

## **Part 1**

April 30, 2003

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## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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### **Summary and Outlook**

Confidential (FR) Class II FOMC

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April 30, 2003

## **Summary and Outlook**

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

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

Measure	2003:Q1		2003:Q2	
	Mar. GB	Apr. GB	Mar. GB	Apr. GB
<b>Real GDP</b>	<b>2.3</b>	<b>1.6</b>	<b>2.3</b>	<b>2.0</b>
Private domestic final purchases	1.8	1.2	2.9	2.6
Personal consumption expenditures	1.7	1.4	2.3	2.5
Residential investment	16.7	11.5	4.9	-1.5
Business fixed investment	-3.5	-4.2	6.3	5.6
Government outlays for consumption and investment	3.9	1.0	3.9	7.5
	Contribution to growth (percentage points)			
Inventory investment	-.2	-.4	-.2	-1.0
Net exports	.2	.8	-.7	-.7

in the last Greenbook. News from the labor market has been particularly discouraging. Payroll employment continued moving down through March, and initial claims for unemployment insurance have moved higher in recent weeks, boosting the odds that further sizable job losses will be recorded in April and May. In addition, manufacturing production decreased in the first quarter and is expected to fall again in the second quarter; declines are expected to be concentrated in the motor vehicle industry, where inventories have risen above desired levels. Nevertheless, we project that, after rising at an annual rate of 1-1/2 percent in the first quarter, real GDP will step up to a 2 percent rate of increase this quarter on the strength of a large rise in defense purchases.

Sales of light motor vehicles averaged an annual pace of 15-3/4 million units in the first quarter, noticeably below the pace of 16-1/2 million units recorded in the fourth quarter. However, a further boost in incentives appears to be pushing up sales in April, and we now project that sales will bounce back to a pace of 16-1/2 million units in the second quarter. The growth of consumer spending outside the motor vehicle sector also slowed in the first quarter, only partly, as best we can tell, because of the severe February snowstorms. But we expect that the strengthening in consumer sentiment and equity values will help support spending in the second quarter as will the boost to real incomes from falling energy prices. We now project real PCE excluding new motor vehicles to rise at an annual rate of 2-1/4 percent in the second quarter.

### The Longer-Term Outlook for the Economy

As discussed above, our forecast for the second half of this year is a little weaker than in the March Greenbook. In our judgment, the recent improvements in financial market conditions, oil prices, and consumer confidence will be insufficient to fully offset the weaker economic conditions that now appear to have prevailed in the early part of this year. However, those more favorable developments have led us to strengthen somewhat our projection of growth in real activity next year. The basic logic behind our forecast remains the same as it has been for several months: The ongoing

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

Measure	2003		2004
	H1	H2	
<b>Real GDP</b>	<b>1.8</b>	<b>3.9</b>	<b>4.8</b>
Previous	2.3	4.1	4.6
Final sales	2.5	3.4	4.2
Previous	2.5	4.0	4.3
PCE	1.9	3.3	4.6
Previous	2.0	3.5	4.3
Residential investment	4.8	1.6	3.8
Previous	10.6	9.8	3.9
BFI	.6	4.4	11.2
Previous	1.2	8.1	11.9
Government purchases	4.2	3.7	1.1
Previous	3.9	1.8	1.7
Exports	.6	9.3	9.0
Previous	4.1	8.9	9.0
Imports	-.1	6.9	10.0
Previous	4.4	6.9	9.6
	Contribution to growth, percentage points		
Inventory change	-.7	.4	.5
Previous	-.2	.2	.3
Net exports	.1	-.1	-.5
Previous	-.2	-.1	-.5

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

Measure	1973-95	1996-99	2000	2001	2002	2003	2004
<b>Structural labor productivity</b>	1.4	2.5	2.6	1.8	2.3	2.2	2.3
Previous	1.4	2.5	2.6	1.8	2.3	2.2	2.3
<i>Contributions</i> <sup>1</sup>							
Capital deepening	.6	1.3	1.2	.5	.4	.3	.6
Previous	.6	1.3	1.1	.3	.2	.3	.6
Multifactor productivity	.6	1.0	1.1	1.1	1.7	1.6	1.4
Previous	.6	1.0	1.2	1.3	1.8	1.6	1.5
Labor composition	.3	.3	.3	.3	.3	.3	.3
MEMO							
Potential GDP	2.9	3.5	3.7	2.9	3.3	3.1	3.2
Previous	2.9	3.5	3.7	2.9	3.3	3.1	3.3

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

1. Percentage points.

projection period. Meanwhile, the ongoing slack is expected to help generate a further slowing of core consumer price inflation.

**Productivity and the labor market.** We estimate that labor productivity in the nonfarm business sector increased at an annual rate of about 1-1/2 percent in the first quarter. However, this rise followed last year's unusually rapid productivity growth as firms achieved output gains by using their existing workforces more intensively rather than by hiring additional workers, and we estimate that productivity remains well above its structural level. Although we believe that the current intensity of utilization is not sustainable indefinitely, we nevertheless expect it to persist for a while longer. Indeed, we expect firms to continue shedding jobs through the current quarter and employment growth to be meager over the summer. But we project that hiring will reach 200,000 per month during the fourth quarter and will rise to more than 300,000 per month in 2004.

The absence of increases in the unemployment rate over the past year has been hard to understand in light of declines in payroll employment, but our best guess is that this steadiness stems from an unusually large withdrawal of people from the labor force during a period of labor market weakness. Although we are projecting the labor force participation rate to remain low in the near term, labor force gains still are expected to be in excess of hiring, and we project the unemployment rate to move above 6 percent by this summer. But we expect

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

Measure	2001	2002	2003	2004
Output per hour, nonfarm business	1.9	4.0	2.0	1.5
Previous	1.9	4.1	1.9	1.6
Nonfarm private payroll employment	-1.4	-.5	.2	3.5
Previous	-1.4	-.5	1.1	3.3
Household employment survey	-.8	.3	1.3	2.6
Previous	-.8	.3	1.7	2.4
Labor force participation rate <sup>1</sup>	66.8	66.5	66.4	67.0
Previous	66.8	66.5	66.6	67.0
Civilian unemployment rate <sup>1</sup>	5.6	5.9	6.1	5.6
Previous	5.6	5.9	6.1	5.5

1. Percent, average for the fourth quarter.

more-substantial employment gains next year to push the unemployment rate back down to 5-1/2 percent by the end of the projection period. As the economy improves, we expect to see a noticeable rebound in labor force participation, which should temper the decline in the unemployment rate.

**Prices and wages.** As discussed above, incoming data that indicate low core consumer price inflation have led us to reduce our inflation projection slightly from the last Greenbook. Core PCE prices are now projected to rise at an annual rate of 1-1/4 percent in the second half of this year and 1 percent in 2004. Ongoing slack in resource utilization is the main factor expected to push inflation lower from current levels. Energy prices are expected to move down sharply in the next several months and to level off thereafter, and so overall consumer price inflation should rise at the same rate as the core measures in 2004.

We also expect the continued slack in the labor market to contribute to smaller increases in compensation costs. However, the energy-induced run-up of inflation through early this year likely will feed into compensation to some degree, and compensation costs are also expected to be held up by the rising cost of benefits—especially for health insurance. All told, we expect increases in the employment cost index for hourly compensation to move down to about 3 percent in 2004.

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

Measure	2001	2002	2003	2004
PCE chain-weighted price index	1.5	1.8	1.3	1.0
Previous	1.5	1.8	1.5	1.0
Food and beverages	3.1	1.4	1.9	1.5
Previous	3.1	1.4	1.7	1.8
Energy	-10.3	7.0	-.5	-.4
Previous	-10.3	7.0	3.5	-3.6
Excluding food and energy	1.9	1.6	1.2	1.0
Previous	1.9	1.6	1.3	1.1
Consumer price index	1.8	2.2	1.6	1.4
Previous	1.8	2.2	2.0	1.4
Excluding food and energy	2.7	2.1	1.7	1.5
Previous	2.7	2.1	1.9	1.7
GDP chain-weighted price index	2.0	1.3	1.5	1.2
Previous	2.0	1.3	1.4	1.3
ECI for compensation of private industry workers <sup>1</sup>	4.2	3.2	3.7	3.1
Previous	4.2	3.2	3.2	3.2
NFB compensation per hour	1.4	3.2	3.1	2.7
Previous	1.4	4.2	3.1	2.9
Prices of core non-oil merchandise imports	-2.9	.7	3.3	1.3
Previous	-2.9	.7	2.6	1.2

1. December to December.

### Financial Flows and Conditions

The overall picture for debt growth is little changed from the last Greenbook. After growing 7 percent in 2002, domestic nonfinancial debt is expected to expand at about the same rate in 2003 and only slightly less in 2004. Borrowing by the federal government and nonfinancial business is expected to rise over the forecast period, but this increase is offset by a reduction in borrowing by households and state and local governments from the blistering pace of last year.

Federal debt is projected to expand about 10 percent both this year and next, an upward revision from the last Greenbook that is due to the larger budget deficit in this forecast. The Treasury's maneuvering to remain below the debt ceiling

**Alternative Scenarios**

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

Measure	2002: H2	2003			2004
		Q1	Q2	H2	
<i>Real GDP</i>					
<b>Greenbook Baseline</b>	<b>2.7</b>	<b>1.6</b>	<b>2.0</b>	<b>3.9</b>	<b>4.8</b>
Political gridlock	2.7	1.6	2.0	3.7	4.1
More fiscal stimulus	2.7	1.6	3.0	4.0	5.0
Prolonged investment slump	2.7	1.6	1.8	3.6	4.2
Financial-market rebound	2.7	1.6	2.0	4.5	5.4
Lower funds rate	2.7	1.6	2.0	4.0	5.2
<i>Civilian unemployment rate<sup>1</sup></i>					
<b>Greenbook Baseline</b>	<b>5.9</b>	<b>5.8</b>	<b>6.0</b>	<b>6.1</b>	<b>5.6</b>
Political gridlock	5.9	5.8	6.0	6.1	6.0
More fiscal stimulus	5.9	5.8	5.9	6.0	5.4
Prolonged investment slump	5.9	5.8	6.0	6.2	5.9
Financial-market rebound	5.9	5.8	6.0	6.0	5.2
Lower funds rate	5.9	5.8	6.0	6.1	5.4
<i>PCE prices excluding food and energy</i>					
<b>Greenbook Baseline</b>	<b>1.6</b>	<b>.9</b>	<b>1.6</b>	<b>1.2</b>	<b>1.0</b>
Political gridlock	1.6	.9	1.6	1.2	1.0
More fiscal stimulus	1.6	.9	1.6	1.2	1.1
Prolonged investment slump	1.6	.9	1.6	1.2	1.0
Financial-market rebound	1.6	.9	1.6	1.2	1.1
Lower funds rate	1.6	.9	1.6	1.2	1.1

1. Average for the final quarter of the period.

concern, the chance that the projected recovery in E&S investment will be further delayed. On a more optimistic note, we also consider the possibility that risk premiums in financial markets may return to more-normal levels. In all these simulations, the federal funds rate is held unchanged at its baseline value. In our last simulation, we consider the effects of a lower funds rate.

**The probability of deflation.** In light of the surprisingly small increases in core consumer prices this year as well as the current subpar pace of real activity, there is a risk that disinflation may turn into outright deflation. To assess this risk, we use the FRB/US model to simulate the effects of shocks of the sort experienced over the past thirty years, with the goal of generating the likely

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

April 30, 2003

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>	
	03/13/03	04/30/03	03/13/03	04/30/03	03/13/03	04/30/03	03/13/03	04/30/03	03/13/03	04/30/03
<b>ANNUAL</b>										
2000	5.9	5.9	3.8	3.8	2.1	2.1	3.4	3.4	4.0	4.0
2001	2.6	2.6	0.3	0.3	2.4	2.4	2.8	2.8	4.8	4.8
2002	3.6	3.6	2.4	2.4	1.1	1.1	1.6	1.6	5.8	5.8
2003	4.1	3.9	2.6	2.3	1.5	1.6	2.5	2.1	6.0	6.0
2004	5.7	5.6	4.4	4.3	1.3	1.2	1.3	1.3	5.8	5.9
<b>QUARTERLY</b>										
2001	Q1	3.0	3.0	-0.6	-0.6	3.7	3.7	4.0	4.0	4.2
	Q2	0.9	0.9	-1.6	-1.6	2.5	2.5	3.2	3.2	4.4
	Q3	1.9	1.9	-0.3	-0.3	2.2	2.2	0.9	0.9	4.8
	Q4	2.2	2.2	2.7	2.7	-0.5	-0.5	-0.7	-0.7	5.6
2002	Q1	6.5	6.5	5.0	5.0	1.3	1.3	1.4	1.4	5.6
	Q2	2.5	2.5	1.3	1.3	1.2	1.2	3.4	3.4	5.9
	Q3	5.1	5.1	4.0	4.0	1.0	1.0	2.2	2.2	5.8
	Q4	3.0	3.2	1.4	1.4	1.6	1.8	2.0	2.0	5.9
2003	Q1	4.3	4.3	2.3	1.6	2.0	2.6	3.8	3.8	5.8
	Q2	3.8	3.1	2.3	2.0	1.4	1.0	2.8	0.3	6.1
	Q3	4.9	4.5	3.8	3.4	1.0	1.1	0.4	0.7	6.2
	Q4	5.7	5.5	4.5	4.3	1.2	1.2	1.1	1.5	6.1
2004	Q1	6.6	6.3	4.9	4.7	1.6	1.6	1.4	1.5	6.0
	Q2	6.0	6.0	4.7	4.8	1.2	1.2	1.4	1.4	6.0
	Q3	5.7	6.0	4.6	4.8	1.1	1.1	1.4	1.4	5.7
	Q4	5.5	5.9	4.4	4.8	1.1	1.1	1.5	1.4	5.5
<b>TWO-QUARTER<sup>3</sup></b>										
2001	Q2	1.9	1.9	-1.1	-1.1	3.1	3.1	3.5	3.5	0.5
	Q4	2.1	2.1	1.2	1.2	0.8	0.8	0.2	0.2	1.2
2002	Q2	4.5	4.5	3.1	3.1	1.3	1.3	2.4	2.4	0.3
	Q4	4.0	4.1	2.7	2.7	1.3	1.4	2.1	2.1	0.0
2003	Q2	4.0	3.7	2.3	1.8	1.7	1.8	3.3	2.1	0.2
	Q4	5.3	5.0	4.1	3.9	1.1	1.1	0.8	1.1	0.0
2004	Q2	6.3	6.1	4.8	4.7	1.4	1.4	1.4	1.5	-0.2
	Q4	5.6	5.9	4.5	4.8	1.1	1.1	1.4	1.4	-0.4
<b>FOUR-QUARTER<sup>4</sup></b>										
2000	Q4	4.6	4.6	2.3	2.3	2.3	2.3	3.4	3.4	-0.2
2001	Q4	2.0	2.0	0.1	0.1	2.0	2.0	1.8	1.8	1.7
2002	Q4	4.3	4.3	2.9	2.9	1.3	1.3	2.2	2.2	0.3
2003	Q4	4.7	4.3	3.2	2.8	1.4	1.5	2.0	1.6	0.2
2004	Q4	6.0	6.0	4.6	4.8	1.3	1.2	1.4	1.4	-0.5

1. For all urban consumers.

2. Level, except as noted.

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

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

Item	Units <sup>1</sup>	-- Projected --									
		1996	1997	1998	1999	2000	2001	2002	2003	2004	
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	7813.2	8318.4	8781.5	9274.3	9824.6	10082.2	10446.2	10858.2	11467.0	
Real GDP	Bill. Ch. \$	7813.2	8159.5	8508.9	8859.0	9191.4	9214.5	9439.9	9659.1	10076.3	
Real GDP	% change	4.1	4.3	4.8	4.3	2.3	0.1	2.9	2.8	4.8	
Gross domestic purchases		4.3	5.0	5.8	5.2	2.9	0.1	3.7	2.7	5.1	
Final sales		3.9	3.9	4.7	4.2	2.6	1.6	1.7	3.0	4.2	
Priv. dom. final purchases		4.4	5.1	6.3	5.2	3.7	0.9	2.3	2.6	5.4	
Personal cons. expenditures		3.1	4.1	5.0	5.0	3.5	2.8	2.7	2.6	4.6	
Durables		5.0	8.8	12.7	10.0	3.8	13.2	1.9	5.3	7.5	
Nondurables		3.2	2.5	5.0	4.9	3.0	1.7	3.4	3.2	4.7	
Services		2.7	3.9	3.6	4.0	3.8	1.3	2.5	1.8	4.1	
Business fixed investment		12.1	11.8	12.3	6.6	6.2	-9.3	-1.7	2.5	11.2	
Equipment & Software		11.8	13.7	14.9	9.7	5.2	-8.8	3.3	3.7	14.1	
Nonres. structures		12.8	6.5	4.9	-2.5	9.3	-10.6	-15.9	-1.6	1.7	
Residential structures		5.6	3.5	10.0	4.0	-1.2	1.0	6.7	3.2	3.8	
Exports		9.8	8.5	2.3	4.9	7.3	-11.4	3.9	4.9	9.0	
Imports		11.2	14.3	10.8	11.9	11.1	-8.0	10.1	3.4	10.0	
Gov't. cons. & investment		2.7	2.4	2.7	4.5	1.3	5.1	3.6	3.9	1.1	
Federal		2.0	0.1	0.6	4.0	-1.2	7.5	7.5	9.4	-0.3	
Defense		0.8	-1.4	-0.8	4.4	-2.5	7.4	9.3	11.3	-2.3	
State & local		3.0	3.7	3.8	4.8	2.6	3.9	1.6	0.9	1.9	
Change in bus. inventories	Bill. Ch. \$	30.0	63.8	76.7	62.8	65.0	-61.4	5.2	2.1	52.7	
Nonfarm		21.2	60.6	75.0	64.1	67.2	-63.2	4.1	0.8	51.3	
Net exports		-89.0	-113.3	-221.1	-320.5	-398.8	-415.9	-488.5	-527.2	-579.3	
Nominal GDP	% change	6.0	6.2	6.0	5.9	4.6	2.0	4.3	4.3	6.0	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	119.6	122.7	125.9	128.9	131.7	131.9	130.8	130.6	133.6	
Unemployment rate	%	5.4	4.9	4.5	4.2	4.0	4.8	5.8	6.0	5.9	
Industrial prod. index	% change	5.5	8.0	4.0	4.9	2.7	-5.7	1.4	1.8	6.0	
Capacity util. rate - mfg.	%	81.2	82.7	81.9	81.4	81.4	75.6	73.7	73.1	76.5	
Housing starts	Millions	1.48	1.47	1.62	1.64	1.57	1.60	1.71	1.77	1.84	
Light motor vehicle sales		15.05	15.07	15.41	16.78	17.24	17.02	16.70	16.52	17.31	
North Amer. produced		13.34	13.14	13.39	14.30	14.38	13.94	13.42	13.16	13.86	
Other		1.70	1.93	2.02	2.48	2.86	3.08	3.29	3.36	3.45	
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	7831.2	8325.4	8778.1	9297.1	9848.0	10104.1	10436.7	10862.3	11472.1	
Nominal GNP	% change	5.9	6.0	5.8	6.4	4.6	2.1	3.8	4.5	6.0	
Nominal personal income		5.9	6.3	6.7	5.1	7.7	1.4	3.9	4.2	5.4	
Real disposable income		2.6	3.8	5.0	2.4	4.8	0.3	5.5	3.1	5.0	
Personal saving rate	%	4.8	4.2	4.7	2.6	2.8	2.3	3.7	4.0	5.0	
Corp. profits, IVA & CCAdj.	% change	11.4	9.9	-9.6	7.0	-9.1	8.2	-1.9	8.3	9.5	
Profit share of GNP	%	9.6	10.0	8.9	8.7	8.0	7.2	7.5	7.7	7.9	
Excluding FR Banks		9.4	9.7	8.6	8.4	7.7	7.0	7.3	7.5	7.8	
Federal surpl./deficit	Bill. \$	-136.8	-53.3	43.8	111.9	206.9	72.0	-199.9	-276.7	-338.2	
State & local surpl./def.		21.4	31.0	40.7	38.3	18.0	-31.3	-51.5	-54.9	-18.1	
Ex. social ins. funds		18.7	29.9	40.0	37.4	17.8	-31.2	-51.4	-54.8	-18.0	
Gross natl. saving rate	%	17.2	18.0	18.8	18.3	18.4	16.5	15.1	14.6	15.2	
Net natl. saving rate		5.7	6.7	7.5	6.8	6.7	3.8	2.0	1.4	2.2	
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	1.9	1.8	1.1	1.6	2.3	2.0	1.3	1.5	1.2	
Gross Domestic Purchases chn.-wt. price index		1.9	1.4	0.8	1.9	2.5	1.3	1.6	1.5	1.2	
PCE chn.-wt. price index		2.3	1.5	1.1	2.0	2.5	1.5	1.8	1.3	1.0	
Ex. food and energy		1.8	1.7	1.6	1.5	1.8	1.9	1.6	1.2	1.0	
CPI		3.2	1.9	1.5	2.6	3.4	1.8	2.2	1.6	1.4	
Ex. food and energy		2.6	2.2	2.3	2.0	2.6	2.7	2.1	1.7	1.5	
ECI, hourly compensation <sup>2</sup>		3.1	3.4	3.5	3.4	4.4	4.2	3.2	3.7	3.1	
Nonfarm business sector											
Output per hour		2.3	2.2	2.9	2.9	2.1	1.9	4.0	2.0	1.5	
Compensation per Hour		3.2	3.4	5.3	4.3	7.2	1.4	3.2	3.1	2.7	
Unit labor cost		0.9	1.1	2.3	1.4	4.9	-0.5	-0.9	1.0	1.2	

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

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

1. Private-industry workers.

Item	Units	Projected									
		2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	10506.2	10588.8	10700.5	10781.7	10901.5	11049.1	11218.9	11383.2	11549.1	11716.9
Real GDP	Bill. Ch. \$	9485.6	9518.2	9556.9	9604.8	9686.2	9788.3	9900.2	10016.4	10134.4	10254.4
Real GDP	% change	4.0	1.4	1.6	2.0	3.4	4.3	4.7	4.8	4.8	4.8
Gross domestic purchases		3.9	2.9	0.8	2.6	3.5	4.0	5.0	5.3	5.2	4.8
Final sales		3.4	1.1	2.0	3.0	3.2	3.7	4.1	3.7	4.5	4.7
Priv. dom. final purchases		3.4	2.2	1.2	2.6	2.9	3.8	5.3	5.0	5.8	5.5
Personal cons. expenditures		4.2	1.7	1.4	2.5	2.9	3.6	4.8	4.1	4.8	4.9
Durables		22.8	-8.2	-1.1	10.0	5.3	7.3	8.5	7.4	6.5	7.5
Nondurables		1.0	5.1	4.1	2.0	3.3	3.6	4.6	4.1	5.1	5.0
Services		2.3	2.2	0.5	1.3	2.3	2.9	4.2	3.5	4.3	4.4
Business fixed investment		-0.8	2.3	-4.2	5.6	3.3	5.6	9.7	12.2	13.7	9.5
Equipment & Software		6.7	6.2	-4.4	8.0	4.5	7.3	12.6	15.3	16.5	12.0
Nonres. structures		-21.4	-9.9	-3.4	-2.3	-0.7	-0.2	0.2	1.8	4.0	0.8
Residential structures		1.1	9.4	11.5	-1.5	1.4	1.8	2.6	3.3	4.4	5.0
Exports		4.6	-5.8	-2.1	3.5	7.9	10.7	6.6	9.0	9.1	11.3
Imports		3.3	7.4	-6.8	7.2	7.3	6.5	8.9	11.5	10.6	9.1
Gov't. cons. & investment		2.9	4.6	1.0	7.5	5.3	2.1	1.1	1.2	0.7	1.3
Federal		4.3	11.0	2.6	20.3	12.5	3.3	0.3	0.0	-1.5	-0.1
Defense		6.9	11.0	-1.5	30.4	16.8	2.4	-2.2	-1.5	-3.7	-1.9
State & local		2.2	1.2	0.1	0.8	1.2	1.4	1.7	1.9	2.1	2.1
Change in bus. inventories	Bill. Ch. \$	18.8	25.8	14.4	-11.1	-5.0	10.3	26.0	54.0	63.7	66.9
Nonfarm		20.8	26.5	12.1	-12.1	-5.9	9.1	24.7	52.6	62.4	65.4
Net exports		-488.0	-532.2	-510.0	-528.3	-536.3	-534.2	-551.8	-573.7	-592.4	-599.3
Nominal GDP	% change	5.1	3.2	4.3	3.1	4.5	5.5	6.3	6.0	6.0	5.9
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	130.8	130.8	130.6	130.2	130.4	131.1	132.1	133.1	134.1	135.2
Unemployment rate	%	5.8	5.9	5.8	6.0	6.1	6.1	6.1	6.0	5.9	5.6
Industrial prod. index	% change	3.4	-3.4	0.4	-2.9	3.6	6.4	6.7	6.7	5.5	5.2
Capacity util. rate - mfg.	%	74.3	73.5	73.2	72.5	72.9	73.9	75.0	76.2	77.0	77.8
Housing starts	Millions	1.70	1.75	1.75	1.76	1.79	1.80	1.81	1.82	1.85	1.86
Light motor vehicle sales		17.63	16.50	15.84	16.53	16.74	16.96	17.17	17.32	17.34	17.40
North Amer. produced		14.27	13.25	12.45	13.15	13.40	13.62	13.73	13.87	13.89	13.95
Other		3.35	3.24	3.38	3.38	3.34	3.34	3.44	3.45	3.45	3.45
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	10495.3	10579.7	10700.2	10785.6	10907.5	11055.8	11225.3	11389.1	11553.9	11720.3
Nominal GNP	% change	5.5	3.3	4.6	3.2	4.6	5.6	6.3	6.0	5.9	5.9
Nominal personal income		2.0	3.7	3.9	3.8	3.9	5.0	5.6	5.3	5.3	5.3
Real disposable income		1.8	2.4	1.5	2.7	3.0	5.3	8.5	3.8	3.9	4.0
Personal saving rate	%	3.5	3.8	3.8	3.9	3.9	4.3	5.2	5.2	5.0	4.8
Corp. profits, IVA & CCAdj.	% change	-6.9	13.7	13.0	3.7	7.3	9.5	7.3	12.0	8.8	10.0
Profit share of GNP	%	7.3	7.5	7.7	7.7	7.7	7.8	7.8	7.9	8.0	8.1
Excluding FR Banks		7.1	7.3	7.5	7.5	7.5	7.6	7.6	7.7	7.8	7.9
Federal surpl./deficit	Bill. \$	-210.5	-247.7	-241.9	-271.5	-280.0	-313.3	-385.0	-360.6	-330.9	-276.2
State & local surpl./def.		-54.7	-50.6	-63.3	-58.8	-57.5	-39.9	-30.0	-22.5	-16.3	-3.6
Ex. social ins. funds		-54.6	-50.5	-63.2	-58.7	-57.4	-39.8	-29.9	-22.4	-16.2	-3.5
Gross natl. saving rate	%	14.6	14.6	14.5	14.5	14.6	14.8	14.9	15.2	15.3	15.4
Net natl. saving rate		1.4	1.5	1.4	1.3	1.4	1.6	1.8	2.1	2.3	2.5
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	1.0	1.8	2.6	1.0	1.1	1.2	1.6	1.2	1.1	1.1
Gross Domestic Purchases chn.-wt. price index		1.2	1.8	3.7	0.6	0.7	1.1	1.5	1.1	1.0	1.0
PCE chn.-wt. price index		1.7	1.8	2.8	0.6	0.5	1.1	1.1	1.1	1.0	1.0
Ex. food and energy		1.8	1.5	0.9	1.6	1.3	1.2	1.2	1.1	1.0	1.0
CPI		2.2	2.0	3.8	0.3	0.7	1.5	1.5	1.4	1.4	1.4
Ex. food and energy		2.1	1.7	1.3	1.7	1.9	1.7	1.6	1.6	1.5	1.5
ECI, hourly compensation <sup>1</sup>		2.5	3.0	5.5	3.2	3.1	3.1	3.1	3.1	3.0	3.1
Nonfarm business sector		5.5	0.7	1.4	2.5	2.4	1.8	1.4	1.5	1.5	1.5
Output per hour		1.8	4.0	3.4	3.1	3.0	2.9	2.8	2.7	2.6	2.5
Compensation per hour		-3.5	3.2	2.0	0.6	0.5	1.1	1.4	1.2	1.1	1.0

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

April 30, 2003

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

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2004/ Q1Q4	0.304/ 0.2Q4	0.404/ 0.3Q4
Real GDP	1.4	1.6	2.0	3.4	4.3	4.7	4.8	4.8	4.8	2.8	2.8	4.8
Gross dom. purchases	3.0	0.8	2.7	3.7	4.2	5.3	5.4	5.0	3.9	2.8	2.8	5.3
Final sales	1.1	2.0	3.0	3.2	3.7	4.1	3.8	4.5	4.7	1.7	3.0	4.2
Priv. dom. final purchases	1.8	1.0	2.2	2.5	3.2	4.4	4.3	4.9	4.7	2.0	2.2	4.6
Personal cons. expenditures	1.2	1.0	1.7	2.0	2.5	3.3	2.9	3.3	3.4	1.9	1.8	3.2
Durables	-1.7	-0.1	0.8	0.4	0.6	0.7	0.6	0.5	0.6	0.2	0.4	0.6
Nondurables	1.0	0.8	0.4	0.7	0.7	0.9	0.8	1.0	1.0	0.7	0.7	0.9
Services	0.9	0.2	0.5	1.0	1.2	1.8	1.5	1.8	1.8	1.0	0.7	1.7
Business fixed investment	0.2	-0.4	0.6	0.3	0.6	1.0	1.2	1.4	1.0	-0.2	0.3	1.2
Equipment & software	0.5	-0.4	0.6	0.4	0.6	1.0	1.2	1.3	1.0	0.3	0.3	1.1
Nonres. structures	-0.3	-0.1	-0.1	-0.0	-0.0	0.0	0.0	0.1	0.0	-0.5	-0.0	0.0
Residential structures	0.4	0.5	-0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.1	0.2
Net exports	-1.6	0.8	-0.7	-0.3	0.1	-0.6	-0.7	-0.6	-0.2	-1.0	-0.0	-0.5
Exports	-0.6	-0.2	0.3	0.7	1.0	0.6	0.9	1.1	0.4	0.5	0.9	
Imports	-1.0	1.0	-1.0	-1.0	-0.9	-1.2	-1.6	-1.5	-1.3	-1.3	-0.5	-1.4
Government cons. & invest.	0.9	0.2	1.4	1.0	0.4	0.2	0.2	0.2	0.3	0.7	0.8	0.2
Federal	0.7	0.2	1.3	0.9	0.2	0.0	0.0	-0.1	-0.0	0.5	0.6	-0.0
Defense	0.5	-0.1	1.2	0.7	0.1	-0.1	-0.1	-0.2	-0.1	0.4	0.5	-0.1
Nondefense	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
State and local	0.2	0.0	0.1	0.2	0.2	0.2	0.3	0.3	0.2	0.1	0.1	0.2
Change in bus. inventories	0.3	-0.4	-1.0	0.2	0.6	1.0	0.3	0.1	1.2	-0.1	0.5	
Nonfarm	0.2	-0.5	-0.9	0.2	0.6	1.0	0.3	0.1	1.2	-0.2	0.5	
Farm	0.1	0.2	-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.

Item	Fiscal year			2002				2003				2004				
	2001 <sup>a</sup>	2002 <sup>a</sup>	2003	2004	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4 <sup>a</sup>	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget<sup>1</sup></b>																
Receipts <sup>2</sup>	1991	1853	1826	1843	413	523	452	428	398	531	470	443	404	527	468	467
Outlays <sup>2</sup>	1864	2011	2155	2252	509	507	493	536	542	543	534	569	571	563	548	584
Surplus/deficit <sup>2</sup>	127	-158	-329	-409	-97	16	-41	-108	-144	-12	-65	-127	-167	-36	-80	-117
On-budget	-33	-317	-497	-588	-127	-58	-52	-161	-168	-89	-78	-170	-208	-114	-96	-163
Off-budget	161	160	168	178	30	73	11	53	24	77	14	44	41	78	16	46
Means of financing																
Borrowing	-90	221	325	436	51	21	89	97	64	35	129	131	162	70	73	112
Cash decrease	8	-17	26	-10	38	-26	-21	28	20	-43	21	5	0	-30	15	15
Other <sup>3</sup>	-45	-46	-22	-17	8	-11	-27	-16	61	19	-85	-10	5	-4	-8	-10
Cash operating balance, end of period	44	61	35	45	14	40	61	33	13	56	35	30	30	60	45	30
<b>NIPA federal sector</b>																
Receipts	2024	1906	1903	1928	1885	1884	1864	1870	1898	1911	1934	1929	1887	1928	1969	2040
Expenditures	1909	2039	2165	2276	2031	2079	2075	2117	2147	2183	2214	2243	2272	2288	2300	2316
Consumption expenditures	517	570	642	691	566	581	590	609	628	656	674	681	694	695	696	
Defense	337	375	426	459	372	383	389	403	410	437	452	456	461	458	457	
Nondefense	180	195	216	232	194	199	201	206	219	220	222	225	233	235	237	239
Other spending	1392	1469	1523	1585	1464	1498	1485	1508	1526	1539	1562	1579	1593	1605	1620	
Current account surplus	115	-133	-262	-347	-146	-196	-211	-248	-248	-272	-280	-313	-385	-361	-331	-276
Gross investment	98	106	115	125	106	107	108	110	118	124	125	125	125	124	124	
Gross saving less gross investment <sup>4</sup>	116	-138	-272	-363	-151	-201	-216	-252	-284	-297	-331	-401	-375	-343	-287	
<b>Fiscal indicators<sup>5</sup></b>																
High-employment (HEB) surplus/deficit	115	-80	-189	-300	-100	-137	-158	-182	-174	-195	-206	-247	-334	-319	-301	-259
Change in HEB, percent of potential GDP	0.1	1.9	1.0	0.9	1.7	0.3	0.2	0.2	-0.1	0.2	0.1	0.3	0.7	-0.2	-0.2	-0.4
Fiscal impetus (FI) percent of GDP	0.6	1.1	0.9	1.0	0.6	0.4	0.0	0.3	0.1	0.4	0.3	0.3	0.6	0.0	0.0	-0.0

1.

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

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

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

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

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

April 30, 2003

Period <sup>1</sup>	Total	Federal government	Nonfederal				Memo: Nominal GDP	
			Households		Consumer credit	Business		
			Total	Home mortgages				
<i>Year</i>								
1997	5.5	0.6	7.2	6.4	6.7	4.7	9.0	
1998	6.9	-1.4	9.6	8.2	8.9	5.9	12.1	
1999	6.4	-1.9	8.8	8.3	9.0	7.4	10.6	
2000	4.9	-8.0	8.3	8.4	8.3	9.6	9.7	
2001	6.2	-0.2	7.7	8.6	9.8	6.8	6.4	
2002	7.1	7.6	7.0	9.8	12.4	3.3	11.4	
2003	7.1	9.9	6.5	8.3	10.3	3.3	4.3	
2004	6.8	10.4	6.0	6.7	7.7	4.5	5.1	
<i>Quarter</i>								
2002:1	5.0	1.2	5.8	9.2	10.3	4.8	2.2	
2	8.3	15.5	6.8	8.7	10.9	4.7	3.4	
3	6.5	7.5	6.3	9.4	12.6	3.3	1.9	
4	7.7	5.6	8.2	10.7	13.7	0.1	4.0	
2003:1	6.5	2.5	7.4	9.5	12.3	3.7	4.2	
2	8.4	15.9	6.8	8.7	11.1	3.0	4.3	
3	6.8	11.1	5.9	7.2	8.5	3.2	4.2	
4	6.1	8.7	5.5	6.6	8.0	3.2	4.1	
2004:1	6.8	12.1	5.6	6.4	7.6	3.8	4.5	
2	7.8	17.5	5.6	6.4	7.3	4.3	4.7	
3	5.7	4.7	5.9	6.6	7.4	4.7	5.2	
4	6.1	6.0	6.2	6.8	7.5	5.1	5.6	

Note: Quarterly data are at seasonally adjusted annual rates.

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

2.6.3 FOF

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

**April 30, 2003**  
**Flow of Funds Projections: Highlights**  
**(Billions of dollars except as noted)**

Category	Calendar year				2002				2003				Seasonally adjusted annual rates			
	2001	2002	2003	2004	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2004	
<i>Net funds raised by domestic nonfinancial sectors</i>																
1 Total	1078.5	1323.5	1395.7	1436.4	1167.2	1523.3	1290.8	1663.3	1377.5	1251.4	1435.9	1694.8	1245.1	1369.9		
2 Net equity issuance	-47.4	-40.2	-77.3	-62.0	-130.8	-39.9	-62.0	-96.0	-79.0	-72.0	-66.0	-64.0	-59.0	-59.0		
3 Net debt issuance	1125.9	1363.7	1473.0	1498.4	1298.0	1563.2	1352.8	1759.3	1456.5	1323.4	1501.9	1758.8	1304.1	1428.9		
<i>Borrowing sectors</i>																
Nonfinancial business																
4 Financing gap <sup>1</sup>	141.4	81.3	72.3	135.3	90.2	97.4	96.0	62.1	57.8	73.1	91.8	124.7	144.0	180.7		
5 Net equity issuance	-47.4	-40.2	-77.3	-62.0	-130.8	-39.9	-62.0	-96.0	-79.0	-72.0	-66.0	-64.0	-59.0	-59.0		
6 Credit market borrowing	417.6	201.8	304.3	379.5	132.6	285.0	298.3	311.8	306.8	300.0	336.8	357.0	393.4	430.8		
Households																
7 Net borrowing <sup>2</sup>	611.8	756.9	697.6	613.6	755.7	883.1	805.6	755.9	635.1	593.9	589.0	592.7	622.5	650.5		
8 Home mortgages	478.5	668.4	625.7	511.2	716.7	799.3	744.2	691.1	543.2	524.2	506.2	494.2	513.2	531.2		
9 Consumer credit	108.8	55.5	58.3	82.4	57.9	1.0	65.0	53.6	56.5	58.3	68.1	79.7	87.1	94.8		
10 Debt/DPI (percent) <sup>3</sup>	99.8	103.2	107.9	109.3	103.4	104.9	106.4	108.0	109.2	109.3	108.5	109.0	109.4	109.9		
State and local governments																
11 Net borrowing	102.2	147.4	111.9	88.8	144.0	196.5	158.0	108.2	90.8	90.8	92.8	88.8	86.8	86.8		
12 Current surplus <sup>4</sup>	140.6	128.1	128.7	172.4	126.2	128.3	118.3	123.9	126.6	145.9	157.7	167.1	175.2	189.8		
Federal government																
13 Net borrowing	-5.6	258.2	359.2	416.5	265.7	201.1	90.9	583.4	423.8	338.7	483.3	720.3	201.4	260.8		
14 Net borrowing (quarterly, n.s.a.)	-5.6	258.2	359.2	416.5	89.4	96.9	63.5	35.4	129.0	131.3	161.6	69.7	73.4	111.8		
15 Unified deficit (quarterly, n.s.a.)	-94.3	231.2	346.8	399.5	41.5	108.7	143.9	11.8	64.5	126.5	167.1	35.7	80.0	116.7		
<i>Depository institutions<sup>5</sup></i>																
16 Funds supplied	289.4	489.6	381.6	405.2	743.6	553.3	348.9	357.6	429.3	390.6	419.7	375.5	421.9	403.7		
<i>Memo (percentage of GDP)</i>																
17 Domestic nonfinancial debt <sup>5</sup>	185.8	191.2	197.0	199.5	191.4	193.2	194.6	196.8	198.3	198.8	198.9	199.6	200.1	200.1		
18 Domestic nonfinancial borrowing	11.2	13.1	13.6	13.1	12.4	14.8	12.6	16.3	13.4	12.0	13.4	15.5	11.3	12.2		
19 Federal government <sup>6</sup>	-0.1	2.5	3.3	3.6	2.5	1.9	0.8	5.4	3.9	3.1	4.3	6.3	1.7	2.2		
20 Nonfederal	11.2	10.6	10.3	9.4	9.8	12.9	11.8	10.9	9.5	8.9	9.1	9.1	9.5	10.0		

Note. Data after 2002: Q4 are staff projections.

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

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

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

2.6.4 FOF

4. NIPA surplus less changes in retirement fund assets plus consumption of fixed capital.

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

6. Excludes government-insured mortgage pool securities.

## International Developments

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Recent developments in Iraq have contributed to a sharp drop in the price of oil and a rebound in U.S. and foreign equity markets. However, concerns about the strength of the global economy remain. Confidence measures in the European economies have remained low, and the emergence of Severe Acute Respiratory Syndrome (SARS) threatens the near-term economic prospects of a number of Asian emerging-market economies. In addition, recent indicators of economic activity for both Canada and Mexico have been somewhat less robust than had been anticipated. Taken together, these developments have prompted a downward revision of nearly 1 percentage point to our second-quarter forecast for foreign GDP growth. However, we have not made much change to our growth rates further out. We continue to expect that recent and prospective monetary policy stimulus, lower oil prices, and projected improvement in the U.S. economy will result in a moderate rebound in foreign activity in the second half of this year and a further pickup next year.

Foreign inflation increased in the first quarter but should drop sharply in the second quarter, reflecting movements in oil prices. Going forward, inflation is projected to remain subdued as excess capacity abroad persists.

Regarding SARS, our working assumption is that the epidemic will be contained by the end of May, with most of the economic effect occurring in the second quarter. Going forward, we expect some positive economic payback, but this will probably occur only gradually as confidence recovers. However, the possibility that the effect will be more severe or prolonged is an important downside risk to the forecast and is the subject of our alternative simulation.

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

Indicator	2002		Projection			2004	
	H1	H2	2003				
			Q1	Q2	H2		
Foreign output	3.6	2.2	2.2	1.5	3.0	3.5	
<i>March GB</i>	3.6	2.1	2.0	2.4	3.0	3.5	
Foreign CPI	2.4	2.7	3.7	0.9	2.0	1.9	
<i>March GB</i>	2.4	2.7	2.8	2.4	2.1	2.0	

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

Oil prices are projected to drift down a bit further over the forecast period in line with current quotes from futures markets. The path is lower in this forecast than in the previous one, although the difference is small by the end of 2004. The lower oil prices have contributed to a modest improvement in the outlook for the

our outlook for inflation in the developing world to less than 3 percent for this year and next. Inflationary pressures remain in countries such as Argentina and Brazil, which experienced large currency depreciations last year. However, with the recent currency appreciations in these countries, these pressures should abate somewhat.

### **Prices of Internationally Traded Goods**

After rising moderately during the last three quarters of 2002, the price index for U.S. imports of core goods rose 5½ percent at an annual rate in the first quarter of 2003 and is projected to rise about as fast in the second quarter. The main product category driving these increases, which are considerably higher than anticipated at the time of the March Greenbook, is non-oil industrial supplies, particularly natural gas and chemicals. In the second half of 2003, core import prices are expected to increase at a more subdued pace of 1¼ percent, as natural gas and chemical prices decline. We expect core import price inflation to remain around that pace in 2004.

The price index for U.S. exports of core goods rose 4½ percent at an annual rate in the first quarter, reflecting largely a sharp jump in the price of industrial supplies. Over the remainder of the forecast period, core export prices are expected to rise at a slower pace in line with projected U.S. producer price inflation.

### **Selected Trade Prices**

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

Trade category	2002		2003	Projection		
	H1	H2	Q1	2003		2004
				Q2	H2	
<i>Exports</i>						
Core goods	1.2	3.1	4.4	.1	.7	1.3
<i>Imports</i>						
Non-oil core goods	-.1	1.4	5.4	5.4	1.2	1.3
Oil (dollars per barrel)	24.04	25.75	30.73	25.05	22.44	21.37

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

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

### **Trade in Goods and Services**

In the first quarter, real exports of goods and services fell for the second consecutive quarter, reflecting slow economic growth in our major trading

partners. Exported core goods fell a small amount after a much sharper decline in the fourth quarter, with the first-quarter fall largely accounted for by declines in exports of capital goods. Exports of high-tech goods remained sluggish. The weakness in real exports was more pronounced than we had estimated based on partial data on nominal trade flows at the time of the March Greenbook. About half of the difference was a result of the higher-than-expected increases in export prices. In addition, exports of services were flat compared with our expectation for some increase. We expect some of the recent decline in exports to begin to be reversed in the current quarter, although growth should be relatively subdued as foreign demand remains weak.

We expect real exports of goods and services to increase more rapidly in the second half of 2003, growing about 9 percent at an annual rate, and to continue to expand near that pace in 2004. Most of the acceleration in exports of core goods, which are projected to increase at rates around 7 percent in both the second half of this year and in 2004, reflects the projected pickup in growth of foreign GDP. This includes both the standard income effect and an additional boost from the cyclical recovery, as trade in core goods generally shows greater cyclical fluctuation than real GDP. Past and prospective dollar depreciation suggests that relative prices should switch from restraining these exports to providing a moderate boost to their growth. Exports of services are expected to increase at an annual rate of around 5½ percent over the forecast period. In addition, exports of computers and semiconductors are expected to recover from the high-tech downturn and to resume growth that is broadly in line with historical experience.

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

Measure	2002		Projection			2004	
	H1	H2	2003				
			Q1	Q2	H2		
Real exports	8.7	-.7	-2.1	3.5	9.3	9.0	
<i>March GB</i>	8.7	-.8	2.5	5.8	8.9	9.0	
Real imports	15.2	5.3	-6.8	7.2	6.9	10.0	
<i>March GB</i>	15.2	3.3	.1	9.0	6.9	9.6	

NOTE. Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2. Real imports of goods and services dropped sharply in the first quarter, nearly reversing the fourth-quarter gain. Imported consumer goods were flat, and imports of aircraft, oil, and non-oil industrial supplies all turned down after

**Alternative Simulation:**  
**SARS Demand Shock in Asia**

(Percent change from previous period, annual rate)

Indicator and simulation	2003		2004	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	1.8	3.9	4.7	4.8
SARS shock	1.7	3.6	4.6	4.8
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	1.1	1.3	1.1	1.0
SARS shock	1.1	1.3	1.1	0.9

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

Measure and country	1996	1997	1998	1999	2000	2001	2002	2003	2004	Projected-----
<b>REAL GDP (1)</b>										
Total foreign	4.0	4.2	1.6	4.9	4.2	0.1	2.9	2.4	3.5	
Industrial Countries	2.7	3.4	2.7	4.1	3.5	0.4	2.8	1.8	2.6	
of which:										
Canada	2.7	4.4	4.4	5.7	3.5	0.8	3.9	2.4	3.1	
Japan	3.3	0.3	-1.3	-0.5	5.1	-2.4	2.8	0.3	1.2	
United Kingdom	2.8	3.7	2.6	3.2	2.2	1.9	2.2	1.6	2.5	
Euro Area (2)	1.6	3.1	2.1	3.8	2.7	0.5	1.3	1.4	2.7	
Germany	1.4	1.7	0.7	3.3	1.9	0.1	0.7	0.7	2.3	
Developing Countries	6.2	5.4	-0.3	6.2	5.2	-0.3	3.1	3.4	4.9	
Asia	6.6	5.0	-2.1	8.6	6.1	1.0	5.5	4.4	5.8	
Korea	6.4	3.4	-5.2	13.8	5.1	4.2	7.0	5.2	5.5	
China	5.3	8.7	9.5	4.1	8.0	7.5	8.0	7.0	7.7	
Latin America	6.3	6.2	1.2	4.4	4.4	-1.5	1.2	2.7	4.4	
Mexico	7.1	6.9	2.9	5.6	4.7	-1.5	2.1	3.0	5.0	
Brazil	5.4	2.5	-1.6	3.5	4.0	-0.7	3.4	2.1	3.0	
<b>CONSUMER PRICES (3)</b>										
Industrial Countries	1.5	1.5	1.0	1.2	1.8	1.0	2.2	1.6	1.2	
of which:										
Canada	2.0	1.0	1.1	2.4	3.1	1.1	3.8	2.7	1.9	
Japan	0.2	2.1	0.7	-1.1	-1.3	-1.3	-0.4	-0.8	-0.8	
United Kingdom (4)	3.2	2.7	2.5	-2.2	2.5	2.0	2.6	2.5	2.6	
Euro Area (2)	1.9	1.5	0.8	1.5	2.5	2.1	2.3	1.8	2.1	
Germany	1.3	1.5	0.3	1.1	1.8	1.7	1.2	1.0	0.7	
Developing Countries	11.1	6.8	9.0	4.6	4.1	2.8	2.9	2.7	2.7	
Asia	4.8	2.7	4.4	0.1	1.8	1.0	0.7	1.2	1.8	
Korea	5.0	4.9	5.8	1.2	2.5	3.3	3.4	3.9	2.4	
China	6.8	0.9	-1.2	-0.9	0.8	-0.2	-0.7	-0.0	1.4	
Latin America	25.8	15.5	15.4	12.5	8.4	5.4	6.5	5.0	4.2	
Mexico	28.0	17.0	17.3	13.5	8.8	5.2	5.3	3.9	3.6	
Brazil	9.6	4.6	2.0	8.4	6.4	7.5	10.7	12.7	7.7	

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

2. Harmonized data for euro area from Eurostat.

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

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

Measure and country	2002				2003				Projected 2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>REAL GDP (1)</b>												
Total foreign	2.7	4.6	2.8	1.5	2.2	1.5	2.8	3.2	3.4	3.6	3.6	3.6
Industrial Countries	3.3	3.5	2.9	1.4	1.5	1.3	1.9	2.4	2.5	2.7	2.7	2.7
of which:												
Canada	6.0	4.4	3.6	1.6	2.3	1.6	2.4	3.2	3.2	3.3	3.0	2.9
Japan	0.4	5.5	3.1	2.2	0.4	-0.2	0.2	0.6	0.9	1.2	1.3	1.3
United Kingdom	0.5	2.4	4.3	1.5	0.8	1.4	1.9	2.1	2.2	2.4	2.6	2.8
Euro Area (2)	1.6	1.3	1.6	0.7	0.8	1.0	1.7	2.1	2.4	2.7	2.9	2.9
Germany	1.2	0.6	1.2	-0.1	-0.0	0.4	1.1	1.5	1.8	2.2	2.5	2.6
Developing Countries	1.8	6.2	2.8	1.7	3.3	1.8	4.0	4.5	4.8	4.8	4.9	4.9
Asia	6.2	7.4	3.1	5.5	4.8	1.8	5.3	5.7	5.7	5.8	5.8	5.8
Korea	10.5	5.4	3.9	8.3	4.2	5.2	5.6	5.6	5.5	5.5	5.5	5.5
China	8.8	9.3	7.5	6.8	16.3	-3.0	7.5	8.0	7.7	7.7	7.7	7.7
Latin America	-1.5	5.4	2.3	-1.2	2.4	1.6	3.0	3.8	4.4	4.4	4.4	4.4
Mexico	-0.7	7.4	1.2	0.6	2.8	1.6	3.4	4.3	5.0	5.0	5.0	5.0
Brazil	3.7	3.4	3.7	2.9	1.0	2.0	2.5	3.0	3.0	3.0	3.0	3.0
<b>CONSUMER PRICES (3)</b>												
Industrial Countries	1.2	1.0	1.4	2.2	2.5	2.2	1.9	1.6	1.0	1.2	1.2	1.2
of which:												
Canada	1.6	1.3	2.3	3.8	4.5	3.8	3.1	2.7	1.6	1.8	1.9	1.9
Japan	-1.5	-1.1	-0.9	-0.4	-0.3	-0.4	-0.6	-0.8	-0.9	-0.9	-0.8	-0.8
United Kingdom	-2.4	1.9	2.0	2.6	2.9	2.8	2.8	2.5	2.2	2.6	2.5	2.6
Euro Area (2)	2.6	2.1	2.1	2.3	2.3	2.1	2.2	1.8	1.4	1.4	1.4	1.4
Germany	1.9	1.1	1.1	1.2	1.2	1.3	1.2	1.0	0.7	0.7	0.7	0.7
Developing Countries	2.6	2.5	2.6	2.9	3.5	2.8	2.7	2.7	2.5	2.9	2.8	2.7
Asia	0.8	0.6	0.5	0.7	1.4	0.5	0.8	1.2	0.9	1.9	2.0	1.8
Korea	2.6	2.6	2.5	3.4	4.1	4.1	4.1	3.9	3.3	2.6	2.5	2.4
China	-0.6	-1.1	-0.8	-0.7	0.5	-1.1	-0.9	-0.0	-0.5	1.6	1.7	1.4
Latin America	5.1	5.4	6.0	6.5	7.1	6.5	5.6	5.0	5.0	4.6	4.4	4.2
Mexico	4.8	4.8	5.2	5.3	5.5	5.0	4.2	3.9	4.4	4.0	3.8	3.6
Brazil	7.7	7.9	7.7	10.7	15.7	16.8	16.2	12.7	8.0	7.3	7.6	7.7

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

2. Harmonized data for euro area from Eurostat.

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

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1996	1997	1998	1999	2000	2001	2002	2003	Projected 2004
NIPA REAL EXPORTS and IMPORTS									
Net Goods & Services Exports of G&S	-0.2	-0.8	-1.1	-1.0	-0.8	-0.1	-1.0	-0.0	-0.5
Imports of G&S	-1.1	-1.0	0.3	0.5	0.8	-1.3	0.4	0.5	0.9
	-1.3	-1.7	-1.3	-1.5	-1.5	-1.2	-1.3	-0.5	-1.4
	Percentage point contribution to GDP growth, Q4/Q4								
Exports of G&S Services	9.8	8.5	2.3	4.9	7.3	-11.4	3.9	4.9	9.0
Computers	8.9	1.4	2.9	3.2	4.8	-9.2	11.4	2.5	5.6
Semiconductors	21.6	25.8	8.1	13.4	23.0	-23.4	-2.1	19.2	33.6
Other Goods 1/	44.6	21.6	9.1	34.6	26.9	-34.9	8.5	26.8	36.0
	7.3	9.8	1.3	3.2	5.7	-9.4	0.5	3.9	7.3
Imports of G&S Services	11.2	14.3	10.8	11.9	11.1	-8.0	10.1	3.4	10.0
Oil	5.3	14.0	8.5	5.9	10.9	-8.6	11.5	0.4	5.9
Computers	7.8	3.9	4.1	-3.4	13.3	0.1	4.0	-2.2	5.5
Semiconductors	17.8	33.0	25.8	26.0	13.6	-13.8	13.6	23.4	33.5
Other Goods 2/	56.7	32.9	-8.7	34.2	22.5	-51.4	9.3	22.8	36.0
	10.4	12.7	11.5	12.7	10.4	-6.2	10.1	2.8	9.1
	Billions of chained 1996 dollars								
Net Goods & Services Exports of G&S	-89.0	-113.3	-221.1	-320.5	-398.8	-415.9	-488.5	-527.2	-579.3
Imports of G&S	874.2	981.5	1002.4	1036.3	1137.2	1076.1	1058.8	1079.8	1170.3
	963.1	1094.8	1223.5	1356.8	1536.0	1492.0	1547.4	1607.0	1749.6
US CURRENT ACCOUNT BALANCE									
Current Acct as Percent of GDP	-117.8	-128.4	-203.8	-292.9	-410.3	-393.4	-503.6	-555.3	-589.1
	-1.5	-1.5	-2.3	-3.2	-4.2	-3.9	-4.8	-5.1	-5.1
Net Goods & Services (BOP)	-101.8	-107.8	-166.9	-262.2	-378.7	-358.3	-435.7	-490.0	-536.8
Investment Income, Net Direct, Net Portfolio, Net	28.6	25.1	12.7	23.9	27.6	20.5	-5.4	9.5	10.6
	69.4	72.4	65.5	75.0	88.9	102.6	77.9	89.9	96.5
	-40.8	-47.3	-52.9	-51.1	-61.2	-82.1	-83.4	-80.4	-85.9
Other Income & Transfers, Net	-44.6	-45.7	-49.6	-54.5	-59.3	-55.6	-62.5	-65.8	-62.9

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1999								2000								2001											
	Q1				Q2				Q3				Q4				Q1				Q2				Q3			
	NIPA REAL EXPORTS and IMPORTS								Percentage point contribution to GDP growth								s.a.a.r.											
Net Goods & Services	-1.8	-1.4	-0.7	0.1	-1.1	-0.7	-0.7	-0.2	0.5	-0.4	-0.2	-0.3					-0.4	-0.2	-0.3									
Exports of G&S	-0.8	0.4	1.1	1.3	0.8	1.5	1.2	0.5	-0.7	-0.7	-2.0	-1.0					-1.4	-2.0	-1.0									
Imports of G&S	-1.0	-1.9	-1.8	-1.2	-1.9	-2.5	-1.9	-0.3	1.2	0.5	-0.3	1.0					1.2	1.0	1.7									
Exports of G&S Services	-6.9	4.3	10.6	12.6	7.7	14.6	11.6	-4.0	-6.0	-12.4	-17.3	-9.6					-6.0	-12.4	-17.3									
Computers	-1.5	3.4	4.7	6.4	10.2	11.2	5.9	4.4	-6.0	-2.5	-13.9	-13.8					-6.0	-2.5	-13.9									
Semiconductors	0.8	24.7	20.6	9.2	33.5	45.9	28.8	-8.8	-7.3	-41.7	-22.8	-17.6					-7.3	-41.7	-22.8									
Other Goods 1/	34.2	45.2	41.3	19.0	14.6	43.4	-17.5	-34.6	-34.6	-47.3	-40.9	-11.7					-5.9	-10.5	-16.5									
Imports of G&S Services	12.0	0.9	10.8	15.4	4.2	9.1	16.7	-5.9	-2.9	-10.5	-10.5	-6.9					-2.9	-10.5	-16.5									
Oil	8.4	15.4	14.5	9.4	14.7	18.6	13.8	-1.6	-7.9	-6.8	-11.8	-5.3					-1.6	-7.9	-6.8									
Computers	3.9	6.8	9.7	7.1	20.7	9.6	15.1	-0.5	-0.5	-8.5	-23.2	-16.5					-6.0	-2.3	-8.5									
Semiconductors	35.0	43.7	14.4	13.5	28.6	40.4	-2.3	-6.5	-23.3	-7.2	-26.9	3.9					-2.3	-21.6	-24.5									
Other Goods 2/	23.0	67.9	16.3	35.0	2.5	40.4	27.9	-9.5	-9.5	-21.6	-24.5	-14.6					-28.5	-43.9	-68.8									
Imports of G&S Services	7.8	12.2	17.4	13.4	13.1	15.5	12.3	1.3	-9.4	-6.2	-6.2	-4.5					-9.4	-6.2	-4.7									
Net Goods & Services	-283.2	-319.6	-339.6	-339.5	-368.8	-394.6	-413.1	-418.5	-404.5	-414.8	-419.0	-425.3					-365.3	-396.9	-365.3									
Exports of G&S	1007.5	1018.1	1044.1	1075.6	1095.8	1133.9	1165.5	1153.7	1135.8	1098.8	1048.0	1021.8					-380.3	-396.9	-380.3									
Imports of G&S	1290.7	1337.7	1383.7	1415.2	1464.6	1528.5	1578.6	1572.2	1540.3	1513.6	1467.0	1447.2					-3.7	-3.9	-3.6									
US CURRENT ACCOUNT BALANCE	-238.7	-280.6	-320.6	-331.6	-376.4	-392.3	-428.7	-443.9	-430.9	-396.9	-365.3	-380.3					-3.7	-3.9	-3.6									
Current Account as % of GDP	-2.6	-3.1	-3.4	-3.5	-3.9	-4.0	-4.3	-4.5	-4.3	-3.9	-3.9	-3.7					-3.7	-3.9	-3.6									
Net Goods & Services (BOP)	-209.5	-253.4	-286.5	-299.6	-348.7	-367.7	-393.3	-405.0	-388.6	-373.3	-319.1	-352.1																
Investment Income, Net	20.8	24.9	18.3	31.5	25.1	30.6	22.1	32.8	10.3	30.1	9.4	32.4																
Direct, Net	72.3	71.4	71.3	85.0	79.0	86.9	89.2	100.3	89.0	111.3	95.6	114.4																
Portfolio, Net	-51.5	-46.5	-53.0	-53.5	-53.9	-56.3	-67.1	-67.5	-78.7	-81.2	-86.3	-82.0																
Other Inc. & Transfers, Net	-50.0	-52.1	-52.4	-63.5	-52.8	-55.3	-57.5	-71.7	-52.5	-53.7	-55.6	-60.6																

1. Merchandise exports excluding computers and semiconductors.

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

	2002				2003				Projected 2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>NIPA REAL EXPORTS and IMPORTS</b>												
Net Goods & Services	-0.7	-1.4	0.0	-1.6	0.8	-0.7	0.3	0.1	-0.6	-0.7	-0.6	-0.2
Exports of G&S	0.3	1.3	0.5	-0.6	-0.2	0.3	0.7	1.0	0.6	0.9	0.9	1.1
Imports of G&S	-1.1	-2.7	-0.4	-1.0	-1.0	-1.0	-1.0	-0.9	-1.2	-1.6	-1.5	-1.3
Exports of G&S Services	3.5	14.3	4.6	-5.8	-2.1	3.5	7.9	10.7	6.6	9.0	9.1	11.3
Computers	21.7	10.7	5.9	8.0	-4.6	0.9	7.2	5.5	5.5	5.7	5.7	5.7
Semiconductors	-21.1	-0.5	-0.8	17.9	-3.4	17.0	33.6	33.6	33.6	33.6	33.6	33.6
Other Goods 1/	-13.7	65.8	21.3	-39.4	17.2	36.0	36.0	36.0	36.0	36.0	36.0	36.0
Imports of G&S Services	-3.1	14.2	3.3	-10.7	-1.9	3.1	5.1	9.6	3.8	7.4	7.5	10.8
Oil	8.5	22.2	3.3	7.4	-6.8	7.2	7.3	6.5	8.9	11.5	10.6	9.1
Computers	35.7	-2.1	3.1	13.0	-6.7	-0.9	3.8	5.9	5.5	6.1	6.1	6.1
Semiconductors	-19.0	34.5	-13.3	24.1	-15.0	21.1	12.9	-21.4	0.3	33.1	9.8	-15.7
Other Goods 2/	52.4	5.6	-4.4	8.2	13.5	14.7	33.5	33.5	33.5	33.5	33.5	33.5
Net Goods & Services	45.2	41.8	-5.9	-26.4	1.2	21.5	36.0	36.0	36.0	36.0	36.0	36.0
Exports of G&S	1.9	28.8	6.3	5.2	-7.3	6.8	5.2	7.3	8.2	8.9	9.5	9.7
Imports of G&S	1477.1	1065.5	1077.7	1061.6	1055.9	1064.9	1085.2	1113.2	1131.2	1155.7	1181.2	1213.2
Net Goods & Services	-446.6	-487.4	-488.0	-532.2	-510.0	-528.3	-536.3	-534.2	-551.8	-573.7	-592.4	-599.3
Exports of G&S	1030.6	1065.5	1077.7	1061.6	1055.9	1059.3	1059.3	1062.1	1064.7	1068.2	1072.9	1073.6
Imports of G&S	1477.1	1552.9	1565.7	1593.8	1565.9	1593.3	1593.3	1621.5	1647.4	1682.9	1729.4	1812.5
<b>US CURRENT ACCOUNT BALANCE</b>												
Current Account as % of GDP	-4.4	-510.8	-505.3	-548.0	-559.3	-557.5	-553.8	-550.5	-563.0	-583.3	-601.0	-609.1
-4.9	-4.8	-4.8	-5.2	-5.2	-5.2	-5.1	-5.1	-5.0	-5.0	-5.1	-5.2	-5.2
Net Goods & Services (BOP)	-382.5	-437.8	-441.0	-481.4	-500.9	-500.3	-498.7	-496.0	-512.2	-531.9	-548.6	-554.5
Investment Income, Net	2.5	-14.7	-5.8	-3.7	5.2	9.4	11.4	12.2	11.9	11.3	10.3	8.8
Direct, Net	88.1	75.0	74.5	74.2	85.6	88.9	91.5	93.7	94.9	96.0	97.1	98.1
Portfolio, Net	-85.5	-89.7	-80.4	-77.9	-80.4	-79.5	-80.1	-81.5	-83.0	-84.6	-86.8	-89.3
Other Inc. & Transfers, Net	-70.2	-58.3	-58.5	-62.9	-63.5	-66.5	-66.5	-62.7	-62.7	-62.7	-62.7	-63.5

1. Merchandise exports excluding computers and semiconductors.

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

## **Part 2**

April 30, 2003

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## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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### **Recent Developments**

Confidential (FR) Class III FOMC

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April 30, 2003

## **Recent Developments**

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

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

Item	2002		2003		2003			
	Q3	Q4	Q1	Q2 <sup>1</sup>	Jan.	Feb.	Mar.	Apr. <sup>1</sup>
U.S. production	13.0	12.4	12.3	11.6	12.9	12.3	11.9	11.6
Autos	5.2	4.9	4.7	4.5	5.2	4.5	4.4	4.4
Trucks	7.8	7.5	7.7	7.1	7.7	7.8	7.5	7.2
Total days' supply <sup>2</sup>	56.1	63.1	73.9	n.a.	67.6	74.0	73.4	n.a.
Inventories <sup>3</sup>	2.61	2.73	3.00	n.a.	2.81	2.91	3.00	n.a.

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

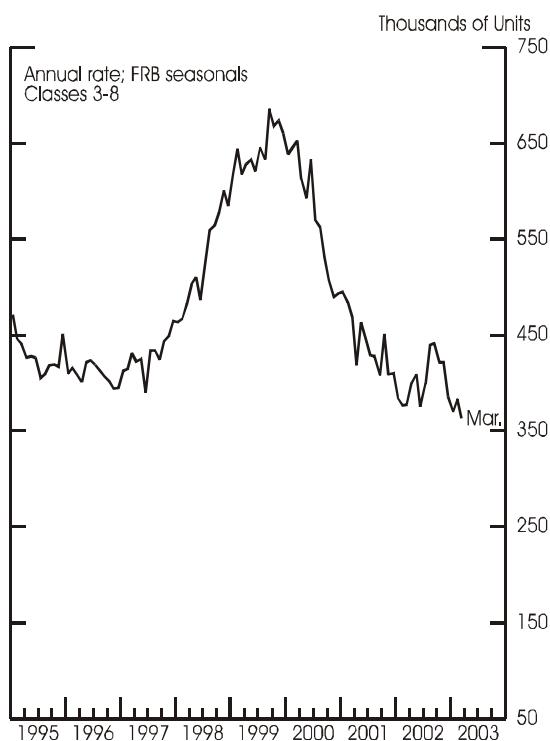
1. Production rates reflect Ward's Communications' latest schedules for Q2 and April.

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

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

n.a. Not available.

Sales of Medium and Heavy Trucks



Net New Orders of Trucks



## Business Finance

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

Type of security	2000	2001	2002		Q1	2003 Mar.	Apr. <sup>e</sup>
			H1	H2			
<i>Nonfinancial corporations</i>							
Stocks <sup>1</sup>	9.9	6.5	7.4	2.9	2.5	1.0	1.2
Initial public offerings	4.4	2.1	1.2	0.3	0.0	0.0	0.0
Seasoned offerings	5.5	4.4	6.3	2.6	2.5	1.0	1.2
Bonds	22.6	39.1	31.4	18.0	29.2	27.5	22.0
Investment grade <sup>2</sup>	13.2	27.5	19.8	11.6	18.9	18.5	12.0
Speculative grade <sup>2</sup>	4.7	8.9	6.4	3.3	6.8	7.8	10.0
Other (sold abroad/unrated)	4.8	2.7	5.3	3.1	3.6	1.3	0.0
<i>Memo</i>							
Net issuance of commercial paper <sup>3</sup>	4.5	-8.0	-10.4	-2.2	-1.3	-4.3	-7.0
Change in C&I loans at commercial banks <sup>3</sup>	7.8	-5.7	-6.2	-4.2	-5.1	-6.5	3.6
<i>Financial corporations</i>							
Stocks <sup>1</sup>	1.4	4.2	4.2	3.8	3.9	4.5	4.0
Bonds <sup>4</sup>	57.9	80.2	89.8	83.9	105.1	125.4	70.0

Note. Components may not sum to totals because of rounding. These data include 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.

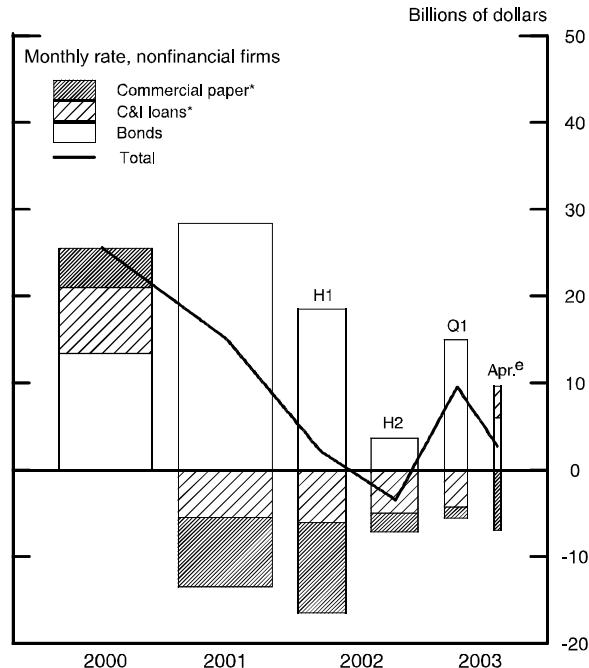
2. Bonds sold in U.S. categorized according to Moody's bond ratings, or to Standard & Poor's if unrated by Moody's.

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

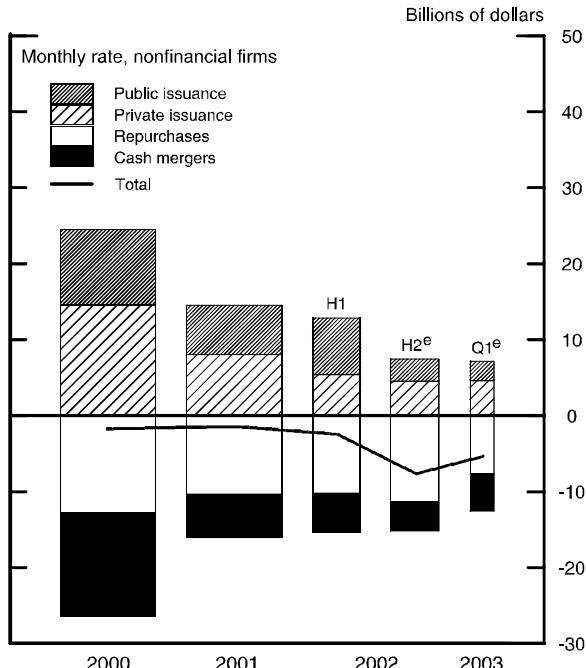
4. Excludes mortgage-backed and asset-backed bonds.

e Staff estimate.

### Components of Net Debt Financing



### Components of Net Equity Issuance

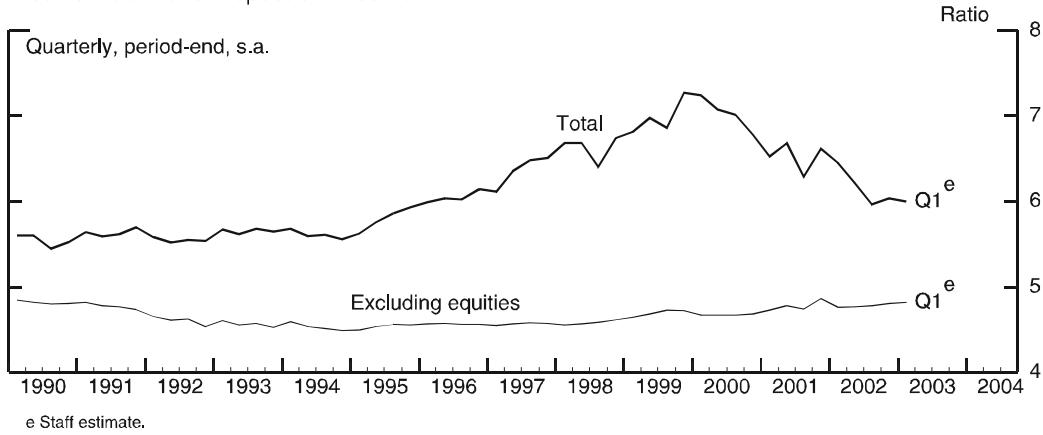


\* Seasonally adjusted.

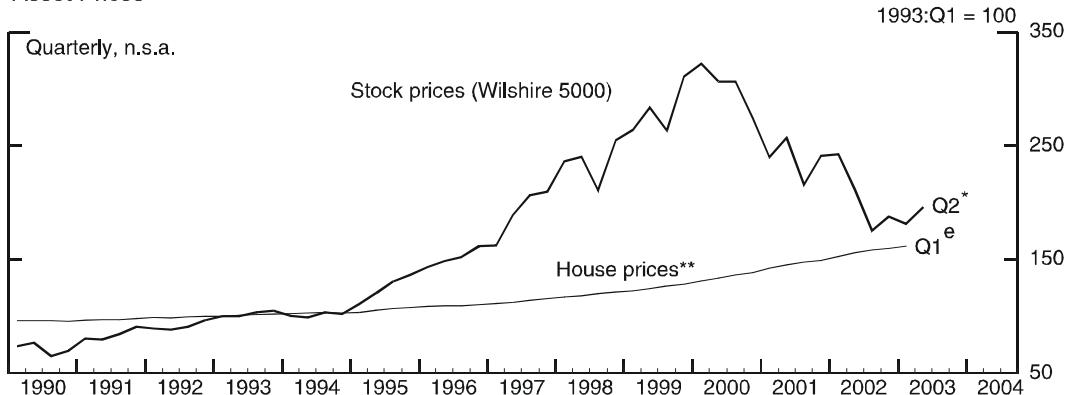
e Staff estimate.

**Household Assets**

Assets Relative to Disposable Income



Asset Prices

**Net Flows into Long-Term Mutual Funds**

(Billions of dollars, monthly rate)

	<u>2000</u>	<u>2001</u>	<u>2002</u>		<u>2003</u>		<u>Assets</u>
			H1	H2	Q1	Mar.	Mar.
<b>Total long-term funds</b>	<b>18.5</b>	<b>10.8</b>	<b>21.0</b>	<b>-0.5</b>	<b>11.4</b>	<b>11.9</b>	<b>32.8</b>
<b>Equity funds</b>	<b>25.2</b>	<b>2.8</b>	<b>9.1</b>	<b>-13.4</b>	<b>-3.7</b>	<b>0.2</b>	<b>17.5</b>
Domestic	21.3	4.6	7.9	-11.8	-3.5	1.6	13.3
International	3.9	-1.8	1.2	-1.6	-0.3	-1.3	4.1
<b>Hybrid funds</b>	<b>-2.6</b>	<b>0.7</b>	<b>2.2</b>	<b>-0.7</b>	<b>0.7</b>	<b>0.8</b>	<b>2.7</b>
<b>Bond funds</b>	<b>-4.0</b>	<b>7.3</b>	<b>9.7</b>	<b>13.7</b>	<b>14.5</b>	<b>10.8</b>	<b>12.7</b>
High-yield	-1.0	0.6	0.9	0.9	3.5	5.4	6.6
Other taxable	-1.8	5.7	7.6	11.4	10.3	5.5	6.3
Municipals	-1.2	1.0	1.3	1.5	0.6	0.0	-0.2

Note. Excludes reinvested dividends.

Source. Investment Company Institute.

<sup>e</sup> Staff estimates based on confidential ICI weekly data.

## State and Local Government Finance

### Gross Offerings of Municipal Securities

(Billions of dollars; monthly rate, not seasonally adjusted)

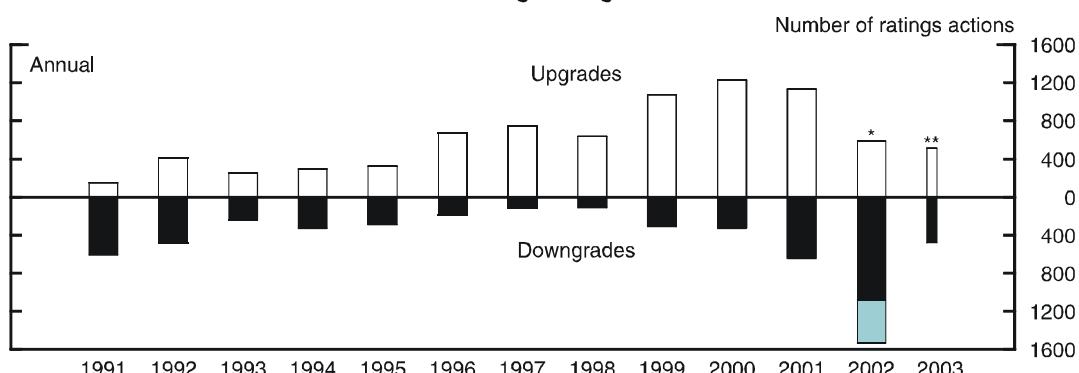
Type of security	2000	2001	2002		2003		
			H1	H2	Q1	Mar.	Apr. <sup>e</sup>
Total	17.9	29.0	33.1	39.6	30.7	30.1	28.7
Long-term <sup>1</sup>	15.0	24.3	27.9	32.8	28.3	28.2	27.5
Refundings <sup>2</sup>	2.2	7.6	9.4	10.7	9.9	11.7	8.7
New capital	12.9	16.7	18.5	22.1	18.5	16.4	18.9
Short-term	2.8	4.7	5.2	6.8	2.4	1.9	1.1
Memo: Long-term taxable	0.7	1.4	1.4	2.0	1.7	2.0	2.3

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

e Staff estimate based on preliminary data through April 24.

### Bond Rating Changes

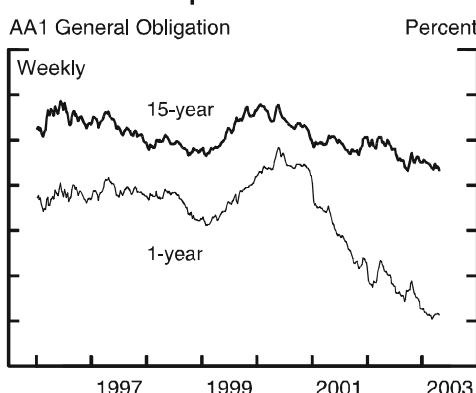


\* Lightly shaded region shows a staff estimate of the number of downgrades related to downgrades of financial institutions that provided financial support for the bonds.

\*\* Data through April 23 at an annual rate.

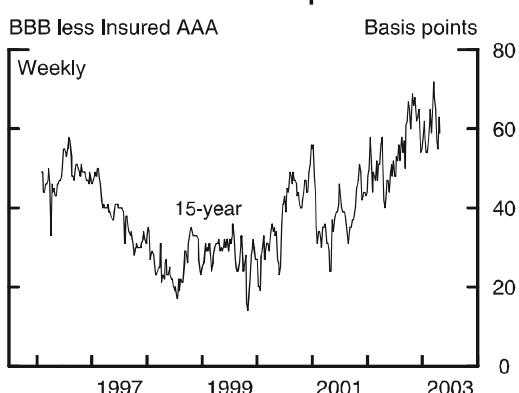
Source. S&P's Credit Week Municipal and Ratings Direct.

### Municipal Bond Yields



Note. Last observation is for week of April 24.  
Source. Bloomberg.

### Revenue Bond Spread



Note. Last observation is for week of April 24.  
Source. Bloomberg.

### Treasury Financing (Billions of dollars)

Item	2002		2003			
	Q3	Q4	Q1	Feb.	Mar.	Apr. <sup>e</sup>
<b>Total surplus, deficit (-)</b>	<b>-41.5</b>	<b>-108.3</b>	<b>-143.9</b>	<b>-96.3</b>	<b>-58.7</b>	n.a.
Means of financing deficit						
Net borrowing	89.4	96.9	77.3	45.2	29.2	-19.7
Nonmarketable	6.7	14.9	-35.3	-34.5	-13.9	-3.1
Marketable	82.8	82.0	112.6	79.8	43.1	-16.6
Bills	44.4	20.0	67.5	50.4	36.7	-25.0
Coupons <sup>1</sup>	38.4	62.0	45.0	29.3	6.4	8.4
Debt buybacks	.0	.0	.0	.0	.0	.0
Decrease in cash balance	-21.3	27.9	19.8	22.6	-4.7	-16.3
Other <sup>2</sup>	-26.7	-16.4	46.9	28.5	34.2	n.a.
MEMO						
Cash balance, end of period	60.9	33.0	13.3	8.6	13.3	29.5

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

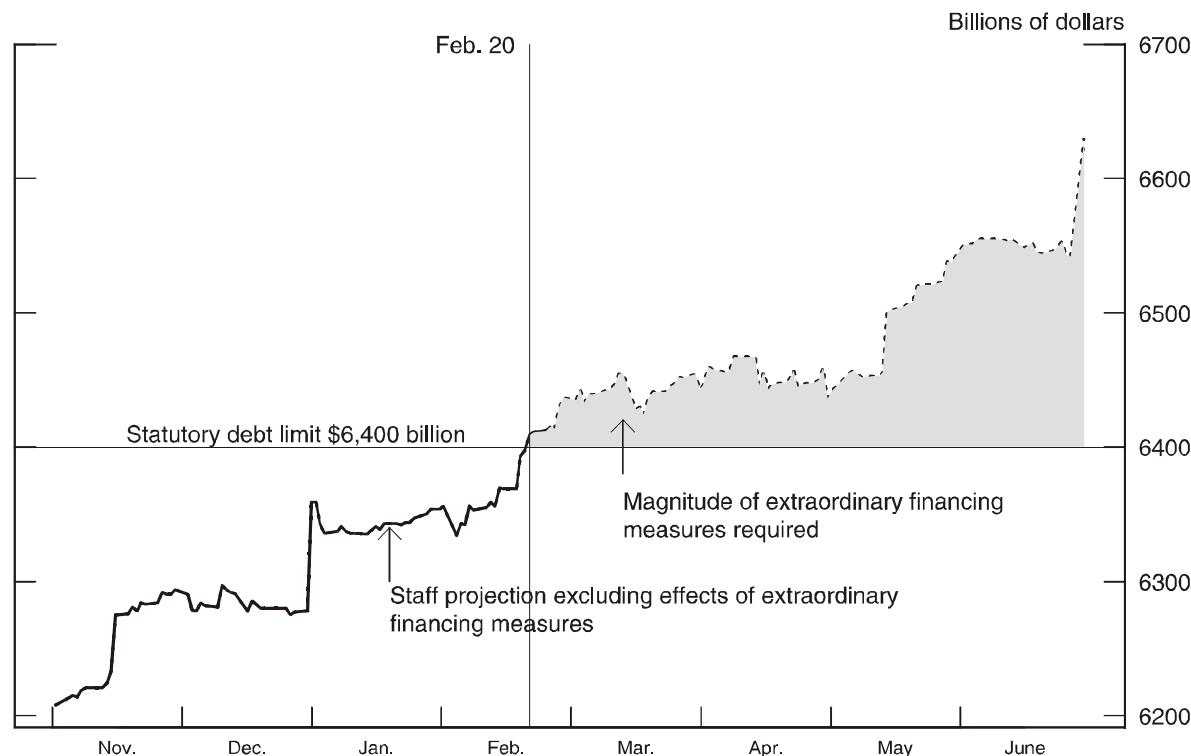
1. Does not include Treasury debt buybacks.

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

e Estimated.

n.a. Not available.

### Federal Debt Subject to Limit



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

Aggregate or component	2002	2002	2003	2003			Level (\$ billions) Apr. 03 (p)
		Q4	Q1	Feb.	Mar.	Apr. (p)	
<i>Aggregate</i>							
1. M2 <sup>2</sup>		6.9	7.1	6.7	11.6	3.2	2.8 5,913
2. M3 <sup>3</sup>		6.4	7.6	5.4	7.6	1.6	-2.5 8,563
<i>Components of M2<sup>4</sup></i>							
3. Currency		8.2	5.0	7.4	9.9	7.4	6.4 643
4. Liquid deposits <sup>5</sup>		16.4	15.5	14.2	21.0	6.8	10.5 3,486
5. Small time deposits		-9.9	-8.2	-6.4	-7.0	-5.4	-6.3 866
6. Retail money market funds		-4.1	-4.4	-7.8	-3.7	-5.2	-19.7 911
<i>Components of M3</i>							
7. M3 minus M2 <sup>6</sup>		5.4	8.6	2.6	-1.1	-1.7	-14.1 2,650
8. Large time deposits, net <sup>7</sup>		3.7	-2.0	-.1	12.4	-8.1	-25.0 796
9. Institutional money market funds		2.1	1.9	-5.1	-20.1	-12.7	-19.4 1,145
10. RPs		19.6	44.9	27.4	34.0	41.2	12.3 494
11. Eurodollars		4.8	19.4	5.4	-20.5	-11.5	-4.4 215
<i>Memo</i>							
12. Monetary base		7.2	5.0	7.6	10.0	6.6	6.3 699
<i>Selected managed liabilities at commercial banks</i>							
13. Large time deposits, gross		2.3	-6.2	1.8	13.2	-5.0	-23.4 984
14. Net due to related foreign institutions		-3.2	11.1	5.5	-10.8	-6.2	4.7 144
15. U.S. government deposits at commercial banks		-1.0	-.2	-4.2	-1.5	3.7	-.4 12

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

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

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

4. Non-bank travelers checks not listed.

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

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

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

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

p Preliminary.

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

Type of credit	2002	Q4 2002	Q1 2003	Feb. 2003	Mar. 2003	Apr. <sup>p</sup> 2003	Level, Apr. 2003 <sup>p</sup> (\$ billions)
<b>Total</b>							
<b>1. Adjusted<sup>1</sup></b>	<b>7.1</b>	<b>12.4</b>	<b>7.4</b>	<b>13.9</b>	<b>7.0</b>	<b>2.9</b>	<b>5,810</b>
2. Reported	7.1	11.8	8.1	15.3	6.0	-.1	5,994
<i>Securities</i>							
3. Adjusted <sup>1</sup>	13.3	16.1	11.9	26.3	11.1	-5.6	1,549
4. Reported	12.7	13.5	14.0	29.8	7.3	-15.2	1,733
5. Treasury and agency	19.2	25.2	17.1	30.3	11.3	-3.1	1,055
6. Other <sup>2</sup>	4.4	-2.6	9.5	29.1	1.2	-33.7	678
<i>Loans<sup>3</sup></i>							
7. Total	5.0	11.1	5.8	9.4	5.5	6.1	4,261
8. Business	-6.9	-4.0	-5.9	-9.7	-8.6	-.1	946
9. Real estate	13.1	20.4	13.6	17.9	8.7	16.4	2,120
10. Home equity	36.7	24.7	26.2	25.4	38.3	14.1	232
11. Other	10.8	19.9	12.1	17.1	5.1	16.6	1,888
12. Consumer	5.5	8.6	4.2	2.2	-6.1	-4.3	589
13. Adjusted <sup>4</sup>	4.1	4.9	7.7	7.4	.6	-.8	950
14. Other <sup>5</sup>	1.4	8.5	-.2	17.8	28.6	-9.2	606

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

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

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

3. Excludes interbank loans.

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

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

p Preliminary.

**Euro-Area Economic Indicators**  
 (Percent change from previous period except as noted, s.a.)

Indicator	2002		2003				
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Industrial production <sup>1</sup>	.3	-.1	n.a.	1.3.	.2	n.a.	n.a.
Retail sales volume <sup>2</sup>	.7	-.4	n.a.	2.3	-.8	n.a.	n.a.
Unemployment rate <sup>3</sup>	8.3	8.5	n.a.	8.6	8.7	n.a.	n.a.
Consumer confidence <sup>4</sup>	-10	-14	-19.3	-18	-19	-21	-19
Industrial confidence <sup>4</sup>	-11.7	-10.3	-11	-10	-11	-12	-13
Mfg. orders, Germany	-1.2	.3	n.a.	4.1	-.8	n.a.	n.a.
CPI <sup>5</sup>	2.1	2.3	2.3	2.1	2.4	2.4	2.1
Producer prices <sup>5</sup>	.0	1.3	n.a.	2.3	2.7	n.a.	n.a.
M3 <sup>5</sup>	7.1	6.9	7.9	7.2	7.9	7.9	n.a.

1. Excludes construction.

2. Excludes motor vehicles.

3. Percent. Euro area standardized to ILO definition. Includes Eurostat estimates in some cases.

4. Diffusion index based on European Commission surveys in individual countries.

5. Eurostat harmonized definition. Percent change from year earlier.

n.a. Not available.

Euro-area twelve-month consumer price inflation declined to 2.1 percent in April, just above the ECB's target ceiling, according to the preliminary estimate. Excluding energy and unprocessed food, inflation stayed at 2 percent throughout the first quarter, its lowest rate since August 2001. Twelve-month producer price inflation rose to 2.7 percent in February.

In the **United Kingdom**, first-quarter GDP growth was lackluster according to the preliminary estimate; manufacturing output increased, following declines during most of the past two years, while overall industrial production fell because of weakening activity in the energy sector. Growth slowed to 0.9 percent in the service sector, with most service industries experiencing slowing growth.

Limited data for the second quarter suggest that the pace of activity will continue to be positive, but sluggish. Business confidence continued to decline in April, though it remains well above its late 2001 low. Consumer sentiment moved up somewhat in April but has not recovered to its level in the fall of 2002. Retail

sales growth improved in March, though was weak in the first quarter overall and surveys suggest continued weakness in April.

### U.K. Economic Indicators

(Percent change from previous period except as noted, s.a.)

Indicator	2002		2003				
	Q3	Q4	Q1	Jan.	Feb.	Mar.	Apr.
Preliminary real GDP*	4.3	1.5	.8	...	...	...	...
Industrial production	.4	-.8	n.a.	-.2	.7	n.a.	n.a.
Retail sales volume <sup>1</sup>	.7	1.6	.1	-1	.4	.6	n.a.
Unemployment rate <sup>2</sup>							
Claims-based	3.1	3.1	3.1	3.1	3.1	3.1	n.a.
Labor force survey <sup>3</sup>	5.2	5.1	n.a.	5.1	n.a.	n.a.	n.a.
Business confidence <sup>4</sup>	10.7	3	-1.3	2	-1	-5	-10
Consumer confidence <sup>5</sup>	-2.7	-3	-10	-9	-10	-11	-8
Retail prices <sup>6</sup>	2.0	2.6	2.9	2.7	3.0	3.0	n.a.
Producer input prices <sup>7</sup>	-2.3	1.4	5.1	4.5	6.2	4.5	n.a.
Average earnings <sup>7</sup>	3.8	3.7	n.a.	3.3	2.8	n.a.	n.a.

1. s.a.a.r.

2. Excludes motor vehicles.

3. Percent

4. Three-month average centered on month shown.

5. Percentage of firms expecting output to increase in the next four months less percentage expecting output to decrease.

6. Average of the percentage balance from consumers' expectations of their financial situation, general economic situation, unemployment, and savings over the next 12 months.

7. Excluding mortgage interest payments. Percent change from year earlier.

8. Percent change from year earlier.

... Not applicable. n.a. Not available.

According to one of the leading surveys, housing prices were unchanged in April, bringing the twelve-month increase in prices down to just over 20 percent. First-quarter regional data indicate that the deceleration in prices has spread beyond London to most other regions of the country. Borrowing to finance the purchase of homes remained elevated through February.

Labor market conditions continued to be tight. The official claims-based unemployment rate held steady at 3.1 percent in March, near a record low. The twelve-month rate of retail price inflation (excluding mortgage interest payments) remained at 3 percent in March, above the Bank of England's 2½ percent target.

Confidential (FR) Class III FOMC

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May 2, 2003

## CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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### **Supplemental Notes**

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

**CHANGES IN EMPLOYMENT**  
(Thousands of employees; based on seasonally adjusted data)

	2002	2002		2003		2003		
		Q3	Q4	Q1	Feb.	Mar.	Apr.	
-Average monthly change-								
Nonfarm payroll employment <sup>1</sup>	-18	31	-53	-91	-353	-124	-48	
Previous	-18	31	-53	-87	-357	-108	...	
Private	-38	4	-75	-88	-370	-88	-80	
Mining	-1	-1	0	1	3	0	4	
Manufacturing	-51	-39	-62	-36	-58	-43	-95	
Construction	-8	2	-4	-2	-45	19	18	
Transportation and utilities	-14	-22	-13	-13	-39	-9	-19	
Retail trade	-14	-6	-46	-12	-121	-33	-10	
Wholesale trade	-5	-6	-9	-0	-3	0	-6	
Finance, insurance, real estate	6	13	14	7	12	7	7	
Services	49	61	44	-32	-119	-29	21	
Help supply services	7	-11	-1	-15	4	-54	-14	
Total government	20	27	22	-4	17	-36	32	
Total employment (household survey)	31	310	-291	303	-128	-60	339	
Memo:								
Aggregate hours of private production								
workers (percent change) <sup>1,2</sup>	-0.2	-0.7	0.1	-0.4	-1.0	0.5	-0.7	
Average workweek (hours) <sup>1</sup>	34.2	34.1	34.2	34.2	34.1	34.3	34.0	
Manufacturing (hours)	40.8	40.8	40.7	40.8	40.8	40.8	40.5	

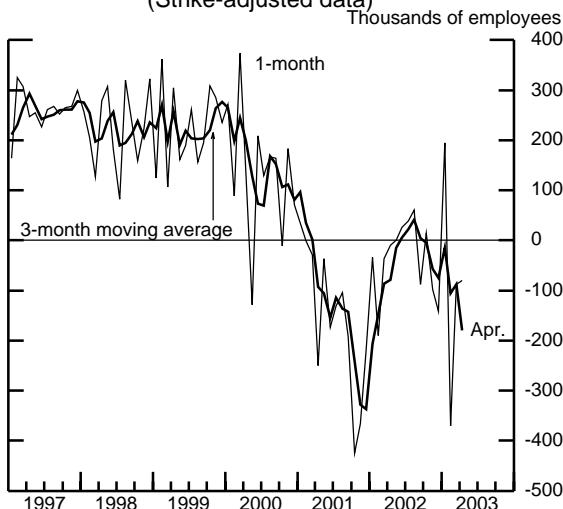
Note. Average change from final month of preceding period to final month of period indicated.

1. Survey of establishments.

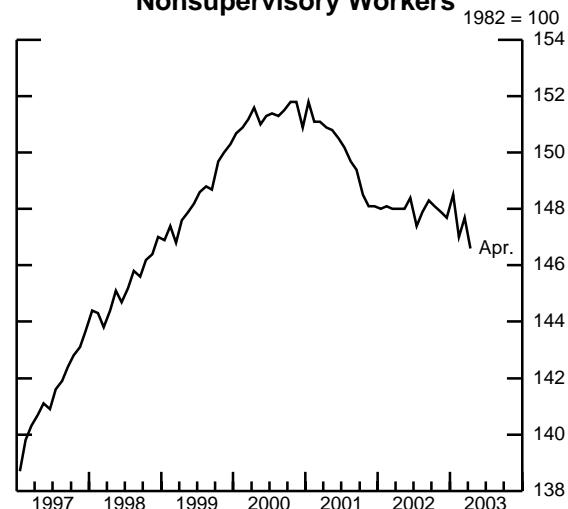
2. Annual data are percent changes from Q4 to Q4. Quarterly data are percent changes from preceding quarter at an annual rate. Monthly data are percent changes from preceding month.

... Not applicable.

**Private Payroll Employment Growth**  
(Strike-adjusted data)



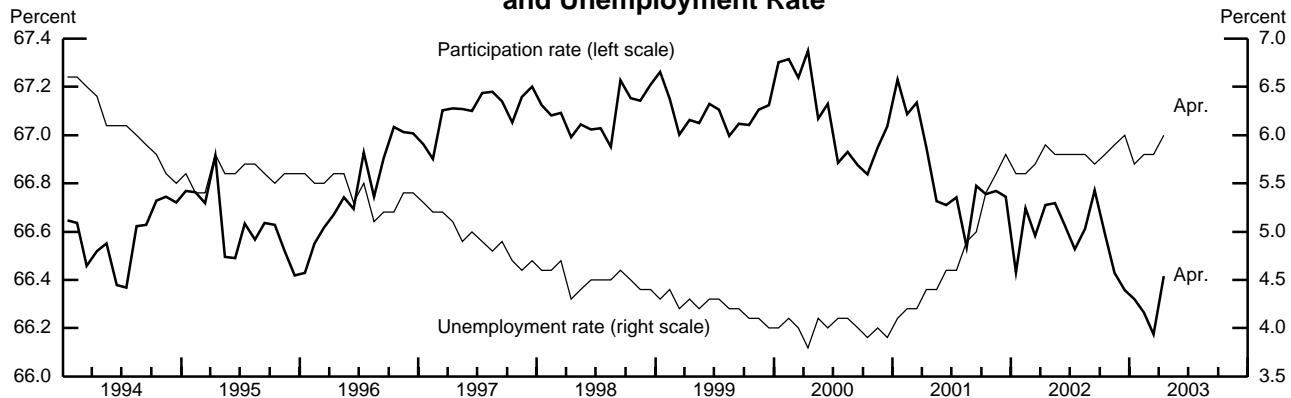
**Aggregate Hours of Production or  
Nonsupervisory Workers**



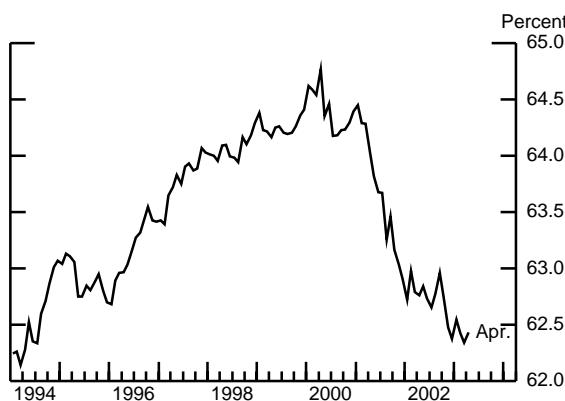
**SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES**  
 (Percent; based on seasonally adjusted data)

	2002	2002		2003	2003		
		Q3	Q4	Q1	Feb.	Mar.	Apr.
<b>Civilian unemployment rate (16 years and older)</b>	5.8	5.8	5.9	5.8	5.8	5.8	6.0
Teenagers	16.5	16.7	16.1	17.2	17.1	17.7	18.0
20-24 years old	9.7	9.6	9.9	9.2	9.3	8.9	10.1
Men, 25 years and older	4.7	4.7	4.9	4.9	4.9	4.9	5.1
Women, 25 years and older	4.6	4.6	4.6	4.4	4.5	4.6	4.7
<b>Labor force participation rate</b>	66.6	66.6	66.5	66.3	66.3	66.2	66.4
Teenagers	47.4	47.6	46.8	45.2	45.5	44.1	45.0
20-24 years old	76.4	76.6	75.8	75.5	75.6	74.8	75.5
Men, 25 years and older	75.9	76.0	75.6	75.3	75.5	75.3	75.6
Women, 25 years and older	59.4	59.3	59.4	59.6	59.5	59.6	59.8

**Labor Force Participation Rate  
and Unemployment Rate**



**Employment-to-Population Ratio**



**Persons Working Part-Time  
for Economic Reasons**  
(Percentage of household employment)



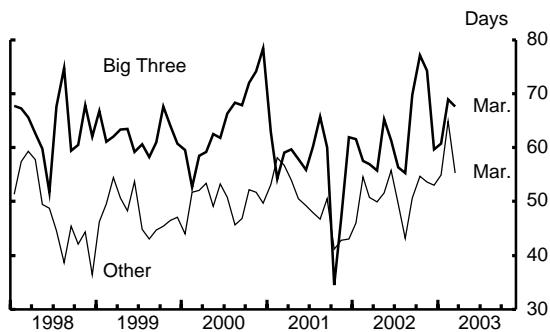
**Sales of Automobiles and Light Trucks**  
(Millions of units at an annual rate, FRB seasonals)

	2002	2002		2003	2003		
		Q3	Q4	Q1	Feb.	Mar.	Apr.
Total	16.7	17.6	16.5	15.8	15.3	16.0	16.4
Autos	8.1	8.5	7.9	7.7	7.3	7.7	7.5
Light trucks	8.6	9.1	8.6	8.1	8.0	8.3	8.8
North American <sup>1</sup>	13.5	14.3	13.3	12.5	12.1	12.5	13.0
Autos	5.9	6.2	5.7	5.5	5.2	5.5	5.4
Light trucks	7.6	8.1	7.6	6.9	6.9	7.0	7.6
Foreign-produced	3.3	3.4	3.2	3.4	3.2	3.5	3.4
Autos	2.2	2.3	2.2	2.2	2.1	2.2	2.1
Light trucks	1.1	1.1	1.1	1.2	1.1	1.3	1.3
Memo: Medium and heavy trucks	.40	.43	.41	.37	.38	.36	n.a.

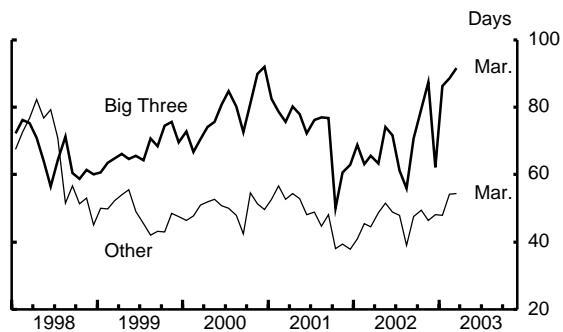
Note. Components may not sum to totals because of rounding. Data on sales of trucks and imported autos for the most recent month are preliminary and subject to revision.

1. Excludes some vehicles produced in Canada that are classified as imports by the industry.

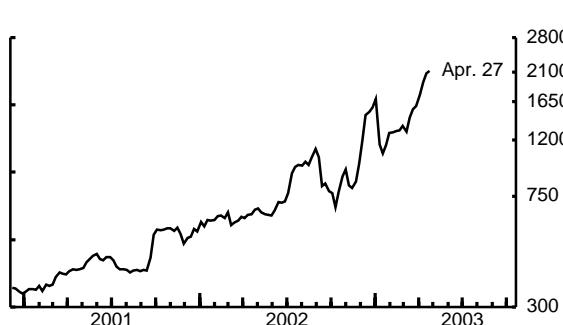
**Days' Supply of Autos**



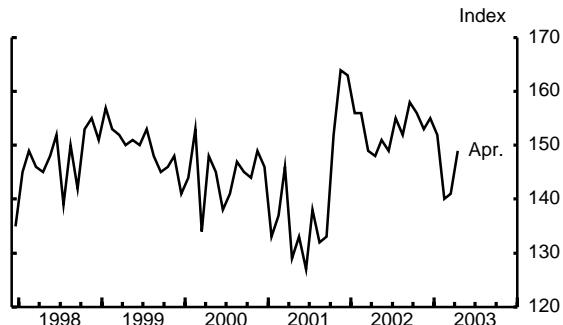
**Days' Supply of Light Trucks**



**Average Value of Incentives on Light Vehicles**



**Michigan Survey Index of Car-Buying Attitudes**



Note. Weighted average of customer cash rebate and interest rate reduction. Data are seasonally adjusted.  
Source: J.D. Power and Associates.

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

Type of credit	2002	Q4 2002	Q1 2003	Feb. 2003	Mar. 2003	Apr. <sup>p</sup> 2003	Level, Apr. 2003 <sup>p</sup> (\$ billions)
<b>Total</b>							
<b>1. Adjusted<sup>1</sup></b>	<b>7.1</b>	<b>12.4</b>	<b>7.4</b>	<b>13.9</b>	<b>7.0</b>	<b>8.0</b>	<b>5,834</b>
2. Reported	7.1	11.8	8.1	15.3	6.0	4.4	6,017
<i>Securities</i>							
3. Adjusted <sup>1</sup>	13.3	16.1	11.9	26.3	11.1	14.3	1,575
4. Reported	12.7	13.5	14.0	29.8	7.3	1.5	1,757
5. Treasury and agency	19.2	25.2	17.1	30.3	11.2	26.7	1,081
6. Other <sup>2</sup>	4.4	-2.6	9.5	29.1	1.4	-36.6	677
<i>Loans<sup>3</sup></i>							
7. Total	5.0	11.1	5.8	9.4	5.5	5.7	4,259
8. Business	-6.9	-4.0	-5.9	-9.7	-8.7	-2.5	944
9. Real estate	13.1	20.4	13.4	17.9	7.3	7.9	2,103
10. Home equity	36.7	24.7	26.2	25.4	38.3	19.9	233
11. Other	10.8	19.9	11.9	17.1	3.6	6.4	1,870
12. Consumer	5.5	8.6	4.2	2.2	-6.1	-3.7	589
13. Adjusted <sup>4</sup>	4.1	4.9	7.7	7.4	.5	-.3	950
14. Other <sup>5</sup>	1.4	8.5	.3	17.8	33.4	20.2	623

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

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

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

3. Excludes interbank loans.

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

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

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