

## **Part 1**

April 28, 2004

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## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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### **Summary and Outlook**

Confidential (FR) Class II FOMC

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April 28, 2004

## **Summary and Outlook**

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

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

Measure	2004:Q1		2004:Q2	
	Mar. GB	Apr. GB	Mar. GB	Apr. GB
<b>Real GDP</b>	<b>4.4</b>	<b>5.2</b>	<b>4.9</b>	<b>4.6</b>
Private domestic final purchases	4.2	4.3	6.1	6.4
Personal consumption expenditures	3.4	4.0	4.8	5.1
Residential investment	4.1	3.8	6.9	8.4
Business fixed investment	10.1	6.9	14.7	14.2
Government outlays for consumption and investment	2.9	3.6	3.1	1.9
	Contribution to growth (percentage points)			
Inventory investment	.7	1.0	-.5	-.8
Net exports	-.5	-.2	-.4	-.4

sweeten incentives to boost sales. Sales of light vehicles are projected to average almost 17 million units in the second quarter, up about 1/2 million units from the first-quarter level. In terms of contribution to real GDP growth, we expect motor vehicle production to subtract about 1 percentage point in the current quarter.

Regarding the components of final demand, we estimate that real consumer spending rose at an annual rate of 4 percent in the first quarter. When we exclude the weak spending on motor vehicles, we estimate that real consumer outlays rose at an annual rate of a little more than 5 percent in the first quarter, about 3/4 percentage point higher than we had projected in the last Greenbook. With growth in disposable income projected to be robust, we expect another solid advance this quarter.

Housing activity remained strong in the first quarter. Single-family starts came in at an annual rate of 1.56 million units—below the blistering pace seen at the end of 2003 but still at a very high level. Multifamily starts remained at their year-end level of 380,000 units. We expect total starts in the current quarter to drop off only a bit from the first-quarter level, as the recent rise in mortgage interest rates is not likely to show through in a material way until the second half of this year. We also expect overall outlays for residential investment in the second quarter to be boosted by increases in real estate commissions and spending on home improvements.

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

Measure	2004		2005
	H1	H2	
<b>Real GDP</b>	<b>4.9</b>	<b>5.1</b>	<b>3.8</b>
Previous	<b>4.7</b>	<b>5.3</b>	<b>4.0</b>
Final sales	4.8	4.7	3.6
Previous	4.5	5.0	3.9
PCE	4.5	4.3	4.0
Previous	4.1	4.3	4.0
Residential investment	6.1	-2.9	-1.2
Previous	5.5	-.2	-.4
BFI	10.5	16.6	7.8
Previous	12.4	16.7	8.8
Government purchases	2.7	1.7	2.1
Previous	3.0	1.7	2.1
Exports	6.9	11.7	9.1
Previous	8.2	13.2	10.8
Imports	6.8	9.2	8.6
Previous	8.8	9.3	9.0
	Contribution to growth (percentage points)		
Inventory change	.1	.4	.2
Previous	.1	.3	.1
Net exports	-.3	-.2	-.3
Previous	-.5	-.1	-.2

After three years of declines, nonresidential construction spending is projected to edge up about 1-1/4 percent in 2004. Real spending on office buildings and industrial facilities is expected to be about flat as vacancy rates continue to be elevated, while the high level of energy prices is expected to boost spending on drilling and mining about 7 percent. We expect growth in nonresidential construction spending to pick up next year to a pace of 5 percent. Increases in employment and business output raise demand for office and industrial space, but this rise is partially offset by a deceleration in spending on drilling and mining as energy prices moderate.

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

Measure	1974-95	1996-2001	2002	2003	2004	2005
<b>Structural labor productivity</b>	1.5	2.7	3.3	3.8	3.2	3.0
Previous	1.5	2.7	3.3	3.8	3.3	3.1
<i>Contributions</i> <sup>1</sup>						
Capital deepening	.7	1.4	.6	.7	.9	1.1
Previous	.7	1.4	.6	.7	1.0	1.2
Multifactor productivity	.5	1.1	2.4	2.9	2.1	1.7
Previous	.5	1.1	2.4	2.9	2.1	1.7
Labor composition	.3	.3	.3	.3	.3	.3
MEMO						
Potential GDP	3.0	3.4	3.6	4.1	3.6	3.6
Previous	3.0	3.4	3.6	4.1	3.7	3.7

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

1. Percentage points.

increases in private payrolls reaching about 300,000 by the end of 2004. Hiring is expected to slow a bit in 2005 as the economic expansion moderates. The unemployment rate is expected to decline gradually to 5.2 percent by the end of 2005, still above our estimate of the NAIRU. With businesses increasing their workforces to more-sustainable levels, the growth rate of actual output per hour is projected to fall to a pace that is lower than the underlying structural rate of productivity growth.

**Prices and wages.** As discussed above, the recent data on prices suggest that the underlying rate of inflation is somewhat higher than we thought. Looking back over last year, we now think that we may have taken a bit too much signal from that period's price deceleration. As a result, we have boosted our projection of underlying price inflation 0.2 percentage point. Nonetheless, given the slack resource utilization, smaller projected increases in non-oil import prices, and the waning effects of indirect energy prices, we continue to expect inflation to be subdued over the forecast period. All told, we are projecting core PCE prices to rise 1.4 percent in 2004 and 1.2 percent in 2005.

The upward revision in our projection of price inflation has led us to boost the growth of labor compensation. We now project that the employment cost index

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

Measure	2002	2003	2004	2005
Output per hour, nonfarm business	4.3	5.4	2.7	1.6
Previous	4.3	5.3	3.0	1.6
Nonfarm private payroll employment	-.9	-.2	2.3	2.5
Previous	-.9	-.2	2.0	2.8
Household survey employment	.3	1.2	1.7	1.9
Previous	.3	1.2	1.9	1.8
Labor force participation rate <sup>1</sup>	66.5	66.1	66.4	66.6
Previous	66.5	66.1	66.5	66.7
Civilian unemployment rate <sup>1</sup>	5.9	5.9	5.4	5.2
Previous	5.9	5.9	5.5	5.2
MEMO				
GDP gap <sup>2</sup>	2.4	2.2	.9	.7
Previous	2.4	2.2	1.0	.7

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.

will increase 3.7 percent this year and 3.9 percent next year, compared with 3.6 percent and 3.7 percent, respectively, in the last Greenbook.

### Financial Flows and Conditions

Domestic nonfinancial debt is projected to expand 8 percent this year—about the same pace as in 2003—before tapering down to a 6-3/4 percent increase in 2005. This contour is similar to that in the previous Greenbook, as we continue to project that a slower pace of government and household borrowing next year will more than offset a pickup in business borrowing.

We anticipate that household debt growth will step down from last year's pace of 10-1/2 percent to 8-3/4 percent this year and 7-1/4 percent in 2005. This deceleration is a bit more pronounced than in the March Greenbook, mainly because of the higher path for mortgage rates, which damps both loan originations related to home purchases and cash-out refinancing activity. All told, we expect the growth of home mortgage debt to slow from the pace of 12-1/2 percent recorded in 2003 to less than 8 percent in 2005. In contrast, we project that the growth of consumer credit will trend up from last year's pace of

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

Measure	2002	2003	2004	2005
PCE chain-weighted price index	1.8	1.5	1.5	1.1
Previous	1.8	1.4	1.1	.9
Food and beverages	1.4	2.6	1.8	1.6
Previous	1.4	2.6	1.6	1.4
Energy	7.9	7.8	1.7	-2.7
Previous	7.9	7.8	.7	-2.8
Excluding food and energy	1.6	1.0	1.4	1.2
Previous	1.6	.9	1.1	1.0
Consumer price index	2.2	1.9	1.8	1.3
Previous	2.2	1.9	1.4	1.1
Excluding food and energy	2.0	1.2	1.7	1.6
Previous	2.0	1.2	1.4	1.4
GDP chain-weighted price index	1.4	1.6	1.3	1.3
Previous	1.4	1.6	1.0	1.1
ECI for compensation of private industry workers <sup>1</sup>	3.2	4.0	3.7	3.9
Previous	3.2	4.0	3.6	3.7
NFB compensation per hour	1.8	4.0	3.6	3.8
Previous	1.8	3.6	3.3	3.6
Prices of core non-oil merchandise imports	.5	1.8	4.5	.4
Previous	.5	1.8	4.2	.5

1. December to December.

5-1/4 percent to 6-1/2 percent in 2005. This pickup is consistent with the projected rise in spending on durable goods and with some reduction in the use of mortgage credit to finance household purchases.

As in the previous Greenbook, borrowing by nonfinancial businesses is projected to pick up noticeably this year and next, with most of the impetus from the anticipated rise in capital spending. Also, in 2005, the expiration of the partial-expensing provision should increase business tax payments—and thus lower internally generated funds—which will likely contribute to greater financing needs. With businesses projected to be building inventories this year and next, we expect some shift back toward funding with bank loans and commercial paper after the sharp runoffs in recent years.

### Alternative Scenarios

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

Measure	2003: H2	2004		2005
		H1	H2	
<i>Real GDP</i>				
<b>Baseline</b>		<b>6.2</b>	<b>4.9</b>	<b>5.1</b>
Higher underlying inflation		6.2	4.9	5.1
High NAIRU		6.2	4.9	5.1
Inflation reversal		6.2	4.9	5.1
Declining markup		6.2	5.0	5.3
Cautious firms		6.2	4.3	4.6
Surging demand		6.2	5.0	5.9
Market-based funds rate		6.2	4.9	5.0
<i>Civilian unemployment rate<sup>1</sup></i>				
<b>Baseline</b>		<b>5.9</b>	<b>5.6</b>	<b>5.4</b>
Higher underlying inflation		5.9	5.6	5.4
High NAIRU		5.9	5.6	5.4
Inflation reversal		5.9	5.6	5.4
Declining markup		5.9	5.6	5.3
Cautious firms		5.9	5.8	6.0
Surging demand		5.9	5.6	5.2
Market-based funds rate		5.9	5.6	5.4
<i>PCE prices excluding food and energy</i>				
<b>Baseline</b>		<b>1.1</b>	<b>1.6</b>	<b>1.2</b>
Higher underlying inflation		1.1	1.6	1.6
High NAIRU		1.1	1.7	1.7
Inflation reversal		1.1	1.3	.9
Declining markup		1.1	1.2	.6
Cautious firms		1.1	1.6	1.1
Surging demand		1.1	1.6	1.2
Market-base funds rate		1.1	1.6	1.2

1. Average for the final quarter of the period.

baseline that this rise will prove transitory, it may instead be more persistent if there have been structural changes that will limit re-employment prospects in workers' previous occupations, industries, or geographical areas. To illustrate the effect of this and other upside risks to our estimate of the NAIRU, we build upon the previous scenario by assuming that the NAIRU is 5-3/4 percent rather than the baseline value of roughly 5 percent. A tight labor market boosts the rate of inflation to 1-3/4 percent next year and would likely push it up further in 2006. On the view that financial markets would gradually come to expect the

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

Measure	2004	2005
<i>Real GDP (percent change, Q4 to Q4)</i>		
Projection	5.0	3.8
Confidence interval		
Greenbook forecast errors <sup>1</sup>	3.6–6.4	1.8–5.7
FRB/US stochastic simulations	3.9–6.2	2.3–5.5
<i>Civilian unemployment rate (percent, Q4)</i>		
Projection	5.4	5.2
Confidence interval		
Greenbook forecast errors <sup>1</sup>	5.0–5.9	4.4–6.0
FRB/US stochastic simulations	4.9–5.9	4.1–6.1
<i>PCE prices excluding food and energy (percent change, Q4 to Q4)</i>		
Projection	1.4	1.2
Confidence interval		
Greenbook forecast errors <sup>2</sup>	1.0–1.8	.4–2.1
FRB/US stochastic simulations	.9–1.9	.5–2.0

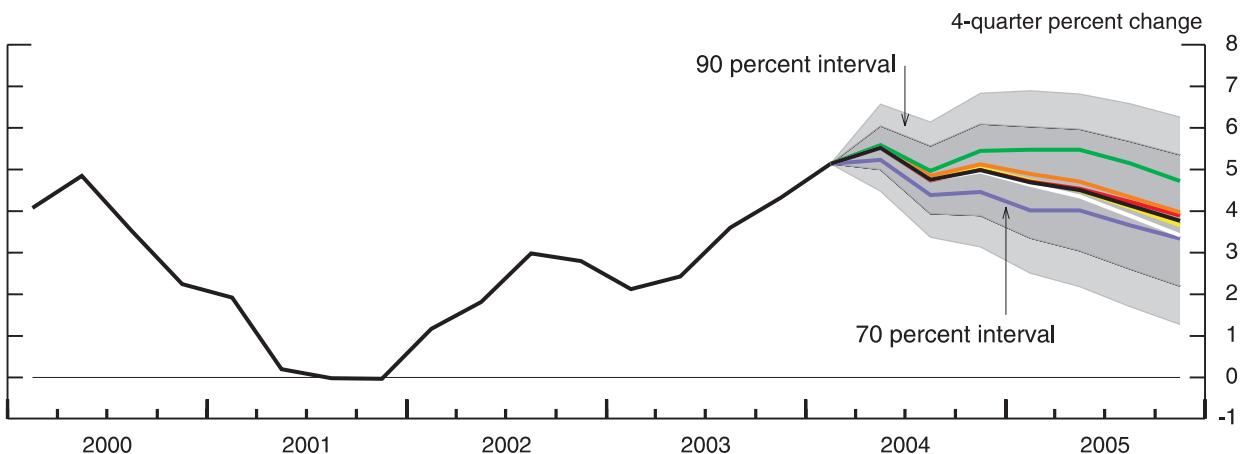
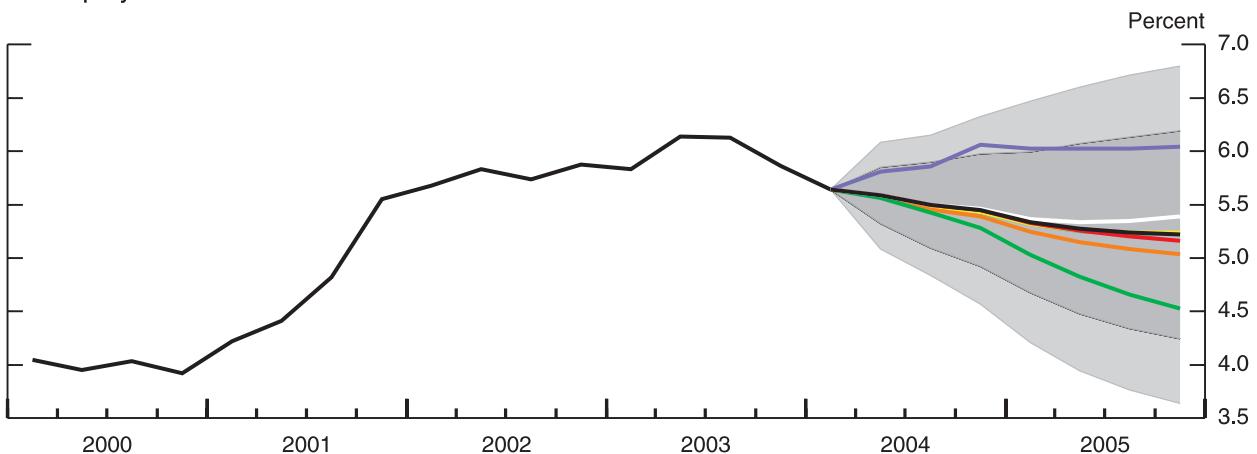
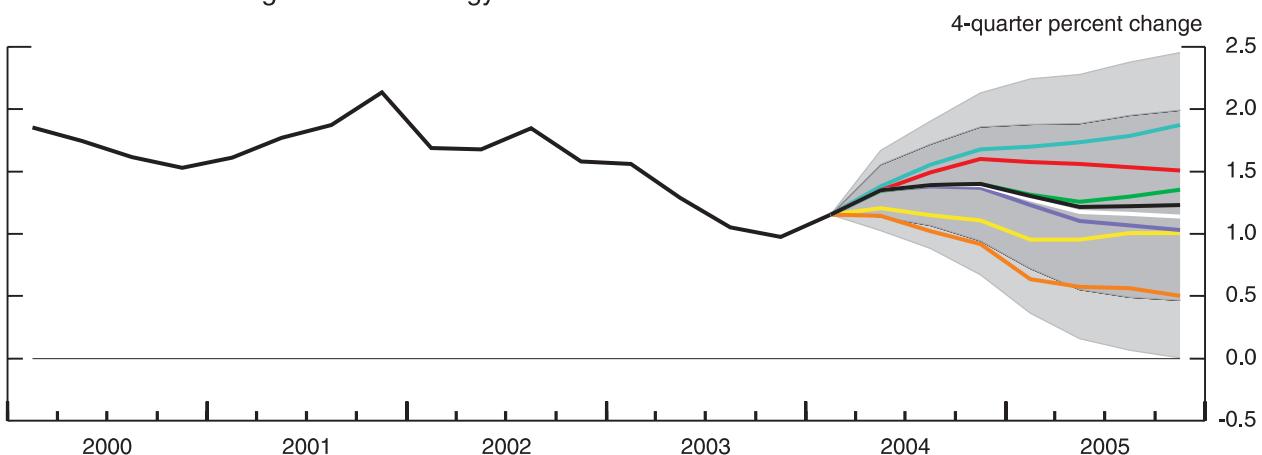
NOTE. Shocks underlying stochastic simulations are randomly drawn from the 1978–2003 set of model equation residuals.

1. 1978–2003.
2. 1981–2003.

## Forecast Confidence Intervals and Alternative Scenarios

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

- |   |   |
|---|---|
| <span style="color: black;">█</span> Greenbook baseline<br><span style="color: red;">█</span> Higher underlying inflation<br><span style="color: cyan;">█</span> High NAIRU<br><span style="color: yellow;">█</span> Inflation reversal | <span style="color: orange;">█</span> Declining markup<br><span style="color: purple;">█</span> Cautious firms<br><span style="color: green;">█</span> Surging demand<br><span style="color: white;">█</span> Market-based funds rate |
|---|---|

**Real GDP****Unemployment Rate****PCE Prices Excluding Food and Energy**

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

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index <sup>1</sup>		Unemployment rate <sup>2</sup>		
	03/11/04	04/28/04	03/11/04	04/28/04	03/11/04	04/28/04	03/11/04	04/28/04	03/11/04	04/28/04	
<b>ANNUAL</b>											
2001		2.9	2.9	0.5	0.5	2.4	2.4	2.8	2.8	4.7	4.7
2002		3.8	3.8	2.2	2.2	1.5	1.5	1.6	1.6	5.8	5.8
2003		4.8	4.8	3.1	3.1	1.7	1.7	2.3	2.3	6.0	6.0
2004		6.3	6.7	5.0	5.1	1.3	1.5	1.6	1.9	5.5	5.5
2005		5.5	5.4	4.5	4.3	1.0	1.1	0.9	1.2	5.3	5.3
<b>QUARTERLY</b>											
2002	Q1	5.4	5.4	4.7	4.7	1.1	1.1	1.4	1.4	5.7	5.7
	Q2	3.9	3.9	1.9	1.9	1.5	1.5	3.4	3.4	5.8	5.8
	Q3	4.4	4.4	3.4	3.4	1.5	1.5	2.2	2.2	5.7	5.7
	Q4	3.1	3.1	1.3	1.3	1.7	1.7	2.0	2.0	5.9	5.9
2003	Q1	4.3	4.3	2.0	2.0	2.3	2.3	3.8	3.8	5.8	5.8
	Q2	4.2	4.2	3.1	3.1	1.1	1.1	0.7	0.7	6.1	6.1
	Q3	10.0	10.0	8.2	8.2	1.6	1.6	2.4	2.4	6.1	6.1
	Q4	5.3	5.7	4.0	4.1	1.3	1.5	0.7	0.7	5.9	5.9
2004	Q1	6.6	7.6	4.4	5.2	2.1	2.3	3.3	3.5	5.6	5.6
	Q2	5.8	6.2	4.9	4.6	0.9	1.6	1.4	2.2	5.6	5.6
	Q3	5.7	5.7	5.3	5.1	0.4	0.6	0.2	0.6	5.5	5.5
	Q4	6.0	5.8	5.3	5.1	0.7	0.7	0.7	0.9	5.5	5.4
2005	Q1	5.5	5.5	4.1	4.0	1.3	1.4	1.0	1.2	5.4	5.3
	Q2	5.1	5.1	4.0	3.8	1.1	1.2	1.1	1.3	5.3	5.3
	Q3	5.1	4.9	4.0	3.7	1.1	1.2	1.1	1.4	5.3	5.2
	Q4	5.0	4.9	3.9	3.6	1.1	1.2	1.2	1.4	5.2	5.2
<b>TWO-QUARTER<sup>3</sup></b>											
2002	Q2	4.7	4.7	3.3	3.3	1.3	1.3	2.4	2.4	0.2	0.2
	Q4	3.8	3.8	2.3	2.3	1.6	1.6	2.1	2.1	0.1	0.1
2003	Q2	4.2	4.2	2.5	2.5	1.7	1.7	2.2	2.2	0.2	0.2
	Q4	7.6	7.8	6.1	6.2	1.5	1.6	1.5	1.5	-0.2	-0.2
2004	Q2	6.2	6.9	4.7	4.9	1.5	1.9	2.3	2.9	-0.3	-0.3
	Q4	5.9	5.7	5.3	5.1	0.5	0.6	0.5	0.8	-0.1	-0.2
2005	Q2	5.3	5.3	4.1	3.9	1.2	1.3	1.0	1.3	-0.2	-0.1
	Q4	5.0	4.9	3.9	3.6	1.1	1.2	1.2	1.4	-0.1	-0.1
<b>FOUR-QUARTER<sup>4</sup></b>											
2001	Q4	2.4	2.4	-0.0	-0.0	2.4	2.4	1.8	1.8	1.7	1.7
2002	Q4	4.2	4.2	2.8	2.8	1.4	1.4	2.2	2.2	0.3	0.3
2003	Q4	5.9	6.0	4.3	4.3	1.6	1.6	1.9	1.9	-0.0	-0.0
2004	Q4	6.0	6.3	5.0	5.0	1.0	1.3	1.4	1.8	-0.4	-0.5
2005	Q4	5.2	5.1	4.0	3.8	1.1	1.3	1.1	1.3	-0.3	-0.2

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

April 28, 2004

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

Item	Units <sup>1</sup>	-- Projected --									
		1997	1998	1999	2000	2001	2002	2003	2004	2005	
<b>Expenditures</b>											
Nominal GDP	Bill. \$	8304.3	8747.0	9268.4	9817.0	10100.8	10480.8	10985.5	11725.1	12363.5	
Real GDP	Bill. Ch. \$	8703.5	9066.9	9470.3	9817.0	9866.6	10083.0	10397.7	10928.6	11395.2	
Real GDP	% change	4.3	4.5	4.7	2.2	-0.0	2.8	4.3	5.0	3.8	
Gross domestic purchases		5.1	5.5	5.5	3.0	0.1	3.6	4.2	5.0	3.9	
Final sales		3.7	4.8	4.2	2.9	1.1	1.8	4.4	4.7	3.6	
Priv. dom. final purchases		5.2	6.4	5.3	4.3	0.8	2.3	4.7	5.3	4.1	
Personal cons. expenditures		4.3	5.4	4.9	4.1	2.7	2.7	4.0	4.4	4.0	
Durables		9.9	14.4	7.3	4.7	9.4	1.8	11.1	6.5	6.6	
Nondurables		2.5	4.7	4.9	3.0	1.7	2.8	4.9	5.7	5.0	
Services		4.0	3.8	4.4	4.5	1.8	2.9	2.2	3.4	3.0	
Business fixed investment		11.4	10.9	7.7	7.8	-10.2	-2.8	7.4	13.5	7.8	
Equipment & Software		13.8	13.5	10.8	7.5	-9.4	1.6	10.0	17.2	8.6	
Nonres. structures		4.6	4.0	-0.9	8.8	-12.4	-14.9	-0.9	1.3	5.0	
Residential structures		3.1	10.3	3.6	-1.8	1.7	7.1	9.5	1.5	-1.2	
Exports		8.3	2.6	5.6	6.5	-11.5	3.3	6.4	9.3	9.1	
Imports		14.3	11.0	12.1	11.2	-7.4	9.4	4.5	8.0	8.6	
Gov't. cons. & investment		1.2	3.3	4.2	0.4	3.6	4.5	2.1	2.2	2.1	
Federal		-0.5	0.1	4.2	-2.2	6.3	10.1	5.9	4.8	1.8	
Defense		-1.5	-1.2	4.3	-3.5	6.6	10.9	8.0	5.0	1.6	
State & local		2.2	5.1	4.2	1.7	2.3	1.6	0.1	0.7	2.2	
Change in bus. inventories	Bill. Ch. \$	71.2	72.6	68.9	56.5	-36.0	5.7	-0.8	27.4	70.7	
Nonfarm		68.5	71.2	71.5	57.8	-36.3	9.3	0.5	27.8	70.1	
Net exports		-104.6	-203.7	-296.2	-379.5	-398.1	-470.6	-508.9	-534.2	-571.2	
Nominal GDP	% change	5.9	5.7	6.3	4.6	2.4	4.2	6.0	6.3	5.1	
GDP Gap <sup>2</sup>	%	-0.8	-1.5	-2.3	-2.3	0.6	1.9	2.6	1.4	0.7	
<b>Employment and Production</b>											
Nonfarm payroll employment	Millions	122.8	125.9	129.0	131.8	131.8	130.3	129.9	131.3	134.5	
Unemployment rate	%	4.9	4.5	4.2	4.0	4.7	5.8	6.0	5.5	5.3	
Industrial prod. index	% change	8.1	4.4	4.9	2.3	-5.2	1.3	1.5	5.1	4.0	
Capacity util. rate - mfg.	%	82.6	82.0	81.4	81.1	75.4	73.9	73.4	75.9	77.8	
Housing starts	Millions	1.47	1.62	1.64	1.57	1.60	1.70	1.85	1.89	1.83	
Light motor vehicle sales		15.13	15.52	16.90	17.36	17.12	16.79	16.65	16.98	17.36	
North Amer. produced		13.19	13.48	14.41	14.48	14.04	13.50	13.34	13.59	13.87	
Other		1.95	2.03	2.49	2.87	3.08	3.30	3.31	3.39	3.50	
<b>Income and Saving</b>											
Nominal GNP	Bill. \$	8337.3	8768.3	9302.2	9855.9	10135.9	10502.3	11031.6	11806.2	12421.2	
Nominal GNP	% change	5.8	5.5	6.5	4.7	2.6	3.8	6.3	6.3	4.8	
Nominal personal income		6.4	7.0	5.5	7.1	2.4	2.4	4.3	6.0	5.8	
Real disposable income		4.3	5.6	2.8	4.4	1.3	3.5	3.6	4.9	4.2	
Personal saving rate	%	3.6	4.3	2.4	2.3	1.7	2.3	2.0	2.0	2.5	
Corp. profits, IVA & CCAdj.	% change	9.1	-10.0	9.6	-8.6	8.7	8.3	29.0	8.8	-3.6	
Profit share of GNP	%	10.4	9.1	9.2	8.3	7.6	8.6	9.7	10.9	10.3	
Excluding FR Banks		10.1	8.9	8.9	8.0	7.3	8.4	9.5	10.8	10.1	
Federal surpl./deficit	Bill. \$	-55.8	38.8	103.6	189.5	50.5	-240.0	-414.5	-440.4	-304.4	
State & local surpl./def.		39.1	52.0	50.4	50.0	17.3	-3.2	-0.6	1.6	8.2	
Ex. social ins. funds		38.0	50.3	48.7	47.9	14.0	-6.6	-4.0	-1.9	4.6	
Gross natl. saving rate	%	17.5	18.2	18.0	18.0	16.4	14.7	13.4	14.3	14.7	
Net natl. saving rate		6.6	7.4	6.9	6.7	4.4	2.7	1.7	3.1	3.4	
<b>Prices and Costs</b>											
GDP chn.-wt. price index	% change	1.5	1.1	1.6	2.2	2.4	1.4	1.6	1.3	1.3	
Gross Domestic Purchases chn.-wt. price index		1.0	0.7	2.0	2.4	1.6	1.7	1.7	1.5	1.1	
PCE chn.-wt. price index		1.3	0.9	2.1	2.3	1.6	1.8	1.5	1.5	1.1	
Ex. food and energy		1.4	1.4	1.6	1.5	2.1	1.6	1.0	1.4	1.2	
CPI		1.9	1.5	2.6	3.4	1.8	2.2	1.9	1.8	1.3	
Ex. food and energy		2.2	2.3	2.0	2.6	2.7	2.0	1.2	1.7	1.6	
ECI, hourly compensation <sup>3</sup>		3.4	3.5	3.4	4.4	4.2	3.2	4.0	3.7	3.9	
Nonfarm business sector		2.0	2.8	3.2	2.1	2.9	4.3	5.4	2.7	1.6	
Output per hour		4.0	5.7	4.9	6.5	3.8	1.8	4.0	3.6	3.8	
Compensation per Hour		2.0	2.7	1.6	4.3	0.8	-2.4	-1.3	0.9	2.2	
Unit labor cost											

1. Changes are from fourth quarter to fourth quarter.

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

3. Private-industry workers.

Strictly Confidential <FR>  
Class II FOMC

April 28, 2004

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

Item	Units	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2
<b>Expenditures</b>											
Nominal GDP	Bill. \$	10024.8	10088.2	10096.2	10193.9	10329.3	10428.3	10542.0	10623.7	10735.8	10846.7
Real GDP	Bill. Ch. \$	9882.2	9866.3	9834.6	9883.6	9997.9	10045.1	10128.4	10160.8	10210.4	10288.3
Real GDP	% change	-0.2	-0.6	-1.3	2.0	4.7	1.9	3.4	1.3	2.0	3.1
Gross domestic purchases		-0.7	-0.4	-0.8	2.4	5.2	3.1	3.4	2.7	1.1	4.3
Final sales		1.4	0.7	-0.7	3.2	2.6	1.3	1.8	1.7	2.7	3.3
Priv. dom. final purchases		-0.1	-0.0	0.5	2.8	2.9	2.2	1.7	2.2	2.3	3.8
Personal cons. expenditures		0.5	2.3	1.9	6.2	4.1	2.6	2.0	2.2	2.5	3.3
Durables		1.7	9.8	0.7	27.3	1.6	0.5	5.0	0.3	0.5	17.7
Nondurables		0.4	-1.1	2.9	4.7	6.1	0.4	0.2	4.6	5.7	1.2
Services		0.3	2.4	1.6	2.8	3.8	4.1	2.2	1.5	1.5	1.7
Business fixed investment		-4.5	-13.6	-8.4	-14.0	-7.0	-3.0	-1.1	-0.1	-0.6	7.0
Equipment & Software		-4.0	-16.4	-12.2	-4.1	-0.2	1.2	3.7	1.7	0.5	8.0
Nonres. structures		-5.9	-5.6	2.2	-35.3	-23.9	-14.5	-14.6	-5.6	-4.0	3.9
Residential structures		2.6	3.7	3.1	-2.5	8.7	8.9	4.2	6.8	4.5	4.5
Exports		-4.5	-13.4	-17.7	-9.8	4.4	8.7	4.3	-3.7	-2.0	-1.1
Imports		-6.2	-8.6	-10.8	-3.8	8.4	17.1	4.1	8.2	-6.8	9.1
Gov't. cons. & investment		5.8	5.8	-4.1	7.4	4.6	4.0	2.5	7.1	-0.4	7.4
Federal		8.9	6.7	0.0	9.9	8.4	10.5	3.9	18.2	-0.2	23.5
Defense		7.7	2.6	2.4	14.2	8.2	9.5	4.5	22.1	-5.6	41.9
State & local		4.3	5.3	-6.1	6.1	2.7	0.6	1.7	1.5	-0.5	-0.8
Change in bus. inventories	Bill. Ch. \$	4.3	-28.8	-44.0	-75.5	-23.5	-8.0	32.8	21.5	1.6	-4.5
Nonfarm		-2.1	-26.9	-45.8	-70.3	-28.6	4.2	36.0	25.4	0.3	-2.4
Net exports		-385.9	-391.7	-401.3	-413.4	-431.2	-467.6	-471.9	-511.5	-490.0	-526.0
Nominal GDP <sup>1</sup>	% change	2.9	2.6	0.3	3.9	5.4	3.9	4.4	3.1	4.3	4.2
GDP Gap <sup>1</sup>	%	-0.8	0.2	1.3	1.7	1.4	1.8	1.9	2.4	2.9	3.1
<b>Employment and Production</b>											
Nonfarm payroll employment	Millions	132.5	132.2	131.8	130.9	130.4	130.4	130.3	130.2	130.0	129.9
Unemployment rate	%	4.2	4.4	4.8	5.6	5.7	5.8	5.7	5.9	5.8	6.1
Industrial prod. index	% change	-6.3	-5.0	-5.2	-4.5	1.9	4.2	1.2	-1.9	0.9	-4.0
Capacity util. rate - mfg.	%	77.5	76.0	74.6	73.5	73.7	74.1	74.2	73.5	73.5	72.7
Housing starts	Millions	1.61	1.63	1.60	1.57	1.72	1.68	1.70	1.74	1.74	1.74
Light motor vehicle sales		17.07	16.70	16.18	18.54	16.47	16.52	17.56	16.62	15.96	16.37
North Amer. produced		14.17	13.65	13.20	15.15	13.17	13.24	14.22	13.36	12.60	13.06
Other		2.90	3.06	2.98	3.39	3.30	3.28	3.34	3.27	3.36	3.31
<b>Income and Saving</b>											
Nominal GNP	Bill. \$	10052.1	10115.5	10107.8	10268.3	10351.3	10435.9	10560.5	10661.6	10763.7	10880.0
Nominal GNP	% change	1.8	2.5	-0.3	6.5	3.3	3.3	4.9	3.9	3.9	4.4
Nominal personal income		4.6	1.2	1.7	2.0	1.5	5.0	1.4	1.7	3.0	4.4
Real disposable income		-0.3	-1.4	12.2	-4.4	10.6	4.1	-0.9	0.6	2.4	4.9
Personal saving rate	%	1.9	1.1	2.8	1.0	2.5	2.8	2.1	1.8	1.9	2.3
Corp. profits, IVA & CCAdj.	% change	-18.0	-3.8	-17.4	114.5	7.9	10.3	-0.9	16.5	-3.3	48.1
Profit share of GNP	%	7.5	7.4	7.1	8.4	8.5	8.6	8.5	8.8	8.6	9.4
Excluding FR Banks		7.2	7.1	6.8	8.2	8.3	8.4	8.3	8.6	8.4	9.2
Federal surpl./deficit	Bill. \$	156.1	128.9	-80.1	-2.8	-188.8	-232.0	-242.9	-296.3	-320.4	-424.7
State & local surpl./def.		36.1	24.6	11.6	-3.0	-7.4	-11.9	6.8	-0.4	-40.6	-14.7
Ex. social ins. funds		33.1	21.3	8.1	-6.6	-10.8	-15.3	3.4	-3.8	-44.0	-18.1
Gross natl. saving rate	%	17.1	16.3	15.9	16.1	15.3	15.1	14.4	13.8	12.9	13.2
Net natl. saving rate		5.6	4.4	3.3	4.4	3.5	3.2	2.5	1.8	0.9	1.4
<b>Prices and Costs</b>											
GDP chn.-wt. price index	% change	3.2	3.2	1.6	1.6	1.1	1.5	1.5	1.7	2.3	1.1
Gross Domestic Purchases chn.-wt. price index		2.6	2.3	1.0	0.5	1.0	2.4	1.6	1.7	3.4	0.4
PCE chn.-wt. price index		3.2	2.5	0.5	0.4	0.7	2.9	2.0	1.7	2.8	0.5
Ex. food and energy		2.8	1.9	1.3	2.5	1.0	1.9	2.0	1.5	0.9	0.8
CPI		3.7	3.2	1.1	-0.7	1.4	3.4	2.2	2.0	3.8	0.7
Ex. food and energy		2.9	2.6	2.8	2.4	2.1	2.3	2.1	1.7	1.3	1.0
ECI, hourly compensation <sup>2</sup>		4.6	3.7	3.9	4.4	3.6	4.4	2.5	3.0	5.5	3.4
Nonfarm business sector		-0.1	3.1	1.6	7.0	9.8	0.7	4.5	2.3	3.4	6.2
Output per hour		5.6	2.4	3.0	4.0	1.2	2.3	1.3	2.2	4.0	4.9
Compensation per hour		5.7	-0.7	1.3	-2.8	-7.8	1.6	-3.1	-0.1	0.6	-1.3
Unit labor cost											

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

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Class II FOMC

April 28, 2004

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

Item	Units	Projected											
		2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4		
<b>EXPENDITURES</b>													
Nominal GDP	Bill. \$	11107.0	11262.0	11471.1	11645.8	11807.8	11975.8	12137.3	12289.6	12438.8	12588.3		
Real GDP	Bill. Ch. \$	10493.1	10600.1	10736.1	10856.8	10992.1	11129.2	11239.0	11344.9	11447.5	11549.4		
Real GDP	% change	8.2	4.1	5.2	4.6	5.1	5.1	4.0	3.8	3.7	3.6		
Gross domestic purchases		7.0	4.3	5.2	4.8	5.2	4.9	4.2	4.2	3.8	3.6		
Final sales		8.3	3.4	4.2	5.4	4.6	4.8	2.6	3.7	3.9	4.2		
Priv. dom. final purchases		8.4	4.4	4.3	6.4	5.3	5.2	3.0	4.5	4.5	4.5		
Personal cons. expenditures		6.9	3.2	4.0	5.1	4.4	4.2	4.1	4.0	3.9	3.9		
Durables		28.0	0.7	-2.5	12.8	8.6	7.8	6.6	6.9	6.6	6.4		
Nondurables		7.3	5.4	6.9	5.6	5.2	5.0	5.1	5.0	5.0	4.9		
Services		2.8	2.8	4.0	3.4	3.1	3.0	3.1	2.9	2.9	2.9		
Business fixed investment		12.8	10.9	6.9	14.2	16.2	17.1	-0.9	10.7	11.0	10.9		
Equipment & Software		17.6	14.9	11.6	17.8	19.1	20.5	-2.5	12.3	12.6	12.6		
Nonres. structures		-1.8	-1.4	-7.9	2.3	6.3	5.2	5.1	5.1	4.9	4.8		
Residential structures		21.9	7.9	3.8	8.4	-2.1	-3.7	-2.3	-1.2	-0.9	-0.4		
Exports		9.9	20.5	2.7	11.2	11.0	12.4	7.5	9.4	9.1	10.5		
Imports		0.8	16.4	3.1	10.7	9.8	8.6	7.5	10.2	8.5	8.2		
Gov't. cons. & investment		1.8	-0.1	3.6	1.9	1.6	1.8	1.9	2.0	2.1	2.2		
Federal		1.2	0.7	12.4	3.1	2.0	1.9	1.7	1.8	1.6	1.9		
Defense		-1.3	3.0	14.8	3.1	1.4	1.3	1.5	1.7	1.3	1.8		
State & local		2.1	-0.5	-1.4	1.1	1.4	1.7	2.0	2.2	2.3	2.5		
Change in bus. inventories	Bill. Ch. \$	-9.1	9.0	33.8	13.3	27.2	35.2	74.7	79.1	72.3	56.9		
Nonfarm		-5.9	10.0	34.5	14.9	27.3	34.5	74.0	78.4	71.7	56.2		
Net exports		-505.2	-515.2	-520.0	-532.1	-541.8	-543.0	-552.9	-569.0	-579.2	-583.8		
Nominal GDP	% change	10.0	5.7	7.6	6.2	5.7	5.8	5.5	5.1	4.9	4.9		
GDP Gap <sup>1</sup>	%	2.2	2.2	1.8	1.6	1.2	0.9	0.8	0.7	0.7	0.7		
<b>EMPLOYMENT AND PRODUCTION</b>													
Nonfarm payroll employment	Millions	129.8	130.0	130.3	130.9	131.6	132.6	133.5	134.3	134.9	135.5		
Unemployment rate	%	6.1	5.9	5.6	5.6	5.5	5.4	5.3	5.3	5.2	5.2		
Industrial prod. index	% change	3.8	5.6	6.6	4.2	4.9	4.5	4.2	4.0	3.8	3.8		
Capacity util. rate - mfg.	%	73.2	74.1	75.0	75.6	76.2	76.7	77.2	77.6	78.0	78.4		
Housing starts	Millions	1.88	2.03	1.94	1.89	1.88	1.87	1.86	1.84	1.83	1.82		
Light motor vehicle sales		17.42	16.84	16.35	16.90	17.30	17.37	17.31	17.32	17.39	17.43		
North Amer. produced		14.07	13.64	13.12	13.51	13.84	13.89	13.83	13.84	13.90	13.90		
Other		3.36	3.21	3.24	3.39	3.46	3.48	3.48	3.49	3.49	3.53		
<b>INCOME AND SAVING</b>													
Nominal GNP	Bill. \$	11144.8	11337.9	11550.9	11734.3	11888.1	12051.5	12209.1	12354.0	12492.9	12628.9		
Nominal GNP	% change	10.1	7.1	7.7	6.5	5.3	5.6	5.3	4.8	4.6	4.4		
Nominal personal income		4.9	4.7	5.3	6.9	6.1	6.0	6.7	5.6	5.4	5.3		
Real disposable income		6.8	0.5	4.9	4.7	5.2	4.9	4.8	4.2	4.0	3.8		
Personal saving rate	%	2.4	1.7	1.9	1.9	2.1	2.3	2.5	2.5	2.6	2.6		
Corp. profits, IVA & CCAdj.	% change	46.0	32.3	22.4	6.8	2.3	4.8	-5.0	-3.6	-4.0	-1.9		
Profit share of GNP	%	10.1	10.6	11.0	11.0	10.9	10.9	10.6	10.4	10.2	10.0		
Excluding FR Banks		9.9	10.5	10.8	10.7	10.7	10.7	10.4	10.2	10.0	9.9		
Federal surpl./deficit	Bill. \$	-494.9	-417.9	-472.8	-463.7	-431.5	-393.8	-345.5	-301.6	-284.7	-285.9		
State & local surpl./def.		13.1	39.9	4.9	2.0	-3.2	2.8	5.6	5.3	9.2	12.5		
Ex. social ins. funds		9.6	36.4	1.4	-1.5	-6.7	-0.8	2.0	1.7	5.6	8.9		
Gross natl. saving rate	%	13.3	14.2	14.0	14.2	14.4	14.7	14.6	14.8	14.7	14.7		
Net natl. saving rate		1.8	2.8	2.7	2.9	3.2	3.5	3.4	3.5	3.4	3.4		
<b>PRICES AND COSTS</b>													
GDP chn.-wt. price index	% change	1.6	1.5	2.3	1.6	0.6	0.7	1.4	1.2	1.2	1.2		
Gross Domestic Purchases													
chn.-wt. price index		1.8	1.3	3.0	1.7	0.7	0.8	1.3	1.0	1.1	1.1		
PCE chn.-wt. price index		1.8	1.0	2.9	1.8	0.6	0.7	1.0	1.1	1.1	1.2		
Ex. food and energy		1.0	1.2	1.6	1.6	1.2	1.2	1.2	1.2	1.2	1.2		
CPI		2.4	0.7	3.5	2.2	0.6	0.9	1.2	1.3	1.4	1.4		
Ex. food and energy		1.5	0.8	1.9	2.0	1.6	1.6	1.6	1.6	1.6	1.6		
ECI, hourly compensation <sup>2</sup>		4.2	2.9	3.6	3.7	3.7	3.8	3.9	3.9	3.9	3.9		
Nonfarm business sector													
Output per hour		9.5	2.5	4.4	1.9	2.3	2.1	0.8	1.4	1.8	2.2		
Compensation per hour		4.8	2.4	3.5	3.6	3.7	3.8	3.8	3.8	3.8	3.8		
Unit labor cost		-4.3	-0.1	-0.8	1.6	1.3	1.5	3.0	2.3	1.9	1.5		

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	01Q4/ 00Q4	02Q4/ 01Q4	03Q4/ 02Q4
<b>Real GDP Gross dom. purchases</b>	-1.3 -0.9	2.0 2.5	4.7 5.4	1.9 3.2	3.4 3.5	1.3 2.8	2.0 1.2	3.1 4.4	8.2 7.4	-0.0 0.1	2.8 3.7	4.3 4.3
<b>Final sales Priv. dom. final purchases</b>	-0.8 0.4	3.2 2.4	2.7 2.5	1.3 1.9	1.8 1.5	1.7 1.9	2.7 1.9	3.3 3.3	8.3 7.2	1.1 0.7	1.9 1.9	4.4 4.0
<b>Personal cons. expenditures</b>	1.3 0.1 0.6 0.6 0.6	4.2 2.1 0.9 1.2 1.2	2.9 0.1 0.0 0.1 1.6	1.8 0.4 0.0 0.0 1.7	1.4 0.4 0.0 0.9 0.9	1.6 0.0 0.0 0.1 0.9	1.8 1.4 1.4 1.1 0.7	2.3 2.3 1.4 1.4 0.7	4.9 2.2 2.2 1.5 1.2	1.8 0.8 0.8 0.3 0.7	1.9 0.2 0.2 0.6 1.2	2.8 0.9 0.9 0.6 0.9
<b>Durables</b>												
<b>Nondurables</b>												
<b>Services</b>												
<b>Business fixed investment</b>	-1.0 -1.1 0.1 0.1 0.1	-1.7 -0.4 -1.4 -0.1 -0.1	-0.8 -0.0 -0.8 0.4 0.4	-0.3 0.1 -0.4 0.4 0.2	-0.1 0.3 -0.4 0.4 0.3	-0.1 0.1 -0.4 0.4 0.2	-0.0 0.1 -0.4 0.2 0.3	-0.1 0.0 -0.1 0.2 0.2	0.7 0.6 -0.1 0.2 0.2	1.2 1.2 0.1 1.1 1.1	0.7 0.7 -0.4 0.1 0.1	1.2 1.2 0.4 0.3 0.3
<b>Equipment &amp; Software</b>												
<b>Nonresidential structures</b>												
<b>Residential structures</b>												
<b>Net exports</b>	-0.4 -2.0 1.6	-0.5 -1.0 0.5	-0.7 0.4 -1.1	-1.3 0.8 -2.1	-0.2 0.4 -0.6	-1.5 -0.4 -1.1	-1.5 -0.4 -1.0	0.8 -0.2 -1.2	-1.3 -0.1 -0.1	0.8 0.9 -0.1	-0.2 -1.3 -1.1	-0.9 0.6 -0.6
<b>Exports</b>												
<b>Imports</b>												
<b>Government cons. &amp; invest.</b>	-0.7 0.0 0.1 -0.1 -0.7	1.3 0.6 0.5 0.0 0.7	0.9 0.5 0.3 0.2 0.3	0.7 0.5 0.4 0.2 0.1	0.7 0.5 0.4 0.3 0.1	1.3 1.1 0.9 0.2 0.2	-0.1 -0.1 -0.1 0.2 0.2	1.4 1.5 1.6 0.2 0.2	0.3 0.1 -0.1 0.3 0.3	0.3 0.1 0.2 0.1 0.3	0.6 0.4 0.2 0.2 0.2	0.4 0.6 0.3 0.2 0.0
<b>Federal</b>												
<b>Defense</b>												
<b>Nondefense</b>												
<b>State and local</b>												
<b>Change in bus. inventories</b>	-0.5 -0.7 0.1	-1.2 -0.9 0.3	2.0 1.6 0.4	0.6 1.3 -0.6	1.6 1.3 0.3	-0.4 -0.4 -0.0	-0.7 -0.9 0.2	-0.2 -0.1 -0.1	-0.1 -1.1 -0.1	0.9 0.9 0.0	-0.1 -0.1 0.0	-0.1 -0.1 0.1
<b>NonFarm</b>												
<b>Farm</b>												

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	Projected								Projected	
	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2005 Q4
Real GDP Gross dom. purchases	4.1	5.2	4.6	5.1	4.0	3.8	3.7	3.6	4.3	5.0
Final sales	4.5	5.4	5.0	5.4	4.3	4.4	4.0	3.8	4.3	5.2
Priv. dom. final purchases	3.4	4.2	5.3	4.6	2.6	3.7	3.9	4.1	4.4	4.7
Personal cons. expenditures	3.8	3.8	5.4	4.6	2.6	3.8	3.9	3.9	4.0	4.6
Durables	2.3	2.8	3.6	3.1	3.0	2.8	2.8	2.7	2.8	3.1
Nondurables	0.1	-0.2	1.0	0.7	0.7	0.5	0.6	0.5	0.9	0.5
Services	1.1	1.4	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.1
Business fixed investment	1.2	1.7	1.4	1.3	1.3	1.2	1.2	1.2	0.9	1.4
Equipment & Software	1.1	0.7	1.4	1.6	1.7	-0.1	1.1	1.2	0.7	1.4
Nonres. structures	-0.0	0.9	1.3	1.5	1.6	-0.2	1.0	1.0	0.8	0.8
Residential structures	0.4	-0.2	0.1	0.1	0.1	0.1	0.1	0.1	-0.1	0.1
Net exports	-0.3	-0.2	-0.4	-0.3	-0.0	-0.3	-0.5	-0.3	-0.1	-0.3
Exports	-1.8	0.3	1.1	1.1	1.2	0.8	0.9	0.9	1.1	0.9
Imports	-2.1	-0.4	-1.5	-1.4	-1.2	-1.1	-1.5	-1.3	-1.2	-1.3
Government cons. & invest.	-0.0	0.7	0.4	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Federal	0.1	0.8	0.2	0.1	0.1	0.1	0.1	0.1	0.4	0.3
Defense	0.1	0.6	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.2
Nondefense	-0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1
State and local	-0.1	-0.2	0.1	0.2	0.2	0.2	0.3	0.3	0.0	0.1
Change in bus. inventories	0.7	1.0	-0.8	0.5	0.3	1.4	0.2	-0.2	-0.5	-0.1
NonFarm	0.6	0.9	-0.7	0.4	0.3	1.4	0.2	-0.2	-0.5	0.2
Farm	0.1	0.1	-0.1	0.1	0.0	-0.0	-0.0	-0.0	0.1	0.0

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

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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 <sup>a</sup>	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Unified budget</b>																
Receipts <sup>1</sup>	1853	1782	1844	2041	398	528	429	441	410	531	463	470	442	617	512	513
Outlays <sup>1</sup>	2011	2158	2293	2399	543	544	534	569	580	578	565	605	602	594	598	619
Surplus/deficit <sup>1</sup>	-158	-375	-449	-358	-145	-17	-105	-129	-171	-48	-102	-135	-160	22	-85	-106
On-budget	-317	-536	-606	-539	-169	-91	-113	-178	-193	-122	-113	-177	-198	-60	-104	-154
Off-budget	160	161	157	182	24	75	9	50	23	74	11	42	39	82	18	48
Means of financing																
Borrowing	221	374	468	379	64	106	108	119	136	80	134	122	152	17	88	82
Cash decrease	-17	26	-6	-4	20	-17	-5	2	12	-28	9	11	0	-30	15	15
Other <sup>2</sup>	-46	-24	-13	-17	62	-73	2	8	23	-4	-41	2	7	-9	-17	9
Cash operating balance, end of period	61	35	41	45	13	30	35	33	21	49	41	30	30	60	45	30
<b>NIPA federal sector</b>																
Receipts	1895	1844	1899	2115	1864	1864	1789	1881	1877	1898	1942	2004	2104	2158	2196	2219
Expenditures	2062	2228	2346	2448	2184	2289	2284	2299	2349	2363	2374	2399	2450	2461	2481	2506
Consumption expenditures	573	649	703	738	636	669	672	675	706	714	718	723	738	743	747	752
Defense	370	426	470	491	409	448	444	450	472	477	480	482	491	494	497	500
Nondefense	202	223	233	247	227	221	229	225	234	236	239	241	247	248	250	252
Other spending	1489	1579	1643	1710	1548	1620	1612	1625	1643	1649	1656	1676	1712	1718	1734	1754
Current account surplus	-167	-384	-447	-333	-320	-425	-495	-418	-473	-464	-332	-395	-347	-303	-286	-287
Gross investment	87	92	101	105	87	96	97	97	101	103	104	104	105	105	106	107
Gross saving less gross investment <sup>3</sup>	-165	-386	-455	-342	-318	-430	-501	-423	-482	-474	-442	-405	-356	-312	-296	-297
<b>Fiscal indicators<sup>4</sup></b>																
High-employment (HEB) surplus/deficit	-107	-301	-399	-318	-230	-332	-424	-347	-423	-425	-401	-374	-331	-290	-275	-276
Change in HEB, percent of potential GDP	1.9	1.7	0.7	-0.8	0.1	0.9	0.8	-0.7	0.6	-0.0	-0.2	-0.3	-0.4	-0.4	-0.2	-0.0
Fiscal impetus (FI) percent of GDP	1.0	1.2	1.0	-0.2	0.1	0.5	0.4	0.3	0.4	0.1	0.1	0.2	-0.4	0.0	0.0	0.0

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

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

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

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

a-Actual

Strictly Confidential (FR)  
Class II FOMC

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

Period <sup>1</sup>	Year	Nonfederal						Memo: Nominal GDP	
		Federal government		Households		State and local governments			
		Total	Federal government	Total	Home mortgages	Consumer credit	Business		
2003:1	1998	6.9	-1.4	9.7	8.2	8.6	7.3	12.2	
	1999	6.3	-1.9	8.8	8.2	9.1	7.8	10.6	
	2000	4.9	-8.0	8.4	8.7	8.3	10.7	9.5	
	2001	6.3	-0.2	7.7	9.1	10.0	8.0	6.0	
2002	7.1	7.6	7.0	10.0	12.5	4.4	2.8	11.1	
2003	8.1	10.9	7.5	10.4	12.5	5.2	3.9	8.2	
2004	8.0	11.7	7.1	8.8	10.1	5.8	5.3	5.9	
2005	6.7	7.5	6.6	7.3	7.7	6.5	6.2	4.0	
Quarter	2003:1	6.6	4.5	7.0	9.9	12.1	4.2	4.2	
	2	11.3	20.4	9.4	11.8	13.8	6.1	5.9	
	3	7.0	8.2	6.8	9.9	11.5	6.1	3.1	
	4	6.5	9.0	6.0	8.3	10.5	3.9	2.7	
	2004:1	8.2	11.6	7.5	9.0	10.8	4.4	5.3	
	2	8.3	14.9	6.8	9.0	10.4	6.0	4.5	
	3	7.4	9.6	6.9	8.4	9.4	6.1	5.3	
	4	7.1	8.7	6.8	7.6	8.3	6.2	5.8	
2005:1	7.6	7.6	11.8	6.7	7.3	7.8	6.2	6.3	
	2	6.7	7.9	6.4	7.2	7.6	6.4	3.8	
	3	6.1	4.9	6.3	7.1	7.5	6.4	6.0	
	4	5.9	4.7	6.2	6.8	7.1	7.1	5.9	

Note: Quantities of data are at ~~2000~~ adjusted annual rates.

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

### 2.6.3 FOF

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

**April 28, 2004**  
**Flow of Funds Projections: Highlights**  
**(Billions of dollars at seasonally adjusted annual rates except as noted)**

Category	2002	2003	2004	2005	2004				2005				
					Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<i>Net funds raised by domestic nonfinancial sectors</i>													
1 Total	1331.7	1615.5	1691.2	1551.1	1474.9	1361.6	1770.0	1808.4	1634.7	1551.6	1708.5	1589.6	1453.2
2 Net equity issuance	-41.6	-57.3	-92.8	-79.0	-44.9	-67.0	-68.0	-78.0	-85.0	-140.0	-135.0	-65.0	-63.0
3 Net debt issuance	1373.3	1672.8	1783.9	1630.1	1519.8	1428.6	1838.0	1886.4	1719.7	1691.6	1843.5	1654.6	1516.2
<i>Borrowing sectors</i>													
Nonfinancial business													
4 Financing gap <sup>1</sup>	37.9	-36.9	-63.8	136.5	-77.9	-60.2	-84.2	-105.0	-58.6	-7.4	81.6	132.1	163.2
5 Net equity issuance	-41.6	-57.3	-92.8	-79.0	-44.9	-67.0	-68.0	-78.0	-85.0	-140.0	-135.0	-65.0	-63.0
6 Credit market borrowing	196.2	278.1	394.1	482.0	225.6	194.7	390.9	338.5	399.5	447.6	487.5	477.9	473.9
Households													
7 Net borrowing <sup>2</sup>	775.7	879.9	826.5	742.3	885.1	758.9	847.9	869.6	823.3	765.1	744.3	746.8	747.6
8 Home mortgages	673.9	758.1	685.8	578.7	743.0	696.5	734.7	726.5	673.1	608.8	586.2	583.3	581.6
9 Consumer credit	81.4	101.6	118.5	139.6	121.6	77.9	90.4	123.3	128.1	132.2	134.2	139.5	142.1
10 Debt/DPI (percent) <sup>3</sup>	103.2	109.0	112.8	115.3	109.1	111.3	111.7	112.5	113.3	114.0	114.5	115.0	115.6
State and local governments													
11 Net borrowing	143.9	118.7	92.0	66.8	91.6	121.6	131.8	58.8	82.8	94.8	78.8	62.8	62.8
12 Current surplus <sup>4</sup>	170.1	178.6	155.4	166.9	199.3	190.5	156.9	155.3	151.1	158.2	162.3	163.3	168.6
Federal government													
13 Net borrowing	257.5	396.0	471.3	339.1	317.5	353.4	467.4	619.5	414.1	384.2	532.9	367.1	231.9
14 Net borrowing (n.s.a.)	257.5	396.0	471.3	339.1	107.6	118.6	135.9	79.9	133.5	122.0	152.2	16.8	88.0
15 Unified deficit (n.s.a.)	230.6	394.7	454.8	329.0	104.5	128.7	170.8	47.7	101.5	134.8	159.7	-22.2	85.5
<i>Depository institutions</i>													
16 Funds supplied	482.5	479.9	568.2	492.4	152.6	391.0	1011.3	255.4	519.1	487.0	570.6	440.3	533.9
Memo (percentage of GDP)													
17 Domestic nonfinancial debt <sup>5</sup>	190.7	196.0	198.6	202.2	196.3	197.1	197.2	198.3	199.4	200.1	201.1	202.2	202.9
18 Domestic nonfinancial borrowing	13.1	15.2	15.2	13.2	13.7	12.7	16.0	16.2	14.6	14.1	15.2	13.5	12.2
19 Federal government <sup>6</sup>	2.5	3.6	4.0	2.7	2.9	3.1	4.1	5.3	3.5	3.2	4.4	3.0	1.9
20 Nonfederal	10.6	11.6	11.2	10.4	10.8	9.5	11.9	10.9	11.1	10.9	10.8	10.5	10.3

Note. Data after 2003:Q4 are staff projections.

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

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

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

2.6.4 FOF

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

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

6. Excludes government-insured mortgage pool securities.  
 n.s.a. Not seasonally adjusted.

## International Developments

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We have not made substantial changes to our outlook for either foreign economic activity or U.S. external trade since the March Greenbook. Foreign economic growth is still estimated to have slowed in the first quarter from its rapid rate in the second half of last year, although recent data indicate that growth was slightly stronger than we projected last time; a surge in activity in several emerging Asian economies appears to have more than offset weaker-than-expected growth in some industrial economies. We continue to project that aggregate foreign economic growth will edge down over the forecast period as the pace of expansion in the developing economies continues to moderate. As in the March Greenbook, foreign CPI inflation is projected to move down over the forecast period from the somewhat elevated pace set in the first quarter.

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

Indicator	2003		Projection			2005	
	H1	H2	2004				
			Q1	Q2	H2		
Foreign output	.9	4.5	3.9	3.9	3.6	3.5	
<i>March GB</i>	.8	4.4	3.7	3.8	3.8	3.5	
Foreign CPI	2.0	2.1	2.5	2.2	2.1	2.0	
<i>March GB</i>	1.9	2.2	2.8	2.0	1.9	1.9	

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

The major currencies index of the dollar rose 1½ percent over the intermeeting period. Short- and long-term nominal interest rate differentials moved in favor of dollar-denominated assets on indications that U.S. economic growth (and possibly inflation) will be higher than was anticipated earlier by market participants—and will also run ahead of activity in the major foreign industrial countries. The dollar appreciated against the currencies of several of our other important trading partners as well. Our forecast for the dollar begins at this higher level. Additionally, we have reduced a bit the projected rate of depreciation of the dollar to reflect the staff's assumption that policy rates in the United States will move up sooner than was incorporated in the March Greenbook.

Early in the intermeeting period, oil prices dipped briefly from multi-year highs on reports that U.S. inventories of crude oil were larger than markets had expected. However, prices rebounded in April as OPEC affirmed a previously announced cut in scheduled production, unrest in the Middle East flared up, and global demand for oil continued to be strong. Prices of non-fuel primary

### Prices of Internationally Traded Goods

In the first quarter of 2004, based on BLS data through March, prices of imported core goods are estimated to have risen 7½ percent (a.r.), about 1 percentage point more than projected in the March Greenbook. This first-quarter estimate is the largest change in the price index since the fourth quarter of 1988. Import prices in the commodity-intensive sectors of food and non-oil industrial supplies increased at annual rates of roughly 10 percent and 25 percent, respectively. Prices in other categories of core goods did not increase as much. We project that core import prices will increase at an annual rate of about 3½ percent over the remainder of 2004 as upward pressures from past dollar changes and commodity price runups diminish. In 2005, responding to subdued inflation abroad and the projected declines in prices for primary commodities, core import price inflation should moderate to less than ½ percent.

### Selected Trade Prices

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

Trade category	2003		2004	Projection		2005	
	H1	H2	Q1	2004			
				Q2	H2		
<i>Exports</i>							
Core goods	3.5	3.2	8.4	5.5	.9	.5	
<i>Imports</i>							
Non-oil core goods	2.5	1.1	7.2	3.2	3.7	.4	
Oil (dollars per barrel)	26.46	27.75	31.37	33.45	31.32	28.45	

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

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

We estimate that the prices of exported core goods rose about 8½ percent in the first quarter of 2004 because of higher prices for agricultural products, especially soybeans, as well as for petroleum products and intermediate materials. This estimate is 1¾ percentage points higher than was projected in the March Greenbook. For the second quarter, we project that export prices will increase about 5½ percent as a result of yet higher prices for agricultural exports and intermediate materials. After the second quarter, core export price inflation is projected to drop.

### Trade in Goods and Services

After rising at a red-hot pace of about 20 percent (a.r.) in the fourth quarter of 2003, real exports of goods and services are estimated to have increased at a rate of about 2 $\frac{3}{4}$  percent in the first quarter, slightly below our March forecast. This downward revision reflects softer nominal export data through February than we had expected. The sharp slowdown from the fourth quarter can be attributed to the unwinding of exceptionally strong growth late last year, as well as moderation in foreign GDP growth, a tendency of real core exports (even on a seasonally adjusted basis) to grow more slowly in the first quarter, and the bans on U.S. beef and poultry exports imposed in late-2003 and earlier this year by our trading partners.

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

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

Measure	2003		Projection			2005	
	H1	H2	2004				
			Q1	Q2	H2		
Real exports	-1.5	15.1	2.7	11.2	11.7	9.1	
<i>March GB</i>	<i>-1.5</i>	<i>15.1</i>	<i>4.6</i>	<i>11.9</i>	<i>13.2</i>	<i>10.8</i>	
Real imports	0.9	8.3	3.1	10.7	9.2	8.6	
<i>March GB</i>	<i>0.9</i>	<i>8.1</i>	<i>6.6</i>	<i>11.1</i>	<i>9.3</i>	<i>9.0</i>	

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

In the current quarter, growth of real exports of goods and services is projected to rebound to more than 11 percent (a.r.). About half of this growth reflects a pickup in exports of core goods, supported by solid growth abroad and the effects of past dollar depreciation. Exports of computers and semiconductors are projected to resume growing robustly as the global expansion in the high-tech sector continues. Real exports of services should likewise rebound.

Over the remainder of the forecast period, growth in real exports of goods and services is projected to continue to be strong. However, compared with the March Greenbook, we have marked down the projected growth rate of core goods exports about 2 percentage points on average, based largely on our assessment that core goods exports are not as far below the long-run level implied by foreign growth and relative prices as previously believed. A small part of this downward revision is based on the higher projected paths for both the dollar and core export prices.

Having surged ahead at an annual rate of 16 percent in the fourth quarter of 2003, real imports of goods and services are estimated to have grown only 3 percent in the first quarter. The sharp slowdown in import growth appears to have been widespread. As with export growth, the first-quarter weakness in import growth may reflect largely a cooling off from the strong showing in the fourth quarter of last year, but also some restraint exerted by higher import prices. In the current quarter, real imports of goods and services are projected to grow nearly 11 percent. For both core goods and services, robust U.S. GDP growth should remain supportive. Imports of computers are projected to accelerate quickly as the recovery in the high-tech sector continues.

We project real imports of goods and services to grow 9 percent in the second half of 2004 but to decelerate slightly in 2005, in line with a projected tempering of growth in the United States. This deceleration of imports is moderated by the effects on demand of lower import price inflation.

### **Alternative Simulation**

We project that foreign activity will continue to grow moderately over the forecast period. However, a more buoyant expansion abroad is possible. In our alternative simulation, we use the FRB/Global model to assess the effects of an autonomous increase in foreign demand that would raise spending 1 percent of GDP in the euro area and 2 percent of GDP in other major foreign industrial economies in the absence of endogenous adjustment. Beginning in the current quarter, the shock is phased in gradually over six quarters.

#### **Alternative Simulation: A more buoyant expansion abroad**

(Percent change from previous period at annual rates)

Indicator	2004		2005	
	H1	H2	H1	H2
<i>U.S. Real GDP</i>				
Baseline	4.9	5.1	3.9	3.6
Foreign growth shock scenario	5.1	5.4	4.2	3.8
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	1.6	1.2	1.2	1.2
Foreign growth shock scenario	1.6	1.3	1.3	1.4

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.

The shock stimulates U.S. real net exports directly through higher foreign demand for U.S.-produced goods and indirectly through a modest dollar

Strictly Confidential (FR)  
Class II FOMC

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

April 28, 2004

Measure and country	1997	1998	1999	2000	2001	2002	2003	Projected 2004	Projected 2005
<b>REAL GDP (1)</b>									
Total foreign	4.2	1.5	4.9	4.3	0.3	2.8	2.7	3.8	3.5
Industrial Countries of which:	3.4	2.7	4.4	3.7	0.6	2.5	1.8	2.7	2.8
Canada	4.4	4.4	5.9	4.2	-1.4	3.5	1.6	3.1	3.5
Japan	0.4	-1.2	0.4	3.8	-2.3	1.7	3.6	2.6	2.3
United Kingdom	3.4	2.8	3.3	2.9	1.9	1.9	2.7	2.8	2.6
Euro Area (2)	3.2	2.0	3.9	2.7	0.8	1.1	0.6	1.9	1.9
Germany	1.7	0.7	3.3	1.9	0.5	0.5	0.0	1.7	1.6
Developing Countries	5.3	-0.3	5.9	5.2	-0.2	3.4	4.0	5.3	4.5
Asia	4.9	-2.2	8.2	6.1	1.1	5.8	5.9	6.9	5.3
Korea	3.1	-5.4	11.4	4.5	4.7	7.7	4.1	5.5	5.2
China	8.7	9.5	4.1	8.0	7.0	8.0	9.9	10.9	7.3
Latin America	6.1	1.2	4.2	4.4	-1.3	1.3	2.2	4.1	3.8
Mexico	6.8	2.9	5.4	4.8	-1.3	1.8	2.0	4.4	4.0
Brazil	2.3	-1.7	3.5	3.8	-0.8	3.7	-0.2	2.6	3.0
<b>CONSUMER PRICES (3)</b>									
Industrial Countries of which:	1.5	0.9	1.1	1.7	0.9	2.1	1.3	1.2	1.4
Canada	1.0	1.1	2.4	3.1	-1.1	3.8	1.7	1.6	1.7
Japan	2.1	0.7	-1.1	-1.2	-1.0	-0.5	-0.4	-0.4	0.2
United Kingdom (4)	1.7	1.4	1.2	1.0	2.1	2.3	1.9	1.6	2.0
Euro Area (2)	1.5	0.8	1.5	2.5	1.5	1.2	1.2	1.0	1.5
Germany	1.5	0.3	1.1	1.7	1.5	1.2	1.2	1.0	0.9
Developing Countries	6.8	9.0	4.6	4.1	2.8	2.9	3.0	3.4	2.7
Asia	2.7	4.4	0.1	1.8	1.1	0.7	2.1	2.8	2.1
Korea	5.0	5.8	1.2	2.6	3.4	3.4	3.5	3.7	3.2
China	0.8	-1.2	-1.0	0.9	-0.1	-0.6	2.6	2.9	1.6
Latin America	15.5	15.4	12.5	8.4	5.3	6.5	4.9	4.3	3.5
Mexico	17.0	17.3	13.4	8.7	5.1	5.3	4.0	3.8	3.1
Brazil	4.6	2.0	8.4	6.4	7.5	10.7	11.5	6.2	5.2

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

2. Harmonized data for euro area from Eurostat.

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

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

Measure and country	2003				2004				Projected				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>REAL GDP (1)</b>																
Total foreign	1.2	0.5	4.3	4.7	3.9	3.9	3.6	3.6	3.6	3.5	3.4	3.4	3.5	3.4	3.4	3.4
Industrial Countries of which:	1.6	0.1	1.9	3.6	2.4	2.8	2.8	2.8	2.9	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Canada	2.5	-1.0	1.3	3.8	2.6	3.3	3.3	3.3	3.6	3.6	3.6	3.6	3.5	3.5	3.5	3.5
Japan	2.2	3.5	2.5	6.4	3.0	2.8	2.3	2.2	2.2	2.2	2.2	2.2	2.4	2.4	2.4	2.4
United Kingdom	1.1	2.4	3.4	3.7	2.6	2.8	2.9	2.9	2.8	2.8	2.7	2.7	2.5	2.5	2.5	2.5
Euro Area (2)	-0.1	-0.4	1.5	1.2	1.6	1.9	2.0	2.1	2.0	2.0	1.9	1.9	1.8	1.8	1.8	1.8
Germany	-1.0	-0.6	0.8	0.9	1.4	1.7	1.7	1.7	1.8	1.8	1.6	1.6	1.5	1.5	1.5	1.5
<b>Developing Countries</b>																
Asia	0.7	1.1	8.1	6.5	6.1	5.4	4.9	4.8	4.6	4.5	4.4	4.4	4.3	4.3	4.3	4.3
Korea	3.3	-3.0	16.0	8.1	9.1	7.1	5.8	5.7	5.5	5.4	5.1	5.1	5.1	5.1	5.1	5.1
China	16.3	-0.2	6.7	11.3	6.0	5.4	5.4	5.3	5.3	5.2	5.2	5.2	5.3	5.3	5.3	5.3
Latin America	-2.4	4.6	19.6	7.9	15.5	13.3	7.6	7.4	7.4	7.4	7.2	7.2	7.2	7.2	7.2	7.2
Mexico	-0.3	3.1	0.2	5.4	3.8	4.2	4.2	4.2	4.2	4.2	3.8	3.8	3.8	3.8	3.8	3.8
Brazil	-3.2	-3.7	0.4	6.1	2.0	2.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
<b>CONSUMER PRICES (3)</b>																
Industrial Countries of which:	2.4	1.7	1.4	1.3	0.8	1.3	1.3	1.2	1.2	1.3	1.3	1.3	1.4	1.4	1.4	1.4
Canada	4.5	2.8	2.1	1.7	0.9	1.7	1.7	1.6	1.5	1.5	1.6	1.6	1.7	1.7	1.7	1.7
Japan	-0.3	-0.2	-0.5	-0.4	-0.2	-0.3	-0.1	-0.1	-0.1	-0.1	0.2	0.2	0.2	0.2	0.2	0.2
United Kingdom (4)	1.5	1.3	1.4	1.3	1.2	1.8	1.8	1.6	1.6	1.7	1.7	1.7	1.9	2.0	2.0	2.0
Euro Area (2)	2.3	1.9	2.0	1.9	1.6	1.9	1.9	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.5	1.5
Germany	1.1	0.9	1.0	1.2	1.0	1.4	1.2	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Developing Countries	3.4	3.0	2.6	3.0	3.4	3.7	3.4	3.2	3.2	3.2	2.8	2.8	2.7	2.7	2.7	2.7
Asia	1.2	1.1	2.1	2.1	2.2	2.8	3.3	4.2	3.7	3.7	3.6	3.6	3.4	3.4	3.4	3.4
Korea	4.1	3.3	3.2	3.5	3.3	3.9	4.2	3.7	3.7	3.7	3.6	3.6	3.2	3.2	3.2	3.2
China	0.4	0.7	0.9	2.6	2.8	3.5	3.8	2.9	2.9	2.9	2.6	2.6	2.1	2.1	2.1	2.1
Latin America	7.1	6.4	5.4	4.9	4.7	4.6	4.5	4.3	4.3	4.3	3.8	3.8	3.7	3.7	3.7	3.7
Mexico	5.5	4.7	4.1	4.0	4.3	4.1	4.1	5.4	5.4	6.1	5.5	5.5	3.2	3.2	3.2	3.2
Brazil	15.7	17.0	15.3	11.5	6.8	6.1	6.2	5.7	5.7	5.7	5.5	5.5	5.3	5.3	5.3	5.3

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1997	1998	1999	2000	2001	2002	2003	2004	Projected 2005
<b>NIPA REAL EXPORTS and IMPORTS</b>									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services	-0.8	-1.1	-1.0	-0.9	-0.2	-0.9	-0.9	-0.2	-0.3
Exports of G&S	0.9	0.3	0.6	0.7	-1.3	0.3	0.6	0.9	0.9
Imports of G&S	-1.7	-1.4	-1.6	-1.6	-1.6	-1.1	-0.6	-1.2	-1.3
Percentage change, Q4/Q4									
Exports of G&S	8.3	2.6	5.6	6.5	-11.5	3.3	6.4	9.3	9.1
Services	0.4	4.4	5.3	1.8	-8.3	9.3	4.8	6.6	6.1
Computers	26.7	7.3	13.4	22.7	-22.8	-0.9	11.3	27.7	31.1
Semiconductors	21.1	9.5	34.6	27.6	-34.9	9.7	38.8	31.5	33.5
Other Goods 1/	9.8	1.2	3.3	5.9	-9.8	0.4	5.0	7.9	7.1
Imports of G&S	14.3	11.0	12.1	11.2	-7.4	9.4	4.5	8.0	8.6
Services	11.9	10.4	6.5	10.7	-4.6	6.7	0.1	6.4	5.0
Oil	4.2	4.2	-3.4	13.3	0.1	3.7	2.2	0.9	0.7
Computers	32.6	26.4	26.0	13.9	-12.9	13.5	17.1	33.1	31.1
Semiconductors	32.5	-7.7	34.2	22.8	-51.3	9.7	0.4	43.7	33.5
Other Goods 2/	13.1	11.2	12.9	10.5	-6.2	10.3	5.1	6.9	8.0
Billions of Chained 2000 Dollars									
Net Goods & Services	-104.6	-203.7	-296.2	-379.5	-398.1	-470.6	-508.9	-534.2	-571.2
Exports of G&S	943.7	966.5	1008.2	1096.3	1039.0	1014.2	1034.7	1135.7	1246.8
Imports of G&S	1048.3	1170.3	1304.5	1475.8	1437.1	1484.7	1543.8	1669.9	1818.0
Billions of dollars									
US CURRENT ACCOUNT BALANCE	-127.7	-204.7	-290.8	-411.5	-393.7	-480.9	-541.6	-564.1	-621.4
Current Acct as Percent of GDP	-1.5	-2.3	-3.1	-4.2	-3.9	-4.6	-4.9	-4.8	-5.0
Net Goods & Services (BOP)	-107.0	-163.2	-261.2	-375.4	-357.8	-418.0	-489.9	-539.0	-572.5
Investment Income, Net	25.1	11.5	22.3	24.2	15.7	1.3	21.9	60.9	37.6
Direct Net	72.4	65.5	78.2	94.9	106.5	93.5	104.0	157.0	163.7
Portfolio, Net	-47.3	-54.1	-55.9	-70.7	-90.8	-92.2	-82.1	-96.0	-126.1
Other Income & Transfers, Net	-45.7	-53.0	-52.0	-60.3	-51.6	-64.1	-73.6	-86.0	-86.6

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2000								2001								2002											
	Q1				Q2				Q3				Q4				Q1				Q2				Q3			
	NIPA REAL EXPORTS and IMPORTS								Percentage point contribution to GDP growth								Billions of Chained 2000 Dollars, s.a.a.r.											
Net Goods & Services	-1.5	-1.0	-0.9	-0.1	0.5	-0.2	-0.4	-0.5	-0.2	-0.4	-0.4	-0.5	-0.7	-1.3	-0.2	4.4	8.7	4.3	4.4	2.9	1.6	4.4	4.4	-3.7	-1.5			
Exports of G&S	0.7	-1.3	1.1	-0.3	-0.5	-1.5	-2.0	1.0	-1.3	-1.6	-2.0	-1.6	-0.5	-0.4	-0.8	-22.9	1.6	4.4	4.4	9.4	3.2	4.6	4.6	14.6	-0.4			
Imports of G&S	-2.2	-2.3	-2.0	0.2	1.0	1.3	1.6	1.6	1.6	1.6	1.6	1.6	-1.1	-2.1	-2.1	-22.2	3.2	4.6	4.6	14.6	-2.1	3.7	3.7	10.8	-1.1			
Exports of G&S Services	6.6	12.3	10.7	-2.7	-4.5	-13.4	-17.7	-9.8	-14.7	-19.0	-14.7	-19.0	-14.7	-14.7	-14.7	-22.6	2.3	4.6	4.6	11.8	2.0	4.6	4.6	12.1	-27.1			
Services	1.4	8.4	-6.6	4.5	-2.0	-0.6	-14.7	-19.0	-18.6	-18.6	-18.6	-18.6	-18.6	-18.6	-18.6	-22.6	3.2	4.6	4.6	11.8	2.0	4.6	4.6	12.1	-27.1			
Computers	32.7	47.0	30.1	-10.7	-7.7	-40.8	-20.1	-18.6	-20.1	-18.6	-20.1	-18.6	-20.1	-20.1	-20.1	-22.6	4.0	4.6	4.6	11.8	2.0	4.6	4.6	12.1	-27.1			
Semiconductors	24.2	73.7	35.0	-8.9	-29.5	-54.7	-45.7	-2.3	-45.7	-2.3	-45.7	-2.3	-45.7	-2.3	-45.7	-2.3	-26.6	4.0	4.6	4.6	11.8	2.0	4.6	4.6	12.1	-27.1		
Other Goods 1/	5.9	7.5	16.0	-4.5	-2.7	-12.1	-16.6	-7.4	-12.1	-16.6	-12.1	-16.6	-12.1	-16.6	-12.1	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-9.0		
Imports of G&S Services	16.7	16.5	14.1	-1.6	-6.2	-8.6	-10.8	-3.8	-10.8	-3.8	-10.8	-3.8	-10.8	-3.8	-10.8	-3.8	8.4	8.4	8.4	8.4	17.1	4.1	4.1	4.1	8.2	-17.1		
Oil	20.9	10.6	14.3	-1.8	-3.2	-12.5	-18.1	-6.9	-18.1	-6.9	-18.1	-6.9	-18.1	-6.9	-18.1	-6.9	-19.3	-19.3	-19.3	-19.3	3.7	0.7	0.7	0.7	12.1	-12.1		
Computers	28.5	40.6	-2.6	-6.4	-23.3	7.1	-26.8	3.7	-26.8	3.7	-26.8	3.7	-26.8	3.7	-26.8	3.7	-35.3	-35.3	-35.3	-35.3	-10.9	-10.9	-10.9	-10.9	18.9	-18.9		
Semiconductors	-2.2	44.9	35.4	-12.3	-25.7	-20.5	-20.5	-10.9	-20.5	-10.9	-20.5	-10.9	-20.5	-10.9	-20.5	-10.9	9.3	9.3	9.3	9.3	11.5	6.5	6.5	6.5	0.9	-20.3		
Other Goods 2/	25.0	45.4	71.1	-26.9	-43.5	-70.4	-55.4	-24.6	-70.4	-55.4	-70.4	-55.4	-70.4	-55.4	-70.4	-55.4	44.5	44.5	44.5	44.5	34.6	-6.5	-6.5	-6.5	-20.3	-20.3		
1. Merchandise exports excluding computers and semiconductors.																												
2. Merchandise imports excluding oil, computers, and semiconductors.																												
US CURRENT ACCOUNT BALANCE	-380.1	-396.5	-434.3	-435.0	-416.0	-399.9	-414.5	-426.9	-414.5	-426.9	-414.5	-426.9	-414.5	-426.9	-414.5	-426.9	-491.3	-491.3	-491.3	-491.3	-491.3	-491.3	-491.3	-491.3	-514.3	-514.3		
Current Account as % of GDP	-3.9	-4.0	-4.4	-4.4	-4.1	-4.0	-4.1	-4.1	-4.0	-4.1	-4.0	-4.1	-4.0	-4.1	-4.0	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.8	
Net Goods & Services (BOP)	-346.9	-364.5	-391.8	-398.4	-373.8	-357.8	-356.2	-343.5	-356.2	-343.5	-356.2	-343.5	-356.2	-343.5	-356.2	-343.5	-360.2	-360.2	-360.2	-360.2	-419.5	-419.5	-419.5	-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	54.3	54.3	54.3	54.3	54.3	54.3	54.3	54.3	2.2	2.2	2.2	2.2	-12.4	-12.4	-12.4	-12.4	-1.9	17.2		
Direct Net Portfolio, Net	84.5	88.9	91.9	114.5	94.5	96.7	91.3	143.5	143.5	143.5	143.5	143.5	143.5	143.5	143.5	143.5	95.7	95.7	95.7	95.7	87.7	87.7	87.7	87.7	104.9	104.9		
Portfolio, Net	-64.5	-65.7	-76.1	-76.6	-86.0	-88.4	-99.6	-89.2	-99.6	-89.2	-99.6	-89.2	-99.6	-89.2	-99.6	-89.2	-93.5	-93.5	-93.5	-93.5	-98.1	-98.1	-98.1	-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	-50.3	-50.0	-55.4	-50.0	-55.4	-50.0	-55.4	-50.0	-68.9	-68.9	-68.9	-68.9	-59.3	-59.3	-59.3	-59.3	-61.1	-67.1		

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2003								2004				Projected				2005			
	Q1		Q2		Q3		Q4		Q1		Q2		Q3		Q4		Q1		Q2	
<b>NIPA REAL EXPORTS and IMPORTS</b>																				
Net Goods & Services	0.8	-1.3	0.8	-0.3	-0.2	-0.4	-0.3	-0.4	-0.3	-0.0	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.1		
Exports of G&S	-0.2	-0.1	0.9	-1.8	0.3	-0.4	-2.1	-0.4	-1.5	-1.4	-1.5	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2		
Imports of G&S	-1.0	-1.2	-0.1	-0.1	-2.1	-0.4	-2.1	-0.4	-1.5	-1.4	-1.5	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2		
Exports of G&S Services	-2.0	-1.1	9.9	20.5	2.7	11.2	11.0	12.4	11.0	12.4	11.2	11.0	11.0	11.0	11.0	11.0	11.0	10.5		
Services	-10.2	0.3	12.7	18.8	2.9	8.5	7.7	7.3	7.7	7.3	6.7	6.7	6.2	6.2	6.2	6.2	5.9	5.6		
Computers	-7.4	-11.2	48.7	25.7	0.0	38.6	38.6	38.6	38.6	38.6	38.6	38.6	33.6	33.6	33.6	33.6	33.6	33.6		
Semiconductors	4.4	30.1	35.2	46.4	6.1	41.2	41.2	41.2	41.2	41.2	41.2	41.2	36.1	36.1	36.1	36.1	36.1	36.1		
Other Goods 1/	0.1	-3.0	4.8	19.3	2.5	8.9	8.9	11.3	8.9	11.3	5.4	5.4	7.3	7.3	7.3	7.3	9.1	9.1		
Imports of G&S Services	-6.8	9.1	0.8	16.4	3.1	10.7	9.8	8.6	10.7	9.8	8.6	8.6	7.5	7.5	7.5	7.5	8.5	8.2		
Oil	-7.6	-10.9	13.5	7.5	4.7	6.6	7.3	7.2	7.5	7.2	5.6	5.6	4.9	4.9	4.9	4.9	4.7	4.6		
Computers	-12.7	55.8	-3.2	-17.0	6.5	8.7	2.8	-13.0	2.8	-13.0	1.0	1.0	20.7	20.7	20.7	20.7	-3.6	-12.4		
Semiconductors	-0.4	18.9	15.8	36.8	18.1	38.6	38.6	38.6	38.6	38.6	23.9	23.9	33.5	33.5	33.5	33.5	33.5	33.5		
Other Goods 2/	-6.4	9.1	-1.5	0.5	51.8	41.1	41.1	41.1	41.1	41.1	26.2	26.2	36.0	36.0	36.0	36.0	36.0	36.0		
Net Goods & Services	-490.1	-526.0	-505.2	-515.2	-520.0	-532.1	-541.8	-543.0	-543.0	-543.0	-569.0	-569.0	-579.2	-579.2	-579.2	-579.2	-583.8	-583.8		
Exports of G&S	1012.4	1009.6	1033.7	1083.1	1090.5	1119.7	1149.2	1183.3	1183.3	1183.3	1232.2	1232.2	1259.2	1259.2	1259.2	1259.2	1291.0	1291.0		
Imports of G&S	1502.5	1535.7	1538.9	1598.3	1610.5	1651.8	1691.0	1726.3	1726.3	1726.3	1757.8	1757.8	1801.2	1801.2	1801.2	1801.2	1838.4	1838.4		
<b>Billions of Chained 2000 Dollars, s.a.a.r.</b>																				
US CURRENT ACCOUNT BALANCE	-556.6	-559.4	-541.2	-509.1	-552.3	-550.4	-572.3	-581.3	-581.3	-602.6	-611.4	-628.3	-643.2	-643.2	-643.2	-643.2	-643.2	-643.2		
Current Account as % of GDP	-5.2	-5.2	-4.9	-4.5	-4.5	-4.8	-4.7	-4.8	-4.8	-5.0	-5.0	-5.0	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1		
Net Goods & Services (BOP)	-486.2	-496.4	-486.6	-490.5	-518.7	-535.6	-548.9	-552.9	-552.9	-560.6	-571.9	-571.9	-578.1	-578.1	-578.1	-578.1	-579.2	-579.2		
Investment Income, Net	4.6	10.5	17.0	55.4	59.7	68.4	60.1	55.5	55.5	51.7	44.3	44.3	34.0	34.0	34.0	34.0	20.5	20.5		
Direct, Net	86.6	87.2	98.7	143.3	151.3	162.4	156.7	157.6	157.6	161.6	164.0	164.0	165.2	165.2	165.2	165.2	164.0	164.0		
Portfolio, Net	-82.0	-76.6	-81.6	-88.0	-91.6	-94.0	-96.5	-102.0	-102.0	-109.9	-119.7	-119.7	-131.2	-131.2	-131.2	-131.2	-143.5	-143.5		
Other Inc. & Transfers, Net	-75.1	-73.5	-71.6	-74.0	-93.3	-83.2	-83.5	-84.0	-84.0	-93.7	-83.8	-83.8	-84.2	-84.2	-84.2	-84.2	-84.6	-84.6		

1. Merchandise exports excluding computers and semiconductors.

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

## **Part 2**

April 28, 2004

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## **CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

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### **Recent Developments**

Confidential (FR) Class III FOMC

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April 28, 2004

## **Recent Developments**

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

**Broad Measures of Inflation**  
(Percent change, Q4 to Q4)

Measure	2000	2001	2002	2003
<i>Product prices</i>				
GDP chain price index	2.2	2.4	1.4	1.6
Less food and energy	2.0	2.3	1.5	1.3
Nonfarm business chain price index	1.9	1.8	1.0	1.0
<i>Expenditure prices</i>				
Gross domestic purchases chain price index	2.4	1.6	1.7	1.7
Less food and energy	1.8	2.1	1.4	1.4
PCE chain price index	2.3	1.6	1.8	1.5
Less food and energy	1.5	2.1	1.6	1.0
PCE chain price index, market-based components	2.4	1.3	1.8	1.6
Less food and energy	1.5	1.8	1.5	1.0
CPI	3.4	1.8	2.2	1.9
Less food and energy	2.6	2.7	2.0	1.2
Chained CPI	n.a.	1.5	1.8	1.5
Less food and energy	n.a.	2.1	1.7	.8
Median CPI	3.1	3.8	3.0	2.0
Trimmed mean CPI	2.8	2.6	2.1	1.7

n.a. Not available.

**Surveys of Inflation Expectations**  
(Percent)

Period	Actual CPI inflation <sup>1</sup>	University of Michigan				Professional forecasters (10-year) <sup>4</sup>	
		1 year <sup>2</sup>		5 to 10 years <sup>3</sup>			
		Mean	Median	Mean	Median		
2002:Q2	1.3	3.1	2.7	3.4	2.9	2.5	
Q3	1.6	2.8	2.6	3.2	2.7	2.5	
Q4	2.2	2.7	2.5	3.3	2.8	2.5	
2003:Q1	2.9	3.2	2.8	3.0	2.7	2.5	
Q2	2.1	2.6	2.2	3.1	2.7	2.5	
Q3	2.2	2.8	2.3	3.1	2.7	2.5	
Q4	1.9	3.0	2.6	3.1	2.8	2.5	
2004:Q1	1.8	3.1	2.7	3.4	2.9	2.5	
2003:Oct.	2.0	3.1	2.6	3.1	2.8	...	
Nov.	1.8	3.1	2.7	3.1	2.7	...	
Dec.	1.9	2.8	2.6	3.1	2.8	2.5	
2004:Jan.	1.9	2.9	2.7	3.4	2.8	...	
Feb.	1.7	2.9	2.6	3.3	2.9	...	
Mar.	1.7	3.4	2.9	3.4	2.9	2.5	
Apr.	n.a.	3.6	3.0	2.8	2.5	...	

1. CPI; percent change from the same period in the preceding year.

2. Responses to the question: By about what percent do you expect prices to go up, on average, during the next twelve months?

3. Responses to the question: By about what percent per year do you expect prices to go up, on average, during the next five to ten years?

4. Quarterly CPI projections compiled by the Federal Reserve Bank of Philadelphia.

n.a. Not available.

... Not applicable.

## Business Finance

### Gross Issuance of Securities by U.S. Corporations (Billions of dollars; monthly rates, not seasonally adjusted)

Type of security	2000	2001	2002	2003		Q1	2004 Mar.	Apr. <sup>e</sup>
				H1	H2			
<i>Nonfinancial corporations</i>								
Stocks <sup>1</sup>	9.9	6.5	5.2	2.8	4.6	6.8	9.2	2.6
Initial public offerings	4.4	2.1	0.7	0.0	0.9	0.8	0.5	0.5
Seasoned offerings	5.5	4.4	4.4	2.8	3.7	6.0	8.7	2.1
Bonds	22.7	39.8	24.8	36.5	27.4	25.3	35.4	22.0
Investment grade <sup>2</sup>	13.2	27.5	15.7	20.1	11.9	10.6	18.8	3.0
Speculative grade <sup>2</sup>	4.7	8.9	4.8	11.5	11.1	12.3	13.5	12.0
Other (sold abroad/unrated)	4.9	3.4	4.2	4.9	4.5	2.4	3.0	7.0
<i>Memo</i>								
Net issuance of commercial paper <sup>3</sup>	4.5	-8.0	-6.3	-4.3	-3.4	2.9	-4.7	4.5
Change in C&I loans at commercial banks <sup>3,4</sup>	7.8	-5.8	-5.3	-6.9	-9.3	-0.0	-9.4	3.0
<i>Financial corporations</i>								
Stocks <sup>1</sup>	1.4	4.2	4.0	6.0	7.8	10.4	7.2	5.0
Bonds <sup>5</sup>	57.8	80.2	87.0	114.1	108.2	128.4	139.4	70.0

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

1. Excludes equity issues associated with equity-for-equity swaps that have occurred in restructurings.

2. Bonds sold in U.S. categorized according to Moody's bond ratings, or to Standard & Poor's if unrated by Moody's.

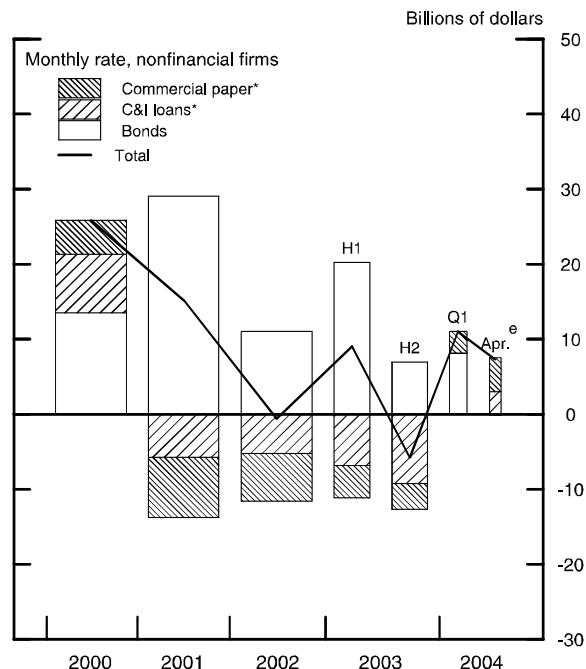
3. End-of-period basis, seasonally adjusted.

4. Adjusted for FIN 46 effects.

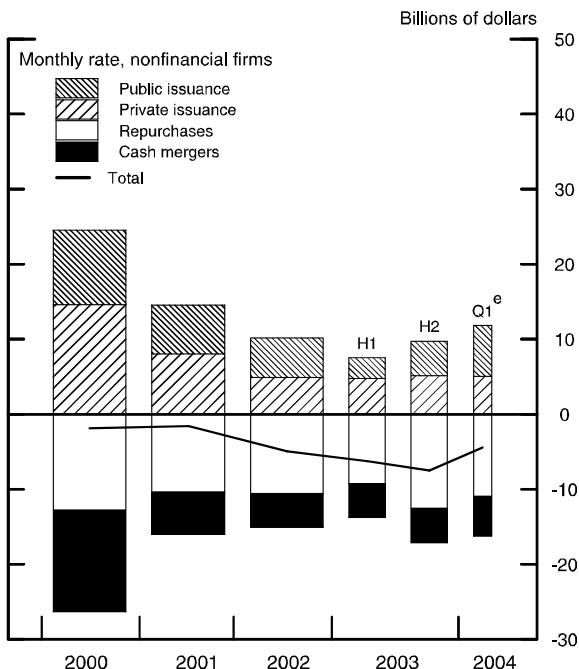
5. Excludes mortgage-backed and asset-backed bonds.

e Staff estimate based on data as of April 23, 2004.

### Selected Components of Net Debt Financing



### Components of Net Equity Issuance

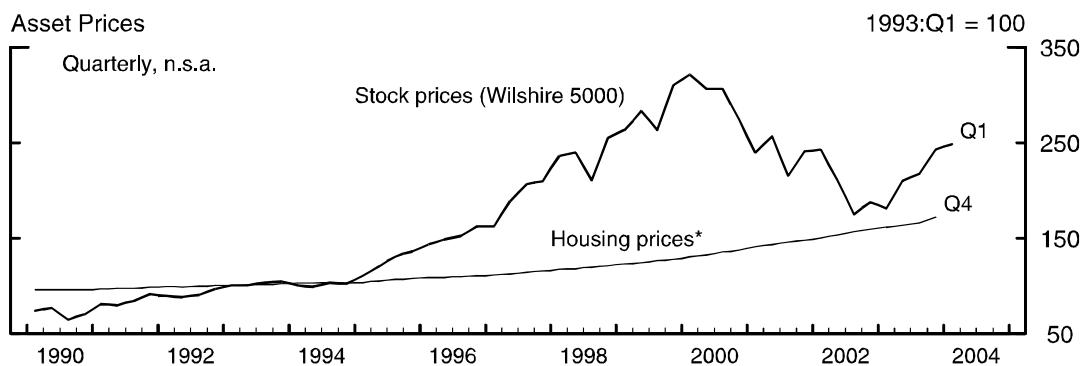


\* Seasonally adjusted, period-end basis.

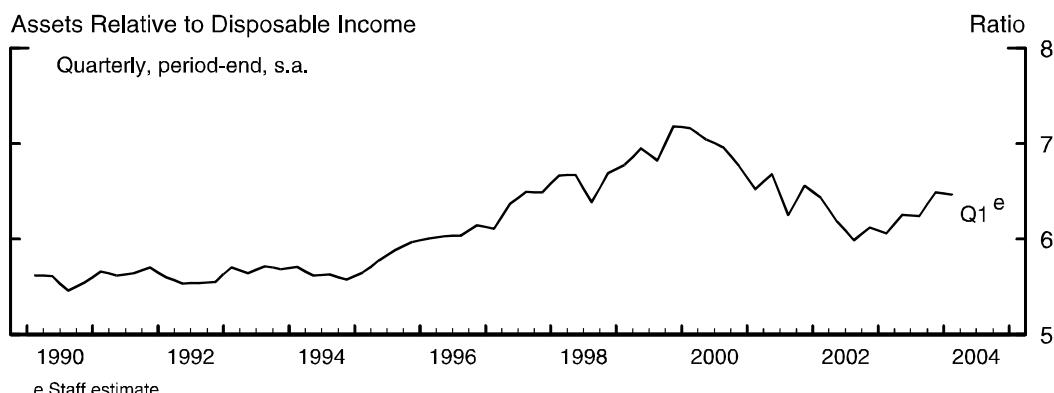
e Staff estimate based on data as of April 23, 2004.

e Staff estimate.

## Household Assets



\* Source. Office of Federal Housing Enterprise Oversight (OFHEO).



e Staff estimate.

### Net Flows into Long-Term Mutual Funds

(Billions of dollars, monthly rate)

Fund Type	2001	2002	2003		2004		Assets Mar. <sup>e</sup>
			H1	H2	Q1 <sup>e</sup>	Apr. <sup>e</sup>	
<b>Total long-term funds</b>	<b>10.7</b>	<b>10.1</b>	<b>19.1</b>	<b>16.9</b>	<b>36.6</b>	<b>30.2</b>	<b>5,598</b>
<b>Equity funds</b>	<b>2.7</b>	<b>-2.3</b>	<b>5.9</b>	<b>19.4</b>	<b>28.0</b>	<b>27.4</b>	<b>3,865</b>
Domestic	4.5	-2.1	5.4	15.9	19.5	18.4	3,303
International	-1.8	-0.2	0.5	3.5	8.5	9.0	562
<b>Hybrid funds</b>	<b>0.7</b>	<b>0.7</b>	<b>2.0</b>	<b>3.6</b>	<b>5.2</b>	<b>4.9</b>	<b>461</b>
<b>Bond funds</b>	<b>7.3</b>	<b>11.7</b>	<b>11.3</b>	<b>-6.1</b>	<b>3.4</b>	<b>-2.1</b>	<b>1,272</b>
High-yield	0.6	0.9	3.7	0.7	-1.4	-1.4	151
Other taxable	5.7	9.4	7.1	-5.1	4.4	1.6	781
Municipals	1.0	1.4	0.5	-1.6	0.4	-2.4	340

Note. Excludes reinvested dividends.

e Staff estimates based on confidential ICI weekly data.

Source. Investment Company Institute.

## State and Local Government Finance

### Gross Offerings of Municipal Securities

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

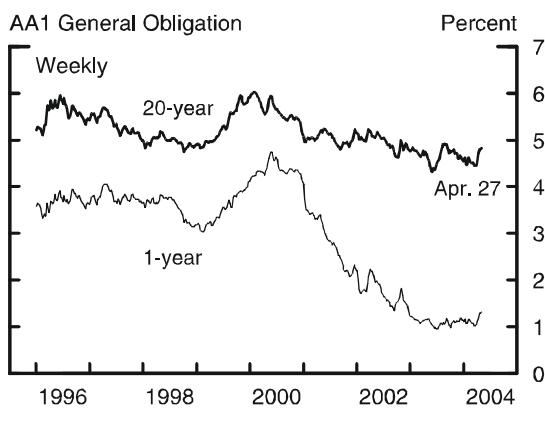
Type of security	2001	2002	2003		2004		
			H1	H2	Q1	Mar.	Apr. <sup>e</sup>
Total	29.0	36.3	40.7	35.0	31.2	40.1	22.5
Long-term <sup>1</sup>	24.3	30.3	34.5	29.7	28.4	38.1	21.1
Refundings <sup>2</sup>	7.6	10.1	11.6	8.1	10.1	14.7	6.5
New capital	16.7	20.2	22.9	21.6	18.4	23.4	14.6
Short-term	4.7	6.0	6.2	5.4	2.7	2.0	1.4
Memo: Long-term taxable	1.4	1.7	3.9	3.1	2.1	2.1	1.5

1. Includes issues for public and private purposes.

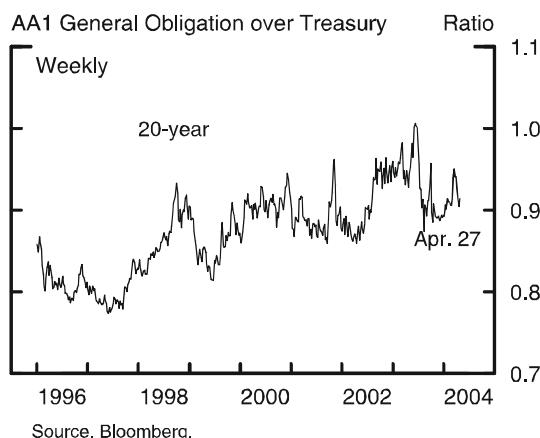
2. All issues that include any refunding bonds.

e Staff estimate based on preliminary data through April 22.

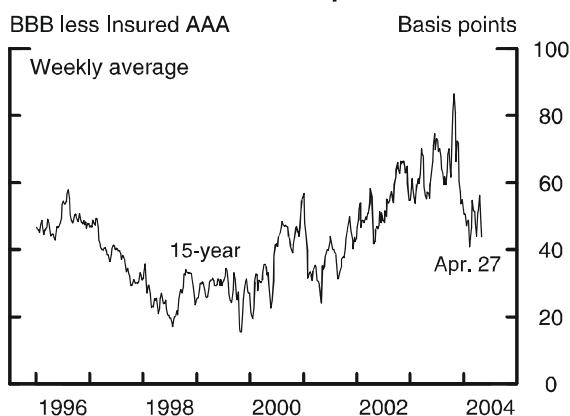
### Municipal Bond Yields



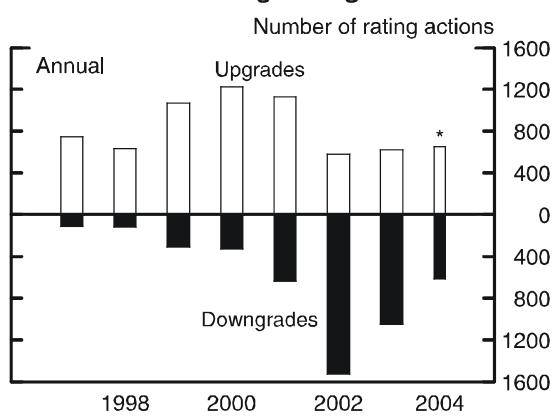
### Municipal Bond Yield Ratios



### Revenue Bond Spread



### Bond Rating Changes



**Monetary Aggregates**  
(Based on seasonally adjusted data)

Aggregate or component	2003	2003	2004	2004			Level (\$ billions) Apr 04 (e)
		Q4	Q1	Feb	Mar	Apr (e)	
<i>Aggregate</i>							
1. M2 <sup>2</sup>	5.3	-1.5	3.3	10.4	8.8	8.9	6,220
2. M3 <sup>3</sup>	4.5	-1.5	5.2	9.0	9.3	8.7	9,074
<i>Components of M2<sup>4</sup></i>							
3. Currency	5.9	6.3	2.7	1.6	1.6	3.2	668
4. Liquid deposits <sup>5</sup>	13.9	4.0	10.7	21.4	19.3	16.6	3,989
5. Small time deposits	-9.5	-9.7	-5.2	-3.6	-4.3	-4.6	797
6. Retail money market funds	-11.6	-22.8	-21.4	-20.3	-23.7	-11.5	757
<i>Components of M3</i>							
7. M3 minus M2 <sup>6</sup>	2.8	-1.6	9.2	5.9	10.5	8.3	2,855
8. Large time deposits, net <sup>7</sup>	3.6	8.3	33.5	10.8	26.0	39.3	958
9. Institutional money market funds	-6.0	-16.6	-8.1	-13.2	9.4	5.4	1,103
10. RPs	12.8	8.8	6.2	45.2	.7	-46.5	501
11. Eurodollars	26.1	13.9	11.0	-4.9	-16.4	18.7	293
<i>Memo</i>							
12. Monetary base	6.0	5.2	2.9	2.9	2.0	9.4	731
<i>Average monthly change (billions of dollars)<sup>8</sup></i>							
<i>Selected managed liabilities at commercial banks</i>							
13. Large time deposits, gross	-2.1	-5.3	17.2	7.4	13.1	24.6	1,061
14. Net due to related foreign institutions	3.0	9.3	-15.9	-25.2	-14.3	-19.4	72
15. U.S. government deposits at commercial banks	-.3	.4	2.5	2.8	7.4	-7.7	22

- For the years shown, Q4 to Q4 percent change. For the quarters shown, based on quarterly averages.
  - Sum of currency, liquid deposits (demand, other checkable, savings), small time deposits, retail money market funds, and non-bank travelers checks.
  - Sum of M2, net large time deposits, institutional money market funds, RP liabilities of depository institutions, and eurodollars held by U.S. addressees.
  - Non-bank travelers checks not listed.
  - Sum of demand deposits, other checkable deposits, and savings deposits.
  - Sum of large time deposits, institutional money market funds, RP liabilities of depository institutions, and eurodollars held by U.S. addressees.
  - Net of holdings of depository institutions, money market funds, U.S. government, and foreign banks and official institutions.
  - For the years shown, "average monthly change" is the Q4 to Q4 dollar change divided by 12. For the quarters shown, it is the quarter-to-quarter dollar change divided by 3.
- e Estimated.

### III-15

#### **Commercial Bank Credit**

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

Type of credit	2003	Q4 2003	Q1 2004	Feb. 2004	Mar. 2004	Apr. <sup>e</sup> 2004	Level, Apr. 2004 <sup>e</sup> (\$ billions)
<b>Total</b>							
<b>1. Adjusted<sup>1</sup></b>	<b>5.9</b>	<b>-.5</b>	<b>10.4</b>	<b>22.6</b>	<b>12.2</b>	<b>7.0</b>	<b>6,229</b>
2. Reported	5.6	.1	11.4	23.1	14.2	-.2	6,410
<i>Securities</i>							
3. Adjusted <sup>1</sup>	8.7	6.9	17.2	51.0	23.9	-5.3	1,732
4. Reported	7.4	8.1	19.8	49.6	29.1	-27.5	1,913
5. Treasury and agency	8.7	2.5	25.6	72.5	32.5	-19.8	1,187
6. Other <sup>2</sup>	5.5	16.8	11.1	14.6	23.9	-40.1	727
<i>Loans<sup>3</sup></i>							
7. Total	4.9	-3.2	7.9	12.0	7.7	11.7	4,497
8. Business	-9.4	-11.8	-4.4	3.3	-4.6	-3.3	862
9. Real estate	11.1	-2.3	9.3	10.2	20.1	28.3	2,350
10. Home equity	30.7	31.4	38.1	26.8	42.7	28.4	316
11. Other	8.8	-6.6	5.3	7.8	16.6	28.3	2,034
12. Consumer	5.8	10.8	11.1	4.2	10.2	5.4	642
13. Adjusted <sup>4</sup>	6.0	9.4	10.2	1.8	10.3	-.7	1,017
14. Other <sup>5</sup>	6.6	-7.4	16.7	37.2	-20.6	-20.4	643

Note. Data are adjusted to remove estimated effects of consolidation related to FIN 46 and for breaks caused by reclassifications. Monthly levels are pro rata averages of weekly (Wednesday) levels. Quarterly levels (not shown) are simple averages of monthly levels. Annual levels (not shown) are levels for the fourth quarter. Growth rates are percentage changes in consecutive levels, annualized but not compounded.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FAS 115).
2. Includes private mortgage-backed securities, securities of corporations, state and local governments, foreign governments, and any trading account assets that are not Treasury or agency securities, including revaluation gains on derivative contracts.
3. Excludes interbank loans.
4. Includes an estimate of outstanding loans securitized by commercial banks.
5. Includes security loans and loans to farmers, state and local governments, and all others not elsewhere classified. Also includes lease financing receivables.

e Estimated.