

Part 1

September 10, 2003

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

Confidential (FR) Class II FOMC

September 10, 2003

Summary and Outlook

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

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

Measure	2003:Q3		2003:Q4	
	August GB	Sept. GB	August GB	Sept. GB
Real GDP	3.6	4.4	4.4	4.6
Private domestic final purchases	3.9	6.2	3.7	2.8
Personal consumption expenditures	3.3	4.8	3.6	2.8
Residential investment	6.1	14.8	-1.1	-3.6
Business fixed investment	7.0	11.5	7.2	6.3
Government outlays for consumption and investment	3.5	-1.0	2.4	6.6
	Contribution to growth (percentage points)			
Inventory investment	-.4	-.3	.7	.8
Net exports	-.1	-.3	.0	.1

Recent data on orders and shipments for nondefense capital goods and on motor vehicle sales lead us to expect that real spending on equipment and software is posting a 16-1/2 percent annual rate of increase this quarter. However, we expect the rate of growth of E&S investment to slow in the fourth quarter. Orders data point to some moderation of the increase in outlays outside the high-tech and transportation areas, and business purchases of motor vehicles also are likely to slow somewhat. Even so, we still expect real E&S spending to rise at a rate of 8 percent next quarter.

We remain pessimistic about the near-term prospects for nonresidential construction, especially in light of vacancy rates for office and industrial buildings that were high and still rising in the second quarter. We expect that much of the increase recorded by this sector last quarter will be reversed this quarter and that real construction outlays will fall a bit further in the fourth quarter.

In the federal sector, the projected costs of our military operations in Iraq point to a further rise in real defense outlays over the next few quarters. But with the available data on defense spending this quarter softer than we had expected, we have pushed off the increases to the last quarter of this year and the first quarter of next year. We project that, on average over the second half of this year, real defense spending will rise at a rate of 7 percent and nondefense spending at a rate of 5-1/2 percent. At the state and local level, budgetary pressures are expected to hold real spending nearly flat over the second half of this year.

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

Measure	2004		2005
	H1	H2	
Real GDP	5.2	4.9	3.9
Previous	4.8	4.8	--
Final sales	4.3	4.9	3.7
Previous	3.5	4.9	--
PCE	4.6	4.4	4.0
Previous	3.9	4.6	--
Residential investment	0.7	3.9	0.6
Previous	2.4	5.9	--
BFI	11.9	15.6	7.2
Previous	10.9	15.1	--
Government purchases	2.9	1.5	2.1
Previous	1.4	0.9	--
Exports	8.4	11.1	9.6
Previous	7.8	10.4	--
Imports	11.1	10.0	9.2
Previous	10.6	9.7	--
	Contribution to growth, percentage points		
Inventory change	.9	.0	.3
Previous	1.3	-.1	--
Net exports	-.8	-.4	-.4
Previous	-.8	-.4	--

Household spending. Over 2004 and 2005, gains in disposable income are expected to be the main factor driving increases in consumer spending. Our forecast calls for real disposable income to rise 5-1/4 percent next year and 3-3/4 percent in 2005, roughly mirroring the pattern of output growth. Because consumers tend to adjust their spending gradually in response to movements in income, we project that real PCE will follow a smoother path, rising 4-1/2 percent in 2004 and 4 percent in 2005.

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

Measure	1973-95	1996-2001	2002	2003	2004	2005
Structural labor productivity	1.4	2.7	2.6	2.8	2.6	2.8
Previous	1.4	2.4	2.3	2.2	2.3	--
<i>Contributions</i> ¹						
Capital deepening	.6	1.2	.4	.4	.7	1.0
Previous	.6	1.2	.4	.4	.6	--
Multifactor productivity	.6	1.2	2.0	2.1	1.6	1.6
Previous	.6	1.0	1.7	1.6	1.4	--
Labor composition	.3	.3	.3	.3	.3	.3
MEMO						
Potential GDP	2.9	3.4	3.5	3.6	3.4	3.6
Previous	2.9	3.4	3.3	3.1	3.2	--

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

1. Percentage points.

Most of the slowdown comes in the defense category. By contrast, we expect continued moderate gains in nondefense spending. At the state and local level, spending increases should be modest in light of fiscal stresses that ease only gradually. We forecast real outlays to rise 1-1/4 percent in 2004 and 2 percent in 2005.

Net exports. The projected growth of foreign economic activity in 2004 and 2005, together with the effects of past and projected dollar depreciation, should support a growth rate of 9-1/2 percent in U.S. exports. U.S. imports are expected to grow at a 9-3/4 percent pace, mainly reflecting the strength of economic expansion in the United States. All told, net exports should arithmetically deduct roughly 1/2 percentage point from U.S. GDP growth in each of the next two years. (*The International Developments section provides more detail on the outlook for the external sector.*)

Aggregate Supply, the Labor Market, and Inflation

We have reassessed our estimates of structural productivity and other elements of potential GDP. Our reassessment takes account of the upward revisions to historical productivity data published by the Bureau of Labor Statistics after the August Greenbook as well as the current indications that output per hour is registering another strong advance this quarter. With the increases in output per hour now appearing to be larger and more persistent, we have boosted somewhat

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

Measure	2002	2003	2004	2005
Output per hour, nonfarm business	4.4	4.3	1.4	1.4
Previous	4.1	3.2	.7	--
Nonfarm private payroll employment	-.7	-.4	3.7	2.8
Previous	-.7	.0	3.9	--
Household survey employment	.3	1.1	2.6	1.9
Previous	.3	1.2	2.9	--
Labor force participation rate ¹	66.5	66.3	66.9	67.1
Previous	66.5	66.4	66.9	--
Civilian unemployment rate ¹	5.9	6.2	5.7	5.3
Previous	5.9	6.2	5.5	--

1. Percent, average for the fourth quarter.

the share of these increases that we attribute to permanent improvements in organization and technology and reduced somewhat the share that we attribute to temporary factors. For 2002 and 2003, we have raised our estimates of the rates of increase in structural multifactor productivity 0.4 percentage point and in potential GDP 0.3 percentage point, on average.¹ We have raised our assumptions about growth in both structural multifactor productivity and potential GDP somewhat less over the forecast period.

Productivity and the labor market. An implication of our view that firms have been very cautious in hiring because of uncertainty about the prospects for output growth is that, when this uncertainty diminishes, increases in employment will be robust. This scenario should start to unfold early next year, albeit with somewhat less intensity than we had previously anticipated given the revisions we have made to structural productivity. We expect payrolls in 2004 to increase almost 350,000 per month on average. Part of this rise in the pace of employment gains reflects more-rapid output growth, but part is due to the unwinding of the effects of business caution on hiring. The latter is reflected in our forecast of output per hour, which is projected to rise 1-1/2 percent next year—a bit more than 1 percentage point below our forecast of the growth rate

1. The source of the upward revision to the historical estimates of actual productivity was a downward revision to the estimates of actual hours worked. The latter change has led us to revise down 0.1 percentage point our estimates of the annual rate of increase in structural hours worked. This adjustment to structural hours offsets part of the effect of the more-rapid structural productivity gains on potential GDP.

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

Measure	2002	2003	2004	2005
PCE chain-weighted price index	1.8	1.6	.7	.8
Previous	1.8	1.6	.7	--
Food and beverages	1.4	1.9	1.4	1.3
Previous	1.4	2.0	1.3	--
Energy	7.0	8.8	-6.7	-1.1
Previous	7.0	8.2	-5.5	--
Excluding food and energy	1.6	1.1	1.0	.9
Previous	1.6	1.1	.9	--
Consumer price index	2.2	2.0	.9	1.1
Previous	2.2	1.9	.9	--
Excluding food and energy	2.1	1.4	1.4	1.3
Previous	2.1	1.3	1.3	--
GDP chain-weighted price index	1.3	1.4	.9	1.0
Previous	1.3	1.3	1.0	--
ECI for compensation of private industry workers ¹	3.2	3.8	3.3	3.2
Previous	3.2	3.8	3.1	--
NFB compensation per hour	2.8	3.5	2.9	3.0
Previous	2.4	3.2	2.7	--
Prices of core non-oil merchandise imports	.7	2.2	1.4	1.3
Previous	.7	2.0	1.2	--

1. December to December.

of structural labor productivity. We also expect that improving conditions in labor markets will induce a substantial rebound in the participation rate next year. Nonetheless, employment should rise faster than the labor force, causing the unemployment rate to fall to 5-3/4 percent by the end of 2004. We anticipate that in 2005 additional gains in employment, partly offset by a further rise in participation, will reduce the unemployment rate to 5-1/4 percent by the end of the year.

Wages and prices. Despite the decline in unemployment and the rise in capacity utilization over the projection period, labor and capital resources remain under-utilized even at the end of 2005. For this reason, we expect that key measures of price and wage inflation will decline slowly over the next two

Alternative Simulations

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

Measure	2003	2004		2005
	Q4	H1	H2	
<i>Real GDP</i>				
Greenbook baseline	4.6	5.2	4.9	3.9
Faster productivity growth	4.6	5.6	5.7	4.8
Low NAIRU	4.7	5.3	5.0	3.9
Investment boom	6.6	5.6	5.2	4.8
Weaker investment	2.6	4.3	3.8	2.3
Lower bond yields	4.6	6.2	5.8	4.3
Market-based funds rate	4.6	5.2	4.8	3.0
<i>Unemployment rate¹</i>				
Greenbook baseline	6.2	6.0	5.7	5.3
Faster productivity growth	6.2	6.0	5.7	5.1
Low NAIRU	6.2	6.0	5.6	5.2
Investment boom	6.1	5.7	5.3	4.6
Weaker investment	6.3	6.4	6.3	6.6
Lower bond yields	6.2	5.8	5.3	4.7
Market-based funds rate	6.2	6.0	5.7	5.7
<i>PCE prices excluding food and energy</i>				
Greenbook baseline	1.2	1.1	1.0	.9
Faster productivity growth	1.2	1.1	.9	.6
Low NAIRU	1.1	.9	.7	.5
Investment boom	1.2	1.1	1.0	1.0
Weaker investment	1.2	1.1	1.0	.6
Lower bond yields	1.2	1.2	1.1	1.0
Market-based funds rate	1.2	1.1	1.0	.7

1. Average for the final quarter of the period.

Investment boom. The baseline may underestimate the degree to which firms will respond to the current favorable conditions for investment. In this scenario, outlays for equipment and software grow at an average annual rate of 16 percent through 2005 (compared with 12 percent in the baseline), causing the E&S share of GDP to approach the peak levels seen in 1999-2000. In addition, firms become less cautious about inventory stockbuilding sooner than they do in the baseline. These two developments, combined with the response of consumption and housing to stronger income and employment, strengthen real GDP in the fourth quarter of this year and continue to boost real activity in 2004 and 2005. As a result, the unemployment rate falls to 4-1/2 percent by late 2005. Inflation is only a touch higher than in the baseline, in part because the increase in capital deepening boosts the rate of growth of structural productivity.

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

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²		
	08/06/03	09/10/03	08/06/03	09/10/03	08/06/03	09/10/03	08/06/03	09/10/03	08/06/03	09/10/03	
ANNUAL											
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		3.9	4.2	2.4	2.6	1.5	1.5	2.3	2.3	6.1	6.1
2004		5.5	5.9	4.4	4.8	1.0	1.0	1.1	1.0	5.8	5.9
2005					4.3		1.0		1.1		5.4
QUARTERLY											
2002	Q1	6.5	6.5	5.0	5.0	1.3	1.3	1.4	1.4	5.6	5.6
	Q2	2.5	2.5	1.3	1.3	1.2	1.2	3.4	3.4	5.9	5.9
	Q3	5.1	5.1	4.0	4.0	1.0	1.0	2.2	2.2	5.8	5.8
	Q4	3.2	3.2	1.4	1.4	1.8	1.8	2.0	2.0	5.9	5.9
2003	Q1	3.8	3.8	1.4	1.4	2.4	2.4	3.8	3.8	5.8	5.8
	Q2	3.6	4.2	2.6	3.3	1.0	0.8	0.7	0.7	6.2	6.2
	Q3	4.6	5.9	3.6	4.4	0.9	1.5	1.9	2.2	6.3	6.2
	Q4	5.5	5.7	4.4	4.6	1.0	1.1	1.4	1.3	6.2	6.2
2004	Q1	6.2	6.3	4.8	5.2	1.3	1.1	0.8	0.6	6.0	6.1
	Q2	5.8	6.0	4.8	5.1	0.9	0.9	0.8	0.8	5.9	6.0
	Q3	5.8	6.0	4.8	5.0	0.9	0.9	1.0	1.0	5.8	5.9
	Q4	5.7	5.6	4.8	4.7	0.9	0.9	1.0	1.1	5.5	5.7
2005	Q1		5.1		3.8		1.3		1.1		5.5
	Q2		5.0		4.1		0.9		1.1		5.4
	Q3		4.9		4.0		0.9		1.1		5.3
	Q4		4.7		3.9		0.8		1.1		5.3
TWO-QUARTER³											
2002	Q2	4.5	4.5	3.1	3.1	1.3	1.3	2.4	2.4	0.3	0.3
	Q4	4.1	4.1	2.7	2.7	1.4	1.4	2.1	2.1	0.0	0.0
2003	Q2	3.7	4.0	2.0	2.4	1.7	1.6	2.2	2.2	0.3	0.3
	Q4	5.0	5.8	4.0	4.5	1.0	1.3	1.6	1.7	0.0	0.0
2004	Q2	6.0	6.2	4.8	5.2	1.1	1.0	0.8	0.7	-0.3	-0.2
	Q4	5.7	5.8	4.8	4.9	0.9	0.9	1.0	1.0	-0.4	-0.3
2005	Q2		5.1		3.9		1.1		1.1		-0.3
	Q4		4.8		3.9		0.8		1.1		-0.1
FOUR-QUARTER⁴											
2001	Q4	2.0	2.0	0.1	0.1	2.0	2.0	1.8	1.8	1.7	1.7
2002	Q4	4.3	4.3	2.9	2.9	1.3	1.3	2.2	2.2	0.3	0.3
2003	Q4	4.4	4.9	3.0	3.4	1.3	1.4	1.9	2.0	0.3	0.3
2004	Q4	5.9	6.0	4.8	5.0	1.0	0.9	0.9	0.9	-0.7	-0.5
2005	Q4		4.9		3.9		1.0		1.1		-0.4

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.

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Class II FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES
(Seasonally adjusted annual rate)

September 10, 2003

Item	Units ¹	Projected - - -									
		1997	1998	1999	2000	2001	2002	2003	2004	2005	
EXPENDITURES											
Nominal GDP	Bill. \$	8318.4	8781.5	9274.3	9824.6	10082.2	10446.2	10886.8	11526.9	12138.9	
Real GDP	Bill. Ch. \$	8159.5	8508.9	8859.0	9191.4	9214.5	9439.9	9689.6	10154.2	10587.7	
Real GDP	% change	4.3	4.8	4.3	2.3	0.1	2.9	3.4	5.0	3.9	
Gross domestic purchases		5.0	5.8	5.2	2.9	0.1	3.7	3.4	5.3	4.1	
Final sales		3.9	4.7	4.2	2.6	1.6	1.7	3.7	4.6	3.7	
Priv. dom. final purchases		5.1	6.3	5.2	3.7	0.9	2.3	3.8	5.5	4.3	
Personal cons. expenditures		4.1	5.0	5.0	3.5	2.8	2.7	3.3	4.5	4.0	
Durables		8.8	12.7	10.0	3.8	13.2	1.9	8.5	7.6	7.3	
Nondurables		2.5	5.0	4.9	3.0	1.7	3.4	5.1	5.4	4.7	
Services		3.9	3.6	4.0	3.8	1.3	2.5	1.5	3.5	3.1	
Business fixed investment		11.8	12.3	6.6	6.2	-9.3	-1.7	5.1	13.7	7.2	
Equipment & Software		13.7	14.9	9.7	5.2	-8.8	3.3	6.8	16.9	7.3	
Nonres. structures		6.5	4.9	-2.5	9.3	-10.6	-15.9	-0.5	2.7	6.9	
Residential structures		3.5	10.0	4.0	-1.2	1.0	6.7	6.9	2.3	0.6	
Exports		8.5	2.3	4.9	7.3	-11.4	3.9	4.4	9.7	9.6	
Imports		14.3	10.8	11.9	11.1	-8.0	10.1	4.1	10.5	9.2	
Gov't. cons. & investment		2.4	2.7	4.5	1.3	5.1	3.6	3.6	2.2	2.1	
Federal		0.1	0.6	4.0	-1.2	7.5	7.5	9.5	3.7	2.2	
Defense		-1.4	-0.8	4.4	-2.5	7.4	9.3	12.8	3.7	1.8	
State & local		3.7	3.8	4.8	2.6	3.9	1.6	0.2	1.3	2.1	
Change in bus. inventories	Bill. Ch. \$	63.8	76.7	62.8	65.0	-61.4	5.2	-14.6	35.1	70.3	
Nonfarm		60.6	75.0	64.1	67.2	-63.2	4.1	-15.6	33.8	68.8	
Net exports		-113.3	-221.1	-320.5	-398.8	-415.9	-488.5	-539.8	-599.5	-655.9	
Nominal GDP	% change	6.2	6.0	5.9	4.6	2.0	4.3	4.9	6.0	4.9	
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	122.8	125.9	129.0	131.8	131.8	130.4	130.0	132.3	136.1	
Unemployment rate	%	4.9	4.5	4.2	4.0	4.8	5.8	6.1	5.9	5.4	
Industrial prod. index	% change	8.0	4.0	4.9	2.7	-5.7	1.4	0.4	6.8	4.9	
Capacity util. rate - mfg.	%	82.7	81.9	81.4	81.4	75.6	73.7	73.0	76.0	79.3	
Housing starts	Millions	1.47	1.62	1.64	1.57	1.60	1.70	1.76	1.80	1.81	
Light motor vehicle sales		15.07	15.41	16.78	17.24	17.02	16.70	16.60	17.26	17.45	
North Amer. produced		13.14	13.39	14.30	14.38	13.94	13.42	13.27	13.84	13.95	
Other		1.93	2.02	2.48	2.86	3.08	3.29	3.33	3.42	3.50	
INCOME AND SAVING											
Nominal GNP	Bill. \$	8325.4	8778.1	9297.1	9848.0	10104.1	10436.7	10880.5	11518.4	12125.3	
Nominal GNP	% change	6.0	5.8	6.4	4.6	2.1	3.8	4.9	5.9	4.9	
Nominal personal income		6.3	6.7	5.1	7.7	1.4	3.6	3.8	5.8	4.9	
Real disposable income		3.8	5.0	2.4	4.8	0.3	5.2	3.0	5.3	3.8	
Personal saving rate	%	4.2	4.7	2.6	2.8	2.3	3.7	3.4	4.0	3.9	
Corp. profits, IVA & CCAdj.	% change	9.9	-9.6	7.0	-9.1	8.2	-1.9	24.6	4.9	1.3	
Profit share of GNP	%	10.0	8.9	8.7	8.0	7.2	7.5	8.4	9.0	8.6	
Excluding FR Banks		9.7	8.6	8.4	7.7	7.0	7.3	8.2	8.8	8.4	
Federal surpl./deficit	Bill. \$	-53.3	43.8	111.9	206.9	72.0	-199.9	-371.8	-422.1	-238.9	
State & local surpl./def.		31.0	40.7	38.3	18.0	-31.3	-51.5	-23.7	-1.8	5.4	
Ex. social ins. funds		29.9	40.0	37.4	17.8	-31.2	-51.4	-23.6	-1.7	5.5	
Gross natl. saving rate	%	18.0	18.8	18.3	18.4	16.5	15.0	13.9	14.6	14.8	
Net natl. saving rate	%	6.7	7.5	6.8	6.7	3.8	1.9	1.0	2.0	2.3	
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.8	1.1	1.6	2.3	2.0	1.3	1.4	0.9	1.0	
Gross Domestic Purchases chn.-wt. price index		1.4	0.8	1.9	2.5	1.3	1.6	1.5	0.8	0.9	
PCE chn.-wt. price index		1.5	1.1	2.0	2.5	1.5	1.8	1.6	0.7	0.8	
Ex. food and energy		1.7	1.6	1.5	1.8	1.9	1.6	1.1	1.0	0.9	
CPI		1.9	1.5	2.6	3.4	1.8	2.2	2.0	0.9	1.1	
Ex. food and energy		2.2	2.3	2.0	2.6	2.7	2.1	1.4	1.4	1.3	
ECI, hourly compensation ²		3.4	3.5	3.4	4.4	4.2	3.2	3.8	3.3	3.2	
Nonfarm business sector		2.2	2.9	2.8	2.2	3.2	4.4	4.3	1.4	1.4	
Output per hour		3.4	5.3	4.2	7.2	2.7	2.8	3.5	2.9	3.0	
Compensation per Hour		1.2	2.3	1.4	4.9	-0.5	-1.6	-0.7	1.5	1.7	
Unit labor cost											

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

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Class II FOMC

September 10, 2003

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

Item	Units	Projected									
		2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	10028.1	10049.9	10097.7	10152.9	10313.1	10376.9	10506.2	10588.8	10688.4	10797.8
Real GDP	Bill. Ch. \$	9229.9	9193.1	9186.4	9248.8	9363.2	9392.4	9485.6	9518.2	9552.0	9629.6
Real GDP	% change	-0.6	-1.6	-0.3	2.7	5.0	1.3	4.0	1.4	1.4	3.3
Gross domestic purchases		-1.1	-1.1	-0.1	2.9	5.6	2.6	3.9	2.9	0.6	4.3
Final sales		2.8	-0.4	-0.2	4.2	2.4	-0.1	3.4	1.1	2.3	4.2
Priv. dom. final purchases		1.5	-1.2	0.3	3.0	2.5	1.3	3.4	2.2	1.6	4.5
Personal cons. expenditures		2.4	1.4	1.5	6.0	3.1	1.8	4.2	1.7	2.0	3.8
Durables		11.5	5.3	4.6	33.6	-6.3	2.0	22.8	-8.2	-2.0	24.1
Nondurables		2.3	-0.3	1.3	3.6	7.9	-0.1	1.0	5.1	6.1	1.1
Services		0.6	1.5	0.9	2.1	2.9	2.7	2.3	2.2	0.9	1.5
Business fixed investment		-5.4	-14.5	-6.0	-10.9	-5.8	-2.4	-0.8	2.3	-4.4	7.6
Equipment & Software		-6.3	-16.7	-9.2	-2.5	-2.7	3.3	6.7	6.2	-4.8	8.2
Nonres. structures		-3.1	-8.4	2.9	-30.1	-14.2	-17.6	-21.4	-9.9	-2.9	5.5
Residential structures		8.2	-0.5	0.4	-3.5	14.2	2.7	1.1	9.4	10.1	7.3
Exports		-6.0	-12.4	-17.3	-9.6	3.5	14.3	4.6	-5.8	-1.3	-1.2
Imports		-7.9	-6.8	-11.8	-5.3	8.5	22.2	3.3	7.4	-6.2	7.9
Gov't. cons. & investment		5.7	5.6	-1.1	10.5	5.6	1.4	2.9	4.6	0.4	8.6
Federal		9.5	6.0	1.2	13.5	7.4	7.5	4.3	11.0	0.7	25.5
Defense		8.3	2.7	4.6	14.3	11.6	7.8	6.9	11.0	-3.3	45.9
State & local		3.8	5.4	-2.3	8.9	4.6	-1.7	2.2	1.2	0.2	-0.1
Change in bus. inventories	Bill. Ch. \$	-26.9	-58.3	-61.8	-98.4	-28.9	4.9	18.8	25.8	4.8	-23.0
Nonfarm		-32.6	-54.9	-63.6	-101.5	-35.1	4.2	20.8	26.5	3.8	-21.9
Net exports		-404.5	-414.8	-419.0	-425.3	-446.6	-487.4	-488.0	-532.2	-510.3	-543.6
Nominal GDP	% change	3.0	0.9	1.9	2.2	6.5	2.5	5.1	3.2	3.8	4.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	132.5	132.2	131.7	130.9	130.5	130.4	130.2	130.3	130.2	130.0
Unemployment rate	%	4.2	4.4	4.8	5.6	5.6	5.9	5.8	5.9	5.8	6.2
Industrial prod. index	% change	-6.1	-6.1	-4.6	-5.8	1.4	4.4	3.4	-3.4	0.3	-3.5
Capacity util. rate - mfg.	%	77.9	76.1	74.8	73.4	73.4	73.9	74.3	73.5	73.2	72.6
Housing starts	Millions	1.61	1.63	1.60	1.57	1.72	1.68	1.70	1.74	1.74	1.74
Light motor vehicle sales		16.95	16.54	16.23	18.37	16.34	16.35	17.63	16.50	15.84	16.22
North Amer. produced		14.04	13.51	13.23	15.00	13.04	13.10	14.27	13.25	12.45	12.93
Other		2.90	3.04	3.00	3.37	3.31	3.25	3.35	3.24	3.38	3.29
INCOME AND SAVING											
Nominal GNP	Bill. \$	10038.0	10081.0	10109.3	10188.1	10314.9	10356.8	10495.3	10579.7	10678.2	10790.6
Nominal GNP	% change	2.2	1.7	1.1	3.2	5.1	1.6	5.5	3.3	3.8	4.3
Nominal personal income		3.9	0.8	1.4	-0.2	4.8	5.1	2.0	2.4	3.7	3.5
Real disposable income		-0.1	-0.6	10.5	-7.6	14.5	3.9	1.8	1.4	2.1	2.8
Personal saving rate	%	2.4	1.9	4.0	0.8	3.5	4.0	3.5	3.6	3.6	3.3
Corp. profits, IVA & CCAdj.	% change	-21.1	8.7	-17.7	94.4	-6.6	-6.2	-6.9	13.7	10.7	47.4
Profit share of GNP	%	7.0	7.2	6.8	8.0	7.7	7.6	7.3	7.5	7.6	8.3
Excluding FR Banks		6.7	6.9	6.5	7.7	7.5	7.3	7.1	7.3	7.5	8.1
Federal surpl./deficit	Bill. \$	173.8	144.4	-51.7	21.3	-145.8	-195.6	-210.5	-256.6	-275.3	-382.6
State & local surpl./def.		-16.5	-32.3	-46.2	-30.2	-55.8	-45.1	-54.7	-52.4	-66.9	-15.4
Ex. social ins. funds		-16.4	-32.2	-46.1	-30.0	-55.6	-44.9	-54.6	-52.3	-66.8	-15.3
Gross natl. saving rate	%	16.9	16.6	16.5	15.8	15.5	15.5	14.6	14.3	14.0	13.8
Net natl. saving rate		4.8	4.1	3.3	3.1	2.7	2.4	1.4	1.1	0.8	0.8
PRICES AND COSTS											
GDP chn.-wt. price index	% change	3.7	2.5	2.2	-0.5	1.3	1.2	1.0	1.8	2.4	0.8
Gross Domestic Purchases chn.-wt. price index		3.3	1.7	-0.2	0.4	1.2	2.3	1.2	1.8	3.4	0.2
PCE chn.-wt. price index		3.3	1.8	-0.1	0.8	1.1	2.7	1.7	1.8	2.7	0.7
Ex. food and energy		2.8	1.2	0.7	2.7	1.4	1.9	1.8	1.5	0.8	0.9
CPI		4.0	3.2	0.9	-0.7	1.4	3.4	2.2	2.0	3.8	0.7
Ex. food and energy		2.9	2.6	2.6	2.8	2.1	2.1	2.1	1.7	1.3	0.8
ECI, hourly compensation ¹		4.6	3.7	3.9	4.4	3.6	4.4	2.5	3.0	5.5	3.4
Nonfarm business sector											
Output per hour		-0.4	1.6	3.4	8.3	9.3	1.0	5.9	1.7	2.1	7.1
Compensation per hour		4.3	2.0	2.4	2.1	3.7	3.9	2.0	1.6	4.1	3.8
Unit labor cost		4.7	0.3	-0.9	-5.7	-5.2	2.9	-3.7	-0.1	2.0	-3.1

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

September 10, 2003

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

Item	Units	Projected									
		2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	10954.3	11106.6	11277.8	11444.1	11612.7	11772.9	11921.6	12067.8	12212.1	12353.9
Real GDP	Bill. Ch. \$	9733.7	9843.2	9968.3	10093.9	10218.8	10335.8	10432.2	10536.7	10640.1	10741.6
Real GDP	% change	4.4	4.6	5.2	5.1	5.0	4.7	3.8	4.1	4.0	3.9
Gross domestic purchases		4.5	4.3	5.6	5.7	5.3	4.6	4.1	4.4	4.2	3.8
Final sales		4.7	3.8	4.3	4.3	4.6	5.1	2.8	3.9	4.0	4.0
Priv. dom. final purchases		6.2	2.8	5.0	5.5	5.6	5.9	3.3	4.8	4.7	4.2
Personal cons. expenditures		4.8	2.8	4.7	4.5	4.4	4.4	4.4	4.3	4.0	3.5
Durables		14.3	-0.4	5.6	8.5	7.6	8.7	7.8	7.4	7.4	6.6
Nondurables		7.2	6.1	6.0	5.3	5.3	5.0	5.1	5.0	4.7	4.1
Services		1.9	1.8	3.9	3.3	3.4	3.3	3.3	3.3	3.1	2.6
Business fixed investment		11.5	6.3	10.7	13.2	14.4	16.8	-2.9	10.3	11.0	11.1
Equipment & Software		16.5	8.3	13.2	16.5	17.6	20.7	-4.7	11.5	11.9	11.6
Nonres. structures		-4.1	-0.4	2.2	2.0	3.2	3.2	4.4	6.0	7.9	9.2
Residential structures		14.8	-3.6	-2.4	3.9	3.3	4.6	3.3	1.1	-0.5	-1.3
Exports		9.0	11.6	7.0	9.7	10.0	12.2	7.9	9.7	9.5	11.5
Imports		8.5	7.1	9.8	12.4	10.4	9.6	8.9	10.4	9.0	8.3
Gov't. cons. & investment		-1.0	6.6	3.8	2.0	1.6	1.5	2.4	1.6	2.0	2.5
Federal		-3.5	17.9	8.6	3.5	1.7	1.0	3.0	1.0	1.8	3.0
Defense		-8.1	25.0	10.2	3.8	1.3	-0.0	3.1	-0.0	1.1	3.1
State & local		0.5	0.3	0.9	1.1	1.5	1.8	2.0	1.9	2.2	2.2
Change in bus. inventories	Bill. Ch. \$	-30.8	-9.5	14.1	37.3	50.9	38.2	66.4	72.4	72.8	69.6
Nonfarm		-33.0	-11.2	12.8	36.0	49.6	36.7	64.9	70.9	71.4	68.2
Net exports		-553.5	-551.6	-571.8	-595.9	-611.7	-618.8	-635.2	-653.1	-665.9	-669.6
Nominal GDP	% change	5.9	5.7	6.3	6.0	6.0	5.6	5.1	5.0	4.9	4.7
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	129.8	129.8	130.6	131.7	132.8	134.0	134.9	135.8	136.6	137.3
Unemployment rate	%	6.2	6.2	6.1	6.0	5.9	5.7	5.5	5.4	5.3	5.3
Industrial prod. index	% change	2.8	2.3	6.9	6.8	6.8	6.6	5.1	4.9	4.7	4.8
Capacity util. rate - mfg.	%	72.8	73.2	74.3	75.5	76.6	77.6	78.4	79.0	79.6	80.3
Housing starts	Millions	1.80	1.76	1.77	1.79	1.80	1.82	1.82	1.81	1.80	1.79
Light motor vehicle sales		17.39	16.93	17.06	17.20	17.32	17.47	17.37	17.41	17.47	17.54
North Amer. produced		14.07	13.61	13.72	13.81	13.86	13.99	13.89	13.93	13.97	14.02
Other		3.33	3.32	3.34	3.39	3.46	3.48	3.48	3.48	3.50	3.52
INCOME AND SAVING											
Nominal GNP	Bill. \$	10951.0	11102.3	11271.5	11436.6	11603.4	11762.2	11911.8	12057.8	12198.2	12333.5
Nominal GNP	% change	6.1	5.6	6.2	6.0	6.0	5.6	5.2	5.0	4.7	4.5
Nominal personal income		3.4	4.5	6.1	5.7	5.9	5.7	5.5	4.9	4.7	4.6
Real disposable income		6.0	1.3	7.8	4.4	4.5	4.5	4.1	3.8	3.6	3.6
Personal saving rate	%	3.6	3.2	4.0	3.9	4.0	4.0	4.0	3.9	3.8	3.9
Corp. profits, IVA & CCAdj.	% change	24.4	18.8	10.8	5.5	3.5	0.2	-3.5	3.1	3.3	2.2
Profit share of GNP	%	8.7	8.9	9.0	9.0	8.8	8.7	8.6	8.6	8.5	8.5
Excluding FR Banks		8.5	8.7	8.8	8.8	8.8	8.7	8.5	8.4	8.4	8.4
Federal surpl./deficit	Bill. \$	-423.0	-406.4	-460.0	-454.3	-409.1	-365.1	-284.2	-239.0	-215.2	-217.0
State & local surpl./def.		-21.5	9.1	-6.1	0.5	-3.5	2.0	3.7	5.2	6.2	6.5
Ex. social ins. funds		-21.4	9.2	-6.0	0.6	-3.4	2.1	3.8	5.3	6.3	6.6
Gross natl. saving rate	%	13.8	14.1	14.2	14.5	14.7	14.8	14.8	14.8	14.8	14.9
Net natl. saving rate		0.9	1.3	1.6	1.9	2.1	2.3	2.2	2.3	2.3	2.3
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.5	1.1	1.1	0.9	0.9	0.9	1.3	0.9	0.9	0.8
Gross Domestic Purchases chn.-wt. price index		1.7	0.9	1.0	0.7	0.8	0.8	1.2	0.9	0.8	0.9
PCE chn.-wt. price index		2.0	1.0	0.5	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Ex. food and energy		1.7	1.2	1.1	1.0	1.0	0.9	0.9	0.9	0.8	0.8
CPI		2.2	1.3	0.6	0.8	1.0	1.1	1.1	1.1	1.1	1.1
Ex. food and energy		1.7	1.7	1.5	1.4	1.4	1.4	1.3	1.3	1.3	1.2
ECI, hourly compensation ¹		3.2	3.2	3.3	3.3	3.2	3.3	3.2	3.2	3.2	3.2
Nonfarm business sector											
Output per hour		4.5	3.4	2.4	1.3	1.1	0.8	0.8	1.4	1.7	1.6
Compensation per hour		3.3	2.9	3.0	2.9	2.9	2.9	3.1	3.0	3.0	3.0
Unit labor cost		-1.2	-0.5	0.6	1.6	1.8	2.1	2.3	1.6	1.3	1.3

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	Contributions to Growth in Real Gross Domestic Product and Related Items								Projected			
	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	01Q4/01Q4	02Q4/01Q4
Real GDP Gross dom. purchases	-0.3 -0.1	2.7 3.0	5.0 5.8	1.3 2.7	4.0 4.0	1.4 3.0	1.4 0.6	3.3 4.5	4.4 4.7	0.1 0.2	2.9 3.9	3.4 3.6
Final sales Priv. dom. final purchases	-0.2 0.3	4.1 2.6	2.5 2.2	-0.1 1.1	3.5 2.9	1.1 1.8	2.2 1.4	4.2 3.8	4.7 5.2	1.6 0.8	1.7 2.0	3.7 3.2
Personal cons. expenditures	1.0	4.1	2.2	1.2	2.9	1.2	1.4	2.7	3.4	1.9	1.9	2.3
Durables	0.4	2.5	-0.6	0.2	1.7	-0.7	-0.2	1.8	1.1	1.0	0.2	0.7
Nondurables	0.3	0.7	1.6	-0.0	0.2	1.0	1.2	0.2	1.4	0.3	0.7	1.0
Services	0.4	0.9	1.2	1.1	1.0	0.9	0.4	0.6	0.8	0.5	1.0	0.6
Business fixed investment	-0.7	-1.3	-0.7	-0.3	-0.1	0.2	-0.5	0.8	1.2	-1.2	-0.2	0.5
Equipment & Software	-0.8	-0.2	-0.2	0.3	0.5	0.5	-0.4	0.6	1.3	-0.8	0.3	0.5
Nonres. structures	0.1	-1.1	-0.4	-0.5	-0.6	-0.3	-0.1	0.1	-0.1	-0.4	-0.5	-0.0
Residential structures	0.0	-0.2	0.6	0.1	0.1	0.4	0.5	0.3	0.7	0.0	0.3	0.3
Net exports	-0.2	-0.3	-0.8	-1.4	-0.0	-1.6	0.8	-1.2	-0.3	-0.1	-1.0	-0.2
Exports	-1.9	-1.0	0.3	1.3	0.5	-0.6	-0.1	0.8	-1.3	0.4	0.4	-0.6
Imports	1.7	0.7	-1.1	-2.7	-0.5	-1.0	0.9	-1.1	-1.2	-1.2	-1.3	-0.6
Government cons. & invest.	-0.2	1.9	1.0	0.3	0.6	0.9	0.1	1.6	-0.2	0.9	0.7	0.7
Federal	0.1	0.8	0.5	0.5	0.3	0.7	0.1	1.6	-0.3	0.4	0.5	0.6
Defense	0.2	0.5	0.5	0.3	0.3	0.5	-0.2	1.7	-0.4	0.3	0.4	0.6
Nondefense	-0.1	0.3	0.0	0.2	-0.0	0.3	0.2	-0.1	0.1	0.2	0.1	0.1
State and local	-0.3	1.1	0.6	-0.2	0.3	0.2	0.0	0.1	0.5	0.2	0.0	0.0
Change in bus. inventories	-0.1	-1.4	2.6	1.3	0.6	0.3	-0.8	-0.9	-0.3	-1.5	1.2	-0.3
NonFarm	-0.3	-1.4	2.5	1.5	0.7	0.2	-0.9	-1.0	-0.4	-1.6	1.2	-0.4
Farm	0.2	0.1	-0.2	-0.1	-0.1	0.1	0.1	0.1	0.1	-0.0	-0.0	0.1

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	Projected								Projected			
	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2005 Q4/ Q3Q4	04Q4/ 03Q4	05Q4/ 04Q4
Real GDP Gross dom. purchases	4.6	5.2	5.1	5.0	4.7	3.8	4.1	4.0	3.9	3.4	5.0	3.9
Final sales	4.5	5.9	5.9	5.6	4.9	4.3	4.6	4.4	4.0	3.6	5.6	4.3
Priv. dom. final purchases	3.8	4.3	4.3	4.6	5.1	2.8	3.9	4.0	4.0	3.7	4.6	3.7
Personal cons. expenditures	2.0	3.3	3.2	3.1	3.1	3.0	3.0	2.8	2.5	2.3	3.2	2.8
Durables	-0.0	0.5	0.7	0.6	0.7	0.6	0.6	0.6	0.5	0.7	0.6	0.6
Nondurables	1.2	1.2	1.1	1.1	1.0	1.0	1.0	0.9	0.8	1.0	1.1	1.0
Services	0.8	1.6	1.4	1.4	1.4	1.4	1.4	1.3	1.1	0.6	1.4	1.3
Business fixed investment	0.7	1.1	1.3	1.5	1.7	-0.3	1.1	1.2	1.2	0.5	1.4	0.8
Equipment & Software	0.7	1.0	1.3	1.4	1.7	-0.4	1.0	1.0	1.0	0.5	1.4	0.6
Nonres. structures	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.2	0.2	-0.0	0.1	0.2
Residential structures	-0.2	-0.1	0.2	0.2	0.2	0.2	0.1	0.1	-0.1	0.3	0.1	0.0
Net exports	0.1	-0.7	-0.8	-0.5	-0.2	-0.5	-0.6	-0.4	-0.1	-0.2	-0.6	-0.4
Exports	1.1	0.7	0.9	1.0	1.2	0.8	1.0	1.0	1.2	0.4	0.9	1.0
Imports	-1.0	-1.4	-1.7	-1.5	-1.4	-1.3	-1.5	-1.3	-1.2	-0.6	-1.5	-1.4
Government cons. & invest.	1.2	0.7	0.4	0.3	0.3	0.5	0.3	0.4	0.5	0.7	0.4	0.4
Federal	1.2	0.6	0.3	0.1	0.1	0.2	0.1	0.1	0.2	0.6	0.3	0.2
Defense	1.1	0.5	0.2	0.1	0.0	0.2	0.0	0.1	0.1	0.6	0.2	0.1
Nondefense	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
State and local	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.0	0.2	0.2
Change in bus. inventories	0.8	0.9	0.8	0.5	-0.4	1.0	0.2	0.0	-0.1	-0.3	0.4	0.3
NonFarm	-0.8	0.9	0.8	0.5	-0.5	1.0	0.2	0.0	-0.1	-0.4	0.4	0.3
Farm	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.1	-0.0	-0.0	-0.0

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

Item	Fiscal year				2003				2004				2005			
	2002 ^a	2003	2004	2005	Q1 ^a	Q2 ^a	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget¹																
Receipts ²	1853	1775	1825	2019	398	528	422	433	410	520	462	466	436	601	516	508
Outlays ²	2011	2163	2313	2378	543	544	541	586	585	579	563	597	596	592	593	606
Surplus/deficit ²	-158	-388	-488	-359	-145	-17	-119	-153	-174	-59	-101	-132	-160	9	-77	-99
On-budget	-317	-553	-664	-555	-169	-91	-132	-196	-214	-138	-117	-177	-204	-75	-99	-147
Off-budget	160	165	177	196	24	75	13	43	40	79	15	46	44	84	22	48
Means of financing																
Borrowing	221	420	540	354	64	106	154	158	109	116	98	153	34	70	68	
Cash decrease	-17	31	-15	0	20	-17	-0	-5	11	-36	15	15	0	-30	15	15
Other ³	-46	-62	-38	5	62	-73	-35	0	5	-14	-29	19	7	-13	-8	16
Cash operating balance, end of period	61	30	45	45	13	30	30	35	24	60	45	30	30	60	45	30
NIPA federal sector																
Receipts	1906	1854	1891	2128	1870	1876	1811	1885	1884	1939	2003	2113	2177	2220	2241	
Expenditures	2039	2189	2323	2404	2145	2259	2234	2292	2315	2348	2368	2398	2416	2435	2458	
Consumption expenditures	570	639	707	739	627	664	658	684	709	716	720	723	741	744	749	755
Defense	375	426	482	501	409	452	442	465	483	488	490	491	503	504	507	511
Nondefense	195	213	226	238	218	213	216	219	226	228	230	232	238	240	242	244
Other spending	1469	1550	1616	1665	1519	1595	1576	1608	1606	1628	1645	1657	1672	1687	1703	
Current account surplus	-133	-335	-432	-276	-275	-383	-423	-406	-460	-454	-409	-365	-284	-239	-215	-217
Gross investment	106	112	129	133	109	116	117	125	129	131	131	132	133	134	134	136
Gross saving less gross investment ⁴	-138	-342	-452	-295	-279	-393	-434	-424	-480	-475	-430	-385	-304	-258	-234	-236
Fiscal indicators⁵																
High-employment (HEB) surplus/deficit	-73	-250	-385	-268	-186	-294	-339	-333	-408	-417	-384	-351	-275	-233	-212	-217
Change in HEB, percent of potential GDP	1.8	1.6	1.1	-1.1	0.0	0.9	0.4	-0.1	0.6	0.0	-0.3	-0.3	-0.7	-0.4	-0.2	0.0
Fiscal impetus (FI) percent of GDP	1.1	1.1	1.2	-0.3	0.0	0.7	0.1	0.8	0.2	0.2	0.1	0.2	-0.5	-0.0	0.0	0.1

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

2. OMB's July 2003 baseline surplus estimates are -\$455 billion in FY 2003 and -\$458 billion in FY 2004. CBO's August 2003 baseline surplus estimates are -\$401 billion in FY 2003, -\$480 billion in FY 2004, and -\$341 billion in FY 2005. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus and the Postal Service surplus are excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.

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. 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)**

September 10, 2003

Period ¹	Total	Federal government	Nonfederal				State and local governments	Mimeo: Nominal GDP
			Total	Households	Home mortgages	Consumer credit		
<i>Year</i>								
1998	6.9	-1.4	9.6	8.1	8.8	6.5	12.1	6.0
1999	6.3	-1.9	8.8	8.3	9.0	8.4	10.6	5.9
2000	4.9	-8.0	8.4	8.6	8.3	10.7	9.7	4.6
2001	6.1	-0.2	7.6	8.7	9.8	7.3	6.1	2.0
2002	7.1	7.6	7.0	10.0	12.4	4.3	2.9	4.3
2003	8.3	13.2	7.3	9.7	11.7	4.3	4.3	4.9
2004	6.9	11.7	5.8	6.6	7.1	5.4	5.1	6.0
2005	6.1	7.1	5.9	6.3	6.4	6.2	5.7	4.9
<i>Quarter</i>								
2003:1	6.0	2.2	6.8	9.9	11.6	4.8	3.5	5.1
2	12.0	24.3	9.4	11.5	14.2	3.4	6.4	12.0
3	7.6	12.9	6.5	9.0	10.5	4.3	3.5	5.8
4	6.6	11.4	5.5	7.2	8.4	4.4	3.7	4.4
2004:1	6.5	11.1	5.5	6.6	7.5	4.8	4.5	3.8
2	8.5	21.2	5.6	6.4	7.0	5.1	4.7	4.8
3	6.2	7.8	5.8	6.3	6.8	5.4	5.2	6.0
4	5.7	4.7	5.9	6.3	6.6	5.7	5.5	5.6
2005:1	6.5	9.5	5.8	6.4	6.6	6.0	5.4	5.1
2	7.1	12.7	5.8	6.2	6.3	6.1	5.5	4.6
3	5.4	3.9	5.7	6.0	6.1	6.1	5.6	5.0
4	4.9	1.7	5.7	6.0	6.0	6.1	5.6	4.9
							4.6	4.7

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2003:Q2 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

Strictly Confidential (FR)
Class II FOMC

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

Category	Calendar year				2003				2004				Seasonally adjusted annual rates			
	2002	2003	2004	2005	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2005	
<i>Net funds raised by domestic nonfinancial sectors</i>																
1 Total	1332.7	1652.6	1492.4	1441.7	1591.1	1389.8	1407.2	1878.3	1385.1	1299.3	1533.9	1703.1	1308.9	1220.8		
2 Net equity issuance	-41.9	-63.4	-50.8	-23.5	-57.0	-59.0	-58.0	-53.0	-51.0	-41.0	-31.0	-26.0	-21.0	-16.0		
3 Net debt issuance	1374.6	1716.0	1543.2	1465.2	1648.1	1448.8	1465.2	1931.3	1436.1	1340.3	1564.9	1729.1	1329.9	1236.8		
<i>Borrowing sectors</i>																
Nonfinancial business																
4 Financing gap ¹	80.8	14.3	45.4	218.9	-10.7	-9.3	-4.9	19.9	60.5	106.2	176.5	213.9	235.0	250.2		
5 Net equity issuance	-41.9	-63.4	-50.8	-23.5	-57.0	-59.0	-58.0	-53.0	-51.0	-41.0	-31.0	-26.0	-21.0	-16.0		
6 Credit market borrowing	200.0	308.9	376.4	440.9	252.0	271.2	330.4	354.6	396.1	424.2	424.4	434.2	448.1	456.6		
Households																
7 Net borrowing ²	771.8	825.3	611.6	622.0	807.2	656.5	617.1	603.6	609.3	616.3	629.3	622.8	618.1	617.8		
8 Home mortgages	666.4	705.6	481.7	463.7	679.3	552.8	503.9	479.7	472.6	470.6	476.1	464.7	457.7	456.2		
9 Consumer credit	79.2	83.0	107.9	131.9	85.6	87.4	96.5	103.2	112.5	119.3	126.8	131.7	134.0	135.2		
10 Debt/DPI (percent) ³	103.5	108.8	111.3	112.8	109.5	111.1	110.7	111.1	111.5	111.7	112.1	112.6	113.1	113.5		
State and local governments																
11 Net borrowing	145.3	100.7	74.8	75.3	86.9	66.5	58.8	74.8	80.8	84.8	74.8	74.8	74.8	76.8		
12 Current surplus ⁴	127.7	159.0	188.3	202.9	162.4	194.7	181.2	189.6	187.5	194.9	198.4	201.8	204.7	206.8		
Federal government																
13 Net borrowing	257.5	481.1	480.4	324.4	501.9	454.5	458.8	898.2	349.9	214.9	436.4	597.3	188.9	85.6		
14 Net borrowing (quarterly, n.s.a.)	257.5	481.1	480.4	324.4	153.6	157.6	158.3	108.8	115.6	97.7	152.6	33.6	70.2	68.0		
15 Unified deficit (quarterly, n.s.a.)	230.6	433.4	466.1	326.4	118.7	153.2	174.3	58.9	101.2	131.7	160.1	-9.4	76.8	98.9		
<i>Depository institutions</i>																
16 Funds supplied	482.5	459.4	429.6	478.8	238.0	242.4	406.9	399.4	512.2	400.0	478.8	478.8	478.8	478.8		
<i>Memo (percentage of GDP)</i>																
17 Domestic nonfinancial debt ⁵	191.2	197.6	200.8	203.0	199.0	199.8	200.0	200.8	201.5	201.7	202.2	203.2	203.9	204.2		
18 Domestic nonfinancial borrowing	13.2	15.8	13.4	12.1	15.0	13.0	13.0	16.9	12.4	11.4	13.1	14.3	10.9	10.0		
19 Federal government ⁶	2.5	4.4	4.2	2.7	4.6	4.1	4.1	7.8	3.0	1.8	3.7	4.9	1.5	0.7		
20 Nonfederal	10.7	11.3	9.2	9.4	10.5	9.0	8.9	9.0	9.4	9.6	9.5	9.4	9.3	9.3		

Note. Data after 2003: Q2 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

Over the intermeeting period, financial markets and confidence surveys have displayed a widespread increase in optimism about the prospects for foreign economic growth. This optimism reflects a belief that stronger U.S. growth will contribute to activity abroad through exports. There are some tentative indications that foreign domestic demand also may be poised to accelerate, especially in developing Asia, where the economic effects of last spring's SARS epidemic appear to have receded. In the foreign industrial countries, we assume that monetary and fiscal policies for the most part will remain supportive of domestic demand growth through the forecast period.

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

Indicator	2002		2003: H1	Projection		
	H1	H2		2003: H2	2004	2005
Foreign output	3.5	2.1	0.5	3.2	3.6	3.4
<i>Previous GB</i>	<i>3.5</i>	<i>2.0</i>	<i>0.6</i>	<i>2.5</i>	<i>3.4</i>	--
Foreign CPI	2.4	2.8	1.9	1.8	1.9	1.9
<i>Previous GB</i>	<i>2.5</i>	<i>2.6</i>	<i>2.1</i>	<i>1.6</i>	<i>1.8</i>	--

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

Compared with the August Greenbook, our estimate of foreign economic growth in the first half of 2003 has edged down slightly, and our projection of second-half growth has been increased significantly. The reduction in first-half growth reflects a greater-than-expected SARS effect on developing Asian economies in the second quarter that was largely offset by significantly stronger activity than previously estimated in Japan and Mexico. The boost to second-half growth reflects a rebound in the SARS-affected economies during the third quarter, along with more positive indicators elsewhere. Our projection for solid growth in 2004 has also risen a bit, and we expect growth to remain strong in 2005.

Foreign inflation has stepped down to a 2 percent pace this year. We project inflation abroad to stay close to this rate through the forecast period as output gaps gradually diminish but are not eliminated.

On balance, the broad real value of the dollar has changed little over the intermeeting period. We are projecting a depreciation of the dollar at slightly more than 1 percent per year, leaving the dollar's path essentially unchanged from our previous forecast through 2004. The dollar is projected to continue

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

Trade category	2002		2003: H1	Projection		
	H1	H2		2003: H2	2004	2005
<i>Exports</i>						
Core goods	1.2	3.1	3.3	0.6	0.9	0.9
<i>Imports</i>						
Non-oil core goods	-0.1	1.4	2.6	1.7	1.4	1.3
Oil (dollars per barrel)	24.05	25.75	26.47	26.44	23.18	22.09

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.

Higher prices for energy-related products are responsible for the acceleration of prices of exported core goods that began late last year. After an increase of 3.3 percent (a.r.) in the first half of 2003, core export prices are expected to increase at a more subdued pace of $\frac{1}{2}$ percent in the second half, a forecast about unchanged from the August Greenbook. Over the remainder of the forecast period, core export price inflation is expected to be in line with projected prices of U.S. domestic goods.

Trade in Goods and Services

The first-half decline in exports appears to have been somewhat smaller than we estimated in the August Greenbook, with services exports accounting for much of the revision. We project that real exports of goods and services will grow at a rate of nearly 10 percent through the forecast period. This projection is about 1 percentage point higher than that in the August Greenbook for the second half of this year and $\frac{1}{2}$ percentage point higher for next year, consistent with higher foreign growth.

The projected pickup in exports in our forecast is widespread. Core goods, computers, and services all show sharp rebounds in the second half, with growth rates that are, for the most part, sustained through 2005. Exports of core goods are projected to increase at a pace of $7\frac{1}{2}$ percent beginning in the second half of this year. The recovery of core exports reflects an acceleration of foreign activity and a lagged response to the dollar's previous depreciation. In addition, because exports had fallen well below the level suggested by their historical relationship with exchange rates and foreign GDP, we have built in some further

growth of exports over the forecast period to return them gradually to a more normal level. Exports of semiconductors, which rebounded strongly in the first half of 2003, are expected to continue to grow at double-digit rates. Computer exports are projected to accelerate in the second half of this year and into next year, consistent with a solid recovery in the global high-tech sector. We project that exports of services will grow at a rate of more than 11 percent in the second half of this year before returning to a pace of 6 percent in 2004 and 2005. The rebound in services receipts in the near term owes in large part to waning effects on travel of the SARS outbreak and the Iraq war.

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

Measure	2002		2003: H1	Projection		
	H1	H2		2003: H2	2004	2005
Real exports	8.7	-0.7	-1.3	10.3	9.7	9.6
<i>Previous GB</i>	8.7	-0.7	-2.2	9.1	9.1	--
Real imports	15.2	5.3	0.6	7.8	10.5	9.2
<i>Previous GB</i>	15.2	5.3	1.1	6.2	10.2	--

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

Import growth in the first half of 2003 was close to zero, a bit weaker than estimated in the August Greenbook. The revision was largely in core goods. We project that real imports of goods and services will grow at annual rates of more than 7 percent beginning in the second half of 2003 and continuing through the forecast period. This path was revised up from the previous forecast about 1½ percentage points for the second half of this year, in part as a result of the upward revision to U.S. GDP growth, but is little changed for next year.

The acceleration of imports in the second half of this year is marked by strong growth in core and high-tech goods and a surge in imports of services (reflecting the same bounceback as in services exports); oil imports, however, fall off from their unusually high level in the second quarter. Next year, import growth should pick up still further, largely reflecting a further rise in the growth rate of U.S. GDP, but then edge down a bit in 2005 as U.S. GDP growth slows. As with exports of core goods, imports of core goods have fallen below their traditional relationship with U.S. GDP and exchange rates, leading us to build in a small additional increment to their growth rates over the forecast period. All told, imports of core goods are projected to increase at a pace of 8 percent or

more over the forecast period. We project that imports of services will grow at a rate of more than 10 percent in the second half before returning to around 5 percent in 2004 and 2005.

Alternative Simulations

We project that the United States will continue to grow faster than the foreign economies throughout the forecast period. This relatively favorable outlook for the U.S. economy may increase the appetite of investors for U.S. dollar assets more than is implied in our projections. In our alternative simulation, we use the FRB/Global model to assess the effects of a fall in the risk premium on the dollar in foreign exchange markets that would generate substantial dollar appreciation. The shock is assumed to occur in 2003:Q4 and has been scaled so that the real value of our broad dollar index would rise 10 percent in the absence of endogenous adjustments in long-term interest rates.

**Alternative Simulation:
10 Percent Appreciation of the Broad Real Dollar**
(Percent change from previous period, annual rate)

Indicator and simulation	2003		2004		2005	
	H1	H2	H1	H2	H1	H2
<i>U.S. real GDP</i>						
Baseline	2.4	4.5	5.2	4.9	3.9	3.9
Dollar Appreciation	2.4	4.4	4.8	4.5	3.3	3.4
<i>U.S. PCE prices excl. food and energy</i>						
Baseline	0.8	1.4	1.1	1.0	0.9	0.8
Dollar Appreciation	0.8	1.4	0.6	0.5	0.6	0.6

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.

This shock depresses net exports, lowering U.S. GDP growth 0.4 percentage point in 2004, relative to baseline, and about 0.6 percentage point in 2005. Core PCE inflation falls 0.5 percentage point below baseline in 2004, mainly because of the direct effect of lower prices for imported goods and services. Inflation falls 0.2 percentage point below baseline in 2005, reflecting the effects of reduced capacity utilization on domestic prices.

Strictly Confidential (FR)
 Class II FOMC OUTLOOK FOR FOREIGN REAL GDP AND CONSUMER PRICES: SELECTED COUNTRIES
 (Percent, Q4 to Q4)

Measure and country	1997	1998	1999	2000	2001	2002	2003	2004	2005	-----Projected-----
REAL GDP (1)										
Total foreign	4.2	1.5	4.9	4.4	0.3	2.8	1.8	3.6	3.4	
Industrial Countries of which:	3.5	2.7	4.2	3.8	0.6	2.6	1.6	2.7	2.7	
Canada	4.4	4.4	5.9	4.2	-1.4	3.5	1.9	3.4	3.3	
Japan	0.3	-1.3	-0.5	5.1	-2.4	2.5	2.5	1.6	1.5	
United Kingdom	3.7	2.6	3.2	2.2	1.9	2.3	1.6	2.7	2.5	
Euro Area (2)	3.2	2.0	3.8	2.7	0.8	1.1	0.5	2.3	2.4	
Germany	1.7	0.7	3.3	1.9	0.5	0.5	0.1	2.1	2.1	
Developing Countries Asia	5.4	-0.3	6.1	5.3	-0.3	3.1	2.2	4.8	4.4	
Korea	5.0	-2.2	8.6	6.2	0.9	5.6	2.7	5.6	5.3	
China	3.4	-5.2	13.8	5.1	4.2	7.0	0.8	4.6	5.5	
Latin America	8.7	9.5	4.1	8.0	7.5	8.0	8.1	8.3	7.7	
Mexico	6.1	1.2	4.2	4.5	-1.4	1.1	1.7	4.5	3.7	
Brazil	6.8	2.9	5.4	4.8	-1.4	2.0	2.5	5.0	4.0	
2.5	-1.6	3.4	3.9	-0.9	3.2	-0.5			3.5	
CONSUMER PRICES (3)										
Industrial Countries of which:	1.5	1.0	1.2	1.8	1.0	2.2	1.3	1.3	1.3	
Canada	1.0	1.1	2.4	3.1	1.1	3.8	1.8	1.8	1.8	
Japan	2.1	0.7	-1.1	-1.3	-1.3	-0.4	-0.3	-0.4	-0.3	
United Kingdom (4)	2.7	2.5	2.2	2.1	2.0	2.6	2.7	2.4	2.5	
Euro Area (2)	1.5	0.8	1.5	2.5	2.1	2.3	1.7	1.6	1.6	
Germany	1.5	0.3	1.1	1.7	1.5	1.2	0.8	1.1	1.0	
Developing Countries Asia	6.8	9.0	4.6	4.1	2.8	3.1	2.6	2.8	2.7	
Korea	2.7	4.4	0.1	1.8	1.1	0.8	1.2	1.9	2.2	
China	4.9	5.8	1.2	2.5	3.3	3.4	2.7	2.7	2.7	
Latin America	0.8	-1.2	-1.0	0.9	-0.1	-0.5	0.9	1.6	1.8	
Mexico	15.5	15.4	12.5	8.4	5.3	6.4	4.8	4.0	3.5	
Brazil	17.0	17.3	13.4	8.7	5.1	5.3	3.9	3.6	3.2	
4.6	2.0	8.4	6.4	7.5	10.7	11.6	5.8	5.2		

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

Measure and country	2003				Projected				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)												
Total foreign	0.7	0.3	2.9	3.4	3.5	3.6	3.6	3.6	3.5	3.4	3.3	3.3
Industrial Countries of which:	1.6	0.5	1.7	2.5	2.6	2.8	2.8	2.8	2.8	2.8	2.7	2.7
Canada	2.6	-0.3	2.1	3.4	3.5	3.4	3.3	3.4	3.4	3.4	3.3	3.3
Japan	2.4	3.9	1.7	2.0	1.6	1.6	1.5	1.5	1.4	1.4	1.5	1.5
United Kingdom	0.4	1.4	2.3	2.4	2.6	2.7	2.6	2.6	2.6	2.6	2.4	2.4
Euro Area (2)	0.1	-0.3	0.9	1.5	1.9	2.2	2.6	2.6	2.5	2.5	2.4	2.4
Germany	-1.0	-0.2	0.5	1.0	1.5	2.0	2.5	2.4	2.2	2.2	2.0	2.0
Developing Countries	-0.6	0.1	4.8	4.8	4.8	4.8	4.8	4.8	4.4	4.4	4.3	4.3
Asia	-2.8	-5.1	6.9	6.4	5.5	5.6	5.6	5.6	5.5	5.5	5.2	5.1
Korea	-1.6	-2.9	3.0	5.0	4.5	4.5	5.0	5.0	5.5	5.5	5.5	5.5
China	1.6	-2.9	10.0	10.0	8.5	8.5	8.2	8.2	8.0	8.0	7.5	7.5
Latin America	-4.2	4.5	3.2	3.8	4.5	4.5	4.5	4.5	3.7	3.7	3.7	3.7
Mexico	-1.7	4.9	3.0	3.8	5.0	5.0	5.0	5.0	4.0	4.0	4.0	4.0
Brazil	-2.3	-6.2	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
CONSUMER PRICES (3)												
Industrial Countries of which:	2.5	1.8	1.6	1.3	0.8	1.4	1.3	1.3	1.3	1.3	1.3	1.3
Canada	4.5	2.8	2.2	1.8	0.7	2.0	1.9	1.8	1.8	1.8	1.8	1.8
Japan	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3
United Kingdom (4)	2.9	2.9	3.0	2.7	2.4	2.6	2.5	2.4	2.4	2.4	2.4	2.5
Euro Area (2)	2.3	2.0	2.1	1.7	1.4	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Germany	1.1	0.9	0.9	0.8	0.5	0.9	1.1	1.0	1.1	1.1	1.1	1.0
Developing Countries	3.6	3.1	2.7	2.6	2.3	2.5	2.8	2.8	2.8	2.8	2.8	2.7
Asia	1.4	1.2	1.1	1.2	1.1	1.5	1.9	1.9	2.0	2.1	2.1	2.1
Korea	4.1	3.3	3.0	2.7	2.1	2.2	2.7	2.7	2.7	2.7	2.7	2.7
China	0.5	0.6	0.7	0.9	0.7	1.2	1.5	1.6	1.8	1.8	1.8	1.8
Latin America	7.1	6.3	5.4	4.8	4.3	4.2	4.0	4.0	3.8	3.7	3.6	3.5
Mexico	5.5	4.7	4.1	3.9	3.9	3.8	3.6	3.6	3.4	3.3	3.2	3.1
Brazil	15.6	17.0	15.3	11.6	6.7	5.2	5.9	5.9	5.6	5.5	5.3	5.3

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.

	1997	1998	1999	2000	2001	2002	2003	2004	Projected 2005
NIPA REAL EXPORTS and IMPORTS									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services									
Exports of G&S	-0.8	-1.1	-1.0	-0.8	-0.1	-1.0	-0.2	-0.6	-0.4
Imports of G&S	1.0	0.3	0.5	0.8	1.3	0.4	0.4	0.9	1.0
	-1.7	-1.5	-1.5	-1.5	-1.2	-1.3	-0.6	-1.5	-1.4
Percentage change, Q4/Q4									
Exports of G&S									
Services	8.5	2.3	4.9	7.3	-11.4	3.9	4.4	9.7	9.6
Computers	1.4	2.9	3.2	4.8	-9.2	11.4	3.6	6.1	6.0
Semiconductors	25.8	8.1	13.4	23.0	-23.4	-2.1	8.0	37.2	33.5
Other Goods 1/	21.3	9.1	34.6	26.9	-34.9	8.5	34.8	40.1	36.2
	9.8	1.3	3.2	5.7	-9.4	0.5	2.7	7.7	7.5
Imports of G&S									
Services	14.3	10.8	11.9	11.1	-8.0	10.1	4.1	10.5	9.2
Oil	14.0	8.5	5.9	10.9	-8.6	11.5	-0.5	5.4	4.3
Computers	3.9	4.1	-3.4	13.3	0.1	4.0	-1.1	1.7	2.4
Semiconductors	33.0	25.8	26.0	13.6	-13.8	13.6	17.7	37.3	33.6
Other Goods 2/	32.9	-8.7	34.2	22.5	-51.4	9.3	14.7	40.1	36.2
	12.7	11.5	12.7	10.4	-6.2	10.1	4.6	10.2	8.3
Billions of chained 1996 dollars									
Net Goods & Services									
Exports of G&S	-113.3	-221.1	-320.5	-398.8	-415.9	-488.5	-539.8	-599.5	-655.9
Imports of G&S	981.5	1002.4	1036.3	1137.2	1076.1	1058.8	1074.7	1169.3	1284.2
	1094.8	1223.5	1356.8	1536.0	1492.0	1547.4	1614.5	1768.9	1940.2
Billions of dollars									
US CURRENT ACCOUNT BALANCE									
Current Acct as Percent of GDP	-127.7	-204.7	-290.8	-411.5	-393.7	-480.9	-550.0	-594.3	-649.0
	-1.5	-2.3	-3.1	-4.2	-3.9	-4.6	-5.1	-5.2	-5.3
Net Goods & Services (BOP)									
	-107.0	-163.2	-261.2	-375.4	-357.8	-418.0	-497.1	-543.3	-592.2
Investment Income, Net									
Direct Net	25.1	11.5	22.3	24.2	15.7	1.3	19.0	16.6	11.5
Portfolio, Net	72.4	65.5	78.2	94.9	106.5	93.5	103.7	105.5	113.3
	-47.3	-54.1	-55.9	-70.7	-90.8	-92.2	-84.7	-88.9	-101.8
Other Income & Transfers, Net									
	-45.7	-53.0	-52.0	-60.3	-51.6	-64.1	-71.9	-67.6	-68.2

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2000				2001				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Net Goods & Services	-1.1	-1.0	-0.7	-0.2	0.5	-0.4	-0.2	-0.3	-0.7	-1.4	0.0	-1.6
Exports of G&S	0.8	1.5	1.2	0.5	-0.7	-1.4	-2.0	-1.0	0.3	-1.3	0.5	-0.6
Imports of G&S	-1.9	-2.5	-1.9	0.3	1.2	1.0	1.7	0.7	-1.1	-2.7	-0.4	-1.0
	Percentage point contribution to GDP growth											
Exports of G&S	7.7	14.6	11.6	-4.0	-6.0	-12.4	-17.3	-9.6	3.5	14.3	4.6	-5.8
Services	10.2	11.2	-5.9	4.4	-6.0	-2.5	-13.9	-13.8	21.7	10.7	5.9	8.0
Computers	33.5	45.9	28.8	-8.8	-7.3	-41.7	-22.8	-17.6	-21.1	-0.5	-0.8	17.9
Semiconductors	14.6	90.9	43.4	-17.5	-34.6	-47.3	-40.9	-11.7	13.7	65.8	21.3	-39.4
Other Goods 1/	4.2	9.1	16.7	-5.9	-2.9	-10.5	-16.5	-6.9	-3.1	14.2	3.3	-10.7
Imports of G&S	14.7	18.6	13.8	-1.6	-7.9	-6.8	-11.8	-5.3	8.5	22.2	3.3	7.4
Services	20.7	9.6	15.1	-0.5	0.3	8.5	-23.2	-16.5	35.7	-2.2	3.1	13.0
Oil	28.6	40.4	-2.3	-6.5	23.3	7.2	-26.9	3.9	-19.0	34.5	-1.3	24.1
Computers	2.5	40.4	27.9	-9.5	-21.6	-24.5	-18.7	14.6	52.4	5.6	-4.4	8.2
Semiconductors	23.5	50.0	69.8	-28.5	-43.9	-68.8	-55.9	-27.5	45.2	41.8	-5.9	-26.4
Other Goods 2/	13.1	15.5	12.3	1.3	-9.4	-6.2	-4.7	-4.5	1.9	28.8	6.3	-5.2
	Percentage change from previous period, s.a.a.r.											
Net Goods & Services	-368.8	-394.6	-413.1	-418.5	-404.5	-414.8	-419.0	-425.3	-446.6	-487.4	-488.0	-532.2
Exports of G&S	1095.8	1133.9	1165.5	1153.7	1135.8	1098.8	1048.0	1021.8	1030.6	1065.5	1077.7	1061.6
Imports of G&S	1464.6	1528.5	1578.6	1572.2	1540.3	1513.6	1467.0	1447.2	1477.1	1552.9	1565.7	1593.8
	Billions of chained 1996 dollars, s.a.a.r.											
US CURRENT ACCOUNT BALANCE	-380.1	-396.5	-434.3	-435.0	-416.0	-399.9	-414.5	-426.9	-491.3	-490.9	-514.3	
Current Account as % of GDP	-3.9	-4.0	-4.4	-4.4	-4.1	-4.0	-4.1	-3.4	-4.1	-4.7	-4.7	-4.9
Net Goods & Services (BOP)	-346.9	-364.5	-391.8	-398.4	-373.8	-357.8	-343.5	-360.2	-419.5	-427.9	-464.5	
Investment Income, Net	19.9	23.2	15.8	37.8	8.6	8.2	-8.3	54.3	2.2	-12.4	-1.9	17.2
Direct Net Portfolio, Net	84.5	88.9	91.9	114.5	94.5	96.7	91.3	143.5	95.7	85.6	87.7	104.9
Other Inc. & Transfers, Net	-64.5	-65.7	-76.1	-76.6	-86.0	-88.4	-99.6	-89.2	-93.5	-98.1	-89.6	-87.7

1. Merchandise exports excluding computers and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	Projected							
	2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS								
Percentage point contribution to GDP growth								
Net Goods & Services	0.8	-1.2	-0.3	0.1	-0.7	-0.8	-0.5	-0.2
Exports of G&S	-0.1	0.1	0.8	1.1	0.7	0.9	1.0	0.5
Imports of G&S	-0.9	-1.1	-1.2	-1.0	-1.3	-1.7	-1.5	-1.3
Percentage change from previous period, s.a.a.r.								
Exports of G&S Services	-1.3	-1.2	9.0	11.6	7.0	9.7	10.0	12.2
Services	-8.0	0.6	12.5	10.5	6.1	5.8	6.2	7.9
Computers	-7.2	-10.7	26.2	30.0	33.5	38.5	38.5	6.1
Semiconductors	4.8	30.5	29.3	35.3	36.3	41.4	41.4	33.5
Other Goods 1/	0.2	-3.4	5.0	9.6	4.1	7.8	7.9	11.3
Imports of G&S Services	-6.2	7.9	8.5	7.1	9.8	12.4	10.4	9.6
Services	-4.0	-14.7	13.8	7.4	4.4	6.2	5.8	4.1
Oil	-12.6	54.5	-5.7	-24.8	-0.5	25.9	-2.3	-12.8
Computers	-2.1	20.8	23.9	31.1	33.6	38.6	38.6	5.2
Semiconductors	-1.0	4.3	24.1	35.3	36.3	41.5	41.4	33.6
Other Goods 2/	-6.4	8.5	7.9	9.3	10.1	10.2	10.1	7.9
Billions of chained 1996 dollars, s.a.a.r.								
Net Goods & Services	-510.3	-543.6	-553.5	-551.6	-571.8	-595.9	-611.7	-618.8
Exports of G&S	1058.1	1054.9	1077.9	1108.0	1127.0	1153.4	1181.2	1215.7
Imports of G&S	1568.4	1598.6	1631.4	1659.6	1698.8	1749.2	1792.9	1834.5
Billions of dollars, s.a.a.r.								
US CURRENT ACCOUNT BALANCE	-544.6	-544.0	-558.5	-553.0	-569.4	-591.2	-604.9	-611.7
Current Account as % of GDP	-5.1	-5.0	-5.1	-5.0	-5.0	-5.2	-5.2	-5.2
Net Goods & Services (BOP)	-486.4	-490.7	-509.0	-502.3	-520.7	-541.3	-553.3	-557.9
Investment Income, Net	15.8	17.9	21.7	20.7	18.7	17.5	15.7	14.4
Direct, Net	97.9	103.4	106.9	106.6	105.2	105.3	106.2	109.4
Portfolio, Net	-82.1	-85.5	-85.2	-85.9	-86.5	-87.7	-89.6	-91.9
Other Inc. & Transfers, Net	-73.9	-71.2	-71.2	-71.4	-67.4	-67.4	-68.2	-68.2

1. Merchandise exports excluding computers and semiconductors.

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

Part 2

September 10, 2003

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

Confidential (FR) Class III FOMC

September 10, 2003

Recent Developments

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

CBO Budget Projections and Economic Assumptions

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Baseline Budget Projections¹ (fiscal years)	Billions of dollars										
Total surplus	-401	-480	-341	-225	-203	-197	-170	-145	-9	161	211
On-budget	-562	-644	-520	-425	-421	-434	-426	-417	-298	-143	-105
Off-budget	162	164	179	199	219	237	255	273	289	304	317
Economic Assumptions (calendar years)	Percent change, year over year										
Nominal GDP	3.7	5.3	5.4	5.7	5.4	5.3	5.1	5.0	4.8	4.9	4.9
Real GDP	2.2	3.8	3.5	3.3	3.2	3.0	2.9	2.7	2.6	2.6	2.6
CPI-U	2.3	1.9	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
	Percent, annual average										
Unemployment rate	6.2	6.2	5.7	5.4	5.3	5.2	5.2	5.2	5.2	5.2	5.2
Treasury yields											
Three-month	1.0	1.7	3.2	4.0	4.7	4.9	4.9	4.9	4.9	4.9	4.9
Ten-year	4.0	4.6	5.5	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8

1. The on-budget surplus excludes the social security surplus and the Postal Service (which are off-budget). The baseline assumes that budget authority for discretionary programs grows with inflation after fiscal 2003. In addition, it assumes that no new mandatory spending or tax legislation is enacted.

Source. Congressional Budget Office, *The Budget and Economic Outlook: An Update* (August 2003).

Confidential (FR) Class III FOMC

September 12, 2003

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

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

September 12, 2003

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

Category	2003							
	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept. ^P
Composite of current and expected conditions ¹	79.9	77.6	86.0	92.1	89.7	90.9	89.3	88.2
Current conditions ¹	95.4	90.0	96.4	93.2	94.7	102.1	99.7	98.9
Expected conditions ¹	69.9	69.6	79.3	91.4	86.4	83.7	82.5	81.3
Personal financial situation								
Now compared with 12 months ago ²	102	96	111	97	102	110	109	108
Expected in 12 months ²	127	128	131	138	136	135	124	130
Expected business conditions								
Next 12 months ²	66	63	87	120	111	106	111	100
Next 5 years ²	86	87	99	110	100	95	97	96
Appraisal of buying conditions								
Cars	140	141	149	160	157	160	150	150
Large household appliances ²	145	136	139	144	143	155	150	148
Houses	165	153	157	175	166	169	165	155
Expected unemployment change - next 12 months	130	130	120	107	115	116	111	114
Prob. household will lose a job - next 5 years	26	24	25	26	25	24	24	26
Expected inflation - next 12 months								
Mean	3.2	3.8	2.7	2.5	2.5	2.3	2.8	3.6
Median	2.7	3.1	2.4	2.0	2.1	1.7	2.5	2.9
Expected inflation - next 5 to 10 years								
Mean	3.1	2.9	3.1	3.1	3.0	3.2	3.0	2.8
Median	2.7	2.8	2.7	2.8	2.7	2.7	2.7	2.6

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

P Preliminary.

1. Feb. 1966 = 100.

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