

Part 1

October 30, 2002

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

Confidential (FR) Class II FOMC

October 30, 2002

Summary and Outlook

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

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

Measure	2002:Q3		2002:Q4	
	Sept. GB	Oct. GB	Sept. GB	Oct. GB
Real GDP	3.2	3.1	2.0	1.0
Private domestic final purchases	4.2	3.0	.5	.1
Personal consumption expenditures	4.8	4.1	1.1	.3
Residential investment	-1.5	-1.1	-3.6	2.9
Business fixed investment	2.6	-2.3	-1.6	-2.5
Government outlays for consumption and investment	3.3	3.2	3.2	3.3
	Contribution to growth (percentage points)			
Inventory investment	-.6	.0	.9	.4
Net exports	-.4	-.1	.0	-.1

Business fixed investment is likely to decline further in the fourth quarter. Outlays for nonresidential structures fell sharply in the third quarter, and we expect another sizable drop in the current quarter. The most recent data on orders and shipments, together with anecdotal evidence, are consistent with a tepid fourth-quarter gain in real spending on equipment and software excluding transportation-related items. This small increase, combined with a gain in aircraft spending and a decline in business purchases of autos and trucks, will leave overall real E&S spending about flat in the fourth quarter.

The massive inventory runoff that began in early 2001 appears to have ended in the third quarter. Inventory-sales ratios in most industries appear comfortable by historical standards, and we believe that firms will build stocks at a moderate rate in the fourth quarter.

The pace of federal spending should ease slightly in the current quarter, as increases in spending associated with homeland security and the war on terrorism begin to moderate. However, we have nudged up our forecast to reflect the deployment of troops and military equipment to the Persian Gulf that is currently under way. Real spending by state and local governments is likely to accelerate a bit in the current quarter, as investment turns up after essentially no change, on net, over the first three quarters of the year.

Exports and imports were weaker in August than we had anticipated. We now believe that both categories posted small gains for the third quarter as a whole

Measure	2003		2004
	H1	H2	
Real GDP	2.4	3.6	3.9
Previous	3.0	3.5	3.8
Final sales	2.1	3.5	3.9
Previous	2.6	3.6	3.8
PCE	2.2	2.8	3.2
Previous	2.4	2.6	3.1
Residential investment	-1.1	2.9	5.1
Previous	1.1	2.1	4.2
BFI	5.0	9.2	11.1
Previous	7.3	10.4	10.5
Government purchases	2.5	2.8	2.8
Previous	2.8	2.9	2.9
Exports	5.6	8.5	7.9
Previous	6.3	8.8	8.1
Imports	6.9	6.6	7.8
Previous	7.6	6.2	7.6
	Contribution to growth, percentage points		
Inventory change	.3	.1	.0
Previous	.5	.0	.0
Net exports	-.4	-.1	-.3
Previous	-.5	.0	-.3

income. Moreover, household income should receive a further boost when the next phase of income tax reductions takes effect in early 2004.

The demand for homes will be supported by these same forces as well as by low mortgage interest rates. We project that the number of single-family housing starts will stay close to its high third-quarter average of 1.35 million units through the middle of next year and will rise roughly with overall economic activity thereafter. In the multifamily sector, where rents and property values

Government spending. With much of the step-up in security-related spending completed by the end of 2002 and with the federal budget outlook less rosy now than in previous years, we anticipate only moderate increases in federal outlays over the projection period. Under our baseline assumption of no war with Iraq, real defense spending is projected to rise 2-1/4 percent in 2003 and 1-1/2 percent in 2004, down from an anticipated 7-1/2 percent advance in 2002. Growth in nondefense spending is also expected to slow—albeit less dramatically—from a projected pace of 5-1/4 percent in 2002 to around 3-1/2 percent in 2003 and 2004. In contrast, the spending of states and localities, which we estimate will increase just 1.6 percent over the four quarters of 2002, should accelerate gradually over the next couple of years, as the expanding economy reduces strains on these governments' budgets.

Net exports. We expect that net exports will make arithmetic deductions from real GDP growth of roughly 1/4 percentage point in 2003 and 1/3 percentage point in 2004. This damping effect is slightly larger than we had projected in the September Greenbook, owing primarily to the higher assumed value of the dollar. We expect that real exports will expand at an average annual rate of 7-1/2 percent over the next two years, a pace slightly above that for 2002; exports should be supported by the pickup in economic activity abroad and the depreciation of the dollar. Real import growth is forecast to average 7-1/4 percent in 2003 and 2004—noticeably below this year's pace. (*The International Developments section provides more detail on the outlook for the external sector.*)

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

Measure	1973-95	1996-99	2000	2001	2002	2003	2004
Structural labor productivity	1.4	2.5	2.6	1.9	1.7	2.0	2.3
Previous	1.4	2.5	2.6	1.9	1.7	2.1	2.3
<i>Contributions</i> ¹							
Capital deepening	.6	1.3	1.2	.4	.2	.4	.6
Previous	.6	1.3	1.2	.4	.3	.4	.7
Multifactor productivity	.6	1.0	1.2	1.3	1.2	1.4	1.4
Previous	.6	1.0	1.2	1.3	1.2	1.4	1.4
Labor composition	.3	.3	.3	.3	.3	.3	.3
MEMO							
Potential GDP	2.9	3.5	3.6	2.9	2.7	3.0	3.3
Previous	2.9	3.5	3.6	2.9	2.7	3.1	3.3

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

1. Percentage points.

Aggregate Supply, the Labor Market, and Prospects for Inflation

We project that actual GDP growth will run below our estimate of potential GDP growth through the middle of next year, causing the current slack in resource utilization to increase a little further. The pickup in output growth that we foresee for the second half of next year and for 2004 is sufficient to narrow the output gap somewhat over that period. Still, the degree of slack in our forecast generates a deceleration in labor compensation and core consumer price inflation over the next couple of years.

Productivity and the labor market. We estimate that labor productivity in the nonfarm business sector rose roughly 5 percent over the four quarters ending in 2002:Q3 and that its level is now well above its structural level. We continue to believe that this pattern reflects firms' decisions—against a backdrop of uncertainty about the strength of the expansion—to use their existing labor and capital more intensively instead of hiring additional workers. Reflecting the persistently good performance of productivity this year, our forecast calls for actual productivity to stay above its estimated structural level to an unusual extent and for a longer period of time than is typical of previous expansions.

As business confidence improves over time and output accelerates, we expect to see material gains in payroll employment. We anticipate that private payrolls will increase 90,000 per month in the first half of next year, 170,000 per month in the second half of next year, and a little more than 200,000 per month in 2004.

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

Measure	2001	2002	2003	2004
Output per hour, nonfarm business	1.9	3.3	1.5	1.7
Previous	1.9	3.7	1.5	1.6
Nonfarm private payroll employment	-1.4	-4	1.5	2.2
Previous	-1.4	-.3	1.9	2.2
Household employment survey	-1.0	.4	1.0	1.6
Previous	-1.0	.1	1.4	1.5
Labor force participation rate ¹	66.9	66.7	66.8	66.9
Previous	66.9	66.6	66.7	66.8
Civilian unemployment rate ¹	5.6	5.9	6.1	5.8
Previous	5.6	6.0	6.0	5.7

1. Percent, average for the fourth quarter.

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

Measure	2001	2002	2003	2004
PCE chain-weighted price index	1.5	1.9	1.2	1.3
Previous	1.5	1.7	1.4	1.3
Food and beverages	3.1	1.5	2.0	1.8
Previous	3.1	1.4	2.0	1.9
Energy	-10.3	8.2	-4.9	-.0
Previous	-10.3	5.6	-2.0	-.4
Excluding food and energy	1.9	1.6	1.3	1.2
Previous	1.9	1.6	1.4	1.3
Consumer price index	1.9	2.3	1.6	1.7
Previous	1.9	2.2	1.8	1.7
Excluding food and energy	2.7	2.1	2.0	1.8
Previous	2.7	2.2	2.1	1.9
GDP chain-weighted price index	2.0	1.4	1.3	1.3
Previous	2.0	1.2	1.5	1.4
ECI for compensation of private industry workers ¹	4.2	3.8	3.4	3.3
Previous	4.2	3.8	3.4	3.4
NFB compensation per hour	1.4	3.8	3.2	3.1
Previous	1.4	3.7	3.3	3.2
Prices of core non-oil merchandise imports	-2.9	1.2	2.3	1.9
Previous	-2.9	1.5	2.9	1.7

1. December to December.

Financial Flows and Conditions

Domestic nonfinancial debt is projected to increase at a pace of about 6 percent from the current quarter through mid-2003 and then to slow to an average pace of about 5 percent through the end of 2004. After rising 7-1/2 percent in 2002, the growth rate of federal debt is expected to taper down to 5 percent next year and 4 percent the year after. In 2003 and 2004, nonfederal debt is projected to increase 5-1/2 percent—below this year's estimated pace of 6-1/4 percent—as a pickup in borrowing by nonfinancial businesses does not completely offset slower debt growth for households.

The anticipated slowing in federal debt issuance over the forecast period reflects improved revenues associated with the ongoing economic recovery as well as

Alternative Scenarios

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

Measure	2002		2003		2004
	H1	H2	H1	H2	
<i>Real GDP</i>					
Greenbook Baseline	3.1	2.1	2.4	3.6	3.9
Weaker aggregate demand	3.1	1.9	1.5	2.3	2.9
Stronger aggregate demand	3.1	2.6	3.7	5.4	4.4
Faster productivity growth	3.1	2.1	3.0	4.4	4.6
Low NAIRU	3.1	2.2	2.4	3.6	3.9
Market-based funds rate	3.1	2.1	2.6	3.9	3.7
Lower funds rate	3.1	2.1	2.6	4.0	4.4
<i>Civilian unemployment rate¹</i>					
Greenbook Baseline	5.9	5.9	6.2	6.1	5.8
Weaker aggregate demand	5.9	5.9	6.4	6.6	6.8
Stronger aggregate demand	5.9	5.8	5.8	5.3	4.7
Faster productivity growth	5.9	5.9	6.3	6.1	5.7
Low NAIRU	5.9	5.9	6.2	6.1	5.7
Market-based funds rate	5.9	5.9	6.2	6.0	5.7
Lower funds rate	5.9	5.9	6.2	6.0	5.4
<i>PCE prices excluding food and energy</i>					
Greenbook Baseline	1.7	1.6	1.4	1.3	1.2
Weaker aggregate demand	1.7	1.6	1.4	1.2	1.0
Stronger aggregate demand	1.7	1.6	1.4	1.4	1.5
Faster productivity growth	1.7	1.6	1.3	1.1	0.8
Low NAIRU	1.7	1.5	1.1	0.9	0.7
Market-based funds rate	1.7	1.6	1.4	1.4	1.2
Lower funds rate	1.7	1.6	1.4	1.4	1.4

1. Average for the final quarter of the period.

will rise 1/2 percentage point faster per year than in the baseline forecast. For purposes of this simulation, we assume that current equity valuations already incorporate expectations of such higher productivity growth, so that the stock market path is little different. The improved outlook for aggregate supply implies better prospects for households' permanent income and for corporate earnings; as a result, consumption and investment increase faster than in the baseline. Under these conditions, real GDP is revised up roughly in tandem with the revision to potential output, so the unemployment rate is little different from the baseline. Labor is rewarded for its higher marginal product, but the real wage is boosted primarily through less price inflation rather than faster nominal wage gains. Core PCE price inflation is only 3/4 percent in 2004.

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
	09/18/02	10/30/02	09/18/02	10/30/02	09/18/02	10/30/02	09/18/02	10/30/02	09/18/02	10/30/02
ANNUAL										
2000	5.9	5.9	3.8	3.8	2.1	2.1	3.4	3.4	4.0	4.0
2001	2.6	2.6	0.3	0.3	2.4	2.4	2.8	2.8	4.8	4.8
2002	3.5	3.5	2.4	2.3	1.1	1.1	1.6	1.6	5.9	5.8
2003	4.3	3.8	2.8	2.4	1.4	1.4	2.0	1.9	6.1	6.2
2004	5.2	5.2	3.7	3.8	1.5	1.3	1.8	1.7	5.8	5.9
QUARTERLY										
2001	Q1	3.0	3.0	-0.6	-0.6	3.7	3.7	4.0	4.0	4.2
	Q2	0.9	0.9	-1.6	-1.6	2.5	2.5	3.2	3.2	4.5
	Q3	1.9	1.9	-0.3	-0.3	2.2	2.2	0.7	0.7	4.8
	Q4	2.2	2.2	2.7	2.7	-0.5	-0.5	-0.2	-0.2	5.6
2002	Q1	6.5	6.5	5.0	5.0	1.3	1.3	1.4	1.4	5.6
	Q2	2.6	2.5	1.5	1.3	1.1	1.2	3.4	3.4	5.9
	Q3	4.3	4.2	3.2	3.1	1.1	1.0	1.8	1.8	5.7
	Q4	3.2	2.9	2.0	1.0	1.2	1.8	2.2	2.7	6.0
2003	Q1	4.8	3.9	2.9	2.2	1.9	1.6	2.0	1.4	6.1
	Q2	4.6	3.9	3.1	2.6	1.5	1.2	1.8	1.5	6.2
	Q3	4.8	4.6	3.4	3.3	1.4	1.3	1.8	1.6	6.0
	Q4	5.1	5.2	3.7	3.8	1.4	1.3	1.8	1.7	6.0
2004	Q1	5.6	5.7	3.8	3.9	1.8	1.7	1.8	1.7	5.9
	Q2	5.3	5.3	3.9	4.0	1.4	1.2	1.8	1.7	5.9
	Q3	5.3	5.3	3.9	4.0	1.3	1.2	1.7	1.7	5.9
	Q4	4.8	4.9	3.5	3.6	1.3	1.2	1.7	1.8	5.7
TWO-QUARTER³										
2001	Q2	1.9	1.9	-1.1	-1.1	3.1	3.1	3.5	3.5	0.5
	Q4	2.1	2.1	1.2	1.2	0.8	0.8	0.2	0.2	1.1
2002	Q2	4.5	4.5	3.2	3.1	1.2	1.3	2.4	2.4	0.3
	Q4	3.7	3.5	2.6	2.1	1.1	1.4	2.0	2.3	0.1
2003	Q2	4.7	3.9	3.0	2.4	1.7	1.4	1.9	1.5	0.1
	Q4	5.0	4.9	3.5	3.6	1.4	1.3	1.8	1.7	-0.1
2004	Q2	5.5	5.5	3.8	4.0	1.6	1.4	1.8	1.7	-0.1
	Q4	5.1	5.1	3.7	3.8	1.3	1.2	1.7	1.7	-0.2
FOUR-QUARTER⁴										
2000	Q4	4.6	4.6	2.3	2.3	2.3	2.3	3.4	3.4	-0.1
2001	Q4	2.0	2.0	0.1	0.1	2.0	2.0	1.9	1.9	1.6
2002	Q4	4.1	4.0	2.9	2.6	1.2	1.4	2.2	2.3	0.4
2003	Q4	4.9	4.4	3.3	3.0	1.5	1.3	1.8	1.6	-0.1
2004	Q4	5.3	5.3	3.8	3.9	1.4	1.3	1.7	1.7	-0.4

1. For all urban consumers.

2. Level, except as noted.

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

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

Item	Units ¹	Projected - - -									
		1996	1997	1998	1999	2000	2001	2002	2003	2004	
EXPENDITURES											
Nominal GDP	Bill. \$	7813.2	8318.4	8781.5	9274.3	9824.6	10082.2	10433.0	10830.5	11390.3	
Real GDP	Bill. Ch. \$	7813.2	8159.5	8508.9	8859.0	9191.4	9214.5	9427.4	9650.4	10014.8	
Real GDP	% change	4.1	4.3	4.8	4.3	2.3	0.1	2.6	3.0	3.9	
Gross domestic purchases		4.3	5.0	5.8	5.2	2.9	0.1	3.1	3.1	4.1	
Final sales		3.9	3.9	4.7	4.2	2.6	1.6	1.5	2.8	3.9	
Priv. dom. final purchases		4.4	5.1	6.3	5.2	3.7	0.9	1.7	3.0	4.3	
Personal cons. expenditures		3.1	4.1	5.0	5.0	3.5	2.8	2.3	2.5	3.2	
Durables		5.0	8.8	12.7	10.0	3.8	13.2	1.8	4.0	5.5	
Nondurables		3.2	2.5	5.0	4.9	3.0	1.7	2.4	2.2	2.8	
Services		2.7	3.9	3.6	4.0	3.8	1.3	2.4	2.4	3.0	
Business fixed investment		12.1	11.8	12.3	6.6	6.2	-9.3	-3.3	7.1	11.1	
Equipment & Software		11.8	13.7	14.9	9.7	5.2	-8.8	1.2	9.8	13.1	
Nonres. structures		12.8	6.5	4.9	-2.5	9.3	-10.6	-15.7	-1.9	4.2	
Residential structures		5.6	3.5	10.0	4.0	-1.2	1.0	4.5	0.9	5.1	
Exports		9.8	8.5	2.3	4.9	7.3	-11.4	6.6	7.0	7.9	
Imports		11.2	14.3	10.8	11.9	11.1	-8.0	9.4	6.8	7.8	
Gov't. cons. & investment		2.7	2.4	2.7	4.5	1.3	5.1	3.4	2.6	2.8	
Federal		2.0	0.1	0.6	4.0	-1.2	7.5	6.7	2.6	2.2	
Defense		0.8	-1.4	-0.8	4.4	-2.5	7.4	7.5	2.2	1.5	
State & local		3.0	3.7	3.8	4.8	2.6	3.9	1.6	2.7	3.2	
Change in bus. inventories	Bill. Ch. \$	30.0	63.8	76.7	62.8	65.0	-61.4	-1.1	32.3	42.1	
Nonfarm		21.2	60.6	75.0	64.1	67.2	-63.2	-2.6	31.5	40.9	
Net exports		-89.0	-113.3	-221.1	-320.5	-398.8	-415.9	-479.3	-517.1	-554.6	
Nominal GDP	% change	6.0	6.2	6.0	5.9	4.6	2.0	4.0	4.4	5.3	
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	119.6	122.7	125.9	128.9	131.7	131.9	130.8	131.9	134.5	
Unemployment rate	%	5.4	4.9	4.5	4.2	4.0	4.8	5.8	6.2	5.9	
Industrial prod. index	% change	5.8	7.4	3.5	4.3	2.6	-5.9	1.9	3.5	4.6	
Capacity util. rate - mfg.	%	81.6	82.7	81.4	80.6	80.7	75.1	73.9	74.7	77.2	
Housing starts	Millions	1.48	1.47	1.62	1.64	1.57	1.60	1.69	1.69	1.76	
Light motor vehicle sales		15.05	15.07	15.41	16.78	17.24	17.02	16.62	16.82	17.22	
North Amer. produced		13.34	13.14	13.39	14.30	14.38	13.94	13.33	13.50	13.80	
Other		1.70	1.93	2.02	2.48	2.86	3.08	3.29	3.32	3.42	
INCOME AND SAVING											
Nominal GNP	Bill. \$	7831.2	8325.4	8778.1	9297.1	9848.0	10104.1	10418.2	10809.3	11365.4	
Nominal GNP	% change	5.9	6.0	5.8	6.4	4.6	2.1	3.4	4.4	5.2	
Nominal personal income		5.9	6.3	6.7	5.1	7.7	1.4	4.2	4.2	4.9	
Real disposable income		2.6	3.8	5.0	2.4	4.8	0.3	5.5	2.0	3.6	
Personal saving rate	%	4.8	4.2	4.7	2.6	2.8	2.3	3.8	3.7	4.1	
Corp. profits, IVA & CCAdj.	% change	11.4	9.9	-9.6	7.0	-9.1	8.2	-4.4	3.3	7.2	
Profit share of GNP	%	9.6	10.0	8.9	8.7	8.0	7.2	7.5	7.2	7.4	
Excluding FR Banks		9.4	9.7	8.6	8.4	7.7	7.0	7.3	7.0	7.2	
Federal surpl./deficit	Bill. \$	-136.8	-53.3	43.8	111.9	206.9	72.0	-194.0	-178.0	-152.2	
State & local surpl./def.		21.4	31.0	40.7	38.3	18.0	-31.3	-47.1	-26.0	-5.7	
Ex. social ins. funds		18.7	29.9	40.0	37.4	17.8	-31.2	-47.0	-25.9	-5.6	
Gross natl. saving rate	%	17.2	18.0	18.8	18.3	18.4	16.5	15.4	15.6	16.3	
Net natl. saving rate		5.7	6.7	7.5	6.8	6.7	3.8	2.3	2.3	3.1	
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.9	1.8	1.1	1.6	2.3	2.0	1.4	1.3	1.3	
Gross Domestic Purchases chn.-wt. price index		1.9	1.4	0.8	1.9	2.5	1.3	1.7	1.3	1.3	
PCE chn.-wt. price index		2.3	1.5	1.1	2.0	2.5	1.5	1.9	1.2	1.3	
Ex. food and energy		1.8	1.7	1.6	1.5	1.8	1.9	1.6	1.3	1.2	
CPI		3.2	1.9	1.5	2.6	3.4	1.9	2.3	1.6	1.7	
Ex. food and energy		2.6	2.2	2.3	2.1	2.5	2.7	2.1	2.0	1.8	
ECI, hourly compensation ²		3.1	3.4	3.5	3.4	4.4	4.2	3.8	3.4	3.3	
Nonfarm business sector											
Output per hour		2.3	2.2	2.9	2.9	2.1	1.9	3.3	1.5	1.7	
Compensation per Hour		3.2	3.4	5.3	4.3	7.2	1.4	3.8	3.2	3.1	
Unit labor cost		0.9	1.1	2.3	1.4	4.9	-0.5	0.4	1.7	1.4	

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

Item	Units	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2
EXPENDITURES											
Nominal GDP	Bill. \$	9649.5	9820.7	9874.8	9953.6	10028.1	10049.9	10097.7	10152.9	10313.1	10376.9
Real GDP	Bill. Ch. \$	9097.4	9205.7	9218.7	9243.8	9229.9	9193.1	9186.4	9248.8	9363.2	9392.4
Real GDP	% change	2.6	4.8	0.6	1.1	-0.6	-1.6	-0.3	2.7	5.0	1.3
Gross domestic purchases		3.6	5.7	1.2	1.3	-1.1	-1.1	-0.1	2.9	5.6	2.6
Final sales		4.4	3.1	1.7	1.3	2.8	-0.4	-0.2	4.2	2.4	-0.1
Priv. dom. final purchases		6.9	3.8	3.1	1.1	1.5	-1.2	0.3	3.0	2.5	1.3
Personal cons. expenditures		5.3	3.0	3.8	2.1	2.4	1.4	1.5	6.0	3.1	1.8
Durables		17.8	-3.7	8.1	-5.3	11.5	5.3	4.6	33.6	-6.3	2.0
Nondurables		2.2	4.9	2.0	2.7	2.3	-0.3	1.3	3.6	7.9	-0.1
Services		4.4	3.6	3.9	3.3	0.6	1.5	0.9	2.1	2.9	2.7
Business fixed investment		15.0	10.2	3.5	-3.2	-5.4	-14.5	-6.0	-10.9	-5.8	-2.4
Equipment & Software		15.5	10.9	0.9	-5.4	-6.3	-16.7	-9.2	-2.5	-2.7	3.3
Nonres. structures		13.8	8.2	12.1	3.6	-3.1	-8.4	2.9	-30.1	-14.2	-17.6
Residential structures		8.3	-3.0	-9.3	0.0	8.2	-0.5	0.4	-3.5	14.2	2.7
Exports		7.7	14.6	11.6	-4.0	-6.0	-12.4	-17.3	-9.6	3.5	14.3
Imports		14.7	18.6	13.8	-1.6	-7.9	-6.8	-11.8	-5.3	8.5	22.2
Gov't. cons. & investment		-1.2	4.6	-1.0	2.9	5.7	5.6	-1.1	10.5	5.6	1.4
Federal		-13.2	16.0	-7.2	2.0	9.5	6.0	1.2	13.5	7.4	7.5
Defense		-19.9	15.0	-6.1	4.7	8.3	2.7	4.6	14.3	11.6	7.8
State & local		5.6	-0.8	2.4	3.3	3.8	5.4	-2.3	8.9	4.6	-1.7
Change in bus. inventories	Bill. Ch. \$	45.3	91.5	63.1	59.9	-26.9	-58.3	-61.8	-98.4	-28.9	4.9
Nonfarm		58.9	88.6	64.6	56.8	-32.6	-54.9	-63.6	-101.5	-35.1	4.2
Net exports		-368.8	-394.6	-413.1	-418.5	-404.5	-414.8	-419.0	-425.3	-446.6	-487.4
Nominal GDP	% change	5.7	7.3	2.2	3.2	3.0	0.9	1.9	2.2	6.5	2.5
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	131.0	131.8	131.9	132.2	132.4	132.2	131.9	131.1	130.8	130.7
Unemployment rate	%	4.0	4.0	4.1	4.0	4.2	4.5	4.8	5.6	5.6	5.9
Industrial prod. index	% change	5.8	7.0	0.6	-2.6	-6.1	-5.9	-4.7	-6.7	2.6	4.2
Capacity util. rate - mfg.	%	81.2	81.6	80.7	79.1	77.2	75.6	74.5	73.1	73.5	74.0
Housing starts	Millions	1.66	1.59	1.50	1.54	1.61	1.62	1.60	1.57	1.73	1.67
Light motor vehicle sales		18.15	17.14	17.42	16.26	16.95	16.54	16.23	18.37	16.34	16.35
North Amer. produced		15.29	14.27	14.56	13.41	14.04	13.51	13.23	15.00	13.04	13.10
Other		2.86	2.87	2.86	2.85	2.90	3.04	3.00	3.37	3.31	3.25
INCOME AND SAVING											
Nominal GNP	Bill. \$	9670.5	9846.4	9892.5	9982.8	10038.0	10081.0	10109.3	10188.1	10314.9	10356.8
Nominal GNP	% change	5.3	7.5	1.9	3.7	2.2	1.7	1.1	3.2	5.1	1.6
Nominal personal income		13.2	6.9	6.8	4.2	3.9	0.8	1.4	-0.2	4.8	5.1
Real disposable income		8.4	4.8	4.3	1.8	-0.1	-0.6	10.5	-7.6	14.5	3.6
Personal saving rate	%	2.6	2.9	2.9	2.9	2.4	1.9	4.0	0.8	3.5	4.0
Corp. profits, IVA & CCAdj.	% change	-8.0	-0.1	-9.4	-17.9	-21.1	8.7	-17.7	94.4	-6.6	-6.2
Profit share of GNP	%	8.4	8.2	8.0	7.5	7.0	7.2	6.8	8.0	7.7	7.6
Excluding FR Banks		8.0	7.9	7.7	7.2	6.7	6.9	6.5	7.7	7.5	7.3
Federal surpl./deficit	Bill. \$	223.2	197.2	213.2	193.8	173.8	144.4	-51.7	21.3	-145.8	-190.3
State & local surpl./def.		32.7	20.2	19.2	-0.2	-16.5	-32.3	-46.2	-30.2	-55.8	-45.1
Ex. social ins. funds		32.2	20.0	19.2	-0.1	-16.4	-32.2	-46.1	-30.0	-55.6	-45.0
Gross natl. saving rate	%	18.8	18.4	18.5	17.8	16.9	16.6	16.5	15.8	15.5	15.5
Net natl. saving rate		7.3	6.9	6.8	5.9	4.8	4.1	3.3	3.1	2.7	2.4
PRICES AND COSTS											
GDP chn.-wt. price index	% change	3.1	2.3	1.6	2.1	3.7	2.5	2.2	-0.5	1.3	1.2
Gross Domestic Purchases chn.-wt. price index		3.7	2.2	2.2	2.1	3.3	1.7	-0.2	0.4	1.2	2.3
PCE chn.-wt. price index		3.4	2.3	2.1	2.2	3.3	1.8	-0.1	0.8	1.1	2.7
Ex. food and energy		2.2	1.8	1.3	1.8	2.8	1.2	0.7	2.7	1.4	1.9
CPI		3.9	3.3	3.5	2.8	4.0	3.2	0.7	-0.2	1.4	3.4
Ex. food and energy		2.3	2.7	2.7	2.4	3.1	2.4	2.6	2.6	2.4	2.1
ECI, hourly compensation ¹		5.6	4.7	4.1	3.5	4.6	4.0	3.7	4.2	3.6	4.4
Nonfarm business sector											
Output per hour		0.2	6.0	0.6	1.7	-1.5	-0.1	2.1	7.3	8.6	1.7
Compensation per hour		15.2	2.2	8.7	3.1	2.8	0.1	1.0	1.5	2.9	3.9
Unit labor cost		14.9	-3.6	8.0	1.4	4.3	0.3	-1.1	-5.4	-5.7	2.2

1. Private-industry workers.

Item	Units	Projected									
		2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	2004 Q2	2004 Q3	2004 Q4
EXPENDITURES											
Nominal GDP	Bill. \$	10484.0	10558.0	10658.3	10760.3	10882.9	11020.5	11173.4	11319.0	11465.7	11603.0
Real GDP	Bill. Ch. \$	9464.8	9489.2	9541.5	9603.6	9682.6	9774.0	9869.0	9967.3	10066.3	10156.8
Real GDP	% change	3.1	1.0	2.2	2.6	3.3	3.8	3.9	4.0	4.0	3.6
Gross domestic purchases		3.1	1.1	2.5	3.0	3.5	3.6	4.3	4.4	4.2	3.4
Final sales		3.1	0.6	2.1	2.1	3.0	4.0	3.9	3.8	4.1	3.8
Priv. dom. final purchases		3.0	0.1	2.3	2.5	3.3	3.9	4.5	4.4	4.5	3.8
Personal cons. expenditures		4.1	0.3	2.2	2.3	2.7	2.9	3.4	3.2	3.2	3.2
Durables		23.4	-8.8	2.7	3.2	5.8	4.2	6.8	5.2	4.7	5.5
Nondurables		1.6	0.5	2.0	2.1	2.1	2.4	2.9	2.8	2.8	2.8
Services		1.8	2.2	2.2	2.2	2.5	2.8	3.0	3.0	3.0	3.0
Business fixed investment		-2.3	-2.5	4.6	5.3	7.7	10.8	12.0	12.2	13.3	7.0
Equipment & Software		4.1	0.3	7.6	8.1	10.2	13.4	14.6	15.0	15.8	7.3
Nonres. structures		-19.8	-11.2	-4.8	-3.9	-0.8	2.0	3.5	2.6	4.6	5.9
Residential structures		-1.1	2.9	-2.1	0.0	2.3	3.6	5.0	5.9	5.3	4.3
Exports		2.5	6.7	4.3	6.9	7.3	9.6	5.7	7.9	8.0	9.9
Imports		2.5	5.3	5.5	8.4	7.4	5.8	7.5	9.2	8.1	6.4
Gov't. cons. & investment		3.2	3.3	2.5	2.4	2.8	2.8	2.9	2.8	2.8	2.8
Federal		6.7	5.3	2.9	2.2	2.8	2.5	2.6	2.1	2.1	2.1
Defense		5.9	4.9	2.5	2.1	2.2	2.2	1.3	1.5	1.8	1.3
State & local		1.4	2.2	2.3	2.6	2.7	2.9	3.1	3.1	3.2	3.2
Change in bus. inventories	Bill. Ch. \$	4.6	15.1	19.2	32.5	40.4	37.4	38.1	45.1	45.0	40.3
Nonfarm		5.6	15.1	18.7	31.5	39.5	36.2	36.9	43.9	43.8	38.9
Net exports		-490.2	-492.9	-502.4	-516.6	-526.1	-523.3	-537.7	-553.2	-564.3	-563.1
Nominal GDP	% change	4.2	2.9	3.9	3.9	4.6	5.2	5.7	5.3	5.3	4.9
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	130.8	130.9	131.2	131.6	132.1	132.8	133.5	134.2	134.9	135.5
Unemployment rate	%	5.7	5.9	6.2	6.2	6.1	6.1	6.0	5.9	5.9	5.8
Industrial prod. index	% change	3.6	-2.6	2.3	3.6	3.9	4.4	4.8	4.6	4.6	4.4
Capacity util. rate - mfg.	%	74.4	73.7	73.8	74.4	74.9	75.6	76.2	76.9	77.6	78.2
Housing starts	Millions	1.71	1.68	1.67	1.68	1.69	1.71	1.74	1.76	1.77	1.78
Light motor vehicle sales		17.63	16.16	16.60	16.70	16.94	17.04	17.22	17.22	17.22	17.22
North Amer. produced		14.27	12.90	13.30	13.40	13.60	13.70	13.80	13.80	13.80	13.80
Other		3.35	3.26	3.30	3.30	3.34	3.34	3.42	3.42	3.42	3.42
INCOME AND SAVING											
Nominal GNP	Bill. \$	10462.4	10538.5	10636.4	10739.2	10862.5	10999.1	11150.9	11295.2	11440.0	11575.4
Nominal GNP	% change	4.1	2.9	3.8	3.9	4.7	5.1	5.6	5.3	5.2	4.8
Nominal personal income		3.8	3.0	4.8	3.8	3.8	4.3	5.8	4.7	4.6	4.5
Real disposable income		3.0	1.4	1.5	2.1	2.0	2.5	5.5	3.1	3.0	2.9
Personal saving rate	%	3.7	4.0	3.8	3.8	3.7	3.6	4.1	4.1	4.1	4.0
Corp. profits, IVA & CCAdj.	% change	1.2	-5.8	-6.1	3.7	6.5	9.8	8.1	6.8	8.6	5.3
Profit share of GNP	%	7.5	7.4	7.2	7.2	7.2	7.3	7.3	7.4	7.4	7.4
Excluding FR Banks		7.3	7.1	7.0	7.0	7.0	7.1	7.1	7.2	7.2	7.2
Federal surpl./deficit	Bill. \$	-203.4	-236.6	-206.1	-187.7	-162.8	-155.5	-183.3	-164.9	-145.3	-115.2
State & local surpl./def.		-47.0	-40.7	-29.8	-30.7	-23.8	-19.9	-13.6	-8.3	-2.8	2.0
Ex. social ins. funds		-46.9	-40.6	-29.7	-30.6	-23.7	-19.8	-13.5	-8.2	-2.7	2.1
Gross natl. saving rate	%	15.3	15.2	15.4	15.6	15.7	15.8	16.0	16.2	16.5	16.6
Net natl. saving rate		2.1	1.9	2.0	2.2	2.3	2.5	2.7	3.0	3.3	3.4
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.0	1.8	1.6	1.2	1.3	1.3	1.7	1.2	1.2	1.2
Gross Domestic Purchases chn.-wt. price index		1.3	1.9	1.5	1.1	1.2	1.2	1.6	1.2	1.2	1.2
PCE chn.-wt. price index		1.7	2.1	1.1	1.1	1.2	1.2	1.2	1.3	1.3	1.3
Ex. food and energy		1.7	1.5	1.4	1.4	1.3	1.3	1.2	1.2	1.2	1.2
CPI		1.8	2.7	1.4	1.5	1.6	1.7	1.7	1.7	1.7	1.8
Ex. food and energy		2.1	2.1	2.0	2.0	2.0	2.0	1.9	1.8	1.8	1.8
ECI, hourly compensation ¹		3.7	3.5	3.5	3.4	3.3	3.4	3.3	3.3	3.3	3.4
Nonfarm business sector		3.0	0.0	0.7	1.2	2.0	2.1	1.6	1.8	1.8	1.6
Output per hour		4.8	3.5	3.4	3.2	3.2	3.3	3.1	3.1	3.1	3.1
Compensation per hour		1.8	3.5	2.7	1.9	1.2	1.0	1.7	1.3	1.2	1.5

1. Private-industry workers.

Item	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	01Q4/ 99Q4	01Q4/ 00Q4	02Q4/ 01Q4
Real GDP	0.6	1.1	-0.6	-1.6	-0.3	2.7	5.0	1.3	3.1	2.3	0.1	2.6
Gross dom. purchases	1.3	1.3	-1.1	-1.2	-0.1	3.0	5.8	2.7	3.2	3.0	0.2	3.2
Final sales	1.7	1.2	2.7	-0.5	-0.2	4.1	2.5	-0.1	3.1	2.6	1.6	1.5
Priv. dom. final purchases	2.6	1.0	1.2	-1.0	0.3	2.6	2.2	1.1	2.6	3.1	0.8	1.5
Personal cons. expenditures	2.5	1.4	1.5	0.9	1.0	4.1	2.2	1.2	2.8	2.4	1.9	1.6
Durables	0.6	-0.4	0.9	0.4	0.4	2.5	-0.6	0.2	1.8	0.3	1.0	0.2
Nondurables	0.4	0.5	0.5	-0.1	0.3	0.7	1.6	-0.0	0.3	0.6	0.3	0.5
Services	1.5	1.3	0.2	0.6	0.4	0.9	1.2	1.1	0.7	1.5	0.5	1.0
Business fixed investment	0.5	-0.4	-0.7	-1.9	-0.7	-1.3	-0.7	-0.7	-0.3	-0.2	0.8	-0.4
Equipment & Software	0.1	-0.5	-0.6	-1.6	-0.8	-0.2	-0.2	-0.2	0.3	0.5	-0.8	0.1
Nonres. structures	0.4	0.1	-0.1	-0.3	0.1	-1.1	-0.4	-0.4	-0.5	-0.6	0.3	-0.5
Residential structures	-0.4	0.0	0.3	-0.0	0.0	-0.2	0.6	0.1	-0.0	-0.1	0.0	0.2
Net exports	-0.7	-0.2	0.5	-0.4	-0.2	-0.3	-0.8	-1.4	-0.1	-0.8	-0.1	-0.6
Exports	1.3	-0.5	-0.7	-1.4	-1.9	-1.0	0.3	1.3	0.2	0.8	-1.3	0.6
Imports	-2.0	0.2	1.2	1.0	1.7	0.7	-1.1	-2.7	-0.3	-1.5	1.2	-1.2
Government cons. & invest.	-0.2	0.5	1.0	0.0	-0.2	1.9	1.0	0.3	0.6	0.2	0.9	0.6
Federal	-0.5	0.1	0.5	0.4	0.1	0.8	0.5	0.5	0.4	-0.1	0.4	0.4
Defense	-0.2	0.2	0.3	0.1	0.2	0.5	0.5	0.3	0.2	-0.1	0.3	0.3
Nondefense	-0.2	0.3	0.4	0.2	0.3	0.1	0.3	0.0	0.2	0.0	0.2	0.1
State and local	0.3	0.4	0.5	0.6	-0.3	1.1	0.6	-0.2	0.2	0.3	0.5	0.2
Change in bus. inventories	-1.1	-0.1	-3.3	-1.1	-0.1	-1.4	2.6	1.3	0.0	-0.3	-1.5	1.1
Nonfarm	-1.0	-0.3	-3.4	-0.8	-0.3	-1.4	2.5	1.5	0.1	-0.4	-1.6	1.1
Farm	-0.2	0.2	0.2	-0.3	0.2	0.1	0.1	-0.2	-0.0	0.1	0.0	-0.0

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

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Class II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

October 30, 2002

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

Item	Fiscal year ¹			2002				2003				2004			
	2001 ^a	2002	2003	2004	Q1 ^a	Q2 ^a	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Unified budget															
Receipts ²	1991	1853	1936	2042	413	523	452	434	430	599	473	459	635	496	489
Outlays ²	1863	2012	2112	2188	509	507	494	532	537	528	515	552	547	534	573
Surplus/deficit ²	127	-159	-176	-146	-97	16	-42	-98	-107	71	-42	-93	-103	88	-38
On-budget	-33	-316	-340	-329	-127	-38	-53	-136	-144	-3	-57	-136	-144	6	-55
Off-budget	161	158	164	183	30	73	11	39	37	74	14	44	41	81	17
Surplus excluding deposit insurance	126	-160	-176	-146	-96	15	-43	-98	-107	71	-42	-93	-103	87	-38
Means of financing															
Borrowing	-90	221	181	163	51	21	89	87	91	-36	39	88	97	-54	31
Cash decrease	8	-17	16	0	38	-26	-21	17	12	-28	15	15	0	-30	15
Other ³	-46	-46	-21	-17	8	-11	-26	-6	3	-7	-12	-10	5	-4	-8
Cash operating balance, end of period	44	61	45	45	14	40	61	44	32	60	45	30	30	60	45
NIPA federal sector															
Receipts	2024	1911	1948	2077	1885	1889	1879	1877	1939	1968	2007	2044	2054	2088	2122
Expenditures	1909	2041	2146	2239	2031	2079	2083	2113	2145	2156	2170	2199	2237	2252	2268
Consumption expenditures	517	570	610	639	566	581	587	596	611	615	619	624	640	644	652
Defense	337	374	400	416	372	383	386	391	400	403	405	408	417	419	424
Nondefense	180	195	210	222	194	199	201	205	211	212	214	216	223	225	228
Other spending	1392	1471	1536	1600	1464	1498	1496	1517	1534	1541	1550	1575	1597	1609	1634
Current account surplus	115	-130	-198	-162	-146	-190	-203	-237	-206	-188	-163	-155	-183	-165	-145
Gross investment	98	107	118	123	106	107	113	115	117	118	120	121	123	124	127
Current and capital account surplus	17	-237	-316	-286	-252	-297	-317	-352	-323	-306	-283	-277	-306	-289	-271
Fiscal indicators⁴															
High-employment (HEB) surplus/deficit	-39	-238	-302	-286	-258	-295	-319	-345	-309	-288	-265	-265	-304	-294	-282
Change in HEB, percent of potential GDP	0	2	.5	-.3	2	.3	.2	.2	-.4	-.2	-.2	-.2	.3	-.1	-.1
Fiscal impetus (FI) percent, calendar year	11	20	10	7	10	6	7	3	4	1	2	1	3	1	.1

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

2. OMB's July 2002 baseline surplus estimates are -\$62 billion in FY 2003 and \$17 billion in FY 2004. CBO's August 2002 baseline surplus estimates are -\$145 billion in FY 2004. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus and the Postal Service surplus are excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.

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

4. HEB is the NIPA current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output associated with an unemployment rate of 6 percent. Quarterly figures for 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 federal consumption plus investment. For FI and the change in HEB, negative values indicate aggregate demand restraint.

a-Actual

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

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

October 30, 2002

Period ¹	Total	Federal government	Nonfederal				Memo: Nominal GDP	
			Households		Consumer credit	Business		
			Total	Home mortgages				
<i>Year</i>								
1997	5.6	0.6	7.3	6.4	6.7	4.7	9.0	
1998	6.8	-1.4	9.6	8.2	8.9	5.9	11.8	
1999	6.6	-1.9	9.1	8.3	9.0	7.4	11.1	
2000	4.9	-8.0	8.4	8.3	8.2	9.6	9.9	
2001	6.1	-0.2	7.5	8.6	9.7	6.9	6.1	
2002	6.5	7.4	6.3	9.2	10.7	5.6	2.4	
2003	5.5	5.0	5.6	6.6	7.6	4.9	4.6	
2004	5.3	4.1	5.6	6.1	6.6	5.0	5.3	
<i>Quarter</i>								
2002:1	4.8	1.2	5.6	9.2	10.3	4.8	1.9	
2	8.2	15.5	6.7	9.0	10.8	5.9	2.9	
3	6.2	7.5	5.9	9.2	10.5	5.9	1.6	
4	6.1	4.5	6.4	8.2	9.5	5.3	3.3	
2003:1	5.8	5.6	5.9	7.2	8.6	5.0	4.2	
2	6.0	8.1	5.6	6.7	7.8	4.8	4.3	
3	4.8	1.7	5.5	6.2	6.9	4.8	4.8	
4	5.0	4.4	5.2	5.7	6.4	4.7	4.8	
2004:1	5.5	5.9	5.4	5.8	6.3	4.8	5.0	
2	5.5	5.9	5.4	5.8	6.3	4.9	5.2	
3	4.7	0.9	5.5	6.0	6.5	4.8	5.2	
4	5.2	3.4	5.6	6.1	6.6	5.0	5.3	

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2002: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 FOMC**

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

Category	Calendar year				2002				2003			
	2001	2002	2003	2004	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Net funds raised by domestic nonfinancial sectors</i>												
1 Total	1045.9	1205.2	1058.8	1102.7	933.8	1633.1	1097.1	1156.8	1125.1	1184.5	933.6	992.0
2 Net equity issuance	-61.8	-47.6	-81.8	-56.5	-3.7	26.9	-136.7	-77.0	-74.0	-77.0	-87.0	-89.0
3 Net debt issuance	1107.8	1252.8	1140.5	1159.2	937.5	1606.2	1233.8	1233.8	1199.1	1261.5	1020.6	1081.0
<i>Borrowing sectors</i>												
Nonfinancial business												
4 Financing gap ¹	141.4	75.7	114.2	163.7	68.9	68.6	79.5	85.7	91.8	107.8	122.4	134.8
5 Net equity issuance	-61.8	-47.6	-81.8	-56.5	-3.7	26.9	-136.7	-77.0	-74.0	-77.0	-87.0	-89.0
6 Credit market borrowing	399.8	169.2	327.2	391.8	132.4	201.1	108.8	234.5	296.7	311.7	346.7	353.5
Households												
7 Net borrowing ²	610.3	704.5	554.5	541.2	703.0	705.5	736.4	673.1	603.6	568.6	541.2	504.8
8 Home mortgages	477.8	574.0	453.7	423.7	554.2	595.7	595.9	550.2	512.2	476.2	425.2	401.2
9 Consumer credit	110.2	95.4	87.8	93.5	81.4	101.9	103.7	94.6	89.1	87.0	87.6	87.6
10 Debt/DPI (percent) ³	99.8	102.7	107.0	108.7	101.3	102.0	103.1	104.5	105.8	106.8	107.6	108.2
State and local governments												
11 Net borrowing	103.2	130.5	77.3	71.3	62.3	173.6	122.9	163.2	96.8	84.8	69.8	57.8
12 Current surplus ⁴	140.6	134.3	161.9	192.0	128.2	133.8	133.3	141.9	154.9	156.2	165.3	171.3
Federal government												
13 Net borrowing	-5.6	248.7	181.6	154.9	39.8	526.0	265.7	163.0	202.1	296.4	62.9	164.9
14 Net borrowing (quarterly, n.s.a.)	-5.6	248.7	181.6	154.9	50.8	21.1	89.4	87.3	91.3	-36.3	38.7	87.8
15 Unified deficit (quarterly, n.s.a.)	-92.3	220.7	171.2	137.9	96.6	-15.6	42.2	97.5	107.0	-70.8	42.2	92.8
<i>Depository institutions</i>												
16 Funds supplied	289.4	318.4	287.3	338.3	254.5	396.7	374.5	247.9	172.2	336.1	362.9	278.0
Memo (percentage of GDP)												
17 Domestic nonfinancial debt ⁵	186.7	191.7	195.7	196.2	189.0	190.9	192.4	193.9	195.0	196.0	196.4	196.3
18 Domestic nonfinancial borrowing	11.0	12.0	10.5	10.2	9.1	15.5	11.8	11.7	11.3	11.7	9.4	9.8
19 Federal government ⁶	-0.1	2.4	1.7	1.4	0.4	5.1	2.5	1.5	1.9	2.8	0.6	1.5
20 Nonfederal	11.0	9.6	8.9	8.8	8.7	10.4	9.2	10.1	9.4	9.0	8.8	8.3

Note. Data after 2002: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).

2.64 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

Continued weak economic data have led us to shave a bit off the outlook for foreign growth, despite some modest improvements in financial market conditions. Foreign equity markets plunged to new multiyear lows in early October, but have more than reversed the decline since then, except in Japan. The price of oil has declined since our September forecast. However, industrial production and exports appear to have decelerated from their first-half pace in a wide range of countries, and declining business confidence suggests that foreign firms will remain cautious about investing and hiring.

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

Indicator	2001		2002: H1	Projection		
	H1	H2		2002: H2	2003	2004
Foreign output	-0.1	0.3	3.2	2.3	2.9	3.4
<i>Previous GB</i>	<i>-0.1</i>	<i>0.3</i>	<i>3.1</i>	<i>2.7</i>	<i>3.2</i>	<i>3.4</i>
Foreign CPI	2.6	0.8	2.6	2.1	2.0	1.9
<i>Previous GB</i>	<i>2.6</i>	<i>0.8</i>	<i>2.6</i>	<i>2.3</i>	<i>2.1</i>	<i>1.9</i>

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

Domestic demand has remained weak in Japan and the euro area, as businesses have cut back spending and consumers have failed to take up the slack. In Japan, details of proposed reforms announced this morning are too sketchy to alter our outlook for the economy. Uncertainties concerning prospects for resolving Japan's longstanding problems will likely weigh on private spending while monetary and fiscal policies are unlikely to provide much offsetting stimulus. In the euro area, despite disagreements about the implementation of the Stability and Growth Pact, fiscal policy is likely to turn contractionary. On the other hand, we now project that the European Central Bank will lower interest rates by early next year, providing some support to domestic demand. We project that euro-area growth will remain anemic in the first half of 2003 but will strengthen in the second half of 2003 and in 2004.

In Canada, Mexico, and emerging Asia, we estimate that output growth has slowed in the second half from the rapid pace earlier in the year, and we project it to rise moderately in 2003 and 2004 in line with growth in U.S. demand. In South America, economic and financial conditions will likely continue to be quite fragile, and it remains to be seen whether Brazil's newly elected president will be able to restore investor confidence and keep the economy from sliding into financial crisis.

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

Trade category	2001		2002: H1	Projection		
	H1	H2		2002: H2	2003	2004
<i>Exports</i>						
Core goods	-0.6	-2.6	1.2	3.0	0.9	1.1
<i>Imports</i>						
Non-oil core goods	-1.3	-4.5	-0.1	2.5	2.3	1.9
Oil (dollars per barrel)	24.21	18.39	24.04	25.84	21.53	20.11

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.

Trade in Goods and Services

We estimate that real exports of goods and services rose around 2½ percent at an annual rate in the third quarter, following a surge of 14 percent in the second quarter. Exports of services were little changed in the third quarter following sizable gains in the two preceding quarters; goods exports rose at about a 3½ percent rate, with gains widespread across major categories. Exports of goods and services are expected to accelerate somewhat in the near term, averaging 5½ percent growth this quarter and next. Exports of core goods continue the cyclical rebound begun earlier this year in response to improved activity abroad. Over the remainder of the forecast period, their growth is projected to average around 5 percent, boosted by a pickup in foreign growth and a small decline in the value of the dollar. Exports of services should resume their upward trend over the forecast period.

As with exports, real imports of goods and services are estimated to have risen around 2½ percent at an annual rate in the third quarter following a surge in the second quarter. All of the increase was in imports of goods, as service imports fell for a second consecutive quarter following a very large increase in the first quarter. The third-quarter rise in goods imports was concentrated in industrial supplies and consumer goods and may partly incorporate an acceleration of

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

Measure	2001		2002: H1	Projection		
	H1	H2		2002: H2	2003	2004
Real exports	-9.3	-13.5	8.7	4.6	7.0	7.9
<i>Previous GB</i>	<i>-9.3</i>	<i>-13.5</i>	<i>8.7</i>	<i>6.0</i>	<i>7.6</i>	<i>8.1</i>
Real imports	-7.3	-8.6	15.2	3.9	6.8	7.8
<i>Previous GB</i>	<i>-7.3</i>	<i>-8.6</i>	<i>15.3</i>	<i>5.6</i>	<i>6.9</i>	<i>7.6</i>

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

Alternative Simulations

Our baseline forecast assumes that financial sector reform in Japan has only a slightly restrictive effect on Japanese real activity over the forecast period.

However, a wide variety of circumstances may undermine public confidence in the reform efforts, including the perception that it is proceeding too slowly, or, alternatively, that it turns out to be more aggressive than expected. To assess the effect of such a loss in confidence, we used the FRB/Global model to consider an autonomous decline in Japanese consumer spending. The shock begins in 2002:Q4, is phased in over four quarters, and has the effect of lowering Japanese GDP 2.3 percentage points below baseline in 2003:H1 and about 5 percentage points below baseline in 2004:H2.

Despite this large decline in Japanese GDP, U.S. output growth is only 0.1 percentage point below baseline in 2003 and 2004, while the effect on core PCE inflation is negligible. The small contractionary effects of the shock on U.S. demand in part reflect the fact that exports to Japan are less than 1 percent of U.S. GDP. In addition, spillover effects of the shock to other countries, including Japan's major trading partners in Asia that are also important export markets for the United States, are relatively modest.

In a second simulation, in addition to the first shock, we incorporated a reaction by the Bank of Japan involving quantitative easing, such as non-sterilized intervention in foreign exchange markets, that causes an immediate 20 percent yen depreciation in 2002:Q4. As a result, Japanese GDP declines only 1.2 percentage points below baseline in 2002:H2 and recovers to its baseline level by the end of the forecast horizon. However, with the real trade-weighted dollar appreciating roughly 4 percent above baseline, U.S. real net exports fall more in this case, inducing a 0.2 and 0.3 percentage point fall in U.S. GDP

growth in 2003 and 2004, respectively. Core PCE inflation is also lower in this case as dollar appreciation restrains import prices.

**Alternative Simulations:
Japanese Financial Sector Reform**
(Percent change from previous period, annual rate)

Indicator and simulation	2002		2003		2004	
	H1	H2	H1	H2	H1	H2
<i>U.S. real GDP</i>						
Baseline	3.1	2.1	2.4	3.6	4.0	3.8
Simulation 1: Negative demand shock in Japan	3.1	2.1	2.3	3.5	3.9	3.7
Simulation 2: Negative demand shock and stimulative monetary policy in Japan	3.1	2.1	2.3	3.4	3.7	3.5
<i>U.S. PCE prices excl. food and energy</i>						
Baseline	1.7	1.6	1.4	1.3	1.2	1.2
Simulation 1: Negative demand shock in Japan	1.7	1.6	1.4	1.3	1.2	1.2
Simulation 2: Negative demand shock and stimulative monetary policy in Japan	1.7	1.6	1.2	1.1	1.0	1.1

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 subject to a lower-bound constraint.

Measure and country	1996	1997	1998	1999	2000	2001	2002	2003	2004	Projected-----
REAL GDP (1)										
Total foreign	4.1	4.2	1.6	5.0	3.9	0.1	2.8	2.9	3.4	
Industrial Countries	2.8	3.5	2.7	4.2	3.1	0.4	2.5	2.3	2.7	
of which:										
Canada	2.7	4.4	4.4	5.7	3.5	0.8	4.0	2.7	3.0	
Japan	3.7	0.5	-1.3	0.6	2.3	-1.5	0.7	0.8	1.2	
United Kingdom	2.8	3.7	2.6	3.2	2.2	1.6	2.0	2.5	2.9	
Euro Area (2)	1.6	3.1	2.1	3.9	2.7	0.4	1.3	2.1	2.8	
Germany	1.4	1.7	0.7	3.3	1.9	0.1	0.9	1.8	2.7	
Developing Countries	6.2	5.3	-0.2	6.2	5.3	-0.4	3.1	3.9	4.5	
Asia	6.6	4.9	-2.0	8.8	6.3	0.8	5.1	5.1	5.5	
Korea	6.4	3.4	-5.2	13.8	5.1	4.4	5.9	5.6	5.2	
China	5.3	8.7	9.5	4.1	8.0	7.5	8.1	7.2	7.5	
Latin America	6.3	6.1	1.2	4.2	4.5	-1.5	1.6	2.9	3.8	
Mexico	7.1	6.7	2.8	5.4	4.9	-1.5	2.7	3.6	4.5	
Brazil	5.4	2.4	-1.6	3.7	3.8	-0.6	0.4	0.7	1.4	
CONSUMER PRICES (3)										
Industrial Countries	1.5	1.5	0.9	1.2	1.9	0.9	1.9	1.0	1.1	
of which:										
Canada	2.0	1.0	1.1	2.3	3.1	1.1	3.6	1.9	2.1	
Japan	0.2	2.1	0.7	-1.2	-1.2	-1.3	-0.7	-1.0	-0.9	
United Kingdom (4)	3.2	2.7	2.5	2.2	2.7	2.0	2.4	2.3	2.5	
Euro Area (2)	1.9	1.5	0.8	1.5	2.7	2.1	2.1	1.3	1.4	
Germany	1.3	1.5	0.3	1.1	2.5	1.7	1.3	0.7	0.7	
Developing Countries	11.1	6.8	9.0	4.6	4.1	2.8	2.7	3.1	2.9	
Asia	4.8	2.7	4.4	0.4	1.8	1.0	0.6	1.9	2.1	
Korea	5.0	4.9	5.8	1.2	2.5	3.3	4.0	3.2	3.0	
China	6.8	0.9	-1.2	-0.9	0.9	-0.2	-1.2	1.0	1.2	
Latin America	25.8	15.5	15.4	12.5	8.4	5.4	6.0	5.6	4.6	
Mexico	28.0	17.0	17.3	13.5	8.8	5.2	5.0	4.5	3.6	
Brazil	9.6	4.6	2.0	8.4	6.4	7.5	8.0	9.4	8.7	

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

2. Harmonized data for euro area from Eurostat.

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

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

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

Measure and country	2002				2003				Projected 2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)												
Total foreign	2.8	3.6	2.4	2.2	2.7	2.9	3.0	3.1	3.3	3.4	3.4	3.4
Industrial Countries of which:	3.4	2.9	2.1	1.6	1.9	2.3	2.4	2.6	2.6	2.7	2.7	2.7
Canada	6.2	4.3	3.3	2.1	2.4	2.7	2.8	2.9	3.0	3.0	3.0	3.0
Japan	-0.0	2.6	-0.5	0.7	0.7	0.8	0.9	0.9	0.9	1.1	1.2	1.4
United Kingdom	0.5	2.5	2.8	2.1	2.3	2.4	2.5	2.7	3.0	3.1	2.9	2.8
Euro Area (2)	1.4	1.6	1.3	0.9	1.4	2.0	2.4	2.7	2.8	2.8	2.8	2.8
Germany	1.1	1.1	1.1	0.4	0.9	1.6	2.2	2.7	2.7	2.7	2.7	2.8
Developing Countries	2.0	4.5	3.0	3.1	3.8	3.9	4.0	4.0	4.3	4.5	4.5	4.5
Asia	5.8	6.2	3.9	4.7	4.9	5.0	5.2	5.3	5.4	5.5	5.5	5.5
Korea	7.8	5.6	5.1	5.2	5.6	5.6	5.6	5.6	5.2	5.2	5.2	5.2
China	8.5	9.3	7.5	7.2	7.2	7.3	7.2	7.2	7.5	7.5	7.5	7.5
Latin America	-1.1	3.3	2.3	1.8	2.8	3.0	3.0	3.0	3.6	3.8	3.8	3.8
Mexico	-0.0	4.7	3.3	2.8	3.6	3.6	3.6	4.3	4.6	4.6	4.6	4.6
Brazil	3.5	2.4	-1.0	-3.0	0.0	1.0	1.0	1.0	1.5	1.5	1.5	1.5
CONSUMER PRICES (3)												
Industrial Countries of which:	1.1	1.0	1.4	1.9	1.7	1.3	1.0	1.0	1.0	1.0	1.1	1.1
Canada	1.5	1.3	2.3	3.6	3.3	2.7	2.0	1.9	1.9	1.9	2.0	2.1
Japan	-1.5	-1.1	-0.9	-0.7	-0.7	-0.9	-1.3	-1.0	-1.0	-1.0	-1.0	-0.9
United Kingdom (4)	2.4	1.9	2.0	2.4	2.2	2.4	2.3	2.3	2.4	2.4	2.5	2.5
Euro Area (2)	2.6	2.1	2.0	2.1	1.6	1.4	1.5	1.3	1.2	1.3	1.3	1.4
Germany	2.0	1.1	1.0	1.3	0.5	0.7	0.9	0.7	0.6	0.6	0.7	0.7
Developing Countries	2.6	2.5	2.6	2.7	3.0	2.8	2.8	3.1	3.1	3.0	2.9	2.9
Asia	0.8	0.6	0.6	0.6	0.9	0.9	1.3	1.9	2.0	2.1	2.1	2.1
Korea	2.5	2.7	2.5	4.0	4.3	3.4	3.7	3.2	3.0	3.0	3.0	3.0
China	-0.6	-1.0	-0.8	-1.2	-0.9	-0.6	-0.2	1.0	1.2	1.2	1.2	1.2
Latin America	5.1	5.4	6.0	6.0	6.9	6.3	5.6	5.6	5.4	5.1	4.8	4.6
Mexico	4.8	4.8	5.2	5.0	5.8	4.4	4.5	4.4	4.1	3.8	3.6	3.6
Brazil	7.7	7.9	7.7	8.0	8.8	9.6	9.5	9.4	9.2	8.8	8.7	8.7

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

2. Harmonized data for euro area from Eurostat.

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

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

NIPA REAL EXPORTS and IMPORTS	Percentage point contribution to GDP growth, Q4/Q4				Projected				
	1996	1997	1998	1999	2000	2001	2002	2003	2004
Exports of G&S Services									
Net Goods & Services Exports of G&S	-0.2	-0.8	-1.1	-1.0	-0.8	-0.1	-0.6	-0.3	-0.3
Exports of G&S	-1.1	-1.0	0.3	0.5	0.8	-1.3	0.6	0.7	0.8
Imports of G&S	-1.3	-1.7	-1.3	-1.5	-1.5	1.2	-1.2	-0.9	-1.1
Imports of G&S Goods 1/									
Exports of G&S Services	9.8	8.5	2.3	4.9	7.3	-11.4	6.6	7.0	7.9
Computers	8.9	1.4	2.9	3.2	4.8	-9.2	8.7	4.7	5.7
Semiconductors	21.6	25.8	8.1	13.4	23.0	-23.4	3.5	32.6	33.5
Other Goods 1/	44.6	21.6	9.1	34.6	26.9	-34.9	31.0	34.2	36.0
Imports of G&S Services	7.3	9.8	1.3	3.2	5.7	-9.3	4.5	4.7	4.9
Oil	11.2	14.3	10.8	11.9	11.1	-8.0	9.4	6.8	7.8
Computers	5.3	14.0	8.5	5.9	10.9	-8.6	6.4	2.3	3.9
Semiconductors	7.8	3.9	4.1	-3.4	13.3	0.1	-0.1	2.2	3.7
Other Goods 2/	17.8	33.0	25.8	26.0	13.6	-13.8	19.5	32.6	33.5
Imports of G&S Services	56.7	32.9	-8.7	34.2	22.5	-51.4	31.4	34.2	36.0
Computers	10.4	12.7	11.5	12.7	10.4	-6.2	9.7	5.6	6.0
Billions of chained 1996 dollars									
Net Goods & Services Exports of G&S	-89.0	-113.3	-221.1	-320.5	-398.8	-415.9	-479.3	-517.1	-554.6
Imports of G&S	874.2	981.5	1002.4	1036.3	1137.2	1076.1	1064.5	1131.8	1218.5
	963.1	1094.8	1223.5	1356.8	1536.0	1492.0	1543.8	1648.9	1773.1

US CURRENT ACCOUNT BALANCE	Billions of dollars	US Current Acct as Percent of GDP	Billions of dollars	US Current Acct as Percent of GDP	Billions of dollars
Net Goods & Services (BOP)	-117.8	-128.4	-203.8	-292.9	-410.3
	-1.5	-1.5	-2.3	-3.2	-4.2
Investment Income, Net Direct, Net Portfolio, Net	-101.8	-107.8	-166.9	-262.2	-378.7
Other Income & Transfers, Net	28.6	25.1	12.7	23.9	27.6
	69.4	72.4	65.5	75.0	88.9
	-40.8	-47.3	-52.9	-51.1	-61.2
	-44.6	-45.7	-49.6	-54.5	-59.3
					-55.6
					-64.6
					-61.8
					-71.5

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1999								2000								2001											
	Q1				Q2				Q3				Q4				Q1				Q2				Q3			
	NIPA REAL EXPORTS and IMPORTS								Percentage point contribution to GDP growth								s.a.a.r.											
Net Goods & Services	-1.8	-1.4	-0.7	0.1	-1.1	-0.7	-0.7	-0.2	0.5	-0.4	-0.2	-0.3					-0.4	-0.2	-0.3									
Exports of G&S	-0.8	0.4	1.1	1.3	0.8	1.5	1.2	0.5	-0.7	-0.7	-2.0	-1.0					-1.4	-2.0	-1.0									
Imports of G&S	-1.0	-1.9	-1.8	-1.2	-1.9	-2.5	-1.9	-0.3	1.2	0.5	-0.3	1.0					1.2	1.0	1.7									
Exports of G&S Services	-6.9	4.3	10.6	12.6	7.7	14.6	11.6	-4.0	-6.0	-12.4	-17.3	-9.6					-6.0	-12.4	-17.3									
Computers	-1.5	3.4	4.7	6.4	10.2	11.2	-5.9	4.4	-6.0	-2.5	-13.9	-13.8					-6.0	-2.5	-13.9									
Semiconductors	0.8	24.7	20.6	9.2	33.5	45.9	28.8	-8.8	-7.3	-41.7	-22.8	-17.6					-7.3	-41.7	-22.8									
Other Goods 1/	34.2	45.2	41.3	19.0	14.6	43.4	-17.5	-17.5	-34.6	-47.3	-40.9	-11.7					-34.6	-47.3	-40.9									
Imports of G&S Services	-12.0	0.9	10.8	15.5	4.2	9.1	16.7	-5.9	-2.9	-10.5	-16.5	-6.9					-2.9	-10.5	-16.5									
Oil	8.4	15.4	14.5	9.4	14.7	18.6	13.8	-1.6	-7.9	-6.8	-11.8	-5.3					-1.6	-7.9	-6.8									
Computers	3.9	6.8	9.7	7.1	20.7	9.6	15.1	-0.5	-0.5	8.5	-23.2	-16.5					-0.5	8.5	-23.2									
Semiconductors	35.0	43.7	14.4	13.5	28.6	40.4	-2.3	-6.5	23.3	7.2	-26.9	3.9					-6.5	23.3	7.2									
Other Goods 2/	23.0	67.9	16.3	35.0	2.5	40.4	27.9	-9.5	-21.6	-24.5	-18.7	14.6					-9.5	-21.6	-24.5									
Imports of G&S Services	7.8	12.2	17.4	13.4	13.1	15.5	12.3	-1.3	-9.4	-6.1	-4.7	-4.5					-1.3	-9.4	-6.1									
Net Goods & Services	-283.2	-319.6	-339.6	-339.5	-368.8	-394.6	-413.1	-418.5	-404.5	-414.8	-419.0	-425.3					-368.8	-413.1	-418.5									
Exports of G&S	1007.5	1018.1	1044.1	1075.6	1095.8	1133.9	1165.5	1153.7	1135.8	1098.8	1048.0	1021.8					-1098.8	-1133.9	-1165.5									
Imports of G&S	1290.7	1337.7	1383.7	1415.2	1464.6	1528.5	1578.6	1572.2	1540.3	1513.6	1467.0	1447.2					-1513.6	-1578.6	-1572.2									
US CURRENT ACCOUNT BALANCE	-238.7	-280.6	-320.6	-331.6	-376.4	-392.3	-428.7	-443.9	-430.9	-396.9	-365.3	-380.3					-396.9	-428.7	-443.9									
Current Account as % of GDP	-2.6	-3.1	-3.4	-3.5	-3.9	-4.0	-4.3	-4.5	-4.3	-3.9	-3.6	-3.7					-3.9	-4.3	-4.5									
Net Goods & Services (BOP)	-209.5	-253.4	-286.5	-299.6	-348.7	-367.7	-393.3	-405.0	-388.6	-373.3	-319.1	-352.1					-373.3	-393.3	-405.0									
Investment Income, Net	20.8	24.9	18.3	31.5	25.1	30.6	22.1	32.8	10.3	30.1	9.4	32.4					10.3	22.1	32.8									
Direct, Net	72.3	71.4	71.3	85.0	79.0	86.9	89.2	100.3	89.0	111.3	95.6	114.4					89.0	100.3	111.3									
Portfolio, Net	-51.5	-46.5	-53.0	-53.5	-53.9	-56.3	-67.1	-67.5	-78.7	-81.2	-86.3	-82.0					-67.5	-78.7	-81.2									
Other Inc. & Transfers, Net	-50.0	-52.1	-52.4	-63.5	-52.8	-55.3	-57.5	-71.7	-52.5	-53.7	-55.6	-60.6					-55.6	-71.7	-52.5									

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

	2002				2003				Projected				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS																
Net Goods & Services	-0.7	-1.4	-0.1	-0.1	-0.3	-0.5	-0.3	0.1	-0.5	-0.6	-0.5	-0.5	-0.3	8.0	9.9	0.1
Exports of G&S	0.3	1.3	0.2	0.6	0.4	0.7	0.7	0.9	0.6	0.8	0.8	0.8	0.8	5.7	5.8	1.0
Imports of G&S	-1.1	-2.7	-0.3	-0.7	-0.8	-1.2	-1.0	-0.8	-1.0	-1.3	-1.3	-1.3	-1.1	-1.1	-1.1	-0.9
Exports of G&S Services	3.5	14.3	2.5	6.7	4.3	6.9	7.3	9.6	5.7	7.9	7.9	7.9	7.9	8.0	8.0	9.9
Computers	21.7	10.7	0.3	3.2	4.2	4.5	4.8	5.4	5.5	5.5	5.5	5.5	5.5	5.7	5.7	5.8
Semiconductors	-13.7	65.8	37.6	13.4	31.1	32.3	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5
Other Goods 1/	-3.2	14.2	1.5	6.1	1.2	4.7	4.9	8.3	1.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Imports of G&S Services	8.5	22.2	2.5	5.3	5.5	8.4	7.4	5.8	7.5	9.2	9.2	9.2	9.2	8.1	8.1	6.4
Oil	35.7	34.5	-1.4	-2.0	0.3	1.9	3.2	4.1	4.1	4.0	3.9	3.9	3.9	3.9	3.9	3.7
Computers	52.4	5.6	-12.8	-2.9	-3.7	29.7	7.6	-18.4	0.8	29.8	7.4	7.4	7.4	-17.9	-17.9	-17.9
Semiconductors	45.2	41.8	6.6	23.4	31.1	32.3	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5
Other Goods 2/	1.9	28.8	4.9	5.3	5.3	31.1	33.5	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0
Net Goods & Services	-446.6	-487.4	-490.2	-492.9	-502.4	-516.6	-526.1	-523.3	-537.7	-553.2	-564.3	-564.3	-564.3	-564.3	-564.3	-564.3
Exports of G&S	1030.6	1065.5	1072.1	1089.8	1101.4	1119.9	1139.7	1166.3	1182.5	1205.2	1228.6	1228.6	1228.6	1228.6	1228.6	1228.6
Imports of G&S	1477.1	1552.9	1562.4	1582.7	1603.8	1636.5	1665.8	1689.6	1720.2	1758.4	1792.8	1792.8	1792.8	1792.8	1792.8	1792.8
Billions of chained 1996 dollars, s.a.a.r.																
US CURRENT ACCOUNT BALANCE	-449.8	-519.1	-529.7	-548.9	-545.8	-557.3	-564.9	-576.4	-591.2	-607.9	-621.7	-621.7	-621.7	-624.5	-624.5	-624.5
Current Account as % of GDP	-4.4	-5.0	-5.1	-5.2	-5.1	-5.2	-5.2	-5.2	-5.2	-5.3	-5.4	-5.4	-5.4	-5.4	-5.4	-5.4
Net Goods & Services (BOP)	-382.0	-441.8	-452.2	-459.5	-467.0	-479.3	-487.6	-485.0	-498.7	-514.2	-526.0	-526.0	-526.0	-526.0	-526.0	-526.0
Investment Income, Net	2.7	-18.5	-20.0	-17.9	-20.3	-19.5	-18.7	-19.9	-20.9	-22.2	-24.1	-24.1	-24.1	-24.1	-24.1	-24.1
Direct, Net	88.3	70.7	76.6	80.6	79.3	81.0	83.2	84.1	85.3	86.6	88.0	88.0	88.0	88.0	88.0	88.0
Portfolio, Net	-85.5	-89.2	-96.6	-98.5	-99.6	-100.4	-101.9	-104.0	-106.2	-108.8	-112.1	-112.1	-112.1	-112.1	-112.1	-112.1
Other Inc. & Transfers, Net	-70.6	-58.9	-57.5	-71.5	-58.5	-58.5	-71.5	-71.5	-71.5	-71.5	-71.5	-71.5	-71.5	-71.5	-71.5	-71.5

1. Merchandise exports excluding computers, and semiconductors.

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

Part 2

October 30, 2002

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

Confidential (FR) Class III FOMC

October 30, 2002

Recent Developments

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

SURVEYS OF (CPI) INFLATION EXPECTATIONS
(Percent)

University of Michigan						
Actual inflation ¹	1 year		5 to 10 years		Professional forecasters (10-year) ⁴	
	Mean ²	Median ²	Mean ³	Median ³		
2000-Q4	3.4	3.8	3.0	3.7	3.0	2.5
2001-Q1	3.4	3.4	2.9	3.6	3.0	2.5
Q2	3.4	3.9	3.1	3.6	3.0	2.5
Q3	2.7	3.1	2.7	3.5	2.9	2.5
Q4	1.9	1.5	1.1	3.1	2.8	2.6
2002-Q1	1.3	2.6	2.2	3.1	2.8	2.5
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
July	1.5	2.7	2.6	3.2	2.8	
Aug.	1.8	2.6	2.6	3.5	2.9	
Sept.	1.5	3.1	2.5	3.0	2.5	2.5
Oct.		2.9	2.5	3.3	2.8	

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 the average, during the next 12 months?

3. Responses to the question: By about what percent per year do you expect prices to go up, on the average, during the next 5 to 10 years?

4. Compiled by the Federal Reserve Bank of Philadelphia.

AVERAGE HOURLY EARNINGS
 (Percent change; based on seasonally adjusted data)

	12-month percent change			Percent change to Sept. 2002 from month indicated			Percent change
	Sept. 2000	Sept. 2001	Sept. 2002	Mar. 2002	June 2002	Aug. 2002	
- - - - - Annual rate- - - - - - - - - -							
Total private nonfarm	3.8	4.1	3.0	3.0	3.3	0.3	0.3
Manufacturing	2.9	3.5	2.7	2.3	1.3	0.3	0.2
Construction	4.0	2.2	3.0	2.1	2.8	0.1	0.3
Transportation and public utilities	3.5	3.2	3.4	2.1	1.6	0.1	0.6
Finance, insurance, and real estate	3.9	4.3	3.7	4.8	6.3	0.3	0.5
Retail trade	4.1	2.8	3.0	3.0	1.6	0.4	0.1
Wholesale trade	4.4	4.1	2.0	1.0	4.0	0.8	0.2
Services	4.1	5.7	3.5	3.6	4.3	0.2	0.4

III-4

Gross Issuance of Securities by U.S. Corporations

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

Type of security	1999	2000	2001		2002		
			H1	H2	H1	Q3	Oct. ^e
<i>Nonfinancial corporations</i>							
Stocks ¹	9.2	9.9	7.5	5.5	7.4	1.7	3.7
Initial public offerings	4.2	4.4	3.2	1.0	1.2	0.1	1.0
Seasoned offerings	5.0	5.5	4.2	4.5	6.3	1.6	2.7
Bonds ²	24.5	20.2	43.1	31.2	28.9	13.1	16.0
Investment grade ³	13.9	11.9	28.9	24.0	18.3	10.2	13.0
Speculative grade ³	7.5	4.5	11.9	5.8	6.4	1.6	2.0
Other (sold abroad/unrated)	3.1	3.7	2.4	1.4	4.2	1.4	1.0
<i>Memo</i>							
Net issuance of commercial paper ⁴	3.6	4.5	-14.5	-1.5	-10.4	-2.4	-6.4
Change in C&I loans at commercial banks ⁴	4.7	7.4	-2.9	-7.9	-5.4	-6.5	0.9
<i>Financial corporations</i>							
Stocks ¹	1.8	1.4	3.0	5.5	4.2	3.5	0.7
Bonds	53.9	47.1	69.9	64.7	76.1	70.9	43.8

Note. Components may not sum to totals because of rounding. These data include speculative-grade 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.

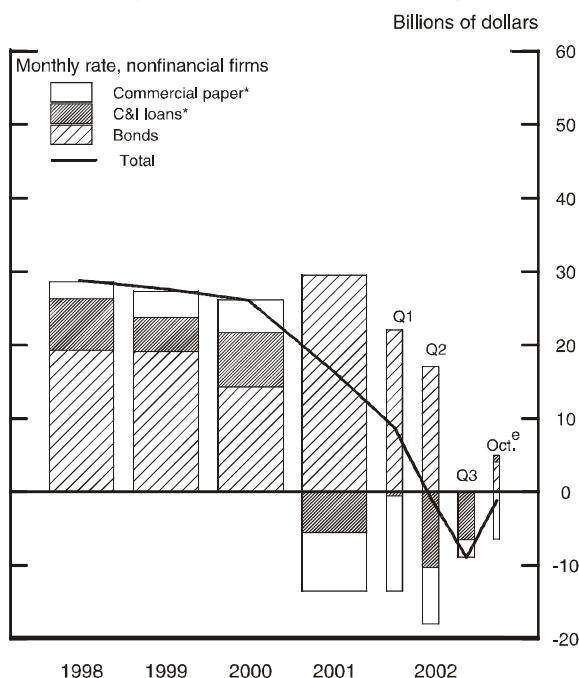
2. Excludes mortgage-backed and asset-backed bonds.

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

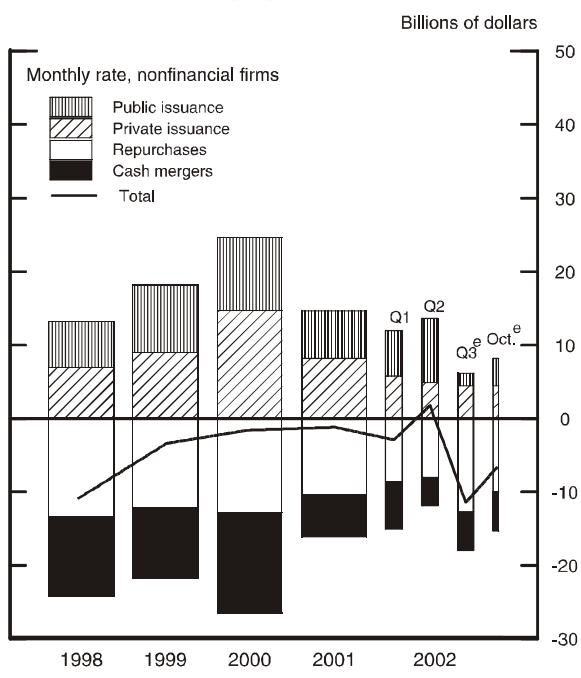
4. End-of-period basis, seasonally adjusted.

e Staff estimate.

Components of Net Debt Financing

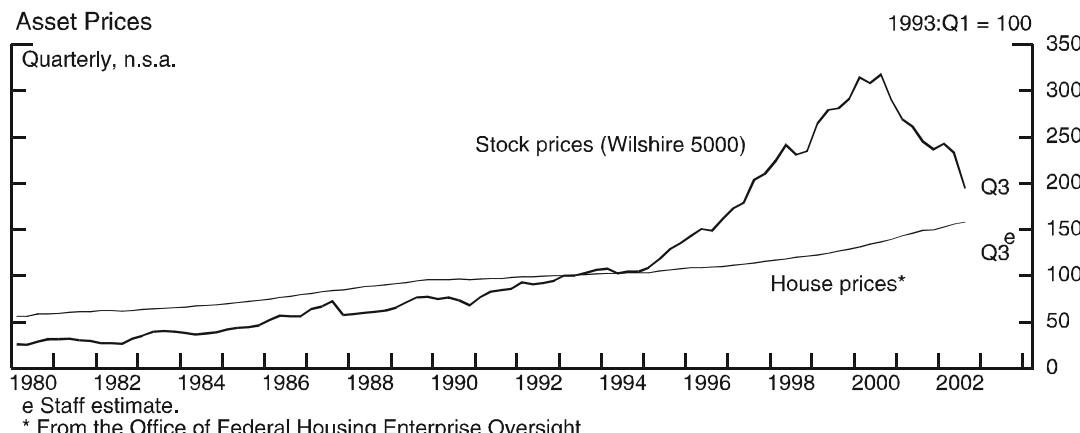
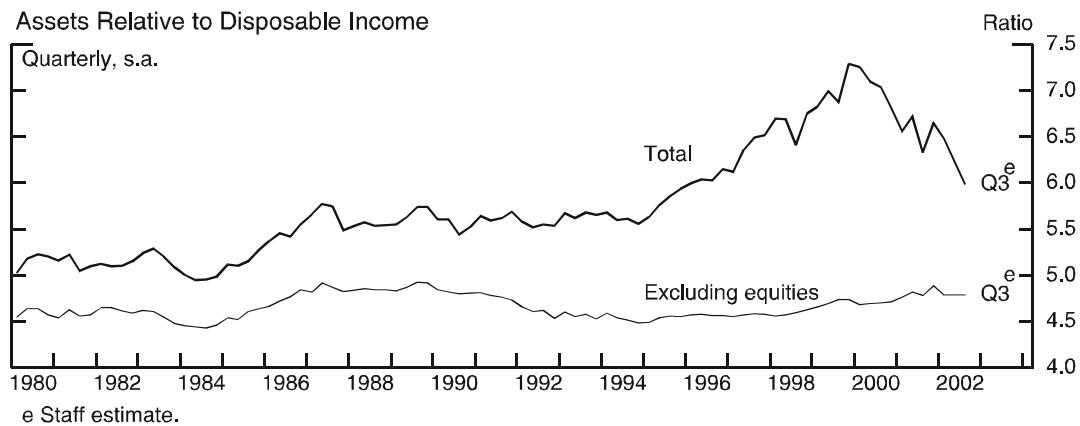


Net Equity Issuance



* Seasonally adjusted.
e Staff estimate.

e October and Q3 values for private issuance and repurchases are staff estimates.

Household Assets

* From the Office of Federal Housing Enterprise Oversight.

Net Flows into Long-Term Mutual Funds

(Billions of dollars, monthly rate)

	2000	2001		2002			Assets Sept.
		H1	H2	H1	Q3	Sept.	
Total long-term funds	18.5	15.1	6.5	21.0	-5.0	-0.8	-12.4
Equity funds	25.2	8.2	-2.7	9.1	-23.9	-16.1	-16.2
Domestic	21.3	9.1	-0.0	7.9	-21.3	-14.5	-14.0
Capital appreciation	25.5	5.2	-2.2	2.8	-15.1	-10.7	-9.2
Total return	-4.3	3.9	2.2	5.1	-6.3	-3.8	-4.8
International	3.9	-0.9	-2.7	1.2	-2.6	-1.6	-2.2
Hybrid funds	-2.6	1.0	0.5	2.2	-1.6	-0.6	-1.4
Bond funds	-4.0	5.9	8.7	9.7	20.5	15.9	5.2
High-yield	-1.0	0.9	0.3	0.9	-0.4	-1.0	1.1
Other taxable	-1.8	4.2	7.3	7.6	17.5	14.6	6.5
Municipals	-1.2	0.8	1.1	1.3	3.3	2.3	-2.4

Note. Excludes reinvested dividends. Source. Investment Company Institute.

e Staff estimates based on confidential ICI weekly data.

Treasury Financing

(Billions of dollars)

Item	2002					
	Q1	Q2	Q3	Aug.	Sep.	Oct. ^e
Total surplus, deficit (-)	-96.6	15.6	-42.2	-54.7	41.7	n.a.
Means of financing deficit						
Net borrowing	50.8	21.1	85.9	57.4	-4.1	32.0
Nonmarketable	-.7	6.0	3.1	7.9	6.2	5.6
Marketable	51.5	15.1	82.8	49.6	-10.3	26.4
Bills	23.1	-12.0	44.4	28.4	-23.8	13.6
Coupons ¹	28.4	31.1	38.4	21.2	13.4	12.8
Debt buybacks	.0	-4.0	.0	.0	.0	.0
Decrease in cash balance	38.3	-25.5	-21.3	13.3	-34.4	19.9
Other ²	7.5	-11.2	-26.0	-16.0	-3.2	n.a.
MEMO						
Cash balance, end of period	14.1	39.6	60.9	26.5	60.9	40.9

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

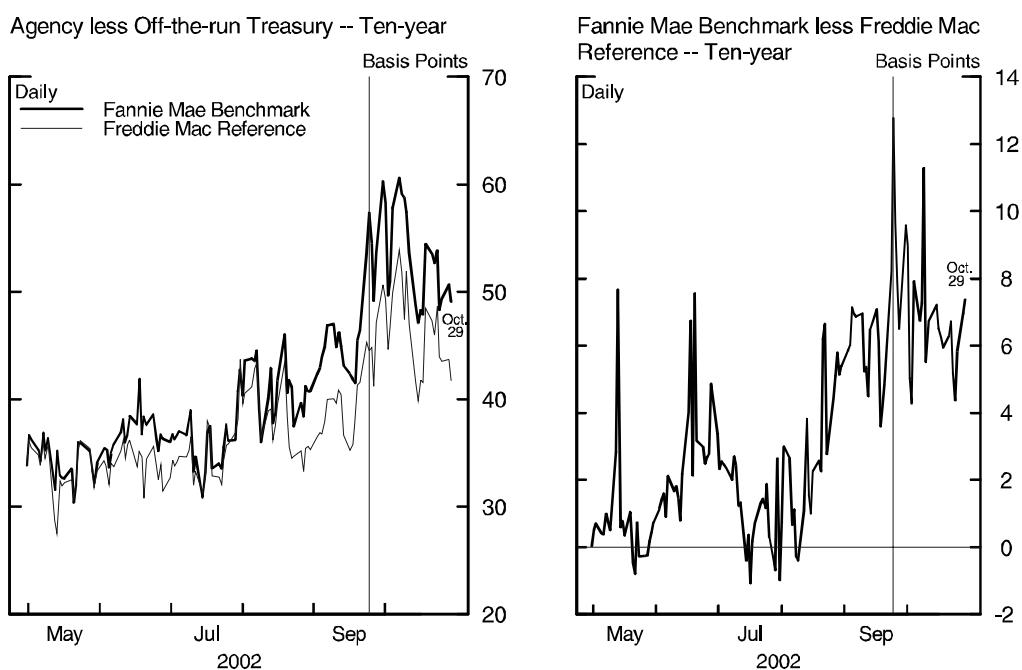
1. Does not include Treasury debt buybacks.

2. Direct loan financing, accrued items, checks issued less checks paid, and other transactions.

e Estimated.

n.a. Not available.

Agency Spreads



Note. Vertical line drawn at September FOMC meeting.

State and Local Government Finance

Gross Offerings of Municipal Securities
(Billions of dollars; monthly rate, not seasonally adjusted)

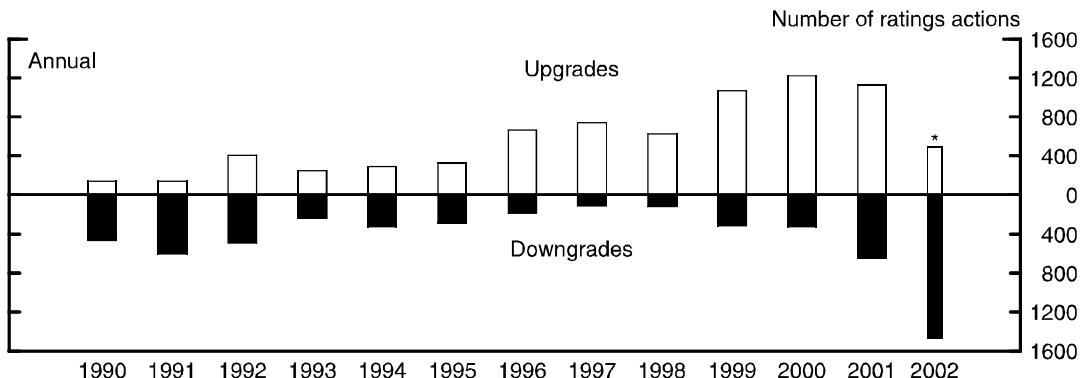
	1999	2000	2001	H1	Q3	Sept.	Oct. e
Long-term ¹	18.0	15.0	22.5	26.2	27.3	27.3	40.0
Refundings ²	4.5	2.2	6.5	8.5	9.5	12.3	12.0
New capital	13.5	12.9	16.0	17.7	17.9	15.0	28.0
Short-term	2.7	2.8	4.3	4.7	5.7	2.5	16.0
Total tax-exempt	20.6	17.9	26.9	30.9	33.0	29.9	56.0
Total taxable	1.1	0.7	1.1	1.1	1.5	2.4	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 October 24.

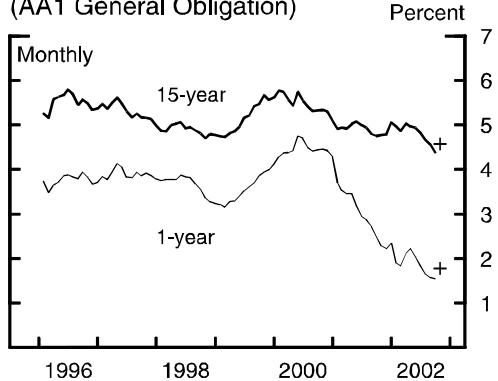
Bond Rating Changes



* Data through October 23 at an annual rate.

Source. S&P's Credit Week Municipal and Ratings Direct.

Municipal Bond Yields (AA1 General Obligation)

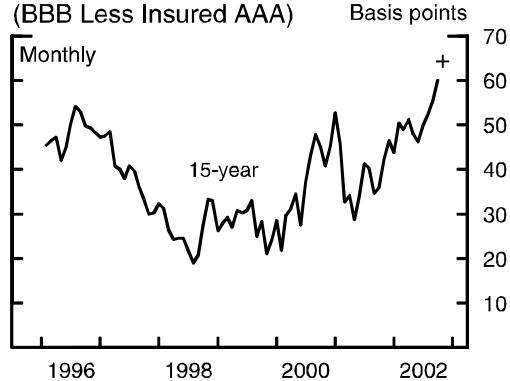


Note. Average of weekly data.

+ Last observation is for week of October 24.

Source. Bloomberg.

Revenue Bond Spread (BBB Less Insured AAA)



Note. Average of weekly data.

+ Last observation is for week of October 24.

Source. Bloomberg.

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

Type of credit	2001	Q2 2002	Q3 2002	Aug. 2002	Sept. 2002	Oct. ^p 2002	Level, Oct. 2002 ^p (\$ billions)
Total							
1. Adjusted¹	4.1	5.3	8.7	15.6	10.6	3.2	5,554
2. Reported	5.0	5.3	12.5	17.8	12.1	.5	5,743
<i>Securities</i>							
3. Adjusted ¹	8.8	14.8	10.7	22.4	1.4	-9.5	1,433
4. Reported	11.9	13.9	23.9	29.3	7.7	-17.3	1,623
5. Treasury & Agency	6.0	24.9	24.5	37.0	21.5	-13.8	955
6. Other ²	20.8	-.4	23.1	18.8	-11.4	-22.4	668
<i>Loans³</i>							
7. Total	2.6	2.1	8.0	13.2	13.9	7.7	4,121
8. Business	-3.7	-9.0	-8.2	.4	-8.2	-5.6	974
9. Real estate	7.2	7.0	19.1	19.9	21.7	14.8	1,965
10. Home equity	19.9	40.8	39.9	29.2	17.0	9.6	202
11. Other	6.1	3.6	16.8	18.8	22.3	15.4	1,763
12. Consumer	3.8	5.4	4.7	21.6	16.8	4.1	587
13. Adjusted ⁴	7.4	3.8	1.0	3.8	2.6	3.3	924
14. Other ⁵	-.1	3.7	4.7	5.4	22.2	10.4	594

Note. All data are adjusted 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. The conversion from a thrift to a commercial bank charter added approximately \$37 billion to the assets and liabilities of domestically chartered commercial banks in the week ending May 8, 2002.

1. Adjusted to remove effects of mark-to-market accounting rules (FIN 39 and FIN 115).

2. Includes private mortgage-backed securities, securities of corporations, state and local governments, and 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.

p Preliminary.

Confidential (FR) Class III FOMC

November 1, 2002

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Supplemental Notes

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

CHANGES IN EMPLOYMENT
(Thousands of employees; based on seasonally adjusted data)

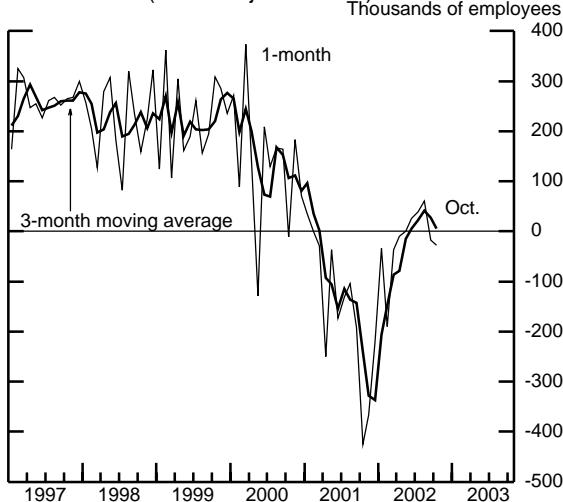
	2001	2002			2002		
		Q1	Q2	Q3	Aug.	Sept.	Oct.
-Average monthly change-							
Nonfarm payroll employment ¹	-119	-63	12	55	123	-13	-5
Previous	-119	-63	12	39	107	-43	...
Private	-158	-88	7	27	62	-17	-29
Mining	1	-2	-2	-1	4	-3	1
Manufacturing	-109	-80	-22	-35	-52	-39	-49
Construction	-3	-14	-15	6	37	11	-27
Transportation and utilities	-23	-14	-8	-20	-15	-35	-4
Retail trade	-15	5	-8	-8	-44	-11	14
Wholesale trade	-16	-7	0	-4	-8	-3	-16
Finance, insurance, real estate	10	-3	-2	12	8	24	34
Services	-2	27	63	78	132	39	18
Help supply services	-54	4	36	8	50	1	-56
Total government	39	25	5	27	61	4	24
Total employment (household survey)	-153	-54	53	377	429	711	-271
Nonagricultural	-154	-14	58	315	523	601	-498
Memo:							
Aggregate hours of private production							
workers (percent change) ^{1,2}	-2.1	-0.5	0.2	-0.7	0.4	0.2	-0.4
Average workweek (hours) ¹	34.2	34.2	34.2	34.1	34.1	34.2	34.1
Manufacturing (hours)	40.7	40.8	41.0	40.8	40.9	40.9	40.7

Note. Average change from final month of preceding period to final month of period indicated.

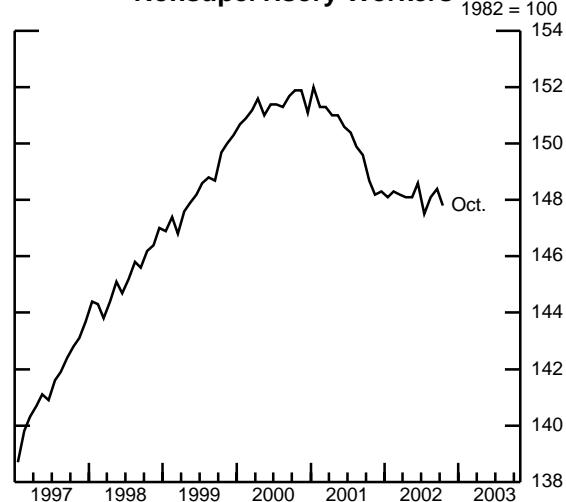
1. Survey of establishments.

2. Annual data are percent changes from Q4 to Q4. Quarterly data are percent changes from preceding quarter at an annual rate. Monthly data are percent changes from preceding month.
... Not applicable.

Private Payroll Employment Growth
(Strike-adjusted data)



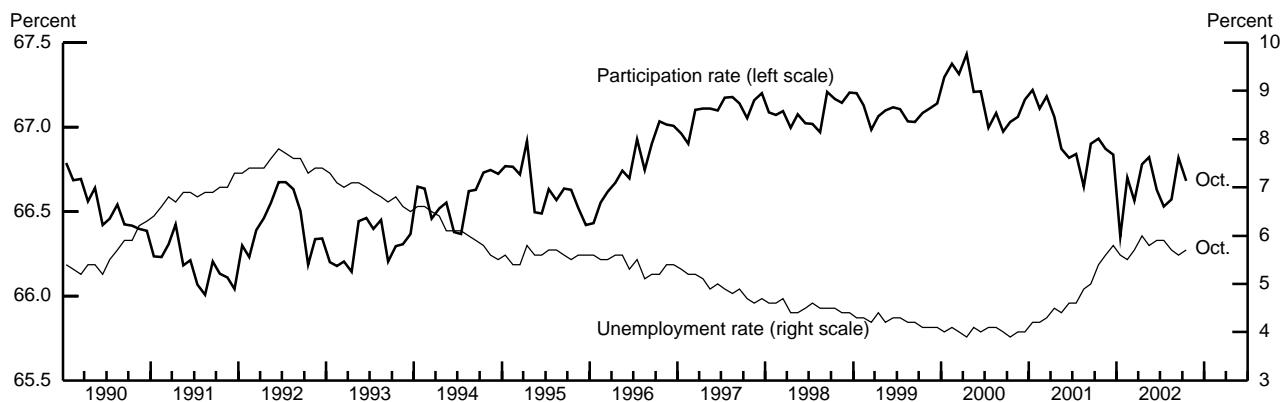
Aggregate Hours of Production or Nonsupervisory Workers



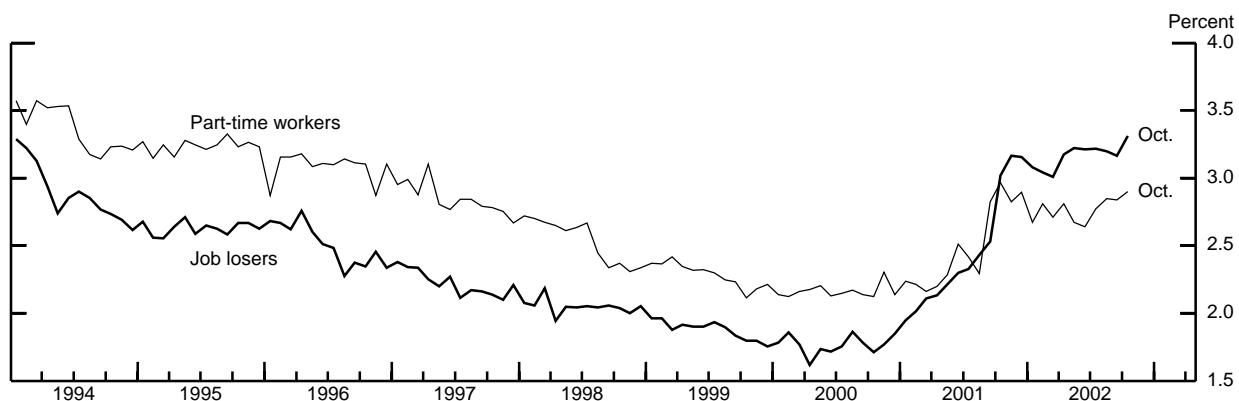
SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
 (Percent; based on seasonally adjusted data)

	2001	2002			2002		
		Q1	Q2	Q3	Aug.	Sept.	Oct.
Civilian unemployment rate (16 years and older)	4.8	5.6	5.9	5.7	5.7	5.6	5.7
Teenagers	14.7	16.0	17.1	16.9	17.2	15.7	14.6
20-24 years old	8.3	9.8	9.4	9.6	9.6	9.7	10.3
Men, 25 years and older	3.6	4.5	4.9	4.6	4.6	4.5	4.6
Women, 25 years and older	3.7	4.4	4.8	4.5	4.5	4.5	4.6
Labor force participation rate	66.9	66.5	66.7	66.6	66.6	66.8	66.7
Teenagers	49.9	48.2	47.7	47.6	47.1	48.6	47.7
20-24 years old	77.2	76.3	76.7	76.6	77.0	76.4	75.9
Men, 25 years and older	75.9	75.6	75.9	75.8	75.9	75.9	75.7
Women, 25 years and older	59.7	59.6	59.6	59.6	59.6	59.8	59.8

Labor Force Participation Rate and Unemployment Rate



Job Losers and Persons Working Part-Time for Economic Reasons



Note. Job losers and persons working part-time for economic reasons as a percent of the civilian labor force.

Sales of Automobiles²⁰ and Light Trucks
 (Millions of units at an annual rate, FRB seasonals)

	2000	2001	2002		2002		
			Q2	Q3	Aug.	Sept.	Oct.
Total ¹	17.22	17.03	16.34	17.63	18.59	16.23	15.33
Autos	8.84	8.42	8.07	8.48	8.73	7.91	7.30
Light trucks	8.38	8.61	8.27	9.15	9.86	8.32	8.03
North American ²	14.37	13.95	13.12	14.27	15.37	12.82	12.39
Autos	6.82	6.32	5.89	6.20	6.55	5.53	5.33
Big Three	4.65	4.13	3.79	3.89	4.13	3.39	3.33
Transplants	2.17	2.19	2.10	2.31	2.43	2.14	2.00
Light trucks	7.54	7.63	7.23	8.07	8.81	7.29	7.06
Big Three	6.57	6.57	6.25	6.95	7.56	6.25	6.07
Transplants	.97	1.05	.98	1.12	1.25	1.04	.99
Foreign produced	2.85	3.08	3.22	3.35	3.22	3.41	2.95
Autos	2.01	2.10	2.18	2.28	2.17	2.38	1.97
Light trucks	.84	.98	1.04	1.07	1.04	1.03	.98

Note. Components may not sum to totals because of rounding. Data on sales of trucks and imported autos for the most recent month are preliminary and subject to revision.

1. Excludes the estimated effect of automakers' changes in reporting periods.

2. Excludes some vehicles produced in Canada that are classified as imports by the industry.