

## **Part 1**

May 1, 2002

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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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May 1, 2002

## **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	2002:Q1		2002:Q2	
	March GB	May GB	March GB	May GB
<b>Real GDP</b>	<b>3.8</b>	<b>5.8</b>	<b>3.5</b>	<b>2.0</b>
Private domestic final purchases	1.9	3.0	2.3	2.5
Personal consumption expenditures	2.1	3.5	2.4	2.8
Residential investment	7.7	16.5	.4	-.4
Business fixed investment	-1.4	-5.2	2.3	1.8
Government outlays for consumption and investment	7.4	7.0	2.9	1.1
	Contribution to growth, percentage points			
Inventory investment	1.7	3.1	2.3	1.1
Net exports	-1.0	-1.1	-1.2	-1.5

starts in the second quarter will be below its first-quarter average. Still, the pace of starts in March was among the fastest recorded in the past two years, and sales of new and existing homes are consistent with continued strong housing demand.

In the business sector, shipments of nondefense capital goods excluding aircraft fell in both February and March, and new orders dropped sharply in March after small gains in the previous two months. We expect shipments to slip a little further in the second quarter; however, this decline in nominal shipments will likely translate into a rise in real spending because of continuing declines in computer prices. Moreover, total spending on equipment and software should receive a positive impetus from two categories that are not reflected in the orders and shipments data—motor vehicles and software. For investment in nonresidential structures, we expect a further decline this quarter; indeed, construction data for February and March were weaker than we had anticipated in the last Greenbook, and we have marked down the projected level of second-quarter spending in this category as well.

Real government expenditures on consumption and gross investment are likely to slow sharply in the second quarter. At the federal level, a deceleration in defense spending—following a first-quarter gain at an annual rate of nearly 20 percent—should more than offset a projected pickup in nondefense outlays. At the state and local level, we project that a weather-related drop in construction outlays will hold overall spending flat this quarter.

### Projections of Real GDP

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

Measure	2002		2003
	H1	H2	
<b>Real GDP</b>	<b>3.9</b>	<b>3.5</b>	<b>4.2</b>
Previous	3.7	3.6	4.0
Final sales	1.7	2.8	3.7
Previous	1.6	2.5	3.4
PCE	3.2	3.0	3.4
Previous	2.2	2.9	3.3
Residential investment	7.7	1.6	-1.2
Previous	4.0	3.3	-2.1
BFI	-1.8	5.6	12.0
Previous	.4	5.5	11.9
Government purchases	4.0	3.9	3.8
Previous	5.2	4.0	3.1
Exports	6.2	6.7	7.6
Previous	5.6	4.9	7.1
Imports	15.6	9.8	10.3
Previous	13.3	11.4	10.3
	Contribution to growth, percentage points		
Inventory change	2.2	.7	.5
Previous	2.0	1.1	.6
Net exports	-1.3	-.7	-.7
Previous	-1.1	-1.0	-.7

We expect that demand for homes will be supported by these same fundamental forces as well as by fairly low mortgage rates. Accordingly, single-family housing starts are expected to run close to 1.35 million units in both 2002 and 2003, up from the 1.27 million unit pace of 2001. Multifamily starts are projected to average 330,000 units, the same level as last year.

**Business fixed investment.** We continue to anticipate a gradual rebound in business investment over the next year and a half. We expect real equipment and software spending to rise at an annual rate of about 8 percent in the second

Deteriorating fiscal positions last year forced many states and localities to cut spending and some to raise taxes and fees. These actions, as well as the economic expansion that is now under way, are alleviating budget pressures. Over time, healthier budgets and strong underlying demand for schools and other infrastructure should bolster state and local spending. We project that real state and local purchases will increase at an annual rate of about 3-1/4 percent in the second half of 2002 and 4 percent in 2003, close to the average pace of the late 1990s.

**Net exports.** Real exports are expected to increase at an annual rate of 6-3/4 percent in the second half of 2002 and 7-1/2 percent in 2003. Real imports are likely to rise even faster—at a pace of roughly 10 percent in the second half of this year and next year—as the dollar remains strong and economic activity expands more rapidly in the United States than abroad. As a result, the external sector should make a negative arithmetic contribution to the change in real GDP of about 1 percent in 2002 and 3/4 percent in 2003. (*The International Developments section provides more detail on the outlook for the external sector.*)

### Aggregate Supply, the Labor Market, and Prospects for Inflation

Labor productivity in the nonfarm business sector rose at an annual rate of 5-1/2 percent in the fourth quarter of 2001, and it appears to have jumped 8-1/2 percent in the first quarter. We have taken this astonishing surge in productivity as a signal that underlying productivity growth has been stronger

#### Decomposition of Structural Labor Productivity

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

Measure	1973-95	1996-98	1999	2000	2001	2002	2003
<b>Structural labor productivity</b>	<b>1.4</b>	<b>2.4</b>	<b>2.9</b>	<b>3.0</b>	<b>2.3</b>	<b>2.0</b>	<b>2.6</b>
Previous	1.4	2.4	2.9	2.8	2.1	1.8	2.5
<i>Contributions</i> <sup>1</sup>							
Capital deepening	.6	1.2	1.4	1.4	.6	.4	.9
Previous	.6	1.1	1.5	1.4	.7	.5	1.0
Multifactor productivity	.6	.9	1.3	1.4	1.4	1.3	1.5
Previous	.6	.9	1.1	1.1	1.1	1.0	1.2
Labor composition	.3	.3	.3	.3	.3	.3	.3
MEMO							
Potential GDP	2.9	3.7	4.1	4.0	3.1	2.9	3.5
Previous	2.9	3.6	3.9	3.8	2.8	2.7	3.5

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

1. Percentage points.

than we had previously estimated. Specifically, we have boosted our estimate of multifactor productivity growth about 1/4 percentage point per year starting in 1999 and running through the forecast period. Incorporating the revised forecast for capital deepening, our projection now calls for structural labor productivity growth of 2.0 percent in 2002 and 2.6 percent in 2003 and for potential output growth of 2.9 percent this year and 3.5 percent next year. The revisions we have made to potential and actual output imply an output gap that will be about 1/2 percentage point wider throughout the forecast period than we had previously estimated.

**Productivity and the labor market.** Even with the upward revision to our estimate of structural labor productivity, the remarkable recent increases in actual productivity have moved it well above its estimated structural level in the first quarter. We believe that businesses were surprised by the strength of final demand in late 2001 and remain cautious regarding the vigor of the expansion, a view that receives some support from recent business surveys. In coming quarters, firms should begin in earnest to boost their workweeks and hire additional workers; as hours climb, actual productivity will revert gradually toward its now-higher structural level. We anticipate that the pace of gains in private payroll employment will perk up to increases of about 240,000 per month in the second half of this year and 200,000 per month in 2003.

The unemployment rate is projected to peak close to 6 percent around midyear and then to drift down to 5-1/2 percent by the end of next year. This path for the unemployment rate is a little higher than in the March Greenbook, owing

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

Measure	2000	2001	2002	2003
Output per hour, nonfarm business	2.6	2.0	2.4	2.4
Previous	2.6	2.0	2.2	2.2
Nonfarm private payroll employment	1.8	-1.1	1.1	2.1
Previous	1.8	-1.1	1.1	2.0
Household employment survey	1.0	-1.0	.9	1.5
Previous	1.0	-1.0	1.1	1.5
Labor force participation rate <sup>1</sup>	67.1	66.9	66.9	66.9
Previous	67.1	66.9	66.8	66.9
Civilian unemployment rate <sup>1</sup>	4.0	5.6	5.7	5.4
Previous	4.0	5.6	5.5	5.3

1. Percent, average for the fourth quarter.

### Inflation Projections

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

Measure	2000	2001	2002	2003
PCE chain-weighted price index	2.6	1.3	1.5	1.3
Previous	2.6	1.2	1.5	1.4
Food and beverages	2.5	3.2	1.9	2.0
Previous	2.5	3.2	2.1	2.1
Energy	15.4	-9.9	4.6	-1.7
Previous	15.4	-9.9	1.4	-.3
Excluding food and energy	1.9	1.6	1.2	1.3
Previous	1.9	1.6	1.4	1.4
Consumer price index	3.4	1.9	2.3	1.8
Previous	3.4	1.9	2.0	1.9
Excluding food and energy	2.5	2.7	2.2	2.0
Previous	2.5	2.7	2.2	2.1
GDP chain-weighted price index	2.4	1.9	1.4	1.4
Previous	2.4	1.8	1.7	1.6
ECI for compensation of private industry workers <sup>1</sup>	4.4	4.2	3.5	3.5
Previous	4.4	4.2	3.2	3.3
NFB compensation per hour	7.8	3.9	3.0	3.4
Previous	7.8	3.9	3.1	3.3
Prices of core non-oil merchandise imports	1.6	-3.1	.3	2.7
Previous	1.6	-3.1	-.6	2.3

1. December to December.

Unexpectedly meager incoming tax receipts have led us to revise up sharply our estimate for federal debt growth in the current quarter, to a seasonally adjusted annual rate of 12-1/2 percent. We expect federal debt to increase 5-1/4 percent in 2002 and 2 percent in 2003, as tax collection shortfalls seem likely to persist for some time and the track for spending now appears higher, pushing off the return to surpluses well beyond the Greenbook horizon.

Household debt is projected to increase 7 percent in 2002 and 2003, a pace noticeably below that of recent years but still fairly brisk. With longer-term interest rates expected to remain roughly stable over the forecast period, households are projected to continue to tap mortgage markets in volume, both to finance a high level of housing activity and to consolidate debts. The weaker

**Alternative Scenarios**

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

Measure	2001	2002			2003
	Q4	Q1	Q2	H2	
<i>Real GDP</i>					
<b>Baseline</b>	<b>1.7</b>	<b>5.8</b>	<b>2.0</b>	<b>3.5</b>	<b>4.2</b>
Stronger productivity	1.7	5.8	2.1	3.8	4.6
Weaker productivity	1.7	5.8	1.7	2.7	3.1
Flat investment	1.7	5.8	1.5	2.8	2.5
Heightened inflation pressures	1.7	5.8	2.0	3.3	4.2
Low NAIRU	1.7	5.8	2.0	3.5	4.3
<i>Civilian unemployment rate<sup>1</sup></i>					
<b>Baseline</b>	<b>5.6</b>	<b>5.6</b>	<b>5.9</b>	<b>5.7</b>	<b>5.4</b>
Stronger productivity	5.6	5.6	5.9	5.8	5.6
Weaker productivity	5.6	5.6	5.9	5.5	5.2
Flat investment	5.6	5.6	5.9	5.9	6.3
Heightened inflation pressures	5.6	5.6	5.9	5.7	5.4
Low NAIRU	5.6	5.6	5.9	5.7	5.4
<i>PCE prices excluding food and energy</i>					
<b>Baseline</b>	<b>2.7</b>	<b>.8</b>	<b>1.3</b>	<b>1.4</b>	<b>1.3</b>
Stronger productivity	2.7	.8	1.2	1.2	1.0
Weaker productivity	2.7	.8	1.5	1.8	2.0
Flat investment	2.7	.8	1.3	1.4	1.3
Heightened inflation pressures	2.7	.8	1.8	2.2	2.2
Low NAIRU	2.7	.8	1.2	1.2	.9

1. Average for the final quarter of the period.

Strictly Confidential <FR>  
Class II FOMCSTAFF PROJECTIONS OF CHANGES IN GDP, PRICES, AND UNEMPLOYMENT  
(Percent, annual rate)

May 1, 2002

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>	
	03/13/02	05/01/02	03/13/02	05/01/02	03/13/02	05/01/02	03/13/02	05/01/02	03/13/02	05/01/02
<b>ANNUAL</b>										
1999	5.5	5.5	4.1	4.1	1.4	1.4	2.2	2.2	4.2	4.2
2000	6.5	6.5	4.1	4.1	2.3	2.3	3.4	3.4	4.0	4.0
2001	3.4	3.4	1.2	1.2	2.2	2.2	2.8	2.8	4.8	4.8
2002	3.8	3.9	2.4	2.6	1.4	1.2	1.5	1.7	5.6	5.8
2003	5.5	5.4	3.8	3.8	1.6	1.5	2.0	1.9	5.4	5.5
<b>QUARTERLY</b>										
2000	Q1	6.3	6.3	2.3	2.3	3.8	3.8	3.9	4.0	4.0
	Q2	8.0	8.0	5.7	5.7	2.1	2.1	3.3	4.0	4.0
	Q3	3.3	3.3	1.3	1.3	1.9	1.9	3.5	4.1	4.1
	Q4	3.7	3.7	1.9	1.9	1.8	1.8	2.8	4.0	4.0
2001	Q1	4.6	4.6	1.3	1.3	3.3	3.3	4.0	4.0	4.2
	Q2	2.4	2.4	0.3	0.3	2.1	2.1	3.2	4.5	4.5
	Q3	0.9	0.9	-1.3	-1.3	2.3	2.3	0.7	4.8	4.8
	Q4	1.0	1.5	1.4	1.7	-0.3	-0.1	-0.2	5.6	5.6
2002	Q1	5.4	6.7	3.8	5.8	1.5	0.8	1.2	1.4	5.6
	Q2	5.7	4.1	3.5	2.0	2.1	2.1	3.4	4.0	5.9
	Q3	5.3	4.6	3.6	3.2	1.6	1.3	1.9	2.0	5.6
	Q4	5.1	5.4	3.6	3.9	1.4	1.4	1.7	1.7	5.5
2003	Q1	5.9	6.0	3.9	4.1	1.9	1.8	1.9	1.7	5.5
	Q2	5.4	5.5	3.9	4.1	1.4	1.3	1.9	1.8	5.4
	Q3	5.5	5.6	3.9	4.2	1.5	1.3	1.9	1.8	5.3
	Q4	5.6	5.6	4.1	4.2	1.5	1.4	1.9	1.9	5.3
<b>TWO-QUARTER<sup>3</sup></b>										
2000	Q2	7.2	7.2	4.0	4.0	2.9	2.9	3.6	3.6	-0.1
	Q4	3.5	3.5	1.6	1.6	1.8	1.8	3.3	3.3	0.0
2001	Q2	3.5	3.5	0.8	0.8	2.7	2.7	3.5	3.5	0.5
	Q4	0.9	1.2	0.0	0.1	1.0	1.1	0.2	0.2	1.1
2002	Q2	5.5	5.4	3.7	3.9	1.8	1.4	2.3	2.7	0.1
	Q4	5.2	5.0	3.6	3.5	1.5	1.4	1.8	1.9	-0.2
2003	Q2	5.6	5.7	3.9	4.1	1.7	1.5	1.9	1.8	-0.2
	Q4	5.6	5.6	4.0	4.2	1.5	1.4	1.9	1.8	-0.1
<b>FOUR-QUARTER<sup>4</sup></b>										
1999	Q4	6.0	6.0	4.4	4.4	1.6	1.6	2.6	2.6	-0.3
2000	Q4	5.3	5.3	2.8	2.8	2.4	2.4	3.4	3.4	-0.1
2001	Q4	2.2	2.3	0.4	0.5	1.8	1.9	1.9	1.6	1.6
2002	Q4	5.4	5.2	3.7	3.7	1.7	1.4	2.0	2.3	-0.1
2003	Q4	5.6	5.7	4.0	4.2	1.6	1.4	1.9	1.8	-0.3

1. For all urban consumers.

2. Level, except as noted.

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

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

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

May 1, 2002

Item	Units <sup>1</sup>	-- Projected --									
		1995	1996	1997	1998	1999	2000	2001	2002	2003	
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	7400.5	7813.2	8318.4	8781.5	9268.6	9872.9	10208.1	10605.6	11178.8	
Real GDP	Bill. Ch. \$	7543.8	7813.2	8159.5	8508.9	8856.5	9224.0	9333.8	9577.8	9945.7	
Real GDP	% change	2.2	4.1	4.3	4.8	4.4	2.8	0.5	3.7	4.2	
Gross domestic purchases		1.7	4.3	5.0	5.8	5.3	3.5	0.4	4.6	4.6	
Final sales		2.9	3.9	3.9	4.7	4.3	3.4	2.0	2.3	3.7	
Priv. dom. final purchases		3.2	4.4	5.1	6.3	5.4	4.7	1.2	3.0	4.3	
Personal cons. expenditures		2.8	3.1	4.1	5.0	5.2	4.2	3.1	3.1	3.4	
Durables		3.7	5.0	8.8	12.7	11.3	5.3	13.6	-0.5	5.6	
Nondurables		2.5	3.2	2.5	5.0	5.0	3.6	1.4	3.7	2.9	
Services		2.7	2.7	3.9	3.6	4.0	4.3	1.9	3.5	3.2	
Business fixed investment		7.5	12.1	11.8	12.3	7.4	8.9	-9.4	1.9	12.0	
Equipment & Software		8.9	11.8	13.7	14.9	11.2	8.3	-8.5	4.8	14.1	
Nonres. structures		3.3	12.8	6.5	4.9	-3.6	10.8	-11.8	-6.7	5.3	
Residential structures		-1.5	5.6	3.5	10.0	3.4	-1.2	2.9	4.6	-1.2	
Exports		9.7	9.8	8.5	2.3	4.5	7.0	-10.9	6.5	7.6	
Imports		5.0	11.2	14.3	10.8	11.5	11.3	-8.5	12.7	10.3	
Gov't. cons. & investment		-0.8	2.7	2.4	2.7	4.0	1.2	5.1	4.0	3.8	
Federal		-5.3	2.0	0.1	0.6	4.5	-1.4	4.9	6.5	3.5	
Defense		-4.7	0.8	-1.4	-0.8	4.7	-2.2	5.5	6.8	3.4	
State & local		2.1	3.0	3.7	3.8	3.7	2.5	5.2	2.6	4.0	
Change in bus. inventories	Bill. Ch. \$	--	--	63.8	76.7	62.1	50.6	-61.7	4.6	77.4	
Nonfarm		41.9	21.2	60.6	75.0	63.5	52.3	-59.0	5.5	76.5	
Net exports		-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-408.7	-494.6	-588.9	
Nominal GDP	% change	4.3	6.0	6.2	6.0	6.0	5.3	2.3	5.2	5.7	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	117.2	119.6	122.7	125.8	128.9	131.8	132.2	132.0	134.7	
Unemployment rate	%	5.6	5.4	4.9	4.5	4.2	4.0	4.8	5.8	5.5	
Industrial prod. index	% change	3.5	5.8	7.4	3.5	4.3	2.6	-5.9	3.8	4.4	
Capacity util. rate - mfg.	%	82.6	81.6	82.7	81.4	80.6	80.7	75.1	74.4	76.9	
Housing starts	Millions	1.35	1.48	1.47	1.62	1.64	1.57	1.60	1.69	1.68	
Light motor vehicle sales		14.77	15.05	15.06	15.43	16.78	17.25	17.02	16.59	17.09	
North Amer. produced		12.87	13.34	13.12	13.41	14.30	14.39	13.94	13.26	13.61	
Other		1.90	1.70	1.93	2.02	2.48	2.86	3.08	3.33	3.48	
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	7420.9	7831.2	8325.4	8778.1	9261.8	9860.8	10202.8	10620.7	11181.2	
Nominal GNP	% change	4.4	5.9	6.0	5.8	6.0	5.4	2.4	5.2	5.4	
Nominal personal income		4.3	5.9	6.3	6.7	4.8	7.3	2.9	4.9	5.2	
Real disposable income		1.7	2.6	3.8	5.0	2.1	4.0	2.1	5.6	3.0	
Personal saving rate	%	5.6	4.8	4.2	4.7	2.4	1.0	1.6	2.8	2.5	
Corp. profits, IVA & CCAdj.	% change	11.3	11.4	9.9	-9.6	11.3	-1.2	-3.0	7.2	5.6	
Profit share of GNP	%	9.0	9.6	10.0	8.9	8.9	8.9	7.5	8.3	8.2	
Excluding FR Banks		8.7	9.4	9.7	8.6	8.6	8.6	7.2	8.0	7.9	
Federal surpl./deficit	Bill. \$	-192.0	-136.8	-53.3	43.8	119.2	218.6	119.0	-64.0	39.7	
State & local surpl./def.		15.3	21.4	31.0	40.7	42.1	32.8	17.6	22.2	33.7	
Ex. social ins. funds		11.4	18.7	29.9	40.0	41.7	33.1	17.7	22.5	34.0	
Gross natl. saving rate	%	16.9	17.2	18.0	18.8	18.4	18.1	17.1	16.9	17.4	
Net natl. saving rate		5.1	5.7	6.7	7.5	6.8	6.3	4.4	4.2	4.7	
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	2.1	1.9	1.8	1.1	1.6	2.4	1.9	1.4	1.4	
Gross Domestic Purchases chn.-wt. price index		2.1	1.9	1.4	0.8	1.9	2.5	1.1	1.5	1.5	
PCE chn.-wt. price index		2.1	2.3	1.5	1.1	2.0	2.6	1.3	1.5	1.3	
Ex. food and energy		2.3	1.8	1.7	1.6	1.5	1.9	1.6	1.2	1.3	
CPI		2.6	3.2	1.9	1.5	2.6	3.4	1.9	2.3	1.8	
Ex. food and energy		3.1	2.6	2.2	2.3	2.1	2.5	2.7	2.2	2.0	
ECI, hourly compensation <sup>2</sup>		2.6	3.1	3.4	3.5	3.4	4.4	4.2	3.5	3.5	
Nonfarm business sector											
Output per hour		1.1	2.3	2.3	2.9	2.9	2.6	2.0	2.4	2.4	
Compensation per Hour		2.6	3.2	3.5	5.3	4.5	7.8	3.9	3.0	3.4	
Unit labor cost		1.5	0.9	1.1	2.3	1.5	5.0	1.8	0.4	1.0	

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

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

May 1, 2002

Item	Units	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	9093.1	9161.4	9297.4	9522.5	9668.7	9857.6	9937.5	10027.9	10141.7	10202.6
Real GDP	Bill. Ch. \$	8733.5	8771.2	8871.5	9049.9	9102.5	9229.4	9260.1	9303.9	9334.5	9341.7
Real GDP	% change	3.1	1.7	4.7	8.3	2.3	5.7	1.3	1.9	1.3	0.3
Gross domestic purchases		4.8	2.9	5.3	8.2	3.5	6.3	2.0	2.2	0.7	0.4
Final sales		3.0	3.9	4.2	6.1	4.8	3.9	2.3	2.4	4.0	0.7
Priv. dom. final purchases		5.3	5.9	4.9	5.5	7.5	4.6	3.9	2.6	2.8	-0.0
Personal cons. expenditures		4.9	5.7	4.4	5.7	5.9	3.6	4.3	3.1	3.0	2.5
Durables		7.1	15.7	9.0	13.7	19.0	-2.5	8.2	-2.1	10.6	7.0
Nondurables		5.6	4.3	2.6	7.6	5.1	4.7	4.2	0.6	2.4	0.3
Services		4.1	4.5	4.3	3.2	3.7	4.4	3.5	5.6	1.8	2.8
Business fixed investment		6.0	7.7	10.2	5.8	15.8	12.2	7.1	1.0	-0.2	-14.6
Equipment & Software		10.5	11.9	16.2	6.4	18.1	12.4	4.7	-1.1	-4.1	-15.4
Nonres. structures		-6.5	-4.3	-7.0	4.0	8.8	11.8	15.2	7.6	12.3	-12.2
Residential structures		10.3	3.0	-0.8	1.6	8.5	-0.8	-10.4	-1.1	8.5	5.9
Exports		-6.8	4.2	9.7	12.1	9.0	13.5	10.6	-4.0	-1.2	-11.9
Imports		8.4	13.3	13.8	10.5	17.1	16.4	13.0	-0.5	-5.0	-8.4
Gov't. cons. & investment		2.0	1.2	4.4	8.5	-1.1	4.4	-1.8	3.3	5.3	5.0
Federal		-3.7	0.8	7.2	14.5	-12.8	15.9	-10.4	4.6	3.2	1.8
Defense		-3.5	-3.5	12.8	14.3	-20.0	15.4	-10.4	10.5	7.5	2.3
State & local		5.2	1.4	2.9	5.4	5.6	-1.1	3.0	2.7	6.4	6.6
Change in bus. inventories	Bill. Ch. \$	83.4	32.7	39.6	92.7	28.9	78.9	51.7	42.8	-27.1	-38.3
Nonfarm		78.7	34.2	52.2	88.7	37.8	75.1	56.6	39.7	-27.3	-35.8
Net exports		-283.0	-313.4	-333.3	-337.8	-371.1	-392.8	-411.2	-421.1	-404.5	-406.7
Nominal GDP	% change	4.9	3.0	6.1	10.0	6.3	8.0	3.3	3.7	4.6	2.4
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	127.8	128.5	129.2	130.1	131.0	131.9	131.9	132.3	132.6	132.5
Unemployment rate	%	4.3	4.3	4.2	4.1	4.0	4.0	4.1	4.0	4.2	4.5
Industrial prod. index	% change	3.6	3.3	4.7	5.8	5.8	7.0	0.6	-2.6	-6.1	-5.9
Capacity util. rate - mfg.	%	80.5	80.4	80.5	81.0	81.2	81.6	80.7	79.1	77.2	75.6
Housing starts	Millions	1.71	1.57	1.65	1.66	1.67	1.59	1.51	1.54	1.63	1.62
Light motor vehicle sales		16.17	16.76	17.06	17.11	18.13	17.27	17.30	16.32	16.89	16.65
North Amer. produced		13.87	14.32	14.58	14.41	15.25	14.40	14.47	13.45	13.96	13.62
Other		2.30	2.44	2.47	2.70	2.87	2.87	2.83	2.87	2.93	3.03
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	9089.5	9157.0	9283.8	9517.0	9650.7	9841.0	9919.4	10032.1	10131.3	10190.9
Nominal GNP	% change	5.2	3.0	5.7	10.4	5.7	8.1	3.2	4.6	4.0	2.4
Nominal personal income		3.0	4.7	5.2	6.3	8.6	8.5	5.5	6.8	5.8	3.5
Real disposable income		1.4	2.0	2.1	3.0	3.3	5.8	2.6	4.2	2.7	2.4
Personal saving rate	%	3.5	2.7	2.1	1.4	0.8	1.3	0.8	1.0	1.1	1.1
Corp. profits, IVA & CCAdj.	% change	36.1	-10.2	-4.9	31.9	6.1	10.7	1.0	-19.6	-24.6	-14.3
Profit share of GNP	%	9.2	8.8	8.6	9.0	9.0	9.1	9.0	8.4	7.8	7.5
Excluding FR Banks		8.9	8.6	8.3	8.7	8.7	8.8	8.7	8.1	7.5	7.2
Federal surpl./deficit	Bill. \$	85.2	116.5	132.0	143.1	212.8	209.1	229.9	222.5	205.3	186.7
State & local surpl./def.		48.9	36.2	38.3	44.9	33.2	34.7	34.8	28.6	22.3	21.3
Ex. social ins. funds		48.4	35.8	38.0	44.7	33.3	34.9	35.1	29.1	22.6	21.4
Gross natl. saving rate	%	19.0	18.5	18.3	18.0	18.0	18.3	18.2	17.9	17.3	17.2
Net natl. saving rate		7.6	6.9	6.4	6.3	6.3	6.6	6.4	6.0	5.1	4.6
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	1.7	1.4	1.4	1.8	3.8	2.1	1.9	1.8	3.3	2.1
Gross Domestic Purchases chn.-wt. price index		1.5	2.0	2.0	2.2	4.2	1.9	2.3	1.7	2.7	1.3
PCE chn.-wt. price index		1.3	2.0	2.2	2.4	4.0	2.1	2.4	2.0	3.2	1.3
Ex. food and energy		1.4	1.2	1.5	1.8	2.9	1.7	1.6	1.5	2.6	0.7
CPI		1.5	2.9	2.7	3.4	3.9	3.3	3.5	2.8	4.0	3.2
Ex. food and energy		1.8	1.8	1.8	2.7	2.3	2.7	2.7	2.4	3.1	2.4
ECI, hourly compensation <sup>1</sup>		1.1	4.6	3.7	4.3	5.6	4.7	4.1	3.5	4.6	4.0
Nonfarm business sector		2.3	-1.3	3.2	7.8	0.0	6.7	1.6	2.3	-0.1	2.1
Output per hour		3.6	4.2	5.5	4.7	6.9	8.1	7.4	8.9	4.9	4.7
Compensation per hour		1.3	5.6	2.2	-2.9	6.9	1.3	5.7	6.4	5.0	2.6
Unit labor cost											

1. Private-industry workers.

Item	Units	Projected									
		2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	10224.9	10263.3	10432.0	10537.4	10655.6	10796.7	10954.1	11101.1	11252.8	11407.3
Real GDP	Bill. Ch. \$	9310.4	9348.6	9482.2	9528.7	9604.4	9696.1	9794.4	9893.9	9995.8	10098.9
Real GDP	% change	-1.3	1.7	5.8	2.0	3.2	3.9	4.1	4.1	4.2	4.2
Gross domestic purchases		-1.0	1.7	6.8	3.4	3.9	4.2	4.9	4.8	4.6	4.2
Final sales		-0.5	3.8	2.6	0.8	2.1	3.5	3.3	3.5	3.7	4.2
Priv. dom. final purchases		-0.4	2.6	3.0	2.5	2.7	3.8	4.1	4.3	4.3	4.3
Personal cons. expenditures		1.0	6.1	3.5	2.8	2.8	3.1	3.4	3.4	3.4	3.4
Durables		0.9	39.4	-8.0	1.2	2.5	3.0	5.9	5.5	5.5	5.6
Nondurables		0.6	2.5	8.4	1.3	2.3	2.8	2.9	2.9	2.9	2.9
Services		1.2	2.0	3.8	3.9	3.1	3.3	3.2	3.2	3.2	3.2
Business fixed investment		-8.5	-13.8	-5.2	1.8	2.4	9.0	10.6	12.1	12.1	13.0
Equipment & Software		-8.8	-5.3	-0.5	4.5	3.9	11.8	13.3	14.5	14.1	14.6
Nonres. structures		-7.5	-33.6	-17.8	-6.1	-2.3	0.5	2.6	4.4	6.1	8.0
Residential structures		2.4	-4.6	16.5	-0.4	1.5	1.7	-0.7	-0.3	-1.0	-2.6
Exports		-18.8	-10.9	7.0	5.3	5.3	8.2	4.7	7.4	8.1	10.5
Imports		-13.0	-7.5	14.9	16.3	10.2	9.5	10.3	11.6	10.4	8.9
Gov't. cons. & investment		0.3	10.2	7.0	1.1	3.6	4.2	3.8	3.8	3.9	3.7
Federal		3.6	11.4	12.4	3.3	5.1	5.6	4.2	3.5	3.4	2.7
Defense		3.2	9.0	19.6	1.1	3.5	4.2	4.0	3.6	3.5	2.4
State & local		-1.3	9.6	4.3	-0.0	2.9	3.5	3.6	4.0	4.1	4.3
Change in bus. inventories	Bill. Ch. \$	-61.9	-119.3	-36.2	-4.5	25.0	34.2	57.0	74.7	88.1	89.9
Nonfarm		-59.0	-113.8	-31.0	-5.1	24.3	33.6	56.4	73.7	87.1	88.7
Net exports		-411.0	-412.7	-446.0	-489.7	-513.8	-528.9	-556.4	-582.8	-603.7	-612.7
Nominal GDP	% change	0.9	1.5	6.7	4.1	4.6	5.4	6.0	5.5	5.6	5.6
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	132.4	131.5	131.2	131.5	132.2	133.0	133.7	134.4	135.0	135.6
Unemployment rate	%	4.8	5.6	5.6	5.9	5.9	5.7	5.6	5.5	5.5	5.4
Industrial prod. index	% change	-4.7	-6.7	2.5	4.7	3.8	4.2	4.2	4.4	4.6	4.6
Capacity util. rate - mfg.	%	74.5	73.1	73.6	74.2	74.7	75.3	75.9	76.5	77.2	77.9
Housing starts	Millions	1.60	1.58	1.71	1.65	1.68	1.70	1.70	1.68	1.67	1.67
Light motor vehicle sales		16.12	18.41	16.27	16.60	16.60	16.90	16.95	17.05	17.11	17.25
North Amer. produced		13.15	15.02	12.94	13.30	13.30	13.51	13.53	13.58	13.62	13.70
Other		2.97	3.39	3.33	3.30	3.30	3.39	3.42	3.47	3.49	3.55
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	10213.8	10275.3	10442.7	10554.5	10673.9	10811.6	10966.9	11109.9	11251.8	11396.3
Nominal GNP	% change	0.9	2.4	6.7	4.4	4.6	5.3	5.9	5.3	5.2	5.2
Nominal personal income		2.7	-0.2	5.2	4.6	4.9	4.9	5.0	5.3	5.3	5.3
Real disposable income		12.3	-8.1	13.9	2.1	3.3	3.4	1.0	3.6	3.6	3.6
Personal saving rate	%	3.8	0.4	2.8	2.7	2.8	2.9	2.4	2.5	2.5	2.6
Corp. profits, IVA & CCAdj.	% change	-29.2	93.4	24.5	7.5	-4.2	2.9	5.3	6.2	5.1	5.6
Profit share of GNP	%	6.8	8.0	8.3	8.4	8.2	8.1	8.1	8.2	8.2	8.2
Excluding FR Banks		6.6	7.8	8.1	7.9	7.9	7.9	7.9	7.9	7.9	7.9
Federal surpl./deficit	Bill. \$	-13.6	97.4	-59.8	-68.7	-58.7	-68.7	21.3	36.5	50.3	50.8
State & local surpl./def.		1.9	24.8	16.7	18.7	21.3	32.2	36.9	34.1	32.6	31.3
Ex. social ins. funds		2.0	24.9	16.9	19.0	21.6	32.5	37.2	34.4	32.9	31.6
Gross natl. saving rate	%	17.2	16.6	16.9	16.7	16.9	16.9	17.2	17.4	17.5	17.6
Net natl. saving rate		3.9	3.9	4.3	4.1	4.2	4.2	4.5	4.7	4.8	4.8
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	2.3	-0.1	0.8	2.1	1.3	1.4	1.8	1.3	1.3	1.4
Gross Domestic Purchases chn.-wt. price index		-0.1	0.5	0.7	2.6	1.4	1.3	1.7	1.4	1.4	1.4
PCE chn.-wt. price index		-0.2	0.8	0.6	2.7	1.4	1.2	1.3	1.3	1.3	1.3
Ex. food and energy		0.5	2.7	0.8	1.3	1.4	1.4	1.4	1.3	1.3	1.3
CPI		0.7	-0.2	1.4	4.0	2.0	1.7	1.7	1.8	1.8	1.9
Ex. food and energy		2.6	2.6	2.3	2.3	2.3	2.1	2.1	2.0	2.0	2.0
ECI, hourly compensation <sup>1</sup>		3.7	4.2	3.6	3.5	3.5	3.4	3.5	3.5	3.5	3.5
Nonfarm business sector		1.1	5.5	8.5	0.5	0.0	1.0	2.2	2.3	2.4	2.5
Output per hour		3.7	2.2	2.6	2.9	3.1	3.3	3.5	3.4	3.4	3.4
Compensation per hour		2.6	-2.7	-5.9	2.5	3.1	2.3	1.3	1.1	0.9	0.8
Unit labor cost											

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

May 1, 2002

Item	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	99Q4/ 98Q4	00Q4/ 99Q4	01Q4/ 00Q4
Real GDP												
Gross dom. purchases	4.7 5.4	8.3 8.4	2.3 3.6	5.7 6.5	1.3 2.0	1.9 2.3	1.3 0.7	0.3 0.4	-1.3 -1.1	4.4 5.4	2.8 3.6	0.5 0.5
Final sales												
Priv. dom. final purchases	4.2 4.2	6.2 4.8	4.7 6.2	3.9 4.0	2.3 3.3	2.4 2.2	3.9 2.4	0.7 -0.0	-0.5 -0.3	4.2 4.5	3.3 3.9	2.0 1.1
Personal cons. expenditures												
Durables	3.0 0.7	4.0 1.1	3.9 1.5	2.5 -0.2	2.9 0.7	2.1 -0.2	2.1 0.8	1.7 0.6	0.7 0.1	3.5 0.9	2.9 0.4	2.1 1.1
Nondurables	0.5 0.5	1.5 1.5	1.0 1.0	1.0 0.8	0.8 0.1	0.1 0.5	0.5 0.1	0.1 0.1	0.1 0.1	1.0 1.0	0.7 0.7	0.3 0.3
Services	1.7 1.7	1.4 1.4	1.5 1.5	1.8 1.4	1.4 2.2	1.4 0.7	1.1 1.1	0.5 0.5	1.6 1.7	1.6 1.7	1.7 0.8	
Business fixed investment												
Equipment & Software	1.3 1.5	0.8 0.6	1.9 1.6	1.5 1.2	0.9 0.5	0.1 -0.1	-0.0 -0.4	-2.0 -1.6	-1.1 -0.8	0.9 1.0	1.1 0.8	-1.2 -0.8
Nonres. structures	-0.2 -0.2	0.1 0.1	0.3 0.3	0.4 0.5	0.5 0.2	0.2 0.4	0.4 -0.4	-0.4 -0.3	-0.3 -0.1	-0.1 0.3	0.3 0.3	-0.4 -0.4
Residential structures	-0.0 -0.0	0.1 0.1	0.4 0.4	-0.0 -0.0	-0.5 -0.5	-0.1 -0.1	0.4 0.4	0.3 0.3	0.1 0.1	0.1 0.1	-0.1 -0.1	0.1 0.1
Net exports												
Exports	-0.8 1.0	-0.2 1.3	-1.3 1.0	-0.8 1.4	-0.7 1.1	-0.4 -0.5	0.6 -0.1	-0.1 -1.4	-0.3 -2.1	-1.0 0.5	-0.8 0.8	0.0 -1.2
Imports	-1.8 -1.8	-1.4 -1.4	-2.3 -2.3	-2.3 -1.8	-1.8 0.1	0.1 0.8	0.8 1.3	1.3 1.9	-1.5 -1.5	-1.6 -1.6	1.2 1.2	
Government cons. & invest.												
Federal	0.8 0.4	1.5 0.9	-0.2 -0.8	0.8 0.9	-0.3 -0.7	0.6 0.3	0.9 0.2	0.9 0.1	0.1 0.2	0.7 0.2	0.2 0.3	0.9 0.3
Defense	0.5 -0.1	0.6 0.3	-0.9 0.0	0.6 0.3	-0.4 -0.2	0.4 -0.1	0.3 -0.1	0.1 0.0	0.1 0.1	0.2 0.1	-0.1 -0.1	0.2 0.1
Nondefense	0.3 0.3	0.7 0.7	0.6 0.6	-0.1 -0.1	0.3 0.3	0.3 0.7	0.7 0.8	0.8 -0.2	0.4 0.4	0.3 0.3	0.0 0.6	0.1 0.6
State and local												
Change in bus. inventories												
Nonfarm	0.4 0.9	2.2 1.5	-2.3 -2.0	1.8 1.5	-1.0 -0.8	-0.5 -0.7	-2.6 -2.6	-0.4 -0.3	-0.8 -0.8	0.2 0.1	-0.5 -0.5	-1.5 -1.5
Farm	-0.4 -0.4	0.6 0.6	-0.3 -0.3	0.3 0.3	-0.2 0.2	0.2 0.0	0.0 -0.1	-0.1 -0.0	0.0 0.0	-0.0 -0.0	-0.0 -0.0	

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

May 1, 2002

Item	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	01Q4/ 00Q4	02Q4/ 01Q4	03Q4/ 02Q4
Real GDP												
Gross dom. purchases	1.7 1.8	5.8 7.0	2.0 3.5	3.2 4.0	3.9 4.4	4.1 5.0	4.1 5.0	4.2 4.8	4.2 4.4	0.5 0.5	3.7 4.7	4.2 4.8
Final sales												
Priv. dom. final purchases	3.8 2.2	2.7 2.6	0.9 2.1	2.1 2.3	3.5 3.2	3.3 3.5	3.5 3.6	3.7 3.6	4.1 3.7	2.0 1.1	2.3 2.6	3.7 3.6
Personal cons. expenditures												
Durables	4.1 2.8	2.5 -0.7	1.9 0.1	1.9 0.2	2.2 0.2	2.4 0.5	2.3 0.4	2.3 0.4	2.3 0.4	2.1 1.1	2.1 -0.0	2.4 0.5
Nondurables	0.5 0.8	1.7 1.6	0.3 1.6	0.5 1.3	0.6 1.4	0.6 1.3	0.6 1.3	0.6 1.3	0.6 1.3	0.3 0.8	0.7 1.5	0.6 1.3
Services												
Business fixed investment												
Equipment & Software	-1.8 -0.5	-0.6 -0.0	0.2 0.4	0.3 0.3	1.0 0.9	1.1 1.1	1.3 1.2	1.3 1.2	1.4 1.2	-1.2 -0.8	0.2 0.4	1.3 1.2
Nonres. structures	-1.3 -0.2	-0.6 0.7	-0.2 -0.0	-0.1 0.1	0.0 0.1	0.1 0.1	0.1 0.2	0.2 0.2	0.2 0.2	-0.4 -0.4	-0.2 -0.2	0.1 0.1
Residential structures												
Net exports												
Exports	-0.1 -1.1	-1.1 0.7	-1.5 0.5	-0.8 0.5	-0.5 0.8	-0.9 0.5	-0.9 0.7	-0.7 0.8	-0.7 1.0	-0.2 -1.2	0.0 0.6	-1.0 0.7
Imports	1.0 -1.8		-2.0 -1.3		-1.3 -1.3	-1.4 -1.4	-1.6 -1.6	-1.4 -1.4	-1.2 -1.2	0.1 1.2	-1.6 -1.6	-1.4 -1.4
Government cons. & invest.												
Federal	1.8 0.7	1.3 0.7	0.2 0.2	0.7 0.3	0.8 0.4	0.7 0.3	0.7 0.2	0.7 0.2	0.7 0.2	0.9 0.2	0.7 0.4	0.7 0.2
Defense	0.3 0.3	0.7 0.0	0.0 0.2	0.1 0.2	0.2 0.2	0.2 0.1	0.2 0.1	0.1 0.1	0.1 0.1	0.2 0.1	0.3 0.1	0.1 0.1
Nondefense												
State and local	1.1 1.1	0.5 0.5	0.0 0.0	0.4 0.4	0.4 0.4	0.4 0.5	0.5 0.5	0.5 0.5	0.5 0.6	0.6 0.3	0.3 0.5	
Change in bus. inventories												
Nonfarm	-2.2 -2.1	3.1 3.2	1.1 1.0	1.1 1.1	0.3 0.3	0.8 0.8	0.6 0.6	0.5 0.5	0.1 0.1	-1.5 -1.5	1.4 1.4	0.5 0.5
Farm	-0.1 -0.1	-0.0 -0.0	0.2 0.2	-0.0 -0.0	-0.0 -0.0	-0.0 0.0	-0.0 0.0	-0.0 0.0	-0.0 0.0	-0.0 0.1	0.1 0.0	0.0 0.0

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

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

Item	Fiscal year <sup>1</sup>				2001				2002				2003			
	2000 <sup>a</sup>	2001 <sup>a</sup>	2002	2003	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>2</sup>	2025	1991	1894	2021	460	660	409	466	413	552	462	442	447	635	496	482
Outlays <sup>2</sup>	1789	1864	2013	2098	482	467	451	503	509	505	495	536	526	522	515	554
Surplus/deficit <sup>2</sup>	236	127	-119	-77	-22	194	-42	-37	-97	47	-33	-93	-79	114	-19	-72
On-budget	87	-33	-277	-255	-88	119	-51	-81	-127	-21	-48	-148	-107	36	-37	-134
Off-budget	150	161	157	178	65	75	10	44	30	68	15	54	27	78	18	61
Surplus excluding deposit insurance	233	126	-120	-80	-23	193	-42	-37	-96	46	-33	-94	-80	113	-19	-73
<b>Means of financing</b>																
Borrowing	-223	-90	147	105	24	-157	69	60	51	13	23	88	82	-75	10	58
Cash decrease	4	8	7	-8	-7	-15	-1	-8	38	-42	20	12	-5	-30	15	15
Other <sup>3</sup>	-18	-45	-35	-20	6	-21	-26	-14	8	-17	-10	-6	2	-9	-6	-0
Cash operating balance, end of period	53	44	37	45	28	44	44	52	14	57	37	25	30	60	45	30
<b>NIPA federal sector</b>																
Receipts	2012	2041	1970	2101	2087	2091	1907	2027	1925	1954	1975	2002	2102	2133	2167	2200
Expenditures	1813	1891	1994	2091	1882	1905	1921	1929	1992	2023	2034	2070	2081	2097	2117	2149
Consumption expenditures	492	506	550	590	508	510	514	525	552	558	566	574	590	596	601	606
Defense	322	337	367	391	338	340	343	348	371	373	376	380	390	394	398	401
Nondefense	170	170	183	200	169	171	171	177	181	185	189	194	200	202	203	205
Other spending	1321	1384	1444	1501	1375	1395	1407	1404	1440	1464	1468	1496	1491	1501	1515	1544
Current account surplus	199	150	-24	10	205	187	-14	97	-67	-69	-59	-69	21	36	50	51
Gross investment	96	100	111	120	98	100	102	107	109	113	114	117	119	121	122	124
Current and capital account surplus	102	50	-135	-110	108	87	-116	-9	-176	-181	-173	-185	-97	-84	-72	-73
<b>Fiscal indicators<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-5	-5	-136	-136	34	38	-127	-3	-184	-182	-176	-199	-121	-115	-110	-119
Change in HEB, percent of potential GDP	-.9	-0	1	-1	0	-0	2	-1	2	-0	-.1	.2	-.7	-.1	-.1	.1
Fiscal impetus (FI) percent, calendar year	2	8	22	10	3	3	9	-4	14	4	2	5	2	2	2	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 February 2002 baseline surplus estimates are -\$9 billion in FY 2002 and \$51 billion in FY 2003. CBO's April 2002 baseline surplus estimates, which includes the March 2002 stimulus bill, are -\$46 billion in FY 2002 and -\$40 billion in FY 2003. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus and the Postal Service surplus are excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.

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

4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1996) dollars, scaled by real federal consumption plus investment. For FI and the change in HEB, negative values indicate aggregate demand restraint.

a--Actual

Strictly Confidential (FR)  
Class II FOMC

Change in Debt of the Domestic Nonfinancial Sectors  
(Percent)

May 1, 2002

Period <sup>1</sup>	Total	Federal government	Total	Nonfederal					Memo: Nominal GDP	
				Households			Business	State and local governments		
				Total	Home mortgages	Consumer credit				
<i>Year</i>										
1996	5.4	4.0	5.8	7.0	6.8	8.1	6.2	-0.6	6.0	
1997	5.6	0.6	7.3	6.4	6.7	4.7	9.0	5.3	6.2	
1998	6.9	-1.4	9.6	8.4	9.2	5.9	11.6	7.2	6.0	
1999	6.8	-1.9	9.3	8.6	9.3	7.4	11.3	4.4	6.0	
2000	5.0	-8.0	8.5	8.5	8.4	9.6	9.8	2.2	5.3	
2001	6.0	-0.2	7.4	8.6	9.9	6.0	6.0	8.3	2.3	
2002	5.7	5.2	5.8	7.1	8.5	3.8	4.6	4.2	5.2	
2003	5.6	2.1	6.3	6.9	7.9	4.3	6.2	3.7	5.7	
<i>Quarter</i>										
2001:1	5.4	-0.1	6.7	7.6	7.8	9.0	5.4	8.1	4.6	
2	5.3	-7.6	8.2	9.2	11.3	4.6	7.0	8.3	2.4	
3	6.9	7.7	6.7	8.5	9.9	1.5	5.5	3.2	0.9	
4	6.0	-0.5	7.4	8.1	9.2	8.3	5.5	12.8	1.5	
2002:1	5.1	3.1	5.5	8.0	9.6	4.0	2.9	4.7	6.7	
2	6.4	12.5	5.1	6.8	8.1	3.7	4.0	1.0	4.1	
3	5.2	2.1	5.8	6.4	7.6	3.6	5.4	4.5	4.6	
4	5.6	2.7	6.2	6.6	7.8	3.7	5.8	6.4	5.4	
2003:1	6.1	6.4	6.1	6.6	7.7	3.9	5.9	3.7	6.0	
2	5.4	2.1	6.1	6.6	7.7	4.1	6.0	3.6	5.5	
3	5.2	0.6	6.2	6.8	7.7	4.2	6.0	3.6	5.6	
4	5.1	-0.7	6.3	6.9	7.7	4.4	6.1	3.6	5.6	

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2001: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

Category	Seasonally adjusted annual rates													
	Calendar year				2001		2002				2003			
	2000	2001	2002	2003	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	711.9	1047.3	1127.7	1141.4	1176.6	1136.3	1010.4	1284.0	1061.1	1155.5	1257.1	1131.3	1096.7	1080.4
2 Net equity issuance	-159.7	-55.7	23.3	-2.5	-120.8	-5.1	20.2	31.0	25.0	17.0	0.0	0.0	-5.0	-5.0
3 Net debt issuance	871.6	1103.0	1104.4	1143.9	1297.4	1141.4	990.2	1253.0	1036.1	1138.5	1257.1	1131.3	1101.7	1085.4
<i>Borrowing sectors</i>														
Nonfinancial business														
4 Financing gap <sup>1</sup>	264.2	172.4	97.3	197.7	173.1	51.8	64.1	80.6	112.9	131.4	163.0	187.4	209.0	231.3
5 Net equity issuance	-159.7	-55.7	23.3	-2.5	-120.8	-5.1	20.2	31.0	25.0	17.0	0.0	0.0	-5.0	-5.0
6 Credit market borrowing	585.7	391.5	320.6	446.2	369.0	377.5	202.3	282.5	383.0	414.5	430.7	444.7	449.7	459.7
Households														
7 Net borrowing <sup>2</sup>	554.6	610.3	550.8	569.8	629.7	609.9	619.1	532.0	514.3	537.8	544.5	558.4	577.8	598.5
8 Home mortgages	382.3	490.7	462.0	467.0	513.4	490.8	520.2	448.2	429.2	450.2	452.2	462.2	470.2	483.2
9 Consumer credit	139.0	95.2	64.5	74.5	24.4	137.0	68.0	63.0	62.0	65.0	69.0	73.0	76.0	80.0
10 Debt/DPI (percent) <sup>3</sup>	97.1	100.0	102.2	104.9	98.9	102.9	101.4	102.1	102.6	103.0	104.1	104.6	105.1	105.6
State and local governments														
11 Net borrowing	27.2	106.8	58.3	52.8	43.0	171.5	64.7	13.8	63.8	90.8	52.8	52.8	52.8	
12 Current surplus <sup>4</sup>	191.9	190.9	204.1	225.3	181.1	199.8	195.1	199.4	204.4	217.7	224.8	224.4	225.4	226.6
Federal government														
13 Net borrowing	-295.9	-5.6	174.8	75.1	255.7	-17.6	104.1	424.7	75.0	95.4	229.1	75.4	21.4	-25.6
14 Net borrowing (quarterly, n.s.a.)	-295.9	-5.6	174.8	75.1	68.6	59.5	50.8	12.8	23.5	87.8	82.0	-74.5	10.1	57.5
15 Unified deficit (quarterly, n.s.a.)	-254.8	-92.3	175.6	56.7	41.9	37.1	96.6	-47.1	32.9	93.2	79.1	-113.7	18.8	72.5
Depository institutions														
16 Funds supplied	445.3	280.5	315.0	376.6	288.1	406.4	316.4	267.8	328.6	347.4	385.8	353.7	378.1	388.8
Memo (percentage of GDP)														
17 Domestic nonfinancial debt <sup>5</sup>	181.0	184.8	188.3	188.7	185.6	187.8	187.4	188.1	188.7	188.8	188.8	189.0	188.9	188.8
18 Domestic nonfinancial borrowing	8.8	10.8	10.4	10.2	12.7	11.1	9.5	11.9	9.7	10.5	11.5	10.2	9.8	9.5
19 Federal government <sup>6</sup>	-3.0	-0.1	1.6	0.7	2.5	-0.2	1.0	4.0	0.7	0.9	2.1	0.7	0.2	-0.2
20 Nonfederal	11.8	10.9	8.8	9.6	10.2	11.3	8.5	7.9	9.0	9.7	9.4	9.5	9.6	9.7

Note. Data after 2001: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.

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

Evidence that economic activity abroad has reached a turning point has become increasingly clear in recent months. Export-weighted foreign real output now appears to have rebounded in the first quarter of this year, and some central banks have already begun to tighten monetary policy. However, there are significant differences in the strength and timing of the recovery across regions. Leading the pack are the technology-dependent developing Asian economies, which were among the hardest-hit in last year's slowdown. Activity in this region already showed a sharp pickup at the end of last year and appears to have continued to expand at a rapid clip in the first quarter. The Canadian economy also appears to have grown at a robust rate in the first quarter, and recent indicators suggest that growth in Europe has turned positive. In contrast, notable weakness persists in South America, and the Japanese economy apparently is still contracting, although not so sharply as last year.

At the same time, recent events in the Middle East and Venezuela have injected a note of caution into the generally favorable outlook. A rise in oil prices of about \$2.50 per barrel since mid-March is likely to have some damping effect on economic activity, although the current level of prices does not appear to pose a serious threat of derailing the foreign recovery. Increased concern about the robustness of the global rebound has been reflected in long-term bond yields abroad, which edged down over the intermeeting period in many foreign industrial countries following a rise earlier in the year. In addition, equity prices have fallen on several exchanges, and confidence measures in some countries are improving only slowly.

### Summary of Staff Projections

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

Indicator	2001			Projection			
	H1	Q3	Q4	2002			2003
				Q1	Q2	H2	
Foreign output	-.0	-.5	.7	2.7	2.8	3.1	3.4
<i>March GB</i>	-.0	-.4	.5	1.6	2.4	2.9	3.4
Foreign CPI	2.6	1.6	.2	1.6	2.8	2.7	2.5
<i>March GB</i>	2.6	1.6	.2	1.3	2.4	2.4	2.2

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

On balance, we have revised up our outlook for this year for the economies where the latest data have been the most positive and have made little change to the rest. Our projection for export-weighted foreign growth has increased about  $\frac{1}{2}$  percentage point to a rate of nearly 3 percent for this year, and it remains at

### Selected Trade Prices

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

Trade category	2001			2002	Projection		2003	
	H1	Q3	Q4	Q1	2002			
					Q2	H2		
<i>Exports</i>								
Core goods	-.5	-1.5	-3.4	-1.3	2.4	1.1	1.4	
<i>Imports</i>								
Non-oil core goods	-1.5	-6.2	-3.4	-1.9	-.6	1.8	2.7	
Oil (dollars per barrel)	24.21	23.51	18.40	18.12	22.94	22.47	20.92	

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.** The nominal U.S. trade deficit in goods and services widened in January and February compared with the fourth quarter of last year, primarily as a result of a jump in imports. For the two months on average the trade deficit was \$359 billion at an annual rate, \$27 billion larger than in the fourth quarter. The value of exported goods and services was up about 3½ percent at an annual rate on average in January and February compared with the fourth quarter, as a decline in exports of goods was outweighed by a sizable gain in exports of services. Service receipts in the travel and passenger fare categories rebounded 20 percent (quarterly rate) from the fourth quarter but remain about 10 percent below the average level in July and August. Receipts associated with the Winter Olympic Games also provided a boost to service exports in February. The value of imports was up nearly 12 percent at an annual rate on average for January and February, partly reflecting an increase in February services imports related to royalties and license fees for the Olympics broadcasting rights. Import payments for travel and passenger fares rebounded 16 percent (quarterly rate) from the fourth quarter, but remain about 15 percent below their average level in July and August. Imports of goods were up at an annual rate of about 5 percent over this period.

Real exports of goods and services are estimated to have increased 7 percent at an annual rate in the first quarter, the first quarterly gain since mid-2000. The increase was entirely in services exports, as exports of core goods continued to fall. As foreign growth recovers, exports of core goods are projected to rebound, growing at an average rate of about 5 percent over the forecast period. The considerably stronger projected growth in exports than in foreign GDP largely reflects the reversal of the divergence that appeared over the past year as

### Trade in Goods and Services

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

Measure	2001			Projection			2003	
	H1	Q3	Q4	2002				
				Q1	Q2	H2		
Real exports	-6.7	-18.8	-10.9	7.0	5.3	6.7	7.6	
<i>March GB</i>	-6.7	-18.8	-12.2	6.3	4.8	4.9	7.1	
Real imports	-6.7	-13.0	-7.5	14.9	16.3	9.8	10.3	
<i>March GB</i>	-6.7	-13.0	-7.0	12.9	13.8	11.4	10.3	

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

**Alternative simulations.** Our baseline forecast projects that most foreign economies will grow this year after stagnating in 2001. The pace of recovery is expected to be modest, with output remaining below potential through the end of the forecast period. However, a stronger-than-expected recovery abroad could enhance investment opportunities in foreign countries and thereby increase the attractiveness of foreign-denominated assets relative to U.S. assets. To assess the effect of stronger growth abroad combined with heightened confidence in foreign economic prospects, we used the FRB/Global model to consider two alternative simulations. The first consists of an autonomous shock to foreign demand that raises spending by 1 percent of GDP in the major foreign industrial countries and 2 percent of GDP in the major developing countries in the absence of endogenous adjustments. This shock was phased in over three quarters beginning in 2002:Q2. In the second simulation, we combined this autonomous increase in spending with a shock that raises the risk premium on U.S. assets.

Two alternative U.S. monetary policy responses were considered. In the first case, the Federal Reserve holds the real federal funds rate unchanged from its baseline; in the other, it adjusts the real federal funds rate according to a Taylor rule with a coefficient of  $\frac{1}{2}$  on core PCE inflation and  $\frac{1}{2}$  on the output gap. In both, monetary authorities in the major foreign industrial countries and in most developing countries adjust interest rates according to a Taylor rule.

In the first scenario, the spending shock raises foreign demand substantially in the second half of 2002, as the direct effects are magnified by multiplier effects and spillovers across countries. In the case of the fixed real federal funds rate, U.S. real output growth is up relative to the baseline about 0.4 percentage point

in the second half of 2002 and about 0.2 percentage point in the first half of 2003. The effects of the shock on core price inflation are modest and are most apparent in 2003, as core price inflation adjusts more slowly than output in response to changes in aggregate demand. The Taylor rule reduces the effect of the shock on activity, especially in 2003, as the federal funds rate moves up about 35 basis points in 2003:H1. However, the effects of the shock on core price inflation are almost identical to those in the fixed real rate case since changes in monetary policy affect core price inflation with a considerable lag.

**Alternative Simulation 1:  
More Expansionary Foreign Demand**

(Percent change from previous period, annual rate)

Indicator and simulation	2002		2003	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	3.9	3.5	4.1	4.2
Fixed real rate	4.0	3.9	4.3	4.2
Taylor rule	4.0	3.9	4.2	4.0
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	1.1	1.4	1.3	1.3
Fixed real rate	1.1	1.4	1.5	1.6
Taylor rule	1.1	1.4	1.5	1.5

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

In our second alternative simulation, we combined the autonomous increase in foreign spending with a shock that raises the risk premium on U.S assets, thus immediately lowering the value of the dollar by 10 percent before allowing for the effects of adjustments in domestic and foreign real interest rates. We considered the same two alternative responses for U.S. monetary policy as above and maintained the same assumptions about monetary policy in foreign countries.

In the case of the fixed real federal funds rate, the rise in foreign demand combined with the dollar's depreciation raises real GDP growth relative to baseline about 0.8 percentage point in the second half of 2002 and 0.4 percentage point in 2003. Core price inflation rises about 0.6 percentage point above baseline in 2002:H2 and around 0.5 percentage point in 2003. As in the first simulation, the Taylor rule reduces the effects of the shock on output in

2003 but has only a small effect on core inflation. In this case, the federal funds rate is higher by about 120 basis points in 2003:H1 before it begins to decline.

**Alternative Simulation 2:**  
**More Expansionary Foreign Demand and 10% Dollar Depreciation**  
(Percent change from previous period, annual rate)

Indicator and simulation	2002		2003	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	3.9	3.5	4.1	4.2
Fixed real rate	4.1	4.3	4.5	4.6
Taylor rule	4.1	4.2	4.1	4.0
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	1.1	1.4	1.3	1.3
Fixed real rate	1.0	2.0	2.0	1.7
Taylor rule	1.0	2.0	2.0	1.6

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

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

Measure and country	1995	1996	1997	1998	1999	2000	2001	2002	2003	-----Projected-----
<b>REAL GDP (1)</b>										
Total foreign	2.1	4.1	4.1	1.6	4.8	4.0	0.0	2.9	3.4	
Industrial Countries of which:	2.0	2.7	3.5	2.6	3.9	3.2	0.4	2.4	2.9	
Canada	1.5	2.6	4.5	4.2	5.1	3.5	0.9	3.7	3.4	
Japan	2.5	3.7	0.5	-1.3	0.6	2.3	-1.9	-0.3	1.1	
United Kingdom	2.0	2.9	3.6	2.6	2.7	2.6	1.6	1.8	2.7	
Euro Area (2)	1.5	1.6	3.1	1.9	3.6	2.8	0.6	2.1	2.8	
Germany	1.1	1.4	1.7	0.6	3.0	2.5	0.0	1.8	2.7	
Developing Countries	2.5	6.2	5.1	-0.1	6.2	5.3	-0.5	3.6	4.3	
Asia	7.0	6.6	4.9	-2.0	8.7	6.3	0.7	4.9	5.4	
Korea	7.5	6.4	3.4	-5.2	13.8	5.1	4.4	5.5	5.9	
China	10.4	5.3	8.7	9.5	4.1	8.0	7.5	7.5	7.5	
Latin America	-3.7	6.1	5.9	1.3	4.3	4.5	-1.6	2.7	3.5	
Mexico	-7.1	7.1	6.7	2.9	5.4	4.9	-1.5	3.3	4.0	
Brazil	-0.9	4.2	1.3	-1.1	4.2	4.1	-2.3	2.3	2.5	
<b>CONSUMER PRICES (3)</b>										
Industrial Countries of which:	1.3	1.5	1.5	0.9	1.2	1.9	0.9	1.7	1.1	
Canada	2.0	2.0	1.0	1.1	2.3	3.1	1.1	2.9	1.8	
Japan	-0.8	0.2	2.1	0.7	-1.2	-1.2	-1.3	-0.8	-0.6	
United Kingdom (4)	2.9	3.2	2.7	2.5	2.2	2.1	2.0	2.4	2.4	
Euro Area (2)	NA	NA	1.5	0.8	1.5	2.7	2.2	2.2	1.5	
Germany	1.4	1.3	1.5	0.3	1.1	2.5	1.7	1.9	0.9	
Developing Countries	17.0	11.1	6.8	9.0	4.6	4.1	2.8	3.1	4.0	
Asia	6.4	4.8	2.7	4.4	0.1	1.8	1.0	1.9	3.4	
Korea	4.4	5.0	4.9	5.8	1.2	2.5	3.3	3.4	3.7	
China	11.1	6.8	0.9	-1.2	-0.9	0.9	-0.2	1.1	3.8	
Latin America	42.0	25.8	15.5	15.4	12.5	8.4	5.4	5.6	5.3	
Mexico	48.7	28.0	17.0	17.4	13.6	8.8	5.2	4.5	4.6	
Brazil	21.5	9.6	4.6	1.5	8.2	6.1	7.5	5.2	4.3	

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

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

Measure and country	2001				2002				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Quarterly changes at an annual rate											
REAL GDP (1)												
Total foreign	0.8	-0.8	-0.5	0.7	2.7	2.8	3.0	3.1	3.4	3.4	3.5	3.5
Industrial Countries of which:	1.7	-0.1	-0.1	0.0	2.2	2.3	2.5	2.7	2.9	2.9	2.8	2.8
Canada	1.1	0.9	-0.6	2.0	4.5	3.5	3.2	3.4	3.5	3.5	3.3	3.3
Japan	4.1	-4.8	-2.1	-4.8	-0.9	-0.5	-0.3	0.3	0.9	1.0	1.2	1.3
United Kingdom	2.6	2.0	1.7	-0.0	0.4	2.2	2.4	2.1	2.5	2.7	2.7	2.7
Euro Area (2)	2.0	0.3	0.7	-0.7	1.1	1.8	2.6	2.8	2.9	2.8	2.7	2.7
Germany	1.6	0.2	-0.7	-1.0	0.6	1.4	2.5	2.8	2.8	2.7	2.6	2.5
Developing Countries	-0.7	-1.7	-1.1	1.7	3.5	3.4	3.7	3.8	4.1	4.2	4.4	4.4
Asia	-0.7	-2.5	-0.1	6.2	4.6	4.8	5.0	5.1	5.3	5.4	5.5	5.5
Korea	4.9	1.0	5.3	6.4	5.2	5.5	5.5	5.7	5.8	5.9	6.0	6.0
China	8.2	7.7	7.1	7.1	8.5	7.2	7.2	7.2	7.5	7.5	7.5	7.5
Latin America	-1.1	-1.3	-2.1	-1.9	2.7	2.4	2.7	2.9	3.3	3.4	3.6	3.6
Mexico	-1.8	-1.5	-1.8	-0.9	3.5	3.0	3.3	3.5	3.8	3.9	4.1	4.1
Brazil	3.8	-3.0	-3.3	-6.5	2.5	2.2	2.3	2.2	2.5	2.5	2.5	2.5
CONSUMER PRICES (3)												
Industrial Countries	1.7	2.2	1.7	0.9	1.1	0.8	1.1	1.7	1.5	1.3	1.2	1.1
of which:												
Canada	2.8	3.6	2.7	1.1	1.5	1.0	1.6	2.9	2.6	2.2	1.9	1.8
Japan	-1.0	-1.2	-1.1	-1.3	-1.5	-1.3	-1.3	-0.8	-0.7	-0.7	-0.6	-0.6
United Kingdom (4)	1.9	2.3	2.4	2.0	2.4	2.0	2.0	2.4	2.3	2.3	2.4	2.4
Euro Area (2)	2.4	3.1	2.5	2.2	2.5	1.9	2.3	2.2	1.9	1.6	1.5	1.5
Germany	2.4	3.2	2.4	1.7	2.0	1.5	1.7	1.9	1.2	1.0	0.9	0.9
Developing Countries	3.8	4.1	3.5	2.8	2.5	2.4	2.6	3.1	3.8	3.9	4.0	4.0
Asia	1.8	2.4	1.9	1.0	0.8	0.6	1.1	1.9	2.6	3.0	3.2	3.4
Korea	3.7	5.1	4.2	3.3	2.5	2.0	2.3	3.4	3.8	3.7	3.7	3.7
China	0.7	1.6	0.8	-0.2	-0.6	-0.9	0.1	1.1	2.2	3.1	3.5	3.8
Latin America	7.2	6.8	6.0	5.4	5.1	5.3	5.4	5.6	6.9	6.3	5.8	5.3
Mexico	7.5	6.9	6.0	5.2	4.7	4.7	4.6	4.5	5.8	5.2	4.9	4.6
Brazil	6.2	7.1	6.6	7.5	7.6	7.4	6.4	5.2	5.0	4.7	4.5	4.3

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1995	1996	1997	1998	1999	2000	2001	Projected 2002	Projected 2003
<b>NIPA REAL EXPORTS and IMPORTS</b>									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	0.4	-0.2	-0.8	-1.1	-1.0	-0.8	0.0	-1.0	-0.7
Exports of G&S	1.0	1.1	1.0	0.3	0.5	0.8	-1.2	0.6	0.7
Imports of G&S	-0.6	-1.3	-1.7	-1.3	-1.5	-1.6	1.2	-1.6	-1.4
Percentage change, Q4/Q4									
Exports of G&S	9.7	9.8	8.5	2.3	4.5	7.0	-10.9	6.5	7.6
Services	8.8	8.9	1.4	2.9	1.9	4.1	-6.9	10.3	5.2
Computers	39.1	21.6	25.8	8.1	13.8	23.1	-22.9	13.0	32.5
Semiconductors	79.6	44.6	21.3	9.1	34.6	26.9	-35.3	27.3	34.0
Other Goods 1/	4.6	7.3	9.8	1.3	3.2	5.7	-9.6	2.8	5.3
Imports of G&S	5.0	11.2	14.3	10.8	11.5	11.3	-8.5	12.7	10.3
Services	5.5	5.3	14.0	8.5	2.8	12.2	-15.0	14.0	5.7
Oil	2.4	7.8	3.9	4.1	-3.4	12.4	0.2	2.0	3.1
Computers	35.0	17.8	33.0	25.8	25.1	13.6	-13.7	38.1	32.5
Semiconductors	92.4	56.7	32.9	-8.7	33.5	22.5	-51.3	36.0	33.9
Other Goods 2/	-1.2	10.4	12.7	11.5	12.9	10.4	-5.7	11.0	9.6
Billions of chained 1996 dollars									
Net Goods & Services	-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-408.7	-494.6	-588.9
Exports of G&S	808.2	874.2	981.5	1002.4	1034.8	1133.2	1081.7	1062.0	1133.8
Imports of G&S	886.6	963.1	1094.8	1223.5	1351.7	1532.3	1490.4	1556.7	1722.7
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-109.9	-120.9	-139.8	-217.5	-324.4	-444.7	-417.1	-483.1	-583.4
Current Acct as Percent of GDP	-1.5	-1.5	-1.7	-2.5	-3.5	-4.5	-4.1	-4.6	-5.2
Net Goods & Services (BOP)	-96.4	-101.8	-107.8	-166.8	-261.8	-375.7	-347.5	-421.9	-511.7
Investment Income, Net	25.0	25.5	13.6	-1.2	-8.5	-9.6	-13.7	1.5	-11.1
Direct, Net	64.9	69.4	72.4	66.3	67.0	81.2	95.2	98.8	95.2
Portfolio, Net	-39.9	-43.9	-58.8	-67.5	-75.6	-90.9	-109.0	-97.3	-106.2
Other Income & Transfers, Net	-38.6	-44.6	-45.7	-49.4	-54.0	-59.3	-55.9	-62.8	-60.7

1. Merchandise exports excluding computers, and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1998				1999				2000			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>NIPA REAL EXPORTS and IMPORTS</b>												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.8	-1.8	-0.8	0.2	-1.8	-1.2	-0.7	-0.1	-1.3	-0.8	-0.7	-0.4
Exports of G&S	0.1	-0.5	-0.2	1.7	-0.8	0.4	1.0	1.3	0.9	1.4	1.1	-0.5
Imports of G&S	-1.9	-1.4	-0.5	-1.5	-1.0	-1.6	-1.7	-1.3	-2.2	-2.2	-1.8	0.1
Percentage change from previous period, s.a.a.r.												
Exports of G&S	0.5	-4.0	-2.2	16.3	-6.8	4.2	9.7	12.1	9.0	13.5	10.6	-4.0
Services	2.4	8.0	-8.4	10.5	-3.9	3.8	2.0	6.0	10.3	9.9	-6.7	3.7
Computers	-8.3	8.2	12.0	22.8	0.5	26.8	18.3	11.0	32.7	49.2	25.8	-7.9
Semiconductors	5.9	-17.2	272.7	-56.6	45.4	31.6	36.5	25.8	29.9	64.5	35.0	-10.2
Other Goods 1/	0.0	-9.2	-9.3	27.8	-11.5	1.1	11.0	14.2	5.3	9.1	16.3	-6.5
Imports of G&S	15.9	11.3	4.2	12.2	8.4	13.3	13.8	10.5	17.1	16.4	13.0	-0.5
Services	21.3	6.7	7.0	0.1	-8.2	1.8	7.9	11.0	20.6	12.4	17.1	0.0
Oil	3.6	42.8	1.1	-21.6	3.9	29.8	-5.8	-31.5	29.7	40.3	-4.9	-7.7
Computers	38.4	18.5	6.4	43.6	40.6	41.1	8.3	13.8	12.8	34.4	18.4	-7.2
Semiconductors	8.5	-25.4	-6.3	-8.2	37.0	47.5	12.7	39.6	45.6	24.9	64.9	-24.9
Other Goods 2/	14.2	11.9	4.1	16.2	9.0	11.3	17.6	14.0	14.6	13.1	11.9	2.4
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-180.8	-223.1	-241.2	-239.2	-283.0	-313.4	-333.3	-337.8	-371.1	-392.8	-411.2	-421.1
Exports of G&S	1003.4	993.1	987.6	1025.6	1007.6	1018.0	1041.8	1072.1	1095.5	1130.6	1159.3	1147.5
Imports of G&S	1184.2	1216.2	1228.9	1264.8	1290.6	1331.4	1375.1	1409.8	1466.6	1523.4	1570.6	1568.5
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-174.0	-209.6	-242.1	-244.1	-265.8	-309.5	-352.3	-369.9	-419.6	-432.5	-461.2	-465.3
Current Account as % of GDP	-2.0	-2.4	-2.7	-2.7	-2.9	-3.4	-3.8	-3.9	-4.3	-4.4	-4.6	-4.6
Net Goods & Services (BOP)	-139.5	-169.9	-181.9	-176.0	-211.5	-251.5	-284.5	-299.9	-349.3	-363.1	-389.4	-401.2
Investment Income, Net	9.9	5.8	-12.3	-8.3	-5.2	-6.6	-15.5	-6.8	-17.5	-14.4	-14.5	7.9
Direct, Net	74.2	69.8	57.8	63.3	66.2	63.0	63.3	75.7	65.5	72.5	84.2	102.8
Portfolio, Net	-64.2	-64.0	-70.1	-71.5	-71.4	-69.6	-78.8	-82.5	-83.0	-86.8	-98.7	-94.9
Other Inc. & Transfers, Net	-44.4	-45.5	-47.9	-59.8	-49.1	-51.5	-52.2	-63.3	-52.8	-55.0	-57.4	-72.0

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2001				2002				Projected				2003			
	Q1		Q2		Q3		Q4		Q1		Q2		Q3		Q4	
<b>NIPA REAL EXPORTS and IMPORTS</b>																
Percentage point contribution to GDP growth																
Net Goods & Services	0.6	-0.1	-0.2	-0.1	-1.1	-1.5	-0.8	-0.5	-0.9	-0.8	-0.6	-0.2				
Exports of G&S	-0.1	-1.4	-2.1	-1.1	0.7	0.5	0.5	0.8	0.5	0.7	0.8	1.0				
Imports of G&S	0.8	1.3	1.9	1.0	-1.8	-2.0	-1.3	-1.2	-1.4	-1.5	-1.4	-1.2				
Percentage change from previous period, s.a.a.r.																
Exports of G&S	-1.2	-11.9	-18.8	-10.9	7.0	5.3	5.3	8.2	4.7	7.4	8.1	10.5				
Services	1.8	2.4	-17.2	-13.1	27.8	6.5	3.9	4.5	5.4	5.2	5.2	5.1				
Computers	-5.7	-41.3	-24.1	-15.8	-18.9	26.2	26.2	26.2	31.0	32.2	33.5	33.5				
Semiconductors	-22.4	-56.1	-46.6	-4.0	36.0	21.4	26.1	26.1	30.9	33.4	35.9	35.9				
Other Goods 1/	-0.1	-10.8	-16.8	-9.9	-2.0	2.4	3.4	7.7	0.9	5.0	5.8	9.7				
Imports of G&S	-5.0	-8.4	-13.0	-7.5	14.9	16.3	10.2	9.5	10.3	11.6	10.4	8.9				
Services	5.0	-2.1	-29.1	-28.5	50.2	4.6	3.0	4.5	5.2	5.9	5.9	5.9				
Oil	27.3	4.0	-26.7	3.8	-21.3	44.4	9.4	-12.9	-3.1	22.6	8.1	-11.9				
Computers	-11.1	-29.1	-24.8	17.0	81.1	21.5	26.2	31.0	31.0	32.2	33.5	33.5				
Semiconductors	-31.8	-75.0	-58.4	-20.4	77.5	21.4	26.0	26.0	30.8	33.3	35.7	35.8				
Other Goods 2/	-8.4	-4.8	-4.5	-5.2	6.6	16.2	10.2	11.1	10.6	9.7	9.1	8.9				
Billions of chained 1996 dollars, s.a.a.r.																
Net Goods & Services	-404.5	-406.7	-411.0	-412.7	-446.0	-489.7	-513.8	-528.9	-556.4	-582.8	-603.7	-612.7				
Exports of G&S	1144.1	1108.3	1052.2	1022.2	1039.7	1053.3	1067.0	1088.2	1100.8	1120.5	1142.5	1171.2				
Imports of G&S	1548.6	1515.0	1463.2	1434.9	1485.7	1543.0	1580.8	1617.1	1657.2	1703.4	1746.2	1784.0				
Billions of dollars, s.a.a.r.																
US CURRENT ACCOUNT BALANCE	-448.5	-431.7	-394.1	-393.9	-441.2	-471.6	-496.2	-523.5	-537.6	-567.7	-598.2	-630.2				
Current Account as % of GDP	-4.4	-4.2	-3.9	-3.8	-4.2	-4.5	-4.7	-4.8	-4.9	-5.1	-5.3	-5.5				
Net Goods & Services (BOP)	-381.3	-363.4	-313.8	-331.4	-370.6	-418.9	-443.7	-454.5	-479.6	-505.7	-526.3	-535.3				
Investment Income, Net	-14.6	-14.5	-24.4	-1.5	-2.8	3.6	3.9	1.4	-0.6	-4.7	-14.5	-24.5				
Direct, Net	90.8	93.8	87.9	108.4	99.3	100.0	99.0	96.9	96.8	97.1	94.1	92.6				
Portfolio, Net	-105.3	-108.4	-112.3	-109.9	-102.1	-96.3	-95.1	-95.5	-97.5	-101.8	-108.6	-117.1				
Other Inc. & Transfers, Net	-52.7	-53.8	-55.9	-61.0	-67.9	-56.4	-56.4	-70.4	-57.4	-57.4	-57.4	-70.4				

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

## **Part 2**

May 1, 2002

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## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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### **Recent Developments**

Confidential (FR) Class III FOMC

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May 1, 2002

## **Recent Developments**

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

can be attributed to these factors. Thus, we are also inferring that the rate of increase in structural productivity has been faster than we previously assumed.

### **Industrial Production**

Output in the industrial sector rose 0.7 percent in March, its third consecutive monthly gain. Increases were widespread across market groups and among industries. For the first quarter as a whole, production expanded at an annual rate of 2-1/2 percent after having dropped nearly 7 percent in the fourth quarter of 2001. Capacity utilization in manufacturing rose half a percentage point in March, to about 74 percent, but remains 7 percentage points below its long-run (1967 to 2001) average.

The production of motor vehicles averaged 12.2 million units (annual rate) in the first quarter and apparently was slightly above this level in April. With days' supply of vehicles near comfortable levels for GM and Ford, and somewhat lean for other manufacturers, assemblies are scheduled to remain above 12 million units in May and June. Elsewhere in transportation, the production of aircraft and parts fell again in March; for the first quarter as a whole, output dropped at an annual rate of about 30 percent, following a similar decline in the fourth quarter of 2001.

**Production of Domestic Autos and Trucks**  
(Millions of units at an annual rate except as noted; FRB seasonal basis)

Item	2001		2002				
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr. <sup>1</sup>
U.S. production	11.6	11.6	12.2	12.1	12.3	12.1	12.4
Autos	4.7	4.8	5.2	5.1	5.5	5.2	5.3
Trucks	6.9	6.8	6.9	7.1	6.8	6.9	7.1
Days' supply <sup>2</sup>							
Autos	49.1	38.3	51.1	49.4	51.2	47.9	n.a.
Light trucks <sup>3</sup>	74.0	52.3	61.8	65.6	60.0	61.6	n.a.
Inventories <sup>4</sup>	2.69	2.27	2.41	2.34	2.42	2.41	n.a.

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

1. Production rates reflect Ward's Communications' latest estimates for April.

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

3. Excludes medium and heavy (classes 3-8) trucks.

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

n.a. Not available.

### III-4

#### **Gross Issuance of Securities by U.S. Corporations** (Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1999	2000	2001		2002		Apr. <sup>e</sup>
			H1	H2	Q1	Mar.	
<b>Nonfinancial corporations</b>							
Stocks <sup>1</sup>	9.2	9.9	7.5	5.5	6.1	4.9	4.8
Initial public offerings	4.2	4.4	3.2	1.0	0.9	0.4	1.0
Seasoned offerings	5.0	5.5	4.2	4.5	5.2	4.5	3.8
Bonds <sup>2</sup>	24.5	20.2	43.1	31.2	30.7	42.3	35.3
Investment grade <sup>3</sup>	13.9	11.9	28.9	24.0	18.3	21.2	24.6
Speculative grade <sup>3</sup>	7.5	4.5	11.9	5.8	6.6	6.8	7.8
Other (Sold Abroad/Unrated)	3.1	3.7	2.4	1.4	5.8	14.3	2.9
Memo:							
Net issuance of commercial paper <sup>4</sup>	3.6	4.5	-14.5	-1.5	-13.0	-10.7	-8.0
Change in C&I loans at commercial banks <sup>4</sup>	4.7	7.5	-3.1	-8.1	1.7	-3.6	-8.4
<b>Financial corporations</b>							
Stocks <sup>1</sup>	1.8	1.4	3.0	5.5	4.9	7.9	2.1
Bonds	53.9	47.1	69.9	64.7	75.1	104.1	49.3

Note. Components may not sum to totals because of rounding. These data include speculative-grade bonds issued privately under Rule 144A. All other private placements are excluded. Total reflects gross proceeds rather than par value of original discount bonds.

1. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings.

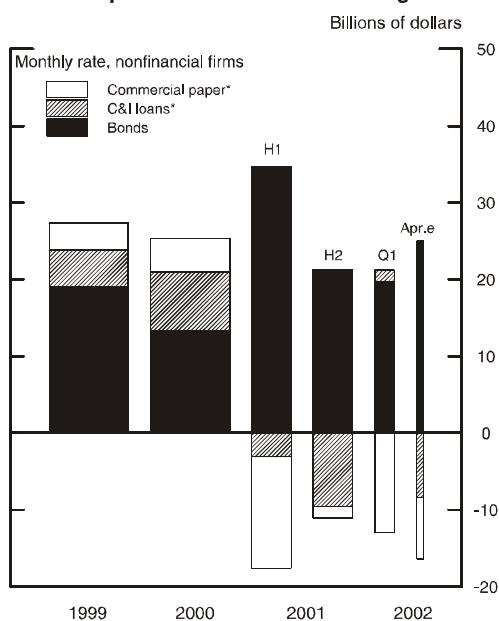
2. Excludes mortgage-backed and asset-backed bonds.

3. Bonds sold in U.S. categorized according to Moody's bond ratings, or to Standard & Poor's if unrated by Moody's.

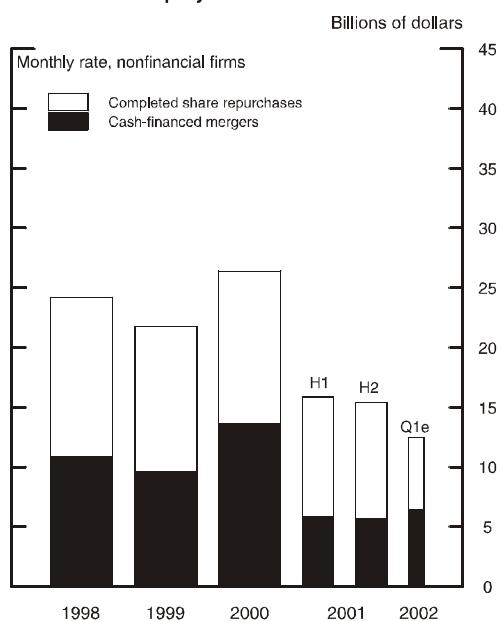
4. End-of-period basis, seasonally adjusted.

e Staff estimate.

**Components of Net Debt Financing**



**Equity Retirements**



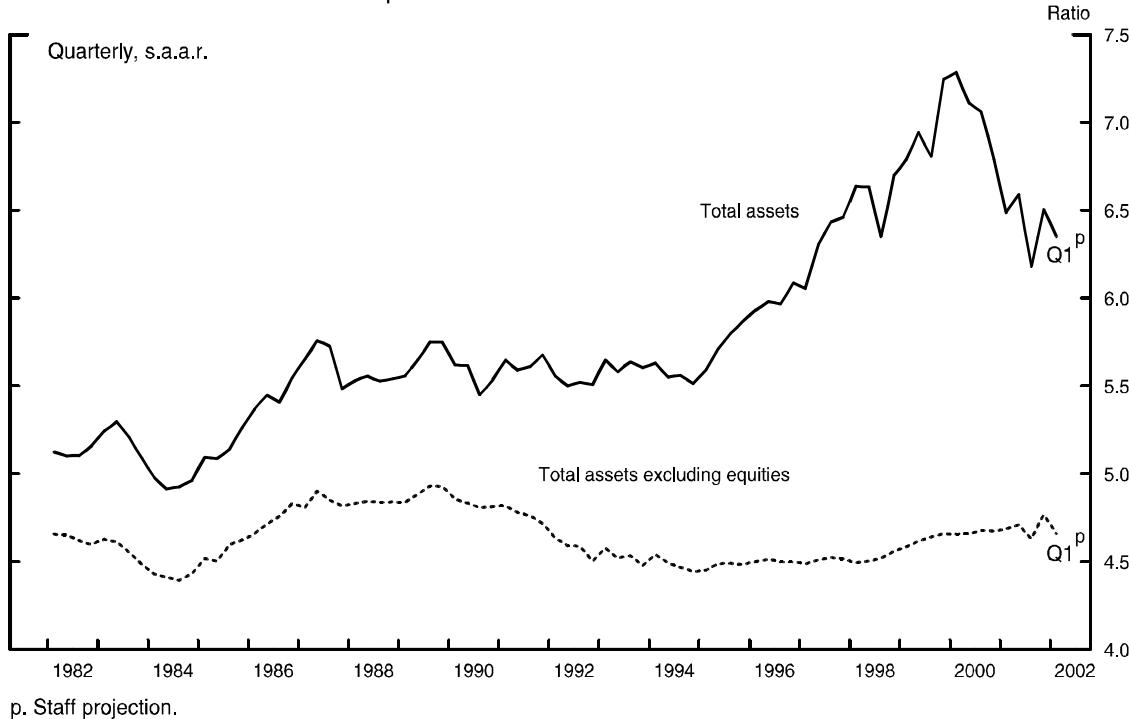
\* Seasonally adjusted.

e Staff estimate.

e Based on staff estimate for share repurchases.

### Household Assets

Household Assets Relative to Disposable Income



**Net Flows into Long-Term Mutual Funds**  
(Excluding reinvested dividends; billions of dollars, monthly rates)

	2000		2001		2002		Assets Mar.	
	H1	H2	H1	H2	Q1	Mar.	Apr. <sup>e</sup>	
<b>Total long-term funds</b>	<b>23.8</b>	<b>13.1</b>	<b>20.7</b>	<b>13.6</b>	<b>29.6</b>	<b>39.5</b>	<b>21.5</b>	<b>4,817</b>
<b>Equity funds</b>	<b>34.4</b>	<b>15.9</b>	<b>16.1</b>	<b>6.3</b>	<b>15.2</b>	<b>29.3</b>	<b>12.2</b>	<b>3,499</b>
Domestic	26.7	15.7	15.9	8.5	14.9	26.4	8.6	3,056
Capital appreciation	34.4	16.7	10.1	4.0	7.9	15.4	3.9	1,820
Total return	-7.6	-0.9	5.8	4.5	7.0	11.0	4.6	1,236
International	7.7	0.2	0.1	-2.2	184.3	2.9	3.6	443
<b>Hybrid funds</b>	<b>-4.0</b>	<b>-1.3</b>	<b>1.3</b>	<b>1.2</b>	<b>2.6</b>	<b>3.4</b>	<b>2.3</b>	<b>359</b>
<b>Bond funds</b>	<b>-6.6</b>	<b>-1.5</b>	<b>3.3</b>	<b>6.2</b>	<b>11.8</b>	<b>6.8</b>	<b>7.0</b>	<b>959</b>
International	-0.2	-0.2	-0.0	-0.3	0.1	-0.1	0.2	19
High-yield	-1.1	-0.9	0.2	0.9	2.2	3.7	1.6	100
Other taxable	-2.8	-0.3	2.9	4.9	7.8	3.4	5.4	540
Municipals	-2.5	-0.0	0.2	0.6	1.7	-0.1	-0.1	299

e. Staff estimates based on confidential ICI weekly data. Source. Investment Company Institute (ICI).

**Treasury Financing**  
(Billions of dollars)

Item	2001		2002			
	Q3	Q4	Q1	Feb.	Mar.	Apr.(e)
<b>Total surplus, deficit (-)</b>	<b>-41.9</b>	<b>-37.1</b>	<b>-96.6</b>	<b>-76.1</b>	<b>-64.2</b>	n.a.
Means of financing deficit						
Net borrowing	68.6	59.5	50.8	63.9	2.1	-43.4
Nonmarketable	6.2	10.5	-.7	-1.1	1.0	-.6
Marketable	74.4	49.0	51.5	64.9	1.1	-42.8
Bills	114.8	73.3	23.1	40.5	1.1	-40.9
Coupons <sup>1</sup>	-32.6	-15.8	28.4	24.4	0.0	2.1
Debt buybacks	-7.7	-8.5	0.0	0.0	0.0	-4.0
Decrease in cash balance	-.5	-8.1	38.3	30.7	30.5	-13.1
Other <sup>2</sup>	-26.2	-14.3	7.5	-18.6	31.6	n.a.
MEMO						
Cash balance, end of period	44.2	52.4	14.1	44.6	14.1	27.2

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

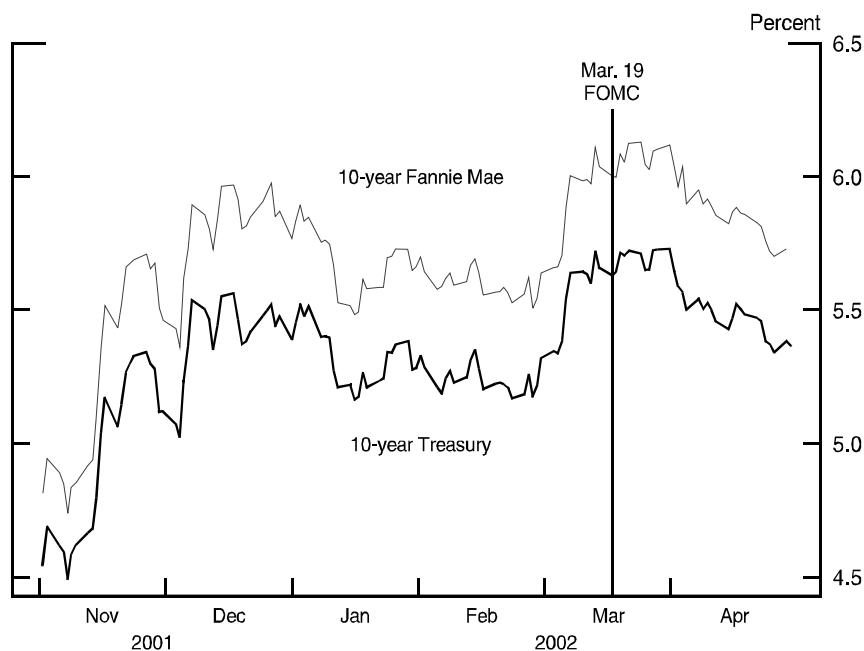
1. Does not include Treasury debt buybacks.

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

e. Estimated.

n.a. Not available.

**Treasury and Agency Interest Rates**



### State and Local Government Finance

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

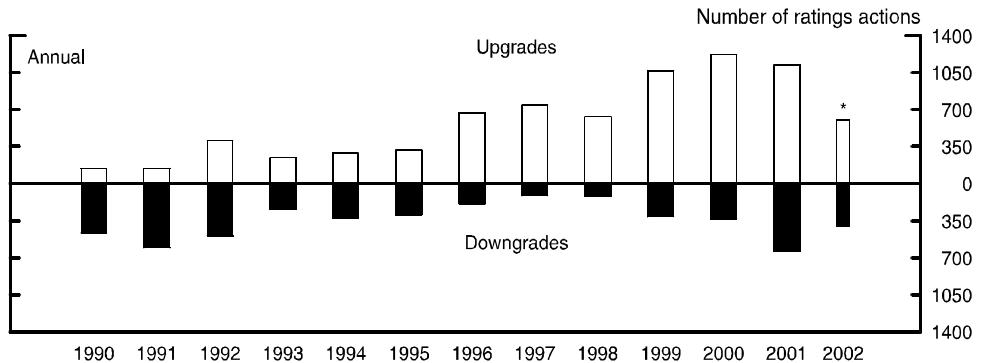
	2000	2001	2001		2002		
			H1	H2	Q1	Mar.	Apr. e
Long-term <sup>1</sup>	15.0	22.5	21.4	23.7	21.5	23.8	20.4
Refundings <sup>2</sup>	2.2	6.5	6.4	6.7	6.6	7.0	4.7
New capital	12.9	16.0	15.0	17.1	14.9	16.9	15.7
Short-term	2.8	4.3	3.7	5.0	1.9	1.9	2.9
Total tax-exempt	17.9	26.9	25.0	28.7	23.4	25.8	23.3
Total taxable	0.7	1.1	1.2	1.0	1.0	1.1	0.6

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

e. Staff estimate based on preliminary data through Apr. 25.

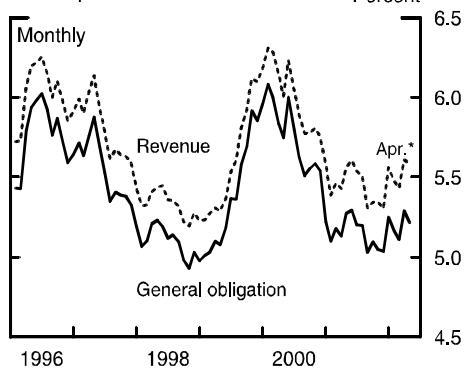
#### Bond Rating Changes



\* Data through March 29, 2002 at an annual rate.

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

#### Municipal Bond Yields

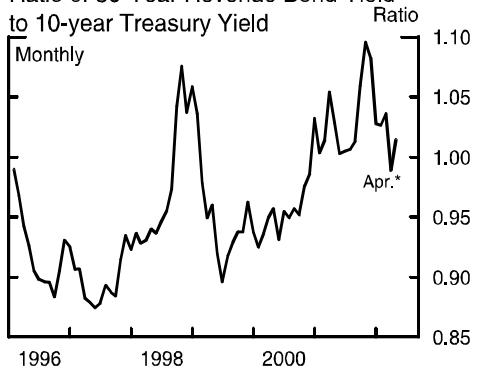


Note. Average of weekly data.

\* Data through Apr. 25, 2002.

#### Percent

#### Ratio of 30-Year Revenue Bond Yield to 10-year Treasury Yield



Note. Average of weekly data.

\* Data through Apr. 25, 2002.

**Monetary Aggregates**  
(Based on seasonally adjusted data)

Aggregate or component	2001	2001	2002	2002			Level (bil. \$) Apr. 02
		Q4	Q1	Feb.	Mar.	Apr. (p)	
<i>Aggregate</i>							
1. M2 <sup>2</sup>	10.4	9.4	5.3	6.7	-1.3	-3.4	5483.0
2. M3	12.8	12.3	5.0	6.4	0.8	-0.3	8069.3
<i>Selected components</i>							
3. Currency	9.0	9.9	10.4	10.7	7.1	7.3	598.1
4. Liquid deposits <sup>3</sup>	17.9	17.6	17.6	20.0	8.8	4.1	3014.9
5. Small time deposits	-5.0	-12.0	-15.5	-13.7	-10.8	-8.3	932.0
6. Retail money market funds	9.0	8.9	-12.1	-15.3	-27.5	-29.2	930.3
7. M3 minus M2 <sup>4</sup>	18.2	18.6	4.3	5.7	5.2	6.4	2586.3
8. Large time deposits, net <sup>5</sup>	-2.7	-6.3	9.1	3.8	14.7	36.9	837.2
9. Institution-only money market mutual funds	50.7	49.2	-0.9	-0.8	1.6	-4.2	1163.8
10. RPs	0.6	-1.4	9.4	12.2	-7.3	-17.0	368.9
11. Eurodollars	8.5	-3.8	6.8	37.8	11.7	-10.4	216.4
<i>Memo</i>							
12. M1	6.8	1.5	5.3	1.6	2.5	-18.8	1167.0
13. Sweep-adjusted M1 <sup>6</sup>	7.9	5.8	7.4	4.4	6.1	-2.9	1655.6
14. Demand deposits	3.8	-7.4	-4.0	-8.5	-3.3	-71.3	304.1
15. Other checkable deposits	6.3	-4.2	6.4	-5.1	-0.5	-13.4	257.2
16. Savings deposits	21.8	24.2	22.0	26.8	11.4	16.1	2453.6
17. Monetary base	8.5	6.5	9.0	10.0	6.4	8.3	654.1
<i>Average monthly change (billions of dollars)<sup>7</sup></i>							
<i>Selected managed liabilities at commercial banks</i>							
18. Large time deposits, gross	3.3	8.5	9.8	4.2	4.0	20.5	1027.4
19. Net due to related foreign institutions	-6.5	-9.0	-15.9	-19.2	2.3	-9.8	99.0
20. U.S. government deposits at commercial banks	1.5	0.1	1.1	15.0	-5.2	-29.9	8.4

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

2. Sum of M1, retail money market funds, saving deposits, and small time deposits.

3. Sum of demand deposits, other checkable deposits, and saving deposits.

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

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

6. Sweep figures used to adjust these series are the estimated national total of transaction account balances initially swept into MMDAs owing to the introduction of new sweep programs on the basis of monthly averages of daily data.

7. 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.

p--Preliminary

### III-16

**Commercial Bank Credit**  
(Percent change, annual rate, except as noted; seasonally adjusted)

Type of credit	2001	Q4 2001	Q1 2002	Feb. 2002	Mar. 2002	Apr. <sup>p</sup> 2002	Level, Apr. 2002 <sup>p</sup> (\$ billions)
<b>Total</b>							
1. Adjusted <sup>1</sup>	<b>4.3</b>	<b>4.4</b>	<b>.8</b>	<b>.6</b>	<b>1.0</b>	<b>5.9</b>	<b>5,326</b>
2. Reported	5.1	5.2	-1.0	.3	-2.2	3.9	5,445
<i>Securities</i>							
3. Adjusted <sup>1</sup>	9.9	15.3	8.0	-5.0	10.5	18.5	1,375
4. Reported	12.3	17.0	.4	-5.6	-2.2	10.2	1,494
5. Treasury & Agency	3.8	27.8	1.5	-11.5	24.6	24.3	847
6. Other <sup>2</sup>	25.1	4.5	-.9	1.6	-34.5	-7.7	647
<i>Loans<sup>3</sup></i>							
7. Total	2.6	.9	-1.5	2.6	-2.3	1.6	3,950
8. Business	-3.8	-8.6	-5.3	8.7	-2.3	-10.6	1,021
9. Real estate	7.1	11.7	3.3	3.8	-1.9	1.9	1,788
10. Home equity	18.4	31.1	26.5	24.4	40.4	28.2	170
11. Other	6.2	10.0	1.1	1.7	-6.0	-.7	1,619
12. Consumer	4.2	3.1	4.0	5.6	-4.5	8.3	566
13. Adjusted <sup>4</sup>	7.7	6.4	4.6	-1.1	-.9	1.5	911
14. Other <sup>5</sup>	.1	-15.0	-14.5	-15.4	-1.1	16.1	575

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.

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.

Confidential (FR) Class III FOMC

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May 3, 2002

## CURRENT ECONOMIC AND FINANCIAL CONDITIONS

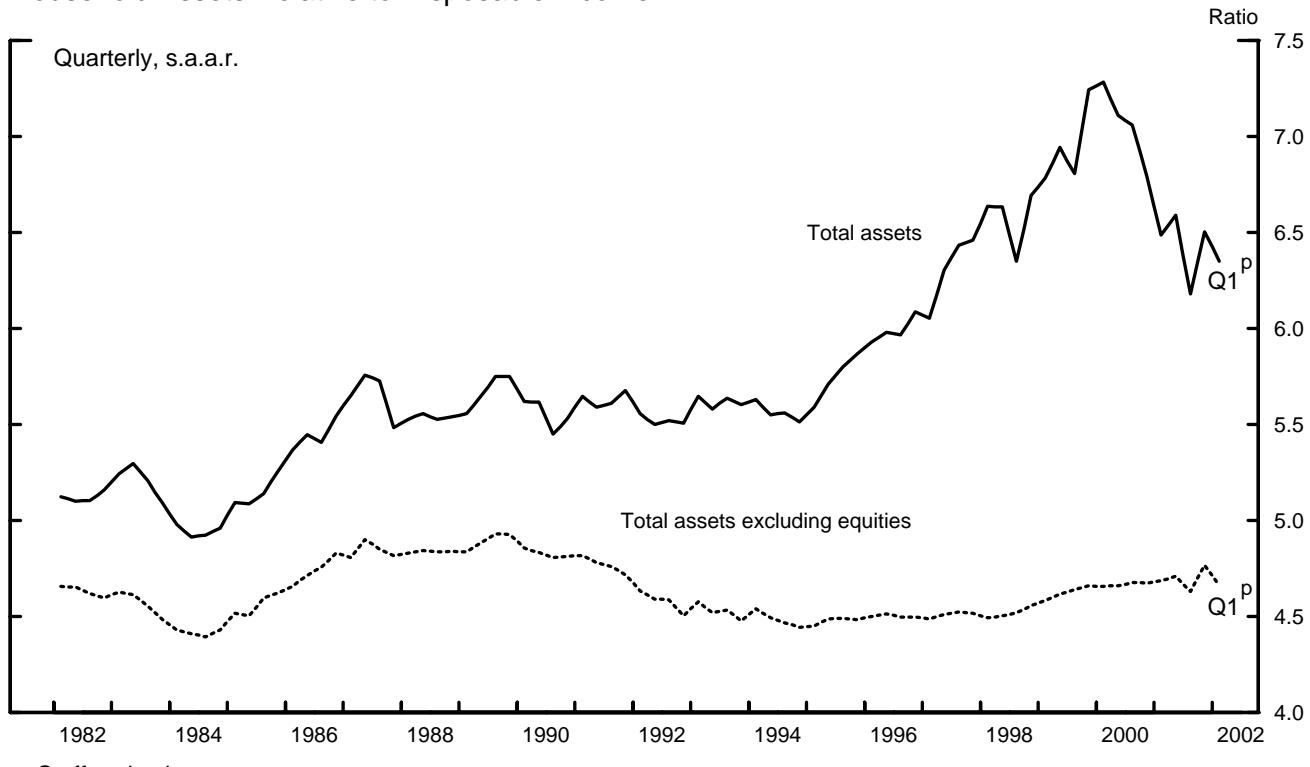
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### **Supplemental Notes**

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

## Household Assets

Household Assets Relative to Disposable Income



Net Flows into Long-Term Mutual Funds  
(Excluding reinvested dividends; billions of dollars, monthly rates)

	2000		2001		2002		Assets	
	H1	H2	H1	H2	Q1	Mar.	Mar.	
<b>Total long-term funds</b>	<b>23.8</b>	<b>13.1</b>	<b>15.2</b>	<b>6.5</b>	<b>30.6</b>	<b>39.5</b>	<b>22.4</b>	<b>4,817</b>
<b>Equity funds</b>	<b>34.4</b>	<b>15.9</b>	<b>8.3</b>	<b>-2.7</b>	<b>18.7</b>	<b>29.3</b>	<b>11.1</b>	<b>3,499</b>
Domestic	26.7	15.7	9.2	0.1	17.3	26.4	11.8	3,056
Capital appreciation	34.4	16.7	5.3	-2.2	9.6	15.4	4.6	1,820
Total return	-7.6	-0.9	3.9	2.2	7.8	11.0	7.2	1,236
International	7.7	0.2	-0.8	-2.7	1.3	2.9	-0.7	443
<b>Hybrid funds</b>	<b>-4.0</b>	<b>-1.3</b>	<b>1.0</b>	<b>0.5</b>	<b>2.7</b>	<b>3.4</b>	<b>2.7</b>	<b>359</b>
<b>Bond funds</b>	<b>-6.6</b>	<b>-1.5</b>	<b>5.9</b>	<b>8.7</b>	<b>9.3</b>	<b>6.8</b>	<b>8.5</b>	<b>959</b>
International	-0.2	-0.2	0.0	-0.2	-0.0	-0.1	0.1	19
High-yield	-1.1	-0.9	0.9	0.3	1.8	3.7	1.8	100
Other taxable	-2.8	-0.3	4.2	7.4	6.3	3.4	5.9	540
Municipals	-2.5	-0.0	0.8	1.1	1.2	-0.1	0.7	299

e. Staff estimates based on confidential ICI weekly data. Source. Investment Company Institute (ICI).

**Commercial Bank Credit**  
(Percent change, annual rate, except as noted; seasonally adjusted)

Type of credit	2001	Q4 2001	Q1 2002	Feb. 2002	Mar. 2002	Apr. <sup>p</sup> 2002	Level, Apr. 2002 <sup>p</sup> (\$ billions)
<b>Total</b>							
<b>1. Adjusted<sup>1</sup></b>	<b>4.3</b>	<b>4.4</b>	<b>.8</b>	<b>.6</b>	<b>.8</b>	<b>5.5</b>	<b>5,324</b>
2. Reported	5.1	5.2	-1.0	.3	-2.4	4.1	5,445
<i>Securities</i>							
3. Adjusted <sup>1</sup>	9.9	15.3	7.9	-5.2	10.2	18.3	1,375
4. Reported	12.4	17.1	.4	-5.7	-2.4	12.3	1,497
5. Treasury & Agency	3.8	27.8	.8	-11.7	24.5	29.5	849
6. Other <sup>2</sup>	25.1	4.6	-.2	2.0	-35.2	-9.6	647
<i>Loans<sup>3</sup></i>							
7. Total	2.6	.9	-1.5	2.6	-2.3	1.1	3,949
8. Business	-3.8	-8.6	-5.2	9.0	-2.3	-11.5	1,021
9. Real estate	7.1	11.7	3.3	3.8	-1.9	1.3	1,788
10. Home equity	18.4	31.1	26.7	25.2	39.6	31.1	170
11. Other	6.2	10.0	1.1	1.7	-6.0	-1.8	1,617
12. Consumer	4.2	3.1	4.0	5.6	-4.5	10.3	567
13. Adjusted <sup>4</sup>	7.6	6.4	4.6	-1.1	-.9	2.9	912
14. Other <sup>5</sup>	.1	-15.0	-14.7	-15.4	-1.5	14.4	574

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.

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