

## **Part 1**

December 13, 2000

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

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

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

Measure	2000:Q4		2001:Q1	
	Nov. GB	Dec. GB	Nov. GB	Dec. GB
<b>Real GDP</b>	<b>3.5</b>	<b>2.4</b>	<b>3.6</b>	<b>2.2</b>
Private domestic final purchases	3.9	3.2	4.1	3.0
Personal consumption expenditures	3.6	2.9	3.6	2.9
Residential investment	-5.3	-4.8	-5.0	-5.1
Business fixed investment	8.7	7.5	9.1	5.7
Government outlays for consumption and investment	3.9	2.5	3.4	3.7
	Contribution to growth, percentage points			
Inventory investment	-.6	-.7	.4	-.5
Net exports	.1	-.1	-.8	-.5

industries--businesses seem to be adjusting production relatively promptly to work off any undesired stocks. Indeed, manufacturing output excluding motor vehicles is anticipated to fall in November and December and to remain about flat early next year. Overall factory output is expected to post a small decline in the current quarter and to fall further in the first quarter.

Even apart from the drop in purchases of motor vehicles, consumer spending is projected to rise relatively slowly in the near term. On the plus side, outlays for services are likely to post another sizable increase this quarter. But spending for non-auto goods appears to be rising only moderately, and, all in all, we now expect consumer spending to rise at an annual rate of about 3 percent this quarter and to stay at this pace in early 2001.

In contrast, housing activity has remained firm in recent months, albeit below the spectacular pace of earlier this year. Buoyed by lower mortgage interest rates, single-family starts were 1.23 million units (annual rate) in October, about the same as in the third quarter. We expect starts in November and December to be held down a bit by the effects of adverse weather. Real residential investment, as estimated by the BEA, is likely to continue to fall through early next year, reflecting the lagged effects of the earlier declines in starts.

Real investment in equipment and software is now expected to rise at an annual rate of only about 7 percent this quarter. This would be the second quarter of subpar E&S growth--at least by the standards of recent years--after the

**Projections of Real GDP**  
(Percent change, Q4 to Q4, except as noted)

Measure	2000		2001	2002
	H1	H2		
<b>Real GDP</b>	<b>5.2</b>	<b>2.3</b>	<b>3.1</b>	<b>3.9</b>
Previous	5.2	3.1	3.7	4.0
Final sales	5.3	2.8	3.2	3.9
Previous	5.3	3.6	3.8	4.0
PCE	5.3	3.7	3.0	3.0
Previous	5.3	4.0	3.4	3.2
Residential investment	2.2	-7.7	-.4	-.4
Previous	2.2	-7.5	-1.6	-2.8
BFI	17.7	7.4	7.1	9.6
Previous	17.7	8.1	10.1	10.1
Government purchases	1.8	.6	3.6	3.4
Previous	1.8	.9	3.7	3.6
Exports	10.2	11.9	6.8	10.3
Previous	10.2	13.2	7.3	10.6
Imports	15.2	12.0	7.6	8.3
Previous	15.2	10.1	8.9	8.9
Contribution to growth, percentage points				
Inventory change	.0	-.4	-.2	.0
Previous	.0	-.5	-.1	.1
Net exports	-1.0	-.4	-.4	-.1
Previous	-1.0	-.0	-.5	-.1

quarters of 2001 and to nearly 4 percent in 2002. Even so, the projected level of activity throughout the projection period is well below that in the November Greenbook.

**Household spending.** Much of the downward revision to the longer-run projection is in consumer spending, which is expected to increase only 3 percent in each of the next two years as the effects of the lower stock market feed through. Real disposable income should be well-maintained over the projection period, bolstered by some easing of energy prices and our assumed tax cut in 2002. But with the outlook for structural productivity a little less rosy than we

**Decomposition of Structural Labor Productivity**

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

Measure	1998	1999	2000	2001	2002
<b>Structural labor productivity</b>	<b>2.9</b>	<b>3.2</b>	<b>3.4</b>	<b>3.3</b>	<b>3.2</b>
Previous	2.9	3.2	3.4	3.5	3.5
<i>Contributions<sup>1</sup></i>					
Capital deepening	1.3	1.5	1.6	1.5	1.4
Previous	1.3	1.5	1.6	1.7	1.7
Multifactor productivity	1.3	1.4	1.5	1.5	1.5
Previous	1.3	1.4	1.5	1.5	1.5
Labor quality	.3	.3	.3	.3	.3

1. Percentage points.

3.2 percent in 2002. Accordingly, potential GDP is now expected to rise 4.5 percent in 2000, 4.4 percent in 2001, and 4.3 percent in 2002.

**Productivity and the labor market.** Reflecting the sharp deceleration of output growth below trend, actual productivity growth is projected to drop to 2 percent at an annual rate in the current quarter and a bit less in the first quarter of next year. Productivity growth improves steadily thereafter as output regains strength and, by 2002, is back to 3-1/4 percent, essentially its trend rate. We anticipate that firms will adjust their workweeks and hiring promptly in response to the slowing in output growth. Thus the change in private payrolls is projected to drop to 80,000 per month, on average, in 2001, roughly half this year's pace; hiring is expected to pick up a bit in 2002—to 110,000 per month. As in the November Greenbook, the unemployment rate is expected to average 4 percent in the current quarter, but it moves up to 4-1/4 percent in the first quarter of 2001 and reaches 5 percent by the end of 2002.

**Wages and prices.** We have trimmed a bit from our wage and price projections and now anticipate only minimal acceleration in underlying inflation over the next two years. The revision mainly reflects the lower levels of resource utilization in our current forecast. In addition, we have deferred the first stage of our assumed increase in the minimum wage from January 2001 to January 2002. All else being equal, the change in the minimum wage assumption lowers the projected increase in ECI hourly compensation in 2001 by 0.2 percentage

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

Measure	1999	2000	2001	2002
Output per hour, nonfarm business	4.1	3.4	2.5	3.2
Previous	4.1	3.4	2.9	3.4
Nonfarm payroll employment	2.2	1.6	.9	1.2
Previous	2.2	1.7	1.2	1.3
Household employment survey	1.5	1.0	.5	.8
Previous	1.5	1.1	.8	.8
Labor force participation rate <sup>1</sup>	67.0	67.0	67.1	67.0
Previous	67.0	67.1	67.1	67.1
Civilian unemployment rate <sup>1</sup>	4.1	4.0	4.7	5.0
Previous	4.1	4.0	4.4	4.6

1. Percent, average for the fourth quarter.

point.<sup>2</sup> The shift in this assumption does not necessitate a revision to the projection for 2002 because we had previously built in a minimum wage hike in January of that year.

We expect the ECI to increase 4.6 percent in each of the next two years, a tenth less than we estimate for this year. Workers' efforts to garner the benefits of structural productivity gains will persist, and employers' health insurance costs likely will continue to rise rapidly. But the moderation in consumer price inflation after this year should ease pressure on nominal wages, and labor market tightness should be gradually eliminated.

On the price side of the ledger, we have made only minor changes to our projection of retail energy prices, which are still expected to decline moderately over 2001 and 2002 as crude oil prices recede. Increases in food prices are expected to run at roughly the rate of core inflation over the next two years.

The increase in the PCE chain price index excluding food and energy is expected to edge up from 1-3/4 percent this year to 2 percent in 2001 and to remain there in 2002. We continue to expect that a firming of prices of core non-oil imports will add a bit to domestic prices over the next two years, but this

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2. We now assume that the minimum wage will be increased from \$5.15 per hour to \$5.65 per hour in January 2002; in the November Greenbook, we assumed that it would be increased to \$5.65 in January 2001 and to \$6.15 per hour in January 2002. Under the revised assumption, the minimum wage has no effect on ECI hourly compensation in 2001 and adds 0.2 percentage point to the increase in the ECI in 2002.

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

Measure	1999	2000	2001	2002
PCE chain-weighted price index	2.0	2.5	1.7	1.9
Previous	2.0	2.5	1.9	2.1
Excluding food and energy	1.5	1.8	2.0	2.0
Previous	1.5	1.8	2.1	2.2
Consumer price index	2.6	3.4	2.1	2.2
Previous	2.6	3.4	2.2	2.4
Food	1.9	2.6	2.6	2.6
Previous	1.9	2.5	2.7	2.7
Energy	11.2	14.9	-4.2	-2.9
Previous	11.2	14.7	-3.5	-2.4
Excluding food and energy	2.1	2.6	2.6	2.6
Previous	2.1	2.6	2.7	2.8
GDP chain-weighted price index	1.6	2.5	1.9	1.8
Previous	1.6	2.5	1.9	1.9
ECI for compensation of private industry workers <sup>1</sup>	3.4	4.7	4.6	4.6
Previous	3.4	4.7	4.8	4.8
NFB compensation per hour	4.8	5.4	5.5	5.5
Previous	4.8	5.4	5.7	5.7
Prices of core non-oil merchandise imports	.4	1.2	2.4	2.8
Previous	.4	1.4	2.5	2.9

1. December to December.

upward pressure is likely to be offset by the waning of indirect effects of this year's higher energy costs. Increases in the core CPI are expected to hold steady at 2.6 percent per year between 2000 and 2002.

In all, we now expect total PCE prices to rise a bit less than 2 percent in 2001 and 2002 after having risen 2-1/2 percent in 2000. The total CPI is projected to increase a bit more than 2 percent per year over this period after having risen 3-1/2 percent in 2002.

### Financial Flows and Conditions

Debt of the domestic nonfinancial sector appears to be expanding at an annual rate of 4 percent in the current quarter, a shade below the third-quarter pace.

**Alternative Simulations:  
Harder Landing**

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

Measure	2000		2001		2002	
	H1	H2	H1	H2	H1	H2
<i>Real GDP</i>						
<b>Baseline</b>	<b>5.2</b>	<b>2.3</b>	<b>2.7</b>	<b>3.5</b>	<b>3.8</b>	<b>4.0</b>
Harder landing	5.2	1.9	1.3	2.5	2.7	3.0
Aggressive policy response	5.2	1.9	1.9	4.1	4.4	4.4
Transitory slowdown	5.2	1.9	2.2	5.8	5.3	4.7
<i>Civilian unemployment rate<sup>1</sup></i>						
<b>Baseline</b>	<b>4.0</b>	<b>4.0</b>	<b>4.4</b>	<b>4.7</b>	<b>4.9</b>	<b>5.0</b>
Harder landing	4.0	4.0	4.6	5.1	5.5	5.9
Aggressive policy response	4.0	4.0	4.5	4.8	4.9	5.0
Transitory slowdown	4.0	4.0	4.5	4.5	4.4	4.3
<i>PCE prices excluding food and energy</i>						
<b>Baseline</b>	<b>1.8</b>	<b>1.8</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>
Harder landing	1.8	1.8	2.0	2.0	1.9	1.7
Aggressive policy response	1.8	1.8	2.1	2.3	2.4	2.2
Transitory slowdown	1.8	1.8	2.1	2.3	2.4	2.4

1. Average for the final quarter of the half-year period.

100 basis points below the Greenbook path; other asset prices adjust accordingly.

This response of the funds rate offsets most of the effects on real GDP and the unemployment rate of the shocks to the stock market and to aggregate spending. However, core inflation rises and stands at 2-1/4 percent in the second half of 2002, about 1/4 percentage point above the Greenbook baseline; the lower level of domestic interest rates leads to a depreciation of the dollar that is larger than anticipated in the Greenbook forecast. Without a corresponding shock to foreign activity, there is no comparable policy easing abroad, and thus an interest rate differential opens that favors foreign assets.

**Transitory slowdown.** Although the front-loaded interest rate reductions succeed in neutralizing the effects of the financial market and spending shocks on aggregate demand, they do run the risk of boosting inflation. One

prices in the first quarter of 2001, with no change thereafter. In the “continued stock market gains” simulation, the Wilshire 5000 index rises in line with nominal GDP over the next two years.

**Alternative Simulations:**  
**Productivity, the NAIRU, and Financial Assumptions**  
 (Percent change, annual rate, from end of preceding period, except as noted)

Measure	2000		2001		2002	
	H1	H2	H1	H2	H1	H2
<i>Real GDP</i>						
<b>Baseline</b>	<b>5.2</b>	<b>2.3</b>	<b>2.7</b>	<b>3.5</b>	<b>3.8</b>	<b>4.0</b>
Lower structural productivity	5.2	2.1	1.8	2.7	3.4	3.8
Lower NAIRU	5.2	2.3	2.9	3.6	3.8	3.9
Looser policy	5.2	2.3	2.9	4.2	4.8	5.2
Stock market correction	5.2	2.3	2.4	3.1	3.3	3.5
Continued stock market gains	5.2	2.3	2.7	3.6	3.9	4.2
<i>Civilian unemployment rate<sup>1</sup></i>						
<b>Baseline</b>	<b>4.0</b>	<b>4.0</b>	<b>4.4</b>	<b>4.7</b>	<b>4.9</b>	<b>5.0</b>
Lower structural productivity	4.0	4.0	4.5	4.8	5.1	5.2
Lower NAIRU	4.0	4.0	4.4	4.6	4.8	4.9
Looser policy	4.0	4.0	4.4	4.5	4.5	4.4
Stock market correction	4.0	4.0	4.4	4.8	5.1	5.3
Continued stock market gains	4.0	4.0	4.4	4.7	4.9	4.9
<i>PCE prices excluding food and energy</i>						
<b>Baseline</b>	<b>1.8</b>	<b>1.8</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>
Lower structural productivity	1.8	1.8	2.1	2.2	2.2	2.1
Lower NAIRU	1.8	1.7	1.7	1.4	1.2	1.0
Looser policy	1.8	1.8	2.0	2.2	2.5	2.7
Stock market correction	1.8	1.8	2.0	2.0	2.0	1.9
Continued stock market gains	1.8	1.8	2.0	2.0	2.0	2.0

1. Average for the final quarter of the half-year period.

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

December 13, 2000

	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>		
Interval	11/08/00	12/13/00	11/08/00	12/13/00	11/08/00	12/13/00	11/08/00	12/13/00	11/08/00	12/13/00	
ANNUAL											
1998	5.7	5.7	4.4	4.4	1.3	1.3	1.6	1.6	4.5	4.5	
1999	5.8	5.8	4.2	4.2	1.5	1.5	2.2	2.2	4.2	4.2	
2000	7.4	7.3	5.2	5.1	2.2	2.2	3.4	3.4	4.0	4.0	
2001	5.7	5.0	3.6	2.9	2.0	2.1	2.5	2.5	4.2	4.5	
2002	5.8	5.5	3.9	3.7	1.9	1.8	2.4	2.1	4.5	4.9	
QUARTERLY											
1999	Q1	5.9	5.9	3.5	3.5	2.2	2.2	1.7	1.7	4.3	4.3
	Q2	3.9	3.9	2.5	2.5	1.4	1.4	3.2	3.2	4.3	4.3
	Q3	6.7	6.7	5.7	5.7	1.1	1.1	2.4	2.4	4.2	4.2
	Q4	9.7	9.7	8.3	8.3	1.6	1.6	2.9	2.9	4.1	4.1
2000	Q1	8.3	8.3	4.8	4.8	3.3	3.3	4.3	4.3	4.1	4.1
	Q2	8.2	8.2	5.6	5.6	2.4	2.4	3.6	3.6	4.0	4.0
	Q3	4.6	4.3	2.6	2.3	2.0	1.9	3.1	3.1	4.0	4.0
	Q4	5.9	4.7	3.5	2.4	2.2	2.3	2.8	2.8	4.0	4.0
2001	Q1	6.0	4.9	3.6	2.2	2.4	2.7	2.2	2.5	4.1	4.3
	Q2	5.4	5.0	3.6	3.1	1.7	1.8	2.1	1.9	4.2	4.4
	Q3	5.4	5.0	3.7	3.3	1.7	1.6	2.3	1.9	4.3	4.6
	Q4	5.7	5.3	3.9	3.6	1.8	1.7	2.3	2.0	4.4	4.7
2002	Q1	6.1	5.9	3.9	3.7	2.1	2.1	2.4	2.1	4.4	4.8
	Q2	5.9	5.6	4.0	3.8	1.8	1.7	2.4	2.2	4.5	4.9
	Q3	5.9	5.7	4.1	3.9	1.8	1.7	2.5	2.3	4.5	4.9
	Q4	6.0	5.8	4.2	4.0	1.8	1.7	2.5	2.3	4.6	5.0
TWO-QUARTER <sup>3</sup>											
1999	Q2	4.9	4.9	3.0	3.0	1.8	1.8	2.5	2.5	-0.1	-0.1
	Q4	8.2	8.2	7.0	7.0	1.3	1.3	2.7	2.7	-0.2	-0.2
2000	Q2	8.2	8.2	5.2	5.2	2.8	2.8	4.0	4.0	-0.1	-0.1
	Q4	5.3	4.5	3.1	2.3	2.1	2.1	2.9	2.9	0.0	0.0
2001	Q2	5.7	5.0	3.6	2.7	2.0	2.2	2.2	2.2	0.2	0.4
	Q4	5.6	5.2	3.8	3.5	1.7	1.6	2.3	1.9	0.2	0.3
2002	Q2	6.0	5.7	4.0	3.8	2.0	1.9	2.4	2.1	0.1	0.2
	Q4	6.0	5.8	4.1	4.0	1.8	1.7	2.5	2.3	0.1	0.1
FOUR-QUARTER <sup>4</sup>											
1998	Q4	5.9	5.9	4.6	4.6	1.2	1.2	1.5	1.5	-0.3	-0.3
1999	Q4	6.5	6.5	5.0	5.0	1.6	1.6	2.6	2.6	-0.3	-0.3
2000	Q4	6.7	6.3	4.1	3.8	2.5	2.5	3.4	3.4	-0.1	-0.1
2001	Q4	5.6	5.1	3.7	3.1	1.9	1.9	2.2	2.1	0.4	0.7
2002	Q4	6.0	5.7	4.0	3.9	1.9	1.8	2.4	2.2	0.2	0.3

1. For all urban consumers.

2. Level, except as noted.

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

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

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

December 13, 2000

Item	Units <sup>1</sup>	-----Projected-----								
		1994	1995	1996	1997	1998	1999	2000	2001	2002
EXPENDITURES										
Nominal GDP	Bill. \$	7054.3	7400.5	7813.2	8318.4	8790.2	9299.2	9979.0	10482.1	11061.8
Real GDP	Bill. Ch. \$	7347.7	7543.8	7813.2	8159.5	8515.7	8875.8	9327.6	9594.5	9946.9
Real GDP	% change	4.1	2.2	4.1	4.3	4.6	5.0	3.8	3.1	3.9
Gross domestic purchases		4.3	1.7	4.3	5.0	5.7	5.9	4.4	3.3	3.8
Final sales		2.2	2.9	3.9	3.9	4.6	4.8	4.0	3.2	3.9
Priv. dom. final purchases		4.3	3.2	4.4	5.1	6.4	6.1	5.3	3.5	3.9
Personal cons. expenditures		3.6	2.8	3.1	4.1	5.0	5.6	4.5	3.0	3.0
Durables		6.4	3.7	5.0	8.8	12.6	11.1	4.9	2.7	3.5
Nondurables		4.1	2.5	3.2	2.5	5.0	5.9	4.2	2.7	2.7
Services		2.7	2.7	2.7	3.9	3.4	4.2	4.6	3.1	3.1
Business fixed investment		9.2	7.5	12.1	11.8	12.9	10.1	12.4	7.1	9.6
Equipment & Software		12.0	8.9	11.8	13.7	15.8	14.1	12.6	7.1	11.3
Nonres. structures		1.1	3.3	12.8	6.5	4.9	-1.7	11.7	7.0	4.6
Residential structures		4.0	-1.5	5.6	3.5	10.3	2.8	-2.9	-0.4	-0.4
Exports		10.5	9.7	9.8	8.5	2.2	4.3	11.1	6.8	10.3
Imports		12.2	5.0	11.2	14.3	11.2	12.0	13.6	7.6	8.3
Gov't. cons. & investment		0.2	-0.8	2.7	2.4	2.6	4.4	1.2	3.6	3.4
Federal		-3.7	-5.3	2.0	0.1	0.8	4.8	-2.0	2.9	2.7
Defense		-5.9	-4.7	0.8	-1.4	-1.0	4.6	-4.2	2.4	2.1
State & local		2.8	2.1	3.0	3.7	3.6	4.2	2.9	3.9	3.8
Change in bus. inventories	Bill. Ch. \$	66.8	30.4	30.0	63.8	80.2	45.3	60.9	43.4	40.6
Nonfarm		53.6	42.6	22.1	60.6	78.7	44.9	56.0	40.5	39.2
Net exports		-86.5	-78.4	-89.0	-113.3	-221.0	-322.4	-408.3	-462.2	-487.3
Nominal GDP	% change	6.2	4.3	6.0	6.2	5.9	6.5	6.3	5.1	5.7
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	114.1	117.2	119.6	122.7	125.8	128.8	131.4	132.6	134.1
Unemployment rate	%	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.5	4.9
Industrial prod. index	% change	6.3	3.6	5.6	7.2	3.2	5.1	3.8	2.1	3.7
Capacity util. rate - mfg.	%	82.5	82.5	81.6	82.7	81.3	80.5	81.2	78.9	79.2
Housing starts	Millions	1.46	1.35	1.48	1.47	1.62	1.67	1.60	1.56	1.57
Light motor vehicle sales		15.01	14.77	15.05	15.06	15.45	16.76	17.32	15.86	15.77
North Amer. produced		12.88	12.87	13.34	13.12	13.43	14.28	14.47	13.32	13.34
Other		2.13	1.90	1.70	1.93	2.02	2.48	2.85	2.54	2.44
INCOME AND SAVING										
Nominal GNP	Bill. \$	7071.1	7420.9	7831.2	8325.4	8786.7	9288.2	9969.2	10459.7	11024.2
Nominal GNP	% change	6.2	4.4	5.9	6.0	5.7	6.5	6.3	4.9	5.6
Nominal personal income		5.1	4.3	5.9	6.3	6.3	5.6	6.0	5.6	5.7
Real disposable income		2.9	1.7	2.6	3.8	4.6	3.1	2.5	4.0	4.4
Personal saving rate	%	6.1	5.6	4.8	4.2	4.2	2.2	-0.1	0.4	1.8
Corp. profits, IVA & CCAdj.	% change	12.3	11.3	11.4	9.9	-5.8	11.2	6.1	-0.7	1.9
Profit share of GNP	%	8.1	9.0	9.6	10.0	9.3	9.2	9.6	8.9	8.6
Excluding FR Banks		7.9	8.7	9.4	9.7	9.0	8.9	9.3	8.6	8.3
Federal surpl./deficit	Bill. \$	-212.3	-192.0	-136.8	-53.3	49.0	124.4	250.8	273.0	264.6
State & local surpl./def.		8.6	15.3	21.4	31.0	41.7	50.0	60.3	56.4	49.7
Ex. social ins. funds		4.0	11.4	18.7	29.9	41.3	50.4	60.7	56.5	49.5
Gross natl. saving rate	%	16.3	16.9	17.2	18.0	18.8	18.5	18.4	18.5	19.1
Net natl. saving rate		4.3	5.1	5.7	6.7	7.5	6.8	6.6	6.5	7.1
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.1	2.1	1.9	1.8	1.2	1.6	2.5	1.9	1.8
Gross Domestic Purchases		2.1	2.1	1.9	1.4	0.8	1.9	2.6	1.7	1.9
chn.-wt. price index		2.1	2.1	1.9	1.4	0.8	1.9	2.6	1.7	1.9
PCE chn.-wt. price index		2.1	2.1	2.3	1.5	1.1	2.0	2.5	1.7	1.9
Ex. food and energy		2.3	2.3	1.8	1.7	1.6	1.5	1.8	2.0	2.0
CPI		2.6	2.7	3.1	1.9	1.5	2.6	3.4	2.1	2.2
Ex. food and energy		2.8	3.0	2.6	2.2	2.4	2.1	2.6	2.6	2.6
ECI, hourly compensation <sup>2</sup>		3.1	2.6	3.1	3.4	3.5	3.4	4.7	4.6	4.6
Nonfarm business sector										
Output per hour		1.1	1.1	2.3	2.1	2.9	4.1	3.4	2.5	3.2
Compensation per Hour		2.2	2.7	3.1	3.2	5.3	4.8	5.4	5.5	5.5
Unit labor cost		1.0	1.5	0.8	1.1	2.3	0.7	2.0	3.0	2.3

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

Strictly Confidential <FR>  
Class II FOMC

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

December 13, 2000

Item	Units	1998 Q1	1998 Q2	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	8634.7	8722.0	8829.1	8974.9	9104.5	9191.5	9340.9	9559.7	9752.7	9945.7
Real GDP	Bill. Ch.	8404.9	8465.6	8537.6	8654.5	8730.0	8783.2	8905.8	9084.1	9191.8	9318.9
Real GDP	% change	6.5	2.9	3.4	5.6	3.5	2.5	5.7	8.3	4.8	5.6
Gross domestic purchases		8.1	4.8	4.4	5.4	4.9	3.8	6.6	8.4	5.6	6.5
Final sales		4.1	5.6	2.9	5.9	4.5	4.0	4.5	6.4	6.7	3.9
Priv. dom. final purchases		7.2	7.5	4.4	6.3	6.4	6.2	5.6	6.2	9.3	4.7
Personal cons. expenditures		4.8	5.8	4.3	4.9	5.7	5.6	5.0	5.9	7.6	3.1
Durables		9.4	13.9	4.1	23.9	8.6	15.0	8.0	13.0	23.6	-5.0
Nondurables		4.7	5.8	4.3	5.2	7.8	3.8	4.9	7.4	6.0	3.6
Services		4.0	4.3	4.3	1.3	4.1	4.6	4.5	3.8	5.2	4.6
Business fixed investment		20.1	15.6	3.5	13.2	9.5	9.6	11.8	9.5	21.0	14.6
Equipment & Software		24.6	16.1	6.5	16.7	14.1	15.2	18.0	9.5	20.6	17.9
Nonres. structures		7.9	14.1	-4.7	3.3	-3.4	-6.2	-6.2	9.7	22.3	4.4
Residential structures		9.6	12.6	10.3	8.9	8.2	5.9	-3.1	0.5	3.2	1.3
Exports		1.0	-3.0	-3.2	15.1	-7.9	5.8	10.2	10.3	6.3	14.3
Imports		14.2	13.1	5.5	12.2	4.5	16.2	16.9	10.7	12.0	18.6
Gov't. cons. & investment		-1.0	7.3	1.4	2.8	3.7	0.8	4.8	8.5	-1.1	4.8
Federal		-9.1	12.9	-3.2	3.7	-2.2	2.0	6.9	13.2	-14.2	17.2
Defense		-17.7	13.1	5.8	-2.4	-3.1	-2.3	12.3	12.6	-19.8	16.9
State & local		3.8	4.4	4.0	2.3	7.0	0.1	3.7	6.1	6.6	-1.1
Change in bus. inventories	Bill. Ch.	117.3	60.9	73.1	69.4	48.1	13.1	39.1	80.9	36.6	78.6
Nonfarm		109.7	62.5	79.2	63.5	49.2	14.1	43.5	73.0	33.0	72.3
Net exports		-175.3	-219.8	-244.1	-244.9	-279.8	-314.6	-342.6	-352.5	-376.8	-403.4
Nominal GDP	% change	7.6	4.1	5.0	6.8	5.9	3.9	6.7	9.7	8.3	8.2
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	124.7	125.5	126.2	127.0	127.8	128.4	129.1	129.8	130.6	131.6
Unemployment rate	%	4.7	4.4	4.5	4.4	4.3	4.3	4.2	4.1	4.1	4.0
Industrial prod. index	% change	3.6	3.0	3.4	2.9	3.9	4.9	5.8	5.7	6.7	7.9
Capacity util. rate - mfg.	%	82.4	81.5	80.8	80.5	80.2	80.3	80.5	80.9	81.3	81.9
Housing starts	Millions	1.56	1.57	1.63	1.72	1.76	1.59	1.66	1.69	1.73	1.61
Light motor vehicle sales		15.00	16.01	14.55	16.24	16.18	16.79	17.08	17.00	18.20	17.24
North Amer. produced		13.07	14.04	12.53	14.07	13.87	14.34	14.61	14.31	15.32	14.36
Other		1.93	1.97	2.02	2.17	2.31	2.45	2.47	2.69	2.88	2.88
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	8640.3	8725.0	8814.9	8966.6	9097.2	9181.8	9327.3	9546.3	9745.0	9937.4
Nominal GNP	% change	7.8	4.0	4.2	7.1	6.0	3.8	6.5	9.7	8.6	8.1
Nominal personal income		7.7	6.2	5.9	5.7	4.3	5.4	5.2	7.6	6.9	6.9
Real disposable income		6.6	4.5	3.6	3.6	2.9	2.8	2.2	4.5	1.9	3.7
Personal saving rate	%	4.6	4.3	4.1	3.8	3.1	2.5	1.8	1.5	0.2	0.3
Corp. profits, IVA & CCAdj.	% change	-12.6	-5.0	2.0	-7.0	26.5	-6.9	2.5	26.6	20.7	12.2
Profit share of GNP	%	9.5	9.3	9.3	9.0	9.4	9.1	9.0	9.4	9.6	9.7
Excluding FR Banks		9.3	9.0	9.0	8.7	9.1	8.8	8.8	9.1	9.3	9.4
Federal surpl./deficit	Bill. \$	25.9	41.9	71.9	56.4	89.7	117.5	147.3	143.3	235.8	240.9
State & local surpl./def.		38.1	33.4	37.5	57.7	47.9	38.0	47.4	66.6	52.0	60.1
Ex. social ins. funds		37.5	32.9	37.2	57.6	48.1	38.3	47.9	67.2	52.5	60.6
Gross natl. saving rate	%	18.9	18.7	19.0	18.7	18.9	18.4	18.4	18.3	18.2	18.6
Net natl. saving rate		7.7	7.4	7.6	7.2	7.3	6.7	6.5	6.6	6.6	6.9
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	1.0	1.1	1.5	1.1	2.2	1.4	1.1	1.6	3.3	2.4
Gross Domestic Purchases											
chn.-wt. price index		0.1	0.8	1.1	1.2	1.9	2.0	1.7	1.9	3.8	2.1
PCE chn.-wt. price index		0.4	1.2	1.4	1.5	1.7	2.3	1.9	2.2	3.5	2.1
Ex. food and energy		1.2	1.8	1.8	1.7	1.8	1.3	1.3	1.7	2.2	1.4
CPI		1.0	1.7	1.7	1.7	1.7	3.2	2.4	2.9	4.3	3.6
Ex. food and energy		2.8	2.3	2.3	2.1	1.8	2.1	2.1	2.3	2.5	2.9
ECI, hourly compensation <sup>1</sup>		3.0	3.3	4.4	2.6	1.7	4.3	3.7	4.0	5.9	4.4
Nonfarm business sector											
Output per hour		4.5	1.6	1.8	3.6	2.6	0.6	5.2	8.0	1.9	6.1
Compensation per hour		6.1	5.3	5.2	4.5	4.5	5.0	5.5	4.2	3.9	5.9
Unit labor cost		1.5	3.6	3.3	0.8	1.8	4.3	0.3	-3.5	1.9	-0.2

1. Private-industry workers.

Strictly Confidential <FR>  
Class II FOMC

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

December 13, 2000

Item	Units	----- Projected -----									
		2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	10051.2	10166.3	10289.6	10415.2	10542.8	10680.9	10833.8	10982.7	11136.1	11294.5
Real GDP	Bill. Ch. \$	9372.3	9427.5	9478.5	9552.1	9630.7	9716.5	9805.4	9897.7	9993.0	10091.6
Real GDP	% change	2.3	2.4	2.2	3.1	3.3	3.6	3.7	3.8	3.9	4.0
Gross domestic purchases		3.0	2.4	2.6	3.7	3.7	3.2	4.0	4.0	3.9	3.4
Final sales		2.5	3.1	2.7	3.0	3.3	4.0	3.6	3.7	3.9	4.5
Priv. dom. final purchases		4.1	3.2	3.0	3.6	3.6	3.7	4.0	3.9	3.9	3.9
Personal cons. expenditures		4.5	2.9	2.9	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Durables		7.7	-4.2	0.6	3.4	3.4	3.6	3.9	3.2	3.7	3.2
Nondurables		4.8	2.3	3.1	2.6	2.6	2.6	2.7	2.7	2.7	2.7
Services		3.7	4.7	3.3	3.0	3.1	3.1	3.1	3.1	3.1	3.1
Business fixed investment		7.2	7.5	5.7	7.3	7.7	7.7	9.7	9.6	9.6	9.6
Equipment & Software		5.6	7.2	5.1	7.1	8.0	8.3	11.2	11.2	11.3	11.5
Nonres. structures		12.6	8.2	7.7	7.8	6.7	5.9	5.2	4.7	4.3	4.0
Residential structures		-10.5	-4.8	-5.1	1.6	1.0	1.0	0.1	-0.2	-0.6	-0.8
Exports		15.4	8.5	2.0	6.8	7.3	11.4	6.2	10.0	10.6	14.4
Imports		17.4	6.9	5.1	10.1	8.7	6.6	7.3	9.5	8.7	7.5
Gov't. cons. & investment		-1.3	2.5	3.7	3.5	3.5	3.5	3.5	3.4	3.5	3.4
Federal		-9.0	0.8	3.3	2.8	2.5	2.8	2.7	2.6	2.7	2.7
Defense		-9.6	-0.5	3.2	2.2	2.0	2.1	2.1	2.0	2.1	2.1
State & local		2.9	3.3	3.9	3.9	3.9	3.9	3.8	3.8	3.8	3.8
Change in bus. inventories	Bill. Ch. \$	74.2	54.2	41.8	46.1	48.1	37.5	39.7	44.0	45.1	33.7
Nonfarm		69.2	49.3	37.9	43.0	45.5	35.5	38.1	42.3	43.9	32.6
Net exports		-425.1	-427.9	-442.2	-462.0	-475.4	-469.3	-481.1	-490.6	-495.0	-482.6
Nominal GDP	% change	4.3	4.7	4.9	5.0	5.0	5.3	5.9	5.6	5.7	5.8
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	131.6	131.9	132.1	132.5	132.8	133.1	133.5	133.9	134.3	134.8
Unemployment rate	%	4.0	4.0	4.3	4.4	4.6	4.7	4.8	4.9	4.9	5.0
Industrial prod. index	% change	1.5	-0.7	-1.6	2.8	3.6	3.6	3.8	3.9	3.7	3.5
Capacity util. rate - mfg.	%	81.6	80.1	79.0	78.8	78.8	78.9	79.0	79.1	79.3	79.3
Housing starts	Millions	1.53	1.52	1.55	1.55	1.57	1.57	1.57	1.57	1.56	1.56
Light motor vehicle sales		17.38	16.45	15.95	15.85	15.81	15.81	15.80	15.79	15.75	15.75
North Amer. produced		14.54	13.66	13.31	13.31	13.31	13.34	13.35	13.35	13.32	13.32
Other		2.84	2.79	2.65	2.54	2.50	2.47	2.45	2.44	2.43	2.43
INCOME AND SAVING											
Nominal GNP	Bill. \$	10042.3	10152.1	10269.7	10395.1	10519.8	10654.3	10802.3	10947.4	11096.6	11250.6
Nominal GNP	% change	4.3	4.4	4.7	5.0	4.9	5.2	5.7	5.5	5.6	5.7
Nominal personal income		5.2	4.9	6.8	5.3	5.1	5.3	6.1	5.5	5.4	5.5
Real disposable income		2.2	2.0	6.1	3.4	3.2	3.3	8.5	3.2	3.1	3.2
Personal saving rate	%	-0.3	-0.5	0.3	0.4	0.4	0.5	1.7	1.8	1.8	1.8
Corp. profits, IVA & CCAdj.	% change	3.4	-9.7	-7.0	1.4	0.3	2.9	-0.8	2.4	2.6	3.5
Profit share of GNP	%	9.7	9.3	9.1	9.0	8.9	8.8	8.7	8.6	8.6	8.5
Excluding FR Banks		9.4	9.0	8.8	8.7	8.6	8.5	8.4	8.3	8.3	8.2
Federal surpl./deficit	Bill. \$	256.8	269.8	249.8	265.1	285.7	291.3	228.8	253.5	280.0	296.1
State & local surpl./def.		64.1	65.0	60.0	57.9	53.4	54.5	55.1	51.3	48.2	44.4
Ex. social ins. funds		64.5	65.3	60.2	58.0	53.4	54.4	54.9	51.0	47.9	44.1
Gross natl. saving rate	%	18.5	18.2	18.3	18.5	18.6	18.6	18.9	19.0	19.2	19.3
Net natl. saving rate		6.6	6.3	6.4	6.5	6.6	6.6	6.8	7.0	7.2	7.2
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.9	2.3	2.7	1.8	1.6	1.7	2.1	1.7	1.7	1.7
Gross Domestic Purchases											
chn.-wt. price index		2.3	2.3	2.0	1.6	1.6	1.6	2.1	1.8	1.8	1.8
PCE chn.-wt. price index		2.1	2.3	1.8	1.7	1.7	1.8	1.9	1.9	1.9	2.0
Ex. food and energy		1.5	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
CPI		3.1	2.8	2.5	1.9	1.9	2.0	2.1	2.2	2.3	2.3
Ex. food and energy		2.5	2.5	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
ECI, hourly compensation <sup>1</sup>		4.1	4.2	4.5	4.5	4.6	4.6	4.7	4.6	4.6	4.6
Nonfarm business sector											
Output per hour		3.4	2.0	1.5	2.5	2.8	3.1	3.1	3.2	3.3	3.3
Compensation per hour		6.3	5.6	5.7	5.4	5.4	5.5	5.8	5.5	5.5	5.4
Unit labor cost		2.9	3.6	4.2	2.9	2.6	2.4	2.7	2.3	2.2	2.1

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

December 13, 2000

Item	1998 Q3	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	98Q4/ 97Q4	99Q4/ 98Q4	00Q4/ 99Q4
Real GDP	3.4	5.6	3.3	2.5	5.7	8.3	4.8	5.6	2.3	4.6	5.0	3.8
Gross dom. purchases	4.5	5.5	5.0	3.8	6.8	8.6	5.8	6.7	3.1	5.8	6.0	4.5
Final sales	2.9	5.8	4.4	3.9	4.5	6.5	6.6	3.9	2.5	4.6	4.8	4.0
Priv. dom. final purchases	3.7	5.3	5.3	5.2	4.7	5.2	7.9	4.0	3.5	5.3	5.1	4.5
Personal cons. expenditures	2.8	3.3	3.7	3.7	3.4	4.1	5.0	2.1	3.0	3.3	3.7	3.0
Durables	0.3	1.7	0.7	1.1	0.6	1.0	1.8	-0.4	0.6	1.0	0.9	0.4
Nondurables	0.8	1.0	1.5	0.8	1.0	1.5	1.2	0.7	0.9	1.0	1.2	0.8
Services	1.7	0.5	1.6	1.8	1.8	1.6	2.0	1.8	1.4	1.4	1.7	1.8
Business fixed investment	0.4	1.6	1.2	1.2	1.5	1.2	2.5	1.9	1.0	1.5	1.3	1.6
Equipment & Software	0.6	1.5	1.3	1.4	1.7	0.9	1.9	1.7	0.6	1.4	1.3	1.2
Nonres. structures	-0.2	0.1	-0.1	-0.2	-0.2	0.3	0.6	0.1	0.4	0.2	-0.1	0.4
Residential structures	0.4	0.4	0.3	0.3	-0.1	0.0	0.1	0.1	-0.5	0.4	0.1	-0.1
Net exports	-1.0	0.1	-1.4	-1.4	-1.1	-0.4	-0.9	-1.0	-0.8	-1.1	-1.1	-0.7
Exports	-0.4	1.5	-0.9	0.6	1.1	1.1	0.7	1.5	1.6	0.3	0.5	1.2
Imports	-0.7	-1.5	-0.6	-2.0	-2.1	-1.5	-1.6	-2.5	-2.4	-1.4	-1.5	-1.9
Government cons. & invest.	0.3	0.5	0.6	0.1	0.8	1.5	-0.2	0.9	-0.2	0.5	0.8	0.2
Federal	-0.2	0.2	-0.1	0.1	0.4	0.8	-0.9	1.0	-0.6	0.0	0.3	-0.1
Defense	0.2	-0.1	-0.1	-0.1	0.5	0.5	-0.9	0.6	-0.4	-0.0	0.2	-0.2
Nondefense	-0.4	0.3	-0.0	0.2	-0.1	0.3	-0.1	0.4	-0.2	0.1	0.1	0.0
State and local	0.5	0.3	0.8	0.0	0.4	0.7	0.8	-0.1	0.3	0.4	0.5	0.3
Change in bus. inventories	0.6	-0.2	-0.9	-1.4	1.2	1.8	-1.8	1.7	-0.2	0.0	0.2	-0.2
Nonfarm	0.8	-0.7	-0.6	-1.4	1.3	1.3	-1.6	1.6	-0.1	0.0	0.1	-0.2
Farm	-0.2	0.5	-0.3	0.0	-0.1	0.5	-0.2	0.1	-0.0	0.0	0.1	0.0

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

December 13, 2000

Item	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	00Q4/ 99Q4	01Q4/ 00Q4	02Q4/ 01Q4
Real GDP	2.4	2.2	3.1	3.3	3.6	3.7	3.8	3.9	4.0	3.8	3.1	3.9
Gross dom. purchases	2.5	2.7	3.9	3.8	3.3	4.1	4.1	4.0	3.5	4.5	3.4	4.0
Final sales	3.1	2.6	3.0	3.3	4.0	3.6	3.7	3.9	4.4	4.0	3.2	3.9
Priv. dom. final purchases	2.8	2.5	3.1	3.1	3.1	3.4	3.3	3.4	3.3	4.5	3.0	3.4
Personal cons. expenditures	2.0	2.0	2.0	2.0	2.0	2.1	2.0	2.0	2.0	3.0	2.0	2.0
Durables	-0.3	0.0	0.3	0.3	0.3	0.3	0.2	0.3	0.2	0.4	0.2	0.3
Nondurables	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.8	0.5	0.5
Services	1.8	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.8	1.2	1.2
Business fixed investment	1.0	0.8	1.0	1.1	1.1	1.3	1.3	1.3	1.4	1.6	1.0	1.4
Equipment & Software	0.7	0.5	0.7	0.8	0.9	1.2	1.2	1.2	1.2	1.2	0.7	1.2
Nonres. structures	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.4	0.2	0.2
Residential structures	-0.2	-0.2	0.1	0.0	0.0	0.0	-0.0	-0.0	-0.0	-0.1	-0.0	-0.0
Net exports	-0.1	-0.5	-0.7	-0.5	0.3	-0.4	-0.3	-0.1	0.5	-0.7	-0.4	-0.1
Exports	0.9	0.2	0.8	0.8	1.3	0.7	1.1	1.2	1.6	1.2	0.8	1.2
Imports	-1.0	-0.8	-1.5	-1.3	-1.0	-1.1	-1.4	-1.3	-1.2	-1.9	-1.1	-1.3
Government cons. & invest.	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.2	0.6	0.6
Federal	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	-0.1	0.2	0.2
Defense	-0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-0.2	0.1	0.1
Nondefense	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1
State and local	0.4	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.5	0.5
Change in bus. inventories	-0.7	-0.5	0.2	0.1	-0.4	0.1	0.2	0.0	-0.4	-0.2	-0.2	-0.0
Nonfarm	-0.8	-0.5	0.2	0.1	-0.4	0.1	0.2	0.1	-0.4	-0.2	-0.1	-0.0
Farm	0.0	-0.0	-0.0	-0.0	-0.0	-0.0	0.0	-0.0	-0.0	0.0	-0.0	-0.0

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

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

Item	1999 <sup>a</sup>	2000 <sup>a</sup>	2001	2002	2000				2001				2002			
					Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget</b>					Not seasonally adjusted											
Receipts <sup>2</sup>	1827	2025	2123	2226	434	656	492	467	476	666	514	514	484	682	545	529
Outlays <sup>2</sup>	1703	1788	1849	1905	449	444	431	461	475	465	448	484	476	476	469	495
Surplus/deficit <sup>2</sup>	125	237	274	320	-15	212	60	5	1	201	66	31	9	205	76	35
On-budget	1	87	112	137	-45	147	50	-40	-26	130	48	-19	-22	128	50	-19
Off-budget	124	150	162	184	30	65	10	45	27	71	19	50	31	78	25	54
Surplus excluding deposit insurance	119	234	273	319	-18	211	60	5	1	200	66	31	8	205	75	34
<b>Means of financing</b>																
Borrowing	-89	-223	-237	-329	-27	-190	-54	-18	7	-174	-52	-56	-22	-159	-93	-58
Cash decrease	-18	4	8	0	39	-13	5	24	3	-9	-11	20	5	-40	15	20
Other <sup>3</sup>	-18	-18	-45	9	4	-10	-11	-12	-12	-18	-3	5	9	-7	2	3
Cash operating balance, end of period	56	53	45	45	45	57	53	28	26	34	45	25	20	60	45	25
<b>NIPA federal sector</b>					Seasonally adjusted annual rates											
Receipts	1837	2025	2144	2209	2012	2055	2090	2115	2126	2154	2183	2214	2174	2206	2241	2275
Expenditures	1735	1806	1877	1946	1776	1814	1836	1845	1876	1888	1897	1923	1947	1954	1962	1981
Consumption expenditures	464	489	507	536	479	499	490	493	507	512	517	521	536	541	545	550
Defense	306	320	330	346	311	326	320	322	331	333	336	338	346	348	351	354
Nondefense	158	168	177	190	168	173	170	171	177	179	181	184	190	192	194	197
Other spending	1270	1317	1369	1411	1297	1315	1346	1352	1369	1376	1380	1401	1411	1414	1417	1430
Current account surplus	103	219	268	262	236	241	254	270	250	265	286	291	228	252	279	295
Gross investment	94	104	109	114	101	106	104	107	109	110	111	113	114	115	116	117
Current and capital account surplus	9	115	158	148	134	135	150	163	141	155	174	178	114	137	162	177
<b>Fiscal indicators<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-67	8	83	106	31	20	40	66	61	88	116	127	71	99	129	147
Change in HEB, percent of potential GDP	-.8	-.8	-.7	-.2	-1	.1	-.2	-.3	.1	-.3	-.3	-.1	.5	-.3	-.3	-.1
Fiscal impetus (FI) percent, calendar year	5	2	4	9	-4	5	-1	2	1	.7	.6	1	7	.6	.6	.6

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 Mid-Session Review baseline surplus estimates are \$224 billion in FY 2000, \$239 billion in FY2001, and \$279 billion in FY 2002. CBO's July 2000 baseline surplus estimates, assuming discretionary spending grows with inflation beginning in FY 2001 are \$232 billion in FY2000, \$268 billion in FY2001, and \$312 billion in FY 2002. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.

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

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

a--Actual

Strictly Confidential (FR)  
Class II FOMC

Change in Debt of the Domestic Nonfinancial Sectors  
(Percent)

December 13, 2000

Period <sup>1</sup>	Total <sup>2</sup>	Federal government <sup>3</sup>	Nonfederal						Memo: Nominal GDP
			Total <sup>4</sup>	Households			Business	State and local governments	
				Total	Home mortgages	Consumer credit			
<i>Year</i>									
1995	5.5	4.1	6.0	8.0	6.0	14.1	6.6	-4.6	4.3
1996	5.3	4.0	5.8	7.3	7.3	7.9	5.7	-0.6	6.0
1997	5.6	0.6	7.3	6.6	7.0	4.3	8.7	5.3	6.2
1998	6.8	-1.4	9.6	8.8	9.8	5.4	11.1	7.2	5.9
1999	6.9	-1.9	9.5	9.0	9.9	7.1	11.2	4.4	6.5
2000	4.8	-7.8	8.2	8.7	8.9	8.7	9.0	1.8	6.3
2001	4.0	-8.1	6.7	7.1	8.1	4.1	7.3	1.7	5.1
2002	3.7	-10.6	6.6	6.1	7.4	2.2	7.9	1.6	5.7
<i>Quarter</i>									
1999:3	6.9	-1.9	9.4	9.3	10.4	5.5	10.7	4.3	6.7
4	6.4	-0.9	8.4	7.9	8.4	7.8	10.1	2.7	9.7
2000:1	5.4	-5.9	8.4	8.1	7.1	10.0	10.5	0.3	8.3
2	5.4	-11.4	9.8	9.7	10.2	9.2	11.6	1.7	8.2
3	4.2	-6.2	6.8	8.2	8.8	8.1	6.2	2.0	4.4
4	3.9	-8.8	6.9	7.9	8.5	6.6	6.5	3.3	4.6
2001:1	5.0	-2.2	6.6	7.5	8.4	5.2	6.6	1.7	4.9
2	3.4	-10.5	6.5	7.2	8.2	4.4	6.7	1.7	5.0
3	4.3	-6.5	6.6	6.6	7.6	3.5	7.7	1.7	5.0
4	3.0	-14.2	6.5	6.3	7.5	2.9	7.6	1.7	5.3
2002:1	4.4	-6.2	6.5	6.2	7.5	2.4	7.8	1.6	5.9
2	3.9	-9.4	6.4	6.1	7.3	2.3	7.7	1.6	5.6
3	3.5	-12.5	6.4	5.9	7.2	2.1	7.7	1.6	5.7
4	3.0	-16.1	6.3	5.8	7.0	2.1	7.7	1.6	5.8

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2000:Q3 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2. On a monthly average basis, total debt is projected to grow 5.2 percent in 2000, 4.1 percent in 2001 and 3.7 percent in 2002.

3. On a monthly average basis, federal debt is projected to grow -6.7 percent in 2000, -7.5 percent in 2001 and -10.4 percent in 2002.

4. On a monthly average basis, nonfederal debt is projected to grow 8.4 percent in 2000, 6.8 percent in 2001 and 6.6 percent in 2002.

Category					Seasonally adjusted annual rates									
	Calendar year				2000				2001				2002	
	1999	2000	2001	2002	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
<i>Net funds raised by domestic nonfinancial sectors</i>														
1 Total	976.9	720.8	667.7	683.3	1001.5	709.5	670.9	501.3	847.1	575.1	749.2	499.3	766.6	599.9
2 Net equity issuance	-143.5	-118.9	-60.0	-28.0	60.8	-248.8	-87.6	-200.0	-60.0	-60.0	-60.0	-60.0	-28.0	-28.0
3 Net debt issuance	1120.4	839.7	727.7	711.3	940.7	958.3	758.5	701.3	907.1	635.1	809.2	559.3	794.6	627.9
<i>Borrowing sectors</i>														
<i>Nonfinancial business</i>														
4 Financing gap <sup>1</sup>	172.1	213.9	262.3	330.1	190.6	215.1	220.5	229.2	236.2	257.3	274.6	281.1	315.2	345.0
5 Net equity issuance	-143.5	-118.9	-60.0	-28.0	60.8	-248.8	-87.6	-200.0	-60.0	-60.0	-60.0	-60.0	-28.0	-28.0
6 Credit market borrowing	591.2	529.5	472.1	549.0	617.8	701.1	387.5	411.6	423.6	438.4	511.2	515.0	540.2	557.7
<i>Households</i>														
7 Net borrowing <sup>2</sup>	548.1	575.9	509.0	472.4	534.7	650.4	564.8	553.8	538.0	528.6	488.8	480.6	475.3	469.5
8 Home mortgages	415.9	411.8	410.0	405.2	326.9	478.8	422.3	419.2	421.2	421.2	396.2	401.2	406.2	404.2
9 Consumer credit	94.4	124.6	63.0	36.2	142.0	134.6	120.4	101.4	80.1	69.7	55.9	46.3	37.8	34.5
10 Debt/DPI (percent) <sup>3</sup>	95.4	98.6	100.8	101.0	97.2	97.9	99.1	100.1	100.1	100.7	101.2	101.5	100.7	101.2
<i>State and local governments</i>														
11 Net borrowing	52.3	23.0	21.4	21.4	3.8	20.8	25.2	42.0	21.4	21.4	21.4	21.4	21.4	21.4
12 Current surplus <sup>4</sup>	156.8	177.0	182.0	184.4	164.7	175.7	182.4	185.3	182.3	182.3	180.0	183.3	185.5	183.4
<i>Federal government</i>														
13 Net borrowing	-71.2	-288.6	-274.8	-331.5	-215.5	-414.0	-219.0	-306.1	-75.9	-353.3	-212.2	-457.6	-242.3	-420.7
14 Net borrowing (quarterly, n.s.a.)	-71.2	-288.6	-274.8	-331.5	-27.5	-189.6	-53.6	-17.9	7.4	-174.4	-52.0	-55.8	-180.8	-150.6
15 Unified deficit (quarterly, n.s.a.)	-158.3	-262.2	-299.5	-324.2	15.0	-211.8	-60.2	-5.2	-1.4	-200.9	-66.3	-30.8	-214.1	-110.1
<i>Depository institutions</i>														
16 Funds supplied	404.3	474.5	236.1	294.4	462.9	594.2	468.5	372.4	220.7	247.0	242.8	234.0	290.2	298.7
<i>Memo (percentage of GDP)</i>														
17 Domestic nonfinancial debt <sup>5</sup>	181.4	179.1	178.0	175.2	180.1	179.0	179.3	179.1	178.9	178.6	178.2	177.5	176.2	174.6
18 Domestic nonfinancial borrowing	12.0	8.4	6.9	6.4	9.6	9.6	7.5	6.9	8.8	6.1	7.7	5.2	7.3	5.6
19 Federal government <sup>6</sup>	-0.8	-2.9	-2.6	-3.0	-2.2	-4.2	-2.2	-3.0	-0.7	-3.4	-2.0	-4.3	-2.2	-3.8
20 Nonfederal	12.8	11.3	9.6	9.4	11.9	13.8	9.7	9.9	9.6	9.5	9.7	9.5	9.5	9.3

Note. Data after 2000:Q3 are staff projections.

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

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

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

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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### Overview

With incoming data in all major foreign regions confirming that economic growth has eased from earlier this year and forward-looking indicators of spending suggesting further slowing, the outlook for foreign activity has been lowered somewhat since the previous Greenbook. In addition, financial market conditions have become less accommodative of continued expansion of domestic demand in foreign economies. Compared with the November forecast, foreign growth over the projection period has been marked down between 1/4 and 1/2 percentage point, albeit to a still favorable pace.

**Summary of Staff Projections**  
(Percent change from end of previous period)

Indicator	2000: H1	Projection			
		2000: H2	2001: H1	2001: H2	2002
Foreign output	5.8	3.7	3.3	3.7	3.7
<i>November GB</i>	5.7	4.1	3.9	4.0	3.9
Foreign CPI	1.9	3.8	3.2	3.2	3.2
<i>November GB</i>	1.9	4.0	3.4	3.4	3.2

Oil prices have recently come off their highs from earlier in the intermeeting period. Given these market developments and the weaker outlook for global economic growth, we have marked down our oil price projection somewhat from the November Greenbook. Our projection, following futures markets, continues to call for a gradual easing of oil prices over the forecast period. We assume that the spot price of WTI will decline from its current level to about \$25.50 per barrel by the end of 2001 and to about \$23.50 per barrel by the end of 2002.

The rise in energy prices has boosted headline inflation around the world in the second half of this year. In our outlook, foreign headline consumer price inflation peaks during the second half of this year and eases subsequently with energy prices. We expect inflation to stabilize at a rate a bit above 3 percent over the forecast period. We assume that monetary policy will stay on hold in foreign industrial countries except for a small rise in policy rates in Canada.

Since the November FOMC meeting, the dollar is essentially unchanged on balance against the currencies of a broad group of our trading partners, as a large appreciation early in the period was reversed on mounting evidence of

### Selected Trade Prices

(Percent change from end of previous period  
except as noted; seasonally adjusted)

Trade category	2000: H1	Projection			
		2000: H2	2001: H1	2001: H2	2002
<i>Exports</i>					
Nonagricultural (core)	2.8	0.8	0.2	0.4	0.7
Agricultural	0.6	-4.2	11.1	11.2	4.3
<i>Imports</i>					
Non-oil (core)	1.6	0.8	1.9	3.0	2.8
Oil (level, dollars per barrel)	26.15	30.05	25.25	23.31	21.33

NOTE. Prices for exports and non-oil imports of goods, excluding 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.

**Prices of internationally traded goods.** Our projection for oil prices, which calls for a gradual decline over the forecast period, results in about the same endpoint for oil prices as our previous projection. Core import price inflation is projected to rise from around 1 percent during the fourth quarter of this year and the first quarter of next year to an average rate of 2-3/4 percent for the remainder of the forecast period, largely in response to the projected depreciation of the dollar. Prices of exported core goods are expected to decelerate further into the beginning of next year. Price increases are projected to move up only gradually over the remainder of the forecast period, reflecting a benign environment for goods prices in the United States.

**Summary of Staff Projections  
for Goods and Services**  
(Percent change, seasonally adjusted annual rate)

Measure	2000: H1	Projection			
		2000: H2	2001: H1	2001: H2	2002
Real exports	10.2	11.9	4.4	9.3	10.3
<i>November GB</i>	<i>10.2</i>	<i>13.2</i>	<i>5.1</i>	<i>9.6</i>	<i>10.6</i>
Real imports	15.2	12.0	7.5	7.6	8.3
<i>November GB</i>	<i>15.2</i>	<i>10.1</i>	<i>9.7</i>	<i>8.1</i>	<i>8.9</i>

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

**U.S. international transactions.** Real exports of goods and services, which grew at an average annual rate of 15 percent in the third quarter of this year, are projected to expand at a 9 percent pace in the fourth quarter. The increase forecasted for the fourth quarter and first quarter of next year is slower than was forecasted in the November Greenbook, reflecting somewhat slower projected economic growth abroad. Looking forward, the growth rate of exports is projected to be about 7 percent in 2001 and to pick up to 10 percent in 2002, largely in response to the path of the dollar.

Growth of real imports of goods and services continued at a strong pace during the third quarter, boosted by surprisingly strong growth in most categories of imports in September. Import growth is projected to decline to a rate of about 7 percent in the fourth quarter of this year and 5 percent in the first quarter of next year; thereafter, import growth rebounds to 8 percent. This outlook largely reflects the path of U.S. GDP in the forecast. Relative prices, which have been boosting growth of core imports in recent quarters, will change to a slightly restraining factor by the end of next year as a result of the dollar's expected depreciation. The quantity of imported oil should expand moderately over the forecast period.

We project that the contribution of exports to U.S. GDP growth will fall slightly in 2001, to 3/4 percentage point at an annual rate, before rising to 1-1/4 percentage points in 2002. Imports are expected to make a negative contribution of about 1-1/4 percentage points in 2001 and 2002. Overall, the negative arithmetic contribution of the foreign sector to GDP growth diminishes over the forecast period, averaging close to zero in 2002.

**Alternative Simulations:**  
**Dollar Depreciation and Higher Oil Prices, Flat Real Dollar**  
 (Percent change from previous period, annual rate)

Indicator and simulation	2000: H2	2001		2002	
		H1	H2	H1	H2
<i>U.S. real GDP</i>					
Baseline	2.4	2.7	3.5	3.8	4.0
Depreciation and higher oil prices					
Flat funds rate	2.5	3.3	4.9	5.8	5.5
Taylor rule	2.5	3.1	3.9	4.1	3.9
Flat real dollar	2.4	2.7	3.3	3.5	3.5
<i>U.S. PCE prices excl. food and energy</i>					
Baseline	1.8	2.0	2.0	2.0	2.0
Depreciation and higher oil prices					
Flat funds rate	2.0	2.7	2.9	2.8	2.6
Taylor rule	2.0	2.6	2.6	2.1	1.6
Flat real dollar	1.8	2.0	1.9	1.8	1.8

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

December 13, 2000

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

Measure and country	-----Projected-----								
	1994	1995	1996	1997	1998	1999	2000	2001	2002
REAL GDP (1)									
-----									
Total foreign	5.2	2.3	4.0	4.3	1.1	4.6	4.7	3.5	3.7
Industrial Countries	4.1	1.9	2.5	3.7	2.2	3.7	3.7	2.9	2.9
of which:									
Canada	5.5	1.4	2.4	4.8	3.2	4.9	4.4	3.1	3.2
Japan	1.7	2.6	2.9	0.7	-1.4	0.4	3.1	1.1	1.5
United Kingdom	4.6	1.9	2.9	3.5	2.0	2.9	2.7	2.5	2.5
Euro-11	3.0	1.5	1.7	3.0	2.0	3.2	3.0	3.0	3.1
Germany	2.9	1.1	1.3	1.6	0.9	2.5	3.3	2.8	3.2
Developing Countries	6.8	3.1	6.2	5.1	-0.3	5.9	6.2	4.5	4.8
Asia	8.8	7.2	6.8	4.8	-1.9	8.3	6.8	5.0	5.3
Korea	9.2	7.4	6.1	3.1	-4.6	14.0	6.4	3.9	5.4
China	16.3	12.6	9.2	8.2	9.5	6.2	8.1	7.5	7.7
Latin America	5.4	-3.7	6.1	6.1	1.0	3.9	5.8	4.1	4.5
Mexico	5.2	-7.1	7.1	6.7	2.7	5.3	7.3	4.6	4.9
Brazil	10.0	-0.6	4.6	2.0	-1.4	3.5	3.9	3.1	4.0
CONSUMER PRICES (2)									
-----									
Industrial Countries	1.1	1.3	1.4	1.5	1.0	1.1	1.8	1.2	1.5
of which:									
Canada	-0.0	2.1	2.0	1.0	1.1	2.4	2.9	1.8	2.0
Japan	0.8	-0.8	0.1	2.0	0.8	-1.3	-1.0	-0.5	0.0
United Kingdom (3)	2.2	2.9	3.2	2.7	2.5	2.2	2.2	2.4	2.4
Euro-11 (4)	NA	NA	NA	1.5	0.8	1.5	2.8	1.7	1.9
Germany	2.8	1.4	1.3	1.5	0.3	1.1	2.4	1.4	1.5
Developing Countries	22.9	16.9	11.1	6.8	9.1	4.7	4.3	6.0	5.6
Asia	10.7	6.3	4.8	2.8	4.5	0.2	2.0	4.3	4.2
Korea	5.8	4.4	5.0	5.0	5.9	1.3	3.0	3.6	4.0
China	26.9	11.0	6.8	0.9	-1.2	-0.9	0.8	4.6	4.9
Latin America	54.0	42.1	25.9	15.6	15.5	12.6	8.5	8.3	7.8
Mexico	7.0	48.9	28.2	17.2	17.5	13.6	9.0	8.8	8.1
Brazil	1196.9	21.5	9.6	4.7	1.6	8.3	6.3	5.1	4.9

1. Foreign GDP aggregates calculated using shares of U.S. non-agricultural exports.
2. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.
3. CPI excluding mortgage interest payments, which is the targeted inflation rate.
4. Harmonized CPI's, weighted by shares in final consumption of households converted to a common currency using estimated PPP exchange rates.

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

Measure and country	2000				Projected 2001				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)	----- Quarterly changes at an annual rate -----											
Total foreign	7.4	4.2	4.2	3.2	3.2	3.4	3.7	3.7	3.6	3.6	3.7	3.7
Industrial Countries	5.3	3.6	3.4	2.6	2.7	2.8	3.0	3.0	2.9	2.9	2.9	2.9
of which:												
Canada	5.5	4.6	4.8	2.8	2.8	3.2	3.3	3.3	3.2	3.2	3.2	3.2
Japan	10.0	0.9	1.0	0.7	1.0	0.7	1.3	1.4	1.4	1.4	1.6	1.6
United Kingdom	2.1	3.8	2.9	2.0	2.6	2.5	2.5	2.6	2.5	2.5	2.5	2.5
Euro-11	3.6	3.2	2.7	2.7	2.8	3.0	3.0	3.1	3.1	3.1	3.1	3.0
Germany	3.6	4.6	2.3	2.5	2.5	2.7	2.8	3.1	3.2	3.2	3.2	3.2
Developing Countries	10.5	5.1	5.4	4.1	4.0	4.3	4.7	4.8	4.6	4.6	4.9	4.9
Asia	12.7	4.7	6.1	4.1	4.1	4.8	5.5	5.6	5.2	5.1	5.5	5.6
Korea	7.1	4.8	14.0	0.0	2.5	3.5	4.5	5.0	5.0	5.0	5.5	6.0
China	9.5	1.9	11.0	10.0	6.0	6.0	9.0	9.0	6.5	6.5	9.0	9.0
Latin America	9.0	5.4	4.5	4.2	3.9	4.0	4.2	4.3	4.4	4.4	4.5	4.5
Mexico	11.8	6.7	5.8	5.0	4.5	4.5	4.7	4.7	4.9	4.9	4.9	4.9
Brazil	5.6	2.1	4.8	3.0	2.5	3.0	3.2	3.7	4.0	4.0	4.0	4.0
CONSUMER PRICES (2)	----- Four-quarter changes -----											
Industrial Countries	1.5	1.4	1.6	1.8	1.7	1.7	1.3	1.2	1.3	1.3	1.4	1.5
of which:												
Canada	2.7	2.4	2.7	2.9	2.8	2.6	1.9	1.8	1.7	1.8	1.9	2.0
Japan	-0.8	-1.0	-1.1	-1.0	-1.0	-0.6	-0.6	-0.5	-0.3	-0.2	-0.1	0.0
United Kingdom (3)	2.1	2.1	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.4	2.4	2.4
Euro-11 (4)	2.1	2.1	2.5	2.8	2.5	2.4	2.0	1.7	1.7	1.8	1.9	1.9
Germany	2.0	1.7	2.2	2.4	2.0	2.1	1.6	1.4	1.3	1.4	1.5	1.5
Developing Countries	3.9	3.8	4.0	4.3	5.3	6.0	6.0	6.0	5.8	5.7	5.7	5.6
Asia	0.5	0.8	1.4	2.0	3.1	4.4	4.5	4.3	4.1	4.1	4.2	4.2
Korea	1.5	1.4	3.2	3.0	4.7	5.3	3.9	3.6	3.7	3.7	3.9	4.0
China	0.1	0.1	0.3	0.8	1.7	4.1	4.3	4.6	4.4	4.5	4.7	4.9
Latin America	10.0	9.1	8.7	8.5	9.0	8.9	8.5	8.3	8.2	8.1	8.0	7.8
Mexico	10.6	9.6	9.0	9.0	9.6	9.3	8.9	8.8	8.6	8.5	8.3	8.1
Brazil	7.8	6.6	7.7	6.3	6.9	8.0	5.8	5.1	4.9	4.9	4.9	4.9

1. Foreign GDP aggregates calculated using shares of U.S. non-agricultural exports.
2. Foreign CPI aggregates calculated using shares of U.S. non-oil imports.
3. CPI excluding mortgage interest payments, which is the targeted inflation rate.
4. Harmonized CPI's, weighted by shares in final consumption of households converted to a common currency using estimated PPP exchange rates.

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1994	1995	1996	1997	1998	1999	----- 2000	Projected 2001	----- 2002
<b>NIPA REAL EXPORTS and IMPORTS</b>									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.3	0.4	-0.2	-0.8	-1.1	-1.1	-0.7	-0.4	-0.1
Exports of G&S	1.0	1.0	1.1	1.0	0.3	0.5	1.2	0.8	1.2
Imports of G&S	-1.3	-0.6	-1.3	-1.7	-1.4	-1.5	-1.9	-1.1	-1.3
Percentage change, Q4/Q4									
Exports of G&S	10.5	9.7	9.8	8.5	2.2	4.3	11.1	6.8	10.3
Services	8.2	8.8	8.9	1.4	2.8	0.2	4.4	4.5	7.1
Agricultural Goods	16.3	-4.0	3.8	1.0	-0.3	-0.5	13.5	-8.8	3.7
Computers	27.4	39.1	21.6	25.8	7.0	13.3	36.6	34.2	33.5
Semiconductors	66.9	79.6	44.6	21.3	9.3	34.4	40.2	37.9	37.3
Other Goods 1/	6.9	5.7	7.8	10.9	1.3	4.1	9.8	3.7	6.4
Imports of G&S	12.2	5.0	11.2	14.3	11.2	12.0	13.6	7.6	8.3
Services	1.8	5.5	5.3	14.0	9.5	2.1	13.6	3.1	4.4
Oil	-0.2	2.4	7.8	3.9	4.6	-3.9	10.6	4.1	3.3
Computers	39.0	35.0	17.8	33.0	26.7	25.0	25.3	26.8	27.4
Semiconductors	54.5	92.4	56.7	32.9	-7.3	34.0	47.2	39.9	38.6
Other Goods 2/	12.3	-1.2	10.5	12.7	11.6	13.9	11.6	5.4	5.6
Billions of chained 1996 dollars									
Net Goods & Services	-86.5	-78.4	-89.0	-113.3	-221.0	-322.4	-408.3	-462.2	-487.3
Exports of G&S	732.8	808.2	874.2	981.5	1003.6	1033.0	1138.9	1226.4	1338.4
Imports of G&S	819.4	886.6	963.1	1094.8	1224.6	1355.3	1547.2	1688.6	1825.7
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-118.6	-109.5	-123.3	-140.5	-217.1	-331.4	-438.5	-489.8	-535.4
Current Acct as Percent of GDP	-1.7	-1.5	-1.6	-1.7	-2.5	-3.6	-4.4	-4.7	-4.8
Net Goods & Services (BOP)	-97.0	-96.0	-102.1	-105.9	-166.9	-265.0	-366.9	-404.1	-433.6
Investment Income, Net	21.1	25.0	23.4	11.1	-1.0	-13.1	-14.2	-26.9	-42.1
Direct, Net	55.2	64.9	69.4	71.9	67.7	62.7	73.3	75.7	84.0
Portfolio, Net	-34.1	-39.9	-46.0	-60.9	-68.8	-75.8	-87.4	-102.6	-126.1
Other Income & Transfers, Net	-42.7	-38.6	-44.6	-45.7	-49.2	-53.4	-57.4	-58.7	-59.7

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1997				1998				1999			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.0	-0.3	-0.9	-0.9	-1.6	-1.9	-1.0	0.1	-1.4	-1.4	-1.1	-0.4
Exports of G&S	0.8	1.9	1.2	-0.1	0.1	-0.3	-0.4	1.5	-0.9	0.6	1.0	1.1
Imports of G&S	-1.8	-2.2	-2.1	-0.8	-1.7	-1.6	-0.7	-1.5	-0.6	-2.0	-2.1	-1.4
Percentage change from previous period, s.a.a.r.												
Exports of G&S	7.5	17.6	10.6	-0.8	1.0	-3.0	-3.2	15.1	-7.9	5.8	10.2	10.3
Services	-5.8	9.4	6.0	-3.3	5.2	6.4	-10.0	10.8	-3.8	2.8	-2.5	4.6
Agricultural Goods	-19.4	6.7	12.0	7.9	-2.7	-13.8	-12.5	34.7	-33.4	33.1	38.0	-19.9
Computers	60.0	44.5	25.7	-14.0	-7.5	7.6	14.7	14.7	5.2	26.7	22.2	1.2
Semiconductors	50.3	22.1	19.6	-1.4	2.1	-13.6	18.9	35.9	38.7	39.1	37.8	22.5
Other Goods 1/	12.2	20.6	10.8	0.9	0.0	-6.6	-1.2	14.3	-11.1	1.4	11.9	16.3
Imports of G&S	15.3	18.8	17.3	6.4	14.2	13.1	5.5	12.2	4.5	16.2	16.9	10.7
Services	20.0	5.6	23.1	8.3	20.0	6.7	9.8	2.2	-7.7	2.5	6.3	8.2
Oil	-7.5	36.8	5.7	-12.9	6.4	41.2	2.1	-22.0	2.4	29.4	-5.8	-31.5
Computers	46.6	45.8	32.4	10.5	32.5	22.6	10.6	43.2	28.8	48.5	14.8	11.2
Semiconductors	78.1	26.0	31.6	5.6	2.0	-22.9	0.1	-6.1	17.8	53.8	24.1	43.3
Other Goods 2/	11.6	17.2	14.8	7.5	12.6	14.0	4.5	15.6	5.0	14.6	21.5	14.9
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-94.0	-100.6	-119.6	-139.2	-175.3	-219.7	-244.1	-244.9	-279.8	-314.6	-342.6	-352.5
Exports of G&S	940.3	979.2	1004.2	1002.1	1004.5	996.8	988.8	1024.1	1003.3	1017.6	1042.6	1068.4
Imports of G&S	1034.3	1079.8	1123.8	1141.2	1179.8	1216.6	1232.9	1269.0	1283.1	1332.2	1385.2	1420.9
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-137.5	-119.9	-133.6	-171.1	-169.6	-205.9	-245.2	-247.7	-266.5	-315.9	-358.6	-384.9
Current Account as % of GDP	-1.7	-1.4	-1.6	-2.0	-2.0	-2.4	-2.8	-2.8	-2.9	-3.4	-3.8	-4.0
Net Goods & Services (BOP)	-108.2	-94.3	-101.1	-120.1	-134.5	-166.4	-185.3	-181.4	-210.7	-253.2	-290.9	-305.1
Investment Income, Net	11.5	16.3	10.7	5.7	9.1	6.0	-12.1	-7.3	-7.1	-11.3	-16.8	-17.3
Direct, Net	68.9	76.6	74.1	68.1	74.9	72.4	59.0	64.7	64.1	58.8	62.8	65.1
Portfolio, Net	-57.4	-60.3	-63.4	-62.4	-65.7	-66.4	-71.1	-71.9	-71.2	-70.0	-79.6	-82.4
Other Inc. & Transfers, Net	-40.8	-41.9	-43.2	-56.7	-44.3	-45.5	-47.8	-59.1	-48.7	-51.4	-50.9	-62.5

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2000				Projected 2001				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-0.9	-1.0	-0.8	-0.1	-0.5	-0.7	-0.5	0.3	-0.4	-0.3	-0.1	0.5
Exports of G&S	0.7	1.5	1.6	0.9	0.2	0.8	0.8	1.3	0.7	1.1	1.2	1.6
Imports of G&S	-1.6	-2.5	-2.4	-1.0	-0.8	-1.5	-1.3	-1.0	-1.1	-1.4	-1.3	-1.2
Percentage change from previous period, s.a.a.r.												
Exports of G&S	6.3	14.3	15.4	8.5	2.0	6.8	7.3	11.4	6.2	10.0	10.6	14.4
Services	6.9	3.5	4.7	2.6	1.4	3.6	5.8	7.4	7.0	7.0	7.3	7.3
Agricultural Goods	25.3	-2.0	42.6	-5.3	-2.7	-0.3	-12.4	-18.6	3.8	3.6	3.6	3.7
Computers	44.6	44.9	26.9	31.1	34.8	34.8	33.5	33.5	33.5	33.5	33.5	33.5
Semiconductors	20.7	71.2	37.5	36.0	38.6	38.6	37.3	37.3	37.3	37.3	37.3	37.3
Other Goods 1/	0.7	15.0	15.8	8.2	-3.5	3.3	4.3	11.0	-0.4	6.1	6.8	13.5
Imports of G&S	12.0	18.6	17.4	6.9	5.1	10.1	8.7	6.6	7.3	9.5	8.7	7.5
Services	16.6	10.6	22.1	6.0	2.5	3.0	3.1	4.0	4.4	4.4	4.4	4.5
Oil	30.3	35.3	-5.8	-9.9	-13.9	37.9	14.2	-13.2	-8.5	27.3	10.3	-11.6
Computers	2.8	44.5	28.9	28.7	27.4	27.4	26.3	26.3	27.4	27.4	27.4	27.4
Semiconductors	20.7	33.5	88.4	54.6	41.2	41.2	38.6	38.6	38.6	38.6	38.6	38.6
Other Goods 2/	9.7	15.8	15.8	5.3	4.3	5.9	6.0	5.6	5.6	5.6	5.6	5.7
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-376.8	-403.4	-425.1	-427.9	-442.2	-462.0	-475.4	-469.3	-481.1	-490.6	-495.0	-482.6
Exports of G&S	1084.8	1121.8	1162.6	1186.5	1192.2	1212.1	1233.8	1267.5	1286.7	1317.8	1351.5	1397.6
Imports of G&S	1461.7	1525.2	1587.8	1614.3	1634.4	1674.1	1709.2	1736.8	1767.8	1808.4	1846.5	1880.2
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-406.0	-424.6	-451.5	-472.0	-466.7	-484.0	-500.0	-508.5	-516.3	-531.7	-543.4	-550.3
Current Account as % of GDP	-4.2	-4.3	-4.5	-4.6	-4.5	-4.6	-4.7	-4.8	-4.8	-4.8	-4.9	-4.9
Net Goods & Services (BOP)	-340.5	-357.1	-383.0	-387.2	-386.7	-403.3	-416.3	-410.2	-423.5	-434.8	-442.3	-433.8
Investment Income, Net	-11.9	-12.6	-13.4	-18.7	-24.4	-24.6	-27.5	-31.2	-36.1	-39.8	-44.0	-48.4
Direct, Net	68.3	73.7	76.9	74.2	71.0	74.9	77.5	79.5	80.4	83.0	85.3	87.4
Portfolio, Net	-80.2	-86.3	-90.2	-92.9	-95.4	-99.5	-105.0	-110.7	-116.5	-122.7	-129.3	-135.8
Other Inc. & Transfers, Net	-53.6	-55.0	-55.1	-66.1	-55.6	-56.1	-56.1	-67.1	-56.6	-57.1	-57.1	-68.1

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

## **Part 2**

December 13, 2000

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Recent Developments**

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

December 13, 2000

## **Recent Developments**

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Prepared for the Federal Open Market Committee  
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report also indicated that productivity in the nonfinancial corporate sector rose at an annual rate of 4.9 percent in the third quarter of 2000. Over the four quarters ended 2000:Q3, output per hour in this sector was up 4.8 percent, a percentage point more than the gain over the four quarters ended 1999:Q3.

### Motor Vehicles

After having dropped 1 million units at an annual rate in October, sales of light vehicles fell 350,000 units in November. So far this quarter, sales have averaged 16.6 million units (annual rate), a marked stepdown from the pace during the spring and summer months. Some of this decline likely stems from less generous incentive programs; current estimates of average planned incentives per vehicle in the fourth quarter point to a decline of about \$440 from the third-quarter peak of \$1,790. Nonetheless, the level of incentives remains high by historical standards, and the softening in sales probably also reflects the downshift in employment growth and consumer sentiment. Indeed, consumer attitudes toward vehicle purchases have become a bit more subdued: In the latest Conference Board survey, the fraction of respondents planning to purchase a new vehicle within the next six months dropped back noticeably. The assessment of buying conditions for vehicles in the Michigan survey ticked down in early December but remains in the range recorded over the past year.

The recent slackening in sales has hit the Big Three automakers the hardest; their combined market share fell to a record low of 64 percent in November. The combination of weakening sales and loss of market share has led to significant inventory overhangs at the Big Three, which have been slow to cut

### Production of Domestic Autos and Trucks

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

Item	2000		2001	2000			2001
	Q3	Q4 <sup>1</sup>	Q1 <sup>1</sup>	Oct	Nov	Dec <sup>1</sup>	Jan <sup>1</sup>
U.S. production	12.8	12.1	12.1	12.2	11.9	12.1	12.0
Autos	5.7	5.2	5.3	5.3	5.1	5.1	5.3
Trucks	7.1	6.9	6.8	6.9	6.8	7.0	6.8
Days' supply <sup>2</sup>							
Autos	55.9	n.a.	n.a.	58.6	59.1	n.a.	n.a.
Light trucks <sup>3</sup>	74.9	n.a.	n.a.	77.3	81.7	n.a.	n.a.

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

1. Production rates reflect actual November data and manufacturers' schedules for December and Q1.

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

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

n.a. Not available.

## Gross Issuance of Securities by U.S. Corporations

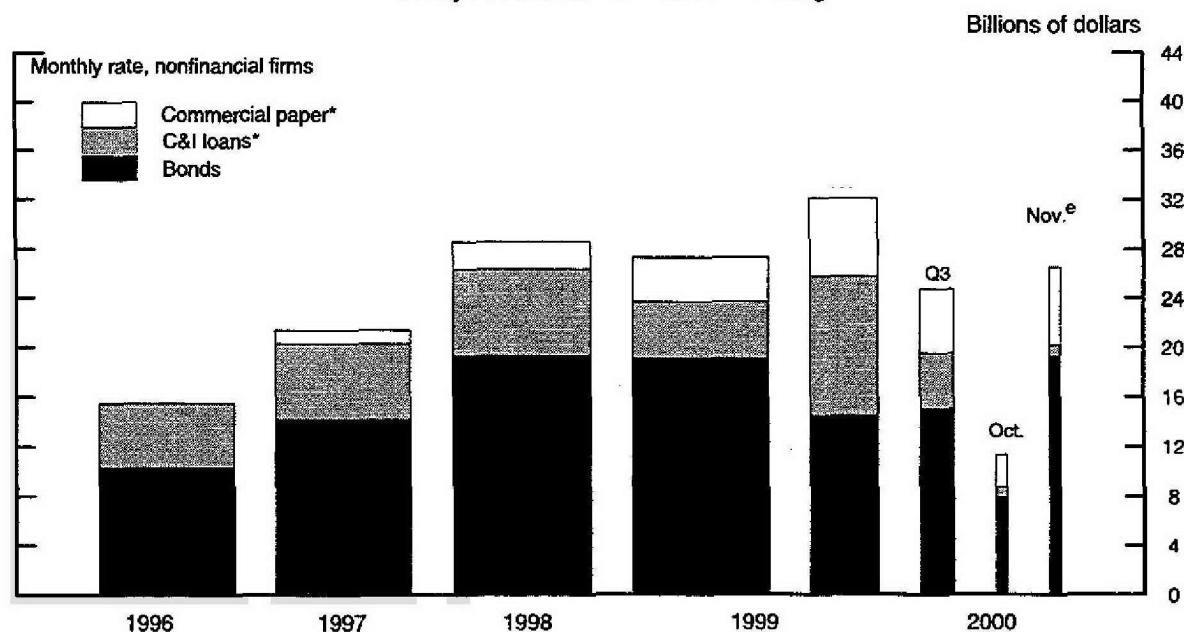
(Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	1998	1999	H1	Q3	2000 Sept.	Oct.	Nov. <sup>e</sup>
All U.S. corporations	94.0	89.4	80.0	80.9	94.5	59.1	90.6
Stocks <sup>1</sup>	10.6	11.0	14.1	9.1	6.4	8.5	11.2
Bonds	83.5	78.4	65.9	71.8	88.1	50.6	79.4
<i>Nonfinancial corporations</i>							
Stocks <sup>1</sup>	6.2	9.2	12.4	7.5	6.2	7.8	10.6
Initial public offerings	2.2	4.2	5.7	4.6	4.0	2.6	1.7
Seasoned offerings	4.0	5.0	6.7	3.0	2.2	5.2	8.9
Bonds <sup>2</sup>	25.7	24.5	21.3	19.4	24.5	12.5	26.1
Investment grade <sup>3</sup>	14.1	13.9	11.5	11.0	13.6	6.8	19.4
Speculative grade <sup>3</sup>	10.2	7.5	5.4	4.9	7.0	2.9	2.4
Other (sold abroad/unrated)	1.3	3.1	4.4	3.5	3.9	2.8	4.4
<i>Financial corporations</i>							
Stocks <sup>1</sup>	4.4	1.8	1.6	1.6	.2	.7	.6
Bonds	57.8	53.9	44.7	52.4	63.6	38.1	53.3
<i>Memo</i>							
Net issuance of commercial paper, nonfinancial corporations <sup>4</sup>	2.3	3.6	6.4	5.2	-4.2	2.5	6.3
Change in C&I loans at commercial banks <sup>4</sup>	7.0	4.6	11.2	4.5	-1.2	.9	.9

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

1. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings.
2. Excludes mortgage-backed and asset-backed bonds.
3. Bonds sold in U.S. categorized according to Moody's bond ratings, or to Standard Poor's if unrated by Moody's.
4. End-of-period basis, seasonally adjusted.
- e Staff estimate.

### Components of Net Debt Financing



\* Seasonally adjusted.  
e Staff estimate.

## Treasury and Agency Finance

### Treasury Financing (Billions of dollars)

Item	2000					
	Q1	Q2	Q3	Sept.	Oct.	Nov.
<b>Total surplus, deficit (-)</b>	<b>-15.0</b>	<b>211.8</b>	<b>60.5</b>	<b>65.8</b>	<b>-11.3</b>	<b>n.a.</b>
Means of financing deficit						
Net borrowing	-27.1	-189.6	-53.6	-32.3	-29.7	41.4
Nonmarketable	-6.4	2.2	-5.5	0.4	0.9	-0.4
Marketable	-20.7	-191.7	-48.1	-32.7	-30.6	41.8
Bills	16.0	-123.7	-14.1	-31.2	2.3	63.4
Coupons <sup>1</sup>	-34.7	-57.1	-25.7	0.0	-28.9	-19.4
Debt buybacks	-2.0	-11.0	-8.2	-1.5	-4.0	-2.2
Decrease in cash balance	38.6	-12.7	4.8	-39.5	42.7	-1.4
Other <sup>2</sup>	3.5	-9.6	-11.6	6.0	-1.6	n.a.
MEMO						
Cash balance, end of period	44.8	57.4	52.7	52.7	10.0	11.4

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.

### Net Borrowing of Government-Sponsored Enterprises (Billions of dollars)

Agency	2000					
	Q1	Q2	Q3	Oct.	Nov.	Dec.*
FHLBs	6.3	33.2	12.1	-3.9	n.a.	n.a.
Freddie Mac	17.3	6.3	22.7	16.0	n.a.	n.a.
Fannie Mae	9.9	21.0	28.5	8.5	n.a.	n.a.
Farm Credit Banks	-1.7	2.4	1.5	0.3	0.3	n.a.
Sallie Mae	-3.9	-0.8	5.2	n.a.	n.a.	n.a.
MEMO						
<i>Outstanding noncallable reference and benchmark securities</i>						
Notes and bonds	213.6	238.6	274.1	290.1	303.1	309.1
Bills	192.5	200.0	222.5	224.0	228.0	240.5
<b>Total</b>	<b>406.1</b>	<b>438.6</b>	<b>496.6</b>	<b>514.1</b>	<b>531.1</b>	<b>549.6</b>

NOTE. Excludes mortgage pass-through securities issued by Fannie Mae and Freddie Mac.

\* As of December 14, 2000

n.a. Not available.

## State and Local Finance

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

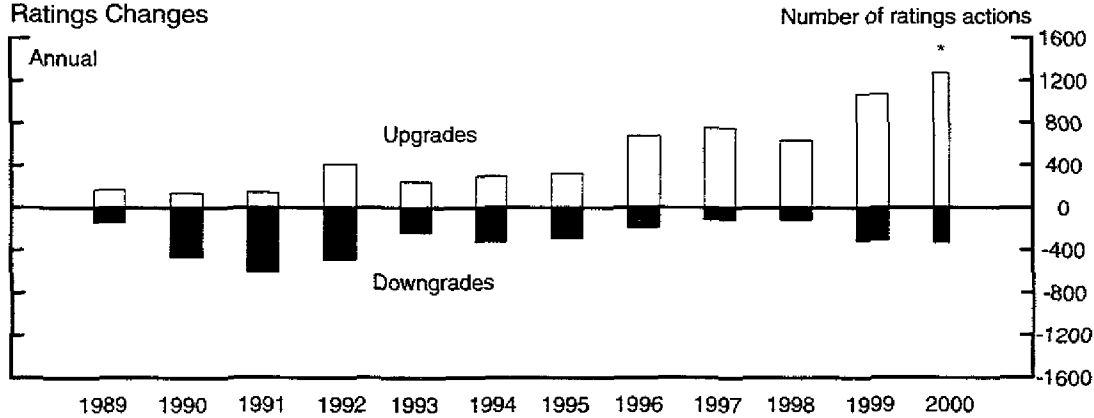
	1998	1999	2000				
			H1	Q3	Sept.	Oct.	Nov.
Long-term <sup>1</sup>	21.9	18.0	14.2	14.6	15.6	18.0	15.9
Refundings <sup>2</sup>	8.5	4.5	2.1	2.0	1.6	1.6	2.7
New capital	13.4	13.5	12.1	12.6	14.0	16.4	13.2
Short-term	2.4	2.7	2.6	3.6	1.9	2.2	1.5
Total tax-exempt	24.3	20.6	16.8	18.1	17.5	20.3	17.4
Total taxable	1.1	1.1	0.6	0.8	0.5	0.4	1.1

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

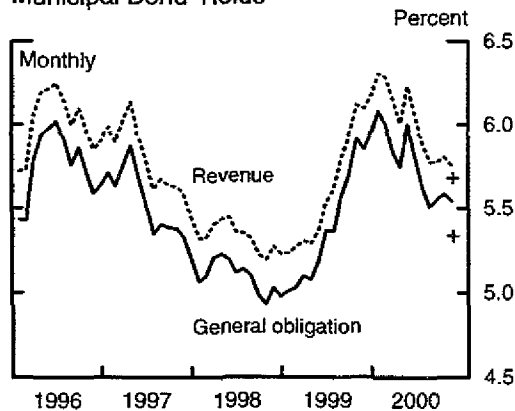
e. Staff estimate.

### Ratings Changes



\* Data through Nov. 30, 2000, at an annual rate.

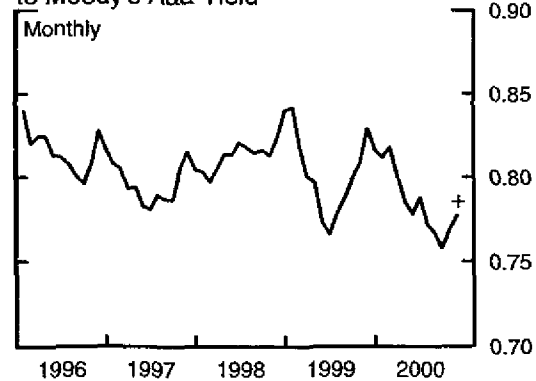
### Municipal Bond Yields



Note. Average of weekly data.

+ indicates latest observation (Dec. 7).

### Ratio of 30-Year Revenue Bond Yield to Moody's Aaa Yield



Note. Average of weekly data.

+ indicates latest observation (Dec. 7).

**Commercial Bank Credit**

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

Type of credit	2000	Q2 2000	Q3 2000	Sept. 2000	Oct. 2000	Nov. 2000	Level, Nov. 2000 (\$ billions)
<b>Total</b>							
1. Adjusted <sup>1</sup>	9.6	12.8	10.6	8.1	-5.6	3.0	5,058
2. Reported	9.9	13.1	10.4	11.6	-5.9	2.4	5,156
<i>Securities</i>							
3. Adjusted <sup>1</sup>	2.7	9.5	6.0	-4.7	-19.4	-5.9	1,205
4. Reported	4.1	10.8	5.4	9.7	-19.7	-7.5	1,302
5. U.S. government	-2.9	.8	-8	-7.8	-22.3	-16.3	783
6. Other <sup>2</sup>	16.6	28.7	15.8	37.8	-15.8	6.0	520
<i>Loans<sup>3</sup></i>							
7. Total	12.0	13.9	12.1	12.3	-1.2	5.9	3,853
8. Business	8.9	13.1	8.9	.1	-.9	1.0	1,080
9. Real estate	13.9	17.6	11.8	8.9	-1.5	8.1	1,646
10. Home equity	24.0	28.9	15.1	18.3	32.0	15.6	125
11. Other	13.1	16.8	11.5	8.1	-4.1	7.4	1,521
12. Consumer	10.1	8.8	12.4	7.5	-.9	8.4	535
13. Adjusted <sup>4</sup>	7.3	7.6	11.2	4.6	-4.7	6.0	840
14. Other <sup>5</sup>	14.3	9.8	19.3	49.5	-.8	6.1	593

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. These data have been benchmarked to the December 1999 Call Report.

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

2. Includes securities of corporations, state and local governments, and foreign governments and any trading account assets that are not U.S. government securities.

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.