

Part 1

August 5, 2004

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

Confidential (FR) Class II FOMC

August 5, 2004

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	2004:Q2		2004:Q3	
	June GB	Aug. GB	June GB	Aug. GB
Real GDP	4.7	3.1	5.2	3.9
Private domestic final purchases	5.6	2.9	5.2	4.8
Personal consumption expenditures	3.4	1.0	4.6	4.1
Residential investment	18.8	16.5	-2.7	-1.2
Business fixed investment	14.2	9.4	14.1	13.4
Government outlays for consumption and investment	3.0	2.6	2.0	2.5
	Contribution to growth (percentage points)			
Inventory investment	-.6	.3	.7	-.4
Net exports	-.1	-.2	-.5	-.2

Following three months in which job gains averaged 300,000 per month, private nonfarm payroll employment increased only 117,000 in June. But surveys of employers and households suggest that labor demand remains strong. And initial claims for unemployment insurance averaged about 340,000 in July, a level similar to that earlier in the year. As a consequence, we anticipate that private nonfarm payroll growth will move back up in the current quarter, to around 300,000 per month.

Manufacturing-sector IP edged down 0.1 percent in June as production of motor vehicles registered a fourth consecutive monthly decline and, elsewhere, production rose only 0.1 percent after the robust gains in IP of the February-to-May period. However, the June weakness appears to have been temporary: Motor vehicle production increased in July, and the latest Institute of Supply Management survey is consistent with solid gains in production. For the third quarter as a whole, we are forecasting manufacturing IP growth of 6½ percent at an annual rate.

According to the advance estimate from the BEA, real consumer outlays rose at an annual rate of only 1 percent in the second quarter, a pace well below that of the preceding four quarters. Despite the second-quarter weakness, we continue to believe that the fundamentals for consumer spending are strong. In particular, even with the pause in June, 1.3 million private-sector jobs were added in the first six months of 2004; surveys suggest that consumer confidence remains elevated; and real disposable personal income increased 4 percent over the most recent four quarters. We are looking for a rebound in consumer spending growth in the current quarter, to 4 percent at an annual rate. The one solid piece of evidence that we have on third-quarter spending is consistent

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

Measure	2004		2005
	H1	H2	
Real GDP	3.8	4.3	3.6
Previous	4.6	5.0	3.6
Final sales	3.1	4.3	3.8
Previous	4.5	4.3	3.6
PCE	2.6	4.3	3.9
Previous	3.7	4.5	3.8
Residential investment	10.6	-3.1	-.0
Previous	11.4	-4.9	-1.8
BFI	6.8	15.2	9.9
Previous	10.4	15.6	9.0
Government purchases	2.5	2.1	2.2
Previous	3.2	1.9	2.2
Exports	9.8	10.0	7.6
Previous	7.4	10.2	8.0
Imports	10.0	9.7	7.8
Previous	7.9	10.8	8.1
	Contribution to growth (percentage points)		
Inventory change	.7	.1	-.1
Previous	.1	.7	.0
Net exports	-.5	-.4	-.4
Previous	-.4	-.6	-.4

and adjustable mortgage rates should rise going forward. These increases in rates will likely have a damping effect on residential construction activity. On net, our projection is for residential construction to be about flat next year.

Business spending. We continue to anticipate that a strong level of profits and favorable financing conditions will support business outlays for equipment and software over the projection period. With the partial-expensing tax provision slated to expire at the end of this year, firms are expected to pull forward some spending that otherwise would have taken place next year. For inventories, we anticipate that the pace of stock building will have a roughly neutral effect on GDP growth going forward.

Decomposition of Structural Labor Productivity

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

Measure	1974-95	1996-2001	2002	2003	2004	2005
Structural labor productivity	1.5	2.7	3.2	3.7	3.1	2.8
Previous	1.5	2.7	3.3	3.8	3.2	3.0
<i>Contributions</i> ¹						
Capital deepening	.7	1.4	.6	.6	.8	1.0
Previous	.7	1.4	.7	.7	.9	1.1
Multifactor productivity	.5	1.1	2.4	2.8	2.0	1.6
Previous	.5	1.1	2.4	2.8	2.0	1.6
Labor composition	.3	.3	.3	.3	.3	.3
MEMO						
Potential GDP	3.0	3.4	3.4	3.8	3.4	3.4
Previous	3.0	3.4	3.5	3.9	3.5	3.5

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.

The Outlook for the Labor Market

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

Measure	2002	2003	2004	2005
Output per hour, nonfarm business	3.7	5.6	2.2	1.9
Previous	4.3	5.4	2.2	2.0
Nonfarm private payroll employment	-.9	-.2	2.6	2.2
Previous	-.9	-.2	2.8	2.0
Household survey employment	.3	1.2	1.5	1.7
Previous	.3	1.2	1.7	1.7
Labor force participation rate ¹	66.5	66.1	66.2	66.5
Previous	66.5	66.1	66.2	66.5
Civilian unemployment rate ¹	5.9	5.9	5.5	5.3
Previous	5.9	5.9	5.3	5.2
MEMO				
GDP gap ²	2.2	1.6	1.0	.8
Previous	2.1	1.7	.5	.5

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	2002	2003	2004	2005
PCE chain-weighted price index	1.8	1.7	2.4	1.2
Previous	1.8	1.5	2.1	1.2
Food and beverages	1.4	2.7	2.7	1.8
Previous	1.4	2.6	2.9	2.0
Energy	7.9	7.2	10.8	-4.1
Previous	7.9	7.8	7.6	-4.6
Excluding food and energy	1.5	1.2	1.8	1.5
Previous	1.6	1.0	1.7	1.5
Consumer price index	2.2	1.9	2.9	1.4
Previous	2.2	1.9	2.8	1.5
Excluding food and energy	2.0	1.2	2.2	1.9
Previous	2.0	1.2	2.3	2.0
GDP chain-weighted price index	1.6	1.7	2.0	1.7
Previous	1.4	1.6	1.8	1.4
ECI for compensation of private industry workers ¹	3.2	4.0	4.1	4.0
Previous	3.2	4.0	4.0	4.2
NFB compensation per hour	3.0	5.3	4.1	4.0
Previous	1.8	4.5	4.3	4.1
Prices of core nonfuel imports	.1	1.6	3.5	-.3
Previous	.1	1.6	4.0	.5

1. December to December.

encourage an increase in labor force participation, limiting the reduction in the unemployment rate. On net, we expect the unemployment rate to move down to 5.3 percent by the end of next year, a level just slightly higher than in the June Greenbook. We project that increases in labor productivity over the next six quarters will average 1.6 percent at an annual rate, below our estimate of its underlying structural pace, as firms relieve some of the pressure on their workers that we believe has built up in recent years.

Prices and labor costs. Core inflation as measured by the index for personal consumption expenditures other than food and energy is expected to ease over the forecast period, from an annual rate of 2 percent in the first half of this year to 1½ percent next year. This outlook depends importantly on our expectations that energy and import prices will decelerate from rapid increases in the first half of this year to absolute declines

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

Measure and scenario	2003: H2	2004		2005
		H1	H2	
<i>Real GDP</i>				
Baseline	5.8	3.8	4.3	3.6
Spending rebound	5.8	3.8	5.6	4.9
Stronger investment	5.8	3.8	4.3	4.4
Higher saving rate	5.8	3.8	3.9	2.5
Less-favorable supply conditions	5.8	3.8	4.3	2.7
Lower markup	5.8	3.8	4.4	3.6
Market-based funds rate	5.8	3.8	4.3	3.4
<i>Civilian unemployment rate¹</i>				
Baseline	5.9	5.6	5.5	5.3
Spending rebound	5.9	5.6	5.3	4.4
Stronger investment	5.9	5.6	5.5	5.0
Higher saving rate	5.9	5.6	5.6	5.9
Less-favorable supply conditions	5.9	5.6	5.3	5.1
Lower markup	5.9	5.6	5.5	5.2
Market-based funds rate	5.9	5.6	5.5	5.4
<i>PCE prices excluding food and energy</i>				
Baseline	1.1	2.0	1.7	1.5
Spending rebound	1.1	2.0	1.7	1.6
Stronger investment	1.1	2.0	1.7	1.5
Higher saving rate	1.1	2.0	1.7	1.4
Less-favorable supply conditions	1.1	2.0	2.0	2.0
Lower markup	1.1	2.0	1.3	.9
Market-based funds rate	1.1	2.0	1.7	1.5

1. Average for the final quarter of the period.

in early 2005, and E&S outlays advance in 2005 at close to the 19 percent pace expected in the second half of this year. The added impetus from investment boosts the rate of growth of real GDP to 4½ percent next year and pushes the unemployment rate down to 5 percent. Inflation is little changed from the baseline as price pressures from stronger spending are largely offset by a faster pace of capital deepening.

Higher saving rate. The saving rate is currently quite low by historical standards, and we expect that it will rise considerably over the next several years. In the baseline projection, ¾ percentage point of this adjustment occurs by the end of 2005. The recent softness in consumer spending, however, may be a signal that the adjustment during the forecast period will be more rapid. In this scenario, restraint on the propensity to

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

Measure	2004	2005
<i>Real GDP</i> <i>(percent change, Q4 to Q4)</i>		
Projection	4.1	3.6
Confidence interval		
Greenbook forecast errors ¹	3.1–5.0	1.6–5.6
FRB/US stochastic simulations	3.3–4.8	2.0–5.3
<i>Civilian unemployment rate</i> <i>(percent, Q4)</i>		
Projection	5.5	5.3
Confidence interval		
Greenbook forecast errors ¹	5.2–5.8	4.5–6.1
FRB/US stochastic simulations	5.1–5.8	4.4–6.1
<i>PCE prices</i> <i>excluding food and energy</i> <i>(percent change, Q4 to Q4)</i>		
Projection	1.8	1.5
Confidence interval		
Greenbook forecast errors ²	1.5–2.1	0.7–2.3
FRB/US stochastic simulations	1.5–2.1	0.8–2.2

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

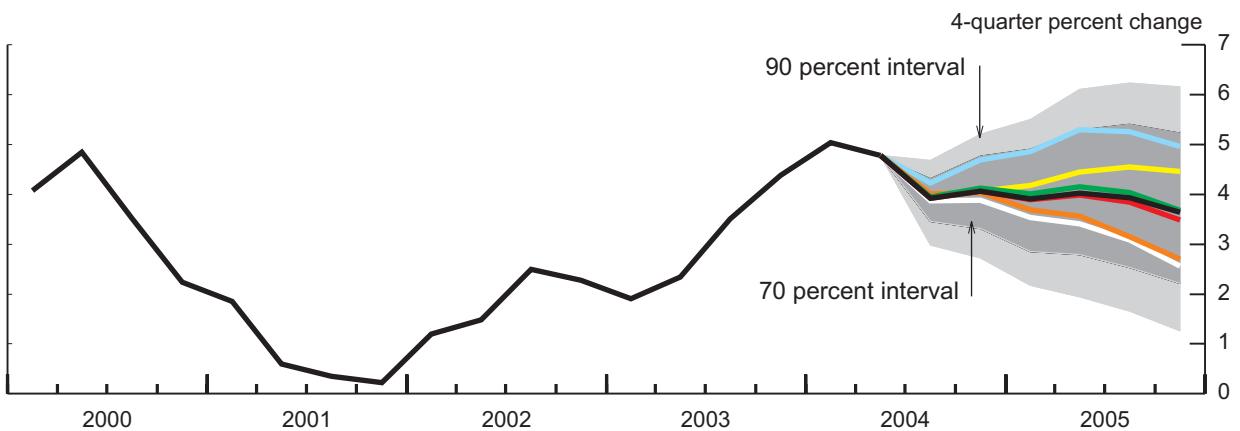
1. 1978–2003.
2. 1981–2003.

Forecast Confidence Intervals and Alternative Scenarios

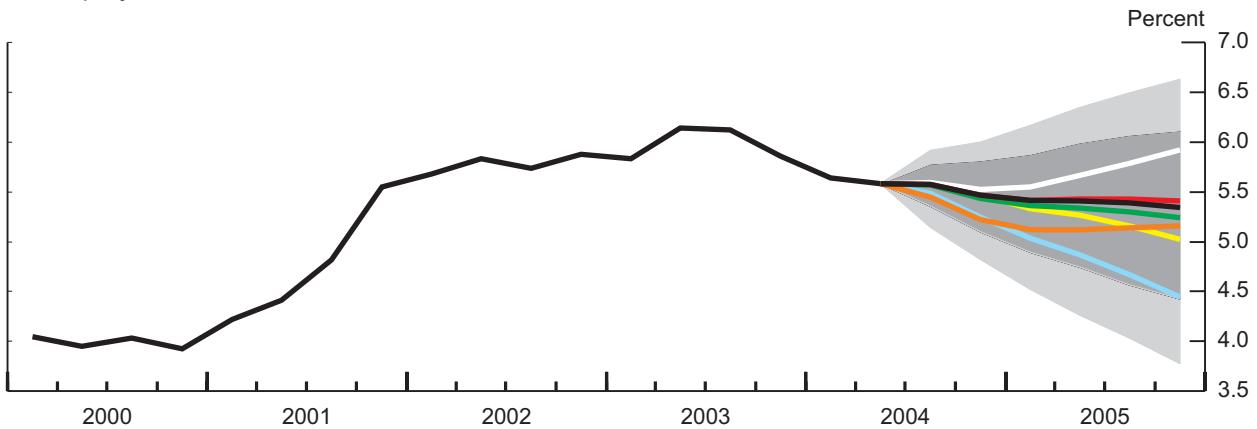
Confidence Intervals Based on FRB/US Stochastic Simulations

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|--|---|
| <ul style="list-style-type: none"> Greenbook baseline Spending rebound Stronger investment Higher saving rate | <ul style="list-style-type: none"> Less-favorable supply conditions Lower markup Market-based funds rate |
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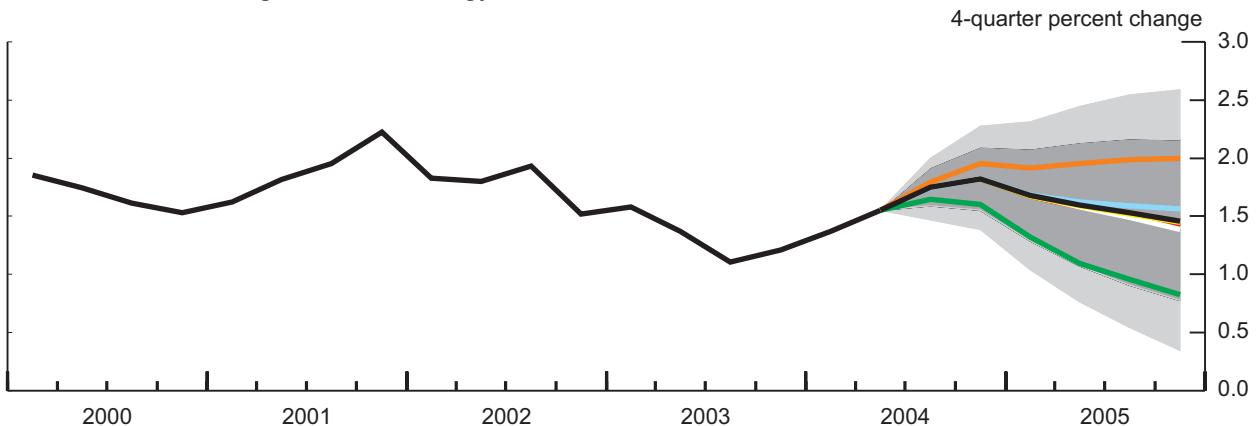
Real GDP



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 ¹		Unemployment rate ²		
	06/23/04	08/05/04	06/23/04	08/05/04	06/23/04	08/05/04	06/23/04	08/05/04	06/23/04	08/05/04	
ANNUAL											
2001		2.9	3.2	0.5	0.8	2.4	2.4	2.8	2.8	4.7	4.7
2002		3.8	3.5	2.2	1.9	1.5	1.7	1.6	1.6	5.8	5.8
2003		4.8	4.9	3.1	3.0	1.7	1.8	2.3	2.3	6.0	6.0
2004		6.9	6.5	4.9	4.4	1.9	2.0	2.5	2.6	5.5	5.6
2005		5.5	5.5	4.1	3.9	1.3	1.6	1.6	1.7	5.2	5.4
QUARTERLY											
2002	Q1	5.4	4.5	4.7	3.4	1.1	1.4	1.4	5.7	5.7	
	Q2	3.9	4.2	1.9	2.4	1.5	1.5	3.4	3.4	5.8	5.8
	Q3	4.4	3.9	3.4	2.6	1.5	1.7	2.2	2.2	5.7	5.7
	Q4	3.1	2.7	1.3	0.7	1.7	2.0	2.0	2.0	5.9	5.9
2003	Q1	4.3	4.9	2.0	1.9	2.3	2.7	3.8	3.8	5.8	5.8
	Q2	4.2	5.3	3.1	4.1	1.1	1.1	0.7	0.7	6.1	6.1
	Q3	10.0	8.8	8.2	7.4	1.6	1.4	2.4	2.4	6.1	6.1
	Q4	5.7	5.7	4.1	4.2	1.5	1.6	0.7	0.7	5.9	5.9
2004	Q1	7.2	7.4	4.4	4.5	2.7	2.8	3.5	3.5	5.6	5.6
	Q2	7.4	6.4	4.7	3.1	2.6	3.2	4.5	4.8	5.6	5.6
	Q3	6.3	4.9	5.2	3.9	1.1	0.9	2.0	2.1	5.4	5.6
	Q4	5.7	6.0	4.9	4.7	0.8	1.2	1.0	1.3	5.3	5.5
2005	Q1	5.3	5.9	3.7	3.9	1.5	1.9	1.3	1.2	5.2	5.4
	Q2	4.9	5.2	3.6	3.6	1.3	1.6	1.5	1.5	5.2	5.4
	Q3	4.9	5.2	3.6	3.6	1.3	1.6	1.7	1.5	5.2	5.4
	Q4	4.8	5.1	3.5	3.6	1.3	1.5	1.7	1.6	5.2	5.3
TWO-QUARTER³											
2002	Q2	4.7	4.3	3.3	2.9	1.3	1.4	2.4	2.4	0.2	0.2
	Q4	3.8	3.3	2.3	1.7	1.6	1.8	2.1	2.1	0.1	0.1
2003	Q2	4.2	5.1	2.5	3.0	1.7	1.9	2.2	2.2	0.2	0.2
	Q4	7.8	7.2	6.2	5.8	1.6	1.5	1.5	1.5	-0.2	-0.2
2004	Q2	7.3	6.9	4.6	3.8	2.6	3.0	4.0	4.2	-0.3	-0.3
	Q4	6.0	5.4	5.0	4.3	1.0	1.0	1.5	1.7	-0.3	-0.1
2005	Q2	5.1	5.6	3.7	3.7	1.4	1.8	1.4	1.3	-0.1	-0.1
	Q4	4.9	5.2	3.5	3.6	1.3	1.5	1.7	1.6	0.0	-0.1
FOUR-QUARTER⁴											
2001	Q4	2.4	2.7	-0.0	0.2	2.4	2.4	1.8	1.8	1.7	1.7
2002	Q4	4.2	3.8	2.8	2.3	1.4	1.6	2.2	2.2	0.3	0.3
2003	Q4	6.0	6.2	4.3	4.4	1.6	1.7	1.9	1.9	0.0	0.0
2004	Q4	6.7	6.1	4.8	4.1	1.8	2.0	2.8	2.9	-0.6	-0.4
2005	Q4	5.0	5.4	3.6	3.6	1.4	1.7	1.5	1.4	-0.1	-0.1

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 ¹	- - Projected - -									
		1997	1998	1999	2000	2001	2002	2003	2004	2005	
Expenditures											
Nominal GDP	Bill. \$	8304.3	8747.0	9268.4	9817.0	10128.0	10487.0	11004.0	11719.6	12369.1	
Real GDP	Bill. Ch. \$	8703.5	9066.9	9470.3	9817.0	9890.7	10074.8	10381.3	10842.9	11263.2	
Real GDP	% change	4.3	4.5	4.7	2.2	0.2	2.3	4.4	4.1	3.6	
Gross domestic purchases		5.1	5.5	5.5	3.0	0.4	3.1	4.3	4.3	3.9	
Final sales		3.7	4.8	4.2	2.9	1.5	1.2	4.5	3.7	3.8	
Priv. dom. final purchases		5.2	6.4	5.3	4.3	1.0	1.7	4.9	4.3	4.4	
Personal cons. expenditures		4.3	5.4	4.9	4.1	2.8	2.5	3.8	3.4	3.9	
Durables		9.9	14.4	7.3	4.7	10.8	1.5	9.9	4.8	7.1	
Nondurables		2.5	4.7	4.9	3.0	1.9	2.3	4.6	3.7	4.6	
Services		4.0	3.8	4.4	4.5	1.6	2.9	2.2	3.0	2.9	
Business fixed investment		11.4	10.9	7.7	7.8	-9.6	-6.0	9.4	10.9	9.9	
Equipment & Software		13.8	13.5	10.8	7.5	-9.0	-2.2	12.1	13.8	10.8	
Nonres. structures		4.6	4.0	-0.9	8.8	-11.1	-16.1	1.5	1.6	6.8	
Residential structures		3.1	10.3	3.6	-1.8	1.4	6.9	12.0	3.5	0.0	
Exports		8.3	2.6	5.6	6.5	-11.9	3.5	6.1	9.9	7.6	
Imports		14.3	11.0	12.1	11.2	-7.6	9.7	4.9	9.9	7.8	
Gov't. cons. & investment		1.2	3.3	4.2	0.4	5.0	3.8	2.2	2.3	2.2	
Federal		-0.5	0.1	4.2	-2.2	6.4	8.2	5.5	3.9	1.6	
Defense		-1.5	-1.2	4.3	-3.5	6.5	8.5	8.5	4.3	1.3	
State & local		2.2	5.1	4.2	1.7	4.2	1.6	0.4	1.4	2.5	
Change in bus. inventories	Bill. Ch. \$	71.2	72.6	68.9	56.5	-31.7	11.7	-0.8	40.3	47.3	
Nonfarm		68.5	71.2	71.5	57.8	-31.8	13.5	-1.1	38.3	46.5	
Net exports		-104.6	-203.8	-296.2	-379.5	-399.1	-472.1	-518.5	-561.6	-603.8	
Nominal GDP	% change	5.9	5.7	6.3	4.6	2.7	3.8	6.2	6.1	5.4	
GDP Gap ²	%	-0.8	-1.5	-2.3	-2.4	0.1	1.6	2.2	1.3	0.8	
Employment and Production											
Nonfarm payroll employment	Millions	122.8	125.9	129.0	131.8	131.8	130.3	129.9	131.6	134.6	
Unemployment rate	%	4.9	4.5	4.2	4.0	4.7	5.8	6.0	5.6	5.4	
Industrial prod. index	% change	8.1	4.4	4.9	2.3	-5.2	1.3	1.5	6.2	4.6	
Capacity util. rate - mfg.	%	82.6	82.0	81.4	81.1	75.4	73.9	73.4	76.5	79.3	
Housing starts	Millions	1.47	1.62	1.64	1.57	1.60	1.70	1.85	1.92	1.87	
Light motor vehicle sales		15.13	15.52	16.90	17.36	17.12	16.79	16.64	16.83	17.66	
North Amer. produced		13.19	13.48	14.41	14.48	14.04	13.50	13.33	13.43	14.15	
Other		1.95	2.03	2.49	2.87	3.08	3.30	3.31	3.39	3.51	
Income and Saving											
Nominal GNP	Bill. \$	8337.3	8768.3	9302.2	9855.9	10171.6	10514.1	11059.2	11788.8	12406.1	
Nominal GNP	% change	5.8	5.5	6.5	4.7	2.9	3.5	6.5	5.8	5.1	
Nominal personal income		6.4	7.0	5.5	7.1	2.2	1.9	4.6	7.6	5.1	
Real disposable income		4.3	5.6	2.8	4.4	1.2	2.9	3.9	5.0	3.3	
Personal saving rate	%	3.6	4.3	2.4	2.3	1.8	2.0	1.4	1.9	2.2	
Corp. profits, IVA & CCAdj.	% change	9.1	-10.0	9.6	-8.6	-0.2	15.4	23.3	6.8	-2.1	
Profit share of GNP	%	10.4	9.1	9.2	8.3	7.5	8.3	9.2	10.2	9.6	
Excluding FR Banks		10.1	8.9	8.9	8.0	7.3	8.1	9.1	10.0	9.5	
Federal surpl./deficit	Bill. \$	-55.8	38.8	103.6	189.5	46.7	-254.5	-364.5	-365.2	-238.3	
State & local surpl./def.		39.1	52.0	50.4	50.0	4.8	-25.0	-3.2	8.3	12.8	
Ex. social ins. funds		38.0	50.3	48.7	47.9	2.2	-26.6	-4.3	6.9	11.3	
Gross natl. saving rate	%	17.5	18.2	18.0	18.0	16.3	14.1	13.5	14.2	14.6	
Net natl. saving rate		6.6	7.4	6.9	6.7	4.2	2.0	1.4	2.9	3.3	
Prices and Costs											
GDP chn.-wt. price index	% change	1.5	1.1	1.6	2.2	2.4	1.6	1.7	2.0	1.7	
Gross Domestic Purchases chn.-wt. price index		1.0	0.7	2.0	2.4	1.6	1.8	1.8	2.4	1.3	
PCE chn.-wt. price index		1.3	0.9	2.1	2.3	1.7	1.8	1.7	2.4	1.2	
Ex. food and energy		1.4	1.4	1.6	1.5	2.2	1.5	1.2	1.8	1.5	
CPI		1.9	1.5	2.6	3.4	1.8	2.2	1.9	2.9	1.4	
Ex. food and energy		2.2	2.3	2.0	2.6	2.7	2.0	1.2	2.2	1.9	
ECI, hourly compensation ³		3.4	3.5	3.4	4.4	4.2	3.2	4.0	4.1	4.0	
Nonfarm business sector		2.0	2.8	3.2	2.1	3.1	3.7	5.6	2.2	1.9	
Output per hour		4.0	5.7	4.9	6.5	3.5	3.0	5.3	4.1	4.0	
Compensation per Hour		2.0	2.7	1.6	4.3	0.4	-0.7	-0.2	1.9	2.1	
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	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2
Expenditures											
Nominal GDP	Bill. \$	10021.5	10128.9	10135.1	10226.3	10338.2	10445.7	10546.5	10617.5	10744.6	10884.0
Real GDP	Bill. Ch. \$	9875.6	9905.9	9871.1	9910.0	9993.5	10052.6	10117.3	10135.9	10184.4	10287.4
Real GDP	% change	-0.5	1.2	-1.4	1.6	3.4	2.4	2.6	0.7	1.9	4.1
Gross domestic purchases		-0.4	0.7	-0.8	2.2	4.4	2.8	2.9	2.4	1.7	4.4
Final sales		1.6	1.0	-0.4	3.8	0.3	1.8	2.0	0.7	2.4	5.2
Priv. dom. final purchases		0.8	-0.9	0.6	3.5	0.7	1.7	2.4	1.9	2.6	5.1
Personal cons. expenditures		1.7	1.0	1.8	7.0	1.8	2.8	2.9	2.5	2.7	3.9
Durables		6.7	-0.3	3.1	37.4	-8.5	4.4	14.0	-2.4	-0.1	20.6
Nondurables		0.5	-0.1	2.4	4.9	3.8	0.8	-0.6	5.3	5.0	1.6
Services		1.1	1.8	1.2	2.3	3.3	3.5	2.4	2.2	2.1	1.8
Business fixed investment		-4.3	-13.6	-6.8	-13.3	-9.7	-9.6	-1.1	-3.2	-0.2	11.8
Equipment & Software		-2.8	-16.9	-11.4	-4.2	-6.3	-4.5	4.6	-2.0	4.5	11.0
Nonres. structures		-8.3	-4.0	6.0	-33.2	-18.5	-22.6	-16.0	-6.6	-13.0	14.5
Residential structures		2.2	5.6	1.8	-3.8	9.2	11.4	2.8	4.2	7.6	9.0
Exports		-5.3	-12.7	-18.2	-10.8	4.7	11.0	3.1	-4.2	-1.5	-1.6
Imports		-3.7	-12.6	-10.3	-3.4	12.5	11.4	5.4	9.6	-1.9	2.5
Gov't. cons. & investment		5.3	7.9	-1.5	8.5	4.7	4.4	2.1	4.0	0.2	7.2
Federal		8.1	9.1	0.1	8.7	8.2	12.8	2.9	9.2	0.3	22.1
Defense		7.1	4.3	2.3	12.5	5.9	11.4	3.4	13.5	-2.8	38.4
State & local		4.0	7.3	-2.3	8.4	2.9	0.3	1.7	1.4	0.1	-0.5
Change in bus. inventories	Bill. Ch. \$	-7.8	-2.5	-29.9	-86.7	-7.4	7.9	22.7	23.8	9.6	-17.6
Nonfarm		-13.5	-1.1	-31.1	-81.7	-11.9	16.1	24.6	25.3	9.6	-15.7
Net exports		-398.2	-385.2	-398.4	-414.5	-444.9	-458.1	-469.8	-515.4	-511.7	-525.2
Nominal GDP	% change	2.8	4.4	0.2	3.6	4.5	4.2	3.9	2.7	4.9	5.3
GDP Gap ¹	%	-0.9	-0.4	0.7	1.1	1.1	1.4	1.6	2.2	2.6	2.6
Employment and Production											
Nonfarm payroll employment	Millions	132.5	132.2	131.8	130.9	130.4	130.4	130.3	130.2	130.0	129.9
Unemployment rate	%	4.2	4.4	4.8	5.6	5.7	5.8	5.7	5.9	5.8	6.1
Industrial prod. index	% change	-6.3	-5.0	-5.2	-4.5	1.9	4.2	1.2	-1.9	0.9	-4.0
Capacity util. rate - mfg.	%	77.5	76.0	74.6	73.5	73.7	74.1	74.2	73.5	73.5	72.7
Housing starts	Millions	1.61	1.63	1.60	1.57	1.72	1.68	1.70	1.74	1.74	1.75
Light motor vehicle sales		17.11	16.68	16.14	18.56	16.51	16.50	17.52	16.64	15.99	16.34
North Amer. produced		14.19	13.65	13.17	15.16	13.19	13.25	14.19	13.36	12.61	13.06
Other		2.91	3.03	2.98	3.40	3.32	3.25	3.33	3.28	3.38	3.28
Income and Saving											
Nominal GNP	Bill. \$	10060.2	10173.5	10151.8	10300.9	10361.7	10461.6	10571.7	10661.2	10781.3	10929.0
Nominal GNP	% change	2.1	4.6	-0.8	6.0	2.4	3.9	4.3	3.4	4.6	5.6
Nominal personal income		5.9	1.4	0.6	1.0	2.2	4.3	-0.1	1.1	3.8	4.7
Real disposable income		1.3	-1.7	11.5	-5.6	10.8	2.7	-1.7	0.2	1.8	4.3
Personal saving rate	%	1.9	1.2	3.4	0.5	2.7	2.7	1.6	1.2	1.0	1.1
Corp. profits, IVA & CCAdj.	% change	-7.6	2.3	-30.7	51.7	24.8	15.2	3.6	19.1	-1.5	36.7
Profit share of GNP	%	7.7	7.7	7.0	7.7	8.1	8.3	8.3	8.6	8.5	9.0
Excluding FR Banks		7.4	7.4	6.8	7.5	7.9	8.1	8.1	8.4	8.3	8.8
Federal surpl./deficit	Bill. \$	156.6	123.6	-88.6	-4.7	-208.5	-251.6	-255.1	-302.7	-281.6	-364.4
State & local surpl./def.		32.5	25.8	-8.6	-30.6	-28.8	-23.6	-21.3	-26.3	-49.0	-5.7
Ex. social ins. funds		29.9	23.1	-11.2	-33.0	-30.8	-25.3	-22.8	-27.6	-50.1	-6.7
Gross natl. saving rate	%	17.3	16.7	16.2	14.9	15.0	14.6	13.7	13.2	12.8	13.1
Net natl. saving rate		5.7	4.9	3.6	2.8	2.9	2.5	1.5	0.9	0.4	0.9
Prices and Costs											
GDP chn.-wt. price index	% change	3.3	3.1	1.6	1.7	1.4	1.5	1.7	2.0	2.7	1.1
Gross Domestic Purchases chn.-wt. price index		2.7	2.3	1.0	0.6	1.2	2.5	1.8	1.9	3.7	0.4
PCE chn.-wt. price index		3.3	2.6	0.6	0.6	0.9	2.9	2.0	1.4	3.2	0.7
Ex. food and energy		2.8	2.1	1.4	2.6	1.2	2.0	2.0	0.9	1.5	1.1
CPI		3.7	3.2	1.1	-0.7	1.4	3.4	2.2	2.0	3.8	0.7
Ex. food and energy		2.9	2.6	2.8	2.4	2.1	2.3	2.1	1.7	1.3	1.0
ECI, hourly compensation ²		4.3	4.0	3.9	4.4	3.6	4.4	2.5	3.3	5.5	3.4
Nonfarm business sector											
Output per hour		-0.5	5.3	1.4	6.4	7.3	1.3	4.3	2.1	3.4	7.9
Compensation per hour		6.6	2.1	2.1	3.4	5.1	3.6	1.3	2.0	4.6	6.4
Unit labor cost		7.1	-3.0	0.7	-2.9	-2.0	2.2	-2.9	-0.1	1.1	-1.3

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		
EXPENDITURES													
Nominal GDP	Bill. \$	11116.7	11270.9	11472.6	11651.5	11791.3	11963.2	12134.7	12290.9	12447.1	12603.8		
Real GDP	Bill. Ch. \$	10472.8	10580.7	10697.5	10779.6	10884.1	11010.6	11115.7	11213.5	11312.1	11411.4		
Real GDP	% change	7.4	4.2	4.5	3.1	3.9	4.7	3.9	3.6	3.6	3.6		
Gross domestic purchases		6.4	4.7	5.0	3.1	3.9	5.2	4.0	3.5	3.9	4.1		
Final sales		6.8	3.7	3.3	2.8	4.4	4.1	2.9	4.5	3.9	3.7		
Priv. dom. final purchases		7.2	4.8	4.2	2.9	4.8	5.2	3.3	4.9	4.6	4.7		
Personal cons. expenditures		5.0	3.6	4.1	1.0	4.1	4.4	4.1	4.0	3.8	3.8		
Durables		16.5	3.9	2.2	-2.5	11.9	8.1	7.7	7.2	6.4	7.2		
Nondurables		6.9	5.1	6.7	-0.1	3.5	4.9	4.6	4.6	4.6	4.5		
Services		1.9	2.8	3.3	2.3	2.9	3.5	3.1	3.0	2.9	2.7		
Business fixed investment		15.7	11.0	4.2	9.4	13.4	17.0	1.0	13.2	12.7	13.2		
Equipment & Software		21.7	12.0	8.0	10.2	16.6	20.9	-0.3	15.2	14.4	14.8		
Nonres. structures		-1.3	7.9	-7.6	7.1	3.1	4.5	5.6	6.7	7.1	8.0		
Residential structures		22.5	9.6	5.0	16.5	-1.2	-4.9	-2.0	1.4	0.6	0.0		
Exports		11.3	17.5	7.3	12.4	9.4	10.6	5.7	8.0	7.7	8.8		
Imports		2.9	17.1	10.6	9.5	7.6	11.7	6.0	5.9	8.4	11.1		
Gov't. cons. & investment		0.1	1.6	2.5	2.6	2.5	1.8	2.0	2.1	2.2	2.3		
Federal		-3.3	4.8	7.1	2.7	4.2	1.8	1.5	1.7	1.6	1.7		
Defense		-7.7	11.6	10.6	1.9	3.7	1.1	1.2	1.4	1.2	1.4		
State & local		2.2	-0.1	-0.0	2.5	1.5	1.7	2.2	2.4	2.5	2.7		
Change in bus. inventories	Bill. Ch. \$	-3.5	8.6	40.0	47.4	28.9	44.8	72.5	46.5	37.2	32.9		
Nonfarm		-2.7	4.6	34.5	44.9	29.2	44.5	72.1	45.7	36.2	31.8		
Net exports		-508.7	-528.3	-550.1	-555.3	-561.0	-579.9	-589.2	-591.7	-605.9	-628.5		
Nominal GDP	% change	8.8	5.7	7.4	6.4	4.9	6.0	5.9	5.2	5.2	5.1		
GDP Gap ¹	%	1.7	1.6	1.4	1.5	1.3	1.0	0.9	0.8	0.8	0.8		
EMPLOYMENT AND PRODUCTION													
Nonfarm payroll employment	Millions	129.8	130.0	130.4	131.1	131.9	132.9	133.7	134.3	134.9	135.4		
Unemployment rate	%	6.1	5.9	5.6	5.6	5.6	5.5	5.4	5.4	5.4	5.3		
Industrial prod. index	% change	3.8	5.6	6.6	6.0	5.1	7.1	5.4	4.5	4.3	4.3		
Capacity util. rate - mfg.	%	73.2	74.1	75.1	76.1	76.9	77.8	78.5	79.0	79.5	80.0		
Housing starts	Millions	1.88	2.04	1.94	1.91	1.93	1.89	1.88	1.88	1.87	1.87		
Light motor vehicle sales		17.36	16.85	16.39	16.49	17.14	17.28	17.38	17.61	17.75	17.91		
North Amer. produced		14.02	13.63	13.13	13.10	13.72	13.78	13.89	14.11	14.23	14.37		
Other		3.35	3.22	3.26	3.39	3.43	3.50	3.49	3.50	3.52	3.54		
INCOME AND SAVING													
Nominal GNP	Bill. \$	11168.3	11358.1	11546.1	11731.2	11862.2	12015.7	12186.5	12332.8	12480.9	12624.3		
Nominal GNP	% change	9.0	7.0	6.8	6.6	4.5	5.3	5.8	4.9	4.9	4.7		
Nominal personal income		4.6	5.3	5.9	6.5	6.4	11.6	2.1	6.2	6.2	6.2		
Real disposable income		8.2	1.4	3.2	2.9	4.3	9.8	-0.3	4.5	4.5	4.6		
Personal saving rate	%	1.9	1.3	1.2	1.7	1.7	3.0	1.9	2.1	2.3	2.5		
Corp. profits, IVA & CCAdj.	% change	32.0	30.2	13.6	13.2	3.9	-2.5	1.1	-3.3	-1.8	-4.1		
Profit share of GNP	%	9.5	9.9	10.1	10.2	10.2	10.0	9.9	9.7	9.6	9.4		
Excluding FR Banks		9.3	9.8	9.9	10.1	10.1	9.9	9.8	9.6	9.4	9.2		
Federal surpl./deficit	Bill. \$	-433.0	-379.2	-384.3	-389.2	-352.0	-335.3	-257.6	-234.8	-224.2	-236.6		
State & local surpl./def.		6.5	35.3	11.8	10.9	-0.5	10.8	12.8	10.2	12.6	15.6		
Ex. social ins. funds		5.4	34.1	10.6	9.5	-1.9	9.3	11.3	8.7	11.1	14.1		
Gross natl. saving rate	%	13.6	14.3	13.8	14.3	14.4	14.5	14.5	14.6	14.6	14.6		
Net natl. saving rate	%	1.6	2.5	2.3	3.0	3.1	3.2	3.2	3.3	3.3	3.3		
PRICES AND COSTS													
GDP chn.-wt. price index	% change	1.4	1.6	2.8	3.2	0.9	1.2	1.9	1.6	1.6	1.5		
Gross Domestic Purchases chn.-wt. price index		1.7	1.4	3.4	3.4	1.5	1.4	1.5	1.3	1.3	1.3		
PCE chn.-wt. price index		1.6	1.2	3.3	3.3	1.7	1.2	1.1	1.3	1.3	1.3		
Ex. food and energy		0.9	1.3	2.1	1.8	1.7	1.6	1.5	1.5	1.4	1.4		
CPI		2.4	0.7	3.5	4.8	2.1	1.3	1.2	1.5	1.5	1.6		
Ex. food and energy		1.5	0.8	1.9	2.9	2.0	2.0	1.9	1.9	1.8	1.8		
ECI, hourly compensation ²		4.4	3.1	4.3	4.0	3.9	4.0	4.0	4.0	4.0	4.0		
Nonfarm business sector		8.2	2.8	4.1	3.0	-0.2	2.1	1.4	1.6	2.2	2.2		
Output per hour		5.6	4.6	4.2	4.4	3.9	4.0	4.0	4.0	4.0	4.0		
Compensation per hour		-2.4	1.7	0.1	1.4	4.1	1.9	2.5	2.3	1.7	1.8		
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	01Q4/ 00Q4	02Q4/ 01Q4	03Q4/ 02Q4
Real GDP Gross dom. purchases	-1.4 -0.8	1.6 2.2	3.4 4.5	2.4 2.8	2.6 3.0	0.7 2.4	1.9 1.8	4.1 4.6	7.4 6.8	0.2 0.4	2.3 3.2	4.4 4.5
Final sales Priv. dom. final purchases	-0.4 0.5	3.7 2.9	0.4 0.6	1.8 1.4	2.0 2.1	0.7 1.6	2.4 2.2	5.1 4.3	6.8 6.2	1.5 0.8	1.2 1.4	4.5 4.2
Personal cons. expenditures	1.2 0.3 0.5 0.5 0.5	4.7 2.8 1.0 0.8 1.0	1.3 0.8 0.4 0.8 1.4	2.0 0.2 0.2 0.2 1.5	2.0 -0.2 -0.2 -0.1 1.0	1.7 -0.2 -0.2 -0.1 0.9	1.8 -0.0 -0.0 -0.0 0.9	2.7 1.6 1.6 1.4 0.8	3.6 1.9 1.9 1.4 0.8	1.9 1.9 0.9 0.4 0.4	1.8 0.1 0.1 0.5 1.2	2.7 0.8 0.8 0.9 0.9
Durables												
Nondurables												
Services												
Business fixed investment	-0.8 -1.0 -1.3 0.1	-1.6 -0.4 -0.6 -0.2	-1.1 -0.5 -0.7 0.4	-1.1 0.4 0.7 0.5	-0.1 0.3 -0.5 0.5	-0.3 -0.2 -0.2 0.1	-0.3 -0.2 -0.2 0.2	-0.0 0.8 0.3 0.4	1.1 1.5 0.3 0.4	1.5 1.5 0.0 1.1	-1.2 -0.8 -0.4 0.1	-0.6 -0.2 -0.5 0.3
Equipment & Software												
Nonres. structures												
Residential structures												
Net exports	-0.6 -2.0 1.5	-0.7 -1.1 0.5	-1.1 0.4 -1.5	-0.5 1.0 -0.7	-0.4 0.3 -0.7	-1.7 -0.4 -1.3	0.1 -0.2 0.3	-0.5 -0.2 -0.3	0.6 1.0 -0.4	-0.2 -1.3 -1.1	-0.9 0.3 -0.7	-0.1 0.6 -0.7
Exports												
Imports												
Government cons. & invest.	-0.3 0.0 0.1 -0.1 -0.3	1.5 0.5 0.5 0.1 1.0	0.9 0.5 0.2 0.3 0.4	0.8 0.8 0.5 0.3 0.0	0.4 0.2 0.1 0.1 0.2	0.8 0.2 0.5 0.1 0.0	0.1 0.0 0.2 0.2 0.2	1.4 1.4 -0.1 0.2 0.0	0.0 1.4 1.5 0.1 0.3	0.9 0.4 0.2 0.1 0.5	0.7 0.4 0.3 0.2 0.1	0.4 0.4 0.4 0.0 0.1
Federal												
Defense												
Nondefense												
State and local												
Change in bus. inventories	-1.0 -1.1 0.1	-2.1 -1.9 -0.2	3.1 2.7 0.4	0.6 1.1 -0.5	0.6 0.4 0.2	0.1 0.1 0.0	-0.5 -0.5 0.0	-1.0 0.5 -0.1	0.6 0.5 0.1	-1.3 -1.2 -0.1	1.1 1.0 0.0	-0.1 -0.2 0.1
NonFarm												
Farm												

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
Real GDP Gross dom. purchases	4.2 4.9	4.5 5.3	3.1 3.3	3.9 4.1	4.7 5.4	3.9 4.2	3.6 3.7	3.6 4.0	4.4 4.3	4.1 4.5
Final sales Priv. dom. final purchases	3.7 4.1	3.3 3.6	2.8 2.5	4.4 4.1	4.1 4.5	2.9 2.9	4.5 4.2	3.9 4.0	4.5 4.0	3.6 4.1
Personal cons. expenditures	2.5	2.9	0.7	2.9	3.1	2.8	2.8	2.6	2.6	2.7
Durables	0.3	0.2	-0.2	1.0	0.7	0.6	0.6	0.5	0.6	0.8
Nondurables	1.0	1.3	-0.0	0.7	1.0	0.9	0.9	0.9	0.9	0.6
Services	1.2	1.4	1.0	1.2	1.4	1.3	1.3	1.2	1.1	0.9
Business fixed investment	1.1	0.4	0.9	1.3	1.7	0.1	1.3	1.3	1.4	0.9
Equipment & Software	0.9	0.6	0.8	1.2	1.6	-0.0	1.2	1.1	1.2	0.9
Nonresidential structures	0.2	-0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.0
Residential structures	0.5	0.3	0.9	-0.1	-0.3	-0.1	0.1	0.0	0.0	0.2
Net exports	-0.7	-0.8	-0.2	-0.2	-0.7	-0.3	-0.1	-0.5	-0.7	-0.1
Exports	-1.6	0.7	1.2	0.9	1.1	0.6	0.8	0.8	0.9	0.6
Imports	-2.2	-1.5	-1.4	-1.1	-1.7	-0.9	-0.9	-1.3	-1.7	-1.4
Government cons. & invest.	0.3	0.5	0.5	0.5	0.3	0.4	0.4	0.4	0.4	0.4
Federal	0.3	0.5	0.2	0.3	0.1	0.1	0.1	0.1	0.1	0.3
Defense	0.5	0.5	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Nondefense	-0.2	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
State and local	-0.0	0.0	0.3	0.2	0.2	0.3	0.3	0.3	0.1	0.2
Change in bus. inventories	0.5	1.2	0.3	-0.4	0.6	1.0	-0.9	-0.3	-0.1	0.4
Nonfarm	0.3	1.1	0.4	-0.6	0.5	1.0	-0.9	-0.3	-0.2	0.4
Farm	0.2	0.1	-0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.0

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

Item	Fiscal year				2003				2004				2005			
	2002 ^a	2003 ^a	2004	2005	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1 ^a	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget																
Receipts ¹	1853	1782	1863	2060	398	528	429	441	410	550	462	468	443	638	511	513
Outlays ¹	2011	2156	2291	2417	543	544	534	571	580	576	565	607	607	603	603	625
Surplus/deficit ¹	-158	-374	-429	-358	-145	-17	-105	-130	-171	-26	-102	-139	-165	38	-93	-112
On-budget	-317	-535	-587	-537	-169	-91	-113	-180	-193	-99	-116	-183	-202	-43	-109	-159
Off-budget	160	161	159	179	24	75	9	50	23	73	13	44	38	81	17	47
Means of financing																
Borrowing	221	374	404	389	64	106	108	119	136	41	109	142	151	1	95	92
Cash decrease	-17	26	-0	-10	20	-17	-5	2	12	-23	9	-1	6	-30	15	15
Other ²	-46	-25	25	-22	62	-73	2	10	23	8	-16	-3	7	-9	-17	5
Cash operating balance, end of period	61	35	35	45	13	30	35	33	21	45	35	36	30	60	45	30
NIPA federal sector																
Receipts	1886	1863	1939	2161	1889	1903	1816	1901	1922	1946	1987	2032	2163	2203	2246	2270
Expenditures	2066	2209	2315	2424	2170	2267	2249	2280	2306	2335	2339	2368	2421	2438	2470	2507
Consumption expenditures	575	646	690	719	634	666	663	671	691	700	699	704	719	724	728	733
Defense	369	425	464	479	410	447	437	450	465	474	467	470	479	482	485	488
Nondefense	205	221	226	240	224	219	226	221	226	226	226	231	234	240	242	245
Other spending	1491	1563	1625	1705	1536	1601	1586	1609	1615	1635	1640	1664	1702	1714	1742	1774
Current account surplus	-180	-345	-376	-263	-282	-364	-433	-379	-384	-389	-352	-335	-258	-235	-224	-237
Gross investment	87	92	102	106	89	95	94	96	102	104	105	105	106	106	107	108
Gross saving less gross investment ³	-178	-347	-386	-275	-281	-370	-436	-385	-395	-401	-364	-347	-269	-246	-236	-249
Fiscal indicators⁴																
High-employment (HEB) surplus/deficit	-134	-272	-336	-244	-200	-284	-371	-322	-348	-355	-320	-312	-238	-218	-209	-223
Change in HEB, percent of potential GDP	2.0	1.2	0.4	-0.9	-0.3	0.7	0.7	-0.5	0.2	0.0	-0.3	-0.1	-0.6	-0.2	-0.1	0.1
Fiscal impetus (FI) percent of GDP	1.0	1.0	1.0	-0.2	0.1	0.4	0.3	0.3	0.1	0.1	0.1	0.1	-0.4	0.0	0.0	0.0

1. OMB's July 2004 baseline surplus estimates are -\$44 billion in FY 2004 and -\$292 billion in FY 2005 and surplus estimates under enactment of its proposed policies are -\$45 billion and -\$331 billion, respectively. CBO's March 2004 baseline surplus estimates are -\$47 billion in FY 2004 and -\$363 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.

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

3. Gross saving 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)**

August 5, 2004

Period ¹	Total	Federal government	Nonfederal				State and local governments	Business	Consumer credit	Home mortgages	Households	Mimeo: Nominal GDP
			Total	Federal government	Nonfederal	Business						
<i>Year</i>												
1998	6.9	-1.4	9.6	8.0	8.2	7.7	12.2	6.3	5.7			
1999	6.3	-1.9	8.8	8.1	9.1	7.4	10.6	3.4	6.3			
2000	4.9	-8.0	8.4	8.7	8.4	10.7	9.4	1.3	4.6			
2001	6.2	-0.2	7.7	9.0	9.9	8.0	6.1	8.9	2.7			
2002	6.9	7.6	6.8	9.6	12.0	4.1	2.9	11.1	3.8			
2003	8.1	10.9	7.5	10.2	12.7	4.3	4.3	8.2	6.2			
2004	7.7	10.6	7.1	9.2	10.6	5.6	4.7	6.0	6.1			
2005	6.9	7.6	6.8	7.6	8.2	6.3	6.3	3.9	5.4			
<i>Quarter</i>												
2003:1	6.9	4.5	7.4	10.8	13.4	4.1	3.8	5.7	4.9			
2	11.2	20.4	9.2	11.4	13.6	5.2	5.9	12.4	5.3			
3	7.1	8.2	6.9	10.0	12.0	5.3	3.2	6.1	8.8			
4	6.4	9.0	5.8	7.1	9.5	2.2	3.9	7.6	5.7			
2004:1	8.6	11.6	8.0	10.9	12.5	6.1	4.1	9.6	7.4			
2	7.4	11.2	6.5	8.8	10.5	3.9	3.9	5.6	6.4			
3	6.8	7.3	6.6	8.4	9.5	5.7	4.9	4.1	4.9			
4	7.3	10.6	6.5	7.6	8.3	6.1	5.6	4.3	6.0			
2005:1	7.6	11.8	6.7	7.5	8.0	6.3	6.1	4.3	5.9			
2	6.5	6.7	6.5	7.4	8.0	6.1	5.9	3.8	5.2			
3	6.4	5.6	6.6	7.4	8.0	6.1	6.2	3.7	5.2			
4	6.4	5.5	6.6	7.4	8.0	6.0	6.3	3.5	5.1			

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2004:Q1 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**

August 5, 2004

**Flow of Funds Projections: Highlights
(Billions of dollars at seasonally adjusted annual rates except as noted)**

Category	2002	2003	2004	2005	2004				2005			
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<i>Net funds raised by domestic nonfinancial sectors</i>												
1 Total	1293.9	1616.2	1598.2	1561.8	1486.1	1334.0	1824.2	1560.4	1457.3	1550.8	1673.0	1513.7
2 Net equity issuance	-41.6	-57.3	-126.9	-101.0	-44.9	-67.0	-104.0	-123.7	-114.0	-166.0	-156.0	-86.0
3 Net debt issuance	1335.5	1673.5	1725.1	1662.8	1531.0	1401.0	1928.2	1684.1	1571.3	1716.8	1829.0	1599.7
<i>Borrowing sectors</i>												
Nonfinancial business												
4 Financing gap ¹	35.1	-17.0	28.3	171.2	-50.0	-30.9	-10.6	-26.5	-19.1	169.3	136.4	150.7
5 Net equity issuance	-41.6	-57.3	-126.9	-101.0	-44.9	-67.0	-104.0	-123.7	-114.0	-166.0	-156.0	-86.0
6 Credit market borrowing	197.8	302.2	349.5	488.0	231.1	282.9	303.3	294.5	372.8	427.1	474.5	465.8
Households												
7 Net borrowing ²	736.3	857.6	854.7	771.6	890.7	648.4	1009.1	833.8	818.3	757.7	755.5	763.4
8 Home mortgages	638.4	756.1	711.6	611.5	765.6	625.6	840.2	729.6	673.5	603.3	594.0	605.2
9 Consumer credit	77.4	83.0	113.4	134.9	104.4	45.1	124.3	81.1	119.1	129.2	135.5	133.3
10 Debt/DPI (percent) ³	102.5	108.3	111.8	114.8	108.6	110.3	111.2	112.2	112.9	112.1	114.0	114.5
State and local governments												
11 Net borrowing	143.9	117.6	94.1	63.8	91.6	116.2	149.7	89.3	66.8	70.8	70.8	62.8
12 Current surplus ⁴	148.9	176.6	162.7	172.8	193.2	215.8	162.9	165.2	155.1	167.5	170.8	169.5
Federal government												
13 Net borrowing	257.5	396.0	426.8	339.5	317.5	353.4	466.0	466.5	313.4	461.2	528.3	307.8
14 Net borrowing (n.s.a.)	257.5	396.0	426.8	339.5	107.6	118.6	135.9	40.7	108.6	141.7	151.4	1.0
15 Unified deficit (n.s.a.)	230.7	396.1	437.1	331.2	104.5	130.2	170.8	25.7	102.1	138.5	164.6	-38.0
<i>Depository institutions</i>												
16 Funds supplied	482.5	477.1	558.6	547.8	147.4	385.3	1096.2	375.2	298.2	464.7	621.0	480.2
Memo (percentage of GDP)												
17 Domestic nonfinancial debt ⁵	189.8	194.8	197.6	200.9	195.2	196.0	196.4	197.3	198.4	199.0	199.8	200.7
18 Domestic nonfinancial borrowing	12.7	15.2	14.7	13.4	13.8	12.4	16.8	14.5	13.3	14.4	15.1	13.0
19 Federal government ⁶	2.5	3.6	3.6	2.7	2.9	3.1	4.1	4.0	2.7	3.9	4.4	2.5
20 Nonfederal	10.3	11.6	11.1	10.7	10.9	9.3	12.7	10.5	10.7	10.5	10.7	10.8

Note. Data after 2004:Q1 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 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

Oil prices have risen significantly since the June FOMC meeting, because of concerns about supply, particularly in Russia and Iraq, as well as persistently strong global demand. Economic growth in the foreign economies appears to have remained brisk on average during the second quarter. We project that the pace of expansion will moderate during the second half of this year and expect it to continue at 3½ percent in 2005. Headline inflation jumped in the second quarter, mainly as a result of higher energy prices. Non-energy commodity prices peaked in the second quarter and recently some, particularly agricultural commodity prices, have reversed part of their previous steep rises. So far, we have seen only a limited pickup in core inflation rates in most countries, and wage growth generally has remained subdued. We expect inflation to settle back down in coming quarters as oil and other commodity prices decline somewhat 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: Q1	Projection		
			2004		2005
			Q2	H2	
Foreign output	2.8	4.3	4.0	3.5	3.5
<i>Previous GB</i>	2.7	4.3	4.0	3.6	3.5
Foreign CPI	2.1	2.5	3.1	2.6	2.1
<i>Previous GB</i>	2.1	2.5	2.9	2.3	2.1

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

Our projections for foreign growth are just a touch weaker than those in the June Greenbook, because we believe that changes in underlying fundamentals have had roughly offsetting effects on the outlook. On the one hand, the staff forecast for U.S. growth this year is less robust than in the previous forecast, and the projected path of oil prices is higher than in our last forecast. On the other hand, data have been coming in on the upper end of our expectations for the euro area, the United Kingdom, and several emerging market economies. Growth in China fell sharply in the second quarter in response to the Chinese government's measures aimed at curtailing investment, but we expect a rebound in activity once some of these measures are eased.

The exchange value of the dollar fell against most major foreign currencies early in the period in response to weaker-than-expected U.S. employment and core CPI data for June.

nearly 1 percentage point lower than in the June Greenbook and results from weaker commodity prices and an adjustment for the January 1, 2005, phase-out of the Multi-Fiber Agreement. The elimination of this quota system is expected to reduce import prices of apparel products.

Staff Projections of Selected Trade Prices

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

Trade category	2003	2004: Q1	Projection		
			2004		2005
			Q2	H2	
<i>Exports</i>					
Core goods	3.4	7.9	6.0	2.8	1.4
<i>Imports</i>					
Non-oil core goods	1.8	6.4	3.5	2.7	-0.0
Oil (dollars per barrel)	27.74	30.91	34.59	39.42	35.53

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.

After rising strongly in the first quarter, prices of exported core goods went up at a slightly slower pace in the second quarter, partly because price increases for foods (especially soybeans) and industrial supplies moderated. Over the forecast period, prices of exported core goods are projected to decelerate, consistent with a moderation in domestic inflation.

Trade in Goods and Services

In the first quarter, real imports of goods and services grew at an annual rate of 10½ percent, marginally higher than the rate projected in the June Greenbook. We estimate that real imports of goods and services grew in the second quarter at a rate of 9½ percent, nearly 4 percentage points higher than projected at the time of the June Greenbook. May nominal imports came in stronger than we had expected, and previously published data for April were revised up. Core imports registered an increase of 15 percent, and imports of semiconductors, computers, and services also registered considerable gains. Offsetting these increases, oil imports plummeted, in part because of the effects of new seasonal adjustment factors.

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

Measure	2003	2004: Q1	Projection		
			2004		2005
			Q2	H2	
Real exports	6.1	7.3	12.4	10.0	7.6
<i>Previous GB</i>	6.4	7.4	7.4	10.2	8.0
Real imports	4.9	10.6	9.5	9.7	7.8
<i>Previous GB</i>	4.5	10.2	5.6	10.8	8.1

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

In the second half of this year, import growth should remain at about its second-quarter pace. Core import growth should return to a more-sustainable rate, but anticipation of the expiration of partial-expensing provisions will likely boost imports of capital goods, including computers and semiconductors. We expect total real import growth to slow in 2005 as the removal of the investment incentive slows imports of computers, semiconductors, and other capital goods. U.S. GDP growth provides less impetus to core imports next year than in 2004, though this is offset by a boost coming from lower import price inflation. Over the next one and a half years, total import growth is somewhat below that projected in the June Greenbook, primarily because of slower U.S. GDP growth and somewhat more drag (in early 2005) from the expiration of partial expensing than assumed in the previous forecast.

Real exports of goods and services grew at a solid annual rate of 7½ percent in the first quarter of this year, a pace marginally lower than we projected in the June Greenbook. For the second quarter, we estimate that real exports of goods and services grew at a pace of around 12½ percent, 5 percentage points more than the June Greenbook forecast. This upward revision reflects stronger-than-expected nominal export data for May as well as upwardly revised data for April. Core exports likely registered double-digit growth for the third straight quarter, partly from the effects of past dollar depreciation, and exported services grew rapidly as well. Conversely, exports of computers and semiconductors (which surged in the second half of last year) extended their first-quarter weakness into the second quarter.

We project that real exports of goods and services will grow at an annual rate of 10 percent in the second half of this year. Growth of core exports is projected to slow to

Alternative Simulation:
Oil Price Rises to \$50 per Barrel
(Percent change from previous period, annual rate)

Indicator and simulation	2004: H2	2005	
		H1	H2
<i>U.S. real GDP</i>			
Baseline	4.3	3.7	3.6
Higher oil price	3.9	3.3	3.3
<i>U.S. PCE price excluding food and energy</i>			
Baseline	1.7	1.5	1.4
Higher oil price	1.8	1.6	1.6

NOTE. H1 is Q2/Q4; H2 is Q4/Q2. In these simulations, the real federal funds rate remains unchanged from baseline.

Measure and country	1997	1998	1999	2000	2001	2002	2003	Projected 2004	Projected 2005
REAL GDP (1)									
Total foreign	4.2	1.5	5.0	4.3	0.3	3.0	2.8	3.8	3.5
Industrial Countries of which:	3.4	2.7	4.4	3.6	0.7	2.7	1.9	3.0	2.8
Canada	4.4	4.4	5.9	4.1	-1.4	3.8	1.7	3.3	3.4
Japan	0.4	-1.2	0.4	3.9	-2.2	1.8	3.5	3.7	2.1
United Kingdom	3.2	2.8	3.3	3.0	2.2	1.9	2.9	3.3	2.7
Euro Area (2)	3.2	2.0	3.9	0.7	1.1	0.7	2.0	2.0	2.0
Germany	1.7	0.7	3.4	1.9	0.5	0.5	0.1	1.5	1.5
Developing Countries	5.4	-0.3	6.1	5.3	-0.3	3.4	4.1	5.1	4.5
Asia	5.0	-2.2	8.6	5.9	0.9	5.8	6.0	5.7	5.1
Korea	3.1	-5.4	11.4	4.5	4.7	7.7	4.1	3.8	4.7
China	9.1	9.8	7.0	7.6	6.9	8.3	10.0	7.9	7.4
Latin America	6.2	1.2	4.2	4.4	-1.3	1.4	2.2	4.7	4.0
Mexico	6.8	2.9	5.4	4.8	-1.2	1.9	2.0	4.9	4.2
Brazil	2.5	-1.6	3.4	3.8	-0.8	3.8	-0.1	3.8	3.0
CONSUMER PRICES (3)									
Industrial Countries of which:	1.5	0.9	1.1	1.7	0.9	2.1	1.3	1.7	1.4
Canada	1.0	1.1	2.4	3.1	-1.1	3.8	1.7	2.5	1.8
Japan	2.1	0.7	-1.1	-1.2	-1.0	-0.5	-0.4	0.1	0.3
United Kingdom (4)	1.7	1.4	1.2	2.5	2.1	1.6	1.3	1.6	1.8
Euro Area (2)	1.5	0.8	1.5	2.5	2.1	2.3	2.0	2.1	1.8
Germany	1.5	0.3	1.1	1.7	1.5	1.2	1.2	1.6	1.3
Developing Countries	6.8	9.0	4.6	4.1	2.8	2.9	3.0	3.9	3.0
Asia	2.7	4.4	0.1	1.8	1.1	0.7	2.1	3.6	2.3
Korea	5.0	5.8	1.2	2.6	3.4	3.4	3.5	4.3	3.9
China	0.8	-1.2	-1.0	0.9	-0.1	-0.6	2.6	4.0	1.6
Latin America	15.5	15.4	12.5	8.4	5.3	6.4	4.9	4.6	4.1
Mexico	17.0	17.3	13.5	8.7	5.1	5.3	3.9	4.1	3.8
Brazil	4.6	2.0	8.4	6.4	7.5	10.7	11.5	6.9	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.

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

Measure and country	2003				2004				Projected 2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)												
Total foreign	0.9	1.1	3.9	5.3	4.3	4.0	3.5	3.4	3.6	3.5	3.4	3.4
Industrial Countries of which:	1.3	0.4	1.8	4.0	3.0	3.5	2.7	2.7	2.8	2.7	2.7	2.8
Canada	2.8	-0.7	1.4	3.3	2.4	4.3	3.3	3.3	3.4	3.4	3.4	3.4
Japan	0.2	3.8	2.7	7.3	6.1	4.0	2.6	2.2	2.1	2.1	2.0	2.2
United Kingdom	0.8	2.7	3.8	4.2	2.9	3.8	3.2	3.1	2.9	2.7	2.6	2.6
Euro Area (2)	-0.0	-0.3	1.7	1.5	2.3	2.1	1.8	1.9	1.9	2.0	2.0	2.0
Germany	-1.0	-0.7	0.8	1.1	1.8	1.6	1.1	1.4	1.3	1.4	1.7	1.7
Developing Countries	0.3	2.3	7.1	7.1	6.3	4.8	4.7	4.5	4.7	4.5	4.4	4.4
Asia	3.5	-1.7	13.9	8.9	7.6	5.1	5.2	5.0	5.2	5.1	5.0	5.0
Korea	-1.1	-0.2	6.7	11.3	3.2	4.5	3.8	3.8	4.7	4.8	4.7	4.8
China	15.5	2.9	12.4	9.4	14.4	2.8	7.3	7.3	7.3	7.3	7.5	7.5
Latin America	-3.5	5.8	0.9	6.0	5.5	4.8	4.4	4.1	4.3	4.0	3.8	3.8
Mexico	-1.7	4.6	-0.4	5.6	5.4	5.1	4.7	4.3	4.6	4.2	4.0	4.0
Brazil	-4.6	-3.5	2.1	5.9	6.8	3.5	2.5	2.5	3.0	3.0	3.0	3.0
CONSUMER PRICES (3)												
Industrial Countries of which:	2.4	1.7	1.4	1.3	0.8	1.5	1.7	1.7	1.6	1.5	1.4	1.4
Canada	4.5	2.8	2.1	1.7	0.9	2.2	2.5	2.5	2.4	2.1	1.9	1.8
Japan	-0.3	-0.2	-0.5	-0.4	-0.3	-0.2	0.1	0.1	0.1	0.2	0.2	0.3
United Kingdom	1.5	1.3	1.4	1.3	1.2	1.4	1.7	1.6	1.6	2.0	1.8	1.8
Euro Area (2)	2.3	1.9	2.1	2.0	1.7	2.3	2.2	2.1	2.1	1.9	1.8	1.8
Germany	1.1	0.9	1.0	1.2	1.0	1.9	1.8	1.6	1.7	1.4	1.4	1.3
Developing Countries	3.4	3.1	2.6	3.0	3.0	3.6	4.1	3.9	3.8	3.4	3.2	3.0
Asia	1.2	1.1	2.1	2.1	2.2	3.3	4.0	3.6	3.5	2.9	2.4	2.3
Korea	4.1	3.3	3.2	3.5	3.3	3.4	4.5	4.3	4.6	5.1	4.3	3.9
China	0.4	0.7	0.9	2.6	2.8	4.4	4.9	4.0	3.8	2.4	1.8	1.6
Latin America	7.1	6.4	5.4	4.9	4.7	4.5	4.6	4.6	4.4	4.4	4.4	4.1
Mexico	5.5	4.8	4.0	3.9	4.3	4.2	4.1	3.9	4.0	4.0	3.8	3.8
Brazil	15.7	17.0	15.3	11.5	6.8	5.5	6.9	6.8	6.4	6.2	5.4	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.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1997	1998	1999	2000	2001	2002	2003	2004	Projected 2005
NIPA REAL EXPORTS and IMPORTS									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.8	-1.1	-1.0	-0.9	-0.2	-0.9	-0.1	-0.5	-0.4
Exports of G&S	0.9	0.3	0.6	0.7	-1.3	0.3	0.6	1.0	0.8
Imports of G&S	-1.7	-1.4	-1.6	-1.6	-1.1	-1.3	-0.7	-1.4	-1.2
Percentage change, Q4/Q4									
Exports of G&S	8.3	2.6	5.6	6.5	-11.9	3.5	6.1	9.9	7.6
Services	0.4	4.4	5.3	1.8	-8.9	9.8	3.8	6.9	6.0
Computers	26.7	7.3	13.4	22.7	-23.5	-1.9	11.2	9.2	19.5
Semiconductors	21.1	9.5	34.6	27.6	-34.6	9.9	38.8	26.4	38.9
Other Goods 1/	9.8	1.2	3.3	5.9	-10.2	0.4	5.0	10.4	5.7
Imports of G&S	14.3	11.0	12.1	11.2	-7.6	9.7	4.9	9.9	7.8
Services	11.9	10.4	6.5	10.7	-5.9	8.9	3.7	6.2	4.9
Oil	4.2	4.2	-3.4	13.3	3.7	4.2	1.8	1.5	1.5
Computers	32.6	26.4	26.0	13.9	-13.6	13.4	16.9	27.2	19.5
Semiconductors	32.5	-7.7	34.2	22.8	-51.1	10.0	0.3	39.5	36.3
Other Goods 2/	13.1	11.2	12.9	10.5	-6.5	9.9	4.9	10.2	8.0
Billions of Chained 2000 Dollars									
Net Goods & Services	-104.6	-203.8	-296.2	-379.5	-399.1	-472.1	-518.5	-561.6	-603.8
Exports of G&S	943.7	966.5	1008.2	1096.3	1036.7	1012.4	1031.8	1139.9	1235.0
Imports of G&S	1048.3	1170.3	1304.5	1475.8	1435.8	1484.4	1550.2	1701.4	1838.8
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-136.0	-209.6	-296.8	-413.5	-385.7	-473.9	-530.7	-617.3	-694.2
Current Acct as Percent of GDP	-1.6	-2.4	-3.2	-4.2	-3.8	-4.5	-4.8	-5.3	-5.6
Net Goods & Services (BOP)	-108.2	-164.9	-263.3	-378.4	-362.7	-421.7	-496.5	-584.0	-626.6
Investment Income, Net	17.0	8.3	18.4	25.3	28.7	12.6	38.8	52.1	19.9
Direct Net	72.4	65.5	78.2	94.9	115.9	100.8	118.9	155.6	163.9
Portfolio, Net	-55.4	-57.2	-59.8	-69.7	-87.2	-88.2	-80.1	-103.5	-144.0
Other Income & Transfers, Net	-44.8	-53.0	-52.0	-60.4	-51.7	-64.8	-72.9	-85.4	-87.5

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	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Net Goods & Services	-1.5	-1.0	-0.9	-0.1	-0.0	0.5	-0.6	-0.7	-1.1	-0.5	-0.4	-1.7
Exports of G&S	0.7	1.3	1.1	0.3	0.6	-1.4	-2.0	-1.1	0.4	1.0	0.3	-0.4
Imports of G&S	-2.2	-2.3	-2.0	0.2	0.6	1.9	1.5	0.5	-1.5	-1.5	-0.7	-1.3
Percentage point contribution to GDP growth												
Exports of G&S	6.6	12.3	10.7	-2.7	-5.3	-12.7	-18.2	-10.8	4.7	11.0	3.1	-4.2
Services	1.4	8.4	6.6	4.5	-5.0	-0.6	-13.2	-15.3	21.7	4.5	3.5	10.5
Computers	32.7	47.0	30.1	-10.7	-9.8	-35.7	-24.9	-21.3	-20.4	11.9	-3.8	12.3
Semiconductors	24.2	73.7	35.0	-8.9	-30.0	-54.0	-45.3	3.7	24.9	38.8	11.4	-24.4
Other Goods 1/	5.9	7.5	16.0	-4.5	-2.5	-11.5	-17.6	-8.6	-2.1	12.6	2.7	-10.3
Imports of G&S	16.7	16.5	14.1	-1.6	-3.7	-12.6	-10.3	-3.4	12.5	11.4	5.4	9.6
Services	20.9	10.6	14.3	-1.8	-5.1	12.9	-18.3	-10.4	24.6	5.7	2.8	16.5
Oil	28.5	40.6	-2.6	-6.4	63.5	-33.8	-28.2	49.1	-5.6	-17.5	-10.8	69.9
Computers	-2.2	44.9	35.4	-12.3	-22.6	-23.3	-13.4	8.4	50.2	7.2	2.6	0.2
Semiconductors	25.0	45.4	71.1	-26.9	-43.9	-70.1	-55.4	-23.7	42.3	33.9	-6.7	-17.6
Other Goods 2/	16.4	12.2	12.2	1.8	-5.5	-10.6	-3.7	-5.9	8.3	19.4	8.5	-4.1
Billions of Chained 2000 Dollars, s.a.a.r.												
Net Goods & Services	-350.6	-374.5	-395.6	-397.2	-398.2	-385.2	-398.4	-414.5	-444.9	-458.1	-469.8	-515.4
Exports of G&S	1060.9	1092.0	1120.0	1112.3	1097.2	1060.6	1008.7	980.3	991.6	1017.8	1025.5	1014.5
Imports of G&S	1411.5	1466.5	1515.6	1509.5	1495.4	1445.8	1407.1	1394.9	1436.5	1475.9	1495.3	1529.8
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-391.5	-394.3	-428.8	-439.2	-426.8	-390.2	-367.6	-358.3	-440.8	-471.6	-476.0	-507.4
Current Account as % of GDP	-4.1	-4.0	-4.3	-4.4	-4.3	-3.9	-3.6	-3.5	-4.3	-4.5	-4.5	-4.8
Net Goods & Services (BOP)	-358.4	-361.8	-387.5	-405.7	-389.3	-356.1	-357.1	-348.3	-375.0	-413.5	-427.7	-470.7
Investment Income, Net	20.1	22.8	17.1	41.1	23.9	29.8	1.5	59.7	9.2	1.8	10.6	28.8
Direct Net Portfolio, Net	84.5	88.9	91.9	114.5	106.2	116.1	95.0	146.2	100.6	95.1	94.9	112.8
Portfolio, Net	-64.4	-66.1	-74.8	-73.4	-82.3	-86.3	-93.5	-86.6	-91.4	-93.2	-84.3	-84.0
Other Inc. & Transfers, Net	-53.1	-55.3	-58.4	-74.6	-61.3	-63.9	-12.0	-69.7	-75.0	-59.9	-59.0	-65.4

1. Merchandise exports excluding computers and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2003								2004				Projected				2005			
	Q1		Q2		Q3		Q4		Q1		Q2		Q3		Q4		Q1		Q2	
NIPA REAL EXPORTS and IMPORTS																				
Net Goods & Services	0.1	-0.5	0.6	-0.7	-0.8	-0.2	-0.2	-0.7	-0.3	-0.1	-0.6	-0.6	-0.1	-0.3	-0.5	-0.7	8.8			
Exports of G&S	-0.2	-0.2	1.0	-1.6	-0.7	-1.2	-0.9	-1.1	-1.1	-1.1	-0.8	-0.8	-0.8	-0.8	-0.9	-0.9	5.6			
Imports of G&S	-0.3	-0.3	-0.4	-2.2	-1.5	-1.4	-1.1	-1.7	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-1.7			
Exports of G&S Services	-1.5	-1.6	11.3	17.5	7.3	12.4	9.4	10.6	5.7	8.0	7.7	7.7	8.0	8.0	8.0	8.0	8.8			
Computers	-12.7	-3.5	14.1	20.6	3.4	10.0	7.6	6.8	6.5	6.0	5.8	5.8	6.0	6.0	6.0	6.0	5.6			
Semiconductors	-4.5	-3.4	38.2	19.8	-8.3	3.3	22.1	22.9	14.3	20.9	21.4	21.4	21.4	21.4	21.4	21.4	21.4			
Other Goods 1/	4.0	2.8	40.8	45.9	12.9	6.4	44.9	46.9	27.3	42.4	43.3	43.3	43.3	43.3	43.3	43.3	43.5			
Imports of G&S Services	2.4	-2.4	6.6	13.9	10.1	14.6	7.5	9.5	3.6	6.1	5.6	5.6	5.6	5.6	5.6	5.6	7.5			
Oil	-1.9	2.5	2.9	17.1	10.6	9.5	7.6	11.7	6.0	5.9	8.4	8.4	8.4	8.4	8.4	8.4	11.1			
Computers	-2.4	-9.4	17.9	11.0	1.1	12.9	4.7	6.4	5.0	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.8			
Semiconductors	-6.0	-2.8	0.6	16.6	39.0	-35.7	-2.1	21.7	13.7	-20.8	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6	22.4			
Other Goods 2/	7.0	15.9	12.0	34.2	12.8	39.1	27.8	30.5	3.8	24.3	25.6	25.6	25.6	25.6	25.6	25.6	25.9			
Net Goods & Services	-4.0	2.4	-1.5	4.4	42.2	23.3	45.5	48.5	18.9	41.7	43.3	43.3	43.3	43.3	43.3	43.3	43.3			
Exports of G&S	-1.8	5.5	-0.9	17.9	8.9	14.7	7.7	9.6	5.0	8.6	9.1	9.1	9.1	9.1	9.1	9.1	9.5			
Billions of Chained 2000 Dollars, s.a.a.r.																				
Net Goods & Services	-511.7	-525.2	-508.7	-528.3	-550.1	-555.3	-561.0	-579.9	-589	-591.7	-605.9	-605.9	-605.9	-605.9	-605.9	-605.9	-628.5			
Exports of G&S	1010.6	1006.5	1033.8	1076.2	1095.4	1127.8	1153.4	1182.8	1199.5	1222.7	1245.5	1245.5	1245.5	1245.5	1245.5	1245.5	1272.2			
Imports of G&S	1522.3	1531.7	1542.5	1604.5	1645.5	1683.1	1714.4	1762.7	1788.7	1814.4	1851.4	1851.4	1851.4	1851.4	1851.4	1851.4	1900.6			
US CURRENT ACCOUNT BALANCE																				
Current Account as % of GDP	-5.2	-535.5	-526.5	-507.8	-579.5	-591.2	-626.4	-672.0	-682.3	-676.5	-693.2	-693.2	-693.2	-693.2	-693.2	-693.2	-725.0			
Net Goods & Services (BOP)	-5.1	-4.9	-4.7	-4.5	-5.1	-5.1	-5.3	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6	-5.8			
Investment Income, Net	21.5	29.1	34.5	70.1	56.3	62.7	53.8	35.5	34.6	24.8	16.7	16.7	16.7	16.7	16.7	16.7	3.3			
Direct, Net	101.3	105.4	114.6	154.2	142.0	157.3	157.6	165.5	161.5	162.7	166.0	166.0	166.0	166.0	166.0	166.0	165.3			
Portfolio, Net	-79.8	-76.3	-80.1	-84.1	-85.7	-94.6	-103.8	-130.0	-126.8	-137.9	-149.3	-149.3	-149.3	-149.3	-149.3	-149.3	-162.0			
Other Inc. & Transfers, Net	-72.8	-71.0	-72.0	-76.0	-88.1	-84.1	-84.4	-84.9	-94.6	-84.7	-85.1	-85.1	-85.1	-85.1	-85.1	-85.1	-85.5			
Billions of dollars, s.a.a.r.																				
US Current Account as % of GDP	-5.2	-535.5	-526.5	-507.8	-579.5	-591.2	-626.4	-672.0	-682.3	-676.5	-693.2	-693.2	-693.2	-693.2	-693.2	-693.2	-725.0			
Net Goods & Services (BOP)	-5.1	-4.9	-4.7	-4.5	-5.1	-5.1	-5.3	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6	-5.8			
Investment Income, Net	21.5	29.1	34.5	70.1	56.3	62.7	53.8	35.5	34.6	24.8	16.7	16.7	16.7	16.7	16.7	16.7	3.3			
Direct, Net	101.3	105.4	114.6	154.2	142.0	157.3	157.6	165.5	161.5	162.7	166.0	166.0	166.0	166.0	166.0	166.0	165.3			
Portfolio, Net	-79.8	-76.3	-80.1	-84.1	-85.7	-94.6	-103.8	-130.0	-126.8	-137.9	-149.3	-149.3	-149.3	-149.3	-149.3	-149.3	-162.0			
Other Inc. & Transfers, Net	-72.8	-71.0	-72.0	-76.0	-88.1	-84.1	-84.4	-84.9	-94.6	-84.7	-85.1	-85.1	-85.1	-85.1	-85.1	-85.1	-85.5			

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

Part 2

August 5, 2004

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

Confidential (FR) Class III FOMC

August 5, 2004

Recent Developments

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

Administration Budget Projections and Economic Assumptions

Item	2004	2005	2006	2007	2008	2009
Budget projections (fiscal years)	Billions of dollars					
<i>July projections</i>						
Total surplus	-445	-331	-261	-233	-228	-229
On-budget	-600	-512	-458	-450	-466	-481
Off-budget	155	180	198	217	237	252
<i>February projections</i>						
Total surplus	-521	-364	-268	-241	-239	-237
On-budget	-675	-543	-470	-466	-487	-501
Off-budget	154	179	202	225	248	263
Economic assumptions (calendar years)	Percent change, fourth quarter to fourth quarter					
Real GDP	4.2	3.5	3.3	3.3	3.2	3.1
GDP price index	1.9	2.1	2.1	2.1	2.1	2.1
CPI-U	2.8	2.4	2.4	2.4	2.4	2.5
	Percent, annual average					
Unemployment rate	5.5	5.3	5.3	5.1	5.1	5.1
Treasury yields						
Three-month	1.3	2.6	3.4	3.9	4.3	4.4
Ten-year	4.5	5.1	5.4	5.6	5.7	5.8

Note. The on-budget surplus excludes social security and the Postal Service (which are off-budget).

Source. Office of Management and Budget, *Mid-Session Review of the Budget: Fiscal Year 2005* (July 2004).