

Part 1

December 4, 2002

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

Confidential (FR) Class II FOMC

December 4, 2002

Summary and Outlook

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

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

Measure	2002:Q4		2003:Q1	
	Oct. GB	Dec. GB	Oct. GB	Dec. GB
Real GDP	1.0	1.0	2.2	2.3
Private domestic final purchases	.1	.2	2.3	2.8
Personal consumption expenditures	.3	.0	2.2	2.6
Residential investment	2.9	6.1	-2.1	-1.0
Business fixed investment	-2.5	-.7	4.6	5.5
Government outlays for consumption and investment	3.3	2.2	2.5	3.3
	Contribution to growth (percentage points)			
Inventory investment	.4	.6	.2	-.4
Net exports	-.1	-.2	-.3	-.3

nonresidential structures are expected to post further declines this quarter and next, reflecting plunging outlays on office and industrial buildings, sectors in which vacancy rates currently are very high.

The massive inventory runoff that began in early 2001 appears to have ended in mid-2002. Excluding motor vehicles, inventory-sales ratios appear comfortable by historical standards in most sectors, and we believe that non-auto firms will build stocks at a moderate rate in the fourth quarter of this year and the first quarter of next. Despite the cutbacks in auto assemblies, automakers' production apparently is outstripping sales, and we expect days' supply of light vehicles in the fourth quarter to move up to 71 days, well above the industry's 65-day target level. Improving sales and restrained production in this sector should result in a better inventory picture over the first half of next year.

Federal spending should grow a bit more slowly on average in the current quarter and the first quarter of next year relative to earlier this year, as increases in spending associated with homeland security and the war on terrorism begin to moderate. Our near-term forecast is boosted slightly by the costs of the ongoing overseas deployment of troops and military equipment. Real spending by state and local governments is likely to rise at a relatively subdued pace in the near term, reflecting pressures arising from deteriorating budget balances.

In September, exports were stronger and imports weaker than we had anticipated. We believe that both categories posted small gains for the third

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

Measure	2003		2004
	H1	H2	
Real GDP	2.6	4.1	4.3
Previous	2.4	3.6	3.9
Final sales	2.7	3.8	4.2
Previous	2.1	3.5	3.9
PCE	2.8	3.3	3.7
Previous	2.2	2.8	3.2
Residential investment	-.2	2.4	5.8
Previous	-1.1	2.9	5.1
BFI	5.9	10.0	12.1
Previous	5.0	9.2	11.1
Government purchases	2.8	2.6	2.7
Previous	2.5	2.8	2.8
Exports	4.9	8.3	7.7
Previous	5.6	8.5	7.9
Imports	6.6	7.2	8.4
Previous	6.9	6.6	7.8
	Contribution to growth, percentage points		
Inventory change	-.1	.3	.1
Previous	.3	.1	.0
Net exports	-.4	-.2	-.4
Previous	-.4	-.1	-.3

the second half of this year. Spending growth should pick up to 3-1/4 percent in the second half of 2003 and to 3-3/4 percent in 2004. Several factors feed this projected acceleration: The diminishing drag from previous declines in wealth, the projected increases in stock prices, and improving labor market conditions that are expected to bolster personal income. In 2004, household income should receive a further boost when the next phase of the previously enacted reduction in income tax rates and the additional \$25 billion of tax cuts we have assumed in this forecast take effect.

3 percent in 2003 and 1-1/2 percent in 2004, down from an anticipated 6-1/2 percent advance in 2002. Growth in nondefense spending is also expected to slow—albeit less dramatically—from a projected pace of 3-1/2 percent in 2002 to around 2-1/2 percent in 2003 and 2004. In contrast, state and local spending will increase just 1.7 percent over the four quarters of 2002 and should accelerate gradually over the next couple of years as the expanding economy reduces strains on these governments' budgets.

Net exports. We expect that net exports will make arithmetic deductions from real GDP growth of roughly 1/3 percentage point in both 2003 and 2004. This damping effect is slightly larger than we had projected in the October Greenbook owing primarily to the smaller assumed rate of depreciation of the dollar and the upward-revised growth rate of U.S. real GDP. We expect that real exports will expand at an average annual rate of 7-1/4 percent over the next two years, slightly faster than in 2002; exports should be supported by the pickup in economic activity abroad and the depreciation of the dollar. Real import growth is forecast to average 7-3/4 percent in 2003 and 2004—well below this year's pace of 9-1/2 percent. (*The International Developments section provides more detail on the outlook for the external sector.*)

Aggregate Supply, the Labor Market, and Prospects for Inflation

We project that actual growth of real GDP will grow more slowly than our estimate of potential GDP through the middle of next year, causing the current

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

Measure	1973-95	1996-99	2000	2001	2002	2003	2004
Structural labor productivity	1.4	2.5	2.6	1.9	1.9	2.0	2.3
Previous	1.4	2.5	2.6	1.9	1.7	2.0	2.3
<i>Contributions</i> ¹							
Capital deepening	.6	1.3	1.2	.4	.2	.4	.6
Previous	.6	1.3	1.2	.4	.2	.4	.6
Multifactor productivity	.6	1.0	1.2	1.3	1.4	1.4	1.4
Previous	.6	1.0	1.2	1.3	1.2	1.4	1.4
Labor composition	.3	.3	.3	.3	.3	.3	.3
MEMO							
Potential GDP	2.9	3.5	3.6	2.9	2.9	3.0	3.3
Previous	2.9	3.5	3.6	2.9	2.7	3.0	3.3

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

1. Percentage points.

slack in resource utilization to increase a little more. The pickup in output growth that we forecast for the second half of next year and for 2004 is sufficient to significantly narrow, but not eliminate, the output gap by the end of that period. As a result, the degree of slack in our forecast generates a small deceleration in core consumer price inflation over the next couple of years.

Productivity and the labor market. We estimate that output per hour in the nonfarm business sector rose 5.7 percent over the four quarters ending in 2002:Q3. In our view, this extraordinary performance reflects mainly the cautious response of businesses to the growth in aggregate demand over the past year in light of the heightened economic uncertainties. Rather than boosting their hiring, firms have opted to employ their labor and capital more intensively. Some of the resulting efficiency gains are likely to dissipate as business confidence returns and hiring increases. However, given the further upside surprise in productivity last quarter, we now project that a greater portion of the productivity enhancements over the past year were permanent and, accordingly, have boosted the *level* of structural productivity about 1/4 percent by the end of 2002. Structural productivity then is projected to rise 2 percent in 2003 and 2.3 percent in 2004, unchanged from the October Greenbook.

As the recovery takes hold, we anticipate that private payroll employment will increase roughly 100,000 per month in the first half of next year and gradually rise further to 250,000 per month in 2004. The unemployment rate is projected

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	3.9	1.2	1.7
Previous	1.9	3.3	1.5	1.7
Nonfarm private payroll employment	-1.4	-.4	1.7	2.7
Previous	-1.4	-.4	1.5	2.2
Household employment survey	-1.0	.5	1.2	1.9
Previous	-1.0	.4	1.0	1.6
Labor force participation rate ¹	66.9	66.7	66.9	67.0
Previous	66.9	66.7	66.8	66.9
Civilian unemployment rate ¹	5.6	5.8	5.9	5.4
Previous	5.6	5.9	6.1	5.8

1. Percent, average for the fourth quarter.

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

Measure	2001	2002	2003	2004
PCE chain-weighted price index	1.5	1.9	1.3	1.3
Previous	1.5	1.9	1.2	1.3
Food and beverages	3.1	1.4	2.0	1.9
Previous	3.1	1.5	2.0	1.8
Energy	-10.3	6.9	-3.4	-.2
Previous	-10.3	8.2	-4.9	-.0
Excluding food and energy	1.9	1.7	1.4	1.3
Previous	1.9	1.6	1.3	1.2
Consumer price index	1.9	2.2	1.7	1.8
Previous	1.9	2.3	1.6	1.7
Excluding food and energy	2.7	2.1	2.0	1.9
Previous	2.7	2.1	2.0	1.8
GDP chain-weighted price index	2.0	1.4	1.4	1.4
Previous	2.0	1.4	1.3	1.3
ECI for compensation of private industry workers ¹	4.2	3.5	3.4	3.5
Previous	4.2	3.8	3.4	3.3
NFB compensation per hour	1.4	3.9	3.4	3.3
Previous	1.4	3.8	3.2	3.1
Prices of core non-oil merchandise imports	-2.9	.6	2.4	1.8
Previous	-2.9	1.2	2.3	1.9

1. December to December.

to average 6 percent next year and then to slip below 5-1/2 percent by the end of 2004.⁵ This path for the unemployment rate is about 1/4 percentage point below that in the October Greenbook.

Prices and wages. We anticipate that inflation as measured by the core PCE price index will be 1.7 percent in 2002, decline to 1.4 percent in 2003, and then edge down further to 1.3 percent in 2004. The deceleration stems mainly from

5. Once again, we assume that the availability of extended unemployment benefits boosts the projected unemployment rate 0.2 percentage point throughout the forecast period by encouraging unemployed individuals to be more selective about taking a job offer and by drawing some individuals into the labor force to become eligible for these benefits.

Alternative Scenarios

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

Measure	2002		2003		2004
	H1	H2	H1	H2	
<i>Real GDP</i>					
Greenbook Baseline	3.1	2.5	2.6	4.1	4.3
Fiscal stimulus	3.1	2.5	4.0	4.1	4.3
Recession	3.1	1.9	.2	3.3	3.9
Faster productivity growth	3.1	2.5	3.2	4.9	5.1
Deflation	3.1	2.2	1.2	3.4	4.2
Market-based funds rate	3.1	2.5	2.6	4.0	3.4
<i>Civilian unemployment rate¹</i>					
Greenbook Baseline	5.9	5.8	6.0	5.9	5.4
Fiscal stimulus	5.9	5.8	5.8	5.5	5.0
Recession	5.9	5.9	6.6	6.8	6.5
Faster productivity growth	5.9	5.8	6.1	5.9	5.3
Deflation	5.9	5.8	6.3	6.5	6.1
Market-based funds rate	5.9	5.8	6.0	5.9	5.8
<i>PCE prices excluding food and energy</i>					
Greenbook Baseline	1.7	1.8	1.5	1.4	1.3
Fiscal stimulus	1.7	1.8	1.4	1.3	1.4
Recession	1.7	1.8	1.5	1.2	.9
Faster productivity growth	1.7	1.8	1.4	1.2	.9
Deflation	1.7	1.7	1.2	.9	.4
Market-based funds rate	1.7	1.8	1.5	1.4	1.1

1. Average for the final quarter of the period.

fiscal 2004. Under these circumstances, real GDP grows 4 percent next year. The unemployment rate soon begins to turn down and falls to 5 percent by the end of 2004. Because competition spurs firms to pass a bit of their lower payroll costs through to prices, the rate of inflation in 2003 is 1/10 percentage point lower than baseline. In 2004, however, the higher level of resource utilization pushes inflation 1/10 percentage point above baseline.

Recession. Consumer and business confidence about economic prospects seems to be fragile at present and might be significantly deflated by only a modest amount of bad news. This scenario explores the possibility that the economy is on the cusp of a more substantial weakening than projected in the baseline. In particular, the current weakness in consumer durables spreads to consumer outlays more broadly, with the result that real PCE edges down this quarter and next. Firms are also more cautious: E&S investment levels off through the

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

December 4, 2002

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
	10/30/02	12/4/02	10/30/02	12/4/02	10/30/02	12/4/02	10/30/02	12/4/02	10/30/02	12/4/02
ANNUAL										
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	2.3	2.4	1.1	1.1	1.6	1.6	5.8	5.8
2003	3.8	4.2	2.4	2.6	1.4	1.5	1.9	1.9	6.2	6.0
2004	5.2	5.6	3.8	4.2	1.3	1.4	1.7	1.7	5.9	5.6
QUARTERLY										
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	0.7	4.8
	Q4	2.2	2.2	2.7	2.7	-0.5	-0.5	-0.2	-0.2	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	4.2	5.1	3.1	4.0	1.0	1.0	1.8	1.8	5.7
	Q4	2.9	3.1	1.0	1.0	1.8	2.1	2.7	2.3	5.9
2003	Q1	3.9	4.0	2.2	2.3	1.6	1.7	1.4	1.7	6.2
	Q2	3.9	4.2	2.6	2.9	1.2	1.2	1.5	1.7	6.2
	Q3	4.6	5.2	3.3	3.9	1.3	1.3	1.6	1.6	6.0
	Q4	5.2	5.6	3.8	4.2	1.3	1.3	1.7	1.7	5.9
2004	Q1	5.7	6.1	3.9	4.4	1.7	1.6	1.7	1.8	6.0
	Q2	5.3	5.6	4.0	4.3	1.2	1.3	1.7	1.8	5.7
	Q3	5.3	5.6	4.0	4.3	1.2	1.3	1.7	1.8	5.9
	Q4	4.9	5.4	3.6	4.1	1.2	1.3	1.8	1.8	5.6
										5.4
TWO-QUARTER³										
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	4.1	2.1	2.5	1.4	1.5	2.3	2.1	0.0
2003	Q2	3.9	4.1	2.4	2.6	1.4	1.5	1.5	1.7	-0.1
	Q4	4.9	5.4	3.6	4.1	1.3	1.3	1.7	1.7	-0.1
2004	Q2	5.5	5.9	4.0	4.4	1.4	1.5	1.7	1.8	-0.2
	Q4	5.1	5.5	3.8	4.2	1.2	1.3	1.7	1.8	-0.1
										-0.3
FOUR-QUARTER⁴										
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	1.9	1.6
2002	Q4	4.0	4.3	2.6	2.8	1.4	1.4	2.3	2.2	0.3
2003	Q4	4.4	4.7	3.0	3.3	1.3	1.4	1.6	1.7	0.2
2004	Q4	5.3	5.7	3.9	4.3	1.3	1.4	1.7	1.8	-0.4
										-0.6

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 - - -									
		1996	1997	1998	1999	2000	2001	2002	2003	2004	
EXPENDITURES											
Nominal GDP	Bill. \$	7813.2	8318.4	8781.5	9274.3	9824.6	10082.2	10446.0	10879.7	11487.7	
Real GDP	Bill. Ch. \$	7813.2	8159.5	8508.9	8859.0	9191.4	9214.5	9437.3	9684.6	10088.1	
Real GDP	% change	4.1	4.3	4.8	4.3	2.3	0.1	2.8	3.3	4.3	
Gross domestic purchases		4.3	5.0	5.8	5.2	2.9	0.1	3.3	3.5	4.5	
Final sales		3.9	3.9	4.7	4.2	2.6	1.6	1.5	3.2	4.2	
Priv. dom. final purchases		4.4	5.1	6.3	5.2	3.7	0.9	1.8	3.6	4.9	
Personal cons. expenditures		3.1	4.1	5.0	5.0	3.5	2.8	2.2	3.1	3.7	
Durables		5.0	8.8	12.7	10.0	3.8	13.2	0.4	5.6	6.8	
Nondurables		3.2	2.5	5.0	4.9	3.0	1.7	2.7	2.7	3.3	
Services		2.7	3.9	3.6	4.0	3.8	1.3	2.4	2.8	3.3	
Business fixed investment		12.1	11.8	12.3	6.6	6.2	-9.3	-2.4	7.9	12.1	
Equipment & Software		11.8	13.7	14.9	9.7	5.2	-8.8	2.2	10.8	14.2	
Nonres. structures		12.8	6.5	4.9	-2.5	9.3	-10.6	-15.2	-1.6	4.6	
Residential structures		5.6	3.5	10.0	4.0	-1.2	1.0	6.0	1.1	5.8	
Exports		9.8	8.5	2.3	4.9	7.3	-11.4	6.6	6.6	7.7	
Imports		11.2	14.3	10.8	11.9	11.1	-8.0	9.4	6.9	8.4	
Gov't. cons. & investment		2.7	2.4	2.7	4.5	1.3	5.1	3.0	2.7	2.7	
Federal		2.0	0.1	0.6	4.0	-1.2	7.5	5.4	2.8	1.8	
Defense		0.8	-1.4	-0.8	4.4	-2.5	7.4	6.5	2.9	1.6	
State & local		3.0	3.7	3.8	4.8	2.6	3.9	1.7	2.6	3.1	
Change in bus. inventories	Bill. Ch. \$	30.0	63.8	76.7	62.8	65.0	-61.4	6.6	34.4	51.3	
Nonfarm		21.2	60.6	75.0	64.1	67.2	-63.2	5.5	33.4	50.1	
Net exports		-89.0	-113.3	-221.1	-320.5	-398.8	-415.9	-478.6	-520.9	-570.3	
Nominal GDP	% change	6.0	6.2	6.0	5.9	4.6	2.0	4.3	4.7	5.7	
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	119.6	122.7	125.9	128.9	131.7	131.9	130.8	132.1	135.0	
Unemployment rate	%	5.4	4.9	4.5	4.2	4.0	4.8	5.8	6.0	5.6	
Industrial prod. index	% change	5.8	7.4	3.5	4.3	2.6	-5.9	1.6	3.6	5.4	
Capacity util. rate - mfg.	%	81.6	82.7	81.4	80.6	80.7	75.1	73.8	74.2	77.4	
Housing starts	Millions	1.48	1.47	1.62	1.64	1.57	1.60	1.69	1.71	1.79	
Light motor vehicle sales		15.05	15.07	15.41	16.78	17.24	17.02	16.54	16.76	17.40	
North Amer. produced		13.34	13.14	13.39	14.30	14.38	13.94	13.27	13.44	13.98	
Other		1.70	1.93	2.02	2.48	2.86	3.08	3.28	3.32	3.42	
INCOME AND SAVING											
Nominal GNP	Bill. \$	7831.2	8325.4	8778.1	9297.1	9848.0	10104.1	10435.0	10877.1	11479.6	
Nominal GNP	% change	5.9	6.0	5.8	6.4	4.6	2.1	3.8	4.8	5.6	
Nominal personal income		5.9	6.3	6.7	5.1	7.7	1.4	4.3	4.6	5.2	
Real disposable income		2.6	3.8	5.0	2.4	4.8	0.3	5.7	2.2	4.1	
Personal saving rate	%	4.8	4.2	4.7	2.6	2.8	2.3	3.9	3.7	4.0	
Corp. profits, IVA & CCAdj.	% change	11.4	9.9	-9.6	7.0	-9.1	8.2	-4.1	4.4	7.2	
Profit share of GNP	%	9.6	10.0	8.9	8.7	8.0	7.2	7.5	7.2	7.4	
Excluding FR Banks		9.4	9.7	8.6	8.4	7.7	7.0	7.3	7.0	7.2	
Federal surpl./deficit	Bill. \$	-136.8	-53.3	43.8	111.9	206.9	72.0	-190.3	-164.8	-159.7	
State & local surpl./def.		21.4	31.0	40.7	38.3	18.0	-31.3	-51.5	-44.3	-16.5	
Ex. social ins. funds		18.7	29.9	40.0	37.4	17.8	-31.2	-51.4	-44.2	-16.4	
Gross natl. saving rate	%	17.2	18.0	18.8	18.3	18.4	16.5	15.3	15.5	16.1	
Net natl. saving rate		5.7	6.7	7.5	6.8	6.7	3.8	2.3	2.3	3.0	
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.9	1.8	1.1	1.6	2.3	2.0	1.4	1.4	1.4	
Gross Domestic Purchases chn.-wt. price index		1.9	1.4	0.8	1.9	2.5	1.3	1.6	1.4	1.3	
PCE chn.-wt. price index		2.3	1.5	1.1	2.0	2.5	1.5	1.9	1.3	1.3	
Ex. food and energy		1.8	1.7	1.6	1.5	1.8	1.9	1.7	1.4	1.3	
CPI		3.2	1.9	1.5	2.6	3.4	1.9	2.2	1.7	1.8	
Ex. food and energy		2.6	2.2	2.3	2.1	2.5	2.7	2.1	2.0	1.9	
ECI, hourly compensation ²		3.1	3.4	3.5	3.4	4.4	4.2	3.5	3.4	3.5	
Nonfarm business sector											
Output per hour		2.3	2.2	2.9	2.9	2.1	1.9	3.9	1.2	1.7	
Compensation per Hour		3.2	3.4	5.3	4.3	7.2	1.4	3.9	3.4	3.3	
Unit labor cost		0.9	1.1	2.3	1.4	4.9	-0.5	0.0	2.2	1.6	

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
EXPENDITURES											
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
EMPLOYMENT AND PRODUCTION											
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	4.1	4.0	4.2	4.5	4.8	5.6	5.6	5.9
Industrial prod. index	% change	5.8	7.0	0.6	-2.6	-6.1	-5.9	-4.7	-6.7	2.6	4.2
Capacity util. rate - mfg.	%	81.2	81.6	80.7	79.1	77.2	75.6	74.5	73.1	73.5	74.0
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
INCOME AND SAVING											
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	3.6
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	-190.3
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	-45.0
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
PRICES AND COSTS											
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		3.9	3.3	3.5	2.8	4.0	3.2	0.7	-0.2	1.4	3.4
Ex. food and energy		2.3	2.7	2.7	2.4	3.1	2.4	2.6	2.6	2.4	2.1
ECI, hourly compensation ¹		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	-1.5	-0.1	2.1	7.3	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	3.9
Unit labor cost		14.9	-3.6	8.0	1.4	4.3	0.3	-1.1	-5.4	-5.3	2.2

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
EXPENDITURES											
Nominal GDP	Bill. \$	10506.8	10587.1	10691.3	10800.7	10939.0	11087.7	11253.7	11409.3	11567.1	11720.8
Real GDP	Bill. Ch. \$	9485.3	9508.4	9561.8	9630.2	9723.0	9823.3	9929.8	10035.3	10142.1	10245.0
Real GDP	% change	4.0	1.0	2.3	2.9	3.9	4.2	4.4	4.3	4.3	4.1
Gross domestic purchases		3.8	1.1	2.5	3.3	4.2	4.0	4.8	4.7	4.6	4.0
Final sales		3.4	0.4	2.7	2.7	3.3	4.2	4.3	4.2	4.2	4.2
Priv. dom. final purchases		3.4	0.2	2.8	3.3	3.9	4.3	5.1	5.0	4.9	4.4
Personal cons. expenditures		4.1	0.0	2.6	3.0	3.4	3.3	3.8	3.7	3.5	3.6
Durables		23.1	-13.7	4.1	4.9	7.5	5.9	7.3	7.4	5.6	6.8
Nondurables		0.9	2.0	2.3	2.7	2.8	2.9	3.3	3.2	3.3	3.2
Services		2.2	2.0	2.5	2.9	3.0	3.4	3.3	3.2	3.2	3.2
Business fixed investment		-0.6	-0.7	5.5	6.3	8.4	11.7	13.4	13.0	13.3	8.8
Equipment & Software		6.6	1.7	8.7	9.3	11.0	14.5	16.2	15.7	15.7	9.5
Nonres. structures		-20.3	-8.3	-4.8	-3.5	-0.4	2.4	3.9	3.3	5.0	6.4
Residential structures		1.3	6.1	-1.0	0.6	1.2	3.5	5.8	6.3	6.7	4.5
Exports		3.3	5.9	3.2	6.7	7.2	9.5	5.6	7.8	7.8	9.6
Imports		2.3	5.6	4.6	8.7	8.2	6.3	8.2	9.7	8.9	6.8
Gov't. cons. & investment		2.9	2.2	3.3	2.3	2.5	2.6	2.8	2.6	2.7	2.6
Federal		4.3	2.7	5.2	1.7	2.0	2.1	2.2	1.7	1.8	1.5
Defense		7.1	-0.2	6.2	1.6	1.9	1.9	2.2	1.2	1.8	1.1
State & local		2.1	1.9	2.3	2.6	2.7	2.9	3.1	3.1	3.2	3.2
Change in bus. inventories	Bill. Ch. \$	17.9	32.6	22.8	28.3	43.5	42.9	46.5	51.4	54.5	52.8
Nonfarm		19.9	33.2	22.1	27.2	42.6	41.7	45.3	50.2	53.4	51.4
Net exports		-487.3	-493.2	-502.5	-518.5	-531.4	-531.1	-548.7	-566.9	-582.0	-583.4
Nominal GDP	% change	5.1	3.1	4.0	4.2	5.2	5.6	6.1	5.6	5.6	5.4
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	130.9	130.9	131.2	131.7	132.3	133.1	133.8	134.6	135.4	136.3
Unemployment rate	%	5.7	5.8	6.0	6.0	6.0	5.9	5.8	5.7	5.6	5.4
Industrial prod. index	% change	3.5	-3.9	-0.3	4.8	4.7	5.3	5.7	5.3	5.2	5.3
Capacity util. rate - mfg.	%	74.4	73.4	73.1	73.9	74.6	75.4	76.2	77.0	77.8	78.6
Housing starts	Millions	1.70	1.66	1.70	1.70	1.71	1.73	1.76	1.78	1.81	1.81
Light motor vehicle sales		17.63	15.86	16.40	16.60	16.89	17.14	17.27	17.42	17.42	17.47
North Amer. produced		14.27	12.66	13.10	13.30	13.55	13.80	13.85	14.00	14.00	14.05
Other		3.35	3.20	3.30	3.30	3.34	3.34	3.42	3.42	3.42	3.42
INCOME AND SAVING											
Nominal GNP	Bill. \$	10489.1	10579.2	10687.2	10799.1	10937.1	11084.8	11249.7	11404.5	11558.2	11705.9
Nominal GNP	% change	5.2	3.5	4.2	4.3	5.2	5.5	6.1	5.6	5.5	5.2
Nominal personal income		3.7	3.5	5.3	4.1	4.2	4.7	5.8	4.9	5.0	4.9
Real disposable income		2.9	2.3	1.3	2.2	2.4	2.8	6.6	3.2	3.4	3.2
Personal saving rate	%	3.8	4.3	4.0	3.8	3.6	3.5	4.1	4.1	4.0	4.0
Corp. profits, IVA & CCAdj.	% change	-4.4	0.8	-6.9	3.6	10.4	11.3	6.9	5.6	8.7	7.8
Profit share of GNP	%	7.4	7.4	7.2	7.1	7.2	7.3	7.3	7.3	7.4	7.4
Excluding FR Banks		7.2	7.1	6.9	7.0	7.1	7.1	7.1	7.2	7.2	7.2
Federal surpl./deficit	Bill. \$	-187.6	-237.6	-191.9	-175.8	-148.1	-143.4	-190.2	-173.1	-154.5	-121.1
State & local surpl./def.		-52.1	-53.0	-52.5	-49.4	-42.4	-32.7	-25.0	-18.1	-14.8	-8.0
Ex. social ins. funds		-52.0	-52.9	-52.4	-49.3	-42.3	-32.6	-24.9	-18.0	-14.7	-7.9
Gross natl. saving rate	%	15.1	15.2	15.3	15.4	15.6	15.7	15.8	16.0	16.2	16.3
Net natl. saving rate		2.0	2.0	2.1	2.2	2.3	2.5	2.7	2.9	3.1	3.3
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.0	2.1	1.7	1.2	1.3	1.3	1.6	1.3	1.3	1.3
Gross Domestic Purchases chn.-wt. price index		1.2	2.0	1.7	1.2	1.2	1.3	1.6	1.3	1.3	1.2
PCE chn.-wt. price index		1.7	2.0	1.4	1.3	1.2	1.3	1.3	1.4	1.3	1.3
Ex. food and energy		1.8	1.8	1.6	1.5	1.4	1.4	1.4	1.3	1.3	1.3
CPI		1.8	2.3	1.7	1.7	1.6	1.7	1.8	1.8	1.8	1.8
Ex. food and energy		2.1	2.0	2.1	2.0	2.0	2.0	1.9	1.9	1.9	1.9
ECI, hourly compensation ¹		2.5	3.5	3.4	3.4	3.4	3.4	3.5	3.5	3.5	3.5
Nonfarm business sector		5.1	0.3	0.1	0.7	2.1	1.9	1.8	1.7	1.6	1.6
Output per hour		4.9	3.9	3.5	3.4	3.3	3.3	3.4	3.3	3.2	3.2
Compensation per hour		-0.2	3.6	3.4	2.6	1.3	1.4	1.6	1.5	1.6	1.7

1. Private-industry workers.

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	2.8	3.4
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	3.4	3.4
Final sales	1.7	1.2	2.7	-0.5	-0.2	4.1	2.5	-0.1	3.5	2.6	1.6	1.5	1.5
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	1.6	1.6
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	1.6	1.6
Durables	0.6	-0.4	0.9	0.4	0.4	2.5	-0.6	0.2	1.8	0.3	1.0	0.0	0.0
Nondurables	0.4	0.5	0.5	-0.1	0.3	0.7	1.6	-0.0	0.2	0.6	0.3	0.5	0.5
Services	1.5	1.3	0.2	0.6	0.4	0.9	1.2	1.1	0.9	1.5	0.5	1.0	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	-0.3
Equipment & Software	0.1	-0.5	-0.6	-1.6	-0.8	-0.2	-0.2	-0.2	0.3	0.5	-0.5	-0.2	-0.2
Nonres. structures	0.4	0.1	-0.1	-0.3	0.1	-1.1	-0.4	-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	0.3
Net exports	-0.7	-0.2	0.5	-0.4	-0.2	-0.3	-0.8	-1.4	0.0	-0.8	-0.1	-0.6	-0.6
Exports	1.3	-0.5	-0.7	-1.4	-1.9	-1.0	0.3	1.3	0.3	0.8	-1.3	0.6	0.6
Imports	-2.0	0.2	1.2	1.0	1.7	0.7	-1.1	-2.7	-0.3	-1.5	1.2	-1.2	-1.2
Government cons. & invest.	-0.2	0.5	1.0	0.4	-0.2	1.9	1.0	0.3	0.5	0.2	0.9	0.6	0.6
Federal	-0.5	0.1	0.5	0.4	0.1	0.8	0.5	0.5	0.3	-0.1	0.4	0.4	0.3
Defense	-0.2	0.2	0.3	0.1	0.2	0.5	0.5	0.3	0.3	0.1	0.3	0.3	0.3
Nondefense	0.3	-0.2	0.4	0.5	0.2	0.3	0.1	0.6	-0.2	0.0	0.2	0.1	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	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	1.3	1.3
Nonfarm	-1.0	-0.3	-3.4	-0.8	-0.3	-1.4	2.5	1.5	0.6	-0.4	-1.6	1.3	1.3
Farm	-0.2	0.2	0.2	-0.3	0.2	0.1	0.1	-0.2	-0.0	0.1	0.0	0.0	-0.0

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

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Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

December 4, 2002

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			2002				2003				2004				
	2001 ^a	2002 ^a	2003	2004	Q1 ^a	Q2 ^a	Q3 ^a	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget																
Receipts ²	1991	1853	1932	2020	413	523	452	426	435	597	473	461	449	621	490	487
Outlays ²	1863	2012	2108	2179	509	507	494	533	535	526	513	550	553	545	532	569
Surplus/deficit ²	127	-159	-176	-159	-97	16	-42	-107	-101	71	-40	-89	-104	76	-42	-82
On-budget	-33	-318	-342	-344	-127	-58	-53	-145	-139	-3	-55	-133	-146	-5	-60	-128
Off-budget	161	160	165	185	30	73	11	38	38	74	15	44	42	82	18	46
Surplus excluding deposit insurance	126	-160	-177	-159	-96	15	-43	-107	-101	70	-40	-89	-104	76	-42	-82
Means of financing																
Borrowing	-90	221	176	176	51	21	89	94	107	75	51	84	99	-42	35	77
Cash decrease	8	-17	16	0	38	-26	-21	23	-10	13	-10	15	0	-30	15	15
Other ³	-46	-46	-16	-17	8	-11	-26	-10	3	-9	-1	-10	5	-4	-8	-10
Cash operating balance, end of period	44	61	45	45	14	40	61	38	48	35	45	30	30	60	45	30
NIPA federal sector																
Receipts	2024	1913	1946	2060	1885	1889	1885	1872	1937	1966	2007	2044	2033	2064	2099	2150
Expenditures	1909	2039	2134	2225	2031	2079	2075	2110	2129	2142	2155	2187	2223	2238	2254	2271
Consumption expenditures	517	570	610	636	566	581	590	594	612	615	619	623	637	640	644	647
Defense	337	375	401	418	372	383	389	390	402	404	407	410	418	420	423	425
Nondefense	180	195	209	218	194	199	201	204	210	211	212	214	219	220	221	222
Other spending	1392	1469	1524	1589	1464	1498	1485	1516	1517	1527	1536	1564	1586	1597	1610	1623
Current account surplus	115	-126	-188	-165	-146	-190	-190	-238	-192	-176	-148	-143	-190	-173	-155	-121
Gross investment	98	106	113	118	106	107	108	110	112	113	115	116	117	118	119	120
Current and capital account surplus	17	-232	-301	-283	-252	-297	-298	-348	-304	-289	-263	-259	-307	-291	-274	-241
Fiscal indicators⁴																
High employment (HEB) surplus/deficit	-39	-235	-296	-305	-258	-295	-306	-346	-298	-281	-259	-264	-325	-319	-311	-288
Change in HEB, percent of potential GDP	0	2	.5	-0	2	.3	.1	.3	-.5	-.2	-.2	0	.5	-.1	-.1	-.2
Fiscal impetus (FI), percent, calendar year	11	20	9	10	10	6	.2	2	4	1	2	2	6	1	1	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 -\$62 billion in FY 2003 and \$17 billion in FY 2004. CBO's August 2002 baseline surplus estimates are -\$145 billion in FY 2003 and -\$111 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. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of nominal potential GDP. 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

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

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

December 4, 2002

Period ¹	Total ²	Federal government ³	Total ⁴	Nonfederal				State and local governments	Business	Consumer credit	Home mortgages	Households	Nonfederal	Business	Consumer credit	Home mortgages	Households	Total	Federal government	Total ²	Period ¹	Memo: Nominal GDP
				Nonfederal	Business	State and local governments	Memo: Nominal GDP															
<i>Year</i>																						
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	6.5	-1.9	9.0	8.3	9.0	7.4	10.9	4.4	5.9													
2000	4.9	-8.0	8.4	8.3	8.2	9.6	9.8	2.2	4.6													
2001	6.1	-0.2	7.6	8.6	9.7	6.9	6.3	8.1	2.0													
2002	6.7	7.5	6.5	9.3	11.5	4.2	2.8	10.0	4.3													
2003	5.5	4.6	5.8	6.6	7.7	4.1	5.0	4.8	4.7													
2004	5.7	4.4	6.0	6.4	7.1	5.0	5.7	4.9	5.7													
<i>Quarter</i>																						
2001:3	6.8	6.3	6.9	9.0	9.9	4.3	5.2	4.3	4.3													
4	6.4	1.3	7.5	8.3	9.2	9.0	5.7	11.7	2.2													
2002:1	4.8	1.2	5.6	9.1	10.3	4.8	1.8	4.5	6.5													
2	8.2	15.5	6.7	8.7	11.0	4.4	3.4	12.0	2.5													
3	6.6	7.5	6.5	9.6	12.8	3.5	2.2	9.7	5.1													
4	6.5	5.2	6.8	8.4	10.2	3.9	3.6	12.4	3.1													
2003:1	6.2	7.3	5.9	6.9	8.8	3.9	4.5	7.0	4.0													
2	5.3	3.8	5.6	6.4	7.5	3.9	4.8	5.2	4.2													
3	5.1	2.9	5.6	6.4	7.1	4.0	5.2	2.9	5.2													
4	5.2	4.0	5.4	5.9	6.7	4.2	5.2	3.7	5.6													
2004:1	5.8	6.1	5.7	6.1	6.8	4.5	5.4	4.9	6.1													
2	6.0	7.1	5.8	6.3	6.9	4.9	5.5	4.9	5.6													
3	5.1	1.2	5.9	6.4	7.0	5.1	5.6	4.8	5.6													
4	5.5	3.1	6.0	6.4	7.0	5.3	5.7	4.7	5.4													

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2002:Q3 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

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

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

Category	Calendar year				2002				2003				2004			
	2001	2002	2003	2004	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2		
<i>Net funds raised by domestic nonfinancial sectors</i>																
1 Total	1056.2	1249.0	1066.6	1188.7	918.6	1632.2	1190.4	1254.6	1205.8	1034.9	1023.3	1233.1	1144.3			
2 Net equity issuance	-61.8	-48.8	-80.3	-56.5	-8.7	18.5	-139.0	-66.0	-68.0	-77.0	-87.0	-89.0	-64.0	-49.0		
3 Net debt issuance	1118.0	1297.8	1146.9	1245.2	927.3	1613.7	1329.4	1320.6	1273.8	1111.9	1089.4	1112.3	1297.1	1193.3		
<i>Borrowing sectors</i>																
Nonfinancial business																
4 Financing gap ¹	141.4	83.4	128.0	187.9	68.9	68.7	80.7	115.1	108.2	117.6	136.0	150.2	163.6	212.3		
5 Net equity issuance	-61.8	-48.8	-80.3	-56.5	-8.7	18.5	-139.0	-66.0	-68.0	-77.0	-87.0	-89.0	-64.0	-49.0		
6 Credit market borrowing	409.9	193.0	357.4	423.0	122.6	239.5	153.2	256.7	320.7	343.7	380.7	384.5	409.5	436.5		
Households																
7 Net borrowing ²	610.4	711.3	550.2	575.7	702.6	679.8	770.7	692.4	582.9	545.5	552.9	519.5	557.3	594.2		
8 Home mortgages	477.9	619.7	465.0	459.0	553.4	604.3	724.1	597.2	526.2	462.2	445.2	426.2	446.2	471.7		
9 Consumer credit	110.2	71.9	72.2	92.8	81.7	76.4	60.1	69.3	69.6	70.3	71.7	77.3	87.1	98.5		
10 Debt/DPI (percent) ³	99.8	102.7	106.7	108.0	101.3	102.0	103.1	104.3	105.6	106.4	107.2	107.7	107.5	108.4		
State and local governments																
11 Net borrowing	103.2	138.5	72.5	78.3	62.3	168.4	139.9	183.3	105.8	80.8	45.8	57.8	78.8	77.8		
12 Current surplus ⁴	140.6	129.8	142.3	179.5	128.2	133.8	128.7	128.5	131.0	136.1	145.3	156.9	171.9	187.0		
Federal government																
13 Net borrowing	-5.6	254.9	166.7	168.2	39.8	526.0	265.7	188.2	264.4	142.0	110.0	150.6	251.5	84.8		
14 Net borrowing (quarterly, n.s.a.)	-5.6	254.9	166.7	168.2	50.8	21.1	89.4	93.6	106.9	-74.9	50.5	84.2	56.2	112.0		
15 Unified deficit (quarterly, n.s.a.)	-94.3	230.0	158.7	151.2	96.6	-15.6	42.2	106.8	100.5	-70.6	39.6	89.2	27.6	123.5		
<i>Depository institutions⁵</i>																
16 Funds supplied	289.4	450.8	345.1	363.8	259.6	401.9	744.1	397.9	244.5	389.4	416.2	330.3	358.8	368.8		
<i>Memo (percentage of GDP)</i>																
17 Domestic nonfinancial debt ⁵	186.6	191.6	195.2	188.9	190.8	192.0	193.7	194.8	195.6	195.6	195.6	195.5	195.4	195.5		
18 Domestic nonfinancial borrowing	11.1	12.4	10.5	10.8	9.0	15.6	12.7	12.5	11.9	10.3	10.0	10.0	11.4	10.2		
19 Federal government ⁶	-0.1	2.4	1.5	0.4	5.1	2.5	1.8	2.5	1.3	1.0	1.0	1.4	2.2	0.7		
20 Nonfederal	11.1	10.0	9.0	9.4	8.6	10.5	10.1	10.7	9.4	9.0	9.0	8.7	9.2	9.5		

Note. Data after 2002: Q3 are staff projections.

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

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

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

2.6.4 FOF

4. NIPA 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 information received from the foreign economies since our October forecast has not materially changed our outlook for activity abroad. Third-quarter GDP releases and other economic indicators that have come in since the October Greenbook have been stronger than we had expected for Japan and Latin America, but this development was partially offset by softer-than-expected data from the euro area and some countries in emerging Asia. On net, we now estimate that average foreign growth in the third quarter was about 3 percent at an annual rate, somewhat higher than projected in the October Greenbook. Looking forward, we project average foreign growth over the forecast period to be about the same as in the previous Greenbook, with small downward revisions to the euro area offset by small upward revisions to Mexico and emerging Asia resulting from an improved U.S. outlook.

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	3.3	2.9	2.0	2.5	2.8	3.1	3.4	
<i>October GB</i>	3.2	2.4	2.2	2.7	2.9	3.1	3.4	
Foreign CPI	2.6	2.7	1.7	1.7	1.9	2.0	2.0	
<i>October GB</i>	2.6	2.7	1.5	1.9	2.0	2.0	1.9	

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

In the euro area, further deterioration in business confidence and labor market conditions, along with a greater likelihood of fiscal tightening in Germany, has led us to mark down the outlook for growth. However, we are still expecting a recovery over the forecast period, albeit a slower one, aided by a projected cut in ECB interest rates and falling oil prices. In Japan, declining real incomes and consumer confidence are likely to restrain domestic demand, and the bank reform measures announced so far do not appear to be substantial enough to have any significant impact on the outlook.

In emerging Asia, growth has slowed to a moderate pace. However, we project it to pick up next year and more in 2004, largely driven by the outlook for U.S. demand and the expected recovery in the global high-tech sector. Mexico exhibited fairly strong growth in 2002:Q3 for the second consecutive quarter. Activity appears to be decelerating in the current quarter, in line with developments in the U.S. economy. Over the next two years, the robust growth we project for the United States should translate into a strong recovery for Mexico. In South America, however, conditions remain unsettled despite some

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:	2003			
			Q4	Q1	Q2		
<i>Exports</i>							
Core goods	1.2	4.5	1.6	.8	.6	.9	1.2
<i>Imports</i>							
Non-oil core goods	-.1	1.3	1.3	2.7	2.9	2.1	1.8
Oil (dollars per barrel)	24.04	25.50	25.22	24.53	23.60	21.90	20.77

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

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

Trade in Goods and Services

Real exports of goods and services rose 3½ percent at an annual rate in the third quarter, down from a pace of 14 percent in the second quarter. The slowdown in export growth occurred in services, semiconductors, and core goods; exports of computers were little changed. Within core goods, exports decelerated in most major categories, with particularly large swings in automotive products, machinery, and industrial supplies. The only exception was exports of aircraft, which increased sharply in the third quarter. Despite this deceleration, exported core goods have advanced at a more rapid rate than would have been indicated solely by relative prices and foreign GDP over the past two quarters. We believe that much of the recent rise in exports of core goods--particularly during the second quarter--reflects the relatively high sensitivity of merchandise trade to fluctuations in overall economic activity. Just as exports fell more rapidly than foreign economic activity during last year's economic downturn, exports now appear to be recovering more rapidly than foreign economic activity. As it appears that the cyclical recovery in exports will continue, we project a modest acceleration in exports of core goods in the near term over and above what is implied by our projections for foreign economic activity and relative prices. As this cyclical boost wanes over the course of next year, growth in exports of core goods more closely tracks the movements in these fundamental determinants.

In 2003 and 2004, exports of core goods are projected to increase about 5 percent, on average. Exports of services are also expected to increase around 5 percent per year, boosted by stronger foreign economic growth and small declines in the real exchange value of the dollar. In addition, exports of

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

Measure	2002		Projection				
	H1	Q3	2002: Q4	2003			2004
				Q1	Q2	H2	
Real exports	8.7	3.3	5.9	3.2	6.7	8.3	7.7
<i>October GB</i>	8.7	2.5	6.7	4.3	6.9	8.5	7.9
Real imports	15.2	2.3	5.6	4.6	8.7	7.2	8.4
<i>October GB</i>	15.2	2.5	5.3	5.5	8.4	6.6	7.8

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

Alternative Simulations

Although the dollar depreciated briefly after the FOMC decision to cut the federal funds target rate last month, it has since rebounded. With economic prospects in Germany and Japan continuing to disappoint financial markets, renewed dollar strength is a risk to our forecast. We used the FRB/Global model to consider a fall in the risk premium on dollar-denominated assets. The shock was phased in over four quarters beginning in 2003:Q1 and scaled so that the real value of the dollar would rise about 10 percent against most foreign currencies relative to baseline in the absence of endogenous adjustments in long-term interest rates. This appreciation of the dollar depresses net exports, lowering U.S. GDP growth about 0.2 percentage point in 2003 relative to baseline and 0.5 percentage point in 2004. Core PCE inflation falls about 0.3 percentage point below baseline in the second half of 2003 and about 0.4 percentage point in 2004, mainly because of declining import prices.

Alternative Simulation:
Ten Percent Dollar Appreciation¹
(Percent change from previous period, annual rate)

Indicator and simulation	2003		2004	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	2.6	4.1	4.4	4.2
Dollar appreciation	2.5	3.8	4.0	3.6
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	1.5	1.4	1.4	1.3
Dollar appreciation	1.5	1.1	0.9	1.0

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.

Measure and country	1996	1997	1998	1999	2000	2001	2002	2003	2004	Projected-----
REAL GDP (1)										
Total foreign	4.1	4.2	1.6	5.0	4.0	0.0	2.9	2.9	3.4	
Industrial Countries	2.8	3.5	2.7	4.2	3.1	0.3	2.7	2.2	2.6	
of which:										
Canada	2.7	4.4	4.4	5.7	3.5	0.8	3.7	2.7	3.0	
Japan	3.7	0.5	-1.3	0.6	2.3	-2.3	2.6	0.9	1.0	
United Kingdom	2.8	3.7	2.6	3.2	2.2	1.6	2.1	2.5	3.0	
Euro Area (2)	1.6	3.1	2.1	3.9	2.7	0.4	1.4	1.8	2.6	
Germany	1.4	1.7	0.7	3.3	1.9	0.1	0.8	1.1	2.2	
Developing Countries	6.2	5.3	-0.2	6.2	5.3	-0.4	3.2	3.9	4.6	
Asia	6.6	4.9	-2.0	8.8	6.3	0.8	4.8	5.1	5.7	
Korea	6.4	3.4	-5.2	13.8	5.1	4.4	6.0	5.5	5.4	
China	5.3	8.7	9.5	4.1	8.0	7.5	8.1	7.5	7.5	
Latin America	6.2	6.1	1.2	4.2	4.5	-1.5	2.0	3.0	3.9	
Mexico	7.1	6.7	2.8	5.4	4.9	-1.5	2.8	3.7	4.7	
Brazil	5.3	2.2	-1.7	3.5	4.2	-0.8	2.1	0.5	1.4	
CONSUMER PRICES (3)										
Industrial Countries	1.5	1.5	0.9	1.2	1.9	0.9	1.9	1.1	1.2	
of which:										
Canada	2.0	1.0	1.1	2.3	3.1	1.1	3.4	2.0	2.3	
Japan	0.2	2.1	0.7	-1.2	-1.2	-1.3	-0.7	-0.9	-0.9	
United Kingdom (4)	3.2	2.7	2.5	2.2	2.7	2.0	2.6	2.6	2.4	
Euro Area (2)	1.9	1.5	0.8	1.5	2.7	2.1	2.2	1.4	1.5	
Germany	1.3	1.5	0.3	1.1	2.5	1.7	1.4	0.8	0.8	
Developing Countries	11.1	6.8	9.0	4.6	4.1	2.8	2.9	2.9	2.8	
Asia	4.8	2.7	4.4	0.1	1.8	1.0	0.7	1.5	2.0	
Korea	5.0	4.9	5.8	1.2	2.5	3.3	3.3	3.1	3.0	
China	6.8	0.9	-1.2	-0.9	0.9	-0.2	-0.8	0.1	1.2	
Latin America	25.8	15.5	15.4	12.5	8.4	5.4	6.4	5.5	4.6	
Mexico	28.0	17.0	17.3	13.5	8.8	5.2	5.3	4.5	3.6	
Brazil	9.6	4.6	2.0	8.4	6.4	7.5	9.2	10.5	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
REAL GDP (1)												
Total foreign	2.8	3.9	2.9	2.0	2.5	2.8	3.0	3.2	3.4	3.4	3.4	3.4
Industrial Countries of which:	3.3	3.2	2.5	1.7	1.9	2.2	2.3	2.5	2.6	2.6	2.6	2.6
Canada	5.7	4.4	3.1	1.6	2.3	2.8	2.9	3.0	3.1	3.1	3.1	3.0
Japan	0.8	4.2	3.0	2.3	1.0	0.8	0.8	0.9	0.9	1.0	1.0	1.0
United Kingdom	0.5	2.5	3.3	2.2	2.4	2.4	2.3	2.7	3.0	2.9	2.9	2.9
Euro Area (2)	1.6	1.6	1.3	1.0	1.2	1.7	2.0	2.2	2.4	2.5	2.6	2.6
Germany	1.1	0.6	1.1	0.5	0.5	0.9	1.3	1.6	1.9	2.2	2.4	2.4
Developing Countries	2.0	5.0	3.4	2.6	3.3	3.8	4.1	4.3	4.6	4.6	4.6	4.6
Asia	6.0	6.3	2.6	4.4	4.9	5.0	5.2	5.4	5.6	5.7	5.7	5.7
Korea	7.9	5.8	5.1	5.3	5.3	5.4	5.6	5.6	5.4	5.4	5.4	5.4
China	8.5	9.3	7.5	7.2	7.2	7.3	7.2	7.2	7.5	7.5	7.5	7.5
Latin America	-1.3	4.0	4.3	1.0	2.0	2.8	3.4	3.6	3.9	3.9	3.9	3.9
Mexico	-0.2	5.4	4.0	2.0	2.8	3.5	4.1	4.4	4.7	4.7	4.7	4.7
Brazil	3.4	3.5	3.8	-2.0	-1.0	1.0	1.0	1.0	1.2	1.5	1.5	1.5
CONSUMER PRICES (3)												
Industrial Countries of which:	1.1	1.0	1.4	1.9	1.7	1.3	1.1	1.1	1.1	1.1	1.2	1.2
Canada	1.5	1.3	2.3	3.4	3.0	2.4	1.8	2.0	2.0	2.1	2.2	2.3
Japan	-1.5	-1.1	-0.9	-0.7	-0.7	-0.9	-1.2	-0.9	-0.9	-0.9	-0.9	-0.9
United Kingdom (4)	-2.4	1.9	2.0	2.6	2.6	2.9	2.8	2.6	2.4	2.3	2.3	2.4
Euro Area (2)	2.6	2.1	2.0	2.2	1.9	1.7	1.8	1.4	1.4	1.4	1.4	1.5
Germany	2.0	1.1	1.0	1.4	0.7	0.9	1.1	0.8	0.7	0.7	0.8	0.8
Developing Countries	2.6	2.5	2.6	2.9	3.1	2.8	2.8	2.9	3.0	3.0	2.9	2.8
Asia	0.8	0.6	0.6	0.7	0.8	0.7	1.0	1.5	1.8	1.9	2.0	2.0
Korea	2.5	2.7	2.5	3.3	3.6	2.6	2.9	3.1	3.0	3.0	3.0	3.0
China	-0.6	-1.0	-0.8	-0.8	-0.9	-0.9	-0.6	0.1	0.7	1.1	1.2	1.2
Latin America	5.1	5.4	6.0	6.4	7.3	6.7	5.9	5.5	5.3	5.0	4.8	4.6
Mexico	4.8	4.8	5.2	5.3	6.1	5.5	4.8	4.5	4.4	4.1	3.8	3.6
Brazil	7.7	7.9	7.7	9.2	10.9	12.0	11.9	10.5	9.4	8.8	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
NIPA REAL EXPORTS and IMPORTS									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services Exports of G&S Imports of G&S	-0.2 -1.1 -1.3	-0.8 1.0 -1.7	-1.1 0.3 -1.3	-1.0 0.5 -1.5	-0.8 0.8 -1.5	-0.1 -1.3 1.2	-0.6 0.6 -1.2	-0.3 0.7 -1.0	-0.4 0.8 -1.2
Percentage change, Q4/Q4									
Exports of G&S Services Computers Semiconductors Other Goods 1/	9.8 8.9 21.6 44.6 7.3	8.5 1.4 25.8 21.3 9.8	2.3 2.9 8.1 9.1 1.3	4.9 3.2 13.4 34.6 3.2	7.3 4.8 23.0 26.9 5.7	-11.4 -9.2 -23.4 -34.9 -9.3	6.6 9.0 2.8 25.3 4.7	6.6 4.5 30.1 29.1 4.7	7.7 5.3 33.5 36.0 5.0
Imports of G&S Services Oil Computers Semiconductors Other Goods 2/	11.2 5.3 7.8 17.8 56.7	14.3 14.0 3.9 33.0 32.9	10.8 8.5 4.1 25.8 -8.7	11.9 5.9 -3.4 26.0 34.2	11.1 10.9 13.3 13.6 22.5	-8.0 -8.6 0.1 -13.8 -51.4	9.4 5.1 0.4 16.1 24.3	6.9 3.2 1.9 28.9 30.4	8.4 4.9 3.7 33.5 36.0
Billions of chained 1996 dollars									
Net Goods & Services Exports of G&S Imports of G&S	-89.0 874.2 963.1	-113.3 981.5 1094.8	-221.1 1002.4 1223.5	-320.5 1036.3 1356.8	-398.8 1137.2 1536.0	-415.9 1076.1 1492.0	-478.6 1065.0 1543.7	-520.9 1128.0 1648.8	-570.3 1212.8 1783.1
Billions of dollars									
US CURRENT ACCOUNT BALANCE Current Acct as Percent of GDP	-117.8 -1.5	-128.4 -1.5	-203.8 -2.3	-292.9 -3.2	-410.3 -4.2	-393.4 -3.9	-503.9 -4.8	-541.8 -5.0	-605.1 -5.3
Net Goods & Services (BOP)	-101.8	-107.8	-166.9	-262.2	-378.7	-358.3	-429.8	-479.1	-527.1
Investment Income, Net Direct, Net Portfolio, Net	28.6 69.4 -40.8	25.1 72.4 -47.3	12.7 65.5 -52.9	23.9 75.0 -51.1	27.6 88.9 -61.2	20.5 102.6 -82.1	-9.5 78.8 -88.2	-0.9 84.6 -85.5	-6.4 85.8 -92.3
Other Income & Transfers, Net	-44.6	-45.7	-49.6	-54.5	-59.3	-55.6	-64.6	-61.8	-71.5

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1999				2000				2001			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Net Goods & Services	-1.8	-1.4	-0.7	0.1	-1.1	-1.0	-0.7	-0.2	0.5	-0.4	-0.2	-0.3
Exports of G&S	-0.8	0.4	1.1	1.3	0.8	1.5	1.2	-0.5	-0.7	-1.4	-2.0	-1.0
Imports of G&S	-1.0	-1.9	-1.8	-1.2	-1.9	-2.5	-1.9	0.3	1.2	1.0	1.7	0.7
Exports of G&S	-6.9	4.3	10.6	12.6	7.7	14.6	11.6	-4.0	-6.0	-12.4	-17.3	-9.6
Services	-1.5	3.4	4.7	6.4	10.2	11.2	5.9	4.4	-6.0	-2.5	-13.9	-13.8
Computers	0.8	24.7	20.6	9.2	33.5	45.9	28.8	-8.8	-7.3	-41.7	-22.8	-17.6
Semiconductors	34.2	45.2	41.3	19.0	14.6	9.0	43.4	-17.5	-34.6	-47.3	-40.9	-11.7
Other Goods 1/	-12.0	0.9	10.8	15.5	4.2	9.1	16.7	-5.9	-2.9	-10.5	-16.5	-6.9
Imports of G&S	8.4	15.4	14.5	9.4	14.7	18.6	13.8	-1.6	-7.9	-6.8	-11.8	-5.3
Services	0.2	6.8	9.7	7.1	20.7	9.6	15.1	-0.5	0.3	8.5	-23.2	-16.5
Oil	3.9	29.8	-5.8	-31.5	28.6	40.4	-2.3	-6.5	23.3	7.2	-26.9	3.9
Computers	35.0	43.7	14.4	13.5	2.5	40.4	27.9	-9.5	-21.6	-24.5	-18.7	14.6
Semiconductors	23.0	67.9	16.3	35.0	23.5	50.0	69.8	-28.5	-43.9	-68.8	-55.9	-27.5
Other Goods 2/	7.8	12.2	17.4	13.4	13.1	15.5	12.3	1.3	-9.4	-6.2	-4.6	-4.5
<i>Billions of chained 1996 dollars, s.a.a.r.</i>												
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
Exports of G&S	1007.5	1018.1	1044.1	1075.6	1095.8	1133.9	1165.5	1153.7	1135.8	1098.8	1048.0	1021.8
Imports of G&S	1290.7	1337.7	1383.7	1415.2	1464.6	1528.5	1578.6	1572.2	1540.3	1513.6	1467.0	1447.2
<i>Billions of dollars, s.a.a.r.</i>												
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
Current Account as % of GDP	-2.6	-3.1	-3.4	-3.5	-3.9	-4.0	-4.3	-4.5	-4.3	-3.9	-3.6	-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
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
Direct, Net	72.3	71.4	71.3	85.0	79.0	86.9	89.2	100.3	89.0	111.3	95.6	114.4
Portfolio, Net	-51.5	-46.5	-53.0	-53.5	-53.9	-56.3	-67.1	-67.5	-78.7	-81.2	-86.3	-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

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
NIPA REAL EXPORTS and IMPORTS																
Net Goods & Services	-0.7	-1.4	0.0	-0.2	-0.3	-0.5	-0.4	0.0	-0.6	-0.6	-0.5	-0.6	-0.6	-0.5	-0.6	-0.0
Exports of G&S	0.3	1.3	0.3	0.6	0.3	0.7	0.7	0.9	0.6	0.8	0.8	0.8	0.8	0.8	0.8	1.0
Imports of G&S	-1.1	-2.7	-0.3	-0.8	-0.6	-1.2	-1.1	-0.9	-1.1	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.0
Exports of G&S Services	3.5	14.3	3.3	5.9	3.2	6.7	7.2	9.5	5.6	7.8	7.8	7.8	7.8	7.8	7.8	9.6
Computers	21.7	10.7	1.2	3.6	4.2	4.3	4.5	4.9	5.2	5.3	5.3	5.3	5.3	5.3	5.3	5.4
Semiconductors	-21.1	-0.5	0.1	42.2	21.5	32.3	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5
Other Goods 1/	-13.7	65.8	21.0	7.9	12.6	33.5	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0
Imports of G&S Services	-3.1	14.2	3.4	4.9	1.0	4.7	5.0	8.5	1.9	5.1	5.1	5.1	5.1	5.1	5.1	7.9
Oil	8.5	22.2	2.3	5.6	4.6	8.7	8.2	6.3	6.3	9.7	9.7	9.7	9.7	9.7	9.7	9.7
Computers	35.7	34.5	-6.2	-1.9	0.8	2.8	4.5	4.8	5.2	5.0	4.9	4.9	4.9	4.9	4.9	4.4
Semiconductors	-19.0	-13.4	7.7	-5.3	29.6	7.9	-18.7	0.8	25.9	11.1	-18.1	-18.1	-18.1	-18.1	-18.1	-18.1
Other Goods 2/	45.2	5.6	-4.1	17.7	17.0	32.3	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5
Net Goods & Services	-446.6	-487.4	-487.3	-493.2	-502.5	-518.5	-531.4	-531.1	-548.7	-566.9	-582.0	-583.4	-583.4	-583.4	-583.4	-583.4
Exports of G&S	1030.6	1065.5	1074.3	1089.7	1098.2	1116.2	1135.6	1161.7	1177.6	1199.8	1222.7	1251.1	1251.1	1251.1	1251.1	1251.1
Imports of G&S	1477.1	1552.9	1561.6	1583.0	1600.8	1634.6	1667.0	1692.8	1726.3	1766.7	1804.7	1834.5	1834.5	1834.5	1834.5	1834.5
US CURRENT ACCOUNT BALANCE																
Current Account as % of GDP	-4.4	-5.0	-4.9	-5.0	-4.9	-5.0	-5.0	-5.0	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.3
Net Goods & Services (BOP)	-382.0	-441.8	-445.5	-450.1	-461.1	-477.6	-489.3	-488.5	-505.3	-523.5	-538.8	-540.9	-540.9	-540.9	-540.9	-540.9
Investment Income, Net	2.7	-18.5	-15.9	-6.2	-2.4	0.2	-0.2	-1.2	-2.2	-3.1	-7.2	-13.2	-13.2	-13.2	-13.2	-13.2
Direct, Net	88.3	70.7	73.3	82.8	84.1	85.2	84.6	84.5	84.8	85.4	86.0	87.1	87.1	87.1	87.1	87.1
Portfolio, Net	-85.5	-89.2	-89.2	-89.0	-86.5	-85.0	-84.8	-85.7	-87.0	-88.6	-93.2	-100.3	-100.3	-100.3	-100.3	-100.3
Other Inc. & Transfers, Net	-70.6	-58.9	-57.5	-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

December 4, 2002

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

Confidential (FR) Class III FOMC

December 4, 2002

Recent Developments

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

might reduce fourth-quarter IP growth by a similar amount. After allowing for associated changes outside the industrial sector such as sales and transportation costs, and allowing for differences in seasonal adjustment, the scheduled reduction in motor vehicle production would reduce fourth-quarter GDP growth by nearly 1-1/4 percentage points.³

Production of Domestic Autos and Trucks

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

Item	2002			2002			
	Q2	Q3	Q4 ¹	Sept.	Oct.	Nov. ¹	Dec. ¹
U.S. production	12.4	13.0	12.5	12.8	12.1	13.0	12.3
Autos	5.2	5.1	5.0	4.9	4.8	5.2	5.0
Trucks	7.2	7.8	7.5	7.9	7.3	7.8	7.3
Total days' supply ²	61.1	56.1	n.a.	62.5	69.2	n.a.	n.a.
Inventories ³	2.61	2.61	n.a.	2.61	2.79	n.a.	n.a.

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

1. Production rates reflect Ward's Communications' latest estimates for Q4, November, and December.

2. Quarterly average calculated using end-of-period stocks and average reported sales.

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

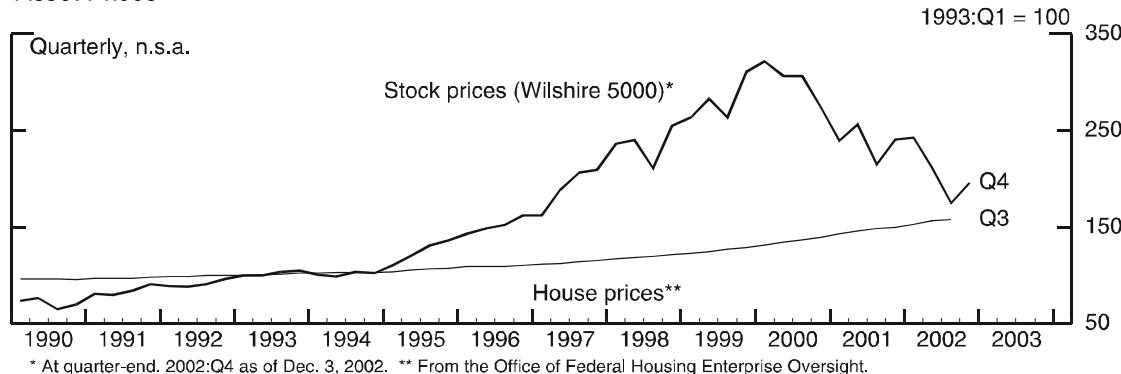
n.a. Not available.

Even this reduced level of assemblies has been running well ahead of sales. Accordingly, inventories of light vehicles have moved up sharply in the last three months. Stocks increased more than 300,000 units in September and October (not at an annual rate), while days' supply jumped to 69 days, somewhat above the target level of about 65 days. Assuming that sales remain near their November pace, the automakers' production schedules imply that inventories will rise further through year-end. As a result, the automakers are faced with the choice of cutting production, lowering prices, or both. When faced with excess inventories at this time of the year, manufacturers have often reduced assemblies by extending the duration of regularly scheduled holiday shutdowns. Reports from industry contacts suggest that similar plans are under discussion this year. If such plans are implemented, the assembly rate would drop further in early 2003.

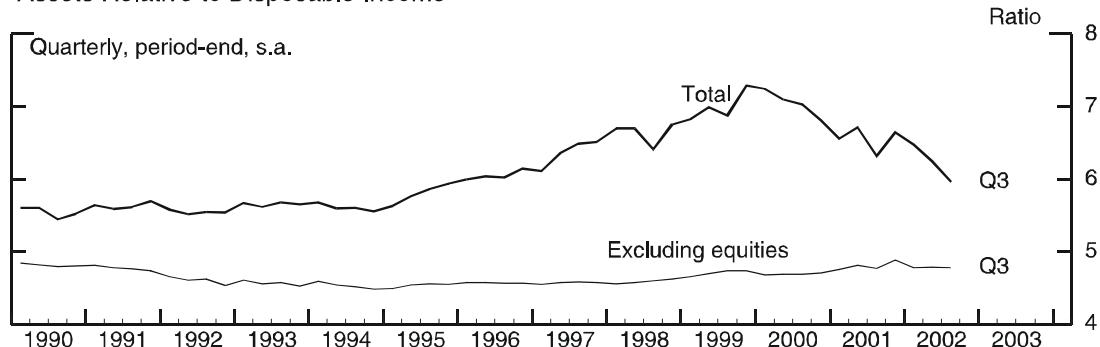
3. The BEA's seasonal factors for motor vehicle production do not appear to account for an additional holiday in this year's UAW contract. As a result, the fourth-quarter national income and product accounts are likely to overstate the extent of the slowdown in motor vehicle assemblies.

Household Assets

Asset Prices



Assets Relative to Disposable Income



Net Flows into Long-Term Mutual Funds

(Billions of dollars, monthly rate)

	2000	2001		2002			Assets Oct.	
		H1	H2	H1	Q3	Oct.	Nov. ^e	
Total long-term funds	18.5	15.1	6.5	21.0	-5.2	-2.4	18.4	4,060
Equity funds	25.2	8.2	-2.7	9.1	-23.9	-7.7	7.5	2,660
Domestic	21.3	9.1	-0.0	7.9	-21.3	-7.5	6.1	2,304
Capital appreciation	25.5	5.2	-2.2	2.8	-15.1	-4.8	2.9	1,348
Total return	-4.3	3.9	2.2	5.1	-6.2	-2.6	3.1	957
International	3.9	-0.9	-2.7	1.2	-2.6	-0.2	1.4	356
Hybrid funds	-2.6	1.0	0.5	2.2	-1.6	-1.0	1.1	317
Bond funds	-4.0	5.9	8.7	9.7	20.3	6.3	9.8	1,083
High-yield	-1.0	0.9	0.3	0.9	-0.4	1.9	3.7	91
Other taxable	-1.8	4.2	7.3	7.6	17.4	5.9	5.6	669
Municipals	-1.2	0.8	1.1	1.3	3.3	-1.5	0.4	323

Note. Excludes reinvested dividends.

Source. Investment Company Institute.

e Staff estimates based on confidential ICI weekly data.

Treasury Financing
(Billions of dollars)

Item	2002					
	Q1	Q2	Q3	Sep.	Oct.	Nov. ^e
Total surplus, deficit (-)	-96.6	15.6	-42.2	41.7	-54.0	-59.7
Means of financing deficit						
Net borrowing	50.8	21.1	85.9	-4.1	33.4	61.0
Nonmarketable	-.7	6.0	3.1	6.2	7.0	4.3
Marketable	51.5	15.1	82.8	-10.3	26.4	56.7
Bills	23.1	-12.0	44.4	-23.8	13.6	19.5
Coupons ¹	28.4	31.1	38.4	13.4	12.8	37.2
Debt buybacks	.0	-4.0	.0	.0	.0	.0
Decrease in cash balance	38.3	-25.5	-21.3	-34.4	17.2	12.8
Other ²	7.5	-11.2	-26.0	-3.2	3.4	14.2
MEMO						
Cash balance, end of period	14.1	39.6	60.9	60.9	43.7	30.9

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

1. Does not include Treasury debt buybacks.

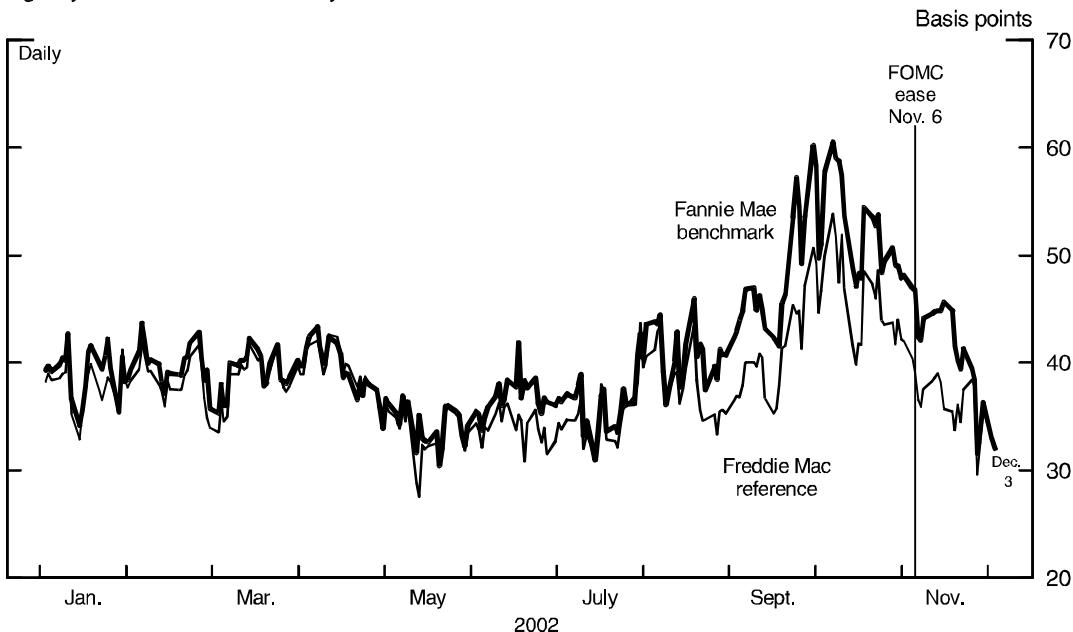
2. Direct loan financing, accrued items, checks issued less checks paid, and other transactions.

e Estimated.

n.a. Not available.

Agency Spreads

Agency less Off-the-Run Treasury – 10-Year



State and Local Government Finance

Gross Offerings of Municipal Securities (Billions of dollars; monthly rate, not seasonally adjusted)

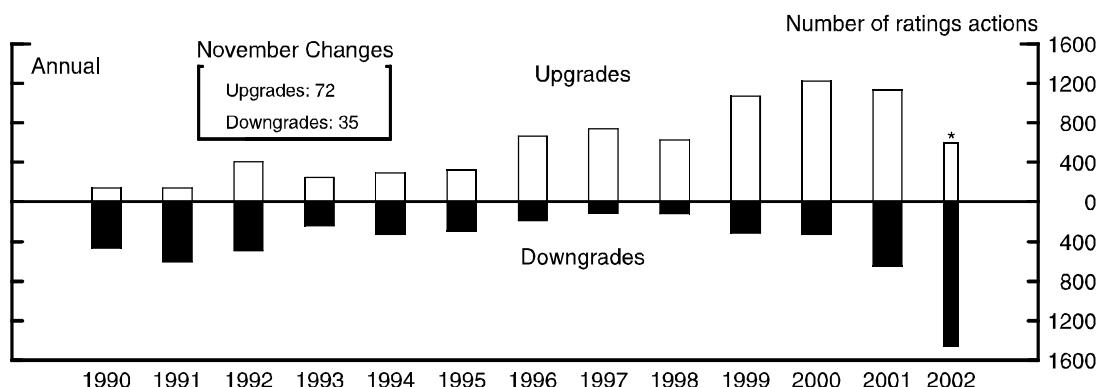
	1999	2000	2001	H1	Q3	Oct.	Nov. ^e
	2002						
Long-term ¹	18.0	15.0	22.5	26.2	27.3	40.1	34.8
Refundings ²	4.5	2.2	6.5	8.5	9.5	12.4	8.8
New capital	13.5	12.9	16.0	17.7	17.9	27.7	25.9
Short-term	2.7	2.8	4.3	4.7	5.7	13.9	1.4
Total tax-exempt	20.6	17.9	26.9	30.9	33.0	54.1	36.1
Total taxable	1.1	0.7	1.1	1.1	1.5	1.8	1.8

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

e Staff estimate based on preliminary data through November 27.

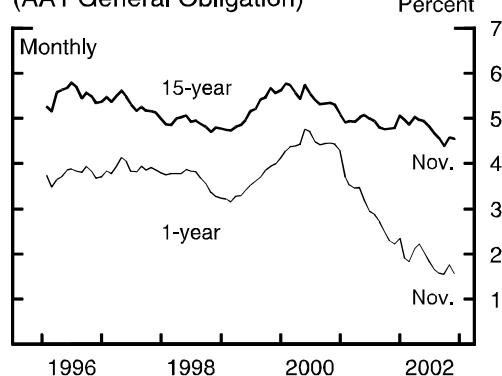
Bond Rating Changes



* Data through November 20 at an annual rate.

Source. S&P's Credit Week Municipal and Ratings Direct.

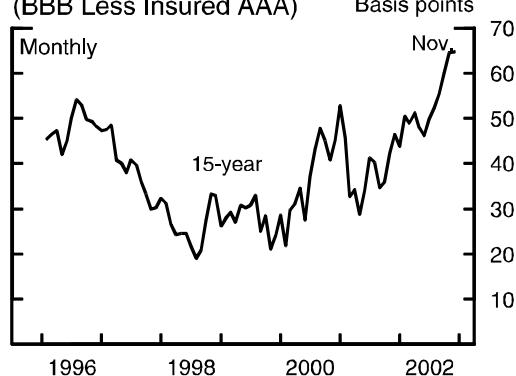
Municipal Bond Yields (AA1 General Obligation)



Note. Average of weekly data.

Source. Bloomberg.

Revenue Bond Spread (BBB Less Insured AAA)



Note. Average of weekly data.

Source. Bloomberg.

III-14

Commercial Bank Credit

(Percent change, annual rate, except as noted; seasonally adjusted)

Type of credit	2001	Q2 2002	Q3 2002	Sept. 2002	Oct. 2002	Nov. ^p 2002	Level, Nov. 2002 ^p (\$ billions)
Total							
1. Adjusted¹	4.1	5.1	8.7	10.5	8.3	14.5	5,644
2. Reported	5.0	5.1	12.5	12.0	5.8	16.4	5,848
<i>Securities</i>							
3. Adjusted ¹	8.8	13.7	10.7	1.2	6.1	33.8	1,493
4. Reported	12.0	12.9	24.0	7.6	-2.0	38.3	1,696
5. Treasury & Agency	6.0	25.5	24.5	21.2	9.9	34.4	1,004
6. Other ²	20.8	-3.3	23.1	-11.4	-19.1	44.0	693
<i>Loans³</i>							
7. Total	2.6	2.1	8.0	13.8	9.0	7.7	4,151
8. Business	-3.7	-9.0	-8.8	-8.2	-6.0	-3.1	970
9. Real estate	7.2	6.9	18.8	21.3	20.3	15.8	1,996
10. Home equity	19.9	40.8	40.4	19.4	24.5	15.2	208
11. Other	6.2	3.5	16.5	21.6	19.6	15.9	1,788
12. Consumer	3.8	5.1	4.7	16.8	4.1	.8	588
13. Adjusted ⁴	7.4	3.6	1.0	2.5	5.3	5.3	930
14. Other ⁵	-.1	4.1	6.6	23.3	1.8	5.4	598

Note. All data are adjusted for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates are percentage changes in consecutive levels, annualized but not compounded. The conversion from a thrift to a commercial bank charter added approximately \$37 billion to the assets and liabilities of domestically chartered commercial banks in the week ending May 8, 2002.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FIN 115).

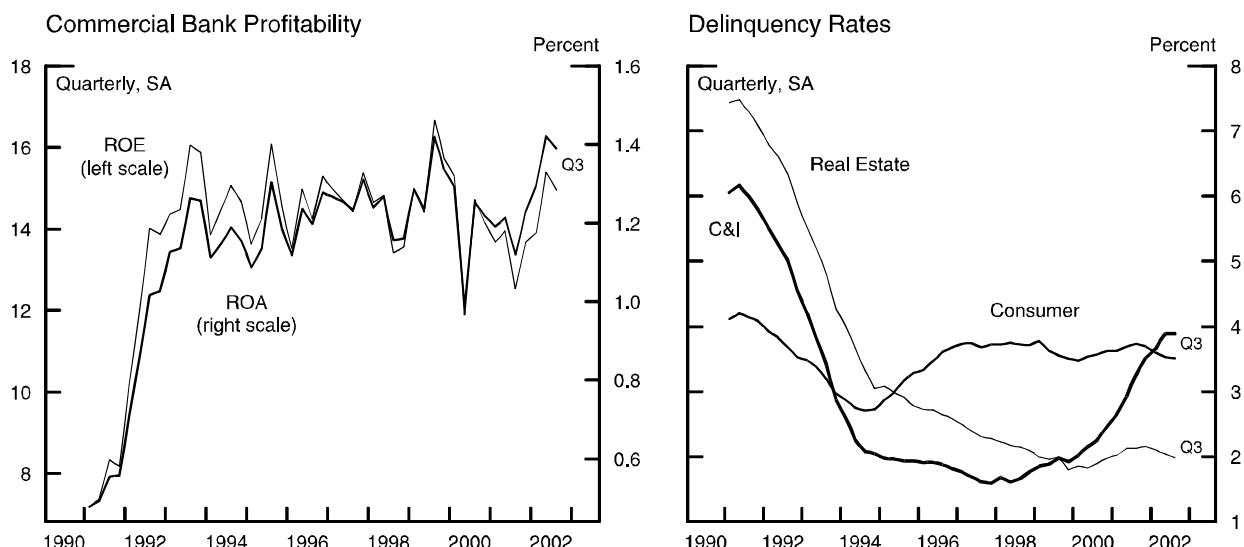
2. Includes private mortgage-backed securities, securities of corporations, state and local governments, and foreign governments and any trading account assets that are not Treasury or Agency securities, including revaluation gains on derivative contracts.

3. Excludes interbank loans.

4. Includes an estimate of outstanding loans securitized by commercial banks.

5. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

p Preliminary.



Monetary Aggregates
(Based on seasonally adjusted data)

Aggregate or component	2001	2002					Level (\$ billions) Nov. 02 (e)
		Q2	Q3	Sept.	Oct.	Nov. (e)	
<i>Aggregate</i>							
1. M2 ²	10.3	3.3	10.3	5.3	10.2	8.8	5,795.8
2. M3 ³	12.8	3.1	8.1	4.2	2.6	19.4	8,465.2
<i>Components of M2⁴</i>							
3. Currency	9.0	9.7	7.7	1.4	3.7	4.1	622.0
4. Liquid deposits ⁵	17.9	10.3	16.7	18.3	21.1	15.2	3,324.0
5. Small time deposits	-4.9	-8.5	-8.1	-12.9	-11.3	-7.8	886.1
6. Retail money market funds	8.4	-10.5	8.9	-17.2	-1.6	5.4	956.1
<i>Components of M3</i>							
7. M3 minus M2 ⁶	18.5	2.8	3.5	1.8	-13.9	43.1	2,669.4
8. Large time deposits, net ⁷	-2.8	9.3	3.8	1.6	10.5	-8.3	821.8
9. Institutional money market funds	51.1	2.9	.2	-14.3	-36.2	80.8	1,217.9
10. RPs	1.5	-5.9	25.8	59.1	-5.2	52.8	434.2
11. Eurodollars	7.9	-6.6	-18.4	-14.8	-1.9	20.0	195.5
<i>Memo</i>							
12. Monetary base	8.5	8.1	7.2	.8	3.7	4.5	676.2
<i>Selected managed liabilities at commercial banks</i>							
13. Large time deposits, gross	3.3	8.3	-2.4	-5.3	-5.6	-5.5	1,004.4
14. Net due to related foreign institutions	-6.5	-5.9	-.7	8.8	22.9	14.4	136.9
15. U.S. government deposits at commercial banks	1.5	-8.5	6.8	-18.0	-9.6	-11.0	11.0

1. For the years shown, Q4 to Q4 percent change. For the quarters shown, based on quarterly averages.

2. Sum of currency, liquid deposits (demand, other checkable, savings), small time deposits, retail money market funds, and non-bank travelers checks.

3. Sum of M2, net large time deposits, institutional money market funds, RP liabilities of depository institutions, and eurodollars held by U.S. addressees.

4. Non-bank travelers checks not listed.

5. Sum of demand deposits, other checkable deposits, and savings deposits.

6. Sum of large time deposits, institutional money funds, RP liabilities of depository institutions, and eurodollars held by U.S. addressees.

7. Net of holdings of depository institutions, money market mutual funds, U.S. government and foreign banks and official institutions.

8. For the years shown, "average monthly change" is the Q4 to Q4 dollar change divided by 12. For the quarters shown, it is the quarter-to-quarter dollar change divided by 3.

e Estimated.