

Part 1

June 20, 2002

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

Confidential (FR) Class II FOMC

June 20, 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:Q2 | | 2002:Q3 | |
|---|--|------------|------------|------------|
| | May GB | June GB | May GB | June GB |
| Real GDP | 2.0 | 1.8 | 3.2 | 3.3 |
| Private domestic final purchases | 2.5 | 1.7 | 2.7 | 2.6 |
| Personal consumption expenditures | 2.8 | 1.7 | 2.8 | 2.6 |
| Residential investment | -.4 | 2.7 | 1.5 | .3 |
| Business fixed investment | 1.8 | 1.4 | 2.4 | 3.4 |
| Government outlays for consumption and investment | 1.1 | 1.9 | 3.6 | 3.9 |
| | Contribution to growth, percentage points | | | |
| Inventory investment | 1.1 | 1.2 | 1.1 | 1.0 |
| Net exports | -1.5 | -1.2 | -.8 | -.6 |

influence of the TEUC program, but the latest readings are still at levels typically associated with only modest employment gains. Similarly, hours of production or nonsupervisory workers have changed little since the beginning of the year, and for the second quarter, we are projecting aggregate hours to show a small decline. As a result, even the relatively lackluster rise in real GDP that we have penciled in this quarter implies an increase in productivity at an annual rate of about 2-1/4 percent.

Manufacturing output has continued to expand in recent months, though at a somewhat tepid pace by the standard of previous postwar recoveries. Factory output rose 0.2 percent in May, and for the quarter as a whole, we expect manufacturing IP to increase at an annual rate of around 3-1/2 percent, about the same as in the first quarter. Production of high-tech equipment and semiconductors, which rose smartly earlier this year, has decelerated in recent months, and weak demand continues to inhibit the production of communications equipment. Nevertheless, output in other industries now appears to be on an uptrend, and with inventory-shipment ratios down sharply and orders picking up, we anticipate that the pace of production in the industrial sector will strengthen a bit in coming months.

Consumer spending is projected to rise at an annual rate of about 1-3/4 percent this quarter, a little more than half the pace of the first quarter. Sales of cars and light trucks dropped to a rate of 15-1/2 million units in May, leaving the average sales pace so far this quarter roughly the same as that in the first quarter.

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

| Measure | 2002 | | 2003 |
|------------------------|--|------------|------------|
| | H1 | H2 | |
| Real GDP | 3.6 | 3.4 | 4.1 |
| Previous | 3.9 | 3.5 | 4.2 |
| Final sales | 1.3 | 3.0 | 3.6 |
| Previous | 1.7 | 2.8 | 3.7 |
| PCE | 2.5 | 2.8 | 3.1 |
| Previous | 3.2 | 3.0 | 3.4 |
| Residential investment | 8.9 | .7 | -.1 |
| Previous | 7.7 | 1.6 | -1.2 |
| BFI | -3.3 | 5.1 | 11.1 |
| Previous | -1.8 | 5.6 | 12.0 |
| Government purchases | 4.2 | 4.1 | 3.8 |
| Previous | 4.0 | 3.9 | 3.8 |
| Exports | 5.3 | 7.9 | 8.4 |
| Previous | 6.2 | 6.7 | 7.6 |
| Imports | 13.4 | 8.3 | 9.2 |
| Previous | 15.6 | 9.8 | 10.3 |
| | Contribution to growth, percentage points | | |
| Inventory change | 2.3 | .5 | .5 |
| Previous | 2.2 | .7 | .5 |
| Net exports | -1.2 | -.4 | -.5 |
| Previous | -1.3 | -.7 | -.7 |

few wrinkles to this projection but, taken together, do not materially alter our basic outlook. In particular, the lower path for equity prices places a bit more restraint on domestic demand over the forecast period, while the depreciating dollar trims the projected drag from the external sector.

Household spending. We have pared our projection for consumer spending in this Greenbook to reflect the lower levels of wealth in this forecast and the effects of the anticipated increases in import prices on real income growth. All told, personal consumption expenditures are projected to rise at an annual rate

Net exports. Supported by the assumed depreciation of the dollar and rising activity abroad, real exports are projected to increase at an average annual rate of about 8-1/4 percent over the next six quarters, roughly 1 percentage point faster than forecast in the May Greenbook. The change to our dollar assumptions also reduces the anticipated increase in real imports to an annual rate of 9 percent over the projection period—about 1 percentage point slower than we previously forecast. Nevertheless, the arithmetic contribution to real GDP from the external sector still is expected to be negative over the remainder of this year and in 2003, albeit less so than we previously projected by about 1/4 percentage point. (*The International Developments section provides more detail on the outlook for the external sector.*)

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

As noted in the introduction, our projection of structural productivity growth and potential output is roughly the same as it was in the May Greenbook. After being held down a bit this year by the diversion of resources to address security concerns, structural multifactor productivity growth is projected to pick up to around 1-1/2 percent in 2003. Moreover, increases in the pace of business investment are expected to boost the rate of capital deepening next year. Taken together, these factors produce a sizable pickup in structural labor productivity growth, from 2 percent in 2002 to 2-1/2 percent in 2003. Commensurately, we forecast gains in potential output of 3 percent this year and 3-1/2 percent next year.

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

| Measure | 1973-95 | 1996-98 | 1999 | 2000 | 2001 | 2002 | 2003 |
|--------------------------------------|------------|------------|------------|------------|------------|------------|------------|
| Structural labor productivity | 1.4 | 2.4 | 2.9 | 3.0 | 2.3 | 2.0 | 2.5 |
| Previous | 1.4 | 2.4 | 2.9 | 3.0 | 2.3 | 2.0 | 2.6 |
| <i>Contributions</i> ¹ | | | | | | | |
| Capital deepening | .6 | 1.2 | 1.4 | 1.4 | .6 | .4 | .8 |
| Previous | .6 | 1.2 | 1.4 | 1.4 | .6 | .4 | .9 |
| Multifactor productivity | .6 | .9 | 1.3 | 1.4 | 1.4 | 1.3 | 1.5 |
| Previous | .6 | .9 | 1.3 | 1.4 | 1.4 | 1.3 | 1.5 |
| Labor composition | .3 | .3 | .3 | .3 | .3 | .3 | .3 |
| MEMO | | | | | | | |
| Potential GDP | 2.9 | 3.7 | 4.1 | 4.0 | 3.1 | 2.9 | 3.4 |
| Previous | 2.9 | 3.7 | 4.1 | 4.0 | 3.1 | 2.9 | 3.5 |

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

1. Percentage points.

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

| Measure | 2000 | 2001 | 2002 | 2003 |
|---|------|------|------|------|
| Output per hour, nonfarm business | 2.6 | 2.1 | 3.1 | 1.8 |
| Previous | 2.6 | 2.0 | 2.4 | 2.4 |
| Nonfarm private payroll employment | 1.6 | -1.4 | .4 | 2.3 |
| Previous | 1.8 | -1.1 | 1.1 | 2.1 |
| Household employment survey | 1.0 | -1.0 | .6 | 1.6 |
| Previous | 1.0 | -1.0 | .9 | 1.5 |
| Labor force participation rate ¹ | 67.1 | 66.9 | 66.9 | 66.9 |
| Previous | 67.1 | 66.9 | 66.9 | 66.9 |
| Civilian unemployment rate ¹ | 4.0 | 5.6 | 5.9 | 5.5 |
| Previous | 4.0 | 5.6 | 5.7 | 5.4 |

1. Percent, average for the fourth quarter.

Productivity and the labor market. We continue to regard the extraordinary productivity gains reported in the first half of this year, in part, as an indication that firms have been reluctant to speed up their hiring until they become more convinced that the economic recovery will not falter. However, we expect that, as the sales and profits outlook continues to improve, firms will move more aggressively to bring their labor resources into line with their anticipated longer-run needs. And as they do so, productivity growth should drop back from its recent torrid pace to average 1 percent in the second half of this year. With the level of productivity still well above our estimated trend, output per hour is anticipated to increase about 1-3/4 percent in 2003, roughly 3/4 percentage point less than its structural growth rate.

In the labor market, we are expecting a pickup in the pace of hiring over the remainder of this year. Specifically, after an increase of 75,000 in June, private payroll employment gains are now anticipated to average around 150,000 per month in the third quarter and 200,000 per month in the fourth quarter. Next year, private employment gains are projected to average around 210,000 per month.

The unemployment rate is projected to rise a bit further in the near term and then to trend down gradually to around 5-1/2 percent by the end of 2003. This path for the unemployment rate is a touch higher than that in the May Greenbook, reflecting the slower pace of employment growth in this projection and the effects of our assumed extension of the TEUC program on job search efforts in the first half of 2003.

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

| Measure | 2000 | 2001 | 2002 | 2003 |
|---|------|------|------|------|
| PCE chain-weighted price index | 2.6 | 1.3 | 1.5 | 1.4 |
| Previous | 2.6 | 1.3 | 1.5 | 1.3 |
| Food and beverages | 2.5 | 3.2 | 1.7 | 2.1 |
| Previous | 2.5 | 3.2 | 1.9 | 2.0 |
| Energy | 15.4 | -9.9 | 3.0 | -.9 |
| Previous | 15.4 | -9.9 | 4.6 | -1.7 |
| Excluding food and energy | 1.9 | 1.6 | 1.4 | 1.4 |
| Previous | 1.9 | 1.6 | 1.2 | 1.3 |
| Consumer price index | 3.4 | 1.9 | 2.1 | 1.9 |
| Previous | 3.4 | 1.9 | 2.3 | 1.8 |
| Excluding food and energy | 2.5 | 2.7 | 2.3 | 2.1 |
| Previous | 2.5 | 2.7 | 2.2 | 2.0 |
| GDP chain-weighted price index | 2.4 | 1.9 | 1.2 | 1.5 |
| Previous | 2.4 | 1.9 | 1.4 | 1.4 |
| ECI for compensation of private industry workers ¹ | 4.4 | 4.2 | 3.5 | 3.5 |
| Previous | 4.4 | 4.2 | 3.5 | 3.5 |
| NFB compensation per hour | 7.8 | 3.9 | 3.0 | 3.4 |
| Previous | 7.8 | 3.9 | 3.0 | 3.4 |
| Prices of core non-oil merchandise imports | 1.6 | -3.1 | 1.9 | 2.7 |
| Previous | 1.6 | -3.1 | .3 | 2.7 |

1. December to December.

Wages and prices. Given the slack in labor and product markets that has opened up over the past year, we anticipate that wage and core price increases will be somewhat smaller in 2002 and 2003 than in 2001. However, we have raised our inflation forecast a bit to reflect the lower dollar's effect on import prices.

After having risen sharply this spring, energy prices are projected to fall at an annual rate of roughly 1 percent over the next six quarters. The assumed decline in crude oil prices is anticipated to put downward pressure on wholesale gasoline prices; in addition, retail margins, which widened considerably in recent months, are expected to return gradually to more normal levels. In contrast, natural gas prices are projected to increase over the forecast period,

Alternative Scenarios

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

| Measure | 2002 | | | 2003 |
|---|------------|------------|------------|------------|
| | Q1 | Q2 | H2 | |
| <i>Real GDP</i> | | | | |
| Baseline | 5.5 | 1.8 | 3.4 | 4.1 |
| Stock market decline | 5.5 | 1.8 | 3.3 | 3.4 |
| Business disappointment | 5.5 | 1.8 | 2.9 | 2.6 |
| Higher government spending | 5.5 | 1.8 | 3.6 | 4.6 |
| Permanently higher government spending | 5.5 | 1.8 | 3.5 | 4.4 |
| Higher equilibrium real interest rate | 5.5 | 1.8 | 3.8 | 4.7 |
| Stronger productivity | 5.5 | 1.8 | 3.9 | 5.5 |
| Low NAIRU | 5.5 | 1.9 | 3.7 | 4.3 |
| <i>Civilian unemployment rate¹</i> | | | | |
| Baseline | 5.6 | 5.9 | 5.9 | 5.5 |
| Stock market decline | 5.6 | 5.9 | 5.9 | 5.8 |
| Business disappointment | 5.6 | 5.9 | 6.0 | 6.2 |
| Higher government spending | 5.6 | 5.9 | 5.9 | 5.2 |
| Permanently higher government spending | 5.6 | 5.9 | 5.9 | 5.3 |
| Higher equilibrium real interest rate | 5.6 | 5.9 | 5.8 | 5.1 |
| Stronger productivity | 5.6 | 5.9 | 6.0 | 5.5 |
| Low NAIRU | 5.6 | 5.9 | 5.8 | 5.2 |
| <i>PCE prices excluding food and energy</i> | | | | |
| Baseline | 1.0 | 1.7 | 1.4 | 1.4 |
| Stock market decline | 1.0 | 1.7 | 1.4 | 1.4 |
| Business disappointment | 1.0 | 1.7 | 1.4 | 1.4 |
| Higher government spending | 1.0 | 1.7 | 1.4 | 1.4 |
| Permanently higher government spending | 1.0 | 1.7 | 1.4 | 1.4 |
| Higher equilibrium real interest rate | 1.0 | 1.7 | 1.4 | 1.6 |
| Stronger productivity | 1.0 | 1.7 | 1.4 | 1.0 |
| Low NAIRU | 1.0 | 1.6 | 1.2 | 1.0 |

1. Average for the final quarter of the period.

future stance of monetary policy, bond rates fall over the same period about 35 basis points. These financial market developments would cut real GDP growth 3/4 percentage point in 2003 and cause the unemployment rate to remain close to 6 percent through the end of next year. The resulting increase in slack is too slight and occurs too late to have a noticeable effect on inflation over the forecast period, but it would have a more appreciable impact in subsequent years.

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Class II FOMCSTAFF PROJECTIONS OF CHANGES IN GDP, PRICES, AND UNEMPLOYMENT
(Percent, annual rate)

June 20, 2002

| Interval | Nominal GDP | | Real GDP | | GDP chain-weighted price index | | Consumer price index ¹ | | Unemployment rate ² | |
|---------------------------------|-------------|----------|----------|----------|--------------------------------|----------|-----------------------------------|----------|--------------------------------|----------|
| | 05/01/02 | 06/19/02 | 05/01/02 | 06/19/02 | 05/01/02 | 06/19/02 | 05/01/02 | 06/19/02 | 05/01/02 | 06/19/02 |
| ANNUAL | | | | | | | | | | |
| 1999 | 5.5 | 5.5 | 4.1 | 4.1 | 1.4 | 1.4 | 2.2 | 2.2 | 4.2 | 4.2 |
| 2000 | 6.5 | 6.5 | 4.1 | 4.1 | 2.3 | 2.3 | 3.4 | 3.4 | 4.0 | 4.0 |
| 2001 | 3.4 | 3.4 | 1.2 | 1.2 | 2.2 | 2.2 | 2.8 | 2.8 | 4.8 | 4.8 |
| 2002 | 3.9 | 3.6 | 2.6 | 2.5 | 1.2 | 1.1 | 1.7 | 1.5 | 5.8 | 5.9 |
| 2003 | 5.4 | 5.2 | 3.8 | 3.7 | 1.5 | 1.4 | 1.9 | 2.0 | 5.5 | 5.7 |
| QUARTERLY | | | | | | | | | | |
| 2000 | Q1 | 6.3 | 6.3 | 2.3 | 2.3 | 3.8 | 3.8 | 3.9 | 4.0 | 4.0 |
| | Q2 | 8.0 | 8.0 | 5.7 | 5.7 | 2.1 | 2.1 | 3.3 | 4.0 | 4.0 |
| | Q3 | 3.3 | 3.3 | 1.3 | 1.3 | 1.9 | 1.9 | 3.5 | 4.1 | 4.1 |
| | Q4 | 3.7 | 3.7 | 1.9 | 1.9 | 1.8 | 1.8 | 2.8 | 4.0 | 4.0 |
| 2001 | Q1 | 4.6 | 4.6 | 1.3 | 1.3 | 3.3 | 3.3 | 4.0 | 4.0 | 4.2 |
| | Q2 | 2.4 | 2.4 | 0.3 | 0.3 | 2.1 | 2.1 | 3.2 | 4.5 | 4.5 |
| | Q3 | 0.9 | 0.9 | -1.3 | -1.3 | 2.3 | 2.3 | 0.7 | 4.8 | 4.8 |
| | Q4 | 1.5 | 1.5 | 1.7 | 1.7 | -0.1 | -0.1 | -0.2 | 5.6 | 5.6 |
| 2002 | Q1 | 6.7 | 6.6 | 5.8 | 5.5 | 0.8 | 1.1 | 1.4 | 1.4 | 5.6 |
| | Q2 | 4.1 | 3.2 | 2.0 | 1.8 | 2.1 | 1.3 | 4.0 | 5.9 | 5.9 |
| | Q3 | 4.6 | 4.3 | 3.2 | 3.3 | 1.3 | 0.9 | 2.0 | 5.9 | 6.0 |
| | Q4 | 5.4 | 4.9 | 3.9 | 3.5 | 1.4 | 1.4 | 1.7 | 2.1 | 5.7 |
| 2003 | Q1 | 6.0 | 5.8 | 4.1 | 4.0 | 1.8 | 1.8 | 1.7 | 1.9 | 5.6 |
| | Q2 | 5.5 | 5.5 | 4.1 | 4.1 | 1.3 | 1.4 | 1.8 | 1.9 | 5.7 |
| | Q3 | 5.6 | 5.6 | 4.2 | 4.2 | 1.3 | 1.4 | 1.8 | 1.9 | 5.5 |
| | Q4 | 5.6 | 5.6 | 4.2 | 4.2 | 1.4 | 1.4 | 1.9 | 1.9 | 5.4 |
| TWO-QUARTER³ | | | | | | | | | | |
| 2000 | Q2 | 7.2 | 7.2 | 4.0 | 4.0 | 2.9 | 2.9 | 3.6 | 3.6 | -0.1 |
| | Q4 | 3.5 | 3.5 | 1.6 | 1.6 | 1.8 | 1.8 | 3.3 | 3.3 | 0.0 |
| 2001 | Q2 | 3.5 | 3.5 | 0.8 | 0.8 | 2.7 | 2.7 | 3.5 | 3.5 | 0.5 |
| | Q4 | 1.2 | 1.2 | 0.1 | 0.1 | 1.1 | 1.1 | 0.2 | 0.2 | 1.1 |
| 2002 | Q2 | 5.4 | 4.9 | 3.9 | 3.6 | 1.4 | 1.2 | 2.7 | 2.4 | 0.3 |
| | Q4 | 5.0 | 4.6 | 3.5 | 3.4 | 1.4 | 1.2 | 1.9 | 1.9 | -0.2 |
| 2003 | Q2 | 5.7 | 5.7 | 4.1 | 4.0 | 1.5 | 1.6 | 1.8 | 1.9 | -0.2 |
| | Q4 | 5.6 | 5.6 | 4.2 | 4.2 | 1.4 | 1.4 | 1.8 | 1.9 | -0.2 |
| FOUR-QUARTER⁴ | | | | | | | | | | |
| 1999 | Q4 | 6.0 | 6.0 | 4.4 | 4.4 | 1.6 | 1.6 | 2.6 | 2.6 | -0.3 |
| 2000 | Q4 | 5.3 | 5.3 | 2.8 | 2.8 | 2.4 | 2.4 | 3.4 | 3.4 | -0.1 |
| 2001 | Q4 | 2.3 | 2.3 | 0.5 | 0.5 | 1.9 | 1.9 | 1.9 | 1.6 | 1.6 |
| 2002 | Q4 | 5.2 | 4.7 | 3.7 | 3.5 | 1.4 | 1.2 | 2.3 | 2.1 | 0.1 |
| 2003 | Q4 | 5.7 | 5.6 | 4.2 | 4.1 | 1.4 | 1.5 | 1.8 | 1.9 | -0.3 |

1. For all urban consumers.

2. Level, except as noted.

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

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

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

June 20, 2002

| Item | Units ¹ | -- Projected -- | | | | | | | | | |
|---|--------------------|-----------------|--------|--------|--------|--------|--------|---------|---------|---------|--|
| | | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | |
| EXPENDITURES | | | | | | | | | | | |
| Nominal GDP | Bill. \$ | 7400.5 | 7813.2 | 8318.4 | 8781.5 | 9268.6 | 9872.9 | 10208.1 | 10577.3 | 11127.5 | |
| Real GDP | Bill. Ch. \$ | 7543.8 | 7813.2 | 8159.5 | 8508.9 | 8856.5 | 9224.0 | 9333.8 | 9566.7 | 9924.1 | |
| Real GDP | % change | 2.2 | 4.1 | 4.3 | 4.8 | 4.4 | 2.8 | 0.5 | 3.5 | 4.1 | |
| Gross domestic purchases | | 1.7 | 4.3 | 5.0 | 5.8 | 5.3 | 3.5 | 0.4 | 4.2 | 4.4 | |
| Final sales | | 2.9 | 3.9 | 3.9 | 4.7 | 4.3 | 3.4 | 2.0 | 2.1 | 3.6 | |
| Priv. dom. final purchases | | 3.2 | 4.4 | 5.1 | 6.3 | 5.4 | 4.7 | 1.2 | 2.5 | 3.9 | |
| Personal cons. expenditures | | 2.8 | 3.1 | 4.1 | 5.0 | 5.2 | 4.2 | 3.1 | 2.6 | 3.1 | |
| Durables | | 3.7 | 5.0 | 8.8 | 12.7 | 11.3 | 5.3 | 13.6 | 1.2 | 5.4 | |
| Nondurables | | 2.5 | 3.2 | 2.5 | 5.0 | 5.0 | 3.6 | 1.4 | 2.8 | 2.7 | |
| Services | | 2.7 | 2.7 | 3.9 | 3.6 | 4.0 | 4.3 | 1.9 | 2.9 | 2.8 | |
| Business fixed investment | | 7.5 | 12.1 | 11.8 | 12.3 | 7.4 | 8.9 | -9.4 | 0.8 | 11.1 | |
| Equipment & Software | | 8.9 | 11.8 | 13.7 | 14.9 | 11.2 | 8.3 | -8.5 | 4.2 | 13.4 | |
| Nonres. structures | | 3.3 | 12.8 | 6.5 | 4.9 | -3.6 | 10.8 | -11.8 | -8.9 | 3.9 | |
| Residential structures | | -1.5 | 5.6 | 3.5 | 10.0 | 3.4 | -1.2 | 2.9 | 4.8 | -0.1 | |
| Exports | | 9.7 | 9.8 | 8.5 | 2.3 | 4.5 | 7.0 | -10.9 | 6.6 | 8.4 | |
| Imports | | 5.0 | 11.2 | 14.3 | 10.8 | 11.5 | 11.3 | -8.5 | 10.8 | 9.2 | |
| Gov't. cons. & investment | | -0.8 | 2.7 | 2.4 | 2.7 | 4.0 | 1.2 | 5.1 | 4.1 | 3.8 | |
| Federal | | -5.3 | 2.0 | 0.1 | 0.6 | 4.5 | -1.4 | 4.9 | 7.2 | 3.5 | |
| Defense | | -4.7 | 0.8 | -1.4 | -0.8 | 4.7 | -2.2 | 5.5 | 7.8 | 3.4 | |
| State & local | | 2.1 | 3.0 | 3.7 | 3.8 | 3.7 | 2.5 | 5.2 | 2.6 | 4.0 | |
| Change in bus. inventories | Bill. Ch. \$ | -- | -- | 63.8 | 76.7 | 62.1 | 50.6 | -61.7 | 8.8 | 70.8 | |
| Nonfarm | | 41.9 | 21.2 | 60.6 | 75.0 | 63.5 | 52.3 | -59.0 | 9.9 | 69.6 | |
| Net exports | | -78.4 | -89.0 | -113.3 | -221.1 | -316.9 | -399.1 | -408.7 | -480.3 | -542.0 | |
| Nominal GDP | % change | 4.3 | 6.0 | 6.2 | 6.0 | 6.0 | 5.3 | 2.3 | 4.7 | 5.6 | |
| EMPLOYMENT AND PRODUCTION | | | | | | | | | | | |
| Nonfarm payroll employment | Millions | 117.2 | 119.6 | 122.7 | 125.9 | 128.9 | 131.7 | 131.9 | 131.1 | 133.7 | |
| Unemployment rate | % | 5.6 | 5.4 | 4.9 | 4.5 | 4.2 | 4.0 | 4.8 | 5.9 | 5.7 | |
| Industrial prod. index | % change | 3.5 | 5.8 | 7.4 | 3.5 | 4.3 | 2.6 | -5.9 | 4.0 | 5.2 | |
| Capacity util. rate - mfg. | % | 82.6 | 81.6 | 82.7 | 81.4 | 80.6 | 80.7 | 75.1 | 74.4 | 77.3 | |
| Housing starts | Millions | 1.35 | 1.48 | 1.47 | 1.62 | 1.64 | 1.57 | 1.60 | 1.68 | 1.68 | |
| Light motor vehicle sales | | 14.77 | 15.05 | 15.06 | 15.43 | 16.78 | 17.25 | 17.03 | 16.58 | 17.19 | |
| North Amer. produced | | 12.87 | 13.34 | 13.12 | 13.41 | 14.30 | 14.39 | 13.95 | 13.24 | 13.77 | |
| Other | | 1.90 | 1.70 | 1.93 | 2.02 | 2.48 | 2.86 | 3.08 | 3.33 | 3.42 | |
| INCOME AND SAVING | | | | | | | | | | | |
| Nominal GNP | Bill. \$ | 7420.9 | 7831.2 | 8325.4 | 8778.1 | 9261.8 | 9860.8 | 10202.8 | 10580.1 | 11136.1 | |
| Nominal GNP | % change | 4.4 | 5.9 | 6.0 | 5.8 | 6.0 | 5.4 | 2.4 | 4.7 | 5.5 | |
| Nominal personal income | | 4.3 | 5.9 | 6.3 | 6.7 | 4.8 | 7.3 | 2.9 | 4.5 | 5.4 | |
| Real disposable income | | 1.7 | 2.6 | 3.8 | 5.0 | 2.1 | 4.0 | 2.1 | 5.5 | 2.9 | |
| Personal saving rate | % | 5.6 | 4.8 | 4.2 | 4.7 | 2.4 | 1.0 | 1.6 | 3.2 | 3.2 | |
| Corp. profits, IVA & CCAdj. | % change | 11.3 | 11.4 | 9.9 | -9.6 | 11.3 | -1.2 | -3.0 | 8.6 | 4.4 | |
| Profit share of GNP | % | 9.0 | 9.6 | 10.0 | 8.9 | 8.9 | 8.9 | 7.5 | 8.2 | 8.2 | |
| Excluding FR Banks | | 8.7 | 9.4 | 9.7 | 8.6 | 8.6 | 8.6 | 7.2 | 8.0 | 8.0 | |
| Federal surpl./deficit | Bill. \$ | -192.0 | -136.8 | -53.3 | 43.8 | 119.2 | 218.6 | 119.0 | -81.2 | 7.5 | |
| State & local surpl./def. | | 15.3 | 21.4 | 31.0 | 40.7 | 42.1 | 32.8 | 17.6 | 23.6 | 36.7 | |
| Ex. social ins. funds | | 11.4 | 18.7 | 29.9 | 40.0 | 41.7 | 33.1 | 17.7 | 23.9 | 37.0 | |
| Gross natl. saving rate | % | 16.9 | 17.2 | 18.0 | 18.8 | 18.4 | 18.1 | 17.1 | 16.9 | 17.7 | |
| Net natl. saving rate | | 5.1 | 5.7 | 6.7 | 7.5 | 6.8 | 6.3 | 4.4 | 4.2 | 5.0 | |
| PRICES AND COSTS | | | | | | | | | | | |
| GDP chn.-wt. price index | % change | 2.1 | 1.9 | 1.8 | 1.1 | 1.6 | 2.4 | 1.9 | 1.2 | 1.5 | |
| Gross Domestic Purchases chn.-wt. price index | | 2.1 | 1.9 | 1.4 | 0.8 | 1.9 | 2.5 | 1.1 | 1.5 | 1.5 | |
| PCE chn.-wt. price index | | 2.1 | 2.3 | 1.5 | 1.1 | 2.0 | 2.6 | 1.3 | 1.5 | 1.4 | |
| Ex. food and energy | | 2.3 | 1.8 | 1.7 | 1.6 | 1.5 | 1.9 | 1.6 | 1.4 | 1.4 | |
| CPI | | 2.6 | 3.2 | 1.9 | 1.5 | 2.6 | 3.4 | 1.9 | 2.1 | 1.9 | |
| Ex. food and energy | | 3.1 | 2.6 | 2.2 | 2.3 | 2.1 | 2.5 | 2.7 | 2.3 | 2.1 | |
| ECI, hourly compensation ² | | 2.6 | 3.1 | 3.4 | 3.5 | 3.4 | 4.4 | 4.2 | 3.5 | 3.5 | |
| Nonfarm business sector | | | | | | | | | | | |
| Output per hour | | 1.1 | 2.3 | 2.3 | 2.9 | 2.9 | 2.6 | 2.1 | 3.1 | 1.8 | |
| Compensation per Hour | | 2.6 | 3.2 | 3.5 | 5.3 | 4.5 | 7.8 | 3.9 | 3.0 | 3.4 | |
| Unit labor cost | | 1.5 | 0.9 | 1.1 | 2.3 | 1.5 | 5.0 | 1.7 | -0.3 | 1.6 | |

1. Changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

Strictly Confidential <FR>
Class II FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES
(Seasonally adjusted, annual rate except as noted)

June 20, 2002

| Item | Units | 1999 Q1 | 1999 Q2 | 1999 Q3 | 1999 Q4 | 2000 Q1 | 2000 Q2 | 2000 Q3 | 2000 Q4 | 2001 Q1 | 2001 Q2 |
|---|--------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| EXPENDITURES | | | | | | | | | | | |
| Nominal GDP | Bill. \$ | 9093.1 | 9161.4 | 9297.4 | 9522.5 | 9668.7 | 9857.6 | 9937.5 | 10027.9 | 10141.7 | 10202.6 |
| Real GDP | Bill. Ch. \$ | 8733.5 | 8771.2 | 8871.5 | 9049.9 | 9102.5 | 9229.4 | 9260.1 | 9303.9 | 9334.5 | 9341.7 |
| Real GDP | % change | 3.1 | 1.7 | 4.7 | 8.3 | 2.3 | 5.7 | 1.3 | 1.9 | 1.3 | 0.3 |
| Gross domestic purchases | | 4.8 | 2.9 | 5.3 | 8.2 | 3.5 | 6.3 | 2.0 | 2.2 | 0.7 | 0.4 |
| Final sales | | 3.0 | 3.9 | 4.2 | 6.1 | 4.8 | 3.9 | 2.3 | 2.4 | 4.0 | 0.7 |
| Priv. dom. final purchases | | 5.3 | 5.9 | 4.9 | 5.5 | 7.5 | 4.6 | 3.9 | 2.6 | 2.8 | -0.0 |
| Personal cons. expenditures | | 4.9 | 5.7 | 4.4 | 5.7 | 5.9 | 3.6 | 4.3 | 3.1 | 3.0 | 2.5 |
| Durables | | 7.1 | 15.7 | 9.0 | 13.7 | 19.0 | -2.5 | 8.2 | -2.1 | 10.6 | 7.0 |
| Nondurables | | 5.6 | 4.3 | 2.6 | 7.6 | 5.1 | 4.7 | 4.2 | 0.6 | 2.4 | 0.3 |
| Services | | 4.1 | 4.5 | 4.3 | 3.2 | 3.7 | 4.4 | 3.5 | 5.6 | 1.8 | 2.8 |
| Business fixed investment | | 6.0 | 7.7 | 10.2 | 5.8 | 15.8 | 12.2 | 7.1 | 1.0 | -0.2 | -14.6 |
| Equipment & Software | | 10.5 | 11.9 | 16.2 | 6.4 | 18.1 | 12.4 | 4.7 | -1.1 | -4.1 | -15.4 |
| Nonres. structures | | -6.5 | -4.3 | -7.0 | 4.0 | 8.8 | 11.8 | 15.2 | 7.6 | 12.3 | -12.2 |
| Residential structures | | 10.3 | 3.0 | -0.8 | 1.6 | 8.5 | -0.8 | -10.4 | -1.1 | 8.5 | 5.9 |
| Exports | | -6.8 | 4.2 | 9.7 | 12.1 | 9.0 | 13.5 | 10.6 | -4.0 | -1.2 | -11.9 |
| Imports | | 8.4 | 13.3 | 13.8 | 10.5 | 17.1 | 16.4 | 13.0 | -0.5 | -5.0 | -8.4 |
| Gov't. cons. & investment | | 2.0 | 1.2 | 4.4 | 8.5 | -1.1 | 4.4 | -1.8 | 3.3 | 5.3 | 5.0 |
| Federal | | -3.7 | 0.8 | 7.2 | 14.5 | -12.8 | 15.9 | -10.4 | 4.6 | 3.2 | 1.8 |
| Defense | | -3.5 | -3.5 | 12.8 | 14.3 | -20.0 | 15.4 | -10.4 | 10.5 | 7.5 | 2.3 |
| State & local | | 5.2 | 1.4 | 2.9 | 5.4 | 5.6 | -1.1 | 3.0 | 2.7 | 6.4 | 6.6 |
| Change in bus. inventories | Bill. Ch. \$ | 83.4 | 32.7 | 39.6 | 92.7 | 28.9 | 78.9 | 51.7 | 42.8 | -27.1 | -38.3 |
| Nonfarm | | 78.7 | 34.2 | 52.2 | 88.7 | 37.8 | 75.1 | 56.6 | 39.7 | -27.3 | -35.8 |
| Net exports | | -283.0 | -313.4 | -333.3 | -337.8 | -371.1 | -392.8 | -411.2 | -421.1 | -404.5 | -406.7 |
| Nominal GDP | % change | 4.9 | 3.0 | 6.1 | 10.0 | 6.3 | 8.0 | 3.3 | 3.7 | 4.6 | 2.4 |
| EMPLOYMENT AND PRODUCTION | | | | | | | | | | | |
| Nonfarm payroll employment | Millions | 127.8 | 128.5 | 129.2 | 130.1 | 131.0 | 131.8 | 131.9 | 132.2 | 132.4 | 132.2 |
| Unemployment rate | % | 4.3 | 4.3 | 4.2 | 4.1 | 4.0 | 4.0 | 4.1 | 4.0 | 4.2 | 4.5 |
| Industrial prod. index | % change | 3.6 | 3.3 | 4.7 | 5.8 | 5.8 | 7.0 | 0.6 | -2.6 | -6.1 | -5.9 |
| Capacity util. rate - mfg. | % | 80.5 | 80.4 | 80.5 | 81.0 | 81.2 | 81.6 | 80.7 | 79.1 | 77.2 | 75.6 |
| Housing starts | Millions | 1.71 | 1.57 | 1.65 | 1.66 | 1.66 | 1.59 | 1.50 | 1.54 | 1.61 | 1.62 |
| Light motor vehicle sales | | 16.17 | 16.76 | 17.06 | 17.11 | 18.13 | 17.27 | 17.30 | 16.32 | 16.89 | 16.65 |
| North Amer. produced | | 13.87 | 14.32 | 14.58 | 14.41 | 15.25 | 14.40 | 14.47 | 13.45 | 13.96 | 13.62 |
| Other | | 2.30 | 2.44 | 2.47 | 2.70 | 2.87 | 2.87 | 2.83 | 2.87 | 2.93 | 3.03 |
| INCOME AND SAVING | | | | | | | | | | | |
| Nominal GNP | Bill. \$ | 9089.5 | 9157.0 | 9283.8 | 9517.0 | 9650.7 | 9841.0 | 9919.4 | 10032.1 | 10131.3 | 10190.9 |
| Nominal GNP | % change | 5.2 | 3.0 | 5.7 | 10.4 | 5.7 | 8.1 | 3.2 | 4.6 | 4.0 | 2.4 |
| Nominal personal income | | 3.0 | 4.7 | 5.2 | 6.3 | 8.6 | 8.5 | 5.5 | 6.8 | 5.8 | 3.5 |
| Real disposable income | | 1.4 | 2.0 | 2.1 | 3.0 | 3.3 | 5.8 | 2.6 | 4.2 | 2.7 | 2.4 |
| Personal saving rate | % | 3.5 | 2.7 | 2.1 | 1.4 | 0.8 | 1.3 | 0.8 | 1.0 | 1.1 | 1.1 |
| Corp. profits, IVA & CCAdj. | % change | 36.1 | -10.2 | -4.9 | 31.9 | 6.1 | 10.7 | 1.0 | -19.6 | -24.6 | -14.3 |
| Profit share of GNP | % | 9.2 | 8.8 | 8.6 | 9.0 | 9.0 | 9.1 | 9.0 | 8.4 | 7.8 | 7.5 |
| Excluding FR Banks | | 8.9 | 8.6 | 8.3 | 8.7 | 8.7 | 8.8 | 8.7 | 8.1 | 7.5 | 7.2 |
| Federal surpl./deficit | Bill. \$ | 85.2 | 116.5 | 132.0 | 143.1 | 212.8 | 209.1 | 229.9 | 222.5 | 205.3 | 186.7 |
| State & local surpl./def. | | 48.9 | 36.2 | 38.3 | 44.9 | 33.2 | 34.7 | 34.8 | 28.6 | 22.3 | 21.3 |
| Ex. social ins. funds | | 48.4 | 35.8 | 38.0 | 44.7 | 33.3 | 34.9 | 35.1 | 29.1 | 22.6 | 21.4 |
| Gross natl. saving rate | % | 19.0 | 18.5 | 18.3 | 18.0 | 18.0 | 18.3 | 18.2 | 17.9 | 17.3 | 17.2 |
| Net natl. saving rate | % | 7.6 | 6.9 | 6.4 | 6.3 | 6.3 | 6.6 | 6.4 | 6.0 | 5.1 | 4.6 |
| PRICES AND COSTS | | | | | | | | | | | |
| GDP chn.-wt. price index | % change | 1.7 | 1.4 | 1.4 | 1.8 | 3.8 | 2.1 | 1.9 | 1.8 | 3.3 | 2.1 |
| Gross Domestic Purchases chn.-wt. price index | | 1.5 | 2.0 | 2.0 | 2.2 | 4.2 | 1.9 | 2.3 | 1.7 | 2.7 | 1.3 |
| PCE chn.-wt. price index | | 1.3 | 2.0 | 2.2 | 2.4 | 4.0 | 2.1 | 2.4 | 2.0 | 3.2 | 1.3 |
| Ex. food and energy | | 1.4 | 1.2 | 1.5 | 1.8 | 2.9 | 1.7 | 1.6 | 1.5 | 2.6 | 0.7 |
| CPI | | 1.5 | 2.9 | 2.7 | 3.4 | 3.9 | 3.3 | 3.5 | 2.8 | 4.0 | 3.2 |
| Ex. food and energy | | 1.8 | 1.8 | 1.8 | 2.7 | 2.3 | 2.7 | 2.7 | 2.4 | 3.1 | 2.4 |
| ECI, hourly compensation ¹ | | 1.1 | 4.6 | 3.7 | 4.3 | 5.6 | 4.7 | 4.1 | 3.5 | 4.6 | 4.0 |
| Nonfarm business sector | | 2.3 | -1.3 | 3.2 | 7.8 | 0.0 | 6.7 | 1.6 | 2.3 | -0.1 | 2.1 |
| Output per hour | | 3.6 | 4.2 | 5.5 | 4.7 | 6.9 | 8.1 | 7.4 | 8.9 | 4.9 | 4.7 |
| Compensation per hour | | 1.3 | 5.6 | 2.2 | -2.9 | 6.9 | 1.3 | 5.7 | 6.4 | 5.0 | 2.6 |
| Unit labor cost | | | | | | | | | | | |

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES
(Seasonally adjusted, annual rate except as noted)

June 20, 2002

| Item | Units | Projected | | | | | | | | | |
|---|--------------|-----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | | 2001 Q3 | 2001 Q4 | 2002 Q1 | 2002 Q2 | 2002 Q3 | 2002 Q4 | 2003 Q1 | 2003 Q2 | 2003 Q3 | 2003 Q4 |
| EXPENDITURES | | | | | | | | | | | |
| Nominal GDP | Bill. \$ | 10224.9 | 10263.3 | 10428.4 | 10509.6 | 10621.3 | 10750.0 | 10902.5 | 11049.9 | 11201.5 | 11355.9 |
| Real GDP | Bill. Ch. \$ | 9310.4 | 9348.6 | 9474.5 | 9517.2 | 9595.8 | 9679.5 | 9774.2 | 9872.4 | 9973.7 | 10076.1 |
| Real GDP | % change | -1.3 | 1.7 | 5.5 | 1.8 | 3.3 | 3.5 | 4.0 | 4.1 | 4.2 | 4.2 |
| Gross domestic purchases | | -1.0 | 1.7 | 6.4 | 2.9 | 3.8 | 3.5 | 4.4 | 4.5 | 4.5 | 4.0 |
| Final sales | | -0.5 | 3.8 | 2.0 | 0.6 | 2.3 | 3.6 | 3.3 | 3.4 | 3.7 | 4.2 |
| Priv. dom. final purchases | | -0.4 | 2.6 | 2.3 | 1.7 | 2.6 | 3.4 | 3.8 | 3.9 | 4.0 | 4.1 |
| Personal cons. expenditures | | 1.0 | 6.1 | 3.2 | 1.7 | 2.6 | 3.0 | 3.0 | 3.0 | 3.1 | 3.2 |
| Durables | | 0.9 | 39.4 | -9.5 | 4.7 | 4.4 | 5.9 | 5.0 | 5.2 | 5.1 | 6.2 |
| Nondurables | | 0.6 | 2.5 | 8.3 | -1.2 | 1.8 | 2.4 | 2.7 | 2.7 | 2.7 | 2.7 |
| Services | | 1.2 | 2.0 | 3.7 | 2.6 | 2.7 | 2.7 | 2.8 | 2.8 | 2.8 | 2.8 |
| Business fixed investment | | -8.5 | -13.8 | -7.7 | 1.4 | 3.4 | 6.9 | 9.7 | 10.4 | 12.1 | 12.3 |
| Equipment & Software | | -8.8 | -5.3 | -2.2 | 4.2 | 5.9 | 9.2 | 12.2 | 12.6 | 14.4 | 14.2 |
| Nonres. structures | | -7.5 | -33.6 | -22.5 | -6.9 | -4.2 | -0.3 | 1.7 | 3.3 | 4.7 | 6.1 |
| Residential structures | | 2.4 | -4.6 | 15.5 | 2.7 | 0.3 | 1.2 | 1.3 | 1.1 | -0.6 | -2.3 |
| Exports | | -18.8 | -10.9 | 5.3 | 5.3 | 6.4 | 9.4 | 5.7 | 8.2 | 8.8 | 11.2 |
| Imports | | -13.0 | -7.5 | 12.9 | 13.9 | 9.3 | 7.4 | 8.7 | 10.6 | 9.6 | 8.1 |
| Gov't. cons. & investment | | 0.3 | 10.2 | 6.5 | 1.9 | 3.9 | 4.2 | 3.9 | 3.8 | 3.8 | 3.7 |
| Federal | | 3.6 | 11.4 | 11.4 | 5.8 | 6.1 | 5.6 | 4.3 | 3.6 | 3.3 | 2.8 |
| Defense | | 3.2 | 9.0 | 18.3 | 4.3 | 5.1 | 4.3 | 4.2 | 3.7 | 3.3 | 2.6 |
| State & local | | -1.3 | 9.6 | 4.1 | -0.0 | 2.8 | 3.4 | 3.7 | 3.9 | 4.1 | 4.2 |
| Change in bus. inventories | Bill. Ch. \$ | -61.9 | -119.3 | -28.7 | 3.8 | 30.5 | 29.9 | 48.4 | 68.5 | 82.4 | 83.8 |
| Nonfarm | | -59.0 | -113.8 | -23.9 | 3.6 | 30.2 | 29.7 | 47.7 | 67.4 | 81.2 | 82.3 |
| Net exports | | -411.0 | -412.7 | -443.9 | -479.3 | -497.2 | -500.9 | -519.4 | -539.0 | -553.7 | -556.1 |
| Nominal GDP | % change | 0.9 | 1.5 | 6.6 | 3.2 | 4.3 | 4.9 | 5.8 | 5.5 | 5.6 | 5.6 |
| EMPLOYMENT AND PRODUCTION | | | | | | | | | | | |
| Nonfarm payroll employment | Millions | 131.9 | 131.1 | 130.8 | 130.8 | 131.2 | 131.9 | 132.6 | 133.3 | 134.0 | 134.7 |
| Unemployment rate | % | 4.8 | 5.6 | 5.6 | 5.9 | 6.0 | 5.9 | 5.9 | 5.7 | 5.6 | 5.5 |
| Industrial prod. index | % change | -4.7 | -6.7 | 2.8 | 4.0 | 4.7 | 4.5 | 5.1 | 5.3 | 5.3 | 5.3 |
| Capacity util. rate - mfg. | % | 74.5 | 73.1 | 73.5 | 74.0 | 74.7 | 75.3 | 76.1 | 76.9 | 77.7 | 78.5 |
| Housing starts | Millions | 1.60 | 1.57 | 1.73 | 1.65 | 1.67 | 1.69 | 1.69 | 1.68 | 1.68 | 1.68 |
| Light motor vehicle sales | | 16.12 | 18.45 | 16.36 | 16.45 | 16.50 | 17.00 | 17.05 | 17.15 | 17.21 | 17.35 |
| North Amer. produced | | 13.15 | 15.06 | 13.03 | 13.19 | 13.15 | 13.61 | 13.63 | 13.73 | 13.79 | 13.93 |
| Other | | 2.97 | 3.39 | 3.33 | 3.26 | 3.35 | 3.39 | 3.42 | 3.42 | 3.42 | 3.42 |
| INCOME AND SAVING | | | | | | | | | | | |
| Nominal GNP | Bill. \$ | 10213.8 | 10275.3 | 10417.7 | 10511.7 | 10629.9 | 10760.9 | 10917.1 | 11062.5 | 11208.8 | 11356.1 |
| Nominal GNP | % change | 0.9 | 2.4 | 5.7 | 3.7 | 4.6 | 5.0 | 5.9 | 5.4 | 5.4 | 5.4 |
| Nominal personal income | | 2.7 | -0.2 | 5.1 | 4.3 | 4.0 | 4.7 | 5.6 | 5.5 | 5.0 | 5.6 |
| Real disposable income | | 12.3 | -8.1 | 13.8 | 2.4 | 3.1 | 3.0 | 1.6 | 3.4 | 2.8 | 3.5 |
| Personal saving rate | % | 3.8 | 0.4 | 2.9 | 3.1 | 3.3 | 3.4 | 3.1 | 3.2 | 3.2 | 3.2 |
| Corp. profits, IVA & CCAdj. | % change | -29.2 | 93.4 | 4.9 | 20.1 | 8.4 | 1.7 | 5.3 | 4.6 | 3.7 | 3.9 |
| Profit share of GNP | % | 6.8 | 8.0 | 8.0 | 8.3 | 8.4 | 8.3 | 8.3 | 8.3 | 8.2 | 8.2 |
| Excluding FR Banks | | 6.6 | 7.8 | 7.8 | 8.1 | 8.1 | 8.1 | 8.1 | 8.0 | 8.0 | 8.0 |
| Federal surpl./deficit | Bill. \$ | -13.6 | 97.4 | -63.5 | -84.3 | -81.0 | -96.0 | -20.5 | -3.5 | 25.1 | 29.0 |
| State & local surpl./def. | | 1.9 | 24.8 | 10.5 | 27.5 | 22.5 | 33.7 | 38.0 | 36.8 | 36.0 | 36.2 |
| Ex. social ins. funds | | 2.0 | 24.9 | 10.7 | 27.8 | 22.8 | 34.0 | 38.3 | 37.1 | 36.3 | 36.5 |
| Gross natl. saving rate | % | 17.2 | 16.6 | 16.6 | 16.8 | 17.0 | 17.1 | 17.4 | 17.7 | 17.9 | 18.0 |
| Net natl. saving rate | | 3.9 | 3.9 | 3.9 | 4.1 | 4.4 | 4.3 | 4.7 | 5.0 | 5.2 | 5.2 |
| PRICES AND COSTS | | | | | | | | | | | |
| GDP chn.-wt. price index | % change | 2.3 | -0.1 | 1.1 | 1.3 | 0.9 | 1.4 | 1.8 | 1.4 | 1.4 | 1.4 |
| Gross Domestic Purchases chn.-wt. price index | | -0.1 | 0.5 | 0.8 | 2.3 | 1.2 | 1.5 | 1.8 | 1.4 | 1.4 | 1.4 |
| PCE chn.-wt. price index | | -0.2 | 0.8 | 0.7 | 2.5 | 1.2 | 1.4 | 1.4 | 1.4 | 1.4 | 1.3 |
| Ex. food and energy | | 0.5 | 2.7 | 1.0 | 1.7 | 1.4 | 1.4 | 1.4 | 1.4 | 1.3 | 1.3 |
| CPI | | 0.7 | -0.2 | 1.4 | 3.4 | 1.7 | 2.1 | 1.9 | 1.9 | 1.9 | 1.9 |
| Ex. food and energy | | 2.6 | 2.6 | 2.3 | 2.4 | 2.2 | 2.2 | 2.1 | 2.1 | 2.1 | 2.1 |
| ECI, hourly compensation ¹ | | 3.7 | 4.2 | 3.6 | 3.5 | 3.5 | 3.4 | 3.5 | 3.5 | 3.5 | 3.5 |
| Nonfarm business sector | | 1.1 | 5.5 | 8.6 | 2.2 | 1.2 | 0.8 | 1.5 | 1.9 | 2.0 | 2.0 |
| Output per hour | | 3.7 | 2.2 | 2.8 | 2.7 | 3.0 | 3.2 | 3.4 | 3.4 | 3.4 | 3.4 |
| Compensation per hour | | 2.6 | -3.1 | -5.8 | 0.5 | 1.8 | 2.5 | 2.0 | 1.5 | 1.4 | 1.4 |
| Unit labor cost | | | | | | | | | | | |

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

June 20, 2002

| Item | 1999 Q3 | 1999 Q4 | 2000 Q1 | 2000 Q2 | 2000 Q3 | 2000 Q4 | 2001 Q1 | 2001 Q2 | 2001 Q3 | 2001 Q4 | 2002 Q3 | 2002 Q4 | 01Q4/ 00Q4 |
|-----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|---------------|
| Real GDP | 4.7 | 8.3 | 2.3 | 5.7 | 1.3 | 1.9 | 1.3 | 0.3 | -1.3 | 4.4 | 2.8 | 0.5 | 0.5 |
| Gross dom. purchases | 5.4 | 8.4 | 3.6 | 6.5 | 2.0 | 2.3 | 0.7 | 0.4 | -1.1 | 5.4 | 3.6 | 0.5 | 0.5 |
| Final sales | 4.2 | 6.2 | 4.7 | 3.9 | 2.3 | 2.4 | 3.9 | 0.7 | -0.5 | 4.2 | 3.3 | 2.0 | 2.0 |
| Priv. dom. final purchases | 4.2 | 4.8 | 6.2 | 4.0 | 3.3 | 2.2 | 2.4 | -0.0 | -0.3 | 4.5 | 3.9 | 1.1 | 1.1 |
| Personal cons. expenditures | 3.0 | 4.0 | 3.9 | 2.5 | 2.9 | 2.1 | 2.1 | 1.7 | 0.7 | 3.5 | 2.9 | 2.1 | 2.1 |
| Durables | 0.7 | 1.1 | 1.5 | -0.2 | 0.7 | -0.2 | 0.8 | 0.6 | 0.1 | 0.9 | 0.4 | 1.1 | 1.1 |
| Nondurables | 0.5 | 1.0 | 1.0 | 1.0 | 0.8 | 0.1 | 0.5 | 0.1 | 0.1 | 1.0 | 0.7 | 0.3 | 0.3 |
| Services | 1.7 | 1.4 | 1.5 | 1.8 | 1.4 | 2.2 | 0.7 | 1.1 | 0.5 | 1.6 | 1.7 | 0.8 | 0.8 |
| Business fixed investment | 1.3 | 0.8 | 1.9 | 1.5 | 0.9 | 0.1 | -0.0 | -0.0 | -2.0 | -1.1 | 0.9 | 1.1 | -1.2 |
| Equipment & Software | 1.5 | 0.6 | 1.6 | 1.2 | 0.5 | -0.5 | -0.4 | -0.4 | -1.6 | -0.8 | 1.0 | 0.8 | -0.8 |
| Nonres. structures | -0.2 | 0.1 | 0.3 | 0.4 | 0.5 | 0.2 | -0.4 | -0.4 | -0.3 | -0.1 | 0.3 | -0.3 | -0.4 |
| Residential structures | -0.0 | 0.1 | 0.4 | -0.0 | -0.5 | -0.1 | 0.4 | 0.3 | 0.1 | 0.1 | -0.1 | 0.1 | 0.1 |
| Net exports | -0.8 | -0.2 | -1.3 | -0.8 | -0.7 | -0.4 | 0.6 | -0.1 | -0.3 | -1.0 | -0.8 | 0.0 | 0.0 |
| Exports | 1.0 | 1.3 | 1.0 | 1.4 | 1.1 | -0.5 | -0.1 | -1.4 | -2.1 | 0.5 | 0.8 | -1.2 | -1.2 |
| Imports | -1.8 | -1.4 | -2.3 | -2.3 | -1.8 | -0.1 | 0.8 | 1.3 | 1.9 | -1.5 | -1.6 | 1.2 | 1.2 |
| Government cons. & invest. | 0.8 | 1.5 | -0.2 | 0.8 | -0.3 | 0.6 | 0.9 | 0.9 | 0.1 | 0.7 | 0.2 | 0.9 | 0.9 |
| Federal | 0.4 | 0.9 | -0.8 | 0.9 | -0.7 | 0.3 | 0.2 | 0.1 | 0.2 | 0.3 | -0.1 | 0.3 | 0.3 |
| Defense | 0.5 | 0.6 | -0.9 | 0.6 | -0.4 | 0.4 | 0.3 | 0.1 | 0.1 | 0.2 | -0.1 | 0.2 | 0.2 |
| Nondefense | -0.1 | 0.3 | 0.0 | 0.3 | -0.2 | -0.1 | -0.1 | 0.0 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 |
| State and local | 0.3 | 0.7 | 0.6 | -0.1 | 0.3 | 0.3 | 0.7 | 0.8 | -0.2 | 0.4 | 0.3 | 0.6 | 0.6 |
| Change in bus. inventories | 0.4 | 2.2 | -2.3 | 1.8 | -1.0 | -0.5 | -2.6 | -0.4 | -0.8 | 0.2 | -0.5 | -1.5 | -1.5 |
| NonFarm | 0.9 | 1.5 | -2.0 | 1.5 | -0.8 | -0.7 | -2.6 | -0.3 | -0.8 | 0.1 | -0.5 | -1.5 | -1.5 |
| Farm | -0.4 | 0.6 | -0.3 | 0.3 | -0.2 | 0.2 | 0.0 | -0.1 | -0.0 | 0.0 | -0.0 | -0.0 | -0.0 |

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

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

| Item | 2001 Q4 | 2002 Q1 | 2002 Q2 | 2002 Q3 | 2002 Q4 | 2003 Q1 | 2003 Q2 | 2003 Q3 | 2003 Q4 | 01Q4/ 00Q4 | 02Q4/ 01Q4 | 03Q4/ 02Q4 |
|-----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|---------------|---------------|---------------|
| Real GDP | | | | | | | | | | | | |
| Gross dom. purchases | 1.7 | 5.5 | 1.8 | 3.3 | 3.5 | 4.0 | 4.1 | 4.2 | 4.2 | 0.5 | 3.5 | 4.1 |
| Final sales | 1.8 | 6.6 | 3.0 | 3.9 | 3.6 | 4.6 | 4.7 | 4.6 | 4.2 | 0.5 | 4.3 | 4.5 |
| Priv. dom. final purchases | 3.8 | 2.1 | 0.6 | 2.4 | 3.6 | 3.3 | 3.4 | 3.7 | 4.1 | 2.0 | 2.2 | 3.6 |
| Personal cons. expenditures | 2.2 | 2.1 | 1.5 | 2.2 | 2.9 | 3.2 | 3.3 | 3.4 | 3.5 | 1.1 | 2.2 | 3.3 |
| Durables | 4.1 | 2.3 | 1.2 | 1.9 | 2.1 | 2.1 | 2.1 | 2.1 | 2.2 | 2.1 | 1.8 | 2.1 |
| Nondurables | 2.8 | -0.9 | 0.4 | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 | 0.5 | 1.1 | 0.1 | 0.4 |
| Services | 0.5 | 1.6 | -0.2 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.3 | 0.6 | 0.5 |
| Business fixed investment | 0.8 | 1.5 | 1.1 | 1.1 | 1.1 | 1.2 | 1.2 | 1.2 | 1.2 | 0.8 | 1.2 | 1.2 |
| Equipment & Software | -1.8 | -0.9 | 0.2 | 0.4 | 0.7 | 1.0 | 1.0 | 1.0 | 1.0 | 1.3 | -1.2 | 0.1 |
| Nonres. structures | -0.3 | -0.7 | -0.2 | -0.1 | -0.1 | 0.0 | 0.0 | 0.1 | 0.1 | 1.2 | -0.8 | 0.4 |
| Residential structures | -0.2 | 0.6 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | -0.3 | 0.1 |
| Net exports | -0.1 | -1.1 | -1.2 | -0.6 | -0.1 | -0.6 | -0.6 | -0.5 | -0.5 | 0.0 | -0.8 | -0.4 |
| Exports | -1.1 | 0.5 | 0.5 | 0.6 | 0.9 | 0.5 | 0.8 | 0.9 | 1.1 | -1.2 | 0.6 | 0.8 |
| Imports | 1.0 | -1.6 | -1.7 | -1.2 | -1.0 | -1.2 | -1.4 | -1.3 | -1.1 | 1.2 | -1.4 | -1.3 |
| Government cons. & invest. | 1.8 | 1.2 | 0.4 | 0.7 | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | 0.9 | 0.8 | 0.7 |
| Federal | 0.7 | 0.7 | 0.4 | 0.4 | 0.4 | 0.3 | 0.2 | 0.2 | 0.2 | 0.3 | 0.4 | 0.2 |
| Defense | 0.3 | 0.7 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.2 | 0.3 | 0.1 |
| Nondefense | 1.1 | -0.5 | -0.5 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| State and local | | | | | | | | | | 0.6 | 0.3 | 0.5 |
| Change in bus. inventories | -2.2 | 3.4 | 1.2 | 1.0 | -0.0 | 0.7 | 0.7 | 0.5 | 0.0 | -1.5 | 1.4 | 0.5 |
| NonFarm | -2.1 | 3.4 | 1.0 | 1.0 | -0.0 | 0.6 | 0.7 | 0.5 | 0.0 | -1.5 | 1.3 | 0.5 |
| Farm | -0.1 | -0.0 | 0.1 | -0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

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

| Item | Fiscal year ¹ | | | | 2001 | | | | 2002 | | | | 2003 | | | |
|---|--------------------------|-------------------|------|------|-----------------|-----------------|-----------------|-----------------|-----------------|------|------|------|------|------|------|------|
| | 2000 ^a | 2001 ^a | 2002 | 2003 | Q1 ^a | Q2 ^a | Q3 ^a | Q4 ^a | Q1 ^a | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Unified budget | | | | | | | | | | | | | | | | |
| Receipts ² | 2025 | 1991 | 1862 | 1993 | 460 | 660 | 409 | 466 | 413 | 524 | 459 | 437 | 442 | 624 | 490 | 477 |
| Outlays ² | 1789 | 1864 | 2016 | 2119 | 482 | 467 | 451 | 503 | 509 | 510 | 493 | 538 | 533 | 531 | 517 | 558 |
| Surplus/deficit ² | 236 | 127 | -153 | -126 | -22 | 194 | -42 | -37 | -97 | 14 | -33 | -101 | -92 | 93 | -28 | -81 |
| On-budget | 87 | -33 | -309 | -295 | -88 | 119 | -51 | -81 | -127 | -55 | -46 | -140 | -130 | 18 | -43 | -126 |
| Off-budget | 150 | 161 | 155 | 169 | 65 | 75 | 10 | 44 | 30 | 69 | 13 | 39 | 39 | 75 | 16 | 45 |
| Surplus excluding deposit insurance | 233 | 126 | -153 | -127 | -23 | 193 | -42 | -37 | -96 | 14 | -34 | -101 | -92 | 93 | -28 | -81 |
| Means of financing | | | | | | | | | | | | | | | | |
| Borrowing | -223 | -90 | 178 | 156 | 24 | -157 | 69 | 60 | 51 | 18 | 50 | 101 | 91 | -54 | 19 | 66 |
| Cash decrease | 4 | 8 | -6 | 5 | -7 | -15 | -1 | -8 | 38 | -28 | -8 | 21 | -1 | -30 | 15 | 15 |
| Other ³ | -18 | -45 | -18 | -35 | 6 | -21 | -21 | -26 | -14 | 8 | -3 | -8 | -21 | 2 | -9 | -6 |
| Cash operating balance, end of period | 53 | 44 | 50 | 45 | 28 | 44 | 44 | 52 | 14 | 42 | 50 | 29 | 30 | 60 | 45 | 30 |
| NIPA federal sector | | | | | | | | | | | | | | | | |
| Receipts | 2012 | 2041 | 1962 | 2077 | 2087 | 2092 | 1907 | 2027 | 1925 | 1943 | 1955 | 1978 | 2075 | 2109 | 2146 | 2184 |
| Expenditures | 1813 | 1891 | 1995 | 2101 | 1882 | 1905 | 1921 | 1929 | 1989 | 2027 | 2036 | 2074 | 2095 | 2112 | 2121 | 2155 |
| Consumption expenditures | 492 | 506 | 551 | 593 | 508 | 510 | 514 | 525 | 551 | 559 | 568 | 579 | 593 | 599 | 604 | 609 |
| Defense | 322 | 337 | 368 | 394 | 338 | 340 | 343 | 348 | 371 | 374 | 379 | 383 | 393 | 397 | 401 | 404 |
| Nondefense | 170 | 170 | 183 | 199 | 169 | 171 | 171 | 177 | 181 | 185 | 189 | 193 | 200 | 202 | 203 | 205 |
| Other spending | 1321 | 1384 | 1445 | 1507 | 1375 | 1395 | 1407 | 1404 | 1438 | 1468 | 1468 | 1497 | 1502 | 1514 | 1517 | 1546 |
| Current account surplus | 199 | 150 | -33 | -24 | 205 | 187 | -14 | 97 | -64 | -84 | -81 | -96 | -21 | -3 | 25 | 29 |
| Gross investment | 96 | 100 | 111 | 121 | 98 | 100 | 102 | 107 | 109 | 113 | 115 | 118 | 120 | 122 | 123 | 125 |
| Current and capital account surplus | 102 | 50 | -144 | -144 | 108 | 87 | -116 | -9 | -173 | -198 | -197 | -214 | -140 | -125 | -98 | -96 |
| Fiscal indicators⁴ | | | | | | | | | | | | | | | | |
| High-employment (HEB) surplus/deficit | -5 | -5 | -143 | -163 | 34 | 38 | -127 | -3 | -178 | -194 | -196 | -220 | -155 | -147 | -128 | -133 |
| Change in HEB, percent of potential GDP | -9 | -0 | 1 | .1 | 0 | -0 | 2 | -1 | 2 | .1 | -0 | .2 | -6 | -.1 | -.2 | 0 |
| Fiscal impetus (FI) percent, calendar year | 2 | 8 | 23 | 11 | 3 | 3 | 9 | -4 | 14 | 6 | 2 | 4 | 4 | 2 | -.4 | 2 |

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

2. OMB's February 2002 baseline surplus estimates are \$9 billion in FY 2002 and \$51 billion in FY 2003; CBO's April 2002 baseline surplus estimates, which includes the March 2002 stimulus bill, are -\$46 billion in FY 2002 and -\$40 billion in FY 2003. 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)**

June 20, 2002

| Period ¹ | Total | Federal government | Nonfederal | | | | Memo: Nominal GDP | |
|---------------------|-------|--------------------|------------|----------------|----------|-----------------------------|-------------------------|--|
| | | | Households | | Business | State and local governments | | |
| | | | Total | Home mortgages | | | | |
| <i>Year</i> | | | | | | | | |
| 1996 | 5.4 | 4.0 | 5.8 | 7.0 | 6.8 | 8.1 | 6.2 | |
| 1997 | 5.6 | 0.6 | 7.3 | 6.4 | 6.7 | 4.7 | -0.6 | |
| 1998 | 6.8 | -1.4 | 9.6 | 8.2 | 8.9 | 5.9 | 5.3 | |
| 1999 | 6.6 | -1.9 | 9.1 | 8.3 | 9.0 | 7.4 | 6.2 | |
| 2000 | 5.0 | -8.0 | 8.4 | 8.4 | 8.2 | 9.6 | 6.0 | |
| 2001 | 6.0 | -0.2 | 7.5 | 8.7 | 9.8 | 6.9 | 5.3 | |
| 2002 | 5.9 | 6.5 | 5.8 | 8.0 | 9.0 | 5.5 | 2.3 | |
| 2003 | 5.8 | 3.4 | 6.3 | 7.2 | 8.0 | 5.8 | 4.7 | |
| | | | | | | 5.7 | 5.6 | |
| <i>Quarter</i> | | | | | | | | |
| 2001:1 | 5.3 | -0.1 | 6.6 | 7.4 | 7.6 | 9.1 | 5.4 | |
| 2 | 5.3 | -7.6 | 8.2 | 9.3 | 11.4 | 4.7 | 7.0 | |
| 3 | 7.1 | 7.7 | 6.9 | 8.8 | 9.5 | 4.3 | 5.7 | |
| 4 | 5.9 | -0.5 | 7.3 | 8.3 | 9.4 | 9.0 | 5.3 | |
| 2002:1 | 5.2 | 3.3 | 5.5 | 9.0 | 10.1 | 4.7 | 11.7 | |
| 2 | 6.3 | 13.5 | 4.8 | 7.4 | 8.4 | 5.7 | 1.8 | |
| 3 | 5.6 | 4.9 | 5.8 | 7.2 | 8.1 | 5.3 | 2.1 | |
| 4 | 5.9 | 3.7 | 6.4 | 7.4 | 8.2 | 5.7 | 4.6 | |
| 2003:1 | 6.4 | 7.5 | 6.1 | 7.1 | 8.1 | 5.6 | 3.1 | |
| 2 | 6.0 | 4.7 | 6.2 | 7.0 | 7.8 | 5.7 | 4.2 | |
| 3 | 5.3 | 1.3 | 6.2 | 7.0 | 7.7 | 5.7 | 5.5 | |
| 4 | 5.1 | -0.2 | 6.2 | 7.0 | 7.6 | 5.7 | 4.4 | |
| | | | | | | 5.7 | 4.3 | |

Note: Quarterly data are at seasonally adjusted annual rates.

1. Data after 2002:Q1 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.

2.6.3 FOF

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

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

| Category | Calendar year | | | | 2001 | | | | 2002 | | | | 2003 | | | |
|--|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----|----|
| | 2000 | 2001 | 2002 | 2003 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q3 | Q4 |
| <i>Net funds raised by domestic nonfinancial sectors</i> | | | | | | | | | | | | | | | | |
| 1 Total | 702.1 | 1046.3 | 1169.7 | 1183.9 | 1202.1 | 1119.7 | 1019.6 | 1286.6 | 1150.3 | 1222.6 | 1311.4 | 1241.3 | 1109.2 | 1073.7 | | |
| 2 Net equity issuance | -159.7 | -57.5 | 29.7 | -6.7 | -126.4 | -7.3 | 20.2 | 52.4 | 24.0 | 22.0 | 7.0 | 0.2 | -12.0 | -22.0 | | |
| 3 Net debt issuance | 861.8 | 1103.7 | 1140.1 | 1190.6 | 1328.5 | 1127.0 | 999.4 | 1234.2 | 1126.3 | 1200.6 | 1304.4 | 1241.1 | 1121.2 | 1095.7 | | |
| <i>Borrowing sectors</i> | | | | | | | | | | | | | | | | |
| Nonfinancial business | | | | | | | | | | | | | | | | |
| 4 Financing gap ¹ | 264.2 | 164.2 | 112.3 | 176.6 | 160.5 | 31.8 | 97.1 | 107.9 | 121.4 | 122.8 | 142.0 | 166.4 | 188.0 | 210.1 | | |
| 5 Net equity issuance | -159.7 | -57.5 | 29.7 | -6.7 | -126.4 | -7.3 | 20.2 | 52.4 | 24.0 | 22.0 | 7.0 | 0.2 | -12.0 | -22.0 | | |
| 6 Credit market borrowing | 584.6 | 391.4 | 240.6 | 409.0 | 381.2 | 365.2 | 127.4 | 146.2 | 314.2 | 374.5 | 381.3 | 417.6 | 409.9 | 427.0 | | |
| Households | | | | | | | | | | | | | | | | |
| 7 Net borrowing ² | 545.9 | 614.6 | 614.6 | 597.9 | 648.6 | 622.0 | 695.8 | 583.8 | 577.0 | 602.0 | 591.4 | 589.3 | 599.7 | 611.4 | | |
| 8 Home mortgages | 373.6 | 480.9 | 483.7 | 471.0 | 486.0 | 493.7 | 546.3 | 462.5 | 453.9 | 471.9 | 473.1 | 467.4 | 468.6 | 475.0 | | |
| 9 Consumer credit | 139.0 | 110.2 | 93.0 | 103.6 | 70.6 | 149.9 | 79.9 | 98.5 | 93.0 | 100.5 | 100.0 | 103.7 | 104.5 | 106.1 | | |
| 10 Debt/DPI (percent) ³ | 96.7 | 99.6 | 102.2 | 105.5 | 98.4 | 102.4 | 101.1 | 102.0 | 102.7 | 103.5 | 104.5 | 105.1 | 105.9 | 106.4 | | |
| State and local governments | | | | | | | | | | | | | | | | |
| 11 Net borrowing | 27.2 | 103.2 | 65.7 | 62.8 | 43.0 | 157.5 | 64.2 | 44.0 | 63.8 | 90.8 | 60.8 | 60.8 | 64.8 | 64.8 | | |
| 12 Current surplus ⁴ | 191.9 | 190.9 | 206.6 | 228.3 | 181.1 | 199.8 | 193.4 | 208.2 | 205.6 | 219.3 | 225.9 | 227.1 | 228.8 | 231.6 | | |
| Federal government | | | | | | | | | | | | | | | | |
| 13 Net borrowing | -295.9 | -5.6 | 219.2 | 120.9 | 255.7 | -17.6 | 112.0 | 460.2 | 171.3 | 133.3 | 271.0 | 173.4 | 46.8 | -7.5 | | |
| 14 Net borrowing (quarterly, n.s.a.) | -295.9 | -5.6 | 219.2 | 120.9 | 68.6 | 59.5 | 50.8 | 17.5 | 49.9 | 101.0 | 90.5 | -54.2 | 18.8 | 65.8 | | |
| 15 Unified deficit (quarterly, n.s.a.) | -254.8 | -92.3 | 217.1 | 106.6 | 41.9 | 37.1 | 96.6 | -13.6 | 33.5 | 100.7 | 91.6 | -93.3 | 27.5 | 80.8 | | |
| <i>Depository institutions⁵</i> | | | | | | | | | | | | | | | | |
| 16 Funds supplied | 445.3 | 286.3 | 344.5 | 368.3 | 306.6 | 410.9 | 255.2 | 332.8 | 358.6 | 431.4 | 367.8 | 348.7 | 373.1 | 383.8 | | |
| Memo (percentage of GDP) | | | | | | | | | | | | | | | | |
| 17 Domestic nonfinancial debt ⁵ | 180.6 | 184.4 | 188.6 | 189.7 | 185.1 | 187.4 | 187.0 | 188.2 | 189.0 | 189.5 | 189.7 | 190.0 | 190.1 | 189.9 | | |
| 18 Domestic nonfinancial borrowing | 8.7 | 10.8 | 10.8 | 10.7 | 13.0 | 11.0 | 9.6 | 11.7 | 10.6 | 11.2 | 12.0 | 11.2 | 10.0 | 9.6 | | |
| 19 Federal government ⁶ | -3.0 | -0.1 | 2.1 | 1.1 | 2.5 | -0.2 | 1.1 | 4.4 | 1.6 | 1.2 | 2.5 | 1.6 | 0.4 | -0.1 | | |
| 20 Nonfederal | 11.7 | 10.9 | 8.7 | 9.6 | 10.5 | 11.2 | 8.5 | 7.4 | 9.0 | 9.9 | 9.5 | 9.7 | 9.6 | 9.7 | | |

Note. Data after 2002: Q1 are staff projections.

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

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

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

2.6.4 FOF

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

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

6. Excludes government-insured mortgage pool securities.

International Developments

Recovery abroad appears to be proceeding, and recent data on foreign economic activity in the first half of this year have been coming in a bit stronger on an export-weighted average basis than we had expected in the May Greenbook. The pace of the recovery remains uneven across countries and regions, however. Growth in Canada, Australia, and emerging Asia has been strong, and monetary authorities in some of those economies have already started tightening policy. Growth in the euro area has been somewhat less impressive but on an uptrend nonetheless since the fourth quarter. Underlying growth in Japan appears to have moved into positive territory in the first half of this year but remains weak. In South America, GDP growth is still negative on average, with severe contractions under way in Argentina and Venezuela. In Brazil, growth in the first half looks to have been reasonably strong, but political concerns have driven up financing spreads and are threatening to derail the country's recovery.

Despite the upward tilt to news on real activity abroad, foreign financial markets have taken a negative tone, in line with U.S. markets, with equity markets generally weaker and government bond yields lower than they were earlier this year. The dollar has also declined further during the intermeeting period, and market commentary appears to be giving more attention to the view that the dollar may be at the beginning of a sustained adjustment from its sixteen-year high.

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

| Indicator | 2001 | 2002 Q1 | Projection | | |
|--------------------|------|------------|------------|-----|------|
| | | | 2002 | | 2003 |
| | | | Q2 | H2 | |
| Foreign output | .1 | 3.2 | 2.8 | 3.4 | 3.5 |
| <i>Previous GB</i> | .0 | 2.7 | 2.8 | 3.1 | 3.4 |
| Foreign CPI | 1.7 | 1.9 | 2.9 | 2.1 | 2.1 |
| <i>Previous GB</i> | 1.7 | 1.6 | 2.8 | 2.7 | 2.5 |

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

Largely because of the strength of recent data, we have revised up our outlook for growth in several economies, including Canada, the United Kingdom, Japan, and emerging Asia. Political concerns in Brazil and Venezuela prompted downward revisions to the growth projections for those countries. On balance, our projection for export-weighted foreign growth has been raised about 1/4 percentage point to a rate of about 3-1/4 percent for this year; it remains at around 3-1/2 percent for 2003. Foreign inflation is projected to be higher this

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

| Trade category | 2001 | 2002 Q1 | Projection | | |
|--------------------------|-------|------------|------------|-------|-------|
| | | | 2002 | | 2003 |
| | | | Q2 | H2 | |
| <i>Exports</i> | | | | | |
| Core goods | -1.5 | -1.2 | 2.5 | 1.7 | 1.6 |
| <i>Imports</i> | | | | | |
| Non-oil core goods | -3.1 | -2.3 | 1.7 | 4.1 | 2.7 |
| Oil (dollars per barrel) | 18.40 | 18.35 | 23.90 | 23.36 | 21.42 |

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. Real exports of goods and services are estimated to have increased 5-1/4 percent at an annual rate in the first quarter, the first quarterly gain since mid-2000. The increase was primarily in services exports, as exports of core goods continued to fall. As foreign growth recovers, exports of core goods are projected to rebound, growing at an average rate of about 6 percent over the forecast period. The considerably stronger projected growth in exports than in foreign GDP largely reflects the reversal of the divergence that appeared over the past year as U.S. goods exports dropped much more sharply than did foreign GDP. This divergence may be partly related to the presence of intermediate production inputs in core exports, as the export drop more closely paralleled last year's slump in foreign industrial production than it did the relatively shallow cycle in foreign GDP. As production abroad recovers, core exports should rise in response. Exports of computers and semiconductors are projected to make sizable positive contributions to real export growth this year and next, after falling sharply last year; and service receipts, especially travel and passenger fares, should continue to recover. In addition, the projected depreciation of the dollar boosts exports going forward. We project that real exports of all goods and services, after declining 11 percent in 2001, will increase 6-1/2 percent in 2002 and about 8-1/2 percent in 2003.

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

| Measure | 2001 | 2002 Q1 | Projection | | |
|--------------------|--------------|-------------|-------------|------------|-------------|
| | | | 2002 | | 2003 |
| | | | Q2 | H2 | |
| Real exports | -10.9 | 5.3 | 5.3 | 7.9 | 8.4 |
| <i>Previous GB</i> | <i>-10.9</i> | <i>7.0</i> | <i>5.3</i> | <i>6.7</i> | <i>7.6</i> |
| Real imports | -8.5 | 12.9 | 13.9 | 8.3 | 9.2 |
| <i>Previous GB</i> | <i>-8.5</i> | <i>14.9</i> | <i>16.3</i> | <i>9.8</i> | <i>10.3</i> |

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

The level of real imported goods and services also registered its first increase since mid-2000 in the first quarter, rising 13 percent at an annual rate. All major categories except oil contributed to the increase, reflecting a surge in U.S. domestic demand. We continue to project further sizable increases both this year and next in imports, which will be boosted by growth in U.S. activity. Growth in total imports of goods and services is expected to average about 10 percent over the remainder of 2002, reflecting cyclical growth in demand for core goods and a rebound in the travel portion of service imports as the effects of September 11 wane. We project growth to slow a bit, to 9-1/4 percent in 2003, owing in part to the lower projected path of the dollar.

The U.S. current account deficit as a share of GDP is estimated to have been about 4-1/2 percent in the first quarter. We project the current account deficit to increase to nearly \$600 billion by the end of 2003, 5-1/4 percent of GDP.

Alternative simulations. The recent downward pressures on the dollar may intensify, generating a much sharper fall than is projected in our baseline forecast. In our first alternative simulation, we use the FRB/Global model to consider a more substantial decline in the value of the broad real dollar index than is assumed in the baseline. Our second simulation assumes that the rise in the risk premium on dollar-denominated assets is accompanied by a more general weakening of U.S. financial market confidence. This adverse shock to confidence induces a higher equity premium and an exogenous rise in risk premiums on corporate bonds.

In the first simulation, we consider a sequence of shocks to the risk premium on dollar assets that are phased in over the four quarters beginning in 2002:Q3.

**Alternative Simulation 1:
Weaker Dollar¹**

(Percent change from previous period, annual rate)

| Indicator and simulation | 2002 | | 2003 | |
|--|------|-----|------|-----|
| | H1 | H2 | H1 | H2 |
| <i>U.S. real GDP</i> | | | | |
| Baseline | 3.6 | 3.4 | 4.0 | 4.2 |
| Fixed real rate | 3.6 | 3.6 | 4.4 | 4.7 |
| Taylor rule | 3.6 | 3.6 | 4.3 | 4.4 |
| <i>U.S. PCE prices excl. food and energy</i> | | | | |
| Baseline | 1.3 | 1.4 | 1.4 | 1.3 |
| Fixed real rate | 1.3 | 1.4 | 2.1 | 2.3 |
| Taylor rule | 1.3 | 1.4 | 2.1 | 2.3 |

NOTE. H1 is Q2/Q4; H2 is Q4/Q2.

1. In the fixed real rate case, the Federal Reserve holds the *ex post* real federal funds rate unchanged from its baseline path. In the Taylor rule case, the real federal funds rate is adjusted according to a Taylor rule, with a coefficient of 1/2 on both the inflation and output gaps. In each case, foreign industrial countries and most developing countries adjust short-term interest rates according to a Taylor rule.

In the first simulation, while interest rates adjust to the risk premium shock, the shock is assumed to induce very little change in corporate risk spreads or in the required return on equity. In the second simulation, we add a “confidence shock” that raises spreads on corporate bond yields and equity returns. Because a confidence shock of this type leads in general to a decline in domestic demand and a contraction in GDP, it will tend to offset the expansionary effect of the decline in the dollar.

In the absence of any precise view on the appropriate relative magnitudes of the shocks, we have chosen to calibrate the confidence shock to offset roughly the effects of the dollar decline on U.S. GDP. The shock to confidence involves a gradual, exogenous rise of 50 basis points in the equity risk premium (over the risk-free return), again phased in during the forecast period. In addition, it includes increases in the risk premiums on corporate bonds: The spread on Aaa corporates would rise 25 basis points over the same period in the absence of endogenous adjustments, while the spread on Baa bonds would rise 50 basis points. These premiums increase the cost of raising capital through bond or equity finance and weaken consumer spending by inducing a substantial decline

in the stock market. (The stock market declines 15 percent by 2003:H2 in response to the combined effects.)

By design, the combined shock has very little effect on the path of U.S. output relative to baseline over the simulation period, a result that does not depend significantly on which of the two types of U.S. monetary policy response is considered. A larger confidence shock would tilt the outcome of this second simulation toward a net contraction in GDP relative to baseline, and a smaller confidence shock would leave a net expansion. The rise in the PCE inflation in this simulation is virtually identical to that reported in the first simulation, primarily reflecting in both cases the direct pass-through of import prices.

**Alternative Simulation 2:
Weaker Dollar and Higher Risk Premiums¹**
(Percent change from previous period, annual rate)

| Indicator and simulation | 2002 | | 2003 | |
|--|------|-----|------|-----|
| | H1 | H2 | H1 | H2 |
| <i>U.S. real GDP</i> | | | | |
| Baseline | 3.6 | 3.4 | 4.0 | 4.2 |
| Fixed real rate | 3.6 | 3.5 | 4.1 | 4.2 |
| Taylor rule | 3.6 | 3.5 | 4.0 | 4.0 |
| <i>U.S. PCE prices excl. food and energy</i> | | | | |
| Baseline | 1.3 | 1.4 | 1.4 | 1.3 |
| Fixed real rate | 1.3 | 1.4 | 2.1 | 2.3 |
| Taylor rule | 1.3 | 1.5 | 2.1 | 2.3 |

NOTE. H1 is Q2/Q4; H2 is Q4/Q2.

1. In the fixed real rate case, the Federal Reserve holds the *ex post* real federal funds rate unchanged from its baseline path. In the Taylor rule case, the real federal funds rate is adjusted according to a Taylor rule, with a coefficient of 1/2 on both the inflation and output gaps. In each case, foreign industrial countries and most developing countries adjust short-term interest rates according to a Taylor rule.

| Measure and country | | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | --Projected-- |
|----------------------|-----------|------|------|------|------|------|------|------|------|------|---------------|
| REAL GDP (1) | | | | | | | | | | | |
| Total foreign | | 2.1 | 4.1 | 4.1 | 1.6 | 4.9 | 4.0 | 0.1 | 3.2 | 3.5 | |
| Industrial Countries | of which: | 1.9 | 2.8 | 3.4 | 2.7 | 4.2 | 3.2 | 0.4 | 2.9 | 2.9 | |
| Canada | | 1.4 | 2.7 | 4.4 | 4.4 | 5.7 | 3.5 | 0.8 | 4.1 | 3.5 | |
| Japan | | 2.5 | 0.5 | -1.3 | 0.6 | 2.3 | -2.0 | 0.6 | 2.6 | 1.2 | |
| United Kingdom | | 2.0 | 2.9 | 3.6 | 2.6 | 2.7 | 2.6 | 1.6 | 2.6 | 2.9 | |
| Euro Area (2) | | 1.5 | 1.6 | 3.1 | 2.0 | 3.8 | 2.9 | 0.3 | 2.0 | 2.7 | |
| Germany | | 1.1 | 1.4 | 1.7 | 0.6 | 3.0 | 2.5 | 0.0 | 1.7 | 2.5 | |
| Developing Countries | | 2.4 | 6.2 | 5.2 | -0.2 | 6.2 | 5.2 | -0.4 | 3.7 | 4.4 | |
| Asia | | 7.0 | 6.6 | 4.9 | -2.0 | 8.7 | 6.3 | 0.7 | 5.5 | 5.6 | |
| Korea | | 7.5 | 6.4 | 3.4 | -5.2 | 13.8 | 5.1 | 4.4 | 6.2 | 6.0 | |
| China | | 10.4 | 5.3 | 8.7 | 9.5 | 14.1 | 8.0 | 7.5 | 7.5 | 7.5 | |
| Latin America | | -3.8 | 6.2 | 6.1 | 1.2 | 4.3 | 4.5 | -1.5 | 2.3 | 3.6 | |
| Mexico | | -7.1 | 7.1 | 6.7 | 2.8 | 5.4 | 4.9 | -1.5 | 3.2 | 4.3 | |
| Brazil | | -1.7 | 5.4 | 2.4 | -1.6 | 3.7 | 3.9 | -0.6 | 2.2 | 2.1 | |
| CONSUMER PRICES (3) | | | | | | | | | | | |
| Industrial Countries | of which: | 1.3 | 1.5 | 1.5 | 0.9 | 1.2 | 1.9 | 0.9 | 1.7 | 1.2 | |
| Canada | | 2.0 | 2.0 | 1.0 | 1.1 | 2.3 | 3.1 | 1.1 | 3.0 | 2.0 | |
| Japan | | -0.8 | 0.2 | 2.1 | 0.7 | -1.2 | -1.2 | -1.3 | -0.9 | -0.8 | |
| United Kingdom (4) | | 2.9 | 3.2 | 2.7 | 2.5 | 2.2 | 2.1 | 2.0 | 2.5 | 2.4 | |
| Euro Area (2) | | NA | NA | 1.5 | 0.8 | 1.5 | 2.7 | 2.1 | 2.1 | 1.5 | |
| Germany | | 1.4 | 1.3 | 1.5 | 0.3 | 1.1 | 2.5 | 1.7 | 1.6 | 0.9 | |
| Developing Countries | | 17.0 | 11.1 | 6.8 | 9.0 | 4.6 | 4.1 | 2.8 | 2.6 | 3.1 | |
| Asia | | 6.4 | 4.8 | 2.7 | 4.4 | 0.1 | 1.8 | 1.0 | 0.9 | 2.0 | |
| Korea | | 4.4 | 5.0 | 4.9 | 5.8 | 1.2 | 2.5 | 3.3 | 4.5 | 3.1 | |
| China | | 11.1 | 6.8 | 0.9 | -1.2 | -0.9 | 0.9 | -0.2 | -1.3 | 1.0 | |
| Latin America | | 42.0 | 25.8 | 15.5 | 15.4 | 12.5 | 8.4 | 5.4 | 6.0 | 5.3 | |
| Mexico | | 48.7 | 28.0 | 17.0 | 17.3 | 13.5 | 8.8 | 5.2 | 4.5 | 4.6 | |
| Brazil | | 21.5 | 9.6 | 4.6 | 1.5 | 8.1 | 6.0 | 7.4 | 6.3 | 4.3 | |

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

| Measure and country | 2001 | | | | 2002 | | | | Projected 2003 | | | |
|-----------------------------------|------|------|------|------|------|------|------|------|----------------|------|------|------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| REAL GDP (1) | | | | | | | | | | | | |
| Total foreign | 0.8 | -1.0 | -0.2 | 0.7 | 3.2 | 2.8 | 3.3 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Industrial Countries of which: | 1.6 | -0.4 | -0.1 | 0.3 | 3.8 | 1.7 | 3.0 | 3.0 | 3.0 | 2.8 | 2.8 | 2.8 |
| Canada | 0.6 | 0.3 | -0.5 | 2.9 | 6.0 | 3.5 | 3.7 | 3.5 | 3.7 | 3.5 | 3.4 | 3.4 |
| Japan | 4.1 | -4.9 | -2.2 | -4.9 | 5.7 | -4.5 | 0.7 | 0.9 | 1.0 | 1.1 | 1.3 | 1.4 |
| United Kingdom | 2.6 | 2.0 | 1.7 | -0.0 | 0.1 | 3.6 | 3.4 | 3.3 | 3.1 | 2.9 | 2.8 | 2.8 |
| Euro Area (2) | 2.0 | 0.1 | 0.4 | -1.2 | 0.9 | 1.5 | 2.6 | 2.9 | 2.8 | 2.6 | 2.6 | 2.6 |
| Germany | 1.6 | 0.2 | -0.7 | -1.0 | 0.7 | 1.0 | 2.3 | 2.9 | 2.6 | 2.5 | 2.6 | 2.4 |
| Developing Countries | -0.5 | -1.9 | -0.5 | 1.3 | 2.3 | 4.5 | 3.9 | 4.2 | 4.4 | 4.4 | 4.5 | 4.5 |
| Asia | -0.8 | -2.5 | 0.1 | 6.1 | 6.2 | 5.3 | 5.1 | 5.4 | 5.5 | 5.6 | 5.6 | 5.6 |
| Korea | -4.9 | -1.0 | 5.3 | 6.4 | 7.6 | 6.2 | 5.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 |
| China | 8.2 | 7.7 | -7.1 | -7.1 | 8.5 | 7.2 | 7.2 | 7.4 | 7.5 | 7.5 | 7.5 | 7.5 |
| Latin America | -0.5 | -1.7 | -1.1 | -2.5 | -1.2 | 4.1 | 3.0 | 3.4 | 3.6 | 3.7 | 3.7 | 3.7 |
| Mexico | -1.3 | -1.7 | -0.8 | -2.4 | -1.2 | 5.5 | 4.0 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 |
| Brazil | 4.8 | -5.4 | -1.7 | 0.4 | 5.4 | 2.0 | 0.0 | 1.5 | 1.7 | 2.0 | 2.2 | 2.5 |
| CONSUMER PRICES (3) | | | | | | | | | | | | |
| Industrial Countries of which: | 1.7 | 2.1 | 1.7 | 0.9 | 1.1 | 0.9 | 1.1 | 1.7 | 1.5 | 1.2 | 1.2 | 1.2 |
| Canada | 2.8 | 3.6 | 2.7 | 1.1 | 1.5 | 1.3 | 1.7 | 3.0 | 2.7 | 2.1 | 2.1 | 2.0 |
| Japan | -1.0 | -1.2 | -1.1 | -1.3 | -1.5 | -1.2 | -1.3 | -0.9 | -0.8 | -0.9 | -0.8 | -0.8 |
| United Kingdom (4) | 1.9 | 2.3 | 2.4 | 2.0 | 2.4 | 2.1 | 2.2 | 2.5 | 2.4 | 2.4 | 2.4 | 2.4 |
| Euro Area (2) | 2.3 | 3.1 | 2.4 | 2.1 | 2.6 | 2.0 | 2.3 | 2.1 | 1.8 | 1.5 | 1.5 | 1.5 |
| Germany | 2.4 | 3.2 | 2.4 | 1.7 | 2.0 | 1.3 | 1.5 | 1.6 | 0.9 | 0.9 | 0.9 | 0.9 |
| Developing Countries | 3.8 | 4.1 | 3.5 | 2.8 | 2.5 | 2.3 | 2.3 | 2.6 | 3.0 | 3.0 | 3.0 | 3.1 |
| Asia | 1.8 | 2.4 | 1.9 | 1.0 | 0.8 | 0.4 | 0.5 | 0.9 | 1.2 | 1.5 | 1.8 | 2.0 |
| Korea | 3.7 | 5.1 | 4.2 | 3.3 | 2.5 | 2.8 | 3.3 | 4.5 | 4.7 | 3.7 | 3.2 | 3.1 |
| China | 0.7 | 1.6 | 0.8 | -0.2 | -0.6 | -1.7 | -1.6 | -1.3 | -1.0 | -0.1 | 0.6 | 1.0 |
| Latin America | 7.3 | 6.9 | 6.0 | 5.4 | 5.1 | 5.4 | 5.8 | 6.0 | 6.9 | 6.2 | 5.7 | 5.3 |
| Mexico | 7.5 | 6.9 | 6.0 | 5.2 | 4.8 | 4.7 | 4.7 | 4.5 | 5.4 | 4.9 | 4.7 | 4.6 |
| Brazil | 6.2 | 7.2 | 6.6 | 7.4 | 7.7 | 7.8 | 7.2 | 6.3 | 5.7 | 4.7 | 4.5 | 4.3 |

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

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | Projected 2003 |
|---|--|--------|--------|--------|--------|--------|--------|--------|-------------------|
| NIPA REAL EXPORTS and IMPORTS | | | | | | | | | |
| Net Goods & Services Exports of G&S | 0.4 | -0.2 | -0.8 | -1.1 | -1.0 | -0.8 | 0.0 | -0.8 | -0.4 |
| Imports of G&S | 1.0 | 1.1 | 1.0 | 0.3 | 0.5 | 0.8 | -1.2 | 0.6 | 0.8 |
| | -0.6 | -1.3 | -1.7 | -1.3 | -1.5 | -1.6 | -1.2 | -1.4 | -1.3 |
| | Percentage point contribution to GDP growth, Q4/Q4 | | | | | | | | |
| Exports of G&S Services | 9.7 | 9.8 | 8.5 | 2.3 | 4.5 | 7.0 | -10.9 | 6.6 | 8.4 |
| Computers | 8.8 | 8.9 | 1.4 | 2.9 | 1.9 | 4.1 | -6.9 | 10.6 | 6.1 |
| Semiconductors | 39.1 | 21.6 | 25.8 | 8.1 | 13.8 | 23.1 | -22.9 | 11.5 | 32.5 |
| Other Goods 1/ | 79.6 | 44.6 | 21.3 | 9.1 | 34.6 | 26.9 | -35.3 | 26.9 | 34.0 |
| | 4.6 | 7.3 | 9.8 | 1.3 | 3.2 | 5.7 | -9.6 | 3.0 | 6.3 |
| Imports of G&S Services | 5.0 | 11.2 | 14.3 | 10.8 | 11.5 | 11.3 | -8.5 | 10.8 | 9.2 |
| Oil | 5.5 | 5.3 | 14.0 | 8.5 | 2.8 | 12.2 | -15.0 | 12.6 | 3.7 |
| Computers | 2.4 | 7.8 | 3.9 | 4.1 | -3.4 | 12.4 | 0.1 | 2.4 | 2.9 |
| Semiconductors | 35.0 | 17.8 | 33.0 | 25.8 | 25.1 | 13.6 | -13.7 | 38.0 | 32.5 |
| Other Goods 2/ | 92.4 | 56.7 | 32.9 | -8.7 | 33.5 | 22.5 | -51.3 | 41.0 | 33.9 |
| | -1.2 | 10.4 | 12.7 | 11.5 | 12.9 | 10.4 | -5.7 | 8.5 | 8.4 |
| | Billions of chained 1996 dollars | | | | | | | | |
| Net Goods & Services Exports of G&S | -78.4 | -89.0 | -113.3 | -221.1 | -316.9 | -399.1 | -408.7 | -480.3 | -542.0 |
| Imports of G&S | 808.2 | 874.2 | 981.5 | 1002.4 | 1034.8 | 1133.2 | 1081.7 | 1059.8 | 1140.8 |
| | 886.6 | 963.1 | 1094.8 | 1223.5 | 1351.7 | 1532.3 | 1490.4 | 1540.1 | 1682.8 |
| US CURRENT ACCOUNT BALANCE | | | | | | | | | |
| Current Acct as Percent of GDP | -109.9 | -120.9 | -139.8 | -217.5 | -324.4 | -444.7 | -417.1 | -495.0 | -559.5 |
| | -1.5 | -1.5 | -1.7 | -2.5 | -3.5 | -4.5 | -4.1 | -4.7 | -5.0 |
| Net Goods & Services (BOP) | -96.4 | -101.8 | -107.8 | -166.8 | -261.8 | -375.7 | -347.5 | -420.8 | -493.3 |
| Investment Income, Net Direct, Net Portfolio, Net | 25.0 | 25.5 | 13.6 | -1.2 | -8.5 | -9.6 | -13.7 | -11.5 | -5.5 |
| | 64.9 | 69.4 | 72.4 | 66.3 | 67.0 | 81.2 | 95.2 | 86.4 | 98.8 |
| | -39.9 | -43.9 | -58.8 | -67.5 | -75.6 | -90.9 | -109.0 | -97.9 | -104.3 |
| Other Income & Transfers, Net | -38.6 | -44.6 | -45.7 | -49.4 | -54.0 | -59.3 | -55.9 | -62.8 | -60.7 |

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

| | 1998 | | | | 1999 | | | | 2000 | | | | | | | |
|-----------------------------|-------------------------------|--------|--------|--------|---|--------|--------|--------|----------|--------|--------|--------|----------|--------|--------|--------|
| | Q1 | | Q2 | | Q3 | | Q4 | | Q1 | | Q2 | | Q3 | | Q4 | |
| | NIPA REAL EXPORTS and IMPORTS | | | | Percentage point contribution to GDP growth | | | | s.a.a.r. | | | | s.a.a.r. | | | |
| Net Goods & Services | -1.8 | -1.8 | -0.8 | 0.2 | -1.8 | -0.7 | -0.7 | -0.1 | -1.3 | -0.8 | -0.7 | -0.4 | -0.8 | -0.7 | -0.4 | -0.4 |
| Exports of G&S | 0.1 | -0.5 | -0.2 | 1.7 | -0.8 | 0.4 | 1.0 | -1.3 | 0.9 | -1.4 | -1.1 | -0.5 | -2.2 | -1.8 | -1.1 | -0.5 |
| Imports of G&S | -1.9 | -1.4 | -0.5 | -1.5 | -1.0 | -1.6 | -1.7 | -1.3 | -2.2 | -2.2 | -2.2 | -0.1 | -1.8 | -1.8 | -1.8 | -0.1 |
| Exports of G&S | 0.5 | -4.0 | -2.2 | 16.3 | -6.8 | 4.2 | 9.7 | 12.1 | 9.0 | 13.5 | 10.6 | -4.0 | -0.8 | -0.8 | -0.8 | -0.8 |
| Services | 2.4 | 8.0 | -8.4 | 10.5 | -3.9 | 3.8 | 2.0 | 6.1 | 10.3 | 9.9 | -6.7 | 3.7 | -0.7 | -0.7 | -0.7 | -0.7 |
| Computers | -8.3 | 8.2 | 12.0 | 22.8 | 0.5 | 26.8 | 18.3 | 21.0 | 32.7 | 49.2 | 25.8 | -7.9 | -7.9 | -7.9 | -7.9 | -7.9 |
| Semiconductors | 5.9 | -17.2 | 272.0 | -56.6 | 45.4 | 31.6 | 36.5 | 25.8 | 29.9 | 64.5 | 35.0 | -10.2 | -10.2 | -10.2 | -10.2 | -10.2 |
| Other Goods 1/ | 0.0 | -9.2 | -9.3 | 27.8 | -11.5 | 1.1 | 11.0 | 14.2 | 5.3 | 9.1 | 16.3 | -6.5 | -6.5 | -6.5 | -6.5 | -6.5 |
| Imports of G&S | 15.9 | 11.3 | 4.2 | 12.2 | 8.4 | 13.3 | 13.8 | 10.5 | 17.1 | 16.4 | 13.0 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 |
| Services | 21.3 | 6.7 | 7.0 | 0.1 | -8.2 | 1.8 | 7.9 | 11.0 | 20.6 | 12.4 | 12.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Oil | 3.6 | 42.8 | 1.1 | -21.6 | 3.9 | 29.8 | -5.8 | -31.5 | 29.7 | 40.3 | -4.9 | -7.7 | -7.7 | -7.7 | -7.7 | -7.7 |
| Computers | 38.4 | 18.5 | 6.4 | 43.6 | 40.6 | 41.1 | 8.3 | 13.8 | 12.8 | 34.4 | 18.4 | -7.2 | -7.2 | -7.2 | -7.2 | -7.2 |
| Semiconductors | 8.5 | -25.4 | -6.3 | -8.2 | 37.0 | 47.5 | 12.7 | 39.6 | 45.6 | 24.9 | 64.9 | -24.9 | -24.9 | -24.9 | -24.9 | -24.9 |
| Other Goods 2/ | 14.2 | 11.9 | 4.1 | 16.2 | 9.0 | 11.3 | 17.6 | 14.0 | 14.6 | 13.1 | 11.9 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 |
| Net Goods & Services | -180.8 | -223.1 | -241.2 | -239.2 | -283.0 | -313.4 | -333.3 | -337.8 | -371.1 | -392.8 | -411.2 | -421.1 | -421.1 | -421.1 | -421.1 | -421.1 |
| Exports of G&S | 1003.4 | 993.1 | 987.6 | 1025.6 | 1007.6 | 1018.0 | 1041.8 | 1072.1 | 1095.5 | 1130.6 | 1159.3 | 1147.5 | 1147.5 | 1147.5 | 1147.5 | 1147.5 |
| Imports of G&S | 1184.2 | 1216.2 | 1228.9 | 1264.8 | 1290.6 | 1331.4 | 1375.1 | 1409.8 | 1466.6 | 1523.4 | 1570.6 | 1568.5 | 1568.5 | 1568.5 | 1568.5 | 1568.5 |
| US CURRENT ACCOUNT BALANCE | -174.0 | -209.6 | -242.1 | -244.1 | -265.8 | -309.5 | -352.3 | -369.9 | -419.6 | -432.5 | -461.2 | -465.3 | -465.3 | -465.3 | -465.3 | -465.3 |
| Current Account as % of GDP | -2.0 | -2.4 | -2.7 | -2.7 | -2.9 | -3.4 | -3.8 | -3.9 | -4.3 | -4.4 | -4.6 | -4.6 | -4.6 | -4.6 | -4.6 | -4.6 |
| Net Goods & Services (BOP) | -139.5 | -169.9 | -181.9 | -176.0 | -211.5 | -251.5 | -284.5 | -299.9 | -349.3 | -363.1 | -389.4 | -401.2 | -401.2 | -401.2 | -401.2 | -401.2 |
| Investment Income, Net | 9.9 | 5.8 | -12.3 | -8.3 | -5.2 | -6.6 | -15.5 | -6.7 | -17.5 | -14.4 | -14.5 | 7.9 | 7.9 | 7.9 | 7.9 | 7.9 |
| Direct, Net | 74.2 | 69.8 | 57.8 | 63.3 | 66.2 | 63.0 | 63.3 | 75.7 | 65.5 | 72.5 | 84.2 | 102.8 | 102.8 | 102.8 | 102.8 | 102.8 |
| Portfolio, Net | -64.2 | -64.0 | -70.1 | -71.5 | -71.4 | -69.6 | -78.8 | -82.5 | -83.0 | -86.8 | -98.7 | -94.9 | -94.9 | -94.9 | -94.9 | -94.9 |
| Other Inc. & Transfers, Net | -44.4 | -45.5 | -47.9 | -59.8 | -49.1 | -51.5 | -52.2 | -63.3 | -52.8 | -55.0 | -57.4 | -72.0 | -72.0 | -72.0 | -72.0 | -72.0 |

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

| | 2001 | | | | 2002 | | | | Projected 2003 | | | |
|---|--------|--------|--------|--------|--------|--------|--------|--------|----------------|--------|--------|--------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| NIPA REAL EXPORTS and IMPORTS | | | | | | | | | | | | |
| Net Goods & Services | -0.6 | -0.1 | -0.2 | -0.1 | -1.0 | -1.2 | -0.6 | -0.1 | -0.6 | -0.5 | -0.5 | -0.0 |
| Exports of G&S | -0.1 | -1.4 | -2.1 | -1.1 | 0.5 | 0.5 | 0.6 | 0.9 | 0.5 | 0.8 | 0.9 | 1.1 |
| Imports of G&S | 0.8 | 1.3 | 1.9 | 1.0 | -1.5 | -1.7 | -1.2 | -1.0 | -1.2 | -1.4 | -1.3 | -1.1 |
| Exports of G&S Services | -1.2 | -11.9 | -18.8 | -10.9 | 5.3 | 5.3 | 6.4 | 9.4 | 5.7 | 8.2 | 8.8 | 11.2 |
| Computers | 1.8 | 2.4 | 17.2 | 13.1 | 26.0 | 6.1 | 5.4 | 6.2 | 6.6 | 6.1 | 5.9 | 5.8 |
| Semiconductors | 5.8 | 41.1 | 24.3 | 15.7 | -23.1 | 26.2 | 26.2 | 26.1 | 31.0 | 32.2 | 33.5 | 33.5 |
| Other Goods 1/ | 2.4 | 56.6 | 46.6 | 4.6 | 34.4 | 21.4 | 26.1 | 26.1 | 30.9 | 33.4 | 35.9 | 35.9 |
| Imports of G&S Services | 0.1 | 10.8 | 16.8 | 9.9 | -3.5 | 2.7 | 4.4 | 9.0 | 1.9 | 6.0 | 6.8 | 10.7 |
| Oil | 5.0 | 8.4 | 13.0 | 7.5 | 12.9 | 13.9 | 9.3 | 7.4 | 8.7 | 10.6 | 9.6 | 8.1 |
| Computers | 4.9 | 2.0 | 29.1 | 28.5 | 52.0 | 3.5 | 0.9 | 1.3 | 2.7 | 3.7 | 4.2 | 4.3 |
| Semiconductors | 7.1 | 4.3 | 26.7 | 3.5 | -18.5 | 31.3 | 19.2 | -14.0 | -1.6 | 25.1 | 8.2 | -16.0 |
| Other Goods 2/ | 11.0 | 29.1 | 24.9 | 16.9 | 80.5 | 21.5 | 26.0 | 31.0 | 31.0 | 32.2 | 33.5 | 33.5 |
| Imports of G&S Services | 1.8 | 75.0 | 58.4 | 20.4 | 83.8 | 35.5 | 26.0 | 26.0 | 30.8 | 33.3 | 35.8 | 35.8 |
| Computers | 8.4 | 4.8 | 4.5 | 5.1 | 3.3 | 13.6 | 8.3 | 8.3 | 8.7 | 8.4 | 8.2 | 8.4 |
| <i>Billions of chained 1996 dollars, s.a.a.r.</i> | | | | | | | | | | | | |
| Net Goods & Services | -404.5 | -406.7 | -411.0 | -412.7 | -443.9 | -479.3 | -497.2 | -500.9 | -519.4 | -539.0 | -553.7 | -556.1 |
| Exports of G&S | 1144.1 | 1108.3 | 1052.2 | 1022.2 | 1035.4 | 1048.9 | 1065.2 | 1089.5 | 1104.6 | 1126.5 | 1150.5 | 1181.5 |
| Imports of G&S | 1548.6 | 1515.0 | 1463.2 | 1434.9 | 1479.2 | 1528.2 | 1562.4 | 1590.5 | 1624.0 | 1665.4 | 1704.2 | 1737.5 |
| <i>Billions of dollars, s.a.a.r.</i> | | | | | | | | | | | | |
| US CURRENT ACCOUNT BALANCE | -448.5 | -431.7 | -394.1 | -393.9 | -459.3 | -488.5 | -506.8 | -525.3 | -527.8 | -549.3 | -569.4 | -591.5 |
| Current Account as % of GDP | -4.4 | -4.2 | -3.9 | -3.8 | -4.4 | -4.6 | -4.8 | -4.9 | -4.8 | -5.0 | -5.1 | -5.2 |
| Net Goods & Services (BOP) | -381.3 | -363.4 | -313.8 | -331.4 | -366.5 | -420.0 | -444.9 | -451.6 | -470.8 | -490.3 | -505.0 | -507.1 |
| Investment Income, Net | -14.6 | -14.5 | -24.4 | -1.5 | -24.9 | -12.1 | -5.6 | -3.3 | 0.4 | -1.6 | -6.9 | -14.0 |
| Direct, Net | 90.8 | 93.8 | 87.9 | 108.4 | 77.2 | 84.6 | 90.9 | 93.0 | 97.0 | 98.3 | 99.2 | 100.7 |
| Portfolio, Net | -105.3 | -108.4 | -112.3 | -109.9 | -102.1 | -96.7 | -96.4 | -96.2 | -96.7 | -99.9 | -106.1 | -114.6 |
| Other Inc. & Transfers, Net | -52.7 | -53.8 | -55.9 | -61.0 | -67.9 | -56.4 | -56.4 | -70.4 | -57.4 | -57.4 | -70.4 | -70.4 |

1. Merchandise exports excluding computers, and semiconductors.

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

Part 2

June 20, 2002

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

Confidential (FR) Class III FOMC

June 20, 2002

Recent Developments

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

underlie the slowing in computer production: After having jumped nearly 5 percent in the first quarter (not at an annual rate), industry analysts expect unit sales of personal computers to decline slightly in the second quarter.

The output of communications equipment, which decreased 1 percent in May, continues to be restrained by weak capital spending by telecom service providers. The output of network equipment (such as routers, switches, and hubs) used by general business, on the other hand, has been increasing since December. Moreover, the prospects for continued production gains in this segment of communications equipment may be improving; when surveyed about future spending on data networking equipment, the share of chief information officers planning to increase spending has risen, on balance, in recent months. Even so, prospects for the communications equipment sector overall remain problematic.

Total production of motor vehicles ran at an annual rate of 12.1 million units in May, putting production at the low end of the narrow range that has persisted since the beginning of the year. However, production of medium and heavy trucks edged up in the past two months in order to fill a rising backlog of orders for class 8 trucks to be delivered in advance of the October switch to environmentally friendly, but more costly, engines. Scheduled assemblies of all vehicles in the next four months point to a significant step-up in production,

Production of Domestic Autos and Trucks
(Millions of units at an annual rate except as noted; FRB seasonal basis)

| Item | 2001 | 2002 | | 2002 | | | |
|---------------------------|------|------|-----------------|------|------|------|-------------------|
| | Q4 | Q1 | Q2 ¹ | Mar. | Apr. | May | June ¹ |
| U.S. production | 11.6 | 12.2 | 12.4 | 12.1 | 12.3 | 12.1 | 12.7 |
| Autos | 4.8 | 5.2 | 5.1 | 5.2 | 5.2 | 5.0 | 5.2 |
| Trucks | 6.8 | 7.0 | 7.2 | 6.9 | 7.1 | 7.0 | 7.6 |
| Days' supply ² | | | | | | | |
| Autos | 38.3 | 51.1 | n.a. | 47.9 | 47.8 | 54.4 | n.a. |
| Light trucks ³ | 52.1 | 61.1 | n.a. | 60.8 | 62.1 | 72.3 | n.a. |
| Inventories ⁴ | 2.27 | 2.41 | n.a. | 2.41 | 2.50 | 2.62 | n.a. |

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

1. Production rates reflect Ward's Communications' latest estimates for Q2 and June.

2. Quarterly average calculated using end-of-period stocks and average reported sales.

3. Excludes medium and heavy (classes 3-8) trucks.

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

n.a. Not available.

New Orders for Durable Goods
 (Percent change from preceding period except as noted; seasonally adjusted)

| Component | Share, 2001: H1 (percent) | 2001 | 2002 | | | |
|------------------------------|------------------------------------|------------|-----------|------------|-----------|------------|
| | | Q4 | Q1 | Feb. | Mar. | Apr. |
| Total orders | 100.0 | 1.1 | .8 | 2.6 | .3 | 1.5 |
| Adjusted orders ¹ | 71.0 | -1.4 | 2.3 | -1.0 | -2.2 | 4.3 |
| Computers | 4.0 | 8.5 | -2.0 | -3.6 | -7.5 | -.3 |
| Communication equipment | 3.0 | 4.3 | 5.4 | .9 | -11.7 | 11.6 |
| Other capital goods | 23.0 | -2.9 | -.6 | 1.8 | -1.4 | 3.8 |
| Other ² | 37.0 | -1.9 | 4.3 | -2.5 | -1.3 | 4.5 |
| Memo: | | | | | | |
| Real adjusted orders | ... | -.7 | 2.7 | -1.0 | -2.2 | 4.5 |
| Excluding high tech | ... | -2.1 | 2.7 | -1.1 | -2.4 | 4.7 |

- 1. Orders excluding defense capital goods, nondefense aircraft, and motor vehicle parts.
- 2. Includes primary metals, most fabricated metals, most stone, clay, and glass products, household appliances, scientific instruments, and miscellaneous durable goods.
- ... Not applicable.

The industrial production release for May included revisions to the staff estimates of industrial capacity for 2002. Downward revisions to capacity in high-tech industries were offset by revisions that, on balance, increased capacity

Industrial Capacity
 (Percent change, fourth quarter to fourth quarter)

| Category | 1994- 2000 average | 2001 | 2002 | |
|------------------------|--------------------------|------------|------------|------------|
| | | | Previous | Revised |
| Total | 5.2 | 1.7 | 1.0 | 1.0 |
| Mining | -.7 | .6 | .3 | .4 |
| Utilities | 1.6 | 5.1 | 4.0 | 3.9 |
| Manufacturing | 5.9 | 1.6 | 1.0 | 1.0 |
| High-tech ¹ | 40.0 | 12.7 | 12.9 | 10.1 |
| Ex. high-tech | 2.8 | .3 | -.1 | .2 |

- 1. High-tech industry consists of computers and office equipment, communications equipment, and semiconductors and related electronic components.

Treasury Financing
(Billions of dollars)

| Item | 2001 | | 2002 | | | |
|-----------------------------------|--------------|--------------|--------------|-------------|------------------|-------------------|
| | Q3 | Q4 | Q1 | Apr. | May ^e | June ^e |
| Total surplus, deficit (-) | -41.9 | -37.1 | -96.6 | 67.2 | n.a. | n.a. |
| Means of financing deficit | | | | | | |
| Net borrowing | 68.6 | 59.5 | 50.8 | -41.5 | 57.3 | -15.0 |
| Nonmarketable | 6.2 | 10.5 | .7 | 1.3 | 5.7 | -3.9 |
| Marketable | 74.4 | 49.0 | 51.5 | -42.8 | 51.6 | -11.1 |
| Bills | 114.8 | 73.3 | 23.1 | -40.9 | 22.6 | -11.1 |
| Coupons ¹ | -32.6 | -15.8 | 28.4 | 2.1 | 28.9 | .0 |
| Debt buybacks | -7.7 | -8.5 | .0 | -4.0 | .0 | .0 |
| Decrease in cash balance | -.5 | -8.1 | 38.3 | -24.7 | 30.5 | -16.9 |
| Other ² | -26.2 | -14.3 | 7.5 | -1.0 | n.a. | n.a. |
| MEMO | | | | | | |
| Cash balance, end of period | 44.2 | 52.4 | 14.1 | 38.8 | 8.3 | 25.2 |

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.

