

## **Part 1**

October 22, 2003

---

## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

---

### **Summary and Outlook**

Confidential (FR) Class II FOMC

---

October 22, 2003

## **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	2003:Q3		2003:Q4	
	Sept. GB	Oct. GB	Sept. GB	Oct. GB
<b>Real GDP</b>	<b>4.4</b>	<b>6.3</b>	<b>4.6</b>	<b>4.4</b>
Private domestic final purchases	6.2	7.0	2.8	2.7
Personal consumption expenditures	4.8	6.1	2.8	1.8
Residential investment	14.8	19.0	-3.6	5.6
Business fixed investment	11.5	8.1	6.3	7.9
Government outlays for consumption and investment	-1.0	.8	6.6	4.7
	Contribution to growth (percentage points)			
Inventory investment	-.3	-.3	.8	1.4
Net exports	-.3	.5	.1	-.3

consumers responded to a significant sweetening of incentives, and the retail sales data point to an enormous increase in real outlays on other goods—perhaps on the order of 10 percent at an annual rate. Our forecast has real PCE growth slowing to less than 2 percent in the fourth quarter, mainly because of a cooling in the demand for motor vehicles in the absence of a further step-up in incentives. We expect real PCE excluding motor vehicles to rise at an annual rate of 3-1/2 percent in the fourth quarter after having risen 5 percent in the third quarter.

Housing activity has been much stronger than we had anticipated. Despite the higher mortgage rates starting in July, single-family housing starts have continued to increase, and in the third quarter, they reached 1.51 million units at an annual rate, 100,000 units above the average pace in the first half of the year. Given the corroborating strength in permits and the dizzying pace of home sales, we expect starts to remain near this level in the fourth quarter. Real residential investment, as estimated by the BEA, is likely to post a whopping increase in the third quarter and to rise moderately further in the fourth quarter.

Turning to the business sector, we estimate that real spending on equipment and software rose at a 12 percent annual rate in the third quarter. Some of this increase was in spending on transportation equipment, especially trucks. In addition, real outlays on high-tech equipment and software appear to have risen briskly, and the data on shipments and orders point to moderate increases in spending outside high-tech and transportation. On balance, we expect E&S to

Measure	2004		2005
	H1	H2	
<b>Real GDP</b>	<b>5.2</b>	<b>5.0</b>	<b>4.0</b>
Previous	5.2	4.9	3.9
Final sales	4.5	4.9	3.8
Previous	4.3	4.9	3.7
PCE	4.6	4.5	4.1
Previous	4.6	4.4	4.0
Residential investment	1.4	2.3	1.1
Previous	.7	3.9	.6
BFI	12.8	15.7	7.6
Previous	11.9	15.6	7.2
Government purchases	2.9	1.5	2.1
Previous	2.9	1.5	2.1
Exports	8.9	11.5	9.9
Previous	8.4	11.1	9.6
Imports	10.3	9.9	9.1
Previous	11.1	10.0	9.2
	Contribution to growth (percentage points)		
Inventory change	.6	.1	.2
Previous	.9	.0	.3
Net exports	-.6	-.3	-.4
Previous	-.8	-.4	-.4

(which are largely stores and warehouses) should continue to increase, as they did in 2003; and spending by public utilities is likely to turn around after a large drop in 2003. However, outlays in other major sectors are projected to remain weak in light of the high vacancy rates and softness in rents.

With firms expected to bring their inventory liquidations to a close shortly and then to shift to accumulation, the swing in inventory investment is projected to add about 1/4 percentage point to real GDP growth in both 2004 and 2005. Even so, businesses surely will continue to focus on tight inventory control.

**Government spending.** We expect the growth in real federal expenditures for consumption and investment to slow from 9-1/2 percent over the four quarters of 2003 to 3-3/4 percent in 2004 and 2-1/4 percent in 2005. The deceleration is concentrated in defense spending. Nondefense purchases are expected to rise about 3 percent per year in real terms in 2004 and 2005, increases similar to those in recent years on average.

The pickup in economic activity should show through to higher state and local tax receipts in the period ahead. Even so, the budgetary strains are likely to remain considerable, forcing these governments to restrain the growth of spending awhile longer. In our forecast, real state and local purchases rise only 1-1/4 percent in 2004 and 2 percent in 2005, well below the average increase of about 3 percent over the past decade.

**Net exports.** Given the anticipated firming of foreign economic activity and the past and projected dollar depreciation, we expect real exports to increase about 10 percent per year in 2004 and 2005. But imports are projected to rise rapidly as well, and on balance, the external sector is expected to arithmetically deduct nearly 1/2 percentage point from real U.S. GDP growth in 2004 and 2005, after having been an essentially neutral influence in 2003. (*The International Developments section provides more detail on the outlook for the external sector.*)

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

Measure	1973-95	1996-2001	2002	2003	2004	2005
<b>Structural labor productivity</b>	1.4	2.7	2.6	2.8	2.6	2.8
Previous	1.4	2.7	2.6	2.8	2.6	2.8
<i>Contributions</i> <sup>1</sup>						
Capital deepening	.6	1.2	.4	.4	.7	1.0
Previous	.6	1.2	.4	.4	.7	1.0
Multifactor productivity	.6	1.2	2.0	2.1	1.6	1.6
Previous	.6	1.2	2.0	2.1	1.6	1.6
Labor composition	.3	.3	.3	.3	.3	.3
MEMO						
Potential GDP	2.9	3.4	3.5	3.6	3.4	3.6
Previous	2.9	3.4	3.5	3.6	3.4	3.6

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

1. Percentage points.

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

Measure	2002	2003	2004	2005
Output per hour, nonfarm business	4.4	4.6	1.4	.9
Previous	4.4	4.3	1.4	1.4
Nonfarm private payroll employment	-.7	-.2	3.7	3.2
Previous	-.7	-.4	3.7	2.8
Household survey employment	.3	1.0	2.8	2.1
Previous	.3	1.1	2.6	1.9
Labor force participation rate <sup>1</sup>	66.5	66.3	66.7	67.0
Previous	66.5	66.3	66.9	67.1
Civilian unemployment rate <sup>1</sup>	5.9	6.2	5.4	5.1
Previous	5.9	6.2	5.7	5.3
MEMO				
GDP gap <sup>2</sup>	2.3	2.0	.4	.1
Previous	2.3	2.4	.9	.6

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.

**Aggregate Supply, the Labor Market, and the Prospects for Inflation**

With actual growth in output expected to exceed our estimate of potential growth over the next two years, the output and unemployment gaps should narrow considerably. We project that, by the end of 2004, the unemployment rate will fall to 5-1/2 percent; by the end of 2005, it should be down nearly to 5 percent—1/4 percentage point below the September projection and close to our estimate of the natural rate. Although the inflation projection has been raised a tad to reflect the higher resource utilization in our current forecast, we still expect core PCE inflation to edge down to 1 percent by 2005.

**Productivity and the labor market.** Private payroll employment rose in September after a long string of declines, and our forecast anticipates further increases in the months ahead. But on the assumption that businesses will continue to focus on productivity improvements—and that caution in hiring will abate slowly—we expect employment to pick up only gradually, with increases in private payrolls averaging just about 80,000 per month over the rest of 2003. Given our output forecast, this projection implies that productivity growth will remain elevated in the fourth quarter—albeit well below the 6 percent annual rate we now estimate for the third quarter. By next year, however, businesses

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

Measure	2002	2003	2004	2005
PCE chain-weighted price index	1.8	1.7	.8	.9
Previous	1.8	1.6	.7	.8
Food and beverages	1.4	2.2	1.4	1.4
Previous	1.4	1.9	1.4	1.3
Energy	7.0	8.7	-6.4	-1.1
Previous	7.0	8.8	-6.7	-1.1
Excluding food and energy	1.6	1.2	1.1	1.0
Previous	1.6	1.1	1.0	.9
Consumer price index	2.2	2.0	.9	1.2
Previous	2.2	2.0	.9	1.1
Excluding food and energy	2.1	1.4	1.5	1.4
Previous	2.1	1.4	1.4	1.3
GDP chain-weighted price index	1.3	1.5	1.0	1.1
Previous	1.3	1.4	.9	1.0
ECI for compensation of private industry workers <sup>1</sup>	3.2	3.8	3.4	3.4
Previous	3.2	3.8	3.3	3.2
NFB compensation per hour	2.8	3.3	3.0	3.2
Previous	2.8	3.5	2.9	3.1
Prices of core non-oil merchandise imports	.7	2.2	1.8	1.1
Previous	.7	2.2	1.4	1.3

1. December to December.

should have the confidence—and the need—to begin hiring in earnest. Indeed, we expect job gains in the private sector to average nearly 340,000 per month in 2004 and 300,000 per month in 2005. As hiring picks up, productivity growth is forecast to fall below its underlying structural pace.

**Wages and prices.** Although resource utilization is expected to be somewhat higher than projected in the September Greenbook, we still foresee enough slack to generate a small further decline in core inflation. All in all, we now expect the four-quarter change in core PCE prices to edge down from 1.2 percent in 2003 to 1.1 percent in 2004 and 1.0 percent in 2005. Total PCE inflation, which was boosted in 2003 by a large increase in energy prices, is expected to inch

### Alternative Simulations

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

Measure	2003	2004		2005
	Q4	H1	H2	
<i>Real GDP</i>				
<b>Greenbook baseline</b>	<b>4.4</b>	<b>5.2</b>	<b>5.0</b>	<b>4.0</b>
Faltering economic recovery	3.4	3.9	4.2	3.4
Adverse market response	3.4	3.4	3.6	3.1
Stronger household spending	5.0	6.2	5.6	4.6
Financial market boom	5.0	6.6	6.3	5.2
Increased competitive pressures	4.4	5.2	5.1	4.0
Rising inflation expectations	4.4	5.2	5.0	4.3
Market-based funds rate	4.4	5.2	4.8	2.9
<i>Unemployment rate<sup>1</sup></i>				
<b>Greenbook baseline</b>	<b>6.2</b>	<b>5.8</b>	<b>5.4</b>	<b>5.1</b>
Faltering economic recovery	6.3	6.2	6.0	6.0
Adverse market response	6.3	6.2	6.2	6.4
Stronger household spending	6.2	5.6	5.0	4.3
Financial market boom	6.2	5.5	4.7	3.8
Increased competitive pressures	6.2	5.8	5.4	5.1
Rising inflation expectations	6.2	5.8	5.4	4.9
Market-based funds rate	6.2	5.8	5.4	5.6
<i>PCE prices excluding food and energy</i>				
<b>Greenbook baseline</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>	<b>1.0</b>
Faltering economic recovery	1.3	1.2	1.0	.7
Adverse market response	1.3	1.2	1.0	.6
Stronger household spending	1.3	1.2	1.2	1.3
Financial market boom	1.3	1.1	1.2	1.5
Increased competitive pressures	1.3	1.0	.6	.2
Rising inflation expectations	1.3	1.2	1.2	1.8
Market-based funds rate	1.3	1.2	1.1	.7

1. Average for the final quarter of the period.

to the downward pressure on consumption and investment in the previous scenario, causing real GDP growth to barely keep pace with potential in 2004 and to slip below in 2005. As a result, the unemployment rate remains roughly flat at 6-1/4 percent next year and edges up to nearly 6-1/2 percent by the end of 2005. Core inflation declines to just over 1/2 percent in 2005.

**Stronger household spending.** Another risk is that we have understated the extent to which the recent strength in consumption and housing will carry forward. Indeed, some of our models predict a considerably stronger and

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>		
	09/10/03	10/22/03	09/10/03	10/22/03	09/10/03	10/22/03	09/10/03	10/22/03	09/10/03	10/22/03	
<b>ANNUAL</b>											
2001		2.6	2.6	0.3	0.3	2.4	2.4	2.8	2.8	4.8	4.8
2002		3.6	3.6	2.4	2.4	1.1	1.1	1.6	1.6	5.8	5.8
2003		4.2	4.5	2.6	2.9	1.5	1.6	2.3	2.3	6.1	6.1
2004		5.9	6.1	4.8	5.0	1.0	1.1	1.0	1.1	5.9	5.8
2005		5.3	5.5	4.3	4.4	1.0	1.1	1.1	1.1	5.4	5.1
<b>QUARTERLY</b>											
2002	Q1	6.5	6.5	5.0	5.0	1.3	1.3	1.4	1.4	5.6	5.6
	Q2	2.5	2.5	1.3	1.3	1.2	1.2	3.4	3.4	5.9	5.9
	Q3	5.1	5.1	4.0	4.0	1.0	1.0	2.2	2.2	5.8	5.8
	Q4	3.2	3.2	1.4	1.4	1.8	1.8	2.0	2.0	5.9	5.9
2003	Q1	3.8	3.8	1.4	1.4	2.4	2.4	3.8	3.8	5.8	5.8
	Q2	4.2	4.3	3.3	3.3	0.8	1.0	0.7	0.7	6.2	6.2
	Q3	5.9	8.2	4.4	6.3	1.5	1.8	2.2	2.4	6.2	6.1
	Q4	5.7	5.2	4.6	4.4	1.1	0.8	1.3	1.2	6.2	6.2
2004	Q1	6.3	6.3	5.2	5.2	1.1	1.1	0.6	0.7	6.1	6.0
	Q2	6.0	6.1	5.1	5.2	0.9	0.9	0.8	0.9	6.0	5.8
	Q3	6.0	6.1	5.0	5.1	0.9	1.0	1.0	1.0	5.9	5.7
	Q4	5.6	5.8	4.7	4.8	0.9	1.0	1.1	1.1	5.7	5.4
2005	Q1	5.1	5.3	3.8	3.9	1.3	1.4	1.1	1.2	5.5	5.2
	Q2	5.0	5.2	4.1	4.2	0.9	1.0	1.1	1.2	5.4	5.1
	Q3	4.9	5.0	4.0	4.1	0.9	1.0	1.1	1.2	5.3	5.1
	Q4	4.7	5.0	3.9	4.0	0.8	0.9	1.1	1.3	5.3	5.1
<b>TWO-QUARTER<sup>3</sup></b>											
2002	Q2	4.5	4.5	3.1	3.1	1.3	1.3	2.4	2.4	0.3	0.3
	Q4	4.1	4.1	2.7	2.7	1.4	1.4	2.1	2.1	0.0	0.0
2003	Q2	4.0	4.1	2.4	2.3	1.6	1.7	2.2	2.2	0.3	0.3
	Q4	5.8	6.7	4.5	5.3	1.3	1.3	1.7	1.7	0.0	0.0
2004	Q2	6.2	6.2	5.2	5.2	1.0	1.0	0.7	0.8	-0.2	-0.4
	Q4	5.8	6.0	4.9	5.0	0.9	1.0	1.0	1.1	-0.3	-0.4
2005	Q2	5.1	5.3	3.9	4.0	1.1	1.2	1.1	1.2	-0.3	-0.3
	Q4	4.8	5.0	3.9	4.0	0.8	0.9	1.1	1.2	-0.1	0.0
<b>FOUR-QUARTER<sup>4</sup></b>											
2001	Q4	2.0	2.0	0.1	0.1	2.0	2.0	1.8	1.8	1.7	1.7
2002	Q4	4.3	4.3	2.9	2.9	1.3	1.3	2.2	2.2	0.3	0.3
2003	Q4	4.9	5.4	3.4	3.8	1.4	1.5	2.0	2.0	0.3	0.3
2004	Q4	6.0	6.1	5.0	5.1	0.9	1.0	0.9	0.9	-0.5	-0.8
2005	Q4	4.9	5.1	3.9	4.0	1.0	1.1	1.1	1.2	-0.4	-0.4

1. For all urban consumers.

2. Level, except as noted.

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

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

Item	Units <sup>1</sup>	Projected - - - - -									
		1997	1998	1999	2000	2001	2002	2003	2004	2005	
<b>Expenditures</b>											
Nominal GDP	Bill. \$	8318.4	8781.5	9274.3	9824.6	10082.2	10446.2	10916.9	11587.2	12223.2	
Real GDP	Bill. Ch. \$	8159.5	8508.9	8859.0	9191.4	9214.5	9439.9	9710.7	10198.2	10643.7	
Real GDP	% change	4.3	4.8	4.3	2.3	0.1	2.9	3.8	5.1	4.0	
Gross domestic purchases		5.0	5.8	5.2	2.9	0.1	3.7	3.7	5.3	4.2	
Final sales		3.9	4.7	4.2	2.6	1.6	1.7	4.0	4.7	3.8	
Priv. dom. final purchases		5.1	6.3	5.2	3.7	0.9	2.3	3.9	5.6	4.4	
Personal cons. expenditures		4.1	5.0	5.0	3.5	2.8	2.7	3.4	4.6	4.1	
Durables		8.8	12.7	10.0	3.8	13.2	1.9	9.3	8.0	7.6	
Nondurables		2.5	5.0	4.9	3.0	1.7	3.4	5.1	5.5	4.9	
Services		3.9	3.6	4.0	3.8	1.3	2.5	1.5	3.4	3.1	
Business fixed investment		11.8	12.3	6.6	6.2	-9.3	-1.7	4.6	14.2	7.6	
Equipment & Software		13.7	14.9	9.7	5.2	-8.8	3.3	6.1	17.5	7.8	
Nonres. structures		6.5	4.9	-2.5	9.3	-10.6	-15.9	-0.6	3.1	6.9	
Residential structures		3.5	10.0	4.0	-1.2	1.0	6.7	10.2	1.8	1.1	
Exports		8.5	2.3	4.9	7.3	-11.4	3.9	5.0	10.2	9.9	
Imports		14.3	10.8	11.9	11.1	-8.0	10.1	4.0	10.1	9.1	
Gov't. cons. & investment		2.4	2.7	4.5	1.3	5.1	3.6	3.5	2.2	2.1	
Federal		0.1	0.6	4.0	-1.2	7.5	7.5	9.5	3.7	2.2	
Defense		-1.4	-0.8	4.4	-2.5	7.4	9.3	12.8	3.7	1.8	
State & local		3.7	3.8	4.8	2.6	3.9	1.6	0.2	1.3	2.1	
Change in bus. inventories	Bill. Ch. \$	63.8	76.7	62.8	65.0	-61.4	5.2	-7.1	46.4	81.0	
Nonfarm		60.6	75.0	64.1	67.2	-63.2	4.1	-8.2	45.0	79.4	
Net exports		-113.3	-221.1	-320.5	-398.8	-415.9	-488.5	-532.8	-579.9	-628.8	
Nominal GDP	% change	6.2	6.0	5.9	4.6	2.0	4.3	5.4	6.1	5.1	
GDP Gap <sup>2</sup>	%	-0.8	-1.6	-2.1	-2.2	0.9	1.9	2.5	1.0	0.2	
<b>Employment and Production</b>											
Nonfarm payroll employment	Millions	122.8	125.9	129.0	131.8	131.8	130.4	130.0	132.4	136.5	
Unemployment rate	%	4.9	4.5	4.2	4.0	4.8	5.8	6.1	5.8	5.1	
Industrial prod. index	% change	8.0	4.0	4.9	2.7	-5.7	1.4	0.7	6.5	5.2	
Capacity util. rate - mfg.	%	82.7	81.9	81.4	81.4	75.6	73.7	73.0	76.1	79.4	
Housing starts	Millions	1.47	1.62	1.64	1.57	1.60	1.70	1.80	1.84	1.86	
Light motor vehicle sales		15.07	15.41	16.78	17.24	17.02	16.70	16.55	17.21	17.57	
North Amer. produced		13.14	13.39	14.30	14.38	13.94	13.42	13.22	13.79	14.08	
Other		1.93	2.02	2.48	2.86	3.08	3.29	3.34	3.42	3.50	
<b>Income and Saving</b>											
Nominal GNP	Bill. \$	8325.4	8778.1	9297.1	9848.0	10104.1	10436.7	10916.2	11599.3	12233.0	
Nominal GNP	% change	5.7	5.6	6.9	4.6	2.1	3.8	5.5	6.2	5.1	
Nominal personal income		6.3	6.7	5.1	7.7	1.4	3.6	3.7	5.9	5.6	
Real disposable income		3.8	5.0	2.4	4.8	0.3	5.2	2.8	5.2	4.3	
Personal saving rate	%	4.2	4.7	2.6	2.8	2.3	3.7	3.3	3.7	3.9	
Corp. profits, IVA & CCAdj.	% change	9.9	-9.6	7.0	-9.1	8.2	-1.9	27.2	7.4	-1.4	
Profit share of GNP	%	10.0	8.9	8.7	8.0	7.2	7.5	8.5	9.3	8.8	
Excluding FR Banks		9.7	8.6	8.4	7.7	7.0	7.3	8.3	9.1	8.6	
Federal surpl./deficit	Bill. \$	-53.3	43.8	111.9	206.9	72.0	-199.9	-371.5	-414.5	-225.7	
State & local surpl./def.		31.0	40.7	38.3	18.0	-31.3	-51.5	-27.1	-5.0	3.1	
Ex. social ins. funds		29.9	40.0	37.4	17.8	-31.2	-51.4	-27.0	-4.9	3.2	
Gross natl. saving rate	%	18.0	18.8	18.3	18.4	16.5	15.0	13.8	14.6	14.9	
Net natl. saving rate		6.7	7.5	6.8	6.7	3.8	1.9	0.8	2.1	2.5	
<b>Prices and Costs</b>											
GDP chn.-wt. price index	% change	1.8	1.1	1.6	2.3	2.0	1.3	1.5	1.0	1.1	
Gross Domestic Purchases		1.4	0.8	1.9	2.5	1.3	1.6	1.7	0.9	1.0	
chн.-wt. price index		1.5	1.1	2.0	2.5	1.5	1.8	1.7	0.8	0.9	
PCE chn.-wt. price index		1.7	1.6	1.5	1.8	1.9	1.6	1.2	1.1	1.0	
Ex. food and energy		1.9	1.5	1.4	1.8	1.9	1.6	1.2	1.1	1.0	
CPI		1.9	1.5	2.6	3.4	1.8	2.2	2.0	0.9	1.2	
Ex. food and energy		2.2	2.3	2.0	2.6	2.7	2.1	1.4	1.5	1.4	
ECI, hourly compensation <sup>3</sup>		3.4	3.5	3.4	4.4	4.2	3.2	3.8	3.4	3.4	
Nonfarm business sector		2.2	2.9	2.8	2.2	3.2	4.4	4.6	1.4	0.9	
Output per hour		3.4	5.3	4.2	7.2	2.7	2.8	3.3	3.0	3.2	
Compensation per Hour		1.2	2.3	1.4	4.9	-0.5	-1.6	-1.2	1.6	2.3	
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.

Strictly Confidential <FR>  
Class II FOMC

October 22, 2003

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

Item	Units	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2
<b>Expenditures</b>											
Nominal GDP	Bill. \$	10028.1	10049.9	10097.7	10152.9	10313.1	10376.9	10506.2	10588.8	10688.4	10802.7
Real GDP	Bill. Ch. \$	9229.9	9193.1	9186.4	9248.8	9363.2	9392.4	9485.6	9518.2	9552.0	9629.4
Real GDP	% change	-0.6	-1.6	-0.3	2.7	5.0	1.3	4.0	1.4	1.4	3.3
Gross domestic purchases		-1.1	-1.1	-0.1	2.9	5.6	2.6	3.9	2.9	0.6	4.4
Final sales		2.8	-0.4	-0.2	4.2	2.4	-0.1	3.4	1.1	2.3	4.0
Priv. dom. final purchases		1.5	-1.2	0.3	3.0	2.5	1.3	3.4	2.2	1.6	4.4
Personal cons. expenditures		2.4	1.4	1.5	6.0	3.1	1.8	4.2	1.7	2.0	3.8
Durables		11.5	5.3	4.6	33.6	-6.3	2.0	22.8	-8.2	-2.0	24.3
Nondurables		2.3	-0.3	1.3	3.6	7.9	-0.1	1.0	5.1	6.1	1.4
Services		0.6	1.5	0.9	2.1	2.9	2.7	2.3	2.2	0.9	1.4
Business fixed investment		-5.4	-14.5	-6.0	-10.9	-5.8	-2.4	-0.8	2.3	-4.4	7.3
Equipment & Software		-6.3	-16.7	-9.2	-2.5	-2.7	3.3	6.7	6.2	-4.8	8.3
Nonres. structures		-3.1	-8.4	2.9	-30.1	-14.2	-17.6	-21.4	-9.9	-2.9	4.2
Residential structures		8.2	-0.5	0.4	-3.5	14.2	2.7	1.1	9.4	10.1	6.6
Exports		-6.0	-12.4	-17.3	-9.6	3.5	14.3	4.6	-5.8	-1.3	-1.0
Imports		-7.9	-6.8	-11.8	-5.3	8.5	22.2	3.3	7.4	-6.2	8.8
Gov't. cons. & investment		5.7	5.6	-1.1	10.5	5.6	1.4	2.9	4.6	0.4	8.5
Federal		9.5	6.0	1.2	13.5	7.4	7.5	4.3	11.0	0.7	25.5
Defense		8.3	2.7	4.6	14.3	11.6	7.8	6.9	11.0	-3.3	45.8
State & local		3.8	5.4	-2.3	8.9	4.6	-1.7	2.2	1.2	0.2	-0.2
Change in bus. inventories	Bill. Ch. \$	-26.9	-58.3	-61.8	-98.4	-28.9	4.9	18.8	25.8	4.8	-17.6
Nonfarm		-32.6	-54.9	-63.6	-101.5	-35.1	4.2	20.8	26.5	3.8	-17.1
Net exports		-404.5	-414.8	-419.0	-425.3	-446.6	-487.4	-488.0	-532.2	-510.3	-546.1
Nominal GDP	% change	3.0	0.9	1.9	2.2	6.5	2.5	5.1	3.2	3.8	4.3
GDP Gap <sup>1</sup>	%	-0.4	0.8	1.7	1.8	1.4	2.0	1.8	2.3	2.8	2.9
<b>Employment and Production</b>											
Nonfarm payroll employment	Millions	132.5	132.2	131.7	130.9	130.5	130.4	130.2	130.3	130.2	130.0
Unemployment rate	%	4.2	4.4	4.8	5.6	5.6	5.9	5.8	5.9	5.8	6.2
Industrial prod. index	% change	-6.1	-6.1	-4.6	-5.8	1.4	4.4	3.4	-3.4	0.3	-3.7
Capacity util. rate - mfg.	%	77.9	76.1	74.8	73.4	73.4	73.9	74.3	73.5	73.2	72.5
Housing starts	Millions	1.61	1.63	1.60	1.57	1.72	1.68	1.70	1.74	1.74	1.74
Light motor vehicle sales		16.95	16.54	16.23	18.37	16.34	16.35	17.63	16.50	15.84	16.22
North Amer. produced		14.04	13.51	13.23	15.00	13.04	13.10	14.27	13.25	12.45	12.93
Other		2.90	3.04	3.00	3.37	3.31	3.25	3.35	3.24	3.38	3.29
<b>Income and Saving</b>											
Nominal GNP	Bill. \$	10038.0	10081.0	10109.3	10188.1	10314.9	10356.8	10495.3	10579.7	10678.2	10799.1
Nominal GNP	% change	2.2	1.7	1.1	3.2	5.1	1.6	5.5	3.3	3.8	4.6
Nominal personal income		3.9	0.8	1.4	-0.2	4.8	5.1	2.0	2.4	3.0	3.4
Real disposable income		-0.1	-0.6	10.5	-7.6	14.5	3.9	1.8	1.4	1.6	2.6
Personal saving rate	%	2.4	1.9	4.0	0.8	3.5	4.0	3.5	3.6	3.5	3.2
Corp. profits, IVA & CCAdj.	% change	-21.1	8.7	-17.7	94.4	-6.6	-6.2	-6.9	13.7	10.7	45.7
Profit share of GNP	%	7.0	7.2	6.8	8.0	7.7	7.6	7.3	7.5	7.6	8.3
Excluding FR Banks		6.7	6.9	6.5	7.7	7.5	7.3	7.1	7.3	7.5	8.1
Federal surpl./deficit	Bill. \$	173.8	144.4	-51.7	21.3	-145.8	-195.6	-210.5	-256.6	-280.1	-390.2
State & local surpl./def.		-16.5	-32.3	-46.2	-30.2	-55.8	-45.1	-54.7	-52.4	-67.9	-14.9
Ex. social ins. funds		-16.4	-32.2	-46.1	-30.0	-55.6	-44.9	-54.6	-52.3	-67.7	-14.8
Gross natl. saving rate	%	16.9	16.6	16.5	15.8	15.5	15.5	14.6	14.3	13.9	13.7
Net natl. saving rate		4.8	4.1	3.3	3.1	2.7	2.4	1.4	1.1	0.6	0.6
<b>Prices and Costs</b>											
GDP chn.-wt. price index	% change	3.7	2.5	2.2	-0.5	1.3	1.2	1.0	1.8	2.4	1.0
Gross Domestic Purchases chn.-wt. price index		3.3	1.7	-0.2	0.4	1.2	2.3	1.2	1.8	3.4	0.4
PCE chn.-wt. price index		3.3	1.8	-0.1	0.8	1.1	2.7	1.7	1.8	2.7	0.8
Ex. food and energy		2.8	1.2	0.7	2.7	1.4	1.9	1.8	1.5	0.8	1.1
CPI Ex. food and energy		4.0	3.2	0.9	-0.7	1.4	3.4	2.2	2.0	3.8	0.7
ECI, hourly compensation <sup>2</sup>		2.9	2.6	2.6	2.8	2.1	2.1	2.1	1.7	1.3	0.8
Nonfarm business sector		4.6	3.7	3.9	4.4	3.6	4.4	2.5	3.0	5.5	3.4
Output per hour		-0.4	1.6	3.4	8.3	9.3	1.0	5.9	1.7	2.1	7.0
Compensation per hour		4.3	2.0	2.4	2.1	3.7	3.9	2.0	1.6	4.1	3.7
Unit labor cost		4.7	0.3	-0.9	-5.7	-5.2	2.9	-3.7	-0.1	2.0	-3.1

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									
		2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	11017.8	11158.9	11331.9	11501.6	11674.1	11841.1	11995.6	12148.6	12299.1	12449.6
Real GDP	Bill. Ch. \$	9778.1	9883.4	10009.0	10136.0	10263.3	10384.5	10483.7	10591.2	10697.0	10802.8
Real GDP	% change	6.3	4.4	5.2	5.2	5.1	4.8	3.9	4.2	4.1	4.0
Gross domestic purchases		5.6	4.5	5.5	5.6	5.3	4.7	4.2	4.5	4.2	3.9
Final sales		6.6	2.9	4.6	4.5	4.5	5.3	2.9	3.9	4.1	4.3
Priv. dom. final purchases		7.0	2.7	5.1	5.7	5.5	6.0	3.4	4.9	4.8	4.6
Personal cons. expenditures		6.1	1.8	4.5	4.6	4.5	4.5	4.4	4.3	4.1	3.8
Durables		22.4	-4.4	4.9	10.4	8.0	8.7	8.2	7.6	7.5	6.9
Nondurables		8.0	5.0	6.0	5.3	5.3	5.2	5.1	5.0	4.9	4.6
Services		2.2	1.6	3.7	3.2	3.4	3.4	3.3	3.3	3.1	2.8
Business fixed investment		8.1	7.9	11.6	14.0	14.5	16.9	-2.6	10.5	11.3	11.7
Equipment & Software		11.8	10.2	14.2	17.3	17.8	20.7	-4.4	11.8	12.2	12.4
Nonres. structures		-3.6	0.2	2.8	3.0	3.1	3.3	4.3	6.0	7.9	9.4
Residential structures		19.0	5.6	-0.2	3.0	0.9	3.7	3.6	1.3	0.2	-0.5
Exports		11.6	11.6	7.6	10.2	10.4	12.6	7.5	10.2	10.0	11.9
Imports		4.1	10.0	8.8	11.8	10.2	9.5	8.4	10.5	9.2	8.4
Gov't. cons. & investment		0.8	4.7	3.8	2.0	1.6	1.5	2.4	1.5	2.0	2.5
Federal		1.3	12.3	8.6	3.5	1.6	1.1	3.1	0.8	1.8	3.0
Defense		-0.4	15.4	10.2	3.7	1.1	0.2	3.1	-0.3	1.2	3.1
State & local		0.5	0.3	0.9	1.1	1.5	1.8	2.0	1.9	2.2	2.2
Change in bus. inventories	Bill. Ch. \$	-26.7	11.2	27.7	45.5	62.1	50.1	78.3	85.5	84.3	75.6
Nonfarm		-28.9	9.5	26.5	44.3	60.7	48.5	76.8	84.0	82.8	74.1
Net exports		-533.0	-541.8	-556.6	-576.8	-590.6	-595.6	-610.3	-626.5	-637.9	-640.3
Nominal GDP	% change	8.2	5.2	6.3	6.1	6.1	5.8	5.3	5.2	5.0	5.0
GDP Gap <sup>1</sup>	%	2.2	2.0	1.6	1.2	0.8	0.4	0.4	0.3	0.1	0.1
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	129.8	130.0	130.6	131.8	132.9	134.1	135.1	136.1	137.0	137.9
Unemployment rate	%	6.1	6.2	6.0	5.8	5.7	5.4	5.2	5.1	5.1	5.1
Industrial prod. index	% change	3.3	3.1	7.1	6.5	6.3	5.9	5.3	5.1	5.1	5.3
Capacity util. rate - mfg.	%	72.9	73.4	74.6	75.6	76.7	77.6	78.3	79.0	79.7	80.5
Housing starts	Millions	1.87	1.84	1.84	1.84	1.84	1.86	1.87	1.86	1.85	1.84
Light motor vehicle sales		17.55	16.60	16.79	17.19	17.36	17.48	17.48	17.53	17.60	17.68
North Amer. produced		14.18	13.30	13.45	13.80	13.90	14.00	14.00	14.05	14.10	14.15
Other		3.37	3.30	3.34	3.39	3.46	3.48	3.48	3.48	3.50	3.53
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	11022.1	11165.3	11344.6	11514.3	11686.1	11852.4	12008.3	12161.8	12308.7	12453.1
Nominal GNP	% change	8.5	5.3	6.6	6.1	6.1	5.8	5.4	5.2	4.9	4.8
Nominal personal income		3.7	4.5	5.8	5.6	6.0	6.2	6.2	5.4	5.4	5.3
Real disposable income		6.0	1.3	7.0	4.2	4.6	4.9	4.7	4.2	4.2	4.1
Personal saving rate	%	3.2	3.1	3.7	3.6	3.7	3.8	3.8	3.8	3.9	4.0
Corp. profits, IVA & CCAdj.	% change	39.8	16.2	18.0	8.4	4.7	-0.8	-5.0	1.2	-0.5	-1.1
Profit share of GNP	%	8.8	9.1	9.3	9.4	9.3	9.2	8.9	8.9	8.7	8.6
Excluding FR Banks		8.7	8.9	9.1	9.2	9.1	9.0	8.8	8.7	8.6	8.4
Federal surpl./deficit	Bill. \$	-412.7	-402.9	-463.5	-445.0	-398.8	-350.7	-281.6	-223.6	-199.0	-198.8
State & local surpl./def.		-31.6	6.1	-9.8	-2.7	-6.6	-0.8	0.5	2.3	3.9	5.5
Ex. social ins. funds		-31.5	6.2	-9.7	-2.6	-6.5	-0.7	0.6	2.4	4.0	5.6
Gross natl. saving rate	%	13.6	14.0	14.1	14.5	14.7	14.9	14.8	15.0	15.0	15.0
Net natl. saving rate		0.8	1.4	1.6	1.9	2.2	2.4	2.3	2.5	2.5	2.6
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	1.8	0.8	1.1	0.9	1.0	1.0	1.4	1.0	1.0	0.9
Gross Domestic Purchases chn.-wt. price index		2.0	1.0	1.2	0.8	0.8	0.9	1.3	0.9	0.9	0.9
PCE chn.-wt. price index		2.4	1.0	0.7	0.8	0.8	0.9	0.9	0.9	0.9	1.0
Ex. food and energy		1.8	1.3	1.2	1.1	1.1	1.0	1.0	1.0	1.0	1.0
CPI		2.4	1.2	0.7	0.9	1.0	1.1	1.2	1.2	1.2	1.3
Ex. food and energy		1.7	1.8	1.5	1.5	1.5	1.4	1.4	1.4	1.3	1.3
ECI, hourly compensation <sup>2</sup>		3.2	3.2	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Nonfarm business sector		6.0	3.1	2.6	1.4	1.1	0.6	0.4	1.0	1.0	1.1
Output per hour		3.2	2.1	3.0	2.9	3.0	3.1	3.3	3.2	3.2	3.3
Compensation per hour		-2.6	-0.9	0.4	1.5	1.9	2.5	2.9	2.2	2.2	2.2
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	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	Projected Q3/Q4	Projected Q4/Q1	Projected Q4/Q2
<b>Real GDP Gross dom. purchases</b>	-0.3 -0.1	2.7 3.0	5.0 5.8	1.3 2.7	4.0 4.0	1.4 3.0	1.4 0.6	3.3 4.6	6.3 5.8	0.1 0.2	2.9 3.9	3.8 3.9
<b>Final sales Priv. dom. final purchases</b>	-0.2 0.3	4.1 2.6	2.5 2.2	-0.1 1.1	3.5 2.9	1.1 1.8	2.2 1.4	4.0 3.7	6.6 6.0	1.6 0.8	1.7 2.0	3.9 3.4
<b>Personal cons. expenditures</b>	1.0 0.4 0.3 0.3 0.4	4.1 2.5 0.7 1.6 0.9	2.2 0.6 1.2 0.6 1.2	1.2 0.2 1.7 0.2 1.1	2.9 0.2 1.7 0.2 1.0	1.2 0.2 -0.7 1.0 0.9	1.4 -0.2 -0.2 1.2 0.4	2.7 1.8 1.8 0.3 0.6	4.3 1.7 1.7 1.6 1.0	1.9 1.0 1.0 0.3 0.5	1.9 0.2 0.2 0.7 1.0	2.4 0.7 1.0 0.6
<b>Durables</b>												
<b>Nondurables</b>												
<b>Services</b>												
<b>Business fixed investment</b>	-0.7 -0.8 -0.1 0.0	-1.3 -0.2 -1.1 -0.2	-0.7 -0.2 -0.4 0.6	-0.3 0.3 -0.4 0.1	-0.1 0.5 -0.5 0.1	0.1 0.5 -0.6 0.1	0.2 0.5 -0.5 0.1	-0.5 0.6 -0.3 0.4	0.7 0.6 -0.1 0.3	0.8 0.9 -0.1 0.0	-1.2 -0.8 -0.4 0.0	-0.2 0.5 -0.5 0.5
<b>Equipment &amp; Software</b>												
<b>Nonresidential structures</b>												
<b>Residential structures</b>												
<b>Net exports</b>	-0.2 -1.9 1.7	-0.3 -1.0 0.7	-0.8 0.3 -1.1	-1.4 1.3 -2.7	-0.0 0.5 -0.5	-1.6 -0.6 -1.0	-1.6 -0.6 -0.9	0.8 -0.1 0.9	-1.3 1.1 -1.2	0.5 1.1 -0.6	-0.1 -1.3 -1.2	-0.1 0.4 -0.6
<b>Exports</b>												
<b>Imports</b>												
<b>Government cons. &amp; invest.</b>	-0.2 0.1 0.2 -0.1 -0.3	1.9 0.8 0.5 0.3 1.1	1.0 0.5 0.5 0.0 0.6	0.3 0.5 0.3 0.2 0.2	0.6 0.3 0.3 0.0 0.3	0.6 0.3 0.3 -0.2 0.2	0.9 0.7 0.5 0.2 0.2	0.1 0.1 0.2 0.0 0.2	1.6 1.6 1.7 -0.1 0.1	0.2 0.1 0.1 0.1 0.1	0.9 0.4 0.3 0.2 0.5	0.7 0.6 0.6 0.1 0.0
<b>Federal</b>												
<b>Defense</b>												
<b>Nondefense</b>												
<b>State and local</b>												
<b>Change in bus. inventories</b>	-0.1 -0.3 0.2	-1.4 -1.4 0.1	2.6 2.5 0.1	1.3 1.5 -0.2	0.6 0.7 -0.1	0.3 0.2 0.1	-0.8 -0.7 0.1	-0.7 -0.7 0.1	-0.3 -0.4 0.1	-1.5 -1.6 -0.0	1.2 1.2 -0.0	-0.1 -0.2 0.0
<b>NonFarm</b>												
<b>Farm</b>												

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	Projected								Projected		
	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2005 Q4	2004/ 03Q4
Real GDP	4.4	5.2	5.2	5.1	4.8	3.9	4.2	4.1	4.0	3.8	4.0
Gross dom. purchases	4.7	5.7	5.9	5.6	5.0	4.3	4.7	4.4	4.1	3.9	4.4
Final sales	3.0	4.6	4.5	4.5	5.2	2.9	3.9	4.1	4.3	3.9	4.7
Priv. dom. final purchases	2.4	4.4	4.8	4.7	5.1	2.9	4.1	4.1	3.9	3.4	4.7
Personal cons. expenditures	-1.3	3.2	3.3	3.2	3.2	3.0	3.0	2.8	2.7	2.4	3.2
Durables	-0.4	0.4	0.8	0.6	0.7	0.7	0.6	0.6	0.6	0.7	0.6
Nondurables	1.0	1.2	1.1	1.1	1.1	1.0	1.0	1.0	0.9	1.0	1.1
Services	0.7	1.5	1.3	1.4	1.4	1.4	1.4	1.3	1.2	0.6	1.4
Business fixed investment	0.8	1.2	1.4	1.5	1.7	-0.3	1.1	1.2	1.3	0.5	1.5
Equipment & Software	0.8	1.1	1.3	1.4	1.7	-0.4	1.0	1.0	1.0	0.5	1.4
Nonresidential structures	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	-0.0	0.1
Residential structures	0.3	-0.0	0.2	0.0	0.2	0.2	0.1	0.0	-0.0	0.5	0.1
Net exports	-0.3	-0.5	-0.7	-0.5	-0.2	-0.5	-0.5	-0.3	-0.1	-0.1	-0.4
Exports	1.1	0.7	1.0	1.0	1.2	0.7	1.0	1.0	1.2	0.5	1.0
Imports	-1.4	-1.2	-1.7	-1.5	-1.4	-1.2	-1.5	-1.4	-1.3	-0.6	-1.4
Government cons. & invest.	0.9	0.7	0.4	0.3	0.3	0.5	0.3	0.4	0.5	0.7	0.4
Federal	0.8	0.6	0.3	0.1	0.1	0.2	0.1	0.1	0.2	0.6	0.3
Defense	0.7	0.5	0.2	0.1	0.0	0.2	0.0	0.1	0.1	0.6	0.2
Nondefense	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
State and local	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.0	0.2
Change in bus. inventories	1.4	0.6	0.6	0.6	-0.4	1.0	0.2	-0.0	-0.3	-0.1	0.4
Nonfarm	1.4	0.6	0.6	0.6	-0.4	1.0	0.2	-0.0	-0.3	-0.2	0.2
Farm	-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.

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

Item	Fiscal year				2003				2004				2005			
	2002 <sup>a</sup>	2003	2004	2005	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget<sup>1</sup></b>																
Receipts <sup>2</sup>	1853	1782	1815	2023	398	528	429	405	518	463	466	435	603	519	509	
Outlays <sup>2</sup>	2011	2157	2312	2382	543	544	534	586	579	563	597	593	595	607		
Surplus/deficit <sup>2</sup>	-158	-374	-498	-359	-145	-17	-104	-157	-179	-61	-101	-132	-162	-75	-98	
On-budget	-317	-535	-668	-547	-169	-91	-113	-198	-217	-138	-114	-176	-203	-95	-145	
Off-budget	160	161	170	188	24	75	9	41	38	77	14	44	41	82	20	
Means of financing																46
Borrowing	221	374	531	376	64	106	108	146	165	105	115	154	29	78	75	
Cash decrease	-17	26	-10	0	20	-17	-5	2	10	6	-35	15	0	-30	15	15
Other <sup>3</sup>	-46	-25	-23	-17	62	-73	2	10	6	-9	-29	2	7	-9	-17	9
Cash operating balance, end of period	61	35	45	45	13	30	35	33	25	60	45	30	30	60	45	30
<b>NIPA federal sector</b>																
Receipts	1906	1854	1900	2146	1865	1871	1817	1887	1865	1896	1952	2018	2130	2195	2239	2263
Expenditures	2039	2189	2327	2409	2145	2262	2230	2289	2328	2341	2351	2369	2411	2419	2438	2461
Consumption expenditures	570	642	708	740	627	664	666	685	710	717	721	724	742	745	749	756
Defense	375	429	482	502	409	452	451	466	484	488	491	492	504	505	507	512
Nondefense	195	213	226	238	218	213	216	219	226	228	230	232	238	240	242	244
Other spending	1469	1547	1619	1669	1519	1597	1564	1605	1618	1624	1630	1645	1669	1674	1689	1705
Current account surplus	-133	-335	-428	-264	-280	-390	-413	-403	-464	-445	-399	-351	-282	-224	-199	-199
Gross investment	106	113	129	133	109	116	120	125	129	131	131	132	133	134	135	136
Gross saving less gross investment <sup>4</sup>	-138	-343	-448	-283	-284	-400	-426	-421	-484	-466	-419	-371	-302	-243	-218	-218
<b>Fiscal indicators<sup>5</sup></b>																
High-employment (HEB) surplus/deficit	-73	-254	-394	-275	-191	-301	-343	-341	-424	-422	-389	-353	-291	-238	-217	-220
Change in HEB, percent of potential GDP	1.8	1.6	1.1	-1.1	0.1	1.0	0.3	-0.1	0.7	-0.1	-0.3	-0.3	-0.6	-0.5	-0.2	0.0
Fiscal impetus (FI) percent of GDP	1.1	1.2	1.2	-0.3	0.0	0.7	0.1	0.7	0.2	0.2	0.1	0.2	-0.5	-0.0	0.0	0.1

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

2. OMB's July 2003 baseline surplus estimates are -\$455 billion in FY 2003 and -\$458 billion in FY 2004. CBO's August 2003 baseline surplus estimates are -\$401 billion in FY 2003, -\$480 billion in FY 2004, and -\$341 billion in FY 2005. 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. Gross saving is the current account surplus plus consumption of fixed capital of the general government as well as government enterprises.

5. HEB is gross saving less gross investment (NIPA) 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 (1996) 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)**

October 22, 2003

Period <sup>1</sup>	Total	Federal government	Nonfederal				State and local governments	Memo: Nominal GDP
			Total	Households	Home mortgages	Consumer credit		
<i>Year</i>								
1998	6.9	-1.4	9.6	8.1	8.8	6.5	12.1	6.0
1999	6.4	-1.9	8.9	8.3	9.0	8.4	10.7	5.9
2000	4.9	-8.0	8.4	8.6	8.3	10.7	9.7	4.6
2001	6.2	-0.2	7.6	8.7	9.8	7.3	6.3	2.0
2002	7.1	7.6	7.0	10.0	12.4	4.3	2.9	4.3
2003	8.2	11.6	7.4	10.0	11.9	4.8	4.2	5.4
2004	6.9	12.3	5.7	6.5	7.1	5.3	5.0	6.1
2005	6.2	7.4	5.9	6.3	6.4	6.3	5.7	5.1
<i>Quarter</i>								
2003:1	6.1	2.2	7.0	10.0	11.8	4.9	3.7	5.2
2	12.1	24.3	9.6	11.8	14.3	4.6	6.2	12.8
3	6.9	8.2	6.6	9.4	11.0	4.9	2.7	8.5
4	6.7	10.3	5.9	7.5	8.7	4.4	3.8	6.1
2004:1	6.6	12.0	5.5	6.5	7.4	4.4	4.4	6.3
2	8.4	21.1	5.5	6.3	6.9	5.2	4.7	4.5
3	6.1	7.9	5.6	6.2	6.6	5.5	5.1	6.1
4	5.9	6.3	5.8	6.3	6.6	5.8	5.4	5.8
2005:1	6.6	9.7	5.8	6.3	6.6	6.0	5.5	5.3
2	7.1	12.4	5.8	6.2	6.3	6.2	5.6	5.2
3	5.5	4.6	5.8	6.1	6.2	6.3	5.7	5.0
4	5.1	2.3	5.8	6.0	6.1	6.2	5.7	5.0

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2003: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				2003				2004				Seasonally adjusted annual rates			
	2002	2003	2004	2005	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2005	
<i>Net funds raised by domestic nonfinancial sectors</i>																
1 Total	1333.5	1640.7	1510.8	1463.3	1471.5	1414.3	1439.6	1867.1	1367.0	1369.3	1543.0	1695.3	1353.4	1261.6		
2 Net equity issuance	-41.9	-50.4	-38.8	-19.5	-13.0	-51.0	-46.0	-41.0	-39.0	-29.0	-27.0	-22.0	-17.0	-12.0		
3 Net debt issuance	1375.4	1691.1	1549.5	1482.8	1484.5	1465.3	1485.6	1908.1	1406.0	1398.3	1570.0	1717.3	1370.4	1273.6		
<i>Borrowing sectors</i>																
Nonfinancial business																
4 Financing gap <sup>1</sup>	80.7	8.6	30.1	232.1	-25.7	-5.1	-19.1	-0.9	43.0	97.5	177.1	225.4	255.5	270.6		
5 Net equity issuance	-41.9	-50.4	-38.8	-19.5	-13.0	-51.0	-46.0	-41.0	-39.0	-29.0	-27.0	-22.0	-17.0	-12.0		
6 Credit market borrowing	200.7	296.1	371.2	447.4	196.9	280.8	323.7	356.1	386.6	418.1	427.3	441.6	456.0	464.5		
Households																
7 Net borrowing <sup>2</sup>	771.8	850.8	604.8	621.8	842.0	683.8	609.6	597.7	599.7	612.3	624.6	621.9	620.1	620.6		
8 Home mortgages	666.4	721.3	477.6	465.7	707.4	574.0	502.0	474.3	466.4	467.6	475.4	465.4	460.9	461.1		
9 Consumer credit	79.2	92.7	108.2	134.6	97.7	87.8	89.3	107.0	113.7	122.9	127.7	135.0	137.7	138.1		
10 Debt/DPI (percent) <sup>3</sup>	103.5	109.1	111.8	112.8	109.7	111.4	111.3	111.7	111.9	112.1	112.3	112.6	112.9	113.2		
State and local governments																
11 Net borrowing	145.4	121.2	73.8	75.3	127.9	94.5	66.8	70.8	72.8	84.8	74.8	74.8	76.8			
12 Current surplus <sup>4</sup>	127.7	155.7	185.3	200.8	152.5	191.8	177.7	186.7	184.6	192.2	195.4	199.1	202.6	206.1		
Federal government																
13 Net borrowing	257.5	423.0	499.7	335.8	317.7	406.2	485.5	883.5	346.9	283.0	443.2	579.0	219.4	111.7		
14 Net borrowing (quarterly, n.s.a.)	257.5	423.0	499.7	335.8	107.6	145.6	164.9	105.1	114.9	114.7	154.4	29.0	77.9	74.5		
15 Unified deficit (quarterly, n.s.a.)	230.6	422.8	472.6	325.7	104.5	156.8	179.3	61.1	100.5	131.8	161.8	-9.9	75.4	98.4		
<i>Depository institutions</i>																
16 Funds supplied	482.5	382.8	442.0	502.2	-108.9	282.8	401.9	503.6	444.4	418.3	479.9	550.4	525.5	453.1		
Memo (percentage of GDP)																
17 Domestic nonfinancial debt <sup>5</sup>	191.3	197.1	199.7	201.7	197.9	198.7	199.0	199.7	200.3	200.4	201.0	201.8	202.5	202.7		
18 Domestic nonfinancial borrowing	13.2	15.5	13.4	12.1	13.5	13.1	13.1	16.6	12.0	11.8	13.1	14.1	11.1	10.2		
19 Federal government <sup>6</sup>	2.5	3.9	4.3	2.8	2.9	3.6	4.3	7.7	3.0	2.4	3.7	4.8	1.8	0.9		
20 Nonfederal	10.7	11.6	9.1	9.4	10.6	9.5	8.8	8.9	9.1	9.4	9.4	9.4	9.4	9.3		

Note. Data after 2003: 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).

2.6.4 FOF

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

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

6. Excludes government-insured mortgage pool securities.

## International Developments

Notwithstanding growing optimism about the pace of U.S. economic expansion, the foreign exchange value of the dollar declined substantially on balance during the intermeeting period. The dollar depreciated against all major foreign currencies following the call for increased exchange rate flexibility contained in the G-7 communiqué issued in Dubai on September 20, which many market participants interpreted as a call for a weaker dollar. Since the September FOMC meeting, the trade-weighted value of the dollar against other major currencies has fallen 4 $\frac{3}{4}$  percent. Consequently, we have marked down our projection of the broad real index of the dollar in the current quarter, and we continue to forecast some additional depreciation over the rest of the forecast period.

### Summary of Staff Projections

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

Indicator	2002	2003:	Projection			
			2003:			2004
			H1	Q3	Q4	
Foreign output	2.7	.7	3.5	3.4	3.6	3.4
<i>Previous GB</i>	2.8	.5	2.9	3.4	3.6	3.4
Foreign CPI	2.6	2.0	1.3	2.2	2.0	1.9
<i>Previous GB</i>	2.6	1.9	1.6	2.1	1.9	1.9

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

Recent indicators have supported our forecast of a moderate rebound in GDP growth abroad that started in the third quarter of this year. We expect growth to continue at an annual rate of around 3½ percent over the projection period. Compared with the September Greenbook, we have raised our estimate of growth in the third quarter ½ percentage point, mainly owing to stronger-than-expected data releases, especially for emerging Asian economies and the United Kingdom. Beyond this near-term revision, our growth forecast is little changed from our projection in September: Slight downward revisions for the euro area and Japan were offset by stronger outlooks for other Asian countries and the United Kingdom.

The average rate of foreign inflation fell to 2 percent in the first half of the year, and we project inflation to remain at or below this level through 2005, as spare capacity is reduced but not eliminated.

Net exports are estimated to have arithmetically contributed ½ percentage point to U.S. real GDP growth in the third quarter as import growth moderated and

Trade category	2002	Projection					
		2003:	2003:			2004	2005
			H1	Q3	Q4		
<i>Exports</i>							
Core goods		2.1	3.4	.9	1.2	.9	1.0
<i>Imports</i>							
Non-oil core goods		.7	2.6	1.3	2.5	1.8	1.1
Oil (dollars per barrel)		24.05	26.46	27.98	27.74	24.41	22.99

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

August trade data surprised us with unexpected weakness in imports and, to a lesser extent, exports. This led us to revise our quarterly estimates for real imports and exports, causing the estimated arithmetic contribution of net exports to U.S. real GDP growth in the third quarter to swing from a negative  $\frac{1}{4}$  percentage point in the September Greenbook to a positive  $\frac{1}{2}$  percentage point in our current forecast. With imports projected to rebound in the fourth quarter from their recent weakness, the projected contribution of net exports to growth is negative  $\frac{1}{4}$  percentage point, down from a slightly positive figure in the September Greenbook.

The decline in the value of exports in August only partly reversed the large increase in July; moreover, indicators suggest that exports picked up speed in September. In consequence, even after taking into account the August data, we still estimate real exports of goods and services to have grown  $11\frac{1}{2}$  percent at an annual rate in the third quarter,  $2\frac{1}{2}$  percentage points more than we estimated in the September Greenbook. Much of the upward revision was in services exports, especially receipts from international travel, as the effects of SARS and the war in Iraq receded. Real exports are projected to grow rapidly again in the fourth quarter.

The decline in the value of imports in August came mainly from a drop in automotive imports, but also decreases in imported consumer goods, aircraft, high-tech products, and oil. Our assessment is that much of the decline was

transitory, caused in part by factors such as the power blackout, reported delays in introducing winter styles by various department stores, and domestic automakers' concerns about inventory stocks of some models. Accordingly, our view is that imports bounced back in September. Even so, real goods and services imports are estimated to have slowed sharply in the third quarter, growing 4 percent at an annual rate, only half the pace projected in the September Greenbook. We anticipate that import growth will continue to strengthen in the fourth quarter and have penciled in a growth rate of about 10 percent, 3 percentage points higher than in the September Greenbook.

### **Summary of Staff Projections for Trade in Goods and Services**

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

Measure	2002	2003:	Projection				
			2003:			2004	2005
			H1	Q3	Q4		
Real exports	3.9	-1.1	11.6	11.6	10.2	9.9	
<i>Previous GB</i>	<i>3.9</i>	<i>-1.3</i>	<i>9.0</i>	<i>11.6</i>	<i>9.7</i>	<i>9.6</i>	
Real imports	10.1	1.0	4.1	10.0	10.1	9.1	
<i>Previous GB</i>	<i>10.1</i>	<i>.6</i>	<i>8.5</i>	<i>7.1</i>	<i>10.5</i>	<i>9.2</i>	

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

In 2004 and 2005, exports of core goods, computers, semiconductors, and services are all expected to show continued solid growth. The projected strength in core exports stems from the acceleration of foreign activity and a lagged response to the dollar's depreciation. In addition, because exports have shown greater cyclical than suggested by their historical relationship with exchange rates and foreign GDP, we have built in some further growth of exports over the forecast period to return them gradually to a more normal level. We project that services exports will moderate to a rate of about 6 percent in 2004 and 2005. Total export growth in 2004 is  $\frac{1}{2}$  percentage point stronger than projected in the September Greenbook, and  $\frac{1}{4}$  percentage point higher in 2005, primarily because of the lower projected path of the dollar.

We are projecting import growth to remain high in 2004 as a result of continued strength of U.S. demand. In 2005, import growth should move down slightly as U.S. growth moderates. In addition, the lower projected path of the dollar restrains import growth over the forecast period. As we have noted in past

Greenbooks, imports of core goods have fallen below their traditional relationship with U.S. GDP and exchange rates, but we expect some of this to be made up over the forecast period. Imports of computers and semiconductors are expected to grow at double-digit rates as the high-tech sector recovers strongly. We project that the growth of services imports, after being boosted in the near term by the recovery of international travel, will settle down to about 5 percent in 2004 and 2005.

### **Alternative simulation**

The index of the broad real dollar has declined about 10 percent since its peak in early 2002. We are projecting only a small additional decline over the forecast period. However, concerns about the financing burden posed by the growing U.S. current account deficit may induce a much sharper depreciation.

Accordingly, in our alternative simulation, we used the FRB/Global model to assess the effects of a rise in the risk premium on the dollar that would generate an additional real dollar decline of about 20 percent by the end of next year. Under this alternative, the decline in the broad real dollar over 2002 to 2004 would be similar to that experienced in the mid-1980s. The simulation assumes that the risk premium shocks begin in 2003:Q4 and are phased in so that the dollar declines about 5 percent per quarter through 2004:Q3. The simulation assumes that the federal funds rate is held constant.

### **Alternative Simulation: 20 Percent Depreciation of the Broad Real Dollar**

(Percent change from previous period, annual rate)

Indicator and simulation	2003		2004		2005	
	H1	H2	H1	H2	H1	H2
<i>U.S. real GDP</i>						
Baseline	2.3	5.3	5.2	5.0	4.0	4.0
Dollar Depreciation	2.3	5.4	5.7	6.0	5.4	5.8
<i>U.S. PCE prices excl. food and energy</i>						
Baseline	.9	1.5	1.2	1.1	1.0	1.0
Dollar Depreciation	.9	1.5	1.6	2.2	2.2	1.7

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

The depreciation of the dollar provides a strong stimulus to net exports. This stimulus contributes to a substantial increase in real output: Real GDP growth rises about  $\frac{3}{4}$  percentage point above baseline in 2004 and  $1\frac{1}{2}$  percentage points

Measure and country	1997	1998	1999	2000	2001	2002	2003	2004	2005	-----Projected-----
<b>REAL GDP (1)</b>										
Total foreign	4.2	1.5	4.9	4.4	0.3	2.7	2.0	3.6	3.4	
Industrial Countries of which:	3.4	2.7	4.2	3.9	0.7	2.5	1.6	2.7	2.7	
Canada	4.4	4.4	5.9	4.2	-1.4	3.5	1.9	3.4	3.2	
Japan	0.3	-1.3	-0.5	5.1	-2.4	2.5	2.4	1.5	1.4	
United Kingdom	3.4	2.8	3.3	2.9	1.9	2.0	2.2	2.5	2.5	
Euro Area (2)	3.2	2.0	3.8	2.7	0.8	1.1	0.6	2.1	2.4	
Germany	1.7	0.7	3.3	1.9	0.5	0.5	0.2	1.9	2.0	
Developing Countries Asia	5.4	-0.3	6.1	5.3	-0.3	3.1	2.8	4.9	4.4	
Korea	5.0	-2.2	8.6	6.2	0.9	5.6	3.4	5.5	5.4	
China	3.4	-5.2	13.8	5.1	4.2	7.0	0.8	4.6	5.5	
Latin America	8.7	9.5	4.1	8.0	7.5	8.0	9.7	8.3	7.7	
Mexico	6.1	1.2	4.2	4.5	-1.4	1.1	2.1	4.6	3.8	
Brazil	6.8	2.9	5.4	4.8	-1.4	2.0	2.5	5.1	4.1	
2.5	-1.6	3.4	3.9	-0.9	3.2	-0.5			3.5	
<b>CONSUMER PRICES (3)</b>										
Industrial Countries of which:	1.5	1.0	1.2	1.8	1.0	2.2	1.3	1.3	1.3	
Canada	1.0	1.1	2.4	3.1	1.1	3.8	1.7	1.9	1.8	
Japan	2.1	0.7	-1.1	-1.3	-1.3	-0.4	-0.5	-0.4	-0.3	
United Kingdom (4)	2.7	2.5	2.2	2.1	2.0	2.6	2.7	2.6	2.5	
Euro Area (2)	1.5	0.8	1.5	2.5	2.1	2.3	1.7	1.5	1.6	
Germany	1.5	0.3	1.1	1.7	1.5	1.2	0.9	1.0		
Developing Countries Asia	6.8	9.0	4.6	4.1	2.8	3.1	2.7	2.8	2.8	
Korea	2.7	4.4	0.1	1.8	1.1	0.8	1.5	2.0	2.2	
China	4.9	5.8	1.2	2.5	3.3	3.4	3.2	2.7	2.7	
Latin America	0.8	-1.2	-1.0	0.9	-0.1	-0.5	1.3	1.6	1.8	
Mexico	15.5	15.4	12.5	8.4	5.3	6.4	4.8	4.0	3.5	
Brazil	17.0	17.3	13.4	8.7	5.1	5.3	3.8	3.6	3.2	
4.6	2.0	8.4	6.4	7.5	10.7	11.9	5.8	5.2		

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	2003				2004				Projected				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>REAL GDP (1)</b>																
Total foreign	0.7	0.7	3.5	3.4	3.5	3.6	3.6	3.6	3.4	3.4	3.3	3.3	3.3	3.3	3.3	3.3
Industrial Countries of which:	1.6	0.5	1.7	2.5	2.6	2.7	2.8	2.8	2.7	2.7	2.6	2.6	2.6	2.6	2.6	2.6
Canada	2.6	-0.3	2.2	3.3	3.5	3.4	3.3	3.3	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Japan	2.4	3.9	1.4	2.0	1.6	1.5	1.5	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.5
United Kingdom	0.7	2.4	2.8	3.0	3.0	3.0	2.8	2.7	2.7	2.6	2.4	2.4	2.4	2.4	2.4	2.4
Euro Area (2)	0.1	-0.3	1.1	1.4	1.7	2.0	2.4	2.5	2.5	2.5	2.3	2.3	2.3	2.3	2.3	2.3
Germany	-1.0	-0.2	1.0	1.1	1.4	1.7	2.3	2.2	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0
<b>Developing Countries</b>																
Asia	-0.6	0.9	6.1	4.8	4.8	4.9	4.8	4.9	4.5	4.5	4.4	4.4	4.4	4.4	4.4	4.3
Korea	2.8	-5.0	9.7	6.7	5.5	5.6	5.5	5.6	5.6	5.6	5.5	5.5	5.5	5.5	5.5	5.5
China	-1.6	-2.9	3.0	5.0	4.5	4.5	4.5	5.0	5.0	5.0	5.5	5.5	5.5	5.5	5.5	5.5
Latin America	1.6	-2.9	17.5	9.0	8.5	8.5	8.5	8.2	8.2	8.2	8.0	8.0	8.0	8.0	8.0	8.0
Mexico	-4.2	6.0	3.5	3.5	4.6	4.6	4.6	4.6	4.6	4.6	3.8	3.8	3.8	3.8	3.8	3.8
Brazil	-1.7	4.9	3.4	3.4	5.1	5.1	5.1	5.1	5.1	5.1	4.1	4.1	4.1	4.1	4.1	4.1
Brazil	-2.3	-6.2	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
<b>CONSUMER PRICES (3)</b>																
Industrial Countries of which:	2.5	1.8	1.5	1.3	0.7	1.3	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Canada	4.5	2.8	2.1	1.7	0.6	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Japan	-0.3	-0.3	-0.6	-0.5	-0.5	-0.3	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
United Kingdom (4)	2.9	2.9	2.9	2.7	2.3	2.7	2.6	2.6	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Euro Area (2)	2.3	1.9	2.0	1.7	1.3	1.5	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.6
Germany	1.1	0.9	1.0	0.9	0.6	1.0	0.9	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.0
<b>Four-quarter changes</b>																
Industrial Countries of which:	2.5	1.8	1.5	1.3	0.7	1.3	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Canada	4.5	2.8	2.1	1.7	0.6	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Japan	-0.3	-0.3	-0.6	-0.5	-0.5	-0.3	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
United Kingdom (4)	2.9	2.9	2.9	2.7	2.3	2.7	2.6	2.6	2.6	2.6	2.5	2.5	2.5	2.5	2.5	2.5
Euro Area (2)	2.3	1.9	2.0	1.7	1.3	1.5	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.6
Germany	1.1	0.9	1.0	0.9	0.6	1.0	0.9	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.0
Developing Countries	3.6	3.1	2.7	2.7	2.4	2.6	2.9	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Asia	1.4	1.2	1.2	1.5	1.3	1.8	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Korea	4.1	3.3	3.2	3.2	2.6	2.8	3.0	3.0	3.0	3.0	2.7	2.7	2.7	2.7	2.7	2.7
China	0.5	0.6	0.9	1.3	1.1	1.6	1.6	1.6	1.6	1.6	1.8	1.8	1.8	1.8	1.8	1.8
Latin America	7.1	6.3	5.4	4.8	4.3	4.2	4.0	4.0	4.0	4.0	3.8	3.8	3.8	3.8	3.8	3.8
Mexico	5.5	4.7	4.1	3.8	3.9	3.8	3.6	3.6	3.6	3.6	3.4	3.4	3.4	3.4	3.4	3.4
Brazil	15.6	17.0	15.3	11.9	6.9	5.4	6.1	5.8	5.8	5.8	5.6	5.6	5.6	5.6	5.6	5.6

1. Foreign GDP aggregates calculated using shares of U.S. exports.

2. Harmonized data for euro area from Eurostat.

3. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.

4. CPI excluding mortgage interest payments, which is the targeted inflation rate.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1997	1998	1999	2000	2001	2002	2003	2004	Projected 2005
<b>NIPA REAL EXPORTS and IMPORTS</b>									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.8	-1.1	-1.0	-0.8	-0.1	-1.0	-0.1	-0.5	-0.4
Exports of G&S	1.0	0.3	0.5	0.8	1.3	0.4	0.5	1.0	1.0
Imports of G&S	-1.7	-1.5	-1.5	-1.5	-1.5	-1.2	-0.6	-1.4	-1.4
Percentage change, Q4/Q4									
Exports of G&S	8.5	2.3	4.9	7.3	-11.4	3.9	5.0	10.2	9.9
Services	1.4	2.9	3.2	4.8	-9.2	11.4	5.2	6.7	5.9
Computers	25.8	8.1	13.4	23.0	-23.4	-2.1	10.6	37.3	31.0
Semiconductors	21.3	9.1	34.6	26.9	-34.9	8.5	33.1	40.1	33.7
Other Goods 1/	9.8	1.3	3.2	5.7	-9.4	0.5	2.9	8.2	8.4
Imports of G&S	14.3	10.8	11.9	11.1	-8.0	10.1	4.0	10.1	9.1
Services	14.0	8.5	5.9	10.9	-8.6	11.5	1.8	4.6	4.5
Oil	3.9	4.1	-3.4	13.3	0.1	4.0	-0.2	2.4	2.7
Computers	33.0	25.8	26.0	13.6	-13.8	13.6	13.8	37.3	31.1
Semiconductors	32.9	-8.7	34.2	22.5	-51.4	9.3	5.5	40.2	33.7
Other Goods 2/	12.7	11.5	12.7	10.4	-6.2	10.1	4.3	9.8	8.5
Billions of chained 1996 dollars									
Net Goods & Services	-113.3	-221.1	-320.5	-398.8	-415.9	-488.5	-532.8	-579.9	-628.8
Exports of G&S	981.5	1002.4	1036.3	1137.2	1076.1	1058.8	1078.4	1180.0	1298.5
Imports of G&S	1094.8	1223.5	1356.8	1536.0	1492.0	1547.4	1611.2	1759.9	1927.3
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-127.7	-204.7	-290.8	-411.5	-393.7	-480.9	-550.4	-582.2	-622.8
Current Acct as Percent of GDP	-1.5	-2.3	-3.1	-4.2	-3.9	-4.6	-5.0	-5.0	-5.1
Net Goods & Services (BOP)	-107.0	-163.2	-261.2	-375.4	-357.8	-418.0	-494.1	-541.2	-581.4
Investment Income, Net	25.1	11.5	22.3	24.2	15.7	1.3	15.0	27.7	25.3
Direct Net	72.4	65.5	78.2	94.9	106.5	93.5	96.1	112.2	122.1
Portfolio, Net	-47.3	-54.1	-55.9	-70.7	-90.8	-92.2	-81.1	-84.5	-96.9
Other Income & Transfers, Net	-45.7	-53.0	-52.0	-60.3	-51.6	-64.1	-71.3	-68.7	-66.7

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2000								2001								2002											
	Q1				Q2				Q3				Q4				Q1				Q2				Q3			
	NIPA REAL EXPORTS and IMPORTS								Percentage point contribution to GDP growth								Percentage change from previous period, s.a.a.r.											
Net Goods & Services	-1.1	-1.0	-0.7	-0.2	0.5	-0.4	-0.2	-0.3	-0.7	-1.4	-1.3	-2.7	-0.4	-0.5	-0.6	-1.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	-5.8				
Exports of G&S	0.8	-1.5	1.2	-0.5	-0.7	-1.4	-2.0	-1.0	-1.0	-1.3	-1.3	-2.7	-0.5	-0.5	-0.6	-0.6	10.7	10.7	10.7	10.7	10.7	10.7	10.7	8.0				
Imports of G&S	-1.9	-2.5	-1.9	0.3	1.2	1.0	1.7	0.7	0.7	-0.3	-0.3	-2.7	-0.4	-0.4	-0.4	-0.4	-21.1	-21.1	-21.1	-21.1	-21.1	-21.1	-21.1	-17.9				
Exports of G&S Services	7.7	14.6	11.6	-4.0	-6.0	-12.4	-17.3	-9.6	-9.6	3.5	14.3	21.7	-21.1	-21.1	-21.1	-21.1	-21.1	-21.1	-21.1	-21.1	-21.1	-21.1	-21.1	-5.8				
Computers	10.2	11.2	-5.9	4.4	-6.0	-2.5	-13.9	-13.8	-13.8	21.7	10.7	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	8.0				
Semiconductors	3.5	45.9	28.8	-8.8	-7.3	-41.7	-22.8	-17.6	-17.6	-21.1	-21.1	-21.1	-21.1	-21.1	-21.1	-21.1	-21.1	-21.1	-21.1	-21.1	-21.1	-21.1	-21.1	-17.9				
Other Goods 1/	14.6	90.9	43.4	-17.5	-34.6	-47.3	-40.9	-11.7	-11.7	13.7	65.8	65.8	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-39.4			
Imports of G&S Services	4.2	9.1	16.7	-5.9	-2.9	-10.5	-16.5	-6.9	-6.9	-3.1	14.2	14.2	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-10.7			
Oil	14.7	18.6	13.8	-1.6	-7.9	-6.8	-11.8	-5.3	-5.3	8.5	22.2	3.3	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	7.4			
Computers	20.7	9.6	15.1	-0.5	0.3	8.5	-23.2	-16.5	-16.5	35.7	22.2	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	-2.1	13.0			
Semiconductors	28.6	40.4	-2.3	-6.5	23.3	7.2	-26.9	3.9	3.9	-19.0	34.5	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	24.1			
Other Goods 2/	2.5	40.4	27.9	-9.5	-21.6	-24.5	-18.7	14.6	14.6	52.4	5.6	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4	8.2			
Imports of G&S	23.5	50.0	69.8	-28.5	-43.9	-68.8	-55.9	-27.5	-27.5	45.2	41.8	-5.9	-5.9	-5.9	-5.9	-5.9	-5.9	-5.9	-5.9	-5.9	-5.9	-5.9	-5.9	-5.9	-26.4			
Net Goods & Services	13.1	15.5	12.3	1.3	-9.4	-6.2	-4.7	-4.5	-4.5	1.9	28.8	6.3	-6.3	-6.3	-6.3	-6.3	-6.3	-6.3	-6.3	-6.3	-6.3	-6.3	-6.3	-6.3	-5.2			
Billions of chained 1996 dollars, s.a.a.r.																												
Net Goods & Services	-368.8	-394.6	-413.1	-418.5	-404.5	-414.8	-419.0	-425.3	-425.3	-446.6	-487.4	-488.0	-532.2	-532.2	-532.2	-532.2	-532.2	-532.2	-532.2	-532.2	-532.2	-532.2	-532.2	-532.2	-532.2			
Exports of G&S	1095.8	1133.9	1165.5	1153.7	1135.8	1098.8	1048.0	1021.8	1021.8	1030.6	1065.5	1077.7	1061.6	1061.6	1061.6	1061.6	1061.6	1061.6	1061.6	1061.6	1061.6	1061.6	1061.6	1061.6	1061.6			
Imports of G&S	1464.6	1528.5	1578.6	1572.2	1540.3	1513.6	1467.0	1447.2	1447.2	1477.1	1552.9	1565.7	1593.8	1593.8	1593.8	1593.8	1593.8	1593.8	1593.8	1593.8	1593.8	1593.8	1593.8	1593.8	1593.8			
Billions of dollars, s.a.a.r.																												
US CURRENT ACCOUNT BALANCE	-380.1	-396.5	-434.3	-435.0	-416.0	-399.9	-414.5	-426.9	-426.9	-491.3	-490.9	-514.3	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7	-4.9			
Current Account as % of GDP	-3.9	-4.0	-4.4	-4.4	-4.1	-4.0	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1			
Net Goods & Services (BOP)	-346.9	-364.5	-391.8	-398.4	-373.8	-357.8	-356.2	-343.5	-343.5	-360.2	-419.5	-427.9	-464.5	-464.5	-464.5	-464.5	-464.5	-464.5	-464.5	-464.5	-464.5	-464.5	-464.5	-464.5	-464.5			
Investment Income, Net	19.9	23.2	15.8	37.8	8.6	8.2	-8.3	54.3	54.3	2.2	-12.4	-1.9	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2			
Direct Net Portfolio, Net	84.5	88.9	91.9	114.5	94.5	96.7	91.3	143.5	143.5	95.7	85.6	87.7	104.9	104.9	104.9	104.9	104.9	104.9	104.9	104.9	104.9	104.9	104.9	104.9	104.9			
Other Inc. & Transfers, Net	-64.5	-65.7	-76.1	-76.6	-86.0	-88.4	-99.6	-89.2	-89.2	-93.5	-98.1	-89.6	-87.7	-87.7	-87.7	-87.7	-87.7	-87.7	-87.7	-87.7	-87.7	-87.7	-87.7	-87.7	-87.7			

1. Merchandise exports excluding computers and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	Projected								2005			
	2003				2004				Q1		Q2	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>NIPA REAL EXPORTS and IMPORTS</b>												
Net Goods & Services	0.8	-1.3	0.5	-0.3	-0.5	-0.7	-0.4	-0.1	-0.5	-0.5	-0.3	-0.0
Exports of G&S	-0.1	-0.1	1.1	1.1	1.0	1.0	1.0	1.2	1.0	1.0	1.0	1.2
Imports of G&S	-0.9	-1.2	-0.6	-1.4	-1.2	-1.6	-1.4	-1.3	-1.7	-1.5	-1.3	-1.5
	Percentage point contribution to GDP growth											
Exports of G&S	-1.3	-1.0	11.6	11.6	10.2	10.4	12.6	7.5	10.2	10.0	11.9	11.9
Services	-8.0	0.5	20.0	10.6	7.5	6.7	6.5	6.2	6.0	5.8	5.9	5.9
Computers	-7.2	-11.2	38.5	31.0	33.5	38.5	38.5	38.5	33.5	33.5	33.5	33.5
Semiconductors	4.8	30.7	24.0	33.8	36.3	41.4	41.4	26.4	36.2	36.2	36.2	36.2
Other Goods 1/	0.2	-2.9	5.3	9.5	4.3	8.1	8.4	12.1	5.5	8.6	8.3	11.4
Imports of G&S	-6.2	8.8	4.1	10.0	8.8	11.8	10.2	9.5	8.4	10.5	9.2	8.4
Services	-4.0	-11.4	18.8	6.1	2.5	5.2	5.5	4.3	4.6	4.6	4.5	4.4
Oil	-12.6	55.5	-4.4	-23.6	-0.6	24.8	0.7	-12.1	6.4	19.0	-0.9	-11.3
Computers	-2.1	17.5	13.4	28.7	33.6	38.6	38.6	23.9	33.6	33.6	33.6	33.6
Semiconductors	-1.0	3.1	-3.9	26.5	36.3	41.5	41.5	26.4	36.3	36.2	36.2	36.2
Other Goods 2/	-6.4	8.9	1.3	14.4	9.4	9.8	9.9	10.1	7.9	8.8	8.7	8.6
	Billions of chained 1996 dollars, s.a.a.r.											
Net Goods & Services	-510.3	-546.1	-533.0	-541.8	-556.6	-576.8	-590.6	-595.6	-610.3	-626.5	-637.9	-640.3
Exports of G&S	1058.1	1055.5	1084.9	1115.0	1135.7	1163.5	1192.6	1228.4	1250.7	1281.4	1312.2	1349.8
Imports of G&S	1568.4	1601.7	1617.9	1656.8	1692.2	1740.3	1783.1	1824.0	1861.0	1907.9	1950.2	1990.1
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-554.8	-555.1	-541.7	-550.0	-571.0	-578.4	-589.5	-590.0	-610.6	-614.1	-628.4	-638.1
Current Account as % of GDP	-5.2	-5.1	-4.9	-4.9	-5.0	-5.0	-5.0	-5.0	-5.1	-5.1	-5.1	-5.1
Net Goods & Services (BOP)	-486.5	-494.1	-490.9	-505.0	-522.3	-539.7	-550.1	-552.6	-564.6	-578.7	-589.4	-592.8
Investment Income, Net	6.3	11.9	19.8	22.0	28.2	28.2	27.6	26.8	28.7	25.1	19.1	19.1
Direct, Net	8.3	91.3	101.1	103.8	110.5	111.6	112.7	114.1	117.8	120.8	123.6	126.5
Portfolio, Net	-82.0	-79.4	-81.3	-81.8	-82.3	-83.4	-85.2	-87.3	-89.5	-92.1	-98.4	-107.5
Other Inc. & Transfers, Net	-74.6	-73.0	-70.7	-66.9	-76.9	-66.9	-64.2	-74.2	-64.2	-64.2	-64.2	-64.3

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