

Part 1

August 6, 2003

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

Confidential (FR) Class II FOMC

August 6, 2003

Summary and Outlook

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

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

Measure	2003:Q2		2003:Q3	
	June GB	August GB	June GB	August GB
Real GDP	1.5	2.6	3.8	3.6
Private domestic final purchases	1.9	4.0	3.7	3.9
Personal consumption expenditures	2.1	3.3	3.8	3.3
Residential investment	-3.9	5.3	1.8	6.1
Business fixed investment	3.2	7.6	3.7	7.0
Government outlays for consumption and investment	7.0	8.2	5.2	3.5
	Contribution to growth (percentage points)			
Inventory investment	-.5	-.7	-.5	-.4
Net exports	-.9	-1.5	.1	-.1

The labor market has been weaker than we projected. After dropping 71,000 in June, private payroll employment fell 34,000 in July. The workweek also ticked down last month. However, initial claims for unemployment insurance fell in July to their lowest level since the winter, and we expect that private payrolls will stabilize over the next two months. We believe that significant growth in aggregate demand by the fall will raise business confidence in the durability of the recovery and thereby generate an appreciable pickup in hiring in the fourth quarter.

Manufacturing production climbed nearly 1/2 percent in June but appears to have only held steady in July. Motor vehicle assemblies increased last month, but other manufacturing output seems to have reversed much of its June rise. Nonetheless, recent surveys of purchasing managers have been encouraging, which bodes well for the remainder of the quarter.

On the spending side, real consumer outlays rose at an annual rate of 3-1/4 percent in the second quarter, as a result of a very large gain in motor vehicle purchases and a modest increase in expenditures for other items. The limited information we have on consumer spending in July is favorable: Unit sales of light vehicles strengthened, and reports suggest that chain-store sales rose briskly. In our forecast, consumer spending rises at a pace of 3-1/2 percent in the second half of the year, with household outlays for motor vehicles leveling off and other outlays posting a large increase that is spurred by a recovering labor market and stimulus from the personal tax cuts.

Measure	2003		2004
	H1	H2	
Real GDP	2.0	4.0	4.8
Previous	1.5	4.2	5.3
Final sales	2.8	3.8	4.2
Previous	2.1	4.5	4.5
PCE	2.7	3.4	4.3
Previous	2.0	4.2	4.6
Residential investment	7.6	2.5	4.1
Previous	3.2	3.5	4.7
BFI	1.4	7.1	13.0
Previous	-1.3	4.5	14.3
Government purchases	4.2	3.0	1.2
Previous	3.7	3.5	.8
Exports	-2.2	9.1	9.1
Previous	-1.6	8.6	9.6
Imports	1.1	6.2	10.2
Previous	-.6	4.3	10.4
	Contribution to growth, percentage points		
Inventory change	-.8	.2	.6
Previous	-.5	-.3	.8
Net exports	-.4	.0	-.6
Previous	-.1	.2	-.6

Business spending. We are looking for a pronounced pickup in business investment in equipment and software in 2004, with real outlays rising 16-1/4 percent, compared with a 9-3/4 percent pace in the second half of 2003. In our forecast, the increase in investment is driven by accelerating business output as well as by a cost of capital that is held down by historically low

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

Measure	1973-95	1996-99	2000	2001	2002	2003	2004
Structural labor productivity	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> ¹							
Capital deepening	.6	1.3	1.2	.5	.4	.4	.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.

Aggregate Supply, the Labor Market, and Prospects for Inflation

Slack in labor and product markets continued to widen in the second quarter. However, with actual output rising more rapidly than potential output over the projection period, the output gap should narrow, and the unemployment rate should fall. Even so, the underutilization of resources in our projection should continue to exert downward pressure on the inflation rate through next year.

Productivity and the labor market. Output per hour in the nonfarm business sector appears to have increased at an annual rate of 6-1/4 percent in the second quarter. We interpret this sizable advance as reflecting robust growth in structural productivity, hesitancy by businesses to hire workers or increase hours in the face of an uncertain recovery, and some unusual factors noted earlier. We have not changed our estimate of either structural productivity or potential output growth in this Greenbook.⁴

4. The Bureau of Labor Statistics will release revisions to historical productivity data and a preliminary estimate of second-quarter productivity on August 7. The revised data will incorporate new estimates of hours based on the usual benchmarking to new data as well as extensive changes in the methods used by the BLS to measure hours. Owing to the scale of these changes, our current estimate of productivity growth in the past several years is especially uncertain. Moreover, these figures may be altered again substantially after new estimates of output are released in the comprehensive NIPA revision in December. The Greenbook Supplement will include a discussion of the data released on August 7.

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	3.2	.7
Previous	1.9	4.1	2.6	1.5
Nonfarm private payroll employment	-1.7	-.7	.0	3.9
Previous	-1.7	-.7	.5	4.1
Household survey employment	-.8	.3	1.2	2.9
Previous	-.8	.3	1.3	2.9
Labor force participation rate ¹	66.8	66.5	66.4	66.9
Previous	66.8	66.5	66.4	66.9
Civilian unemployment rate ¹	5.6	5.9	6.2	5.5
Previous	5.6	5.9	6.1	5.4

1. Percent, average for the fourth quarter.

With business caution waning in coming quarters, we see employment and the workweek turning up strongly by the end of the year. Job gains are projected to exceed 350,000 per month in 2004, enough to reduce the growth rate of productivity below its underlying structural pace. The unemployment rate drops appreciably next year in our forecast despite a rise in labor force participation induced by improving labor market conditions. Still, with a somewhat weaker output path than in the June Greenbook, our current projection of the unemployment rate at the end of 2004, at 5.5 percent, is slightly higher.

Prices. We expect that core PCE prices will rise 1.1 percent in 2003 and 0.9 percent in 2004, compared with 1.6 percent in 2002. Slack resource utilization contributes importantly to the decline in inflation both this year and next. Overall PCE prices are projected to rise 1.6 percent this year and 0.7 percent next year. The more-pronounced deceleration compared with the core measure reflects mainly the unwinding of the sharp increase in energy prices earlier this year.

Over the twelve months ending in June 2003, the employment cost index increased 3-1/2 percent. We expect the wages and salaries component of the index to extend its recent deceleration into 2004, and we anticipate that the benefits component will slow a little next year from its recent pace but continue to increase more rapidly than wages and salaries. Altogether, we project that the overall ECI will rise 3.8 percent in 2003 and 3.1 percent in 2004.

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

Measure	2001	2002	2003	2004
PCE chain-weighted price index	1.5	1.8	1.6	.7
Previous	1.5	1.8	1.3	.8
Food and beverages	3.1	1.4	2.0	1.3
Previous	3.1	1.4	1.9	1.4
Energy	-10.3	7.0	8.2	-5.5
Previous	-10.3	7.0	3.9	-2.9
Excluding food and energy	1.9	1.6	1.1	.9
Previous	1.9	1.6	1.0	.9
Consumer price index	1.8	2.2	1.9	.9
Previous	1.8	2.2	1.7	1.2
Excluding food and energy	2.7	2.1	1.3	1.3
Previous	2.7	2.1	1.5	1.4
GDP chain-weighted price index	2.0	1.3	1.3	1.0
Previous	2.0	1.3	1.2	1.1
ECI for compensation of private industry workers ¹	4.2	3.2	3.8	3.1
Previous	4.2	3.2	3.7	3.1
NFB compensation per hour	1.4	2.4	3.2	2.7
Previous	1.4	3.1	3.4	2.7
Prices of core non-oil merchandise imports	-2.9	.7	2.0	1.2
Previous	-2.9	.7	3.7	1.1

1. December to December.

Financial Flows and Conditions

The outlook for growth in domestic nonfinancial-sector debt over the second half of 2003 is somewhat weaker than it was in our last forecast, as the sharp rise in long-term interest rates is expected to reduce the volume of borrowing by households, businesses, and state and local governments. This restraint persists into the first half of 2004 but is offset by an upward revision in federal borrowing prompted by the anticipated deterioration in the budget outlook. Overall, we project that total nonfinancial-sector debt will expand 7-3/4 percent in 2003 and 7 percent in 2004.

The jump in long-term interest rates has led us to revise down our projection for household debt growth to 8-1/4 percent in 2003 and 6-3/4 percent in 2004, with

Alternative Simulations

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

Measure	2003			2004	
	Q2	Q3	Q4	H1	H2
<i>Real GDP</i>					
Greenbook Baseline	2.6	3.6	4.4	4.8	4.8
Faster structural productivity growth	2.6	3.7	4.8	5.4	5.5
Low NAIRU	2.6	3.7	4.4	4.9	4.9
Prolonged subpar investment	2.6	3.6	4.4	4.0	3.9
Weaker fiscal response	2.6	3.0	3.9	4.6	4.7
Lower bond yields	2.6	3.6	4.4	6.0	5.7
Market-based funds rate	2.6	3.6	4.4	4.8	4.5
<i>Civilian unemployment rate¹</i>					
Greenbook Baseline	6.2	6.3	6.2	5.9	5.5
Faster structural productivity growth	6.2	6.3	6.3	6.1	5.8
Low NAIRU	6.2	6.3	6.2	5.9	5.4
Prolonged subpar investment	6.2	6.3	6.2	6.0	5.8
Weaker fiscal response	6.2	6.3	6.3	6.1	5.7
Lower bond yields	6.2	6.3	6.2	5.7	5.0
Market-based funds rate	6.2	6.3	6.2	5.9	5.6
<i>PCE prices excluding food and energy</i>					
Greenbook Baseline	1.2	1.4	1.2	1.0	.9
Faster structural productivity growth	1.2	1.4	1.1	.8	.5
Low NAIRU	1.2	1.4	1.1	.8	.6
Prolonged subpar investment	1.2	1.4	1.2	1.0	.9
Weaker fiscal response	1.2	1.4	1.2	1.0	.8
Lower bond yields	1.2	1.4	1.2	1.1	1.0
Market-based funds rate	1.2	1.4	1.2	1.0	.9

1. Average for the final quarter of the period.

is that the response of consumption will be more modest, perhaps in light of continued uncertainties about employment and income prospects. In this scenario, households save their tax rebates and are only half as responsive to the other tax provisions as in the baseline. Consequently, annualized GDP growth is 1/2 percentage point below baseline in the second half of this year and 1/4 percentage point below baseline in 2004.

Lower bond yields. The baseline projection assumes that over 2004 the absence of any policy tightening will cause bond yields to gradually give back a good deal of their recent run-up. In this alternative scenario, the reversal occurs much more rapidly: Relative to baseline, bond yields are almost 100 basis points lower by the end of this year and 30 basis points lower at the end of next

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
	06/18/03	08/06/03	06/18/03	08/06/03	06/18/03	08/06/03	06/18/03	08/06/03	06/18/03	08/06/03
ANNUAL										
2001	2.6	2.6	0.3	0.3	2.4	2.4	2.8	2.8	4.8	4.8
2002	3.6	3.6	2.4	2.4	1.1	1.1	1.6	1.6	5.8	5.8
2003	3.8	3.9	2.3	2.4	1.5	1.5	2.2	2.3	6.1	6.1
2004	5.9	5.5	4.8	4.4	1.1	1.0	1.1	1.1	5.8	5.8
QUARTERLY										
2001	Q1	3.0	3.0	-0.6	-0.6	3.7	3.7	4.0	4.2	4.2
	Q2	0.9	0.9	-1.6	-1.6	2.5	2.5	3.2	4.4	4.4
	Q3	1.9	1.9	-0.3	-0.3	2.2	2.2	0.9	4.8	4.8
	Q4	2.2	2.2	2.7	2.7	-0.5	-0.5	-0.7	5.6	5.6
2002	Q1	6.5	6.5	5.0	5.0	1.3	1.3	1.4	5.6	5.6
	Q2	2.5	2.5	1.3	1.3	1.2	1.2	3.4	5.9	5.9
	Q3	5.1	5.1	4.0	4.0	1.0	1.0	2.2	5.8	5.8
	Q4	3.2	3.2	1.4	1.4	1.8	1.8	2.0	5.9	5.9
2003	Q1	4.1	3.8	1.6	1.4	2.5	2.4	3.8	5.8	5.8
	Q2	2.4	3.6	1.5	2.6	0.9	1.0	0.6	6.1	6.2
	Q3	4.3	4.6	3.8	3.6	0.4	0.9	1.4	6.2	6.3
	Q4	5.7	5.5	4.6	4.4	1.1	1.0	1.0	6.1	6.2
2004	Q1	6.8	6.2	5.3	4.8	1.5	1.3	1.1	6.0	6.0
	Q2	6.4	5.8	5.3	4.8	1.0	0.9	1.2	5.9	5.9
	Q3	6.4	5.8	5.4	4.8	1.0	0.9	1.2	5.7	5.8
	Q4	6.4	5.7	5.4	4.8	0.9	0.9	1.1	5.4	5.5
TWO-QUARTER³										
2001	Q2	1.9	1.9	-1.1	-1.1	3.1	3.1	3.5	0.5	0.5
	Q4	2.1	2.1	1.2	1.2	0.8	0.8	0.2	1.2	1.2
2002	Q2	4.5	4.5	3.1	3.1	1.3	1.3	2.4	0.3	0.3
	Q4	4.1	4.1	2.7	2.7	1.4	1.4	2.1	0.0	0.0
2003	Q2	3.3	3.7	1.5	2.0	1.7	1.7	2.2	0.2	0.3
	Q4	5.0	5.0	4.2	4.0	0.8	1.0	1.2	0.0	0.0
2004	Q2	6.6	6.0	5.3	4.8	1.3	1.1	1.2	-0.2	-0.3
	Q4	6.4	5.7	5.4	4.8	1.0	0.9	1.2	1.0	-0.5
FOUR-QUARTER⁴										
2001	Q4	2.0	2.0	0.1	0.1	2.0	2.0	1.8	1.7	1.7
2002	Q4	4.3	4.3	2.9	2.9	1.3	1.3	2.2	0.3	0.3
2003	Q4	4.1	4.4	2.9	3.0	1.2	1.3	1.7	0.2	0.3
2004	Q4	6.5	5.9	5.3	4.8	1.1	1.0	1.2	0.9	-0.8

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 ¹	-- Projected --								
		1997	1998	1999	2000	2001	2002	2003	2004	
EXPENDITURES										
Nominal GDP	Bill. \$	8318.4	8781.5	9274.3	9824.6	10082.2	10446.2	10857.3	11458.7	
Real GDP	Bill. Ch. \$	8159.5	8508.9	8859.0	9191.4	9214.5	9439.9	9667.9	10097.3	
Real GDP	% change	4.3	4.8	4.3	2.3	0.1	2.9	3.0	4.8	
Gross domestic purchases		5.0	5.8	5.2	2.9	0.1	3.7	3.1	5.1	
Final sales		3.9	4.7	4.2	2.6	1.6	1.7	3.3	4.2	
Priv. dom. final purchases		5.1	6.3	5.2	3.7	0.9	2.3	3.3	5.3	
Personal cons. expenditures		4.1	5.0	5.0	3.5	2.8	2.7	3.1	4.3	
Durables		8.8	12.7	10.0	3.8	13.2	1.9	7.7	7.1	
Nondurables		2.5	5.0	4.9	3.0	1.7	3.4	4.1	5.6	
Services		3.9	3.6	4.0	3.8	1.3	2.5	1.7	3.1	
Business fixed investment		11.8	12.3	6.6	6.2	-9.3	-1.7	4.2	13.0	
Equipment & Software		13.7	14.9	9.7	5.2	-8.8	3.3	5.4	16.2	
Nonres. structures		6.5	4.9	-2.5	9.3	-10.6	-15.9	0.4	2.1	
Residential structures		3.5	10.0	4.0	-1.2	1.0	6.7	5.0	4.1	
Exports		8.5	2.3	4.9	7.3	-11.4	3.9	3.3	9.1	
Imports		14.3	10.8	11.9	11.1	-8.0	10.1	3.6	10.2	
Gov't. cons. & investment		2.4	2.7	4.5	1.3	5.1	3.6	3.6	1.2	
Federal		0.1	0.6	4.0	-1.2	7.5	7.5	9.8	0.8	
Defense		-1.4	-0.8	4.4	-2.5	7.4	9.3	13.3	-0.7	
State & local		3.7	3.8	4.8	2.6	3.9	1.6	0.1	1.5	
Change in bus. inventories	Bill. Ch. \$	63.8	76.7	62.8	65.0	-61.4	5.2	-12.6	54.0	
Nonfarm		60.6	75.0	64.1	67.2	-63.2	4.1	-14.1	52.7	
Net exports		-113.3	-221.1	-320.5	-398.8	-415.9	-488.5	-543.2	-603.0	
Nominal GDP	% change	6.2	6.0	5.9	4.6	2.0	4.3	4.4	5.9	
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	122.8	125.9	129.0	131.8	131.8	130.4	130.1	133.1	
Unemployment rate	%	4.9	4.5	4.2	4.0	4.8	5.8	6.1	5.8	
Industrial prod. index	% change	8.0	4.0	4.9	2.7	-5.7	1.4	1.1	7.1	
Capacity util. rate - mfg.	%	82.7	81.9	81.4	81.4	75.6	73.7	73.1	76.8	
Housing starts	Millions	1.47	1.62	1.64	1.57	1.60	1.71	1.73	1.79	
Light motor vehicle sales		15.07	15.41	16.78	17.24	17.02	16.70	16.53	17.16	
North Amer. produced		13.14	13.39	14.30	14.38	13.94	13.42	13.16	13.60	
Other		1.93	2.02	2.48	2.86	3.08	3.29	3.37	3.56	
INCOME AND SAVING										
Nominal GNP	Bill. \$	8325.4	8778.1	9297.1	9848.0	10104.1	10436.7	10848.9	11446.6	
Nominal GNP	% change	6.0	5.8	6.4	4.6	2.1	3.8	4.4	5.8	
Nominal personal income		6.3	6.7	5.1	7.7	1.4	3.6	4.1	5.7	
Real disposable income		3.8	5.0	2.4	4.8	0.3	5.2	3.5	5.1	
Personal saving rate	%	4.2	4.7	2.6	2.8	2.3	3.7	3.8	4.7	
Corp. profits, IVA & CCAdj.	% change	9.9	-9.6	7.0	-9.1	8.2	-1.9	9.9	1.5	
Profit share of GNP	%	10.0	8.9	8.7	8.0	7.2	7.5	7.9	7.7	
Excluding FR Banks		9.7	8.6	8.4	7.7	7.0	7.3	7.7	7.5	
Federal surpl./deficit	Bill. \$	-53.3	43.8	111.9	206.9	72.0	-199.9	-396.9	-427.8	
State & local surpl./def.		31.0	40.7	38.3	18.0	-31.3	-51.5	-32.0	-8.3	
Ex. social ins. funds		29.9	40.0	37.4	17.8	-31.2	-51.4	-31.9	-8.2	
Gross natl. saving rate	%	18.0	18.8	18.3	18.4	16.5	15.0	13.7	14.5	
Net natl. saving rate		6.7	7.5	6.8	6.7	3.8	1.9	0.5	1.4	
PRICES AND COSTS										
GDP chn.-wt. price index	% change	1.8	1.1	1.6	2.3	2.0	1.3	1.3	1.0	
Gross Domestic Purchases chn.-wt. price index		1.4	0.8	1.9	2.5	1.3	1.6	1.5	0.8	
PCE chn.-wt. price index		1.5	1.1	2.0	2.5	1.5	1.8	1.6	0.7	
Ex. food and energy		1.7	1.6	1.5	1.8	1.9	1.6	1.1	0.9	
CPI		1.9	1.5	2.6	3.4	1.8	2.2	1.9	0.9	
Ex. food and energy		2.2	2.3	2.0	2.6	2.7	2.1	1.3	1.3	
ECI, hourly compensation ²		3.4	3.5	3.4	4.4	4.2	3.2	3.8	3.1	
Nonfarm business sector		2.2	2.9	2.9	2.1	1.9	4.1	3.2	0.7	
Output per hour		3.4	5.3	4.3	7.2	1.4	2.4	3.2	2.7	
Compensation per Hour		1.1	2.3	1.4	4.9	-0.5	-1.5	0.1	1.9	
Unit labor cost										

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

Item	Units	Projected										
		2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	
EXPENDITURES												
Nominal GDP	Bill. \$	10028.1	10049.9	10097.7	10152.9	10313.1	10376.9	10506.2	10588.8	10688.4	10783.3	
Real GDP	Bill. Ch. \$	9229.9	9193.1	9186.4	9248.8	9363.2	9392.4	9485.6	9518.2	9552.0	9614.3	
Real GDP	% change	-0.6	-1.6	-0.3	2.7	5.0	1.3	4.0	1.4	1.4	2.6	
Gross domestic purchases		-1.1	-1.1	-0.1	2.9	5.6	2.6	3.9	2.9	0.6	4.0	
Final sales		2.8	-0.4	-0.2	4.2	2.4	-0.1	3.4	1.1	2.3	3.4	
Priv. dom. final purchases		1.5	-1.2	0.3	3.0	2.5	1.3	3.4	2.2	1.6	4.0	
Personal cons. expenditures		2.4	1.4	1.5	6.0	3.1	1.8	4.2	1.7	2.0	3.3	
Durables		11.5	5.3	4.6	33.6	-6.3	2.0	22.8	-8.2	-2.0	22.6	
Nondurables		2.3	-0.3	1.3	3.6	7.9	-0.1	1.0	5.1	6.1	0.1	
Services		0.6	1.5	0.9	2.1	2.9	2.7	2.3	2.2	0.9	1.5	
Business fixed investment		-5.4	-14.5	-6.0	-10.9	-5.8	-2.4	-0.8	2.3	-4.4	7.6	
Equipment & Software		-6.3	-16.7	-9.2	-2.5	-2.7	3.3	6.7	6.2	-4.8	7.8	
Nonres. structures		-3.1	-8.4	2.9	-30.1	-14.2	-17.6	-21.4	-9.9	-2.9	7.1	
Residential structures		8.2	-0.5	0.4	-3.5	14.2	2.7	1.1	9.4	10.1	5.3	
Exports		-6.0	-12.4	-17.3	-9.6	3.5	14.3	4.6	-5.8	-1.3	-3.0	
Imports		-7.9	-6.8	-11.8	-5.3	8.5	22.2	3.3	7.4	-6.2	9.1	
Gov't. cons. & investment		5.7	5.6	-1.1	10.5	5.6	1.4	2.9	4.6	0.4	8.2	
Federal		9.5	6.0	1.2	13.5	7.4	7.5	4.3	11.0	0.7	25.1	
Defense		8.3	2.7	4.6	14.3	11.6	7.8	6.9	11.0	-3.3	44.1	
State & local		3.8	5.4	-2.3	8.9	4.6	-1.7	2.2	1.2	0.2	-0.5	
Change in bus. inventories	Bill. Ch. \$	-26.9	-58.3	-61.8	-98.4	-28.9	4.9	18.8	25.8	4.8	-18.4	
Nonfarm		-32.6	-54.9	-63.6	-101.5	-35.1	4.2	20.8	26.5	3.8	-17.5	
Net exports		-404.5	-414.8	-419.0	-425.3	-446.6	-487.4	-488.0	-532.2	-510.3	-552.8	
Nominal GDP	% change	3.0	0.9	1.9	2.2	6.5	2.5	5.1	3.2	3.8	3.6	
EMPLOYMENT AND PRODUCTION												
Nonfarm payroll employment	Millions	132.5	132.2	131.7	130.9	130.5	130.4	130.2	130.3	130.2	130.0	
Unemployment rate	%	4.2	4.4	4.8	5.6	5.6	5.9	5.8	5.9	5.8	6.2	
Industrial prod. index	% change	-6.1	-6.1	-4.6	-5.8	1.4	4.4	3.4	-3.4	0.3	-3.2	
Capacity util. rate - mfg.	%	77.9	76.1	74.8	73.4	73.4	73.9	74.3	73.5	73.2	72.7	
Housing starts	Millions	1.61	1.63	1.60	1.57	1.72	1.68	1.70	1.74	1.74	1.72	
Light motor vehicle sales		16.95	16.54	16.23	18.37	16.34	16.35	17.63	16.50	15.84	16.21	
North Amer. produced		14.04	13.51	13.23	15.00	13.04	13.10	14.27	13.25	12.45	12.93	
Other		2.90	3.04	3.00	3.37	3.31	3.25	3.35	3.24	3.38	3.29	
INCOME AND SAVING												
Nominal GNP	Bill. \$	10038.0	10081.0	10109.3	10188.1	10314.9	10356.8	10495.3	10579.7	10678.2	10769.6	
Nominal GNP	% change	2.2	1.7	1.1	3.2	5.1	1.6	5.5	3.3	3.8	3.5	
Nominal personal income		3.9	0.8	1.4	-0.2	4.8	5.1	2.0	2.4	3.7	3.3	
Real disposable income		-0.1	-0.6	10.5	-7.6	14.5	3.9	1.8	1.4	2.1	2.4	
Personal saving rate	%	2.4	1.9	4.0	0.8	3.5	4.0	3.5	3.6	3.6	3.3	
Corp. profits, IVA & CCAdj.	% change	-21.1	8.7	-17.7	94.4	-6.6	-6.2	-6.9	13.7	10.7	18.8	
Profit share of GNP	%	7.0	7.2	6.8	8.0	7.7	7.6	7.3	7.5	7.6	7.9	
Excluding FR Banks		6.7	6.9	6.5	7.7	7.5	7.3	7.1	7.3	7.5	7.7	
Federal surpl./deficit	Bill. \$	173.8	144.4	-51.7	21.3	-145.8	-195.6	-210.5	-256.6	-275.3	-386.9	
State & local surpl./def.		-16.5	-32.3	-46.2	-30.2	-55.8	-45.1	-54.7	-52.4	-66.9	-36.3	
Ex. social ins. funds		-16.4	-32.2	-46.1	-30.0	-55.6	-44.9	-54.6	-52.3	-66.8	-36.2	
Gross natl. saving rate	%	16.9	16.6	16.5	15.8	15.5	15.5	14.6	14.3	14.0	13.5	
Net natl. saving rate		4.8	4.1	3.3	3.1	2.7	2.4	1.4	1.1	0.8	0.3	
PRICES AND COSTS												
GDP chn.-wt. price index	% change	3.7	2.5	2.2	-0.5	1.3	1.2	1.0	1.8	2.4	1.0	
Gross Domestic Purchases chn.-wt. price index		3.3	1.7	-0.2	0.4	1.2	2.3	1.2	1.8	3.4	0.3	
PCE chn.-wt. price index		3.3	1.8	-0.1	0.8	1.1	2.7	1.7	1.8	2.7	0.9	
Ex. food and energy		2.8	1.2	0.7	2.7	1.4	1.9	1.8	1.5	0.8	1.2	
CPI		4.0	3.2	0.9	-0.7	1.4	3.4	2.2	2.0	3.8	0.7	
Ex. food and energy		2.9	2.6	2.6	2.8	2.1	2.1	1.7	1.3	0.8	0.8	
ECI, hourly compensation ¹		4.6	3.7	3.9	4.4	3.6	4.4	2.5	3.0	5.5	3.4	
Nonfarm business sector		-1.4	-0.1	2.1	7.2	8.6	1.7	5.5	0.7	2.4	6.2	
Output per hour		2.8	0.1	1.0	1.5	2.9	4.0	1.8	1.1	3.9	2.9	
Compensation per hour		4.3	0.3	-1.1	-5.4	-5.3	2.3	-3.4	0.4	1.4	-3.1	

1. Private-industry workers.

Item	Units	Projected					
		2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4
EXPENDITURES							
Nominal GDP	Bill. \$	10905.4	11052.2	11218.8	11377.9	11538.3	11699.9
Real GDP	Bill. Ch. \$	9700.1	9805.2	9920.6	10037.5	10155.8	10275.4
Real GDP	% change	3.6	4.4	4.8	4.8	4.8	4.8
Gross domestic purchases		3.5	4.2	5.2	5.4	5.1	4.8
Final sales		4.0	3.7	3.2	3.9	4.6	5.2
Priv. dom. final purchases		3.9	3.7	4.0	5.3	5.9	6.1
Personal cons. expenditures		3.3	3.6	3.8	4.1	4.6	4.6
Durables		7.4	4.2	4.7	7.6	7.9	8.3
Nondurables		4.7	5.5	5.9	5.7	5.6	5.4
Services		1.9	2.5	2.5	2.7	3.5	3.5
Business fixed investment		7.0	7.2	8.2	13.7	14.3	15.9
Equipment & Software		9.8	9.6	10.2	17.4	17.7	19.8
Nonres. structures		-1.6	-0.7	1.6	1.3	3.1	2.5
Residential structures		6.1	-1.1	-0.5	5.3	5.6	6.1
Exports		7.5	10.6	6.6	9.0	9.2	11.5
Imports		5.4	6.9	9.3	12.0	10.0	9.4
Gov't. cons. & investment		3.5	2.4	2.1	0.8	0.7	1.1
Federal		9.1	5.9	3.8	-0.0	-0.7	0.0
Defense		11.4	6.3	3.0	-1.5	-2.2	-1.8
State & local		0.3	0.4	1.0	1.3	1.6	1.8
Change in bus. inventories	Bill. Ch. \$	-27.9	-8.8	34.2	59.8	65.8	56.3
Nonfarm		-31.0	-11.5	32.9	58.5	64.5	54.8
Net exports		-554.8	-555.0	-574.6	-598.8	-615.1	-623.3
Nominal GDP	% change	4.6	5.5	6.2	5.8	5.8	5.7
EMPLOYMENT AND PRODUCTION							
Nonfarm payroll employment	Millions	129.9	130.3	131.5	132.5	133.6	134.7
Unemployment rate	%	6.3	6.2	6.0	5.9	5.8	5.5
Industrial prod. index	% change	2.9	4.6	7.4	7.1	7.4	6.7
Capacity util. rate - mfg.	%	73.0	73.7	74.9	76.1	77.4	78.6
Housing starts	Millions	1.74	1.74	1.75	1.78	1.80	1.82
Light motor vehicle sales		17.04	17.01	16.99	17.06	17.22	17.37
North Amer. produced		13.71	13.56	13.50	13.55	13.61	13.73
Other		3.34	3.45	3.49	3.51	3.61	3.64
INCOME AND SAVING							
Nominal GNP	Bill. \$	10900.5	11047.2	11210.8	11367.2	11524.8	11683.5
Nominal GNP	% change	5.0	5.5	6.1	5.7	5.7	5.6
Nominal personal income		3.9	5.5	5.9	5.8	5.6	5.6
Real disposable income		7.8	1.7	7.0	4.6	4.2	4.5
Personal saving rate	%	4.3	3.9	4.6	4.8	4.7	4.7
Corp. profits, IVA & CCAdj.	% change	9.4	1.5	0.8	2.1	1.3	1.7
Profit share of GNP	%	8.0	7.9	7.8	7.8	7.7	7.6
Excluding FR Banks		7.8	7.7	7.6	7.6	7.5	7.4
Federal surpl./deficit	Bill. \$	-481.1	-444.5	-457.3	-441.8	-410.3	-402.0
State & local surpl./def.		-26.2	1.3	-12.2	-6.6	-9.7	-4.9
Ex. social ins. funds		-26.1	1.4	-12.1	-6.5	-9.6	-4.8
Gross natl. saving rate	%	13.6	13.8	14.1	14.4	14.6	14.8
Net natl. saving rate		0.4	0.6	1.0	1.3	1.5	1.6
PRICES AND COSTS							
GDP chn.-wt. price index	% change	0.9	1.0	1.3	0.9	0.9	0.9
Gross Domestic Purchases chn.-wt. price index		1.3	1.0	1.0	0.7	0.8	0.8
PCE chn.-wt. price index		1.6	1.0	0.6	0.7	0.7	0.7
Ex. food and energy		1.4	1.2	1.1	1.0	0.9	0.8
CPI		1.9	1.4	0.8	0.8	1.0	1.0
Ex. food and energy		1.5	1.7	1.5	1.4	1.3	1.2
ECI, hourly compensation ¹		3.1	3.1	3.1	3.1	3.1	3.1
Nonfarm business sector							
Output per hour		2.8	1.3	0.6	0.7	0.8	0.8
Compensation per hour		3.2	2.9	2.8	2.7	2.6	2.5
Unit labor cost		0.4	1.5	2.2	2.0	1.8	1.7

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

August 6, 2003

Item	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	01Q4/ 00Q4	02Q4/ 01Q4	03Q4/ 02Q4
Real GDP	-0.3	2.7	5.0	1.3	4.0	1.4	2.6	3.6	0.1	2.9	3.9	3.0
Gross dom. purchases	-0.1	3.0	5.8	2.7	4.0	3.0	0.6	4.2	3.7	0.2	3.9	3.2
Final sales	-0.2	4.1	2.5	-0.1	3.5	1.1	2.2	3.3	4.0	1.6	1.7	3.3
Priv. dom. final purchases	0.3	2.6	2.2	1.1	2.9	1.8	1.4	3.4	3.4	0.8	2.0	2.8
Personal cons. expenditures	1.0	4.1	2.2	1.2	2.9	1.2	1.4	2.3	2.3	1.9	1.9	2.1
Durables	0.4	2.5	-0.6	0.2	1.7	-0.7	-0.2	1.7	0.6	1.0	0.2	0.6
Nondurables	0.3	0.7	1.6	-0.0	0.2	1.0	1.2	0.0	1.0	0.3	0.7	0.8
Services	0.4	0.9	1.2	1.1	1.0	0.9	0.4	0.6	0.8	0.5	1.0	0.7
Business fixed investment	-0.7	-1.3	-0.7	-0.3	-0.1	0.2	-0.5	0.8	0.7	-1.2	-0.2	0.4
Equipment & Software	-0.8	-0.2	0.2	0.3	0.5	0.5	-0.4	0.6	0.8	-0.8	0.3	0.4
Nonres. structures	0.1	-1.1	-0.4	-0.5	-0.6	-0.3	-0.1	0.2	-0.0	-0.4	-0.5	0.0
Residential structures	0.0	-0.2	0.6	0.1	0.1	0.4	0.5	0.2	0.3	0.0	0.3	0.2
Net exports	-0.2	-0.3	-0.8	-1.4	-0.0	-1.6	0.8	-1.5	-0.1	-1.0	-1.0	-0.2
Exports	-1.9	-1.0	0.3	1.3	0.5	-0.6	-0.1	-0.3	0.7	-1.3	0.4	0.3
Imports	1.7	0.7	-1.1	-2.7	-0.5	-1.0	0.9	-1.2	-0.8	1.2	-1.3	-0.5
Government cons. & invest.	-0.2	1.9	1.0	0.3	0.6	0.9	0.1	1.5	0.7	0.9	0.7	0.7
Federal	0.1	0.8	0.5	0.5	0.3	0.7	0.1	1.6	0.6	0.4	0.5	0.7
Defense	0.2	0.5	0.5	0.3	0.3	0.5	-0.2	1.7	0.5	0.3	0.4	0.6
Nondefense	-0.1	0.3	1.1	0.6	-0.2	0.3	0.0	-0.1	0.1	0.2	0.1	0.1
State and local	-0.3	1.1	0.6	-0.2	0.3	0.2	0.0	-0.1	0.0	0.5	0.2	0.0
Change in bus. inventories	-0.1	-1.4	2.6	1.3	0.6	0.3	-0.8	-0.7	-0.4	-1.5	1.2	-0.3
NonFarm	-0.3	-1.4	2.5	1.5	0.7	0.2	-0.9	-0.8	-0.5	-1.6	1.2	-0.4
Farm	0.2	0.1	0.1	-0.2	-0.1	0.1	0.1	0.1	0.1	0.0	-0.0	0.1

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	03Q4/ 02Q4	04Q4/ 03Q4
Real GDP							
Gross dom. purchases	4.4	4.8	4.8	4.8	4.8	3.0	4.8
4.4	5.5	5.6	5.6	5.1	5.1	3.0	5.4
Final sales	3.7	3.2	3.9	4.6	5.1	3.3	4.2
Priv. dom. final purchases	3.2	3.5	4.5	5.0	5.2	2.8	4.6
Personal cons. expenditures	2.5	2.7	2.9	3.2	3.2	2.1	3.0
Durables	0.3	0.4	0.6	0.6	0.7	0.6	0.6
Nondurables	1.1	1.2	1.2	1.1	1.1	0.8	1.1
Services	1.1	1.1	1.1	1.5	0.7	1.1	1.3
Business fixed investment	0.7	0.8	1.4	1.5	1.6	0.4	1.3
Equipment & Software	0.8	0.8	1.3	1.4	1.6	0.4	1.3
Nonres. structures	-0.0	0.0	0.0	0.1	0.1	0.0	0.1
Residential structures	-0.0	-0.0	0.2	0.3	0.3	0.2	0.2
Net exports	0.0	-0.7	-0.8	-0.5	-0.5	-0.2	-0.6
Exports	1.0	0.6	0.9	0.9	1.1	0.3	0.9
Imports	-1.0	-1.3	-1.7	-1.4	-1.3	-0.5	-1.5
Government cons. & invest.	0.5	0.4	0.2	0.2	0.2	0.7	0.2
Federal	0.4	0.3	0.0	-0.0	0.0	0.7	0.1
Defense	0.3	0.1	-0.1	-0.1	-0.1	0.6	-0.0
Nondefense	0.1	0.1	0.1	0.1	0.1	0.1	0.1
State and local	0.1	0.1	0.2	0.2	0.2	0.0	0.2
Change in bus. inventories	0.7	1.6	0.9	0.2	-0.3	0.6	0.6
Nonfarm	0.7	1.6	0.9	0.2	-0.3	-0.4	0.6
Farm	-0.0	-0.1	-0.0	-0.0	0.0	0.1	-0.0

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

Item	Fiscal year			2002			2004			2003			2004			
	2001 ^a	2002 ^a	2003	2004	Q1 ^a	Q2 ^a	Q3 ^a	Q4 ^a	Q1 ^a	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget¹																
Receipts ²	1991	1853	1772	1822	413	523	452	428	398	528	418	431	412	517	461	463
Outlays ²	1864	2011	2178	2304	509	507	493	536	542	545	555	583	576	559	592	
Surplus/deficit ²	127	-158	-406	-482	-97	16	-41	-108	-144	-18	-136	-155	-171	-59	-97	-129
On-budget	-33	-317	-572	-662	-127	-58	-52	-161	-168	-92	-150	-199	-211	-138	-113	-175
Off-budget	161	160	165	180	30	73	11	53	24	75	13	43	41	80	16	47
Means of financing																
Borrowing	-90	221	403	516	51	21	89	96	64	106	137	156	157	113	91	104
Cash decrease	8	-17	21	-5	38	-26	-21	28	20	-17	-10	2	8	-30	15	15
Other ³	-45	-46	-17	-29	8	-11	-27	-16	61	-72	9	-2	5	-24	-8	10
Cash operating balance, end of period	44	61	40	45	14	40	61	33	13	30	40	38	30	60	45	30
NIPA federal sector																
Receipts	2024	1906	1838	1873	1885	1884	1864	1861	1870	1854	1768	1848	1847	1880	1917	1944
Expenditures	1909	2039	2188	2311	2031	2079	2075	2117	2145	2241	2249	2292	2304	2322	2327	2346
Consumption expenditures	517	570	643	698	566	581	590	609	627	663	674	685	702	703	705	
Defense	337	375	430	473	372	383	389	403	409	450	459	466	476	475	474	473
Nondefense	180	195	213	226	194	199	201	206	218	213	216	219	226	228	230	232
Other spending	1392	1469	1545	1613	1464	1498	1485	1508	1519	1578	1575	1607	1602	1619	1624	1641
Current account surplus	115	-133	-350	-438	-146	-196	-211	-257	-275	-387	-381	-444	-457	-442	-410	-402
Gross investment	98	106	114	127	106	107	108	108	109	116	123	126	127	127	127	
Gross saving less gross investment ⁴	116	-138	-359	-456	-151	-201	-216	-261	-279	-397	-498	-463	-476	-459	-426	-417
Fiscal indicators⁵																
High-employment (HEB) surplus/deficit	114	-80	-279	-400	-100	-137	-158	-191	-199	-311	-414	-384	-416	-411	-390	-394
Change in HEB, percent of potential GDP	0.1	1.9	1.8	0.9	1.7	0.3	0.2	0.3	0.1	1.0	0.9	-0.3	0.2	-0.1	-0.2	0.0
Fiscal impetus (FI) percent of GDP	0.6	1.1	1.3	1.3	0.1	0.4	0.1	0.3	0.0	0.6	0.6	0.7	0.2	0.1	0.1	0.2

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

2. OMB's July 2003 baseline surplus estimates are -\$455 billion in FY 2003 and -\$458 billion in FY 2004. CBO's 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**

August 6, 2003

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

Period ¹	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	6.3	-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	9.6	
2001	6.2	-0.2	7.6	8.7	9.8	6.8	6.3	
2002	7.2	7.6	7.1	10.0	12.4	3.5	1.3	
2003	7.8	12.7	6.8	8.3	9.8	2.9	4.6	
2004	6.9	11.3	5.9	6.8	7.5	4.5	2.0	
					5.7	4.9	4.4	
						5.5	5.9	
<i>Quarter</i>								
2002:1	5.1	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	3.3	
3	6.6	7.5	6.4	9.6	12.7	4.0	2.0	
4	7.8	5.5	8.3	10.9	13.5	-0.2	10.6	
2003:1	6.5	2.2	7.4	10.0	12.0	4.3	15.0	
2	10.4	24.3	7.5	8.5	10.1	4.9	3.7	
3	7.0	11.2	6.0	7.3	8.5	3.4	10.1	
4	6.5	11.2	5.5	6.4	7.2	5.0	19.5	
2004:1	6.4	11.0	5.3	6.4	7.1	5.1	3.8	
2	8.6	21.7	5.7	6.5	7.1	5.5	3.6	
3	5.9	5.6	5.9	6.7	7.3	5.7	4.6	
4	6.1	5.3	6.3	7.1	7.7	5.8	5.5	
						5.5	5.7	

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)**

August 6, 2003

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	1077.0	13390	1559.1	1512.6	1178.0	1562.6	1277.0	2121.8	1449.2	1388.6	1398.0	1930.6	1322.8	1399.0	1399.0	
2 Net equity issuance	-47.4	-40.5	-54.9	-28.3	-140.3	-27.9	-62.0	-63.6	-50.0	-44.0	-25.0	-24.0	-32.0	-32.0	-32.0	
3 Net debt issuance	1124.5	1379.5	1614.0	1540.9	1318.3	1590.5	1339.0	2185.4	1499.2	1432.6	1423.0	1954.6	1354.8	1431.0	1431.0	
<i>Borrowing sectors</i>																
Nonfinancial business																
4 Financing gap ¹	141.4	80.7	38.9	135.9	90.2	95.2	68.5	34.5	12.6	39.8	86.2	127.7	154.6	175.2	175.2	
5 Net equity issuance	-47.4	-40.5	-54.9	-28.3	-140.3	-27.9	-62.0	-63.6	-50.0	-44.0	-25.0	-24.0	-32.0	-32.0	-32.0	
6 Credit market borrowing	410.7	202.5	276.6	363.5	140.2	281.4	263.5	270.7	252.3	319.8	305.7	345.4	383.6	419.3	419.3	
Households																
7 Net borrowing ²	613.7	7680	702.3	624.6	768.5	900.8	849.2	735.9	648.1	576.1	581.7	605.1	632.3	679.3	679.3	
8 Home mortgages	480.2	667.1	591.2	498.4	718.1	790.6	723.3	629.0	543.7	468.6	470.4	482.5	499.7	541.0	541.0	
9 Consumer credit	108.7	60.1	78.7	104.2	68.3	-3.8	73.7	87.8	62.1	91.1	94.6	101.8	108.5	111.8	111.8	
10 Debt/DPI (percent) ³	99.8	103.3	107.7	109.5	103.5	105.3	106.8	108.4	108.0	109.1	108.8	109.2	109.6	110.1	110.1	
State and local governments																
11 Net borrowing	105.7	151.4	172.5	88.8	143.9	209.8	146.3	290.5	162.9	90.5	82.8	90.8	88.8	92.8	92.8	
12 Current surplus ⁴	140.6	127.7	149.7	181.5	126.1	126.6	108.4	146.3	157.6	186.6	174.9	182.3	181.0	187.7	187.7	
Federal government																
13 Net borrowing	-5.6	257.5	462.5	463.9	265.7	198.5	79.9	888.2	435.8	446.2	452.8	913.3	250.0	239.7	239.7	
14 Net borrowing (quarterly, n.s.a.)	-5.6	257.5	462.5	463.9	89.4	96.2	63.5	106.3	137.1	155.6	156.8	112.6	90.7	103.9	103.9	
15 Unified deficit (quarterly, n.s.a.)	-94.3	230.8	453.5	455.4	41.5	108.3	143.9	17.8	136.4	155.4	170.6	58.6	97.3	128.8	128.8	
<i>Depository institutions</i>																
16 Funds supplied	289.4	487.8	437.7	447.9	749.1	558.5	586.6	499.3	412.3	252.8	327.1	488.9	559.9	415.7	415.7	
<i>Memo (percentage of GDP)</i>																
17 Domestic nonfinancial debt ⁵	185.7	191.2	197.8	201.1	191.3	193.3	194.9	197.3	199.3	199.9	200.2	201.1	201.9	202.0	202.0	
18 Domestic nonfinancial borrowing	11.2	13.2	14.9	13.4	12.5	15.0	12.5	20.3	13.7	13.0	12.7	17.2	11.7	12.2	12.2	
19 Federal government ⁶	-0.1	2.5	4.3	4.0	2.5	1.9	0.7	8.2	4.0	4.0	4.0	8.0	2.2	2.0	2.0	
20 Nonfederal	11.2	10.7	10.6	9.4	10.0	13.1	11.8	12.0	9.8	8.9	8.6	9.2	9.6	10.2	10.2	

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

Economic growth in the foreign economies appears to have been anemic during the second quarter on average, but monthly indicators suggest that severe weakness early in the quarter gave way to somewhat stronger performance as the quarter progressed. We see the upward contour of these monthly indicators as the first sign of a recovery abroad. Several factors should support this recovery through the rest of this year and next. Most important, the U.S. economy is expected to rebound strongly over the forecast period. In addition, the adverse economic effects of SARS appear to have abated, financial and monetary conditions abroad remain generally supportive, and high-tech production seems poised to bounce back. Nevertheless, given well-known structural problems in the foreign economies--particularly in Japan and the euro area--the pace of recovery is expected to be moderate at best, and excess capacity is expected to persist in most countries.

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	.6	.6	2.5	3.4
<i>Previous GB</i>	2.8	.4	.8	2.6	3.4
Foreign CPI	2.6	4.0	.2	1.6	1.8
<i>Previous GB</i>	2.6	4.0	1.0	1.9	1.9

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

Our projections for foreign growth are almost identical to those in the June Greenbook, as we judge that changes in key conditioning variables have had roughly offsetting effects on the outlook. On the one hand, the staff forecast for U.S. growth is a bit less robust than in the previous forecast; long-term interest rates in the foreign economies have moved up (albeit less than in the United States); and the projected path of oil prices is higher than in our last forecast. On the other hand, foreign equity markets have continued to rally, and several major central banks cut policy rates earlier than we had expected. In addition, the German government has recently opted to loosen fiscal policy next year, and the dollar has strengthened during the intermeeting period, a welcome development for foreign exporters.

Foreign inflation fell sharply in the second quarter. The price of oil dropped from the high levels that were reached before the Iraq war, and in the Asian economies that were affected by SARS, retailers attempted to entice customers

than expected, but the competitive level of the exchange rate and further reductions in policy interest rates should support modest growth through the remainder of this year and next.

We now expect that average four-quarter inflation in the developing countries will hover around 2 $\frac{3}{4}$ percent through the end of next year, a number somewhat lower than that in the last Greenbook, with large output gaps in many countries helping to keep inflation at bay. Hong Kong is projected to experience sustained deflation over the forecast period.

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	2.2	.7	1.1
<i>Imports</i>					
Non-oil core goods	.7	5.5	-.3	1.4	1.2
Oil (dollars per barrel)	25.75	30.77	26.37	28.34	23.76

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 being driven up in the first quarter by a spike in the price of natural gas, prices of imported core goods fell $\frac{1}{4}$ percent at an annual rate in the second quarter, as natural gas prices moved back down. Prices of imported core goods excluding natural gas have been much more stable, increasing at rates of 1 $\frac{3}{4}$ percent in the first quarter and 1 $\frac{1}{4}$ percent in the second quarter. In light of the depreciation of the dollar that occurred in the first half of this year, we were surprised by the relative weakness of core import prices in the second quarter. One possible explanation is that, in an environment with considerable economic slack, foreign producers may be more hesitant to allow the dollar price of their exports to rise when their home currencies appreciate. We have also lowered our estimate of core import price inflation in the current quarter from the one in the June Greenbook; this change reflects largely the appreciation of the dollar over the intermeeting period and the lower projection for foreign prices. In 2004, core

import prices should increase a bit more than 1 percent, in line with the subdued pace of foreign inflation and the relatively flat projected trajectory of the dollar.

Prices of exported core goods have followed a pattern broadly similar to that of core import prices--surging in the first quarter as increases in energy costs boosted prices of industrial supplies and then slowing in the second quarter as energy prices retreated. Over the remainder of the forecast period, core export price inflation is expected to remain subdued, in line with projected prices of U.S. domestic goods.

Trade in Goods and Services

After declining 1¼ percent at an annual rate in the first quarter, real exports of goods and services are estimated to have fallen 3 percent in the second quarter, a drop somewhat larger than that in our previous forecast. The second-quarter decrease in exports is the third straight quarterly contraction and reflects both the continued weakness of activity in the foreign economies and disruptions associated with SARS and the Iraq war. Whereas exports of services are estimated to have fallen since the beginning of the year, mainly because of a sharp drop in international travel, exports of core goods remained about flat in the first quarter before turning down in the second quarter.

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	-1.3	-3.0	9.1	9.1
<i>Previous GB</i>	<i>3.9</i>	<i>-1.2</i>	<i>-2.0</i>	<i>8.6</i>	<i>9.6</i>
Real imports	10.1	-6.2	9.1	6.2	10.2
<i>Previous GB</i>	<i>10.1</i>	<i>-6.2</i>	<i>5.3</i>	<i>4.3</i>	<i>10.4</i>

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

We project that real exports of goods and services will rebound through the forecast period, expanding at a 9 percent rate. The growth of exported core goods is projected to rise to about 6½ percent in the second half of 2003 and to 7½ percent in 2004, reflecting the anticipated pickup in foreign GDP and the lagged effects of the dollar's decline since early last year. Exports of services are projected to bounce back at a 9 percent rate in the second half of this year, as travel-related activity recovers, before decelerating somewhat in 2004. In

certain key Asian currencies are assumed to be revalued. This alternative also begins in 2003:Q3 and has been scaled so that the currencies of all Asian economies except Hong Kong would appreciate 10 percent against the dollar if interest rate spreads remained unchanged. The combined shocks provide a stronger lift to U.S. net exports, boosting U.S. real GDP growth 0.4 percentage point above baseline in 2003:H2 and 0.3 percentage point above baseline next year. Core PCE inflation rises slightly relative to baseline in the second half of 2003 and 0.4 percentage point in 2004, in part because of the direct effect of higher prices for imported goods and services.

Alternative Simulations:
Increase in Demand and Fall in Risk Premiums in Asia
(Percent change from previous period, annual rate)

Indicator and simulation	2003		2004	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	2.0	4.0	4.8	4.8
Simulation 1: Asian demand	2.0	4.3	4.9	4.9
Simulation 2: Asian demand and currencies	2.0	4.4	5.0	5.1
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	1.0	1.3	1.0	0.9
Simulation 1: Asian demand	1.0	1.3	1.1	1.1
Simulation 2: Asian demand and currencies	1.0	1.4	1.4	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	Projected 2003	Projected 2004
REAL GDP (1)									
Total foreign	4.0	4.2	1.5	4.9	4.4	0.2	2.8	1.5	3.4
Industrial Countries of which:	2.7	3.5	2.7	4.2	3.8	0.6	2.6	1.4	2.4
Canada	2.7	4.4	4.4	5.9	4.2	1.4	3.5	2.1	3.0
Japan	3.3	0.3	-1.3	-0.5	5.1	-2.4	2.4	0.3	1.0
United Kingdom	2.8	3.7	2.6	3.2	2.2	1.9	2.3	1.3	2.3
Euro Area (2)	1.6	3.2	2.0	3.8	2.7	0.6	1.2	0.6	2.1
Germany	1.4	1.7	0.7	3.3	1.9	0.1	0.7	-0.2	1.7
Developing Countries	6.1	5.4	-0.3	6.1	5.3	-0.3	3.1	1.8	4.7
Asia	6.6	5.0	-2.1	8.6	6.3	0.9	5.6	2.7	5.5
Korea	6.4	3.4	-5.2	13.8	5.1	4.2	7.0	2.0	4.6
China	5.3	8.7	9.5	4.5	8.0	7.5	8.0	6.8	8.1
Latin America	6.3	6.1	1.2	4.2	4.5	-1.4	1.1	0.8	4.4
Mexico	7.1	6.8	2.9	5.4	4.8	-1.5	2.0	0.9	4.9
Brazil	5.2	2.3	-1.7	3.5	4.0	-0.7	3.4	1.6	3.0
CONSUMER PRICES (3)									
Industrial Countries of which:	1.5	1.5	1.0	1.2	1.8	1.0	2.2	1.3	1.2
Canada	2.0	1.0	1.1	2.4	3.1	1.1	3.8	2.0	2.1
Japan	0.2	2.1	0.7	-1.1	-1.3	-2.1	-0.4	-0.5	-0.7
United Kingdom (4)	3.2	2.7	2.5	2.2	2.5	2.5	2.6	2.4	2.4
Euro Area (2)	1.9	1.5	0.8	1.5	2.5	2.1	2.3	1.5	1.1
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	2.6	2.7
Asia	4.7	2.8	4.4	0.4	1.8	1.0	0.7	1.3	1.7
Korea	5.0	4.9	5.8	1.2	2.5	3.3	3.4	2.8	2.7
China	6.8	0.9	-1.2	-0.9	0.8	-0.2	-0.7	0.8	1.2
Latin America	25.8	15.5	15.4	12.5	8.4	5.3	6.4	4.7	4.1
Mexico	28.0	17.0	17.3	13.4	8.7	5.1	5.3	3.7	3.6
Brazil	9.6	4.6	2.0	8.4	6.4	7.5	10.7	12.2	6.8

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

2. Harmonized data for euro area from Eurostat.

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

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

Measure and country	2002				2003				Projected 2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)												
Total foreign	3.4	3.6	2.7	1.3	0.6	0.6	2.1	2.9	3.2	3.3	3.4	3.5
Industrial Countries of which:	3.5	3.2	2.3	1.2	1.4	0.5	1.5	2.1	2.3	2.4	2.5	2.6
Canada	5.8	3.8	2.7	1.6	2.4	0.4	2.2	3.2	3.1	3.1	3.0	3.0
Japan	0.1	5.4	2.6	1.5	0.6	-0.3	0.4	0.7	0.8	1.0	1.1	1.1
United Kingdom	1.2	2.4	2.0	0.4	1.2	1.8	1.9	2.2	2.2	2.3	2.3	2.6
Euro Area (2)	1.6	1.6	1.3	0.3	0.2	0.2	0.8	1.2	1.7	2.0	2.4	2.4
Germany	1.2	0.6	1.2	-0.1	-0.9	-0.5	0.1	0.6	1.2	1.5	2.0	2.0
Developing Countries	3.3	4.2	3.4	1.5	-0.7	0.7	3.0	4.2	4.6	4.7	4.8	4.8
Asia	6.4	7.1	3.4	5.3	2.7	-0.9	4.1	5.0	5.3	5.6	5.7	5.7
Korea	10.5	5.4	3.9	8.3	-1.4	-0.2	5.0	5.0	4.5	4.5	5.0	5.0
China	8.5	9.3	7.5	6.8	16.3	-2.9	6.5	8.0	8.0	8.2	8.2	8.2
Latin America	1.2	2.0	3.2	-1.7	-4.1	-1.8	2.1	3.7	4.4	4.4	4.4	4.4
Mexico	2.0	3.6	2.4	-0.1	-2.0	0.2	1.7	3.8	4.9	4.9	4.9	4.9
Brazil	7.6	-0.8	4.1	2.9	-0.2	1.0	2.5	3.0	3.0	3.0	3.0	3.0
CONSUMER PRICES (3)												
Industrial Countries of which:	1.2	1.0	1.4	2.2	2.5	1.8	1.5	1.3	0.7	1.2	1.2	1.2
Canada	1.6	1.3	2.3	3.8	4.5	2.8	2.3	2.0	1.0	2.3	2.1	2.1
Japan	-1.5	-1.1	-0.9	-0.4	-0.3	-0.4	-0.4	-0.5	-0.6	-0.7	-0.7	-0.7
United Kingdom (4)	2.4	1.9	2.0	2.6	2.9	2.9	2.7	2.4	2.0	2.3	2.4	2.4
Euro Area (2)	2.6	2.1	2.1	2.3	2.3	2.0	1.9	1.5	1.0	1.0	1.1	1.1
Germany	2.0	1.1	1.1	1.2	1.1	0.9	0.7	0.4	-0.1	0.1	0.2	0.3
Developing Countries	2.7	2.6	2.8	3.1	3.6	3.1	2.7	2.6	2.2	2.4	2.7	2.7
Asia	0.8	0.6	0.5	0.7	1.4	1.2	1.3	1.8	2.0	2.3	2.7	2.7
Korea	2.6	2.6	2.5	3.4	4.1	3.3	3.1	2.8	2.2	2.4	2.7	2.7
China	-0.6	-1.1	-0.8	-0.7	0.5	0.7	0.5	0.8	0.1	0.4	1.0	1.2
Latin America	5.2	5.4	6.0	6.4	7.1	6.3	5.3	4.7	4.3	4.2	4.3	4.1
Mexico	4.8	4.8	5.2	5.3	5.5	4.7	3.9	3.7	3.8	3.8	3.8	3.6
Brazil	7.7	7.9	7.7	10.7	15.6	17.0	15.6	12.2	7.5	6.3	6.8	6.8

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.

	1996	1997	1998	1999	2000	2001	2002	2003	Projected 2004
NIPA REAL EXPORTS and IMPORTS									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.2	-0.8	-1.1	-1.0	-0.8	-0.1	-1.0	-0.2	-0.6
Exports of G&S	-1.1	-1.0	0.3	0.5	0.8	-1.3	0.4	0.3	0.9
Imports of G&S	-1.3	-1.3	-1.3	-1.5	-1.5	-1.5	-1.3	-0.5	-1.5
Exports of G&S Services	9.8	8.5	2.3	4.9	7.3	-11.4	3.9	3.3	9.1
Computers	8.9	1.4	2.9	3.2	4.8	-9.2	11.4	1.3	5.4
Semiconductors	21.6	25.8	8.1	13.4	23.0	-23.4	-2.1	8.4	33.5
Other Goods 1/	44.6	21.3	9.1	34.6	26.9	-34.9	8.5	32.2	36.3
7.3	9.8	1.3	3.2	5.7	-9.4	0.5	2.3	2.3	7.5
Imports of G&S Services	11.2	14.3	10.8	11.9	11.1	-8.0	10.1	3.6	10.2
Oil	5.3	14.0	8.5	5.9	10.9	-8.6	11.5	-2.3	4.9
Computers	7.8	3.9	4.1	-3.4	13.3	0.1	4.0	-3.7	3.4
Semiconductors	17.8	33.0	25.8	26.0	13.6	-13.8	13.6	18.9	33.6
Other Goods 2/	56.7	32.9	-8.7	34.2	22.5	-51.4	9.3	14.1	36.3
10.4	12.7	11.5	12.7	10.4	-6.2	10.1	4.8	9.8	9.9
Billions of chained 1996 dollars									
Net Goods & Services	-89.0	-113.3	-221.1	-320.5	-398.8	-415.9	-488.5	-543.2	-603.0
Exports of G&S	874.2	981.5	1002.4	1036.3	1137.2	1076.1	1058.8	1068.5	1153.1
Imports of G&S	963.1	1094.8	1223.5	1356.8	1536.0	1492.0	1547.4	1611.7	1756.1
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-117.2	-127.7	-204.7	-290.8	-411.5	-393.7	-480.9	-557.3	-600.9
Current Acct as Percent of GDP	-1.5	-1.5	-2.3	-3.1	-4.2	-3.9	-4.6	-5.1	-5.2
Net Goods & Services (BOP)	-102.9	-107.0	-163.2	-261.2	-375.4	-357.8	-418.0	-502.9	-547.1
Investment Income, Net	28.6	25.1	11.5	22.3	24.2	15.7	1.3	17.5	13.9
Direct Net Portfolio, Net	69.4	72.4	65.5	78.2	94.9	106.5	93.5	101.9	101.8
-40.8	-47.3	-54.1	-55.9	-70.7	-90.8	-92.2	-84.4	-88.0	-88.0
Other Income & Transfers, Net	-43.0	-45.7	-53.0	-52.0	-60.3	-51.6	-64.1	-71.9	-67.6

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	-1.0	-0.7	-0.2	0.5	-0.4	-0.2	-0.3					-1.2	4	-17.3	-9.6								
Exports of G&S	-0.8	0.4	1.1	1.3	0.8	1.5	1.2	0.5	-0.7	-1.4	-2.0	-1.0					-6.0	-2.5	-13.8	-13.8								
Imports of G&S	-1.0	-1.9	-1.8	-1.2	-1.9	-2.5	-1.9	-0.3	-0.5	-0.7	-0.5	-1.0					-6.0	-2.5	-17.6	-17.6								
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	-2.5	-13.8	-13.8								
Computers	-1.5	3.4	4.7	6.4	10.2	11.2	-5.9	4.4	-7.3	-41.7	-22.8	-17.6					-6.0	-2.5	-17.6	-17.6								
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					-6.0	-2.5	-17.6	-17.6								
Other Goods 1/	34.2	45.2	41.3	19.0	14.6	9.0	43.4	-17.3	-34.6	-47.3	-40.9	-11.7					-6.0	-2.5	-17.6	-17.6								
Imports of G&S Services	-12.0	0.9	10.8	15.4	4.2	9.1	16.7	-5.9	-2.9	-10.5	-16.5	-6.9					-6.0	-2.5	-17.6	-17.6								
Oil	8.4	15.4	14.5	9.4	14.7	18.6	13.8	-1.6	-7.9	-6.8	-11.8	-5.3					-6.0	-2.5	-17.6	-17.6								
Computers	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	-2.5	-17.6	-17.6								
Semiconductors	3.9	29.8	-5.8	-31.5	28.6	40.4	-2.3	-6.5	23.3	7.2	-26.9	-3.9					-6.0	-2.5	-17.6	-17.6								
Other Goods 2/	35.0	43.7	14.4	13.5	2.5	40.4	27.9	-9.5	-21.6	-24.5	-18.7	-14.6					-6.0	-2.5	-17.6	-17.6								
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					-6.0	-2.5	-17.6	-17.6								
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					-6.0	-2.5	-17.6	-17.6								
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					-6.0	-2.5	-17.6	-17.6								
Billions of chained 1996 dollars, s.a.a.r.																												
US CURRENT ACCOUNT BALANCE	-237.2	-278.4	-317.1	-330.7	-380.1	-396.5	-434.3	-435.0	-416.0	-399.9	-414.5	-344.6					-4.0	-4.1	-4.1	-4.1								
Current Account as % of GDP	-2.6	-3.0	-3.4	-3.5	-3.9	-4.0	-4.4	-4.4	-4.1	-4.0	-4.0	-3.4					-4.0	-4.1	-4.1	-4.1								
Net Goods & Services (BOP)	-208.3	-252.6	-285.7	-298.2	-346.9	-364.5	-391.8	-398.4	-373.8	-357.8	-356.2	-343.5																
Investment Income, Net	19.8	24.6	18.3	26.6	19.9	23.2	15.8	37.8	8.6	8.2	-8.3	54.3																
Direct Net Portfolio, Net	74.1	73.8	73.9	90.9	84.5	88.9	91.9	114.5	94.5	96.7	91.3	143.5																
Portfolio, Net	-54.3	-49.3	-55.6	-64.3	-64.5	-65.7	-76.1	-76.6	-86.0	-88.4	-99.6	-89.2																
Other Inc. & Transfers, Net	-48.6	-50.4	-49.7	-59.1	-53.1	-55.2	-58.3	-74.5	-50.8	-50.3	-50.0	-55.4																

1. Merchandise exports excluding computers and semiconductors.

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2002								2003				Projected 2004			
	Q1		Q2		Q3		Q4		Q1		Q2		Q3		Q4	
	NIPA REAL EXPORTS and IMPORTS								Percentage point contribution to GDP growth							
Net Goods & Services	-0.7	-1.4	0.0	-1.6	0.8	-1.5	-0.0	0.0	-0.7	0.0	-0.8	-0.5	-0.8	-0.5	-0.2	-0.1
Exports of G&S	0.3	1.3	0.5	-0.6	-0.1	-0.3	-0.7	-0.7	1.0	1.0	0.9	0.9	0.9	0.9	1.0	1.3
Imports of G&S	-1.1	-2.7	-0.4	-1.0	0.9	-1.2	-0.8	-1.0	-1.0	-1.0	-1.3	-1.4	-1.4	-1.4	-1.4	-1.3
Percentage change from previous period, s.a.a.r.																
Exports of G&S Services	3.5	14.3	4.6	-5.8	-1.3	-3.0	7.5	10.6	6.6	9.0	9.2	9.5	9.5	9.5	11.5	11.5
Computers	21.1	10.7	5.9	8.0	-8.0	-4.2	10.7	7.9	5.3	5.2	5.5	5.5	5.5	5.5	5.6	5.6
Semiconductors	-21.1	-0.5	-0.8	17.9	-7.2	-14.7	31.0	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5
Other Goods 1/	13.7	65.8	21.3	-39.4	44.8	32.1	17.1	36.3	36.3	36.3	36.3	36.3	36.3	36.3	36.2	36.2
Imports of G&S Services	-3.1	14.2	3.3	-10.7	0.2	-3.7	4.1	9.0	3.8	7.5	7.5	7.5	7.5	7.5	11.2	11.2
Oil	8.5	22.2	3.3	7.4	-6.2	9.1	5.4	6.9	9.3	12.0	10.0	10.0	10.0	10.0	9.4	9.4
Computers	-19.0	-2.1	3.1	13.0	-4.0	-17.6	11.6	3.5	3.1	5.6	5.5	5.5	5.5	5.5	5.5	5.5
Semiconductors	52.4	34.5	-13.3	24.1	-12.6	51.9	-22.2	-16.8	0.2	28.5	-1.3	-1.3	-1.3	-1.3	-10.1	-10.1
Other Goods 2/	45.2	5.6	-4.4	8.2	-2.1	23.3	23.9	33.6	33.6	33.6	33.6	33.6	33.6	33.6	33.6	33.6
Net Goods & Services	1.9	41.8	-5.9	-26.4	-1.0	7.4	17.1	36.3	36.3	36.3	36.3	36.3	36.3	36.3	36.3	36.3
Exports of G&S	28.8	6.3	5.2	-6.4	11.2	6.5	8.6	8.6	9.7	9.9	9.9	9.9	9.9	9.9	9.9	9.9
Billions of chained 1996 dollars, s.a.a.r.																
Net Goods & Services	-446.6	-487.4	-488.0	-532.2	-510.3	-552.8	-554.8	-555.0	-574.6	-598.8	-615.1	-623.3	-623.3	-623.3	-623.3	-623.3
Exports of G&S	1030.6	1065.5	1077.7	1061.6	1058.1	1050.0	1069.3	1096.6	1114.2	1138.4	1163.9	1196.0	1196.0	1196.0	1196.0	1196.0
Imports of G&S	1477.1	1552.9	1565.7	1593.8	1568.4	1602.8	1624.1	1651.6	1688.8	1737.2	1779.0	1819.4	1819.4	1819.4	1819.4	1819.4
Billions of dollars, s.a.a.r.																
US CURRENT ACCOUNT BALANCE	-426.9	-491.3	-490.9	-514.3	-544.6	-557.7	-562.9	-563.9	-575.7	-596.1	-611.2	-620.5	-620.5	-620.5	-620.5	-620.5
Current Account as % of GDP	-4.1	-4.7	-4.7	-4.9	-5.1	-5.2	-5.2	-5.1	-5.1	-5.2	-5.3	-5.3	-5.3	-5.3	-5.3	-5.3
Net Goods & Services (BOP)	-360.2	-419.5	-427.9	-464.5	-486.4	-498.7	-512.9	-513.6	-526.4	-544.0	-556.3	-561.9	-561.9	-561.9	-561.9	-561.9
Investment Income, Net	2.2	-12.4	-1.9	17.2	15.8	12.2	21.2	21.0	18.0	15.3	12.5	9.6	9.6	9.6	9.6	9.6
Direct, Net	95.7	85.6	87.7	104.9	97.9	105.9	106.1	103.7	102.2	101.1	100.4	100.4	100.4	100.4	100.4	100.4
Portfolio, Net	-93.5	-98.1	-89.6	-87.7	-82.1	-85.5	-84.8	-85.1	-85.7	-86.8	-88.6	-90.8	-90.8	-90.8	-90.8	-90.8
Other Inc. & Transfers, Net	-68.9	-59.3	-61.1	-67.1	-73.9	-71.2	-71.2	-67.4	-67.4	-67.4	-67.4	-68.2	-68.2	-68.2	-68.2	-68.2

I-41

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

Part 2

August 6, 2003

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

Confidential (FR) Class III FOMC

August 6, 2003

Recent Developments

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

Administration Budget Projections and Economic Assumptions

Item	2003	2004	2005	2006	2007	2008
Budget projections (fiscal years)	Billions of dollars					
<i>Current proposal</i>						
Total surplus	-455	-475	-304	-238	-213	-226
On-budget	-615	-639	-490	-441	-435	-464
Off-budget	159	164	186	203	222	238
<i>Current services baseline</i>						
Total surplus	-455	-458	-241	-110	-78	-62
On-budget	-614	-621	-427	-313	-300	-300
Off-budget	159	164	186	203	222	238
Economic assumptions (calendar years)	Percent change, fourth quarter to fourth quarter					
Real GDP	2.8	3.7	3.5	3.3	3.2	3.1
GDP price index	1.5	1.3	1.4	1.6	1.7	1.8
CPI-U	1.9	1.8	1.9	2.1	2.3	2.3
	Percent, annual average					
Unemployment rate	5.8	5.5	5.3	5.2	5.1	5.1
Treasury yields						
Three-month	1.2	2.0	2.8	3.6	4.2	4.3
Ten-year	3.7	4.1	4.5	4.8	5.1	5.3

Note. The on-budget surplus excludes social security and the Postal Service (which are off-budget). The current services baseline assumes that budget authority for discretionary spending grows at the rate of inflation after 2003.

Source. Office of Management and Budget, *Budget of the U.S. Government, Mid-Session Review: Fiscal Year 2004* (July 2003).