

Part 1

January 22, 2003

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

Confidential (FR) Class II FOMC

January 22, 2003

Summary and Outlook

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

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

Measure	2002:Q4		2003:Q1	
	Dec. GB	Jan. GB	Dec. GB	Jan. GB
Real GDP	1.0	.2	2.3	2.6
Private domestic final purchases	.2	1.5	2.8	2.1
Personal consumption expenditures	.0	1.2	2.6	1.9
Residential investment	6.1	11.3	-1.0	9.5
Business fixed investment	-.7	-.7	5.5	.8
Government outlays for consumption and investment	2.2	2.4	3.3	2.7
	Contribution to growth (percentage points)			
Inventory investment	.6	-1.0	-.4	.2
Net exports	-.2	-.5	-.3	.0

this quarter to a pace of around 16 million units. Excluding motor vehicles, real PCE is estimated to have risen at an annual rate of 2-1/2 percent last quarter—a somewhat faster rate than in the third quarter. We are projecting that growth in this component of real PCE will remain at a pace of about 2-1/2 percent in the current quarter.

Residential construction, aided importantly by low mortgage interest rates, remained strong through year-end. In the single-family sector, housing starts jumped to an annual rate of 1.42 million units in the fourth quarter, and permits moved up sharply as well. Given the relatively high backlog of unused permits and with recent indicators of housing demand still signaling strength, we anticipate that construction in the single-family sector will pick up further in the current quarter. In contrast, with vacancy rates rising and rents falling, we expect the pace of multifamily starts to be relatively sluggish this quarter.

In the business sector, real spending on equipment and software likely was little changed in the fourth quarter and is projected to post only a small increase in the current quarter. Part of the weakness last quarter resulted from a sharp drop in business purchases of motor vehicles. Nonetheless, even excluding the transportation sector, the recent spending indicators have been relatively tepid. Orders and shipments for nondefense capital goods appear to have moved sideways through November, and reports from our business contacts about their capital spending plans have been less than encouraging. Meanwhile, outlays for nonresidential construction have continued to trend down, albeit at a slower rate

Measure	2003		2004
	H1	H2	
Real GDP	2.8	4.5	4.7
Previous	2.6	4.1	4.3
Final sales	2.4	4.2	4.5
Previous	2.7	3.8	4.2
PCE	2.4	3.9	4.2
Previous	2.8	3.3	3.7
Residential investment	6.3	6.0	5.7
Previous	-.2	2.4	5.8
BFI	2.2	9.4	12.7
Previous	5.9	10.0	12.1
Government purchases	2.3	1.9	1.9
Previous	2.8	2.6	2.7
Exports	5.8	9.1	8.8
Previous	4.9	8.3	7.7
Imports	5.8	7.2	9.2
Previous	6.6	7.2	8.4
	Contribution to growth, percentage points		
Inventory change	.4	.3	.3
Previous	-.1	.3	.1
Net exports	-.3	-.1	-.5
Previous	-.4	-.2	-.4

Consumer spending gains this year and next will also be supported by waning negative wealth effects, improving labor market conditions, and the effects of strong productivity growth on permanent income; indeed, this last factor is a little larger in this projection than in the previous one, reflecting the upward adjustments we have made to our estimates of structural productivity. All told, personal consumption expenditures are projected to rise about 3 percent in 2003 and 4-1/4 percent in 2004.

Homebuilding is also projected to increase over the forecast period from its already robust pace. We anticipate that single-family starts will rise from a

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	2.3	2.2	2.4
Previous	1.4	2.5	2.6	1.9	1.9	2.0	2.3
<i>Contributions</i> ¹							
Capital deepening	.6	1.3	1.2	.4	.3	.3	.7
Previous	.6	1.3	1.2	.4	.2	.4	.6
Multifactor productivity	.6	1.0	1.2	1.3	1.8	1.6	1.5
Previous	.6	1.0	1.2	1.3	1.4	1.4	1.4
Labor composition	.3	.3	.3	.3	.3	.3	.3
MEMO							
Potential GDP	2.9	3.5	3.6	2.9	3.3	3.2	3.4
Previous	2.9	3.5	3.6	2.9	2.9	3.0	3.3

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

1. Percentage points.

structural productivity spurred by severe pressures on firms' profitability. In particular, the ongoing disinclination by firms to add to their work forces leads us to believe that this effect has been a little larger than we had previously assumed and that it will persist into 2003. We also have built in a slightly more optimistic longer-term path for the underlying growth of multifactor productivity. Taken together, these adjustments have raised our estimate of potential GDP growth to about 3-1/4 percent in 2002, 2003, and 2004, roughly 1/4 percentage point higher than forecast in the December Greenbook.

Productivity and the labor market. Apart from these assumed structural improvements, we continue to regard some of the strong productivity growth last year as an indication that firms have stretched their labor resources beyond what can be sustained indefinitely. Thus, we expect that the improving sales and profit outlook that we are projecting will gradually lead firms to hire more aggressively to bring their work forces into line with their anticipated longer-run needs and that productivity growth will average somewhat less than its structural rate over the forecast period. Specifically, we anticipate that productivity growth will average less than 2 percent this year and next and that private payroll employment gains will

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	3.8	1.8	1.8
Previous	1.9	3.9	1.2	1.7
Nonfarm private payroll employment	-1.4	-.5	1.5	3.3
Previous	-1.4	-.4	1.7	2.7
Household employment survey	-1.0	.0	1.3	2.4
Previous	-1.0	.5	1.2	1.9
Labor force participation rate ¹	66.9	66.5	66.8	67.1
Previous	66.9	66.7	66.9	67.0
Civilian unemployment rate ¹	5.6	5.9	6.1	5.4
Previous	5.6	5.8	5.9	5.4

1. Percent, average for the fourth quarter.

pick up from around zero in the current quarter to about 225,000 per month in the second half of this year and to roughly 300,000 per month in 2004. As a result, after rising to around 6-1/4 percent in the first half of 2003, the unemployment rate is projected to fall gradually to around 5-1/2 percent by the end of 2004. This path for the jobless rate is slightly higher than in the December Greenbook over most of the forecast period, mainly because of our more downbeat near-term outlook for the labor market.

Wages and prices. Given the slack in labor and product markets that has opened up over the past year, we anticipate that wage and price inflation will continue to edge down in 2003 and 2004. Our inflation projection is slightly lower than in the previous forecast, reflecting the higher unemployment rate and larger output gap embodied in this Greenbook.

For labor compensation, we anticipate that the rate of increase in the employment cost index will edge down from 3-1/2 percent in 2002 to 3-1/4 percent in 2003 and 2004. Double-digit increases in employer costs for health insurance have kept the benefits component of this index rising briskly over the past year, and we see no reason to expect this source of labor cost pressure to diminish during the forecast period. Over time, however, we think that employers will look for ways to offset rising health insurance costs in other parts of the compensation package and that, in a labor market marked by high unemployment and reduced job security, some of this offset will come in the form of smaller wage increases. As a

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

Measure	2001	2002	2003	2004
PCE chain-weighted price index	1.5	1.8	1.3	1.2
Previous	1.5	1.9	1.3	1.3
Food and beverages	3.1	1.4	2.1	1.8
Previous	3.1	1.4	2.0	1.9
Energy	-10.3	7.7	-1.6	-1.2
Previous	-10.3	6.9	-3.4	-2
Excluding food and energy	1.9	1.6	1.3	1.2
Previous	1.9	1.7	1.4	1.3
Consumer price index	1.9	2.3	1.7	1.6
Previous	1.9	2.2	1.7	1.8
Excluding food and energy	2.7	2.1	1.9	1.8
Previous	2.7	2.1	2.0	1.9
GDP chain-weighted price index	2.0	1.3	1.2	1.3
Previous	2.0	1.4	1.4	1.4
ECI for compensation of private industry workers ¹	4.2	3.5	3.3	3.3
Previous	4.2	3.5	3.4	3.5
NFB compensation per hour	1.4	4.1	3.2	3.1
Previous	1.4	3.9	3.4	3.3
Prices of core non-oil merchandise imports	-2.9	.6	3.1	1.7
Previous	-2.9	.6	2.4	1.8

1. December to December.

result, we are assuming a sizable deceleration in the wages and salaries component of the ECI, from an increase of 3 percent in 2002 to a rise of a little less than 2-1/2 percent in 2004.

Modest increases in compensation, coupled with robust growth in structural productivity, are anticipated to restrain the rise in unit labor costs and thus limit the need for businesses to increase their prices to remain profitable. These disinflationary forces are countered a bit this year by a projected rise in non-oil import prices associated with continued responses to past increases in commodity prices and with the recent and prospective declines in the exchange value of the dollar. In contrast, the sharp increase in energy prices currently in train is expected to be reversed quickly, as the

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>					
Baseline	3.1	2.1	2.8	4.5	4.7
No fiscal package enactment	3.1	2.1	2.8	4.1	4.2
Slower productivity growth	3.1	2.1	2.7	4.2	4.3
Faster productivity growth	3.1	2.1	2.9	4.9	5.2
Low NAIRU	3.1	2.1	2.8	4.5	4.7
Market-based funds rate	3.1	2.1	2.8	4.5	4.5
<i>Civilian unemployment rate¹</i>					
Baseline	5.9	5.9	6.2	6.1	5.4
No fiscal package enactment	5.9	5.9	6.2	6.2	5.8
Slower productivity growth	5.9	5.9	6.2	6.0	5.4
Faster productivity growth	5.9	5.9	6.2	6.1	5.3
Low NAIRU	5.9	5.9	6.2	6.1	5.3
Market-based funds rate	5.9	5.9	6.2	6.1	5.5
<i>PCE prices excluding food and energy</i>					
Baseline	1.7	1.6	1.3	1.4	1.2
No fiscal package enactment	1.7	1.6	1.3	1.4	1.1
Slower productivity growth	1.7	1.6	1.4	1.5	1.4
Faster productivity growth	1.7	1.6	1.3	1.3	1.1
Low NAIRU	1.7	1.6	1.1	1.0	.7
Market-based funds rate	1.7	1.6	1.3	1.4	1.2

1. Average for the final quarter of the period.

unemployment rate is one-tenth below baseline. Despite faster growth and a tighter labor market, core inflation falls to just above 1 percent in 2004 because of lower unit labor costs.

Slower productivity growth. On the other hand, we may have overestimated how much of last year's rise in actual productivity was permanent. In this scenario, we assume that structural multifactor productivity grew only 1.3 percent in 2002 and will continue to do so this year and next. Thus, in this scenario the economy not only starts out 2003 with less slack in product markets but also faces a long-run potential growth rate that is two-tenths lower than in the baseline projection.

Interval	Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index ¹		Unemployment rate ²	
	12/04/02	01/22/03	12/04/02	01/22/03	12/04/02	01/22/03	12/04/02	01/22/03	12/04/02	01/22/03
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	3.6	3.5	2.4	2.4	1.1	1.1	1.6	1.6	5.8	5.8
2003	4.2	3.9	2.6	2.6	1.5	1.3	1.9	2.1	6.0	6.2
2004	5.6	6.0	4.2	4.6	1.4	1.3	1.7	1.5	5.6	5.7
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	2.5	2.5	1.3	1.3	1.2	1.2	3.4	3.4	5.9
	Q3	5.1	5.1	4.0	4.0	1.0	1.0	1.8	1.8	5.7
	Q4	3.1	2.0	1.0	0.2	2.1	1.8	2.3	2.4	5.8
2003	Q1	4.0	3.8	2.3	2.6	1.7	1.2	1.7	2.9	6.0
	Q2	4.2	4.1	2.9	2.9	1.2	1.2	1.7	1.6	6.2
	Q3	5.2	5.6	3.9	4.3	1.3	1.2	1.6	1.1	6.0
	Q4	5.6	5.9	4.2	4.6	1.3	1.3	1.7	1.4	5.9
2004	Q1	6.1	6.7	4.4	5.0	1.6	1.6	1.8	1.6	5.8
	Q2	5.6	6.2	4.3	4.9	1.3	1.2	1.8	1.6	5.8
	Q3	5.6	6.0	4.3	4.7	1.3	1.2	1.8	1.6	5.6
	Q4	5.4	5.6	4.1	4.4	1.3	1.2	1.8	1.6	5.4
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	3.1	3.1	1.3	1.3	2.4	2.4	0.3
	Q4	4.1	3.5	2.5	2.1	1.5	1.4	2.1	2.1	-0.1
2003	Q2	4.1	4.0	2.6	2.8	1.5	1.2	1.7	2.2	0.2
	Q4	5.4	5.7	4.1	4.5	1.3	1.2	1.7	1.2	-0.1
2004	Q2	5.9	6.5	4.4	5.0	1.5	1.4	1.8	1.6	-0.2
	Q4	5.5	5.8	4.2	4.5	1.3	1.2	1.8	1.6	-0.3
										-0.4
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	4.3	4.0	2.8	2.6	1.4	1.3	2.2	2.3	0.2
2003	Q4	4.7	4.8	3.3	3.6	1.4	1.2	1.7	1.7	0.1
2004	Q4	5.7	6.1	4.3	4.7	1.4	1.3	1.8	1.6	-0.6
										-0.7

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	10438.4	10850.1	11500.9	
Real GDP	Bill. Ch. \$	7813.2	8159.5	8508.9	8859.0	9191.4	9214.5	9432.9	9681.6	10128.2	
Real GDP	% change	4.1	4.3	4.8	4.3	2.3	0.1	2.6	3.6	4.7	
Gross domestic purchases		4.3	5.0	5.8	5.2	2.9	0.1	3.2	3.6	5.0	
Final sales		3.9	3.9	4.7	4.2	2.6	1.6	1.7	3.3	4.5	
Priv. dom. final purchases		4.4	5.1	6.3	5.2	3.7	0.9	2.1	3.6	5.3	
Personal cons. expenditures		3.1	4.1	5.0	5.0	3.5	2.8	2.6	3.1	4.2	
Durables		5.0	8.8	12.7	10.0	3.8	13.2	1.8	4.8	7.0	
Nondurables		3.2	2.5	5.0	4.9	3.0	1.7	3.1	2.6	3.5	
Services		2.7	3.9	3.6	4.0	3.8	1.3	2.5	3.1	4.0	
Business fixed investment		12.1	11.8	12.3	6.6	6.2	-9.3	-2.5	5.8	12.7	
Equipment & Software		11.8	13.7	14.9	9.7	5.2	-8.8	1.8	8.9	15.6	
Nonres. structures		12.8	6.5	4.9	-2.5	9.3	-10.6	-14.4	-4.4	2.7	
Residential structures		5.6	3.5	10.0	4.0	-1.2	1.0	7.2	6.1	5.7	
Exports		9.8	8.5	2.3	4.9	7.3	-11.4	5.2	7.4	8.8	
Imports		11.2	14.3	10.8	11.9	11.1	-8.0	9.0	6.5	9.2	
Gov't. cons. & investment		2.7	2.4	2.7	4.5	1.3	5.1	3.1	2.1	1.9	
Federal		2.0	0.1	0.6	4.0	-1.2	7.5	5.5	2.6	1.8	
Defense		0.8	-1.4	-0.8	4.4	-2.5	7.4	6.6	2.6	1.6	
State & local		3.0	3.7	3.8	4.8	2.6	3.9	1.8	1.8	2.0	
Change in bus. inventories	Bill. Ch. \$	30.0	63.8	76.7	62.8	65.0	-61.4	-3.4	15.8	50.4	
Nonfarm		21.2	60.6	75.0	64.1	67.2	-63.2	-4.5	14.8	48.9	
Net exports		-89.0	-113.3	-221.1	-320.5	-398.8	-415.9	-481.0	-516.8	-564.0	
Nominal GDP	% change	6.0	6.2	6.0	5.9	4.6	2.0	4.0	4.8	6.1	
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	119.6	122.7	125.9	128.9	131.7	131.9	130.8	131.6	135.0	
Unemployment rate	%	5.4	4.9	4.5	4.2	4.0	4.8	5.8	6.2	5.7	
Industrial prod. index	% change	5.5	8.0	4.0	4.9	2.7	-5.7	1.7	4.2	5.9	
Capacity util. rate - mfg.	%	81.2	82.7	81.9	81.4	81.4	75.6	73.8	74.8	78.2	
Housing starts	Millions	1.48	1.47	1.62	1.64	1.57	1.60	1.71	1.81	1.93	
Light motor vehicle sales		15.05	15.07	15.41	16.78	17.24	17.02	16.70	16.60	17.50	
North Amer. produced		13.34	13.14	13.39	14.30	14.38	13.94	13.42	13.30	14.05	
Other		1.70	1.93	2.02	2.48	2.86	3.08	3.29	3.30	3.45	
INCOME AND SAVING											
Nominal GNP	Bill. \$	7831.2	8325.4	8778.1	9297.1	9848.0	10104.1	10429.5	10851.8	11496.0	
Nominal GNP	% change	5.9	6.0	5.8	6.4	4.6	2.1	3.6	4.9	6.0	
Nominal personal income		5.9	6.3	6.7	5.1	7.7	1.4	4.3	4.4	5.4	
Real disposable income		2.6	3.8	5.0	2.4	4.8	0.3	5.9	2.7	4.8	
Personal saving rate	%	4.8	4.2	4.7	2.6	2.8	2.3	3.9	3.9	4.6	
Corp. profits, IVA & CCAdj.	% change	11.4	9.9	-9.6	7.0	-9.1	8.2	-7.4	7.5	10.2	
Profit share of GNP	%	9.6	10.0	8.9	8.7	8.0	7.2	7.4	7.1	7.5	
Excluding FR Banks		9.4	9.7	8.6	8.4	7.7	7.0	7.2	6.9	7.3	
Federal surpl./deficit	Bill. \$	-136.8	-53.3	43.8	111.9	206.9	72.0	-197.8	-201.5	-229.1	
State & local surpl./def.		21.4	31.0	40.7	38.3	18.0	-31.3	-51.8	-47.4	-18.4	
Ex. social ins. funds		18.7	29.9	40.0	37.4	17.8	-31.2	-51.7	-47.3	-18.3	
Gross natl. saving rate	%	17.2	18.0	18.8	18.3	18.4	16.5	15.2	15.2	16.0	
Net natl. saving rate		5.7	6.7	7.5	6.8	6.7	3.8	2.1	1.9	2.9	
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.9	1.8	1.1	1.6	2.3	2.0	1.3	1.2	1.3	
Gross Domestic Purchases chn.-wt. price index		1.9	1.4	0.8	1.9	2.5	1.3	1.6	1.3	1.2	
PCE chn.-wt. price index		2.3	1.5	1.1	2.0	2.5	1.5	1.8	1.3	1.2	
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	1.7	1.6	
Ex. food and energy		2.6	2.2	2.3	2.1	2.5	2.7	2.1	1.9	1.8	
ECI, hourly compensation ²		3.1	3.4	3.5	3.4	4.4	4.2	3.5	3.3	3.3	
Nonfarm business sector											
Output per hour		2.3	2.2	2.9	2.9	2.1	1.9	3.8	1.8	1.8	
Compensation per Hour		3.2	3.4	5.3	4.3	7.2	1.4	4.1	3.2	3.1	
Unit labor cost		0.9	1.1	2.3	1.4	4.9	-0.5	0.3	1.5	1.3	

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	5.4	7.1	0.2	-1.6	-6.1	-6.1	-4.6	-5.8	1.4	4.4
Capacity util. rate - mfg.	%	82.0	82.4	81.4	80.0	77.9	76.1	74.8	73.4	73.4	73.9
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	3.9
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	-195.6
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	-44.9
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	-5.3	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. \$	10506.2	10557.4	10656.4	10763.9	10911.0	11068.9	11249.3	11420.5	11587.0	11746.9
Real GDP	Bill. Ch. \$	9485.6	9490.2	9551.6	9620.4	9722.2	9832.1	9952.7	10073.0	10188.7	10298.5
Real GDP	% change	4.0	0.2	2.6	2.9	4.3	4.6	5.0	4.9	4.7	4.4
Gross domestic purchases		3.9	0.7	2.5	3.3	4.4	4.3	5.4	5.4	5.0	4.2
Final sales		3.4	1.2	2.4	2.3	3.8	4.6	4.6	4.4	4.4	4.5
Priv. dom. final purchases		3.4	1.5	2.1	2.9	4.5	4.9	5.6	5.6	5.3	4.9
Personal cons. expenditures		4.2	1.2	1.9	2.8	3.8	4.0	4.4	4.3	4.1	4.1
Durables		22.8	-8.6	-1.5	5.6	9.7	5.7	7.6	7.1	6.2	7.0
Nondurables		1.0	3.6	2.0	2.3	2.7	3.2	3.5	3.5	3.5	3.5
Services		2.3	2.1	2.4	2.6	3.2	4.0	4.2	4.2	3.9	3.9
Business fixed investment		-0.8	-0.7	0.8	3.7	8.4	10.4	13.4	13.1	14.0	10.5
Equipment & Software		6.7	0.2	3.8	6.3	12.0	13.9	17.1	16.5	16.9	11.9
Nonres. structures		-21.4	-3.5	-8.5	-4.8	-3.2	-1.0	0.8	1.3	3.6	5.1
Residential structures		1.1	11.3	9.5	3.1	5.5	6.6	7.6	7.3	4.8	3.2
Exports		4.6	-1.0	4.0	7.7	8.1	10.1	6.5	8.8	8.9	11.0
Imports		3.3	2.9	2.5	9.1	7.9	6.5	8.8	10.8	9.7	7.7
Gov't. cons. & investment		2.9	2.4	2.7	1.8	1.7	2.0	2.0	1.9	2.0	1.9
Federal		4.3	3.1	4.3	2.2	1.8	2.1	2.3	1.7	1.9	1.5
Defense		6.9	0.5	4.8	2.3	1.5	2.0	2.3	1.3	1.8	1.1
State & local		2.2	2.0	1.8	1.6	1.7	2.0	1.9	1.9	2.0	2.0
Change in bus. inventories	Bill. Ch. \$	18.8	-8.5	-2.2	13.0	26.3	26.1	37.3	50.9	58.2	55.4
Nonfarm		20.8	-8.0	-2.8	12.0	25.2	24.8	35.9	49.4	56.6	53.7
Net exports		-488.0	-501.9	-501.3	-516.1	-525.6	-524.2	-541.4	-560.8	-576.2	-577.7
Nominal GDP	% change	5.1	2.0	3.8	4.1	5.6	5.9	6.7	6.2	6.0	5.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	130.8	130.8	130.7	131.2	131.8	132.6	133.5	134.5	135.5	136.5
Unemployment rate	%	5.7	5.9	6.2	6.2	6.2	6.1	6.0	5.8	5.6	5.4
Industrial prod. index	% change	3.4	-2.4	0.6	4.4	5.9	5.8	6.4	6.2	5.7	5.3
Capacity util. rate - mfg.	%	74.3	73.8	73.8	74.3	75.2	76.0	76.9	77.8	78.6	79.3
Housing starts	Millions	1.70	1.75	1.77	1.79	1.83	1.87	1.90	1.92	1.94	1.95
Light motor vehicle sales		17.63	16.50	16.00	16.22	16.99	17.19	17.37	17.48	17.54	17.59
North Amer. produced		14.27	13.25	12.70	13.00	13.65	13.85	13.93	14.03	14.09	14.14
Other		3.35	3.24	3.30	3.22	3.34	3.34	3.44	3.45	3.45	3.45
INCOME AND SAVING											
Nominal GNP	Bill. \$	10495.3	10551.0	10654.8	10768.4	10913.8	11069.9	11249.0	11418.8	11581.2	11734.9
Nominal GNP	% change	5.5	2.1	4.0	4.3	5.5	5.8	6.6	6.2	5.8	5.4
Nominal personal income		3.6	3.8	4.5	3.8	4.2	5.1	6.0	5.1	5.3	5.1
Real disposable income		3.1	2.6	0.4	2.0	4.8	3.4	8.4	3.6	3.7	3.6
Personal saving rate	%	3.8	4.2	3.9	3.8	4.0	3.9	4.8	4.7	4.6	4.5
Corp. profits, IVA & CCAdj.	% change	-6.9	-9.7	-5.6	7.1	14.7	15.3	12.0	11.6	10.0	7.3
Profit share of GNP	%	7.3	7.1	7.0	7.0	7.1	7.3	7.4	7.5	7.6	7.6
Excluding FR Banks		7.1	6.9	6.7	6.8	6.9	7.1	7.2	7.3	7.3	7.4
Federal surpl./deficit	Bill. \$	-200.7	-249.2	-211.9	-196.3	-204.5	-193.4	-265.1	-242.9	-221.3	-187.2
State & local surpl./def.		-52.5	-53.8	-54.8	-53.4	-46.3	-34.9	-26.7	-22.0	-16.2	-8.5
Ex. social ins. funds		-52.4	-53.7	-54.7	-53.3	-46.2	-34.8	-26.6	-21.9	-16.1	-8.4
Gross natl. saving rate	%	15.0	14.9	14.9	15.1	15.3	15.5	15.7	15.8	16.1	16.2
Net natl. saving rate		1.9	1.6	1.6	1.8	2.0	2.2	2.5	2.8	3.1	3.2
PRICES AND COSTS											
GDP chn.-wt. price index	% change	1.0	1.8	1.2	1.2	1.2	1.3	1.6	1.2	1.2	1.2
Gross Domestic Purchases chn.-wt. price index		1.2	1.8	2.2	1.1	0.9	1.1	1.5	1.1	1.2	1.2
PCE chn.-wt. price index		1.7	1.8	2.1	1.2	0.9	1.1	1.2	1.2	1.2	1.2
Ex. food and energy		1.8	1.4	1.2	1.4	1.4	1.3	1.3	1.2	1.2	1.1
CPI		1.8	2.4	2.9	1.6	1.1	1.4	1.6	1.6	1.6	1.6
Ex. food and energy		2.1	1.8	1.9	2.0	1.9	1.9	1.8	1.8	1.7	1.7
ECI, hourly compensation ¹		2.5	3.5	3.4	3.3	3.3	3.3	3.4	3.3	3.3	3.3
Nonfarm business sector		5.6	-0.5	2.5	0.8	2.3	1.5	2.1	2.1	1.5	1.4
Output per hour		5.5	4.3	3.7	3.2	3.1	3.1	3.3	3.1	3.0	3.0
Compensation per hour		-0.1	4.9	1.2	2.4	0.8	1.5	1.1	1.0	1.5	1.6
Unit labor cost											

1. Private-industry workers.

Item	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	01Q4/ 99Q4	01Q4/ 00Q4	02Q4/ 01Q4
Real GDP	0.6	1.1	-0.6	-1.6	-0.3	2.7	5.0	1.3	4.0	2.3	0.1	2.6	3.3
Gross dom. purchases	1.3	1.3	-1.1	-1.2	-0.1	3.0	5.8	2.7	4.0	3.0	0.2	3.3	3.3
Final sales	1.7	1.2	2.7	-0.5	-0.2	4.1	2.5	-0.1	3.5	2.6	1.6	1.7	1.8
Priv. dom. final purchases	2.6	1.0	1.2	-1.0	0.3	2.6	2.2	1.1	2.9	3.1	0.8	1.8	
Personal cons. expenditures	2.5	1.4	1.5	0.9	1.0	4.1	2.2	1.2	2.9	2.4	1.9	1.8	
Durables	0.6	-0.4	0.9	0.4	0.4	2.5	-0.6	0.2	1.7	0.3	1.0	0.1	
Nondurables	0.4	0.5	0.5	-0.1	0.3	0.7	1.6	-0.0	0.2	0.6	0.3	0.6	
Services	1.5	1.3	0.2	0.6	0.4	0.9	1.2	1.1	1.0	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	-0.1	0.8	-1.2	-0.3
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	-0.4	
Residential structures	-0.4	0.0	0.3	-0.0	0.0	-0.2	0.6	0.1	0.1	-0.1	0.0	0.3	
Net exports	-0.7	-0.2	0.5	-0.4	-0.2	-0.3	-0.8	-1.4	-0.0	-0.8	-0.1	-0.7	
Exports	1.3	-0.5	-0.7	-1.4	-1.9	-1.0	0.3	1.3	0.5	0.8	-1.3	0.5	
Imports	-2.0	0.2	1.2	1.0	1.7	0.7	-1.1	-2.7	-0.5	-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	0.3	-0.1	0.4	0.4	
Defense	-0.2	0.2	0.3	0.1	0.2	0.5	0.5	0.3	0.3	0.3	0.3	0.3	
Nondefense	-0.2	-0.2	0.2	0.3	-0.1	0.3	0.1	0.2	-0.0	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	0.3	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	0.6	-0.3	-1.5	0.9	
Nonfarm	-1.0	-0.3	-3.4	-0.8	-0.3	-1.4	2.5	1.5	0.7	-0.4	-1.6	0.9	
Farm	-0.2	0.2	0.2	-0.3	0.2	0.1	0.1	-0.2	-0.1	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

January 22, 2003

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

Item	Fiscal year ¹			2002				2003				2004				
	2001 ^a	2002 ^a	2003	2004	Q1 ^a	Q2 ^a	Q3 ^a	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unified budget																
Receipts ²	1991	1853	1901	1929	413	523	452	426	432	581	462	451	424	574	479	482
Outlays ²	1863	2011	2118	2181	509	507	494	538	528	514	514	550	554	545	532	570
Surplus/deficit ²	127	-158	-217	-253	-97	16	-42	-112	-106	53	-53	-99	-129	29	-53	-87
On-budget	-33	-317	-384	-436	-127	-58	-53	-149	-144	-23	-68	-143	-171	-51	-71	-134
Off-budget	161	160	167	183	30	73	11	37	39	76	15	44	42	80	18	46
Surplus excluding deposit insurance	126	-159	-219	-253	-96	15	-43	-113	-106	53	-53	-99	-129	29	-53	-87
Means of financing																
Borrowing	-90	221	228	270	51	21	89	95	115	-49	66	94	124	5	46	83
Cash decrease	8	-17	16	0	38	-26	-21	28	-5	0	-7	15	0	-30	15	15
Other ³	-46	-46	-26	-17	8	-11	-27	-11	-5	-5	-6	-10	5	-4	-8	-10
Cash operating balance, end of period	44	61	45	45	14	40	61	33	38	38	45	30	30	60	45	30
NIPA federal sector																
Receipts	2024	1909	1913	1985	1885	1884	1874	1858	1912	1943	1943	1948	1985	1985	2022	2074
Expenditures	1909	2039	2129	2216	2031	2079	2075	2107	2124	2136	2147	2178	2213	2228	2244	2261
Consumption expenditures	517	570	610	634	566	581	590	594	611	615	618	622	635	638	642	646
Defense	337	375	401	417	372	383	389	391	402	405	407	409	417	420	422	424
Nondefense	180	195	208	217	194	199	201	204	209	210	211	213	217	219	220	221
Other spending	1392	1469	1519	1581	1464	1498	1485	1513	1513	1522	1529	1557	1578	1589	1601	1615
Current account surplus	115	-130	-215	-231	-146	-196	-201	-249	-212	-196	-204	-193	-265	-243	-221	-187
Gross investment	98	106	113	117	106	107	108	110	112	114	115	116	117	118	119	120
Current and capital account surplus	17	-236	-328	-348	-252	-303	-309	-360	-324	-310	-319	-309	-382	-361	-340	-307
Fiscal indicators⁴																
High employment (HEB) surplus/deficit	-40	-235	-303	-358	-257	-295	-306	-339	-298	-280	-294	-296	-386	-378	-370	-349
Change in HEB, percent of potential GDP	0	2	.5	.4	2	.3	.1	.3	-.4	-.2	.1	-.0	.8	-.1	-.1	-.2
Fiscal impetus (FI) percent, calendar year	11	20	11	15	10	6	.2	2	4	1	5	2	9	1	1	-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 2003 and -\$111 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 nominal potential GDP. 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)**

January 22, 2003

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	6.5	-1.9	9.0	8.3	9.0	7.4	10.9	
2000	4.9	-8.0	8.4	8.3	8.2	9.6	9.8	
2001	6.1	-0.2	7.6	8.6	9.7	6.9	6.3	
2002	6.8	7.6	6.6	9.2	11.7	3.7	2.8	
2003	5.7	6.3	5.6	6.4	8.0	2.8	4.4	
2004	6.2	6.7	6.1	6.7	7.6	4.5	5.7	
<i>Quarter</i>								
2001:3	6.8	6.3	6.9	9.0	9.9	4.3	5.2	
4	6.4	1.3	7.5	8.3	9.2	9.0	5.7	
2002:1	4.9	1.2	5.7	9.1	10.3	4.8	2.2	
2	8.2	15.5	6.7	8.7	11.0	4.4	2.2	
3	6.7	7.5	6.5	9.6	12.8	3.5	3.4	
4	6.6	5.4	6.9	8.4	10.7	2.0	3.4	
2003:1	6.3	8.2	5.9	7.1	9.3	2.3	12.0	
2	5.6	6.7	5.4	6.1	7.6	2.5	9.7	
3	5.1	4.6	5.3	6.1	7.0	3.0	2.3	
4	5.2	5.0	5.2	5.8	6.9	3.3	2.3	
2004:1	6.1	8.6	5.5	6.2	7.1	3.8	16.2	
2	6.9	11.7	5.8	6.4	7.3	4.3	16.2	
3	5.4	2.3	6.1	6.7	7.5	4.6	4.0	
4	5.8	3.5	6.3	6.9	7.6	5.0	6.0	
						6.1	5.6	

Note. Quarterly data are at seasonally adjusted annual rates.

1. Data after 2002:Q3 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)**

January 22, 2003

Category	Calendar year				2002				2003				Seasonally adjusted annual rates			2004
	2001	2002	2003	2004	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2		
<i>Net funds raised by domestic nonfinancial sectors</i>																
1 Total	1056.2	1273.3	1109.1	1291.5	949.9	1627.5	1205.9	1310.0	1244.9	1126.9	1022.5	1042.0	1361.9	1221.0		
2 Net equity issuance	-61.8	-38.7	-66.3	-56.5	-8.6	18.1	-129.1	-35.1	-56.0	-57.0	-71.0	-81.0	-64.0	-49.0		
3 Net debt issuance	1118.0	1312.0	1175.3	1348.0	958.5	1609.4	1335.0	1345.1	1300.9	1183.9	1093.5	1123.0	1425.9	1270.0		
<i>Borrowing sectors</i>																
Nonfinancial business																
4 Financing gap ¹	141.4	80.4	99.3	158.9	68.9	68.6	90.3	93.6	84.8	90.8	105.9	115.8	132.9	184.9		
5 Net equity issuance	-61.8	-38.7	-66.3	-56.5	-8.6	18.1	-129.1	-35.1	-56.0	-57.0	-71.0	-81.0	-64.0	-49.0		
6 Credit market borrowing	409.9	193.5	310.1	424.2	153.8	235.2	158.8	226.0	273.2	295.9	321.7	349.5	393.4	455.0		
Households																
7 Net borrowing ²	610.4	710.1	539.9	598.5	702.6	679.8	770.7	687.6	593.1	524.8	529.0	513.0	567.3	629.8		
8 Home mortgages	477.9	627.0	477.7	491.2	553.4	604.3	724.1	626.2	559.2	469.2	440.2	442.2	471.2	511.2		
9 Consumer credit	110.2	63.3	50.0	82.0	81.7	76.4	60.1	35.0	41.0	45.0	54.0	60.0	74.0	90.0		
10 Debt/DPI (percent) ³	99.8	102.6	106.3	106.8	101.3	101.9	103.0	104.2	105.5	106.4	106.5	106.9	106.3	107.2		
State and local governments																
11 Net borrowing	103.2	152.4	98.0	67.3	62.3	168.4	139.9	238.8	136.8	115.8	69.8	69.8	67.8	66.8		
12 Current surplus ⁴	140.6	129.3	137.6	173.9	128.2	133.9	128.3	127.0	127.5	130.7	139.5	152.7	166.0	181.8		
Federal government																
13 Net borrowing	-5.6	256.1	227.3	257.9	39.8	526.0	265.7	192.7	297.9	247.4	173.0	190.8	397.5	118.4		
14 Net borrowing (quarterly, n.s.a.)	-5.6	256.1	227.3	257.9	50.8	21.1	89.4	94.8	115.3	-48.6	66.3	94.3	129.1	128.8		
15 Unified deficit (quarterly, n.s.a.)	-94.3	235.3	204.6	240.9	96.6	-15.6	42.2	112.2	105.6	-53.0	52.7	99.2	100.6	140.4		
<i>Depository institutions⁵</i>																
16 Funds supplied	289.4	439.9	374.2	428.4	259.6	401.9	744.1	354.3	315.8	369.0	443.3	368.9	418.1	438.7		
<i>Memo (percentage of GDP)</i>																
17 Domestic nonfinancial debt ⁵	186.6	191.8	196.0	195.9	189.0	190.9	192.1	194.3	195.6	196.5	196.5	196.2	196.0	196.2		
18 Domestic nonfinancial borrowing	11.1	12.6	10.8	11.7	9.3	15.5	12.7	12.7	11.0	10.0	10.1	12.6	10.9			
19 Federal government ⁶	-0.1	2.5	2.1	2.2	0.4	5.1	2.5	1.8	2.8	2.3	1.6	1.7	3.5	1.0		
20 Nonfederal	11.1	10.1	8.7	9.5	8.9	10.4	10.2	10.9	9.4	8.7	8.4	8.4	9.1	9.9		

Note. Data after 2002: Q3 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

We estimate that growth of foreign output in the fourth quarter dipped to 1.8 percent, an estimate that is a bit weaker than in the December Greenbook. Growth in the current quarter is also projected to be soft, but our outlook for this year and next calls for foreign activity to accelerate, leaving foreign GDP at the end of the forecast period slightly stronger than in the December Greenbook. The pace of the expected recovery is mixed across regions. We have strengthened further our forecasts of activity in North America and to a lesser extent in developing Asia in response to faster projected growth in the United States. These upward revisions are offset in part by more subdued growth projected for Europe and a more pessimistic outlook for Japan.

Summary of Staff Projections

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

Indicator	2002		Projection				
	H1	Q3	2002: Q4	2003			2004
				Q1	Q2	H2	
Foreign output	3.3	3.0	1.8	2.4	3.0	3.2	3.5
<i>December GB</i>	3.3	2.9	2.0	2.5	2.8	3.1	3.4
Foreign CPI	2.6	2.7	2.3	2.3	2.1	2.0	2.0
<i>December GB</i>	2.6	2.7	1.8	1.8	2.0	2.0	2.0

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

Oil prices currently are about \$7 per barrel higher than anticipated in early December, reflecting the ongoing general strike in Venezuela, which has squeezed global oil supplies, as well as the heightened anxiety over developments in the Middle East. In line with quotes from futures markets, we continue to project oil prices to decline over the forecast period. For 2004, oil prices are only slightly higher than in the December Greenbook. The upward revision to our near-term outlook for foreign inflation in part reflects the recent pickup in oil prices.

Since the December FOMC meeting, the exchange value of the dollar has declined about 4 percent as measured by the major currencies index, with particularly large drops against the euro and the Swiss franc. Our forecasted path for the dollar starts at this lower level, and we have retained a slight downward tilt against most major foreign currencies going forward, as the need to finance the widening U.S. external imbalance is likely to be a source of downward market pressure on the dollar. Despite a somewhat weaker dollar, the projected current account deficit still widens to \$625 billion by the end of the forecast period, as faster projected growth here than abroad implies a

Selected Trade Prices

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

Trade category	2002		Projection				2004	
	H1	Q3	2002:	2003				
			Q4	Q1	Q2	H2		
<i>Exports</i>								
Core goods	1.2	4.4	1.4	.2	.3	.7	1.2	
<i>Imports</i>								
Non-oil core goods	-.1	1.2	1.4	4.9	3.1	2.3	1.7	
Oil (dollars per barrel)	24.04	25.50	25.94	29.66	28.33	23.96	21.24	

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

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

Trade in Goods and Services

Since the December Greenbook, we have received data on U.S. international trade for October and November. Relative to our expectations at the time of the last Greenbook, these data have come in surprisingly weak and have led us to mark down our projections for both exports and imports for the fourth quarter of 2002. The downward revisions owe entirely to lower estimates for trade in goods; our estimates for trade in services are somewhat stronger. We estimate that real exports of goods and services fell 1 percent and real imports of goods and services rose about 3 percent in the fourth quarter.

The estimated decline in real exports in the fourth quarter occurred in semiconductors and core goods. Within core goods, sluggish or weakening growth was widespread across trade categories, especially in machinery, automotive, and agricultural products. Aircraft exports declined in the fourth quarter, reversing the run-up in the third quarter. In contrast, real exports of services and computers are estimated to have risen in the fourth quarter; the rise in computers followed two years of declines.

Most of the small increase in real imports in the fourth quarter is estimated to have been from oil and services payments. Growth of imported core goods is estimated to have slowed to near zero because of small declines in imported automotive products, machinery, and industrial supplies that were offset by increases in imported consumer goods and aircraft. For semiconductors, the decline in imports nearly matched the drop in exports.

same as in the December Greenbook, as U.S. economic growth accelerates more than growth abroad.

The U.S. current account deficit as a share of GDP is projected to increase over the forecast period, from about 5 percent in the fourth quarter of 2002 to around 5½ percent in late 2004. The widening deficit is almost entirely attributable to changes in the balance on goods and services. In dollar terms, the deficit is projected to reach nearly \$625 billion, about the same as in the December Greenbook.

**Summary of Staff Projections
for Trade in Goods and Services**
(Percent change from end of previous period, s.a.a.r.)

Measure	2002		Projection				
	H1	Q3	2002: Q4	2003			2004
				Q1	Q2	H2	
Real exports	8.7	4.6	-1.0	4.0	7.7	9.1	8.8
<i>December GB</i>	8.7	3.3	5.9	3.2	6.7	8.3	7.7
Real imports	15.2	3.3	2.9	2.5	9.1	7.2	9.2
<i>December GB</i>	15.2	2.3	5.6	4.6	8.7	7.2	8.4

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

Alternative Simulations

Our baseline forecast projects that oil prices will begin to decline in coming months as current supply disruptions are alleviated. However, the effect of the prolonged strike in Venezuela serves as a reminder that geopolitical events can disrupt oil supplies and cause oil prices to rise significantly higher than projected in the Greenbook baseline forecast. In our first alternative scenario, we used the FRB/Global model to consider the effects of a \$20 per barrel increase in the price of West Texas intermediate crude oil beginning in 2003:Q1 and lasting four quarters. Oil prices then return to baseline values in 2004:Q1. Our second alternative scenario combines this rise in oil prices with shocks to consumer and business confidence in both the United States and foreign economies.

The oil price shock by itself reduces U.S. real GDP growth by 0.3 percentage point in 2003. Higher oil prices weaken consumer spending by depressing household disposable income, and accelerator effects lead to a decline in investment. However, because the shock lasts only four quarters, output growth rebounds in 2004, bringing the level of GDP back to baseline. The shock

Indicator and simulation	2003		2004	
	H1	H2	H1	H2
<i>U.S. real GDP</i>				
Baseline	2.8	4.5	5.0	4.5
Simulation 1: Oil price rise without confidence effects	2.5	4.2	5.3	5.0
Simulation 2: Oil price rise with confidence effects	1.7	3.6	5.8	5.1
<i>U.S. PCE prices excl. food and energy</i>				
Baseline	1.3	1.4	1.3	1.2
Simulation 1: Oil price rise without confidence effects	1.5	1.8	1.7	1.0
Simulation 2: Oil price rise with confidence effects	1.5	1.7	1.5	.8

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

Measure and country	1996	1997	1998	1999	2000	2001	2002	2003	2004	Projected
REAL GDP (1)										
Total foreign	4.1	4.2	1.6	4.9	4.2	0.1	2.9	2.9	3.5	
Industrial Countries	2.7	3.4	2.7	4.1	3.5	0.3	2.6	2.2	2.6	
of which:										
Canada	2.7	4.4	4.4	5.7	3.5	0.8	3.8	2.9	3.1	
Japan	3.3	0.3	-1.3	-0.5	5.2	-2.7	1.8	0.5	0.9	
United Kingdom	2.8	3.7	2.6	3.2	2.2	1.6	2.3	2.4	3.0	
Euro Area (2)	1.7	3.1	2.1	3.8	2.7	0.5	1.4	1.6	2.3	
Germany	1.4	1.7	0.7	3.3	1.9	0.1	0.8	0.8	2.3	
Developing Countries	6.2	5.3	-0.2	6.2	5.3	-0.3	3.2	4.1	4.8	
Asia	6.6	4.9	-2.0	8.8	6.3	1.0	4.9	5.2	5.8	
Korea	6.4	3.4	-5.2	13.8	5.1	4.4	6.0	5.3	5.5	
China	5.3	8.7	9.5	4.1	8.0	7.5	8.1	7.5	7.7	
Latin America	6.3	6.1	1.2	4.2	4.5	-1.5	1.9	3.2	4.3	
Mexico	7.1	6.7	2.8	5.4	4.9	-1.5	2.7	4.0	5.0	
Brazil	5.3	2.2	-1.7	3.5	4.2	-0.8	2.9	1.7	2.0	
CONSUMER PRICES (3)										
Industrial Countries	1.5	1.5	0.9	1.2	1.9	1.0	2.1	1.3	1.3	
of which:										
Canada	2.0	1.0	1.1	2.3	3.1	1.1	3.8	2.1	2.4	
Japan	0.2	2.1	0.7	-1.2	-1.2	-1.3	-0.4	-0.7	-0.8	
United Kingdom (4)	3.2	2.7	2.5	2.2	2.7	2.0	2.6	2.7	2.3	
Euro Area (2)	1.9	1.5	0.8	1.5	2.7	2.1	2.2	1.6	1.4	
Germany	1.3	1.5	0.3	1.1	2.5	1.7	1.1	0.9	0.7	
Developing Countries	11.1	6.8	9.0	4.6	4.1	2.8	2.9	3.0	2.8	
Asia	4.8	2.7	4.4	0.1	1.8	1.0	0.7	1.6	1.9	
Korea	5.0	4.9	5.8	1.2	2.5	3.3	3.4	3.7	3.0	
China	6.8	0.9	-1.2	-0.9	0.9	-0.2	-0.8	0.1	1.2	
Latin America	25.8	15.5	15.4	12.5	8.4	5.4	6.5	5.4	4.3	
Mexico	28.0	17.0	17.3	13.5	8.8	5.2	5.3	4.3	3.5	
Brazil	9.6	4.6	2.0	8.4	6.4	7.5	10.7	11.9	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.

Measure and country	2002				2003				Projected - 2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP (1)												
Total foreign	2.7	3.9	3.0	1.8	2.4	3.0	3.1	3.3	3.5	3.5	3.5	3.5
Industrial Countries	3.2	3.2	2.6	1.5	1.9	2.1	2.3	2.5	2.6	2.7	2.6	2.6
of which:												
Canada	5.7	4.4	3.1	2.0	2.6	2.9	3.0	3.2	3.3	3.3	3.0	2.9
Japan	0.2	3.8	3.2	0.2	0.4	0.5	0.6	0.6	0.8	0.9	1.0	1.0
United Kingdom	1.0	2.6	3.8	1.8	2.2	2.3	2.3	2.7	3.0	3.1	2.9	2.9
Euro Area (2)	1.7	1.3	1.3	1.2	1.4	1.8	2.1	2.4	2.5	2.5	2.7	2.7
Germany	1.1	0.6	1.1	0.5	0.3	0.5	1.0	1.4	1.8	2.2	2.5	2.5
Developing Countries	1.9	5.1	3.6	2.2	3.1	4.3	4.3	4.5	4.8	4.8	4.9	4.9
Asia	5.9	6.8	2.6	4.1	5.0	5.1	5.3	5.5	5.8	5.8	5.9	5.9
Korea	7.9	5.8	5.1	5.1	5.0	5.2	5.4	5.5	5.5	5.5	5.5	5.5
China	8.5	9.3	7.5	7.2	7.5	7.5	7.5	7.5	7.7	7.7	7.7	7.7
Latin America	-1.2	3.8	4.4	0.6	1.7	3.8	3.6	3.8	4.3	4.3	4.3	4.3
Mexico	-0.2	5.4	4.0	1.5	3.6	3.9	4.2	4.5	5.0	5.0	5.0	5.0
Brazil	3.4	3.5	3.8	1.0	1.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
CONSUMER PRICES (3)												
Industrial Countries	1.2	1.0	1.4	2.1	2.0	1.7	1.5	1.3	1.2	1.2	1.3	1.3
of which:												
Canada	1.5	1.3	2.3	3.8	3.5	2.9	2.3	2.1	2.1	2.1	2.2	2.4
Japan	-1.5	-1.1	-0.9	-0.4	-0.3	-0.5	-0.7	-0.7	-0.8	-0.8	-0.8	-0.8
United Kingdom	2.4	1.9	2.0	2.6	3.0	3.3	3.2	2.7	2.1	2.1	2.2	2.3
Euro Area (2)	2.6	2.1	2.0	2.2	2.0	1.8	1.9	1.6	1.4	1.4	1.4	1.4
Germany	2.0	1.1	1.0	1.1	0.5	0.6	0.8	0.9	0.7	0.7	0.8	0.7
Developing Countries	2.6	2.5	2.7	2.9	3.3	3.1	3.0	3.0	3.0	2.9	2.9	2.8
Asia	0.8	0.6	0.5	0.7	0.9	0.9	1.2	1.6	1.8	1.9	1.9	1.9
Korea	2.6	2.6	2.5	3.4	4.1	3.6	3.8	3.7	3.1	3.0	3.0	3.0
China	-0.6	-1.0	-0.8	-0.8	-0.9	-0.9	-0.6	0.1	0.7	1.1	1.2	1.2
Latin America	5.1	5.4	6.0	6.5	7.5	6.9	6.0	5.4	4.9	4.7	4.5	4.3
Mexico	4.8	4.8	5.2	5.3	6.2	5.5	4.7	4.3	4.0	3.9	3.7	3.5
Brazil	7.7	7.9	7.7	10.7	13.8	15.0	14.8	11.9	9.4	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

	1996	1997	1998	1999	2000	2001	2002	2003	Projected 2004
NIPA REAL EXPORTS and IMPORTS									
Percentage point contribution to GDP growth, Q4/Q4									
Net Goods & Services									
Exports of G&S	-0.2	-0.8	-1.1	-1.0	-0.8	-0.1	-0.7	-0.2	-0.4
Imports of G&S	-1.1	-1.0	0.3	0.5	0.8	-1.3	0.5	0.7	0.9
Percentage change, Q4/Q4									
Exports of G&S									
Services	9.8	8.5	2.3	4.9	7.3	-11.4	5.2	7.4	8.8
Computers	8.9	1.4	2.9	3.2	4.8	-9.2	11.4	5.4	5.5
Semiconductors	21.6	25.8	8.1	13.4	23.0	-23.4	11.0	33.5	33.5
Other Goods 1/	44.6	21.6	9.1	34.6	26.9	-34.9	11.0	34.5	36.0
Imports of G&S	7.3	9.8	1.3	3.2	5.7	-9.3	2.2	5.3	6.8
Services	11.2	14.3	10.8	11.9	11.1	-8.0	9.0	6.5	9.2
Oil	5.3	14.0	8.5	5.9	10.9	-8.6	9.6	2.1	5.9
Computers	7.8	3.9	4.1	-3.4	13.3	0.1	3.6	-0.1	4.2
Semiconductors	17.8	33.0	25.8	26.0	13.6	-13.8	14.7	32.9	33.5
Other Goods 2/	56.7	32.9	-8.7	34.2	22.5	-51.4	13.3	34.2	36.0
Net Goods & Services	10.4	12.7	11.5	12.7	10.4	-6.2	8.7	5.8	7.9
Billions of chained 1996 dollars									
Exports of G&S	-89.0	-113.3	-221.1	-320.5	-398.8	-415.9	-481.0	-516.8	-564.0
Imports of G&S	874.2	981.5	1002.4	1036.3	1137.2	1076.1	1062.2	1118.4	1213.2
	963.1	1094.8	1223.5	1356.8	1536.0	1492.0	1543.2	1635.2	1777.2
US CURRENT ACCOUNT BALANCE									
Current Acct as Percent of GDP	-117.8	-128.4	-203.8	-292.9	-410.3	-393.4	-499.1	-553.7	-604.8
Net Goods & Services (BOP)	-1.5	-1.5	-2.3	-3.2	-4.2	-3.9	-4.8	-5.1	-5.3
Investment Income, Net	-101.8	-107.8	-166.9	-262.2	-378.7	-358.3	-429.6	-499.0	-533.8
Direct, Net Portfolio, Net	28.6	25.1	12.7	23.9	27.6	20.5	-4.6	7.1	0.5
Portfolio, Net	69.4	72.4	65.5	75.0	88.9	102.6	81.0	92.6	93.2
Other Income & Transfers, Net	-40.8	-47.3	-52.9	-51.1	-61.2	-82.1	-85.6	-85.5	-92.7

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	-0.5	-1.4	-2.0					-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	1.2	1.9	1.7					1.0	1.7	0.7									
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																
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																
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																
Other Goods 1/	34.2	45.2	41.3	19.0	14.6	9.0	43.4	-17.5	-34.6	-47.3	-40.9	-11.7																
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																
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																
Computers	3.9	29.8	9.7	7.1	20.7	9.6	15.1	-0.5	-0.5	8.5	-23.2	-16.5																
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																
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																
Imports of G&S Services	7.8	12.2	17.4	13.4	13.1	15.5	50.0	69.8	-28.5	-43.9	-68.8	-55.9																
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																
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																
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																
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																
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																
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																
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																
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																
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																
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																

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
NIPA REAL EXPORTS and IMPORTS												
Net Goods & Services	-0.7	-1.4	0.0	-0.5	0.0	-0.5	-0.3	0.1	-0.6	-0.5	-0.5	-0.0
Exports of G&S	0.3	1.3	0.5	-0.1	0.4	0.7	0.8	1.0	0.7	0.9	0.9	-1.1
Imports of G&S	-1.1	-2.7	-0.4	-0.4	-0.4	-1.3	-1.1	-0.9	-1.2	-1.5	-1.4	-1.1
Exports of G&S Services	3.5	14.3	4.6	-1.0	4.0	7.7	8.1	10.1	6.5	8.8	8.9	11.0
Computers	21.7	10.7	5.9	8.1	4.4	6.1	5.5	5.4	5.6	5.5	5.6	5.6
Semiconductors	-21.1	-0.5	-0.8	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5	33.5
Other Goods 1/	-13.7	65.8	21.3	-33.7	31.1	33.5	36.0	36.0	36.0	36.0	36.0	36.0
Imports of G&S Services	-3.1	14.2	3.3	-4.4	0.6	5.4	6.0	9.3	3.4	6.9	6.9	10.2
Oil	8.5	22.2	3.3	2.9	2.5	9.1	7.9	6.5	8.8	10.8	9.7	7.7
Computers	35.7	-2.1	3.1	5.3	-0.6	0.2	3.9	5.0	6.3	6.2	5.7	5.3
Semiconductors	-19.0	34.5	-13.3	22.2	-23.1	45.1	9.8	-18.7	-0.5	26.8	10.9	-15.6
Other Goods 2/	52.4	5.6	-4.4	12.6	31.1	33.5	33.5	33.5	33.5	33.5	33.5	33.5
Net Goods & Services	45.2	41.8	-5.9	-15.1	31.1	33.5	36.0	36.0	36.0	36.0	36.0	36.0
Exports of G&S	1.9	28.8	6.3	0.2	4.4	5.4	6.3	7.2	7.7	8.2	8.0	7.7
Imports of G&S	1477.1	1552.9	1565.7	1576.9	1586.8	1621.8	1653.1	1679.1	1714.7	1759.3	1800.5	1834.3
Net Goods & Services	-446.6	-487.4	-488.0	-501.9	-501.3	-516.1	-525.6	-524.2	-541.4	-560.8	-576.2	-577.7
Exports of G&S	1030.6	1065.5	1077.7	1075.0	1085.6	1105.8	1127.4	1154.9	1173.4	1198.5	1224.3	1256.6
Imports of G&S	1477.1	1552.9	1565.7	1576.9	1586.8	1621.8	1653.1	1679.1	1714.7	1759.3	1800.5	1834.3
US CURRENT ACCOUNT BALANCE												
Current Account as % of GDP	-4.4	-510.4	-506.2	-530.0	-542.9	-552.1	-555.2	-564.4	-580.1	-598.5	-616.6	-624.1
Net Goods & Services (BOP)	-382.0	-437.3	-441.4	-457.6	-488.2	-503.5	-505.0	-499.3	-513.7	-530.7	-550.2	-553
Investment Income, Net	2.7	-14.5	-5.5	-1.0	3.8	9.9	8.2	6.4	5.1	3.7	-0.4	-6.6
Direct, Net	88.3	75.2	75.3	85.4	89.3	94.6	93.5	92.9	92.7	92.7	93.2	94.3
Portfolio, Net	-85.5	-89.7	-80.8	-86.4	-85.5	-84.7	-85.2	-86.5	-87.6	-88.9	-93.6	-100.8
Other Inc. & Transfers, Net	-70.6	-58.7	-59.2	-71.5	-58.5	-58.5	-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

January 22, 2003

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Recent Developments

Confidential (FR) Class III FOMC

January 22, 2003

Recent Developments

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

this rate, sales would need to be similar to their level in the fourth quarter to avoid an inventory buildup.⁷

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

Item	2002			2002			2003
	H1	Q3	Q4	Oct.	Nov.	Dec.	Jan. ¹
U.S. production	12.3	13.0	12.4	12.2	12.9	11.9	12.6
Autos	5.2	5.1	4.9	4.8	5.2	4.6	5.0
Trucks	7.1	7.8	7.5	7.4	7.8	7.3	7.6
Total days' supply ²	61.3	56.1	63.1	69.2	71.9	56.7	n.a.
Inventories ³	2.61	2.62	2.70	2.79	2.94	2.73	n.a.

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

1. Production rates reflect Ward's Communications' latest estimates for January.

2. Semiannual and quarterly figures calculated using end-of-period stocks and average reported sales.

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

n.a. Not available.

Consumer Spending

Consumer spending, with a substantial boost from purchases of motor vehicles, appears to have advanced at a brisk pace in the last two months of 2002.

Outside motor vehicles, recent gains have been more modest. Nominal spending in the retail control category—which excludes auto dealers and building material and supply stores—increased 0.3 percent in both November and December. Although December data on outlays for services are not yet available, we estimate that real personal consumption expenditures excluding motor vehicles rose at an annual rate of roughly 2-3/4 percent for the fourth quarter as a whole.

Real disposable personal income increased 0.3 percent in November, and the October change was revised up to 0.2 percent. These gains owe, in part, to a continued rise in wages and salaries despite the weak growth in hours worked; this pattern is consistent with the solid, if unspectacular, recent increases in real hourly earnings.

The personal saving rate has remained above 4 percent in recent months, and it averaged close to 3-3/4 percent for 2002 as a whole. The marked increase in

7. In the past twelve years, actual total motor vehicle production in the first quarter has averaged 5 percent below scheduled assemblies.

Business Finance

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

Type of security	2000	2001	H1	Q3	2002	Nov.	Dec.	2003 Jan. ^e
<i>Nonfinancial corporations</i>								
Stocks ¹	9.9	6.5	7.4	1.7	4.1	4.5	4.2	4.0
Initial public offerings	4.4	2.1	1.2	0.1	0.5	0.2	0.4	0.0
Seasoned offerings	5.5	4.4	6.3	1.6	3.6	4.4	3.8	4.0
Bonds ²	21.6	38.3	30.4	14.2	19.3	22.3	20.8	21.0
Investment grade ³	13.2	27.5	19.8	11.3	11.9	13.7	10.4	14.0
Speculative grade ³	4.6	8.9	6.4	1.6	5.1	6.4	6.7	4.0
Other (sold abroad/unrated)	3.7	1.9	4.2	1.4	2.3	2.2	3.7	3.0
<i>Memo</i>								
Net issuance of commercial paper ⁴	4.5	-8.0	-10.4	-2.4	-2.0	1.0	-4.2	3.0
Change in C&I loans at commercial banks ⁴	7.5	-5.6	-5.7	-6.0	-3.6	3.3	-11.5	-2.0
<i>Financial corporations</i>								
Stocks ¹	1.4	4.2	4.2	3.6	4.0	5.4	2.5	1.0
Bonds	57.9	80.2	89.8	81.3	84.9	86.8	97.0	90.0

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.

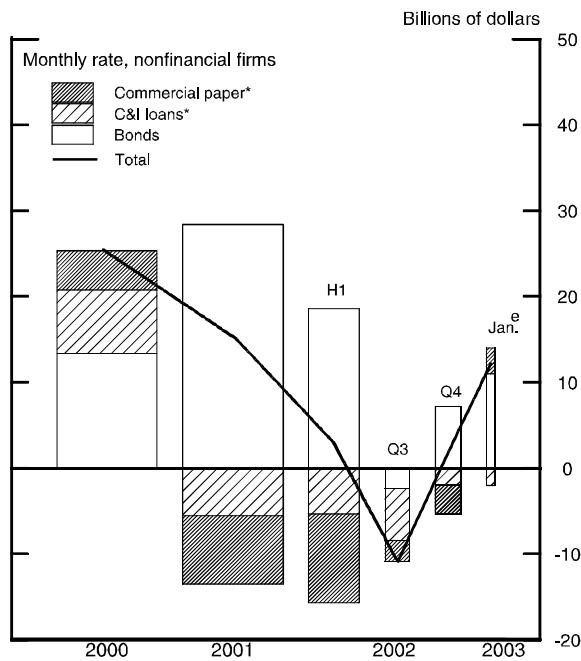
2. Excludes mortgage-backed and asset-backed bonds.

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

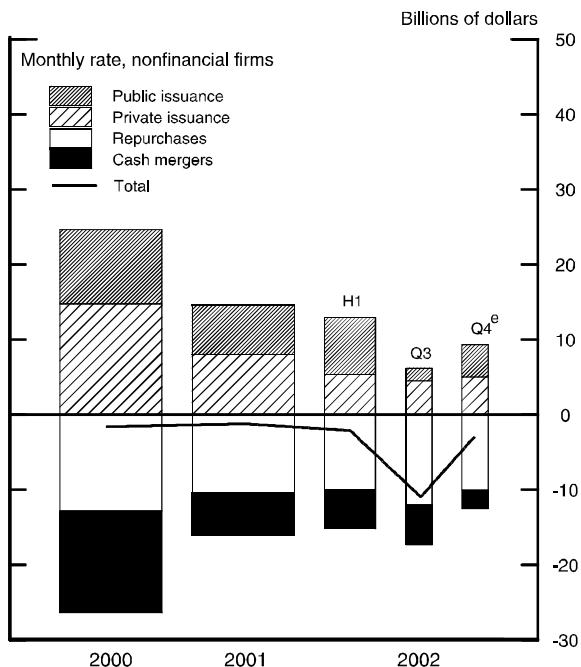
4. End-of-period basis, seasonally adjusted.

e Staff estimate.

Components of Net Debt Financing



Components of Net Equity Issuance



* Seasonally adjusted.

e Staff estimate.

e Staff estimate.

State and Local Government Finance

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

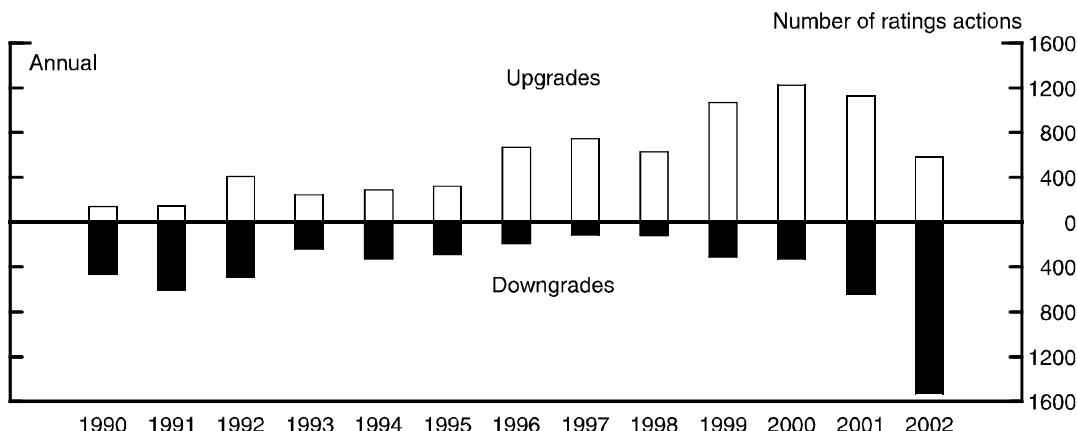
	2000	2001	H1	Q3	Q4	Dec.	2003 Jan. e
Long-term ¹	15.0	22.5	26.2	27.3	33.4	26.9	21.0
Refundings ²	2.2	6.5	8.5	9.5	9.3	6.6	6.0
New capital	12.9	16.0	17.7	17.9	24.1	20.2	15.0
Short-term	2.8	4.3	4.7	5.7	6.2	2.9	2.0
Total tax-exempt	17.9	26.9	30.9	33.0	39.5	29.8	23.0
Total taxable	0.7	1.1	1.1	1.5	1.7	1.6	1.0

1. Includes issues for public and private purposes.

2. All issues that include any refunding bonds.

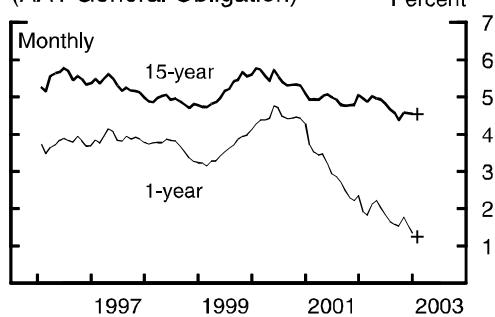
e Staff estimate based on preliminary data through January 16.

Bond Rating Changes



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

Municipal Bond Yields (AA1 General Obligation)

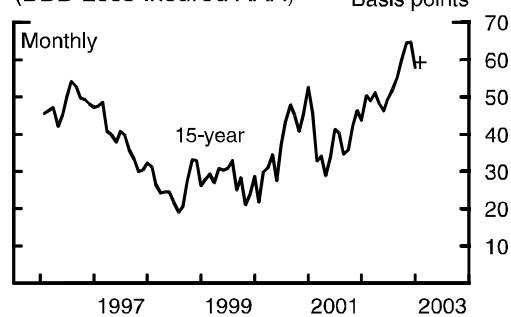


Note. Average of weekly data.

+ Last observation is for week of January 16.

Source: Bloomberg.

Revenue Bond Spread (BBB Less Insured AAA)



Note. Average of weekly data.

+ Last observation is for week of January 16.

Source: Bloomberg.

sales in December. December's services PMI continued to indicate a notable expansion, but at a reduced pace.

U.K. Economic Indicators

(Percent change from previous period except as noted, s.a.)

Indicator	2002						2003
	Q2	Q3	Q4	Oct.	Nov.	Dec.	Jan.
Industrial production	.3	.4	n.a.	.1	-.5	n.a.	n.a.
Retail sales volume	1.7	.7	n.a.	.7	.1	n.a.	n.a.
Unemployment rate ¹							
Claims-based	3.2	3.1	3.1	3.1	3.1	3.1	n.a.
Labor force survey ²	5.2	5.2	n.a.	5.2	n.a.	n.a.	n.a.
Business confidence ³	8.0	10.7	3.0	8.0	2.0	-1.0	2.0
Consumer confidence ⁴	-4.0	-2.7	-3.0	-2.0	-1.0	-6.0	n.a.
Retail prices ⁵	1.9	2.0	2.6	2.3	2.8	2.7	n.a.
Producer input prices ⁶	-5.9	-2.3	1.4	2.1	-.7	2.6	n.a.
Average earnings ⁶	3.9	3.8	n.a.	3.7	4.0	n.a.	n.a.

1. Percent.

2. Three-month average centered on month shown.

3. Percentage of firms expecting output to increase in the next four months less percentage expecting output to decrease.

4. Average of the percentage balance from consumers' expectations of their financial situation, general economic situation, unemployment, and savings over the next 12 months.

5. Excluding mortgage interest payments. Percent change from year earlier.

6. Percent change from year earlier.

... Not applicable. n.a. Not available.

Housing prices increased around 25 percent in the twelve months ending in December according to the two leading surveys, despite some anecdotal evidence that the housing market is cooling. The average construction PMI rose in the fourth quarter. Borrowing to finance the purchase of homes moderated in December, though it remained robust.

The few available indicators of confidence suggest a further slowing of growth. Consumer sentiment worsened in December, mostly due to lower expectations of the general economic situation. In January, business confidence edged up to a level just below its fourth-quarter average. Both confidence measures are still well above their lows in late 2001.