

Part 1

August 7, 2002

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

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

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Summary of the Near-Term Outlook
 (Percent change at annual rate except as noted)

Measure	2002:Q2		2002:Q3	
	June GB	Aug. GB	June GB	Aug. GB
Real GDP	1.8	1.2	3.3	2.7
Private domestic final purchases	1.7	1.3	2.6	2.7
Personal consumption expenditures	1.7	1.9	2.6	3.7
Residential investment	2.7	4.1	.3	-2.8
Business fixed investment	1.4	-3.3	3.4	-.9
Government outlays for consumption and investment	1.9	1.4	3.9	3.4
	Contribution to growth (percentage points)			
Inventory investment	1.2	1.4	1.0	.0
Net exports	-1.2	-1.7	-.6	-.3

causes of last quarter's strength in exports and imports are unclear. This quarter and next, both imports and exports are projected to post more-modest increases, and the arithmetic contribution of net exports is projected to be only slightly negative in the second half.

Outside motor vehicles, inventories were drawn down much less rapidly in the second quarter than in the preceding several quarters, suggesting that most businesses are becoming more comfortable with the greatly reduced levels of their stocks. Nonetheless, businesses likely remain uncertain about the outlook for final demand, and we anticipate some further liquidation of nonfarm, non-motor-vehicle inventories in the current quarter.

The most recent labor-market news has been weak. Private employment gains were meager in June and July, the workweek dropped abruptly last month, and the unemployment rate has stayed near 6 percent. However, initial claims for unemployment insurance have continued to trend down in recent weeks, and we are inclined to think that the steep drop in production-worker hours in early July may overstate the deterioration in conditions for the month as a whole. Thus, our forecast anticipates a rebound in hours for August. For the quarter as a whole, aggregate hours are projected to increase at an annual rate of 1 percent, which, with current productivity, should be sufficient to support our GDP forecast.

Projections of Real GDP

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

Measure	2002		2003
	H1	H2	
Real GDP	3.1	2.4	3.5
Previous	3.6	3.4	4.1
Final sales	1.0	2.3	3.1
Previous	1.3	3.0	3.6
PCE	2.5	2.5	2.5
Previous	2.5	2.8	3.1
Residential investment	9.0	-3.5	-.5
Previous	8.9	.7	-.1
BFI	-4.6	1.2	9.6
Previous	-3.3	5.1	11.1
Government purchases	3.5	3.4	2.9
Previous	4.2	4.1	3.8
Exports	7.2	6.5	8.2
Previous	5.3	7.9	8.4
Imports	15.2	5.0	7.3
Previous	13.4	8.3	9.2
Contribution to growth, percentage points			
Inventory change	2.0	.2	.4
Previous	2.3	.5	.5
Net exports	-1.3	-.1	-.2
Previous	-1.2	-.4	-.5

being worked off, we expect no noticeable upturn in outlays in this area until the second half of next year. Relative to the June Greenbook, we have pared back the longer-term pace of the recovery in equipment and software spending somewhat, mostly because of the weaker outlook for sales and production.

With high vacancy rates for office buildings and industrial space, and construction of new hotels damped by the troubles plaguing the travel industry, prospects for nonresidential construction look grim. We are not expecting any

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

Measure	1973-95	1996-98	1999	2000	2001	2002	2003
Structural labor productivity	1.4	2.4	2.7	2.6	1.9	1.7	2.1
Previous	1.4	2.4	2.9	3.0	2.3	2.0	2.5
<i>Contributions</i> ¹							
Capital deepening	.6	1.2	1.4	1.2	.4	.3	.5
Previous	.6	1.2	1.4	1.4	.6	.4	.8
Multifactor productivity	.6	.9	1.1	1.2	1.3	1.2	1.4
Previous	.6	.9	1.3	1.4	1.4	1.3	1.5
Labor composition	.3	.3	.3	.3	.3	.3	.3
MEMO							
Potential GDP	2.9	3.4	3.7	3.6	2.9	2.7	3.1
Previous	2.9	3.7	4.1	4.0	3.1	2.9	3.4

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

1. Percentage points.

spending in our projection contribute to a rebound in structural productivity growth.

We have long interpreted the low-inflation, low-unemployment economy of 1996-2000 as reflecting the effects of both a permanent reduction in the NAIRU and the acceleration in productivity. With the inflation and unemployment picture essentially unchanged, the lower productivity growth in the national accounts revision suggests that the permanent reduction in the NAIRU was more important than we previously thought. Hence, we have revised down our estimate of the level of the NAIRU in the forecast period, to 5 percent from the 5-1/4 percent assumption we had been using earlier.

Productivity and the labor market. So far, the economic expansion has produced few job gains. In part, the slow pace of hiring is a result of the sluggish pace of the expansion to date, but it also seems to reflect an unusual degree of caution in firms' hiring decisions. As the expansion becomes more firmly established later this year and early next year, the recent caution should wane. Over the second half of this year, we anticipate only a slow pickup in private employment increases, from around 50,000 per month in the next few months to just over 100,000 per month by year-end. By late 2003, monthly job gains are expected to strengthen to around 170,000. Initially, these employment gains will about match increases in the labor force, keeping the unemployment rate roughly steady at around 6 percent through early 2003. We are expecting

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

Measure	2000	2001	2002	2003
Output per hour, nonfarm business	2.0	2.0	2.8	1.3
Previous	2.6	2.1	3.1	1.8
Nonfarm private payroll employment	1.6	-1.4	-.1	1.9
Previous	1.6	-1.4	.4	2.3
Household employment survey	1.0	-1.0	.0	1.6
Previous	1.0	-1.0	.6	1.6
Labor force participation rate ¹	67.1	66.9	66.6	66.7
Previous	67.1	66.9	66.9	66.9
Civilian unemployment rate ¹	4.0	5.6	6.0	5.7
Previous	4.0	5.6	5.9	5.5

1. Percent, average for the fourth quarter.

that hiring will be sufficiently strong later next year to bring down the unemployment rate to 5.7 percent. During this period of a “catch-up” in hiring, the rise in actual productivity, at 1-1/4 percent, will lag behind its structural rate.

Prices and wages. After running at an annual rate of just under 2 percent in 2000 and 2001, core PCE inflation is projected to move down to a 1.4 percent pace in 2002 and 2003. The reduction in inflation this year reflects downward pressure from economic slack as well as further benefits from last year’s big drop in energy prices. The persistence of economic slack also works to push down inflation next year, but that effect is offset by other factors, such as the faster rise in import prices. On balance, the current inflation forecast is little changed from the June Greenbook.

We expect the rise in the ECI for hourly compensation to move down to 3-3/4 percent this year and to 3-1/2 percent next year. High unemployment is a key factor pushing down wage gains in both years. Working to push up labor costs are rapid increases in health insurance premiums. Private-sector surveys and public-sector announcements suggest that employer costs for health insurance will likely accelerate further next year from their recent double-digit increases. Thus, although the ECI for wages slows from a rise of 3-1/2 percent this year to a bit more than 2-1/2 percent in 2003, the benefits component is anticipated to accelerate from 4-3/4 percent to 5-1/2 percent.

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

Measure	2000	2001	2002	2003
PCE chain-weighted price index	2.5	1.5	1.6	1.4
Previous	2.6	1.3	1.5	1.4
Food and beverages	2.5	3.1	1.6	2.0
Previous	2.5	3.2	1.7	2.1
Energy	15.4	-10.3	4.2	-1.6
Previous	15.4	-9.9	3.0	-.9
Excluding food and energy	1.8	1.9	1.4	1.4
Previous	1.9	1.6	1.4	1.4
Consumer price index	3.4	1.9	2.1	1.8
Previous	3.4	1.9	2.1	1.9
Excluding food and energy	2.5	2.7	2.1	2.1
Previous	2.5	2.7	2.3	2.1
GDP chain-weighted price index	2.3	2.0	1.2	1.5
Previous	2.4	1.9	1.2	1.5
ECI for compensation of private industry workers ¹	4.4	4.2	3.8	3.4
Previous	4.4	4.2	3.5	3.5
NFB compensation per hour	7.2	1.4	3.3	3.2
Previous	7.8	3.9	3.0	3.4
Prices of core non-oil merchandise imports	1.6	-2.9	2.3	2.9
Previous	1.6	-3.1	1.9	2.7

1. December to December.

Financial Flows and Conditions

With a slowing in the expansion of federal debt, the growth rate of total domestic nonfinancial debt is projected to edge down to the 5-1/2 to 5-3/4 percent range over the forecast period.

The slowdown in federal borrowing next year largely reflects the usual budgetary benefits of a stronger economy. In the state and local sector, the combination of weak tax inflows, the continuing needs to finance school and highway construction, and some further advance refunding should contribute to considerable debt growth over the forecast period.

Alternative Scenarios

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

Measure	2002		2003	
	H1	H2	H1	H2
<i>Real GDP</i>				
Greenbook baseline	3.0	2.5	3.4	3.7
Stock market rebound	3.0	2.6	3.9	4.3
Weaker investment	3.0	2.0	2.7	2.7
Weaker consumption	3.0	0.9	2.2	3.2
Faster productivity	3.0	2.9	4.4	4.7
Low NAIRU	3.0	2.6	3.4	3.8
Market-based funds rate	3.0	2.5	3.6	3.8
<i>Civilian unemployment rate¹</i>				
Greenbook baseline	5.9	6.0	5.9	5.7
Stock market rebound	5.9	6.0	5.8	5.4
Weaker investment	5.9	6.1	6.1	6.1
Weaker consumption	5.9	6.3	6.6	6.6
Faster productivity	5.9	6.0	5.9	5.5
Low NAIRU	5.9	6.0	5.9	5.6
Market-based funds rate	5.9	6.0	5.8	5.6
<i>PCE prices excluding food and energy</i>				
Greenbook baseline	1.5	1.3	1.4	1.4
Stock market rebound	1.5	1.3	1.4	1.5
Weaker investment	1.5	1.3	1.4	1.4
Weaker consumption	1.5	1.3	1.3	1.1
Faster productivity	1.5	1.3	1.3	1.2
Low NAIRU	1.5	1.2	1.1	1.0
Market-based funds rate	1.5	1.3	1.4	1.5

1. Average for the final quarter of the period.

deterioration in consumer confidence. The next two scenarios examine the effects of more favorable supply-side conditions, which are illustrated by faster structural productivity growth and a lower NAIRU than assumed in the baseline. Our final simulation shows the effects of a path for the funds rate that is in line with the one anticipated by the futures market.

Stock market rebound. The decline in stock market valuations over the past two years appears to have been associated with a sharp rise in the equity premium, and some measures of the premium now look high by historical standards. In this scenario, we consider the possibility that investor concerns about both the quality of reported corporate earnings and the riskiness of future

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

August 7, 2002

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
	06/19/02	08/07/02	06/19/02	08/07/02	06/19/02	08/07/02	06/19/02	08/07/02	06/19/02	08/07/02
ANNUAL										
1999	5.5	5.6	4.1	4.1	1.4	1.4	2.2	2.2	4.2	4.2
2000	6.5	5.9	4.1	3.8	2.3	2.1	3.4	3.4	4.0	4.0
2001	3.4	2.6	1.2	0.3	2.2	2.4	2.8	2.8	4.8	4.8
2002	3.6	3.4	2.5	2.3	1.1	1.1	1.5	1.5	5.9	5.9
2003	5.2	4.4	3.7	2.9	1.4	1.4	2.0	1.9	5.7	5.8
QUARTERLY										
2000 Q1	6.3	5.7	2.3	2.6	3.8	3.1	3.9	3.9	4.0	4.0
Q2	8.0	7.3	5.7	4.8	2.1	2.3	3.3	3.3	4.0	4.0
Q3	3.3	2.2	1.3	0.6	1.9	1.6	3.5	3.5	4.1	4.1
Q4	3.7	3.2	1.9	1.1	1.8	2.1	2.8	2.8	4.0	4.0
2001 Q1	4.6	3.0	1.3	-0.6	3.3	3.7	4.0	4.0	4.2	4.2
Q2	2.4	0.9	0.3	-1.6	2.1	2.5	3.2	3.2	4.5	4.5
Q3	0.9	1.9	-1.3	-0.3	2.3	2.2	0.7	0.7	4.8	4.8
Q4	1.5	2.2	1.7	2.7	-0.1	-0.5	-0.2	-0.2	5.6	5.6
2002 Q1	6.6	6.5	5.5	5.0	1.1	1.3	1.4	1.4	5.6	5.6
Q2	3.2	2.3	1.8	1.2	1.3	1.2	3.4	3.4	5.9	5.9
Q3	4.3	3.5	3.3	2.7	0.9	0.8	1.7	1.7	6.0	6.0
Q4	4.9	3.4	3.5	2.2	1.4	1.3	2.1	1.9	5.9	6.0
2003 Q1	5.8	5.0	4.0	3.3	1.8	1.7	1.9	1.8	5.9	6.0
Q2	5.5	4.8	4.1	3.4	1.4	1.4	1.9	1.8	5.7	5.9
Q3	5.6	5.0	4.2	3.6	1.4	1.4	1.9	1.9	5.6	5.7
Q4	5.6	5.3	4.2	3.8	1.4	1.4	1.9	1.9	5.5	5.7
TWO-QUARTER³										
2000 Q2	7.2	6.5	4.0	3.7	2.9	2.7	3.6	3.6	-0.1	-0.1
Q4	3.5	2.7	1.6	0.8	1.8	1.9	3.3	3.3	0.0	0.0
2001 Q2	3.5	1.9	0.8	-1.1	2.7	3.1	3.5	3.5	0.5	0.5
Q4	1.2	2.1	0.1	1.2	1.1	0.8	0.2	0.2	1.1	1.1
2002 Q2	4.9	4.4	3.6	3.1	1.2	1.3	2.4	2.4	0.3	0.3
Q4	4.6	3.5	3.4	2.4	1.2	1.1	1.9	1.8	0.0	0.1
2003 Q2	5.7	4.9	4.0	3.3	1.6	1.6	1.9	1.8	-0.2	-0.1
Q4	5.6	5.1	4.2	3.7	1.4	1.4	1.9	1.9	-0.2	-0.2
FOUR-QUARTER⁴										
1999 Q4	6.0	5.9	4.4	4.3	1.6	1.6	2.6	2.6	-0.3	-0.3
2000 Q4	5.3	4.6	2.8	2.3	2.4	2.3	3.4	3.4	-0.1	-0.1
2001 Q4	2.3	2.0	0.5	0.1	1.9	2.0	1.9	1.9	1.6	1.6
2002 Q4	4.7	3.9	3.5	2.7	1.2	1.2	2.1	2.1	0.3	0.4
2003 Q4	5.6	5.0	4.1	3.5	1.5	1.5	1.9	1.8	-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.

Item	Units ¹	-- Projected --									
		1995	1996	1997	1998	1999	2000	2001	2002	2003	
EXPENDITURES											
Nominal GDP	Bill. \$	7400.5	7813.2	8318.4	8781.5	9274.3	9824.6	10082.2	10425.3	10879.4	
Real GDP	Bill. Ch. \$	7543.8	7813.2	8159.5	8508.9	8859.0	9191.4	9214.5	9427.2	9704.7	
Real GDP	% change	2.2	4.1	4.3	4.8	4.3	2.3	0.1	2.7	3.5	
Gross domestic purchases		1.7	4.3	5.0	5.8	5.2	2.9	0.1	3.3	3.6	
Final sales		2.9	3.9	3.9	4.7	4.2	2.6	1.6	1.6	3.1	
Priv. dom. final purchases		3.2	4.4	5.1	6.3	5.2	3.7	0.9	1.9	3.2	
Personal cons. expenditures		2.8	3.1	4.1	5.0	5.0	3.5	2.8	2.5	2.5	
Durables		3.7	5.0	8.8	12.7	10.0	3.8	13.2	1.0	4.4	
Nondurables		2.5	3.2	2.5	5.0	4.9	3.0	1.7	2.8	2.6	
Services		2.7	2.7	3.9	3.6	4.0	3.8	1.3	2.6	2.1	
Business fixed investment		7.5	12.1	11.8	12.3	6.6	6.2	-9.3	-1.7	9.6	
Equipment & Software		8.9	11.8	13.7	14.9	9.7	5.2	-8.8	2.8	12.9	
Nonres. structures		3.3	12.8	6.5	4.9	-2.5	9.3	-10.6	-14.4	-1.0	
Residential structures		-1.5	5.6	3.5	10.0	4.0	-1.2	1.0	2.6	-0.5	
Exports		9.7	9.8	8.5	2.3	4.9	7.3	-11.4	6.8	8.2	
Imports		5.0	11.2	14.3	10.8	11.9	11.1	-8.0	10.0	7.3	
Gov't. cons. & investment		-0.8	2.7	2.4	2.7	4.5	1.3	5.1	3.5	2.9	
Federal		-5.3	2.0	0.1	0.6	4.0	-1.2	7.5	6.6	3.1	
Defense		-4.7	0.8	-1.4	-0.8	4.4	-2.5	7.4	7.1	2.9	
State & local		2.1	3.0	3.7	3.8	4.8	2.6	3.9	1.8	2.8	
Change in bus. inventories	Bill. Ch. \$	30.4	30.0	63.8	76.7	62.8	65.0	-61.4	0.5	48.7	
Nonfarm		41.9	21.2	60.6	75.0	64.1	67.2	-63.2	-1.6	47.2	
Net exports		-78.4	-89.0	-113.3	-221.1	-320.5	-398.8	-415.9	-486.8	-522.5	
Nominal GDP	% change	4.3	6.0	6.2	6.0	5.9	4.6	2.0	3.9	5.0	
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	117.2	119.6	122.7	125.9	128.9	131.7	131.9	130.9	132.7	
Unemployment rate	%	5.6	5.4	4.9	4.5	4.2	4.0	4.8	5.9	5.8	
Industrial prod. index	% change	3.5	5.8	7.4	3.5	4.3	2.6	-5.9	3.1	4.7	
Capacity util. rate - mfg.	%	82.6	81.6	82.7	81.4	80.6	80.7	75.1	74.2	76.3	
Housing starts	Millions	1.35	1.48	1.47	1.62	1.64	1.57	1.60	1.67	1.66	
Light motor vehicle sales		14.77	15.05	15.06	15.43	16.78	17.24	17.02	16.69	16.88	
North Amer. produced		12.87	13.34	13.12	13.42	14.30	14.38	13.94	13.37	13.55	
Other		1.90	1.70	1.93	2.01	2.48	2.86	3.08	3.33	3.33	
INCOME AND SAVING											
Nominal GNP	Bill. \$	7420.9	7831.2	8325.4	8778.1	9297.1	9848.0	10104.1	10429.7	10885.0	
Nominal GNP	% change	4.4	5.9	6.0	5.8	6.4	4.6	2.1	3.6	5.0	
Nominal personal income		4.3	5.9	6.3	6.7	5.1	7.7	1.4	4.4	4.5	
Real disposable income		1.7	2.6	3.8	5.0	2.4	4.8	0.3	5.8	2.0	
Personal saving rate	%	5.6	4.8	4.2	4.7	2.6	2.8	2.3	3.8	3.9	
Corp. profits, IVA & CCAdj.	% change	11.3	11.4	9.9	-9.6	7.0	-9.1	6.2	-2.5	3.3	
Profit share of GNP	%	9.0	9.6	10.0	8.9	8.7	8.0	7.2	7.6	7.4	
Excluding FR Banks		8.7	9.4	9.7	8.6	8.4	7.7	7.0	7.4	7.1	
Federal surpl./deficit	Bill. \$	-192.0	-136.8	-53.3	43.8	111.9	206.9	72.0	-182.8	-153.1	
State & local surpl./def.		15.3	21.4	31.0	40.7	38.3	18.0	-31.3	-44.0	-12.0	
Ex. social ins. funds		11.4	18.7	29.9	40.0	37.4	17.8	-31.2	-43.9	-11.9	
Gross natl. saving rate	%	16.9	17.2	18.0	18.8	18.3	18.4	16.5	15.6	14.3	
Net natl. saving rate		5.1	5.7	6.7	7.5	6.8	6.7	3.8	2.5	3.1	
PRICES AND COSTS											
GDP chn.-wt. price index	% change	2.1	1.9	1.8	1.1	1.6	2.3	2.0	1.2	1.5	
Gross Domestic Purchases chn.-wt. price index		2.1	1.9	1.4	0.8	1.9	2.5	1.3	1.5	1.5	
PCE chn.-wt. price index		2.1	2.3	1.5	1.1	2.0	2.5	1.5	1.6	1.4	
Ex. food and energy		2.3	1.8	1.7	1.6	1.5	1.8	1.9	1.4	1.4	
CPI		2.6	3.2	1.9	1.5	2.6	3.4	1.9	2.1	1.8	
Ex. food and energy		3.1	2.6	2.2	2.3	2.1	2.5	2.7	2.1	2.1	
ECI, hourly compensation ²		2.6	3.1	3.4	3.5	3.4	4.4	4.2	3.8	3.4	
Nonfarm business sector											
Output per hour		1.1	2.2	2.4	2.9	2.8	2.1	2.0	2.8	1.3	
Compensation per Hour		2.6	3.2	3.5	5.3	4.3	7.2	1.4	3.3	3.2	
Unit labor cost		1.5	0.9	1.1	2.3	1.4	4.9	-0.7	0.4	1.8	

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

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

August 7, 2002

Item	Units	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	9092.7	9171.7	9316.5	9516.4	9649.5	9820.7	9874.8	9953.6	10028.1	10049.9
Real GDP	Bill. Ch. \$	8733.2	8775.5	8886.9	9040.1	9097.4	9205.7	9218.7	9243.8	9229.9	9193.1
Real GDP	% change	3.0	2.0	5.2	7.1	2.6	4.8	0.6	1.1	-0.6	-1.6
Gross domestic purchases		4.8	3.3	5.8	6.8	3.6	5.7	1.2	1.3	-1.1	-1.1
Final sales		3.1	4.1	4.3	5.2	4.4	3.1	1.7	1.3	2.8	-0.4
Priv. dom. final purchases		5.3	6.0	4.9	4.6	6.8	3.8	3.1	1.1	1.5	-1.2
Personal cons. expenditures		4.7	5.7	4.6	5.0	5.3	3.0	3.8	2.1	2.4	1.4
Durables		5.5	14.4	10.3	10.1	17.8	-3.7	8.1	-5.3	11.5	5.3
Nondurables		4.9	4.8	2.5	7.5	2.2	4.9	2.0	2.7	2.3	-0.3
Services		4.4	4.4	4.5	2.8	4.4	3.6	3.9	3.3	0.6	1.5
Business fixed investment		7.7	7.9	7.7	3.0	15.0	10.2	3.5	-3.2	-5.4	-14.5
Equipment & Software		12.0	12.5	12.5	2.1	15.5	10.9	0.9	-5.4	-6.3	-16.7
Nonres. structures		-4.1	-5.1	-6.3	6.1	13.8	8.2	12.1	3.6	-3.1	-8.4
Residential structures		7.6	4.9	0.9	2.7	8.3	-3.0	-9.3	0.0	8.2	-0.5
Exports		-6.9	4.3	10.6	12.6	7.7	14.6	11.6	-4.0	-6.0	-12.4
Imports		8.4	15.4	14.5	9.4	14.7	18.6	13.8	-1.6	-7.9	-6.8
Gov't. cons. & investment		3.0	2.9	5.3	7.1	-1.2	4.6	-1.0	2.9	5.7	5.6
Federal		-3.3	2.6	7.4	9.9	-13.2	16.0	-7.2	2.0	9.5	6.0
Defense		-5.2	-0.2	14.0	10.0	-19.9	15.0	-6.1	4.7	8.3	2.7
State & local		6.5	3.0	4.2	5.6	5.6	-0.8	2.4	3.3	3.8	5.4
Change in bus. inventories	Bill. Ch. \$	80.0	31.2	47.6	92.2	45.3	91.5	63.1	59.9	-26.9	-58.3
Nonfarm		71.1	30.1	58.7	96.7	58.9	88.6	64.6	56.8	-32.6	-54.9
Net exports		-283.2	-319.6	-339.6	-339.5	-368.8	-394.6	-413.1	-418.5	-404.5	-414.8
Nominal GDP	% change	4.9	3.5	6.5	8.9	5.7	7.3	2.2	3.2	3.0	0.9
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	127.8	128.5	129.2	130.1	131.0	131.8	131.9	132.2	132.4	132.2
Unemployment rate	%	4.3	4.3	4.2	4.1	4.0	4.0	4.1	4.0	4.2	4.5
Industrial prod. index	% change	3.6	3.3	4.7	5.8	5.8	7.0	0.6	-2.6	-6.1	-5.9
Capacity util. rate - mfg.	%	80.5	80.4	80.5	81.0	81.2	81.6	80.7	79.1	77.2	75.6
Housing starts	Millions	1.71	1.57	1.65	1.66	1.66	1.59	1.50	1.54	1.61	1.62
Light motor vehicle sales		16.19	16.60	17.14	17.17	18.15	17.14	17.42	16.26	16.95	16.54
North Amer. produced		13.95	14.20	14.65	14.39	15.29	14.27	14.56	13.41	14.04	13.51
Other		2.24	2.40	2.49	2.78	2.86	2.87	2.86	2.85	2.90	3.04
INCOME AND SAVING											
Nominal GNP	Bill. \$	9112.7	9195.9	9333.6	9546.0	9670.5	9846.4	9892.5	9982.8	10038.0	10081.0
Nominal GNP	% change	6.3	3.7	6.1	9.4	5.3	7.5	1.9	3.7	2.2	1.7
Nominal personal income		4.3	3.5	4.5	8.0	13.2	6.9	6.8	4.2	3.9	0.8
Real disposable income		2.7	0.8	1.5	4.8	8.4	4.8	4.3	1.8	-0.1	-0.6
Personal saving rate	%	3.9	2.7	2.0	1.9	2.6	2.9	2.9	2.9	2.4	1.9
Corp. profits, IVA & CCAdj.	% change	20.9	-3.0	-6.8	20.0	-8.0	-0.1	-9.4	-17.9	-21.1	8.7
Profit share of GNP	%	8.9	8.7	8.4	8.6	8.4	8.2	8.0	7.5	7.0	7.2
Excluding FR Banks		8.6	8.5	8.2	8.3	8.0	7.9	7.7	7.2	6.7	6.9
Federal surpl./deficit	Bill. \$	88.7	112.9	117.4	128.8	223.2	197.2	213.2	193.8	173.8	144.4
State & local surpl./def.		48.4	31.3	33.8	39.6	32.7	20.2	19.2	-0.2	-16.5	-32.3
Ex. social ins. funds		47.5	30.3	32.9	38.8	32.2	20.0	19.2	-0.1	-16.4	-32.2
Gross natl. saving rate	%	19.1	18.4	17.9	17.9	18.8	18.4	18.5	17.8	16.9	16.6
Net natl. saving rate		7.8	6.9	6.1	6.4	7.3	6.9	6.8	5.9	4.8	4.1
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.8	1.5	1.2	1.7	3.1	2.3	1.6	2.1	3.7	2.5
Gross Domestic Purchases chn.-wt. price index		1.4	2.1	1.9	2.2	3.7	2.2	2.2	2.1	3.3	1.7
PCE chn.-wt. price index		1.2	2.3	2.2	2.4	3.4	2.3	2.1	2.2	3.3	1.8
Ex. food and energy		1.3	1.4	1.5	1.7	2.2	1.8	1.3	1.8	2.8	1.2
CPI		1.5	2.9	2.7	3.4	3.9	3.3	3.5	2.8	4.0	3.2
Ex. food and energy		1.8	1.8	1.8	2.7	2.3	2.7	2.7	2.4	3.1	2.4
ECI, hourly compensation ¹		1.1	4.6	3.7	4.3	5.6	4.7	4.1	3.5	4.6	4.0
Nonfarm business sector		2.2	-0.7	3.7	6.3	0.1	6.1	0.7	1.7	-1.5	0.1
Output per hour		7.3	0.5	3.7	5.8	15.1	2.3	8.7	3.3	2.9	0.1
Compensation per hour		5.1	1.2	0.0	-0.5	15.0	-3.8	8.0	1.6	4.5	0.0
Unit labor cost											

1. Private-industry workers.

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

August 7, 2002

Item	Units	Projected											
		2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2003 Q4	2003 Q4
EXPENDITURES													
Nominal GDP	Bill. \$	10097.7	10152.9	10313.1	10372.9	10463.2	10552.2	10682.3	10809.2	10942.7	11083.6		
Real GDP	Bill. Ch. \$	9186.4	9248.8	9363.2	9390.5	9452.3	9502.9	9579.6	9659.4	9744.5	9835.3		
Real GDP	% change	-0.3	2.7	5.0	1.2	2.7	2.2	3.3	3.4	3.6	3.8		
Gross domestic purchases		-0.1	2.9	5.6	2.8	2.9	1.9	3.5	3.7	3.7	3.5		
Final sales		-0.2	4.2	2.4	-0.3	2.6	1.9	2.7	2.8	3.3	3.7		
Priv. dom. final purchases		0.3	3.0	2.5	1.3	2.7	1.2	2.8	3.1	3.5	3.5		
Personal cons. expenditures		1.5	6.0	3.1	1.9	3.7	1.2	2.4	2.4	2.6	2.6		
Durables		4.6	33.6	-6.3	2.4	16.3	-6.6	5.7	3.1	4.4	4.5		
Nondurables		1.3	3.6	7.9	-0.5	1.7	2.4	2.5	2.5	2.6	2.6		
Services		0.9	2.1	2.9	3.0	2.3	2.3	1.7	2.2	2.2	2.3		
Business fixed investment		-6.0	-10.9	-5.8	-3.3	-0.9	3.3	8.1	8.7	10.8	10.9		
Equipment & Software		-9.2	-2.5	-2.7	2.8	4.3	7.1	12.1	12.0	14.0	13.4		
Nonres. structures		2.9	-30.1	-14.2	-19.3	-15.6	-8.1	-4.4	-1.8	0.1	2.4		
Residential structures		0.4	-3.5	14.2	4.1	-2.8	-4.2	-2.8	1.2	1.0	-1.3		
Exports		-17.3	-9.6	3.5	11.0	4.4	8.5	5.7	8.2	8.5	10.6		
Imports		-11.8	-5.3	8.5	22.3	5.6	4.4	6.4	8.9	7.9	6.1		
Gov't. cons. & investment		-1.1	10.5	5.6	1.4	3.4	3.5	3.1	2.9	2.8	2.9		
Federal		1.2	13.5	7.4	7.4	6.3	5.4	4.0	3.2	2.6	2.5		
Defense		4.6	14.3	11.6	8.0	5.0	4.1	3.9	3.2	2.4	2.1		
State & local		-2.3	8.9	4.6	-1.6	1.9	2.4	2.6	2.8	2.9	3.1		
Change in bus. inventories	Bill. Ch. \$	-61.8	-98.4	-28.9	7.2	8.1	15.4	31.1	47.5	56.4	59.7		
Nonfarm		-63.6	-101.5	-35.1	4.9	8.7	15.0	30.1	46.0	54.8	57.9		
Net exports		-419.0	-425.3	-446.6	-495.4	-505.1	-500.2	-509.8	-522.4	-531.1	-526.8		
Nominal GDP	% change	1.9	2.2	6.5	2.3	3.5	3.4	5.0	4.8	5.0	5.3		
EMPLOYMENT AND PRODUCTION													
Nonfarm payroll employment	Millions	131.9	131.1	130.8	130.7	130.9	131.3	131.8	132.4	133.0	133.6		
Unemployment rate	%	4.8	5.6	5.6	5.9	6.0	6.0	6.0	5.9	5.7	5.7		
Industrial prod. index	% change	-4.7	-6.7	2.6	4.6	3.7	1.5	4.8	4.8	5.1	4.2		
Capacity util. rate - mfg.	%	74.5	73.1	73.5	74.1	74.5	74.7	75.3	76.0	76.8	77.3		
Housing starts	Millions	1.60	1.57	1.73	1.66	1.65	1.64	1.65	1.66	1.67	1.67		
Light motor vehicle sales		16.23	18.37	16.34	16.35	17.29	16.80	16.80	16.80	16.95	16.95		
North Amer. produced		13.23	15.00	13.04	13.10	13.68	13.45	13.45	13.50	13.60	13.60		
Other		3.00	3.37	3.31	3.25	3.41	3.35	3.30	3.30	3.35	3.35		
INCOME AND SAVING													
Nominal GNP	Bill. \$	10109.3	10188.1	10314.9	10377.4	10468.4	10558.1	10687.9	10814.5	10949.4	11088.4		
Nominal GNP	% change	1.1	3.2	5.1	2.4	3.6	3.5	5.0	4.8	5.1	5.2		
Nominal personal income		1.4	-0.2	5.1	5.1	3.8	3.5	5.7	4.2	3.7	4.2		
Real disposable income		10.5	-7.6	14.6	3.9	2.9	2.2	2.7	2.1	1.4	2.1		
Personal saving rate	%	4.0	0.8	3.5	3.9	3.8	4.0	4.1	4.1	3.8	3.7		
Corp. profits, IVA & CCAdj.	% change	-17.7	94.4	-6.6	3.0	-5.8	-0.3	-0.5	2.1	4.6	7.3		
Profit share of GNP	%	6.8	8.0	7.7	7.7	7.6	7.5	7.4	7.3	7.3	7.4		
Excluding FR Banks		6.5	7.7	7.5	7.5	7.3	7.3	7.2	7.1	7.1	7.2		
Federal surpl./deficit	Bill. \$	-51.7	21.3	-143.5	-182.9	-191.0	-213.8	-189.8	-168.7	-132.3	-121.8		
State & local surpl./def.		-46.2	-30.2	-51.7	-42.9	-45.5	-35.9	-25.6	-17.2	-7.3	2.0		
Ex. social ins. funds		-46.1	-30.0	-51.6	-42.8	-45.4	-35.8	-25.5	-17.1	-7.2	2.1		
Gross natl. saving rate	%	16.5	15.8	15.6	15.7	15.5	15.6	16.0	16.2	16.5	16.7		
Net natl. saving rate		3.3	3.1	2.8	2.7	2.3	2.4	2.8	3.0	3.3	3.4		
PRICES AND COSTS													
GDP chn.-wt. price index	% change	2.2	-0.5	1.3	1.2	0.8	1.3	1.7	1.4	1.4	1.4		
Gross Domestic Purchases chn.-wt. price index		-0.2	0.4	1.2	2.2	1.3	1.5	1.8	1.4	1.4	1.4		
PCE chn.-wt. price index		-0.1	0.8	1.1	2.5	1.2	1.4	1.3	1.3	1.4	1.4		
Ex. food and energy		0.7	2.7	1.4	1.6	1.1	1.4	1.4	1.4	1.4	1.4		
CPI		0.7	-0.2	1.4	3.4	1.7	1.9	1.8	1.8	1.9	1.9		
Ex. food and energy		2.6	2.6	2.4	2.1	1.7	2.2	2.1	2.1	2.1	2.1		
ECI, hourly compensation ¹		3.7	4.2	3.6	4.4	3.7	3.5	3.5	3.4	3.4	3.4		
Nonfarm business sector		2.2	7.3	8.3	1.3	1.9	0.1	1.0	1.1	1.4	1.9		
Output per hour		1.1	1.5	3.6	3.3	3.2	3.2	3.2	3.1	3.1	3.1		
Compensation per hour		-1.1	-5.7	-4.8	2.0	1.3	3.1	2.2	2.0	1.7	1.3		
Unit labor cost													

1. Private-industry workers.

Item	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	99Q4/ 98Q4	00Q4/ 99Q4	01Q4/ 00Q4
Real GDP	5.2	7.1	2.6	4.8	0.6	1.1	-0.6	-1.6	-0.3	4.3	2.3	0.1
Gross dom. purchases	5.9	7.0	3.7	5.8	1.3	1.3	-1.1	-1.2	-0.1	5.3	3.0	0.2
Final sales	4.3	5.3	4.3	3.1	1.7	1.2	2.7	-0.5	-0.2	4.1	2.6	1.6
Priv. dom. final purchases	4.1	4.0	5.6	3.2	2.6	1.0	1.2	-1.0	0.3	4.3	3.1	0.8
Personal cons. expenditures	3.1	3.5	3.5	2.1	2.5	1.4	1.5	0.9	1.0	3.3	2.4	1.9
Durables	0.8	0.8	1.4	-0.3	0.6	-0.4	0.9	0.4	0.4	0.8	0.3	1.0
Nondurables	0.5	1.5	0.5	1.0	0.4	0.5	0.5	-0.1	0.3	1.0	0.6	0.3
Services	1.8	1.2	1.7	1.4	1.5	1.3	0.2	0.6	0.4	1.6	1.5	0.5
Business fixed investment	1.0	0.4	1.8	1.3	0.5	-0.4	-0.7	-1.9	-0.7	0.8	0.8	-1.2
Equipment & Software	1.2	0.2	1.4	1.0	0.1	-0.5	-0.6	-1.6	-0.8	0.9	0.5	-0.8
Nonres. structures	-0.2	0.2	0.4	0.3	0.4	0.1	-0.1	-0.3	0.1	-0.1	0.3	-0.4
Residential structures	0.0	0.1	0.4	-0.1	-0.4	0.0	0.3	-0.0	0.0	0.2	-0.1	0.0
Net exports	-0.8	0.0	-1.2	-1.0	-0.7	-0.2	0.5	-0.4	-0.2	-1.0	-0.8	-0.1
Exports	1.1	1.3	0.8	1.5	1.3	-0.5	-0.7	-1.4	-1.9	0.5	0.8	-1.3
Imports	-1.8	-1.3	-2.0	-2.5	-2.0	0.2	1.2	1.0	1.7	-1.5	-1.5	1.2
Government cons. & invest.	0.9	1.3	-0.2	0.8	-0.2	0.5	1.0	1.0	-0.2	0.8	0.2	0.9
Federal	0.4	0.6	-0.9	0.9	-0.5	0.1	0.5	0.4	0.1	0.2	-0.1	0.4
Defense	0.5	0.4	-0.9	0.5	-0.2	0.2	0.3	0.1	0.2	0.2	-0.1	0.3
Nonddefense	-0.1	0.2	0.0	0.4	-0.2	-0.1	0.2	0.3	-0.1	0.1	0.0	0.2
State and local	0.5	0.7	0.7	-0.1	0.3	0.4	0.5	0.6	-0.3	0.6	0.3	0.5
Change in bus. inventories	0.8	1.8	-1.8	1.8	-1.1	-0.1	-3.3	-1.1	-0.1	0.2	-0.3	-1.5
Nonfarm	1.3	1.6	-1.5	1.2	-1.0	-0.3	-3.4	-0.8	-0.3	0.2	-0.4	-1.6
Farm	-0.5	0.2	-0.3	0.6	-0.2	0.2	0.2	-0.3	0.2	-0.1	0.1	0.0

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

Item	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	01Q4/ 00Q4	02Q4/ 01Q4	03Q4/ 02Q4
Real GDP												
Gross dom. purchases	2.7	5.0	1.2	2.7	2.2	3.3	3.4	3.6	3.8	0.1	2.7	3.5
	3.0	5.8	2.9	3.0	2.0	3.6	3.8	3.9	3.6	0.2	3.4	3.7
Final sales	4.1	2.5	-0.3	2.6	1.9	2.7	2.8	3.2	3.7	1.6	1.7	3.1
Priv. dom. final purchases	2.6	2.2	1.1	2.3	1.0	2.4	2.6	3.0	2.9	0.8	1.7	2.8
Personal cons. expenditures	4.1	2.2	1.3	2.6	0.9	1.7	1.7	1.8	1.8	1.9	1.7	1.8
Durables	2.5	-0.6	0.2	1.3	-0.6	0.5	0.3	0.4	0.4	1.0	0.1	0.4
Nondurables	0.7	1.6	-0.1	0.3	0.5	0.5	0.5	0.5	0.5	0.3	0.6	0.5
Services	0.9	1.2	1.2	0.9	1.0	0.7	0.9	0.9	1.0	0.5	1.1	0.9
Business fixed investment	-1.3	-0.7	-0.4	-0.1	0.3	0.8	0.9	1.1	1.2	-1.2	-0.2	1.0
Equipment & Software	-0.2	-0.2	0.2	0.3	0.6	1.0	1.0	1.1	1.1	-0.8	0.2	1.0
Nonres. structures	-1.1	-0.4	-0.6	-0.4	-0.2	-0.1	-0.0	0.0	0.1	-0.4	-0.4	-0.0
Residential structures	-0.2	0.6	0.2	-0.1	-0.2	-0.1	0.1	0.0	-0.1	0.0	0.1	-0.0
Net exports	-0.3	-0.8	-1.7	-0.3	0.2	-0.3	-0.4	-0.3	0.2	-0.1	-0.7	-0.2
Exports	-1.0	0.3	1.0	0.4	0.8	0.6	0.8	0.8	1.0	-1.3	0.7	0.8
Imports	0.7	-1.1	-2.7	-0.8	-0.6	-0.9	-1.2	-1.1	-0.9	1.2	-1.3	-1.0
Government cons. & invest.	1.9	1.0	0.3	0.6	0.7	0.6	0.6	0.5	0.6	0.9	0.6	0.6
Federal	0.8	0.5	0.5	0.4	0.4	0.3	0.2	0.2	0.2	0.4	0.4	0.2
Defense	0.5	0.5	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.3	0.3	0.1
Nondefense	0.3	0.0	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.1	0.1
State and local	1.1	0.6	-0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.5	0.2	0.4
Change in bus. inventories	-1.4	2.6	1.4	0.0	0.3	0.6	0.6	0.3	0.1	-1.5	1.1	0.4
Nonfarm	-1.4	2.5	1.5	0.1	0.2	0.6	0.6	0.3	0.1	-1.6	1.1	0.4
Farm	0.1	0.1	-0.1	-0.1	0.0	0.0	0.0	-0.0	0.0	0.0	-0.0	0.0

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

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

Item	Fiscal year ¹				2001				2002				2003			
	2000 ^a	2001 ^a	2002	2003	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1 ^a	Q2 ^a	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget	Not seasonally adjusted															
Receipts ²	2025	1991	1852	1929	460	660	409	466	413	523	450	427	429	596	477	465
Outlays ²	1789	1864	2013	2114	482	467	451	503	509	507	493	534	537	529	514	550
Surplus/deficit ²	236	127	-161	-186	-22	194	-42	-37	-97	16	-43	-108	-108	67	-37	-85
On-budget	87	-33	-322	-355	-88	119	-51	-81	-127	-58	-56	-147	-147	-8	-53	-130
Off-budget	150	161	160	169	65	75	10	44	30	73	13	39	39	75	16	45
Surplus excluding deposit insurance	233	126	-161	-186	-23	193	-42	-37	-96	15	-43	-108	-108	67	-37	-85
Means of financing																
Borrowing	-223	-90	206	186	24	-157	69	60	51	21	74	92	100	-34	28	80
Cash decrease	4	8	-1	-0	-7	-15	-1	-8	38	-26	-5	10	5	-30	15	15
Other ³	-18	-45	-44	0	6	-21	-26	-14	8	-11	-26	6	3	-4	-6	-10
Cash operating balance, end of period	53	44	45	45	28	44	44	52	14	40	45	35	30	60	45	30
NIPA federal sector																
Receipts	2001	2024	1916	1972	2073	2072	1896	1992	1887	1890	1896	1909	1957	1993	2030	2070
Expenditures	1810	1909	2041	2148	1899	1928	1948	1971	2031	2074	2087	2123	2147	2162	2162	2192
Consumption expenditures	490	517	569	611	517	525	528	544	566	580	586	595	611	617	621	626
Defense	321	337	374	399	338	340	343	356	372	382	385	389	399	403	406	409
Nondefense	169	180	195	212	179	185	188	194	198	201	206	212	214	215	217	
Other spending	1320	1392	1471	1537	1382	1403	1420	1428	1464	1493	1501	1528	1535	1545	1541	1566
Current account surplus	191	115	-124	-176	174	144	-52	21	-144	-183	-191	-214	-190	-169	-132	-122
Gross investment	97	98	107	117	96	100	100	103	106	107	113	115	116	118	120	121
Current and capital account surplus	94	17	-231	-293	78	45	-151	-82	-249	-290	-304	-328	-306	-287	-252	-243
Fiscal indicators ⁴																
High-employment (HEB)																
surplus/deficit	-33	-39	-231	-293	3	6	-160	-81	-256	-288	-301	-323	-304	-287	-258	-256
Change in HEB, percent of potential GDP	-.7	0	2	.5	-.1	-0	2	-.8	2	.3	.1	.2	-.2	-.2	-.3	-0
Fiscal impetus (FI) percent, calendar year	2	11	22	11	4	3	10	-2	11	6	1	4	4	2	-.6	1

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

2. OMB's July 2002 baseline surplus estimates are -\$165 billion in FY 2002 and -\$62 billion in FY 2003. CBO's April 2002 baseline surplus estimates, which includes the March 2002 stimulus bill, are -\$46 billion in FY 2002 and -\$40 billion in FY 2003. 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. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. 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 federal consumption plus investment. For FI and the change in HEB, negative values indicate aggregate demand restraint.

a--Actual

Period ¹	Total	Federal government	Total	Nonfederal				Business	State and local governments	Memo: Nominal GDP			
				Households									
				Total	Home mortgages	Consumer credit							
<i>Year</i>													
1996	5.4	4.0	5.8	7.0	6.8	8.1	6.2	-0.6	6.0				
1997	5.6	0.6	7.3	6.4	6.7	4.7	9.0	5.3	6.2				
1998	6.8	-1.4	9.6	8.2	8.9	5.9	11.8	7.2	6.0				
1999	6.6	-1.9	9.1	8.3	9.0	7.4	11.0	4.4	5.9				
2000	5.0	-8.0	8.4	8.4	8.2	9.6	9.8	2.2	4.6				
2001	6.0	-0.2	7.5	8.7	9.8	6.9	6.0	8.1	2.0				
2002	5.9	7.0	5.7	8.0	8.8	6.0	2.8	7.2	3.9				
2003	5.8	4.8	6.0	6.6	7.3	5.5	5.6	5.2	5.0				
<i>Quarter</i>													
2001:1	5.3	-0.1	6.6	7.4	7.6	9.1	5.4	8.1	3.0				
2	5.3	-7.6	8.2	9.3	11.4	4.7	7.0	8.3	0.9				
3	7.1	7.7	6.9	8.8	9.5	4.3	5.7	3.2	1.9				
4	5.9	-0.5	7.3	8.3	9.4	9.0	5.3	11.7	2.2				
2002:1	5.2	3.3	5.5	9.0	10.1	4.7	1.8	4.6	6.5				
2	7.0	13.9	5.5	7.4	8.2	6.2	1.9	13.1	2.3				
3	5.9	7.6	5.5	7.6	8.0	6.9	3.2	5.7	3.5				
4	5.1	2.7	5.6	6.9	7.6	5.7	4.3	4.7	3.4				
2003:1	6.2	8.6	5.7	6.4	7.3	5.6	4.9	5.7	5.0				
2	6.1	6.9	5.9	6.3	7.1	5.4	5.5	5.1	4.8				
3	5.3	2.2	6.0	6.5	7.1	5.3	5.6	5.0	5.0				
4	5.1	1.3	5.9	6.4	7.1	5.2	5.7	4.5	5.3				

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Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2002:Q1 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

Category	Seasonally adjusted annual rates													
	Calendar year				2001		2002				2003			
	2000	2001	2002	2003	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	702.1	1046.3	1151.1	1131.9	1202.1	1119.7	1019.6	1448.4	1139.4	997.2	1237.9	1212.9	1059.0	1017.7
2 Net equity issuance	-159.7	-57.5	4.0	-60.2	-126.4	-7.3	20.2	74.5	-41.6	-37.3	-42.3	-52.1	-66.5	-79.9
3 Net debt issuance	861.8	1103.7	1147.2	1192.1	1328.5	1127.0	999.4	1373.9	1181.0	1034.5	1280.2	1265.0	1125.5	1097.6
<i>Borrowing sectors</i>														
Nonfinancial business														
4 Financing gap ¹	328.9	135.1	84.5	142.5	105.2	-9.7	64.0	87.0	87.7	99.4	119.6	138.6	149.9	162.0
5 Net equity issuance	-159.7	-57.5	4.0	-60.2	-126.4	-7.3	20.2	74.5	-41.6	-37.3	-42.3	-52.1	-66.5	-79.9
6 Credit market borrowing	584.6	391.4	196.7	395.9	381.2	365.2	127.4	132.7	221.5	305.2	350.9	398.9	409.9	423.7
Households														
7 Net borrowing ²	545.9	614.6	613.3	545.3	648.6	622.0	695.8	584.0	609.1	564.3	535.1	534.1	556.9	555.0
8 Home mortgages	373.6	480.9	473.1	430.0	486.0	493.7	546.3	455.5	453.2	437.2	427.2	424.2	428.2	440.2
9 Consumer credit	139.0	110.2	101.7	99.2	70.6	149.9	79.9	106.2	120.0	100.6	100.5	99.4	99.2	97.8
10 Debt/DPI (percent) ³	95.4	99.9	102.3	105.7	99.1	103.0	101.5	101.9	102.8	103.7	104.4	105.2	106.1	106.9
State and local governments														
11 Net borrowing	27.2	103.2	99.2	76.8	43.0	157.5	64.2	182.7	81.8	68.2	84.8	76.8	76.8	68.8
12 Current surplus ⁴	177.0	141.4	136.7	176.1	132.5	144.1	129.7	135.4	134.9	146.7	159.2	169.8	182.0	193.4
Federal government														
13 Net borrowing	-295.9	-5.6	238.0	174.2	255.7	-17.6	112.0	474.5	268.6	96.8	309.4	255.3	81.9	50.1
14 Net borrowing (quarterly, n.s.a.)	-295.9	-5.6	238.0	174.2	68.6	59.5	50.8	21.1	74.2	91.9	100.1	-33.7	27.5	80.2
15 Unified deficit (quarterly, n.s.a.)	-254.8	-92.3	232.1	163.0	41.9	37.1	96.6	-15.6	43.3	107.9	108.2	-67.4	37.0	85.2
Depository institutions														
16 Funds supplied	445.3	286.3	309.1	302.0	306.6	410.9	255.2	375.3	328.3	277.7	196.4	362.3	367.1	282.2
Memo (percentage of GDP)														
17 Domestic nonfinancial debt ⁵	181.5	186.7	191.4	194.1	187.5	189.5	189.1	190.9	192.3	193.3	193.6	194.3	194.7	194.7
18 Domestic nonfinancial borrowing	8.8	10.9	11.0	11.0	13.2	11.1	9.7	13.2	11.3	9.8	12.0	11.7	10.3	9.9
19 Federal government ⁶	-3.0	-0.1	2.3	1.6	2.5	-0.2	1.1	4.6	2.6	0.9	2.9	2.4	0.7	0.5
20 Nonfederal	11.8	11.0	8.7	9.4	10.6	11.3	8.6	8.7	8.7	8.9	9.1	9.3	9.5	9.5

Note. Data after 2002:Q1 are staff projections.

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

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

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

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

The recent turmoil in global financial markets looms as a cloud over the foreign outlook. Equity markets across the world have tumbled in recent weeks, and the volatility of these markets has increased markedly. In response, investors have shifted to assets that are perceived as safe havens, most notably government securities in industrial countries. In addition, financial conditions in Brazil, Uruguay, and several other South American countries have weakened significantly; if conditions in these countries were to deteriorate further, crisis could sweep the continent, possibly spilling over to Mexico and to other emerging-market economies. The major challenge that we faced in constructing our forecast was determining how this recent worsening of global financial conditions should be factored into our baseline projections for foreign economic activity and our assessment of the attendant risks.

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

Indicator	2001	2002: Q1	Projection		
			2002		2003
			Q2	H2	
Foreign output	.0	3.2	3.4	2.9	3.4
<i>Previous GB</i>	.1	3.2	2.8	3.4	3.5
Foreign CPI	1.7	1.9	3.3	2.2	2.1
<i>Previous GB</i>	1.7	1.9	2.9	2.1	2.1

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

Economic indicators for the second quarter that have come in since the June Greenbook were generally stronger than we had expected, causing us to mark up our estimates of second-quarter growth for an array of countries, including Canada, Japan, Mexico, and several emerging Asian economies. All told, we have raised our estimate of average foreign growth in the second quarter to 3½ percent at an annual rate, up from 2¾ percent in the previous forecast. We have decided against any extension of these stronger-than-expected data into the future, however, given that they pre-date much of the recent turmoil in financial markets.

Looking ahead, we project that foreign growth in the second half of the year will step down to just below 3 percent, in line with three related factors. First, less favorable financial conditions are expected to weigh on confidence and, ultimately, on activity abroad; indeed, hints of this are already beginning to be seen in sentiment surveys. Second, the pace of growth in the economies where recovery this year has been most robust, particularly Canada and several

Selected Trade Prices

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

Trade category	2001	2002:	Projection		
			2002		2003
	Q1	Q2	H2		
<i>Exports</i>					
Core goods	-1.5	-1.1	3.3	2.2	1.6
<i>Imports</i>					
Non-oil core goods	-2.9	-2.2	2.1	4.8	2.9
Oil (dollars per barrel)	18.39	18.38	24.03	24.39	21.85

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

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

Trade in Goods and Services

Real exports of goods and services are estimated to have grown 11 percent at an annual rate in the second quarter, about twice as fast as we had expected in the previous Greenbook and only the second quarterly gain in the past two years. The increase in the second quarter was primarily in core goods, particularly in exported industrial supplies, machinery, and automotive parts. By region, the largest increases were to Canada and Mexico, countries where estimated growth in the second-quarter has been marked up appreciably. Over the forecast period, foreign economic activity is projected to expand at a pace of around 3 percent or slightly higher, while exports of core goods are projected to grow at an average rate of 5½ percent. The relatively rapid growth in exports is due largely to the reversal of a pattern that emerged over the past year or so: U.S. goods exports more closely tracked the slump in foreign industrial production than the stagnation in foreign GDP. Hence, as production abroad recovers, core goods exports (60 percent of which are industrial supplies and capital equipment) are expected to rise as well. Exports will also be boosted by the projected depreciation of the dollar. Exports of computers and semiconductors are projected to make positive contributions to real export growth this year and next, after falling sharply last year; and service receipts should continue to recover. We thus project that real exports of all goods and services, after declining 11½ percent in 2001, will increase 6¾ percent in 2002 and 8¼ percent in 2003.

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

Measure	2001	2002 Q1	Projection		
			2002		2003
			Q2	H2	
Real exports	-11.4	3.5	11.0	6.5	8.2
<i>Previous GB</i>	<i>-10.9</i>	<i>5.3</i>	<i>5.3</i>	<i>7.9</i>	<i>8.4</i>
Real imports	-8.0	8.5	22.3	5.0	7.3
<i>Previous GB</i>	<i>-8.5</i>	<i>12.9</i>	<i>13.9</i>	<i>8.3</i>	<i>9.2</i>

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

Real imported goods and services registered an even larger increase in the second quarter than in the previous quarter, rising at a surprisingly strong estimated 22 percent annual rate. All major trade categories, except aircraft, posted gains. Particularly notable growth was recorded in imported automotive products (due to the strength of U.S. motor vehicle sales), consumer goods, and machinery. For the latter, not only were there increases in high-tech goods, but also in imports of basic industrial and service equipment, which rose for the first time in more than a year. Given press reports as early as last winter about a possible dock strike this summer on the West Coast, a portion of the second-quarter strength in imports may have reflected efforts to accelerate shipments into the spring. We have found no hard evidence of such behavior; however, this possibility cannot be dismissed entirely. Given the elevated level of second quarter imports, we now expect somewhat less growth in the current quarter than was projected in the June Greenbook, although we expect automotive imports to remain strong, as U.S. sales of motor vehicles have continued at a rapid clip. However, there is a risk of much slower import growth in the near term, if a dock strike occurs or if it turns out that importers did accelerate shipments into the second quarter to a significant extent.

Given the outlook for U.S. domestic demand and the weaker projected path of the dollar, the growth of core goods imports is projected to be about 6 percent over the remainder of the forecast period. This is a downward revision from average growth of 8½ percent projected in the last Greenbook. Total imports of goods and services are expected to expand 5 percent in the second half of this year and 7¼ percent next year.

Alternative Simulations

As noted above, there is some risk that investor perceptions of the attractiveness of U.S. assets may decline more than in our baseline forecast. Thus, in the first alternative simulation, we use the FRB/Global model to consider a larger-than-projected decline in the broad real value of the dollar, precipitated by a sequence of shocks to the risk premium on dollar assets. These shocks are phased in over the four quarters beginning in 2002:Q3 and scaled so that the real value of the dollar would decline about 10 percent against most foreign currencies relative to baseline, in the absence of endogenous adjustment in domestic and foreign real interest rates. This depreciation of the dollar stimulates net exports and, thus, boosts U.S. GDP growth about 0.3 percentage point above baseline in 2003.

Rising import prices pass through to core consumer prices with a lag of a quarter or two; thus, core PCE inflation moves up about 0.3 percentage point relative to baseline in 2003:H1 and about 0.6 percentage point in 2003:H2.

Alternative Simulations:
Rise in External and Equity Risk Premiums¹
 (Percent change from previous period, annual rate)

Indicator and simulation	2002		2003	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	3.1	2.4	3.3	3.7
Simulation 1: Rise in external risk premium	3.1	2.5	3.6	4.1
Simulation 2: Rise in external and equity risk premiums	3.1	2.4	3.3	3.6
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	1.5	1.3	1.4	1.4
Simulation 1: Rise in external risk premium	1.5	1.3	1.7	2.0
Simulation 2: Rise in external and equity risk premiums	1.5	1.3	1.7	2.0

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

1. 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.

A decline in the dollar might very well be associated with further weakness in U.S. equity markets. Accordingly, in our second simulation, the rise in the risk

August 7, 2002

OUTLOOK FOR FOREIGN REAL GDP AND CONSUMER PRICES: SELECTED COUNTRIES
(Percent, Q4 to Q4)

Measure and country	--Projected--								
	1995	1996	1997	1998	1999	2000	2001	2002	2003
REAL GDP (1)									
Total foreign	2.1	4.1	4.1	1.6	5.0	4.0	0.0	3.1	3.4
Industrial Countries of which:	1.9	2.8	3.5	2.7	4.2	3.1	0.3	2.8	2.7
Canada	1.4	2.7	4.4	4.4	5.7	3.5	0.8	4.0	3.2
Japan	2.5	3.7	0.5	-1.3	0.6	2.3	-2.0	1.2	1.2
United Kingdom	2.0	2.8	3.7	2.6	3.2	2.2	1.5	2.1	2.5
Euro Area (2)	1.5	1.6	3.1	2.0	3.8	2.9	0.4	1.7	2.6
Germany	1.1	1.4	1.7	0.6	3.0	2.5	0.0	1.3	2.4
Developing Countries	2.4	6.2	5.2	-0.2	6.2	5.2	-0.4	3.6	4.3
Asia	7.0	6.6	4.9	-2.0	8.7	6.3	0.7	5.6	5.6
Korea	7.5	6.4	3.4	-5.2	13.8	5.1	4.4	6.2	6.0
China	10.4	5.3	8.7	9.5	4.1	8.0	7.5	8.0	7.5
Latin America	-3.8	6.2	6.1	1.2	4.3	4.5	-1.5	2.0	3.4
Mexico	-7.1	7.1	6.7	2.8	5.4	4.9	-1.5	3.0	4.1
Brazil	-1.7	5.4	2.4	-1.6	3.7	3.9	-0.6	1.6	1.4
CONSUMER PRICES (3)									
Industrial Countries of which:	1.3	1.5	1.5	0.9	1.2	1.9	0.9	1.7	1.2
Canada	2.0	2.0	1.0	1.1	2.3	3.1	1.1	3.2	2.0
Japan	-0.8	0.2	2.1	0.7	-1.2	-1.2	-1.3	-1.0	-0.9
United Kingdom (4)	2.9	3.2	2.7	2.5	2.2	2.1	2.0	2.1	2.3
Euro Area (2)	2.4	1.9	1.5	0.8	1.5	2.7	2.1	2.3	1.6
Germany	1.4	1.3	1.5	0.3	1.1	2.5	1.7	1.6	1.0
Developing Countries	17.0	11.1	6.8	9.0	4.6	4.1	2.8	2.9	3.1
Asia	6.4	4.8	2.7	4.4	0.1	1.8	1.0	1.2	2.0
Korea	4.4	5.0	4.9	5.8	1.2	2.5	3.3	3.4	3.1
China	11.1	6.8	0.9	-1.2	-0.9	0.9	-0.2	-0.2	1.0
Latin America	42.0	25.8	15.5	15.4	12.5	8.4	5.4	6.0	5.3
Mexico	48.7	28.0	17.0	17.3	13.5	8.8	5.2	4.8	4.6
Brazil	21.5	9.6	4.6	2.0	8.4	6.4	7.5	5.7	4.3

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

2. Harmonized data for euro area from Eurostat.

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

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

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

Measure and country	2001				2002				Projected 2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	0.6	-0.9	-0.2	0.7	3.2	3.4	2.9	3.0	3.3	3.4	3.4	3.4
Industrial Countries of which:	1.5	-0.4	-0.1	0.4	4.1	2.3	2.4	2.4	2.7	2.7	2.8	2.7
Canada	0.6	0.3	-0.5	2.9	6.0	4.3	3.0	2.8	3.1	3.3	3.3	3.1
Japan	4.1	-4.9	-2.2	-4.9	5.7	-3.0	1.0	1.1	1.2	1.2	1.3	1.3
United Kingdom	2.0	2.3	1.4	0.4	0.6	3.6	2.2	2.1	2.4	2.5	2.5	2.6
Euro Area (2)	1.8	0.2	0.8	-1.0	1.3	1.4	1.9	2.3	2.5	2.6	2.6	2.5
Germany	1.6	0.2	-0.7	-1.0	0.7	0.8	1.6	2.3	2.4	2.5	2.5	2.4
Developing Countries	-0.7	-1.8	-0.4	1.2	1.8	5.2	3.5	3.8	4.3	4.3	4.4	4.4
Asia	-1.0	-2.4	0.2	6.0	6.0	6.1	5.0	5.4	5.5	5.6	5.6	5.7
Korea	4.9	1.0	5.3	6.4	7.6	6.2	5.0	6.0	6.0	6.0	6.0	6.0
China	8.2	7.7	7.1	7.1	8.5	9.3	7.2	7.2	7.5	7.5	7.5	7.5
Latin America	-0.5	-1.8	-1.1	-2.6	-1.7	4.7	2.4	2.6	3.4	3.4	3.4	3.4
Mexico	-1.3	-1.7	-0.8	-2.4	-1.0	6.5	3.3	3.5	4.1	4.1	4.1	4.1
Brazil	4.8	-5.4	-1.7	0.4	5.4	1.0	0.0	0.0	1.2	1.2	1.5	1.5
CONSUMER PRICES (3)	Four-quarter changes											
Industrial Countries of which:	1.7	2.2	1.7	0.9	1.1	1.0	1.1	1.7	1.5	1.2	1.2	1.2
Canada	2.8	3.6	2.7	1.1	1.5	1.3	1.9	3.2	2.9	2.2	2.0	2.0
Japan	-1.0	-1.2	-1.1	-1.3	-1.5	-1.1	-1.4	-1.0	-1.0	-1.2	-1.0	-0.9
United Kingdom (4)	1.9	2.3	2.4	2.0	2.4	1.9	1.8	2.1	1.9	2.1	2.2	2.3
Euro Area (2)	2.3	3.1	2.4	2.1	2.6	2.1	2.4	2.3	2.0	1.6	1.6	1.6
Germany	2.4	3.2	2.4	1.7	2.0	1.1	1.3	1.6	0.9	1.1	1.0	1.0
Developing Countries	3.8	4.1	3.5	2.8	2.6	2.5	2.6	2.9	3.3	3.1	3.0	3.1
Asia	1.8	2.4	1.9	1.0	0.8	0.6	0.8	1.2	1.6	1.6	1.8	2.0
Korea	3.7	5.1	4.2	3.3	2.5	2.7	2.3	3.4	3.7	2.8	3.2	3.1
China	0.7	1.6	0.8	-0.2	-0.6	-1.0	-0.5	-0.2	0.1	0.5	0.6	1.0
Latin America	7.3	6.9	6.0	5.4	5.1	5.4	5.8	6.0	7.0	6.3	5.7	5.3
Mexico	7.5	6.9	6.0	5.2	4.8	4.8	4.9	4.8	5.7	5.1	4.7	4.6
Brazil	6.3	7.1	6.7	7.5	7.7	7.9	6.5	5.7	5.2	4.6	4.5	4.3

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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

	1995	1996	1997	1998	1999	2000	2001	--Projected--	
								2002	2003
NIPA REAL EXPORTS and IMPORTS									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	0.4	-0.2	-0.8	-1.1	-1.0	-0.8	-0.1	-0.7	-0.2
Exports of G&S	1.0	1.1	1.0	0.3	0.5	0.8	-1.3	0.7	0.8
Imports of G&S	-0.6	-1.3	-1.7	-1.3	-1.5	-1.5	1.2	-1.3	-1.0
Percentage change, Q4/Q4									
Exports of G&S	9.7	9.8	8.5	2.3	4.9	7.3	-11.4	6.8	8.2
Services	8.8	8.9	1.4	2.9	3.2	4.8	-9.2	9.1	6.2
Computers	39.1	21.6	25.8	8.1	13.4	23.0	-23.4	5.9	32.6
Semiconductors	79.6	44.6	21.3	9.1	34.6	26.9	-34.9	28.9	34.2
Other Goods 1/	4.6	7.3	9.8	1.3	3.1	5.7	-9.4	4.5	6.0
Imports of G&S	5.0	11.2	14.3	10.8	11.9	11.1	-8.0	10.0	7.3
Services	5.5	5.3	14.0	8.5	5.9	10.9	-8.6	7.0	2.6
Oil	2.4	7.8	3.9	4.1	-3.4	13.3	0.1	1.6	3.1
Computers	35.0	17.8	33.0	25.8	26.0	13.6	-13.8	27.0	32.6
Semiconductors	92.4	56.7	32.9	-8.7	34.2	22.5	-51.4	33.5	34.2
Other Goods 2/	-1.2	10.4	12.7	11.5	12.7	10.4	-6.2	9.7	6.2
Billions of chained 1996 dollars									
Net Goods & Services	-78.4	-89.0	-113.3	-221.1	-320.5	-398.8	-415.9	-486.8	-522.5
Exports of G&S	808.2	874.2	981.5	1002.4	1036.3	1137.2	1076.1	1062.3	1142.3
Imports of G&S	886.6	963.1	1094.8	1223.5	1356.8	1536.0	1492.0	1549.2	1664.8
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-105.8	-117.8	-128.4	-203.8	-292.9	-410.3	-393.4	-500.8	-552.2
Current Acct as Percent of GDP	-1.4	-1.5	-1.5	-2.3	-3.2	-4.2	-3.9	-4.8	-5.1
Net Goods & Services (BOP)	-96.4	-101.8	-107.8	-166.9	-262.2	-378.7	-358.3	-439.4	-494.7
Investment Income, Net	29.1	28.6	25.1	12.7	23.9	27.6	20.5	1.9	3.1
Direct, Net	64.9	69.4	72.4	65.5	75.0	88.9	102.6	91.3	102.9
Portfolio, Net	-35.8	-40.8	-47.3	-52.9	-51.1	-61.2	-82.1	-89.4	-99.8
Other Income & Transfers, Net	-38.6	-44.6	-45.7	-49.6	-54.5	-59.3	-55.6	-63.3	-60.7

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1998				1999				2000			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.8	-1.8	-0.8	0.2	-1.8	-1.4	-0.7	0.1	-1.1	-1.0	-0.7	-0.2
Exports of G&S	0.1	-0.5	-0.2	1.7	-0.8	0.4	1.1	1.3	0.8	1.5	1.2	-0.5
Imports of G&S	-1.9	-1.4	-0.5	-1.5	-1.0	-1.9	-1.8	-1.2	-1.9	-2.5	-1.9	0.3
Percentage change from previous period, s.a.a.r.												
Exports of G&S	0.5	-4.0	-2.2	16.3	-6.9	4.3	10.6	12.6	7.7	14.6	11.6	-4.0
Services	2.4	8.0	-8.4	10.5	-1.5	3.4	4.7	6.4	10.2	11.2	-5.9	4.4
Computers	-8.3	8.2	12.0	22.8	0.8	24.7	20.6	9.2	33.5	45.9	28.8	-8.8
Semiconductors	5.9	-17.2	272.7	-56.6	34.2	45.2	41.3	19.0	14.6	90.9	43.4	-17.5
Other Goods 1/	0.0	-9.2	-9.3	27.8	-12.1	0.7	10.7	15.4	4.2	9.2	16.7	-5.9
Imports of G&S	15.9	11.3	4.2	12.2	8.4	15.4	14.5	9.4	14.7	18.6	13.8	-1.6
Services	21.3	6.7	7.0	0.1	0.2	6.8	9.7	7.1	20.7	9.6	15.1	-0.5
Oil	3.6	42.8	1.1	-21.6	3.9	29.8	-5.8	-31.5	28.6	40.4	-2.3	-6.5
Computers	38.4	18.5	6.4	43.6	35.0	43.7	14.4	13.5	2.5	40.4	27.9	-9.5
Semiconductors	8.5	-25.4	-6.3	-8.2	23.0	67.9	16.3	35.0	23.5	50.0	69.8	-28.5
Other Goods 2/	14.2	11.9	4.1	16.2	7.8	12.2	17.4	13.4	13.1	15.5	12.3	1.3
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-180.8	-223.1	-241.2	-239.2	-283.2	-319.6	-339.6	-339.5	-368.8	-394.6	-413.1	-418.5
Exports of G&S	1003.4	993.1	987.6	1025.6	1007.5	1018.1	1044.1	1075.6	1095.8	1133.9	1165.5	1153.7
Imports of G&S	1184.2	1216.2	1228.9	1264.8	1290.7	1337.7	1383.7	1415.2	1464.6	1528.5	1578.6	1572.2
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-163.3	-197.2	-229.1	-225.7	-238.7	-280.6	-320.6	-331.6	-376.4	-392.3	-428.7	-443.9
Current Account as % of GDP	-1.9	-2.3	-2.6	-2.5	-2.6	-3.1	-3.4	-3.5	-3.9	-4.0	-4.3	-4.5
Net Goods & Services (BOP)	-139.9	-170.0	-181.9	-175.9	-209.5	-253.4	-286.5	-299.6	-348.7	-367.7	-393.3	-405.0
Investment Income, Net	21.1	18.3	1.0	10.4	20.8	24.9	18.3	31.5	25.1	30.6	22.1	32.8
Direct, Net	73.2	68.8	57.1	63.0	72.3	71.4	71.3	85.0	79.0	86.9	89.2	100.3
Portfolio, Net	-52.2	-50.6	-56.1	-52.7	-51.5	-46.5	-53.0	-53.5	-53.9	-56.3	-67.1	-67.5
Other Inc. & Transfers, Net	-44.5	-45.5	-48.2	-60.1	-50.0	-52.1	-52.4	-63.5	-52.8	-55.3	-57.5	-71.7

1. Merchandise exports excluding computers, and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2001				2002				Projected				2003
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
	NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth													
Net Goods & Services	0.5	-0.4	-0.2	-0.3	-0.7	-1.7	-0.3	0.2	-0.3	-0.4	-0.3	0.2	
Exports of G&S	-0.7	-1.4	-2.0	-1.0	0.3	1.0	0.4	0.8	0.6	0.8	0.8	1.0	
Imports of G&S	1.2	1.0	1.7	0.7	-1.1	-2.7	-0.8	-0.6	-0.9	-1.2	-1.1	-0.9	
Percentage change from previous period, s.a.a.r.													
Exports of G&S	-6.0	-12.4	-17.3	-9.6	3.5	11.0	4.4	8.5	5.7	8.2	8.5	10.6	
Services	-6.0	-2.5	-13.9	-13.8	21.7	4.8	4.9	6.1	6.8	6.3	5.9	5.8	
Computers	-7.3	-41.7	-22.8	-17.6	-21.1	-0.2	26.3	26.3	31.1	32.3	33.6	33.6	
Semiconductors	-34.6	-47.3	-40.9	-11.7	13.7	52.4	26.2	26.2	31.1	33.5	36.0	36.0	
Other Goods 1/	-3.0	-10.6	-16.5	-6.9	-3.1	12.6	1.6	7.5	2.1	6.0	6.3	9.7	
Imports of G&S	-7.9	-6.8	-11.8	-5.3	8.5	22.3	5.6	4.4	6.4	8.9	7.9	6.1	
Services	0.3	8.5	-23.2	-16.5	35.7	-2.0	-0.6	-0.8	1.2	2.4	3.2	3.5	
Oil	23.3	7.2	-26.9	3.9	-19.0	36.8	15.9	-17.1	0.0	27.8	8.5	-18.5	
Computers	-21.6	-24.5	-18.7	14.6	52.4	7.3	21.6	31.1	31.1	32.3	33.6	33.6	
Semiconductors	-43.9	-68.8	-55.9	-27.5	45.2	37.4	26.2	26.2	31.1	33.5	36.0	36.0	
Other Goods 2/	-9.4	-6.2	-4.7	-4.5	1.9	28.7	4.3	5.9	5.9	6.3	6.3	6.4	
Billions of chained 1996 dollars, s.a.a.r.													
Net Goods & Services	-404.5	-414.8	-419.0	-425.3	-446.6	-495.4	-505.1	-500.2	-509.8	-522.4	-531.1	-526.8	
Exports of G&S	1135.8	1098.8	1048.0	1021.8	1030.6	1057.9	1069.4	1091.5	1106.7	1128.8	1152.0	1181.5	
Imports of G&S	1540.3	1513.6	1467.0	1447.2	1477.1	1553.3	1574.6	1591.7	1616.5	1651.2	1683.1	1708.3	
Billions of dollars, s.a.a.r.													
US CURRENT ACCOUNT BALANCE	-430.9	-396.9	-365.3	-380.3	-450.0	-498.3	-519.7	-535.1	-535.0	-548.2	-556.5	-568.9	
Current Account as % of GDP	-4.3	-3.9	-3.6	-3.7	-4.4	-4.8	-5.0	-5.1	-5.0	-5.1	-5.1	-5.1	
Net Goods & Services (BOP)	-388.6	-373.3	-319.1	-352.1	-379.4	-443.9	-466.0	-468.1	-480.7	-493.7	-503.3	-500.9	
Investment Income, Net	10.3	30.1	9.4	32.4	-0.6	2.1	2.7	3.4	3.1	2.8	4.2	2.3	
Direct, Net	89.0	111.3	95.6	114.4	83.6	89.4	94.1	98.0	100.9	101.5	104.5	104.7	
Portfolio, Net	-78.7	-81.2	-86.3	-82.0	-84.2	-87.4	-91.3	-94.6	-97.8	-98.7	-100.3	-102.4	
Other Inc. & Transfers, Net	-52.5	-53.7	-55.6	-60.6	-69.9	-56.4	-56.4	-70.4	-57.4	-57.4	-57.4	-70.4	

1. Merchandise exports excluding computers, and semiconductors.

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