

## **Part 1**

June 23, 2004

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## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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### **Summary and Outlook**

Confidential (FR) Class II FOMC

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June 23, 2004

## **Summary and Outlook**

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

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

Measure	2004:Q1		2004:Q2	
	Apr. GB	June GB	Apr. GB	June GB
<b>Real GDP</b>	<b>5.2</b>	<b>4.4</b>	<b>4.6</b>	<b>4.7</b>
Private domestic final purchases	4.3	4.4	6.4	5.6
Personal consumption expenditures	4.0	4.0	5.1	3.4
Residential investment	3.8	4.5	8.4	18.8
Business fixed investment	6.9	6.7	14.2	14.2
Government outlays for consumption and investment	3.6	3.5	1.9	3.0
	Contribution to growth (percentage points)			
Inventory investment	1.0	.8	-.8	-.6
Net exports	-.2	-.7	-.4	-.1

We project that real business purchases of equipment and software climbed at an annual rate of more than 15 percent this quarter. Outlays for motor vehicles and aircraft appear to have increased sharply, and the data on orders and shipments of durable goods through April point to a substantial increase in outlays for nontransportation equipment as well. The strength in purchases of nontransportation equipment has been broadly based, with notable gains over the past few months in all the major categories.

Construction of nonresidential structures moved up in March and April, pointing to an increase in the second quarter that may reverse the first-quarter decline. Viewed over a longer period, activity in this sector has yet to break out of the low range seen over the past year and a half.

Real federal defense spending increased modestly this quarter following a sizable jump last quarter, and nondefense spending appears to have been about unchanged. Real spending by state and local governments is estimated to have increased at an annual rate of 3 percent in the second quarter on the basis of a step-up in construction of roads and bridges.

We estimate that net exports have been a roughly neutral influence on real GDP growth in the second quarter after arithmetically deducting nearly 3/4 percentage point from growth in the first quarter. The release of international trade data for April included the annual historical revisions and

incorporated a new seasonal adjustment procedure for oil imports that has noticeably altered the recent quarterly pattern. We now estimate that real imports climbed at an annual rate of about 10 percent in the first quarter, well above our previous projection; imports are on track for a gain about half as large in the current quarter, with that slowdown attributable almost entirely to a decline in oil imports on a seasonally adjusted basis. We project that real exports rose about 7-1/2 percent in the first quarter and will repeat that performance in the second quarter.

Core consumer price inflation, as measured by the CPI, came in above our expectations for April and May but was more moderate than in March. After a 0.2 percent increase in the core CPI last month, our forecast calls for similar-sized increases in each of the next few months. The BEA's estimate of core consumer prices that are not based on market transactions fell in March and April, holding down the increase in PCE prices. Altogether, we estimate that core PCE prices rose at an annual rate of 1.6 percent in the second quarter, in line with our April projection. Overall consumer prices this quarter have been boosted further by a surge in energy prices and a sizable rise in food prices; based on survey measures and futures markets quotes, we project that consumer energy prices will be about flat in June and then turn down in subsequent months. We estimate that overall PCE inflation will be 3.0 percent in the second quarter.

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

We expect output, supported by its recent momentum and strong fundamentals, to increase at an annual rate of around 5 percent in the second half of 2004. In 2005, less-accommodative financial conditions and a turn in fiscal policy from stimulative to restrictive should cause growth to slow to about 3-1/2 percent. Our outlook for the next year and a half is little changed since the last Greenbook, with the damping effects of the revisions to interest rates and other background factors partly offset by our assessment that, in a sustained economic expansion, households and firms will have the wherewithal and inclination to undertake somewhat more spending than we previously thought.

**Household spending.** Our forecast calls for real consumer spending to pick up to a 4-1/2 percent pace in the second half of the year. An improving labor market and smaller increases in consumer prices should generate a sharp acceleration in real pre-tax income that will more than offset a waning of the stimulus from last year's tax cuts. In 2005, disposable income growth is likely to slow; in addition, the rise in interest rates will tend to hold the growth of consumption below that of income, causing the personal saving rate to move up. Still, we project that real consumer spending will rise 3-3/4 percent next year.

Measure	2004		2005
	H1	H2	
<b>Real GDP</b>	<b>4.6</b>	<b>5.0</b>	<b>3.6</b>
Previous	<b>4.9</b>	<b>5.1</b>	<b>3.8</b>
Final sales	4.5	4.3	3.6
Previous	4.8	4.7	3.6
PCE	3.7	4.5	3.8
Previous	4.5	4.3	4.0
Residential investment	11.4	-4.9	-1.8
Previous	6.1	-2.9	-1.2
BFI	10.4	15.6	9.0
Previous	10.5	16.6	7.8
Government purchases	3.2	1.9	2.2
Previous	2.7	1.7	2.1
Exports	7.4	10.2	8.0
Previous	6.9	11.7	9.1
Imports	7.9	10.8	8.1
Previous	6.8	9.2	8.6
	Contribution to growth (percentage points)		
Inventory change	.1	.7	.0
Previous	.1	.4	.2
Net exports	-.4	-.6	-.4
Previous	-.3	-.2	-.3

The factors bolstering future consumer spending should also support the demand for housing, but the considerable increase in mortgage rates this spring will provide an unfavorable overlay. We anticipate that the balance of these forces will leave single-family starts on a modest downward trajectory that averages 1.49 million units in 2005—a strong pace by historical standards, although below this year's expected rate of 1.57 million units. Multifamily construction has been quite resilient during the past several quarters despite high vacancy rates, and we are forecasting that multifamily starts will stay around

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

Measure	1974-95	1996-2001	2002	2003	2004	2005
<b>Structural labor productivity</b>	1.5	2.7	3.3	3.8	3.2	3.0
Previous	1.5	2.7	3.3	3.8	3.2	3.0
<i>Contributions</i> <sup>1</sup>						
Capital deepening	.7	1.4	.7	.7	.9	1.1
Previous	.7	1.4	.6	.7	.9	1.1
Multifactor productivity	.5	1.1	2.4	2.8	2.0	1.6
Previous	.5	1.1	2.4	2.9	2.1	1.7
Labor composition	.3	.3	.3	.3	.3	.3
MEMO						
Potential GDP	3.0	3.4	3.5	3.9	3.5	3.5
Previous	3.0	3.4	3.6	4.1	3.6	3.6

NOTE. Components may not sum to totals because of rounding. For multiyear periods, the percent change is the annual average from Q4 of the year preceding the first year shown to Q4 of the last shown.

1. Percentage points.

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

Measure	2002	2003	2004	2005
Output per hour, nonfarm business	4.3	5.4	2.2	2.0
Previous	4.3	5.4	2.7	1.6
Nonfarm private payroll employment	-.9	-.2	2.8	2.0
Previous	-.9	-.2	2.3	2.5
Household survey employment	.3	1.2	1.7	1.7
Previous	.3	1.2	1.7	1.9
Labor force participation rate <sup>1</sup>	66.5	66.1	66.2	66.5
Previous	66.5	66.1	66.4	66.6
Civilian unemployment rate <sup>1</sup>	5.9	5.9	5.3	5.2
Previous	5.9	5.9	5.4	5.2
MEMO				
GDP gap <sup>2</sup>	2.1	1.7	.5	.5
Previous	2.4	2.2	.9	.7

1. Percent, average for the fourth quarter.

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

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

Measure	2002	2003	2004	2005
PCE chain-weighted price index	1.8	1.5	2.1	1.2
Previous	1.8	1.5	1.5	1.1
Food and beverages	1.4	2.6	2.9	2.0
Previous	1.4	2.6	1.8	1.6
Energy	7.9	7.8	7.6	-4.6
Previous	7.9	7.8	1.7	-2.7
Excluding food and energy	1.6	1.0	1.7	1.5
Previous	1.6	1.0	1.4	1.2
Consumer price index	2.2	1.9	2.8	1.5
Previous	2.2	1.9	1.8	1.3
Excluding food and energy	2.0	1.2	2.3	2.0
Previous	2.0	1.2	1.7	1.6
GDP chain-weighted price index	1.4	1.6	1.8	1.4
Previous	1.4	1.6	1.3	1.3
ECI for compensation of private industry workers <sup>1</sup>	3.2	4.0	4.0	4.2
Previous	3.2	4.0	3.7	3.9
NFB compensation per hour	1.8	4.5	4.3	4.1
Previous	1.8	4.0	3.6	3.8
Prices of core non-oil merchandise imports	.5	1.8	4.4	.7
Previous	.5	1.8	4.5	.4

1. December to December.

productivity over the next six quarters will slow to around 2 percent, well below our estimate of its underlying structural pace.

**Prices and labor costs.** Recent data on prices and wages point to a somewhat higher underlying rate of inflation than we had been assuming. In addition to the unexpectedly high readings on the core CPI, we have been surprised by the size of the increases in energy prices and core intermediate materials prices, both of which will likely be passed through to some degree into core consumer prices. Labor compensation has also risen more rapidly than we had anticipated, judging from the employment cost index for the first quarter and

unemployment rate falls to 4-3/4 percent by the end of next year. Tighter labor and product market conditions boost core inflation to almost 2 percent in 2005.

### Alternative Scenarios

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

Measure	2003: H2	2004		2005
		H1	H2	
<i>Real GDP</i>				
<b>Baseline</b>	<b>6.2</b>	<b>4.6</b>	<b>5.0</b>	<b>3.6</b>
Less room to grow	6.2	4.6	5.0	3.7
Higher inflation expectations	6.2	4.6	5.0	3.8
Lower markup	6.2	4.6	5.2	3.6
Higher saving rate	6.2	4.6	4.6	2.4
Stronger investment	6.2	4.6	5.0	4.3
Surging demand	6.2	4.6	5.9	4.5
Market-based funds rate	6.2	4.6	5.0	3.3
<i>Civilian unemployment rate<sup>1</sup></i>				
<b>Baseline</b>	<b>5.9</b>	<b>5.6</b>	<b>5.3</b>	<b>5.2</b>
Less room to grow	5.9	5.6	5.0	4.7
Higher inflation expectations	5.9	5.6	5.0	4.6
Lower markup	5.9	5.6	5.3	5.1
Higher saving rate	5.9	5.6	5.4	5.9
Stronger investment	5.9	5.6	5.3	4.9
Surging demand	5.9	5.6	5.1	4.5
Market-based funds rate	5.9	5.6	5.3	5.3
<i>PCE prices excluding food and energy</i>				
<b>Baseline</b>	<b>1.1</b>	<b>1.7</b>	<b>1.7</b>	<b>1.5</b>
Less room to grow	1.1	1.7	1.9	1.9
Higher inflation expectations	1.1	1.7	1.9	2.4
Lower markup	1.1	1.7	1.1	.7
Higher saving rate	1.1	1.7	1.7	1.4
Stronger investment	1.1	1.7	1.7	1.5
Surging demand	1.1	1.7	1.7	1.6
Market-based funds rate	1.1	1.7	1.7	1.4

1. Average for the final quarter of the period.

**Higher inflation expectations.** In the previous simulation, long-term inflation expectations were assumed to remain reasonably well anchored despite the combination of accelerating prices and a very accommodative stance of

**Selected Greenbook Projections and 70 Percent Confidence Intervals  
Derived from FRB/US Simulations and Historical Forecast Errors**

Measure	2004	2005
<i>Real GDP (percent change, Q4 to Q4)</i>		
Projection	4.8	3.6
Confidence interval		
Greenbook forecast errors <sup>1</sup>	3.4–6.2	1.6–5.6
FRB/US stochastic simulations	3.8–5.8	2.0–5.1
<i>Civilian unemployment rate (percent, Q4)</i>		
Projection	5.3	5.2
Confidence interval		
Greenbook forecast errors <sup>1</sup>	4.8–5.8	4.4–6.0
FRB/US stochastic simulations	4.8–5.7	4.2–6.1
<i>PCE prices excluding food and energy (percent change, Q4 to Q4)</i>		
Projection	1.7	1.5
Confidence interval		
Greenbook forecast errors <sup>2</sup>	1.2–2.1	.6–2.3
FRB/US stochastic simulations	1.3–2.0	.7–2.2

NOTE. Shocks underlying stochastic simulations are randomly drawn from the 1978–2003 set of model equation residuals.

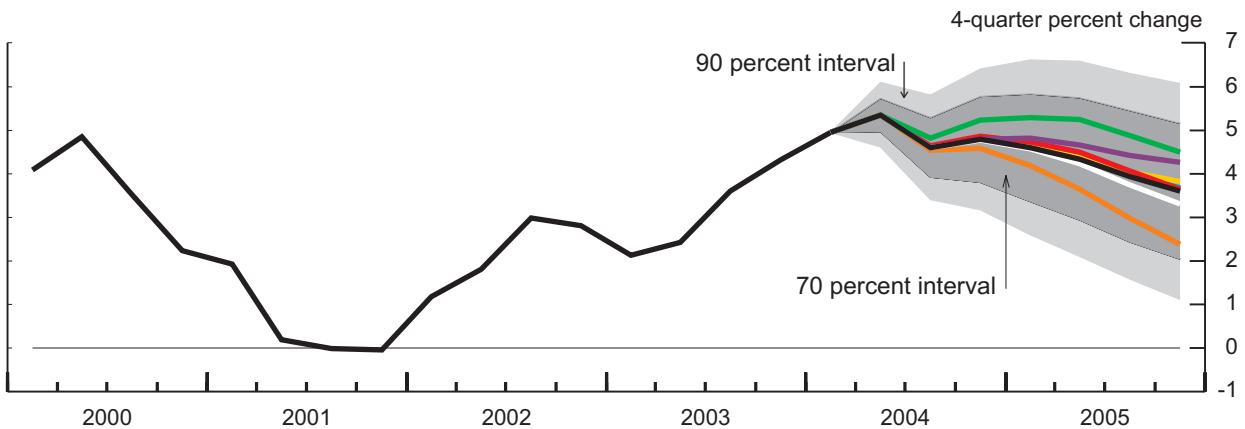
1. 1978–2003.
2. 1981–2003.

## Forecast Confidence Intervals and Alternative Scenarios

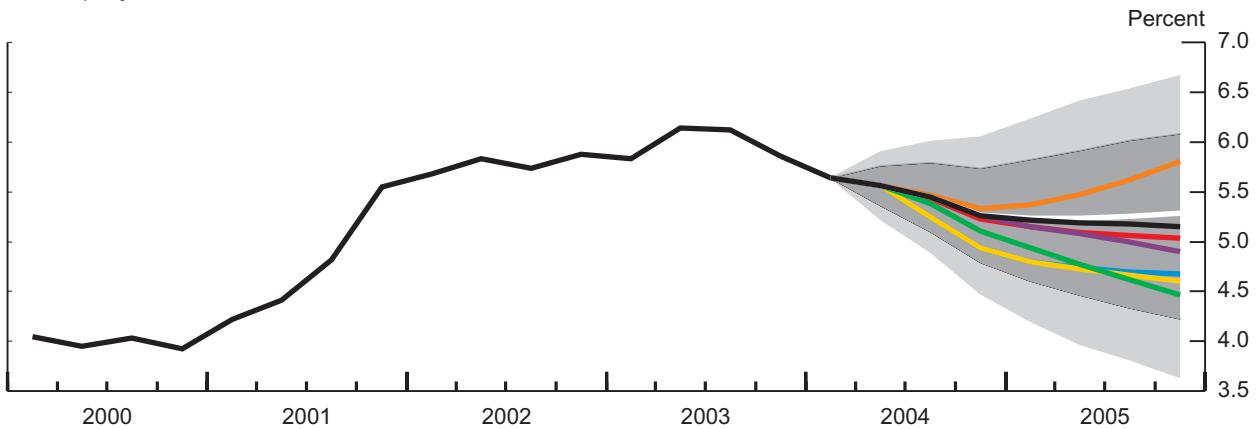
### Confidence Intervals Based on FRB/US Stochastic Simulations

- |  |  |
|--|--|
| <span style="color: black;">█</span> Greenbook baseline<br><span style="color: blue;">█</span> Less room to grow<br><span style="color: yellow;">█</span> Higher inflation expectations<br><span style="color: red;">█</span> Lower markup | <span style="color: orange;">█</span> Higher saving rate<br><span style="color: purple;">█</span> Stronger investment<br><span style="color: green;">█</span> Surging demand<br><span style="color: white;">█</span> Market-based funds rate |
|--|--|

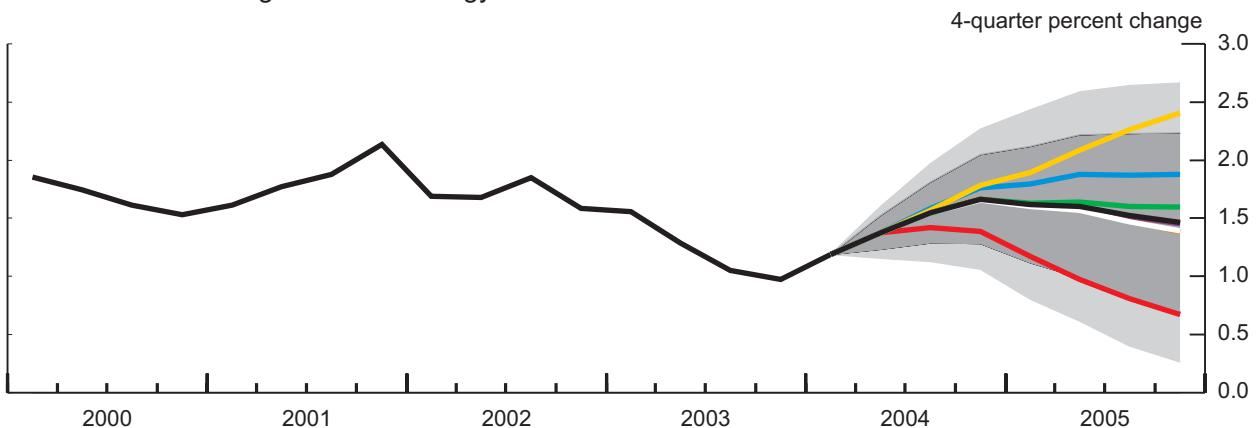
Real GDP



Unemployment Rate



PCE Prices excluding Food and Energy



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

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>		
	04/28/04	06/23/04	04/28/04	06/23/04	04/28/04	06/23/04	04/28/04	06/23/04	04/28/04	06/23/04	
<b>ANNUAL</b>											
2001		2.9	2.9	0.5	0.5	2.4	2.4	2.8	2.8	4.7	4.7
2002		3.8	3.8	2.2	2.2	1.5	1.5	1.6	1.6	5.8	5.8
2003		4.8	4.8	3.1	3.1	1.7	1.7	2.3	2.3	6.0	6.0
2004		6.7	6.9	5.1	4.9	1.5	1.9	1.9	2.5	5.5	5.5
2005		5.4	5.5	4.3	4.1	1.1	1.3	1.2	1.6	5.3	5.2
<b>QUARTERLY</b>											
2002	Q1	5.4	5.4	4.7	4.7	1.1	1.1	1.4	1.4	5.7	5.7
	Q2	3.9	3.9	1.9	1.9	1.5	1.5	3.4	3.4	5.8	5.8
	Q3	4.4	4.4	3.4	3.4	1.5	1.5	2.2	2.2	5.7	5.7
	Q4	3.1	3.1	1.3	1.3	1.7	1.7	2.0	2.0	5.9	5.9
2003	Q1	4.3	4.3	2.0	2.0	2.3	2.3	3.8	3.8	5.8	5.8
	Q2	4.2	4.2	3.1	3.1	1.1	1.1	0.7	0.7	6.1	6.1
	Q3	10.0	10.0	8.2	8.2	1.6	1.6	2.4	2.4	6.1	6.1
	Q4	5.7	5.7	4.1	4.1	1.5	1.5	0.7	0.7	5.9	5.9
2004	Q1	7.6	7.2	5.2	4.4	2.3	2.7	3.5	3.5	5.6	5.6
	Q2	6.2	7.4	4.6	4.7	1.6	2.6	2.2	4.5	5.6	5.6
	Q3	5.7	6.3	5.1	5.2	0.6	1.1	0.6	2.0	5.5	5.4
	Q4	5.8	5.7	5.1	4.9	0.7	0.8	0.9	1.0	5.4	5.3
2005	Q1	5.5	5.3	4.0	3.7	1.4	1.5	1.2	1.3	5.3	5.2
	Q2	5.1	4.9	3.8	3.6	1.2	1.3	1.3	1.5	5.3	5.2
	Q3	4.9	4.9	3.7	3.6	1.2	1.3	1.4	1.7	5.2	5.2
	Q4	4.9	4.8	3.6	3.5	1.2	1.3	1.4	1.7	5.2	5.2
<b>TWO-QUARTER<sup>3</sup></b>											
2002	Q2	4.7	4.7	3.3	3.3	1.3	1.3	2.4	2.4	0.2	0.2
	Q4	3.8	3.8	2.3	2.3	1.6	1.6	2.1	2.1	0.1	0.1
2003	Q2	4.2	4.2	2.5	2.5	1.7	1.7	2.2	2.2	0.2	0.2
	Q4	7.8	7.8	6.2	6.2	1.6	1.6	1.5	1.5	-0.2	-0.2
2004	Q2	6.9	7.3	4.9	4.6	1.9	2.6	2.9	4.0	-0.3	-0.3
	Q4	5.7	6.0	5.1	5.0	0.6	1.0	0.8	1.5	-0.2	-0.3
2005	Q2	5.3	5.1	3.9	3.7	1.3	1.4	1.3	1.4	-0.1	-0.1
	Q4	4.9	4.9	3.6	3.5	1.2	1.3	1.4	1.7	-0.1	0.0
<b>FOUR-QUARTER<sup>4</sup></b>											
2001	Q4	2.4	2.4	-0.0	-0.0	2.4	2.4	1.8	1.8	1.7	1.7
2002	Q4	4.2	4.2	2.8	2.8	1.4	1.4	2.2	2.2	0.3	0.3
2003	Q4	6.0	6.0	4.3	4.3	1.6	1.6	1.9	1.9	0.0	0.0
2004	Q4	6.3	6.7	5.0	4.8	1.3	1.8	1.8	2.8	-0.5	-0.6
2005	Q4	5.1	5.0	3.8	3.6	1.3	1.4	1.3	1.5	-0.2	-0.1

1. For all urban consumers.

2. Level, except as noted.

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

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

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

Item	Units <sup>1</sup>	-- Projected --									
		1997	1998	1999	2000	2001	2002	2003	2004	2005	
<b>Expenditures</b>											
Nominal GDP	Bill. \$	8304.3	8747.0	9268.4	9817.0	10100.8	10480.8	10987.9	11746.4	12391.0	
Real GDP	Bill. Ch. \$	8703.5	9066.9	9470.3	9817.0	9866.6	10083.0	10398.0	10909.6	11358.5	
Real GDP	% change	4.3	4.5	4.7	2.2	-0.0	2.8	4.3	4.8	3.6	
Gross domestic purchases		5.1	5.5	5.5	3.0	0.1	3.6	4.2	5.0	3.8	
Final sales		3.7	4.8	4.2	2.9	1.1	1.8	4.4	4.4	3.6	
Priv. dom. final purchases		5.2	6.4	5.3	4.3	0.8	2.3	4.7	5.1	4.1	
Personal cons. expenditures		4.3	5.4	4.9	4.1	2.7	2.7	4.0	4.1	3.8	
Durables		9.9	14.4	7.3	4.7	9.4	1.8	11.1	4.9	7.3	
Nondurables		2.5	4.7	4.9	3.0	1.7	2.8	4.9	4.5	4.8	
Services		4.0	3.8	4.4	4.5	1.8	2.9	2.2	3.8	2.7	
Business fixed investment		11.4	10.9	7.7	7.8	-10.2	-2.8	7.4	13.0	9.0	
Equipment & Software		13.8	13.5	10.8	7.5	-9.4	1.6	10.0	16.4	9.6	
Nonres. structures		4.6	4.0	-0.9	8.8	-12.4	-14.9	-0.9	1.6	6.5	
Residential structures		3.1	10.3	3.6	-1.8	1.7	7.1	9.5	2.9	-1.8	
Exports		8.3	2.6	5.6	6.5	-11.5	3.3	6.4	8.8	8.0	
Imports		14.3	11.0	12.1	11.2	-7.4	9.4	4.5	9.3	8.1	
Gov't. cons. & investment		1.2	3.3	4.2	0.4	3.6	4.5	2.1	2.6	2.2	
Federal		-0.5	0.1	4.2	-2.2	6.3	10.1	5.9	4.2	1.7	
Defense		-1.5	-1.2	4.3	-3.5	6.6	10.9	8.0	4.9	1.4	
State & local		2.2	5.1	4.2	1.7	2.3	1.6	0.1	1.6	2.5	
Change in bus. inventories	Bill. Ch. \$	71.2	72.6	68.9	56.5	-36.0	5.7	-0.8	30.3	64.5	
Nonfarm		68.5	71.2	71.5	57.8	-36.3	9.3	0.5	31.7	63.4	
Net exports		-104.6	-203.8	-296.2	-379.5	-398.1	-470.6	-509.1	-547.7	-594.6	
Nominal GDP	% change	5.9	5.7	6.3	4.6	2.4	4.2	6.0	6.7	5.0	
GDP Gap <sup>2</sup>	%	-0.9	-1.6	-2.4	-2.4	0.4	1.6	2.2	1.0	0.5	
<b>Employment and Production</b>											
Nonfarm payroll employment	Millions	122.8	125.9	129.0	131.8	131.8	130.3	129.9	131.7	134.7	
Unemployment rate	%	4.9	4.5	4.2	4.0	4.7	5.8	6.0	5.5	5.2	
Industrial prod. index	% change	8.1	4.4	4.9	2.3	-5.2	1.3	1.5	7.1	4.3	
Capacity util. rate - mfg.	%	82.6	82.0	81.4	81.1	75.4	73.9	73.4	76.9	79.7	
Housing starts	Millions	1.47	1.62	1.64	1.57	1.60	1.70	1.85	1.92	1.84	
Light motor vehicle sales		15.13	15.52	16.90	17.36	17.12	16.79	16.65	16.97	17.59	
North Amer. produced		13.19	13.48	14.41	14.48	14.04	13.50	13.34	13.57	14.09	
Other		1.95	2.03	2.49	2.87	3.08	3.30	3.31	3.40	3.50	
<b>Income and Saving</b>											
Nominal GNP	Bill. \$	8337.3	8768.3	9302.2	9855.9	10135.9	10502.3	11031.6	11804.7	12409.4	
Nominal GNP	% change	5.8	5.5	6.5	4.7	2.6	3.8	6.3	6.4	4.6	
Nominal personal income		6.4	7.0	5.5	7.1	2.4	2.4	4.5	6.8	5.9	
Real disposable income		4.3	5.6	2.8	4.4	1.3	3.5	3.8	4.6	4.2	
Personal saving rate	%	3.6	4.3	2.4	2.3	1.7	2.3	2.1	2.4	2.7	
Corp. profits, IVA & CCAdj.	% change	9.1	-10.0	9.6	-8.6	8.7	8.3	29.0	5.0	-3.5	
Profit share of GNP	%	10.4	9.1	9.2	8.3	7.6	8.6	9.7	10.6	10.0	
Excluding FR Banks		10.1	8.9	8.9	8.0	7.3	8.4	9.5	10.5	9.8	
Federal surpl./deficit	Bill. \$	-55.8	38.8	103.6	189.5	50.5	-240.0	-413.1	-403.4	-270.5	
State & local surpl./def.		39.1	52.0	50.4	50.0	17.3	-3.2	-0.6	6.9	12.1	
Ex. social ins. funds		38.0	50.3	48.7	47.9	14.0	-6.6	-4.0	3.3	8.4	
Gross natl. saving rate	%	17.5	18.2	18.0	18.0	16.4	14.7	13.5	14.6	14.8	
Net natl. saving rate		6.6	7.4	6.9	6.7	4.4	2.7	1.8	3.4	3.6	
<b>Prices and Costs</b>											
GDP chn.-wt. price index	% change	1.5	1.1	1.6	2.2	2.4	1.4	1.6	1.8	1.4	
Gross Domestic Purchases chn.-wt. price index		1.0	0.7	2.0	2.4	1.6	1.7	1.7	2.1	1.2	
PCE chn.-wt. price index		1.3	0.9	2.1	2.3	1.6	1.8	1.5	2.1	1.2	
Ex. food and energy		1.4	1.4	1.6	1.5	2.1	1.6	1.0	1.7	1.5	
CPI		1.9	1.5	2.6	3.4	1.8	2.2	1.9	2.8	1.5	
Ex. food and energy		2.2	2.3	2.0	2.6	2.7	2.0	1.2	2.3	2.0	
ECI, hourly compensation <sup>3</sup>		3.4	3.5	3.4	4.4	4.2	3.2	4.0	4.0	4.2	
Nonfarm business sector		2.0	2.8	3.2	2.1	2.9	4.3	5.4	2.2	2.0	
Output per hour		4.0	5.7	4.9	6.5	3.8	1.8	4.5	4.3	4.1	
Compensation per Hour		2.0	2.7	1.6	4.3	0.8	-2.4	-0.9	2.0	2.0	
Unit labor cost											

1. Changes are from fourth quarter to fourth quarter.

2. Percent difference between potential and actual. A positive number indicates that the economy is operating below potential.

3. Private-industry workers.

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

Item	Units	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2
<b>Expenditures</b>											
Nominal GDP	Bill. \$	10024.8	10088.2	10096.2	10193.9	10329.3	10428.3	10542.0	10623.7	10735.8	10846.7
Real GDP	Bill. Ch. \$	9882.2	9866.3	9834.6	9883.6	9997.9	10045.1	10128.4	10160.8	10210.4	10288.3
Real GDP	% change	-0.2	-0.6	-1.3	2.0	4.7	1.9	3.4	1.3	2.0	3.1
Gross domestic purchases		-0.7	-0.4	-0.8	2.4	5.2	3.1	3.4	2.7	1.1	4.3
Final sales		1.4	0.7	-0.7	3.2	2.6	1.3	1.8	1.7	2.7	3.3
Priv. dom. final purchases		-0.1	-0.0	0.5	2.8	2.9	2.2	1.7	2.2	2.3	3.8
Personal cons. expenditures		0.5	2.3	1.9	6.2	4.1	2.6	2.0	2.2	2.5	3.3
Durables		1.7	9.8	0.7	27.3	1.6	0.5	5.0	0.3	0.5	17.7
Nondurables		0.4	-1.1	2.9	4.7	6.1	0.4	0.2	4.6	5.7	1.2
Services		0.3	2.4	1.6	2.8	3.8	4.1	2.2	1.5	1.5	1.7
Business fixed investment		-4.5	-13.6	-8.4	-14.0	-7.0	-3.0	-1.1	-0.1	-0.6	7.0
Equipment & Software		-4.0	-16.4	-12.2	-4.1	-0.2	1.2	3.7	1.7	0.5	8.0
Nonres. structures		-5.9	-5.6	2.2	-35.3	-23.9	-14.5	-14.6	-5.6	-4.0	3.9
Residential structures		2.6	3.7	3.1	-2.5	8.7	8.9	4.2	6.8	4.5	4.5
Exports		-4.5	-13.4	-17.7	-9.8	4.4	8.7	4.3	-3.7	-2.0	-1.1
Imports		-6.2	-8.5	-10.8	-3.8	8.4	17.1	4.1	8.2	-6.8	9.1
Gov't. cons. & investment		5.8	5.8	-4.1	7.4	4.6	4.0	2.5	7.1	-0.4	7.4
Federal		8.9	6.7	0.0	9.9	8.4	10.5	3.9	18.2	-0.2	23.5
Defense		7.7	2.6	2.4	14.2	8.2	9.5	4.5	22.1	-5.6	41.9
State & local		4.3	5.3	-6.1	6.1	2.7	0.7	1.7	1.5	-0.5	-0.8
Change in bus. inventories	Bill. Ch. \$	4.3	-28.8	-44.0	-75.5	-23.5	-8.0	32.8	21.5	1.6	-4.5
Nonfarm		-2.1	-26.9	-45.8	-70.3	-28.6	4.2	36.0	25.4	0.3	-2.4
Net exports		-385.9	-391.7	-401.3	-413.4	-431.2	-467.6	-471.9	-511.5	-490.0	-526.0
Nominal GDP <sup>1</sup>	% change	2.9	2.6	0.3	3.9	5.4	3.9	4.4	3.1	4.3	4.2
GDP Gap <sup>1</sup>	%	-0.9	0.0	1.2	1.5	1.2	1.6	1.6	2.1	2.6	2.8
<b>Employment and Production</b>											
Nonfarm payroll employment	Millions	132.5	132.2	131.8	130.9	130.4	130.4	130.3	130.2	130.0	129.9
Unemployment rate	%	4.2	4.4	4.8	5.6	5.7	5.8	5.7	5.9	5.8	6.1
Industrial prod. index	% change	-6.3	-5.0	-5.2	-4.5	1.9	4.2	1.2	-1.9	0.9	-4.0
Capacity util. rate - mfg.	%	77.5	76.0	74.6	73.5	73.7	74.1	74.2	73.5	73.5	72.7
Housing starts	Millions	1.61	1.63	1.60	1.57	1.72	1.68	1.70	1.74	1.74	1.75
Light motor vehicle sales		17.07	16.70	16.18	18.54	16.47	16.52	17.56	16.62	15.96	16.37
North Amer. produced		14.17	13.65	13.20	15.15	13.17	13.24	14.22	13.36	12.60	13.06
Other		2.90	3.06	2.98	3.39	3.30	3.28	3.34	3.27	3.36	3.31
<b>Income and Saving</b>											
Nominal GNP	Bill. \$	10052.1	10115.5	10107.8	10268.3	10351.3	10435.9	10560.5	10661.6	10763.7	10880.0
Nominal GNP	% change	1.8	2.5	-0.3	6.5	3.3	3.3	4.9	3.9	3.9	4.4
Nominal personal income		4.6	1.2	1.7	2.0	1.5	5.0	1.4	1.7	3.0	4.4
Real disposable income		-0.3	-1.4	12.2	-4.4	10.6	4.1	-0.9	0.6	2.4	4.9
Personal saving rate	%	1.9	1.1	2.8	1.0	2.5	2.8	2.1	1.8	1.9	2.3
Corp. profits, IVA & CCAdj.	% change	-18.0	-3.8	-17.4	114.5	7.9	10.3	-0.9	16.5	-3.3	48.1
Profit share of GNP	%	7.5	7.4	7.1	8.4	8.5	8.6	8.5	8.8	8.6	9.4
Excluding FR Banks		7.2	7.1	6.8	8.2	8.3	8.4	8.3	8.6	8.4	9.2
Federal surpl./deficit	Bill. \$	156.1	128.9	-80.1	-2.8	-188.8	-232.0	-242.9	-296.3	-320.4	-424.7
State & local surpl./def.		36.1	24.6	11.6	-3.0	-7.4	-11.9	6.8	-0.4	-40.6	-14.7
Ex. social ins. funds		33.1	21.3	8.1	-6.6	-10.8	-15.3	3.4	-3.8	-44.0	-18.1
Gross natl. saving rate	%	17.1	16.3	15.9	16.1	15.3	15.1	14.4	13.8	12.9	13.2
Net natl. saving rate		5.6	4.4	3.3	4.4	3.5	3.2	2.5	1.8	0.9	1.4
<b>Prices and Costs</b>											
GDP chn.-wt. price index	% change	3.2	3.2	1.6	1.6	1.1	1.5	1.5	1.7	2.3	1.1
Gross Domestic Purchases chn.-wt. price index		2.6	2.3	1.0	0.5	1.0	2.4	1.6	1.7	3.4	0.4
PCE chn.-wt. price index		3.2	2.5	0.5	0.4	0.7	2.9	2.0	1.7	2.8	0.5
Ex. food and energy		2.8	1.9	1.3	2.5	1.0	1.9	2.0	1.5	0.9	0.8
CPI		3.7	3.2	1.1	-0.7	1.4	3.4	2.2	2.0	3.8	0.7
Ex. food and energy		2.9	2.6	2.8	2.4	2.1	2.3	2.1	1.7	1.3	1.0
ECI, hourly compensation <sup>2</sup>		4.3	4.0	3.9	4.4	3.6	4.4	2.5	3.3	5.5	3.4
Nonfarm business sector		-0.1	3.1	1.6	7.0	9.8	0.7	4.5	2.3	3.4	6.2
Output per hour		5.6	2.4	3.0	4.0	1.2	2.3	1.3	2.2	4.0	4.9
Compensation per hour		5.7	-0.7	1.3	-2.8	-7.8	1.6	-3.1	-0.1	0.6	-1.3
Unit labor cost											

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

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

Item	Units	Projected									
		2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	11107.0	11262.0	11460.7	11666.7	11846.2	12012.2	12169.1	12316.7	12465.1	12613.3
Real GDP	Bill. Ch. \$	10493.1	10600.1	10716.0	10838.9	10976.1	11107.4	11209.4	11309.1	11408.8	11506.8
Real GDP	% change	8.2	4.1	4.4	4.7	5.2	4.9	3.7	3.6	3.6	3.5
Gross domestic purchases		7.0	4.3	4.9	4.5	5.4	5.3	4.1	3.4	3.8	3.9
Final sales		8.3	3.4	3.7	5.3	4.4	4.2	2.5	4.4	3.8	3.6
Priv. dom. final purchases		8.4	4.4	4.4	5.6	5.2	5.2	3.1	4.6	4.5	4.3
Personal cons. expenditures		6.9	3.2	4.0	3.4	4.6	4.5	4.1	3.9	3.7	3.6
Durables		28.0	0.7	-4.0	9.1	7.4	7.7	6.9	7.6	7.5	7.2
Nondurables		7.3	5.4	7.0	0.7	5.0	5.2	5.1	4.9	4.7	4.6
Services		2.8	2.8	4.2	3.7	3.9	3.5	3.1	2.8	2.5	2.4
Business fixed investment		12.8	10.9	6.7	14.2	14.1	17.1	0.1	12.2	11.9	12.1
Equipment & Software		17.6	14.9	10.2	17.3	17.4	20.9	-1.1	13.9	13.3	13.3
Nonres. structures		-1.8	-1.4	-4.4	3.9	3.0	4.1	5.0	6.2	6.9	7.8
Residential structures		21.9	7.9	4.5	18.8	-2.7	-7.0	-3.6	-1.5	-0.9	-1.4
Exports		9.9	20.5	7.4	7.4	9.7	10.8	6.8	8.3	7.9	9.0
Imports		0.8	16.4	10.2	5.6	9.8	11.7	8.2	5.5	8.3	10.3
Gov't. cons. & investment		1.8	-0.1	3.5	3.0	2.0	1.8	2.0	2.2	2.2	2.4
Federal		1.2	0.7	9.1	3.1	2.7	1.8	1.6	1.8	1.6	1.8
Defense		-1.3	3.0	13.4	4.2	1.5	1.1	1.3	1.5	1.2	1.6
State & local		2.1	-0.5	0.2	2.9	1.5	1.8	2.3	2.4	2.6	2.8
Change in bus. inventories	Bill. Ch. \$	-9.1	9.0	28.4	11.7	31.2	50.1	83.9	63.0	56.8	54.3
Nonfarm		-5.9	10.0	32.6	13.4	31.4	49.5	83.0	61.9	55.7	53.2
Net exports		-505.2	-515.2	-534.9	-537.3	-550.3	-568.3	-583.5	-583.6	-596.4	-614.9
Nominal GDP	% change	10.0	5.7	7.2	7.4	6.3	5.7	5.3	4.9	4.9	4.8
GDP Gap <sup>1</sup>	%	1.8	1.7	1.5	1.2	0.8	0.5	0.5	0.5	0.4	0.5
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	129.8	130.0	130.4	131.2	132.2	133.1	133.8	134.4	135.0	135.6
Unemployment rate	%	6.1	5.9	5.6	5.6	5.4	5.3	5.2	5.2	5.2	5.2
Industrial prod. index	% change	3.8	5.6	6.7	8.0	7.1	6.5	4.4	4.2	4.4	4.1
Capacity util. rate - mfg.	%	73.2	74.1	75.1	76.3	77.5	78.5	79.0	79.5	79.9	80.4
Housing starts	Millions	1.88	2.04	1.94	1.97	1.90	1.88	1.85	1.84	1.84	1.83
Light motor vehicle sales		17.42	16.84	16.34	16.86	17.30	17.38	17.38	17.51	17.65	17.81
North Amer. produced		14.07	13.64	13.11	13.41	13.84	13.90	13.91	14.02	14.14	14.28
Other		3.36	3.21	3.23	3.45	3.46	3.48	3.47	3.49	3.51	3.53
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	11144.8	11337.9	11523.3	11734.7	11901.0	12060.0	12209.0	12341.1	12477.9	12609.6
Nominal GNP	% change	10.1	7.1	6.7	7.5	5.8	5.5	5.0	4.4	4.5	4.3
Nominal personal income		4.9	5.5	6.1	7.3	7.1	6.5	6.5	5.7	5.8	5.7
Real disposable income		6.8	1.2	5.0	4.1	4.7	4.8	4.5	4.1	4.2	4.0
Personal saving rate	%	2.4	1.9	2.2	2.4	2.4	2.5	2.6	2.7	2.8	2.9
Corp. profits, IVA & CCAdj.	% change	46.0	32.3	7.5	10.6	1.0	1.1	-2.1	-4.2	-3.9	-3.9
Profit share of GNP	%	10.1	10.6	10.7	10.7	10.6	10.5	10.3	10.1	9.9	9.7
Excluding FR Banks		9.9	10.5	10.5	10.6	10.4	10.3	10.1	9.9	9.7	9.5
Federal surpl./deficit	Bill. \$	-494.9	-412.2	-442.1	-419.0	-397.7	-354.6	-309.5	-267.9	-251.3	-253.4
State & local surpl./def.		13.1	39.9	23.5	-7.4	3.5	7.9	10.5	12.0	11.6	14.5
Ex. social ins. funds		9.6	36.4	19.9	-11.0	-0.1	4.2	6.8	8.3	7.9	10.8
Gross natl. saving rate	%	13.3	14.4	14.3	14.5	14.7	14.8	14.8	14.8	14.8	14.8
Net natl. saving rate		1.8	3.0	3.1	3.4	3.5	3.7	3.6	3.6	3.5	3.5
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	1.6	1.5	2.7	2.6	1.1	0.8	1.5	1.3	1.3	1.3
Gross Domestic Purchases chn.-wt. price index		1.8	1.3	3.3	2.8	1.4	1.0	1.4	1.1	1.2	1.2
PCE chn.-wt. price index		1.8	1.0	3.0	1.6	1.0	1.1	1.2	1.3	1.3	1.3
Ex. food and energy		1.0	1.2	1.7	1.6	1.7	1.6	1.6	1.5	1.4	1.4
CPI		2.4	0.7	3.5	4.5	2.0	1.0	1.3	1.5	1.7	1.7
Ex. food and energy		1.5	0.8	1.9	3.1	2.2	2.0	2.0	2.0	2.0	2.0
ECI, hourly compensation <sup>2</sup>		4.4	3.1	4.3	3.8	3.9	4.0	4.1	4.2	4.2	4.2
Nonfarm business sector		9.5	2.5	3.7	2.4	1.4	1.5	1.6	2.2	2.2	2.2
Output per hour		4.7	4.2	4.6	4.4	4.0	4.0	4.0	4.1	4.1	4.1
Compensation per hour		-4.3	1.7	0.9	2.0	2.6	2.5	2.3	1.9	1.9	1.9
Unit labor cost											

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	01Q4/ 02Q4	02Q4/ 01Q4	03Q4/ 02Q4	
<b>Real GDP Gross dom. purchases</b>	-1.3 -0.9	2.0 2.5	4.7 5.4	1.9 3.2	3.4 3.5	1.3 2.8	2.0 1.2	3.1 4.4	8.2 7.4	-0.0 0.1	2.8 3.7	4.3 4.3	
<b>Final sales Priv. dom. final purchases</b>	-0.8 0.4	3.2 2.4	2.7 2.5	1.3 1.9	1.8 1.5	1.7 1.9	2.7 1.9	3.3 3.3	8.3 7.2	1.1 0.7	1.9 1.9	4.4 4.0	
<b>Personal cons. expenditures</b>	1.3 0.1 0.6 0.6 0.6	4.2 2.1 0.9 1.2 1.2	2.9 0.1 0.0 0.1 1.6	1.8 0.4 0.4 0.1 1.7	1.4 0.0 0.4 0.9 0.9	1.6 0.0 0.4 1.1 0.9	1.8 2.3 1.4 0.3 0.7	2.3 1.4 2.2 1.5 0.7	4.9 2.9 2.2 1.5 1.2	1.8 0.8 0.8 0.3 0.7	1.9 0.2 0.2 0.6 1.2	2.8 0.9 0.9 0.6 0.9	
<b>Durables</b>													
<b>Nondurables</b>													
<b>Services</b>													
<b>Business fixed investment</b>	-1.0 -1.1 -0.4 -1.4 -0.1	-1.7 -0.8 -0.0 -0.8 -0.1	-0.8 -0.3 0.1 -0.4 0.4	-0.3 -0.1 0.3 -0.4 0.2	-0.1 -0.0 0.1 -0.4 0.4	-0.1 -0.0 0.1 -0.4 0.4	-0.0 -0.1 0.1 -0.1 0.3	-0.1 -0.1 0.0 -0.1 0.2	0.7 0.7 0.6 0.1 0.2	1.3 1.3 1.3 0.0 1.1	-1.3 -0.8 -0.8 -0.4 0.1	-0.3 -0.3 -0.4 -0.4 0.1	0.7 0.8 0.8 0.6 0.3
<b>Equipment &amp; Software</b>													
<b>Nonresidential structures</b>													
<b>Residential structures</b>													
<b>Net exports</b>	-0.4 -2.0 1.6	-0.5 -1.0 0.5	-0.7 0.4 -1.1	-1.3 0.8 -2.1	-0.2 0.4 -0.6	-0.2 0.4 -1.1	-1.5 -0.4 -1.1	0.8 -0.2 1.0	-1.3 -0.2 -1.2	0.8 0.9 -0.1	-0.2 -1.3 -1.1	-0.9 0.6 -0.6	
<b>Exports</b>													
<b>Imports</b>													
<b>Government cons. &amp; invest.</b>	-0.7 0.0 0.1 -0.1 -0.7	1.3 0.6 0.5 0.0 0.7	0.9 0.5 0.3 0.2 0.3	0.7 0.6 0.4 0.2 0.1	0.5 0.3 0.4 0.3 0.1	1.3 1.1 0.9 0.3 0.2	-0.1 0.0 0.2 0.2 0.2	1.4 1.5 1.6 0.2 0.2	0.3 0.1 -0.1 -0.1 -0.1	0.3 0.1 0.2 0.1 0.3	0.6 0.4 0.4 0.2 0.2	0.8 0.6 0.3 0.2 0.0	
<b>Federal</b>													
<b>Defense</b>													
<b>Nondefense</b>													
<b>State and local</b>													
<b>Change in bus. inventories</b>	-0.5 -0.7 0.1	-1.2 -0.9 0.3	2.0 1.6 0.4	0.6 1.3 -0.6	1.6 1.3 -0.3	-0.4 -0.4 -0.0	-0.7 -0.9 -0.2	-0.2 -0.1 -0.1	-0.1 -0.1 -0.0	-1.2 -1.1 -0.1	0.9 0.9 0.0	-0.1 -0.1 0.1	
<b>NonFarm</b>													
<b>Farm</b>													

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	Projected								Projected	
	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2005 Q4
Real GDP										
Gross dom. purchases	4.1	4.4	4.7	5.2	4.9	3.7	3.6	3.5	4.3	4.8
Final sales	4.5	5.1	4.7	5.6	4.5	4.3	3.6	4.1	4.3	4.0
Priv. dom. final purchases	3.4	3.7	5.3	4.4	4.2	2.5	4.3	3.8	4.4	3.6
Personal cons. expenditures	2.3	2.8	2.4	3.3	3.1	2.9	2.7	2.6	2.5	2.9
Durables	0.1	-0.3	0.7	0.6	0.6	0.6	0.6	0.6	0.6	2.7
Nondurables	1.1	1.4	0.2	1.0	1.0	1.0	1.0	0.9	1.0	0.6
Services	1.2	1.8	1.5	1.6	1.5	1.3	1.2	1.1	0.9	1.1
Business fixed investment	1.1	0.7	1.4	1.4	1.7	0.0	1.3	1.3	0.7	1.3
Equipment & Software	1.1	0.8	1.3	1.3	1.6	-0.1	0.1	1.1	0.8	1.0
Nonres. structures	-0.0	-0.1	0.1	0.1	0.1	0.1	0.1	0.2	-0.0	0.1
Residential structures	0.4	0.2	0.9	-0.1	-0.1	-0.4	-0.2	-0.1	0.5	-0.1
Net exports	-0.3	-0.7	-0.1	-0.5	-0.6	-0.5	0.0	-0.4	-0.6	-0.4
Exports	-1.8	0.7	0.7	-1.0	-1.1	0.7	0.8	0.8	0.6	0.8
Imports	-2.1	-1.4	-0.8	-1.4	-1.7	-1.2	-0.8	-1.2	-0.6	-1.2
Government cons. & invest.	-0.0	0.6	0.6	0.4	0.3	0.4	0.4	0.4	0.4	0.5
Federal	0.1	0.6	0.2	0.2	0.1	0.1	0.1	0.1	0.4	0.3
Defense	0.1	0.6	0.2	0.1	0.1	0.1	0.1	0.1	0.3	0.1
Nondefense	-0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.1
State and local	-0.1	0.0	0.3	0.2	0.2	0.3	0.3	0.3	0.0	0.2
Change in bus. inventories	0.7	0.8	-0.6	0.7	0.7	1.2	-0.7	-0.2	-0.1	0.4
NonFarm	0.6	0.8	-0.7	0.6	0.6	1.2	-0.7	-0.2	-0.1	0.0
Farm	0.1	-0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	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				2003				2004				2005			
	2002 <sup>a</sup>	2003 <sup>a</sup>	2004	2005	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4 <sup>a</sup>	Q1 <sup>a</sup>	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget</b>																
Receipts <sup>1</sup>	1,853	1,782	1,863	2,067	398	528	429	441	410	547	465	469	451	630	517	516
Outlays <sup>1</sup>	2,011	2,158	2,290	2,411	543	544	534	569	580	573	567	607	598	601	623	-107
Surplus/deficit <sup>1</sup>	-158	-375	-428	-344	-145	-17	-105	-129	-171	-26	-102	-137	-154	32	-84	-155
On-budget	-317	-536	-589	-531	-169	-91	-113	-178	-193	-102	-115	-182	-195	-51	-103	-49
Off-budget	160	161	161	187	24	75	9	50	23	76	14	45	40	83	19	9
Means of financing																
Borrowing	221	374	431	362	64	106	108	119	136	44	133	125	143	7	87	83
Cash decrease	-17	26	-3	-7	20	-17	-5	2	12	-22	5	4	4	-30	15	15
Other <sup>2</sup>	-46	-24	-1	-11	62	-73	2	8	23	4	-36	8	7	-9	-17	9
Cash operating balance, end of period	61	35	38	45	13	30	35	33	21	43	38	34	30	60	45	30
<b>NIPA federal sector</b>																
Receipts	1,895	1,844	1,918	2,157	1,864	1,864	1,789	1,887	1,884	1,926	1,973	2,044	2,146	2,200	2,240	2,264
Expenditures	2,062	2,228	2,335	2,454	2,184	2,289	2,284	2,299	2,326	2,345	2,371	2,399	2,455	2,469	2,491	2,518
Consumption expenditures	573	649	699	735	636	669	672	675	697	711	715	720	735	740	744	750
Defense	370	426	468	491	409	448	444	450	465	476	479	482	491	494	497	500
Nondefense	202	223	232	244	227	221	229	225	232	235	236	238	244	246	248	250
Other spending	1,489	1,579	1,636	1,719	1,548	1,620	1,612	1,625	1,629	1,634	1,656	1,679	1,720	1,729	1,747	1,769
Current account surplus	-167	-384	-418	-296	-320	-425	-495	-412	-441	-419	-398	-355	-310	-268	-252	-254
Gross investment	87	92	103	106	87	96	97	106	104	105	105	105	106	107	107	108
Gross saving less gross investment <sup>3</sup>	-165	-386	-428	-307	-318	-430	-501	-417	-454	-430	-409	-366	-320	-279	-262	-264
<b>Fiscal indicators<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-114	-311	-382	-292	-239	-342	-435	-353	-405	-391	-379	-347	-306	-266	-250	-251
Change in HEB, percent of potential GDP	1.9	1.7	0.5	-0.9	0.1	0.9	0.8	-0.8	0.4	-0.2	-0.1	-0.3	-0.4	-0.4	-0.2	-0.0
Fiscal impetus (FI) percent of GDP	1.0	1.2	0.9	-0.2	0.1	0.5	0.4	0.3	0.1	0.1	0.1	0.1	-0.4	0.0	0.0	0.0

1. OMB's February 2004 baseline surplus estimates are -\$527 billion in FY 2004 and -\$393 billion in FY 2005 and surplus estimates under enactment of its proposed policies (which do not include additional funding for Iraq) are -\$521 billion and -\$364 billion, respectively. CBO's March 2004 baseline surplus estimates are -\$477 billion in FY 2004 and -\$363 billion in FY 2005. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus and the Postal Service surplus are excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.

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

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

4. HEB is gross saving less gross investment (NIPA) of the federal government in current dollars, with cyclically sensitive receipts and outlays adjusted to the staff's measure of potential output and the NAIRU. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (2000) dollars, scaled by real GDP. The annual FI estimates are on a calendar year basis. Also, for FI and the change in HEB, positive values indicate aggregate demand stimulus.

a-Actual

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

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

June 23, 2004

Period <sup>1</sup>	Total	Federal government	Nonfederal				State and local governments	Business	Consumer credit	Home mortgages	Households	Nonfederal	Memo: Nominal GDP
			Total	Federal government	Households	Nonfederal							
<i>Year</i>													
1998	6.8	-1.4	9.6	7.9	8.2	7.3	12.2	6.3	5.7	10.6	7.8	10.7	6.3
1999	6.3	-1.9	8.8	8.2	9.1	7.8	10.6	3.4	6.3	9.4	10.7	9.1	4.6
2000	4.9	-8.0	8.4	8.8	8.4	8.0	10.7	1.3	2.4	6.1	8.9	8.0	2.4
2001	6.2	-0.2	7.7	9.0	9.9	8.0	11.1	8.9	4.2	11.1	11.1	11.1	6.0
2002	7.0	7.6	6.8	9.7	12.0	4.4	2.9	8.2	6.7	4.3	4.9	4.7	6.7
2003	8.2	10.9	7.6	10.4	12.7	4.9	4.3	5.4	6.0	5.8	5.4	5.4	5.0
2004	7.8	10.8	7.1	9.3	10.7	5.8	4.7	6.7	6.6	6.3	3.9	3.9	5.0
2005	6.7	7.2	6.6	7.2	7.5	6.6	6.3						
<i>Quarter</i>													
2003:1	6.9	4.5	7.5	10.8	13.4	4.3	3.8	5.7	4.3	12.4	5.9	5.9	4.2
2	11.3	20.4	9.3	11.7	13.6	6.2	6.1	10.0	10.0	6.0	3.2	6.1	10.0
3	7.2	8.2	7.0	10.2	12.0	6.0	7.6			7.6	3.9	7.6	5.7
4	6.4	9.0	5.9	7.3	9.5	2.8	4.1	9.6	7.2	6.1	4.1	4.1	7.2
2004:1	8.6	11.6	8.0	10.9	12.5	6.1	4.7	3.7	7.4	10.9	4.7	3.7	7.4
2	7.3	11.5	6.4	9.2	10.9	4.7	4.6	3.9	6.3	6.0	4.6	4.6	6.3
3	7.1	9.6	6.5	8.5	9.5	6.0	6.0			6.1	5.3	5.3	5.7
4	7.2	9.0	6.8	7.6	8.3	6.1	6.0			6.4	4.3	4.3	5.3
2005:1	7.5	11.1	6.7	7.3	7.7	6.4	6.4			6.5	6.1	3.8	4.9
2	6.6	7.2	6.4	7.0	7.4	6.5	6.1			6.6	6.0	3.7	4.9
3	6.0	4.8	6.3	6.9	7.2	6.6	6.0			6.5	6.2	3.5	4.8
4	6.0	4.8	6.2	6.7	6.9	6.5	6.2						

Note. Quarterly data are at seasonally adjusted annual rates.

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

2.6.3 FOF

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

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

June 23, 2004

Category	2002	2003	2004	2005	2003				2004				2005				
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<i>Net funds raised by domestic nonfinancial sectors</i>																	
1 Total	1297.9	1628.1	1627.4	1520.0	1499.3	1345.4	1823.5	1570.6	1559.2	1556.2	1668.8	1541.3	1429.6	1440.4			
2 Net equity issuance	-41.6	-57.3	-109.3	-82.8	-44.9	-67.0	-104.0	-98.0	-90.0	-145.0	-135.0	-65.0	-68.0	-63.0			
3 Net debt issuance	1339.5	1685.3	1736.6	1602.8	1544.2	1412.4	1927.5	1668.6	1649.2	1701.2	1803.8	1606.3	1497.6	1503.4			
<i>Borrowing sectors</i>																	
Nonfinancial business																	
4 Financing gap <sup>1</sup>	23.1	-56.5	-53.0	148.2	-99.9	-78.6	-76.2	-100.7	-52.8	17.7	99.7	132.7	167.3	193.1			
5 Net equity issuance	-41.6	-57.3	-109.3	-82.8	-44.9	-67.0	-104.0	-98.0	-90.0	-145.0	-135.0	-65.0	-68.0	-63.0			
6 Credit market borrowing	197.8	302.2	347.2	492.2	231.1	282.9	303.5	276.4	348.6	460.2	499.4	483.9	481.1	504.5			
Households																	
7 Net borrowing <sup>2</sup>	740.3	869.5	867.6	726.9	903.9	659.9	1008.2	875.5	827.1	759.4	738.1	727.0	727.3	715.0			
8 Home mortgages	638.4	756.1	719.7	558.7	764.3	625.6	840.2	756.0	677.2	605.6	575.3	559.9	556.0	543.5			
9 Consumer credit	81.4	94.8	118.6	143.0	118.9	56.6	123.4	96.9	126.1	128.2	136.9	142.1	146.3	146.7			
10 Debt/DPI (percent) <sup>3</sup>	102.1	107.5	111.2	113.7	108.0	109.9	110.3	111.1	111.8	112.5	113.0	113.5	114.0	114.4			
State and local governments																	
11 Net borrowing	143.9	117.6	84.4	63.8	91.6	116.2	149.7	38.3	62.8	86.8	70.8	62.8	62.8	58.8			
12 Current surplus <sup>4</sup>	170.1	178.6	160.2	170.6	199.3	219.6	174.4	145.6	157.6	163.1	166.9	169.7	170.8	175.0			
Federal government																	
13 Net borrowing	257.5	396.0	437.5	319.9	317.5	353.4	466.0	478.5	410.7	394.9	495.5	332.6	226.5	225.1			
14 Net borrowing (n.s.a.)	257.5	396.0	437.5	319.9	107.6	118.6	135.9	43.7	132.9	125.1	143.2	7.2	86.8	82.7			
15 Unified deficit (n.s.a.)	230.6	394.7	436.1	313.7	104.5	128.7	170.8	26.5	101.7	137.1	154.5	-31.8	84.4	106.6			
Depository institutions																	
16 Funds supplied	482.5	477.1	561.2	498.4	147.4	385.3	1096.2	296.5	446.5	405.4	591.5	442.4	536.5	423.2			
Memo (percentage of GDP)																	
17 Domestic nonfinancial debt <sup>5</sup>	189.8	195.1	197.2	200.4	195.4	196.2	196.7	197.1	197.6	198.3	199.4	200.4	201.2	201.8			
18 Domestic nonfinancial borrowing	12.8	15.3	14.8	12.9	13.9	12.5	16.8	14.3	13.9	14.2	14.8	13.0	12.0	11.9			
19 Federal government <sup>6</sup>	2.5	3.6	3.7	2.6	2.9	3.1	4.1	4.1	3.5	3.3	4.1	2.7	1.8	1.8			
20 Nonfederal	10.3	11.7	11.1	10.4	11.0	9.4	12.8	10.2	10.5	10.9	10.8	10.3	10.2	10.1			

Note. Data after 2003:Q4 are staff projections.

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

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

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

2.6.4 FOF

4. NIPA state and local government saving plus consumption of fixed capital and net capital transfers.

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

6. Excludes government-insured mortgage pool securities.

n.s.a. Not seasonally adjusted.

## International Developments

Strong demand from the United States and a buoyant high-tech sector continue to underpin the robust performance abroad, and, based on incoming data, we have marked up our estimates of average foreign growth for the first and second quarters of this year. Going forward, foreign economic activity is expected to decelerate, as growth in Asia, especially in China, settles to more sustainable rates. Relative to the previous Greenbook, the overall foreign growth outlook is about unchanged, with downward revisions to the euro area and emerging Asia about offsetting upward revisions to Japan, Canada, and Mexico. Foreign CPI inflation is estimated to have increased to nearly 3 percent in the second quarter, but we expect it to move back down over the forecast period as energy prices and non-fuel commodity prices fall.

### Summary of Staff Projections

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

Indicator	2003		2004	Projection		2005	
	H1	H2	Q1	2004			
				Q2	H2		
Foreign output	.9	4.5	4.3	4.0	3.6	3.5	
<i>April GB</i>	.9	4.5	3.9	3.9	3.6	3.5	
Foreign CPI	2.0	2.1	2.5	2.9	2.3	2.1	
<i>April GB</i>	2.0	2.1	2.5	2.2	2.1	2.0	

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

Oil prices surged in May, as violence in Iraq and Saudi Arabia threatened supply and as world demand for oil remained strong. Since early June, this most recent run-up in spot oil prices has reversed substantially, following a promise by OPEC to increase oil production. In line with futures quotes, we project that oil prices, after peaking in the second quarter, will fall going forward, with the new path being roughly \$3 per barrel above that projected in the April Greenbook. Prices of non-fuel primary commodities are expected to follow a similar path.

The major currencies index of the nominal value of the dollar declined 1½ percent on balance over the intermeeting period, but this was partially offset by a dollar appreciation against several of our other important trading partners. As a result, the broad nominal index moved down only a little. However, primarily because of price developments in the United States and abroad, our projected path of the broad real dollar starts out in the third quarter at a somewhat higher level than anticipated in the April Greenbook. Going forward, we have lessened the projected depreciation of the broad real dollar, owing to changes in our assumptions about monetary policy, which call for relatively more tightening by the FOMC.

slow sharply to about  $\frac{3}{4}$  percent, as commodity prices fall and prices of intermediate materials decelerate.

### Staff Projections of Selected Trade Prices

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

Trade category	2003		2004	Projection		2005	
	H1	H2	Q1	2004			
				Q2	H2		
<i>Exports</i>							
Core goods	3.5	3.2	7.9	7.8	0.8	0.7	
<i>Imports</i>							
Non-oil core goods	2.5	1.1	6.5	4.6	3.3	0.7	
Oil (dollars per barrel)	26.42	27.74	30.91	34.14	33.82	31.57	

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

Although not sustaining the fourth quarter's red-hot pace of about 20 percent (a.r.), real exports of goods and services grew a solid  $7\frac{1}{2}$  percent in the first quarter of this year. The increase was more than double what we reported in the April Greenbook, reflecting stronger-than-expected export data for March, as well as upward revisions to previously published data for January and February.

For the current quarter, we estimate that real exports of goods and services continued to grow at a rate of around  $7\frac{1}{2}$  percent. A bit more than half this growth reflects solid gains in exports of core goods, albeit at a lower pace than in the first quarter, supported by strong growth abroad and the effects of past dollar depreciation. After contracting in the first quarter, exports of computers are estimated to have increased a bit. Semiconductors, on the other hand, appear to have grown more moderately than in the first quarter, based partly on the April trade data. Exports of services grew at an estimated  $8\frac{1}{2}$  percent rate, more than twice as fast as in the first quarter. Although second-quarter growth of real exports of goods and services is lower than projected in the April Greenbook, our estimate for the first half of this year as a whole is about unchanged.

Over the remainder of the forecast period, growth in real exports of goods and services should continue to be fairly robust, with projected expansions of around 10 percent in the second half and 8 percent next year. Relative to the April Greenbook, we have marked down the projected growth rate of core goods exports about  $1\frac{1}{4}$  percentage points on average, based largely on trade data

revisions that led us to re-assess the long-run level of exports implied by foreign activity and relative prices. Nevertheless, core goods exports still expand at an annual rate of 7 percent over the next year and a half, supported by solid foreign growth and ongoing effects of the dollar's earlier depreciation.

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

Measure	2003		2004	Projection		2005	
	H1	H2	Q1	2004			
				Q2	H2		
Real exports	-1.5	15.1	7.4	7.4	10.2	8.0	
<i>April GB</i>	<i>-1.5</i>	<i>15.1</i>	2.7	11.2	11.7	9.1	
Real imports	.9	8.3	10.2	5.6	10.8	8.1	
<i>April GB</i>	<i>.9</i>	<i>8.3</i>	<i>3.1</i>	<i>10.7</i>	<i>9.2</i>	<i>8.6</i>	

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

Expansion in real imports of goods and services also stepped down from its torrid pace of the fourth quarter; nevertheless, the 10 percent (a.r.) increase in the first quarter was considerably greater than we projected in the April Greenbook. As in the case of exports, imports for March generally came in higher than expected, and January and February data were revised up significantly.

In the current quarter, real imports of goods and services are projected to grow around 5½ percent, a pace about half that projected in the April Greenbook. Both the revision in import growth in the second quarter and the stepdown from the first quarter are driven by the Department of Commerce's recently introduced seasonal adjustment factors for oil imports, which tend to depress oil imports in the second quarter and boost them in the fourth quarter.<sup>1</sup> In this quarter, growth in imported core goods, supported by robust U.S. growth, appears to have picked up somewhat from the first quarter. We estimate that imports of services accelerated from a sluggish first quarter, expanding at an annual rate of around 9½ percent in the second quarter.

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1. Previously, oil imports were adjusted for the number of days in a quarter, which resulted in only small differences between the seasonally and not seasonally adjusted series. The new procedure, which applies the Census X12 algorithm to the value of oil imports, has resulted in a series that shows greater quarter-to-quarter variation than the not seasonally adjusted series. Despite this effect, we understand that the Bureau of Economic Analysis intends to incorporate the new data into the National Income and Product Accounts beginning with the Final Q1 GDP release on June 25.

**Alternative Simulation:****Hard Landing in China**

(Percent change from previous period, annual rate)

Indicator and simulation	2004		2005	
	H2	H1	H2	
<i>U.S. real GDP</i>				
Baseline	5.0	3.7	3.5	
Demand shock in China	5.0	3.6	3.3	
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	1.7	1.5	1.4	
Demand shock in China	1.7	1.3	1.2	

NOTE. H1 is Q2/Q4; H2 is Q4/Q2. In these simulations, the nominal federal funds rate remains unchanged from baseline, and the monetary authorities in major foreign economies adjust their policy rates according to a Taylor rule.

Measure and country	1997	1998	1999	2000	2001	2002	2003	Projected 2004	Projected 2005
<b>REAL GDP (1)</b>									
Total foreign	4.2	1.5	5.0	4.3	0.3	2.9	2.7	3.9	3.5
Industrial Countries of which:									
Canada	3.4	2.7	4.4	3.6	0.6	2.6	1.7	3.0	2.8
Japan	4.4	4.4	5.9	4.1	-1.4	3.8	1.7	3.4	3.5
United Kingdom	0.4	-1.2	0.4	3.9	-2.2	1.8	3.5	3.9	2.4
Euro Area (2)	3.4	2.8	3.3	2.9	1.9	1.9	2.7	2.9	2.7
Germany	3.2	2.0	3.9	2.7	0.7	1.1	0.7	1.8	1.9
1.7	0.7	3.4	1.9	0.5	0.5	0.5	0.1	1.2	1.5
Developing Countries	5.4	-0.3	6.0	5.2	-0.2	3.4	4.1	5.3	4.4
Asia	5.0	-2.2	8.3	6.0	1.0	5.8	6.0	6.1	5.2
Korea	3.1	-5.4	11.4	4.5	4.7	7.7	4.1	4.6	5.0
China	8.7	9.5	4.1	8.0	7.5	8.0	9.9	8.8	7.3
Latin America	6.2	1.2	4.2	4.4	-1.3	1.4	2.2	4.7	3.8
Mexico	6.8	2.9	5.4	4.8	-1.2	1.9	2.0	4.9	4.1
Brazil	2.5	-1.6	3.4	3.8	-0.8	3.8	-0.1	3.5	3.0
<b>CONSUMER PRICES (3)</b>									
Industrial Countries of which:	1.5	0.9	1.1	1.7	0.9	2.1	1.3	1.5	1.5
Canada	1.0	1.1	2.4	3.1	1.1	3.8	1.7	1.8	1.7
Japan	2.1	0.7	-1.1	-1.2	-1.3	-0.5	-0.4	0.1	0.3
United Kingdom (4)	1.7	1.4	1.2	1.0	1.0	1.6	1.3	1.3	1.8
Euro Area (2)	1.5	0.8	1.5	2.5	2.1	2.3	2.0	2.1	1.9
Germany	1.5	0.3	1.1	1.7	1.5	1.2	1.2	2.1	1.6
Developing Countries	6.8	9.0	4.6	4.1	2.8	2.9	3.0	3.7	2.9
Asia	2.7	4.4	0.1	1.8	1.1	0.7	2.1	3.3	3.4
Korea	5.0	5.8	1.2	2.6	3.4	3.4	3.5	3.7	3.4
China	0.8	-1.2	-1.0	0.9	-0.1	-0.6	2.6	3.7	1.6
Latin America	15.5	15.4	12.5	8.4	5.3	6.5	4.9	4.4	4.1
Mexico	17.0	17.3	13.4	8.7	5.1	5.3	4.0	3.9	3.8
Brazil	4.6	2.0	8.4	6.4	7.5	10.7	11.5	6.2	5.2

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

2. Harmonized data for euro area from Eurostat.

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

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

Measure and country	2003				2004				Projected				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>REAL GDP (1)</b>																
Total foreign	1.0	0.8	4.1	4.8	4.3	4.0	3.7	3.6	3.6	3.5	3.4	3.4	3.5	3.4	3.4	3.4
Industrial Countries of which:	1.6	0.2	1.9	3.3	2.8	3.2	3.0	2.9	2.9	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Canada	2.8	-0.7	1.4	3.3	2.4	4.1	3.7	3.4	3.6	3.6	3.5	3.5	3.5	3.5	3.5	3.5
Japan	0.2	3.8	2.7	7.3	6.1	3.8	3.0	2.7	2.5	2.5	2.3	2.3	2.3	2.3	2.3	2.3
United Kingdom	1.1	2.4	3.4	3.7	2.5	3.1	3.0	3.0	2.8	2.8	2.7	2.6	2.6	2.6	2.6	2.6
Euro Area (2)	-0.0	-0.3	1.7	1.5	2.3	1.6	1.7	1.9	1.8	1.8	1.9	1.9	1.9	1.9	1.9	1.9
Germany	-1.0	-0.7	0.8	1.1	1.8	0.6	0.9	1.4	1.3	1.4	1.4	1.7	1.7	1.7	1.7	1.7
<b>Developing Countries</b>																
Asia	0.2	1.7	7.6	7.0	6.6	5.2	4.7	4.6	4.6	4.6	4.5	4.3	4.3	4.3	4.3	4.3
Korea	3.6	-2.8	15.3	8.6	7.9	5.9	5.4	5.2	5.3	5.3	5.1	5.1	5.1	5.1	5.1	5.1
China	-1.1	-0.2	6.7	11.3	3.2	5.0	5.1	5.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Latin America	16.3	-2.9	19.6	7.9	15.9	6.9	6.2	6.2	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3
Mexico	-3.6	5.8	0.9	6.0	5.6	4.7	4.2	4.1	4.0	3.8	3.8	3.7	3.7	3.7	3.7	3.7
Brazil	-1.7	4.6	-0.4	5.6	5.4	4.6	4.5	4.5	4.3	4.1	4.0	3.9	3.9	3.9	3.9	3.9
Brazil	-4.6	-3.5	2.1	5.9	6.8	2.5	2.5	2.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
<b>CONSUMER PRICES (3)</b>																
Industrial Countries of which:	2.4	1.7	1.4	1.3	0.8	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.5
Canada	4.5	2.8	2.1	1.7	0.9	1.9	2.0	1.8	1.7	1.6	1.7	1.7	1.7	1.7	1.7	1.7
Japan	-0.3	-0.2	-0.5	-0.4	-0.3	-0.3	0.0	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3
United Kingdom (4)	1.5	1.3	1.4	1.3	1.2	1.6	1.5	1.3	1.3	1.4	1.4	1.6	1.6	1.6	1.6	1.6
Euro Area (2)	2.3	1.9	2.1	2.0	1.7	2.4	2.2	2.1	2.2	2.2	2.2	1.9	1.9	1.9	1.9	1.9
Germany	1.1	0.9	1.0	1.2	1.0	2.2	2.1	2.1	2.1	2.2	2.2	1.6	1.6	1.6	1.6	1.6
Developing Countries	3.4	3.0	2.6	3.0	3.0	3.6	4.0	3.7	3.6	3.6	3.6	3.1	3.1	3.1	3.1	3.1
Asia	1.2	1.1	2.1	2.1	2.1	3.2	3.2	3.3	3.3	3.2	3.2	2.3	2.3	2.3	2.3	2.3
Korea	4.1	3.3	3.2	3.5	3.3	3.4	4.0	3.7	3.7	3.8	4.1	3.4	3.4	3.4	3.4	3.4
China	0.4	0.7	0.9	2.6	2.8	4.3	4.6	3.7	3.7	3.4	4.4	4.1	4.2	4.1	4.1	4.1
Latin America	7.1	6.4	5.4	4.9	4.7	4.5	4.5	4.4	4.4	4.1	4.2	4.3	4.3	4.3	4.3	4.3
Mexico	5.5	4.7	4.1	4.0	4.3	4.0	4.3	4.0	4.0	3.9	3.7	3.8	4.0	3.8	3.8	3.8
Brazil	15.7	17.0	15.3	11.5	6.8	5.4	6.1	6.2	6.2	5.7	5.5	5.5	5.5	5.5	5.5	5.5

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

	1997	1998	1999	2000	2001	2002	2003	2004	Projected 2005
<b>NIPA REAL EXPORTS and IMPORTS</b>									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.8	-1.1	-1.0	-0.9	-0.2	-0.9	-0.9	-0.5	-0.4
Exports of G&S	0.9	0.3	0.6	0.7	-1.3	0.3	0.6	0.9	0.8
Imports of G&S	-1.7	-1.4	-1.6	-1.6	-1.1	-1.2	-0.6	-1.3	-1.2
Percentage change, Q4/Q4									
Exports of G&S	8.3	2.6	5.6	6.5	-11.5	3.3	6.4	8.8	8.0
Services	0.4	4.4	5.3	1.8	-8.3	9.3	4.8	6.5	5.9
Computers	26.7	7.3	13.4	22.7	-22.8	-0.9	11.3	9.8	19.2
Semiconductors	21.1	9.5	34.6	27.6	-34.9	9.7	38.8	28.3	41.2
Other Goods 1/	9.8	1.2	3.3	5.9	-9.8	0.4	5.0	8.6	6.2
Imports of G&S	14.3	11.0	12.1	11.2	-7.4	9.4	4.5	9.3	8.1
Services	11.9	10.4	6.5	10.7	-4.6	6.7	0.1	6.2	5.0
Oil	4.2	4.2	-3.4	13.3	0.1	3.7	2.2	1.5	1.2
Computers	32.6	26.4	26.0	13.9	-12.9	13.5	17.1	26.1	23.8
Semiconductors	32.5	-7.7	34.2	22.8	-51.3	9.7	0.4	43.5	41.2
Other Goods 2/	13.1	11.2	12.9	10.5	-6.2	10.3	5.1	9.4	7.8
Billions of Chained 2000 Dollars									
Net Goods & Services	-104.6	-203.8	-296.2	-379.5	-398.1	-470.6	-509.1	-547.7	-594.6
Exports of G&S	943.7	966.5	1008.2	1096.3	1039.0	1014.2	1034.7	1138.2	1234.8
Imports of G&S	1048.3	1170.3	1304.5	1475.8	1437.1	1484.7	1543.8	1685.9	1829.4
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-136.0	-209.6	-296.8	-413.5	-385.7	-473.9	-530.7	-606.5	-702.3
Current Acct as Percent of GDP	-1.6	-2.4	-3.2	-4.2	-3.8	-4.5	-4.8	-5.2	-5.7
Net Goods & Services (BOP)	-108.2	-164.9	-263.3	-378.4	-362.7	-421.7	-496.5	-573.2	-627.0
Investment Income, Net	17.0	8.3	18.4	25.3	28.7	12.6	38.8	52.1	12.2
Direct Net	72.4	65.5	78.2	94.9	115.9	100.8	118.9	152.2	164.0
Portfolio, Net	-55.4	-57.2	-59.8	-69.7	-87.2	-88.2	-80.1	-100.2	-151.8
Other Income & Transfers, Net	-44.8	-53.0	-52.0	-60.4	-51.7	-64.8	-72.9	-85.4	-87.5

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2000								2001								2002											
	Q1				Q2				Q3				Q4				Q1				Q2				Q3			
	NIPA REAL EXPORTS and IMPORTS								Percentage point contribution to GDP growth								Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-1.5	-1.0	-0.9	-0.1	0.5	-0.2	-0.4	-0.5	-0.2	-0.4	-0.4	-0.5	-0.7	-0.7	-0.2	-1.3	8.7	4.3	4.3	-3.7								
Exports of G&S	0.7	-1.3	-1.1	-0.3	-0.5	-1.5	-2.0	-1.0	-1.3	-2.0	-1.6	-1.6	-0.5	-0.4	-0.8	-0.8	1.6	4.4	4.4	9.4								
Imports of G&S	-2.2	-2.3	-2.0	0.2	1.0	1.3	1.6	1.6	1.6	1.6	1.6	1.6	-1.1	-2.1	-2.1	-2.1	3.2	4.6	4.6	14.6								
Exports of G&S Services	6.6	12.3	10.7	-2.7	-4.5	-13.4	-17.7	-9.8	4.4	8.7	8.7	8.7	-0.7	-0.7	-0.7	-0.7	1.6	4.4	4.4	-1.5								
Services	1.4	8.4	-6.6	4.5	-2.0	-0.6	-14.7	-15.0	-22.9	1.6	1.6	1.6	-2.2	-2.2	-2.2	-2.2	3.2	4.4	4.4	-0.4								
Computers	32.7	47.0	30.1	-10.7	-7.7	-40.8	-20.1	-18.6	-22.2	4.6	4.6	4.6	-22.6	-22.6	-22.6	-22.6	40.5	11.8	11.8	-27.1								
Semiconductors	24.2	73.7	35.0	-8.9	-29.5	-54.8	-45.7	-2.3	-26.6	4.6	4.6	4.6	-16.6	-16.6	-16.6	-16.6	10.8	3.7	3.7	-9.0								
Other Goods 1/	5.9	7.5	16.0	-4.5	-2.7	-12.1	-12.1	-7.4	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	10.8	10.8	10.8	-27.1								
Imports of G&S Services	16.7	16.5	14.1	-1.6	-6.2	-8.5	-10.8	-3.8	8.4	8.4	8.4	8.4	-10.0	-10.0	-10.0	-10.0	17.1	4.1	4.1	8.2								
Oil	20.9	10.6	14.3	-1.8	-3.2	-12.5	-18.1	-6.9	-6.9	-6.9	-6.9	-6.9	-19.3	-19.3	-19.3	-19.3	3.7	0.7	0.7	12.1								
Computers	28.5	40.6	-2.6	-6.4	-23.3	7.1	-26.8	3.7	-35.3	-35.3	-35.3	-35.3	-35.3	-35.3	-35.3	-35.3	-10.9	-10.9	-10.9	18.9								
Semiconductors	-2.2	44.9	35.4	-12.3	-25.7	-20.5	-10.9	9.3	38.4	38.4	38.4	38.4	-55.4	-55.4	-55.4	-55.4	11.5	6.5	6.5	0.9								
Other Goods 2/	25.0	45.4	71.1	-26.9	-43.5	-70.4	-55.4	-24.6	44.5	44.5	44.5	44.5	-10.0	-10.0	-10.0	-10.0	5.9	34.6	34.6	-6.5	-20.3	-20.3	-20.3	-20.3				
Net Goods & Services	-350.6	-374.5	-395.6	-397.2	-385.9	-391.7	-401.3	-413.4	-413.4	-413.4	-413.4	-413.4	-431.2	-431.2	-431.2	-431.2	-467.6	-471.9	-471.9	-511.5								
Exports of G&S	1060.9	1092.0	1120.0	1112.3	1099.6	1060.9	1010.6	984.8	984.8	984.8	984.8	984.8	1016.5	1016.5	1016.5	1016.5	1027.3	1027.3	1027.3	1027.3								
Imports of G&S	1411.5	1466.5	1515.6	1509.5	1485.5	1452.7	1411.9	1398.2	1398.2	1398.2	1398.2	1398.2	1426.7	1426.7	1426.7	1426.7	1484.1	1499.2	1499.2	1529.0								
US CURRENT ACCOUNT BALANCE	-391.5	-394.3	-428.8	-439.2	-426.8	-390.2	-367.6	-358.3	-440.8	-440.8	-440.8	-440.8	-471.6	-471.6	-471.6	-471.6	-476.0	-507.4	-507.4	-507.4								
Current Account as % of GDP	-4.1	-4.0	-4.3	-4.4	-4.3	-4.3	-3.9	-3.6	-3.5	-3.5	-3.5	-3.5	-4.3	-4.3	-4.3	-4.3	-4.5	-4.5	-4.5	-4.8								
Net Goods & Services (BOP)	-358.4	-361.8	-387.5	-405.7	-389.3	-356.1	-357.1	-348.3	-375.0	-375.0	-375.0	-375.0	-413.5	-413.5	-413.5	-413.5	-427.7	-427.7	-427.7	-470.7								
Investment Income, Net	20.1	22.8	17.1	41.1	23.9	29.8	1.5	59.7	9.2	9.2	9.2	9.2	1.8	1.8	1.8	1.8	10.6	10.6	10.6	28.8								
Direct Net Portfolio, Net	84.5	88.9	91.9	114.5	106.2	116.1	95.0	146.2	100.6	100.6	100.6	100.6	-91.4	-91.4	-91.4	-91.4	95.1	94.9	94.9	112.8								
Portfolio, Net	-64.4	-66.1	-74.8	-73.4	-82.3	-86.3	-93.5	-86.6	-91.4	-91.4	-91.4	-91.4	-84.0	-84.0	-84.0	-84.0	-84.3	-84.3	-84.3	-84.0								
Other Inc. & Transfers, Net	-53.1	-55.3	-58.4	-74.6	-61.3	-63.9	-12.0	-69.7	-75.0	-75.0	-75.0	-75.0	-59.9	-59.9	-59.9	-59.9	-59.0	-65.4	-65.4	-65.4								

1. Merchandise exports excluding computers and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2003								2004				Projected				2005			
	Q1		Q2		Q3		Q4		Q1		Q2		Q3		Q4		Q1		Q2	
<b>NIPA REAL EXPORTS and IMPORTS</b>																				
Net Goods & Services	0.8	-1.3	0.8	-0.3	-0.7	-0.1	-0.5	-0.6	-0.5	-0.6	-0.7	-0.8	-0.8	-0.8	-0.8	-0.4	-0.6	-0.6		
Exports of G&S	-0.2	-0.1	0.9	-1.8	0.7	0.7	-1.0	-1.1	-1.0	-1.1	-1.4	-1.4	-1.7	-1.7	-1.7	-0.8	-0.8	-0.9		
Imports of G&S	-1.0	-1.2	-0.1	-2.1	-1.4	-1.4	-0.8	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.2	-1.2	-1.5		
Exports of G&S Services	-2.0	-1.1	9.9	20.5	7.4	7.4	9.7	10.8	6.8	8.3	7.9	9.0								
Services	-10.0	0.3	12.7	18.8	3.1	8.4	7.6	7.1	6.5	6.0	5.7	5.5								
Computers	-7.4	-11.2	48.7	25.7	-9.6	1.2	26.0	26.1	12.6	21.5	21.5	21.5								
Semiconductors	4.4	30.1	35.2	46.4	14.6	6.2	49.3	49.3	33.6	43.9	43.9	43.9								
Other Goods 1/	0.1	-3.0	4.8	19.3	10.3	7.4	7.4	9.4	4.8	6.3	5.8	7.7								
Imports of G&S Services	-6.8	9.1	0.8	16.4	10.2	5.6	9.8	11.7	8.2	5.5	8.3	10.3								
Oil	-7.6	-10.9	13.5	7.5	1.1	9.4	7.4	7.0	5.5	4.9	4.9	4.8								
Computers	-12.7	55.8	-3.2	-17.0	41.9	-39.0	1.2	21.0	11.8	-24.3	-0.1	24.1								
Semiconductors	-0.4	18.9	15.8	36.8	12.7	30.9	30.9	30.9	17.0	26.1	26.1	26.1								
Other Goods 2/	-6.4	3.1	-1.5	0.5	42.5	33.8	49.3	49.3	33.6	43.9	43.9	43.9								
Net Goods & Services	-490.0	-526.0	-505.2	-515.2	-534.9	-537.3	-550.3	-568.3	-583.5	-583.6	-596.4	-614.9								
Exports of G&S	1012.4	1009.6	1033.7	1083.1	1102.6	1122.6	1148.9	1178.7	1198.2	1222.2	1245.7	1272.9								
Imports of G&S	1502.5	1535.7	1538.9	1598.3	1637.5	1659.9	1699.2	1747.0	1781.7	1805.8	1842.1	1887.8								
<b>Billions of Chained 2000 Dollars, s.a.a.r.</b>																				
US CURRENT ACCOUNT BALANCE	-552.8	-535.5	-526.5	-507.8	-579.5	-580.6	-617.3	-648.5	-679.5	-682.3	-706.1	-741.1								
Current Account as % of GDP	-5.1	-4.9	-4.7	-4.5	-5.1	-5.0	-5.2	-5.4	-5.6	-5.5	-5.7	-5.9								
Net Goods & Services (BOP)	-501.6	-493.5	-489.0	-502.0	-547.7	-558.3	-581.5	-605.3	-618.6	-615.9	-627.7	-645.7								
Investment Income, Net	21.5	29.1	34.5	70.1	56.3	61.8	48.6	41.7	33.7	18.3	6.6	-9.9								
Direct, Net	101.3	105.4	114.6	154.2	142.0	156.2	152.6	158.1	162.9	162.8	165.9	164.3								
Portfolio, Net	-79.8	-76.3	-80.1	-84.1	-85.7	-94.4	-104.0	-116.5	-129.2	-144.5	-159.3	-174.2								
Other Inc. & Transfers, Net	-72.8	-71.0	-72.0	-76.0	-88.1	-84.1	-84.4	-84.9	-94.6	-84.7	-85.1	-85.5								

1. Merchandise exports excluding computers and semiconductors.

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

Confidential (FR) Class III FOMC

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June 25, 2004

## CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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### **Supplemental Notes**

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

June 25, 2004

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

Category	2003		2004					
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June <sup>F</sup>
Composite of current and expected conditions <sup>1</sup>	93.7	92.6	103.8	94.4	95.8	94.2	90.2	95.6
Current conditions <sup>1</sup>	102.5	97.0	109.5	103.6	106.8	105.0	103.6	106.7
Expected conditions <sup>1</sup>	88.1	89.8	100.1	88.5	88.8	87.3	81.6	88.5
Personal financial situation								
Now compared with 12 months ago <sup>2</sup>	107	105	119	111	114	113	113	112
Expected in 12 months <sup>2</sup>	128	122	136	128	134	132	125	130
Expected business conditions								
Next 12 months <sup>2</sup>	122	128	143	118	116	116	105	117
Next 5 years <sup>2</sup>	104	112	124	110	107	103	98	108
Appraisal of buying conditions								
Cars	161	157	161	150	153	147	144	144
Large household appliances <sup>2</sup>	158	146	165	157	163	159	156	164
Houses	170	163	164	158	163	167	160	162
Expected unemployment change - next 12 months	105	98	95	105	108	107	107	96
Prob. household will lose a job - next 5 years	27	29	26	25	24	26	27	25
Expected inflation - next 12 months								
Mean	3.1	2.8	2.9	2.9	3.4	4.0	3.9	4.0
Median	2.7	2.6	2.7	2.6	2.9	3.2	3.3	3.3
Expected inflation - next 5 to 10 years								
Mean	3.1	3.1	3.4	3.3	3.4	3.2	3.3	3.4
Median	2.7	2.8	2.8	2.9	2.9	2.7	2.8	2.9

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

F Final.

1. Feb. 1966 = 100.

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