

## **Part 1**

March 11, 2004

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## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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### **Summary and Outlook**

Confidential (FR) Class II FOMC

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March 11, 2004

## **Summary and Outlook**

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

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

Measure	2004:Q1		2004:Q2	
	Jan. GB	Mar. GB	Jan. GB	Mar. GB
<b>Real GDP</b>	<b>5.0</b>	<b>4.4</b>	<b>5.4</b>	<b>4.9</b>
Private domestic final purchases	4.8	4.2	5.7	6.1
Personal consumption expenditures	3.6	3.4	4.6	4.8
Residential investment	11.3	4.1	2.2	6.9
Business fixed investment	10.0	10.1	15.0	14.7
Government outlays for consumption and investment	4.0	2.9	3.1	3.1
	Contribution to growth (percentage points)			
Inventory investment	.5	.7	.4	-.5
Net exports	-.4	-.5	-.4	-.4

robust annual rate of 1.54 million units in January and are projected to remain at about that pace through the first half of this year. Multifamily starts also slipped a bit to a pace of 370,000 units in January and are forecast to slow to a pace of 340,000 units in coming months. Moreover, a drop in home sales has led to a fall in real estate commissions, which is holding down overall outlays for residential investment. Based on these factors, we now expect real residential investment to increase at an annual rate of 5-1/2 percent in the first half of this year—a substantial increase but well below the gain of 15 percent in the second half of last year.

The incoming information on business fixed investment has been mixed. The latest data on orders and shipments for nondefense capital goods showed widespread strength. Spending on high-tech capital is continuing to recover, and the demand for other capital equipment (excluding transportation) appears to be rising at a double-digit pace in real terms. Business purchases of transportation equipment are expected to increase only slowly this quarter but to pick up in the second quarter. In contrast, data on construction put-in-place through January indicate continued weakness in outlays for nonresidential buildings, while oil and gas drilling seems to be responding positively to high current and expected prices for crude oil and natural gas.

Real nonfarm inventory investment is forecast to contribute about 3/4 percentage point to the increase in real GDP growth in the current quarter but to restrain growth by 1/2 percentage point in the second quarter. This swing

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

Measure	2004		2005
	H1	H2	
<b>Real GDP</b>	<b>4.7</b>	<b>5.3</b>	<b>4.0</b>
Previous	5.2	5.4	4.0
Final sales	4.5	5.0	3.9
Previous	4.7	4.9	3.9
PCE	4.1	4.3	4.0
Previous	4.1	4.4	4.0
Residential investment	5.5	-.2	-.4
Previous	6.7	-2.5	-.6
BFI	12.4	16.7	8.8
Previous	12.5	16.4	9.0
Government purchases	3.0	1.7	2.1
Previous	3.5	1.6	1.9
Exports	8.2	13.2	10.8
Previous	9.8	13.3	11.1
Imports	8.8	9.3	9.0
Previous	9.5	9.2	8.8
	Contribution to growth (percentage points)		
Inventory change	.1	.3	.1
Previous	.4	.5	.1
Net exports	-.5	-.1	-.2
Previous	-.4	.0	-.2

expansionary fiscal policy, and strong gains in structural productivity. We anticipate that this pace of growth will encourage businesses to lay aside any lingering doubts about the size and sustainability of the recovery. As a result, we project inventory investment and employment growth to pick up. We expect real GDP growth to slow to 4 percent in 2005, owing in large part to a payback in business fixed investment from the expiration of the partial-expensing allowance. The rise in the federal funds rate and the waning of the stimulus from the 2003 personal tax cuts should also cause growth to moderate in 2005.

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

Measure	1974-95	1996-2001	2002	2003	2004	2005
<b>Structural labor productivity</b>	1.5	2.7	3.3	3.8	3.3	3.1
Previous	1.5	2.8	3.3	3.7	3.3	3.1
<i>Contributions</i> <sup>1</sup>						
Capital deepening	.7	1.4	.6	.7	1.0	1.2
Previous	.6	1.3	.6	.6	1.0	1.1
Multifactor productivity	.5	1.1	2.4	2.9	2.1	1.7
Previous	.6	1.2	2.4	2.9	2.1	1.7
Labor composition	.3	.3	.3	.3	.3	.3
MEMO						
Potential GDP	3.0	3.4	3.6	4.1	3.7	3.7
Previous	2.9	3.4	3.6	4.0	3.7	3.7

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

1. Percentage points.

output is forecast to increase at an annual rate of 3-3/4 percent over the projection period. However, with the downward revision to actual GDP growth in this forecast, the GDP gap is a little wider throughout the projection period than it was in the previous forecast; in the current Greenbook, it falls from 2-1/4 percent at the end of 2003 to 3/4 percent by the fourth quarter of 2005; in the January Greenbook, the gap was essentially eliminated by the end of the projection period.

**Productivity and the labor market.** Even taking account of the impressive gains in structural productivity, the pace of payroll growth in the nonfarm business sector still seems remarkably low. As noted above, we attribute this lack of hiring to a lingering sense of business caution, but we continue to believe that the maturing of the recovery will cause this hesitancy to lift. As it lifts, we expect to see a step-up in hours and employment growth over this year and next. We expect average monthly increases in private payrolls to climb to around 300,000 by year-end; growth in private payrolls then moderates to around 260,000 per month in 2005 as the pace of economic growth slows. As this adjustment occurs, we project productivity growth to slow from 5-1/4 percent in 2003 to 3 percent in 2004 and to 1-1/2 percent in 2005.

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

Measure	2002	2003	2004	2005
Output per hour, nonfarm business	4.3	5.3	3.0	1.6
Previous	4.1	5.5	2.6	1.7
Nonfarm private payroll employment	-.9	-.2	2.0	2.8
Previous	-.7	-.1	2.9	2.8
Household survey employment	.3	1.2	1.9	1.8
Previous	.3	1.2	2.5	1.9
Labor force participation rate <sup>1</sup>	66.5	66.1	66.5	66.7
Previous	66.5	66.1	66.5	66.8
Civilian unemployment rate <sup>1</sup>	5.9	5.9	5.5	5.2
Previous	5.9	5.9	5.3	5.0
MEMO				
GDP gap <sup>2</sup>	2.4	2.2	1.0	.7
Previous	2.4	1.9	.4	.1

1. Percent, average for the fourth quarter.

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

The downward revision to GDP growth has led us to nudge up our projection of the unemployment rate in this forecast. We now expect only a modest decline in the unemployment rate from its current level of 5.6 percent, to 5.5 percent in the last quarter of this year and to 5.2 percent in the last quarter of 2005.

**Prices and wages.** The outlook for core consumer price inflation is essentially the same as in the January Greenbook. Although the pass-through of higher energy and import prices is expected to exert somewhat more upward pressure on core prices in the current projection, this is offset by a slightly lower rate of resource utilization. Thus, core PCE inflation is projected to remain at an annual rate of about 1 percent over the forecast period. The increase in overall PCE prices is the same as that in core inflation this year, but it falls below the core rate in 2005 because of the decline in energy prices.

For hourly compensation, we project that the employment cost index will increase 3.6 percent this year and 3.7 percent next year, a touch below our previous projection, reflecting both lower incoming wage data and the lower level of resource utilization compared with the last forecast.

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

Measure	2002	2003	2004	2005
PCE chain-weighted price index	1.8	1.4	1.1	.9
Previous	1.8	1.4	1.0	1.0
Food and beverages	1.4	2.6	1.6	1.4
Previous	1.4	2.7	1.6	1.4
Energy	7.9	7.8	.7	-2.8
Previous	7.9	8.5	-1.7	-.4
Excluding food and energy	1.6	.9	1.1	1.0
Previous	1.6	.8	1.0	1.0
Consumer price index	2.2	1.9	1.4	1.1
Previous	2.2	1.9	1.2	1.2
Excluding food and energy	2.0	1.2	1.4	1.4
Previous	2.1	1.2	1.4	1.4
GDP chain-weighted price index	1.4	1.6	1.0	1.1
Previous	1.4	1.6	.9	1.1
ECI for compensation of private industry workers <sup>1</sup>	3.2	4.0	3.6	3.7
Previous	3.2	4.1	3.7	3.8
NFB compensation per hour	1.8	3.6	3.3	3.6
Previous	2.0	3.1	3.4	3.7
Prices of core non-oil merchandise imports	.5	1.8	4.2	.5
Previous	.5	1.8	3.3	.7

1. December to December.

### Financial Flows and Conditions

Domestic nonfinancial debt has continued to expand robustly, owing largely to heavy borrowing by households and the federal government. The growth of debt is anticipated to average 8-1/4 percent this year—about the same pace as in 2003—before tapering down to 7 percent in 2005.

After having risen 12-1/2 percent in 2003, home mortgage debt is expected to rise 10-1/2 percent this year and 8-1/2 percent in 2005. This moderation is more gradual than we had projected in January because of the higher level of home prices and the lower path for mortgage rates in this forecast. Only part of this additional borrowing is expected to be offset by slower growth in consumer credit, leaving total household debt growth a little stronger than it was in the last

boost actual output per hour 3-1/2 percent this year and 2 percent next year, or about 1/2 percentage point faster per year than in the baseline. Caution also spurs firms to keep stocks leaner than in the staff outlook, with the result that the inventory-sales ratio declines over the next two years about as much as it has dropped over the past two years. Under these conditions, and mainly owing to the slower pace of inventory accumulation, real GDP grows 1/4 percentage point more slowly than in the baseline in 2004 and at the baseline rate in 2005. The increase in output per hour, because it is viewed as temporary, has little effect on aggregate demand: The reduction in household outlays associated with less labor income is largely offset by the stimulus to consumption and investment from higher profits, dividends, and stock market wealth. The effects of faster productivity growth are seen more clearly in the unemployment rate, which rises to 6 percent by the end of 2004 and then remains at that elevated level, and in core inflation, which edges down to 3/4 percent in 2005.

**Rising inflation expectations.** In our baseline projection, continued slack in labor and product markets helps to hold inflation expectations in check. An upside risk to our inflation projection is that, despite this underutilization of resources, rapid economic growth and a low funds rate might lead to a significant rise in expectations of long-run inflation. In this scenario, such expectations gradually rise 1 percentage point. This revision slowly feeds into actual inflation, which picks up to 1-3/4 percent in 2005. The associated decline of real interest rates provides a modest stimulus to real GDP.

**Declining price markup.** The markup of price over unit labor costs has risen to elevated levels in both the nonfarm business and the nonfinancial corporate sectors. Our baseline projection assumes that firms will be able to sustain much of this high level of profitability through the end of next year. In this scenario, competitive pressures prove to be more intense than in the baseline and, through a combination of lower prices and higher wages, substantially pare back the size of the markup. In 2005, core PCE inflation slows to 1/2 percent, 1/2 percentage point less than in the baseline. At the same time, growth in compensation per hour rises 1/2 percentage point above that in the baseline. This alternative outlook for prices and labor costs reduces corporate profits and increases labor compensation. But as in the “cautious firms” scenario, such shifts in the composition of income have only limited effects on aggregate activity, so real GDP and the unemployment rate are little affected.

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

Measure	2004	2005
<i>Real GDP (percent change, Q4 to Q4)</i>		
Projection	5.0	4.0
Confidence interval		
Greenbook forecast errors <sup>1</sup>	3.4–6.6	2.3–5.7
FRB/US stochastic simulations	3.8–6.3	2.5–5.8
<i>Civilian unemployment rate (percent, Q4)</i>		
Projection	5.5	5.2
Confidence interval		
Greenbook forecast errors <sup>1</sup>	4.9–6.1	4.2–6.2
FRB/US stochastic simulations	4.9–6.0	4.1–6.1
<i>PCE prices excluding food and energy (percent change, Q4 to Q4)</i>		
Projection	1.1	1.0
Confidence interval		
Greenbook forecast errors <sup>2</sup>	.5–1.7	.0–1.9
FRB/US stochastic simulations	.6–1.6	.2–1.8

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

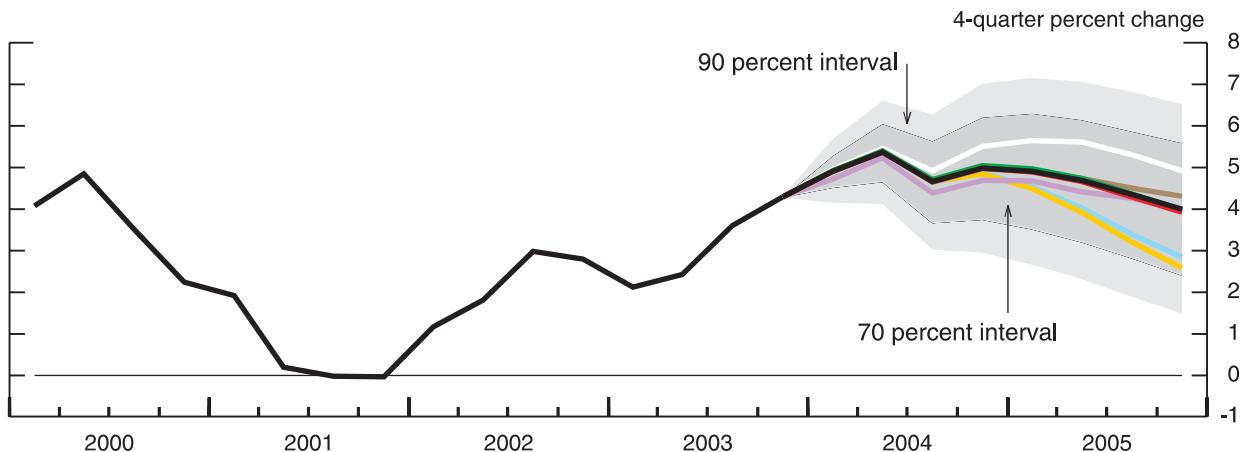
1. 1978–2003.
2. 1981–2003.

## Forecast Confidence Intervals and Alternative Scenarios

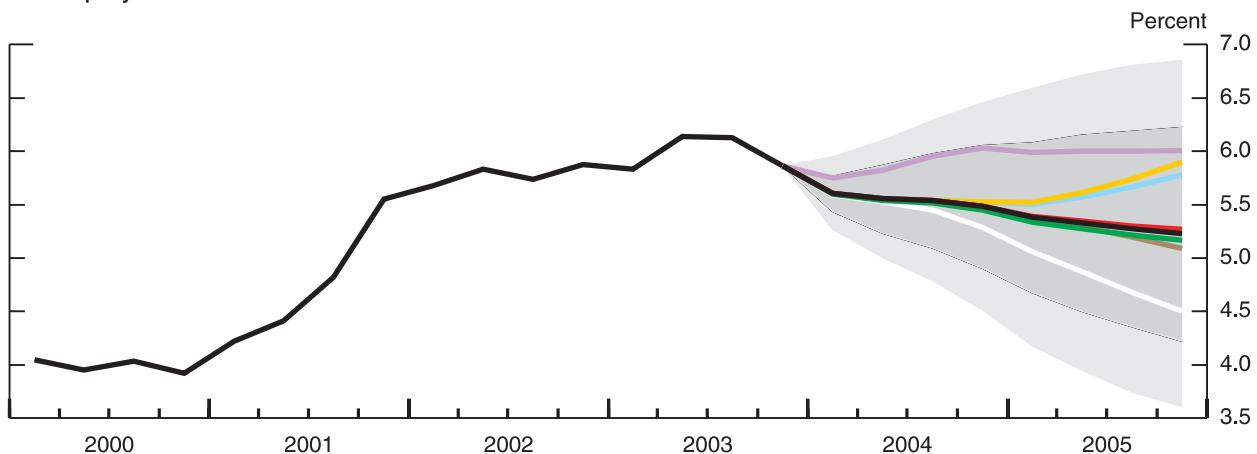
### Confidence Intervals Based on FRB/US Stochastic Simulations

- |  |   |
|--|---|
| <span style="color: black;">█</span> Greenbook baseline<br><span style="color: lightblue;">█</span> Higher bond yields<br><span style="color: yellow;">█</span> Real estate slump<br><span style="color: white;">█</span> Buoyant household sector | <span style="color: purple;">█</span> Cautious firms<br><span style="color: brown;">█</span> Rising inflation expectations<br><span style="color: green;">█</span> Declining price markup<br><span style="color: red;">█</span> Market-based funds rate |
|--|---|

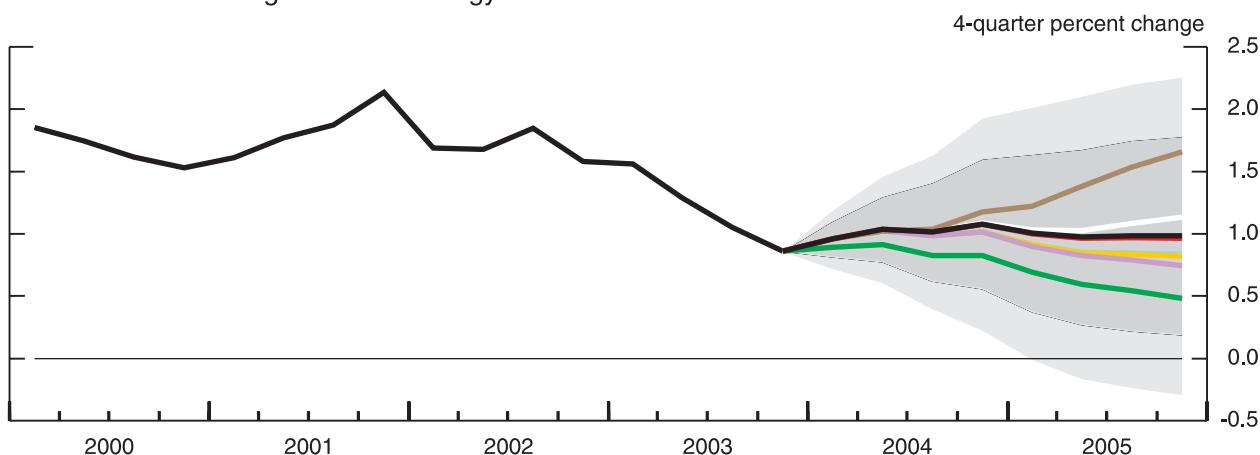
Real GDP



Unemployment Rate



PCE Prices Excluding Food and Energy



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

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>		
	01/21/04	03/11/04	01/21/04	03/11/04	01/21/04	03/11/04	01/21/04	03/11/04	01/21/04	03/11/04	
<b>ANNUAL</b>											
2001		2.9	2.9	0.5	0.5	2.4	2.4	2.8	2.8	4.7	4.7
2002		3.8	3.8	2.2	2.2	1.5	1.5	1.6	1.6	5.8	5.8
2003		4.9	4.8	3.2	3.1	1.7	1.7	2.3	2.3	6.0	6.0
2004		6.6	6.3	5.4	5.0	1.2	1.3	1.4	1.6	5.5	5.5
2005		5.5	5.5	4.5	4.5	1.0	1.0	1.0	0.9	5.1	5.3
<b>QUARTERLY</b>											
2002	Q1	5.4	5.4	4.7	4.7	1.1	1.1	1.4	1.4	5.7	5.7
	Q2	3.9	3.9	1.9	1.9	1.5	1.5	3.4	3.4	5.8	5.8
	Q3	4.4	4.4	3.4	3.4	1.5	1.5	2.2	2.2	5.7	5.7
	Q4	3.1	3.1	1.3	1.3	1.7	1.7	2.0	2.0	5.9	5.9
2003	Q1	4.3	4.3	2.0	2.0	2.3	2.3	3.8	3.8	5.8	5.8
	Q2	4.2	4.2	3.1	3.1	1.1	1.1	0.7	0.7	6.1	6.1
	Q3	10.0	10.0	8.2	8.2	1.6	1.6	2.4	2.4	6.1	6.1
	Q4	6.3	5.3	4.8	4.0	1.4	1.3	0.9	0.7	5.9	5.9
2004	Q1	6.6	6.6	5.0	4.4	1.6	2.1	2.5	3.3	5.8	5.6
	Q2	6.1	5.8	5.4	4.9	0.6	0.9	0.7	1.4	5.6	5.6
	Q3	6.0	5.7	5.4	5.3	0.6	0.4	0.6	0.2	5.4	5.5
	Q4	6.2	6.0	5.4	5.3	0.8	0.7	0.9	0.7	5.3	5.5
2005	Q1	5.5	5.5	4.1	4.1	1.3	1.3	1.1	1.0	5.2	5.4
	Q2	5.1	5.1	4.0	4.0	1.0	1.1	1.2	1.1	5.1	5.3
	Q3	5.1	5.1	4.0	4.0	1.1	1.1	1.2	1.1	5.1	5.3
	Q4	4.9	5.0	3.8	3.9	1.0	1.1	1.3	1.2	5.0	5.2
<b>TWO-QUARTER<sup>3</sup></b>											
2002	Q2	4.7	4.7	3.3	3.3	1.3	1.3	2.4	2.4	0.2	0.2
	Q4	3.8	3.8	2.3	2.3	1.6	1.6	2.1	2.1	0.1	0.1
2003	Q2	4.2	4.2	2.5	2.5	1.7	1.7	2.2	2.2	0.2	0.2
	Q4	8.1	7.6	6.5	6.1	1.5	1.5	1.6	1.5	-0.2	-0.2
2004	Q2	6.3	6.2	5.2	4.7	1.1	1.5	1.6	2.3	-0.3	-0.3
	Q4	6.1	5.9	5.4	5.3	0.7	0.5	0.8	0.5	-0.3	-0.1
2005	Q2	5.3	5.3	4.1	4.1	1.2	1.2	1.1	1.0	-0.2	-0.2
	Q4	5.0	5.0	3.9	3.9	1.0	1.1	1.3	1.2	-0.1	-0.1
<b>FOUR-QUARTER<sup>4</sup></b>											
2001	Q4	2.4	2.4	-0.0	-0.0	2.4	2.4	1.8	1.8	1.7	1.7
2002	Q4	4.2	4.2	2.8	2.8	1.4	1.4	2.2	2.2	0.3	0.3
2003	Q4	6.2	5.9	4.5	4.3	1.6	1.6	1.9	1.9	-0.0	-0.0
2004	Q4	6.2	6.0	5.3	5.0	0.9	1.0	1.2	1.4	-0.6	-0.4
2005	Q4	5.1	5.2	4.0	4.0	1.1	1.1	1.2	1.1	-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.

Strictly Confidential <FR>  
Class II FOMC

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

March 11, 2004

Item	Units <sup>1</sup>	Projected - - -									
		1997	1998	1999	2000	2001	2002	2003	2004	2005	
<b>Expenditures</b>											
Nominal GDP	Bill. \$	8304.3	8747.0	9268.4	9817.0	10100.8	10480.8	10985.3	11680.0	12321.1	
Real GDP	Bill. Ch. \$	8703.5	9066.9	9470.3	9817.0	9866.6	10083.0	10397.0	10914.7	11404.4	
Real GDP	% change	4.3	4.5	4.7	2.2	-0.0	2.8	4.3	5.0	4.0	
Gross domestic purchases		5.1	5.5	5.5	3.0	0.1	3.6	4.1	5.0	4.1	
Final sales		3.7	4.8	4.2	2.9	1.1	1.8	4.3	4.8	3.9	
Priv. dom. final purchases		5.2	6.4	5.3	4.3	0.8	2.3	4.6	5.3	4.3	
Personal cons. expenditures		4.3	5.4	4.9	4.1	2.7	2.7	3.9	4.2	4.0	
Durables		9.9	14.4	7.3	4.7	9.4	1.8	11.0	5.2	7.0	
Nondurables		2.5	4.7	4.9	3.0	1.7	2.8	4.9	5.6	5.0	
Services		4.0	3.8	4.4	4.5	1.8	2.9	2.0	3.3	2.9	
Business fixed investment		11.4	10.9	7.7	7.8	-10.2	-2.8	7.3	14.5	8.8	
Equipment & Software		13.8	13.5	10.8	7.5	-9.4	1.6	10.1	18.4	9.8	
Nonres. structures		4.6	4.0	-0.9	8.8	-12.4	-14.9	-1.3	1.5	5.0	
Residential structures		3.1	10.3	3.6	-1.8	1.7	7.1	9.5	2.6	-0.4	
Exports		8.3	2.6	5.6	6.5	-11.5	3.3	6.4	10.7	10.8	
Imports		14.3	11.0	12.1	11.2	-7.4	9.4	4.4	9.1	9.0	
Gov't. cons. & investment		1.2	3.3	4.2	0.4	3.6	4.5	2.2	2.3	2.1	
Federal		-0.5	0.1	4.2	-2.2	6.3	10.1	6.1	4.5	1.8	
Defense		-1.5	-1.2	4.3	-3.5	6.6	10.9	8.4	4.6	1.6	
State & local		2.2	5.1	4.2	1.7	2.3	1.6	0.0	1.1	2.2	
Change in bus. inventories	Bill. Ch. \$	71.2	72.6	68.9	56.5	-36.0	5.7	0.5	30.6	64.9	
Nonfarm		68.5	71.2	71.5	57.8	-36.3	9.3	1.7	31.2	65.1	
Net exports		-104.6	-203.7	-296.2	-379.5	-398.1	-470.6	-508.8	-538.9	-564.1	
Nominal GDP	% change	5.9	5.7	6.3	4.6	2.4	4.2	5.9	6.0	5.2	
GDP Gap <sup>2</sup>	%	-0.8	-1.5	-2.3	-2.3	0.6	1.9	2.6	1.5	0.8	
<b>Employment and Production</b>											
Nonfarm payroll employment	Millions	122.8	125.9	129.0	131.8	131.8	130.4	129.9	131.1	134.4	
Unemployment rate	%	4.9	4.5	4.2	4.0	4.7	5.8	6.0	5.5	5.3	
Industrial prod. index	% change	8.1	4.4	4.9	2.3	-5.2	1.3	1.4	5.5	4.0	
Capacity util. rate - mfg.	%	82.6	82.0	81.4	81.1	75.4	73.9	73.4	76.1	78.1	
Housing starts	Millions	1.47	1.62	1.64	1.57	1.60	1.70	1.85	1.89	1.86	
Light motor vehicle sales		15.13	15.52	16.90	17.36	17.12	16.79	16.65	17.06	17.61	
North Amer. produced		13.19	13.48	14.41	14.48	14.04	13.50	13.34	13.68	14.12	
Other		1.95	2.03	2.49	2.87	3.08	3.30	3.31	3.38	3.50	
<b>Income and Saving</b>											
Nominal GNP	Bill. \$	8337.3	8768.3	9302.2	9855.9	10135.9	10502.3	11020.9	11743.0	12372.6	
Nominal GNP	% change	5.8	5.5	6.5	4.7	2.6	3.8	5.9	6.2	5.0	
Nominal personal income		6.4	7.0	5.5	7.1	2.4	2.4	3.9	5.5	5.7	
Real disposable income		4.3	5.6	2.8	4.4	1.3	3.5	3.4	4.7	4.2	
Personal saving rate	%	3.6	4.3	2.4	2.3	1.7	2.3	2.0	2.0	2.4	
Corp. profits, IVA & CCAdj.	% change	9.1	-10.0	9.6	-8.6	8.7	8.3	24.4	9.9	-2.0	
Profit share of GNP	%	10.4	9.1	9.2	8.3	7.6	8.6	9.6	10.6	10.1	
Excluding FR Banks		10.1	8.9	8.9	8.0	7.3	8.4	9.4	10.4	10.0	
Federal surpl./deficit	Bill. \$	-30.0	53.0	122.7	172.5	-2.8	-240.0	-417.8	-448.1	-299.7	
State & local surpl./def.		46.1	63.0	55.3	35.4	-3.0	-3.2	-2.0	-0.6	8.3	
Ex. social ins. funds		38.0	50.3	48.7	47.9	14.0	-6.6	-5.5	-4.1	4.7	
Gross natl. saving rate	%	17.5	18.2	18.0	18.0	16.4	14.7	13.3	13.8	14.5	
Net natl. saving rate		6.6	7.4	6.9	6.7	4.4	2.7	1.6	2.5	3.2	
<b>Prices and Costs</b>											
GDP chn.-wt. price index	% change	1.5	1.1	1.6	2.2	2.4	1.4	1.6	1.0	1.1	
Gross Domestic Purchases chn.-wt. price index		1.0	0.7	2.0	2.4	1.6	1.7	1.6	1.2	0.9	
PCE chn.-wt. price index		1.3	0.9	2.1	2.3	1.6	1.8	1.4	1.1	0.9	
Ex. food and energy		1.4	1.4	1.6	1.5	2.1	1.6	0.9	1.1	1.0	
CPI		1.9	1.5	2.6	3.4	1.8	2.2	1.9	1.4	1.1	
Ex. food and energy		2.2	2.3	2.0	2.6	2.7	2.0	1.2	1.4	1.4	
ECI, hourly compensation <sup>3</sup>		3.4	3.5	3.4	4.4	4.2	3.2	4.0	3.6	3.7	
Nonfarm business sector		2.0	2.8	3.2	2.1	2.9	4.3	5.3	3.0	1.6	
Output per hour		4.0	5.7	4.9	6.5	3.8	1.8	3.6	3.3	3.6	
Compensation per Hour		2.0	2.7	1.6	4.3	0.8	-2.4	-1.6	0.4	2.0	
Unit labor cost											

1. Changes are from fourth quarter to fourth quarter.

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

3. Private-industry workers.

Strictly Confidential <FR>  
Class II FOMC

March 11, 2004

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

Item	Units	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2
<b>Expenditures</b>											
Nominal GDP	Bill. \$	10024.8	10088.2	10096.2	10193.9	10329.3	10428.3	10542.0	10623.7	10735.8	10846.7
Real GDP	Bill. Ch. \$	9882.2	9866.3	9834.6	9883.6	9997.9	10045.1	10128.4	10160.8	10210.4	10288.3
Real GDP	% change	-0.2	-0.6	-1.3	2.0	4.7	1.9	3.4	1.3	2.0	3.1
Gross domestic purchases		-0.7	-0.4	-0.8	2.4	5.2	3.1	3.4	2.7	1.1	4.3
Final sales		1.4	0.7	-0.7	3.2	2.6	1.3	1.8	1.7	2.7	3.3
Priv. dom. final purchases		-0.1	-0.0	0.5	2.8	2.9	2.2	1.7	2.2	2.3	3.8
Personal cons. expenditures		0.5	2.3	1.9	6.2	4.1	2.6	2.0	2.2	2.5	3.3
Durables		1.7	9.8	0.7	27.3	1.6	0.5	5.0	0.3	0.5	17.7
Nondurables		0.4	-1.1	2.9	4.7	6.1	0.4	0.2	4.6	5.7	1.2
Services		0.3	2.4	1.6	2.8	3.8	4.1	2.2	1.5	1.5	1.7
Business fixed investment		-4.5	-13.6	-8.4	-14.0	-7.0	-3.0	-1.1	-0.1	-0.6	7.0
Equipment & Software		-4.0	-16.4	-12.2	-4.1	-0.2	1.2	3.7	1.7	0.5	8.0
Nonres. structures		-5.9	-5.6	2.2	-35.3	-23.9	-14.5	-14.6	-5.6	-4.0	3.9
Residential structures		2.6	3.7	3.1	-2.5	8.7	8.9	4.2	6.8	4.5	4.5
Exports		-4.5	-13.4	-17.7	-9.8	4.4	8.7	4.3	-3.7	-2.0	-1.1
Imports		-6.2	-8.6	-10.8	-3.8	8.4	17.1	4.1	8.2	-6.8	9.1
Gov't. cons. & investment		5.8	5.8	-4.1	7.4	4.6	4.0	2.5	7.1	-0.4	7.4
Federal		8.9	6.7	0.0	9.9	8.4	10.5	3.9	18.2	-0.2	23.5
Defense		7.7	2.6	2.4	14.2	8.2	9.5	4.5	22.1	-5.6	41.9
State & local		4.3	5.3	-6.1	6.1	2.7	0.7	1.7	1.5	-0.5	-0.8
Change in bus. inventories	Bill. Ch. \$	4.3	-28.8	-44.0	-75.5	-23.5	-8.0	32.8	21.5	1.6	-4.5
Nonfarm		-2.1	-26.9	-45.8	-70.3	-28.6	4.2	36.0	25.4	0.3	-2.4
Net exports		-385.9	-391.7	-401.3	-413.4	-432.1	-467.6	-471.9	-511.5	-490.0	-526.0
Nominal GDP	% change	2.9	2.6	0.3	3.9	5.4	3.9	4.4	3.1	4.3	4.2
GDP Gap <sup>1</sup>	%	-0.8	0.2	1.3	1.7	1.4	1.8	1.9	2.4	2.9	3.1
<b>Employment and Production</b>											
Nonfarm payroll employment	Millions	132.5	132.2	131.8	130.9	130.4	130.4	130.3	130.2	130.0	129.9
Unemployment rate	%	4.2	4.4	4.8	5.6	5.7	5.8	5.7	5.9	5.8	6.1
Industrial prod. index	% change	-6.3	-5.0	-5.2	-4.5	1.9	4.2	1.2	-1.9	0.9	-4.0
Capacity util. rate - mfg.	%	77.5	76.0	74.6	73.5	73.7	74.1	74.2	73.5	73.5	72.7
Housing starts	Millions	1.61	1.63	1.60	1.57	1.72	1.68	1.70	1.74	1.74	1.74
Light motor vehicle sales		17.07	16.70	16.18	18.54	16.47	16.52	17.56	16.62	15.96	16.37
North Amer. produced		14.17	13.65	13.20	15.15	13.17	13.24	14.22	13.36	12.60	13.06
Other		2.90	3.06	2.98	3.39	3.30	3.28	3.34	3.27	3.36	3.31
<b>Income and Saving</b>											
Nominal GNP	Bill. \$	10052.1	10115.5	10107.8	10268.3	10351.3	10435.9	10560.5	10661.6	10763.7	10880.0
Nominal GNP	% change	1.8	2.5	-0.3	6.5	3.3	3.3	4.9	3.9	3.9	4.4
Nominal personal income		4.6	1.2	1.7	2.0	1.5	5.0	1.4	1.7	3.0	4.4
Real disposable income		-0.3	-1.4	12.2	-4.4	10.6	4.1	-0.9	0.6	2.4	4.9
Personal saving rate	%	1.9	1.1	2.8	1.0	2.5	2.8	2.1	1.8	1.9	2.3
Corp. profits, IVA & CCAdj.	% change	-18.0	-3.8	-17.4	114.5	7.9	10.3	-0.9	16.5	-3.3	48.1
Profit share of GNP	%	7.5	7.4	7.1	8.4	8.5	8.6	8.5	8.8	8.6	9.4
Excluding FR Banks		7.2	7.1	6.8	8.2	8.3	8.4	8.3	8.6	8.4	9.2
Federal surpl./deficit	Bill. \$	156.1	128.9	-80.1	-2.8	-188.8	-232.0	-242.9	-296.3	-320.4	-424.7
State & local surpl./def.		36.1	24.6	11.6	-3.0	-7.4	-11.9	6.8	-0.4	-40.6	-14.7
Ex. social ins. funds		33.1	21.3	8.1	-6.6	-10.8	-15.3	3.4	-3.8	-44.0	-18.1
Gross natl. saving rate	%	17.1	16.3	15.9	16.1	15.3	15.1	14.4	13.8	12.9	13.2
Net natl. saving rate		5.6	4.4	3.3	4.4	3.5	3.2	2.5	1.8	0.9	1.4
<b>Prices and Costs</b>											
GDP chn.-wt. price index	% change	3.2	3.2	1.6	1.6	1.1	1.5	1.5	1.7	2.3	1.1
Gross Domestic Purchases chn.-wt. price index		2.6	2.3	1.0	0.5	1.0	2.4	1.6	1.7	3.4	0.4
PCE chn.-wt. price index		3.2	2.5	0.5	0.4	0.7	2.9	2.0	1.7	2.8	0.5
Ex. food and energy		2.8	1.9	1.3	2.5	1.0	1.9	2.0	1.5	0.9	0.8
CPI		3.7	3.2	1.1	-0.7	1.4	3.4	2.2	2.0	3.8	0.7
Ex. food and energy		2.9	2.6	2.8	2.4	2.1	2.3	2.1	1.7	1.3	1.0
ECI, hourly compensation <sup>2</sup>		4.6	3.7	3.9	4.4	3.6	4.4	2.5	3.0	5.5	3.4
Nonfarm business sector											
Output per hour		-0.1	3.1	1.6	7.0	9.8	0.7	4.5	2.3	3.4	6.2
Compensation per hour		5.6	2.4	3.0	4.0	1.2	2.3	1.3	2.2	4.0	4.9
Unit labor cost		5.7	-0.7	1.3	-2.8	-7.8	1.6	-3.1	-0.1	0.6	-1.3

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

2. Private-industry workers.

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

March 11, 2004

Item	Units	Projected											
		2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2005 Q4	2005 Q4
<b>EXPENDITURES</b>													
Nominal GDP	Bill. \$	11107.0	11251.9	11433.2	11596.6	11758.6	11931.4	12093.0	12244.6	12397.4	12549.6		
Real GDP	Bill. Ch. \$	10493.1	10596.3	10711.8	10840.3	10982.0	11124.7	11238.2	11348.9	11460.2	11570.3		
Real GDP	% change	8.2	4.0	4.4	4.9	5.3	5.3	4.1	4.0	4.0	3.9		
Gross domestic purchases		7.0	4.1	4.7	5.1	5.3	5.0	4.2	4.2	4.0	3.7		
Final sales		8.3	3.1	3.7	5.4	4.8	5.2	2.9	4.0	4.2	4.4		
Priv. dom. final purchases		8.4	3.9	4.2	6.1	5.5	5.5	3.3	4.7	4.7	4.6		
Personal cons. expenditures		6.9	2.8	3.4	4.8	4.4	4.2	4.1	4.0	4.0	3.8		
Durables		28.0	0.1	-3.2	8.7	8.1	7.5	7.7	7.2	6.7	6.3		
Nondurables		7.3	5.3	6.0	6.0	5.4	5.1	5.0	5.0	5.0	4.9		
Services		2.8	2.2	3.6	3.4	3.1	3.1	2.9	2.9	2.9	2.7		
Business fixed investment		12.8	10.5	10.1	14.7	15.4	18.0	-0.2	11.7	12.0	12.1		
Equipment & Software		17.6	15.0	15.5	18.1	18.4	21.7	-1.3	13.7	13.8	13.8		
Nonres. structures		-1.8	-3.2	-6.8	3.1	4.9	5.1	4.1	4.5	5.3	6.0		
Residential structures		21.9	7.9	4.1	6.9	0.6	-1.1	-0.4	-0.7	-0.4	-0.1		
Exports		9.9	20.5	4.6	11.9	12.2	14.3	8.7	11.1	10.8	12.6		
Imports		0.8	16.0	6.6	11.1	9.7	8.9	8.0	10.4	8.9	8.6		
Gov't. cons. & investment		1.8	0.3	2.9	3.1	1.6	1.8	1.9	2.0	2.1	2.2		
Federal		1.2	1.6	7.7	6.5	2.0	1.9	1.7	1.8	1.6	1.9		
Defense		-1.3	4.3	7.8	8.1	1.4	1.3	1.5	1.7	1.3	1.8		
State & local		2.1	-0.6	0.2	1.1	1.4	1.7	2.0	2.1	2.3	2.4		
Change in bus. inventories	Bill. Ch. \$	-9.1	13.8	32.1	19.4	33.9	36.8	71.6	71.6	65.2	51.1		
Nonfarm		-5.9	14.9	33.0	21.3	34.1	36.4	72.0	72.0	65.4	50.9		
Net exports		-505.2	-514.0	-527.5	-539.5	-545.6	-543.0	-551.7	-563.7	-570.5	-570.6		
Nominal GDP	% change	10.0	5.3	6.6	5.8	5.7	6.0	5.5	5.1	5.1	5.0		
GDP Gap <sup>1</sup>	%	2.2	2.2	2.0	1.8	1.4	1.0	0.9	0.8	0.7	0.7		
<b>EMPLOYMENT AND PRODUCTION</b>													
Nonfarm payroll employment	Millions	129.8	130.0	130.2	130.5	131.3	132.3	133.3	134.1	134.9	135.5		
Unemployment rate	%	6.1	5.9	5.6	5.6	5.5	5.5	5.4	5.3	5.3	5.2		
Industrial prod. index	% change	3.8	5.4	7.0	5.7	4.5	4.7	4.3	3.8	3.8	3.9		
Capacity util. rate - mfg.	%	73.2	74.1	75.0	75.9	76.4	77.0	77.5	77.9	78.3	78.7		
Housing starts	Millions	1.88	2.03	1.90	1.89	1.89	1.89	1.88	1.87	1.86	1.85		
Light motor vehicle sales		17.42	16.84	16.47	17.00	17.37	17.42	17.51	17.57	17.64	17.73		
North Amer. produced		14.07	13.64	13.26	13.61	13.91	13.94	14.03	14.09	14.15	14.20		
Other		3.36	3.21	3.20	3.39	3.46	3.48	3.48	3.48	3.49	3.53		
<b>INCOME AND SAVING</b>													
Nominal GNP	Bill. \$	11144.8	11295.1	11490.5	11665.0	11821.5	11995.1	12153.4	12302.0	12445.6	12589.4		
Nominal GNP	% change	10.1	5.5	7.1	6.2	5.5	6.0	5.4	5.0	4.8	4.7		
Nominal personal income		4.3	3.8	4.6	5.7	5.7	6.1	6.7	5.7	5.4	5.2		
Real disposable income		6.3	-0.0	4.7	4.2	5.1	4.9	4.6	4.3	4.1	3.9		
Personal saving rate	%	2.3	1.6	1.9	1.8	2.0	2.2	2.3	2.4	2.4	2.5		
Corp. profits, IVA & CCAdj.	% change	46.0	14.5	15.8	9.9	6.4	7.7	-4.5	-1.6	-2.5	0.6		
Profit share of GNP	%	10.1	10.3	10.5	10.6	10.6	10.7	10.4	10.2	10.0	9.9		
Excluding FR Banks		9.9	10.1	10.3	10.4	10.4	10.5	10.2	10.1	9.9	9.8		
Federal surpl./deficit	Bill. \$	-499.4	-426.5	-473.8	-477.4	-442.6	-398.3	-343.2	-297.8	-279.0	-278.9		
State & local surpl./def.		13.1	34.1	-1.9	1.8	-4.2	2.0	5.5	5.9	9.5	12.4		
Ex. social ins. funds		9.6	30.6	-5.4	-1.7	-7.7	-1.6	1.9	2.3	5.9	8.8		
Gross natl. saving rate	%	13.2	13.7	13.4	13.6	13.9	14.3	14.3	14.5	14.5	14.6		
Net natl. saving rate	%	1.6	2.4	2.1	2.3	2.7	3.1	3.1	3.2	3.2	3.3		
<b>PRICES AND COSTS</b>													
GDP chn.-wt. price index	% change	1.6	1.3	2.1	0.9	0.4	0.7	1.3	1.1	1.1	1.1		
Gross Domestic Purchases chn.-wt. price index		1.8	1.0	2.8	1.2	0.3	0.6	1.1	0.8	0.9	0.9		
PCE chn.-wt. price index		1.8	0.7	2.6	1.3	0.1	0.6	0.8	0.9	0.9	0.9		
Ex. food and energy		1.0	0.7	1.3	1.1	1.0	1.0	1.0	1.0	1.0	1.0		
CPI		2.4	0.7	3.3	1.4	0.2	0.7	1.0	1.1	1.1	1.2		
Ex. food and energy		1.5	0.8	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4		
ECI, hourly compensation <sup>2</sup>		4.2	2.9	3.4	3.6	3.6	3.7	3.7	3.7	3.7	3.7		
Nonfarm business sector		9.5	2.1	3.5	3.2	3.0	2.3	0.7	1.4	1.9	2.3		
Output per hour		3.3	2.2	3.1	3.4	3.4	3.5	3.5	3.6	3.6	3.6		
Compensation per hour		-5.6	0.1	-0.3	0.2	0.4	1.2	2.8	2.1	1.7	1.3		
Unit labor cost													

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	01Q4/ 00Q4	02Q4/ 01Q4	03Q4/ 02Q4	Projected
<b>Real GDP Gross dom. purchases</b>	-1.3 -0.9	2.0 2.5	4.7 5.4	1.9 3.2	3.4 3.5	1.3 2.8	2.0 1.2	3.1 4.4	8.2 7.4	-0.0 0.1	2.8 3.7	4.3 4.3		
<b>Final sales Priv. dom. final purchases</b>	-0.8 0.4	3.2 2.4	2.7 2.5	1.3 1.9	1.8 1.5	1.7 1.9	2.7 1.9	3.3 3.3	8.3 7.2	1.1 0.7	1.9 1.9	4.3 3.9		
<b>Personal cons. expenditures</b>	1.3 0.1 0.6 0.6 0.6	4.2 2.1 0.9 1.2 1.2	2.9 0.1 0.1 0.1 1.6	1.8 0.4 0.1 0.1 1.7	1.4 0.4 0.0 0.0 0.9	1.6 0.0 0.0 0.1 0.9	1.8 1.4 1.4 1.1 0.7	2.3 2.3 2.2 1.5 0.7	4.9 2.2 0.8 0.3 1.2	1.8 0.8 0.2 0.3 0.7	1.9 0.8 0.2 0.6 1.2	2.7 0.9 1.0 0.9 0.9		
<b>Durables</b>														
<b>Nondurables</b>														
<b>Services</b>														
<b>Business fixed investment</b>	-1.0 -1.1 -0.4 -0.4 -0.1	-1.7 -0.8 -0.0 -0.8 -0.1	-0.8 -0.3 -0.1 -0.4 0.4	-0.3 -0.1 0.3 -0.4 0.2	-0.1 -0.1 0.1 -0.4 0.4	-0.1 0.0 0.1 -0.1 0.3	-0.0 0.0 0.1 -0.1 0.2	-0.1 0.0 0.1 -0.1 0.2	0.7 0.7 0.6 0.1 0.2	1.2 1.2 1.3 0.0 1.1	0.7 0.7 -0.8 -0.4 0.1	-1.3 -0.3 -0.8 -0.4 0.1	-0.3 0.7 -0.8 -0.4 0.3	0.7 0.7 0.8 0.5 0.5
<b>Equipment &amp; Software</b>														
<b>Nonres. structures</b>														
<b>Residential structures</b>														
<b>Net exports</b>	-0.4 -2.0 1.6	-0.5 -1.0 0.5	-0.7 0.4 -1.1	-1.3 0.8 -2.1	-0.2 0.4 -0.6	-0.2 0.4 -1.1	-1.5 -0.4 -1.1	0.8 -0.2 1.0	-1.3 -0.2 -1.2	0.8 0.9 -0.1	-0.2 -1.3 -1.1	-0.9 0.3 -1.2	-0.0 0.6 -0.6	
<b>Exports</b>														
<b>Imports</b>														
<b>Government cons. &amp; invest.</b>	-0.7 0.0 0.1 -0.1 -0.7	1.3 0.6 0.5 0.0 0.7	0.9 0.5 0.3 0.2 0.3	0.7 0.6 0.4 0.2 0.1	0.5 0.3 0.2 0.1 0.1	1.3 1.1 0.9 0.3 0.2	-0.1 0.1 0.2 0.2 0.2	1.4 1.5 1.6 0.2 0.1	0.3 0.1 -0.1 0.3 -0.1	0.3 0.4 -0.1 0.2 0.3	0.6 0.4 0.2 0.1 0.2	0.8 0.6 0.4 0.2 0.2	0.4 0.4 0.4 0.0 0.0	
<b>Federal</b>														
<b>Defense</b>														
<b>Nondefense</b>														
<b>State and local</b>														
<b>Change in bus. inventories</b>	-0.5 -0.7 0.1	-1.2 -0.9 0.3	2.0 1.6 0.4	0.6 1.3 -0.6	1.6 1.3 0.3	-0.4 -0.4 -0.0	-0.7 -0.9 0.2	-0.2 -0.1 -0.1	-0.1 -0.1 -0.1	-1.2 -1.1 0.0	0.9 0.9 0.1	-0.0 -0.1 0.0		
<b>NonFarm</b>														
<b>Farm</b>														

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	Projected								Projected	
	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2005 Q4
Real GDP										
Gross dom. purchases	4.0	4.4	4.9	5.3	5.3	4.1	4.0	3.9	4.3	4.0
Final sales	4.3	4.9	5.3	5.6	5.2	4.4	4.2	3.9	4.3	4.2
Priv. dom. final purchases	3.2	3.7	5.3	4.8	5.2	2.9	4.0	4.4	4.3	3.9
Personal cons. expenditures	3.4	3.6	5.2	4.7	4.8	2.9	4.0	4.1	3.9	4.6
Durables	2.0	2.4	3.4	3.1	2.9	2.9	2.8	2.6	2.7	2.9
Nondurables	0.0	-0.3	0.7	0.7	0.6	0.6	0.6	0.5	0.9	0.4
Services	1.0	1.2	1.2	1.1	1.0	1.0	1.0	1.0	1.0	1.1
Business fixed investment	0.9	1.5	1.4	1.3	1.3	1.2	1.2	1.2	0.9	1.4
Equipment & Software	1.0	1.0	1.5	1.5	1.8	-0.0	1.2	1.3	0.7	1.5
Nonresidential structures	-0.1	-0.2	0.1	0.1	1.4	1.7	-0.1	1.2	1.2	0.8
Residential structures	0.4	0.2	0.4	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Net exports	-0.3	-0.5	-0.4	-0.2	0.1	-0.3	-0.4	-0.2	0.0	-0.2
Exports	-1.8	0.4	1.1	1.2	1.4	0.9	1.1	1.1	0.6	1.1
Imports	-2.1	-0.9	-1.6	-1.4	-1.3	-1.2	-1.5	-1.3	-0.6	-1.3
Government cons. & invest.	0.1	0.5	0.6	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Federal	0.1	0.5	0.4	0.1	0.1	0.1	0.1	0.1	0.4	0.3
Defense	0.2	0.3	0.4	0.1	0.1	0.1	0.1	0.1	0.4	0.2
Nondefense	-0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1
State and local	-0.1	0.0	0.1	0.2	0.2	0.2	0.2	0.3	0.0	0.3
Change in bus. inventories	0.8	0.7	-0.5	0.5	0.1	1.2	0.0	-0.2	-0.5	0.1
Nonfarm	0.8	0.7	-0.4	0.5	0.1	1.2	0.0	-0.2	-0.1	0.2
Farm	0.1	0.1	-0.0	0.1	0.0	-0.0	0.0	0.0	0.1	0.0

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

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

Item	Fiscal year				2003				2004				2005			
	2002 <sup>a</sup>	2003 <sup>a</sup>	2004	2005	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget</b>																
Receipts <sup>1</sup>	1,853	1,782	1,820	2,019	398	528	429	441	403	517	460	465	439	604	510	509
Outlays <sup>1</sup>	2,011	2,158	2,293	2,396	543	544	534	569	581	578	565	604	601	594	597	618
Surplus/deficit <sup>1</sup>	-158	-375	-473	-377	-145	-17	-105	-129	-178	-62	-104	-139	-162	11	-87	-108
On-budget	-317	-536	-627	-556	-169	-91	-113	-178	-200	-134	-115	-181	-201	-69	-105	-156
Off-budget	160	161	154	179	24	75	9	50	22	72	11	41	39	80	18	48
Means of financing																
Borrowing	221	374	485	403	64	106	108	119	149	102	115	131	154	28	89	84
Cash decrease	-17	26	-1	-9	20	-17	-5	2	14	-26	9	6	0	-30	15	15
Other <sup>2</sup>	-46	-24	-11	-17	62	-73	2	8	15	-15	-20	2	7	-9	-17	9
Cash operating balance, end of period	61	35	36	45	13	30	35	33	20	45	36	30	30	60	45	30
<b>NIPA federal sector</b>																
Receipts	1,895	1,843	1,877	2,098	1,864	1,864	1,784	1,871	1,852	1,870	1,915	1,981	2,087	2,142	2,182	2,206
Expenditures	2,062	2,228	2,332	2,428	2,184	2,289	2,284	2,299	2,326	2,348	2,358	2,380	2,430	2,440	2,461	2,485
Consumption expenditures	573	649	700	735	636	669	672	673	700	712	716	721	736	745	750	
Defense	370	426	467	489	409	448	444	449	466	476	478	480	489	492	495	498
Nondefense	202	223	233	246	227	221	229	224	234	236	238	241	247	248	250	252
Other spending	1,489	1,579	1,632	1,692	1,548	1,620	1,612	1,625	1,626	1,642	1,659	1,694	1,700	1,716	1,735	
Current account surplus	-167	-385	-455	-330	-320	-425	-499	-428	-474	-477	-443	-398	-343	-298	-279	
Gross investment	87	92	102	105	87	96	97	100	100	103	104	104	105	105	106	107
Gross saving less gross investment <sup>3</sup>	-165	-387	-464	-339	-318	-430	-505	-436	-482	-487	-453	-408	-353	-308	-289	-289
<b>Fiscal indicators<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-107	-302	-405	-311	-230	-332	-429	-359	-418	-434	-407	-373	-324	-282	-266	-268
Change in HEB, percent of potential GDP	1.9	1.7	0.7	-0.9	0.1	0.9	0.8	-0.7	0.5	0.1	-0.3	-0.3	-0.4	-0.4	-0.2	-0.0
Fiscal impetus (FI) percent of GDP	1.0	1.2	1.0	-0.2	0.1	0.5	0.4	0.3	0.3	0.2	0.1	0.2	-0.4	0.0	0.0	0.0

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

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

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

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

a-Actual

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

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

March 11, 2004

Period <sup>1</sup>	Total	Federal government	Nonfederal				State and local governments	Business	Consumer credit	Home mortgages	Households	Nonfederal	Memo: Nominal GDP
			Total	Federal government	Households	Nonfederal							
<i>Year</i>													
1998	6.9	-1.4	9.7	8.2	8.6	7.3	12.2	6.3	5.7	10.6	7.8	10.6	6.3
1999	6.3	-1.9	8.8	8.2	9.1	7.8	10.6	3.4	6.3	9.5	10.7	9.5	4.6
2000	4.9	-8.0	8.4	8.7	8.3	10.7	9.5	1.3	4.6	6.0	8.0	6.0	2.4
2001	6.3	-0.2	7.7	9.1	10.0	8.0	8.9	8.9	8.9	11.1	11.1	11.1	4.2
2002	7.1	7.6	7.0	10.0	12.5	4.4	2.8	5.2	5.2	3.9	8.2	5.5	5.9
2003	8.1	10.9	7.5	10.3	12.5	4.4	2.8	5.3	5.3	5.5	5.4	5.4	6.0
2004	8.2	12.3	7.3	9.1	10.6	5.2	3.9	6.1	6.1	6.2	6.2	6.2	5.2
2005	7.1	7.9	6.9	7.8	8.5	6.1	6.2	4.6	4.6	4.6	4.6	4.6	5.2
<i>Quarter</i>													
2003:1	6.5	4.5	6.9	9.9	12.1	4.2	3.5	5.7	5.7	5.9	12.3	12.3	4.2
2	11.3	20.4	9.4	11.8	13.8	6.1	6.1	6.1	6.1	3.0	6.1	6.1	10.0
3	7.0	8.2	6.8	9.9	11.5	6.1	3.9	3.9	3.9	3.0	7.9	7.9	5.3
4	6.6	9.0	6.1	8.3	10.5	10.5	4.4	4.4	4.4	4.9	4.9	4.9	6.6
2004:1	8.0	12.9	6.9	8.9	10.6	10.6	5.1	5.1	5.1	4.8	4.8	4.8	5.8
2	8.7	17.0	6.8	9.0	10.6	10.6	5.4	5.4	5.4	5.6	5.6	5.6	5.7
3	7.6	7.8	7.5	9.0	10.3	10.3	5.6	5.6	5.6	6.0	6.0	6.0	6.0
4	7.7	9.5	7.3	8.3	9.4	9.4	6.2	6.2	6.2	6.3	6.3	6.3	6.0
2005:1	7.9	12.0	6.9	7.9	8.8	5.8	6.0	6.0	6.0	5.3	5.3	5.3	5.5
2	7.1	8.8	6.8	7.7	8.5	5.9	6.0	6.0	6.0	4.5	4.5	4.5	5.1
3	6.3	5.0	6.6	7.5	8.1	6.0	6.0	6.0	6.0	4.2	4.2	4.2	5.1
4	6.2	4.8	6.5	7.1	7.6	6.0	6.2	6.2	6.2	4.2	4.2	4.2	5.0

Note. Quarterly data are at seasonally adjusted annual rates.

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

2.6.3 FOF

**Strictly Confidential (FR)**  
**Class II FOMC**
**Flow of Funds Projections: Highlights**  
**(Billions of dollars at seasonally adjusted annual rates except as noted)**

March 11, 2004

Category	2002	2003	2004	2005	2003				2004				2005				
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<i>Net funds raised by domestic nonfinancial sectors</i>																	
1 Total	1331.7	1622.1	1756.3	1630.1	1470.7	1416.0	1723.4	1908.9	1692.9	1700.1	1774.2	1701.6	1524.6	1520.0			
2 Net equity issuance	-41.6	-49.1	-88.5	-79.0	-44.9	-34.2	-59.0	-78.0	-81.0	-136.0	-135.0	-65.0	-63.0	-53.0			
3 Net debt issuance	1373.3	1671.2	1844.8	1709.1	1515.6	1450.2	1782.4	1986.9	1773.9	1836.1	1909.2	1766.6	1587.6	1573.0			
<i>Borrowing sectors</i>																	
Nonfinancial business																	
4 Financing gap <sup>1</sup>	37.9	-38.7	-38.1	139.7	-77.9	-68.5	-53.1	-70.7	-35.7	7.1	91.9	136.3	165.0	165.4			
5 Net equity issuance	-41.6	-49.1	-88.5	-79.0	-44.9	-34.2	-59.0	-78.0	-81.0	-136.0	-135.0	-65.0	-63.0	-53.0			
6 Credit market borrowing	196.2	278.0	407.2	481.9	221.4	216.3	363.8	362.2	427.5	475.2	467.2	474.0	484.4	502.1			
Households																	
7 Net borrowing <sup>2</sup>	775.7	878.4	855.0	795.4	885.1	758.9	834.1	868.6	879.4	837.8	813.5	805.9	795.1	767.2			
8 Home mortgages	673.9	758.1	726.2	641.5	743.0	696.5	724.8	743.0	743.4	693.6	666.8	652.1	638.7	608.3			
9 Consumer credit	81.4	100.2	107.2	129.9	121.6	77.9	90.6	105.7	113.6	118.7	123.8	129.4	132.3	134.1			
10 Debt/DPI (percent) <sup>3</sup>	103.2	109.1	113.7	116.9	109.3	111.7	112.2	113.2	114.2	115.1	115.8	116.6	117.3	118.0			
State and local governments																	
11 Net borrowing	143.9	118.7	84.8	75.8	91.6	121.6	62.8	46.8	126.8	102.8	86.8	74.8	70.8	70.8			
12 Current surplus <sup>4</sup>	170.1	169.8	153.0	166.8	199.3	184.5	150.0	154.9	149.9	157.3	162.0	163.6	168.6	173.0			
Federal government																	
13 Net borrowing	257.5	396.0	497.9	356.0	317.5	353.4	521.7	709.4	340.2	420.3	541.8	412.0	237.4	232.9			
14 Net borrowing (n.s.a.)	257.5	396.0	497.9	356.0	107.6	118.6	149.4	102.3	115.1	131.1	154.4	28.0	89.3	84.2			
15 Unified deficit (n.s.a.)	230.6	394.7	483.5	345.9	104.5	128.7	178.2	61.8	104.2	139.2	161.9	-11.0	86.9	108.2			
<i>Depository institutions</i>																	
16 Funds supplied	482.5	479.9	462.3	507.3	152.6	391.0	516.7	443.5	499.9	389.0	511.0	515.9	566.5	436.0			
Memo (percentage of GDP)																	
17 Domestic nonfinancial debt <sup>5</sup>	190.7	196.0	199.6	203.7	196.2	197.2	197.8	199.1	200.3	201.2	202.4	203.6	204.5	205.2			
18 Domestic nonfinancial borrowing	13.1	15.2	15.8	13.9	13.6	12.9	15.6	17.1	15.1	15.4	15.8	14.4	12.8	12.5			
19 Federal government <sup>6</sup>	2.5	3.6	4.3	2.9	3.1	4.6	6.1	2.9	3.5	4.5	3.4	1.9	1.9	1.9			
20 Nonfederal	10.6	11.6	11.5	11.0	10.8	9.7	11.0	11.0	12.2	11.9	11.3	11.1	10.9	10.7			

Note. Data after 2003:Q4 are staff projections.

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

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

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

2.64 FOF

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

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

6. Excludes government-insured mortgage pool securities.

n.s.a. Not seasonally adjusted.

## International Developments

Economic activity among our foreign trading partners appears to be strengthening broadly in line with our previous expectations. Notwithstanding an upward revision to growth in the second half of last year, our outlook for future aggregate foreign growth is about unchanged from that in the January Greenbook. Similarly, our outlook for foreign consumer price inflation is little different, except for a slightly higher projection in the near term caused by the recent runup in oil and other commodity prices. The modest appreciation of the dollar over the intermeeting period has only slightly diminished the stimulus to our outlook for U.S. real net exports that stems from the sizable net depreciation of the dollar over the past two years.

### Summary of Staff Projections

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

Indicator	2003		Projection				
	H1	Q3	2003: Q4	2004			2005
				Q1	Q2	H2	
Foreign output	.8	4.2	4.5	3.7	3.8	3.8	3.5
<i>January GB</i>	.6	3.9	3.9	3.8	3.8	3.8	3.5
Foreign CPI	1.9	1.3	3.1	2.8	2.0	1.9	1.9
<i>January GB</i>	1.9	1.4	3.1	2.6	1.9	1.9	1.9

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

Prices for crude oil and many other commodities have increased appreciably over the intermeeting period. The spot price of West Texas intermediate has averaged more than \$36.50 per barrel since the beginning of March, about \$2 per barrel above its average in January and February. In line with quotes from futures markets, we have marked up our oil price projection about \$3 per barrel this year and nearly as much next year. Concerns about oil supplies appear to have figured prominently in these price increases, although strong demand has also played a role. For other commodities, particularly raw materials and industrial metals, increased demand (notably from China) appears to have been the primary force behind the runup in prices. Record-high shipping rates for bulk cargo and reports of bottlenecks in certain ports support the view that much of the rise in primary commodity prices has been driven by demand. Higher commodity prices have led us to mark up our projection for import prices.

Since the January FOMC meeting, the exchange value of the dollar has been unusually volatile and has risen about 2 percent on balance as measured by the staff's broad index. Our forecast for the path of the dollar begins at this higher level, and we have retained the slight downward tilt over the forecast period as the need to finance the large U.S. current account deficit will likely remain a

4½ percent over the forecast period. In Brazil, real GDP grew 6 percent in the fourth quarter, higher than we had anticipated in the January Greenbook. Nonetheless, we have tempered our outlook for Brazilian GDP growth, in large part because market interest rates have moved up following a pause in the central bank's lowering of policy interest rates.

### Prices of Internationally Traded Goods

After a 1½ percent (a.r.) increase in the fourth quarter of 2003, prices of imported core goods are projected to rise 6¼ percent in the current quarter. Monthly data from the BLS indicated that import prices stepped up markedly in January and February. Much of the increase reflected higher prices for industrial supplies, largely natural gas and metals, although prices in other categories also rose. For the remainder of the year, we project core import prices to rise at an annual rate of about 3½ percent. We have revised up our projection for core import price inflation in 2004 nearly 1 percentage point from the January Greenbook because of both the strong January and February data and the considerable rise in commodity prices over the intermeeting period. In 2005, core import price inflation is expected to fall sharply as commodity prices ease and the effects of the previous dollar depreciation wane.

### Selected Trade Prices

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

Trade category	2003		Projection				2005
	H1	Q3	2003: Q4	2004			
				Q1	Q2	H2	
<i>Exports</i>							
Core goods	3.5	1.1	5.4	6.6	3.4	.4	.4
<i>Imports</i>							
Non-oil core goods	2.5	.6	1.5	6.2	3.6	3.6	.5
Oil (dollars per barrel)	26.46	28.03	27.75	31.42	33.21	30.18	27.16

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.

We project prices of exported core goods to rise 6½ percent in the current quarter, even faster than in the fourth quarter. These price increases are driven by higher prices for agricultural products, especially soybeans and wheat, as well as higher prices for petroleum products and intermediate materials. Core export price inflation is projected to moderate in the second quarter and to fall

semiconductors are expected to grow at double-digit rates, reflecting a strong recovery in the global high-tech sector.

### Summary of Staff Projections for Trade in Goods and Services

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

Measure	2003		Projection				
	H1	Q3	2003: Q4	2004			2005
				Q1	Q2	H2	
Real exports	-1.5	9.9	20.5	4.6	11.9	13.2	10.8
<i>January GB</i>	<i>-1.5</i>	<i>9.9</i>	<i>17.9</i>	<i>7.6</i>	<i>12.0</i>	<i>13.3</i>	<i>11.1</i>
Real imports	.9	.8	16.0	6.6	11.1	9.3	9.0
<i>January GB</i>	<i>.9</i>	<i>.8</i>	<i>11.8</i>	<i>7.9</i>	<i>11.2</i>	<i>9.2</i>	<i>8.8</i>

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

Real imports of goods and services are estimated to have risen at an annual rate of 16 percent in the fourth quarter of 2003, well above the 12 percent pace we estimated in the January Greenbook. The upward revision is due mainly to imports in December, which came in notably stronger than expected. In the current quarter, real imports of goods and services are projected to expand at a more moderate, 6½ percent pace. As with exports, imports of goods and services edged down in January from their high level in December. Imports of core goods in January came in somewhat weaker than anticipated but were partially offset by stronger-than-expected imports of services, oil, and computers. As a consequence, we have revised down our projection for real import growth in the current quarter.

We expect real imports of goods and services to grow briskly in 2004 and 2005, but at a rate somewhat below that of real exports. Real imports of core goods are projected to grow at an average annual rate of 9½ percent over the rest of 2004 as the restraining influence of higher core import prices is more than offset by strong U.S. GDP growth. In 2005, core import growth is projected to slow slightly, reflecting the deceleration of U.S. economic activity. Real imports of services are projected to grow about 5 percent this year and next. Although the slowdown in U.S. GDP growth reduces the growth of services imports in 2005, this effect is offset by the diminishing drag from the previous depreciation of the dollar. As with exports, real imports of computers and semiconductors are projected to grow at double-digit rates over the forecast period.

Beyond the current quarter, our projection for real imports of goods and services is little changed from the January Greenbook, despite the downward revision to U.S. GDP growth and the upward revision to U.S. import price inflation. Based on the strength of imports in the fourth quarter, we have notched up the pace at which core imports are projected to return to the level consistent with their long-run relationship with U.S. GDP and relative prices.

### **Alternative Simulation**

We project that the United States will continue to grow faster than the rest of the world throughout the forecast period. This relatively favorable outlook for the U.S. economy may increase the appetite of investors for U.S. dollar assets relative to what 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 2004:Q2 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. This shock depresses net exports, lowering U.S. GDP growth 0.2 percentage point relative to baseline in 2004:H2, and about 0.5 percentage point in 2005. Core PCE inflation falls 0.1 percentage point below baseline in 2004:H2 because of the direct effect of lower prices for imported goods and services. In 2005, inflation is about 0.1 percentage point below baseline, reflecting in part the effects of reduced resource utilization on domestic prices.

#### **Alternative Simulation: 10 Percent Appreciation of the Broad Real Dollar**

(Percent change from previous period, annual rate)

Indicator and simulation	2004		2005	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	4.7	5.3	4.1	3.9
Dollar Appreciation	4.6	5.1	3.7	3.3
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	1.2	1.0	1.0	1.0
Dollar Appreciation	1.1	.9	.9	.9

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

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	Projected 2004	2005
<b>REAL GDP (1)</b>									
Total foreign	4.2	1.5	5.0	4.3	0.3	2.8	2.6	3.7	3.5
Industrial Countries of which:	3.4	2.7	4.4	3.7	0.6	2.5	1.8	2.9	2.8
Canada	4.4	4.4	5.9	4.2	-1.4	3.5	1.6	3.2	3.5
Japan	0.4	-1.2	0.4	3.8	-2.3	1.7	3.6	2.6	2.1
United Kingdom	3.4	2.8	3.3	2.9	-1.9	2.0	2.8	3.4	2.6
Euro Area (2)	3.2	2.0	3.9	2.7	0.8	1.1	0.6	2.1	2.0
Germany	1.7	0.7	3.3	1.9	0.5	0.5	0.0	2.0	1.6
Developing Countries	5.4	-0.3	6.1	5.3	-0.2	3.3	3.8	5.1	4.6
Asia	5.0	-2.2	8.7	6.2	-1.0	5.6	5.4	5.8	5.4
Korea	3.4	-5.2	13.8	5.1	4.2	7.0	1.3	5.2	5.2
China	8.7	9.5	4.1	8.0	7.0	8.0	9.9	8.3	7.7
Latin America	6.1	1.2	4.2	4.4	-1.3	1.3	2.1	4.6	3.9
Mexico	6.8	2.9	5.4	4.8	-1.3	1.8	2.0	5.1	4.2
Brazil	2.3	-1.7	3.5	3.8	-0.8	3.7	-0.2	3.0	3.0
<b>CONSUMER PRICES (3)</b>									
Industrial Countries of which:	1.5	0.9	1.1	1.7	0.9	2.1	1.3	1.3	1.3
Canada	1.0	1.1	2.4	3.1	-1.1	3.8	1.7	1.5	1.6
Japan	2.1	0.7	-1.1	-1.2	-1.0	-0.5	-0.4	-0.1	0.0
United Kingdom (4)	1.7	1.4	1.2	1.0	2.5	2.1	2.3	1.3	2.0
Euro Area (2)	1.5	0.8	1.5	2.5	1.5	1.5	1.9	1.8	1.6
Germany	1.5	0.3	1.1	1.7	1.5	1.2	1.2	1.1	1.0
Developing Countries	6.8	9.0	4.6	4.1	2.8	2.9	3.0	3.2	2.7
Asia	2.7	4.4	0.1	1.8	1.1	0.7	2.1	2.4	2.2
Korea	5.0	5.8	1.2	2.6	3.4	3.4	3.5	3.1	3.0
China	0.8	-1.2	-1.0	0.9	-0.1	-0.5	2.7	2.3	1.7
Latin America	15.5	15.4	12.5	8.4	5.3	6.5	4.9	4.5	3.5
Mexico	17.0	17.3	13.4	8.7	5.1	5.3	4.0	4.1	3.1
Brazil	4.6	2.0	8.4	6.4	7.5	10.7	11.5	6.0	5.2

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

2. Harmonized data for euro area from Eurostat.

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

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

Measure and country	2003				2004				Projected				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>REAL GDP (1)</b>																
Total foreign	1.2	0.4	4.2	4.5	3.7	3.8	3.7	3.7	3.6	3.6	3.5	3.4				
Industrial Countries of which:	1.6	0.1	1.8	3.5	2.7	2.9	2.9	2.9	2.9	2.9	2.8	2.8				
Canada	2.5	-1.0	1.3	3.8	2.9	3.2	3.3	3.3	3.6	3.6	3.4	3.4				
Japan	2.2	3.5	2.5	6.4	3.1	2.7	2.3	2.1	2.2	2.1	2.2	2.2				
United Kingdom	1.2	2.6	3.4	1.2	3.6	3.5	3.4	3.1	2.8	2.7	2.5	2.5				
Euro Area (2)	-0.1	-0.4	1.6	1.2	1.7	2.2	2.3	2.3	2.2	2.0	2.0	1.9				
Germany	-1.0	-0.6	0.8	0.9	1.6	2.2	2.2	2.1	1.8	1.6	1.5	1.4				
Developing Countries	0.6	0.8	7.9	5.9	5.1	5.0	5.0	5.0	4.7	4.7	4.5	4.4				
Asia	3.2	-3.4	15.6	7.0	5.8	5.8	5.8	5.8	5.6	5.6	5.2	5.1				
Korea	-1.6	-2.7	4.7	5.0	5.2	5.3	5.2	5.2	5.5	5.5	5.0	5.0				
China	16.3	-2.9	19.6	7.9	8.4	8.4	8.2	8.2	8.0	8.0	7.5	7.5				
Latin America	-2.4	4.6	1.2	5.3	4.8	4.7	4.6	4.6	3.9	3.9	3.9	3.9				
Mexico	-0.3	3.1	0.2	4.9	5.4	5.0	4.8	4.8	4.2	4.2	4.2	4.2				
Brazil	-3.2	-3.7	0.4	6.1	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0				
<b>CONSUMER PRICES (3)</b>																
Industrial Countries of which:	2.4	1.7	1.4	1.3	0.9	1.4	1.4	1.3	1.1	1.2	1.3	1.3				
Canada	4.5	2.8	2.1	1.7	1.1	1.8	1.7	1.5	1.2	1.4	1.6	1.6				
Japan	-0.3	-0.2	-0.5	-0.4	-0.4	-0.3	-0.1	-0.1	-0.1	-0.0	0.0	0.0				
United Kingdom (4)	1.5	1.3	1.4	1.3	1.3	1.8	1.7	1.7	1.7	1.8	1.9	2.0				
Euro Area (2)	2.3	1.9	2.0	1.9	1.9	2.0	2.0	1.8	1.6	1.5	1.6	1.6				
Germany	1.1	0.9	1.0	1.2	1.1	1.5	1.4	1.1	1.0	0.9	0.9	1.0				
Developing Countries	3.5	3.0	2.6	3.0	3.0	3.4	3.7	3.2	2.9	2.9	2.8	2.7				
Asia	1.3	1.1	2.1	2.1	2.0	2.8	3.1	2.4	2.2	2.1	2.1	2.2				
Korea	4.1	3.3	3.2	3.5	3.2	3.5	3.7	3.1	3.0	3.0	3.0	3.0				
China	0.5	0.6	0.9	2.7	3.1	3.7	3.7	2.3	1.8	1.8	1.8	1.7				
Latin America	7.1	6.4	5.4	4.9	4.7	4.8	4.5	4.5	4.1	3.8	3.7	3.5				
Mexico	5.5	4.7	4.1	4.0	4.3	4.5	4.4	4.1	3.6	3.3	3.2	3.1				
Brazil	15.7	17.0	15.3	11.5	6.7	5.3	5.9	6.0	5.6	5.6	5.5	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	Projected 2004	2005
<b>NIPA REAL EXPORTS and IMPORTS</b>									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.8	-1.1	-1.0	-0.9	-0.2	-0.9	-0.9	-0.3	-0.2
Exports of G&S	0.9	0.3	0.6	0.7	-1.3	0.3	0.6	1.1	1.1
Imports of G&S	-1.7	-1.4	-1.6	-1.6	-1.1	-1.2	-0.6	-1.3	-1.3
Percentage change, Q4/Q4									
Exports of G&S	8.3	2.6	5.6	6.5	-11.5	3.3	6.4	10.7	10.8
Services	0.4	4.4	5.3	1.8	-8.3	9.3	4.8	7.9	6.6
Computers	26.7	7.3	13.4	22.7	-22.8	-0.9	11.4	35.4	31.1
Semiconductors	21.1	9.5	34.6	27.6	-34.9	9.7	38.8	36.0	33.5
Other Goods 1/	9.8	1.2	3.3	5.9	-9.8	0.4	5.0	8.7	9.6
Imports of G&S	14.3	11.0	12.1	11.2	-7.4	9.4	4.4	9.1	9.0
Services	11.9	10.4	6.5	10.7	-4.6	6.7	0.2	4.9	5.0
Oil	4.2	4.2	-3.4	13.3	0.1	3.7	2.2	0.0	1.5
Computers	32.6	26.4	26.0	13.9	-12.9	13.5	16.9	38.6	31.1
Semiconductors	32.5	-7.7	34.2	22.8	-51.3	9.7	0.5	38.5	33.5
Other Goods 2/	13.1	11.2	12.9	10.5	-6.2	10.3	5.0	8.6	8.4
Billions of Chained 2000 Dollars									
Net Goods & Services	-104.6	-203.8	-296.3	-379.5	-398.1	-470.6	-508.8	-538.9	-564.1
Exports of G&S	943.7	966.5	1008.2	1096.3	1039.0	1014.2	1034.7	1144.9	1274.3
Imports of G&S	1048.3	1170.3	1304.5	1475.8	1437.1	1484.7	1543.5	1683.8	1838.5
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-127.7	-204.7	-290.8	-411.5	-393.7	-480.9	-547.2	-575.2	-606.9
Current Acct as Percent of GDP	-1.5	-2.3	-3.1	-4.2	-3.9	-4.6	-5.0	-4.9	-4.9
Net Goods & Services (BOP)	-107.0	-163.2	-261.2	-375.4	-357.8	-418.0	-489.9	-547.8	-570.0
Investment Income, Net	25.1	11.5	22.3	24.2	15.7	1.3	13.8	41.3	29.7
Direct Net	72.4	65.5	78.2	94.9	106.5	93.5	94.1	126.7	137.1
Portfolio, Net	-47.3	-54.1	-55.9	-70.7	-90.8	-92.2	-80.3	-85.4	-107.4
Other Income & Transfers, Net	-45.7	-53.0	-52.0	-60.3	-51.6	-64.1	-71.1	-68.7	-66.7

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2000								2001								2002												
	Q1				Q2				Q3				Q4				Q1				Q2				Q3				
	NIPA REAL EXPORTS and IMPORTS								Percentage point contribution to GDP growth								Billions of Chained 2000 Dollars, s.a.a.r.												
Net Goods & Services	-1.5	-0.9	-0.8	-0.1	0.5	-0.2	-0.4	-0.5	-0.2	-0.4	-0.4	-0.5	-0.7	-1.3	-0.2	4.4	8.7	4.3	4.4	2.9	1.6	1.6	4.4	4.4	-3.7				
Exports of G&S	0.7	-1.3	-1.1	-0.3	-0.5	-1.5	-2.0	-2.0	-1.0	-1.3	-1.6	-1.6	-0.5	-1.1	-0.8	-22.9	3.2	4.6	4.6	11.8	11.8	11.8	4.6	4.6	9.4				
Imports of G&S	-2.2	-2.2	-2.0	0.3	1.0	1.3	1.6	1.6	1.3	1.6	1.6	1.6	0.5	-1.1	-2.2	-22.2	40.5	11.8	11.8	11.8	10.8	10.8	10.8	10.8	10.8	14.6			
Exports of G&S Services	6.6	12.3	10.7	-2.7	-4.5	-13.4	-17.7	-17.7	-14.7	-14.7	-15.0	-15.0	-9.8	-4.4	-22.9	22.9	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6			
Services	1.4	8.4	-6.6	4.5	-2.0	-0.6	-14.7	-14.7	-14.7	-14.7	-18.6	-18.6	-18.6	-18.6	-22.2	3.2	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6			
Computers	32.7	47.0	30.1	-10.7	-7.7	-40.8	-20.1	-20.1	-20.1	-20.1	-20.1	-20.1	-20.1	-20.1	-22.2	40.5	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8			
Semiconductors	24.2	73.7	35.0	-8.9	-29.5	-54.8	-45.7	-45.7	-45.7	-45.7	-2.3	-2.3	-2.3	-2.3	-26.6	40.5	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8	11.8			
Other Goods 1/	5.9	7.5	16.0	-4.5	-2.7	-12.1	-16.6	-16.6	-16.6	-16.6	-7.4	-7.4	-7.4	-7.4	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8			
Imports of G&S Services	16.7	16.5	14.1	-1.6	-6.2	-8.5	-10.8	-10.8	-10.8	-10.8	-3.8	-3.8	-3.8	-3.8	-8.4	-8.4	-17.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	
Oil	20.9	10.6	14.3	-1.8	-3.2	-12.5	-18.1	-18.1	-18.1	-18.1	-6.9	-6.9	-6.9	-6.9	-19.3	-19.3	-3.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	
Computers	28.5	40.6	-2.6	-6.4	-23.3	-7.1	-26.8	-26.8	-26.8	-26.8	-3.7	-3.7	-3.7	-3.7	-19.3	-19.3	-35.3	-10.9	-10.9	-10.9	-10.9	-10.9	-10.9	-10.9	-10.9	-10.9	-10.9		
Semiconductors	-2.2	44.9	35.4	-12.3	-25.7	-20.5	-20.5	-20.5	-20.5	-20.5	-10.9	-10.9	-10.9	-10.9	-9.3	-9.3	-38.4	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	
Other Goods 2/	25.0	45.4	71.1	-26.9	-43.5	-70.4	-55.4	-55.4	-55.4	-55.4	-24.6	-24.6	-24.6	-24.6	-44.5	-44.5	-34.6	-6.5	-6.5	-6.5	-6.5	-6.5	-6.5	-6.5	-6.5	-6.5	-6.5	-6.5	
Net Goods & Services	-350.6	-374.5	-395.6	-397.2	-385.9	-391.7	-401.3	-401.3	-401.3	-401.3	-413.4	-413.4	-413.4	-413.4	-431.2	-431.2	-467.6	-471.9	-511.5	-511.5	-511.5	-511.5	-511.5	-511.5	-511.5	-511.5	-511.5	-511.5	
Exports of G&S	1060.9	1092.0	1120.0	1112.3	1099.6	1060.9	1010.6	1010.6	1010.6	1010.6	984.8	984.8	984.8	984.8	995.4	995.4	1016.5	1027.3	1017.5	1017.5	1017.5	1017.5	1017.5	1017.5	1017.5	1017.5	1017.5	1017.5	
Imports of G&S	1411.5	1466.5	1515.6	1509.5	1485.5	1452.7	1411.9	1411.9	1411.9	1411.9	1398.2	1398.2	1398.2	1398.2	1426.7	1426.7	1484.1	1499.2	1529.0	1529.0	1529.0	1529.0	1529.0	1529.0	1529.0	1529.0	1529.0	1529.0	
Billions of dollars, s.a.a.r.																													
US CURRENT ACCOUNT BALANCE	-380.1	-396.5	-434.3	-435.0	-416.0	-399.9	-414.5	-414.5	-414.5	-414.5	-426.9	-426.9	-426.9	-426.9	-491.3	-491.3	-490.9	-514.3	-514.3	-514.3	-514.3	-514.3	-514.3	-514.3	-514.3	-514.3	-514.3	-514.3	
Current Account as % of GDP	-3.9	-4.0	-4.4	-4.4	-4.4	-4.1	-4.0	-4.0	-4.0	-4.0	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7
Net Goods & Services (BOP)	-346.9	-364.5	-391.8	-398.4	-373.8	-357.8	-356.2	-356.2	-356.2	-356.2	-343.5	-343.5	-343.5	-343.5	-360.2	-360.2	-419.5	-427.9	-464.5	-464.5	-464.5	-464.5	-464.5	-464.5	-464.5	-464.5	-464.5	-464.5	-464.5
Investment Income, Net	19.9	23.2	15.8	37.8	8.6	8.2	-8.3	-8.3	-8.3	-8.3	54.3	54.3	54.3	54.3	2.2	2.2	-12.4	-1.9	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2
Direct Net Portfolio, Net	84.5	88.9	91.9	114.5	94.5	96.7	91.3	91.3	91.3	91.3	143.5	143.5	143.5	143.5	95.7	95.7	85.6	87.7	104.9	104.9	104.9	104.9	104.9	104.9	104.9	104.9	104.9	104.9	104.9
Other Inc. & Transfers, Net	-64.5	-65.7	-76.1	-76.6	-86.0	-88.4	-99.6	-99.6	-99.6	-99.6	-89.2	-89.2	-89.2	-89.2	-93.5	-93.5	-98.1	-89.6	-87.7	-87.7	-87.7	-87.7	-87.7	-87.7	-87.7	-87.7	-87.7	-87.7	

1. Merchandise exports excluding computers and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	Projected											
	2003				2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>NIPA REAL EXPORTS and IMPORTS</b>												
Net Goods & Services	0.8	-1.3	0.8	-0.3	-0.5	-0.4	-0.2	0.1	-0.3	-0.4	-0.2	0.0
Exports of G&S	-0.2	-0.1	0.9	-1.8	0.4	-1.1	-1.2	1.4	0.9	1.1	1.1	1.3
Imports of G&S	-1.0	-1.2	-0.1	-2.1	-0.9	-1.6	-1.4	-1.3	-1.2	-1.5	-1.3	-1.3
Exports of G&S Services	-2.0	-1.1	9.9	20.5	4.6	11.9	12.2	14.3	8.7	11.1	10.8	12.6
Services	-10.2	0.3	12.7	18.7	6.4	9.0	8.5	7.9	7.2	6.7	6.3	6.0
Computers	-7.4	-11.2	48.7	25.9	26.3	38.6	38.6	23.9	23.9	33.6	33.6	33.6
Semiconductors	4.4	30.1	35.2	46.4	21.6	41.2	41.2	26.3	26.3	36.1	36.1	36.1
Other Goods 1/	0.1	-3.0	4.8	19.3	1.2	9.7	10.4	14.0	7.1	9.8	9.3	12.4
Imports of G&S Services	-6.8	9.1	0.8	16.0	6.6	11.1	9.7	8.9	8.0	10.4	8.9	8.6
Oil	-7.6	-10.9	13.5	7.6	0.9	5.7	6.4	6.7	5.3	4.9	4.9	4.7
Computers	-12.7	55.8	-3.2	-17.0	1.1	16.3	-1.0	-14.0	3.3	19.9	-3.5	-11.2
Semiconductors	-0.4	18.9	15.8	36.2	38.6	38.6	38.6	23.9	23.9	33.5	33.5	33.5
Other Goods 2/	-0.4	3.1	-1.5	0.8	31.1	41.1	41.1	26.2	26.2	36.0	36.0	36.0
Net Goods & Services	-490.1	-526.0	-505.2	-514.0	-527.5	-539.5	-545.6	-543.0	-551.7	-563.7	-570.5	-570.6
Exports of G&S	1012.4	1009.6	1033.7	1083.0	1095.2	1126.3	1159.2	1198.6	1224.0	1256.5	1289.0	1327.8
Imports of G&S	1502.5	1535.7	1538.9	1597.0	1622.7	1665.9	1704.9	1741.7	1775.7	1820.2	1859.6	1898.4
<b>Billions of Chained 2000 Dollars, s.a.a.r.</b>												
US CURRENT ACCOUNT BALANCE	-554.5	-557.2	-541.5	-535.6	-569.1	-582.5	-579.4	-598.7	-599.6	-611.8	-617.7	
Current Account as % of GDP	-5.2	-5.1	-4.9	-4.8	-5.0	-4.9	-5.0	-4.9	-5.0	-4.9	-4.9	-4.9
Net Goods & Services (BOP)	-486.2	-496.4	-486.6	-490.5	-527.8	-549.6	-556.8	-557.2	-563.2	-571.0	-574.1	-571.5
Investment Income, Net	6.3	12.1	15.3	21.5	35.6	46.7	41.2	41.9	38.7	35.7	26.6	18.0
Direct, Net	8.8	88.8	95.9	103.5	118.6	131.0	127.3	130.1	132.1	137.1	138.1	141.1
Portfolio, Net	-82.0	-76.7	-80.6	-82.0	-83.0	-84.4	-86.1	-88.2	-93.4	-101.4	-111.6	-123.1
Other Inc. & Transfers, Net	-74.6	-73.0	-70.2	-66.7	-76.9	-66.9	-66.9	-64.2	-74.2	-64.2	-64.2	-64.3

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

Confidential (FR) Class II FOMC

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March 12, 2004

## CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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### **Supplemental Notes**

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

March 12, 2004

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

Category	2003					2004		
	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar. <sup>P</sup>
Composite of current and expected conditions <sup>1</sup>	89.3	87.7	89.6	93.7	92.6	103.8	94.4	94.1
Current conditions <sup>1</sup>	99.7	98.4	99.9	102.5	97.0	109.5	103.6	105.7
Expected conditions <sup>1</sup>	82.5	80.8	83.0	88.1	89.8	100.1	88.5	86.6
Personal financial situation								
Now compared with 12 months ago <sup>2</sup>	109	106	111	107	105	119	111	115
Expected in 12 months <sup>2</sup>	124	133	127	128	122	136	128	131
Expected business conditions								
Next 12 months <sup>2</sup>	111	97	108	122	128	143	118	111
Next 5 years <sup>2</sup>	97	94	98	104	112	124	110	106
Appraisal of buying conditions								
Cars	150	152	155	161	157	161	150	159
Large household appliances <sup>2</sup>	150	148	148	158	146	165	157	159
Houses	165	158	165	170	163	164	158	168
Expected unemployment change - next 12 months	111	114	117	105	98	95	105	108
Prob. household will lose a job - next 5 years	24	25	25	27	29	26	25	23
Expected inflation - next 12 months								
Mean	2.8	3.4	3.1	3.1	2.8	2.9	2.9	3.7
Median	2.5	2.8	2.6	2.7	2.6	2.7	2.6	3.0
Expected inflation - next 5 to 10 years								
Mean	3.0	3.0	3.1	3.1	3.1	3.4	3.3	3.3
Median	2.7	2.7	2.8	2.7	2.8	2.8	2.9	2.9

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

P Preliminary.

1. Feb. 1966 = 100.

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

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Net unilateral transfers to foreigners rose \$2 billion as higher private transfers offset lower government transfers.

**Implications for the outlook.** Receipts of investment income on U.S. direct investment assets held abroad came in notably higher in the fourth quarter than we had anticipated. As a consequence, we have revised upward our projection for net investment income over the forecast period. Compared with the March Greenbook, we have narrowed our projection for the U.S. current account deficit about \$25 billion this year and \$20 billion next year. We continue to project that the current account deficit will edge above \$600 billion at the end of 2005, equivalent to a bit less than 5 percent of GDP.

### **U.S. International Financial Transactions**

The March 12 balance of payments press release included new data for the fourth quarter of 2003.

U.S. direct investment abroad (line 6 of the Summary of U.S. International Transactions table) increased to \$50 billion in the fourth quarter, owing to pickups in both reinvested earnings and new equity capital. For the year 2003, direct investment outflows rose to \$155 billion from \$138 billion in 2002, an increase entirely attributable to reinvested earnings. Foreign direct investment into the United States (line 7) rebounded to \$23 billion in the fourth quarter following an anemic third quarter, resulting from a reversal of intra-company debt outflows, as both reinvested earnings and new equity investment were little changed in the quarter. For the year, gains in reinvested earnings led to increased direct investment inflows of \$42 billion. During 2003, U.S. direct investment outflows exceeded foreign direct investment inflows by \$73 billion.

The statistical discrepancy (last line) was negative \$53 billion for the fourth quarter and negative \$34 billion for the year. A negative statistical discrepancy indicates some combination of over-recorded net capital inflows and under-recorded net exports.