

## **Part 1**

December 3, 2003

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## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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### **Summary and Outlook**

Confidential (FR) Class II FOMC

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December 3, 2003

## **Summary and Outlook**

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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	
	Oct. GB	Dec. GB	Oct. GB	Dec. GB
<b>Real GDP</b>	<b>4.4</b>	<b>4.4</b>	<b>5.2</b>	<b>5.3</b>
Private domestic final purchases	2.7	3.5	5.1	5.4
Personal consumption expenditures	1.8	2.0	4.5	4.3
Residential investment	5.6	15.0	-.2	3.2
Business fixed investment	7.9	8.1	11.6	14.7
Government outlays for consumption and investment	4.7	3.2	3.8	4.9
	Contribution to growth (percentage points)			
Inventory investment	1.4	1.1	.6	.2
Net exports	-.3	-.4	-.5	-.5

pickup of about 4 percentage points from the pace in the first half of the year and well above our estimate of the growth rate of potential output.

In the household sector, we expect real consumer spending to rise 2 percent at an annual rate in the current quarter after having advanced at a 6-1/2 percent rate in the third quarter. Recent quarter-to-quarter fluctuations reflect in part a see-saw pattern of sales of light motor vehicles: Generous incentives helped to push sales above 17-1/2 million units (annual rate) in the third quarter, but we project that sales will fall to a rate of around 16-1/2 million units in the current quarter in response to less-aggressive promotional efforts by manufacturers earlier in the fall. Consumer spending for non-motor-vehicle goods and services moved up modestly on balance in September and October as the initial impetus from the midyear tax cuts began to wane. Nonetheless, we expect rising employment and improving consumer sentiment to help real PCE excluding motor vehicles increase 3-1/2 percent at an annual rate in the fourth quarter.

Activity in the housing market continues to be robust. With mortgage rates low and employment prospects improving, single-family housing starts jumped to a record high of 1.62 million units (annual rate) in October—a level that greatly exceeded our expectations. Permits also were strong in October, and we have interpreted these data as signaling a somewhat higher underlying level of single-family housing demand than we had previously thought. In contrast, the decline in multifamily starts in October was in line with our projections. All told, we now expect total housing starts to increase to 1.93 million units at an annual rate

### **The Longer-Term Outlook for the Economy**

After having risen at a 6-1/4 percent annual rate in the second half of 2003, real GDP is projected to increase at a 5-1/2 percent rate during the first half of 2004 and a rate of about 5 percent in the second half of the year. This forecast of continued strength reflects the influence of three familiar factors—expansionary fiscal policy, favorable financial conditions, and rapid gains in structural productivity. We also believe that the pace of activity next year will be supported by a further improvement in business confidence. We project that in 2005 the increase in real output will slow to 3-3/4 percent. Underlying that

### **Projections of Real GDP**

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

Measure	2004		2005
	H1	H2	
<b>Real GDP</b>	<b>5.4</b>	<b>5.1</b>	<b>3.8</b>
Previous	5.2	5.0	4.0
Final sales	4.9	4.9	3.8
Previous	4.5	4.9	3.8
PCE	4.6	4.7	4.2
Previous	4.6	4.5	4.1
Residential investment	3.2	.8	-.4
Previous	1.4	2.3	1.1
BFI	14.3	15.1	7.2
Previous	12.8	15.7	7.6
Government purchases	3.5	1.6	2.1
Previous	2.9	1.5	2.1
Exports	9.3	11.7	10.1
Previous	8.9	11.5	9.9
Imports	10.5	10.1	9.0
Previous	10.3	9.9	9.1
	Contribution to growth (percentage points)		
Inventory change	.5	.3	.1
Previous	.6	.1	.2
Net exports	-.6	-.3	-.3
Previous	-.6	-.3	-.4

### Decomposition of Structural Labor Productivity

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

Measure	1973-95	1996-2001	2002	2003	2004	2005
<b>Structural labor productivity</b>	1.4	2.7	2.6	3.1	2.7	2.9
Previous	1.4	2.7	2.6	2.8	2.6	2.8
<i>Contributions</i> <sup>1</sup>						
Capital deepening	.6	1.2	.4	.4	.8	1.0
Previous	.6	1.2	.4	.4	.7	1.0
Multifactor productivity	.6	1.2	2.0	2.4	1.6	1.6
Previous	.6	1.2	2.0	2.1	1.6	1.6
Labor composition	.3	.3	.3	.3	.3	.3
MEMO						
Potential GDP	2.9	3.4	3.5	3.9	3.5	3.7
Previous	2.9	3.4	3.5	3.6	3.4	3.6

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

1. Percentage points.

### The Outlook for the Labor Market

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

Measure	2002	2003	2004	2005
Output per hour, nonfarm business	4.4	5.2	1.7	.5
Previous	4.4	4.6	1.4	.9
Nonfarm private payroll employment	-.7	.0	3.8	3.4
Previous	-.7	-.2	3.7	3.2
Household survey employment	.3	1.2	2.7	2.1
Previous	.3	1.0	2.8	2.1
Labor force participation rate <sup>1</sup>	66.5	66.2	66.7	67.1
Previous	66.5	66.3	66.7	67.0
Civilian unemployment rate <sup>1</sup>	5.9	6.0	5.3	5.0
Previous	5.9	6.2	5.4	5.1
MEMO				
GDP gap <sup>2</sup>	2.3	1.9	.2	.1
Previous	2.3	2.0	.4	.1

1. Percent, average for the fourth quarter.

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

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

Measure	2002	2003	2004	2005
PCE chain-weighted price index	1.8	1.7	.9	1.0
Previous	1.8	1.7	.8	.9
Food and beverages	1.4	2.4	1.5	1.5
Previous	1.4	2.2	1.4	1.4
Energy	7.0	7.9	-5.9	-1.1
Previous	7.0	8.7	-6.4	-1.1
Excluding food and energy	1.6	1.2	1.1	1.1
Previous	1.6	1.2	1.1	1.0
Consumer price index	2.2	2.0	1.0	1.3
Previous	2.2	2.0	.9	1.2
Excluding food and energy	2.1	1.4	1.5	1.5
Previous	2.1	1.4	1.5	1.4
GDP chain-weighted price index	1.3	1.5	1.0	1.2
Previous	1.3	1.5	1.0	1.1
ECI for compensation of private industry workers <sup>1</sup>	3.2	4.1	3.5	3.5
Previous	3.2	3.8	3.4	3.4
NFB compensation per hour	2.8	2.7	3.1	3.4
Previous	2.8	3.3	3.0	3.2
Prices of core non-oil merchandise imports	.7	1.7	2.0	.8
Previous	.7	2.2	1.8	1.1

1. December to December.

**Productivity and the labor market.** As noted earlier, in this projection we have interpreted a small part of the dramatic surge in output per hour last quarter as a further sign that firms have continued to fundamentally increase the efficiency of their operations, thereby boosting structural productivity. However, some of the increase may have reflected a transitory effort to press existing labor resources to meet a surprising increase in demand. As the expansion proves more durable, we expect that businesses will become more willing to expand their workforces to relieve the pressure on existing resources. Indeed, the pickup in employment in recent months suggests that such a shift in attitudes may have already begun. We anticipate that monthly gains in payroll employment will increase from around 250,000 early next year to about 400,000 by the middle of 2004; hiring is expected to slow a bit in 2005 as the economic

### Alternative Simulations

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

Measure	2003	2004		2005
	Q4	H1	H2	
<i>Real GDP</i>				
<b>Greenbook baseline</b>	<b>4.4</b>	<b>5.4</b>	<b>5.1</b>	<b>3.8</b>
Booming economy	5.0	6.6	5.8	4.2
Weaker household spending	4.1	4.2	4.7	3.7
More inflation	4.4	5.4	5.1	4.1
Faster structural productivity growth	4.5	5.9	5.6	4.2
Market-based funds rate	4.4	5.4	4.9	2.9
Flat funds rate	4.4	5.4	5.1	4.0
<i>Unemployment rate<sup>1</sup></i>				
<b>Greenbook baseline</b>	<b>6.0</b>	<b>5.8</b>	<b>5.3</b>	<b>5.0</b>
Booming economy	6.0	5.5	4.8	4.3
Weaker household spending	6.0	6.0	5.7	5.5
More inflation	6.0	5.8	5.3	4.9
Faster structural productivity growth	6.0	6.0	5.6	5.6
Market-based funds rate	6.0	5.8	5.3	5.5
Flat funds rate	6.0	5.8	5.3	4.9
<i>PCE prices excluding food and energy</i>				
<b>Greenbook baseline</b>	<b>1.2</b>	<b>1.2</b>	<b>1.1</b>	<b>1.1</b>
Booming economy	1.2	1.2	1.2	1.3
Weaker household spending	1.2	1.2	1.0	.9
More inflation	1.2	1.2	1.2	1.9
Faster structural productivity growth	1.2	1.0	.8	.5
Market-based funds rate	1.2	1.2	1.1	.9
Flat funds rate	1.2	1.2	1.1	1.1

1. Average for the final quarter of the period.

assume that the third-quarter spending jump reflected a faster response to the tax rebates than was estimated in constructing the baseline forecast. An implication of such a faster response is that the tax cut imposes a slight drag on consumer spending next year, rather than the baseline effect of adding 1/2 percentage point to PCE growth. We also assume in this scenario that a large portion of the recent jump in residential investment represents an advance of construction activity in anticipation of the chance that mortgage rates might turn less favorable. As a result, by the end of next year residential investment drops back to its level in the second quarter of 2003. Under these conditions, real GDP increases 4-1/2 percent in 2004 and 3-3/4 percent in the following year, and the unemployment rate falls to only 5-1/2 percent by late 2005. In response to

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

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>		
	10/22/03	12/03/03	10/22/03	12/03/03	10/22/03	12/03/03	10/22/03	12/03/03	10/22/03	12/03/03	
<b>ANNUAL</b>											
2001		2.6	2.6	0.3	0.3	2.4	2.4	2.8	2.8	4.8	4.8
2002		3.6	3.6	2.4	2.4	1.1	1.1	1.6	1.6	5.8	5.8
2003		4.5	4.8	2.9	3.1	1.6	1.6	2.3	2.3	6.1	6.0
2004		6.1	6.6	5.0	5.4	1.1	1.1	1.1	1.2	5.8	5.7
2005		5.5	5.5	4.4	4.3	1.1	1.1	1.1	1.2	5.1	5.1
<b>QUARTERLY</b>											
2002	Q1	6.5	6.5	5.0	5.0	1.3	1.3	1.4	1.4	5.6	5.6
	Q2	2.5	2.5	1.3	1.3	1.2	1.2	3.4	3.4	5.9	5.9
	Q3	5.1	5.1	4.0	4.0	1.0	1.0	2.2	2.2	5.8	5.8
	Q4	3.2	3.2	1.4	1.4	1.8	1.8	2.0	2.0	5.9	5.9
2003	Q1	3.8	3.8	1.4	1.4	2.4	2.4	3.8	3.8	5.8	5.8
	Q2	4.3	4.3	3.3	3.3	1.0	1.0	0.7	0.7	6.2	6.2
	Q3	8.2	10.1	6.3	8.2	1.8	1.7	2.4	2.4	6.1	6.1
	Q4	5.2	5.5	4.4	4.4	0.8	1.1	1.2	1.3	6.2	6.0
2004	Q1	6.3	6.6	5.2	5.3	1.1	1.2	0.7	1.0	6.0	6.0
	Q2	6.1	6.4	5.2	5.5	0.9	0.9	0.9	0.9	5.8	5.8
	Q3	6.1	6.3	5.1	5.3	1.0	0.9	1.0	1.0	5.7	5.5
	Q4	5.8	6.0	4.8	4.9	1.0	1.0	1.1	1.2	5.4	5.3
2005	Q1	5.3	5.3	3.9	3.8	1.4	1.4	1.2	1.2	5.2	5.2
	Q2	5.2	5.1	4.2	4.0	1.0	1.1	1.2	1.3	5.1	5.1
	Q3	5.0	5.0	4.1	3.9	1.0	1.1	1.2	1.3	5.1	5.0
	Q4	5.0	4.8	4.0	3.7	0.9	1.0	1.3	1.4	5.1	5.0
<b>TWO-QUARTER<sup>3</sup></b>											
2002	Q2	4.5	4.5	3.1	3.1	1.3	1.3	2.4	2.4	0.3	0.3
	Q4	4.1	4.1	2.7	2.7	1.4	1.4	2.1	2.1	0.0	0.0
2003	Q2	4.1	4.1	2.3	2.3	1.7	1.7	2.2	2.2	0.3	0.3
	Q4	6.7	7.8	5.3	6.3	1.3	1.4	1.7	1.8	0.0	-0.2
2004	Q2	6.2	6.5	5.2	5.4	1.0	1.0	0.8	0.9	-0.4	-0.2
	Q4	6.0	6.1	5.0	5.1	1.0	0.9	1.1	1.1	-0.4	-0.5
2005	Q2	5.3	5.2	4.0	3.9	1.2	1.3	1.2	1.3	-0.3	-0.2
	Q4	5.0	4.9	4.0	3.8	0.9	1.1	1.2	1.3	0.0	-0.1
<b>FOUR-QUARTER<sup>4</sup></b>											
2001	Q4	2.0	2.0	0.1	0.1	2.0	2.0	1.8	1.8	1.7	1.7
2002	Q4	4.3	4.3	2.9	2.9	1.3	1.3	2.2	2.2	0.3	0.3
2003	Q4	5.4	5.9	3.8	4.3	1.5	1.5	2.0	2.0	0.3	0.1
2004	Q4	6.1	6.3	5.1	5.3	1.0	1.0	0.9	1.0	-0.8	-0.7
2005	Q4	5.1	5.0	4.0	3.8	1.1	1.2	1.2	1.3	-0.4	-0.3

1. For all urban consumers.

2. Level, except as noted.

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

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

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

Item	Units <sup>1</sup>	Projected - - -									
		1997	1998	1999	2000	2001	2002	2003	2004	2005	
<b>Expenditures</b>											
Nominal GDP	Bill. \$	8318.4	8781.5	9274.3	9824.6	10082.2	10446.2	10942.7	11659.9	12301.5	
Real GDP	Bill. Ch. \$	8159.5	8508.9	8859.0	9191.4	9214.5	9439.9	9732.6	10256.3	10702.2	
Real GDP	% change	4.3	4.8	4.3	2.3	0.1	2.9	4.3	5.3	3.8	
Gross domestic purchases		5.0	5.8	5.2	2.9	0.1	3.7	4.1	5.5	4.0	
Final sales		3.9	4.7	4.2	2.6	1.6	1.7	4.4	4.9	3.8	
Priv. dom. final purchases		5.1	6.3	5.2	3.7	0.9	2.3	4.4	5.7	4.3	
Personal cons. expenditures		4.1	5.0	5.0	3.5	2.8	2.7	3.5	4.6	4.2	
Durables		8.8	12.7	10.0	3.8	13.2	1.9	10.6	8.3	7.9	
Nondurables		2.5	5.0	4.9	3.0	1.7	3.4	4.5	5.6	4.8	
Services		3.9	3.6	4.0	3.8	1.3	2.5	1.7	3.4	3.2	
Business fixed investment		11.8	12.3	6.6	6.2	-9.3	-1.7	6.0	14.7	7.2	
Equipment & Software		13.7	14.9	9.7	5.2	-8.8	3.3	7.9	18.1	7.4	
Nonres. structures		6.5	4.9	-2.5	9.3	-10.6	-15.9	0.1	3.0	6.8	
Residential structures		3.5	10.0	4.0	-1.2	1.0	6.7	13.6	2.0	-0.4	
Exports		8.5	2.3	4.9	7.3	-11.4	3.9	5.2	10.5	10.1	
Imports		14.3	10.8	11.9	11.1	-8.0	10.1	3.6	10.3	9.0	
Gov't. cons. & investment		2.4	2.7	4.5	1.3	5.1	3.6	3.3	2.5	2.1	
Federal		0.1	0.6	4.0	-1.2	7.5	7.5	7.7	4.5	2.0	
Defense		-1.4	-0.8	4.4	-2.5	7.4	9.3	10.2	5.0	1.5	
State & local		3.7	3.8	4.8	2.6	3.9	1.6	0.9	1.3	2.1	
Change in bus. inventories	Bill. Ch. \$	63.8	76.7	62.8	65.0	-61.4	5.2	-2.6	46.5	81.8	
Nonfarm		60.6	75.0	64.1	67.2	-63.2	4.1	-3.2	45.1	80.2	
Net exports		-113.3	-221.1	-320.5	-398.8	-415.9	-488.5	-528.8	-571.8	-618.1	
Nominal GDP	% change	6.2	6.0	5.9	4.6	2.0	4.3	5.9	6.3	5.0	
GDP Gap <sup>2</sup>	%	-0.8	-1.6	-2.1	-2.2	1.0	1.9	2.5	0.8	0.1	
<b>Employment and Production</b>											
Nonfarm payroll employment	Millions	122.8	125.9	129.0	131.8	131.8	130.4	130.1	132.7	137.2	
Unemployment rate	%	4.9	4.5	4.2	4.0	4.8	5.8	6.0	5.7	5.1	
Industrial prod. index	% change	8.1	4.4	4.9	2.3	-5.2	1.3	1.4	6.2	4.7	
Capacity util. rate - mfg.	%	82.6	82.0	81.4	81.1	75.4	73.9	73.3	76.2	79.0	
Housing starts	Millions	1.47	1.62	1.64	1.57	1.60	1.70	1.82	1.88	1.85	
Light motor vehicle sales		15.07	15.41	16.78	17.24	17.02	16.70	16.55	17.21	17.66	
North Amer. produced		13.14	13.39	14.30	14.38	13.94	13.42	13.23	13.79	14.16	
Other		1.93	2.02	2.48	2.86	3.08	3.29	3.32	3.42	3.50	
<b>Income and Saving</b>											
Nominal GNP	Bill. \$	8325.4	8778.1	9297.1	9848.0	10104.1	10436.7	10940.0	11674.1	12304.5	
Nominal GNP	% change	5.7	5.6	6.9	4.6	2.1	3.8	6.0	6.4	4.9	
Nominal personal income		6.3	6.7	5.1	7.7	1.4	3.6	3.8	5.9	5.8	
Real disposable income		3.8	5.0	2.4	4.8	0.3	5.2	3.1	5.2	4.3	
Personal saving rate	%	4.2	4.7	2.6	2.8	2.3	3.7	3.3	3.7	3.8	
Corp. profits, IVA & CCAdj.	% change	9.9	-9.6	7.0	-9.1	8.2	-1.9	29.4	9.7	-5.2	
Profit share of GNP	%	10.0	8.9	8.7	8.0	7.2	7.5	8.6	9.5	8.9	
Excluding FR Banks		9.7	8.6	8.4	7.7	7.0	7.3	8.4	9.4	8.7	
Federal surpl./deficit	Bill. \$	-53.3	43.8	111.9	206.9	72.0	-199.9	-379.7	-416.4	-223.0	
State & local surpl./def.		31.0	40.7	38.3	18.0	-31.3	-51.5	-24.1	-3.1	7.2	
Ex. social ins. funds		29.9	40.0	37.4	17.8	-31.2	-51.4	-24.0	-3.1	7.2	
Gross natl. saving rate	%	18.0	18.8	18.3	18.4	16.5	15.0	13.8	14.7	14.9	
Net natl. saving rate		6.7	7.5	6.8	6.7	3.8	1.9	0.9	2.3	2.6	
<b>Prices and Costs</b>											
GDP chn.-wt. price index	% change	1.8	1.1	1.6	2.3	2.0	1.3	1.5	1.0	1.2	
Gross Domestic Purchases		1.4	0.8	1.9	2.5	1.3	1.6	1.7	0.9	1.1	
chn.-wt. price index		1.5	1.1	2.0	2.5	1.5	1.8	1.7	0.9	1.0	
PCE chn.-wt. price index		1.7	1.6	1.5	1.8	1.9	1.6	1.2	1.1	1.1	
Ex. food and energy											
CPI		1.9	1.5	2.6	3.4	1.8	2.2	2.0	1.0	1.3	
Ex. food and energy		2.2	2.3	2.0	2.6	2.7	2.1	1.4	1.5	1.5	
ECI, hourly compensation <sup>3</sup>		3.4	3.5	3.4	4.4	4.2	3.2	4.1	3.5	3.5	
Nonfarm business sector		2.2	2.9	2.8	2.2	3.2	4.4	5.2	1.7	0.5	
Output per hour		3.4	5.3	4.2	7.2	2.7	2.8	2.7	3.1	3.4	
Compensation per Hour		1.2	2.3	1.4	4.9	-0.5	-1.6	-2.3	1.3	2.9	
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
<b>Expenditures</b>											
Nominal GDP	Bill. \$	10028.1	10049.9	10097.7	10152.9	10313.1	10376.9	10506.2	10588.8	10688.4	10802.7
Real GDP	Bill. Ch. \$	9229.9	9193.1	9186.4	9248.8	9363.2	9392.4	9485.6	9518.2	9552.0	9629.4
Real GDP	% change	-0.6	-1.6	-0.3	2.7	5.0	1.3	4.0	1.4	1.4	3.3
Gross domestic purchases		-1.1	-1.1	-0.1	2.9	5.6	2.6	3.9	2.9	0.6	4.4
Final sales		2.8	-0.4	-0.2	4.2	2.4	-0.1	3.4	1.1	2.3	4.0
Priv. dom. final purchases		1.5	-1.2	0.3	3.0	2.5	1.3	3.4	2.2	1.6	4.4
Personal cons. expenditures		2.4	1.4	1.5	6.0	3.1	1.8	4.2	1.7	2.0	3.8
Durables		11.5	5.3	4.6	33.6	-6.3	2.0	22.8	-8.2	-2.0	24.3
Nondurables		2.3	-0.3	1.3	3.6	7.9	-0.1	1.0	5.1	6.1	1.4
Services		0.6	1.5	0.9	2.1	2.9	2.7	2.3	2.2	0.9	1.4
Business fixed investment		-5.4	-14.5	-6.0	-10.9	-5.8	-2.4	-0.8	2.3	-4.4	7.3
Equipment & Software		-6.3	-16.7	-9.2	-2.5	-2.7	3.3	6.7	6.2	-4.8	8.3
Nonres. structures		-3.1	-8.4	2.9	-30.1	-14.2	-17.6	-21.4	-9.9	-2.9	4.2
Residential structures		8.2	-0.5	0.4	-3.5	14.2	2.7	1.1	9.4	10.1	6.6
Exports		-6.0	-12.4	-17.3	-9.6	3.5	14.3	4.6	-5.8	-1.3	-1.0
Imports		-7.9	-6.8	-11.8	-5.3	8.5	22.2	3.3	7.4	-6.2	8.8
Gov't. cons. & investment		5.7	5.6	-1.1	10.5	5.6	1.4	2.9	4.6	0.4	8.5
Federal		9.5	6.0	1.2	13.5	7.4	7.5	4.3	11.0	0.7	25.5
Defense		8.3	2.7	4.6	14.3	11.6	7.8	6.9	11.0	-3.3	45.8
State & local		3.8	5.4	-2.3	8.9	4.6	-1.7	2.2	1.2	0.2	-0.2
Change in bus. inventories	Bill. Ch. \$	-26.9	-58.3	-61.8	-98.4	-28.9	4.9	18.8	25.8	4.8	-17.6
Nonfarm		-32.6	-54.9	-63.6	-101.5	-35.1	4.2	20.8	26.5	3.8	-17.1
Net exports		-404.5	-414.8	-419.0	-425.3	-446.6	-487.4	-488.0	-532.2	-510.3	-546.1
Nominal GDP	% change	3.0	0.9	1.9	2.2	6.5	2.5	5.1	3.2	3.8	4.3
GDP Gap <sup>1</sup>	%	-0.4	0.8	1.7	1.8	1.4	2.0	1.8	2.3	2.9	3.1
<b>Employment and Production</b>											
Nonfarm payroll employment	Millions	132.5	132.2	131.7	130.9	130.5	130.4	130.2	130.3	130.2	130.0
Unemployment rate	%	4.2	4.4	4.8	5.6	5.6	5.9	5.8	5.9	5.8	6.2
Industrial prod. index	% change	-6.3	-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		16.95	16.54	16.23	18.37	16.34	16.35	17.63	16.50	15.84	16.22
North Amer. produced		14.04	13.51	13.23	15.00	13.04	13.10	14.27	13.25	12.45	12.93
Other		2.90	3.04	3.00	3.37	3.31	3.25	3.35	3.24	3.38	3.29
<b>Income and Saving</b>											
Nominal GNP	Bill. \$	10038.0	10081.0	10109.3	10188.1	10314.9	10356.8	10495.3	10579.7	10678.2	10799.1
Nominal GNP	% change	2.2	1.7	1.1	3.2	5.1	1.6	5.5	3.3	3.8	4.6
Nominal personal income		3.9	0.8	1.4	-0.2	4.8	5.1	2.0	2.4	3.0	3.4
Real disposable income		-0.1	-0.6	10.5	-7.6	14.5	3.9	1.8	1.4	1.6	2.6
Personal saving rate	%	2.4	1.9	4.0	0.8	3.5	4.0	3.5	3.6	3.5	3.2
Corp. profits, IVA & CCAdj.	% change	-21.1	8.7	-17.7	94.4	-6.6	-6.2	-6.9	13.7	10.7	45.7
Profit share of GNP	%	7.0	7.2	6.8	8.0	7.7	7.6	7.3	7.5	7.6	8.3
Excluding FR Banks		6.7	6.9	6.5	7.7	7.5	7.3	7.1	7.3	7.5	8.1
Federal surpl./deficit	Bill. \$	173.8	144.4	-51.7	21.3	-145.8	-195.6	-210.5	-256.6	-280.1	-390.2
State & local surpl./def.		-16.5	-32.3	-46.2	-30.2	-55.8	-45.1	-54.7	-52.4	-67.9	-14.9
Ex. social ins. funds		-16.4	-32.2	-46.1	-30.0	-55.6	-44.9	-54.6	-52.3	-67.7	-14.8
Gross natl. saving rate	%	16.9	16.6	16.5	15.8	15.5	15.5	14.6	14.3	13.9	13.7
Net natl. saving rate		4.8	4.1	3.3	3.1	2.7	2.4	1.4	1.1	0.6	0.6
<b>Prices and Costs</b>											
GDP chn.-wt. price index	% change	3.7	2.5	2.2	-0.5	1.3	1.2	1.0	1.8	2.4	1.0
Gross Domestic Purchases chn.-wt. price index		3.3	1.7	-0.2	0.4	1.2	2.3	1.2	1.8	3.4	0.4
PCE chn.-wt. price index		3.3	1.8	-0.1	0.8	1.1	2.7	1.7	1.8	2.7	0.8
Ex. food and energy		2.8	1.2	0.7	2.7	1.4	1.9	1.8	1.5	0.8	1.1
CPI		4.0	3.2	0.9	-0.7	1.4	3.4	2.2	2.0	3.8	0.7
Ex. food and energy		2.9	2.6	2.6	2.8	2.1	2.1	2.1	1.7	1.3	0.8
ECI, hourly compensation <sup>2</sup>		4.6	3.7	3.9	4.4	3.6	4.4	2.5	3.0	5.5	3.4
Nonfarm business sector		-0.4	1.6	3.4	8.3	9.3	1.0	5.9	1.7	2.1	7.0
Output per hour		4.3	2.0	2.4	2.1	3.7	3.9	2.0	1.6	2.6	3.6
Compensation per hour		4.7	0.3	-0.9	-5.7	-5.2	2.9	-3.7	-0.1	0.4	-3.2
Unit labor cost											

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

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

Item	Units	Projected									
		2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	11065.4	11214.1	11394.3	11572.9	11750.5	11922.0	12077.3	12228.4	12377.6	12522.5
Real GDP	Bill. Ch. \$	9821.6	9927.4	10056.8	10192.0	10325.5	10450.8	10549.3	10652.9	10754.4	10852.2
Real GDP	% change	8.2	4.4	5.3	5.5	5.3	4.9	3.8	4.0	3.9	3.7
Gross domestic purchases		7.0	4.5	5.5	5.9	5.6	4.9	4.1	4.3	4.0	3.5
Final sales		8.0	3.2	5.1	4.7	4.6	5.2	2.8	4.0	4.1	4.3
Priv. dom. final purchases		8.2	3.5	5.4	5.9	5.6	5.8	3.3	4.8	4.7	4.5
Personal cons. expenditures		6.4	2.0	4.3	4.9	4.7	4.6	4.5	4.4	4.1	3.7
Durables		26.5	-3.0	4.1	11.2	8.9	9.2	8.7	7.8	7.4	8.0
Nondurables		7.6	3.0	5.8	5.8	5.5	5.2	5.0	5.0	4.8	4.3
Services		2.1	2.6	3.5	3.3	3.5	3.4	3.4	3.2	2.6	
Business fixed investment		14.0	8.1	14.7	13.8	14.1	16.1	-3.0	10.2	10.9	11.6
Equipment & Software		18.6	10.7	18.2	17.2	17.2	19.6	-4.8	11.3	11.8	12.2
Nonres. structures		-0.7	-0.3	2.9	2.2	3.2	3.7	3.9	6.1	7.9	9.4
Residential structures		23.4	15.0	3.2	3.3	0.6	1.0	0.7	-0.6	-0.8	-0.7
Exports		11.0	12.8	8.1	10.5	10.7	12.8	7.7	10.4	10.2	12.1
Imports		1.5	11.3	8.9	12.2	10.5	9.7	8.2	10.5	9.1	8.3
Gov't. cons. & investment		1.3	3.2	4.9	2.0	1.5	1.7	2.1	1.8	2.0	2.4
Federal		-0.4	6.8	11.9	3.5	1.4	1.5	2.3	1.6	1.6	2.6
Defense		-1.6	6.4	15.4	3.8	0.8	0.7	1.9	0.9	0.9	2.3
State & local		2.3	1.1	0.9	1.1	1.5	1.8	2.0	2.0	2.2	2.3
Change in bus. inventories	Bill. Ch. \$	-14.1	16.6	22.4	42.8	62.9	57.7	88.3	89.2	83.2	66.5
Nonfarm		-14.4	14.9	21.2	41.5	61.5	56.2	86.7	87.5	81.6	64.8
Net exports		-524.2	-534.5	-548.3	-568.7	-582.6	-587.6	-601.0	-616.7	-627.0	-627.9
Nominal GDP	% change	10.1	5.5	6.6	6.4	6.3	6.0	5.3	5.1	5.0	4.8
GDP Gap <sup>1</sup>	%	2.1	1.9	1.5	1.0	0.6	0.2	0.2	0.1	0.1	0.1
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	129.9	130.3	131.0	132.1	133.3	134.5	135.7	136.7	137.7	138.6
Unemployment rate	%	6.1	6.0	6.0	5.8	5.5	5.3	5.2	5.1	5.0	5.0
Industrial prod. index	% change	4.0	4.9	6.4	6.4	6.0	5.9	4.9	4.7	4.6	4.8
Capacity util. rate - mfg.	%	73.2	73.9	74.9	75.8	76.7	77.6	78.2	78.7	79.3	79.9
Housing starts	Millions	1.88	1.93	1.87	1.88	1.88	1.88	1.86	1.86	1.85	1.84
Light motor vehicle sales		17.55	16.60	16.79	17.19	17.36	17.48	17.53	17.61	17.65	17.83
North Amer. produced		14.18	13.37	13.45	13.80	13.90	14.00	14.05	14.13	14.15	14.30
Other		3.37	3.23	3.34	3.39	3.46	3.48	3.48	3.48	3.50	3.53
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	11063.3	11219.4	11407.7	11588.1	11765.1	11935.6	12088.8	12235.7	12378.2	12515.4
Nominal GNP	% change	10.2	5.8	6.9	6.5	6.3	5.9	5.2	4.9	4.7	4.5
Nominal personal income		4.1	4.7	5.9	5.6	6.1	6.2	6.2	5.7	5.6	5.6
Real disposable income		7.4	1.1	6.7	4.4	4.8	4.8	4.1	4.4	4.3	4.3
Personal saving rate	%	3.4	3.2	3.8	3.7	3.7	3.8	3.7	3.7	3.8	3.9
Corp. profits, IVA & CCAdj.	% change	58.6	9.6	21.0	12.0	5.9	1.0	-7.7	-3.2	-4.0	-5.8
Profit share of GNP	%	9.1	9.2	9.5	9.6	9.6	9.5	9.2	9.0	8.8	8.6
Excluding FR Banks		8.9	9.0	9.3	9.4	9.4	9.3	9.0	8.8	8.6	8.4
Federal surpl./deficit	Bill. \$	-450.5	-398.1	-463.8	-444.8	-401.8	-355.3	-272.3	-219.7	-197.5	-202.6
State & local surpl./def.		-9.7	-3.8	-9.2	-2.4	-4.6	3.7	5.2	6.3	7.5	9.8
Ex. social ins. funds		-9.7	-3.8	-9.2	-2.4	-4.6	3.7	5.2	6.3	7.5	9.8
Gross natl. saving rate	%	13.8	14.1	14.3	14.6	14.9	15.1	14.9	15.0	15.0	14.9
Net natl. saving rate		1.0	1.5	1.8	2.2	2.5	2.7	2.5	2.6	2.6	2.6
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	1.7	1.1	1.2	0.9	0.9	1.0	1.4	1.1	1.1	1.0
Gross Domestic Purchases chn.-wt. price index		1.9	1.1	1.2	0.8	0.8	0.9	1.3	1.0	1.0	1.0
PCE chn.-wt. price index		2.3	0.9	0.8	0.8	0.9	0.9	1.0	1.0	1.0	1.1
Ex. food and energy		1.7	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1
CPI		2.4	1.3	1.0	0.9	1.0	1.2	1.2	1.3	1.3	1.4
Ex. food and energy		1.7	1.8	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.5
ECI, hourly compensation <sup>2</sup>		4.2	3.3	3.5	3.5	3.5	3.5	3.4	3.4	3.5	3.5
Nonfarm business sector		9.4	2.4	2.9	1.8	1.3	0.8	0.2	0.6	0.6	0.4
Output per hour		3.0	1.7	3.0	3.0	3.1	3.1	3.4	3.3	3.3	3.4
Compensation per hour		-5.8	-0.7	0.1	1.2	1.7	2.4	3.2	2.7	2.7	3.0
Unit labor cost											

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	Projected Q3/Q4	Projected Q4/Q1	Projected Q4/Q2
<b>Real GDP Gross dom. purchases</b>	-0.3 -0.1	2.7 3.0	5.0 5.8	1.3 2.7	4.0 4.0	1.4 3.0	1.4 0.6	3.3 4.6	8.2 7.4	0.1 0.2	2.9 3.9	4.3 4.3
<b>Final sales Priv. dom. final purchases</b>	-0.2 0.3	4.1 2.6	2.5 2.2	-0.1 1.1	3.5 2.9	1.1 1.8	2.2 1.4	4.0 3.7	8.1 7.0	1.6 0.8	1.7 2.0	4.4 3.7
<b>Personal cons. expenditures</b>	1.0 0.4 0.3 0.3 0.4	4.1 2.5 0.7 1.6 0.9	2.2 0.6 1.2 0.6 1.2	1.2 0.2 1.7 0.0 1.1	2.9 0.2 1.7 0.2 1.0	1.2 -0.7 -0.2 1.0 0.9	1.4 -0.2 -0.2 1.2 0.4	2.7 1.8 2.0 0.3 0.6	4.5 2.0 2.0 1.6 1.0	1.9 0.2 0.2 0.3 0.5	1.9 2.0 2.0 0.7 1.0	2.5 2.5 0.8 0.9 0.7
<b>Durables</b>												
<b>Nondurables</b>												
<b>Services</b>												
<b>Business fixed investment</b>	-0.7 -0.8 -0.1 0.0	-1.3 -0.2 -1.1 -0.2	-0.7 -0.2 -0.4 0.6	-0.3 0.3 -0.4 0.1	-0.1 0.5 -0.5 0.1	0.1 0.5 -0.6 0.1	0.2 0.5 -0.6 0.1	-0.5 0.6 -0.3 0.4	0.7 1.4 0.6 0.1	-1.2 -0.8 -0.4 0.0	-0.2 -0.3 -0.5 0.0	0.6 0.6 0.6 0.6
<b>Equipment &amp; Software</b>												
<b>Nonres. structures</b>												
<b>Residential structures</b>												
<b>Net exports</b>	-0.2 -1.9 1.7	-0.3 -1.0 0.7	-0.8 0.3 -1.1	-1.4 1.3 -2.7	-0.0 0.5 -0.5	-1.6 -0.6 -1.0	-1.6 -0.6 -0.9	0.8 -0.1 -0.2	-1.3 0.8 -1.2	0.8 1.0 -0.2	-1.0 -1.3 -1.2	-0.0 0.5 -0.5
<b>Exports</b>												
<b>Imports</b>												
<b>Government cons. &amp; invest.</b>	-0.2 0.1 0.2 -0.1 -0.3	1.9 0.8 0.5 0.3 1.1	1.0 0.5 0.5 0.0 0.6	0.3 0.5 0.3 0.2 0.1	0.6 0.3 0.3 0.0 0.2	0.9 0.7 0.5 0.2 0.3	0.1 0.1 0.3 0.2 0.2	1.6 1.6 1.7 -0.1 0.0	0.3 0.1 0.2 0.1 0.3	0.9 0.4 0.3 0.2 0.5	0.7 0.5 0.4 0.1 0.2	0.6 0.5 0.5 0.1 0.1
<b>Federal</b>												
<b>Defense</b>												
<b>Nondefense</b>												
<b>State and local</b>												
<b>Change in bus. inventories</b>	-0.1 -0.3 0.2	-1.4 -1.4 0.1	2.6 2.5 0.1	1.3 1.5 -0.2	0.6 0.7 -0.1	0.3 0.2 0.1	-0.8 -0.9 0.1	-0.7 0.1 -0.1	0.2 0.1 0.1	-1.5 -1.6 -0.0	1.2 1.2 -0.1	-0.1 -0.1 0.1
<b>NonFarm</b>												
<b>Farm</b>												

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	Projected								Projected		
	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2005 Q4	2004/ 03Q4
Real GDP Gross dom. purchases	4.4 4.7	5.3 5.8	5.5 6.2	5.3 5.8	4.9 5.1	3.8 4.2	4.0 4.5	3.9 4.2	3.7 3.7	4.3 4.3	5.3 5.7
Final sales Priv. dom. final purchases	3.3 3.0	5.1 4.6	4.8 5.0	4.6 4.8	5.1 4.9	2.8 2.8	4.0 4.1	4.1 4.0	4.2 3.8	4.4 3.7	4.9 4.9
Personal cons. expenditures	-1.4	3.0	3.4	3.3	3.2	3.1	3.0	2.9	2.6	2.5	3.2
Durables	-0.3	0.3	0.9	0.7	0.7	0.7	0.6	0.6	0.6	0.8	0.6
Nondurables	0.6	1.2	1.2	1.1	1.0	1.0	1.0	1.0	0.9	0.9	1.1
Services	1.1	1.5	1.4	1.5	1.4	1.4	1.4	1.3	1.1	0.7	1.4
Business fixed investment	0.8	1.5	1.4	1.5	1.7	-0.3	1.1	1.2	1.3	0.6	1.5
Equipment & Software	0.8	1.4	1.4	1.4	1.6	-0.4	1.0	1.0	1.0	0.6	1.5
Nonresidential structures	-0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.0	0.1
Residential structures	0.7	0.2	0.2	0.0	0.1	0.0	0.0	0.0	-0.0	0.6	0.1
Net exports	-0.3	-0.5	-0.7	-0.4	-0.1	-0.4	-0.5	-0.3	-0.0	-0.0	-0.3
Exports	1.2	0.8	1.0	1.0	1.2	0.8	1.0	1.0	1.2	0.5	1.0
Imports	-1.5	-1.2	-1.7	-1.5	-1.4	-1.2	-1.5	-1.3	-1.2	-0.5	-1.3
Government cons. & invest.	0.6	0.9	0.4	0.3	0.3	0.4	0.3	0.4	0.4	0.6	0.5
Federal	0.5	0.8	0.3	0.1	0.1	0.2	0.1	0.1	0.2	0.5	0.3
Defense	0.3	0.7	0.2	0.0	0.0	0.1	0.0	0.0	0.1	0.5	0.1
Nondefense	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
State and local	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.1	0.2
Change in bus. inventories	1.1	0.2	0.7	0.7	-0.2	1.0	0.0	-0.2	-0.6	-0.1	0.4
Nonfarm	1.1	0.2	0.7	0.7	-0.2	1.1	0.0	-0.2	-0.6	-0.1	0.4
Farm	0.0	-0.0	-0.0	-0.0	-0.0	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 <sup>a</sup>	2003 <sup>a</sup>	2004	2005	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget</b>																
Receipts <sup>1</sup>	1853	1782	1819	2030	398	528	429	441	394	522	462	465	436	607	521	512
Outlays <sup>1</sup>	2011	2157	2304	2399	543	544	534	581	584	576	563	608	600	594	597	619
Surplus/deficit <sup>1</sup>	-158	-374	-485	-370	-145	-17	-105	-139	-190	-55	-101	-143	-164	13	-76	-107
On-budget	-315	-535	-650	-559	-169	-91	-113	-180	-227	-129	-114	-187	-206	-69	-97	-158
Off-budget	157	161	165	190	24	75	9	40	37	75	13	44	42	83	21	51
Means of financing																
Borrowing	221	374	518	387	64	106	108	123	173	87	135	126	157	25	78	83
Cash decrease	-17	26	-10	0	20	-17	-5	1	9	-14	-5	15	0	-30	15	15
Other <sup>2</sup>	-46	-25	-23	-17	62	-73	2	16	9	-18	-29	2	7	-9	-17	9
Cash operating balance, end of period	61	35	45	45	13	30	35	34	26	40	45	30	30	60	45	30
<b>NIPA federal sector</b>																
Receipts	1906	1848	1893	2144	1865	1871	1794	1876	1862	1891	1944	2011	2132	2195	2238	2259
Expenditures	2039	2192	2320	2405	2145	2262	2246	2274	2326	2346	2367	2404	2415	2435	2462	2462
Consumption expenditures	570	641	701	734	627	664	663	674	704	711	714	735	739	744	750	750
Defense	375	428	475	496	409	452	447	455	478	482	484	486	497	499	501	505
Nondefense	195	213	226	238	218	213	216	219	226	228	230	232	238	240	243	245
Other spending	1469	1552	1619	1671	1519	1597	1583	1600	1625	1631	1648	1669	1676	1691	1712	1712
Current account surplus	-133	-345	-427	-261	-280	-390	-451	-398	-464	-445	-402	-355	-272	-220	-197	-203
Gross investment	106	113	127	131	109	116	118	122	127	129	129	130	131	132	133	134
Gross saving less gross investment <sup>3</sup>	-138	-352	-444	-278	-284	-400	-462	-411	-481	-463	-419	-372	-289	-236	-213	-219
<b>Fiscal indicators<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-73	-262	-395	-274	-188	-296	-384	-337	-425	-425	-396	-363	-284	-235	-215	-221
Change in HEB, percent of potential GDP	1.8	1.7	1.0	-1.1	0.0	0.9	0.7	-0.5	0.7	-0.0	-0.3	-0.3	-0.7	-0.4	-0.2	0.0
Fiscal impetus (FI) percent of GDP	1.1	1.1	1.1	-0.3	0.0	0.7	0.2	0.4	0.3	0.2	0.1	0.2	-0.5	0.0	0.0	0.1

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 (1996) dollars, scaled by real GDP. The annual FI estimates are on a calendar year basis. Also, for FI and the change in HEB, positive values indicate aggregate demand stimulus.

a-Actual

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

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

October 22, 2003

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

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2003:Q2 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

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

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

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

Note. Data after 2003: Q2 are staff projections.

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

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

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

2.6.4 FOF

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

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

6. Excludes government-insured mortgage pool securities.

## International Developments

Real GDP expanded at a stronger-than-expected pace in the third quarter in a number of foreign economies, especially in Asia. However, output growth was weaker than anticipated in our North American trading partners, particularly Mexico. Our estimate for average foreign growth in the third quarter, at a little above 3½ percent, is up only slightly from the previous Greenbook.

Incoming data for the current quarter are generally consistent with a more rapid strengthening of activity than we had anticipated previously. Accordingly, we have revised up our outlook for foreign growth in the fourth quarter by nearly ½ percentage point, to over 3¾ percent. We have nudged up forecasted growth in 2004 a bit as well to nearly 3¾ percent. Growth in 2005 is projected to slow to just under 3½ percent, unchanged from the October Greenbook.

**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	3.6	3.8	3.7	3.7	3.6	3.4
<i>October GB</i>	.7	3.5	3.4	3.5	3.6	3.6	3.4
Foreign CPI	2.0	1.4	2.7	2.5	1.9	1.9	1.9
<i>October GB</i>	2.0	1.3	2.2	2.0	1.9	2.0	1.9

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

We project foreign inflation to rise in the current quarter--given the recent runup in nonfuel primary commodity prices and increases in food prices in some countries--and then to fall back to about 2 percent by the second quarter of next year and beyond.

The trade-weighted foreign exchange value of the dollar declined 1½ percent, on balance, against the major foreign currencies over the intermeeting period. Stronger-than-expected U.S. data fueled some appreciation of the dollar early in the intermeeting period, but this movement was more than reversed later. Even though the dollar appreciated a bit against the currencies of our other important trading partners, our broad real index of the dollar fell on net over the period. We continue to project a modest depreciation of the dollar over the forecast period, with the broad real dollar slated to move along a path that is about 1 percent lower than in the October Greenbook.

The arithmetic contribution of net exports to real GDP growth during the third quarter has been revised upward to almost 0.9 percentage point from the

The projection for the fourth quarter is somewhat higher than that in the October Greenbook, largely reflecting recent food price increases in some Asian countries.

### **Prices of Internationally Traded Goods**

Non-oil core import prices increased at an annual rate of  $\frac{1}{2}$  percent in the third quarter and are projected to rise 1 percent in the fourth quarter and  $2\frac{1}{4}$  percent in the first half of 2004. These increases reflect the depreciation of the dollar, stronger commodity prices, and steady growth in foreign prices. Thereafter, we project more subdued increases, with prices rising in line with foreign inflation. With import prices continuing to come in below our expectations, we have marked down our projected increases in import prices in the near term.

Prices of core exports rose more than 1 percent in the third quarter of 2003 and are expected to increase another 3 percent in the fourth quarter,  $1\frac{3}{4}$  percentage points more than projected in the October Greenbook. The revision from the last Greenbook mainly reflects higher projected prices for investment goods and agricultural products. Over the remainder of the forecast period, core export price inflation is expected to average around 1 percent per year, in line with projected prices of U.S. domestic goods.

### **Selected Trade Prices**

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

Trade category	2003		Projection				
	H1	Q3	2003: Q4	2004			2005
				Q1	Q2	H2	
<i>Exports</i>							
Core goods	3.4	1.1	2.9	1.3	1.2	.5	.9
<i>Imports</i>							
Non-oil core goods	2.6	.5	1.2	2.3	2.2	1.6	.8
Oil (dollars per barrel)	26.46	28.06	28.05	27.39	26.27	24.30	22.64

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**

September trade data indicated that the pronounced weakness in August imports and, to a lesser extent, exports was not long-lived. After contracting in August, both imports and exports moved up sharply in September. In consequence, the

nominal trade deficit widened in September, although less than we had anticipated in the October Greenbook. This has led us to revise up our estimate of the arithmetic contribution of real net exports to U.S. GDP growth from 0.5 percentage point to 0.9 percentage point in the third quarter. Net exports are expected to deduct 0.3 percentage point from U.S. growth in the current quarter, 0.4 percentage point in 2004, and 0.3 percentage point in 2005, roughly unchanged from the October Greenbook.

After falling for three consecutive quarters, real exports of goods and services rebounded in the third quarter, growing 11 percent at an annual rate, about what we had estimated in the last Greenbook. In the fourth quarter, real exports of goods and services are projected to accelerate further. Merchandise exports should be the main contributor to this acceleration, as the growth of real services exports is projected to come down a bit from the third quarter's strong rebound from the negative effect of SARS. Factors supporting the acceleration in exports of core goods include the effects of past dollar depreciation and a pickup in growth abroad.

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

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

Measure	2003		Projection					2005	
	H1	Q3	2003: Q4	2004					
				Q1	Q2	H2			
Real exports	-1.1	11.0	12.8	8.1	10.5	11.7	10.1		
<i>October GB</i>	<i>-1.1</i>	<i>11.6</i>	<i>11.6</i>	<i>7.6</i>	<i>10.2</i>	<i>11.5</i>	<i>9.9</i>		
Real imports	1.0	1.5	11.3	8.9	12.2	10.1	9.0		
<i>October GB</i>	<i>1.0</i>	<i>4.1</i>	<i>10.0</i>	<i>8.8</i>	<i>11.8</i>	<i>9.9</i>	<i>9.1</i>		

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

In 2004 and 2005, real exports of core goods, computers, semiconductors, and services are all expected to show continued solid growth. The projected strength in core exports stems from the acceleration of foreign activity and significant net stimulus from the dollar. In addition, because exports fell more in the recent global downturn than suggested by their historical relationship with exchange rates and foreign GDP, we have built in some further growth of exports over the forecast period to return them gradually to a more normal level. Total export growth in both 2004 and 2005 is slightly stronger than projected in the October Greenbook, primarily because of the lower path of the dollar.

baseline reflects both the effects of dollar depreciation on import prices and the increase in U.S. output.

The second simulation adds the U.S. aggregate demand shock considered earlier--an autonomous rise in investment and consumption demand--to the foreign demand shock. Given the extra stimulus from the U.S. domestic demand shock, U.S. GDP growth rises more sharply in this case, and there is slightly greater upward pressure on inflation.

**Alternative Simulation:  
More Expansionary Foreign Demand**  
(Percent change from previous period, annual rate)

Indicator and simulation	2003		2004		2005	
	H2	H1	H2	H1	H2	
<i>U.S. real GDP</i>						
Baseline	6.3	5.4	5.1	3.9	3.8	
Foreign demand expansion only	6.4	5.6	5.5	4.3	4.3	
U.S. and foreign demand expansion	6.6	6.6	6.0	4.6	4.6	
<i>U.S. PCE prices excl. food and energy</i>						
Baseline	1.5	1.2	1.1	1.1	1.1	
Foreign demand expansion only	1.5	1.2	1.2	1.3	1.4	
U.S. and foreign demand expansion	1.5	1.2	1.2	1.4	1.6	

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-----
<b>REAL GDP (1)</b>										
Total foreign	4.2	1.5	4.9	4.4	0.3	2.8	2.2	3.7	3.4	
Industrial Countries of which:	3.4	2.7	4.2	3.9	0.6	2.5	1.6	2.9	2.7	
Canada	4.4	4.4	5.9	4.2	-1.4	3.5	1.6	3.4	3.2	
Japan	0.3	-1.3	-0.5	5.1	-2.4	2.5	2.5	1.8	1.6	
United Kingdom	3.4	2.8	3.3	2.9	1.9	2.0	2.3	3.0	2.5	
Euro Area (2)	3.2	2.0	3.9	2.8	0.8	1.1	0.8	2.5	2.4	
Germany	1.7	0.7	3.3	1.9	0.5	0.5	0.3	2.4	2.3	
Developing Countries Asia	5.4	-0.3	6.1	5.3	-0.3	3.1	3.0	4.9	4.4	
Korea	5.0	-2.2	8.6	6.1	0.9	5.6	4.9	5.6	5.3	
China	3.4	-5.2	13.8	5.1	4.2	7.0	1.3	5.2	5.7	
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	1.2	1.4	4.6	3.8	
Brazil	6.8	2.9	5.4	4.8	-1.5	2.0	1.3	5.1	4.1	
2.5	-1.6	3.4	3.8	-0.8	3.7	-0.7			3.5	
<b>CONSUMER PRICES (3)</b>										
Industrial Countries of which:	1.5	1.0	1.2	1.8	1.0	2.2	1.3	1.4	1.3	
Canada	1.0	1.1	2.4	3.1	1.1	3.8	1.5	1.9	1.7	
Japan	2.1	0.7	-1.1	-1.3	-1.3	-0.4	-0.5	-0.3	-0.2	
United Kingdom (4)	2.7	2.5	2.2	2.1	2.0	2.6	2.6	2.4	2.5	
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	1.3	1.3	0.9	
Developing Countries Asia	6.8	9.0	4.6	4.1	2.8	3.1	2.9	3.0	2.8	
Korea	2.7	4.4	0.1	1.8	1.1	0.8	1.9	2.3	2.0	
China	4.9	5.8	1.2	2.5	3.3	3.4	3.4	2.9	3.0	
Latin America	0.8	-1.2	-1.0	0.9	-0.1	-0.5	2.1	2.3	1.7	
Mexico	15.5	15.4	12.5	8.4	5.3	6.4	4.8	4.0	3.5	
Brazil	17.0	17.3	13.4	8.7	5.1	5.3	3.9	3.6	3.2	
4.6	2.0	8.4	6.4	7.5	10.7	11.6	5.8	5.2		

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

Measure and country	2003				2004				Projected				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>REAL GDP (1)</b>																
Total foreign	0.5	0.7	3.6	3.8	3.7	3.7	3.7	3.6	3.5	3.4	3.3	3.3	3.3	3.3	3.3	3.3
Industrial Countries of which:	1.3	0.3	1.6	3.1	2.9	2.9	2.8	2.8	2.8	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Canada	2.0	-0.7	1.1	4.1	3.6	3.5	3.4	3.3	3.3	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Japan	1.9	3.5	2.2	2.5	2.1	1.8	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
United Kingdom	0.7	2.4	3.0	3.2	3.2	3.1	2.8	2.7	2.7	2.6	2.4	2.4	2.4	2.4	2.4	2.4
Euro Area (2)	-0.1	-0.4	1.5	2.2	2.3	2.4	2.6	2.6	2.5	2.5	2.3	2.3	2.3	2.3	2.3	2.3
Germany	-1.0	-0.6	0.9	1.9	2.1	2.4	2.5	2.5	2.4	2.3	2.1	2.1	2.1	2.1	2.1	2.1
Developing Countries	-0.7	1.3	6.7	5.0	4.9	4.9	4.9	4.9	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.3
Asia	-2.8	-4.5	14.9	7.3	5.6	5.7	5.6	5.6	5.6	5.6	5.5	5.5	5.5	5.5	5.5	5.0
Korea	-1.6	-2.7	4.7	5.0	5.3	5.2	5.2	5.2	5.2	5.2	5.0	5.0	5.0	5.0	5.0	5.0
China	16.3	-2.9	17.5	10.0	8.5	8.5	8.2	8.2	8.0	8.0	7.5	7.5	7.5	7.5	7.5	7.5
Latin America	-4.2	6.1	0.5	3.3	4.6	4.6	4.6	4.6	4.6	4.6	3.8	3.8	3.8	3.8	3.8	3.8
Mexico	-1.6	4.9	-1.4	3.4	5.1	5.1	5.1	5.1	5.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
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
<b>CONSUMER PRICES (3)</b>																
Industrial Countries of which:	2.5	1.8	1.5	1.3	0.8	1.4	1.4	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Canada	4.5	2.8	2.1	1.5	0.6	1.8	1.8	1.9	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Japan	-0.3	-0.3	-0.5	-0.5	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
United Kingdom (4)	2.9	2.9	2.9	2.6	2.3	2.5	2.5	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Euro Area (2)	2.3	1.9	2.0	2.0	1.8	2.0	1.9	1.7	1.7	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Germany	1.1	0.9	1.0	1.3	1.4	1.8	1.7	1.3	1.3	0.9	0.8	0.9	0.9	0.9	0.9	0.9
Developing Countries	3.6	3.1	2.7	2.9	2.8	3.0	3.3	3.0	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Asia	1.3	1.2	1.2	1.9	2.0	2.5	2.8	2.3	2.3	2.3	2.2	2.2	2.2	2.2	2.2	2.2
Korea	4.1	3.3	3.2	3.4	2.9	3.1	3.4	2.9	2.9	3.0	3.0	3.0	3.0	3.0	3.0	3.0
China	0.5	0.6	0.9	2.1	2.5	3.1	3.1	2.3	2.3	1.8	1.8	1.8	1.8	1.8	1.8	1.7
Latin America	7.1	6.3	5.4	4.8	4.3	4.2	4.2	4.0	4.0	3.9	3.6	3.7	3.6	3.6	3.5	3.5
Mexico	5.5	4.7	4.1	3.9	4.0	5.2	5.8	5.8	5.8	5.6	3.2	3.2	3.2	3.2	3.1	3.1
Brazil	15.6	17.0	15.3	11.6	6.7	6.7	6.7	6.7	6.7	5.8	5.8	5.8	5.8	5.8	5.8	5.8

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1997	1998	1999	2000	2001	2002	2003	2004	Projected 2005
<b>NIPA REAL EXPORTS and IMPORTS</b>									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.8	-1.1	-1.0	-0.8	-0.1	-1.0	-0.4	-0.4	-0.3
Exports of G&S	1.0	0.3	0.5	0.8	-1.3	-1.3	0.4	1.0	1.0
Imports of G&S	-1.7	-1.5	-1.5	-1.5	-1.5	-1.2	-0.5	-1.5	-1.3
Percentage change, Q4/Q4									
Exports of G&S Services	8.5	2.3	4.9	7.3	-11.4	3.9	5.2	10.5	10.1
Computers	1.4	2.9	3.2	4.8	-9.2	11.4	4.2	7.3	5.9
Semiconductors	25.8	8.1	13.4	23.0	-23.4	-2.1	13.0	37.3	31.0
Other Goods 1/	21.3	9.1	34.6	26.9	-34.9	8.5	36.6	40.1	33.7
Imports of G&S Services	9.8	1.3	3.2	5.7	-9.4	0.5	3.3	8.4	8.7
Oil	14.3	10.8	11.9	11.1	-8.0	10.1	3.6	10.3	9.0
Computers	14.0	8.5	5.9	10.9	-8.6	11.5	1.0	4.0	4.4
Semiconductors	3.9	4.1	-3.4	13.3	0.1	4.0	0.6	2.2	2.8
Other Goods 2/	33.0	25.8	26.0	13.6	-13.8	13.6	15.0	37.3	31.1
Oil	32.9	-8.7	34.2	22.5	-51.4	9.3	6.3	40.2	33.7
Computers	12.7	11.5	12.7	10.4	-6.2	10.1	3.8	10.3	8.4
Billions of chained 1996 dollars									
Net Goods & Services	-113.3	-221.1	-320.5	-398.8	-415.9	-488.5	-528.8	-571.8	-618.1
Exports of G&S	981.5	1002.4	1036.3	1137.2	1076.1	1058.8	1078.4	1184.2	1305.7
Imports of G&S	1094.8	1223.5	1356.8	1536.0	1492.0	1547.4	1607.2	1756.0	1923.8
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-127.7	-204.7	-290.8	-411.5	-393.7	-480.9	-547.1	-565.2	-610.0
Current Acct as Percent of GDP	-1.5	-2.3	-3.1	-4.2	-3.9	-4.6	-5.0	-4.8	-5.0
Net Goods & Services (BOP)	-107.0	-163.2	-261.2	-375.4	-357.8	-418.0	-488.7	-525.7	-561.4
Investment Income, Net	25.1	11.5	22.3	24.2	15.7	1.3	12.9	29.3	18.1
Direct Net Portfolio, Net	72.4	65.5	78.2	94.9	106.5	93.5	115.9	126.3	126.3
Other Income & Transfers, Net	-47.3	-54.1	-55.9	-70.7	-90.8	-92.2	-82.4	-86.6	-108.2

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
<b>NIPA REAL EXPORTS and IMPORTS</b>												
Net Goods & Services	-1.1	-1.0	-0.7	-0.2	0.5	-0.4	-0.2	-0.3	-0.7	-1.4	0.0	-1.6
Exports of G&S	0.8	1.5	1.2	0.5	-0.7	-1.4	-2.0	-1.0	0.3	1.3	0.5	-0.6
Imports of G&S	-1.9	-2.5	-1.9	0.3	1.2	1.0	1.7	0.7	-1.1	-2.7	-0.4	-1.0
	Percentage point contribution to GDP growth											
Exports of G&S	7.7	14.6	11.6	-4.0	-6.0	-12.4	-17.3	-9.6	3.5	14.3	4.6	-5.8
Services	10.2	11.2	-5.9	4.4	-6.0	-2.5	-13.9	-13.8	21.7	10.7	5.9	8.0
Computers	33.5	45.9	28.8	-8.8	-7.3	-41.7	-22.8	-17.6	-21.1	-0.5	-0.8	17.9
Semiconductors	14.6	90.9	43.4	-17.5	-34.6	-47.3	-40.9	-11.7	13.7	65.8	21.3	-39.4
Other Goods 1/	4.2	9.1	16.7	-5.9	-2.9	-10.5	-16.5	-6.9	-3.1	14.2	3.3	-10.7
Imports of G&S	14.7	18.6	13.8	-1.6	-7.9	-6.8	-11.8	-5.3	8.5	22.2	3.3	7.4
Services	20.7	9.6	15.1	-0.5	0.3	8.5	-23.2	-16.5	35.7	-2.2	3.1	13.0
Oil	28.6	40.4	-2.3	-6.5	23.3	7.2	-26.9	3.9	-19.0	34.5	-1.3	24.1
Computers	2.5	40.4	27.9	-9.5	-21.6	-24.5	-18.7	14.6	52.4	5.6	-4.4	8.2
Semiconductors	23.5	50.0	69.8	-28.5	-43.9	-68.8	-55.9	-27.5	45.2	41.8	-5.9	-26.4
Other Goods 2/	13.1	15.5	12.3	1.3	-9.4	-6.2	-4.7	-4.5	1.9	28.8	6.3	-5.2
	Billions of chained 1996 dollars, s.a.a.r.											
Net Goods & Services	-368.8	-394.6	-413.1	-418.5	-404.5	-414.8	-419.0	-425.3	-446.6	-487.4	-488.0	-532.2
Exports of G&S	1095.8	1133.9	1165.5	1153.7	1135.8	1098.8	1048.0	1021.8	1030.6	1065.5	1077.7	1061.6
Imports of G&S	1464.6	1528.5	1578.6	1572.2	1540.3	1513.6	1467.0	1447.2	1477.1	1552.9	1565.7	1593.8
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-380.1	-396.5	-434.3	-435.0	-416.0	-399.9	-414.5	-344.6	-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	-4.9
Net Goods & Services (BOP)	-346.9	-364.5	-391.8	-398.4	-373.8	-357.8	-356.2	-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

	Projected											
	2003				2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>NIPA REAL EXPORTS and IMPORTS</b>												
Net Goods & Services	0.8	-1.3	0.9	-0.3	-0.4	-0.7	-0.4	-0.1	-0.4	-0.5	-0.3	0.0
Exports of G&S	-0.1	-0.1	1.0	-1.2	-1.2	-1.2	-1.7	-1.5	-1.2	-1.0	-1.3	1.2
Imports of G&S	-0.9	-1.2	-0.2	-1.5	-1.2	-1.5	-1.7	-1.5	-1.2	-1.5	-1.3	-1.2
	Percentage point contribution to GDP growth											
Exports of G&S	-1.3	-1.0	11.0	12.8	8.1	10.5	10.7	12.8	7.7	10.4	10.2	12.1
Services	-8.0	0.5	15.0	10.3	8.3	7.4	7.0	6.3	6.1	6.0	5.5	5.7
Computers	-7.2	-11.2	48.4	33.5	33.5	38.5	38.5	38.5	23.9	33.5	33.5	33.5
Semiconductors	4.8	30.7	35.2	36.3	36.3	41.4	41.4	41.4	26.4	36.2	36.2	36.2
Other Goods 1/	0.2	-2.9	5.2	11.4	4.5	8.4	8.6	12.3	5.8	8.9	8.6	11.6
Imports of G&S	-6.2	8.8	1.5	11.3	8.9	12.2	10.5	9.7	8.2	10.5	9.1	8.3
Services	-4.0	-11.4	16.5	4.9	1.0	4.6	5.2	5.5	4.3	4.6	4.5	4.3
Oil	-12.6	55.5	-3.3	-22.2	-0.8	23.9	1.0	-12.0	3.8	21.9	-0.9	-11.0
Computers	-2.1	17.5	16.1	31.1	33.6	38.6	38.6	38.6	23.9	33.6	33.6	33.6
Semiconductors	-1.0	3.1	-1.2	26.5	36.3	41.5	41.5	41.4	26.4	36.3	36.2	36.2
Other Goods 2/	-6.4	8.9	-2.3	16.5	10.0	10.5	10.3	10.3	8.0	8.6	8.6	8.3
	Billions of chained 1996 dollars, s.a.a.r.											
Net Goods & Services	-510.3	-546.1	-524.2	-534.5	-548.3	-568.7	-582.6	-587.6	-601.0	-616.7	-627.0	-627.9
Exports of G&S	1058.1	1055.5	1083.4	1116.6	1138.4	1167.3	1197.3	1233.9	1256.9	1288.2	1319.8	1357.9
Imports of G&S	1568.4	1601.7	1607.6	1651.1	1686.8	1736.0	1779.9	1821.5	1857.9	1904.9	1946.7	1985.9
	Billions of dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-554.8	-555.1	-541.1	-537.6	-554.2	-560.2	-572.7	-573.5	-595.7	-602.6	-617.0	-624.8
Current Account as % of GDP	-5.2	-5.1	-4.9	-4.8	-4.9	-4.8	-4.9	-4.8	-4.9	-4.9	-5.0	-5.0
Net Goods & Services (BOP)	-486.5	-494.1	-483.3	-491.1	-505.8	-523.5	-535.4	-538.0	-548.1	-560.7	-568.4	-568.5
Investment Income, Net	6.3	11.9	12.9	20.4	28.5	30.3	29.6	28.7	26.6	22.3	15.6	8.0
Direct, Net	8.3	91.3	97.1	104.3	113.0	115.8	116.8	118.0	121.1	124.7	128.0	131.6
Portfolio, Net	-82.0	-79.4	-84.2	-84.0	-84.5	-85.5	-87.2	-89.3	-94.5	-102.4	-112.4	-123.6
Other Inc. & Transfers, Net	-74.6	-73.0	-70.7	-66.9	-76.9	-66.9	-66.9	-74.2	-64.2	-64.2	-64.2	-64.3

1. Merchandise exports excluding computers and semiconductors.

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

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
DIVISION OF RESEARCH AND STATISTICS

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**Date:** December 5, 2003

**To:** Members of the FOMC

**From:** The Division of Research and Statistics

**Subject:** Part 1 - Errata

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On pages I-2 and I-3 of Part 1, the correct figures for the staff forecast of the unified budget deficit are \$485 billion in fiscal year 2004 and \$370 billion in fiscal year 2005. In addition, attached is a corrected version of the flow of funds Greensheets.

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

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

December 3, 2003

Period <sup>1</sup>	Total	Federal government	Nonfederal				State and local governments	Business	Consumer credit	Home mortgages	Households	Nonfederal	State and local governments	Business	Consumer credit	Home mortgages	Households	Total	Federal government	Nonfederal	Memos: Nominal GDP
			Total	Federal government	Nonfederal	Memos: Nominal GDP															
<i>Year</i>																					
1998	6.9	-1.4	9.6	8.1	8.8	6.5	12.1	6.3	10.7	3.4	10.7	9.0	8.4	10.7	1.3	4.6	6.0	6.0	6.0		
1999	6.4	-1.9	8.9	8.3	9.0	8.4	10.7	9.7	9.7	1.3	8.9	8.3	10.7	9.7	2.0	4.6	5.9	5.9	5.9		
2000	4.9	-8.0	8.4	8.6	8.3	10.7	9.3	6.3	6.3	2.0	11.2	12.4	4.3	2.9	8.3	4.3	4.3	4.3	4.6		
2001	6.2	-0.2	7.6	8.7	9.8	7.3	11.2	5.5	4.2	8.3	11.2	11.2	11.2	11.2	5.9	5.9	5.9	5.9	5.9		
2002	7.1	7.6	7.0	10.0	12.4	4.3	12.4	4.3	4.3	4.3	12.4	12.4	12.4	12.4	4.3	4.3	4.3	4.3	4.3		
2003	8.5	11.0	8.0	11.2	13.3	5.5	13.3	5.5	5.5	5.5	13.3	13.3	13.3	13.3	5.9	5.9	5.9	5.9	5.9		
2004	7.6	12.9	6.4	7.5	8.1	6.3	8.1	5.2	5.2	5.2	8.1	8.1	8.1	8.1	6.3	6.3	6.3	6.3	6.3		
2005	6.1	7.6	5.8	5.9	5.8	6.9	5.8	5.9	5.9	5.9	5.8	5.8	5.8	5.8	5.0	5.0	5.0	5.0	5.0		
<i>Quarter</i>																					
2003:1	6.1	2.2	7.0	10.0	11.8	4.9	11.8	4.9	4.9	3.7	11.8	11.8	11.8	11.8	3.8	3.8	3.8	3.8	3.8		
2	12.1	24.3	9.6	11.8	14.3	4.6	14.3	4.6	4.6	6.2	14.3	14.3	14.3	14.3	4.3	4.3	4.3	4.3	4.3		
3	7.9	8.2	7.8	11.6	13.4	6.8	11.6	13.4	13.4	3.0	13.4	13.4	13.4	13.4	10.1	10.1	10.1	10.1	10.1		
4	6.9	8.0	6.7	9.5	11.2	5.3	9.5	11.2	11.2	3.5	11.2	11.2	11.2	11.2	5.5	5.5	5.5	5.5	5.5		
2004:1	7.6	12.9	6.5	8.4	9.6	5.5	12.9	8.4	8.4	4.4	9.6	9.6	9.6	9.6	6.6	6.6	6.6	6.6	6.6		
2	8.7	19.4	6.3	7.5	8.3	6.2	19.4	7.5	7.5	4.8	8.3	8.3	8.3	8.3	6.4	6.4	6.4	6.4	6.4		
3	6.9	9.8	6.2	6.8	7.2	6.4	9.8	6.2	6.2	5.6	7.2	7.2	7.2	7.2	6.3	6.3	6.3	6.3	6.3		
4	6.2	7.3	6.0	6.4	6.5	6.6	7.3	6.0	6.4	5.6	6.5	6.5	6.5	6.5	6.0	6.0	6.0	6.0	6.0		
2005:1	6.6	9.9	5.8	6.2	6.1	6.7	9.9	5.8	6.2	5.6	6.1	6.7	6.7	6.7	5.3	5.3	5.3	5.3	5.3		
2	6.9	12.1	5.7	5.9	5.7	6.8	12.1	5.7	5.9	5.1	5.7	6.8	6.8	6.8	5.1	5.1	5.1	5.1	5.1		
3	5.4	4.6	5.6	5.7	5.5	6.7	4.6	5.6	5.7	5.5	5.5	6.7	6.7	6.7	5.0	5.0	5.0	5.0	5.0		
4	5.1	3.0	5.6	5.5	5.2	6.6	3.0	5.6	5.5	5.2	5.2	6.6	6.6	6.6	4.8	4.8	4.8	4.8	4.8		

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2003:Q2 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

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

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

December 3, 2003

Category	Calendar year				2003				2004				Seasonally adjusted annual rates			
	2002	2003	2004	2005	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2005	
<i>Net funds raised by domestic nonfinancial sectors</i>																
1 Total	1333.5	1708.2	1655.9	1465.1	1664.3	1491.8	1677.5	1937.9	1563.6	1444.5	1559.4	1677.9	1340.8	1282.2		
2 Net equity issuance	-41.9	-54.7	-39.5	-15.0	-41.3	-40.0	-31.0	-42.0	-45.0	-40.0	-30.0	-20.0	-10.0	0.0		
3 Net debt issuance	1375.4	1763.0	1695.4	1480.1	1705.6	1531.8	1708.5	1979.9	1608.6	1484.5	1589.4	1697.9	1350.8	1282.2		
<i>Borrowing sectors</i>																
Nonfinancial business																
4 Financing gap <sup>1</sup>	80.7	9.1	32.5	251.1	-32.1	3.4	-14.4	1.2	46.5	96.6	191.2	244.6	276.3	292.3		
5 Net equity issuance	-41.9	-54.7	-39.5	-15.0	-41.3	-40.0	-31.0	-42.0	-45.0	-40.0	-30.0	-20.0	-10.0	0.0		
6 Credit market borrowing	200.7	296.1	386.3	464.1	218.6	259.2	328.2	358.2	428.3	430.2	438.8	459.8	468.6	489.1		
Households																
7 Net borrowing <sup>2</sup>	771.8	947.2	704.5	598.1	1037.4	874.1	786.7	724.5	668.7	638.1	622.9	602.5	589.8	577.1		
8 Home mortgages	666.4	804.1	556.7	427.6	866.5	745.9	656.4	580.8	515.0	474.5	455.7	431.3	417.9	405.6		
9 Consumer credit	79.2	106.4	128.8	148.9	133.9	106.3	112.0	127.4	134.1	141.7	145.7	149.6	150.3	150.1		
10 Debt/DPI (percent) <sup>3</sup>	103.5	109.5	113.2	114.5	109.7	112.0	112.5	113.2	113.7	113.9	114.3	114.5	114.6	114.7		
State and local governments																
11 Net borrowing	145.4	119.2	83.8	71.3	131.9	82.5	74.8	86.8	84.8	88.8	74.8	70.8	70.8	68.8		
12 Current surplus <sup>4</sup>	127.7	158.4	186.7	204.5	173.9	181.4	177.9	186.5	186.1	196.3	199.6	202.6	205.8	209.9		
Federal government																
13 Net borrowing	257.5	400.4	520.8	344.0	317.7	315.9	518.8	810.3	426.8	327.4	452.9	564.8	221.7	147.1		
14 Net borrowing (quarterly, n.s.a.)	257.5	400.4	520.8	344.0	107.6	123.0	173.3	86.9	134.9	125.9	156.8	25.5	78.4	83.4		
15 Unified deficit (quarterly, n.s.a.)	230.6	405.2	488.5	334.0	104.5	139.1	190.4	54.5	100.6	142.9	164.2	-13.5	76.0	107.3		
<i>Depository institutions</i>																
16 Funds supplied	482.5	436.3	433.4	509.4	56.0	331.9	412.5	455.8	475.8	389.6	523.5	533.2	567.8	413.4		
Memo (percentage of GDP)																
17 Domestic nonfinancial debt <sup>5</sup>	191.3	196.9	199.7	202.2	197.3	198.3	198.7	199.7	200.5	200.8	201.4	202.3	202.9	203.2		
18 Domestic nonfinancial borrowing	13.2	16.1	14.5	12.0	15.4	13.7	15.0	17.1	13.7	12.5	13.2	13.9	10.9	10.2		
19 Federal government <sup>6</sup>	2.5	3.7	4.5	2.8	2.9	2.8	4.6	7.0	3.6	2.7	3.7	4.6	1.8	1.2		
20 Nonfederal	10.7	12.5	10.1	9.2	12.5	10.8	10.4	10.1	10.1	9.7	9.4	9.3	9.1	9.1		

Note. Data after 2003:Q2 are staff projections.

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

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

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

2.6.4 FOF

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

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

6. Excludes government-insured mortgage pool securities.