

## **Part 1**

December 3, 2003

# **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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## **Summary and Outlook**

December 3, 2003

## **Summary and Outlook**

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

| Measure   | 2003:Q4                                       |            | 2004:Q1    |            |
|---|---|------------|------------|------------|
|   | Oct.<br>GB                                    | Dec.<br>GB | Oct.<br>GB | Dec.<br>GB |
| <b>Real GDP</b>                                   | <b>4.4</b>                                    | <b>4.4</b> | <b>5.2</b> | <b>5.3</b> |
| Private domestic final purchases                  | 2.7   | 3.5        | 5.1        | 5.4        |
| Personal consumption expenditures                 | 1.8   | 2.0        | 4.5        | 4.3        |
| Residential investment                            | 5.6   | 15.0       | -.2        | 3.2        |
| Business fixed investment                         | 7.9   | 8.1        | 11.6       | 14.7       |
| Government outlays for consumption and investment | 4.7   | 3.2        | 3.8        | 4.9        |
|   | Contribution to growth<br>(percentage points) |            |            |            |
| Inventory investment                              | 1.4   | 1.1        | .6         | .2         |
| Net exports                                       | -.3   | -.4        | -.5        | -.5        |

pickup of about 4 percentage points from the pace in the first half of the year and well above our estimate of the growth rate of potential output.

In the household sector, we expect real consumer spending to rise 2 percent at an annual rate in the current quarter after having advanced at a 6-1/2 percent rate in the third quarter. Recent quarter-to-quarter fluctuations reflect in part a see-saw pattern of sales of light motor vehicles: Generous incentives helped to push sales above 17-1/2 million units (annual rate) in the third quarter, but we project that sales will fall to a rate of around 16-1/2 million units in the current quarter in response to less-aggressive promotional efforts by manufacturers earlier in the fall. Consumer spending for non-motor-vehicle goods and services moved up modestly on balance in September and October as the initial impetus from the midyear tax cuts began to wane. Nonetheless, we expect rising employment and improving consumer sentiment to help real PCE excluding motor vehicles increase 3-1/2 percent at an annual rate in the fourth quarter.

Activity in the housing market continues to be robust. With mortgage rates low and employment prospects improving, single-family housing starts jumped to a record high of 1.62 million units (annual rate) in October—a level that greatly exceeded our expectations. Permits also were strong in October, and we have interpreted these data as signaling a somewhat higher underlying level of single-family housing demand than we had previously thought. In contrast, the decline in multifamily starts in October was in line with our projections. All told, we now expect total housing starts to increase to 1.93 million units at an annual rate

### The Longer-Term Outlook for the Economy

After having risen at a 6-1/4 percent annual rate in the second half of 2003, real GDP is projected to increase at a 5-1/2 percent rate during the first half of 2004 and a rate of about 5 percent in the second half of the year. This forecast of continued strength reflects the influence of three familiar factors—expansionary fiscal policy, favorable financial conditions, and rapid gains in structural productivity. We also believe that the pace of activity next year will be supported by a further improvement in business confidence. We project that in 2005 the increase in real output will slow to 3-3/4 percent. Underlying that

### Projections of Real GDP

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

| Measure                                       | 2004       |            | 2005       |
|---|------------|------------|------------|
|   | H1         | H2         |            |
| <b>Real GDP</b>                               | <b>5.4</b> | <b>5.1</b> | <b>3.8</b> |
| Previous                                      | 5.2        | 5.0        | 4.0        |
| Final sales                                   | 4.9        | 4.9        | 3.8        |
| Previous                                      | 4.5        | 4.9        | 3.8        |
| PCE   | 4.6        | 4.7        | 4.2        |
| Previous                                      | 4.6        | 4.5        | 4.1        |
| Residential investment                        | 3.2        | .8         | -.4        |
| Previous                                      | 1.4        | 2.3        | 1.1        |
| BFI   | 14.3       | 15.1       | 7.2        |
| Previous                                      | 12.8       | 15.7       | 7.6        |
| Government purchases                          | 3.5        | 1.6        | 2.1        |
| Previous                                      | 2.9        | 1.5        | 2.1        |
| Exports                                       | 9.3        | 11.7       | 10.1       |
| Previous                                      | 8.9        | 11.5       | 9.9        |
| Imports                                       | 10.5       | 10.1       | 9.0        |
| Previous                                      | 10.3       | 9.9        | 9.1        |
| Contribution to growth<br>(percentage points) |            |            |            |
| Inventory change                              | .5         | .3         | .1         |
| Previous                                      | .6         | .1         | .2         |
| Net exports                                   | -.6        | -.3        | -.3        |
| Previous                                      | -.6        | -.3        | -.4        |

**Decomposition of Structural Labor Productivity**

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

| Measure                              | 1973-95 | 1996-2001 | 2002 | 2003 | 2004 | 2005 |
|--------------------------------------|---------|-----------|------|------|------|------|
| <b>Structural labor productivity</b> | 1.4     | 2.7       | 2.6  | 3.1  | 2.7  | 2.9  |
| Previous                             | 1.4     | 2.7       | 2.6  | 2.8  | 2.6  | 2.8  |
| <i>Contributions<sup>1</sup></i>     |         |           |      |      |      |      |
| Capital deepening                    | .6      | 1.2       | .4   | .4   | .8   | 1.0  |
| Previous                             | .6      | 1.2       | .4   | .4   | .7   | 1.0  |
| Multifactor productivity             | .6      | 1.2       | 2.0  | 2.4  | 1.6  | 1.6  |
| Previous                             | .6      | 1.2       | 2.0  | 2.1  | 1.6  | 1.6  |
| Labor composition                    | .3      | .3        | .3   | .3   | .3   | .3   |
| MEMO                                 |         |           |      |      |      |      |
| Potential GDP                        | 2.9     | 3.4       | 3.5  | 3.9  | 3.5  | 3.7  |
| Previous                             | 2.9     | 3.4       | 3.5  | 3.6  | 3.4  | 3.6  |

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                                     | 2002 | 2003 | 2004 | 2005 |
|---|------|------|------|------|
| Output per hour, nonfarm business           | 4.4  | 5.2  | 1.7  | .5   |
| Previous                                    | 4.4  | 4.6  | 1.4  | .9   |
| Nonfarm private payroll employment          | -.7  | .0   | 3.8  | 3.4  |
| Previous                                    | -.7  | -.2  | 3.7  | 3.2  |
| Household survey employment                 | .3   | 1.2  | 2.7  | 2.1  |
| Previous                                    | .3   | 1.0  | 2.8  | 2.1  |
| Labor force participation rate <sup>1</sup> | 66.5 | 66.2 | 66.7 | 67.1 |
| Previous                                    | 66.5 | 66.3 | 66.7 | 67.0 |
| Civilian unemployment rate <sup>1</sup>     | 5.9  | 6.0  | 5.3  | 5.0  |
| Previous                                    | 5.9  | 6.2  | 5.4  | 5.1  |
| MEMO  |      |      |      |      |
| GDP gap <sup>2</sup>                        | 2.3  | 1.9  | .2   | .1   |
| Previous                                    | 2.3  | 2.0  | .4   | .1   |

1. Percent, average for the fourth quarter.

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

**Inflation Projections**

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

| Measure   | 2002 | 2003 | 2004 | 2005 |
|---|------|------|------|------|
| PCE chain-weighted price index                                | 1.8  | 1.7  | .9   | 1.0  |
| Previous  | 1.8  | 1.7  | .8   | .9   |
| Food and beverages  | 1.4  | 2.4  | 1.5  | 1.5  |
| Previous  | 1.4  | 2.2  | 1.4  | 1.4  |
| Energy  | 7.0  | 7.9  | -5.9 | -1.1 |
| Previous  | 7.0  | 8.7  | -6.4 | -1.1 |
| Excluding food and energy                                     | 1.6  | 1.2  | 1.1  | 1.1  |
| Previous  | 1.6  | 1.2  | 1.1  | 1.0  |
| Consumer price index  | 2.2  | 2.0  | 1.0  | 1.3  |
| Previous  | 2.2  | 2.0  | .9   | 1.2  |
| Excluding food and energy                                     | 2.1  | 1.4  | 1.5  | 1.5  |
| Previous  | 2.1  | 1.4  | 1.5  | 1.4  |
| GDP chain-weighted price index                                | 1.3  | 1.5  | 1.0  | 1.2  |
| Previous  | 1.3  | 1.5  | 1.0  | 1.1  |
| ECI for compensation of private industry workers <sup>1</sup> | 3.2  | 4.1  | 3.5  | 3.5  |
| Previous  | 3.2  | 3.8  | 3.4  | 3.4  |
| NFB compensation per hour                                     | 2.8  | 2.7  | 3.1  | 3.4  |
| Previous  | 2.8  | 3.3  | 3.0  | 3.2  |
| Prices of core non-oil merchandise imports                    | .7   | 1.7  | 2.0  | .8   |
| Previous  | .7   | 2.2  | 1.8  | 1.1  |

1. December to December.

**Productivity and the labor market.** As noted earlier, in this projection we have interpreted a small part of the dramatic surge in output per hour last quarter as a further sign that firms have continued to fundamentally increase the efficiency of their operations, thereby boosting structural productivity. However, some of the increase may have reflected a transitory effort to press existing labor resources to meet a surprising increase in demand. As the expansion proves more durable, we expect that businesses will become more willing to expand their workforces to relieve the pressure on existing resources. Indeed, the pickup in employment in recent months suggests that such a shift in attitudes may have already begun. We anticipate that monthly gains in payroll employment will increase from around 250,000 early next year to about 400,000 by the middle of 2004; hiring is expected to slow a bit in 2005 as the economic

**Alternative Simulations**

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

| Measure                                     | 2003       | 2004       |            | 2005       |
|---|------------|------------|------------|------------|
|   | Q4         | H1         | H2         |            |
| <i>Real GDP</i>                             |            |            |            |            |
| <b>Greenbook baseline</b>                   | <b>4.4</b> | <b>5.4</b> | <b>5.1</b> | <b>3.8</b> |
| Booming economy                             | 5.0        | 6.6        | 5.8        | 4.2        |
| Weaker household spending                   | 4.1        | 4.2        | 4.7        | 3.7        |
| More inflation                              | 4.4        | 5.4        | 5.1        | 4.1        |
| Faster structural productivity growth       | 4.5        | 5.9        | 5.6        | 4.2        |
| Market-based funds rate                     | 4.4        | 5.4        | 4.9        | 2.9        |
| Flat funds rate                             | 4.4        | 5.4        | 5.1        | 4.0        |
| <i>Unemployment rate<sup>1</sup></i>        |            |            |            |            |
| <b>Greenbook baseline</b>                   | <b>6.0</b> | <b>5.8</b> | <b>5.3</b> | <b>5.0</b> |
| Booming economy                             | 6.0        | 5.5        | 4.8        | 4.3        |
| Weaker household spending                   | 6.0        | 6.0        | 5.7        | 5.5        |
| More inflation                              | 6.0        | 5.8        | 5.3        | 4.9        |
| Faster structural productivity growth       | 6.0        | 6.0        | 5.6        | 5.6        |
| Market-based funds rate                     | 6.0        | 5.8        | 5.3        | 5.5        |
| Flat funds rate                             | 6.0        | 5.8        | 5.3        | 4.9        |
| <i>PCE prices excluding food and energy</i> |            |            |            |            |
| <b>Greenbook baseline</b>                   | <b>1.2</b> | <b>1.2</b> | <b>1.1</b> | <b>1.1</b> |
| Booming economy                             | 1.2        | 1.2        | 1.2        | 1.3        |
| Weaker household spending                   | 1.2        | 1.2        | 1.0        | .9         |
| More inflation                              | 1.2        | 1.2        | 1.2        | 1.9        |
| Faster structural productivity growth       | 1.2        | 1.0        | .8         | .5         |
| Market-based funds rate                     | 1.2        | 1.2        | 1.1        | .9         |
| Flat funds rate                             | 1.2        | 1.2        | 1.1        | 1.1        |

1. Average for the final quarter of the period.

assume that the third-quarter spending jump reflected a faster response to the tax rebates than was estimated in constructing the baseline forecast. An implication of such a faster response is that the tax cut imposes a slight drag on consumer spending next year, rather than the baseline effect of adding 1/2 percentage point to PCE growth. We also assume in this scenario that a large portion of the recent jump in residential investment represents an advance of construction activity in anticipation of the chance that mortgage rates might turn less favorable. As a result, by the end of next year residential investment drops back to its level in the second quarter of 2003. Under these conditions, real GDP increases 4-1/2 percent in 2004 and 3-3/4 percent in the following year, and the unemployment rate falls to only 5-1/2 percent by late 2005. In response to

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

| Interval                        |    | Nominal GDP |          | Real GDP |          | GDP chain-weighted price index |          | Consumer price index <sup>1</sup> |          | Unemployment rate <sup>2</sup> |          |
|---------------------------------|----|-------------|----------|----------|----------|--------------------------------|----------|-----------------------------------|----------|--------------------------------|----------|
|                                 |    | 10/22/03    | 12/03/03 | 10/22/03 | 12/03/03 | 10/22/03                       | 12/03/03 | 10/22/03                          | 12/03/03 | 10/22/03                       | 12/03/03 |
| <b>ANNUAL</b>                   |    |             |          |          |          |                                |          |                                   |          |                                |          |
| 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                            |    | 4.5         | 4.8      | 2.9      | 3.1      | 1.6                            | 1.6      | 2.3                               | 2.3      | 6.1                            | 6.0      |
| 2004                            |    | 6.1         | 6.6      | 5.0      | 5.4      | 1.1                            | 1.1      | 1.1                               | 1.2      | 5.8                            | 5.7      |
| 2005                            |    | 5.5         | 5.5      | 4.4      | 4.3      | 1.1                            | 1.1      | 1.1                               | 1.2      | 5.1                            | 5.1      |
| <b>QUARTERLY</b>                |    |             |          |          |          |                                |          |                                   |          |                                |          |
| 2002                            | Q1 | 6.5         | 6.5      | 5.0      | 5.0      | 1.3                            | 1.3      | 1.4                               | 1.4      | 5.6                            | 5.6      |
|                                 | Q2 | 2.5         | 2.5      | 1.3      | 1.3      | 1.2                            | 1.2      | 3.4                               | 3.4      | 5.9                            | 5.9      |
|                                 | Q3 | 5.1         | 5.1      | 4.0      | 4.0      | 1.0                            | 1.0      | 2.2                               | 2.2      | 5.8                            | 5.8      |
|                                 | Q4 | 3.2         | 3.2      | 1.4      | 1.4      | 1.8                            | 1.8      | 2.0                               | 2.0      | 5.9                            | 5.9      |
| 2003                            | Q1 | 3.8         | 3.8      | 1.4      | 1.4      | 2.4                            | 2.4      | 3.8                               | 3.8      | 5.8                            | 5.8      |
|                                 | Q2 | 4.3         | 4.3      | 3.3      | 3.3      | 1.0                            | 1.0      | 0.7                               | 0.7      | 6.2                            | 6.2      |
|                                 | Q3 | 8.2         | 10.1     | 6.3      | 8.2      | 1.8                            | 1.7      | 2.4                               | 2.4      | 6.1                            | 6.1      |
|                                 | Q4 | 5.2         | 5.5      | 4.4      | 4.4      | 0.8                            | 1.1      | 1.2                               | 1.3      | 6.2                            | 6.0      |
| 2004                            | Q1 | 6.3         | 6.6      | 5.2      | 5.3      | 1.1                            | 1.2      | 0.7                               | 1.0      | 6.0                            | 6.0      |
|                                 | Q2 | 6.1         | 6.4      | 5.2      | 5.5      | 0.9                            | 0.9      | 0.9                               | 0.9      | 5.8                            | 5.8      |
|                                 | Q3 | 6.1         | 6.3      | 5.1      | 5.3      | 1.0                            | 0.9      | 1.0                               | 1.0      | 5.7                            | 5.5      |
|                                 | Q4 | 5.8         | 6.0      | 4.8      | 4.9      | 1.0                            | 1.0      | 1.1                               | 1.2      | 5.4                            | 5.3      |
| 2005                            | Q1 | 5.3         | 5.3      | 3.9      | 3.8      | 1.4                            | 1.4      | 1.2                               | 1.2      | 5.2                            | 5.2      |
|                                 | Q2 | 5.2         | 5.1      | 4.2      | 4.0      | 1.0                            | 1.1      | 1.2                               | 1.3      | 5.1                            | 5.1      |
|                                 | Q3 | 5.0         | 5.0      | 4.1      | 3.9      | 1.0                            | 1.1      | 1.2                               | 1.3      | 5.1                            | 5.0      |
|                                 | Q4 | 5.0         | 4.8      | 4.0      | 3.7      | 0.9                            | 1.0      | 1.3                               | 1.4      | 5.1                            | 5.0      |
| <b>TWO-QUARTER<sup>3</sup></b>  |    |             |          |          |          |                                |          |                                   |          |                                |          |
| 2002                            | Q2 | 4.5         | 4.5      | 3.1      | 3.1      | 1.3                            | 1.3      | 2.4                               | 2.4      | 0.3                            | 0.3      |
|                                 | Q4 | 4.1         | 4.1      | 2.7      | 2.7      | 1.4                            | 1.4      | 2.1                               | 2.1      | 0.0                            | 0.0      |
| 2003                            | Q2 | 4.1         | 4.1      | 2.3      | 2.3      | 1.7                            | 1.7      | 2.2                               | 2.2      | 0.3                            | 0.3      |
|                                 | Q4 | 6.7         | 7.8      | 5.3      | 6.3      | 1.3                            | 1.4      | 1.7                               | 1.8      | 0.0                            | -0.2     |
| 2004                            | Q2 | 6.2         | 6.5      | 5.2      | 5.4      | 1.0                            | 1.0      | 0.8                               | 0.9      | -0.4                           | -0.2     |
|                                 | Q4 | 6.0         | 6.1      | 5.0      | 5.1      | 1.0                            | 0.9      | 1.1                               | 1.1      | -0.4                           | -0.5     |
| 2005                            | Q2 | 5.3         | 5.2      | 4.0      | 3.9      | 1.2                            | 1.3      | 1.2                               | 1.3      | -0.3                           | -0.2     |
|                                 | Q4 | 5.0         | 4.9      | 4.0      | 3.8      | 0.9                            | 1.1      | 1.2                               | 1.3      | 0.0                            | -0.1     |
| <b>FOUR-QUARTER<sup>4</sup></b> |    |             |          |          |          |                                |          |                                   |          |                                |          |
| 2001                            | Q4 | 2.0         | 2.0      | 0.1      | 0.1      | 2.0                            | 2.0      | 1.8                               | 1.8      | 1.7                            | 1.7      |
| 2002                            | Q4 | 4.3         | 4.3      | 2.9      | 2.9      | 1.3                            | 1.3      | 2.2                               | 2.2      | 0.3                            | 0.3      |
| 2003                            | Q4 | 5.4         | 5.9      | 3.8      | 4.3      | 1.5                            | 1.5      | 2.0                               | 2.0      | 0.3                            | 0.1      |
| 2004                            | Q4 | 6.1         | 6.3      | 5.1      | 5.3      | 1.0                            | 1.0      | 0.9                               | 1.0      | -0.8                           | -0.7     |
| 2005                            | Q4 | 5.1         | 5.0      | 4.0      | 3.8      | 1.1                            | 1.2      | 1.2                               | 1.3      | -0.4                           | -0.3     |

1. For all urban consumers.

2. Level, except as noted.

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

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



Strictly Confidential <FR>  
Class II FOMC

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

December 3, 2003

|                                       |                    | - - - - Projected - - - - |        |        |        |         |         |         |         |         |
|---------------------------------------|--------------------|---------------------------|--------|--------|--------|---------|---------|---------|---------|---------|
| Item                                  | Units <sup>1</sup> | 1997                      | 1998   | 1999   | 2000   | 2001    | 2002    | 2003    | 2004    | 2005    |
| Expenditures                          |                    |                           |        |        |        |         |         |         |         |         |
| Nominal GDP                           | Bill. \$           | 8318.4                    | 8781.5 | 9274.3 | 9824.6 | 10082.2 | 10446.2 | 10942.7 | 11659.9 | 12301.5 |
| Real GDP                              | Bill. Ch. \$       | 8159.5                    | 8508.9 | 8859.0 | 9191.4 | 9214.5  | 9439.9  | 9732.6  | 10256.3 | 10702.2 |
| Real GDP                              | % change           | 4.3                       | 4.8    | 4.3    | 2.3    | 0.1     | 2.9     | 4.3     | 5.3     | 3.8     |
| Gross domestic purchases              |                    | 5.0                       | 5.8    | 5.2    | 2.9    | 0.1     | 3.7     | 4.1     | 5.5     | 4.0     |
| Final sales                           |                    | 3.9                       | 4.7    | 4.2    | 2.6    | 1.6     | 1.7     | 4.4     | 4.9     | 3.8     |
| Priv. dom. final purchases            |                    | 5.1                       | 6.3    | 5.2    | 3.7    | 0.9     | 2.3     | 4.4     | 5.7     | 4.3     |
| Personal cons. expenditures           |                    | 4.1                       | 5.0    | 5.0    | 3.5    | 2.8     | 2.7     | 3.5     | 4.6     | 4.2     |
| Durables                              |                    | 8.8                       | 12.7   | 10.0   | 3.8    | 13.2    | 1.9     | 10.6    | 8.3     | 7.9     |
| Nondurables                           |                    | 2.5                       | 5.0    | 4.9    | 3.0    | 1.7     | 3.4     | 4.5     | 5.6     | 4.8     |
| Services                              |                    | 3.9                       | 3.6    | 4.0    | 3.8    | 1.3     | 2.5     | 1.7     | 3.4     | 3.2     |
| Business fixed investment             |                    | 11.8                      | 12.3   | 6.6    | 6.2    | -9.3    | -1.7    | 6.0     | 14.7    | 7.2     |
| Equipment & Software                  |                    | 13.7                      | 14.9   | 9.7    | 5.2    | -8.8    | 3.3     | 7.9     | 18.1    | 7.4     |
| Nonres. structures                    |                    | 6.5                       | 4.9    | -2.5   | 9.3    | -10.6   | -15.9   | 0.1     | 3.0     | 6.8     |
| Residential structures                |                    | 3.5                       | 10.0   | 4.0    | -1.2   | 1.0     | 6.7     | 13.6    | 2.0     | -0.4    |
| Exports                               |                    | 8.5                       | 2.3    | 4.9    | 7.3    | -11.4   | 3.9     | 5.2     | 10.5    | 10.1    |
| Imports                               |                    | 14.3                      | 10.8   | 11.9   | 11.1   | -8.0    | 10.1    | 3.6     | 10.3    | 9.0     |
| Gov't. cons. & investment             |                    | 2.4                       | 2.7    | 4.5    | 1.3    | 5.1     | 3.6     | 3.3     | 2.5     | 2.1     |
| Federal                               |                    | 0.1                       | 0.6    | 4.0    | -1.2   | 7.5     | 7.5     | 7.7     | 4.5     | 2.0     |
| Defense                               |                    | -1.4                      | -0.8   | 4.4    | -2.5   | 7.4     | 9.3     | 10.2    | 5.0     | 1.5     |
| State & local                         |                    | 3.7                       | 3.8    | 4.8    | 2.6    | 3.9     | 1.6     | 0.9     | 1.3     | 2.1     |
| Change in bus. inventories            | Bill. Ch. \$       | 63.8                      | 76.7   | 62.8   | 65.0   | -61.4   | 5.2     | -2.6    | 46.5    | 81.8    |
| Nonfarm                               |                    | 60.6                      | 75.0   | 64.1   | 67.2   | -63.2   | 4.1     | -3.2    | 45.1    | 80.2    |
| Net exports                           |                    | -113.3                    | -221.1 | -320.5 | -398.8 | -415.9  | -488.5  | -528.8  | -571.8  | -618.1  |
| Nominal GDP                           | % change           | 6.2                       | 6.0    | 5.9    | 4.6    | 2.0     | 4.3     | 5.9     | 6.3     | 5.0     |
| GDP Gap <sup>2</sup>                  | %                  | -0.8                      | -1.6   | -2.1   | -2.2   | 1.0     | 1.9     | 2.5     | 0.8     | 0.1     |
| Employment and Production             |                    |                           |        |        |        |         |         |         |         |         |
| Nonfarm payroll employment            | Millions           | 122.8                     | 125.9  | 129.0  | 131.8  | 131.8   | 130.4   | 130.1   | 132.7   | 137.2   |
| Unemployment rate                     | %                  | 4.9                       | 4.5    | 4.2    | 4.0    | 4.8     | 5.8     | 6.0     | 5.7     | 5.1     |
| Industrial prod. index                | % change           | 8.1                       | 4.4    | 4.9    | 2.3    | -5.2    | 1.3     | 1.4     | 6.2     | 4.7     |
| Capacity util. rate - mfg.            | %                  | 82.6                      | 82.0   | 81.4   | 81.1   | 75.4    | 73.9    | 73.3    | 76.2    | 79.0    |
| Housing starts                        | Millions           | 1.47                      | 1.62   | 1.64   | 1.57   | 1.60    | 1.70    | 1.82    | 1.88    | 1.85    |
| Light motor vehicle sales             |                    | 15.07                     | 15.41  | 16.78  | 17.24  | 17.02   | 16.70   | 16.55   | 17.21   | 17.66   |
| North Amer. produced                  |                    | 13.14                     | 13.39  | 14.30  | 14.38  | 13.94   | 13.42   | 13.23   | 13.79   | 14.16   |
| Other                                 |                    | 1.93                      | 2.02   | 2.48   | 2.86   | 3.08    | 3.29    | 3.32    | 3.42    | 3.50    |
| Income and Saving                     |                    |                           |        |        |        |         |         |         |         |         |
| Nominal GNP                           | Bill. \$           | 8325.4                    | 8778.1 | 9297.1 | 9848.0 | 10104.1 | 10436.7 | 10940.0 | 11674.1 | 12304.5 |
| Nominal GNP                           | % change           | 5.7                       | 5.6    | 6.9    | 4.6    | 2.1     | 3.8     | 6.0     | 6.4     | 4.9     |
| Nominal personal income               |                    | 6.3                       | 6.7    | 5.1    | 7.7    | 1.4     | 3.6     | 3.8     | 5.9     | 5.8     |
| Real disposable income                |                    | 3.8                       | 5.0    | 2.4    | 4.8    | 0.3     | 5.2     | 3.1     | 5.2     | 4.3     |
| Personal saving rate                  | %                  | 4.2                       | 4.7    | 2.6    | 2.8    | 2.3     | 3.7     | 3.3     | 3.7     | 3.8     |
| Corp. profits, IVA & CCAdj.           | % change           | 9.9                       | -9.6   | 7.0    | -9.1   | 8.2     | -1.9    | 29.4    | 9.7     | -5.2    |
| Profit share of GNP                   | %                  | 10.0                      | 8.9    | 8.7    | 8.0    | 7.2     | 7.5     | 8.6     | 9.5     | 8.9     |
| Excluding FR Banks                    |                    | 9.7                       | 8.6    | 8.4    | 7.7    | 7.0     | 7.3     | 8.4     | 9.4     | 8.7     |
| Federal surpl./deficit                | Bill. \$           | -53.3                     | 43.8   | 111.9  | 206.9  | 72.0    | -199.9  | -379.7  | -416.4  | -223.0  |
| State & local surpl./def.             |                    | 31.0                      | 40.7   | 38.3   | 18.0   | -31.3   | -51.5   | -24.1   | -3.1    | 7.2     |
| Ex. social ins. funds                 |                    | 29.9                      | 40.0   | 37.4   | 17.8   | -31.2   | -51.4   | -24.0   | -3.1    | 7.2     |
| Gross natl. saving rate               | %                  | 18.0                      | 18.8   | 18.3   | 18.4   | 16.5    | 15.0    | 13.8    | 14.7    | 14.9    |
| Net natl. saving rate                 |                    | 6.7                       | 7.5    | 6.8    | 6.7    | 3.8     | 1.9     | 0.9     | 2.3     | 2.6     |
| Prices and Costs                      |                    |                           |        |        |        |         |         |         |         |         |
| GDP chn.-wt. price index              | % change           | 1.8                       | 1.1    | 1.6    | 2.3    | 2.0     | 1.3     | 1.5     | 1.0     | 1.2     |
| Gross Domestic Purchases              |                    |                           |        |        |        |         |         |         |         |         |
| chn.-wt. price index                  |                    | 1.4                       | 0.8    | 1.9    | 2.5    | 1.3     | 1.6     | 1.7     | 0.9     | 1.1     |
| PCE chn.-wt. price index              |                    | 1.5                       | 1.1    | 2.0    | 2.5    | 1.5     | 1.8     | 1.7     | 0.9     | 1.0     |
| Ex. food and energy                   |                    | 1.7                       | 1.6    | 1.5    | 1.8    | 1.9     | 1.6     | 1.2     | 1.1     | 1.1     |
| CPI                                   |                    | 1.9                       | 1.5    | 2.6    | 3.4    | 1.8     | 2.2     | 2.0     | 1.0     | 1.3     |
| Ex. food and energy                   |                    | 2.2                       | 2.3    | 2.0    | 2.6    | 2.7     | 2.1     | 1.4     | 1.5     | 1.5     |
| ECI, hourly compensation <sup>3</sup> |                    | 3.4                       | 3.5    | 3.4    | 4.4    | 4.2     | 3.2     | 4.1     | 3.5     | 3.5     |
| Nonfarm business sector               |                    |                           |        |        |        |         |         |         |         |         |
| Output per hour                       |                    | 2.2                       | 2.9    | 2.8    | 2.2    | 3.2     | 4.4     | 5.2     | 1.7     | 0.5     |
| Compensation per Hour                 |                    | 3.4                       | 5.3    | 4.2    | 7.2    | 2.7     | 2.8     | 2.7     | 3.1     | 3.4     |
| Unit labor cost                       |                    | 1.2                       | 2.3    | 1.4    | 4.9    | -0.5    | -1.6    | -2.3    | 1.3     | 2.9     |

1. Changes are from fourth quarter to fourth quarter.

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

3. Private-industry workers.

Strictly Confidential <FR>  
Class II FOMC

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

December 3, 2003

| Item                                  | Units        | 2001<br>Q1 | 2001<br>Q2 | 2001<br>Q3 | 2001<br>Q4 | 2002<br>Q1 | 2002<br>Q2 | 2002<br>Q3 | 2002<br>Q4 | 2003<br>Q1 | 2003<br>Q2 |
|---------------------------------------|--------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>Expenditures</b>                   |              |            |            |            |            |            |            |            |            |            |            |
| Nominal GDP                           | Bill. \$     | 10028.1    | 10049.9    | 10097.7    | 10152.9    | 10313.1    | 10376.9    | 10506.2    | 10588.8    | 10688.4    | 10802.7    |
| Real GDP                              | Bill. Ch. \$ | 9229.9     | 9193.1     | 9186.4     | 9248.8     | 9363.2     | 9392.4     | 9485.6     | 9518.2     | 9552.0     | 9629.4     |
| Real GDP                              | % change     | -0.6       | -1.6       | -0.3       | 2.7        | 5.0        | 1.3        | 4.0        | 1.4        | 1.4        | 3.3        |
| Gross domestic purchases              |              | -1.1       | -1.1       | -0.1       | 2.9        | 5.6        | 2.6        | 3.9        | 2.9        | 0.6        | 4.4        |
| Final sales                           |              | 2.8        | -0.4       | -0.2       | 4.2        | 2.4        | -0.1       | 3.4        | 1.1        | 2.3        | 4.0        |
| Priv. dom. final purchases            |              | 1.5        | -1.2       | 0.3        | 3.0        | 2.5        | 1.3        | 3.4        | 2.2        | 1.6        | 4.4        |
| Personal cons. expenditures           |              | 2.4        | 1.4        | 1.5        | 6.0        | 3.1        | 1.8        | 4.2        | 1.7        | 2.0        | 3.8        |
| Durables                              |              | 11.5       | 5.3        | 4.6        | 33.6       | -6.3       | 2.0        | 22.8       | -8.2       | -2.0       | 24.3       |
| Nondurables                           |              | 2.3        | -0.3       | 1.3        | 3.6        | 7.9        | -0.1       | 1.0        | 5.1        | 6.1        | 1.4        |
| Services                              |              | 0.6        | 1.5        | 0.9        | 2.1        | 2.9        | 2.7        | 2.3        | 2.2        | 0.9        | 1.4        |
| Business fixed investment             |              | -5.4       | -14.5      | -6.0       | -10.9      | -5.8       | -2.4       | -0.8       | 2.3        | -4.4       | 7.3        |
| Equipment & Software                  |              | -6.3       | -16.7      | -9.2       | -2.5       | -2.7       | 3.3        | 6.7        | 6.2        | -4.8       | 8.3        |
| Nonres. structures                    |              | -3.1       | -8.4       | 2.9        | -30.1      | -14.2      | -17.6      | -21.4      | -9.9       | -2.9       | 4.2        |
| Residential structures                |              | 8.2        | -0.5       | 0.4        | -3.5       | 14.2       | 2.7        | 1.1        | 9.4        | 10.1       | 6.6        |
| Exports                               |              | -6.0       | -12.4      | -17.3      | -9.6       | 3.5        | 14.3       | 4.6        | -5.8       | -1.3       | -1.0       |
| Imports                               |              | -7.9       | -6.8       | -11.8      | -5.3       | 8.5        | 22.2       | 3.3        | 7.4        | -6.2       | 8.8        |
| Gov't. cons. & investment             |              | 5.7        | 5.6        | -1.1       | 10.5       | 5.6        | 1.4        | 2.9        | 4.6        | 0.4        | 8.5        |
| Federal                               |              | 9.5        | 6.0        | 1.2        | 13.5       | 7.4        | 7.5        | 4.3        | 11.0       | 0.7        | 25.5       |
| Defense                               |              | 8.3        | 2.7        | 4.6        | 14.3       | 11.6       | 7.8        | 6.9        | 11.0       | -3.3       | 45.8       |
| State & local                         |              | 3.8        | 5.4        | -2.3       | 8.9        | 4.6        | -1.7       | 2.2        | 1.2        | 0.2        | -0.2       |
| Change in bus. inventories            | Bill. Ch. \$ | -26.9      | -58.3      | -61.8      | -98.4      | -28.9      | 4.9        | 18.8       | 25.8       | 4.8        | -17.6      |
| Nonfarm                               |              | -32.6      | -54.9      | -63.6      | -101.5     | -35.1      | 4.2        | 20.8       | 26.5       | 3.8        | -17.1      |
| Net exports                           |              | -404.5     | -414.8     | -419.0     | -425.3     | -446.6     | -487.4     | -488.0     | -532.2     | -510.3     | -546.1     |
| Nominal GDP                           | % change     | 3.0        | 0.9        | 1.9        | 2.2        | 6.5        | 2.5        | 5.1        | 3.2        | 3.8        | 4.3        |
| GDP Gap <sup>1</sup>                  | %            | -0.4       | 0.8        | 1.7        | 1.8        | 1.4        | 2.0        | 1.8        | 2.3        | 2.9        | 3.1        |
| <b>Employment and Production</b>      |              |            |            |            |            |            |            |            |            |            |            |
| 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     | -6.3       | -5.0       | -5.2       | -4.5       | 1.9        | 4.2        | 1.2        | -1.9       | 0.9        | -4.0       |
| Capacity util. rate - mfg.            | %            | 77.5       | 76.0       | 74.6       | 73.5       | 73.7       | 74.1       | 74.2       | 73.5       | 73.5       | 72.7       |
| Housing starts                        | Millions     | 1.61       | 1.63       | 1.60       | 1.57       | 1.72       | 1.68       | 1.70       | 1.74       | 1.74       | 1.74       |
| Light motor vehicle sales             |              | 16.95      | 16.54      | 16.23      | 18.37      | 16.34      | 16.35      | 17.63      | 16.50      | 15.84      | 16.22      |
| North Amer. produced                  |              | 14.04      | 13.51      | 13.23      | 15.00      | 13.04      | 13.10      | 14.27      | 13.25      | 12.45      | 12.93      |
| Other                                 |              | 2.90       | 3.04       | 3.00       | 3.37       | 3.31       | 3.25       | 3.35       | 3.24       | 3.38       | 3.29       |
| <b>Income and Saving</b>              |              |            |            |            |            |            |            |            |            |            |            |
| Nominal GNP                           | Bill. \$     | 10038.0    | 10081.0    | 10109.3    | 10188.1    | 10314.9    | 10356.8    | 10495.3    | 10579.7    | 10678.2    | 10799.1    |
| Nominal GNP                           | % change     | 2.2        | 1.7        | 1.1        | 3.2        | 5.1        | 1.6        | 5.5        | 3.3        | 3.8        | 4.6        |
| Nominal personal income               |              | 3.9        | 0.8        | 1.4        | -0.2       | 4.8        | 5.1        | 2.0        | 2.4        | 3.0        | 3.4        |
| Real disposable income                |              | -0.1       | -0.6       | 10.5       | -7.6       | 14.5       | 3.9        | 1.8        | 1.4        | 1.6        | 2.6        |
| Personal saving rate                  | %            | 2.4        | 1.9        | 4.0        | 0.8        | 3.5        | 4.0        | 3.5        | 3.6        | 3.5        | 3.2        |
| Corp. profits, IVA & CCAdj.           | % change     | -21.1      | 8.7        | -17.7      | 94.4       | -6.6       | -6.2       | -6.9       | 13.7       | 10.7       | 45.7       |
| Profit share of GNP                   | %            | 7.0        | 7.2        | 6.8        | 8.0        | 7.7        | 7.6        | 7.3        | 7.5        | 7.6        | 8.3        |
| Excluding FR Banks                    |              | 6.7        | 6.9        | 6.5        | 7.7        | 7.5        | 7.3        | 7.1        | 7.3        | 7.5        | 8.1        |
| Federal surpl./deficit                | Bill. \$     | 173.8      | 144.4      | -51.7      | 21.3       | -145.8     | -195.6     | -210.5     | -256.6     | -280.1     | -390.2     |
| State & local surpl./def.             |              | -16.5      | -32.3      | -46.2      | -30.2      | -55.8      | -45.1      | -54.7      | -52.4      | -67.9      | -14.9      |
| Ex. social ins. funds                 |              | -16.4      | -32.2      | -46.1      | -30.0      | -55.6      | -44.9      | -54.6      | -52.3      | -67.7      | -14.8      |
| Gross natl. saving rate               | %            | 16.9       | 16.6       | 16.5       | 15.8       | 15.5       | 15.5       | 14.6       | 14.3       | 13.9       | 13.7       |
| Net natl. saving rate                 |              | 4.8        | 4.1        | 3.3        | 3.1        | 2.7        | 2.4        | 1.4        | 1.1        | 0.6        | 0.6        |
| <b>Prices and Costs</b>               |              |            |            |            |            |            |            |            |            |            |            |
| 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        | 0.4        |
| PCE chn.-wt. price index              |              | 3.3        | 1.8        | -0.1       | 0.8        | 1.1        | 2.7        | 1.7        | 1.8        | 2.7        | 0.8        |
| Ex. food and energy                   |              | 2.8        | 1.2        | 0.7        | 2.7        | 1.4        | 1.9        | 1.8        | 1.5        | 0.8        | 1.1        |
| CPI                                   |              | 4.0        | 3.2        | 0.9        | -0.7       | 1.4        | 3.4        | 2.2        | 2.0        | 3.8        | 0.7        |
| Ex. food and energy                   |              | 2.9        | 2.6        | 2.6        | 2.8        | 2.1        | 2.1        | 2.1        | 1.7        | 1.3        | 0.8        |
| ECI, hourly compensation <sup>2</sup> |              | 4.6        | 3.7        | 3.9        | 4.4        | 3.6        | 4.4        | 2.5        | 3.0        | 5.5        | 3.4        |
| Nonfarm business sector               |              |            |            |            |            |            |            |            |            |            |            |
| Output per hour                       |              | -0.4       | 1.6        | 3.4        | 8.3        | 9.3        | 1.0        | 5.9        | 1.7        | 2.1        | 7.0        |
| Compensation per hour                 |              | 4.3        | 2.0        | 2.4        | 2.1        | 3.7        | 3.9        | 2.0        | 1.6        | 2.6        | 3.6        |
| Unit labor cost                       |              | 4.7        | 0.3        | -0.9       | -5.7       | -5.2       | 2.9        | -3.7       | -0.1       | 0.4        | -3.2       |

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

Strictly Confidential <FR>  
Class II FOMC

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

December 3, 2003

|                                       |              | - - - - - Projected - - - - - |            |            |            |            |            |            |            |            |            |
|---------------------------------------|--------------|-------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Item                                  | Units        | 2003<br>Q3                    | 2003<br>Q4 | 2004<br>Q1 | 2004<br>Q2 | 2004<br>Q3 | 2004<br>Q4 | 2005<br>Q1 | 2005<br>Q2 | 2005<br>Q3 | 2005<br>Q4 |
| EXPENDITURES                          |              |                               |            |            |            |            |            |            |            |            |            |
| Nominal GDP                           | Bill. \$     | 11065.4                       | 11214.1    | 11394.3    | 11572.9    | 11750.5    | 11922.0    | 12077.3    | 12228.4    | 12377.6    | 12522.5    |
| Real GDP                              | Bill. Ch. \$ | 9821.6                        | 9927.4     | 10056.8    | 10192.0    | 10325.5    | 10450.8    | 10549.3    | 10652.9    | 10754.4    | 10852.2    |
| Real GDP                              | % change     | 8.2                           | 4.4        | 5.3        | 5.5        | 5.3        | 4.9        | 3.8        | 4.0        | 3.9        | 3.7        |
| Gross domestic purchases              |              | 7.0                           | 4.5        | 5.5        | 5.9        | 5.6        | 4.9        | 4.1        | 4.3        | 4.0        | 3.5        |
| Final sales                           |              | 8.0                           | 3.2        | 5.1        | 4.7        | 4.6        | 5.2        | 2.8        | 4.0        | 4.1        | 4.3        |
| Priv. dom. final purchases            |              | 8.2                           | 3.5        | 5.4        | 5.9        | 5.6        | 5.8        | 3.3        | 4.8        | 4.7        | 4.5        |
| Personal cons. expenditures           |              | 6.4                           | 2.0        | 4.3        | 4.9        | 4.7        | 4.6        | 4.5        | 4.4        | 4.1        | 3.7        |
| Durables                              |              | 26.5                          | -3.0       | 4.1        | 11.2       | 8.9        | 9.2        | 8.7        | 7.8        | 7.4        | 8.0        |
| Nondurables                           |              | 7.6                           | 3.0        | 5.8        | 5.8        | 5.5        | 5.2        | 5.0        | 5.0        | 4.8        | 4.3        |
| Services                              |              | 2.1                           | 2.6        | 3.5        | 3.3        | 3.5        | 3.4        | 3.4        | 3.4        | 3.2        | 2.6        |
| Business fixed investment             |              | 14.0                          | 8.1        | 14.7       | 13.8       | 14.1       | 16.1       | -3.0       | 10.2       | 10.9       | 11.6       |
| Equipment & Software                  |              | 18.6                          | 10.7       | 18.2       | 17.2       | 17.2       | 19.6       | -4.8       | 11.3       | 11.8       | 12.2       |
| Nonres. structures                    |              | -0.7                          | -0.3       | 2.9        | 2.2        | 3.2        | 3.7        | 3.9        | 6.1        | 7.9        | 9.4        |
| Residential structures                |              | 23.4                          | 15.0       | 3.2        | 3.3        | 0.6        | 1.0        | 0.7        | -0.6       | -0.8       | -0.7       |
| Exports                               |              | 11.0                          | 12.8       | 8.1        | 10.5       | 10.7       | 12.8       | 7.7        | 10.4       | 10.2       | 12.1       |
| Imports                               |              | 1.5                           | 11.3       | 8.9        | 12.2       | 10.5       | 9.7        | 8.2        | 10.5       | 9.1        | 8.3        |
| Gov't. cons. & investment             |              | 1.3                           | 3.2        | 4.9        | 2.0        | 1.5        | 1.7        | 2.1        | 1.8        | 2.0        | 2.4        |
| Federal                               |              | -0.4                          | 6.8        | 11.9       | 3.5        | 1.4        | 1.5        | 2.3        | 1.6        | 1.6        | 2.6        |
| Defense                               |              | -1.6                          | 6.4        | 15.4       | 3.8        | 0.8        | 0.7        | 1.9        | 0.9        | 0.9        | 2.3        |
| State & local                         |              | 2.3                           | 1.1        | 0.9        | 1.1        | 1.5        | 1.8        | 2.0        | 2.0        | 2.2        | 2.3        |
| Change in bus. inventories            | Bill. Ch. \$ | -14.1                         | 16.6       | 22.4       | 42.8       | 62.9       | 57.7       | 88.3       | 89.2       | 83.2       | 66.5       |
| Nonfarm                               |              | -14.4                         | 14.9       | 21.2       | 41.5       | 61.5       | 56.2       | 86.7       | 87.5       | 81.6       | 64.8       |
| Net exports                           |              | -524.2                        | -534.5     | -548.3     | -568.7     | -582.6     | -587.6     | -601.0     | -616.7     | -627.0     | -627.9     |
| Nominal GDP                           | % change     | 10.1                          | 5.5        | 6.6        | 6.4        | 6.3        | 6.0        | 5.3        | 5.1        | 5.0        | 4.8        |
| GDP Gap <sup>1</sup>                  | %            | 2.1                           | 1.9        | 1.5        | 1.0        | 0.6        | 0.2        | 0.2        | 0.1        | 0.1        | 0.1        |
| EMPLOYMENT AND PRODUCTION             |              |                               |            |            |            |            |            |            |            |            |            |
| Nonfarm payroll employment            | Millions     | 129.9                         | 130.3      | 131.0      | 132.1      | 133.3      | 134.5      | 135.7      | 136.7      | 137.7      | 138.6      |
| Unemployment rate                     | %            | 6.1                           | 6.0        | 6.0        | 5.8        | 5.5        | 5.3        | 5.2        | 5.1        | 5.0        | 5.0        |
| Industrial prod. index                | % change     | 4.0                           | 4.9        | 6.4        | 6.4        | 6.0        | 5.9        | 4.9        | 4.7        | 4.6        | 4.8        |
| Capacity util. rate - mfg.            | %            | 73.2                          | 73.9       | 74.9       | 75.8       | 76.7       | 77.6       | 78.2       | 78.7       | 79.3       | 79.9       |
| Housing starts                        | Millions     | 1.88                          | 1.93       | 1.87       | 1.88       | 1.88       | 1.88       | 1.86       | 1.86       | 1.85       | 1.84       |
| Light motor vehicle sales             |              | 17.55                         | 16.60      | 16.79      | 17.19      | 17.36      | 17.48      | 17.53      | 17.61      | 17.65      | 17.83      |
| North Amer. produced                  |              | 14.18                         | 13.37      | 13.45      | 13.80      | 13.90      | 14.00      | 14.05      | 14.13      | 14.15      | 14.30      |
| Other                                 |              | 3.37                          | 3.23       | 3.34       | 3.39       | 3.46       | 3.48       | 3.48       | 3.48       | 3.50       | 3.53       |
| INCOME AND SAVING                     |              |                               |            |            |            |            |            |            |            |            |            |
| Nominal GNP                           | Bill. \$     | 11063.3                       | 11219.4    | 11407.7    | 11588.1    | 11765.1    | 11935.6    | 12088.8    | 12235.7    | 12378.2    | 12515.4    |
| Nominal GNP                           | % change     | 10.2                          | 5.8        | 6.9        | 6.5        | 6.3        | 5.9        | 5.2        | 4.9        | 4.7        | 4.5        |
| Nominal personal income               |              | 4.1                           | 4.7        | 5.9        | 5.6        | 6.1        | 6.2        | 6.2        | 5.7        | 5.6        | 5.6        |
| Real disposable income                |              | 7.4                           | 1.1        | 6.7        | 4.4        | 4.8        | 4.8        | 4.1        | 4.4        | 4.3        | 4.3        |
| Personal saving rate                  | %            | 3.4                           | 3.2        | 3.8        | 3.7        | 3.7        | 3.8        | 3.7        | 3.7        | 3.8        | 3.9        |
| Corp. profits, IVA & CCAdj.           | % change     | 58.6                          | 9.6        | 21.0       | 12.0       | 5.9        | 1.0        | -7.7       | -3.2       | -4.0       | -5.8       |
| Profit share of GNP                   | %            | 9.1                           | 9.2        | 9.5        | 9.6        | 9.6        | 9.5        | 9.2        | 9.0        | 8.8        | 8.6        |
| Excluding FR Banks                    |              | 8.9                           | 9.0        | 9.3        | 9.4        | 9.4        | 9.3        | 9.0        | 8.8        | 8.6        | 8.4        |
| Federal surpl./deficit                | Bill. \$     | -450.5                        | -398.1     | -463.8     | -444.8     | -401.8     | -355.3     | -272.3     | -219.7     | -197.5     | -202.6     |
| State & local surpl./def.             |              | -9.7                          | -3.8       | -9.2       | -2.4       | -4.6       | 3.7        | 5.2        | 6.3        | 7.5        | 9.8        |
| Ex. social ins. funds                 |              | -9.7                          | -3.8       | -9.2       | -2.4       | -4.6       | 3.7        | 5.2        | 6.3        | 7.5        | 9.8        |
| Gross natl. saving rate               | %            | 13.8                          | 14.1       | 14.3       | 14.6       | 14.9       | 15.1       | 14.9       | 15.0       | 15.0       | 14.9       |
| Net natl. saving rate                 |              | 1.0                           | 1.5        | 1.8        | 2.2        | 2.5        | 2.7        | 2.5        | 2.6        | 2.6        | 2.6        |
| PRICES AND COSTS                      |              |                               |            |            |            |            |            |            |            |            |            |
| GDP chn.-wt. price index              | % change     | 1.7                           | 1.1        | 1.2        | 0.9        | 0.9        | 1.0        | 1.4        | 1.1        | 1.1        | 1.0        |
| Gross Domestic Purchases              |              |                               |            |            |            |            |            |            |            |            |            |
| chn.-wt. price index                  |              | 1.9                           | 1.1        | 1.2        | 0.8        | 0.8        | 0.9        | 1.3        | 1.0        | 1.0        | 1.0        |
| PCE chn.-wt. price index              |              | 2.3                           | 0.9        | 0.8        | 0.8        | 0.9        | 0.9        | 1.0        | 1.0        | 1.0        | 1.1        |
| Ex. food and energy                   |              | 1.7                           | 1.2        | 1.2        | 1.1        | 1.1        | 1.1        | 1.1        | 1.1        | 1.1        | 1.1        |
| CPI                                   |              | 2.4                           | 1.3        | 1.0        | 0.9        | 1.0        | 1.2        | 1.2        | 1.3        | 1.3        | 1.4        |
| Ex. food and energy                   |              | 1.7                           | 1.8        | 1.6        | 1.5        | 1.5        | 1.5        | 1.5        | 1.5        | 1.5        | 1.5        |
| ECI, hourly compensation <sup>2</sup> |              | 4.2                           | 3.3        | 3.5        | 3.5        | 3.5        | 3.5        | 3.4        | 3.4        | 3.5        | 3.5        |
| Nonfarm business sector               |              |                               |            |            |            |            |            |            |            |            |            |
| Output per hour                       |              | 9.4                           | 2.4        | 2.9        | 1.8        | 1.3        | 0.8        | 0.2        | 0.6        | 0.6        | 0.4        |
| Compensation per hour                 |              | 3.0                           | 1.7        | 3.0        | 3.0        | 3.1        | 3.1        | 3.4        | 3.3        | 3.3        | 3.4        |
| Unit labor cost                       |              | -5.8                          | -0.7       | 0.1        | 1.2        | 1.7        | 2.4        | 3.2        | 2.7        | 2.7        | 3.0        |

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

2. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

| Item                        | Projected  |            |            |            |            |            |            |            |            |            | Projected     |               |               |
|-----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|---------------|---------------|---------------|
|                             | 2001<br>Q3 | 2001<br>Q4 | 2002<br>Q1 | 2002<br>Q2 | 2002<br>Q3 | 2002<br>Q4 | 2003<br>Q1 | 2003<br>Q2 | 2003<br>Q3 | 2003<br>Q4 | 01Q4/<br>00Q4 | 02Q4/<br>01Q4 | 03Q4/<br>02Q4 |
| Real GDP                    | -0.3       | 2.7        | 5.0        | 1.3        | 4.0        | 1.4        | 1.4        | 3.3        | 8.2        |            | 0.1           | 2.9           | 4.3           |
| Gross dom. purchases        | -0.1       | 3.0        | 5.8        | 2.7        | 4.0        | 3.0        | 0.6        | 4.6        | 7.4        |            | 0.2           | 3.9           | 4.3           |
| Final sales                 | -0.2       | 4.1        | 2.5        | -0.1       | 3.5        | 1.1        | 2.2        | 4.0        | 8.1        |            | 1.6           | 1.7           | 4.4           |
| Priv. dom. final purchases  | 0.3        | 2.6        | 2.2        | 1.1        | 2.9        | 1.8        | 1.4        | 3.7        | 7.0        |            | 0.8           | 2.0           | 3.7           |
| Personal cons. expenditures | 1.0        | 4.1        | 2.2        | 1.2        | 2.9        | 1.2        | 1.4        | 2.7        | 4.5        |            | 1.9           | 1.9           | 2.5           |
| Durables                    | 0.4        | 2.5        | -0.6       | 0.2        | 1.7        | -0.7       | -0.2       | 1.8        | 2.0        |            | 1.0           | 0.2           | 0.8           |
| Nondurables                 | 0.3        | 0.7        | 1.6        | -0.0       | 0.2        | 1.0        | 1.2        | 0.3        | 1.6        |            | 0.3           | 0.7           | 0.9           |
| Services                    | 0.4        | 0.9        | 1.2        | 1.1        | 1.0        | 0.9        | 0.4        | 0.6        | 1.0        |            | 0.5           | 1.0           | 0.7           |
| Business fixed investment   | -0.7       | -1.3       | -0.7       | -0.3       | -0.1       | 0.2        | -0.5       | 0.7        | 1.4        |            | -1.2          | -0.2          | 0.6           |
| Equipment & Software        | -0.8       | -0.2       | -0.2       | 0.3        | 0.5        | 0.5        | -0.4       | 0.6        | 1.4        |            | -0.8          | 0.3           | 0.6           |
| Nonres. structures          | 0.1        | -1.1       | -0.4       | -0.5       | -0.6       | -0.3       | -0.1       | 0.1        | -0.0       |            | -0.4          | -0.5          | 0.0           |
| Residential structures      | 0.0        | -0.2       | 0.6        | 0.1        | 0.1        | 0.4        | 0.5        | 0.3        | 1.0        |            | 0.0           | 0.3           | 0.6           |
| Net exports                 | -0.2       | -0.3       | -0.8       | -1.4       | -0.0       | -1.6       | 0.8        | -1.3       | 0.8        |            | -0.1          | -1.0          | -0.0          |
| Exports                     | -1.9       | -1.0       | 0.3        | 1.3        | 0.5        | -0.6       | -0.1       | -0.1       | 1.0        |            | -1.3          | 0.4           | 0.5           |
| Imports                     | 1.7        | 0.7        | -1.1       | -2.7       | -0.5       | -1.0       | 0.9        | -1.2       | -0.2       |            | 1.2           | -1.3          | -0.5          |
| Government cons. & invest.  | -0.2       | 1.9        | 1.0        | 0.3        | 0.6        | 0.9        | 0.1        | 1.6        | 0.3        |            | 0.9           | 0.7           | 0.6           |
| Federal                     | 0.1        | 0.8        | 0.5        | 0.5        | 0.3        | 0.7        | 0.1        | 1.6        | -0.0       |            | 0.4           | 0.5           | 0.5           |
| Defense                     | 0.2        | 0.5        | 0.5        | 0.3        | 0.3        | 0.5        | -0.2       | 1.7        | -0.1       |            | 0.3           | 0.4           | 0.5           |
| Nondefense                  | -0.1       | 0.3        | 0.0        | 0.2        | -0.0       | 0.3        | 0.2        | -0.1       | 0.1        |            | 0.2           | 0.1           | 0.1           |
| State and local             | -0.3       | 1.1        | 0.6        | -0.2       | 0.3        | 0.2        | 0.0        | -0.0       | 0.3        |            | 0.5           | 0.2           | 0.1           |
| Change in bus. inventories  | -0.1       | -1.4       | 2.6        | 1.3        | 0.6        | 0.3        | -0.8       | -0.7       | 0.2        |            | -1.5          | 1.2           | -0.1          |
| Nonfarm                     | -0.3       | -1.4       | 2.5        | 1.5        | 0.7        | 0.2        | -0.9       | -0.7       | 0.1        |            | -1.6          | 1.2           | -0.1          |
| 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                        | Projected  |            |            |            |            |            |            |            |            |            |            |            | Projected     |               |               |               |
|-----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|---------------|---------------|---------------|---------------|
|                             | 2003<br>Q4 | 2004<br>Q1 | 2004<br>Q2 | 2004<br>Q3 | 2004<br>Q4 | 2005<br>Q1 | 2005<br>Q2 | 2005<br>Q3 | 2005<br>Q4 | 2005<br>Q4 | 2005<br>Q4 | 2005<br>Q4 | 03Q4/<br>02Q4 | 04Q4/<br>03Q4 | 05Q4/<br>04Q4 | 05Q4/<br>04Q4 |
| Real GDP                    | 4.4        | 5.3        | 5.5        | 5.3        | 4.9        | 3.8        | 4.0        | 3.9        | 3.7        | 3.7        | 3.7        | 3.7        | 4.3           | 5.3           | 3.8           | 3.8           |
| Gross dom. purchases        | 4.7        | 5.8        | 6.2        | 5.8        | 5.1        | 4.2        | 4.5        | 4.2        | 3.7        | 3.7        | 3.7        | 3.7        | 4.3           | 5.7           | 4.1           | 4.1           |
| Final sales                 | 3.3        | 5.1        | 4.8        | 4.6        | 5.1        | 2.8        | 4.0        | 4.1        | 4.2        | 4.2        | 4.2        | 4.2        | 4.4           | 4.9           | 3.8           | 3.8           |
| Priv. dom. final purchases  | 3.0        | 4.6        | 5.0        | 4.8        | 4.9        | 2.8        | 4.1        | 4.0        | 3.8        | 3.8        | 3.8        | 3.8        | 3.7           | 4.9           | 3.7           | 3.7           |
| Personal cons. expenditures | 1.4        | 3.0        | 3.4        | 3.3        | 3.2        | 3.1        | 3.0        | 2.9        | 2.6        | 2.6        | 2.6        | 2.6        | 2.5           | 3.2           | 2.9           | 2.9           |
| Durables                    | -0.3       | 0.3        | 0.9        | 0.7        | 0.7        | 0.7        | 0.6        | 0.6        | 0.6        | 0.6        | 0.6        | 0.6        | 0.8           | 0.7           | 0.6           | 0.6           |
| Nondurables                 | 0.6        | 1.2        | 1.2        | 1.1        | 1.0        | 1.0        | 1.0        | 1.0        | 0.9        | 0.9        | 0.9        | 0.9        | 0.9           | 1.1           | 1.0           | 1.0           |
| Services                    | 1.1        | 1.5        | 1.4        | 1.5        | 1.4        | 1.4        | 1.4        | 1.3        | 1.1        | 1.1        | 1.1        | 1.1        | 0.7           | 1.4           | 1.3           | 1.3           |
| Business fixed investment   | 0.8        | 1.5        | 1.4        | 1.5        | 1.7        | -0.3       | 1.1        | 1.2        | 1.3        | 1.3        | 1.3        | 1.3        | 0.6           | 1.5           | 0.8           | 0.8           |
| Equipment & Software        | 0.8        | 1.4        | 1.4        | 1.4        | 1.6        | -0.4       | 1.0        | 1.0        | 1.0        | 1.0        | 1.0        | 1.0        | 0.6           | 1.5           | 0.7           | 0.7           |
| Nonres. structures          | -0.0       | 0.1        | 0.1        | 0.1        | 0.1        | 0.1        | 0.1        | 0.2        | 0.2        | 0.2        | 0.2        | 0.2        | 0.0           | 0.1           | 0.2           | 0.2           |
| Residential structures      | 0.7        | 0.2        | 0.2        | 0.0        | 0.1        | 0.0        | -0.0       | -0.0       | -0.0       | -0.0       | -0.0       | -0.0       | 0.6           | 0.1           | -0.0          | -0.0          |
| Net exports                 | -0.3       | -0.5       | -0.7       | -0.4       | -0.1       | -0.4       | -0.5       | -0.3       | -0.0       | -0.0       | -0.0       | -0.0       | -0.0          | -0.4          | -0.3          | -0.3          |
| Exports                     | 1.2        | 0.8        | 1.0        | 1.0        | 1.2        | 0.8        | 1.0        | 1.0        | 1.2        | 1.2        | 1.2        | 1.2        | 0.5           | 1.0           | 1.0           | 1.0           |
| Imports                     | -1.5       | -1.2       | -1.7       | -1.5       | -1.4       | -1.2       | -1.5       | -1.3       | -1.2       | -1.2       | -1.2       | -1.2       | -0.5          | -1.5          | -1.3          | -1.3          |
| Government cons. & invest.  | 0.6        | 0.9        | 0.4        | 0.3        | 0.3        | 0.4        | 0.3        | 0.4        | 0.4        | 0.4        | 0.4        | 0.4        | 0.6           | 0.5           | 0.4           | 0.4           |
| Federal                     | 0.5        | 0.8        | 0.3        | 0.1        | 0.1        | 0.2        | 0.1        | 0.1        | 0.2        | 0.2        | 0.2        | 0.2        | 0.5           | 0.3           | 0.1           | 0.1           |
| Defense                     | 0.3        | 0.7        | 0.2        | 0.0        | 0.0        | 0.1        | 0.0        | 0.0        | 0.1        | 0.1        | 0.1        | 0.1        | 0.5           | 0.2           | 0.1           | 0.1           |
| Nondefense                  | 0.2        | 0.1        | 0.1        | 0.1        | 0.1        | 0.1        | 0.1        | 0.1        | 0.1        | 0.1        | 0.1        | 0.1        | 0.1           | 0.1           | 0.1           | 0.1           |
| State and local             | 0.1        | 0.1        | 0.1        | 0.2        | 0.2        | 0.2        | 0.2        | 0.3        | 0.3        | 0.3        | 0.3        | 0.3        | 0.1           | 0.2           | 0.2           | 0.2           |
| Change in bus. inventories  | 1.1        | 0.2        | 0.7        | 0.7        | -0.2       | 1.0        | 0.0        | -0.2       | -0.6       | -0.6       | -0.6       | -0.6       | -0.1          | 0.4           | 0.1           | 0.1           |
| Nonfarm                     | 1.1        | 0.2        | 0.7        | 0.7        | -0.2       | 1.1        | 0.0        | -0.2       | -0.6       | -0.6       | -0.6       | -0.6       | -0.1          | 0.4           | 0.1           | 0.1           |
| Farm                        | 0.0        | -0.0       | -0.0       | -0.0       | 0.0        | -0.0       | -0.0       | -0.0       | -0.0       | -0.0       | -0.0       | -0.0       | 0.1           | -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)

December 3, 2003

| Item  | Fiscal year       |                   |      |      | 2003            |                 |                 |      | 2004 |      |      |      | 2005 |      |      |      |
|---|-------------------|-------------------|------|------|-----------------|-----------------|-----------------|------|------|------|------|------|------|------|------|------|
|   | 2002 <sup>a</sup> | 2003 <sup>a</sup> | 2004 | 2005 | Q1 <sup>a</sup> | Q2 <sup>a</sup> | Q3 <sup>a</sup> | Q4   | Q1   | Q2   | Q3   | Q4   | Q1   | Q2   | Q3   | Q4   |
| <b>Unified budget</b>                           |                   |                   |      |      |                 |                 |                 |      |      |      |      |      |      |      |      |      |
| Receipts <sup>1</sup>                           | 1853              | 1782              | 1819 | 2030 | 398             | 528             | 429             | 441  | 394  | 522  | 462  | 465  | 436  | 607  | 521  | 512  |
| Outlays <sup>1</sup>                            | 2011              | 2157              | 2304 | 2399 | 543             | 544             | 534             | 581  | 584  | 576  | 563  | 608  | 600  | 594  | 597  | 619  |
| Surplus/deficit <sup>1</sup>                    | -158              | -374              | -485 | -370 | -145            | -17             | -105            | -139 | -190 | -55  | -101 | -143 | -164 | 13   | -76  | -107 |
| On-budget                                       | -315              | -535              | -650 | -559 | -169            | -91             | -113            | -180 | -227 | -129 | -114 | -187 | -206 | -69  | -97  | -158 |
| Off-budget                                      | 157               | 161               | 165  | 190  | 24              | 75              | 9               | 40   | 37   | 75   | 13   | 44   | 42   | 83   | 21   | 51   |
| Means of financing                              |                   |                   |      |      |                 |                 |                 |      |      |      |      |      |      |      |      |      |
| Borrowing                                       | 221               | 374               | 518  | 387  | 64              | 106             | 108             | 123  | 173  | 87   | 135  | 126  | 157  | 25   | 78   | 83   |
| Cash decrease                                   | -17               | 26                | -10  | 0    | 20              | -17             | -5              | 1    | 9    | -14  | -5   | 15   | 0    | -30  | 15   | 15   |
| Other <sup>2</sup>                              | -46               | -25               | -23  | -17  | 62              | -73             | 2               | 16   | 9    | -18  | -29  | 2    | 7    | -9   | -17  | 9    |
| Cash operating balance, end of period           | 61                | 35                | 45   | 45   | 13              | 30              | 35              | 34   | 26   | 40   | 45   | 30   | 30   | 60   | 45   | 30   |
| <b>NIPA federal sector</b>                      |                   |                   |      |      |                 |                 |                 |      |      |      |      |      |      |      |      |      |
| Receipts  | 1906              | 1848              | 1893 | 2144 | 1865            | 1871            | 1794            | 1876 | 1862 | 1891 | 1944 | 2011 | 2132 | 2195 | 2238 | 2259 |
| Expenditures                                    | 2039              | 2192              | 2320 | 2405 | 2145            | 2262            | 2246            | 2274 | 2326 | 2336 | 2346 | 2367 | 2404 | 2415 | 2435 | 2462 |
| Consumption expenditures                        | 570               | 641               | 701  | 734  | 627             | 664             | 663             | 674  | 704  | 711  | 714  | 718  | 735  | 739  | 744  | 750  |
| Defense   | 375               | 428               | 475  | 496  | 409             | 452             | 447             | 455  | 478  | 482  | 484  | 486  | 497  | 499  | 501  | 505  |
| Nondefense                                      | 195               | 213               | 226  | 238  | 218             | 213             | 216             | 219  | 226  | 228  | 230  | 232  | 238  | 240  | 243  | 245  |
| Other spending                                  | 1469              | 1552              | 1619 | 1671 | 1519            | 1597            | 1583            | 1600 | 1622 | 1625 | 1631 | 1648 | 1669 | 1676 | 1691 | 1712 |
| Current account surplus                         | -133              | -345              | -427 | -261 | -280            | -390            | -451            | -398 | -464 | -445 | -402 | -355 | -272 | -220 | -197 | -203 |
| Gross investment                                | 106               | 113               | 127  | 131  | 109             | 116             | 118             | 122  | 127  | 129  | 129  | 130  | 131  | 132  | 133  | 134  |
| Gross saving less gross investment <sup>3</sup> | -138              | -352              | -444 | -278 | -284            | -400            | -462            | -411 | -481 | -463 | -419 | -372 | -289 | -236 | -213 | -219 |
| <b>Fiscal indicators<sup>4</sup></b>            |                   |                   |      |      |                 |                 |                 |      |      |      |      |      |      |      |      |      |
| High-employment (HEB) surplus/deficit           | -73               | -262              | -395 | -274 | -188            | -296            | -384            | -337 | -425 | -425 | -396 | -363 | -284 | -235 | -215 | -221 |
| Change in HEB, percent of potential GDP         | 1.8               | 1.7               | 1.0  | -1.1 | 0.0             | 0.9             | 0.7             | -0.5 | 0.7  | -0.0 | -0.3 | -0.3 | -0.7 | -0.4 | -0.2 | 0.0  |
| Fiscal impetus (FI) percent of GDP              | 1.1               | 1.1               | 1.1  | -0.3 | 0.0             | 0.7             | 0.2             | 0.4  | 0.3  | 0.2  | 0.1  | 0.2  | -0.5 | 0.0  | 0.0  | 0.1  |

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

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

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

4. HEB is gross saving less gross investment (NIPA) in current dollars, with cyclically sensitive receipts and outlays adjusted to the staff's measure of potential output and the NAIRU. Quarterly figures for change in HEB and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (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) **Change in Debt of the Domestic Nonfinancial Sectors** **October 22, 2003**  
 Class II FOMC (Percent)

| Period <sup>1</sup> | Total | Federal government | Nonfederal |            |                |                 |          | Memo: Nominal GDP |                             |
|---------------------|-------|--------------------|------------|------------|----------------|-----------------|----------|-------------------|-----------------------------|
|                     |       |                    | Total      | Households |                |                 | Business |                   | State and local governments |
|                     |       |                    |            | Total      | Home mortgages | Consumer credit |          |                   |                             |
| <i>Year</i>         |       |                    |            |            |                |                 |          |                   |                             |
| 1998                | 6.9   | -1.4               | 9.6        | 8.1        | 8.8            | 6.5             | 12.1     | 6.3               | 6.0                         |
| 1999                | 6.4   | -1.9               | 8.9        | 8.3        | 9.0            | 8.4             | 10.7     | 3.4               | 5.9                         |
| 2000                | 4.9   | -8.0               | 8.4        | 8.6        | 8.3            | 10.7            | 9.7      | 1.3               | 4.6                         |
| 2001                | 6.2   | -0.2               | 7.6        | 8.7        | 9.8            | 7.3             | 6.3      | 8.9               | 2.0                         |
| 2002                | 7.1   | 7.6                | 7.0        | 10.0       | 12.4           | 4.3             | 2.9      | 11.2              | 4.3                         |
| 2003                | 8.2   | 11.6               | 7.4        | 10.0       | 11.9           | 4.8             | 4.2      | 8.4               | 5.4                         |
| 2004                | 6.9   | 12.3               | 5.7        | 6.5        | 7.1            | 5.3             | 5.0      | 4.7               | 6.1                         |
| 2005                | 6.2   | 7.4                | 5.9        | 6.3        | 6.4            | 6.3             | 5.7      | 4.6               | 5.1                         |
| <i>Quarter</i>      |       |                    |            |            |                |                 |          |                   |                             |
| 2003:1              | 6.1   | 2.2                | 7.0        | 10.0       | 11.8           | 4.9             | 3.7      | 5.2               | 3.8                         |
| 2                   | 12.1  | 24.3               | 9.6        | 11.8       | 14.3           | 4.6             | 6.2      | 12.8              | 4.3                         |
| 3                   | 6.9   | 8.2                | 6.6        | 9.4        | 11.0           | 4.9             | 2.7      | 8.5               | 8.2                         |
| 4                   | 6.7   | 10.3               | 5.9        | 7.5        | 8.7            | 4.4             | 3.8      | 6.1               | 5.2                         |
| 2004:1              | 6.6   | 12.0               | 5.5        | 6.5        | 7.4            | 4.4             | 4.4      | 4.3               | 6.3                         |
| 2                   | 8.4   | 21.1               | 5.5        | 6.3        | 6.9            | 5.2             | 4.7      | 4.5               | 6.1                         |
| 3                   | 6.1   | 7.9                | 5.6        | 6.2        | 6.6            | 5.5             | 5.1      | 4.6               | 6.1                         |
| 4                   | 5.9   | 6.3                | 5.8        | 6.3        | 6.6            | 5.8             | 5.4      | 5.2               | 5.8                         |
| 2005:1              | 6.6   | 9.7                | 5.8        | 6.3        | 6.6            | 6.0             | 5.5      | 4.6               | 5.3                         |
| 2                   | 7.1   | 12.4               | 5.8        | 6.2        | 6.3            | 6.2             | 5.6      | 4.5               | 5.2                         |
| 3                   | 5.5   | 4.6                | 5.8        | 6.1        | 6.2            | 6.3             | 5.7      | 4.5               | 5.0                         |
| 4                   | 5.1   | 2.3                | 5.8        | 6.0        | 6.1            | 6.2             | 5.7      | 4.5               | 5.0                         |

Note. Quarterly data are at seasonally adjusted annual rates.

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

2.6.3 FOF

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

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

**October 22, 2003**

| Category   | Seasonally adjusted annual rates |        |        |        |        |        |        |        |        |        |        |        |        |        |      |  |  |  |
|--|----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|------|--|--|--|
|  | Calendar year                    |        |        |        | 2003   |        |        |        | 2004   |        |        |        |        |        | 2005 |  |  |  |
|  | 2002                             | 2003   | 2004   | 2005   | Q3     | Q4     | Q1     | Q2     | Q3     | Q4     | Q1     | Q2     | Q3     | Q4     |      |  |  |  |
| <i>Net funds raised by domestic nonfinancial sectors</i> |                                  |        |        |        |        |        |        |        |        |        |        |        |        |        |      |  |  |  |
| 1 Total  | 1333.5                           | 1640.7 | 1510.8 | 1463.3 | 1471.5 | 1414.3 | 1439.6 | 1867.1 | 1367.0 | 1369.3 | 1543.0 | 1695.3 | 1353.4 | 1261.6 |      |  |  |  |
| 2 Net equity issuance                                    | -41.9                            | -50.4  | -38.8  | -19.5  | -13.0  | -51.0  | -46.0  | -41.0  | -39.0  | -29.0  | -27.0  | -22.0  | -17.0  | -12.0  |      |  |  |  |
| 3 Net debt issuance                                      | 1375.4                           | 1691.1 | 1549.5 | 1482.8 | 1484.5 | 1465.3 | 1485.6 | 1908.1 | 1406.0 | 1398.3 | 1570.0 | 1717.3 | 1370.4 | 1273.6 |      |  |  |  |
| <i>Borrowing sectors</i>                                 |                                  |        |        |        |        |        |        |        |        |        |        |        |        |        |      |  |  |  |
| Nonfinancial business                                    |                                  |        |        |        |        |        |        |        |        |        |        |        |        |        |      |  |  |  |
| 4 Financing gap <sup>1</sup>                             | 80.7                             | 8.6    | 30.1   | 232.1  | -25.7  | -5.1   | -19.1  | -0.9   | 43.0   | 97.5   | 177.1  | 225.4  | 255.5  | 270.6  |      |  |  |  |
| 5 Net equity issuance                                    | -41.9                            | -50.4  | -38.8  | -19.5  | -13.0  | -51.0  | -46.0  | -41.0  | -39.0  | -29.0  | -27.0  | -22.0  | -17.0  | -12.0  |      |  |  |  |
| 6 Credit market borrowing                                | 200.7                            | 296.1  | 371.2  | 447.4  | 196.9  | 280.8  | 323.7  | 356.1  | 386.6  | 418.1  | 427.3  | 441.6  | 456.0  | 464.5  |      |  |  |  |
| Households   |                                  |        |        |        |        |        |        |        |        |        |        |        |        |        |      |  |  |  |
| 7 Net borrowing <sup>2</sup>                             | 771.8                            | 850.8  | 604.8  | 621.8  | 842.0  | 683.8  | 609.6  | 597.7  | 599.7  | 612.3  | 624.6  | 621.9  | 620.1  | 620.6  |      |  |  |  |
| 8 Home mortgages   | 666.4                            | 721.3  | 477.6  | 465.7  | 707.4  | 574.0  | 502.0  | 474.3  | 466.4  | 467.6  | 475.4  | 465.4  | 460.9  | 461.1  |      |  |  |  |
| 9 Consumer credit  | 79.2                             | 92.7   | 108.2  | 134.6  | 97.7   | 87.8   | 89.3   | 107.0  | 113.7  | 122.9  | 127.7  | 135.0  | 137.7  | 138.1  |      |  |  |  |
| 10 Debt/DPI (percent) <sup>3</sup>                       | 103.5                            | 109.1  | 111.8  | 112.8  | 109.7  | 111.4  | 111.3  | 111.7  | 111.9  | 112.1  | 112.3  | 112.6  | 112.9  | 113.2  |      |  |  |  |
| State and local governments                              |                                  |        |        |        |        |        |        |        |        |        |        |        |        |        |      |  |  |  |
| 11 Net borrowing   | 145.4                            | 121.2  | 73.8   | 75.3   | 127.9  | 94.5   | 66.8   | 70.8   | 72.8   | 84.8   | 74.8   | 74.8   | 74.8   | 76.8   |      |  |  |  |
| 12 Current surplus <sup>4</sup>                          | 127.7                            | 155.7  | 185.3  | 200.8  | 152.5  | 191.8  | 177.7  | 186.7  | 184.6  | 192.2  | 195.4  | 199.1  | 202.6  | 206.1  |      |  |  |  |
| Federal government                                       |                                  |        |        |        |        |        |        |        |        |        |        |        |        |        |      |  |  |  |
| 13 Net borrowing   | 257.5                            | 423.0  | 499.7  | 335.8  | 317.7  | 406.2  | 485.5  | 883.5  | 346.9  | 283.0  | 443.2  | 579.0  | 219.4  | 111.7  |      |  |  |  |
| 14 Net borrowing (quarterly, n.s.a.)                     | 257.5                            | 423.0  | 499.7  | 335.8  | 107.6  | 145.6  | 164.9  | 105.1  | 114.9  | 114.7  | 154.4  | 29.0   | 77.9   | 74.5   |      |  |  |  |
| 15 Unified deficit (quarterly, n.s.a.)                   | 230.6                            | 422.8  | 472.6  | 325.7  | 104.5  | 156.8  | 179.3  | 61.1   | 100.5  | 131.8  | 161.8  | -9.9   | 75.4   | 98.4   |      |  |  |  |
| <i>Depository institutions</i>                           |                                  |        |        |        |        |        |        |        |        |        |        |        |        |        |      |  |  |  |
| 16 Funds supplied  | 482.5                            | 382.8  | 442.0  | 502.2  | -108.9 | 282.8  | 401.9  | 503.6  | 444.4  | 418.3  | 479.9  | 550.4  | 525.5  | 453.1  |      |  |  |  |
| Memo (percentage of GDP)                                 |                                  |        |        |        |        |        |        |        |        |        |        |        |        |        |      |  |  |  |
| 17 Domestic nonfinancial debt <sup>5</sup>               | 191.3                            | 197.1  | 199.7  | 201.7  | 197.9  | 198.7  | 199.0  | 199.7  | 200.3  | 200.4  | 201.0  | 201.8  | 202.5  | 202.7  |      |  |  |  |
| 18 Domestic nonfinancial borrowing                       | 13.2                             | 15.5   | 13.4   | 12.1   | 13.5   | 13.1   | 13.1   | 16.6   | 12.0   | 11.8   | 13.1   | 14.1   | 11.1   | 10.2   |      |  |  |  |
| 19 Federal government <sup>6</sup>                       | 2.5                              | 3.9    | 4.3    | 2.8    | 2.9    | 3.6    | 4.3    | 7.7    | 3.0    | 2.4    | 3.7    | 4.8    | 1.8    | 0.9    |      |  |  |  |
| 20 Nonfederal  | 10.7                             | 11.6   | 9.1    | 9.4    | 10.6   | 9.5    | 8.8    | 8.9    | 9.1    | 9.4    | 9.4    | 9.4    | 9.4    | 9.3    |      |  |  |  |

Note. Data after 2003:Q2 are staff projections.

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

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

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

2.6.4 FOF

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

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

6. Excludes government-insured mortgage pool securities.



## International Developments

Real GDP expanded at a stronger-than-expected pace in the third quarter in a number of foreign economies, especially in Asia. However, output growth was weaker than anticipated in our North American trading partners, particularly Mexico. Our estimate for average foreign growth in the third quarter, at a little above 3½ percent, is up only slightly from the previous Greenbook.

Incoming data for the current quarter are generally consistent with a more rapid strengthening of activity than we had anticipated previously. Accordingly, we have revised up our outlook for foreign growth in the fourth quarter by nearly ½ percentage point, to over 3¾ percent. We have nudged up forecasted growth in 2004 a bit as well to nearly 3¾ percent. Growth in 2005 is projected to slow to just under 3½ percent, unchanged from the October Greenbook.

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

| Indicator         | 2003 |     | Projection  |      |     |     |      |
|-------------------|------|-----|-------------|------|-----|-----|------|
|                   | H1   | Q3  | 2003:<br>Q4 | 2004 |     |     | 2005 |
|                   |      |     |             | Q1   | Q2  | H2  |      |
| Foreign output    | .6   | 3.6 | 3.8         | 3.7  | 3.7 | 3.6 | 3.4  |
| <i>October GB</i> | .7   | 3.5 | 3.4         | 3.5  | 3.6 | 3.6 | 3.4  |
| Foreign CPI       | 2.0  | 1.4 | 2.7         | 2.5  | 1.9 | 1.9 | 1.9  |
| <i>October GB</i> | 2.0  | 1.3 | 2.2         | 2.0  | 1.9 | 2.0 | 1.9  |

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

We project foreign inflation to rise in the current quarter--given the recent runup in nonfuel primary commodity prices and increases in food prices in some countries--and then to fall back to about 2 percent by the second quarter of next year and beyond.

The trade-weighted foreign exchange value of the dollar declined 1½ percent, on balance, against the major foreign currencies over the intermeeting period. Stronger-than-expected U.S. data fueled some appreciation of the dollar early in the intermeeting period, but this movement was more than reversed later. Even though the dollar appreciated a bit against the currencies of our other important trading partners, our broad real index of the dollar fell on net over the period. We continue to project a modest depreciation of the dollar over the forecast period, with the broad real dollar slated to move along a path that is about 1 percent lower than in the October Greenbook.

The arithmetic contribution of net exports to real GDP growth during the third quarter has been revised upward to almost 0.9 percentage point from the

The projection for the fourth quarter is somewhat higher than that in the October Greenbook, largely reflecting recent food price increases in some Asian countries.

### Prices of Internationally Traded Goods

Non-oil core import prices increased at an annual rate of  $\frac{1}{2}$  percent in the third quarter and are projected to rise 1 percent in the fourth quarter and  $2\frac{1}{4}$  percent in the first half of 2004. These increases reflect the depreciation of the dollar, stronger commodity prices, and steady growth in foreign prices. Thereafter, we project more subdued increases, with prices rising in line with foreign inflation. With import prices continuing to come in below our expectations, we have marked down our projected increases in import prices in the near term.

Prices of core exports rose more than 1 percent in the third quarter of 2003 and are expected to increase another 3 percent in the fourth quarter,  $1\frac{3}{4}$  percentage points more than projected in the October Greenbook. The revision from the last Greenbook mainly reflects higher projected prices for investment goods and agricultural products. Over the remainder of the forecast period, core export price inflation is expected to average around 1 percent per year, in line with projected prices of U.S. domestic goods.

### Selected Trade Prices

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

| Trade category           | 2003  |       | Projection  |       |       |       |       |
|--------------------------|-------|-------|-------------|-------|-------|-------|-------|
|                          | H1    | Q3    | 2003:<br>Q4 | 2004  |       |       | 2005  |
|                          |       |       |             | Q1    | Q2    | H2    |       |
| <i>Exports</i>           |       |       |             |       |       |       |       |
| Core goods               | 3.4   | 1.1   | 2.9         | 1.3   | 1.2   | .5    | .9    |
| <i>Imports</i>           |       |       |             |       |       |       |       |
| Non-oil core goods       | 2.6   | .5    | 1.2         | 2.3   | 2.2   | 1.6   | .8    |
| Oil (dollars per barrel) | 26.46 | 28.06 | 28.05       | 27.39 | 26.27 | 24.30 | 22.64 |

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

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

### Trade in Goods and Services

September trade data indicated that the pronounced weakness in August imports and, to a lesser extent, exports was not long-lived. After contracting in August, both imports and exports moved up sharply in September. In consequence, the

nominal trade deficit widened in September, although less than we had anticipated in the October Greenbook. This has led us to revise up our estimate of the arithmetic contribution of real net exports to U.S. GDP growth from 0.5 percentage point to 0.9 percentage point in the third quarter. Net exports are expected to deduct 0.3 percentage point from U.S. growth in the current quarter, 0.4 percentage point in 2004, and 0.3 percentage point in 2005, roughly unchanged from the October Greenbook.

After falling for three consecutive quarters, real exports of goods and services rebounded in the third quarter, growing 11 percent at an annual rate, about what we had estimated in the last Greenbook. In the fourth quarter, real exports of goods and services are projected to accelerate further. Merchandise exports should be the main contributor to this acceleration, as the growth of real services exports is projected to come down a bit from the third quarter's strong rebound from the negative effect of SARS. Factors supporting the acceleration in exports of core goods include the effects of past dollar depreciation and a pickup in growth abroad.

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

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

| Measure           | 2003        |             | Projection  |            |             |             |            |
|-------------------|-------------|-------------|-------------|------------|-------------|-------------|------------|
|                   | H1          | Q3          | 2003:<br>Q4 | 2004       |             |             | 2005       |
|                   |             |             |             | Q1         | Q2          | H2          |            |
| Real exports      | -1.1        | 11.0        | 12.8        | 8.1        | 10.5        | 11.7        | 10.1       |
| <i>October GB</i> | <i>-1.1</i> | <i>11.6</i> | <i>11.6</i> | <i>7.6</i> | <i>10.2</i> | <i>11.5</i> | <i>9.9</i> |
| Real imports      | 1.0         | 1.5         | 11.3        | 8.9        | 12.2        | 10.1        | 9.0        |
| <i>October GB</i> | <i>1.0</i>  | <i>4.1</i>  | <i>10.0</i> | <i>8.8</i> | <i>11.8</i> | <i>9.9</i>  | <i>9.1</i> |

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

In 2004 and 2005, real exports of core goods, computers, semiconductors, and services are all expected to show continued solid growth. The projected strength in core exports stems from the acceleration of foreign activity and significant net stimulus from the dollar. In addition, because exports fell more in the recent global downturn than suggested by their historical relationship with exchange rates and foreign GDP, we have built in some further growth of exports over the forecast period to return them gradually to a more normal level. Total export growth in both 2004 and 2005 is slightly stronger than projected in the October Greenbook, primarily because of the lower path of the dollar.

baseline reflects both the effects of dollar depreciation on import prices and the increase in U.S. output.

The second simulation adds the U.S. aggregate demand shock considered earlier--an autonomous rise in investment and consumption demand--to the foreign demand shock. Given the extra stimulus from the U.S. domestic demand shock, U.S. GDP growth rises more sharply in this case, and there is slightly greater upward pressure on inflation.

**Alternative Simulation:  
More Expansionary Foreign Demand**  
(Percent change from previous period, annual rate)

| Indicator and simulation                     | 2003 | 2004 |     | 2005 |     |
|--|------|------|-----|------|-----|
|  | H2   | H1   | H2  | H1   | H2  |
| <i>U.S. real GDP</i>                         |      |      |     |      |     |
| Baseline                                     | 6.3  | 5.4  | 5.1 | 3.9  | 3.8 |
| Foreign demand expansion only                | 6.4  | 5.6  | 5.5 | 4.3  | 4.3 |
| U.S. and foreign demand expansion            | 6.6  | 6.6  | 6.0 | 4.6  | 4.6 |
| <i>U.S. PCE prices excl. food and energy</i> |      |      |     |      |     |
| Baseline                                     | 1.5  | 1.2  | 1.1 | 1.1  | 1.1 |
| Foreign demand expansion only                | 1.5  | 1.2  | 1.2 | 1.3  | 1.4 |
| U.S. and foreign demand expansion            | 1.5  | 1.2  | 1.2 | 1.4  | 1.6 |

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

Strictly Confidential (FR)  
 Class II FOMC  
 OUTLOOK FOR FOREIGN REAL GDP AND CONSUMER PRICES: SELECTED COUNTRIES  
 (Percent, Q4 to Q4)  
 December 3, 2003

| Measure and country  | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|----------------------|------|------|------|------|------|------|------|------|------|
| REAL GDP (1)         |      |      |      |      |      |      |      |      |      |
| -----                |      |      |      |      |      |      |      |      |      |
| Total foreign        | 4.2  | 1.5  | 4.9  | 4.4  | 0.3  | 2.8  | 2.2  | 3.7  | 3.4  |
| Industrial Countries | 3.4  | 2.7  | 4.2  | 3.9  | 0.6  | 2.5  | 1.6  | 2.9  | 2.7  |
| of which:            |      |      |      |      |      |      |      |      |      |
| Canada               | 4.4  | 4.4  | 5.9  | 4.2  | 1.4  | 3.5  | 1.6  | 3.4  | 3.2  |
| Japan                | 0.3  | -1.3 | -0.5 | 5.1  | -2.4 | 2.5  | 2.5  | 1.8  | 1.6  |
| United Kingdom       | 3.4  | 2.8  | 3.3  | 2.9  | 1.9  | 2.0  | 2.3  | 3.0  | 2.5  |
| Euro Area (2)        | 3.2  | 2.0  | 3.9  | 2.8  | 0.8  | 1.1  | 0.8  | 2.5  | 2.4  |
| Germany              | 1.7  | 0.7  | 3.3  | 1.9  | 0.5  | 0.5  | 0.3  | 2.4  | 2.3  |
| Developing Countries | 5.4  | -0.3 | 6.1  | 5.3  | -0.3 | 3.1  | 3.0  | 4.9  | 4.4  |
| Asia                 | 5.0  | -2.2 | 8.6  | 6.1  | 0.9  | 5.6  | 4.9  | 5.6  | 5.3  |
| Korea                | 3.4  | -5.2 | 13.8 | 5.1  | 4.2  | 7.0  | 1.3  | 5.2  | 5.2  |
| China                | 8.7  | 9.5  | 4.1  | 8.0  | 7.5  | 8.0  | 9.9  | 8.3  | 7.7  |
| Latin America        | 6.1  | 1.2  | 4.2  | 4.4  | -1.4 | 1.2  | 1.4  | 4.6  | 3.8  |
| Mexico               | 6.8  | 2.9  | 5.4  | 4.8  | -1.5 | 2.0  | 1.3  | 5.1  | 4.1  |
| Brazil               | 2.5  | -1.6 | 3.4  | 3.8  | -0.8 | 3.7  | -0.7 | 3.5  | 3.5  |
| CONSUMER PRICES (3)  |      |      |      |      |      |      |      |      |      |
| -----                |      |      |      |      |      |      |      |      |      |
| Industrial Countries | 1.5  | 1.0  | 1.2  | 1.8  | 1.0  | 2.2  | 1.3  | 1.4  | 1.3  |
| of which:            |      |      |      |      |      |      |      |      |      |
| Canada               | 1.0  | 1.1  | 2.4  | 3.1  | 1.1  | 3.8  | 1.5  | 1.9  | 1.7  |
| Japan                | 2.1  | 0.7  | -1.1 | -1.3 | -1.3 | -0.4 | -0.5 | -0.3 | -0.2 |
| United Kingdom (4)   | 2.7  | 2.5  | 2.2  | 2.1  | 2.0  | 2.6  | 2.6  | 2.4  | 2.5  |
| Euro Area (2)        | 1.5  | 0.8  | 1.5  | 2.5  | 2.1  | 2.3  | 2.0  | 1.7  | 1.6  |
| Germany              | 1.5  | 0.3  | 1.1  | 1.7  | 1.5  | 1.2  | 1.3  | 1.3  | 0.9  |
| Developing Countries | 6.8  | 9.0  | 4.6  | 4.1  | 2.8  | 3.1  | 2.9  | 3.0  | 2.8  |
| Asia                 | 2.7  | 4.4  | 0.1  | 1.8  | 1.1  | 0.8  | 1.9  | 2.3  | 2.2  |
| Korea                | 4.9  | 5.8  | 1.2  | 2.5  | 3.3  | 3.4  | 3.4  | 2.9  | 3.0  |
| China                | 0.8  | -1.2 | -1.0 | 0.9  | -0.1 | -0.5 | 2.1  | 2.3  | 1.7  |
| Latin America        | 15.5 | 15.4 | 12.5 | 8.4  | 5.3  | 6.4  | 4.8  | 4.0  | 3.5  |
| Mexico               | 17.0 | 17.3 | 13.4 | 8.7  | 5.1  | 5.3  | 3.9  | 3.6  | 3.1  |
| Brazil               | 4.6  | 2.0  | 8.4  | 6.4  | 7.5  | 10.7 | 11.6 | 5.8  | 5.2  |

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

Strictly Confidential (FR)  
Class II FOMC

December 3, 2003

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

| Measure and country  | 2003                                |      |      |      | Projected 2004 |      |      |      | 2005 |      |      |      |
|----------------------|-------------------------------------|------|------|------|----------------|------|------|------|------|------|------|------|
|                      | Q1                                  | Q2   | Q3   | Q4   | Q1             | Q2   | Q3   | Q4   | Q1   | Q2   | Q3   | Q4   |
| REAL GDP (1)         | Quarterly changes at an annual rate |      |      |      |                |      |      |      |      |      |      |      |
| Total foreign        | 0.5                                 | 0.7  | 3.6  | 3.8  | 3.7            | 3.7  | 3.7  | 3.6  | 3.5  | 3.4  | 3.3  | 3.3  |
| Industrial Countries | 1.3                                 | 0.3  | 1.6  | 3.1  | 2.9            | 2.9  | 2.8  | 2.8  | 2.8  | 2.7  | 2.7  | 2.7  |
| of which:            |                                     |      |      |      |                |      |      |      |      |      |      |      |
| Canada               | 2.0                                 | -0.7 | 1.1  | 4.1  | 3.6            | 3.5  | 3.4  | 3.3  | 3.3  | 3.2  | 3.2  | 3.2  |
| Japan                | 1.9                                 | 3.5  | 2.2  | 2.5  | 2.1            | 1.8  | 1.7  | 1.6  | 1.6  | 1.6  | 1.6  | 1.6  |
| United Kingdom       | 0.7                                 | 2.4  | 3.0  | 3.2  | 3.2            | 3.1  | 2.8  | 2.7  | 2.7  | 2.6  | 2.4  | 2.4  |
| Euro Area (2)        | -0.1                                | -0.4 | 1.5  | 2.2  | 2.3            | 2.4  | 2.6  | 2.6  | 2.5  | 2.5  | 2.3  | 2.3  |
| Germany              | -1.0                                | -0.6 | 0.9  | 1.9  | 2.1            | 2.4  | 2.5  | 2.5  | 2.4  | 2.3  | 2.1  | 2.1  |
| Developing Countries | -0.7                                | 1.3  | 6.7  | 5.0  | 4.9            | 4.9  | 4.9  | 4.9  | 4.5  | 4.5  | 4.3  | 4.3  |
| Asia                 | 2.8                                 | -4.5 | 14.9 | 7.3  | 5.6            | 5.7  | 5.6  | 5.6  | 5.6  | 5.5  | 5.1  | 5.0  |
| Korea                | -1.6                                | -2.7 | 4.7  | 5.0  | 5.3            | 5.2  | 5.2  | 5.2  | 5.5  | 5.5  | 5.0  | 5.0  |
| China                | 16.3                                | -2.9 | 17.5 | 10.0 | 8.5            | 8.5  | 8.2  | 8.2  | 8.0  | 8.0  | 7.5  | 7.5  |
| Latin America        | -4.2                                | 6.1  | 0.5  | 3.3  | 4.6            | 4.6  | 4.6  | 4.6  | 3.8  | 3.8  | 3.8  | 3.8  |
| Mexico               | -1.6                                | 4.9  | -1.4 | 3.4  | 5.1            | 5.1  | 5.1  | 5.1  | 4.1  | 4.1  | 4.1  | 4.1  |
| Brazil               | -3.3                                | -4.7 | 1.6  | 4.0  | 3.5            | 3.5  | 3.5  | 3.5  | 3.5  | 3.5  | 3.5  | 3.5  |
| CONSUMER PRICES (3)  | Four-quarter changes                |      |      |      |                |      |      |      |      |      |      |      |
| Industrial Countries | 2.5                                 | 1.8  | 1.5  | 1.3  | 0.8            | 1.4  | 1.4  | 1.4  | 1.3  | 1.3  | 1.3  | 1.3  |
| of which:            |                                     |      |      |      |                |      |      |      |      |      |      |      |
| Canada               | 4.5                                 | 2.8  | 2.1  | 1.5  | 0.6            | 1.8  | 1.8  | 1.9  | 1.7  | 1.7  | 1.7  | 1.7  |
| Japan                | -0.3                                | -0.3 | -0.5 | -0.5 | -0.5           | -0.5 | -0.3 | -0.3 | -0.3 | -0.3 | -0.2 | -0.2 |
| United Kingdom (4)   | 2.9                                 | 2.9  | 2.9  | 2.6  | 2.3            | 2.5  | 2.5  | 2.4  | 2.3  | 2.4  | 2.4  | 2.5  |
| Euro Area (2)        | 2.3                                 | 1.9  | 2.0  | 2.0  | 1.8            | 2.0  | 1.9  | 1.7  | 1.5  | 1.5  | 1.6  | 1.6  |
| Germany              | 1.1                                 | 0.9  | 1.0  | 1.3  | 1.4            | 1.8  | 1.7  | 1.3  | 0.9  | 0.8  | 0.9  | 0.9  |
| Developing Countries | 3.6                                 | 3.1  | 2.7  | 2.9  | 2.8            | 3.0  | 3.3  | 3.0  | 2.8  | 2.8  | 2.8  | 2.8  |
| Asia                 | 1.3                                 | 1.2  | 1.2  | 1.9  | 2.0            | 2.5  | 2.8  | 2.3  | 2.1  | 2.2  | 2.2  | 2.2  |
| Korea                | 4.1                                 | 3.3  | 3.2  | 3.4  | 2.9            | 3.1  | 3.4  | 2.9  | 3.0  | 3.0  | 3.0  | 3.0  |
| China                | 0.5                                 | 0.6  | 0.9  | 2.1  | 2.5            | 3.1  | 3.1  | 2.3  | 1.8  | 1.8  | 1.8  | 1.7  |
| Latin America        | 7.1                                 | 6.3  | 5.4  | 4.8  | 4.3            | 4.2  | 4.2  | 4.0  | 3.8  | 3.7  | 3.6  | 3.5  |
| Mexico               | 5.5                                 | 4.7  | 4.1  | 3.9  | 4.0            | 4.0  | 3.9  | 3.6  | 3.4  | 3.3  | 3.2  | 3.1  |
| Brazil               | 15.6                                | 17.0 | 15.3 | 11.6 | 6.7            | 5.2  | 5.8  | 5.8  | 5.6  | 5.5  | 5.3  | 5.2  |

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

|                                | 1997   | 1998   | 1999   | 2000   | 2001   | 2002   | -----<br>2003 | Projected<br>2004 | -----<br>2005 |
|--------------------------------|--|--------|--------|--------|--------|--------|---------------|-------------------|---------------|
| NIPA REAL EXPORTS and IMPORTS  |  |        |        |        |        |        |               |                   |               |
|                                | Percentage point contribution to GDP growth, Q4/Q4 |        |        |        |        |        |               |                   |               |
| Net Goods & Services           | -0.8   | -1.1   | -1.0   | -0.8   | -0.1   | -1.0   | -0.0          | -0.4              | -0.3          |
| Exports of G&S                 | 1.0  | 0.3    | 0.5    | 0.8    | -1.3   | 0.4    | 0.5           | 1.0               | 1.0           |
| Imports of G&S                 | -1.7   | -1.3   | -1.5   | -1.5   | 1.2    | -1.3   | -0.5          | -1.5              | -1.3          |
|                                | Percentage change, Q4/Q4                           |        |        |        |        |        |               |                   |               |
| Exports of G&S                 | 8.5  | 2.3    | 4.9    | 7.3    | -11.4  | 3.9    | 5.2           | 10.5              | 10.1          |
| Services                       | 1.4  | 2.9    | 3.2    | 4.8    | -9.2   | 11.4   | 4.2           | 7.3               | 5.9           |
| Computers                      | 25.8   | 8.1    | 13.4   | 23.0   | -23.4  | -2.1   | 13.0          | 37.3              | 31.0          |
| Semiconductors                 | 21.3   | 9.1    | 34.6   | 26.9   | -34.9  | 8.5    | 36.6          | 40.1              | 33.7          |
| Other Goods 1/                 | 9.8  | 1.3    | 3.2    | 5.7    | -9.4   | 0.5    | 3.3           | 8.4               | 8.7           |
| Imports of G&S                 | 14.3   | 10.8   | 11.9   | 11.1   | -8.0   | 10.1   | 3.6           | 10.3              | 9.0           |
| Services                       | 14.0   | 8.5    | 5.9    | 10.9   | -8.6   | 11.5   | 1.0           | 4.0               | 4.4           |
| Oil                            | 3.9  | 4.1    | -3.4   | 13.3   | 0.1    | 4.0    | 0.6           | 2.2               | 2.8           |
| Computers                      | 33.0   | 25.8   | 26.0   | 13.6   | -13.8  | 13.6   | 15.0          | 37.3              | 31.1          |
| Semiconductors                 | 32.9   | -8.7   | 34.2   | 22.5   | -51.4  | 9.3    | 6.3           | 40.2              | 33.7          |
| Other Goods 2/                 | 12.7   | 11.5   | 12.7   | 10.4   | -6.2   | 10.1   | 3.8           | 10.3              | 8.4           |
|                                | Billions of chained 1996 dollars                   |        |        |        |        |        |               |                   |               |
| Net Goods & Services           | -113.3   | -221.1 | -320.5 | -398.8 | -415.9 | -488.5 | -528.8        | -571.8            | -618.1        |
| Exports of G&S                 | 981.5  | 1002.4 | 1036.3 | 1137.2 | 1076.1 | 1058.8 | 1078.4        | 1184.2            | 1305.7        |
| Imports of G&S                 | 1094.8   | 1223.5 | 1356.8 | 1536.0 | 1492.0 | 1547.4 | 1607.2        | 1756.0            | 1923.8        |
| Billions of dollars            |  |        |        |        |        |        |               |                   |               |
| US CURRENT ACCOUNT BALANCE     | -127.7   | -204.7 | -290.8 | -411.5 | -393.7 | -480.9 | -547.1        | -565.2            | -610.0        |
| Current Acct as Percent of GDP | -1.5   | -2.3   | -3.1   | -4.2   | -3.9   | -4.6   | -5.0          | -4.8              | -5.0          |
| Net Goods & Services (BOP)     | -107.0   | -163.2 | -261.2 | -375.4 | -357.8 | -418.0 | -488.7        | -525.7            | -561.4        |
| Investment Income, Net         | 25.1   | 11.5   | 22.3   | 24.2   | 15.7   | 1.3    | 12.9          | 29.3              | 18.1          |
| Direct, Net                    | 72.4   | 65.5   | 78.2   | 94.9   | 106.5  | 93.5   | 95.3          | 115.9             | 126.3         |
| Portfolio, Net                 | -47.3  | -54.1  | -55.9  | -70.7  | -90.8  | -92.2  | -82.4         | -86.6             | -108.2        |
| Other Income & Transfers, Net  | -45.7  | -53.0  | -52.0  | -60.3  | -51.6  | -64.1  | -71.3         | -68.7             | -66.7         |

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

## OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

|                               | 2000   |        |        |        | 2001   |        |        |        | 2002   |        |        |        |
|-------------------------------|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                               | Q1   | Q2     | Q3     | Q4     | Q1     | Q2     | Q3     | Q4     | Q1     | Q2     | Q3     | Q4     |
| NIPA REAL EXPORTS and IMPORTS |  |        |        |        |        |        |        |        |        |        |        |        |
|                               | Percentage point contribution to GDP growth      |        |        |        |        |        |        |        |        |        |        |        |
| Net Goods & Services          | -1.1   | -1.0   | -0.7   | -0.2   | 0.5    | -0.4   | -0.2   | -0.3   | -0.7   | -1.4   | 0.0    | -1.6   |
| Exports of G&S                | 0.8  | 1.5    | 1.2    | -0.5   | -0.7   | -1.4   | -2.0   | -1.0   | 0.3    | 1.3    | 0.5    | -0.6   |
| Imports of G&S                | -1.9   | -2.5   | -1.9   | 0.3    | 1.2    | 1.0    | 1.7    | 0.7    | -1.1   | -2.7   | -0.4   | -1.0   |
|                               | Percentage change from previous period, s.a.a.r. |        |        |        |        |        |        |        |        |        |        |        |
| Exports of G&S                | 7.7  | 14.6   | 11.6   | -4.0   | -6.0   | -12.4  | -17.3  | -9.6   | 3.5    | 14.3   | 4.6    | -5.8   |
| Services                      | 10.2   | 11.2   | -5.9   | 4.4    | -6.0   | -2.5   | -13.9  | -13.8  | 21.7   | 10.7   | 5.9    | 8.0    |
| Computers                     | 33.5   | 45.9   | 28.8   | -8.8   | -7.3   | -41.7  | -22.8  | -17.6  | -21.1  | -0.5   | -0.8   | 17.9   |
| Semiconductors                | 14.6   | 90.9   | 43.4   | -17.5  | -34.6  | -47.3  | -40.9  | -11.7  | 13.7   | 65.8   | 21.3   | -39.4  |
| Other Goods 1/                | 4.2  | 9.1    | 16.7   | -5.9   | -2.9   | -10.5  | -16.5  | -6.9   | -3.1   | 14.2   | 3.3    | -10.7  |
| Imports of G&S                | 14.7   | 18.6   | 13.8   | -1.6   | -7.9   | -6.8   | -11.8  | -5.3   | 8.5    | 22.2   | 3.3    | 7.4    |
| Services                      | 20.7   | 9.6    | 15.1   | -0.5   | 0.3    | 8.5    | -23.2  | -16.5  | 35.7   | -2.1   | 3.1    | 13.0   |
| Oil                           | 28.6   | 40.4   | -2.3   | -6.5   | 23.3   | 7.2    | -26.9  | 3.9    | -19.0  | 34.5   | -13.3  | 24.1   |
| Computers                     | 2.5  | 40.4   | 27.9   | -9.5   | -21.6  | -24.5  | -18.7  | 14.6   | 52.4   | 5.6    | -4.4   | 8.2    |
| Semiconductors                | 23.5   | 50.0   | 69.8   | -28.5  | -43.9  | -68.8  | -55.9  | -27.5  | 45.2   | 41.8   | -5.9   | -26.4  |
| Other Goods 2/                | 13.1   | 15.5   | 12.3   | 1.3    | -9.4   | -6.2   | -4.7   | -4.5   | 1.9    | 28.8   | 6.3    | 5.2    |
|                               | Billions of chained 1996 dollars, s.a.a.r.       |        |        |        |        |        |        |        |        |        |        |        |
| Net Goods & Services          | -368.8   | -394.6 | -413.1 | -418.5 | -404.5 | -414.8 | -419.0 | -425.3 | -446.6 | -487.4 | -488.0 | -532.2 |
| Exports of G&S                | 1095.8   | 1133.9 | 1165.5 | 1153.7 | 1135.8 | 1098.8 | 1048.0 | 1021.8 | 1030.6 | 1065.5 | 1077.7 | 1061.6 |
| Imports of G&S                | 1464.6   | 1528.5 | 1578.6 | 1572.2 | 1540.3 | 1513.6 | 1467.0 | 1447.2 | 1477.1 | 1552.9 | 1565.7 | 1593.8 |
| Billions of dollars, s.a.a.r. |  |        |        |        |        |        |        |        |        |        |        |        |
| US CURRENT ACCOUNT BALANCE    | -380.1   | -396.5 | -434.3 | -435.0 | -416.0 | -399.9 | -414.5 | -344.6 | -426.9 | -491.3 | -490.9 | -514.3 |
| Current Account as % of GDP   | -3.9   | -4.0   | -4.4   | -4.4   | -4.1   | -4.0   | -4.1   | -3.4   | -4.1   | -4.7   | -4.7   | -4.9   |
| Net Goods & Services (BOP)    | -346.9   | -364.5 | -391.8 | -398.4 | -373.8 | -357.8 | -356.2 | -343.5 | -360.2 | -419.5 | -427.9 | -464.5 |
| Investment Income, Net        | 19.9   | 23.2   | 15.8   | 37.8   | 8.6    | 8.2    | -8.3   | 54.3   | 2.2    | -12.4  | -1.9   | 17.2   |
| Direct, Net                   | 84.5   | 88.9   | 91.9   | 114.5  | 94.5   | 96.7   | 91.3   | 143.5  | 95.7   | 85.6   | 87.7   | 104.9  |
| Portfolio, Net                | -64.5  | -65.7  | -76.1  | -76.6  | -86.0  | -88.4  | -99.6  | -89.2  | -93.5  | -98.1  | -89.6  | -87.7  |
| Other Inc. & Transfers, Net   | -53.1  | -55.2  | -58.3  | -74.5  | -50.8  | -50.3  | -50.0  | -55.4  | -68.9  | -59.3  | -61.1  | -67.1  |

1. Merchandise exports excluding computers and semiconductors.

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



OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

|                               | 2003   |        |        |        | 2004   |        |        |        | 2005   |        |        |        |
|-------------------------------|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                               | -----  |        |        |        | -----  |        |        |        | -----  |        |        |        |
|                               | Q1   | Q2     | Q3     | Q4     | Q1     | Q2     | Q3     | Q4     | Q1     | Q2     | Q3     | Q4     |
| NIPA REAL EXPORTS and IMPORTS |  |        |        |        |        |        |        |        |        |        |        |        |
|                               | Percentage point contribution to GDP growth      |        |        |        |        |        |        |        |        |        |        |        |
| Net Goods & Services          | 0.8  | -1.3   | 0.9    | -0.3   | -0.4   | -0.7   | -0.4   | -0.1   | -0.4   | -0.5   | -0.3   | 0.0    |
| Exports of G&S                | -0.1   | -0.1   | 1.0    | 1.2    | 0.8    | 1.0    | 1.0    | 1.2    | 0.8    | 1.0    | 1.0    | 1.2    |
| Imports of G&S                | 0.9  | -1.2   | -0.2   | -1.5   | -1.2   | -1.7   | -1.5   | -1.4   | -1.2   | -1.5   | -1.3   | -1.2   |
|                               | Percentage change from previous period, s.a.a.r. |        |        |        |        |        |        |        |        |        |        |        |
| Exports of G&S                | -1.3   | -1.0   | 11.0   | 12.8   | 8.1    | 10.5   | 10.7   | 12.8   | 7.7    | 10.4   | 10.2   | 12.1   |
| Services                      | -8.0   | 0.5    | 15.7   | 10.3   | 8.3    | 7.4    | 7.0    | 6.3    | 6.1    | 6.0    | 5.7    | 5.7    |
| Computers                     | -7.2   | -11.2  | 48.4   | 33.5   | 33.5   | 38.5   | 38.5   | 38.5   | 23.9   | 33.5   | 33.5   | 33.5   |
| Semiconductors                | 44.8   | 30.7   | 35.2   | 36.3   | 36.3   | 41.4   | 41.4   | 41.4   | 26.4   | 36.2   | 36.2   | 36.2   |
| Other Goods 1/                | 0.2  | -2.9   | 5.2    | 11.4   | 4.5    | 8.4    | 8.6    | 12.3   | 5.8    | 8.9    | 8.6    | 11.6   |
| Imports of G&S                | -6.2   | 8.8    | 1.5    | 11.3   | 8.9    | 12.2   | 10.5   | 9.7    | 8.2    | 10.5   | 9.1    | 8.3    |
| Services                      | -4.0   | -11.4  | 16.5   | 4.9    | 1.0    | 4.6    | 5.2    | 5.5    | 4.3    | 4.6    | 4.5    | 4.3    |
| Oil                           | -12.6  | 55.5   | -3.3   | -22.2  | -0.8   | 23.9   | 1.0    | -12.0  | 3.8    | 21.9   | -0.9   | -11.0  |
| Computers                     | -2.1   | 17.5   | 16.1   | 31.1   | 33.6   | 38.6   | 38.6   | 38.6   | 23.9   | 33.6   | 33.6   | 33.6   |
| Semiconductors                | -1.0   | 3.1    | -1.2   | 26.5   | 36.3   | 41.5   | 41.5   | 41.4   | 26.4   | 36.3   | 36.2   | 36.2   |
| Other Goods 2/                | -6.4   | 8.9    | -2.3   | 16.5   | 10.0   | 10.5   | 10.3   | 10.3   | 8.0    | 8.6    | 8.6    | 8.3    |
|                               | Billions of chained 1996 dollars, s.a.a.r.       |        |        |        |        |        |        |        |        |        |        |        |
| Net Goods & Services          | -510.3   | -546.1 | -524.2 | -534.5 | -548.3 | -568.7 | -582.6 | -587.6 | -601.0 | -616.7 | -627.0 | -627.9 |
| Exports of G&S                | 1058.1   | 1055.5 | 1083.4 | 1116.6 | 1138.4 | 1167.3 | 1197.3 | 1233.9 | 1256.9 | 1288.2 | 1319.8 | 1357.9 |
| Imports of G&S                | 1568.4   | 1601.7 | 1607.6 | 1651.1 | 1686.8 | 1736.0 | 1779.9 | 1821.5 | 1857.9 | 1904.9 | 1946.7 | 1985.9 |
| US CURRENT ACCOUNT BALANCE    |  |        |        |        |        |        |        |        |        |        |        |        |
| Current Account as % of GDP   | -554.8   | -555.1 | -541.1 | -537.6 | -554.2 | -560.2 | -572.7 | -573.5 | -595.7 | -602.6 | -617.0 | -624.8 |
|                               | -5.2   | -5.1   | -4.9   | -4.8   | -4.9   | -4.8   | -4.9   | -4.8   | -4.9   | -4.9   | -5.0   | -5.0   |
| Net Goods & Services (BOP)    | -486.5   | -494.1 | -483.3 | -491.1 | -505.8 | -523.5 | -535.4 | -538.0 | -548.1 | -560.7 | -568.4 | -568.5 |
| Investment Income, Net        | 6.3  | 11.9   | 12.9   | 20.4   | 28.5   | 30.3   | 29.6   | 28.7   | 26.6   | 22.3   | 15.6   | 8.0    |
| Direct, Net                   | 88.3   | 91.3   | 97.1   | 104.3  | 113.0  | 115.8  | 116.8  | 118.0  | 121.1  | 124.7  | 128.0  | 131.6  |
| Portfolio, Net                | -82.0  | -79.4  | -84.2  | -84.0  | -84.5  | -85.5  | -87.2  | -89.3  | -94.5  | -102.4 | -112.4 | -123.6 |
| Other Inc. & Transfers, Net   | -74.6  | -73.0  | -70.7  | -66.9  | -76.9  | -66.9  | -66.9  | -64.2  | -74.2  | -64.2  | -64.2  | -64.3  |

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

# BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESEARCH AND STATISTICS

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**Date:** December 5, 2003  
**To:** Members of the FOMC  
**From:** The Division of Research and Statistics  
**Subject:** Part 1 - Errata

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On pages I-2 and I-3 of Part 1, the correct figures for the staff forecast of the unified budget deficit are \$485 billion in fiscal year 2004 and \$370 billion in fiscal year 2005. In addition, attached is a corrected version of the flow of funds Greensheets.

Strictly Confidential (FR)  
Class II FOMC

Change in Debt of the Domestic Nonfinancial Sectors  
(Percent)

December 3, 2003

| Period <sup>1</sup> | Total | Federal government | Nonfederal |            |                |                 |          | Memo:<br>Nominal<br>GDP |                             |
|---------------------|-------|--------------------|------------|------------|----------------|-----------------|----------|-------------------------|-----------------------------|
|                     |       |                    | Total      | Households |                |                 | Business |                         | State and local governments |
|                     |       |                    |            | Total      | Home mortgages | Consumer credit |          |                         |                             |
| <i>Year</i>         |       |                    |            |            |                |                 |          |                         |                             |
| 1998                | 6.9   | -1.4               | 9.6        | 8.1        | 8.8            | 6.5             | 12.1     | 6.3                     | 6.0                         |
| 1999                | 6.4   | -1.9               | 8.9        | 8.3        | 9.0            | 8.4             | 10.7     | 3.4                     | 5.9                         |
| 2000                | 4.9   | -8.0               | 8.4        | 8.6        | 8.3            | 10.7            | 9.7      | 1.3                     | 4.6                         |
| 2001                | 6.2   | -0.2               | 7.6        | 8.7        | 9.8            | 7.3             | 6.3      | 8.9                     | 2.0                         |
| 2002                | 7.1   | 7.6                | 7.0        | 10.0       | 12.4           | 4.3             | 2.9      | 11.2                    | 4.3                         |
| 2003                | 8.5   | 11.0               | 8.0        | 11.2       | 13.3           | 5.5             | 4.2      | 8.3                     | 5.9                         |
| 2004                | 7.6   | 12.9               | 6.4        | 7.5        | 8.1            | 6.3             | 5.2      | 5.4                     | 6.3                         |
| 2005                | 6.1   | 7.6                | 5.8        | 5.9        | 5.8            | 6.9             | 5.9      | 4.3                     | 5.0                         |
| <i>Quarter</i>      |       |                    |            |            |                |                 |          |                         |                             |
| 2003:1              | 6.1   | 2.2                | 7.0        | 10.0       | 11.8           | 4.9             | 3.7      | 5.2                     | 3.8                         |
| 2                   | 12.1  | 24.3               | 9.6        | 11.8       | 14.3           | 4.6             | 6.2      | 12.8                    | 4.3                         |
| 3                   | 7.9   | 8.2                | 7.8        | 11.6       | 13.4           | 6.8             | 3.0      | 8.7                     | 10.1                        |
| 4                   | 6.9   | 8.0                | 6.7        | 9.5        | 11.2           | 5.3             | 3.5      | 5.3                     | 5.5                         |
| 2004:1              | 7.6   | 12.9               | 6.5        | 8.4        | 9.6            | 5.5             | 4.4      | 4.8                     | 6.6                         |
| 2                   | 8.7   | 19.4               | 6.3        | 7.5        | 8.3            | 6.2             | 4.8      | 5.5                     | 6.4                         |
| 3                   | 6.9   | 9.8                | 6.2        | 6.8        | 7.2            | 6.4             | 5.6      | 5.3                     | 6.3                         |
| 4                   | 6.2   | 7.3                | 6.0        | 6.4        | 6.5            | 6.6             | 5.6      | 5.5                     | 6.0                         |
| 2005:1              | 6.6   | 9.9                | 5.8        | 6.2        | 6.1            | 6.7             | 5.6      | 4.5                     | 5.3                         |
| 2                   | 6.9   | 12.1               | 5.7        | 5.9        | 5.7            | 6.8             | 5.8      | 4.3                     | 5.1                         |
| 3                   | 5.4   | 4.6                | 5.6        | 5.7        | 5.5            | 6.7             | 5.8      | 4.2                     | 5.0                         |
| 4                   | 5.1   | 3.0                | 5.6        | 5.5        | 5.2            | 6.6             | 6.0      | 4.0                     | 4.8                         |

Note. Quarterly data are at seasonally adjusted annual rates.

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

2.6.3 FOF

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

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

**December 3, 2003**

| Category  | Seasonally adjusted annual rates |        |        |        |        |        |        |        |        |        |        |        |        |        |
|---|----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|   | Calendar year                    |        |        | 2003   |        | 2004   |        |        | 2005   |        |        |        |        |        |
|   | 2002                             | 2003   | 2004   | 2005   | Q3     | Q4     | Q1     | Q2     | Q3     | Q4     | Q1     | Q2     | Q3     | Q4     |
| Net funds raised by domestic nonfinancial sectors |                                  |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 1 Total   | 1333.5                           | 1708.2 | 1655.9 | 1465.1 | 1664.3 | 1491.8 | 1677.5 | 1937.9 | 1563.6 | 1444.5 | 1559.4 | 1677.9 | 1340.8 | 1282.2 |
| 2 Net equity issuance                             | -41.9                            | -54.7  | -39.5  | -15.0  | -41.3  | -40.0  | -31.0  | -42.0  | -45.0  | -40.0  | -30.0  | -20.0  | -10.0  | 0.0    |
| 3 Net debt issuance                               | 1375.4                           | 1763.0 | 1695.4 | 1480.1 | 1705.6 | 1531.8 | 1708.5 | 1979.9 | 1608.6 | 1484.5 | 1589.4 | 1697.9 | 1350.8 | 1282.2 |
| Borrowing sectors                                 |                                  |        |        |        |        |        |        |        |        |        |        |        |        |        |
| Nonfinancial business                             |                                  |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 4 Financing gap <sup>1</sup>                      | 80.7                             | 9.1    | 32.5   | 251.1  | -32.1  | 3.4    | -14.4  | 1.2    | 46.5   | 96.6   | 191.2  | 244.6  | 276.3  | 292.3  |
| 5 Net equity issuance                             | -41.9                            | -54.7  | -39.5  | -15.0  | -41.3  | -40.0  | -31.0  | -42.0  | -45.0  | -40.0  | -30.0  | -20.0  | -10.0  | 0.0    |
| 6 Credit market borrowing                         | 200.7                            | 296.1  | 386.3  | 464.1  | 218.6  | 259.2  | 328.2  | 358.2  | 428.3  | 430.2  | 438.8  | 459.8  | 468.6  | 489.1  |
| Households  |                                  |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 7 Net borrowing <sup>2</sup>                      | 771.8                            | 947.2  | 704.5  | 598.1  | 1037.4 | 874.1  | 786.7  | 724.5  | 668.7  | 638.1  | 622.9  | 602.5  | 589.8  | 577.1  |
| 8 Home mortgages                                  | 666.4                            | 804.1  | 556.7  | 427.6  | 866.5  | 745.9  | 656.4  | 580.8  | 515.0  | 474.5  | 455.7  | 431.3  | 417.9  | 405.6  |
| 9 Consumer credit                                 | 79.2                             | 106.4  | 128.8  | 148.9  | 133.9  | 106.3  | 112.0  | 127.4  | 134.1  | 141.7  | 145.7  | 149.6  | 150.3  | 150.1  |
| 10 Debt/DPI (percent) <sup>3</sup>                | 103.5                            | 109.5  | 113.2  | 114.5  | 109.7  | 112.0  | 112.5  | 113.2  | 113.7  | 113.9  | 114.3  | 114.5  | 114.6  | 114.7  |
| State and local governments                       |                                  |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 11 Net borrowing                                  | 145.4                            | 119.2  | 83.8   | 71.3   | 131.9  | 82.5   | 74.8   | 86.8   | 84.8   | 88.8   | 74.8   | 70.8   | 70.8   | 68.8   |
| 12 Current surplus <sup>4</sup>                   | 127.7                            | 158.4  | 186.7  | 204.5  | 173.9  | 181.4  | 177.9  | 186.5  | 186.1  | 196.3  | 199.6  | 202.6  | 205.8  | 209.9  |
| Federal government                                |                                  |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 13 Net borrowing                                  | 257.5                            | 400.4  | 520.8  | 344.0  | 317.7  | 315.9  | 518.8  | 810.3  | 426.8  | 327.4  | 452.9  | 564.8  | 221.7  | 147.1  |
| 14 Net borrowing (quarterly, n.s.a.)              | 257.5                            | 400.4  | 520.8  | 344.0  | 107.6  | 123.0  | 173.3  | 86.9   | 134.9  | 125.9  | 156.8  | 25.5   | 78.4   | 83.4   |
| 15 Unified deficit (quarterly, n.s.a.)            | 230.6                            | 405.2  | 488.5  | 334.0  | 104.5  | 139.1  | 190.4  | 54.5   | 100.6  | 142.9  | 164.2  | -13.5  | 76.0   | 107.3  |
| Depository institutions                           |                                  |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 16 Funds supplied                                 | 482.5                            | 436.3  | 433.4  | 509.4  | 56.0   | 331.9  | 412.5  | 455.8  | 475.8  | 389.6  | 523.5  | 533.2  | 567.8  | 413.4  |
| Memo (percentage of GDP)                          |                                  |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 17 Domestic nonfinancial debt <sup>5</sup>        | 191.3                            | 196.9  | 199.7  | 202.2  | 197.3  | 198.3  | 198.7  | 199.7  | 200.5  | 200.8  | 201.4  | 202.3  | 202.9  | 203.2  |
| 18 Domestic nonfinancial borrowing                | 13.2                             | 16.1   | 14.5   | 12.0   | 15.4   | 13.7   | 15.0   | 17.1   | 13.7   | 12.5   | 13.2   | 13.9   | 10.9   | 10.2   |
| 19 Federal government <sup>6</sup>                | 2.5                              | 3.7    | 4.5    | 2.8    | 2.9    | 2.8    | 4.6    | 7.0    | 3.6    | 2.7    | 3.7    | 4.6    | 1.8    | 1.2    |
| 20 Nonfederal                                     | 10.7                             | 12.5   | 10.1   | 9.2    | 12.5   | 10.8   | 10.4   | 10.1   | 10.1   | 9.7    | 9.4    | 9.3    | 9.1    | 9.1    |

Note. Data after 2003:Q2 are staff projections.

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

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

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

2.6.4 FOF

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

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

6. Excludes government-insured mortgage pool securities.