	8.5	11.3	13.1	6.1	4.8	9.5
2	7.7	10.7	7.0	9.5	11.1	2.2	4.4	4.6
3	7.0	4.9	7.5	8.4	9.7	4.9	5.2	6.6
4	7.5	11.2	6.7	7.9	8.9	5.4	6.0	4.8
2005:1	7.3	11.0	6.4	7.6	8.4	5.5	5.3	12.3
2	7.2	9.7	6.6	7.3	8.1	5.2	6.1	4.5
3	6.3	6.0	6.4	7.0	7.7	5.3	6.1	4.8
4	6.2	5.8	6.3	6.9	7.6	5.2	6.0	5.2
2006:1	7.9	14.8	6.3	6.8	7.4	5.3	6.3	5.5
2	6.5	7.1	6.3	6.7	7.4	5.2	6.3	5.6
3	6.0	5.0	6.3	6.7	7.3	5.0	6.3	5.5
4	6.6	8.2	6.2	6.6	7.2	4.9	6.4	5.4

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2004: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 at seasonally adjusted annual rates except as noted)**

November 3, 2004

Category	2003	2004	2005	2006	2004				2005				2006				
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<i>Net funds raised by domestic nonfinancial sectors</i>																	
1 Total	1615.2	1620.9	1497.6	1712.6	1468.6	1465.6	1539.2	1582.2	1427.0	1442.0	1967.3	1626.3	1538.5	1718.1			
2 Net equity issuance	-57.8	-175.2	-168.0	-71.0	-156.8	-302.0	-208.0	-174.0	-153.0	-137.0	-71.0	-71.0	-71.0	-71.0			
3 Net debt issuance	1672.9	1796.1	1665.6	1783.6	1625.4	1767.6	1747.2	1756.2	1580.0	1579.0	2038.3	1697.3	1609.5	1789.1			
<i>Borrowing sectors</i>																	
Nonfinancial business																	
4 Financing gap <sup>1</sup>	-18.7	42.4	8.1	187.9	-6.0	177.2	-20.3	-9.1	20.9	40.9	175.4	171.6	189.8	214.9			
5 Net equity issuance	-57.8	-175.2	-168.0	-71.0	-156.8	-302.0	-208.0	-174.0	-153.0	-137.0	-71.0	-71.0	-71.0	-71.0			
6 Credit market borrowing	302.5	387.0	470.1	534.9	397.9	460.5	415.8	486.2	486.4	492.2	518.1	530.0	538.8	552.5			
Households																	
7 Net borrowing <sup>2</sup>	856.6	889.1	750.1	747.8	821.5	784.5	769.6	751.0	739.6	740.0	741.9	747.2	749.1	752.8			
8 Home mortgages	756.1	744.8	609.0	605.5	692.0	645.2	626.5	612.5	598.5	598.5	603.1	607.8	612.5				
9 Consumer credit	83.0	95.9	114.8	116.1	102.1	112.1	116.1	111.8	115.4	115.7	117.4	117.9	115.1	113.9			
10 Debt/DPI (percent) <sup>3</sup>	108.0	112.7	116.5	117.3	114.4	113.8	115.9	116.4	116.8	117.1	116.9	117.2	117.5	117.8			
State and local governments																	
11 Net borrowing	117.8	115.6	73.8	65.8	199.0	40.7	74.8	74.8	74.8	70.8	66.8	66.8	66.8	62.8			
12 Current surplus <sup>4</sup>	176.2	174.9	169.6	178.3	168.2	170.1	168.3	166.5	170.5	173.2	174.9	176.4	178.8	183.2			
Federal government																	
13 Net borrowing	396.0	404.4	371.6	435.2	207.0	481.9	487.1	444.3	279.2	276.0	711.5	353.3	254.8	421.0			
14 Net borrowing (n.s.a.)	396.0	404.4	371.6	435.2	83.4	144.5	136.6	40.5	101.4	93.1	192.7	17.8	95.3	129.3			
15 Unified deficit (n.s.a.)	396.2	438.0	369.6	423.2	85.9	155.6	175.2	-17.5	99.0	113.0	193.2	-16.2	101.9	144.2			
<i>Depository institutions</i>																	
16 Funds supplied	476.4	649.3	560.3	572.8	280.9	443.8	645.9	495.7	584.9	514.9	659.6	516.6	602.8	512.2			
Memo (percentage of GDP)																	
17 Domestic nonfinancial debt <sup>5</sup>	194.6	197.7	202.1	204.7	198.6	199.7	201.0	202.0	202.8	203.2	203.9	204.8	205.2	205.7			
18 Domestic nonfinancial borrowing	15.2	15.3	13.5	13.7	13.8	14.8	14.5	14.4	12.7	12.6	16.0	13.1	12.3	13.5			
19 Federal government <sup>6</sup>	3.6	3.5	3.0	3.3	1.8	4.0	4.0	3.6	2.3	2.2	5.6	2.7	1.9	3.2			
20 Nonfederal	11.6	11.9	10.5	10.4	12.0	10.8	10.4	10.7	10.5	10.4	10.4	10.4	10.4	10.3	10.3		

Note. Data after 2004: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.

2.64 FOF

4. NIPA state and local government saving plus consumption of fixed capital and net capital transfers.

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.

n.s.a. Not seasonally adjusted.

## International Developments

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Recent data suggest that foreign output decelerated a bit more in the third quarter than we had previously expected, although growth remains solid. Over the intermeeting period, oil prices have risen, and the exchange value of the dollar has declined. These developments contribute to a slight downward revision to our projection of foreign growth in the current quarter and in the next two years. Having reached 4½ percent in the first half of the year, foreign growth is projected to average around 3¼ percent at an annual rate over the forecast period.

Europe, Japan, and emerging Asia have generally reported weaker indicators recently, and the effects of higher oil prices and a lower dollar are expected to be negative for those regions. Notwithstanding some benefits from higher oil prices, growth in Mexico and Canada is projected to moderate because of a slowing in U.S. manufacturing growth, monetary tightening by their respective central banks, and, in the case of Canada, currency appreciation. Chinese GDP growth was surprisingly strong in the third quarter, but other indicators have weakened, and we expect growth there to moderate as investment cools. High energy prices have contributed to increased foreign headline inflation this year, but to date we have seen little spillover to core consumer prices. We continue to expect that headline inflation will ease in coming quarters as oil prices decline, some currencies appreciate, and excess capacity persists in many countries.

### Summary of Staff Projections

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

Indicator	2003	2004	Projection				
			2004			2005	2006
			H1	Q3	Q4		
Foreign output		2.8	4.2	3.2	3.4	3.3	3.2
<i>Previous GB</i>		2.8	4.2	3.6	3.5	3.4	3.3
Foreign CPI		2.1	2.8	2.9	3.1	2.3	2.2
<i>Previous GB</i>		2.1	2.8	3.1	2.5	2.2	2.1

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

The exchange value of the dollar against the major currencies has declined about 4½ percent since the September FOMC meeting in response to weaker-than-expected U.S. economic data and renewed market concerns over the financing burden of the U.S. current account deficit. The path projected for the broad real dollar index has been

### Prices of Internationally Traded Goods

For the third quarter, prices of imported core goods rose at an annual rate of 2¼ percent, down from the 5¼ percent pace in the first half of the year as prices of non-oil industrial supplies decelerated. For the fourth quarter, we project core import price inflation to pick up to 5 percent as some continued effects of the earlier rise in primary commodity prices are augmented by the recent fall in the dollar and pickup in natural gas prices.

With subdued foreign inflation, little change in commodity prices (as embodied in futures prices), and only a modest further depreciation of the dollar, core import price inflation is expected to be about 1 percent in 2005 and nearly zero in 2006. Another factor that will hold down import prices is the expiration of the Multifiber Arrangement at the end of this year, which is expected to lead to a substantial fall in imported apparel prices, reducing core import price inflation more than ½ percentage point in both 2005 and 2006.

Having reached almost 7 percent in the first half of 2004, the inflation rate for exported core goods in the third quarter was only 2¼ percent, held down by falling prices for agricultural goods. In the fourth quarter, core export prices are expected to rise about 3 percent, as higher prices for intermediate materials more than offset continued weakness in agricultural prices. In 2005 and 2006, core export price inflation is projected to be in line with domestic price inflation.

### Staff Projections of Selected Trade Prices

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

Trade category	2003	2004	Projection				
			2004			2005	2006
			H1	Q3	Q4		
<i>Exports</i>							
Core goods		3.4	6.9	2.2	3.0	1.5	2.1
<i>Imports</i>							
Non-oil core goods		1.8	5.2	2.3	5.1	.9	.1
Oil (dollars per barrel)		27.74	34.55	37.46	41.28	39.80	38.94

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

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

as intermediate goods in the production of capital goods that are in turn exported to the United States. In 2006, export growth edges down to 7 percent, reflecting a lessening of the boost to core exports and services resulting from dollar depreciation, as well as the slight waning of growth in foreign GDP. Export growth in both 2005 and 2006 is a touch higher than forecast in the September Greenbook, with a weaker path for the dollar boosting exports of services and core goods.

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

Measure	2003	2004	Projection			
			2004			2005
			H1	Q3	Q4	
Real exports	6.1	7.3	4.5	10.4	7.6	7.0
<i>Previous GB</i>	<i>6.1</i>	<i>7.3</i>	<i>8.6</i>	<i>10.6</i>	<i>7.2</i>	<i>6.4</i>
Real imports	4.9	11.6	7.9	7.4	5.8	8.3
<i>Previous GB</i>	<i>4.9</i>	<i>11.6</i>	<i>5.9</i>	<i>9.7</i>	<i>6.8</i>	<i>8.6</i>

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

### Alternative Simulations

We project that activity in our trading partners will continue to show solid growth over the forecast period. However, foreign growth may be less robust than expected. In our first alternative simulation, we used the FRB/Global model to assess the effects of an autonomous fall in foreign demand that would reduce spending 1 percent of GDP in all major foreign industrial economies in the absence of endogenous adjustment. The shock begins in the first quarter of 2005 and is phased in gradually over four quarters. The shock reduces U.S. real net exports directly through lower foreign demand for U.S.-produced goods and indirectly through a modest dollar appreciation that induces substitution away from U.S.-produced goods. As a result, U.S. GDP growth declines 0.3 percentage point relative to baseline in 2005 and about 0.2 percentage point in 2006. Core PCE inflation falls slightly below baseline because of both a decline in import prices associated with the dollar appreciation and the effects of weaker aggregate demand on domestic prices.

In our second alternative scenario, we considered the effects of a rise in oil prices of \$20 per barrel relative to our baseline path. The shock begins in the first quarter of 2005, and

we assume that households and firms believe the shock is permanent. We used the perfect foresight version of the FRB/US model to implement this simulation because it is better suited to capturing how a permanent oil shock affects expectations of future real income and the marginal return to investment. The oil shock weakens real GDP growth about  $\frac{1}{2}$  percentage point in 2005, as consumer spending falls in response to the reduction in permanent income and as firms reduce investment because of the lower expected return. The oil price shock puts upward pressure on production costs and prices, causing the core PCE inflation rate to rise roughly 0.3 percentage point above baseline in 2005 and 2006.

**Alternative Simulations:**  
**Weaker Foreign Demand and Higher Oil Prices**  
(Percent change from previous period, annual rate)

Indicator and simulation	2004		2005		2006	
	H1	H2	H1	H2	H1	H2
<i>U.S. real GDP</i>						
Baseline	3.9	3.4	3.5	3.9	4.0	4.0
Weaker Foreign Demand	3.9	3.4	3.1	3.7	3.8	3.9
Higher Oil Prices	3.9	3.4	3.0	3.5	3.8	4.0
<i>U.S. PCE prices excluding food and energy</i>						
Baseline	1.9	1.1	1.5	1.4	1.4	1.3
Weaker Foreign Demand	1.9	1.1	1.5	1.3	1.3	1.2
Higher Oil Prices	1.9	1.1	1.8	1.7	1.8	1.5

Note. H1 is Q2/Q4; H2 is Q4/Q2. In the “Weaker foreign demand” simulation, the nominal federal funds rate remains unchanged from baseline. In the “Higher Oil Prices” simulation, the real federal funds rate is unchanged from baseline over the simulation horizon (and then adjusts according to a Taylor rule).

Strictly Confidential (FR)  
 Class II FOMC OUTLOOK FOR FOREIGN REAL GDP AND CONSUMER PRICES: SELECTED COUNTRIES  
 (Percent, Q4 to Q4)

Measure and country	1998	1999	2000	2001	2002	2003	2004	2005	2006	-----Projected-----
<b>REAL GDP (1)</b>										
Total foreign	1.5	5.0	4.3	0.3	3.0	2.7	1.9	2.9	3.3	3.2
Industrial Countries of which:	2.7	4.4	3.6	0.7	2.7	1.9	2.9	2.6	2.5	
Canada	4.4	5.9	4.1	-1.4	3.8	1.7	3.6	3.3	3.1	
Japan	-1.2	0.4	3.9	-2.2	1.8	3.5	2.4	1.7	1.8	
United Kingdom	2.8	3.3	3.0	-2.2	1.9	2.9	2.6	2.4	2.2	
Euro Area (2)	2.0	3.9	2.6	0.8	1.1	0.7	1.9	1.8	1.8	
Germany	0.7	3.3	1.9	0.5	0.5	0.0	1.4	1.3	1.4	
Developing Countries Asia	-0.3	6.1	5.3	-0.3	3.4	4.2	5.1	4.3	4.4	
Korea	-2.2	8.6	5.9	0.9	5.8	6.0	5.4	4.6	4.6	
China	-5.4	11.4	4.5	4.7	7.7	4.1	2.9	4.0	4.4	
Latin America	9.8	17.0	7.6	6.9	8.3	10.0	8.7	7.0	7.5	
Mexico	1.2	4.2	4.4	-1.3	1.4	2.2	4.8	4.0	4.2	
Brazil	2.9	5.4	4.8	-1.2	1.9	2.0	4.8	4.1	4.4	
-1.6	3.4	3.8	-0.8	3.8	-0.1	5.2				
<b>CONSUMER PRICES (3)</b>										
Industrial Countries of which:	0.9	1.1	1.7	0.9	2.1	1.3	1.6	1.4	1.5	
Canada	1.1	2.4	3.1	1.1	3.9	1.7	2.5	1.8	2.0	
Japan	0.7	-1.1	-1.2	-1.3	-0.5	-0.4	-0.2	0.1	0.3	
United Kingdom (4)	1.4	1.2	1.0	-1.0	1.6	1.3	1.2	1.6	2.0	
Euro Area (2)	0.8	1.5	2.5	2.1	2.3	2.0	2.2	1.8	1.7	
Germany	0.3	1.1	1.7	1.5	1.2	1.2	2.0	1.1	0.7	
Developing Countries Asia	9.0	4.6	4.1	2.8	2.9	3.0	4.4	3.5	3.1	
Korea	4.4	0.6	1.8	1.1	0.6	2.1	4.0	2.8	2.4	
China	5.8	1.2	2.6	3.4	3.4	3.5	3.8	4.4	3.3	
Latin America	-1.2	-1.0	0.9	-0.1	-0.6	2.6	4.7	2.2	1.9	
Mexico	15.4	12.5	8.4	5.3	6.4	4.9	5.3	4.4	4.2	
Brazil	17.3	13.5	8.7	5.1	5.3	3.9	5.0	4.0	3.8	
2.0	8.4	6.4	7.5	10.7	11.5	7.1	6.0	5.6		

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

Measure and country	2004				2005				Projected				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>REAL GDP (1)</b>																
Total foreign	4.6	3.8	3.2	3.4	3.2	3.3	3.3	3.3	3.3	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Industrial Countries of which:	3.4	3.0	2.4	2.6	2.6	2.6	2.6	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Canada	3.0	4.3	3.7	3.5	3.4	3.2	3.3	3.3	3.2	3.2	3.1	3.0	3.0	3.0	3.0	3.0
Japan	6.4	1.3	0.6	1.4	1.5	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8
United Kingdom	2.7	3.6	1.5	2.4	2.4	2.5	2.4	2.4	2.4	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Euro Area (2)	2.8	2.0	1.4	1.5	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Germany	1.7	1.9	1.0	1.0	1.1	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Developing Countries	6.4	4.9	4.4	4.7	4.2	4.3	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Asia	7.6	4.8	4.3	5.1	4.6	4.6	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.6
Korea	3.0	2.3	2.5	3.8	3.8	4.0	4.0	4.0	4.0	4.3	4.3	4.3	4.3	4.3	4.5	4.5
China	14.4	2.8	10.1	8.0	7.0	7.0	7.0	7.0	7.0	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Latin America	5.7	4.9	4.4	4.2	3.7	3.9	4.1	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Mexico	5.5	4.9	4.5	4.3	3.8	4.0	4.3	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Brazil	7.2	6.1	4.0	3.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
<b>CONSUMER PRICES (3)</b>																
Industrial Countries of which:	0.8	1.5	1.5	1.6	1.7	1.5	1.6	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.5
Canada	0.8	2.2	2.0	2.5	2.6	2.1	2.3	1.8	1.8	1.8	1.9	2.0	2.0	2.0	2.0	2.0
Japan	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.3
United Kingdom (4)	1.2	1.4	1.2	1.2	1.2	1.5	1.7	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Euro Area (2)	1.7	2.3	2.2	2.2	2.3	2.0	1.9	1.9	1.9	1.8	1.7	1.7	1.7	1.7	1.7	1.7
Germany	1.0	1.9	2.0	2.0	1.9	1.5	1.5	1.5	1.5	1.1	1.0	1.0	1.0	1.0	1.0	1.0
Developing Countries	3.0	3.6	4.5	4.4	4.4	4.2	3.7	3.5	3.5	3.3	3.2	3.2	3.2	3.2	3.2	3.2
Asia	2.2	3.3	4.2	4.0	4.1	3.6	3.6	4.2	4.2	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Korea	3.3	3.4	4.3	3.8	4.2	4.9	4.3	4.3	4.3	4.4	4.4	4.4	4.4	4.4	4.4	4.4
China	2.8	4.4	5.3	4.7	4.8	3.4	3.4	3.4	3.4	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Latin America	4.7	4.5	5.1	5.3	5.0	5.1	4.7	4.7	4.7	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Mexico	4.3	4.3	4.8	5.0	4.6	4.8	4.3	4.3	4.3	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Brazil	6.8	5.5	6.8	7.1	7.0	6.9	6.9	6.9	6.9	6.0	5.5	5.5	5.5	5.5	5.5	5.5

- 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

	1998	1999	2000	2001	2002	2003	---- 2004	---- 2005	Projected 2006
<b>NIPA REAL EXPORTS and IMPORTS</b>									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services									
Exports of G&S	-1.1	-1.0	-0.9	-0.2	-0.9	-0.1	-0.7	-0.1	-0.6
Services	0.3	0.6	0.7	-1.3	0.3	0.6	0.7	0.8	0.7
Computers	-1.4	-1.6	-1.6	1.1	-1.3	-0.7	-1.4	-0.9	-1.3
Semiconductors									
Other Goods 1/									
Exports of G&S	2.6	5.6	6.5	-11.9	3.5	6.1	7.3	7.6	7.0
Services	4.4	5.3	1.8	-8.9	9.8	3.8	4.9	6.5	5.9
Computers	7.3	13.4	22.7	-23.5	-1.0	11.2	8.6	13.0	14.4
Semiconductors	9.5	34.6	27.6	-34.6	9.9	38.8	-1.1	26.1	29.1
Other Goods 1/	1.2	3.3	5.9	-10.2	0.4	5.0	9.1	6.8	5.9
Imports of G&S	11.0	12.1	11.2	-7.6	9.7	4.9	9.6	5.8	8.3
Services	10.4	6.5	10.7	-5.9	8.9	3.7	5.4	3.6	4.9
Oil	4.2	-3.4	13.3	3.7	4.2	1.8	-0.5	0.0	3.1
Computers	26.4	26.0	13.9	-13.6	13.4	16.9	27.3	13.1	17.5
Semiconductors	-7.7	34.2	22.8	-51.1	10.0	0.3	25.0	24.3	29.1
Other Goods 2/	11.2	12.9	10.5	-6.5	9.9	4.9	10.7	6.4	8.8
Billions of Chained 2000 Dollars									
Net Goods & Services	-203.8	-296.2	-379.5	-399.1	-472.1	-518.5	-583.6	-605.4	-659.6
Exports of G&S	966.5	1008.2	1096.3	1036.7	1012.4	1031.8	1123.1	1205.9	1293.8
Imports of G&S	1170.3	1304.5	1475.8	1435.8	1484.4	1550.2	1706.7	1811.3	1953.4
Billions of dollars									
US CURRENT ACCOUNT BALANCE									
Current Acct as Percent of GDP	-209.6	-296.8	-413.5	-385.7	-473.9	-530.7	-677.9	-777.6	-850.3
	-2.4	-3.2	-4.2	-3.8	-4.5	-4.8	-5.8	-6.3	-6.5
Net Goods & Services (BOP)	-164.9	-263.3	-378.4	-362.7	-421.7	-496.5	-615.3	-672.0	-710.4
Investment Income, Net	8.3	18.4	25.3	28.7	12.6	38.8	16.5	-20.2	-54.6
Direct Net	65.5	78.2	94.9	115.9	100.8	118.9	123.8	135.6	141.7
Portfolio, Net	-57.2	-59.8	-69.7	-87.2	-88.2	-80.1	-107.3	-155.8	-196.3
Other Income & Transfers, Net	-53.0	-52.0	-60.4	-51.7	-64.8	-72.9	-79.0	-85.3	-85.3

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2001								2002								2003											
	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	-0.0	0.5	-0.6	-0.7	-1.1	-0.5	-0.4	-0.7	-0.4	-0.3	-0.3	-0.4	-0.7	-0.4	-0.3	-0.5	-0.2	-0.2	-0.3	-0.3	-0.5	-0.2	-0.3	-0.4	-0.7			
Exports of G&S	-0.6	-1.4	-2.0	-1.5	-1.5	-1.5	-1.4	-1.5	-1.4	-1.4	-1.4	-1.3	-1.3	-1.3	-1.3	-1.3	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.6			
Services	0.6	1.9	2.0	1.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	-2.2		
Computers	-5.3	-12.7	-18.2	-10.8	-4.7	11.0	3.1	-4.2	-4.2	-4.2	-4.2	-4.2	-4.2	-4.2	-4.2	-4.2	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	17.4		
Semiconductors	-5.0	-0.6	-13.7	-15.3	21.7	4.5	3.5	10.5	-12.7	-12.7	-12.7	-12.7	-12.7	-12.7	-12.7	-12.7	-3.5	-3.5	-3.5	-3.5	-3.5	-3.5	-3.5	-3.5	-3.5	20.6		
Other Goods 1/	-9.8	-35.7	-24.9	-21.3	-20.4	11.9	-3.8	12.3	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	19.8		
Imports of G&S	-3.0	-54.0	-45.3	3.7	24.9	38.8	11.4	-24.4	-24.4	-24.4	-24.4	-24.4	-24.4	-24.4	-24.4	-24.4	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	45.9		
Services	-2.5	-11.5	-17.6	-8.6	-2.1	12.6	2.7	-10.3	-10.3	-10.3	-10.3	-10.3	-10.3	-10.3	-10.3	-10.3	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	13.9		
Oil	-3.7	-12.6	-10.3	-3.4	12.5	11.4	5.4	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	17.1		
Computers	-5.1	-12.9	-18.3	-10.4	24.6	-5.7	2.8	16.5	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	11.0		
Semiconductors	6.3	-33.8	-28.2	49.1	-5.6	-17.5	-10.8	69.9	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	16.6		
Other Goods 2/	-2.2	-23.3	-13.4	8.4	50.2	7.2	2.6	0.2	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	15.9	34.2		
Imports of G&S	-4.3	-70.1	-55.4	-23.7	42.3	33.9	-6.7	-17.6	-17.6	-17.6	-17.6	-17.6	-17.6	-17.6	-17.6	-17.6	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0	4.4		
Services	-5.5	-10.6	-3.7	-5.9	8.3	19.4	8.5	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	17.9		
Billions of Chained 2000 Dollars, s.a.a.r.																												
Net Goods & Services	-398.2	-385.2	-398.4	-414.6	-444.9	-458.1	-469.8	-515.4	-515.4	-515.4	-515.4	-515.4	-515.4	-515.4	-515.4	-515.4	-525.2	-525.2	-525.2	-525.2	-525.2	-525.2	-525.2	-525.2	-525.2	-528.3		
Exports of G&S	1097.2	1060.6	1008.7	980.3	991.6	1017.8	1025.5	1014.5	1014.5	1014.5	1014.5	1014.5	1014.5	1014.5	1014.5	1014.5	1010.6	1010.6	1010.6	1010.6	1010.6	1010.6	1010.6	1010.6	1010.6	1076.2		
Imports of G&S	1495.4	1445.8	1407.1	1394.9	1436.5	1475.9	1495.3	1529.8	1529.8	1529.8	1529.8	1529.8	1529.8	1529.8	1529.8	1529.8	1531.7	1531.7	1531.7	1531.7	1531.7	1531.7	1531.7	1531.7	1531.7	1604.5		
Billions of dollars, s.a.a.r.																												
US CURRENT ACCOUNT BALANCE	-426.8	-390.2	-367.6	-358.3	-440.8	-471.6	-476.0	-507.4	-507.4	-507.4	-507.4	-507.4	-507.4	-507.4	-507.4	-507.4	-535.5	-535.5	-535.5	-535.5	-535.5	-535.5	-535.5	-535.5	-535.5	-507.8		
Current Account as % of GDP	-4.3	-3.9	-3.6	-3.5	-4.3	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.5	
Net Goods & Services (BOP)	-389.3	-356.1	-357.1	-348.3	-375.0	-413.5	-427.7	-470.7	-470.7	-470.7	-470.7	-470.7	-470.7	-470.7	-470.7	-470.7	-501.6	-501.6	-501.6	-501.6	-501.6	-501.6	-501.6	-501.6	-501.6	-502.0		
Investment Income, Net	23.9	29.8	1.5	59.7	9.2	1.8	10.6	28.8	28.8	28.8	28.8	28.8	28.8	28.8	28.8	28.8	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	34.5		
Direct Net Portfolio, Net	106.2	116.1	95.0	146.2	100.6	95.1	94.9	112.8	112.8	112.8	112.8	112.8	112.8	112.8	112.8	112.8	101.3	101.3	101.3	101.3	101.3	101.3	101.3	101.3	101.3	154.2		
Other Inc. & Transfers, Net	-82.3	-86.3	-93.5	-86.6	-91.4	-93.2	-84.3	-84.0	-84.0	-84.0	-84.0	-84.0	-84.0	-84.0	-84.0	-84.0	-79.8	-79.8	-79.8	-79.8	-79.8	-79.8	-79.8	-79.8	-79.8	-84.1		

1. Merchandise exports excluding computers and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2004								Projected								2006											
	Q1				Q2				Q3				Q4				Q1				Q2				Q3			
<b>NIPA REAL EXPORTS and IMPORTS</b>																												
Net Goods & Services	-0.8	-1.1	-0.7	-0.4	-0.1	0.1	0.0	0.2	-0.3	-0.5	-0.8	-0.1	-0.5	-0.7	-0.9	-0.1	-0.6	-0.8	-0.5	-0.7	-0.9	-0.7	-0.9	-0.8	-0.8	-0.8		
Exports of G&S	0.7	0.7	1.8	1.2	1.2	1.0	0.6	0.8	0.8	0.9	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6		
Imports of G&S	-1.5	-1.5	-1.8	-1.2	-1.2	-1.1	-0.6	-0.6	-0.6	-0.6	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4		
Percentage point contribution to GDP growth																												
Exports of G&S Services	7.3	7.3	4.5	10.4	5.6	7.8	7.9	9.0	5.8	7.0	6.9	6.9	6.9	6.9	6.9	6.9	6.9	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2		
Computers	3.4	10.2	-0.9	7.3	6.8	6.6	6.4	6.2	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8		
Semiconductors	-8.3	-11.8	21.1	27.5	9.5	14.0	14.3	14.3	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4		
Other Goods 1/	12.5	-10.1	-23.5	23.9	18.3	28.2	29.1	29.1	7.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9	7.9		
Imports of G&S Services	10.6	12.6	7.9	7.4	3.6	3.6	6.9	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4	9.4	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5		
Oil	3.1	10.7	8.1	1.5	1.9	3.6	4.3	4.3	4.3	4.3	4.9	4.9	4.9	4.9	4.9	4.9	4.9	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0		
Computers	3.9	-33.1	-2.8	7.8	13.4	-22.3	-3.7	-3.7	18.0	18.0	16.8	16.8	16.8	16.8	16.8	16.8	16.8	25.8	25.8	25.8	25.8	25.8	25.8	25.8	25.8	25.8		
Semiconductors	12.8	38.6	33.0	26.2	2.5	16.2	17.1	17.1	17.1	17.1	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5		
Other Goods 2/	42.2	21.2	12.2	26.2	12.6	27.7	28.6	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1		
Billions of Chained 2000 Dollars, s.a.a.r.																												
Net Goods & Services	-550.1	-580.3	-600.4	-603.6	-603.2	-596.5	-603.7	-618.2	-618.2	-618.2	-642.6	-642.6	-642.6	-642.6	-642.6	-642.6	-642.6	-662.7	-662.7	-662.7	-662.7	-662.7	-662.7	-662.7	-662.7	-662.7		
Exports of G&S	1095.4	1114.8	1127.1	1155.2	1171.1	1193.4	1216.2	1242.8	1242.8	1242.8	1260.5	1260.5	1260.5	1260.5	1260.5	1260.5	1260.5	1329.3	1329.3	1329.3	1329.3	1329.3	1329.3	1329.3	1329.3	1329.3		
Imports of G&S	1645.5	1695.1	1727.5	1758.8	1774.3	1789.9	1819.9	1861.1	1861.1	1861.1	1903.1	1903.1	1903.1	1903.1	1903.1	1903.1	1903.1	2015.4	2015.4	2015.4	2015.4	2015.4	2015.4	2015.4	2015.4	2015.4		
Billions of dollars, s.a.a.r.																												
US CURRENT ACCOUNT BALANCE	-588.7	-664.7	-690.7	-767.5	-780.8	-768.0	-772.1	-789.3	-789.3	-789.3	-823.3	-823.3	-823.3	-823.3	-823.3	-823.3	-823.3	-887.2	-887.2	-887.2	-887.2	-887.2	-887.2	-887.2	-887.2	-887.2		
Current Account as % of GDP	-5.1	-5.7	-5.9	-6.4	-6.5	-6.3	-6.2	-6.3	-6.3	-6.3	-6.5	-6.5	-6.5	-6.5	-6.5	-6.5	-6.5	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7	-6.7		
Net Goods & Services (BOP)	-554.4	-601.1	-635.3	-670.5	-676.1	-665.0	-667.9	-679.2	-679.2	-679.2	-700.8	-700.8	-700.8	-700.8	-700.8	-700.8	-700.8	-731.3	-731.3	-731.3	-731.3	-731.3	-731.3	-731.3	-731.3	-731.3		
Investment Income, Net	54.3	16.7	9.3	-14.2	-12.4	-20.4	-21.3	-26.8	-26.8	-26.8	-40.1	-40.1	-40.1	-40.1	-40.1	-40.1	-40.1	-72.5	-72.5	-72.5	-72.5	-72.5	-72.5	-72.5	-72.5	-72.5		
Direct, Net	139.1	116.2	117.6	122.2	130.5	133.9	137.9	140.0	140.0	140.0	140.5	140.5	140.5	140.5	140.5	140.5	140.5	144.2	144.2	144.2	144.2	144.2	144.2	144.2	144.2	144.2		
Portfolio, Net	-84.8	-99.5	-108.2	-136.4	-142.8	-154.3	-159.2	-166.8	-166.8	-166.8	-177.5	-177.5	-177.5	-177.5	-177.5	-177.5	-177.5	-216.8	-216.8	-216.8	-216.8	-216.8	-216.8	-216.8	-216.8	-216.8		
Other Inc. & Transfers, Net	-88.5	-80.3	-64.7	-82.7	-92.4	-82.5	-82.9	-83.3	-83.3	-83.3	-92.4	-92.4	-92.4	-92.4	-92.4	-92.4	-92.4	-83.3	-83.3	-83.3	-83.3	-83.3	-83.3	-83.3	-83.3	-83.3		

1. Merchandise exports excluding computers and semiconductors.

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

## **Part 2**

November 3, 2004

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## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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### **Recent Developments**

Confidential (FR) Class III FOMC

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November 3, 2004

## **Recent Developments**

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

respondents who cite gasoline prices as a reason that vehicle-buying conditions are poor has declined substantially since June.

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

Item	2003	2004			2004		
		H1	Q3	Q4 <sup>1</sup>	Sept.	Oct. <sup>1</sup>	Nov. <sup>1</sup>
U.S. production		12.1	12.1	11.8	12.1	11.8	12.2
Autos		4.5	4.3	4.3	4.3	4.4	4.3
Trucks		7.6	7.8	7.5	7.8	7.4	7.8
Days' supply <sup>2</sup>		73	77	73	n.a.	71	n.a.
Autos		63	62	63	n.a.	63	n.a.
Trucks		80	88	79	n.a.	76	n.a.
Inventories <sup>3</sup>		3.17	3.33	3.26	n.a.	3.26	n.a.
Autos		1.13	1.09	1.08	n.a.	1.08	n.a.
Trucks		2.04	2.24	2.19	n.a.	2.19	n.a.

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

1. Production rates for the fourth quarter and October and November reflect the latest schedules from Ward's Communications.

2. Quarterly and annual values are calculated with end-of-period stocks and average reported sales; excludes medium and heavy trucks.

3. End-of-period stocks; excludes medium and heavy trucks.

n.a. Not available

Because of the relatively strong sales of light motor vehicles in recent months, days' supply fell in the third quarter to about 73 days, although this level was slightly above the target range of manufacturers. Motor vehicle production declined in September, but the latest estimates for October indicate that assemblies jumped to an annual rate of 12.2 million units last month, nearly  $\frac{1}{2}$  million units above the pace in September. For the fourth quarter as a whole, the automakers' production schedules call for a step-up in the average pace of assemblies from their third-quarter level. However, General Motors announced plans to take advantage of the winter holiday shutdown by closing several plants for an additional week in the first quarter of 2005 in order to address any remaining inventory overhang.

### Consumer Spending

Real consumer spending rebounded strongly in the third quarter, rising at an annual rate of 4.6 percent after having advanced only 1.6 percent in the second quarter. Excluding motor vehicles, outlays increased at a 3.5 percent pace in the third quarter, after a 2.0 percent rise in the second quarter.

Total real PCE moved up 0.5 percent in September. Outlays for motor vehicles ramped up last month, as did purchases of other goods. Spending on services jumped, in part because outlays for electricity were boosted by unseasonably warm weather.