

## **Part 1**

June 18, 2003

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# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

Confidential (FR) Class II FOMC

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June 18, 2003

## **Summary and Outlook**

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

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

Measure	2003:Q2		2003:Q3	
	Apr. GB	June GB	Apr. GB	June GB
<b>Real GDP</b>	<b>2.0</b>	<b>1.5</b>	<b>3.4</b>	<b>3.8</b>
Private domestic final purchases	2.6	1.9	2.9	3.7
Personal consumption expenditures	2.5	2.1	2.9	3.8
Residential investment	-1.5	-3.9	1.4	1.8
Business fixed investment	5.6	3.2	3.3	3.7
Government outlays for consumption and investment	7.5	7.0	5.3	5.2
	Contribution to growth (percentage points)			
Inventory investment	-1.0	-.5	.2	-.5
Net exports	-.7	-.9	-.3	.1

suggest an increase in orders and thus further modest increases in production in the next few months.

Private payroll employment was about flat in April and May. However, the data on initial claims for unemployment insurance through early June remain at a level historically associated with falling employment, making it unclear whether the labor market has begun a transition to stronger job growth. In the near term, we are forecasting small private payroll gains of around 25,000 to 50,000 in June and July along with small increases in hours worked.

Real personal consumption expenditures are expected to rise at an annual rate of about 2 percent in the current quarter, about the same as in the first quarter. Boosted by incentives, sales of light motor vehicles appear to be on track for a current-quarter pace of about 16-1/4 million units at an annual rate, up somewhat from the first-quarter pace of 15-3/4 million units. The latest data on retail sales indicate that, after falling in April, spending on goods other than motor vehicles bounced back in real terms in May. Although consumer confidence as measured by the Michigan survey retreated a bit in early June, it remained above the depressed levels of February and March.

Residential construction activity appears to have slipped a bit in the current quarter from its recent high levels. Housing starts in April and May were below their first-quarter average, perhaps reflecting the unusually wet weather in many parts of the country. Nevertheless, home sales in April were up a bit from the

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

Measure	2003		2004
	H1	H2	
<b>Real GDP</b>	<b>1.5</b>	<b>4.2</b>	<b>5.3</b>
Previous	1.8	3.9	4.8
Final sales	2.1	4.5	4.5
Previous	2.5	3.4	4.2
PCE	2.0	4.2	4.6
Previous	1.9	3.3	4.6
Residential investment	3.2	3.5	4.7
Previous	4.8	1.6	3.8
BFI	-1.3	4.5	14.3
Previous	.6	4.4	11.2
Government purchases	3.7	3.5	.8
Previous	4.2	3.7	1.1
Exports	-1.6	8.6	9.6
Previous	.6	9.3	9.0
Imports	-.6	4.3	10.4
Previous	-.1	6.9	10.0
	Contribution to growth, percentage points		
Inventory change	-.5	-.3	.8
Previous	-.7	.4	.5
Net exports	-.1	.2	-.6
Previous	.1	-.1	-.5

smaller markup in our forecast reflects our concern that business caution will dissipate less quickly than we had previously forecast. We have assumed that this greater caution will restrain business spending somewhat and will reduce the stimulative effects that financial conditions and tax incentives have on investment. Still, with inventories lean, interest rates low, fiscal policy stimulative, underlying productivity growth strong, and the dollar falling, we view conditions as conducive to robust growth in economic activity over the next year and a half.

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

Our estimates of structural productivity and potential output growth are little changed from the April Greenbook. With actual growth in output currently trailing our estimate of potential, the slack in resource utilization has continued to widen. We expect that the pickup in growth in the second half of this year and in 2004 will be sufficient to allow the output and unemployment gaps to narrow through next year. We project that, by the end of next year, the unemployment rate will fall to 5.4 percent, 0.2 percentage point lower than projected in the April Greenbook.

**Productivity and the labor market.** Our current estimate is that labor productivity in the nonfarm business sector increased at an annual rate of 2-3/4 percent in the first half of the year. This rapid growth reflects, in part, the robust pace of structural productivity growth. However, we also think that hours and employment have been held back by ongoing caution on the part of firms because of uncertainty about future economic growth.

In the third quarter, firms are expected to remain cautious, limiting the gains in employment and yielding another large gain in productivity. But later this year, firms should have the confidence to begin hiring in earnest. As hiring picks up, productivity growth is forecast to fall short of its underlying structural pace. We project that next year's monthly job gains will average more than 350,000 per

### Decomposition of Structural Labor Productivity

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

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

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

1. Percentage points.

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

Measure	2001	2002	2003	2004
Output per hour, nonfarm business	1.9	4.1	2.6	1.5
Previous	1.9	4.0	2.0	1.5
Nonfarm private payroll employment	-1.7	-.7	.5	4.1
Previous	-1.4	-.5	.2	3.5
Household employment survey	-.8	.3	1.3	2.9
Previous	-.8	.3	1.3	2.6
Labor force participation rate <sup>1</sup>	66.8	66.5	66.4	66.9
Previous	66.8	66.5	66.4	67.0
Civilian unemployment rate <sup>1</sup>	5.6	5.9	6.1	5.4
Previous	5.6	5.9	6.1	5.6

1. Percent, average for the fourth quarter.

month, which should be sufficient to engender a steady decline in the unemployment rate.

**Prices.** We expect core consumer price inflation to edge up in the second half of the year. An important reason for this projection is that we do not expect the sharp drops in the prices of tobacco, apparel, and motor vehicles to be repeated. For the year as a whole, we have revised up our outlook for energy prices from a small decline to an increase of about 4 percent, consistent with higher spot and futures prices for crude oil and natural gas. As a result, although we have revised down our outlook for core PCE inflation this year by 1/4 percentage point, to 1 percent, overall PCE inflation, at 1-1/4 percent, is the same as in the April Greenbook.

We forecast core PCE inflation to edge down a bit further next year, as continued slack in labor and product markets puts further downward pressure on inflation. The overall PCE price index is expected to increase a bit less than the core measure next year, reflecting falling energy prices.

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

Measure	2001	2002	2003	2004
PCE chain-weighted price index	1.5	1.8	1.3	.8
Previous	1.5	1.8	1.3	1.0
Food and beverages	3.1	1.4	1.9	1.4
Previous	3.1	1.4	1.9	1.5
Energy	-10.3	7.0	3.9	-2.9
Previous	-10.3	7.0	-.5	-.4
Excluding food and energy	1.9	1.6	1.0	.9
Previous	1.9	1.6	1.2	1.0
Consumer price index	1.8	2.2	1.7	1.2
Previous	1.8	2.2	1.6	1.4
Excluding food and energy	2.7	2.1	1.5	1.4
Previous	2.7	2.1	1.7	1.5
GDP chain-weighted price index	2.0	1.3	1.2	1.1
Previous	2.0	1.3	1.5	1.2
ECI for compensation of private industry workers <sup>1</sup>	4.2	3.2	3.7	3.1
Previous	4.2	3.2	3.7	3.1
NFB compensation per hour	1.4	3.1	3.4	2.7
Previous	1.4	3.2	3.1	2.7
Prices of core non-oil merchandise imports	-2.9	.7	3.7	1.1
Previous	-2.9	.7	3.3	1.3

1. December to December.

### Financial Flows and Conditions

The debt of the nonfinancial sector has been rising rapidly of late. We have revised up our forecast of debt growth over the second half of this year, as we expect the drop in long-term interest rates to spur heavier borrowing for a while. On balance, we project that total nonfinancial debt will expand 8 percent this year—which would be the fastest annual pace since 1988—before tapering down to roughly 7 percent next year.

Federal debt is expected to grow about 12-1/2 percent this year—an upward revision of 2-1/2 percentage points from the last forecast—and 10 percent in 2004. The pattern of borrowing within the current year is choppy, owing

**Alternative Scenarios**

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

Measure	2003			2004	
	Q1	Q2	H2	H1	H2
<i>Real GDP</i>					
<b>Greenbook Baseline</b>	<b>1.6</b>	<b>1.5</b>	<b>4.2</b>	<b>5.3</b>	<b>5.4</b>
Stronger investment	1.6	1.5	5.5	5.9	6.1
Weaker response to fiscal policy	1.6	1.5	3.5	4.7	4.9
Financial-market rebound	1.6	1.5	4.6	6.0	6.0
Slower productivity growth	1.6	1.5	3.8	4.7	4.8
Low NAIRU	1.6	1.6	4.3	5.4	5.5
Lower funds rate	1.6	1.5	4.3	5.5	5.6
Higher funds rate	1.6	1.5	4.1	5.1	5.1
Market-based funds rate	1.6	1.5	4.2	5.4	5.5
<i>Civilian unemployment rate<sup>1</sup></i>					
<b>Greenbook Baseline</b>	<b>5.8</b>	<b>6.1</b>	<b>6.1</b>	<b>5.9</b>	<b>5.4</b>
Stronger investment	5.8	6.1	5.9	5.5	4.8
Weaker response to fiscal policy	5.8	6.1	6.3	6.2	5.8
Financial-market rebound	5.8	6.1	6.1	5.7	5.0
Slower productivity growth	5.8	6.1	6.0	5.7	5.0
Low NAIRU	5.8	6.1	6.1	5.9	5.3
Lower funds rate	5.8	6.1	6.1	5.9	5.2
Higher funds rate	5.8	6.1	6.2	6.0	5.5
Market-based funds rate	5.8	6.1	6.1	5.9	5.3
<i>PCE prices excluding food and energy</i>					
<b>Greenbook Baseline</b>	<b>.8</b>	<b>1.0</b>	<b>1.2</b>	<b>1.0</b>	<b>.9</b>
Stronger investment	.8	1.0	1.2	1.0	.9
Weaker response to fiscal policy	.8	1.0	1.2	1.0	.8
Financial-market rebound	.8	1.0	1.2	1.0	.9
Slower productivity growth	.8	1.0	1.3	1.3	1.4
Low NAIRU	.8	.9	1.1	.8	.6
Lower funds rate	.8	1.0	1.2	1.1	.9
Higher funds rate	.8	1.0	1.2	1.0	.8
Market-based funds rate	.8	1.0	1.2	1.0	.9

1. Average for the final quarter of the period.

**Stronger investment.** In the baseline, business pessimism about the outlook abates slowly, so firms remain cautious about stockbuilding and capital spending despite low interest rates, tax incentives, and a gradual strengthening in real activity. However, business sentiment may improve more quickly than we have assumed. Moreover, there is considerable uncertainty about the effects of tax incentives on capital spending. In this scenario, real outlays on

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>	
	04/30/03	06/18/03	04/30/03	06/18/03	04/30/03	06/18/03	04/30/03	06/18/03	04/30/03	06/18/03
<b>ANNUAL</b>										
2000	5.9	5.9	3.8	3.8	2.1	2.1	3.4	3.4	4.0	4.0
2001	2.6	2.6	0.3	0.3	2.4	2.4	2.8	2.8	4.8	4.8
2002	3.6	3.6	2.4	2.4	1.1	1.1	1.6	1.6	5.8	5.8
2003	3.9	3.8	2.3	2.3	1.6	1.5	2.1	2.2	6.0	6.1
2004	5.6	5.9	4.3	4.8	1.2	1.1	1.3	1.1	5.9	5.8
<b>QUARTERLY</b>										
2001	Q1	3.0	3.0	-0.6	-0.6	3.7	3.7	4.0	4.0	4.2
	Q2	0.9	0.9	-1.6	-1.6	2.5	2.5	3.2	3.2	4.4
	Q3	1.9	1.9	-0.3	-0.3	2.2	2.2	0.9	0.9	4.8
	Q4	2.2	2.2	2.7	2.7	-0.5	-0.5	-0.7	-0.7	5.6
2002	Q1	6.5	6.5	5.0	5.0	1.3	1.3	1.4	1.4	5.6
	Q2	2.5	2.5	1.3	1.3	1.2	1.2	3.4	3.4	5.9
	Q3	5.1	5.1	4.0	4.0	1.0	1.0	2.2	2.2	5.8
	Q4	3.2	3.2	1.4	1.4	1.8	1.8	2.0	2.0	5.9
2003	Q1	4.3	4.1	1.6	1.6	2.6	2.5	3.8	3.8	5.8
	Q2	3.1	2.4	2.0	1.5	1.0	0.9	0.3	0.6	6.1
	Q3	4.5	4.3	3.4	3.8	1.1	0.4	0.7	1.4	6.1
	Q4	5.5	5.7	4.3	4.6	1.2	1.1	1.5	1.0	6.1
2004	Q1	6.3	6.8	4.7	5.3	1.6	1.5	1.5	1.1	6.1
	Q2	6.0	6.4	4.8	5.3	1.2	1.0	1.4	1.2	6.0
	Q3	6.0	6.4	4.8	5.4	1.1	1.0	1.4	1.2	5.9
	Q4	5.9	6.4	4.8	5.4	1.1	0.9	1.4	1.1	5.6
<b>TWO-QUARTER<sup>3</sup></b>										
2001	Q2	1.9	1.9	-1.1	-1.1	3.1	3.1	3.5	3.5	0.5
	Q4	2.1	2.1	1.2	1.2	0.8	0.8	0.2	0.2	1.2
2002	Q2	4.5	4.5	3.1	3.1	1.3	1.3	2.4	2.4	0.3
	Q4	4.1	4.1	2.7	2.7	1.4	1.4	2.1	2.1	0.0
2003	Q2	3.7	3.3	1.8	1.5	1.8	1.7	2.1	2.2	0.1
	Q4	5.0	5.0	3.9	4.2	1.1	0.8	1.1	1.2	0.1
2004	Q2	6.1	6.6	4.7	5.3	1.4	1.3	1.5	1.2	-0.1
	Q4	5.9	6.4	4.8	5.4	1.1	1.0	1.4	1.2	-0.4
<b>FOUR-QUARTER<sup>4</sup></b>										
2000	Q4	4.6	4.6	2.3	2.3	2.3	2.3	3.4	3.4	-0.2
2001	Q4	2.0	2.0	0.1	0.1	2.0	2.0	1.8	1.8	1.7
2002	Q4	4.3	4.3	2.9	2.9	1.3	1.3	2.2	2.2	0.3
2003	Q4	4.3	4.1	2.8	2.9	1.5	1.2	1.6	1.7	0.2
2004	Q4	6.0	6.5	4.8	5.3	1.2	1.1	1.4	1.2	-0.5

1. For all urban consumers.

2. Level, except as noted.

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

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

Item	Units <sup>1</sup>	-- Projected --									
		1996	1997	1998	1999	2000	2001	2002	2003	2004	
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	7813.2	8318.4	8781.5	9274.3	9824.6	10082.2	10446.2	10839.3	11475.9	
Real GDP	Bill. Ch. \$	7813.2	8159.5	8508.9	8859.0	9191.4	9214.5	9439.9	9655.1	10115.2	
Real GDP	% change	4.1	4.3	4.8	4.3	2.3	0.1	2.9	2.9	5.3	
Gross domestic purchases		4.3	5.0	5.8	5.2	2.9	0.1	3.7	2.7	5.6	
Final sales		3.9	3.9	4.7	4.2	2.6	1.6	1.7	3.3	4.5	
Priv. dom. final purchases		4.4	5.1	6.3	5.2	3.7	0.9	2.3	2.9	5.7	
Personal cons. expenditures		3.1	4.1	5.0	5.0	3.5	2.8	2.7	3.1	4.6	
Durables		5.0	8.8	12.7	10.0	3.8	13.2	1.9	7.0	7.2	
Nondurables		3.2	2.5	5.0	4.9	3.0	1.7	3.4	4.2	4.7	
Services		2.7	3.9	3.6	4.0	3.8	1.3	2.5	1.8	4.0	
Business fixed investment		12.1	11.8	12.3	6.6	6.2	-9.3	-1.7	1.5	14.3	
Equipment & Software		11.8	13.7	14.9	9.7	5.2	-8.8	3.3	3.3	17.3	
Nonres. structures		12.8	6.5	4.9	-2.5	9.3	-10.6	-15.9	-4.3	4.1	
Residential structures		5.6	3.5	10.0	4.0	-1.2	1.0	6.7	3.3	4.7	
Exports		9.8	8.5	2.3	4.9	7.3	-11.4	3.9	3.4	9.6	
Imports		11.2	14.3	10.8	11.9	11.1	-8.0	10.1	1.8	10.4	
Gov't. cons. & investment		2.7	2.4	2.7	4.5	1.3	5.1	3.6	3.6	0.8	
Federal		2.0	0.1	0.6	4.0	-1.2	7.5	7.5	9.5	-0.3	
Defense		0.8	-1.4	-0.8	4.4	-2.5	7.4	9.3	11.4	-2.3	
State & local		3.0	3.7	3.8	4.8	2.6	3.9	1.6	0.3	1.5	
Change in bus. inventories	Bill. Ch. \$	30.0	63.8	76.7	62.8	65.0	-61.4	5.2	-7.0	58.2	
Nonfarm		21.2	60.6	75.0	64.1	67.2	-63.2	4.1	-9.1	57.0	
Net exports		-89.0	-113.3	-221.1	-320.5	-398.8	-415.9	-488.5	-525.5	-568.7	
Nominal GDP	% change	6.0	6.2	6.0	5.9	4.6	2.0	4.3	4.1	6.5	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	119.7	122.8	125.9	129.0	131.8	131.8	130.4	130.4	133.7	
Unemployment rate	%	5.4	4.9	4.5	4.3	4.0	4.8	5.8	6.1	5.8	
Industrial prod. index	% change	5.5	8.0	4.0	4.9	2.7	-5.7	1.4	1.7	7.4	
Capacity util. rate - mfg.	%	81.2	82.7	81.9	81.4	81.4	75.6	73.7	73.3	77.4	
Housing starts	Millions	1.48	1.47	1.62	1.64	1.57	1.60	1.71	1.76	1.85	
Light motor vehicle sales		15.05	15.07	15.41	16.78	17.24	17.02	16.70	16.51	17.33	
North Amer. produced		13.34	13.14	13.39	14.30	14.38	13.94	13.42	13.11	13.74	
Other		1.70	1.93	2.02	2.48	2.86	3.08	3.29	3.40	3.59	
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	7831.2	8325.4	8778.1	9297.1	9848.0	10104.1	10436.7	10834.2	11475.3	
Nominal GNP	% change	5.9	6.0	5.8	6.4	4.6	2.1	3.8	4.3	6.4	
Nominal personal income		5.9	6.3	6.7	5.1	7.7	1.4	3.9	4.1	5.7	
Real disposable income		2.6	3.8	5.0	2.4	4.8	0.3	5.5	3.6	5.0	
Personal saving rate	%	4.8	4.2	4.7	2.6	2.8	2.3	3.7	4.3	4.9	
Corp. profits, IVA & CCAdj.	% change	11.4	9.9	-9.6	7.0	-9.1	8.2	-1.9	7.2	9.7	
Profit share of GNP	%	9.6	10.0	8.9	8.7	8.0	7.2	7.5	7.6	7.8	
Excluding FR Banks		9.4	9.7	8.6	8.4	7.7	7.0	7.3	7.4	7.7	
Federal surpl./deficit	Bill. \$	-136.8	-53.3	43.8	111.9	206.9	72.0	-199.9	-356.2	-368.9	
State & local surpl./def.		21.4	31.0	40.7	38.3	18.0	-31.3	-51.5	-39.0	-8.4	
Ex. social ins. funds		18.7	29.9	40.0	37.4	17.8	-31.2	-51.4	-38.9	-8.3	
Gross natl. saving rate	%	17.2	18.0	18.8	18.3	18.4	16.5	15.1	14.2	15.1	
Net natl. saving rate		5.7	6.7	7.5	6.8	6.7	3.8	2.0	1.0	2.1	
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	1.9	1.8	1.1	1.6	2.3	2.0	1.3	1.2	1.1	
Gross Domestic Purchases chn.-wt. price index		1.9	1.4	0.8	1.9	2.5	1.3	1.6	1.5	1.0	
PCE chn.-wt. price index		2.3	1.5	1.1	2.0	2.5	1.5	1.8	1.3	0.8	
Ex. food and energy		1.8	1.7	1.6	1.5	1.8	1.9	1.6	1.0	0.9	
CPI		3.2	1.9	1.5	2.6	3.4	1.8	2.2	1.7	1.2	
Ex. food and energy		2.6	2.2	2.3	2.0	2.6	2.7	2.1	1.5	1.4	
ECI, hourly compensation <sup>2</sup>		3.1	3.4	3.5	3.4	4.4	4.2	3.2	3.7	3.1	
Nonfarm business sector											
Output per hour		2.3	2.2	2.9	2.9	2.1	1.9	4.1	2.6	1.5	
Compensation per Hour		3.2	3.4	5.3	4.3	7.2	1.4	3.1	3.4	2.7	
Unit labor cost		0.9	1.1	2.3	1.4	4.9	-0.5	-0.9	0.8	1.1	

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

Item	Units	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	9649.5	9820.7	9874.8	9953.6	10028.1	10049.9	10097.7	10152.9	10313.1	10376.9
Real GDP	Bill. Ch. \$	9097.4	9205.7	9218.7	9243.8	9229.9	9193.1	9186.4	9248.8	9363.2	9392.4
Real GDP	% change	2.6	4.8	0.6	1.1	-0.6	-1.6	-0.3	2.7	5.0	1.3
Gross domestic purchases		3.6	5.7	1.2	1.3	-1.1	-1.1	-0.1	2.9	5.6	2.6
Final sales		4.4	3.1	1.7	1.3	2.8	-0.4	-0.2	4.2	2.4	-0.1
Priv. dom. final purchases		6.9	3.8	3.1	1.1	1.5	-1.2	0.3	3.0	2.5	1.3
Personal cons. expenditures		5.3	3.0	3.8	2.1	2.4	1.4	1.5	6.0	3.1	1.8
Durables		17.8	-3.7	8.1	-5.3	11.5	5.3	4.6	33.6	-6.3	2.0
Nondurables		2.2	4.9	2.0	2.7	2.3	-0.3	1.3	3.6	7.9	-0.1
Services		4.4	3.6	3.9	3.3	0.6	1.5	0.9	2.1	2.9	2.7
Business fixed investment		15.0	10.2	3.5	-3.2	-5.4	-14.5	-6.0	-10.9	-5.8	-2.4
Equipment & Software		15.5	10.9	0.9	-5.4	-6.3	-16.7	-9.2	-2.5	-2.7	3.3
Nonres. structures		13.8	8.2	12.1	3.6	-3.1	-8.4	2.9	-30.1	-14.2	-17.6
Residential structures		8.3	-3.0	-9.3	0.0	8.2	-0.5	0.4	-3.5	14.2	2.7
Exports		7.7	14.6	11.6	-4.0	-6.0	-12.4	-17.3	-9.6	3.5	14.3
Imports		14.7	18.6	13.8	-1.6	-7.9	-6.8	-11.8	-5.3	8.5	22.2
Gov't. cons. & investment		-1.2	4.6	-1.0	2.9	5.7	5.6	-1.1	10.5	5.6	1.4
Federal		-13.2	16.0	-7.2	2.0	9.5	6.0	1.2	13.5	7.4	7.5
Defense		-19.9	15.0	-6.1	4.7	8.3	2.7	4.6	14.3	11.6	7.8
State & local		5.6	-0.8	2.4	3.3	3.8	5.4	-2.3	8.9	4.6	-1.7
Change in bus. inventories	Bill. Ch. \$	45.3	91.5	63.1	59.9	-26.9	-58.3	-61.8	-98.4	-28.9	4.9
Nonfarm		58.9	88.6	64.6	56.8	-32.6	-54.9	-63.6	-101.5	-35.1	4.2
Net exports		-368.8	-394.6	-413.1	-418.5	-404.5	-414.8	-419.0	-425.3	-446.6	-487.4
Nominal GDP	% change	5.7	7.3	2.2	3.2	3.0	0.9	1.9	2.2	6.5	2.5
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	131.0	131.8	132.0	132.3	132.5	132.2	131.7	130.9	130.5	130.4
Unemployment rate	%	4.0	4.0	4.0	3.9	4.2	4.4	4.8	5.6	5.6	5.9
Industrial prod. index	% change	5.4	7.1	0.2	-1.6	-6.1	-6.1	-4.6	-5.8	1.4	4.4
Capacity util. rate - mfg.	%	82.0	82.4	81.4	80.0	77.9	76.1	74.8	73.4	73.4	73.9
Housing starts	Millions	1.66	1.59	1.50	1.54	1.61	1.63	1.60	1.57	1.72	1.68
Light motor vehicle sales		18.15	17.14	17.42	16.26	16.95	16.54	16.23	18.37	16.34	16.35
North Amer. produced		15.29	14.27	14.56	13.41	14.04	13.51	13.23	15.00	13.04	13.10
Other		2.86	2.87	2.86	2.85	2.90	3.04	3.00	3.37	3.31	3.25
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	9670.5	9846.4	9892.5	9982.8	10038.0	10081.0	10109.3	10188.1	10314.9	10356.8
Nominal GNP	% change	5.3	7.5	1.9	3.7	2.2	1.7	1.1	3.2	5.1	1.6
Nominal personal income		13.2	6.9	6.8	4.2	3.9	0.8	1.4	-0.2	4.8	5.1
Real disposable income		8.4	4.8	4.3	1.8	-0.1	-0.6	10.5	-7.6	14.5	3.9
Personal saving rate	%	2.6	2.9	2.9	2.9	2.4	1.9	4.0	0.8	3.5	4.0
Corp. profits, IVA & CCAdj.	% change	-8.0	-0.1	-9.4	-17.9	-21.1	8.7	-17.7	94.4	-6.6	-6.2
Profit share of GNP	%	8.4	8.2	8.0	7.5	7.0	7.2	6.8	8.0	7.7	7.6
Excluding FR Banks		8.0	7.9	7.7	7.2	6.7	6.9	6.5	7.7	7.5	7.3
Federal surpl./deficit	Bill. \$	223.2	197.2	213.2	193.8	173.8	144.4	-51.7	21.3	-145.8	-195.6
State & local surpl./def.		32.7	20.2	19.2	-0.2	-16.5	-32.3	-46.2	-30.2	-55.8	-45.1
Ex. social ins. funds		32.2	20.0	19.2	-0.1	-16.4	-32.2	-46.1	-30.0	-55.6	-44.9
Gross natl. saving rate	%	18.8	18.4	18.5	17.8	16.9	16.6	16.5	15.8	15.5	15.5
Net natl. saving rate		7.3	6.9	6.8	5.9	4.8	4.1	3.3	3.1	2.7	2.4
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	3.1	2.3	1.6	2.1	3.7	2.5	2.2	-0.5	1.3	1.2
Gross Domestic Purchases chn.-wt. price index		3.7	2.2	2.2	2.1	3.3	1.7	-0.2	0.4	1.2	2.3
PCE chn.-wt. price index		3.4	2.3	2.1	2.2	3.3	1.8	-0.1	0.8	1.1	2.7
Ex. food and energy		2.2	1.8	1.3	1.8	2.8	1.2	0.7	2.7	1.4	1.9
CPI		4.1	3.3	3.5	2.8	4.0	3.2	0.9	-0.7	1.4	3.4
Ex. food and energy		2.5	2.7	2.7	2.4	2.9	2.6	2.6	2.8	2.1	2.1
ECI, hourly compensation <sup>1</sup>		5.4	4.4	4.1	3.8	4.6	3.7	3.9	4.4	3.6	4.4
Nonfarm business sector											
Output per hour		0.2	6.0	0.6	1.7	-1.4	-0.1	2.1	7.2	8.6	1.7
Compensation per hour		15.2	2.2	8.7	3.1	2.8	0.1	1.0	1.5	2.9	4.0
Unit labor cost		14.9	-3.6	8.0	1.4	4.3	0.3	-1.1	-5.4	-5.3	2.3

1. Private-industry workers.

Item	Units	Projected									
		2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4
<b>EXPENDITURES</b>											
Nominal GDP	Bill. \$	10506.2	10588.8	10696.5	10760.9	10873.8	11025.9	11209.3	11385.5	11564.6	11744.1
Real GDP	Bill. Ch. \$	9485.6	9518.2	9556.0	9591.6	9681.6	9791.2	9917.7	10047.5	10180.8	10314.7
Real GDP	% change	4.0	1.4	1.6	1.5	3.8	4.6	5.3	5.3	5.4	5.4
Gross domestic purchases		3.9	2.9	0.8	2.3	3.5	4.1	5.6	5.9	5.8	5.3
Final sales		3.4	1.1	2.2	2.0	4.3	4.6	3.7	4.2	4.5	5.6
Priv. dom. final purchases		3.4	2.2	1.5	1.9	3.7	4.7	4.9	5.6	6.0	6.6
Personal cons. expenditures		4.2	1.7	2.0	2.1	3.8	4.6	4.3	4.3	4.7	5.0
Durables		22.8	-8.2	-1.7	11.3	10.0	9.1	7.3	6.6	6.6	8.5
Nondurables		1.0	5.1	6.2	0.4	5.3	5.2	4.2	4.4	5.1	5.0
Services		2.3	2.2	0.7	1.2	2.0	3.5	3.8	3.8	4.2	4.4
Business fixed investment		-0.8	2.3	-5.7	3.2	3.7	5.3	9.5	15.3	15.5	17.2
Equipment & Software		6.7	6.2	-6.7	6.8	6.1	7.7	10.7	19.0	18.4	21.4
Nonres. structures		-21.4	-9.9	-2.3	-7.7	-4.3	-2.7	5.2	2.8	5.6	2.6
Residential structures		1.1	9.4	10.8	-3.9	1.8	5.1	3.6	5.2	4.3	5.9
Exports		4.6	-5.8	-1.2	-2.0	6.7	10.6	7.1	9.5	9.7	12.2
Imports		3.3	7.4	-6.2	5.3	3.5	5.1	8.9	12.0	11.3	9.5
Gov't. cons. & investment		2.9	4.6	0.5	7.0	5.2	1.8	0.7	1.0	0.5	1.0
Federal		4.3	11.0	0.9	22.2	12.8	3.2	0.1	0.2	-1.5	-0.1
Defense		6.9	11.0	-3.4	32.7	17.4	2.3	-2.6	-1.2	-3.7	-1.8
State & local		2.2	1.2	0.3	-0.8	0.8	0.9	1.2	1.5	1.7	1.7
Change in bus. inventories	Bill. Ch. \$	18.8	25.8	9.1	-3.4	-16.4	-17.4	23.8	55.1	79.7	74.3
Nonfarm		20.8	26.5	7.6	-5.5	-18.5	-19.9	22.5	53.9	78.5	73.0
Net exports		-488.0	-532.2	-509.9	-535.5	-532.0	-524.6	-540.8	-563.0	-582.4	-588.6
Nominal GDP	% change	5.1	3.2	4.1	2.4	4.3	5.7	6.8	6.4	6.4	6.4
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	130.2	130.3	130.2	130.1	130.2	130.9	132.0	133.2	134.3	135.4
Unemployment rate	%	5.8	5.9	5.8	6.1	6.2	6.1	6.0	5.9	5.7	5.4
Industrial prod. index	% change	3.4	-3.4	0.3	-3.0	4.0	5.9	7.7	7.3	7.7	7.0
Capacity util. rate - mfg.	%	74.3	73.5	73.2	72.6	73.2	74.2	75.5	76.8	78.1	79.2
Housing starts	Millions	1.70	1.74	1.74	1.70	1.80	1.81	1.82	1.84	1.86	1.88
Light motor vehicle sales		17.63	16.50	15.84	16.23	16.84	17.13	17.19	17.26	17.34	17.52
North Amer. produced		14.27	13.25	12.45	12.90	13.46	13.64	13.66	13.71	13.70	13.88
Other		3.35	3.24	3.38	3.32	3.39	3.49	3.53	3.55	3.64	3.64
<b>INCOME AND SAVING</b>											
Nominal GNP	Bill. \$	10495.3	10579.7	10679.0	10752.2	10875.2	11030.3	11211.7	11386.1	11563.1	11740.2
Nominal GNP	% change	5.5	3.3	3.8	2.8	4.7	5.8	6.7	6.4	6.4	6.3
Nominal personal income		2.0	3.7	3.9	3.6	3.8	5.1	5.9	5.7	5.5	5.6
Real disposable income		1.8	2.4	2.3	2.5	8.4	1.1	7.1	4.4	4.3	4.4
Personal saving rate	%	3.5	3.8	3.9	3.9	5.0	4.2	4.9	5.0	4.9	4.8
Corp. profits, IVA & CCAdj.	% change	-6.9	13.7	2.7	5.2	11.1	10.1	6.5	9.2	11.5	11.6
Profit share of GNP	%	7.3	7.5	7.5	7.5	7.7	7.7	7.7	7.8	7.9	8.0
Excluding FR Banks		7.1	7.3	7.3	7.4	7.5	7.5	7.6	7.7	7.7	7.8
Federal surpl./deficit	Bill. \$	-210.5	-247.7	-261.8	-296.8	-460.4	-405.8	-413.7	-389.4	-348.5	-324.1
State & local surpl./def.		-54.7	-50.6	-66.9	-57.4	-25.7	-6.1	-15.6	-7.3	-9.5	-1.3
Ex. social ins. funds		-54.6	-50.5	-66.8	-57.3	-25.6	-6.0	-15.5	-7.2	-9.4	-1.2
Gross natl. saving rate	%	14.6	14.6	14.3	14.3	14.1	14.3	14.7	15.0	15.3	15.5
Net natl. saving rate		1.4	1.5	1.0	1.1	0.9	1.1	1.6	2.0	2.3	2.6
<b>PRICES AND COSTS</b>											
GDP chn.-wt. price index	% change	1.0	1.8	2.5	0.9	0.4	1.1	1.5	1.0	1.0	0.9
Gross Domestic Purchases chn.-wt. price index		1.2	1.8	3.6	0.5	1.0	0.8	1.3	0.9	0.9	0.9
PCE chn.-wt. price index		1.7	1.8	2.7	0.6	1.0	0.8	0.9	0.9	0.8	0.8
Ex. food and energy		1.8	1.5	0.8	1.0	1.2	1.2	1.1	1.0	0.9	0.8
CPI		2.2	2.0	3.8	0.6	1.4	1.0	1.1	1.2	1.2	1.1
Ex. food and energy		2.1	1.7	1.3	1.0	1.8	1.7	1.6	1.5	1.4	1.3
ECI, hourly compensation <sup>1</sup>		2.5	3.0	5.5	3.2	3.1	3.1	3.1	3.1	3.1	3.1
Nonfarm business sector		5.5	0.7	2.3	3.3	2.8	1.9	1.3	1.5	1.7	1.7
Output per hour		1.8	3.9	3.4	4.3	3.0	2.9	2.8	2.7	2.6	2.5
Compensation per hour		-3.4	3.2	1.1	1.0	0.2	1.0	1.5	1.2	0.9	0.8
Unit labor cost											

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

June 18, 2003

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

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2004/ Q1Q4	2004/ Q2Q4	2004/ 03Q4
Real GDP	1.4	1.6	1.5	3.8	4.6	5.3	5.3	5.4	5.4	2.9	2.9	5.3
Gross dom. purchases	3.0	0.8	2.4	3.7	4.3	5.8	6.1	5.6	5.6	3.9	2.8	5.9
Final sales	1.1	2.2	2.0	4.3	4.6	3.7	4.2	4.5	5.6	1.7	3.3	4.5
Priv. dom. final purchases	1.8	1.3	1.6	3.2	4.0	4.2	4.8	5.1	5.5	2.0	2.5	4.9
Personal cons. expenditures	1.2	1.4	1.4	2.7	3.2	3.0	3.0	3.3	3.5	1.9	2.2	3.2
Durables	-0.7	-0.1	0.9	0.8	0.7	0.6	0.5	0.5	0.7	0.2	0.6	0.6
Nondurables	1.0	1.2	0.1	1.1	1.1	0.9	0.9	1.0	1.0	0.7	0.9	0.9
Services	0.9	0.3	0.5	0.8	1.5	1.6	1.6	1.8	1.8	1.0	0.8	1.7
Business fixed investment	0.2	-0.6	0.3	0.4	0.5	0.9	1.5	1.6	1.7	-0.2	0.2	1.5
Equipment & software	0.5	-0.6	0.5	0.5	0.6	0.8	1.4	1.4	1.7	0.3	0.3	1.4
Nonres. structures	-0.3	-0.1	-0.2	-0.1	-0.1	0.1	0.1	0.1	0.1	-0.5	-0.1	0.1
Residential structures	0.4	0.5	-0.2	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.2
Net exports	-1.6	0.8	-0.9	0.1	0.3	-0.6	-0.8	-0.6	-0.2	-1.0	0.1	-0.5
Exports	-0.6	-0.1	-0.2	0.6	1.0	0.7	0.9	0.9	1.2	0.4	0.3	0.9
Imports	-1.0	0.9	-0.7	-0.5	-0.7	-1.2	-1.7	-1.6	-1.4	-1.3	-0.3	-1.5
Government cons. & invest.	0.9	0.1	1.3	1.0	0.4	0.2	0.2	0.1	0.2	0.7	0.7	0.2
Federal	0.7	0.1	1.4	0.9	0.2	0.0	0.0	0.1	0.0	0.5	0.6	-0.0
Defense	0.5	-0.2	1.3	0.8	0.1	-0.1	-0.1	-0.2	-0.1	0.4	0.5	-0.1
Nondefense	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
State and local	0.2	0.0	-0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.0	0.0	0.2
Change in bus. inventories	0.3	-0.6	-0.5	-0.5	-0.0	1.5	1.1	0.9	-0.2	1.2	-0.4	0.8
Nonfarm	0.2	-0.7	-0.5	-0.5	-0.0	1.6	1.1	0.9	-0.2	1.2	-0.4	0.9
Farm	0.1	0.1	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	Fiscal year			2002			2003			2004		
	2001 <sup>a</sup>	2002 <sup>a</sup>	2003	2004	Q1 <sup>a</sup>	Q2 <sup>a</sup>	Q3 <sup>a</sup>	Q4 <sup>a</sup>	Q1 <sup>a</sup>	Q2	Q3	Q4
<b>Unified budget<sup>1</sup></b>												
Receipts <sup>2</sup>	1991	1853	1780	1843	413	523	452	428	398	522	432	445
Outlays <sup>2</sup>	1864	2011	2171	2268	509	507	493	536	542	542	551	580
Surplus/deficit <sup>2</sup>	127	-158	-392	-425	-97	16	-41	-108	-144	-20	-119	-134
On-budget	-33	-317	-559	-608	-127	-58	-52	-161	-168	-95	-134	-155
Off-budget	161	160	167	183	30	73	11	53	24	75	14	44
Means of financing												
Borrowing	-90	221	419	437	51	21	89	97	64	118	141	133
Cash decrease	8	-17	5	11	38	-26	-21	28	20	-26	-2	28
Other <sup>3</sup>	-45	-46	-33	-23	8	-11	-27	-16	61	-71	-6	4
Cash operating balance, end of period	44	61	56	45	14	40	61	33	13	40	56	58
<b>NIPA federal sector</b>												
Receipts	2024	1906	1854	1894	1885	1884	1864	1870	1879	1885	1782	1865
Expenditures	1909	2039	2172	2283	2031	2079	2075	2117	2145	2182	2242	2271
Consumption expenditures	517	570	642	692	566	581	590	609	627	657	676	694
Defense	337	375	426	459	372	383	389	403	409	437	454	457
Nondefense	180	195	217	233	194	199	201	206	218	220	222	226
Other spending	1392	1469	1529	1591	1464	1498	1485	1508	1518	1525	1566	1589
Current account surplus	115	-133	-318	-389	-146	-196	-211	-248	-266	-297	-460	-406
Gross investment	98	106	115	125	106	107	108	108	109	118	124	126
Gross saving less gross investment <sup>4</sup>	116	-138	-327	-404	-151	-201	-216	-252	-270	-309	-478	-423
<b>Fiscal indicators<sup>5</sup></b>												
High-employment (HEB) surplus/deficit	115	-80	-263	-380	-100	-137	-158	-182	-193	-245	-432	-379
Change in HEB, percent of potential GDP	0.1	1.9	1.6	0.9	1.7	0.3	0.2	0.1	0.5	1.7	-0.5	0.1
Fiscal impetus (FI) percent of GDP	0.6	1.1	1.3	1.2	0.1	0.4	0.1	0.3	0.0	0.4	0.9	0.5

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

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

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

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

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

June 18, 2003

Period <sup>1</sup>	Total	Federal government	Nonfederal				Memo: Nominal GDP	
			Households		Consumer credit	Business		
			Total	Home mortgages				
<i>Year</i>								
1997	5.5	0.6	7.2	6.4	6.7	4.7	9.0	
1998	6.9	-1.4	9.6	8.1	8.8	5.9	12.1	
1999	6.4	-1.9	8.8	8.3	9.0	7.4	10.6	
2000	4.9	-8.0	8.4	8.5	8.3	10.2	9.7	
2001	6.2	-0.2	7.7	8.7	9.8	6.8	6.5	
2002	7.2	7.6	7.1	10.0	12.4	3.5	3.0	
2003	8.2	12.5	7.3	9.0	10.9	4.2	4.3	
2004	6.7	9.6	6.1	6.9	8.0	4.4	4.1	
						4.9	6.4	
<i>Quarter</i>								
2002:1	5.0	1.2	5.9	9.2	10.3	4.9	2.3	
2	8.4	15.5	6.9	8.9	11.0	5.3	3.4	
3	6.6	7.5	6.4	9.6	12.7	4.0	1.9	
4	8.0	5.5	8.5	10.9	13.5	-0.2	4.3	
2003:1	6.5	2.2	7.4	10.0	12.0	4.3	3.7	
2	10.5	25.0	7.5	9.4	11.5	4.7	3.9	
3	8.0	12.2	7.1	8.1	9.8	3.2	4.7	
4	6.8	8.6	6.4	7.3	8.7	4.3	4.8	
2004:1	6.3	7.8	6.0	7.1	8.4	4.3	4.4	
2	8.6	20.6	5.9	6.8	7.9	4.3	4.7	
3	5.7	5.1	5.8	6.5	7.4	4.3	4.9	
4	5.6	3.8	6.0	6.5	7.4	4.6	5.4	
						5.4	5.6	

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2003:Q1 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

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

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

Category	Calendar year				2002				2003				Seasonally adjusted annual rates			
	2001	2002	2003	2004	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2004	
<i>Net funds raised by domestic nonfinancial sectors</i>																
1 Total	1087.2	1344.9	1636.2	1459.4	1172.2	1584.9	1277.1	2127.5	1686.9	1453.3	1377.8	1918.6	1274.0	1267.2	1267.2	
2 Net equity issuance	-47.4	-40.5	-59.6	-41.5	-140.3	-27.9	-62.0	-86.4	-44.0	-46.0	-39.0	-37.0	-45.0	-45.0	-45.0	
3 Net debt issuance	1134.6	1385.4	1695.8	1500.9	1312.5	1612.8	1339.1	2213.9	1730.9	1499.3	1416.8	1955.6	1319.0	1312.2	1312.2	
<i>Borrowing sectors</i>																
Nonfinancial business																
4 Financing gap <sup>1</sup>	141.4	80.7	56.6	130.8	90.2	95.2	77.6	76.8	40.9	31.1	76.1	123.1	155.3	168.9	168.9	
5 Net equity issuance	-47.4	-40.5	-59.6	-41.5	-140.3	-27.9	-62.0	-86.4	-44.0	-46.0	-39.0	-37.0	-45.0	-45.0	-45.0	
6 Credit market borrowing	420.8	208.4	308.2	367.5	134.4	303.7	263.6	277.7	339.0	352.2	325.4	351.4	377.1	416.0	416.0	
Households																
7 Net borrowing <sup>2</sup>	613.7	768.0	760.6	636.9	768.5	900.8	849.2	812.7	720.2	660.2	654.0	641.9	617.5	634.3	634.3	
8 Home mortgages	480.2	667.1	659.7	535.7	718.1	790.6	723.3	718.2	627.2	570.2	561.2	543.2	515.2	523.2	523.2	
9 Consumer credit	108.7	60.1	73.8	81.2	69.1	-2.9	75.7	83.4	57.6	78.7	78.1	80.0	80.1	86.6	86.6	
10 Debt/DPI (percent) <sup>3</sup>	99.8	103.3	107.8	110.1	103.5	105.0	106.4	108.2	108.1	109.6	109.5	109.9	110.4	110.7	110.7	
State and local governments																
11 Net borrowing	105.7	151.4	174.1	103.8	143.9	209.8	146.3	210.9	198.3	140.8	116.8	104.8	98.8	94.8	94.8	
12 Current surplus <sup>4</sup>	140.6	128.1	143.3	182.4	126.1	128.3	108.7	125.7	158.8	180.1	172.4	182.6	182.3	192.4	192.4	
Federal government																
13 Net borrowing	-5.6	257.5	455.7	392.7	265.7	198.5	79.9	912.6	473.4	346.0	320.6	857.5	225.6	167.2	167.2	
14 Net borrowing (quarterly, n.s.a.)	-5.6	257.5	455.7	392.7	89.4	96.2	63.5	117.7	141.4	133.1	121.0	104.0	79.4	88.4	88.4	
15 Unified deficit (quarterly, n.s.a.)	-94.3	231.2	417.6	403.8	41.5	108.7	143.9	20.0	119.4	134.3	154.5	50.0	86.0	113.3	113.3	
<i>Depository institutions</i>																
16 Funds supplied	289.4	487.8	482.2	396.7	749.1	558.5	586.6	441.3	460.3	440.6	406.1	369.7	411.4	399.7	399.7	
<i>Memo (percentage of GDP)</i>																
17 Domestic nonfinancial debt <sup>5</sup>	185.8	191.4	198.7	201.6	191.5	193.4	194.9	197.9	200.4	201.3	201.2	201.8	202.2	202.0	202.0	
18 Domestic nonfinancial borrowing	11.3	13.3	15.6	13.1	12.5	15.2	12.5	20.6	15.9	13.6	12.6	17.2	11.4	11.2	11.2	
19 Federal government <sup>6</sup>	-0.1	2.5	4.2	3.4	2.5	1.9	0.7	8.5	4.4	3.1	2.9	7.5	2.0	1.4	1.4	
20 Nonfederal	11.3	10.8	11.5	9.7	10.0	13.4	11.8	12.1	11.6	10.5	9.8	9.6	9.5	9.8	9.8	

Note. Data after 2003: Q1 are staff projections.

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

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

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

2.6.4 FOF

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

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

6. Excludes government-insured mortgage pool securities.

## International Developments

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Data on foreign GDP in the first quarter came in surprisingly weak, and early indicators for the current quarter are signaling continued sluggishness in economic activity abroad. Based on these readings, as well as the likely contractionary effect on foreign net exports of the ongoing depreciation of the dollar, we marked down our forecast for the pace of near-term growth in foreign economies.

Later this year and next, foreign growth is projected to pick up, largely because of the robust recovery forecast for the United States. In addition, some impediments to stronger economic activity in foreign countries are expected to diminish. Oil prices are projected to decline, and the negative effects of SARS are assumed to wane. Capital markets are also positioned to provide support for stronger economic activity, with longer-term interest rates low and global stock prices up from earlier lows. However, if the U.S. recovery fails to materialize as projected, foreign growth in 2004 is likely to remain weak, especially given the limited prospects for fiscal stimulus, particularly in the euro area and Japan.

Foreign inflation is declining sharply in the current quarter, reflecting the drop in the price of oil following the Iraq war and, in some areas, currency appreciation. We project that inflation will remain subdued over the forecast period, as excess capacity abroad persists.

### Summary of Staff Projections

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

Indicator	2002	2003: Q1	Projection		
			2003		2004
			Q2	H2	
Foreign output	2.8	.4	.8	2.6	3.4
<i>Previous GB</i>	2.9	2.2	1.5	3.0	3.5
Foreign CPI	2.6	4.0	1.0	1.9	1.9
<i>Previous GB</i>	2.6	3.7	.9	2.0	1.9

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

The broad nominal exchange value of the dollar has declined another 2 percent on balance since the previous FOMC meeting. With the financing pressures exerted by the U.S. current account deficit expected to continue weighing on the dollar, we project some slight, further depreciation of the dollar over the forecast period.

GDP contracted in Mexico in the first quarter, and indicators for the second quarter are showing further weakness. We are projecting GDP to increase at an annual rate of nearly 3 percent in the second half of the year and to accelerate to 5 percent next year, mostly because of the improved economic conditions projected for the United States. Recent data suggest that the Brazilian economy remains weak, but lower credit spreads and greater financial stability after last year's turmoil lead us to believe that at least modest growth will be registered this year and next. Argentine data suggest that a mild economic recovery is in place, although the level of activity remains quite low. Venezuela is still in critical condition.

We expect average inflation in the developing countries to be little more than 3 percent this year. We forecast inflation to decline slightly next year, in line with projected declines in oil prices.

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

Trade category	2002	2003: Q1	Projection		
			2003		2004
			Q2	H2	
<i>Exports</i>					
Core goods			2.1	4.6	.9 .5 1.1
<i>Imports</i>					
Non-oil core goods			.7	5.6	2.0 3.6 1.1
Oil (dollars per barrel)	25.75	30.77	26.43	24.95	22.05

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

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

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

After having jumped 5.6 percent at an annual rate in the first quarter, prices of imported core goods are estimated to be rising at a rate of 2 percent in the current quarter. Recent swings in core import inflation largely reflect gyrations in prices of imported natural gas, which spiked in March; prices of imported core goods excluding natural gas and all fuels have been steadier, rising 2 percent (a.r.) last quarter and an estimated 3 percent in the current quarter, reflecting the ongoing decline in the value of the dollar.

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

Measure	2002	2003: Q1	Projection		
			2003		2004
			Q2	H2	
Real exports	3.9	-1.2	-2.0	8.6	9.6
<i>Previous GB</i>	3.9	-2.1	3.5	9.3	9.0
Real imports	10.1	-6.2	5.3	4.3	10.4
<i>Previous GB</i>	10.1	-6.8	7.2	6.9	10.0

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

Real imports of goods and services are projected to rise at an annual rate of 4-1/4 percent in the second half of this year, with imported core goods rising about 5-1/2 percent, restrained by the weaker dollar. Imports of services continue to fall in the second half as a recovery in travel is more than offset by the negative impulse from the depreciation of the dollar. In 2004, total import growth is projected to pick up to a rate of 10 percent, and core goods imports should rise about as fast, as the expected strengthening of U.S. economic activity over the forecast period outweighs the relative price effects of the lower dollar. As in the case of exports, imports of computers and semiconductors are projected to grow steadily over the forecast period.

### Alternative Simulation

We are projecting a small decline in the foreign exchange value of the dollar over the forecast period, but the financing burden of the large and growing U.S. current account deficit may prompt a sharper decline in the dollar's value. In our alternative simulation, we use the FRB/Global model to assess the effects of a rise in the risk premium on the dollar in foreign exchange markets that would generate a larger depreciation. The shock is assumed to occur in 2003:Q3 and has been scaled so that the real value of our broad dollar index would decline 10 percent in that quarter in the absence of endogenous adjustments in long-term interest rates. This depreciation stimulates net exports, boosting U.S. GDP growth about 0.3 percentage point in 2003:H2, relative to baseline, and 0.5 percentage point in 2004. Core PCE inflation rises about 0.2 percentage point above baseline in the second half of 2003 and 0.6 percentage point in 2004, mainly because of the direct effect of higher prices for imported goods and services.

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

Indicator and simulation	2003		2004	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	1.5	4.2	5.3	5.4
Dollar depreciation	1.5	4.5	5.8	6.0
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	.9	1.2	1.0	.9
Dollar depreciation	.9	1.4	1.7	1.3

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

Measure and country	1996	1997	1998	1999	2000	2001	2002	2003	2004	Projected
<b>REAL GDP (1)</b>										
Total foreign	4.0	4.2	1.6	4.9	4.4	0.3	2.8	1.6	3.4	
Industrial Countries	2.7	3.5	2.7	4.2	3.8	0.7	2.6	1.4	2.5	
of which:										
Canada	2.7	4.4	4.4	5.9	4.2	1.4	3.5	2.3	3.2	
Japan	3.3	0.3	-1.3	-0.5	5.1	-2.4	2.4	0.2	1.0	
United Kingdom	2.8	3.7	2.6	3.2	2.2	1.9	2.2	1.3	2.5	
Euro Area (2)	1.7	3.1	2.0	3.8	2.7	0.6	1.2	0.5	2.0	
Germany	1.4	1.7	0.7	3.3	1.9	0.1	0.7	-0.5	1.4	
Developing Countries	6.2	5.3	-0.3	6.1	5.3	-0.3	3.1	1.9	4.8	
Asia	6.6	5.0	-2.1	8.6	6.2	0.9	5.5	2.9	5.7	
Korea	6.4	3.4	-5.2	13.8	5.1	4.2	7.0	3.1	5.4	
China	5.3	8.7	9.5	4.1	8.0	7.5	8.0	6.7	8.1	
Latin America	6.3	6.1	1.2	4.2	4.5	-1.4	1.1	0.9	4.4	
Mexico	7.1	6.8	2.9	5.4	4.8	-1.5	2.0	1.0	5.0	
Brazil	5.2	2.3	-1.7	3.5	4.0	-0.7	3.4	1.8	3.0	
<b>CONSUMER PRICES (3)</b>										
Industrial Countries	1.5	1.5	1.0	1.2	1.8	1.0	2.2	1.4	1.2	
of which:										
Canada	2.0	1.0	1.1	2.4	3.1	1.1	3.8	2.3	2.1	
Japan	0.2	2.1	0.7	-1.1	-1.3	-1.3	-0.4	-0.7	-0.8	
United Kingdom (4)	3.2	2.7	2.5	-2.2	2.1	2.0	2.6	2.7	2.4	
Euro Area (2)	1.9	1.5	0.8	1.5	2.5	2.1	2.3	1.3	1.2	
Germany	1.3	1.5	0.3	1.1	1.7	1.5	1.2	0.4	0.3	
Developing Countries	11.1	6.8	9.0	4.6	4.1	2.8	3.1	3.2	2.7	
Asia	4.8	2.7	4.4	0.1	1.8	1.0	0.7	1.9	1.8	
Korea	5.0	4.9	5.8	1.2	2.5	3.3	3.4	3.3	2.7	
China	6.8	0.9	-1.2	-0.9	0.8	-0.2	-0.7	1.5	1.2	
Latin America	25.8	15.5	15.4	12.5	8.4	5.3	6.4	5.0	4.2	
Mexico	28.0	17.0	17.3	13.4	8.7	5.1	5.3	3.9	3.6	
Brazil	9.6	4.6	2.0	8.4	6.4	7.5	10.7	13.2	7.7	

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

2. Harmonized data for euro area from Eurostat.

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

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

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

Measure and country	2002				2003				Projected 2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>REAL GDP (1)</b>												
Total foreign	3.2	3.7	2.8	1.4	0.4	0.8	2.1	3.1	3.3	3.4	3.4	3.5
Industrial Countries of which:	3.2	3.3	2.5	1.4	1.3	0.8	1.5	2.1	2.3	2.4	2.6	2.7
Canada	5.8	3.8	2.7	1.6	2.4	1.0	2.5	3.3	3.2	3.1	3.2	3.3
Japan	0.1	5.4	2.6	1.5	0.6	-0.3	-0.1	0.5	0.7	1.0	1.1	1.1
United Kingdom	0.5	2.4	4.3	1.5	0.6	1.2	1.8	1.7	2.3	2.3	2.4	2.7
Euro Area (2)	1.7	1.6	1.3	0.3	0.0	0.4	0.5	1.0	1.5	1.9	2.3	2.5
Germany	1.2	0.6	1.2	-0.1	-0.9	-0.5	-0.5	-0.0	0.7	1.2	1.6	1.9
Developing Countries	3.3	4.3	3.4	1.4	-1.0	0.9	3.1	4.5	4.8	4.9	4.8	4.8
Asia	6.4	7.1	3.4	5.3	2.5	-0.0	3.8	5.1	5.5	5.8	5.8	5.7
Korea	10.5	5.4	3.9	8.3	-1.4	2.5	5.1	6.2	5.4	5.4	5.4	5.4
China	8.5	9.3	7.5	6.8	16.3	-3.0	6.5	8.0	8.0	8.2	8.2	8.2
Latin America	2.1	2.0	3.0	-1.7	-4.3	1.4	2.4	4.2	4.5	4.2	4.2	4.2
Mexico	2.0	3.6	2.4	-0.1	-2.0	0.5	1.7	4.0	5.2	4.8	4.8	4.8
Brazil	7.6	-0.8	4.1	2.9	-0.2	2.0	2.5	3.0	3.0	3.0	3.0	3.0
<b>CONSUMER PRICES (3)</b>												
Industrial Countries of which:	1.2	1.0	1.4	2.2	2.5	2.0	1.7	1.4	0.8	1.2	1.2	1.2
Canada	1.6	1.3	2.3	3.8	4.5	3.2	2.7	2.3	1.3	2.2	2.1	2.1
Japan	-1.5	-1.1	-0.9	-0.4	-0.3	-0.4	-0.6	-0.7	-0.8	-0.8	-0.8	-0.8
United Kingdom (4)	2.4	1.9	2.0	2.6	2.9	3.0	3.0	2.7	2.3	2.5	2.4	2.4
Euro Area (2)	2.6	2.1	2.1	2.3	2.3	1.9	1.8	1.3	0.9	1.0	1.1	1.2
Germany	2.0	1.2	1.1	1.2	1.1	0.9	0.7	0.4	-0.2	0.0	0.2	0.3
Developing Countries	2.7	2.6	2.8	3.1	3.6	3.3	3.2	3.2	2.8	2.8	2.8	2.7
Asia	0.8	0.6	0.5	0.7	1.4	1.4	1.6	1.9	1.6	1.7	1.8	1.8
Korea	2.6	2.6	2.5	3.4	4.1	3.4	3.5	3.3	2.7	2.7	2.7	2.7
China	-0.6	-1.1	-0.8	-0.7	0.5	0.8	1.0	1.5	0.8	1.0	1.2	1.2
Latin America	5.2	5.4	6.0	6.4	7.1	6.4	5.6	5.0	4.6	4.5	4.4	4.2
Mexico	4.8	4.8	5.2	5.3	5.5	4.8	4.1	3.9	4.0	3.9	3.8	3.6
Brazil	7.7	7.9	7.7	10.7	15.6	17.2	16.6	13.2	8.5	7.4	7.6	7.7

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

2. Harmonized data for euro area from Eurostat.

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

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

## OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1996	1997	1998	1999	2000	2001	2002	Projected 2003	Projected 2004
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NIPA REAL EXPORTS and IMPORTS		1996	1997	1998	1999	2000	2001	2002	2003	Projected 2004
<b>Percentage point contribution to GDP growth, Q4/Q4</b>										
Net Goods & Services Exports of G&S Imports of G&S	-0.2 -1.1 -1.3	-0.8 -1.0 -1.7	-1.1 0.3 -1.3	-1.0 0.5 -1.5	-0.8 0.8 -1.5	-0.1 -1.3 -1.2	-1.0 -1.4 -1.3	0.1 0.3 -0.3	-0.5 -0.9 -1.5	
<b>Percentage change, Q4/Q4</b>										
Exports of G&S Services Computers Semiconductors Other Goods 1/	9.8 8.9 21.6 44.6 7.3	8.5 1.4 25.8 21.3 9.8	2.3 2.9 8.1 9.1 1.3	4.9 3.2 13.4 34.6 3.2	7.3 4.8 23.0 26.9 5.7	-11.4 -9.2 -23.4 -34.9 -9.4	3.9 11.4 -2.1 8.5 0.5	3.4 -1.6 12.3 33.4 3.6	9.6 5.7 33.5 36.3 8.2	
Imports of G&S Services Oil Computers Semiconductors Other Goods 2/	11.2 5.3 7.8 17.8 56.7 10.4	14.3 14.0 3.9 33.0 32.9 12.7	10.8 8.5 4.1 25.8 -8.7 11.5	11.9 5.9 -3.4 26.0 34.2 12.7	11.1 10.9 13.3 13.6 22.5 10.4	-8.0 -8.6 0.1 -13.8 -51.4 -6.2	10.1 11.5 4.0 13.6 9.3 10.1	1.8 -6.8 -1.2 16.8 21.1 2.8	10.4 5.4 4.2 33.6 36.3 10.0	
<b>Billions of chained 1996 dollars</b>										
Net Goods & Services Exports of G&S Imports of G&S	-89.0 874.0 963.1	-1113.3 -981.5 1094.8	-221.1 1002.4 1223.5	-320.5 1036.3 1356.8	-398.8 1137.9 1536.0	-415.9 1076.1 1492.0	-488.5 1058.8 1547.4	-525.5 1069.9 1595.4	-568.7 1157.7 1726.4	

Billions of dollars

US CURRENT ACCOUNT BALANCE	-118.8	-127.7	-200.0	-291.8	-402.4	-392.9	-485.9	-558.1	-583.7
Current Acct as Percent of GDP	-1.5	-1.7	-2.3	-3.1	-4.1	-3.9	-4.6	-5.1	-5.1
Net Goods & Services (BOP)	-102.9	-107.0	-163.2	-261.2	-370.7	-357.8	-418.0	-492.3	-525.4
Investment Income, Net	28.6	25.1	12.7	23.9	27.6	20.5	-5.4	0.0	4.5
Direct Net	69.4	72.4	65.5	75.0	88.9	102.6	77.9	79.0	85.7
Portfolio, Net	-40.8	-47.3	-52.9	-51.1	-61.2	-82.1	-83.4	-79.0	-81.2
Other Income & Transfers, Net	-44.6	-45.7	-49.6	-54.5	-59.3	-55.6	-62.5	-65.8	-62.9

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1999								2000								2001											
	Q1				Q2				Q3				Q4				Q1				Q2				Q3			
	NIPA REAL EXPORTS and IMPORTS								Percentage point contribution to GDP growth								s.a.a.r.											
Net Goods & Services	-1.8	-1.4	-0.7	0.1	-1.1	-0.7	-0.7	-0.2	0.5	-0.4	-0.2	-0.3					-0.4	-0.2	-0.3									
Exports of G&S	-0.8	0.4	1.1	1.3	0.8	1.5	1.2	0.5	-0.7	-0.7	-2.0	-1.0					-1.4	-2.0	-1.0									
Imports of G&S	-1.0	-1.9	-1.8	-1.2	-1.9	-2.5	-1.9	-0.3	1.2	0.5	-0.3	1.0					1.2	1.0	1.7									
Exports of G&S Services	-6.9	4.3	10.6	12.6	7.7	14.6	11.6	-4.0	-6.0	-12.4	-17.3	-9.6					-6.0	-12.4	-17.3									
Computers	-1.5	3.4	4.7	6.4	10.2	11.2	5.9	4.4	-6.0	-2.5	-13.9	-13.8					-6.0	-2.5	-13.9									
Semiconductors	0.8	24.7	20.6	9.2	33.5	45.9	28.8	-8.8	-7.3	-41.7	-22.8	-17.6					-7.3	-41.7	-22.8									
Other Goods 1/	34.2	45.2	41.3	19.0	14.6	43.4	-17.5	-34.6	-34.6	-47.3	-40.9	-11.7					-5.9	-10.5	-16.5									
Imports of G&S Services	8.4	15.4	14.5	9.4	14.7	18.6	13.8	-1.6	-7.9	-6.8	-11.8	-5.3					-1.6	-7.9	-6.8									
Oil	0.2	6.8	9.7	7.1	20.7	9.6	15.1	-0.5	0.3	8.5	-23.2	-16.5					-6.0	0.3	8.5									
Computers	3.9	29.8	-5.8	-31.5	28.6	40.4	-2.3	-6.5	23.3	7.2	-26.9	3.9					-6.5	23.3	7.2									
Semiconductors	35.0	43.7	14.4	13.5	2.5	40.4	27.9	-9.5	-9.5	-21.6	-24.5	-14.6					-28.5	-43.9	-68.8									
Other Goods 2/	23.0	67.9	16.3	35.0	23.5	50.0	69.8	-28.5	-43.9	-6.2	-55.9	-27.5					-1.3	-9.4	-6.2									
Net Goods & Services	-283.2	-319.6	-339.6	-339.5	-368.8	-394.6	-413.1	-418.5	-404.5	-414.8	-419.0	-425.3					-368.8	-394.6	-413.1									
Exports of G&S	1007.5	1018.1	1044.1	1075.6	1095.8	1133.9	1165.5	1153.7	1135.8	1098.8	1048.0	1021.8					-339.5	-368.8	-394.6									
Imports of G&S	1290.7	1337.7	1383.7	1415.2	1464.6	1528.5	1578.6	1572.2	1540.3	1513.6	1467.0	1447.2					-346.9	-380.1	-391.5									
US CURRENT ACCOUNT BALANCE	-238.3	-279.0	-318.5	-331.5	-374.6	-389.2	-415.5	-430.3	-416.0	-381.5	-402.4	-371.8					-318.5	-374.6	-415.5									
Current Account as % of GDP	-2.6	-3.0	-3.4	-3.5	-3.9	-4.0	-4.2	-4.2	-4.1	-3.8	-4.0	-3.7					-318.5	-374.6	-415.5									
Net Goods & Services (BOP)	-209.1	-251.8	-284.4	-299.5	-346.9	-364.5	-380.1	-391.5	-373.8	-357.8	-356.2	-343.5					-318.5	-374.6	-415.5									
Investment Income, Net	20.8	24.9	18.3	31.5	25.1	30.6	22.1	32.8	10.3	30.1	9.4	32.4					-318.5	-374.6	-415.5									
Direct, Net	72.3	71.4	71.3	85.0	79.0	86.9	89.2	100.3	89.0	111.3	95.6	114.4					-318.5	-374.6	-415.5									
Portfolio, Net	-51.5	-46.5	-53.0	-53.5	-53.9	-56.3	-67.1	-67.5	-78.7	-81.2	-86.3	-82.0					-318.5	-374.6	-415.5									
Other Inc. & Transfers, Net	-50.0	-52.1	-52.4	-63.5	-52.8	-55.3	-57.5	-71.7	-52.5	-53.7	-55.6	-60.6					-318.5	-374.6	-415.5									

1. Merchandise exports excluding computers and semiconductors.

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

	2002								2003				Projected				2004	
	Q1 Q2 Q3 Q4				Q1 Q2 Q3 Q4				Q1 Q2 Q3 Q4									
	NIPA REAL EXPORTS and IMPORTS								Billions of chained 1996 dollars, s.a.a.r.									
Net Goods & Services	-0.7	-1.4	0.0	-1.6	0.8	-0.9	0.1	0.3	-0.5	-0.7	-0.6	-0.7	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Exports of G&S	0.3	1.3	0.5	-0.6	-0.1	-0.2	0.6	1.0	0.7	0.7	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Imports of G&S	-1.1	-2.7	-0.4	-1.0	0.9	-0.7	-0.5	-0.7	-1.2	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.3
Exports of G&S Services	3.5	14.3	4.6	-5.8	-1.2	-2.0	6.7	10.6	7.1	9.5	9.7	9.7	9.7	9.7	9.7	9.7	9.7	12.2
Computers	21.7	10.7	5.9	8.0	-7.7	-11.0	6.9	7.0	5.9	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.7
Semiconductors	-13.7	-0.5	-21.3	-17.9	-7.4	-2.0	31.0	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5
Other Goods 1/	-3.1	65.8	3.3	-39.4	45.2	31.3	21.7	36.3	36.3	36.3	36.3	36.3	36.3	36.3	36.3	36.3	36.3	36.2
Imports of G&S Services	8.5	22.2	3.3	7.4	-6.2	5.3	3.5	5.1	8.9	12.0	11.3	11.3	11.3	11.3	11.3	11.3	11.3	9.5
Oil	35.7	34.5	-13.3	24.1	-12.5	-41.7	-18.9	-4.6	1.5	3.2	5.8	6.0	6.0	6.0	6.0	6.0	6.0	6.3
Computers	52.4	5.6	-4.4	8.2	-1.9	14.8	23.9	-0.9	-22.6	-0.3	29.8	10.4	10.4	10.4	10.4	10.4	10.4	-17.4
Semiconductors	45.2	41.8	-5.9	-26.4	-1.3	21.7	31.3	33.6	33.6	33.6	33.6	33.6	33.6	33.6	33.6	33.6	33.6	33.6
Other Goods 2/	1.9	28.8	6.3	5.2	-6.3	7.2	4.1	7.0	9.0	9.0	9.9	9.9	9.9	9.9	9.9	9.9	9.9	10.7
Net Goods & Services	-446.6	-487.4	-488.0	-532.2	-509.9	-535.5	-532.0	-524.6	-540.8	-563.0	-582.4	-582.4	-582.4	-582.4	-582.4	-582.4	-582.4	-588.6
Exports of G&S	1030.6	1065.5	1077.7	1061.6	1058.5	1053.2	1070.3	1097.6	1116.5	1142.1	1169.0	1169.0	1169.0	1169.0	1169.0	1169.0	1169.0	1169.0
Imports of G&S	1477.1	1552.9	1565.7	1593.8	1568.4	1588.7	1602.3	1622.2	1657.3	1705.1	1751.4	1751.4	1751.4	1751.4	1751.4	1751.4	1751.4	1751.4
US CURRENT ACCOUNT BALANCE	-427.9	-492.5	-492.2	-531.0	-562.2	-559.4	-562.7	-548.0	-557.0	-577.0	-596.3	-596.3	-596.3	-596.3	-596.3	-596.3	-596.3	-604.7
Current Account as % of GDP	-4.1	-4.7	-4.7	-5.0	-5.3	-5.2	-5.2	-5.2	-5.0	-5.0	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1
Net Goods & Services (BOP)	-360.2	-419.5	-427.9	-464.5	-486.4	-489.4	-502.7	-490.8	-501.8	-520.1	-537.2	-537.2	-537.2	-537.2	-537.2	-537.2	-537.2	-542.4
Investment Income, Net	2.5	-14.7	-5.8	-3.7	-12.4	-3.6	6.5	9.5	7.5	5.8	3.6	3.6	3.6	3.6	3.6	3.6	3.6	1.2
Direct, Net	88.1	75.0	74.5	74.2	68.3	75.5	84.6	87.6	86.8	85.9	85.3	85.3	85.3	85.3	85.3	85.3	85.3	84.8
Portfolio, Net	-85.5	-89.7	-80.4	-77.9	-80.7	-79.0	-78.0	-78.1	-79.2	-80.2	-81.7	-83.6	-83.6	-83.6	-83.6	-83.6	-83.6	-83.6
Other Inc. & Transfers, Net	-70.2	-58.3	-58.5	-62.9	-63.5	-66.5	-66.7	-62.7	-62.7	-62.7	-62.7	-62.7	-62.7	-62.7	-62.7	-62.7	-62.7	-63.5

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

## **Part 2**

June 18, 2003

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## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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### **Recent Developments**

Confidential (FR) Class III FOMC

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March 13, 2003

## **Recent Developments**

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

**Production of Domestic Autos and Trucks**

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

Item	2002		2003			2003		
	Q4	Q1	Q2	Q3	Mar.	Apr.	May	June <sup>1</sup>
U.S. production	12.4	12.4	11.7	12.6	12.0	11.7	11.5	11.8
Autos	4.9	4.7	4.4	4.9	4.4	4.4	4.4	4.6
Trucks	7.5	7.7	7.2	7.7	7.5	7.3	7.1	7.2
Total days' supply <sup>2</sup>	63.12	74.0	71.9	66.6	73.65	70.99	71.83	71.98
Inventories <sup>3</sup>	2.73	3.01	3.02	2.92	3.01	3.01	3.00	3.02

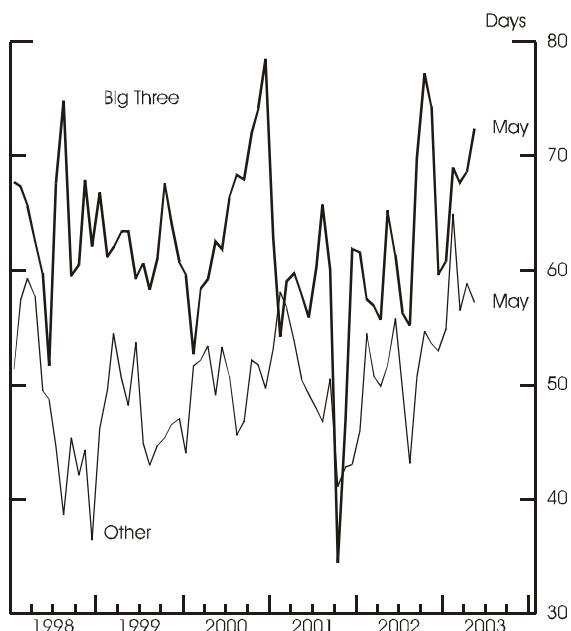
NOTE. Components may not sum to totals because of rounding.

1. Production rates reflect Ward's Communications' latest schedules for Q3 and June.

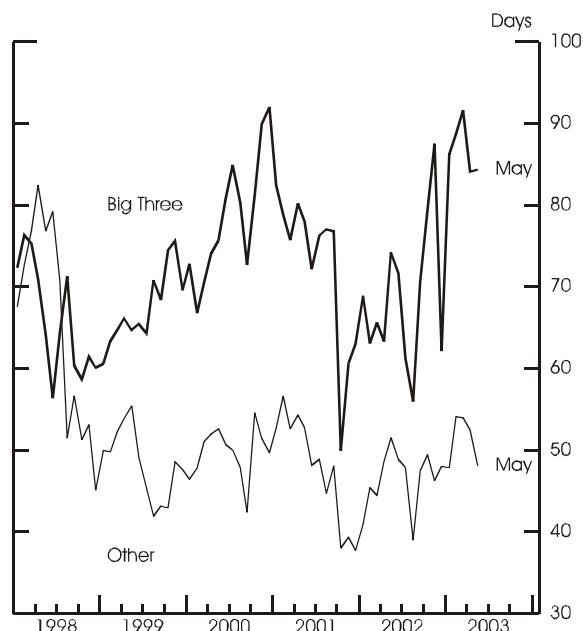
2. Semiannual and quarterly values calculated with end-of-period stocks and average reported sales.

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

Days' Supply of Autos



Days' Supply of Light Trucks



**Budget Effects of Jobs and Growth Reconciliation Act**

(Billions of dollars, fiscal years)

Item	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Revenues<sup>1</sup></b>	<b>-53</b>	<b>-136</b>	<b>-82</b>	<b>-21</b>	<b>-14</b>	<b>-17</b>	<b>-11</b>	<b>-4</b>	<b>4</b>	<b>3</b>	<b>2</b>
Individual income taxes <sup>1</sup>	-35	-107	-67	-29	-26	-27	-19	-10	0	0	0
Marginal rates	-10	-39	-20	-6	0	0	0	0	0	0	0
Child credit <sup>1</sup>	-14	-6	-13	0	0	0	0	0	0	0	0
Marriage penalty	-5	-25	-5	0	0	0	0	0	0	0	0
10% bracket	-2	-8	-2	0	0	0	0	0	0	0	0
AMT	-1	-10	-6	0	0	0	0	0	0	0	0
Dividends	-4	-18	-21	-23	-26	-27	-19	-10	0	0	0
Corporate income taxes	-18	-30	-15	8	12	10	8	6	4	3	2
Depreciation bonus	-10	-33	-12	9	9	8	7	5	4	2	1
Sec.179 expensing	-2	-3	-4	-1	3	2	1	1	1	0	0
Timing	-6	6	0	0	0	0	0	0	0	0	0
<b>Outlays</b>	<b>8</b>	<b>12</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Medicaid grants	3	7	0	0	0	0	0	0	0	0	0
Per capita grants	5	5	0	0	0	0	0	0	0	0	0
Primary deficit	61	149	82	21	14	17	11	4	-4	-3	-2
Interest	0	4	10	16	19	21	23	25	26	27	29
Deficit	61	153	92	36	33	38	34	29	22	25	27
Debt	61	153	306	343	375	413	448	477	498	523	550

1. Includes outlay effect of refundable child tax credit.

SOURCE. Joint Committee on Taxation and Federal Reserve Board staff.