

## **Part 1**

March 13, 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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March 13, 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:Q1		2003:Q2	
	Jan. GB	Mar. GB	Jan. GB	Mar. GB
<b>Real GDP</b>	<b>2.6</b>	<b>2.3</b>	<b>2.9</b>	<b>2.3</b>
Private domestic final purchases	2.1	1.8	2.9	2.9
Personal consumption expenditures	1.9	1.7	2.8	2.3
Residential investment	9.5	16.7	3.1	4.9
Business fixed investment	.8	-3.5	3.7	6.3
Government outlays for consumption and investment	2.7	3.9	1.8	3.9
	Contribution to growth (percentage points)			
Inventory investment	.2	-.2	.6	-.2
Net exports	.0	.2	-.5	-.7

We have also lowered our projection for consumer spending outside the motor vehicle sector. Controlling for the effects of the February storms, available data suggest that spending has been well maintained so far this quarter. But we expect that the weaker consumer sentiment, equity values, and employment of late will slow that momentum. We now project real PCE excluding motor vehicles to increase at an annual rate of 2.4 percent in the first quarter and 2.1 percent in the second.

Residential construction remains strong. In the single-family sector, housing starts moved up to an annual rate of 1.5 million units in January, when the weather was unusually dry, and we expect starts in February, which was unusually wet, to show some payback. Smoothing through these monthly swings, however, the underlying pace of construction activity—fueled by continued low mortgage rates—should remain brisk.

The available data on spending in the business sector present a mixed picture. Overall, real spending on equipment and software (E&S) in the first quarter is projected to fall, reflecting declines in purchases of motor vehicles and aircraft. Excluding the transportation sector, the recent spending indicators are somewhat more upbeat, especially in the high-tech sector. For investment in nonresidential structures, we anticipate a further decline this quarter, as vacancy rates in the industrial and office sectors remain high. But we expect the increase in energy prices to boost investment in drilling and mining enough to cause a small uptick in total nonresidential investment in the second quarter.

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

Measure	2003		2004
	H1	H2	
<b>Real GDP</b>	<b>2.3</b>	<b>4.1</b>	<b>4.6</b>
Previous	2.8	4.5	4.7
Final sales	2.5	4.0	4.3
Previous	2.4	4.2	4.5
PCE	2.0	3.5	4.3
Previous	2.4	3.9	4.2
Residential investment	10.6	9.8	3.9
Previous	6.3	6.0	5.7
BFI	1.2	8.1	11.9
Previous	2.2	9.4	12.7
Government purchases	3.9	1.8	1.7
Previous	2.3	1.9	1.9
Exports	4.1	8.9	9.0
Previous	5.8	9.1	8.8
Imports	4.4	6.9	9.6
Previous	5.8	7.2	9.2
	Contribution to growth, percentage points		
Inventory change	-.2	.2	.3
Previous	.4	.3	.3
Net exports	-.2	-.1	-.5
Previous	-.3	-.1	-.5

third quarter, will be delayed until the fourth.<sup>4</sup> All told, we expect real PCE to increase at an annual rate of about 3-1/2 percent in the second half of 2003 and to accelerate to about a 4-1/4 percent pace in 2004. Business spending on fixed investment is also projected to pick up markedly over the next eighteen months,

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4. These tax cuts provide an initial boost to disposable income of about \$40 billion in the fourth quarter of 2003, when the tax law changes are assumed to go into effect, and \$105 billion in 2004, when taxpayers who did not adjust their withholding schedules receive refunds on their 2003 tax returns.

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

Measure	2001	2002	2003	2004
PCE chain-weighted price index	1.5	1.8	1.5	1.0
Previous	1.5	1.8	1.3	1.2
Food and beverages	3.1	1.4	1.7	1.7
Previous	3.1	1.4	2.1	1.8
Energy	-10.3	7.0	3.5	-3.6
Previous	-10.3	7.7	-1.6	-1.2
Excluding food and energy	1.9	1.6	1.3	1.1
Previous	1.9	1.6	1.3	1.2
Consumer price index	1.8	2.2	2.0	1.4
Previous	1.9	2.3	1.7	1.6
Excluding food and energy	2.7	2.1	1.9	1.7
Previous	2.7	2.1	1.9	1.8
GDP chain-weighted price index	2.0	1.3	1.4	1.3
Previous	2.0	1.3	1.2	1.3
ECI for compensation of private industry workers <sup>1</sup>	4.2	3.2	3.2	3.2
Previous	4.2	3.5	3.3	3.3
NFB compensation per hour	1.4	4.2	3.1	2.9
Previous	1.4	4.1	3.2	3.1
Prices of core non-oil merchandise imports	-2.9	.7	2.6	1.2
Previous	-2.9	.6	3.1	1.7

1. December to December.

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

Measure	1973-95	1996-99	2000	2001	2002	2003	2004
<b>Structural labor productivity</b>	1.4	2.5	2.6	1.8	2.3	2.2	2.3
Previous	1.4	2.5	2.6	1.9	2.3	2.2	2.4
<i>Contributions</i> <sup>1</sup>							
Capital deepening	.6	1.3	1.1	.3	.2	.3	.6
Previous	.6	1.3	1.2	.4	.3	.3	.7
Multifactor productivity	.6	1.0	1.2	1.3	1.8	1.6	1.5
Previous	.6	1.0	1.2	1.3	1.8	1.6	1.5
Labor composition	.3	.3	.3	.3	.3	.3	.3
MEMO							
Potential GDP	2.9	3.5	3.6	2.9	3.3	3.1	3.3
Previous	2.9	3.5	3.6	2.9	3.3	3.2	3.4

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	2001	2002	2003	2004
Output per hour, nonfarm business	1.9	4.1	1.9	1.6
Previous	1.9	3.8	1.8	1.8
Nonfarm private payroll employment	-1.4	-.5	1.1	3.3
Previous	-1.4	-.5	1.5	3.3
Household employment survey	-.8	.3	1.7	2.4
Previous	-1.0	.0	1.3	2.4
Labor force participation rate <sup>1</sup>	66.8	66.5	66.6	67.0
Previous	66.9	66.5	66.8	67.1
Civilian unemployment rate <sup>1</sup>	5.6	5.9	6.1	5.5
Previous	5.6	5.9	6.1	5.4

1. Percent, average for the fourth quarter.

### Alternative Scenarios

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

Measure	2002: H2	2003			2004
		Q1	Q2	H2	
<i>Real GDP</i>					
<b>Greenbook Baseline</b>	<b>2.7</b>	<b>2.3</b>	<b>2.3</b>	<b>4.1</b>	<b>4.6</b>
Prolonged investment slump	2.7	2.3	2.2	3.7	3.9
More disinflation	2.7	2.3	2.3	4.1	4.6
Lower funds rate	2.7	2.3	2.3	4.2	5.0
Market-based funds rate	2.7	2.3	2.3	4.2	4.6
<i>Civilian unemployment rate<sup>1</sup></i>					
<b>Greenbook Baseline</b>	<b>5.9</b>	<b>5.8</b>	<b>6.1</b>	<b>6.1</b>	<b>5.5</b>
Prolonged investment slump	5.9	5.8	6.1	6.2	5.9
More disinflation	5.9	5.8	6.1	6.1	5.5
Lower funds rate	5.9	5.8	6.1	6.1	5.3
Market-based funds rate	5.9	5.8	6.1	6.1	5.4
<i>PCE prices excluding food and energy</i>					
<b>Greenbook Baseline</b>	<b>1.5</b>	.7	<b>1.6</b>	<b>1.4</b>	<b>1.1</b>
Prolonged investment slump	1.5	.7	1.6	1.4	1.1
More disinflation	1.5	.7	1.5	1.1	0.7
Lower funds rate	1.5	.7	1.6	1.4	1.2
Market-based funds rate	1.5	.7	1.6	1.4	1.1

1. Average for the final quarter of the period.

a near-term cut in the funds rate as well as the consequences of aligning our monetary policy assumptions with market expectations.

**Prolonged investment slump.** In light of persistently downbeat anecdotal reports, one risk to the forecast is that we may be too optimistic about the near-term prospects for a solid rebound in business investment. In the baseline, the gloom currently afflicting the business sector is assumed to begin dissipating by midyear so that investment moves back into line with fundamentals by the end of this year. With significant unused capacity and continued uncertainty over the strength of the economic recovery, firms may instead decide to hold back capital spending for a longer period of time. In this scenario, the acceleration in business investment is delayed until the middle of next year. Under this assumption, the rate of increase in real GDP stays below 4 percent throughout the forecast period, and the unemployment rate remains close to 6 percent at the end of next year. Core inflation is little changed from baseline, as weaker productivity from less capital deepening offsets the effects of additional labor market slack.

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>	
	01/22/03	03/13/03	01/22/03	03/13/03	01/22/03	03/13/03	01/22/03	03/13/03	01/22/03	03/13/03
<b>ANNUAL</b>										
2000	5.9	5.9	3.8	3.8	2.1	2.1	3.4	3.4	4.0	4.0
2001	2.6	2.6	0.3	0.3	2.4	2.4	2.8	2.8	4.8	4.8
2002	3.5	3.6	2.4	2.4	1.1	1.1	1.6	1.6	5.8	5.8
2003	3.9	4.1	2.6	2.6	1.3	1.5	2.1	2.5	6.2	6.0
2004	6.0	5.7	4.6	4.4	1.3	1.3	1.5	1.3	5.7	5.8
<b>QUARTERLY</b>										
2001	Q1	3.0	3.0	-0.6	-0.6	3.7	3.7	4.0	4.0	4.2
	Q2	0.9	0.9	-1.6	-1.6	2.5	2.5	3.2	3.2	4.5
	Q3	1.9	1.9	-0.3	-0.3	2.2	2.2	0.7	0.9	4.8
	Q4	2.2	2.2	2.7	2.7	-0.5	-0.5	-0.2	-0.7	5.6
2002	Q1	6.5	6.5	5.0	5.0	1.3	1.3	1.4	1.4	5.6
	Q2	2.5	2.5	1.3	1.3	1.2	1.2	3.4	3.4	5.9
	Q3	5.1	5.1	4.0	4.0	1.0	1.0	1.8	2.2	5.7
	Q4	2.0	3.0	0.2	1.4	1.8	1.6	2.4	2.0	5.9
2003	Q1	3.8	4.3	2.6	2.3	1.2	2.0	2.9	3.8	6.2
	Q2	4.1	3.8	2.9	2.3	1.2	1.4	1.6	2.8	6.2
	Q3	5.6	4.9	4.3	3.8	1.2	1.0	1.1	0.4	6.2
	Q4	5.9	5.7	4.6	4.5	1.3	1.2	1.4	1.1	6.1
2004	Q1	6.7	6.6	5.0	4.9	1.6	1.6	1.6	1.4	6.0
	Q2	6.2	6.0	4.9	4.7	1.2	1.2	1.6	1.4	5.8
	Q3	6.0	5.7	4.7	4.6	1.2	1.1	1.6	1.4	5.6
	Q4	5.6	5.5	4.4	4.4	1.2	1.1	1.6	1.5	5.4
<b>TWO-QUARTER<sup>3</sup></b>										
2001	Q2	1.9	1.9	-1.1	-1.1	3.1	3.1	3.5	3.5	0.5
	Q4	2.1	2.1	1.2	1.2	0.8	0.8	0.2	0.2	1.1
2002	Q2	4.5	4.5	3.1	3.1	1.3	1.3	2.4	2.4	0.3
	Q4	3.5	4.0	2.1	2.7	1.4	1.3	2.1	2.1	0.0
2003	Q2	4.0	4.0	2.8	2.3	1.2	1.7	2.2	3.3	0.3
	Q4	5.7	5.3	4.5	4.1	1.2	1.1	1.2	0.8	-0.1
2004	Q2	6.5	6.3	5.0	4.8	1.4	1.4	1.6	1.4	-0.3
	Q4	5.8	5.6	4.5	4.5	1.2	1.1	1.6	1.4	-0.4
<b>FOUR-QUARTER<sup>4</sup></b>										
2000	Q4	4.6	4.6	2.3	2.3	2.3	2.3	3.4	3.4	-0.1
2001	Q4	2.0	2.0	0.1	0.1	2.0	2.0	1.9	1.8	1.6
2002	Q4	4.0	4.3	2.6	2.9	1.3	1.3	2.3	2.2	0.3
2003	Q4	4.8	4.7	3.6	3.2	1.2	1.4	1.7	2.0	0.2
2004	Q4	6.1	6.0	4.7	4.6	1.3	1.3	1.6	1.4	-0.7

1. For all urban consumers.

2. Level, except as noted.

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

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

Item	Units <sup>1</sup>	- - - Projected - - -									
		1996	1997	1998	1999	2000	2001	2002	2003	2004	
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	7813.2	8318.4	8781.5	9274.3	9824.6	10082.2	10445.2	10874.4	11499.6	
Real GDP	Bill. Ch. \$	7813.2	8159.5	8508.9	8859.0	9191.4	9214.5	9439.7	9683.8	10111.4	
Real GDP	% change	4.1	4.3	4.8	4.3	2.3	0.1	2.9	3.2	4.6	
Gross domestic purchases		4.3	5.0	5.8	5.2	2.9	0.1	3.7	3.2	4.9	
Final sales		3.9	3.9	4.7	4.2	2.6	1.6	1.7	3.2	4.3	
Priv. dom. final purchases		4.4	5.1	6.3	5.2	3.7	0.9	2.3	3.4	5.2	
Personal cons. expenditures		3.1	4.1	5.0	5.0	3.5	2.8	2.6	2.7	4.3	
Durables		5.0	8.8	12.7	10.0	3.8	13.2	1.8	4.7	8.0	
Nondurables		3.2	2.5	5.0	4.9	3.0	1.7	3.5	3.2	4.3	
Services		2.7	3.9	3.6	4.0	3.8	1.3	2.4	2.1	3.7	
Business fixed investment		12.1	11.8	12.3	6.6	6.2	-9.3	-1.7	4.6	11.9	
Equipment & Software		11.8	13.7	14.9	9.7	5.2	-8.8	3.3	6.8	15.0	
Nonres. structures		12.8	6.5	4.9	-2.5	9.3	-10.6	-15.9	-2.5	1.1	
Residential structures		5.6	3.5	10.0	4.0	-1.2	1.0	6.7	10.2	3.9	
Exports		9.8	8.5	2.3	4.9	7.3	-11.4	3.9	6.5	9.0	
Imports		11.2	14.3	10.8	11.9	11.1	-8.0	10.1	5.7	9.6	
Gov't. cons. & investment		2.7	2.4	2.7	4.5	1.3	5.1	3.6	2.8	1.7	
Federal		2.0	0.1	0.6	4.0	-1.2	7.5	7.6	4.9	1.3	
Defense		0.8	-1.4	-0.8	4.4	-2.5	7.4	9.4	5.3	0.1	
State & local		3.0	3.7	3.8	4.8	2.6	3.9	1.5	1.7	2.0	
Change in bus. inventories	Bill. Ch. \$	30.0	63.8	76.7	62.8	65.0	-61.4	5.5	21.2	48.6	
Nonfarm		21.2	60.6	75.0	64.1	67.2	-63.2	4.4	20.2	47.1	
Net exports		-89.0	-113.3	-221.1	-320.5	-398.8	-415.9	-488.5	-545.1	-597.5	
Nominal GDP	% change	6.0	6.2	6.0	5.9	4.6	2.0	4.3	4.7	6.0	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	119.6	122.7	125.9	128.9	131.7	131.9	130.8	131.1	134.7	
Unemployment rate	%	5.4	4.9	4.5	4.2	4.0	4.8	5.8	6.0	5.8	
Industrial prod. index	% change	5.5	8.0	4.0	4.9	2.7	-5.7	1.5	3.5	5.9	
Capacity util. rate - mfg.	%	81.2	82.7	81.9	81.4	81.4	75.6	73.8	74.2	77.6	
Housing starts	Millions	1.48	1.47	1.62	1.64	1.57	1.60	1.71	1.89	1.99	
Light motor vehicle sales		15.05	15.07	15.41	16.78	17.24	17.02	16.70	16.47	17.51	
North Amer. produced		13.34	13.14	13.39	14.30	14.38	13.94	13.42	13.15	14.06	
Other		1.70	1.93	2.02	2.48	2.86	3.08	3.29	3.31	3.45	
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	7831.2	8325.4	8778.1	9297.1	9848.0	10104.1	10435.6	10877.5	11501.0	
Nominal GNP	% change	5.9	6.0	5.8	6.4	4.6	2.1	3.8	4.8	5.9	
Nominal personal income		5.9	6.3	6.7	5.1	7.7	1.4	4.3	4.4	5.3	
Real disposable income		2.6	3.8	5.0	2.4	4.8	0.3	5.9	3.2	5.0	
Personal saving rate	%	4.8	4.2	4.7	2.6	2.8	2.3	3.9	4.4	5.6	
Corp. profits, IVA & CCAdj.	% change	11.4	9.9	-9.6	7.0	-9.1	8.2	-6.3	7.3	9.8	
Profit share of GNP	%	9.6	10.0	8.9	8.7	8.0	7.2	7.5	7.2	7.5	
Excluding FR Banks		9.4	9.7	8.6	8.4	7.7	7.0	7.2	7.0	7.3	
Federal surpl./deficit	Bill. \$	-136.8	-53.3	43.8	111.9	206.9	72.0	-199.2	-271.1	-328.5	
State & local surpl./def.		21.4	31.0	40.7	38.3	18.0	-31.3	-50.6	-59.0	-28.4	
Ex. social ins. funds		18.7	29.9	40.0	37.4	17.8	-31.2	-50.4	-58.9	-28.3	
Gross natl. saving rate	%	17.2	18.0	18.8	18.3	18.4	16.5	15.2	14.7	15.6	
Net natl. saving rate		5.7	6.7	7.5	6.8	6.7	3.8	2.1	1.4	2.5	
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	1.9	1.8	1.1	1.6	2.3	2.0	1.3	1.4	1.3	
Gross Domestic Purchases chn.-wt. price index		1.9	1.4	0.8	1.9	2.5	1.3	1.6	1.6	1.0	
PCE chn.-wt. price index		2.3	1.5	1.1	2.0	2.5	1.5	1.8	1.5	1.0	
Ex. food and energy		1.8	1.7	1.6	1.5	1.8	1.9	1.6	1.3	1.1	
CPI		3.2	1.9	1.5	2.6	3.4	1.8	2.2	2.0	1.4	
Ex. food and energy		2.6	2.2	2.3	2.0	2.6	2.7	2.1	1.9	1.7	
ECI, hourly compensation <sup>2</sup>		3.1	3.4	3.5	3.4	4.4	4.2	3.2	3.2	3.2	
Nonfarm business sector											
Output per hour		2.3	2.2	2.9	2.9	2.1	1.9	4.1	1.9	1.6	
Compensation per Hour		3.2	3.4	5.3	4.3	7.2	1.4	4.2	3.1	2.9	
Unit labor cost		0.9	1.1	2.3	1.4	4.9	-0.5	0.1	1.2	1.3	

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

Item	Units	2000	2000	2000	2000	2001	2001	2001	2001	2002	2002
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	9649.5	9820.7	9874.8	9953.6	10028.1	10049.9	10097.7	10152.9	10313.1	10376.9
Real GDP	Bill. Ch. \$	9097.4	9205.7	9218.7	9243.8	9229.9	9193.1	9186.4	9248.8	9363.2	9392.4
Real GDP	% change	2.6	4.8	0.6	1.1	-0.6	-1.6	-0.3	2.7	5.0	1.3
Gross domestic purchases		3.6	5.7	1.2	1.3	-1.1	-1.1	-0.1	2.9	5.6	2.6
Final sales		4.4	3.1	1.7	1.3	2.8	-0.4	-0.2	4.2	2.4	-0.1
Priv. dom. final purchases		6.9	3.8	3.1	1.1	1.5	-1.2	0.3	3.0	2.5	1.3
Personal cons. expenditures		5.3	3.0	3.8	2.1	2.4	1.4	1.5	6.0	3.1	1.8
Durables		17.8	-3.7	8.1	-5.3	11.5	5.3	4.6	33.6	-6.3	2.0
Nondurables		2.2	4.9	2.0	2.7	2.3	-0.3	1.3	3.6	7.9	-0.1
Services		4.4	3.6	3.9	3.3	0.6	1.5	0.9	2.1	2.9	2.7
Business fixed investment		15.0	10.2	3.5	-3.2	-5.4	-14.5	-6.0	-10.9	-5.8	-2.4
Equipment & Software		15.5	10.9	0.9	-5.4	-6.3	-16.7	-9.2	-2.5	-2.7	3.3
Nonres. structures		13.8	8.2	12.1	3.6	-3.1	-8.4	2.9	-30.1	-14.2	-17.6
Residential structures		8.3	-3.0	-9.3	0.0	8.2	-0.5	0.4	-3.5	14.2	2.7
Exports		7.7	14.6	11.6	-4.0	-6.0	-12.4	-17.3	-9.6	3.5	14.3
Imports		14.7	18.6	13.8	-1.6	-7.9	-6.8	-11.8	-5.3	8.5	22.2
Gov't. cons. & investment		-1.2	4.6	-1.0	2.9	5.7	5.6	-1.1	10.5	5.6	1.4
Federal		-13.2	16.0	-7.2	2.0	9.5	6.0	1.2	13.5	7.4	7.5
Defense		-19.9	15.0	-6.1	4.7	8.3	2.7	4.6	14.3	11.6	7.8
State & local		5.6	-0.8	2.4	3.3	3.8	5.4	-2.3	8.9	4.6	-1.7
Change in bus. inventories	Bill. Ch. \$	45.3	91.5	63.1	59.9	-26.9	-58.3	-61.8	-98.4	-28.9	4.9
Nonfarm		58.9	88.6	64.6	56.8	-32.6	-54.9	-63.6	-101.5	-35.1	4.2
Net exports		-368.8	-394.6	-413.1	-418.5	-404.5	-414.8	-419.0	-425.3	-446.6	-487.4
Nominal GDP	% change	5.7	7.3	2.2	3.2	3.0	0.9	1.9	2.2	6.5	2.5
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	131.0	131.8	131.9	132.2	132.4	132.2	131.9	131.1	130.8	130.7
Unemployment rate	%	4.0	4.0	4.0	3.9	4.2	4.4	4.8	5.6	5.6	5.9
Industrial prod. index	% change	5.4	7.1	0.2	-1.6	-6.1	-6.1	-4.6	-5.8	1.4	4.4
Capacity util. rate - mfg.	%	82.0	82.4	81.4	80.0	77.9	76.1	74.8	73.4	73.4	73.9
Housing starts	Millions	1.66	1.59	1.50	1.54	1.61	1.62	1.60	1.57	1.73	1.67
Light motor vehicle sales		18.15	17.14	17.42	16.26	16.95	16.54	16.23	18.37	16.34	16.35
North Amer. produced		15.29	14.27	14.56	13.41	14.04	13.51	13.23	15.00	13.04	13.10
Other		2.86	2.87	2.86	2.85	2.90	3.04	3.00	3.37	3.31	3.25
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	9670.5	9846.4	9892.5	9982.8	10038.0	10081.0	10109.3	10188.1	10314.9	10356.8
Nominal GNP	% change	5.3	7.5	1.9	3.7	2.2	1.7	1.1	3.2	5.1	1.6
Nominal personal income		13.2	6.9	6.8	4.2	3.9	0.8	1.4	-0.2	4.8	5.1
Real disposable income		8.4	4.8	4.3	1.8	-0.1	-0.6	10.5	-7.6	14.5	3.9
Personal saving rate	%	2.6	2.9	2.9	2.9	2.4	1.9	4.0	0.8	3.5	4.0
Corp. profits, IVA & CCAdj.	% change	-8.0	-0.1	-9.4	-17.9	-21.1	8.7	-17.7	94.4	-6.6	-6.2
Profit share of GNP	%	8.4	8.2	8.0	7.5	7.0	7.2	6.8	8.0	7.7	7.6
Excluding FR Banks		8.0	7.9	7.7	7.2	6.7	6.9	6.5	7.7	7.5	7.3
Federal surpl./deficit	Bill. \$	223.2	197.2	213.2	193.8	173.8	144.4	-51.7	21.3	-145.8	-195.6
State & local surpl./def.		32.7	20.2	19.2	-0.2	-16.5	-32.3	-46.2	-30.2	-55.8	-45.1
Ex. social ins. funds		32.2	20.0	19.2	-0.1	-16.4	-32.2	-46.1	-30.0	-55.6	-44.9
Gross natl. saving rate	%	18.8	18.4	18.5	17.8	16.9	16.6	16.5	15.8	15.5	15.5
Net natl. saving rate		7.3	6.9	6.8	5.9	4.8	4.1	3.3	3.1	2.7	2.4
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	3.1	2.3	1.6	2.1	3.7	2.5	2.2	-0.5	1.3	1.2
Gross Domestic Purchases chn.-wt. price index		3.7	2.2	2.2	2.1	3.3	1.7	-0.2	0.4	1.2	2.3
PCE chn.-wt. price index		3.4	2.3	2.1	2.2	3.3	1.8	-0.1	0.8	1.1	2.7
Ex. food and energy		2.2	1.8	1.3	1.8	2.8	1.2	0.7	2.7	1.4	1.9
CPI		4.1	3.3	3.5	2.8	4.0	3.2	0.9	-0.7	1.4	3.4
Ex. food and energy		2.5	2.7	2.7	2.4	2.9	2.6	2.6	2.8	2.1	2.1
ECI, hourly compensation <sup>1</sup>		5.6	4.7	4.1	3.5	4.6	4.0	3.7	4.2	3.6	4.4
Nonfarm business sector											
Output per hour		0.2	6.0	0.6	1.7	-1.4	-0.1	2.1	7.2	8.6	1.7
Compensation per hour		15.2	2.2	8.7	3.1	2.8	0.1	1.0	1.5	2.9	4.0
Unit labor cost		14.9	-3.6	8.0	1.4	4.3	0.3	-1.1	-5.4	-5.3	2.3

1. Private-industry workers.

Item	Units	Projected									
		2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	10506.2	10584.5	10697.3	10796.7	10925.4	11078.2	11257.0	11421.5	11581.9	11738.2
Real GDP	Bill. Ch. \$	9485.6	9517.6	9570.8	9625.8	9715.8	9822.9	9941.6	10056.6	10169.3	10278.3
Real GDP	% change	4.0	1.4	2.3	2.3	3.8	4.5	4.9	4.7	4.6	4.4
Gross domestic purchases		3.9	2.8	1.9	2.9	4.0	4.2	5.3	5.2	4.9	4.2
Final sales		3.4	1.0	2.5	2.5	3.5	4.4	4.8	4.1	4.1	4.2
Priv. dom. final purchases		3.4	2.0	1.8	2.9	4.2	4.7	6.0	5.3	5.1	4.5
Personal cons. expenditures		4.2	1.5	1.7	2.3	3.2	3.8	4.6	4.3	4.2	4.2
Durables		22.8	-8.5	-3.5	4.3	11.3	7.1	9.0	8.3	6.9	7.9
Nondurables		1.0	5.3	4.4	2.0	2.9	3.6	4.3	4.2	4.2	4.4
Services		2.3	1.9	1.3	2.0	1.9	3.2	3.8	3.6	3.7	3.5
Business fixed investment		-0.8	2.3	-3.5	6.3	8.4	7.8	12.5	12.7	13.4	9.0
Equipment & Software		6.7	6.3	-1.9	8.0	11.2	10.2	16.5	16.0	16.2	11.3
Nonres. structures		-21.4	-9.9	-9.1	0.6	-1.0	-0.3	-0.7	1.4	3.3	0.4
Residential structures		1.1	9.5	16.7	4.9	8.5	11.1	12.5	4.3	-0.2	-0.6
Exports		4.6	-5.9	2.5	5.8	7.6	10.2	6.7	9.0	9.2	11.3
Imports		3.3	7.3	0.1	9.0	7.8	6.0	9.0	11.5	10.1	7.8
Gov't. cons. & investment		2.9	4.6	3.9	3.9	2.0	1.6	1.9	1.7	1.5	1.9
Federal		4.3	11.2	8.1	8.1	2.5	1.0	1.8	1.1	0.5	1.7
Defense		6.9	11.4	10.5	10.2	1.8	-0.7	0.3	0.1	-0.7	0.8
State & local		2.2	1.2	1.6	1.6	1.7	2.0	1.9	2.0	2.1	2.1
Change in bus. inventories	Bill. Ch. \$	18.8	27.1	21.0	15.9	23.0	24.8	28.0	44.5	58.8	63.1
Nonfarm		20.8	27.8	20.4	14.9	21.9	23.5	26.7	43.1	57.3	61.4
Net exports		-488.0	-532.0	-525.6	-545.2	-556.1	-553.5	-571.7	-594.1	-611.1	-612.9
Nominal GDP	% change	5.1	3.0	4.3	3.8	4.9	5.7	6.6	6.0	5.7	5.5
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	130.8	130.8	130.6	130.5	131.2	132.2	133.2	134.2	135.2	136.1
Unemployment rate	%	5.8	5.9	5.8	6.1	6.2	6.1	6.0	5.9	5.7	5.5
Industrial prod. index	% change	3.4	-3.1	1.9	0.9	5.4	6.0	6.4	6.0	5.8	5.5
Capacity util. rate - mfg.	%	74.3	73.5	73.5	73.6	74.4	75.4	76.4	77.3	78.1	78.8
Housing starts	Millions	1.70	1.76	1.82	1.86	1.90	1.97	2.02	1.99	1.99	1.98
Light motor vehicle sales		17.63	16.50	15.68	16.00	17.04	17.16	17.37	17.52	17.54	17.60
North Amer. produced		14.27	13.25	12.38	12.72	13.70	13.82	13.93	14.07	14.09	14.15
Other		3.35	3.24	3.29	3.28	3.34	3.34	3.44	3.45	3.45	3.45
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	10495.3	10575.2	10693.5	10802.6	10931.3	11082.7	11259.9	11423.2	11582.6	11738.2
Nominal GNP	% change	5.5	3.1	4.5	4.1	4.8	5.7	6.6	5.9	5.7	5.5
Nominal personal income		3.6	3.8	3.7	3.8	4.9	5.3	5.6	5.3	5.2	5.0
Real disposable income		3.1	2.7	1.7	1.2	3.9	5.9	8.5	3.9	3.9	3.7
Personal saving rate	%	3.8	4.2	4.3	4.1	4.3	4.8	5.7	5.6	5.6	5.5
Corp. profits, IVA & CCAdj.	% change	-6.9	-5.3	0.4	6.9	11.2	10.9	12.1	9.6	9.0	8.5
Profit share of GNP	%	7.3	7.2	7.1	7.2	7.3	7.4	7.5	7.5	7.6	7.6
Excluding FR Banks		7.1	7.0	6.9	7.1	7.1	7.2	7.3	7.4	7.4	7.4
Federal surpl./deficit	Bill. \$	-200.7	-254.6	-267.0	-271.8	-255.3	-290.4	-364.7	-347.3	-331.4	-270.4
State & local surpl./def.		-52.5	-48.8	-61.6	-65.8	-60.0	-48.5	-38.8	-33.8	-27.8	-13.3
Ex. social ins. funds		-52.4	-48.7	-61.5	-65.7	-59.9	-48.4	-38.7	-33.7	-27.7	-13.2
Gross natl. saving rate	%	15.0	14.7	14.5	14.4	14.8	15.0	15.3	15.5	15.7	15.8
Net natl. saving rate		1.9	1.5	1.2	1.1	1.6	1.9	2.2	2.4	2.7	2.8
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	1.0	1.6	2.0	1.4	1.0	1.2	1.6	1.2	1.1	1.1
Gross Domestic Purchases chn.-wt. price index		1.2	1.6	3.0	1.9	0.5	0.9	1.3	1.0	0.9	1.0
PCE chn.-wt. price index		1.7	1.6	2.3	2.2	0.5	0.9	1.0	1.0	0.9	1.0
Ex. food and energy		1.8	1.3	0.7	1.6	1.5	1.4	1.2	1.1	1.0	1.0
CPI		2.2	2.0	3.8	2.8	0.4	1.1	1.4	1.4	1.4	1.5
Ex. food and energy		2.1	1.7	1.7	2.2	2.0	1.9	1.9	1.8	1.7	1.7
ECI, hourly compensation <sup>1</sup>		2.5	2.8	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Nonfarm business sector		5.5	0.8	3.2	2.3	1.0	1.2	1.7	1.6	1.6	1.5
Output per hour		5.4	4.6	3.4	3.1	3.1	3.0	3.1	3.0	2.9	2.8
Compensation per hour		-0.1	3.8	0.2	0.8	2.1	1.8	1.3	1.3	1.3	1.3

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

March 13, 2003

Item	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	01Q4/ 99Q4	01Q4/ 00Q4	02Q4/ 01Q4
Real GDP	0.6	1.1	-0.6	-1.6	-0.3	2.7	5.0	1.3	4.0	2.3	0.1	2.9	3.9
Gross dom. purchases	1.3	1.3	-1.1	-1.2	-0.1	3.0	5.8	2.7	4.0	3.0	0.2	3.9	3.9
Final sales	1.7	1.2	2.7	-0.5	-0.2	4.1	2.5	-0.1	3.5	2.6	1.6	1.7	2.0
Priv. dom. final purchases	2.6	1.0	1.2	-1.0	0.3	2.6	2.2	1.1	2.9	3.1	0.8		
Personal cons. expenditures	2.5	1.4	1.5	0.9	1.0	4.1	2.2	1.2	2.9	2.4	1.9	1.9	
Durables	0.6	-0.4	0.9	0.4	0.4	2.5	-0.6	0.2	1.7	0.3	1.0	0.2	
Nondurables	0.4	0.5	0.5	-0.1	0.3	0.7	1.6	-0.0	0.2	0.6	0.3	0.7	
Services	1.5	1.3	0.2	0.6	0.4	0.9	1.2	1.1	1.0	1.5	0.5	1.0	
Business fixed investment	0.5	-0.4	-0.7	-1.9	-0.7	-1.3	-0.7	-0.7	-0.3	-0.1	0.8	-1.2	-0.2
Equipment & Software	0.1	-0.5	-0.6	-1.6	-0.8	-0.2	-0.2	-0.2	0.3	0.5	-0.5	0.3	
Nonres. structures	0.4	0.1	-0.1	-0.3	0.1	-1.1	-0.4	-0.5	-0.6	0.3	-0.4	-0.5	
Residential structures	-0.4	0.0	0.3	-0.0	0.0	-0.2	0.6	0.1	0.1	-0.1	0.0	0.0	
Net exports	-0.7	-0.2	0.5	-0.4	-0.2	-0.3	-0.8	-1.4	-0.0	-0.8	-0.1	-1.0	
Exports	1.3	-0.5	-0.7	-1.4	-1.9	-1.0	0.3	1.3	0.5	0.8	-1.3	0.4	
Imports	-2.0	0.2	1.2	1.0	1.7	0.7	-1.1	-2.7	-0.5	-1.5	1.2	-1.3	
Government cons. & invest.	-0.2	0.5	1.0	0.0	-0.2	1.9	1.0	0.3	0.6	0.2	0.9	0.7	
Federal	-0.5	0.1	0.5	0.4	0.1	0.8	0.5	0.5	0.3	-0.1	0.4	0.5	
Defense	-0.2	0.2	0.3	0.1	0.2	0.5	0.5	0.3	0.3	-0.1	0.3	0.4	
Nondefense	-0.2	-0.2	0.2	0.3	-0.1	0.3	0.1	0.2	-0.0	0.0	0.2	0.1	
State and local	0.3	0.4	0.5	0.6	-0.3	1.1	0.6	-0.2	0.3	0.3	0.5	0.2	
Change in bus. inventories	-1.1	-0.1	-3.3	-1.1	-0.1	-1.4	2.6	1.3	0.6	-0.3	-1.5	1.2	
Nonfarm	-1.0	-0.3	-3.4	-0.8	-0.3	-1.4	2.5	1.5	0.7	-0.4	-1.6	1.3	
Farm	-0.2	0.2	0.2	-0.3	0.2	0.1	0.1	-0.2	-0.1	0.1	0.0	-0.0	

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

March 13, 2003

Item	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2004/ Q1Q4	2004/ Q2Q4	2004/ 03Q4
Real GDP												
Gross dom. purchases	1.4	2.3	2.3	3.8	4.5	4.9	4.7	4.6	4.4	2.9	3.2	4.6
Final sales	2.9	2.0	3.0	4.2	4.4	5.6	5.5	5.1	4.4	3.9	3.4	5.1
Priv. dom. final purchases	1.0	2.5	2.5	3.5	4.4	4.8	4.1	4.1	4.2	1.7	3.2	4.3
Personal cons. expenditures	1.7	1.5	2.5	3.5	4.0	5.1	4.5	4.3	3.9	2.0	2.9	4.5
Durables	1.1	1.2	1.6	2.3	2.7	3.2	3.0	2.9	2.9	1.9	3.0	3.0
Nondurables	-1.8	-0.3	0.3	0.9	0.6	0.7	0.7	0.6	0.6	0.2	0.4	0.6
Services	1.0	0.9	0.4	0.6	0.7	0.9	0.8	0.8	0.9	0.7	0.7	0.9
Business fixed investment	0.8	0.6	0.8	1.4	1.6	1.6	1.5	1.5	1.5	1.0	0.9	1.5
Equipment & software	0.2	-0.4	0.6	0.9	0.8	1.3	1.3	1.4	1.0	-0.2	0.5	1.2
Nonres. structures	-0.3	-0.2	0.0	-0.0	-0.0	-0.0	0.0	0.1	1.0	0.3	0.3	1.2
Residential structures	0.4	0.7	0.2	0.4	0.5	0.6	0.2	-0.0	0.0	-0.5	-0.1	0.0
Net exports	-1.6	0.2	-0.7	-0.4	0.1	-0.6	-0.7	-0.5	-0.0	-1.0	-0.2	-0.5
Exports	-0.6	0.2	0.5	0.7	1.0	0.7	0.9	0.9	1.1	0.4	0.6	0.9
Imports	-1.0	-0.0	-1.3	-1.1	-0.9	-1.3	-1.6	-1.4	-1.1	-1.3	-0.8	-1.4
Government cons. & invest.	0.9	0.7	0.7	0.4	0.3	0.4	0.3	0.3	0.4	0.7	0.5	0.3
Federal	0.7	0.5	0.6	0.2	0.1	0.1	0.1	0.0	0.1	0.5	0.3	0.1
Defense	0.5	0.4	0.4	0.1	-0.0	0.0	0.0	-0.0	0.0	0.4	0.2	0.0
Nondefense	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	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.2	0.2
Change in bus. inventories	0.4	-0.2	-0.2	0.3	0.1	0.1	0.6	0.5	0.1	1.2	-0.0	0.3
Nonfarm	0.3	-0.3	-0.2	0.3	0.1	0.1	0.6	0.5	0.1	1.3	-0.0	0.3
Farm	0.1	0.1	0.0	-0.0	0.0	0.0	-0.0	0.0	0.0	-0.0	0.0	0.0

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

Item	Fiscal year			2002				2003				2004				
	2001 <sup>a</sup>	2002 <sup>a</sup>	2003	2004	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget<sup>1</sup></b>																
Receipts <sup>2</sup>	1991	1853	1857	1856	413	523	452	428	403	559	467	440	411	533	472	470
Outlays <sup>2</sup>	1864	2144	2223	509	507	493	536	543	540	525	561	563	556	542	580	
Surplus/deficit <sup>2</sup>	127	-158	-367	-97	16	-41	-108	-139	19	-58	-121	-153	-22	-71	-109	
On-budget	-33	-317	-545	-127	-58	-52	-161	-163	-58	-72	-165	-194	-100	-86	-155	
Off-budget	161	160	167	30	73	11	53	24	77	13	43	41	78	16	46	
Means of financing																
Borrowing	-90	221	273	405	51	21	89	97	112	14	51	138	147	56	105	
Cash decrease	8	-17	37	-21	38	-26	-21	28	17	-43	36	-6	0	-30	15	
Other <sup>3</sup>	-45	-46	-23	-17	8	-11	-27	-16	10	11	-28	-10	5	-4	-8	
Cash operating balance, end of period	44	61	24	45	14	40	61	33	16	59	24	30	30	60	45	
<b>NIPA federal sector</b>																
Receipts	2024	1909	1896	1924	1885	1884	1874	1870	1883	1900	1932	1928	1891	1923	1954	
Expenditures	1909	2039	2157	2257	2031	2079	2075	2117	2150	2172	2187	2219	2256	2270	2285	
Consumption expenditures	517	570	633	663	566	581	590	609	630	644	648	651	664	667	673	
Defense	337	375	421	438	372	383	389	403	418	430	432	439	439	440	442	
Nondefense	180	195	212	225	194	199	201	206	212	214	216	218	225	227	229	
Other spending	1392	1469	1524	1595	1464	1498	1485	1508	1520	1540	1528	1540	1568	1591	1603	
Current account surplus	115	-130	-260	-333	-146	-196	-201	-247	-267	-272	-255	-290	-365	-347	-331	
Gross investment	98	106	115	120	106	107	108	108	114	118	119	119	120	120	121	
Gross saving less gross investment <sup>4</sup>	116	-135	-270	-344	-151	-201	-206	-252	-277	-284	-268	-302	-376	-358	-342	
<b>Fiscal indicators<sup>5</sup></b>																
High-employment (HEB) surplus/deficit	116	-76	-189	-290	-98	-136	-146	-179	-199	-198	-181	-225	-318	-311	-306	
Change in HEB, percent of potential GDP	0.1	1.9	1.0	0.8	1.7	0.3	0.1	0.3	0.2	-0.0	-0.2	0.4	0.8	-0.1	-0.5	
Fiscal impetus (FI) percent of GDP	0.6	1.1	0.8	0.9	0.6	0.4	0.0	0.3	0.2	0.1	0.1	0.2	0.6	0.0	0.0	

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

2. OMB's February 2003 baseline surplus estimates are \$264 billion in FY 2003 and -\$158 billion in FY 2004. CBO's March 2003 baseline surplus estimates are -\$246 billion in FY 2003 and -\$200 billion in FY 2004. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus and the Postal Service surplus are excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.

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

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

5. HEB is gross saving less gross investment (NIPA) in current dollars, with cyclically sensitive receipts and outlays adjusted to the staff's measure of potential output and the NAIRU. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1996) dollars, scaled by real GDP. The annual FI estimates are on a calendar year basis. 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)**

March 13, 2003

Period <sup>1</sup>	Total	Federal government	Nonfederal				Memo: Nominal GDP	
			Households		Business	State and local governments		
			Total	Home mortgages				
<i>Year</i>								
1997	5.5	0.6	7.2	6.4	4.7	9.0	4.0	
1998	6.9	-1.4	9.6	8.2	5.9	12.1	6.3	
1999	6.4	-1.9	8.8	8.3	7.4	10.6	3.4	
2000	4.9	-8.0	8.3	8.4	9.6	9.7	1.3	
2001	6.2	-0.2	7.7	8.6	6.8	6.4	8.6	
2002	7.1	7.6	7.0	9.8	12.4	3.3	11.4	
2003	7.0	8.6	6.7	8.2	10.2	3.3	4.6	
2004	6.8	9.4	6.2	7.0	7.9	4.8	8.0	
						5.3	5.7	
<i>Quarter</i>								
2002:1	5.0	1.2	5.8	9.2	10.3	4.8	2.2	
2	8.3	15.5	6.8	8.7	10.9	4.7	3.4	
3	6.5	7.5	6.3	9.4	12.6	3.3	1.9	
4	7.7	5.6	8.2	10.7	13.7	0.1	4.0	
2003:1	7.4	7.8	7.3	9.4	12.1	3.7	4.5	
2	7.8	13.4	6.7	8.0	10.1	2.8	4.5	
3	5.6	2.9	6.2	7.6	8.9	3.3	4.5	
4	6.5	9.5	5.9	6.9	8.3	3.3	4.7	
2004:1	6.8	10.8	5.9	6.8	8.0	3.9	4.8	
2	7.9	16.4	6.0	6.7	7.7	4.6	5.1	
3	5.7	3.9	6.1	6.8	7.6	5.0	5.3	
4	6.1	5.4	6.3	6.9	7.6	5.4	5.7	
						5.7	5.3	

Note: Quarterly data are at seasonally adjusted annual rates.

1. Data after 2002:Q4 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)**

March 13, 2003

Category	Calendar year				2002				2003				Seasonally adjusted annual rates			
	2001	2002	2003	2004	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2004	
<i>Net funds raised by domestic nonfinancial sectors</i>																
1 Total	1078.5	1324.2	1385.1	1438.1	1167.2	1525.9	1468.0	1578.8	1141.9	1351.8	1427.8	1702.7	1251.0	1370.8		
2 Net equity issuance	-47.4	-40.2	-66.3	-57.0	-130.8	-39.9	-62.0	-72.0	-63.0	-68.0	-66.0	-64.0	-49.0	-49.0		
3 Net debt issuance	1125.9	1364.4	1451.4	1495.1	1298.0	1565.8	1530.0	1650.8	1204.9	1419.8	1493.8	1766.7	1300.0	1419.8		
<i>Borrowing sectors</i>																
Nonfinancial business																
4 Financing gap <sup>1</sup>	141.4	92.7	106.1	144.8	90.2	143.1	112.8	102.6	105.4	103.7	107.4	127.0	146.7	197.8		
5 Net equity issuance	-47.4	-40.2	-66.3	-57.0	-130.8	-39.9	-62.0	-72.0	-63.0	-68.0	-66.0	-64.0	-49.0	-49.0		
6 Credit market borrowing	417.6	201.8	330.7	397.2	132.6	285.0	323.3	325.0	329.8	344.6	355.6	385.8	406.8	440.4		
Households																
7 Net borrowing <sup>2</sup>	611.8	756.9	691.5	637.2	755.7	883.1	794.6	690.5	665.8	615.4	619.0	626.1	642.8	660.9		
8 Home mortgages	478.5	668.4	620.0	529.5	716.7	799.3	733.2	630.2	572.2	544.2	533.2	522.2	527.2	535.2		
9 Consumer credit	108.8	55.5	58.0	87.7	57.9	1.0	65.0	49.1	58.2	59.8	71.1	85.1	93.4	101.2		
10 Debt/DPI (percent) <sup>3</sup>	99.8	103.0	107.4	108.8	103.1	104.5	106.1	107.5	108.4	108.6	107.9	108.4	108.9	109.5		
State and local governments																
11 Net borrowing	102.2	147.4	115.0	88.8	144.0	196.5	127.8	138.8	98.8	94.8	92.8	88.8	86.8	86.8		
12 Current surplus <sup>4</sup>	140.6	130.1	125.2	162.8	128.3	130.1	120.0	117.5	125.0	138.2	149.7	156.5	164.3	180.6		
Federal government																
13 Net borrowing	-5.6	258.2	314.1	371.9	265.7	201.1	284.3	496.5	110.5	365.0	426.5	666.0	163.6	231.7		
14 Net borrowing (quarterly, n.s.a.)	-5.6	258.2	314.1	371.9	89.4	96.9	111.9	13.7	50.6	137.8	147.4	56.1	63.9	104.5		
15 Unified deficit (quarterly, n.s.a.)	-94.3	231.2	300.3	354.9	41.5	108.7	139.4	-18.9	58.4	121.5	152.9	22.1	70.5	109.4		
<i>Depository institutions<sup>5</sup></i>																
16 Funds supplied	289.4	489.6	392.5	440.2	743.6	553.3	344.9	383.6	457.9	383.9	420.9	436.7	443.1	460.1		
<i>Memo (percentage of GDP)</i>																
17 Domestic nonfinancial debt <sup>5</sup>	185.8	191.2	196.6	198.8	191.4	193.3	194.9	196.8	197.7	198.0	198.1	198.8	199.3	199.6		
18 Domestic nonfinancial borrowing	11.2	13.1	13.3	13.0	12.4	14.8	14.3	15.3	11.0	12.8	13.3	15.5	11.2	12.1		
19 Federal government <sup>6</sup>	-0.1	2.5	2.9	3.2	2.5	1.9	2.7	4.6	1.0	3.3	3.8	5.8	1.4	2.0		
20 Nonfederal	11.2	10.6	10.5	9.8	9.8	12.9	11.6	10.7	10.0	9.5	9.5	9.6	9.8	10.1		

Note. Data after 2002: Q4 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

Foreign real GDP growth slowed more sharply in the fourth quarter than estimated in the January Greenbook. With oil prices higher, stock markets stumbling, and consumer sentiment souring, we have lowered the forecast for foreign growth in the first half of this year about  $\frac{1}{2}$  percentage point. The downward revision to the near-term outlook is broad-based across our major trading partners. For the second half of this year and for 2004, however, we continue to project a moderate rebound in growth, as monetary policy remains stimulative, geopolitical uncertainties dissipate, and oil prices come down.

### Summary of Staff Projections

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

Indicator	2002		Projection				2004
	H1	Q3	2002: Q4	2003			
				Q1	Q2	H2	
Foreign output	3.6	2.9	1.3	2.0	2.4	3.0	3.5
<i>January GB</i>	3.3	3.0	1.8	2.4	3.0	3.2	3.5
Foreign CPI	2.4	2.8	2.7	2.8	2.4	2.1	2.0
<i>January GB</i>	2.6	2.7	2.3	2.3	2.1	2.0	2.0

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

Oil prices currently are almost \$5 per barrel higher than anticipated in the January Greenbook, primarily reflecting increased anxiety over the possibility of military action in Iraq and increased demand owing to unusually cold weather in the United States. In line with quotes from futures markets, we project that oil prices will decline to about \$25 per barrel by the end of 2004, about \$1 above our January projection. The upward revision to our near-term outlook for foreign inflation in part reflects the recent pickup in oil prices.

Since the January FOMC meeting, the foreign exchange value of the dollar as measured by the major currencies index has declined about 1 percent on balance amid continued market concerns about geopolitical risks. How unfolding events are likely to affect exchange rates in the near term is unclear, but mindful of the longer-term implications of the large and growing U.S. external imbalance, we project modest depreciation of the dollar over the forecast period.

The U.S. current account deficit as a share of GDP is projected to be nearly  $5\frac{1}{2}$  percent throughout the forecast period. In dollar terms, the deficit is projected to be about \$580 billion in 2003 and \$620 billion in 2004. Net exports are expected to make a positive arithmetic contribution of  $\frac{1}{4}$  percentage point to U.S. real GDP growth in the current quarter as exports recover from a low in 2002:Q4 and imports are little changed. For 2003 as a whole, net exports are

**Selected Trade Prices**

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

Trade category	2002		Projection			2004	
	H1	Q3	2002: Q4	2003			
				Q1	Q2		
<i>Exports</i>							
Core goods	1.2	4.4	1.7	1.7	1.1	.3	1.0
<i>Imports</i>							
Non-oil core goods	-.1	1.2	1.6	3.1	3.7	1.8	1.2
Oil (dollars per barrel)	24.04	25.50	25.75	31.19	32.95	27.12	22.29

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.

The price index for U.S. exports of core goods is projected to rise at an annual rate of about 1½ percent in the first quarter of 2003, about the same as in the fourth quarter of last year. We project that core export inflation will slow in the second half of 2003 and return to about 1 percent in 2004, in line with projected U.S. producer price inflation.

**Trade in Goods and Services**

In the fourth quarter of 2002, real exports of goods and services fell 6 percent at an annual rate. The surprisingly large decline in real exports in the fourth quarter was the first decrease recorded in a year and occurred in core goods (particularly machinery, aircraft, and automotive products) and semiconductors, reflecting, in part, slowing economic growth in our important trading partners. In contrast, real exports of computers and services receipts rose in the fourth quarter.

We anticipate that some of the fourth-quarter decline in exports will be reversed in the current quarter. The value of exported goods rebounded in January and reversed more than half of the sharp drop in December, with increases widespread across trade categories. Services receipts edged down slightly in January after rising steadily for four months. We project that growth of real exports of goods and services will average a sluggish 2½ percent at an annual rate in the current quarter, as core goods, computers, and services each expand only moderately, largely reflecting the effects of weak foreign demand. We project that the declines in exported semiconductors will bottom out in the current quarter as the slump in high-tech markets begins to ease.

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

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

Measure	2002		Projection				2004	
	H1	Q3	2002: Q4	2003				
				Q1	Q2	H2		
Real exports	8.7	4.6	-5.9	2.5	5.8	8.9	9.0	
<i>January GB</i>	8.7	4.6	-1.0	4.0	7.7	9.1	8.8	
Real imports	15.2	3.3	7.3	0.1	9.0	6.9	9.6	
<i>January GB</i>	15.2	3.3	2.9	2.5	9.1	7.2	9.2	

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

Looking forward, we expect real exports of goods and services to pick up noticeably in the second quarter and to accelerate to about 9 percent at an annual rate in the second half of this year and in 2004. Most of the rise in exports of core goods, which are projected to increase more than 7 percent in the second half of this year and next year, reflects the pick-up in foreign economic growth, although a weaker dollar also provides a lift. Moreover, we have built in some additional strength in exports of core goods over the forecast period, in line with our view that trade in core goods generally shows greater cyclical fluctuation than would be expected from its trend relationship with real GDP and relative prices. Exports of services are expected to increase around 5½ percent at an annual rate over the forecast period. In addition, exports of computers and semiconductors are expected to recover significantly from the high-tech downturn and to resume growth that is broadly in line with historical experience.

Real imports of goods and services rose a surprisingly strong 7¼ percent annual rate in the fourth quarter of 2002, with particularly large increases in imported oil and services. Imports of core goods grew 5 percent at an annual rate, about the same pace as in the third quarter and notably slower than in the first half of 2002, when the cyclical rebound in imports was more pronounced. In the fourth quarter, there were sharp increases in imported consumer goods and aircraft, moderate rises in industrial supplies and food, but declines in automotive products and machinery. Imports of computers rose only moderately. For semiconductors, the decline in real imports nearly matched the drop in exports.

In January, the value of imported goods and services moved down from the high levels recorded in November and December. The decrease in January came largely from core goods, especially consumer goods, automotive products from Europe and Japan, and industrial supplies. Services payments declined only slightly in January from a high recorded in December. With January trade data

**Alternative Simulation:**  
**Dollar Appreciation vs. Major Foreign Industrial Countries**  
(Percent change from previous period, annual rate)

Indicator and simulation	2003		2004	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	2.3	4.1	4.8	4.5
Dollar appreciation	2.3	3.8	4.5	4.0
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	1.2	1.4	1.2	1.0
Dollar appreciation	1.2	1.0	0.9	0.8

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	1996	1997	1998	1999	2000	2001	2002	2003	2004	-----Projected-----
<b>REAL GDP (1)</b>										
Total foreign	4.0	4.2	1.6	4.9	4.2	0.1	2.8	2.6	3.5	
Industrial Countries	2.7	3.4	2.7	4.1	3.5	0.3	2.8	1.8	2.7	
of which:										
Canada	2.7	4.4	4.4	5.7	3.5	0.8	3.9	2.6	3.1	
Japan	3.3	0.3	-1.3	-0.5	5.1	-2.4	2.8	-0.5	1.2	
United Kingdom	2.8	3.7	2.6	3.2	2.2	1.6	2.1	1.8	2.5	
Euro Area (2)	1.6	3.1	2.1	3.8	2.7	0.5	1.3	1.4	2.7	
Germany	1.4	1.7	0.7	3.3	1.9	0.1	0.7	0.6	2.2	
Developing Countries	6.2	5.3	-0.2	6.2	5.2	-0.3	2.9	3.9	4.7	
Asia	6.6	4.9	-2.0	8.6	6.2	1.0	5.2	5.0	5.7	
Korea	6.4	3.4	-5.2	13.8	5.1	4.4	6.0	5.0	5.4	
China	5.3	8.7	9.5	4.1	8.0	7.5	8.0	7.3	7.7	
Latin America	6.3	6.2	1.2	4.4	4.4	-1.5	1.1	3.2	4.2	
Mexico	7.1	6.9	2.9	5.6	4.7	-1.5	2.1	3.8	4.9	
Brazil	5.4	2.5	-1.6	3.5	4.0	-0.7	3.4	1.7	2.0	
<b>CONSUMER PRICES (3)</b>										
Industrial Countries	1.5	1.5	1.0	1.2	1.8	1.0	2.2	1.5	1.2	
of which:										
Canada	2.0	1.0	1.1	2.4	3.1	1.1	3.8	2.8	2.2	
Japan	0.2	2.1	0.7	-1.1	-1.3	-1.3	-0.4	-1.0	-0.8	
United Kingdom (4)	3.2	2.7	2.5	-2.1	2.1	2.0	2.6	2.8	2.2	
Euro Area (2)	1.9	1.5	0.8	1.5	2.4	2.2	2.3	1.8	2.1	
Germany	1.3	1.5	0.3	1.1	1.7	1.7	1.1	0.9	0.6	
Developing Countries	11.1	6.8	9.0	4.6	4.1	2.8	2.9	3.4	2.8	
Asia	4.8	2.7	4.4	0.1	1.8	1.0	0.7	2.2	1.9	
Korea	5.0	4.9	5.8	1.2	2.5	3.3	3.4	4.3	3.1	
China	6.8	0.9	-1.2	-0.9	0.8	-0.2	-0.7	1.2	1.2	
Latin America	25.8	15.5	15.4	12.5	8.4	5.4	6.5	5.2	4.5	
Mexico	28.0	17.0	17.3	13.5	8.8	5.2	5.3	3.8	3.6	
Brazil	9.6	4.6	2.0	8.4	6.4	7.5	10.7	13.3	8.7	

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	2002				2003				Projected - 2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>REAL GDP (1)</b>												
Total foreign	2.7	4.5	2.9	1.3	2.0	2.4	2.9	3.2	3.4	3.5	3.5	3.5
Industrial Countries	3.4	3.4	2.8	1.4	1.1	1.6	2.1	2.4	2.6	2.7	2.7	2.7
of which:												
Canada	6.0	4.4	3.6	1.6	-2.3	2.3	2.7	3.1	3.3	3.3	3.0	2.9
Japan	0.4	5.5	3.1	2.2	-2.4	-0.5	0.3	0.6	1.0	1.2	1.3	1.3
United Kingdom	0.6	2.5	3.8	1.5	-1.2	1.7	2.0	2.1	2.2	2.4	2.6	2.8
Euro Area (2)	1.6	1.3	1.6	0.7	0.7	1.1	1.6	2.0	2.4	2.7	3.0	2.9
Germany	1.2	0.6	1.2	-0.1	-0.0	0.4	0.8	1.3	1.7	2.1	2.6	2.6
Developing Countries	1.6	6.1	3.0	1.2	3.5	3.7	4.2	4.4	4.7	4.7	4.8	4.8
Asia	5.7	7.3	3.7	4.2	4.7	4.7	5.2	5.4	5.6	5.7	5.8	5.8
Korea	7.9	5.8	5.1	5.1	4.8	5.0	5.1	5.2	5.3	5.3	5.4	5.5
China	8.5	9.3	7.5	6.8	7.0	7.0	7.7	7.7	7.7	7.7	7.7	7.7
Latin America	-1.5	5.3	2.2	-1.3	2.7	2.9	3.5	3.7	4.2	4.2	4.2	4.2
Mexico	-0.7	7.4	1.2	0.6	3.3	3.3	4.1	4.4	4.9	4.9	4.9	4.9
Brazil	3.7	3.4	3.7	2.9	1.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<b>CONSUMER PRICES (3)</b>												
Industrial Countries	1.2	1.0	1.4	2.2	2.2	2.1	1.9	1.5	1.2	1.1	1.1	1.2
of which:												
Canada	1.6	1.3	2.3	3.8	4.1	3.9	3.3	2.8	2.1	1.9	2.0	2.2
Japan	-1.5	-1.1	-0.9	-0.4	-0.5	-0.7	-0.8	-1.0	-0.8	-0.8	-0.8	-0.8
United Kingdom (4)	-2.4	1.9	2.0	2.6	3.0	3.3	3.2	2.8	2.2	2.2	2.1	2.2
Euro Area (2)	2.6	2.0	2.1	2.3	2.1	2.1	1.8	1.8	1.5	1.3	1.3	1.3
Germany	1.9	1.0	1.1	1.1	0.9	1.2	1.1	0.9	0.8	0.7	0.6	0.6
Developing Countries	2.6	2.5	2.6	2.9	3.3	3.3	3.4	3.4	3.3	3.1	3.0	2.8
Asia	0.8	0.6	0.5	0.7	1.3	1.5	1.9	2.2	2.0	2.0	2.0	1.9
Korea	2.6	2.6	2.5	3.4	4.0	3.8	4.3	4.3	3.9	3.5	3.2	3.1
China	-0.6	-1.1	-0.8	-0.7	0.1	0.4	0.7	1.2	1.0	1.1	1.2	1.2
Latin America	5.1	5.4	6.0	6.5	6.8	6.3	5.6	5.2	5.5	5.1	4.8	4.5
Mexico	4.8	4.8	5.2	5.3	5.3	4.7	4.0	3.8	4.6	4.3	3.9	3.6
Brazil	7.7	7.9	7.7	10.7	15.2	16.4	13.3	9.4	8.8	8.7	8.7	8.7

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

	1996	1997	1998	1999	2000	2001	2002	2003	Projected 2004
<b>NIPA REAL EXPORTS and IMPORTS</b>									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services									
Exports of G&S	-0.2	-0.8	-1.1	-1.0	-0.8	-0.1	-1.0	-0.2	-0.5
Imports of G&S	-1.1	-1.0	0.3	0.5	0.8	-1.3	0.4	0.6	-0.9
Percentage change, Q4/Q4									
Exports of G&S									
Services	9.8	8.5	2.3	4.9	7.3	-11.4	3.9	6.5	9.0
Computers	8.9	1.4	2.9	3.2	4.8	-9.2	11.4	4.1	5.5
Semiconductors	21.6	25.8	8.1	13.4	23.0	-23.4	-2.0	30.4	33.5
Other Goods 1/	44.6	21.6	9.1	34.6	26.9	-34.9	8.6	27.3	36.0
7.3	9.8	1.3	3.2	5.7	-9.4	0.5	5.0	7.4	
Imports of G&S									
Services	11.2	14.3	10.8	11.9	11.1	-8.0	10.1	5.7	9.6
Oil	5.3	14.0	8.5	5.9	10.9	-8.6	11.6	2.6	5.7
Computers	7.8	3.9	4.1	-3.4	13.3	0.1	4.1	-1.9	4.9
Semiconductors	17.8	33.0	25.8	26.0	13.6	-13.8	13.8	34.8	33.5
Other Goods 2/	56.7	32.9	-8.7	34.2	22.5	-51.4	9.3	26.0	36.0
10.4	12.7	11.5	12.7	10.4	-6.2	10.0	4.8	8.5	
Billions of chained 1996 dollars									
Net Goods & Services									
Exports of G&S	-89.0	-113.3	-221.1	-320.5	-398.8	-415.9	-488.5	-545.1	-597.5
Imports of G&S	874.2	981.5	1002.4	1036.3	1137.2	1076.1	1058.8	1096.3	1188.8
	963.1	1094.8	1223.5	1356.8	1536.0	1492.0	1547.3	1641.3	1786.3
US CURRENT ACCOUNT BALANCE									
Current Acct as Percent of GDP	-117.8	-128.4	-203.8	-292.9	-410.3	-393.4	-506.0	-581.4	-619.5
	-1.5	-1.5	-2.3	-3.2	-4.2	-3.9	-4.8	-5.3	-5.4
Net Goods & Services (BOP)									
	-101.8	-107.8	-166.9	-262.2	-378.7	-358.3	-435.7	-528.2	-554.7
Investment Income, Net									
Direct, Net	28.6	25.1	12.7	23.9	27.6	20.5	-5.3	8.5	6.7
Portfolio, Net	69.4	72.4	65.5	75.0	88.9	102.6	80.3	93.9	98.1
-40.8	-47.3	-52.9	-51.1	-61.2	-82.1	-85.6	-85.6	-85.4	-91.3
Other Income & Transfers, Net									
	-44.6	-45.7	-49.6	-54.5	-59.3	-55.6	-65.0	-61.8	-71.5

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

	1999								2000								2001											
	Q1				Q2				Q3				Q4				Q1				Q2				Q3			
	NIPA REAL EXPORTS and IMPORTS								Percentage point contribution to GDP growth								Percentage change from previous period, s.a.a.r.											
Net Goods & Services	-1.8	-1.4	-0.7	0.1	-1.1	-0.7	-0.7	-0.2	0.5	-0.4	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.2	-0.2	-0.3	-2.0	-2.0	-1.0	-1.0				
Exports of G&S	-0.8	0.4	1.1	1.3	0.8	1.5	1.2	0.5	-0.7	-0.5	-1.4	-1.0	-1.0	-1.0	-1.0	-1.0	-1.4	-1.0	-1.0	-1.0	-3.9	-3.9	-3.7	-3.7				
Imports of G&S	-1.0	-1.9	-1.8	-1.2	-1.9	-2.5	-1.9	-0.3	1.2	1.2	1.9	1.9	1.9	1.9	1.9	1.9	1.2	1.0	1.7	1.7	0.7	0.7	0.7	0.7				
Exports of G&S Services	-6.9	4.3	10.6	12.6	7.7	14.6	11.6	-4.0	-6.0	-12.4	-17.3	-9.6	-9.6	-9.6	-9.6	-9.6	-12.4	-17.3	-17.3	-17.3	-17.3	-17.3	-17.3	-17.3				
Computers	-1.5	3.4	4.7	6.4	10.2	11.2	5.9	4.4	-6.0	-6.0	-2.5	-13.8	-13.8	-13.8	-13.8	-13.8	-13.9	-13.9	-13.9	-13.9	-13.9	-13.9	-13.9	-13.9				
Semiconductors	0.8	24.7	20.6	9.2	33.5	45.9	28.8	-8.8	-7.3	-41.7	-17.6	-17.6	-17.6	-17.6	-17.6	-17.6	-47.3	-47.3	-47.3	-47.3	-47.3	-47.3	-47.3	-47.3				
Other Goods 1/	34.2	45.2	41.3	19.0	14.6	43.4	-17.5	-17.5	-34.6	-34.6	-40.9	-11.7	-11.7	-11.7	-11.7	-11.7	-10.5	-10.5	-10.5	-10.5	-10.5	-10.5	-10.5	-10.5				
Imports of G&S Services	8.4	15.4	14.5	9.4	14.7	18.6	13.8	-1.6	-7.9	-6.8	-11.8	-5.3	-5.3	-5.3	-5.3	-5.3	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8				
Oil	0.2	6.8	9.7	7.1	20.7	9.6	15.1	-0.5	-0.5	-0.5	-8.5	-16.5	-16.5	-16.5	-16.5	-16.5	-8.5	-8.5	-8.5	-8.5	-8.5	-8.5	-8.5	-8.5				
Computers	3.9	29.8	-5.8	-31.5	28.6	40.4	-2.3	-6.5	-23.3	-23.3	-26.9	3.9	3.9	3.9	3.9	3.9	7.2	7.2	7.2	7.2	7.2	7.2	7.2	7.2				
Semiconductors	35.0	43.7	14.4	13.4	2.5	40.4	27.9	-9.5	-9.5	-21.6	-24.5	-14.6	-14.6	-14.6	-14.6	-14.6	-24.5	-24.5	-24.5	-24.5	-24.5	-24.5	-24.5	-24.5				
Other Goods 2/	23.0	67.9	16.3	35.0	23.5	50.0	69.8	-28.5	-28.5	-43.9	-68.8	-27.5	-27.5	-27.5	-27.5	-27.5	-68.8	-68.8	-68.8	-68.8	-68.8	-68.8	-68.8	-68.8				
Net Goods & Services	-283.2	-319.6	-339.6	-339.5	-368.8	-394.6	-413.1	-418.5	-404.5	-414.8	-419.0	-425.3	-425.3	-425.3	-425.3	-425.3	-1098.8	-1098.8	-1098.8	-1098.8	-1098.8	-1098.8	-1098.8	-1098.8				
Exports of G&S	1007.5	1018.1	1044.1	1075.6	1095.8	1133.9	1165.5	1153.7	1135.8	1135.8	111.3	1021.8	1021.8	1021.8	1021.8	1021.8	1513.6	1513.6	1513.6	1513.6	1513.6	1513.6	1513.6	1513.6				
Imports of G&S	1290.7	1337.7	1383.7	1415.2	1464.6	1528.5	1578.6	1572.2	1540.3	1540.3	151.2	1447.2	1447.2	1447.2	1447.2	1447.2	1447.2	1447.2	1447.2	1447.2	1447.2	1447.2	1447.2	1447.2				
US CURRENT ACCOUNT BALANCE	-238.7	-280.6	-320.6	-331.6	-376.4	-392.3	-428.7	-443.9	-430.9	-396.9	-365.3	-380.3	-380.3	-380.3	-380.3	-380.3	-3.9	-3.9	-3.9	-3.9	-3.9	-3.9	-3.9	-3.9				
Current Account as % of GDP	-2.6	-3.1	-3.4	-3.5	-3.9	-4.0	-4.3	-4.5	-4.5	-4.5	-3.6	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7				
Net Goods & Services (BOP)	-209.5	-253.4	-286.5	-299.6	-348.7	-367.7	-393.3	-405.0	-388.6	-373.3	-319.1	-352.1	-352.1	-352.1	-352.1	-352.1	-352.1	-352.1	-352.1	-352.1	-352.1	-352.1	-352.1	-352.1				
Investment Income, Net	20.8	24.9	18.3	31.5	25.1	30.6	22.1	32.8	10.3	30.1	9.4	32.4	32.4	32.4	32.4	32.4	111.3	95.6	95.6	95.6	95.6	95.6	95.6	95.6				
Direct, Net	72.3	71.4	71.3	85.0	79.0	86.9	89.2	100.3	89.0	111.3	111.3	114.4	114.4	114.4	114.4	114.4	81.2	86.3	86.3	86.3	86.3	86.3	86.3	86.3				
Portfolio, Net	-51.5	-46.5	-53.0	-53.5	-53.9	-56.3	-67.1	-67.5	-78.7	-81.2	-81.2	-82.0	-82.0	-82.0	-82.0	-82.0	-82.0	-82.0	-82.0	-82.0	-82.0	-82.0	-82.0	-82.0				
Other Inc. & Transfers, Net	-50.0	-52.1	-52.4	-63.5	-52.8	-55.3	-57.5	-71.7	-52.5	-53.7	-55.6	-60.6	-60.6	-60.6	-60.6	-60.6	-60.6	-60.6	-60.6	-60.6	-60.6	-60.6	-60.6	-60.6				

1. Merchandise exports excluding computers and semiconductors.

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

	2002				2003				Projected				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>NIPA REAL EXPORTS and IMPORTS</b>																
Net Goods & Services	-0.7	-1.4	0.0	-1.6	0.2	-0.7	-0.4	0.1	-0.6	-0.7	-0.5	-0.0	-0.7	-0.9	-0.5	-0.0
Exports of G&S	0.3	1.3	0.5	-0.6	0.2	0.5	0.7	1.0	0.7	0.9	0.9	1.1	-1.3	-1.6	-1.4	-1.1
Imports of G&S	-1.1	-2.7	-0.4	-1.0	-0.0	-1.2	-1.1	-0.9	-1.3	-1.6	-1.4	-1.1	-1.3	-1.6	-1.4	-1.1
Exports of G&S Services	3.5	14.3	4.6	-5.9	2.5	5.8	7.6	10.2	6.7	9.0	9.2	11.3	5.5	5.6	5.5	5.7
Computers	21.7	10.7	5.9	7.8	1.8	3.4	5.8	5.6	5.3	5.3	5.3	5.7	33.5	33.5	33.5	33.5
Semiconductors	-21.1	-0.5	-0.8	18.5	23.9	31.1	33.5	33.5	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0
Other Goods 1/	-13.7	65.8	21.3	-39.2	8.2	31.0	36.0	36.0	39.5	39.5	38.7	38.7	38.7	38.7	38.7	38.7
Imports of G&S Services	8.5	22.2	3.3	7.3	0.1	9.0	7.8	6.0	9.0	11.5	10.1	7.8	6.0	5.6	5.6	5.3
Oil	-19.0	34.5	-13.3	24.2	-25.5	40.2	12.9	-21.3	-21.3	-0.0	31.5	11.7	-17.4	-17.4	-17.4	-17.4
Computers	52.4	5.6	-4.4	8.9	41.1	31.1	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5
Semiconductors	45.2	41.8	-5.9	-26.4	4.1	31.1	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0
Other Goods 2/	1.9	28.8	6.3	4.9	0.7	5.4	5.8	7.5	8.3	8.7	8.6	8.3	8.6	8.6	8.6	8.3
Net Goods & Services	-446.6	-487.4	-488.0	-532.0	-525.6	-545.2	-556.1	-553.5	-571.7	-594.1	-611.1	-612.9	-612.9	-612.9	-612.9	-612.9
Exports of G&S	1030.6	1065.5	1077.7	1061.5	1068.1	1083.0	1103.3	1130.4	1148.8	1173.9	1199.9	1232.6	1232.6	1232.6	1232.6	1232.6
Imports of G&S	1477.1	1552.9	1565.7	1593.5	1593.7	1628.4	1659.3	1683.9	1720.5	1768.0	1811.1	1845.5	1845.5	1845.5	1845.5	1845.5
<b>US CURRENT ACCOUNT BALANCE</b>																
Current Account as % of GDP	-4.4	-4.9	-4.8	-5.3	-5.3	-5.4	-5.3	-5.3	-5.3	-5.3	-5.4	-5.4	-5.4	-5.4	-5.4	-5.4
Net Goods & Services (BOP)	-382.5	-437.8	-441.0	-481.4	-509.3	-539.3	-537.2	-526.8	-526.8	-538.3	-553.4	-564.4	-564.4	-564.4	-564.4	-564.4
Investment Income, Net	2.7	-14.5	-5.5	-3.9	1.5	11.3	11.2	9.8	8.3	7.1	6.1	5.4	5.4	5.4	5.4	5.4
Direct, Net	88.3	75.2	75.3	82.6	86.9	96.0	96.4	96.4	96.4	97.0	98.4	100.4	100.4	100.4	100.4	100.4
Portfolio, Net	-85.5	-89.7	-80.8	-86.5	-85.4	-84.6	-85.2	-85.2	-86.5	-88.1	-89.9	-92.3	-92.3	-92.3	-92.3	-92.3
Other Inc. & Transfers, Net	-70.6	-58.7	-59.2	-71.5	-58.5	-58.5	-71.5	-71.5	-71.5	-71.5	-71.5	-71.5	-71.5	-71.5	-71.5	-71.5

1. Merchandise exports excluding computers and semiconductors.

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

## **Part 2**

March 13, 2003

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## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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### **Recent Developments**

Confidential (FR) Class III FOMC

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March 13, 2003

## **Recent Developments**

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

Total motor vehicle production dropped to an annual rate of 12.3 million units in February, 600,000 units below the exceptionally strong rate in January.<sup>5</sup> Even with the decline in assemblies, inventories of light vehicles surged 100,000 units (not at an annual rate), and days' supply increased to almost 74 days last month, well above manufacturers' targeted range. Although production schedules for March call for assemblies to remain near their current pace, the automakers have announced plans to slash production to 11.7 million units in the second quarter in an effort to reduce their bloated inventories.

### **Production of Domestic Autos and Trucks**

(Millions of units at an annual rate except as noted; FRB seasonal basis)

Item	2002		2003		2002	2003		
	H1	Q4	Q1 <sup>1</sup>	Q2 <sup>1</sup>	Dec.	Jan.	Feb.	Mar. <sup>1</sup>
U.S. production	12.3	12.4	12.4	11.7	11.9	12.9	12.3	12.2
Autos	5.2	4.9	4.7	4.6	4.6	5.2	4.5	4.5
Trucks	7.1	7.5	7.7	7.2	7.4	7.7	7.8	7.7
Total days' supply <sup>2</sup>	61.3	63.1	n.a.	n.a.	56.5	67.6	73.9	n.a.
Inventories <sup>3</sup>	2.61	2.73	n.a.	n.a.	2.73	2.81	2.91	n.a.

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

1. Production rates reflect Ward's Communications' latest schedules for March and Q2.

2. Semiannual and quarterly figures calculated using end-of-period stocks and average reported sales.

3. End-of-period stocks; excludes medium and heavy trucks (classes 3-8).

n.a. Not available.

### **Consumer Spending**

After a sizable jump in December, consumer spending moved down in both January and February, largely reflecting the fall in motor vehicle sales. Apart from motor vehicles, spending advanced at a brisk pace in January but edged lower in February. At least part of the weakness last month was due to the snowstorms that kept many consumers at home. Nevertheless, economic fundamentals may also have been at work: Although increases in nominal income have been well maintained in recent months, rising energy prices have eaten into some of these gains, and both consumer sentiment and net worth have deteriorated noticeably.

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5. Weather in February is estimated to have had little effect on motor vehicle production. Available data suggest that the snowstorms shaved less than 100,000 units at an annual rate from the month's output.

### Administration Budget Projections and Economic Assumptions

Item	2003	2004	2005	2006	2007	2008
<b>Budget projections (fiscal years)</b>	Billions of dollars					
<i>Current proposal</i>						
Total surplus	-304	-307	-208	-201	-178	-190
On-budget	-468	-482	-407	-412	-406	-433
Off-budget	163	175	199	211	228	243
<i>Current services baseline</i>						
Total surplus	-264	-158	-40	5	29	51
On-budget	-425	-330	-237	-207	-199	-192
Off-budget	160	172	197	211	228	243
<b>Economic assumptions (calendar years)</b>	Percent change, fourth quarter to fourth quarter					
Real GDP	3.4	3.6	3.4	3.3	3.1	3.1
GDP price index	1.4	1.5	1.6	1.7	1.8	1.8
CPI-U	2.0	2.1	2.1	2.2	2.2	2.3
	Percent, annual average					
Unemployment rate	5.7	5.5	5.2	5.1	5.1	5.1
Treasury yields						
Three-month	1.6	3.3	4.0	4.2	4.2	4.3
Ten-year	4.2	5.0	5.3	5.4	5.5	5.6

Note. The on-budget surplus excludes social security and the Postal Service (which are off-budget). The current services baseline assumes that budget authority for discretionary spending grows at the rate of inflation after 2003.

Source. Office of Management and Budget, *Budget of the U.S. Government: Fiscal Year 2004* (February 2003).

Confidential (FR) Class III FOMC

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March 14, 2003

## CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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### **Supplemental Notes**

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

March 14, 2003

**University of Michigan Survey Research Center: Survey of Consumer Attitudes**  
**Indexes of consumer sentiment**  
**(Not seasonally adjusted)**

Category	2002					2003		
	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar. <sup>P</sup>
Composite of current and expected conditions <sup>1</sup>	87.6	86.1	80.6	84.2	86.7	82.4	79.9	75.0
Current conditions <sup>1</sup>	98.5	95.8	92.4	93.1	96.0	97.2	95.4	87.1
Expected conditions <sup>1</sup>	80.6	79.9	73.1	78.5	80.8	72.8	69.9	67.2
Personal financial situation								
Now compared with 12 months ago <sup>2</sup>	110	103	99	97	104	107	102	93
Expected in 12 months <sup>2</sup>	131	130	132	129	135	126	127	120
Expected business conditions								
Next 12 months <sup>2</sup>	95	100	74	93	91	80	66	62
Next 5 years <sup>2</sup>	97	91	87	92	97	86	86	86
Appraisal of buying conditions								
Cars	152	158	156	153	155	152	140	144
Large household appliances <sup>2</sup>	146	145	140	143	144	145	145	132
Houses	163	161	157	165	165	164	165	155
Willingness to use credit	42	47	44	48	41	44	37	39
Willingness to use savings	62	52	52	62	57	59	53	50
Expected unemployment change - next 12 months	129	120	131	123	127	131	130	133
Prob. household will lose a job - next 5 years	25	23	26	25	27	25	26	22
Expected inflation - next 12 months								
Mean	2.6	3.1	2.9	2.5	2.7	2.7	3.2	3.6
Median	2.6	2.5	2.5	2.4	2.5	2.5	2.7	3.1
Expected inflation - next 5 to 10 years								
Mean	3.5	3.0	3.3	3.3	3.2	3.1	3.1	2.9
Median	2.9	2.5	2.8	2.8	2.8	2.7	2.7	2.7

Note. Figures on financial, business, and buying conditions are the percent reporting 'good times' (or 'better') minus the percent reporting 'bad times' (or 'worse'), plus 100. Expected change in unemployment is the fraction expecting unemployment to rise minus the fraction expecting unemployment to fall, plus 100.

P Preliminary.

1. Feb. 1966 = 100.

2. Indicates the question is one of the five equally-weighted components of the index of sentiment.