

Part 1

January 21, 2004

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

Confidential (FR) Class II FOMC

January 21, 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	2003:Q4		2004:Q1	
	Dec. GB	Jan. GB	Dec. GB	Jan. GB
Real GDP	4.4	4.8	5.3	5.0
Private domestic final purchases	3.5	4.2	5.4	4.8
Personal consumption expenditures	2.0	3.1	4.3	3.6
Residential investment	15.0	17.3	3.2	11.3
Business fixed investment	8.1	5.0	14.7	10.0
Government outlays for consumption and investment	3.2	1.5	4.9	4.0
	Contribution to growth (percentage points)			
Inventory investment	1.1	.8	.2	.5
Net exports	-.4	.0	-.5	-.4

somewhat short of these plans. We anticipate that manufacturing production excluding motor vehicles will increase at an annual rate of 7-1/4 percent in the first quarter, with the gains widespread.

Turning to the components of final demand, we estimate that real consumer spending rose at an annual rate of about 3 percent in the fourth quarter, down from nearly 7 percent in the third quarter. Sales of light motor vehicles last quarter dropped back somewhat from their elevated third-quarter pace despite a surge in December associated with generous end-of-year incentives. In contrast, purchases of other goods and services appear to have been well maintained. We expect PCE growth to pick up to an annual rate of about 3-1/2 percent in the first quarter, fueled by faster growth in labor income and a decline in personal tax payments.

Housing activity remained strong through year-end. In the single-family sector, housing starts rose to an annual rate of 1.66 million units in the fourth quarter, and new permit issuance moved up as well. And although sales of both new and existing homes look to have ended the year a bit lower than they were in the third quarter of 2003, the pace of sales has remained well above that seen over the first half of last year. Given the recent declines in mortgage rates and the further improvement in the labor market that we are anticipating, single-family construction should remain robust in the current quarter, although probably not as strong as in the fourth quarter. In contrast, activity in the multifamily sector

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

Measure	2004		2005
	H1	H2	
Real GDP	5.2	5.4	4.0
Previous	5.4	5.1	3.8
Final sales	4.7	4.9	3.9
Previous	4.9	4.9	3.8
PCE	4.1	4.4	4.0
Previous	4.6	4.7	4.2
Residential investment	6.7	-2.5	-.6
Previous	3.2	.8	-.4
BFI	12.5	16.4	9.0
Previous	14.3	15.1	7.2
Government purchases	3.5	1.6	1.9
Previous	3.5	1.6	2.1
Exports	9.8	13.3	11.1
Previous	9.3	11.7	10.1
Imports	9.5	9.2	8.8
Previous	10.5	10.1	9.0
	Contribution to growth (percentage points)		
Inventory change	.4	.5	.1
Previous	.5	.3	.1
Net exports	-.4	.0	-.2
Previous	-.6	-.3	-.3

Household spending. Consumer spending is projected to rise in real terms about 4-1/4 percent in 2004 and 4 percent in 2005. Although the previously enacted tax cuts continue to provide some stimulus to consumption growth this year, the strength in spending over the next two years can be traced largely to improving labor market conditions and the influence of strong productivity growth on permanent income. In addition, the increase in household wealth that we are projecting exerts a slightly more positive effect on spending growth than in our previous forecast, reflecting the higher path of equity prices in this Greenbook. That said, the revised data in the national income and product

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

Measure	1973-95	1996-2001	2002	2003	2004	2005
Structural labor productivity	1.5	2.8	3.3	3.7	3.3	3.1
Previous	1.4	2.7	2.6	3.1	2.7	2.9
<i>Contributions</i> ¹						
Capital deepening	.6	1.3	.6	.6	1.0	1.1
Previous	.6	1.2	.4	.4	.8	1.0
Multifactor productivity	.6	1.2	2.4	2.9	2.1	1.7
Previous	.6	1.2	2.0	2.4	1.6	1.6
Labor composition	.3	.3	.3	.3	.3	.3
MEMO						
Potential GDP	2.9	3.4	3.6	4.0	3.7	3.7
Previous	2.9	3.4	3.5	3.9	3.5	3.7

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

1. Percentage points.

efficiency. Thus, we have boosted our estimate of structural productivity growth roughly 1/2 percentage point in each of the past three years. We have also assumed higher structural productivity growth going forward, raising our estimate to more than 3 percent in both 2004 and 2005.

Given our judgment that our previous estimate of the output gap had been providing reasonably accurate signals about the extent of slack in resource utilization, we have passed only a small part of the revisions in structural productivity into potential output growth.³ As a result, the output gap in this forecast is similar to that in the December Greenbook: It declines from about 2 percent in the fourth quarter of 2003 to just 0.1 percent in the fourth quarter of 2005.

Productivity and the labor market. As noted above, the meager employment gains posted in the fourth quarter have led us to trim our near-term projection for job growth. In addition, the higher structural productivity gains imply that businesses will not have to hire as many workers to bring their workforces into line with their anticipated longer-run needs. As a result, we forecast that the

3. As a technical matter, in reassessing the relationship between structural productivity and potential output, we reduced the growth of trend labor input in the nonfarm business sector to reflect the divergence in recent years in the employment trends suggested by the household and payroll surveys.

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

Measure	2002	2003	2004	2005
Output per hour, nonfarm business	4.1	5.5	2.6	1.7
Previous	4.4	5.2	1.7	.5
Nonfarm private payroll employment	-.7	-.1	2.9	2.8
Previous	-.7	.0	3.8	3.4
Household survey employment	.3	1.2	2.5	1.9
Previous	.3	1.2	2.7	2.1
Labor force participation rate ¹	66.5	66.1	66.5	66.8
Previous	66.5	66.2	66.7	67.1
Civilian unemployment rate ¹	5.9	5.9	5.3	5.0
Previous	5.9	6.0	5.3	5.0
MEMO				
GDP gap ²	2.4	1.9	.4	.1
Previous	2.3	1.9	.2	.1

1. Percent, average for the fourth quarter.

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

average monthly increase in private payroll employment will climb from around 150,000 this quarter to about 350,000 by the fourth quarter of this year; job growth is then expected to moderate to around 250,000 per month in 2005 as the pace of economic expansion settles back toward the rate of growth of potential. Consistent with this outlook, we see actual productivity growth slowing from 5-1/2 percent in 2003 to 2-1/2 percent in 2004 and 1-3/4 percent in 2005 and the unemployment rate gradually falling to 5 percent by the end of the forecast period. The jobless rate in 2004 is, on average, a little lower than it was in our previous projection because of our assumption that the extended unemployment insurance program will not be renewed.

Wages and prices. We have made only minor adjustments to our inflation forecast in this Greenbook. As noted above, recent readings on consumer prices have been on the low side of our expectations. And although we think that much of this softness is likely temporary, we have interpreted this information as also suggesting a slightly lower trend in core inflation. More generally, rising import prices are projected to put some upward pressure on prices this year, but continued strong gains in structural productivity and slack in resource utilization should keep inflation in check over the forecast period. All told, we are

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

Measure	2002	2003	2004	2005
PCE chain-weighted price index	1.8	1.4	1.0	1.0
Previous	1.8	1.7	.9	1.0
Food and beverages	1.4	2.7	1.6	1.4
Previous	1.4	2.4	1.5	1.5
Energy	7.9	8.5	-1.7	-.4
Previous	7.0	7.9	-5.9	-1.1
Excluding food and energy	1.6	.8	1.0	1.0
Previous	1.6	1.2	1.1	1.1
Consumer price index	2.2	1.9	1.2	1.2
Previous	2.2	2.0	1.0	1.3
Excluding food and energy	2.1	1.2	1.4	1.4
Previous	2.1	1.4	1.5	1.5
GDP chain-weighted price index	1.4	1.6	.9	1.1
Previous	1.3	1.5	1.0	1.2
ECI for compensation of private industry workers ¹	3.2	4.1	3.7	3.8
Previous	3.2	4.1	3.5	3.5
NFB compensation per hour	2.0	3.1	3.4	3.7
Previous	2.8	2.7	3.1	3.4
Prices of core non-oil merchandise imports	.5	1.8	3.3	.7
Previous	.7	1.7	2.0	.8

1. December to December.

projecting core PCE prices to rise 1 percent in both 2004 and 2005, after an increase of 3/4 percent in 2003. Overall PCE prices are anticipated to rise 1 percent each year as well, as a gradual decline in energy prices beyond the current quarter is about offset by increases in food prices averaging a little above core inflation.

For labor compensation, we anticipate that the rate of increase in the employment cost index will edge down from 4 percent in 2003 to around 3-3/4 percent in 2004 and 2005. Double-digit increases in employer costs for health insurance are projected to keep the benefits component of the overall index rising close to 6 percent this year and next. In contrast, the annual rate of increase in wages and salaries is expected to slow to a bit under 3 percent over

Alternative Scenarios

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

Measure	2003: H2	2004		2005
		H1	H2	
<i>Real GDP</i>				
Baseline	6.5	5.2	5.4	4.0
Permanently faster productivity growth	6.5	5.6	6.3	5.6
Temporarily faster productivity growth	6.5	5.2	5.5	4.2
Stronger household spending	6.5	5.8	6.7	5.5
Economic boom	6.5	5.8	6.9	6.2
Less-robust capital spending	6.5	4.6	4.4	2.6
Market-based funds rate	6.5	5.2	5.4	3.6
<i>Civilian unemployment rate¹</i>				
Baseline	5.9	5.6	5.3	5.0
Permanently faster productivity growth	5.9	5.7	5.3	4.7
Temporarily faster productivity growth	5.9	5.7	5.4	5.5
Stronger household spending	5.9	5.5	4.9	3.8
Economic boom	5.9	5.5	4.9	3.4
Less-robust capital spending	5.9	5.7	5.6	5.8
Market-based funds rate	5.9	5.6	5.3	5.2
<i>PCE prices excluding food and energy</i>				
Baseline	.8	1.0	1.0	1.0
Permanently faster productivity growth	.8	1.0	.9	.8
Temporarily faster productivity growth	.8	1.0	.9	.7
Stronger household spending	.8	1.0	1.0	1.2
Economic boom	.8	1.0	1.2	1.7
Less-robust capital spending	.8	1.0	1.0	1.1
Market-based funds rate	.8	1.0	1.0	.9

1. Average for the final quarter of the period.

next to bring the level of spending in better alignment with our view of the fundamentals. But we may have failed to fully and accurately account for all the factors influencing demand in this sector. Although such a mis-estimation could go in either direction, in this scenario we assume that the pace of household spending remains surprisingly strong. As a result, the personal saving rate holds at just over 2 percent rather than rising to 2-3/4 percent in 2005, and single-family housing starts continue in the vicinity of 1.66 million units rather than edging down to 1.51 million units. Under these conditions, real GDP increases about 6-1/4 percent in 2004 and 5-1/2 percent in 2005, bringing

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		
	12/03/03	01/21/04	12/03/03	01/21/04	12/03/03	01/21/04	12/03/03	01/21/04	12/03/03	01/21/04	
ANNUAL											
2001		2.6	2.9	0.3	0.5	2.4	2.4	2.8	2.8	4.8	4.7
2002		3.6	3.8	2.4	2.2	1.1	1.5	1.6	1.6	5.8	5.8
2003		4.8	4.9	3.1	3.2	1.6	1.7	2.3	2.3	6.0	6.0
2004		6.6	6.6	5.4	5.4	1.1	1.2	1.2	1.4	5.7	5.5
2005		5.5	5.5	4.3	4.5	1.1	1.0	1.2	1.0	5.1	5.1
QUARTERLY											
2002	Q1	6.5	5.4	5.0	4.7	1.3	1.1	1.4	1.4	5.6	5.7
	Q2	2.5	3.9	1.3	1.9	1.2	1.5	3.4	3.4	5.9	5.8
	Q3	5.1	4.4	4.0	3.4	1.0	1.5	2.2	2.2	5.8	5.7
	Q4	3.2	3.1	1.4	1.3	1.8	1.7	2.0	2.0	5.9	5.9
2003	Q1	3.8	4.3	1.4	2.0	2.4	2.3	3.8	3.8	5.8	5.8
	Q2	4.3	4.2	3.3	3.1	1.0	1.1	0.7	0.7	6.2	6.1
	Q3	10.1	10.0	8.2	8.2	1.7	1.6	2.4	2.4	6.1	6.1
	Q4	5.5	6.3	4.4	4.8	1.1	1.4	1.3	0.9	6.0	5.9
2004	Q1	6.6	6.6	5.3	5.0	1.2	1.6	1.0	2.5	6.0	5.8
	Q2	6.4	6.1	5.5	5.4	0.9	0.6	0.9	0.7	5.8	5.6
	Q3	6.3	6.0	5.3	5.4	0.9	0.6	1.0	0.6	5.5	5.4
	Q4	6.0	6.2	4.9	5.4	1.0	0.8	1.2	0.9	5.3	5.3
2005	Q1	5.3	5.5	3.8	4.1	1.4	1.3	1.2	1.1	5.2	5.2
	Q2	5.1	5.1	4.0	4.0	1.1	1.0	1.3	1.2	5.1	5.1
	Q3	5.0	5.1	3.9	4.0	1.1	1.1	1.3	1.2	5.0	5.1
	Q4	4.8	4.9	3.7	3.8	1.0	1.0	1.4	1.3	5.0	5.0
TWO-QUARTER³											
2002	Q2	4.5	4.7	3.1	3.3	1.3	1.3	2.4	2.4	0.3	0.2
	Q4	4.1	3.8	2.7	2.3	1.4	1.6	2.1	2.1	0.0	0.1
2003	Q2	4.1	4.2	2.3	2.5	1.7	1.7	2.2	2.2	0.3	0.2
	Q4	7.8	8.1	6.3	6.5	1.4	1.5	1.8	1.6	-0.2	-0.2
2004	Q2	6.5	6.3	5.4	5.2	1.0	1.1	0.9	1.6	-0.2	-0.3
	Q4	6.1	6.1	5.1	5.4	0.9	0.7	1.1	0.8	-0.5	-0.3
2005	Q2	5.2	5.3	3.9	4.1	1.3	1.2	1.3	1.1	-0.2	-0.2
	Q4	4.9	5.0	3.8	3.9	1.1	1.0	1.3	1.3	-0.1	-0.1
FOUR-QUARTER⁴											
2001	Q4	2.0	2.4	0.1	-0.0	2.0	2.4	1.8	1.8	1.7	1.7
2002	Q4	4.3	4.2	2.9	2.8	1.3	1.4	2.2	2.2	0.3	0.3
2003	Q4	5.9	6.2	4.3	4.5	1.5	1.6	2.0	1.9	0.1	-0.0
2004	Q4	6.3	6.2	5.3	5.3	1.0	0.9	1.0	1.2	-0.7	-0.6
2005	Q4	5.0	5.1	3.8	4.0	1.2	1.1	1.3	1.2	-0.3	-0.2

1. For all urban consumers.

2. Level, except as noted.

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

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

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

Item	Units ¹	Projected - - - - -									
		1997	1998	1999	2000	2001	2002	2003	2004	2005	
Expenditures											
Nominal GDP	Bill. \$	8304.3	8747.0	9268.4	9817.0	10100.8	10480.8	10991.9	11717.6	12367.4	
Real GDP	Bill. Ch. \$	8703.5	9066.9	9470.3	9817.0	9866.6	10083.0	10401.9	10959.8	11456.8	
Real GDP	% change	4.3	4.5	4.7	2.2	-0.0	2.8	4.5	5.3	4.0	
Gross domestic purchases		5.1	5.5	5.5	3.0	0.1	3.6	4.2	5.3	4.0	
Final sales		3.7	4.8	4.2	2.9	1.1	1.8	4.5	4.8	3.9	
Priv. dom. final purchases		5.2	6.4	5.3	4.3	0.8	2.3	4.6	5.3	4.3	
Personal cons. expenditures		4.3	5.4	4.9	4.1	2.7	2.7	4.0	4.2	4.0	
Durables		9.9	14.4	7.3	4.7	9.4	1.8	12.3	7.4	7.0	
Nondurables		2.5	4.7	4.9	3.0	1.7	2.8	4.6	5.5	4.8	
Services		4.0	3.8	4.4	4.5	1.8	2.9	2.0	3.0	3.0	
Business fixed investment		11.4	10.9	7.7	7.8	-10.2	-2.8	5.9	14.4	9.0	
Equipment & Software		13.8	13.4	10.8	7.5	-9.4	1.6	8.2	17.9	9.6	
Nonres. structures		4.6	3.9	-0.9	8.8	-12.4	-14.9	-1.2	2.9	6.8	
Residential structures		3.1	10.3	3.6	-1.8	1.7	7.1	11.8	2.0	-0.6	
Exports		8.3	2.6	5.6	6.5	-11.5	3.3	5.9	11.5	11.1	
Imports		14.3	11.0	12.1	11.2	-7.4	9.4	3.5	9.4	8.8	
Gov't. cons. & investment		1.2	3.3	4.2	0.4	3.6	4.5	2.5	2.5	1.9	
Federal		-0.5	0.1	4.2	-2.2	6.3	10.1	6.1	4.7	1.6	
Defense		-1.5	-1.2	4.3	-3.5	6.6	10.9	7.7	5.0	1.4	
State & local		2.2	5.1	4.2	1.7	2.3	1.6	0.5	1.3	2.1	
Change in bus. inventories	Bill. Ch. \$	71.2	72.6	68.9	56.5	-36.0	5.7	0.3	47.0	98.3	
Nonfarm		68.5	71.2	71.5	57.8	-36.3	9.3	1.8	46.8	97.3	
Net exports		-104.6	-203.7	-296.2	-379.5	-398.1	-470.6	-506.6	-526.1	-545.9	
Nominal GDP	% change	5.9	5.7	6.3	4.6	2.4	4.2	6.2	6.2	5.1	
GDP Gap ²	%	-0.8	-1.5	-2.3	-2.3	0.6	1.8	2.5	1.0	0.2	
Employment and Production											
Nonfarm payroll employment	Millions	122.8	125.9	129.0	131.8	131.8	130.4	130.1	131.8	135.6	
Unemployment rate	%	4.9	4.5	4.2	4.0	4.7	5.8	6.0	5.5	5.1	
Industrial prod. index	% change	8.1	4.4	4.9	2.3	-5.2	1.3	1.6	6.3	4.7	
Capacity util. rate - mfg.	%	82.6	82.0	81.4	81.1	75.4	73.9	73.4	76.7	79.5	
Housing starts	Millions	1.47	1.62	1.64	1.57	1.60	1.70	1.85	1.90	1.86	
Light motor vehicle sales		15.12	15.52	16.90	17.36	17.12	16.78	16.67	17.24	17.70	
North Amer. produced		13.18	13.48	14.41	14.49	14.04	13.49	13.36	13.82	14.20	
Other		1.95	2.03	2.49	2.87	3.08	3.29	3.31	3.42	3.50	
Income and Saving											
Nominal GNP	Bill. \$	8337.3	8768.3	9302.2	9855.9	10135.9	10502.3	11027.4	11773.9	12411.9	
Nominal GNP	% change	5.8	5.5	6.5	4.7	2.6	3.8	6.2	6.3	4.9	
Nominal personal income		6.4	7.0	5.5	7.1	2.4	2.4	3.9	5.7	5.8	
Real disposable income		4.3	5.6	2.8	4.4	1.3	3.5	3.7	5.0	4.2	
Personal saving rate	%	3.6	4.3	2.4	2.3	1.7	2.3	2.1	2.3	2.8	
Corp. profits, IVA & CCAdj.	% change	9.1	-10.0	9.6	-8.6	8.7	8.3	24.6	7.9	-2.7	
Profit share of GNP	%	10.4	9.1	9.2	8.3	7.6	8.6	9.6	10.5	9.9	
Excluding FR Banks		10.1	8.9	8.9	8.0	7.3	8.4	9.4	10.3	9.8	
Federal surpl./deficit	Bill. \$	-55.8	38.8	103.6	189.5	50.5	-240.0	-421.7	-478.4	-325.8	
State & local surpl./def.		39.1	52.0	50.4	50.0	17.3	-3.2	-9.0	-1.2	8.9	
Ex. social ins. funds		38.0	50.3	48.7	47.9	14.0	-6.6	-12.4	-4.7	5.3	
Gross natl. saving rate	%	17.5	18.2	18.0	18.0	16.4	14.7	13.2	13.9	14.5	
Net natl. saving rate		6.6	7.4	6.9	6.7	4.4	2.7	1.5	2.6	3.1	
Prices and Costs											
GDP chn.-wt. price index	% change	1.5	1.1	1.6	2.2	2.4	1.4	1.6	0.9	1.1	
Gross Domestic Purchases		1.0	0.7	2.0	2.4	1.6	1.7	1.7	1.0	1.0	
chn.-wt. price index		1.3	0.9	2.1	2.3	1.6	1.8	1.4	1.0	1.0	
PCE chn.-wt. price index		1.4	1.4	1.6	1.5	2.1	1.6	0.8	1.0	1.0	
Ex. food and energy		1.9	1.5	2.6	3.4	1.8	2.2	1.9	1.2	1.2	
CPI		2.2	2.3	2.0	2.6	2.7	2.1	1.2	1.4	1.4	
Ex. food and energy		1.4	1.4	1.6	1.5	2.1	1.6	0.8	1.0	1.0	
ECI, hourly compensation ³		3.4	3.5	3.4	4.4	4.2	3.2	4.1	3.7	3.8	
Nonfarm business sector		2.2	2.7	3.3	2.2	2.9	4.1	5.5	2.6	1.7	
Output per hour		4.0	5.6	4.9	6.7	3.3	2.0	3.1	3.4	3.7	
Compensation per Hour		1.2	2.3	1.4	4.9	-0.5	-1.6	-2.2	0.8	2.0	
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. \$	10024.8	10088.2	10096.2	10193.9	10329.3	10428.3	10542.0	10623.7	10735.8	10846.7
Real GDP	Bill. Ch. \$	9882.2	9866.3	9834.6	9883.6	9997.9	10045.1	10128.4	10160.8	10210.4	10288.3
Real GDP	% change	-0.2	-0.6	-1.3	2.0	4.7	1.9	3.4	1.3	2.0	3.1
Gross domestic purchases		-0.7	-0.4	-0.8	2.4	5.2	3.1	3.4	2.7	1.1	4.3
Final sales		1.4	0.7	-0.7	3.2	2.6	1.3	1.8	1.7	2.7	3.3
Priv. dom. final purchases		-0.1	-0.0	0.5	2.8	2.9	2.2	1.7	2.2	2.3	3.8
Personal cons. expenditures		0.5	2.3	1.9	6.2	4.1	2.6	2.0	2.2	2.5	3.3
Durables		1.7	9.8	0.7	27.3	1.6	0.5	5.0	0.3	0.5	17.7
Nondurables		0.4	-1.1	2.9	4.7	6.1	0.4	0.2	4.6	5.7	1.2
Services		0.3	2.4	1.6	2.8	3.8	4.1	2.2	1.5	1.5	1.7
Business fixed investment		-4.5	-13.6	-8.4	-14.0	-7.0	-3.0	-1.1	-0.1	-0.6	7.0
Equipment & Software		-4.0	-16.4	-12.2	-4.1	-0.2	1.2	3.7	1.7	0.5	8.0
Nonres. structures		-5.9	-5.6	2.2	-35.3	-23.9	-14.5	-14.6	-5.6	-4.0	3.9
Residential structures		2.6	3.7	3.1	-2.5	8.7	8.9	4.2	6.8	4.5	4.5
Exports		-4.5	-13.4	-17.7	-9.8	4.4	8.7	4.3	-3.7	-2.0	-1.1
Imports		-6.2	-8.5	-10.8	-3.8	8.4	17.1	4.1	8.2	-6.8	9.1
Gov't. cons. & investment		5.8	5.8	-4.1	7.4	4.6	4.0	2.5	7.1	-0.4	7.4
Federal		8.9	6.7	0.0	9.9	8.4	10.5	3.9	18.2	-0.2	23.5
Defense		7.7	2.6	2.4	14.2	8.2	9.5	4.5	22.1	-5.6	41.9
State & local		4.2	5.3	-6.0	6.1	2.7	0.6	1.7	1.5	-0.5	-0.8
Change in bus. inventories	Bill. Ch. \$	4.3	-28.8	-44.0	-75.5	-23.5	-8.0	32.8	21.5	1.6	-4.5
Nonfarm		-2.1	-26.9	-45.8	-70.3	-28.6	4.2	36.0	25.4	0.3	-2.4
Net exports		-385.9	-391.7	-401.3	-413.4	-431.2	-467.6	-471.9	-511.5	-490.0	-526.0
Nominal GDP	% change	2.9	2.6	0.3	3.9	5.4	3.9	4.4	3.1	4.3	4.2
GDP Gap ¹	%	-0.8	0.2	1.3	1.7	1.4	1.8	1.8	2.4	2.8	3.0
Employment and Production											
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	5.7	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	1.74
Light motor vehicle sales		17.05	16.64	16.32	18.47	16.42	16.42	17.71	16.58	15.92	16.31
North Amer. produced		14.14	13.60	13.31	15.09	13.11	13.17	14.35	13.33	12.53	13.01
Other		2.91	3.04	3.00	3.37	3.31	3.25	3.36	3.25	3.39	3.30
Income and Saving											
Nominal GNP	Bill. \$	10052.1	10115.5	10107.8	10268.3	10351.3	10435.9	10560.5	10661.6	10763.7	10880.0
Nominal GNP	% change	1.8	2.5	-0.3	6.5	3.3	3.3	4.9	3.9	3.9	4.4
Nominal personal income		4.6	1.2	1.7	2.0	1.5	5.0	1.4	1.7	3.0	4.4
Real disposable income		-0.3	-1.4	12.2	-4.4	10.6	4.1	-0.9	0.6	2.4	4.9
Personal saving rate	%	1.9	1.1	2.8	1.0	2.5	2.8	2.1	1.8	1.9	2.3
Corp. profits, IVA & CCAdj.	% change	-18.0	-3.8	-17.4	114.5	7.9	10.3	-0.9	16.5	-3.3	48.1
Profit share of GNP	%	7.5	7.4	7.1	8.4	8.5	8.6	8.5	8.8	8.6	9.4
Excluding FR Banks		7.2	7.1	6.8	8.2	8.3	8.4	8.3	8.6	8.4	9.2
Federal surpl./deficit	Bill. \$	156.1	128.9	-80.1	-2.8	-188.8	-232.0	-242.9	-296.3	-320.4	-424.7
State & local surpl./def.		36.1	24.6	11.6	-3.0	-7.4	-11.9	6.8	-0.4	-40.6	-14.7
Ex. social ins. funds		33.1	21.3	8.1	-6.6	-10.8	-15.3	3.4	-3.8	-44.0	-18.1
Gross natl. saving rate	%	17.1	16.3	15.9	16.1	15.3	15.1	14.4	13.8	12.9	13.2
Net natl. saving rate		5.6	4.4	3.3	4.4	3.5	3.2	2.5	1.8	0.9	1.4
Prices and Costs											
GDP chn.-wt. price index	% change	3.2	3.2	1.6	1.6	1.1	1.5	1.5	1.7	2.3	1.1
Gross Domestic Purchases chn.-wt. price index		2.6	2.3	1.0	0.5	1.0	2.4	1.6	1.7	3.4	0.4
PCE chn.-wt. price index		3.2	2.5	0.5	0.4	0.7	2.9	2.0	1.7	2.8	0.5
Ex. food and energy		2.7	1.9	1.3	2.5	1.0	1.9	2.0	1.5	0.9	0.8
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
		2.9	2.6	2.6	2.8	2.1	2.1	2.1	1.7	1.3	0.8
ECI, hourly compensation ²		4.6	3.7	3.9	4.4	3.6	4.4	2.5	3.0	5.5	3.4
Nonfarm business sector											
Output per hour		-0.2	3.4	1.5	6.9	9.6	0.8	4.7	1.6	3.1	6.3
Compensation per hour		4.7	2.1	2.6	4.0	2.1	2.8	1.4	1.5	3.2	4.9
Unit labor cost		4.7	0.3	-0.9	-5.7	-5.2	2.9	-3.7	-0.1	0.4	-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. \$	11107.0	11278.0	11460.1	11630.1	11801.2	11979.1	12139.3	12290.8	12445.4	12594.2
Real GDP	Bill. Ch. \$	10493.1	10615.9	10745.2	10887.3	11030.7	11176.1	11288.8	11400.9	11514.4	11622.9
Real GDP	% change	8.2	4.8	5.0	5.4	5.4	5.4	4.1	4.0	4.0	3.8
Gross domestic purchases		7.0	4.5	5.1	5.6	5.3	5.0	4.2	4.2	4.0	3.6
Final sales		8.3	3.9	4.5	5.0	4.6	5.2	2.7	4.0	4.3	4.5
Priv. dom. final purchases		8.4	4.2	4.8	5.7	5.2	5.5	3.1	4.7	4.7	4.7
Personal cons. expenditures		6.9	3.1	3.6	4.6	4.4	4.3	4.2	4.0	3.9	3.7
Durables		28.0	4.9	3.3	9.2	8.4	8.8	7.7	6.7	6.4	7.1
Nondurables		7.3	4.3	5.8	5.7	5.5	5.1	5.0	5.0	4.8	4.2
Services		2.8	2.2	2.5	3.1	3.1	3.1	3.1	3.0	3.0	2.8
Business fixed investment		12.8	5.0	10.0	15.0	15.2	17.7	-1.2	11.9	12.8	13.2
Equipment & Software		17.6	7.4	12.4	18.9	18.8	21.8	-2.5	13.5	14.1	14.2
Nonres. structures		-1.8	-2.7	2.0	2.6	3.2	3.7	3.8	6.0	7.9	9.5
Residential structures		21.9	17.3	11.3	2.2	-2.9	-2.1	-1.4	-0.8	-0.4	0.3
Exports		9.9	17.9	7.6	12.0	12.2	14.3	8.6	11.4	11.2	13.2
Imports		0.8	11.8	7.9	11.2	9.5	8.9	7.8	10.2	8.8	8.4
Gov't. cons. & investment		1.8	1.5	4.0	3.1	1.5	1.7	1.7	1.7	2.1	2.0
Federal		1.2	1.7	9.2	6.3	1.6	1.7	1.4	1.4	1.9	1.9
Defense		-1.3	1.8	10.6	8.0	0.8	1.0	1.0	1.0	1.8	1.8
State & local		2.0	1.4	1.0	1.1	1.4	1.6	2.0	2.0	2.2	2.1
Change in bus. inventories	Bill. Ch. \$	-9.1	13.0	26.0	37.0	59.0	66.0	105.0	107.0	100.0	81.0
Nonfarm		-5.9	15.0	27.0	37.0	58.0	65.0	104.0	106.0	99.0	80.0
Net exports		-505.2	-505.2	-515.5	-527.3	-532.2	-529.3	-537.1	-546.9	-551.3	-548.4
Nominal GDP	% change	10.0	6.3	6.6	6.1	6.0	6.2	5.5	5.1	5.1	4.9
GDP Gap ¹	%	2.1	1.9	1.6	1.2	0.8	0.4	0.3	0.2	0.1	0.1
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	129.9	130.1	130.4	131.2	132.3	133.4	134.4	135.3	136.1	136.7
Unemployment rate	%	6.1	5.9	5.8	5.6	5.4	5.3	5.2	5.1	5.1	5.0
Industrial prod. index	% change	3.8	6.2	6.5	6.6	6.1	6.0	4.8	4.6	4.7	4.6
Capacity util. rate - mfg.	%	73.2	74.2	75.2	76.3	77.2	78.0	78.6	79.2	79.8	80.3
Housing starts	Millions	1.88	2.04	1.92	1.91	1.89	1.88	1.88	1.87	1.86	1.85
Light motor vehicle sales		17.65	16.80	16.80	17.23	17.40	17.52	17.57	17.65	17.69	17.87
North Amer. produced		14.27	13.61	13.46	13.84	13.94	14.04	14.04	14.09	14.17	14.34
Other		3.38	3.19	3.34	3.39	3.46	3.48	3.48	3.48	3.50	3.53
INCOME AND SAVING											
Nominal GNP	Bill. \$	11144.8	11321.0	11512.9	11690.2	11857.2	12035.4	12192.3	12341.0	12486.7	12627.5
Nominal GNP	% change	10.1	6.5	7.0	6.3	5.8	6.1	5.3	5.0	4.8	4.6
Nominal personal income		4.3	3.9	4.8	5.4	6.3	6.2	6.7	5.7	5.5	5.3
Real disposable income		6.3	1.4	5.0	4.4	5.4	5.1	4.6	4.3	4.1	3.9
Personal saving rate	%	2.3	1.8	2.2	2.1	2.4	2.5	2.6	2.7	2.8	2.8
Corp. profits, IVA & CCAdj.	% change	46.0	15.4	15.8	10.7	0.9	4.6	-6.0	-2.6	0.7	-2.6
Profit share of GNP	%	10.1	10.3	10.5	10.6	10.5	10.4	10.2	10.0	9.9	9.7
Excluding FR Banks		9.9	10.1	10.3	10.4	10.3	10.3	10.0	9.8	9.7	9.5
Federal surpl./deficit	Bill. \$	-499.4	-442.4	-517.9	-504.4	-467.7	-423.4	-368.1	-324.0	-303.9	-307.3
State & local surpl./def.		13.1	6.3	-3.1	1.2	-4.6	1.7	6.4	7.5	9.5	12.1
Ex. social ins. funds		9.6	2.8	-6.6	-2.3	-8.1	-1.9	2.8	3.9	5.9	8.5
Gross natl. saving rate	%	13.2	13.5	13.4	13.8	14.1	14.4	14.4	14.5	14.6	14.6
Net natl. saving rate		1.6	2.1	2.0	2.4	2.7	3.1	3.0	3.1	3.2	3.2
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.6	1.4	1.6	0.6	0.6	0.8	1.3	1.0	1.1	1.0
Gross Domestic Purchases chn.-wt. price index		1.8	1.2	2.1	0.7	0.6	0.7	1.2	0.9	0.9	0.9
PCE chn.-wt. price index		1.8	0.6	1.8	0.7	0.6	0.8	0.9	1.0	1.1	1.1
Ex. food and energy		1.0	0.5	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.1
CPI		2.4	0.9	2.5	0.7	0.6	0.9	1.1	1.2	1.2	1.3
Ex. food and energy		1.7	1.0	1.2	1.3	1.4	1.4	1.4	1.4	1.4	1.4
ECI, hourly compensation ²		4.2	3.1	3.6	3.7	3.7	3.7	3.8	3.8	3.8	3.8
Nonfarm business sector		9.4	3.3	3.7	2.8	1.9	2.0	0.9	1.6	2.1	2.3
Output per hour		2.9	1.5	3.0	3.4	3.5	3.5	3.8	3.7	3.7	3.7
Compensation per hour		-5.9	-1.8	-0.6	0.7	1.6	1.4	2.8	2.0	1.6	1.4
Unit labor cost											

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2002 Q1	2003 Q1	2003 Q2	2003 Q3	2003 Q4	01Q4/ 00Q4	02Q4/ 01Q4	03Q4/ 02Q4	Projected
Real GDP												-0.0	2.8	4.5	
Gross dom. purchases												0.1	3.7	4.4	
Real sales	-1.3	2.0	4.7	1.9	3.4	1.3	2.0	3.1	8.2						
Priv. dom. final purchases	-0.9	2.5	5.4	3.2	3.5	2.8	1.2	4.4	7.4						
Personal cons. expenditures	-0.8	3.2	2.7	1.3	1.8	1.7	2.7	3.3	8.3						
Durables	0.4	2.4	2.5	1.9	1.5	1.9	1.9	3.3	7.2						
Nondurables	1.3	4.2	2.9	1.8	1.4	1.6	1.8	2.3	4.9						
Services	0.1	2.1	0.1	0.0	0.4	0.0	0.0	1.4	2.2						
Business fixed investment	0.6	0.9	1.2	0.1	0.1	0.0	0.9	1.1	0.3	1.5					
Equipment & Software	-1.0	-1.7	-0.8	-0.3	-0.1	-0.0	-0.1	-0.1	0.7						
Nonresidential structures	-1.1	-0.4	-0.0	-0.1	-0.3	-0.1	-0.0	0.6	1.3						
Residential structures	0.1	-1.4	-0.8	-0.4	-0.4	-0.4	-0.1	0.1	0.3	-0.0					
Net exports	0.1	-0.1	0.4	0.4	0.2	0.3	0.2	0.2	1.1						
Exports	-0.4	-0.5	-0.7	-1.3	-0.2	-1.5	0.8	-1.3	0.8						
Imports	-2.0	-1.0	0.4	0.8	0.4	-0.4	-0.2	-0.1	0.9						
Government cons. & invest.	1.6	0.5	-1.1	-2.1	-0.6	-1.1	1.0	-1.2	-0.1						
Federal	-0.7	1.3	0.9	0.7	0.5	1.3	-0.1	1.4	0.3						
Defense	0.0	0.6	0.5	0.6	0.3	0.3	1.1	0.0	1.5						
Nondefense	0.1	0.5	0.3	0.4	0.2	0.2	0.9	-0.3	1.6						
State and local	-0.1	0.0	0.2	0.3	0.1	0.1	0.3	0.2	-0.1						
Change in bus. inventories	-0.7	-1.2	2.0	0.6	1.6	-0.4	-0.7	-0.2	-0.1						
NonFarm	0.7	-0.9	1.6	1.3	1.2	-0.4	-0.9	-0.1	-1.1						
Farm	0.1	-0.3	0.4	-0.6	-0.6	-0.0	0.2	-0.1	0.0						

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	Projected												Projected	
	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2005 Q4	2006 Q1	03Q4/ 02Q4	04Q4/ 03Q4	
Real GDP Gross dom. purchases	4.8	5.0	5.4	5.5	5.4	4.1	4.0	4.0	3.8	4.5	5.3	4.0	4.1	
Final sales	4.7	5.3	5.8	4.6	5.1	2.8	4.0	4.3	4.4	4.4	5.5	4.1	3.9	
Priv. dom. final purchases	3.9	4.5	5.0	4.5	4.7	2.7	4.0	4.0	4.0	4.0	4.5	3.7	3.7	
Personal cons. expenditures	2.2	2.5	3.2	3.1	3.0	2.9	2.8	2.7	2.6	2.8	3.0	2.7	2.7	
Durables	0.4	0.3	0.8	0.7	0.7	0.6	0.6	0.5	0.6	1.0	0.6	0.6	0.6	
Nondurables	0.9	1.2	1.1	1.1	1.0	1.0	1.0	1.0	0.8	0.9	1.1	0.9	0.9	
Services	1.0	1.1	1.3	1.3	1.3	1.3	1.2	1.2	1.2	0.9	1.2	1.2	1.2	
Business fixed investment	0.5	1.0	1.5	1.5	1.8	-0.1	1.2	1.3	1.4	0.6	1.5	1.0	1.0	
Equipment & Software	0.6	0.9	1.4	1.4	1.7	-0.2	1.1	1.1	1.2	0.6	1.4	0.8	0.8	
Nonresidential structures	-0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	-0.0	0.1	0.2	0.2	
Residential structures	0.8	0.6	0.1	-0.2	-0.1	-0.1	-0.0	-0.0	0.0	0.6	0.1	-0.0	-0.0	
Net exports	0.0	-0.4	-0.4	-0.2	0.1	-0.3	-0.3	-0.1	0.1	0.1	-0.2	-0.2	-0.2	
Exports	1.6	0.7	1.1	1.2	1.4	0.9	1.1	1.1	1.4	0.6	1.1	1.1	1.1	
Imports	-1.6	-1.1	-1.6	-1.3	-1.3	-1.1	-1.5	-1.3	-1.2	-0.5	-1.3	-1.3	-1.3	
Government cons. & invest.	0.3	0.7	0.6	0.3	0.3	0.3	0.3	0.4	0.4	0.5	0.5	0.3	0.3	
Federal	0.1	0.6	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.3	0.1	0.1	
Defense	0.1	0.5	0.4	0.0	0.0	0.0	0.0	0.0	0.1	0.3	0.2	0.1	0.1	
Nondefense	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
State and local	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.2	0.1	0.2	0.2	0.2	
Change in bus. inventories	0.8	0.5	0.4	0.8	0.2	1.3	0.1	-0.2	-0.6	-0.0	0.5	0.1	0.1	
Nonfarm	0.8	0.4	0.4	0.7	0.2	1.3	0.1	-0.2	-0.6	-0.1	0.4	0.1	0.1	
Farm	0.1	0.0	0.0	0.0	-0.0	-0.0	0.0	-0.0	-0.0	0.0	0.0	0.0	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	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget																
Receipts ¹	1,853	1,782	1,827	2,024	398	528	429	441	402	535	450	468	442	609	504	510
Outlays ¹	2,011	2,156	2,289	2,384	543	544	534	569	584	575	561	602	597	591	594	616
Surplus/deficit ¹	-159	-374	-462	-360	-145	-17	-105	-129	-182	-40	-111	-135	-155	19	-90	-106
On-budget	-318	-535	-635	-548	-169	-91	-113	-178	-218	-115	-124	-178	-196	-64	-110	-156
Off-budget	160	161	173	188	24	75	9	50	36	74	13	43	41	83	20	50
Means of financing																
Borrowing	221	374	497	377	64	106	108	119	155	90	133	118	147	20	92	82
Cash decrease	-17	26	-10	0	20	-17	-5	2	14	-33	8	15	0	-30	15	15
Other ²	-46	-25	-24	-17	62	-73	2	8	13	-17	-29	2	7	-9	-17	9
Cash operating balance, end of period	61	35	45	45	13	30	35	33	19	53	45	30	30	60	45	30
NIPA federal sector																
Receipts	1,895	1,843	1,866	2,087	1,864	1,864	1,784	1,866	1,858	1,906	1,971	2,075	2,130	2,172	2,194	
Expenditures	2,062	2,228	2,349	2,442	2,184	2,289	2,284	2,308	2,352	2,363	2,373	2,394	2,443	2,454	2,476	2,501
Consumption expenditures	573	649	704	740	636	669	672	679	704	715	720	725	741	745	751	757
Defense	370	426	467	490	409	448	444	448	466	475	478	480	490	493	497	501
Nondefense	202	223	238	250	227	221	229	231	238	240	242	245	250	252	254	256
Other spending	1,489	1,579	1,645	1,701	1,548	1,620	1,612	1,629	1,649	1,647	1,653	1,669	1,702	1,709	1,725	1,745
Current account surplus	-167	-385	-483	-355	-320	-425	-499	-442	-518	-504	-468	-423	-368	-324	-304	-307
Gross investment	87	92	101	104	87	96	97	98	101	103	104	104	104	104	105	105
Gross saving less gross investment ³	-165	-387	-492	-364	-318	-430	-505	-448	-526	-515	-478	-433	-377	-333	-313	-316
Fiscal indicators⁴																
High-employment (HEB) surplus/deficit	-108	-305	-445	-356	-232	-335	-432	-381	-474	-476	-450	-418	-368	-328	-311	-316
Change in HEB, percent of potential GDP	1.9	1.7	1.1	-0.9	0.1	0.9	0.8	-0.5	0.8	-0.0	-0.3	-0.3	-0.5	-0.4	-0.2	0.0
Fiscal impetus (FI) percent of GDP	1.0	1.2	1.1	-0.2	0.1	0.5	0.4	0.3	0.3	0.2	0.1	0.2	-0.4	0.0	0.0	0.0

1. 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.

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

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

4. HEB is gross saving less gross investment (NIPA) 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)**

January 21, 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	8.1	8.8	6.5	12.1	6.3	5.7	10.7	7.8	6.3
1999	6.3	-1.9	8.8	8.2	9.0	7.8	10.7	3.4	3.4	9.5	10.1	1.3
2000	4.9	-8.0	8.4	8.7	8.3	10.7	9.5	4.6	4.6	6.1	8.9	2.4
2001	6.3	-0.2	7.7	9.0	9.8	8.0	4.4	4.2	4.2	11.2	11.2	4.2
2002	7.1	7.6	7.0	10.0	12.4	4.4	2.9	6.2	6.2	9.4	9.4	6.2
2003	8.3	10.9	7.7	10.8	12.9	5.4	3.6	6.2	6.2	4.7	6.9	5.1
2004	7.6	12.3	6.6	8.0	8.8	6.4	4.7	5.1	5.1	5.8	4.5	5.1
2005	6.2	7.5	5.9	6.3	6.9	6.3	4.5	5.1	5.1	5.8	3.9	4.9
<i>Quarter</i>												
2003:1	6.5	4.5	6.9	10.0	12.1	4.3	3.5	5.6	5.6	5.3	11.9	4.2
2	11.1	20.4	9.1	11.9	14.0	5.8	3.4	9.1	9.1	3.4	10.0	10.0
3	7.4	8.2	7.3	10.1	11.8	6.1	2.2	9.6	9.6	2.2	9.6	6.3
4	7.0	9.0	6.6	9.7	11.4	4.9	3.9	7.0	7.0	3.9	7.0	6.6
2004:1	7.9	13.5	6.7	8.8	10.3	5.2	4.4	7.4	7.4	4.4	7.4	6.1
2	8.2	15.8	6.5	8.1	8.9	6.5	5.1	6.4	6.4	5.1	6.4	6.0
3	6.9	9.5	6.3	7.3	7.8	6.4	5.2	6.1	6.1	5.2	6.1	6.2
4	6.5	8.3	6.1	6.8	7.0	6.8	5.4	5.1	5.1	5.4	5.1	5.5
2005:1	6.9	11.3	5.9	6.5	6.8	6.8	5.6	4.4	4.4	5.7	5.7	5.1
2	6.3	8.2	5.9	6.3	6.3	6.8	5.6	4.1	4.1	5.8	3.9	4.9
3	5.6	5.2	5.7	6.0	6.0	6.6	5.7	4.1	4.1	5.1	5.1	5.1
4	5.5	4.7	5.7	5.8	5.7	6.6	5.8	3.9	3.9	4.9	4.9	4.9

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2003:Q3 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

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

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

January 21, 2004

Category	2002	2003	2004	2005	2003				2004				2005				
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<i>Net funds raised by domestic nonfinancial sectors</i>																	
1 Total	1333.1	1658.6	1622.8	1441.3	1565.3	1514.2	1698.1	1795.4	1533.9	1463.9	1603.1	1484.7	1345.3	1331.9			
2 Net equity issuance	-41.8	-48.3	-78.5	-59.0	-41.2	-33.8	-71.0	-86.0	-81.0	-76.0	-70.0	-60.0	-58.0	-48.0			
3 Net debt issuance	1374.9	1706.9	1701.3	1500.3	1606.5	1548.0	1769.1	1881.4	1614.9	1539.9	1673.1	1544.7	1403.3	1379.9			
<i>Borrowing sectors</i>																	
Nonfinancial business																	
4 Financing gap ¹	37.1	-42.0	-57.2	144.6	-78.7	-78.3	-99.0	-96.0	-42.4	8.6	96.5	143.8	165.4	172.6			
5 Net equity issuance	-41.8	-48.3	-78.5	-59.0	-41.2	-33.8	-71.0	-86.0	-81.0	-76.0	-70.0	-60.0	-58.0	-48.0			
6 Credit market borrowing	200.9	257.6	346.1	444.1	245.2	158.3	284.3	327.3	380.6	392.5	417.0	440.4	453.1	465.8			
Households																	
7 Net borrowing ²	771.1	917.8	750.8	639.1	906.5	887.2	829.3	775.1	718.6	680.2	655.4	648.8	631.1	621.1			
8 Home mortgages	669.2	782.7	599.0	466.1	764.6	760.9	701.4	621.2	561.9	511.5	484.0	475.3	458.2	447.1			
9 Consumer credit	81.4	104.4	129.8	148.9	121.3	99.7	106.4	133.9	134.4	144.6	147.5	149.4	148.8	150.0			
10 Debt/DPI (percent) ³	103.1	109.0	112.9	114.6	109.2	111.3	112.0	113.0	113.5	113.8	114.2	114.5	114.8	115.1			
State and local governments																	
11 Net borrowing	145.5	135.2	108.8	75.3	137.3	147.8	110.8	118.8	104.8	100.8	86.8	74.8	70.8	68.8			
12 Current surplus ⁴	170.1	163.0	152.3	166.7	199.3	157.2	148.8	154.2	149.5	156.8	162.6	164.8	167.8	171.5			
Federal government																	
13 Net borrowing	257.5	396.1	495.6	341.8	317.5	354.7	544.7	660.2	410.9	366.5	513.9	380.7	248.3	224.2			
14 Net borrowing (n.s.a.)	257.5	396.1	495.6	341.8	107.6	118.7	155.2	90.0	132.7	117.6	147.5	20.2	92.1	82.1			
15 Unified deficit (n.s.a.)	230.6	394.7	468.2	331.7	104.5	128.7	182.2	40.3	111.0	134.7	154.9	-18.8	89.6	106.0			
<i>Depository institutions</i>																	
16 Funds supplied	482.5	396.8	437.7	516.4	144.3	67.2	370.0	474.2	504.1	402.8	520.8	537.6	580.4	426.8			
Memo (percentage of GDP)																	
17 Domestic nonfinancial debt ⁵	190.7	195.9	198.3	200.8	196.2	196.8	197.3	198.3	199.1	199.5	200.1	200.9	201.4	201.8			
18 Domestic nonfinancial borrowing	13.1	15.5	14.5	12.1	14.5	13.7	15.4	16.2	13.7	12.9	13.8	12.6	11.3	11.0			
19 Federal government ⁶	2.5	3.6	4.2	2.8	2.9	3.1	4.8	5.7	3.5	3.1	4.2	3.1	2.0	1.8			
20 Nonfederal	10.7	11.9	10.3	9.4	11.6	10.6	10.7	10.5	10.2	9.8	9.5	9.5	9.3	9.2			

Note. Data after 2003:Q3 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

Incoming data confirm that, after treading water for the first half of last year, foreign activity rebounded in the second half. The pickup in growth was most pronounced among the developing Asian economies. We expect growth in the current year to become more evenly distributed across regions, as the recoveries in Europe and Latin America become more firmly established.

Summary of Staff Projections

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

Indicator	2003		Projection				2005
	H1	Q3	2003: Q4	2004			
				Q1	Q2	H2	
Foreign output	.6	3.9	3.9	3.8	3.8	3.8	3.5
<i>December GB</i>	.6	3.6	3.8	3.7	3.7	3.6	3.4
Foreign CPI	1.9	1.4	3.1	2.6	1.9	1.9	1.9
<i>December GB</i>	2.0	1.4	2.7	2.5	1.9	1.9	1.9

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

Aggregates reflect updated trade weights.

Oil prices in January are averaging about \$4.50 per barrel higher than anticipated in early December. In line with quotes from futures markets, we continue to project oil prices to drift down over the forecast period. Although spot prices are roughly \$2 lower than their previous peak in mid-March, far-dated futures contracts (with a horizon of roughly six years) are almost \$4 higher than they were in mid-March. One interpretation of this development is that the market now assigns a higher probability to the event that oil prices will rise further or remain elevated for some time. To assess the effect of one such outcome, we report the results of an alternative simulation that incorporates a further, sustained increase in oil prices.

Since the December FOMC meeting, the exchange value of the dollar has declined about 1½ percent as measured by the staff's broad index. Our forecast for the path of the dollar starts at this lower level, and we have retained a slight downward tilt as the need to finance the large U.S. external imbalance is likely to remain a source of downward market pressure on the dollar.

The sizable decline in the dollar since early 2002 has contributed to a marked slowing in both the realized and projected widening of the current account deficit. We estimate that by the end of 2005 the decline in the dollar will have narrowed the deficit roughly \$160 billion, or 1¼ percent of GDP, compared with what it would have been had the dollar stayed at its early-2002 level. Nonetheless, we project that the current account deficit will continue to widen

Selected Trade Prices

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

Trade category	2003		Projection				2005	
	H1	Q3	2003: Q4	2004				
				Q1	Q2	H2		
<i>Exports</i>								
Core goods	3.5	1.1	5.2	3.9	1.6	.3	.6	
<i>Imports</i>								
Non-oil core goods	2.5	.6	1.5	3.8	3.6	2.8	.7	
Oil (dollars per barrel)	26.46	28.03	27.83	30.20	29.57	26.99	24.94	

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

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

Trade in Goods and Services

After three years of lackluster performance, a robust recovery of real exports of goods and services now appears to be underway. In the third quarter, real exports grew at an annual rate of 10 percent, the highest rate since the third quarter of 2000. With nominal exports for October and November showing substantial increases, real exports of goods and services are estimated to have accelerated considerably further in the fourth quarter, lifted by the earlier declines in the dollar and the recent pickup in foreign growth. Core goods accounted for most of the rise in overall export growth, boosted by a spike in aircraft sales as well as the tendency for core goods exports to surge in the fourth quarter, even on a seasonally adjusted basis.

Several factors should bring export growth rates down in 2004:Q1, including the tendency of core exports to grow more slowly in the first quarter and a tempering of growth in services exports after their strong rebound in the second half of last year. Additionally, exports in the first quarter will be held back by the bans on U.S. beef imposed by our trading partners. It is not clear when these bans will be lifted, but our working assumption is that U.S. beef exports will be near zero in the first half of 2004, that some of the bans will be lifted by the second half of 2004, and that U.S. beef exports will not fully recuperate until the end of 2005.

Over the remainder of the forecast period, real exports of goods and services should continue to show solid growth. Exported core goods are projected to

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

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

Measure	2003		Projection				
	H1	Q3	2003: Q4	2004			2005
				Q1	Q2	H2	
Real exports	-1.5	9.9	17.9	7.6	12.0	13.3	11.1
<i>December GB</i>	<i>-1.1</i>	<i>11.0</i>	<i>12.8</i>	<i>8.1</i>	<i>10.5</i>	<i>11.7</i>	<i>10.1</i>
Real imports	.9	.8	11.8	7.9	11.2	9.2	8.8
<i>December GB</i>	<i>1.0</i>	<i>1.5</i>	<i>11.3</i>	<i>8.9</i>	<i>12.2</i>	<i>10.1</i>	<i>9.0</i>

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

Alternative Simulations

Our baseline Greenbook forecast projects that oil prices will begin to decline in early 2004. However, destabilizing events in Iraq or other oil-producing regions may induce oil prices to rise significantly higher than in our baseline projection. Accordingly, in our alternative scenario, we used the FRB/Global model to consider the effects of a sustained increase of \$10 per barrel in the price of West Texas intermediate crude oil. The shock begins in 2004:Q1 and lasts through the forecast period. Higher oil prices put upward pressure on production costs and inflation. The core PCE inflation rate rises about 0.2 percentage point above baseline in the second half of 2004 and 0.1 percentage point in 2005. The shock reduces U.S. real GDP growth 0.2 percentage point below baseline in 2004 and has a negligible effect on growth in 2005. Higher oil prices weaken consumer spending by depressing household disposable income, and accelerator effects lead to a decline in investment relative to baseline. However, the contractionary effects of the shock on output are cushioned by a decline in real interest rates and by a pickup in real exports to Mexico and Canada, which benefit from higher oil prices.

Alternative Simulation:
Oil Price Rises \$10 per Barrel

(Percent change from previous period, annual rate)

Indicator and simulation	2004		2005	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	5.2	5.4	4.1	3.9
Higher Oil Price	5.0	5.2	4.0	3.9
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	1.0	1.0	1.0	1.1
Higher Oil Price	1.1	1.2	1.1	1.2

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.

Measure and country	1997	1998	1999	2000	2001	2002	2003	2004	2005	-----Projected-----
REAL GDP (1)										
Total foreign	4.2	1.5	5.0	4.3	0.3	2.8	2.2	3.8	3.5	
Industrial Countries of which:	3.4	2.7	4.4	3.7	0.7	2.5	1.5	2.9	2.8	
Canada	4.4	4.4	5.9	4.2	1.4	3.5	1.5	3.4	3.3	
Japan	0.4	-1.2	0.4	3.9	-2.2	1.8	2.2	2.0	1.8	
United Kingdom	3.4	2.8	3.3	2.9	1.9	2.0	2.4	3.0	2.5	
Euro Area (2)	3.2	2.0	3.9	2.7	0.8	1.0	0.8	2.4	2.2	
Germany	1.7	0.7	3.3	1.9	0.5	0.5	0.3	2.4	2.1	
Developing Countries Asia	5.4	-0.3	6.1	5.3	-0.3	3.4	3.3	5.1	4.6	
Korea	5.0	-2.2	8.6	6.2	0.9	5.7	5.0	5.7	5.4	
China	3.4	-5.2	13.8	5.1	4.2	7.0	1.3	5.2	5.2	
Latin America	8.7	9.5	4.1	8.0	7.5	8.0	9.9	8.3	7.7	
Mexico	6.1	1.2	4.2	4.4	-1.4	1.4	1.4	4.8	4.0	
Brazil	6.8	2.9	5.4	4.8	-1.5	2.0	1.3	5.2	4.2	
2.5	-1.6	3.4	3.8	-0.8	3.7	-0.7			3.5	
CONSUMER PRICES (3)										
Industrial Countries of which:	1.5	0.9	1.1	1.7	0.9	2.1	1.3	1.3	1.3	
Canada	1.0	1.1	2.4	3.1	1.1	3.8	1.7	1.7	1.6	
Japan	2.1	0.7	-1.1	-1.3	-1.3	-0.4	-0.5	-0.2	-0.1	
United Kingdom (4)	1.7	1.4	-1.2	-1.0	1.0	1.6	1.3	1.6	2.0	
Euro Area (2)	1.5	0.8	1.5	2.5	2.1	2.3	2.0	1.7	1.6	
Germany	1.5	0.3	1.1	1.7	1.5	1.2	1.2	1.3	1.0	
Developing Countries Asia	6.8	9.0	4.6	4.1	2.8	2.9	3.0	3.0	2.7	
Korea	2.7	4.4	0.1	1.8	1.1	0.7	2.1	2.4	2.1	
China	5.0	5.8	1.2	2.6	3.4	3.4	3.5	3.0	3.0	
Latin America	0.8	-1.2	-1.0	0.9	-0.1	-0.5	2.7	2.5	1.7	
Mexico	15.5	15.4	12.5	8.4	5.3	6.5	4.9	4.0	3.5	
Brazil	17.0	17.3	13.4	8.7	5.1	5.3	4.0	3.6	3.2	
4.6	2.0	8.4	6.4	7.5	10.7	11.5	5.7	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
REAL GDP (1)																
Total foreign	0.7	0.4	3.9	3.9	3.8	3.8	3.8	3.7	3.6	3.5	3.4	3.4	3.4	3.4	3.4	3.4
Industrial Countries of which:	1.3	0.1	1.6	3.2	2.9	2.9	2.9	2.8	2.8	2.8	2.8	2.7	2.7	2.7	2.7	2.7
Canada	2.0	-0.7	1.1	3.7	3.4	3.5	3.4	3.3	3.4	3.4	3.4	3.3	3.3	3.3	3.3	3.3
Japan	1.5	2.4	1.4	3.5	2.2	2.1	1.8	2.0	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
United Kingdom	0.7	2.4	3.3	3.3	3.3	2.3	2.8	2.7	2.6	2.6	2.5	2.4	2.4	2.4	2.4	2.4
Euro Area (2)	-0.1	-0.4	1.5	2.1	2.2	2.3	2.6	2.4	2.4	2.3	2.3	2.2	2.1	2.1	2.1	2.1
Germany	-1.0	-0.6	0.9	2.0	2.1	2.4	2.7	2.5	2.5	2.2	2.2	2.1	2.1	2.1	2.1	2.0
Developing Countries	-0.1	1.0	7.4	5.0	5.0	5.1	5.1	5.1	4.7	4.7	4.7	4.5	4.4	4.4	4.4	4.4
Asia	3.2	-4.3	15.4	6.7	5.7	5.8	5.7	5.7	5.6	5.6	5.6	5.1	5.1	5.1	5.1	5.1
Korea	-1.6	-2.7	4.7	5.0	5.2	5.3	5.2	5.2	5.5	5.5	5.5	5.0	5.0	5.0	5.0	5.0
China	16.3	-2.9	19.6	7.9	8.4	8.4	8.2	8.2	8.0	8.0	8.0	7.5	7.5	7.5	7.5	7.5
Latin America	-3.7	5.7	0.3	3.7	4.8	4.7	4.8	4.8	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Mexico	-1.6	4.9	-1.4	3.4	5.3	5.1	5.2	5.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Brazil	-3.3	-4.7	1.6	4.0	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
CONSUMER PRICES (3)																
Industrial Countries of which:	2.4	1.7	1.4	1.3	0.8	1.4	1.4	1.3	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.3
Canada	4.5	2.8	2.1	1.7	0.7	1.9	1.9	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Japan	-0.3	-0.3	-0.5	-0.5	-0.5	-0.4	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
United Kingdom (4)	1.5	1.3	1.4	1.3	1.2	1.7	1.7	1.6	1.7	1.7	1.7	1.9	1.9	2.0	2.0	2.0
Euro Area (2)	2.3	1.9	2.0	2.0	1.8	2.1	2.0	1.7	1.7	1.7	1.7	1.6	1.6	1.6	1.6	1.6
Germany	1.1	0.9	1.0	1.2	1.3	1.7	1.6	1.3	1.3	1.3	1.3	0.9	0.9	0.9	0.9	1.0
Developing Countries	3.5	3.0	2.6	3.0	3.0	3.3	3.5	3.0	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Asia	1.3	1.1	2.1	2.1	2.4	2.9	3.1	2.4	2.4	2.4	2.4	2.1	2.1	2.1	2.1	2.1
Korea	4.1	3.3	3.2	3.5	3.1	3.4	3.6	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
China	0.5	0.6	0.9	2.7	3.3	3.9	4.0	2.5	2.5	2.5	2.5	1.8	1.8	1.8	1.8	1.8
Latin America	7.1	6.4	5.4	4.9	4.4	4.3	4.3	4.0	4.0	4.0	4.0	3.8	3.8	3.8	3.8	3.8
Mexico	5.5	4.7	4.1	4.0	4.1	4.1	4.0	3.6	3.6	3.6	3.6	3.3	3.3	3.3	3.3	3.3
Brazil	15.7	17.0	15.3	11.5	6.4	6.4	5.0	5.6	5.6	5.6	5.6	5.5	5.5	5.5	5.5	5.5

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	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	-0.2	-0.2
Exports of G&S	0.9	0.3	0.6	0.7	-1.3	0.3	0.6	-1.1	-1.1
Imports of G&S	-1.7	-1.4	-1.6	-1.6	-1.1	-1.2	-0.5	-1.3	-1.3
Percentage change, Q4/Q4									
Exports of G&S	8.3	2.6	5.6	6.5	-11.5	3.3	5.9	11.5	11.1
Services	0.4	4.4	5.3	1.8	-8.3	9.3	4.2	8.6	6.1
Computers	26.7	7.3	13.4	22.7	-22.8	-0.9	10.7	34.5	31.1
Semiconductors	21.1	9.5	34.6	27.6	-34.9	8.8	34.3	37.7	33.5
Other Goods 1/	9.8	1.2	3.3	5.9	-9.9	0.5	4.7	9.7	10.4
Imports of G&S	14.3	11.0	12.1	11.2	-7.4	9.4	3.5	9.4	8.8
Services	11.9	10.4	6.5	10.7	-4.6	6.7	-1.7	3.1	4.9
Oil	4.2	4.2	-3.4	13.3	0.1	3.7	0.5	1.3	1.5
Computers	32.6	26.4	26.0	13.9	-12.9	13.5	15.8	36.7	31.1
Semiconductors	32.5	-7.8	34.2	22.8	-51.2	9.7	-0.4	37.3	33.5
Other Goods 2/	13.1	11.2	12.9	10.5	-6.2	10.3	4.3	9.4	8.1
Billions of Chained 2000 Dollars									
Net Goods & Services	-104.6	-203.8	-296.3	-379.5	-398.1	-470.6	-506.6	-526.1	-545.9
Exports of G&S	943.7	966.5	1008.2	1096.3	1039.0	1014.2	1033.2	1147.2	1278.6
Imports of G&S	1048.3	1170.3	1304.5	1475.8	1437.1	1484.7	1539.9	1673.2	1824.5
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-127.7	-204.7	-290.8	-411.5	-393.7	-480.9	-544.8	-556.1	-581.2
Current Acct as Percent of GDP	-1.5	-2.3	-3.1	-4.2	-3.9	-4.6	-5.0	-4.7	-4.7
Net Goods & Services (BOP)	-107.0	-163.2	-261.2	-375.4	-357.8	-418.0	-487.1	-521.1	-536.5
Investment Income, Net	25.1	11.5	22.3	24.2	15.7	1.3	13.5	33.8	22.0
Direct Net	72.4	65.5	78.2	94.9	106.5	93.5	93.8	118.1	127.4
Portfolio, Net	-47.3	-54.1	-55.9	-70.7	-90.8	-92.2	-80.3	-84.3	-105.4
Other Income & Transfers, Net	-45.7	-53.0	-52.0	-60.3	-51.6	-64.1	-71.2	-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	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Net Goods & Services	-1.5	-0.9	-0.8	-0.1	0.5	-0.2	-0.4	-0.5	-0.7	-1.3	-0.2	-1.5
Exports of G&S	0.7	1.3	1.1	0.3	-0.5	-1.5	-2.0	-1.0	0.4	0.8	0.4	-0.4
Imports of G&S	-2.2	-2.2	-2.0	0.3	1.0	1.3	1.6	1.6	-1.1	-2.1	-0.6	-1.1
	Percentage point contribution to GDP growth											
Exports of G&S	6.6	12.3	10.7	-2.7	-4.5	-13.4	-17.7	-9.8	4.4	8.7	4.3	-3.7
Services	1.4	8.4	-6.6	4.5	-2.0	-0.6	-14.7	-15.0	22.9	1.6	4.4	9.4
Computers	32.7	47.0	30.1	-10.7	-7.7	-40.8	-20.1	-18.6	-22.2	3.2	4.6	14.6
Semiconductors	24.2	73.7	35.0	-8.9	-29.4	-54.8	-45.8	-2.3	25.3	40.0	12.1	-28.7
Other Goods 1/	5.9	7.5	16.0	-4.5	-2.7	-12.1	-16.6	-7.4	-2.8	10.9	3.7	-8.9
Imports of G&S	16.7	16.5	14.1	-1.6	-6.2	-8.5	-10.8	-3.8	8.4	17.1	4.1	8.2
Services	20.9	10.6	14.3	-1.8	-3.2	12.5	-18.1	-6.9	19.3	3.7	0.7	12.1
Oil	28.5	40.6	-2.6	-6.4	23.3	7.1	-26.8	3.7	-19.3	35.3	-10.9	18.9
Computers	-2.2	44.9	35.4	-12.3	-25.7	-20.5	-10.9	9.3	38.4	11.5	6.5	0.9
Semiconductors	25.4	45.2	71.5	-27.1	-43.4	-70.4	-55.4	-24.5	44.5	34.6	-6.5	-20.4
Other Goods 2/	16.4	12.2	12.2	1.8	-6.1	-10.0	-4.8	-4.0	5.9	21.4	7.0	-7.5
	Percentage change from previous period, s.a.a.r.											
Net Goods & Services	-350.6	-374.5	-395.6	-397.2	-385.9	-391.8	-401.3	-413.4	-431.3	-467.6	-471.9	-511.5
Exports of G&S	1060.9	1092.0	1120.0	1112.3	1099.6	1060.9	1010.6	984.8	995.4	1016.5	1027.3	1017.5
Imports of G&S	1411.5	1466.5	1515.6	1509.5	1485.5	1452.7	1411.9	1398.2	1426.7	1484.1	1499.2	1529.0
	Billions of Chained 2000 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	-491.3	-490.9	-514.3	
Current Account as % of GDP	-3.9	-4.0	-4.4	-4.4	-4.1	-4.0	-4.1	-3.4	-4.1	-4.7	-4.7	-4.8
Net Goods & Services (BOP)	-346.9	-364.5	-391.8	-398.4	-373.8	-357.8	-343.5	-360.2	-419.5	-427.9	-464.5	
Investment Income, Net	19.9	23.2	15.8	37.8	8.6	8.2	-8.3	54.3	2.2	-12.4	-1.9	17.2
Direct Net Portfolio, Net	84.5	88.9	91.9	114.5	94.5	96.7	91.3	143.5	95.7	85.6	87.7	104.9
Other Inc. & Transfers, Net	-64.5	-65.7	-76.1	-76.6	-86.0	-88.4	-99.6	-89.2	-93.5	-98.1	-89.6	-87.7

1. Merchandise exports excluding computers and semiconductors.

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

	OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS											
	2003				2004				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Net Goods & Services	0.8	-1.3	0.8	0.0	-0.4	-0.4	-0.2	0.1	-0.3	-0.1	-0.1	0.1
Exports of G&S	-0.2	-0.1	0.9	1.6	-0.7	-1.1	-1.6	-1.3	-1.1	-1.1	-1.1	1.4
Imports of G&S	-1.0	-1.2	-0.1	-1.6	-1.1	-1.6	-1.6	-1.3	-1.1	-1.5	-1.3	-1.2
Exports of G&S Services	-2.0	-1.1	9.9	17.9	7.6	12.0	12.2	14.3	8.6	11.4	11.2	13.2
Services	-10.2	0.3	12.7	15.9	10.3	9.0	8.1	7.0	6.3	6.2	6.0	5.9
Computers	-7.4	-11.2	48.7	22.9	22.9	38.6	38.6	23.9	33.5	33.5	33.5	33.5
Semiconductors	4.4	30.4	35.0	27.7	41.2	41.2	26.2	26.2	36.0	36.0	36.0	36.0
Other Goods 1/	0.1	-3.0	4.8	17.9	3.9	10.0	10.7	14.5	7.4	10.6	10.3	13.4
Imports of G&S Services	-6.8	9.1	0.8	11.8	7.9	11.2	9.5	8.9	7.8	10.2	8.8	8.4
Oil	-7.6	-10.9	13.5	1.4	-1.3	3.4	4.7	5.9	4.9	4.9	4.9	4.6
Computers	-12.7	55.8	-3.2	-22.5	-2.0	22.8	0.6	-13.9	1.6	20.4	-3.9	-9.6
Semiconductors	-0.4	18.9	15.8	31.1	31.1	38.6	38.6	23.9	33.6	33.6	33.6	33.6
Other Goods 2/	-1.0	3.1	-1.5	-2.0	26.2	41.2	41.2	26.2	36.0	36.0	36.0	36.0
	-6.4	9.1	-2.5	18.9	9.5	9.4	9.1	9.5	7.5	8.2	8.4	8.5
Net Goods & Services	-490.1	-526.1	-505.2	-505.2	-515.5	-527.3	-532.2	-529.3	-537.1	-546.9	-551.3	-548.4
Exports of G&S	1012.4	1009.6	1033.7	1077.2	1097.1	1128.7	1161.7	1201.2	1226.3	1259.9	1293.8	1334.5
Imports of G&S	1502.5	1535.7	1538.9	1582.4	1612.6	1655.9	1693.9	1730.5	1763.4	1806.7	1845.1	1882.9
Billions of Chained 2000 Dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-554.8	-557.6	-540.5	-526.1	-554.1	-552.1	-561.7	-556.4	-575.2	-574.9	-585.5	-589.2
Current Account as % of GDP	-5.2	-5.1	-4.9	-4.7	-4.8	-4.7	-4.8	-4.6	-4.7	-4.7	-4.7	-4.7
Net Goods & Services (BOP)	-486.5	-496.7	-485.6	-479.6	-507.5	-522.8	-528.2	-525.9	-531.6	-538.4	-540.1	-535.7
Investment Income, Net	6.3	12.1	15.3	20.5	30.3	37.6	33.4	33.8	30.5	27.7	18.8	10.8
Direct, Net	8.8	88.8	95.9	102.3	112.6	120.9	118.3	120.6	122.4	127.3	128.3	131.5
Portfolio, Net	-82.0	-76.7	-80.6	-81.8	-82.3	-83.3	-84.9	-86.8	-91.9	-99.6	-109.5	-120.6
Other Inc. & Transfers, Net	-74.6	-73.0	-70.2	-66.9	-76.9	-66.9	-66.9	-64.2	-74.2	-64.2	-64.2	-64.3

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