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Part 1

September 27, 2001

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

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

Confidential (FR) Class II FOMC

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Domestic Developments

Before the tragic events on September 11, we viewed the economy as having only a little forward momentum. The incoming data after publication of the August Greenbook pointed to a continuation of the patterns that emerged in the second quarter: an ongoing contraction in industrial production, sharp drawdowns in inventories, and only a little growth, on balance, in final sales. The layoffs in manufacturing and related industries and the slow pace of hiring elsewhere had finally shown through to a noticeable rise in the unemployment rate, and initial claims for unemployment insurance remained sufficiently elevated that additional cuts in jobs appeared to be in train. In the absence of the terrorist shock, we likely would have been forecasting only a small gain in real GDP, on balance, for the remainder of 2001.

From that baseline, we believe that direct and indirect effects on economic activity of the terrorist attacks will result in a mild contraction in real GDP in the second half of this year, leading to a further rise in the unemployment rate to 5-1/2 percent by year-end. To be sure, the size of the attacks' initial impact on production and spending is difficult to gauge, but we believe that it has been large enough to swing the change in real GDP in the third quarter from a small increase to a modest decline. Going forward, the ensuing drop in household income and wealth and the less favorable outlook for business sales will hold down consumption and investment. In addition, we believe that a significant exogenous shock to consumer and business confidence has occurred and that this pessimism will be an additional constraint on economic activity in the fourth quarter and early next year. Indeed, one risk to the outlook is that the deterioration in sentiment will prove deeper or longer-lasting than what we have factored into this forecast. We explore the consequences of such a deterioration in an alternative simulation. Of course, given the enormous uncertainties surrounding the world political and economic situation, neither our baseline forecast nor our alternative simulations can fully encompass the range of possible developments.

Though we are projecting a recovery next year, we expect it to proceed slowly, with real GDP little changed in the first quarter and rising at an annual rate just short of 1-1/2 percent in the second quarter. One important restraint will be the continuing effect of the recent dramatic decline in household wealth on consumer spending. Nonetheless, several factors are laying the groundwork for a more perceptible upturn in activity by midyear. The effects of the terrorist attacks on economic activity and on confidence should begin to fade, and the inventory correction spurred by the downshift in final demand during 2001 should be ending in the first half of next year. Besides the tax cut enacted earlier this year, we are now assuming additional federal spending in this forecast. Moreover, we have assumed some further reduction in short-term interest rates by the end of this year. Real GDP is projected to rise at an annual rate of 3-1/4 percent in the second half of 2002 and 3-1/2 percent in 2003 — a pace markedly above our current estimate of the growth of potential output.

Core inflation is projected to slow over the forecast period, and because we now anticipate a steeper drop in energy prices in 2002 than we previously did, the deceleration in overall inflation next year is also a bit greater. Underlying the downtrend in core inflation are the sharply lower levels of resource utilization that are expected to prevail for the next two years. The unemployment rate is forecast to reach 6-1/4 percent by the middle of next year — 2 percentage points above its level at the beginning of this year — and then to recede gradually to 6 percent by the end of 2003.

Key Background Factors

The federal funds rate is currently 75 basis points lower than the rate incorporated in the August projection, and we assume some additional monetary easing in the near term. The funds rate is then assumed to remain at that level through the middle of 2003 before increasing gradually as the economic recovery gains momentum. Futures markets appear to expect a quicker reversal of the easing than does the staff, which suggests that market participants anticipate a sharper bounceback in economic activity than we are forecasting. Our forecasts for economic activity, fiscal policy, and inflation seem consistent with declines in longer-term interest rates from current levels this year and next. In particular, our baseline assumptions are that market participants' concerns about the demise of fiscal discipline will turn out to be overblown and that they will be surprised by the slow economic recovery and downdrift in inflation that we are projecting.

The operation of financial markets has largely recovered from the shocks set in motion by the terrorist attacks, but we expect that heightened concerns about credit risk will persist for some time. The spreads that have widened in the corporate bond market will not narrow substantially until market participants see more clearly prospects for a sustained pickup in economic activity and profits. We expect that, in the near term, credit availability will be more of a constraint on economic activity than we anticipated in August, with all but the safest businesses facing higher long-term borrowing costs than we previously assumed.

The plunge in equity prices over the intermeeting period has left the broad stock indexes about 12 percent below the levels that we had expected to prevail as we entered the fourth quarter. Our best guess is that we will see some further erosion in stock prices in coming months as market participants come to grips with the grimmer prospects for earnings. Our baseline assumption is that equity prices will turn up next year, as investors begin to anticipate a stronger economy, but the rebound in share values is anticipated to be modest.

Federal Receipts and Outlays
(Billions of dollars, fiscal years, unified basis)

Item	2001	2002	2003
Outlays	1,852	1,976	2,052
Previous	1,851	1,941	...
Receipts	1,988	2,046	2,091
Previous	2,007	2,108	...
Surplus (deficit, -)			
Total	136	70	38
Previous	156	167	...
On-budget	-30	-98	-143
Previous	-11	-7	...

... Not applicable.

The events of September 11 have altered the fiscal policy outlook importantly. Within days, the Congress passed an emergency appropriations bill, and last week it agreed on a package of direct assistance and loan guarantees for the airline industry.[1] Perhaps more significant, the members have set aside the objective of balancing the on-budget account — at least for the near term. A wide range of tax and spending options are now on the table, and we believe that some additional fiscal stimulus is in train. For the purposes of our baseline economic forecast, we have assumed a further increment to real federal purchases during fiscal 2002 totaling $8 billion, and another increase in spending of $22 billion in fiscal 2003. Of course, this added spending is merely a placeholder for the stimulus that would likely be delivered through some combination of higher spending and lower taxes. It comes on top of the emergency spending, airline assistance, and some new spending for extended unemployment insurance benefits ($7 billion in fiscal 2002) that we now have incorporated in the baseline. All told, relative to current services, this forecast contains $52 billion of fiscal policy initiatives for fiscal 2002 and $76 billion in

1. Of the $40 billion in emergency budget authority already approved, we assume that $20 billion will be used to fund the defense spending initiatives in fiscal years 2002 and 2003 that the Administration had proposed before the attacks; because we had already incorporated that proposal in our August fiscal policy assumptions, this portion of the new budget authority does not represent a change in our forecast. The other $20 billion in new budget authority is expected to be used primarily to fund some additional defense spending, federal antiterrorism programs, and grants to help states and localities pay for post-disaster cleanup; the effects on outlays are expected to be spread roughly evenly between fiscal years 2002 and 2003. Regarding the separate airline rescue package, $5 billion of cash assistance will show through in outlays in fiscal 2002. The airline legislation also included loan guarantees of up to $10 billion; the subsidy value of the guarantees will eventually be included in the budget accounts.

fiscal 2003; the fiscal 2002 figure is $30 billion above the August Greenbook assumption.

Recognizing the risk that the Congress may be more aggressive and fashion a larger stimulus package, we later present a set of alternative simulations that examines the implications of a tax package containing another tax rebate for households and a business investment tax credit.

On the revenue side, we have lowered our estimates for fiscal years 2001 and 2002 in response to incoming data and the weaker economic outlook. Taken together, our revisions to outlays and revenues result in projections of unified budget surpluses that shrink from $136 billion in fiscal 2001 to $38 billion in fiscal 2003 and on-budget deficits (that is, excluding the Postal Service and social security) that deepen from $30 billion in fiscal 2001 to $143 billion in fiscal 2003.

Measured against the currencies of a broad group of our trading partners, the real trade-weighted foreign exchange value of the dollar is anticipated to depreciate 2 percent between the third quarter of 2001 and the end of next year. That would put the average level of the dollar in the fourth quarter of 2002 about 1/4 percentage point lower than we assumed in the August Greenbook. In 2003, as the U.S. recovery strengthens, we see the dollar as likely to stabilize.

Economic activity abroad was considerably weaker during the second quarter than we had estimated, and prospects for an improvement in the second half of this year have dimmed. We now project that foreign real GDP will be essentially unchanged during 2001; in the August Greenbook, we had forecast that, after having edged up at an annual rate of 1/2 percent in the first half, foreign real GDP would rise at a 1-1/2 percent rate in the second half. Next year, we anticipate a gradual pickup in economic activity abroad, with foreign real GDP up 2-1/2 percent. That pace is down 1/2 percentage point from our last forecast; although monetary easing abroad should provide some support for economic activity next year, the slower U.S. recovery in this forecast has a damping effect on the foreign outlook. We are forecasting a further recovery in 2003, with foreign GDP up 3-1/2 percent.

The spot price of crude oil had begun to creep up in August as a result of reduced inventories in the United States and OPEC's restraint on production. Though apprehension about possible supply disruptions in the wake of the terrorist attacks shook the market briefly, those fears have given way to mounting concerns about the risks of lower worldwide demand, and in recent days, oil prices have dropped well below the level that prevailed before September 11. Tracking recent futures quotes, we now project that the spot price of WTI will average just over $22 per barrel in the fourth quarter of this year, about $5 per barrel below our August Greenbook projection. The spot price of WTI is projected to remain near $23 per barrel in the first half of 2002 before declining to around $20.50 per barrel by the end of the forecast period, a path that averages more than $2 per barrel below our previous projection.

The Near-Term Economic Outlook

As noted earlier, before September 11, we were forecasting only a small increase in real GDP in the third quarter, a markdown from the 1 percent gain that we showed in the August Greenbook. The revision was largely the result of incoming data on industrial production and employment that suggested a slower pace of inventory liquidation than we had anticipated. However, at that point, final demand still seemed to be rising modestly: Consumer spending was increasing at a moderate rate, but business outlays for equipment and software, as expected, appeared to be recording another sizable decline, and expenditures for nonresidential and residential construction had turned down.

From that baseline, we estimate that the disruptions to economic activity in the wake of the terrorist attacks, on balance, subtracted about 1/2 percentage point from the change in real GDP in the third quarter. Large losses appear to have occurred in consumer spending for services, such as airline travel and related services and entertainment, as well as in purchases of retail goods. Altogether, we assume that the immediate effect of the attacks was to cut roughly 1 percentage point from the rate of increase in real personal consumption expenditures in the third quarter. According to our contacts in the manufacturing sector, the production of motor vehicles was cut back after the attacks; the output of goods elsewhere appears to have declined less than sales, and thus some of the drop in purchases of goods has likely led to a small backup in inventories. Foreign trade in goods and services appears to have been significantly disrupted, but the declines in imports and exports look to have been largely offsetting.

Before September 11, we had been thinking that the pace of economic activity would remain quite slow in the fourth quarter. In particular, earlier indications that the slump in demand for high-tech equipment might be moderating seemed to be proving wrong, and inventories in a number of other sectors were still elevated. The August drop in industrial production and the anecdotal information that we had begun to accumulate from manufacturers suggested that the contraction in the industrial sector would not begin to taper off as we had projected earlier. With the additional losses to consumer and business spending expected to ensue in the aftermath of the terrorist attacks, we now anticipate another contraction in real GDP in the fourth quarter, at an annual rate of 3/4 percent.

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

Measure	2001:Q3		2001:Q4	
	Aug. GB	Sept. GB	Aug. GB	Sept. GB
Real GDP	**1.0**	**-.6**	**1.5**	**-.7**
Private domestic final purchases	.6	-.7	2.1	-1.9
Personal consumption	2.9	1.5	3.4	.4
Residential investment	-.2	-2.2	-.5	-11.5
Business fixed investment	-11.2	-11.6	-4.6	-10.9
Government outlays for consumption and investment	2.0	3.8	2.9	4.7
	Contribution to growth, percentage points			
Inventory investment	.5	-.3	-.7	.5
Net exports	-.4	-.3	-.1	-.4

Industrial production is projected to drop at an annual rate of 6-1/4 percent in the fourth quarter — about the same pace that has prevailed since the beginning of the year. Motor vehicle assemblies stepped down sharply in September, and we anticipate that, with sales slumping, producers will reduce them further in the next several months. We also should begin to see marked cutbacks in aircraft production. Downward adjustments to factory output elsewhere are expected to remain widespread.

In addition to the further loss of manufacturing jobs, we anticipate that a round of layoffs at airlines, in other travel-related services, and at retailers will steepen monthly declines in private payrolls to almost 250,000 per month in the October-to-December period. As a result, we are projecting that the unemployment rate, after having risen to 4.8 percent in the third quarter, will move up more sharply in the fourth quarter, to 5.4 percent.

With production adjustments in train, we are projecting another large drop in nonfarm inventories in the fourth quarter — although it is smaller than our estimates of the drawdowns in the second and third quarters. Given our forecast that final sales will decline at an annual rate of 1-1/4 percent, the progress that businesses have made so far in realigning stocks and sales is likely to slow significantly in the fourth quarter, despite the further liquidation.

Regarding final demand, consumer expenditures are expected to be little changed on balance: We assume that some — but not all — of the spending that did not occur immediately following the terrorist attacks will be made up in the fourth quarter, and we still believe that the tax rebates are providing some lift. However, those positives will be overwhelmed by the effects of the slower projected rise in income, the decline in wealth, and by the uncertainty and pessimism about economic prospects that we expect will exceed levels consistent with economic fundamentals. The retrenchment in consumer spending is expected to be led by a drop in purchases of durables, which tend to be the most sensitive to changes in income and sentiment. Sales of light motor vehicles, which had held up at an annual rate of 16-1/4 million units in July and August, are projected to drop to a rate of 15 million units in the September-to-December period. Expenditures for other household goods are projected to decline as well.

Businesses are anticipated to pull back on their equipment and software spending in the aftermath of the attacks. Even though replacement demand for computing and communications equipment should be a small plus for spending on equipment and software, we expect to see another large decline in high-tech outlays overall in the fourth quarter. In addition, aircraft deliveries to domestic companies are expected to drop back sharply from the high level of the third quarter, and business purchases of motor vehicles are projected to decline. For other types of equipment, spending is likely to post another noticeable decline. All told, expenditures for business equipment and software are projected to drop at an annual rate of 13 percent in the fourth quarter. At the same time, the widespread decline in expenditures for nonresidential structures, which began in the second quarter, is expected to continue.

Housing starts dropped in August, and the projected weakness in income and employment is anticipated to further restrain demand during the fourth quarter despite lower mortgage rates. With builders likely to be cautious, we expect that starts of new single-family houses, which averaged just below 1.3 million units (annual rate) through July, will remain near the August low of 1.25 million units through year-end; starts of multifamily units are expected to stay at the 340,000 unit pace that has prevailed so far this year. The lower level of starts implies a drop in expenditures for residential structures in the fourth quarter.

Real federal government consumption and investment is projected to step up sharply in the fourth quarter — at an annual rate of 7-1/4 percent — boosted by the outlay of $5 billion of the recently enacted emergency funds. Emergency spending by state and local governments for cleanup and repair is anticipated to add about $4 billion (annual rate) to the rise in real spending in that sector, although the increase is expected to be offset, to some extent, by the restraint that their weaker budget positions are likely to have on other types of state and local spending. On balance, state and local spending is projected to be up at an annual rate of 3-1/2 percent — about the same pace as that in the third quarter and well below the rapid rate of the first half of this year.

After having been held down temporarily in the third quarter by the disruptions associated with the terrorist attacks, the level of exports is projected to be little changed in the fourth quarter, and imports are projected to rise a bit. Nonetheless, both remain depressed by the weakness in economic activity in the United States and among our major trading partners. Real exports in the fourth quarter of 2001 are projected to be 8-1/4 percent below year-earlier levels, and real imports are expected to be down 6 percent. Arithmetically, real net exports are anticipated to subtract about 0.4 percentage point from the change in real GDP in the fourth quarter of 2001, a more negative contribution than we forecast in the August Greenbook.

Core PCE inflation is expected to be steady in the fourth quarter at an annual rate of just under 2 percent; core CPI inflation is projected to remain at a 2-1/2 percent rate. However, top-line inflation will be held down less at year-end than in the third quarter because the decline in energy prices will be less steep.

The Longer-Term Outlook for the Economy

The outlook for economic activity and inflation in 2002 and 2003 in this forecast is shaped importantly by recent events and the response of monetary and fiscal policy. We believe that activity early next year will continue to be restrained by the greater weakness in final demand that was emerging late in the third quarter and is being exacerbated by the effects on consumer and business sentiment of the terrorist attacks. The sharp drop in household wealth associated with the plunge in the stock market will be an additional drag on consumer spending going forward. But the stimulus from monetary and fiscal policies should provide significant support to activity. On balance, we are projecting a slow recovery in the first half of 2002; real GDP is expected to be about flat in the first quarter and to rise at an annual rate of just 1-1/2 percent in the second quarter. Thereafter, we are projecting an acceleration in real GDP to a 3-1/4 percent rate in the second half of 2002 and a bit stronger pace of 3-1/2 percent in 2003.

The deeper slump in economic activity now forecast for the second half of 2001 and the first quarter of 2002 widens the gap between actual and potential GDP significantly. As a result, the unemployment rate is projected to reach

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

Measure	2002 H1	2002 H2	2003
Real GDP	**.6**	**3.3**	**3.5**
Previous	2.4	3.0	--
Final sales	.2	2.9	3.2
Previous	1.3	3.0	--
PCE	.6	2.5	3.2
Previous	1.7	2.7	--
Residential investment	-1.6	5.5	2.5
Previous	.6	1.9	--
BFI	-3.9	4.1	6.9
Previous	2.2	5.8	--
Government purchases	4.0	4.3	3.1
Previous	3.0	3.5	--
Exports	.4	5.9	6.8
Previous	1.5	6.4	--
Imports	3.4	6.6	8.3
Previous	6.6	6.3	--
	Contribution to growth, percentage points		
Inventory change	.4	.4	.3
Previous	1.1	-.0	--
Net exports	-.4	-.3	-.4
Previous	-.7	-.2	--

6-1/4 percent in the second half of next year. Although real GDP in late 2002 and in 2003 is expected to increase somewhat faster than potential, the gap in resource utilization remains wide. We expect that the jobless rate will edge down to 6 percent in 2003 — but it will still be more than 1/2 percentage point above our estimate of the NAIRU — and that the capacity utilization rate in manufacturing will average about 75 percent — 5 percentage points below its longer-run average. In that environment, core inflation is projected to trend lower.

Household spending. Real personal consumption expenditures are now projected to increase just 1-1/2 percent in 2002 — a shade less than the expected rise this year. We assume that, during the next few quarters, households' expectations for economic activity will be depressed as they absorb the direct shock of the terrorist attacks and see the indirect effects on jobs and income. In addition, the impact of the decline in the stock market on wealth will be feeding through into spending. We have assumed that, over the course of next year, the effects on household spending of the negative shock to sentiment will fade; at the same time, the rise in real disposable income should be supported by the scheduled cut in tax rates, lower energy prices, and some additional federal transfers. However, the constraint from a lower wealth-to-income ratio should remain, and it is reflected in a rise in the saving rate in 2002. By 2003, the drag on consumer spending from sentiment and lower wealth should be diminishing. Indeed, in a cyclical sense, demand for consumer durables is likely to recover. As a result, we are projecting a step-up in real consumer spending in 2003 to a 3-1/4 percent pace — a bit faster than the acceleration in real income — yielding a modest decline in the personal saving rate.

Residential investment is projected to rise slowly, on balance, over the next two years. In the near term, sales and starts are anticipated to decline. But as the recovery gains momentum in the second half of 2002 and in 2003 and as mortgage interest rates remain low, housing demand should turn back up. Starts of new single-family units are forecast to remain at an annual rate of 1.24 million units until next spring and then to rise gradually to 1.34 million units in 2003. Starts of multifamily units are expected to remain at the recent rate of 340,000 over the forecast period.

Business spending on equipment and software. The retrenchment in spending for equipment and software has been showing no sign of abating, and prospects for a turnaround in 2002 have been dimmed by the lower levels of economic activity that we are now forecasting. Real outlays for E&S are now expected to decline further early next year and then to recover slowly; over the four quarters of 2002, spending is projected to be up just 3/4 percent. In 2003, the acceleration in business output and the opportunities to take advantage of ongoing technological improvements are anticipated to generate a pickup in spending for equipment and software. At 9-1/2 percent, the gain in E&S outlays in 2003 falls short of the boom years of the late 1990s, but it is in line with the pace of spending in the first half of that decade.

We have allowed for some boost to spending for high-tech equipment to continue in 2002 and 2003 as businesses repair and upgrade computing and communications facilities in reaction to the terrorist attacks. But the effects are small, and more broadly, the rise in high-tech spending in 2002 remains restrained — 7-1/4 percent. A more solid recovery has been pushed out to 2003, when spending is projected to be up 18-1/2 percent. Demand for other types of business equipment is also anticipated to be soft next year — with spending generally held down by pessimism about economic prospects — and the upturn in 2003 is subdued. In particular, the demand for aircraft is anticipated to continue to drop steeply over the next two years.

Nonresidential structures. Outlays for nonresidential structures have dropped considerably in the last several quarters, and with the weaker outlook for economic activity in 2002, we expect a further curtailment next year. One exception is the public utilities sector, where continued increases in spending for electricity generation appear to be in train; we also have factored in a small amount for reconstruction of public facilities damaged in New York City. Given the lags in the start of new projects, we do not expect that efforts to replace the lost private office space will materially add to spending until the second half of 2002; even so, the increment is small — and reaches only $3 billion in 2003. All told, outlays for nonresidential structures are projected to fall another 2 percent in 2002, after a drop of 3-1/2 percent this year; they are anticipated to be unchanged in 2003.

Inventory investment. Reductions in the stocks of nonfarm inventories are expected to be more prolonged in this forecast than in the August forecast. Nonetheless, as the drawdown slows over the next several quarters, inventory investment will begin to make a positive contribution to the change in real GDP. After having dropped about $36 billion in 2001, inventories are projected to fall only $7 billion in 2002; the swing boosts the rise in real GDP by almost 1/2 percentage point. In 2003, businesses are expected to be building inventories as production firms, but the inventory stock is expected to rise at a slower pace than sales. As a result, the nonfarm inventory-sales ratio is projected to decline, moving closer to the longer-run trend. The moderate rate of inventory investment in 2003 makes a small contribution to the change in real GDP.

Government spending. Real federal purchases are projected to increase 6-3/4 percent in 2002. The higher level of spending, along with the reduction in revenues associated with the slower economy, will likely lead to a large on-budget deficit. As a result, with economic prospects improving over 2002, we expect no further impulse to federal spending, and real federal purchases are projected to slow again in 2003, rising just 2 percent. State and local spending is expected to increase 2-3/4 percent in 2002 and 3-3/4 percent in 2003 — a slowdown from the 5 percent rise expected for this year. These jurisdictions will no doubt experience downward pressure on revenues and, as a result, will pull back a bit on spending.

Net exports. Real exports have weakened markedly further in recent months, and we now expect that they will be down 8-1/4 percent during 2001. They are projected to turn up considerably during 2002 and to strengthen further in 2003 as foreign economic activity recovers. The firming in domestic spending over the same period should lead to a pickup in imports, which also have dropped off sharply so far this year. Taken together, real net exports, which are expected to be only a slight negative for real GDP this year, are projected to arithmetically subtract about 0.4 percentage point per year, on average, from the changes in real GDP for 2002 and 2003.

Aggregate Supply, the Labor Market, and the Outlook for Inflation
The increase in potential GDP is now assumed to be 2.7 percent this year, to dip to 2.4 percent in 2002, and to be back up to 2.8 percent in 2003. Compared with the August Greenbook, the slightly slower rates of increase this year and next —

Potential GDP
(Percent change, annual rate)

Measure	1973-1995	1995-2000	2000	2001	2002	2003
Potential GDP	**2.9**	**3.6**	**3.7**	**2.7**	**2.4**	**2.8**
Previous	2.9	3.6	3.7	3.0	2.8	...
Potential labor hours	1.7	1.1	1.0	.8	1.0	1.0
Population	1.4	1.0	1.0	1.1	1.1	1.1
Labor force participation	.4	.0	.0	.0	.0	.0
Employment rate	.0	.1	.0	-.3	-.1	-.1
Workweek	-.2	.0	.0	.0	.0	.0
Structural labor productivity	**1.4**	**2.5**	**2.6**	**1.9**	**1.5**	**1.8**
Previous	1.4	2.5	2.6	2.1	1.8	...
Capital deepening	.6	1.2	1.3	.7	.2	.5
Previous	.6	1.2	1.3	.8	.5	...
Labor composition	.3	.3	.3	.3	.3	.3
MFP	.6	1.0	1.0	.9	.9	1.0
Previous	.6	1.0	1.0	1.0	1.0	...
Technical factors	-.1	.1	.1	.0	.0	.0
MEMO:						
Short-run NAIRU (percent)	5.8	5.0	4.8	5.0	5.2	5.3

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

0.3 percentage point — reflect lower estimates of the rise in structural labor productivity in this forecast. Structural labor productivity is now assumed to rise 1.9 percent in 2001, to slow to 1.5 percent in 2002, and then to pick up to 1.8 percent in 2003. Much of the adjustment is the result of revised estimates of capital deepening, which follow from our downward revisions to the forecast for business fixed investment. In addition, we have lowered our estimate of the growth of multifactor productivity this year and next. We believe that the changes in the allocation of capital and labor resources that will occur in the wake of the terrorist attacks — such as increased security — will add up to a minor, but permanent loss to the level of multifactor productivity.

Productivity and the labor market. Our productivity forecast tracks a typical cyclical pattern around the underlying structural trends noted above. Output per hour in the nonfarm business sector is projected to rise at an annual rate of 1 percent, on average, in the second half of this year — about the same rate as in the first half. It is expected to continue to increase at a below-trend pace of just 3/4 percent in the first half of 2002 as production is slow to recover. Thereafter, as the economy strengthens, businesses are assumed to be better able to bring work schedules and employment in line with sales and production, and productivity is expected to accelerate noticeably. Nonfarm business output per hour is projected to increase at an annual rate of more than 2-3/4 percent in the second half of next year — well above our estimated structural rate — and to continue to rise at a pace slightly above the structural increase in 2003.

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

Measure	2000	2001	2002	2003
Output per hour, nonfarm business	2.3	1.0	1.8	2.1
Previous	2.3	1.2	2.3	--
Nonfarm private payroll employment	1.8	-.8	-.3	1.5
Previous	1.8	-.4	.5	--
Household employment survey	1.0	-.9	.1	1.4
Previous	1.0	-.4	.5	--
Labor force participation rate[1]	67.1	66.7	66.7	66.7
Previous	67.1	66.9	66.9	--
Civilian unemployment rate[1]	4.0	5.4	6.2	6.0
Previous	4.0	5.1	5.6	--

1. Percent, average for the fourth quarter.

Nonfarm payroll employment is expected to drop sharply through year-end, as layoffs in the transportation and services industries mount and cutbacks in manufacturing and related industries remain sizable. The decline in employment is forecast to continue into the first half of next year, although the reductions should taper off as spending and production stabilize and then turn up. In the second half of 2002, rehiring should be under way, stemming the rise in the unemployment rate. By the end of 2003, overall private employment is projected to have recovered its pre-downturn level, although the number of manufacturing jobs should remain well short of earlier levels.

Wages and prices. The greater slack in resource utilization embodied in the economic outlook is projected to lead to a deceleration of core prices and labor costs over the forecast period. Energy prices are expected to fall as well; but after the drop steepens in 2002, it tapers off in 2003. Though the depreciation of the dollar should bring an upturn in prices of non-oil imports in the next two years, the increases are moderate, and their influence on domestic prices more broadly is likely to be limited by the extent of slack in product markets. The weakness in labor markets should shrink increases in hourly compensation over the forecast period. However, that slowdown is not fully passed through to labor-based costs of production because of the lower rates of increase in structural productivity in this forecast.

After an expected increase of 1.8 percent this year, core PCE prices are projected to rise 1.6 percent in 2002 and 1.5 percent in 2003. Given the path for energy prices, overall PCE price inflation is expected to drop to 1-1/2 percent in 2002 and to stay at that rate in 2003.

As the unemployment rate rises sharply over the next year and then retraces only a small part of that increase in 2003, the downward pressure on wage changes is expected to be considerable. The increase in the ECI for hourly compensation is projected to step down from 4-1/4 percent this year to 3-1/2 percent next year and 3-1/4 percent in 2003 — the smallest gain since 1996. Most of the deceleration represents smaller wage adjustments; benefit costs are expected to slow only modestly. Although employers have some scope to adjust supplemental pay, they are expected to continue to face ongoing rapid increases in the costs of health insurance.

Financial Flows and Conditions

Against the backdrop of a weak economy, we anticipate that domestic nonfinancial debt will decelerate from the 5-1/2 percent pace of the past three quarters to roughly 4 percent in 2002. Debt growth picks up, but only a bit, as the economy regains momentum in 2003. Borrowing by the nonfederal sectors, which appears to have slowed considerably in the current quarter even before the terrorist attacks, is anticipated to remain at reduced levels. At the same time,

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

Measure	2000	2001	2002	2003
PCE chain-weighted price index	2.6	1.8	1.5	1.5
Previous	2.6	1.9	1.7	--
Food and beverages	2.5	3.2	2.3	2.2
Previous	2.5	3.3	2.6	--
Energy	15.4	-3.3	-4.8	-.8
Previous	15.4	-2.6	-2.9	--
Excluding food and energy	1.9	1.8	1.6	1.5
Previous	1.9	1.9	1.8	--
Consumer price index	3.4	2.4	1.8	2.0
Previous	3.4	2.5	2.1	--
Excluding food and energy	2.5	2.7	2.3	2.2
Previous	2.5	2.7	2.5	--
GDP chain-weighted price index	2.4	2.3	1.6	1.7
Previous	2.4	2.2	1.9	--
ECI for compensation of private industry workers[1]	4.4	4.2	3.4	3.2
Previous	4.4	4.3	3.7	--
NFB compensation per hour	7.4	4.9	4.1	3.5
Previous	7.4	4.9	4.5	--
Prices of core non-oil merchandise imports	1.6	-2.5	1.9	1.1
Previous	1.6	-1.5	1.8	--

1. December to December.

Treasury debt is expected to decline only a little as smaller federal surpluses significantly reduce our estimates of paydowns.

In the household sector, mortgage debt is expected to continue to increase at a moderate pace, albeit below the surprisingly strong rate in the second quarter. Low mortgage interest rates should lend some support to the demand for financing of existing homes and new homes as well as to refinancing activity. In contrast, consumer credit has been very sluggish of late. The weakness that we are projecting in spending for durable goods, which extends into the middle of next year, is likely to hold down the rise in such credit over 2002. With household debt service burdens already near historically elevated levels, we anticipate that higher unemployment and further deterioration of household financial positions will lead to more loan delinquencies and stiffer credit conditions at lenders.

Total business debt appeared to have slowed in the third quarter before the market disruptions, and we expect it to moderate a bit further before year-end. Our last forecast anticipated elevated risk spreads and additional tightening of standards and terms by business lenders; we believe that the tendency in that direction is likely to be exacerbated by the weaker economy with its deteriorating prospects for earnings. Nonetheless, markets and banks are expected to cautiously accommodate demands from less risky borrowers, and the assumed further policy easing is likely to provide some stimulative effects. For the remainder of this year and over the first half of 2002, nonfinancial corporate bond issuance will likely be limited to only investment-grade and selected lower-rated firms; on net, we expect little increase in borrowing from banks and the commercial paper market. Lenders should be increasingly more accommodative to businesses as the economy picks up in the second half of 2002 and in 2003.

On balance, we expect that the expansion of state and local government debt will remain moderate over the forecast period. Prospects for revenue growth have weakened considerably, and the worsened fiscal conditions may mean fresh needs will largely substitute for previously planned capital projects that are now lower priority. Lower interest rates may provide some added opportunities for advance refundings of higher-interest-rate municipal bonds; but even before recent events, we had expected continued heavy retirements from advance refundings earlier this year.

The monetary aggregates had been increasing more slowly of late, following the relatively rapid rise in the first half of the year. The extent of the slowing, however, was being mitigated by several factors, among which were the recent additional policy easing, the temporary holding of tax rebates in M2 assets, and increased stock market volatility. However, immediately after September 11, liquid deposits ballooned because of disruptions to the payment system, but the bulge is expected to be temporary. Going forward, M2 is expected to settle down to a pace that is significantly faster than nominal income over the remainder of this year and during 2002. In 2003, M2 should rise about in step with nominal income.

Alternative Simulations

In the staff projection, stimulative fiscal and monetary policies confront a variety of contractionary influences, including sharply lower stock prices, weakening consumer confidence, and economic disruptions. The net result of these countervailing forces is a shallow downturn that gradually evolves into a modest recovery in the second half of next year. We see two main risks to this forecast. First, the current contraction may turn out to be deeper and longer than we show in our baseline. Second, fiscal policy may turn out to be more stimulative than we anticipate.

In this Greenbook, we use model simulations to generate two sets of alternative scenarios. The first set involves a major collapse in consumer sentiment, with an accompanying deterioration in business and investor confidence; the effects of such a collapse are considered under alternative monetary policy responses. The second set concerns major reductions in taxes beyond those already passed; they come on top of the incremental federal spending that we have included in the baseline. The effects of such cuts are considered under alternative assumptions about how they would influence long-run expectations for the federal budget and hence bond prices.

Collapse in consumer and business sentiment. In this scenario, we assume that the near-term drop in consumer sentiment is more marked than in the baseline projection. As a rough measure, we calibrated that additional negative "surprise" by the one that occurred immediately after the 1990 invasion of Kuwait — a decline that is about twice the size of the drop in the baseline. Business and investor confidence are also assumed to follow consumer sentiment in a deeper decline. The effects of this transitory swing toward greater pessimism are to depress outlays on equipment and software in the near term and to magnify the decline in consumer spending.

Assuming that the funds rate is the same as in the staff outlook ("Collapse in sentiment, unchanged policy"), such developments would lower the change in real GDP in the latter part of this year by 1 percentage point and reduce the increase in the first half of next year by 1-1/2 percentage points, both measured relative to the baseline outlook. Households are the major source of this weakness, but the depth and duration of the contraction in business investment are also greater than in the baseline. By 2003, inflation is a few tenths lower than it is in the staff forecast, primarily because the unemployment rate rises to 6-3/4 percent by the end of next year.

Monetary policy can do little to offset the near-term effects of a collapse in sentiment, but it can mitigate the longer-run consequences. As shown in the "Collapse in sentiment, policy easing" scenario, if monetary policy were to follow a Taylor rule, the funds rate would be reduced, relative to the baseline, by more than 1/2 percentage point by the middle of next year. This easing would have almost no effect on real activity initially but would begin to boost output growth by the second half of 2002, thereby bringing the unemployment rate in 2003 down to less than 6-1/2 percent and yielding a smaller decline in inflation.

Alternative Scenario: Collapse in Consumer and Business Sentiment
(Percent change, annual rate, from end of preceding period, except as noted)

Measure	2001		2002			2003
	Q3	Q4	Q1	Q2	H2	
Real GDP						
Baseline	**-.6**	**-.7**	**-.1**	**1.4**	**3.3**	**3.5**
Collapse in sentiment, unchanged policy	-.6	-1.6	-1.6	-.3	2.3	3.2
Collapse in sentiment, policy easing	-.6	-1.6	-1.5	-.1	2.8	3.9
Real personal consumption						
Baseline	**1.5**	**.4**	**.1**	**1.1**	**2.5**	**3.2**
Collapse in sentiment, unchanged policy	1.5	-1.1	-1.6	-.5	1.7	3.2
Collapse in sentiment, policy easing	1.5	-1.1	-1.5	-.3	2.1	3.8
Real residential investment						
Baseline	**-2.2**	**-11.5**	**-5.3**	**2.1**	**5.5**	**2.5**
Collapse in sentiment, unchanged policy	-2.2	-15.1	-8.9	-1.5	2.9	.4
Collapse in sentiment, policy easing	-2.2	-15.1	-8.4	-.4	4.9	2.1
Real business equipment and software						
Baseline	**-13.0**	**-12.8**	**-6.6**	**-2.0**	**6.3**	**9.6**
Collapse in sentiment, unchanged policy	-13.0	-15.8	-10.0	-6.4	2.3	8.1
Collapse in sentiment, policy easing	-13.0	-15.8	-9.9	-6.4	2.8	9.2
Civilian unemployment rate[1]						
Baseline	**4.8**	**5.4**	**5.8**	**6.1**	**6.2**	**6.0**
Collapse in sentiment, unchanged policy	4.8	5.5	6.0	6.4	6.7	6.8
Collapse in sentiment, policy easing	4.8	5.5	6.0	6.4	6.6	6.4
PCE prices excluding food and energy						
Baseline	**1.9**	**1.9**	**1.8**	**1.7**	**1.6**	**1.5**
Collapse in sentiment, unchanged policy	1.9	1.9	1.8	1.7	1.5	1.3
Collapse in sentiment, policy easing	1.9	1.9	1.8	1.7	1.6	1.5

1. Average for the final quarter of the period.

Major fiscal stimulus. Relative to the August Greenbook, the current staff projection incorporates a significantly higher level of federal government outlays for fiscal 2002 and fiscal 2003. However, in light of what appears to be bipartisan support for additional fiscal stimulus measures, we see a risk that we have not built enough fiscal stimulus into the outlook. The additional spending or tax cuts would likely boost output over the forecast period. However, investors might view a significant move toward fiscal expansion as signaling a sea change in long-run federal debt policy, thus prompting a backup in long-term interest rates. If so, the stimulus from tax cuts might prove smaller than expected.

Alternative Scenario: Major Fiscal Stimulus
(Percent change, annual rate, from end of preceding period, except as noted)

Measure	2001		2002			2003
	Q3	Q4	Q1	Q2	H2	
Real GDP						
Baseline	**-.6**	**-.7**	**-.1**	**1.4**	**3.3**	**3.5**
Fiscal stimulus alone	-.6	-.4	1.3	3.2	3.4	4.4
Fiscal stimulus, adverse market reaction	-.6	-.4	1.0	2.5	2.7	3.7
Real personal consumption						
Baseline	**1.5**	**.4**	**.1**	**1.1**	**2.5**	**3.2**
Fiscal stimulus alone	1.5	.6	1.6	3.0	1.7	3.9
Fiscal stimulus, adverse market reaction	1.5	.6	1.3	2.6	1.2	3.3
Real residential investment						
Baseline	**-2.2**	**-11.5**	**-5.3**	**2.1**	**5.5**	**2.5**
Fiscal stimulus alone	-2.2	-11.5	-5.0	4.0	9.1	6.3
Fiscal stimulus, adverse market reaction	-2.2	-11.5	-8.3	-1.0	7.8	6.2
Real business equipment and software						
Baseline	**-13.0**	**-12.8**	**-6.6**	**-2.0**	**6.3**	**9.6**
Fiscal stimulus alone	-13.0	-10.2	-.8	3.3	11.8	13.6
Fiscal stimulus, adverse market reaction	-13.0	-10.2	-1.1	2.3	10.1	11.5
Civilian unemployment rate[1]						
Baseline	**4.8**	**5.4**	**5.8**	**6.1**	**6.2**	**6.0**
Fiscal stimulus alone	4.8	5.4	5.7	5.9	5.9	5.3
Fiscal stimulus, adverse market reaction	4.8	5.4	5.7	5.9	6.0	5.8
PCE prices excluding food and energy						
Baseline	**1.9**	**1.9**	**1.8**	**1.7**	**1.6**	**1.5**
Fiscal stimulus alone	1.9	1.9	1.8	1.7	1.6	1.5
Fiscal stimulus, adverse market reaction	1.9	1.9	1.8	1.6	1.6	1.5

1. Average for the final quarter of the period.

To illustrate these risks, we consider a set of scenarios featuring a more substantial package of fiscal stimulus than is assumed in the baseline — one that exhausts the unified surplus in both fiscal 2002 and fiscal 2003. In particular, we assume a second round of tax rebates worth $35 billion (the same size as in the first round), which would be paid in the first quarter of 2002, and a permanent investment tax credit (ITC) of 5 percent on business equipment retroactive to September 11. The direct cost to the Treasury of the ITC is about $35 billion initially, but it rises over time as equipment spending increases. In simulating the effect of these tax initiatives on the economy, the federal funds rate is assumed to remain unchanged at its baseline path.[2]

In the first of the fiscal scenarios ("Fiscal stimulus alone"), the bond market is assumed to remain insensitive to the long-term implications of the move to a more expansionary fiscal policy. Under these conditions, the increase in real GDP in the first quarter of next year is 1-1/2 percentage points stronger than in the staff forecast, and by 2002, it is almost 1 percentage point higher. The contribution to aggregate spending is driven by a jump in consumer outlays as lower-income households spend their rebates quickly and increasingly, over time, by business investment. The resultant pickup in capital deepening boosts structural labor productivity by enough to keep inflation unchanged at the baseline path despite a much lower rate of unemployment.

The other fiscal scenario ("With adverse bond market reaction") allows bond rates to react to the shift in the long-term stance of fiscal policy. With prospects for continued unified budget surpluses fading, the bond market revises up its estimate for the equilibrium real interest rate, causing the level of bond rates to jump 1/2 percentage point relative to baseline by early next year. Higher borrowing costs and other asset price adjustments moderate the strength of the recovery, making the decline in the unemployment rate in 2003 less pronounced.

Alternative monetary policies. The "Easier monetary policy" scenario assumes that the funds rate is reduced by an additional 50 basis points beyond what is incorporated in the baseline. Under that alternative, growth of real output would be stronger, and the unemployment rate would fall more steeply during 2003, reaching 5-1/2 percent by year-end. By contrast, if monetary policy were to follow the "Market-based funds rate" path embodied in current futures prices, real output would rise more slowly than in the baseline.

2. If the ITC were to be temporary, it would produce a substantially greater spending response by bringing forward investment spending that would otherwise have occurred after the tax incentives lapse. A temporary ITC would also be less likely to spark an adverse reaction in the bond market.

Alternative Monetary Policy Scenarios
(Percent change, annual rate, from end of preceding period, except as noted)

Measure	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 H2	2003
Real GDP						
Baseline	**-.6**	**-.7**	**-.1**	**1.4**	**3.3**	**3.5**
Easier monetary policy	-.6	-.7	.1	1.7	3.7	4.1
Market-based funds rate	-.6	-.7	.0	1.7	3.5	2.8
Real personal consumption						
Baseline	**1.5**	**.4**	**.1**	**1.1**	**2.5**	**3.2**
Easier monetary policy	1.5	.4	.3	1.4	2.9	3.7
Market-based funds rate	1.5	.4	.2	1.3	2.6	2.6
Real residential investment						
Baseline	**-2.2**	**-11.5**	**-5.3**	**2.1**	**5.5**	**2.5**
Easier monetary policy	-2.2	-11.5	-3.8	3.9	7.4	4.2
Market-based funds rate	-2.2	-11.5	-4.3	3.6	5.7	-1.3
Real business equipment and software						
Baseline	**-13.0**	**-12.8**	**-6.6**	**-2.0**	**6.3**	**9.6**
Easier monetary policy	-13.0	-12.8	-6.4	-1.6	7.0	10.7
Market-based funds rate	-13.0	-12.8	-6.5	-1.7	6.7	8.7
Civilian unemployment rate[1]						
Baseline	**4.8**	**5.4**	**5.8**	**6.1**	**6.2**	**6.0**
Easier monetary policy	4.8	5.4	5.8	6.1	6.1	5.6
Market-based funds rate	4.8	5.4	5.8	6.1	6.1	6.2
PCE prices excluding food and energy						
Baseline	**1.9**	**1.9**	**1.8**	**1.7**	**1.6**	**1.5**
Easier monetary policy	1.9	1.9	1.8	1.8	1.7	1.7
Market-based funds rate	1.9	1.9	1.8	1.7	1.7	1.4

1. Average for the final quarter of the period.

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September 27, 2001

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

Interval		Nominal GDP		Real GDP		GDP chain-weighted price index		Consumer price index[1]		Unemployment rate[2]	
		08/16/01	09/27/01	08/16/01	09/27/01	08/16/01	09/27/01	08/16/01	09/27/01	08/16/01	09/27/01
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		3.7	3.6	1.5	1.1	2.2	2.4	3.0	3.0	4.6	4.7
2002		3.9	2.3	2.0	0.7	1.9	1.6	2.0	1.7	5.5	6.1
2003			5.1		3.3		1.7		2.0		6.1
QUARTERLY											
2000	Q1	6.3	6.3	2.3	2.3	3.8	3.8	4.3	4.3	4.1	4.1
	Q2	8.0	8.0	5.7	5.7	2.1	2.1	2.8	2.8	4.0	4.0
	Q3	3.3	3.3	1.3	1.3	1.9	1.9	3.5	3.5	4.0	4.0
	Q4	3.7	3.7	1.9	1.9	1.8	1.8	3.0	3.0	4.0	4.0
2001	Q1	4.6	4.6	1.3	1.3	3.3	3.3	4.2	4.2	4.2	4.2
	Q2	2.5	2.5	0.2	0.4	2.2	2.2	3.0	3.0	4.5	4.5
	Q3	2.5	3.0	1.0	-0.6	1.5	3.7	0.5	0.6	4.7	4.8
	Q4	3.3	-0.5	1.5	-0.7	1.8	0.1	2.1	1.6	5.1	5.4
2002	Q1	4.7	1.7	2.4	-0.1	2.2	1.8	2.1	1.6	5.3	5.8
	Q2	4.2	2.9	2.4	1.4	1.7	1.5	2.1	1.8	5.5	6.1
	Q3	4.7	4.8	2.9	3.2	1.8	1.6	2.1	1.9	5.6	6.2
	Q4	4.8	5.1	3.0	3.5	1.8	1.6	2.2	1.9	5.6	6.2
2003	Q1		5.6		3.5		2.1		2.0		6.2
	Q2		5.2		3.5		1.7		2.0		6.2
	Q3		5.2		3.5		1.6		2.0		6.1
	Q4		5.2		3.5		1.6		2.0		6.0
TWO-QUARTER[3]											
2000	Q2	7.2	7.2	4.0	4.0	2.9	2.9	3.6	3.6	-0.1	-0.1
	Q4	3.5	3.5	1.6	1.6	1.8	1.8	3.2	3.2	0.0	0.0
2001	Q2	3.5	3.6	0.8	0.8	2.7	2.7	3.6	3.6	0.5	0.5
	Q4	2.9	1.2	1.3	-0.6	1.6	1.9	1.3	1.1	0.6	0.9
2002	Q2	4.4	2.3	2.4	0.6	2.0	1.6	2.1	1.7	0.4	0.7
	Q4	4.8	5.0	3.0	3.3	1.8	1.6	2.1	1.9	0.1	0.1
2003	Q2		5.4		3.5		1.9		2.0		0.0
	Q4		5.2		3.5		1.6		2.0		-0.2
FOUR-QUARTER[4]											
1999	Q4	6.0	6.0	4.4	4.4	1.6	1.6	2.6	2.6	-0.3	-0.3
2000	Q4	5.3	5.3	2.8	2.8	2.4	2.4	3.4	3.4	-0.1	-0.1
2001	Q4	3.2	2.4	1.0	0.1	2.2	2.3	2.5	2.4	1.1	1.4
2002	Q4	4.6	3.6	2.7	2.0	1.9	1.6	2.1	1.8	0.5	0.9
2003	Q4		5.3		3.5		1.7		2.0		-0.2

1. For all urban consumers.
2. Level, except as noted.
3. Percent change from two quarters earlier; for unemployment rate, change in percentage points.
4. Percent change from four quarters earlier; for unemployment rate, change in percentage points.

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

September 27, 2001

Item	Units[1]	1995	1996	1997	1998	1999	2000	2001	2002	2003
								--------Projected---------		
EXPENDITURES										
Nominal GDP	Bill. $	7400.5	7813.2	8318.4	8781.5	9268.6	9872.9	10224.2	10460.1	10992.9
Real GDP	Bill. Ch. $	7543.8	7813.2	8159.5	8508.9	8856.5	9224.0	9329.9	9391.2	9702.4
Real GDP	% change	2.2	4.1	4.3	4.8	4.4	2.8	0.1	2.0	3.5
Gross domestic purchases		1.7	4.3	5.0	5.8	5.3	3.5	0.1	2.2	3.8
Final sales		2.9	3.9	3.9	4.7	4.3	3.4	0.8	1.6	3.2
Priv. dom. final purchases		3.2	4.4	5.1	6.3	5.4	4.7	0.0	1.3	3.6
Personal cons. expenditures		2.8	3.1	4.1	5.0	5.2	4.2	1.8	1.5	3.2
Durables		3.7	5.0	8.8	12.7	11.3	5.3	2.7	3.2	5.3
Nondurables		2.5	3.2	2.5	5.0	5.0	3.6	1.0	1.0	3.0
Services		2.7	2.7	3.9	3.6	4.0	4.3	2.1	1.5	2.8
Business fixed investment		7.5	12.1	11.8	12.3	7.4	8.9	-9.3	0.0	6.9
Equipment & Software		8.9	11.8	13.7	14.9	11.2	8.3	-11.3	0.8	9.6
Nonres. structures		3.3	12.8	6.5	4.9	-3.6	10.8	-3.5	-2.0	0.2
Residential structures		-1.5	5.6	3.5	10.0	3.4	-1.2	-0.1	1.9	2.5
Exports		9.7	9.8	8.5	2.3	4.5	7.0	-8.3	3.1	6.8
Imports		5.0	11.2	14.3	10.8	11.5	11.3	-5.9	5.0	8.3
Gov't. cons. & investment		-0.8	2.7	2.4	2.7	4.0	1.2	4.7	4.1	3.1
Federal		-5.3	2.0	0.1	0.6	4.5	-1.4	4.1	6.7	2.1
Defense		-4.7	0.8	-1.4	-0.8	4.7	-2.2	4.9	3.0	2.3
State & local		2.1	3.0	3.7	3.8	3.7	2.5	5.0	2.8	3.7
Change in bus. inventories	Bill. Ch. $	--	--	63.8	76.7	62.1	50.6	-37.4	-6.7	32.8
Nonfarm		41.9	21.2	60.6	75.0	63.5	52.3	-35.7	-6.8	31.9
Net exports		-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-411.5	-450.8	-503.4
Nominal GDP	% change	4.3	6.0	6.2	6.0	6.0	5.3	2.4	3.6	5.3
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	117.2	119.6	122.7	125.8	128.9	131.8	132.3	131.5	132.9
Unemployment rate	%	5.6	5.4	4.9	4.5	4.2	4.0	4.7	6.1	6.1
Industrial prod. index	% change	3.6	5.6	7.2	3.2	5.1	4.2	-6.0	1.6	3.9
Capacity util. rate - mfg.	%	82.5	81.6	82.7	81.3	80.5	81.3	75.5	72.7	74.7
Housing starts	Millions	1.35	1.48	1.47	1.62	1.64	1.57	1.60	1.63	1.68
Light motor vehicle sales		14.77	15.05	15.06	15.43	16.78	17.25	16.10	14.66	15.43
North Amer. produced		12.87	13.34	13.12	13.41	14.30	14.39	13.16	11.98	12.58
Other		1.90	1.70	1.93	2.02	2.48	2.86	2.94	2.68	2.86
INCOME AND SAVING										
Nominal GNP	Bill. $	7420.9	7831.2	8325.4	8778.1	9261.8	9860.8	10213.9	10458.8	10996.9
Nominal GNP	% change	4.4	5.9	6.0	5.8	6.0	5.4	2.3	3.7	5.3
Nominal personal income		4.3	5.9	6.3	6.7	4.8	7.3	3.3	3.9	4.6
Real disposable income		1.7	2.6	3.8	5.0	2.1	4.0	2.0	3.4	2.8
Personal saving rate	%	5.6	4.8	4.2	4.7	2.4	1.0	1.7	3.1	3.0
Corp. profits, IVA & CCAdj.	% change	11.3	11.4	9.9	-9.6	11.3	-1.2	-13.0	-1.3	7.2
Profit share of GNP	%	9.0	9.6	10.0	8.9	8.9	8.9	7.2	6.8	7.0
Excluding FR Banks		8.7	9.4	9.7	8.6	8.6	8.6	6.9	6.5	6.7
Federal surpl./deficit	Bill. $	-192.0	-136.8	-53.3	43.8	119.2	218.6	123.0	15.9	37.2
State & local surpl./def.		15.3	21.4	31.0	40.7	42.1	32.8	16.0	9.4	6.1
Ex. social ins. funds		11.4	18.7	29.9	40.0	41.7	33.1	16.3	9.7	6.4
Gross natl. saving rate	%	16.9	17.2	18.0	18.8	18.4	18.1	16.8	16.6	17.1
Net natl. saving rate		5.1	5.7	6.7	7.5	6.8	6.3	4.2	3.9	4.3
PRICES AND COSTS										
GDP chn.-wt. price index	% change	2.1	1.9	1.8	1.1	1.6	2.4	2.3	1.6	1.7
Gross Domestic Purchases chn.-wt. price index		2.1	1.9	1.4	0.8	1.9	2.5	1.6	1.6	1.7
PCE chn.-wt. price index		2.1	2.3	1.5	1.1	2.0	2.6	1.8	1.5	1.5
Ex. food and energy		2.3	1.8	1.7	1.6	1.5	1.9	1.8	1.6	1.5
CPI		2.7	3.2	1.9	1.5	2.6	3.4	2.4	1.8	2.0
Ex. food and energy		3.0	2.6	2.2	2.4	2.0	2.5	2.7	2.3	2.2
ECI, hourly compensation[2]		2.6	3.1	3.4	3.5	3.4	4.4	4.2	3.4	3.2
Nonfarm business sector										
Output per hour		1.1	2.3	2.3	2.9	2.8	2.3	1.0	1.8	2.1
Compensation per Hour		2.6	3.2	3.5	5.3	4.3	7.4	4.9	4.1	3.5
Unit labor cost		1.5	0.9	1.1	2.3	1.5	5.0	3.9	2.4	1.4

1. Changes are from fourth quarter to fourth quarter.
2. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

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

September 27, 2001

Item	Units	1999 Q1	1999 Q2	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	Projected 2001 Q2
EXPENDITURES											
Nominal GDP	Bill. $	9093.1	9161.4	9297.4	9522.5	9668.7	9857.6	9937.5	10027.9	10141.7	10205.2
Real GDP	Bill. Ch. $	8733.5	8771.2	8871.5	9049.9	9102.5	9229.4	9260.1	9303.9	9334.5	9342.8
Real GDP	% change	3.1	1.7	4.7	8.3	2.3	5.7	1.3	1.9	1.3	0.4
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	0.8
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	0.4
Services		4.1	4.5	4.3	3.2	3.7	4.4	3.5	5.6	1.8	2.6
Business fixed investment		6.0	7.7	10.2	5.8	15.8	12.2	7.1	1.0	-0.2	-14.0
Equipment & Software		10.5	11.9	16.2	6.4	18.1	12.4	4.7	-1.1	-4.1	-14.9
Nonres. structures		-6.5	-4.3	-7.0	4.0	8.8	11.8	15.2	7.6	12.3	-11.3
Residential structures		10.3	3.0	-0.8	1.6	8.5	-0.8	-10.4	-1.1	8.5	6.1
Exports		-6.8	4.2	9.7	12.1	9.0	13.5	10.6	-4.0	-1.2	-12.0
Imports		8.4	13.3	13.8	10.5	17.1	16.4	13.0	-0.5	-5.0	-8.6
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	1.5
Defense		-3.5	-3.5	12.8	14.3	-20.0	15.4	-10.4	10.5	7.5	2.2
State & local		5.2	1.4	2.9	5.4	5.6	-1.1	3.0	2.7	6.4	6.8
Change in bus. inventories	Bill. Ch. $	83.4	32.7	39.6	92.7	28.9	78.9	51.7	42.8	-27.1	-39.7
Nonfarm		78.7	34.2	52.2	88.7	37.8	75.1	56.6	39.7	-27.3	-37.4
Net exports		-283.0	-313.4	-333.3	-337.8	-371.1	-392.8	-411.2	-421.1	-404.5	-405.9
Nominal GDP	% change	4.9	3.0	6.1	10.0	6.3	8.0	3.3	3.7	4.6	2.5
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	127.8	128.5	129.2	130.1	131.0	131.9	131.9	132.3	132.6	132.5
Unemployment rate	%	4.3	4.3	4.2	4.1	4.1	4.0	4.0	4.0	4.2	4.5
Industrial prod. index	% change	3.9	4.9	5.8	5.7	6.7	7.9	3.5	-0.9	-6.8	-4.4
Capacity util. rate - mfg.	%	80.2	80.3	80.5	80.9	81.3	81.9	81.7	80.3	77.9	76.4
Housing starts	Millions	1.71	1.57	1.65	1.66	1.67	1.59	1.51	1.54	1.63	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	10192.5
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	3.7
Real disposable income		1.4	2.0	2.1	3.0	3.3	5.9	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	-15.9
Profit share of GNP	%	9.2	8.8	8.6	9.0	9.0	9.1	9.0	8.4	7.8	7.4
Excluding FR Banks		8.9	8.6	8.3	8.7	8.7	8.8	8.7	8.1	7.5	7.1
Federal surpl./deficit	Bill. $	85.2	116.5	132.0	143.1	212.8	209.1	229.9	222.5	205.3	186.6
State & local surpl./def.		48.9	36.2	38.3	44.9	33.2	34.7	34.8	28.6	22.3	20.4
Ex. social ins. funds		48.4	35.8	38.0	44.7	33.3	34.9	35.1	29.1	22.6	20.6
Gross natl. saving rate	%	19.0	18.5	18.3	18.0	18.0	18.3	18.2	17.9	17.3	17.1
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	2.2
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	1.4
PCE chn.-wt. price index		1.3	2.0	2.2	2.4	4.0	2.1	2.4	2.0	3.2	1.6
Ex. food and energy		1.4	1.2	1.5	1.8	2.9	1.7	1.6	1.5	2.6	0.9
CPI		1.7	2.7	2.9	3.1	4.3	2.8	3.5	3.0	4.2	3.0
Ex. food and energy		1.8	2.1	1.8	2.5	2.5	2.7	2.5	2.4	3.1	2.6
ECI, hourly compensation[1]		1.4	4.6	3.4	4.6	5.6	4.7	3.8	3.5	4.6	4.0
Nonfarm business sector											
Output per hour		2.4	-1.4	3.0	7.4	-0.6	6.3	1.4	2.3	0.1	2.2
Compensation per hour		3.8	4.2	5.2	4.2	6.2	7.6	7.1	8.9	5.1	4.8
Unit labor cost		1.3	5.6	2.1	-2.9	6.8	1.2	5.6	6.4	5.0	2.6

1. Private-industry workers.

Strictly Confidential <FR>
Class II FOMC

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

September 27, 2001

	Units	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4
		- - - - - - - - - Projected	- - - -	- - - -	- - - -	- - - -	- - - -	- - - -	- - - -	- - - -	- - - -
EXPENDITURES											
Nominal GDP	Bill. $	10281.9	10267.9	10310.3	10384.4	10507.0	10638.9	10785.6	10922.8	11061.6	11201.6
Real GDP	Bill. Ch. $	9329.0	9313.3	9310.3	9342.2	9415.7	9496.8	9578.3	9660.5	9743.4	9827.5
Real GDP	% change	-0.6	-0.7	-0.1	1.4	3.2	3.5	3.5	3.5	3.5	3.5
Gross domestic purchases		-0.2	-0.3	0.2	1.8	3.5	3.5	3.9	3.9	3.8	3.5
Final sales		-0.3	-1.2	-0.5	0.9	2.6	3.2	3.0	3.1	3.2	3.6
Priv. dom. final purchases		-0.7	-1.9	-0.9	0.7	2.7	2.9	3.6	3.6	3.6	3.7
Personal cons. expenditures		1.5	0.4	0.1	1.1	2.5	2.4	3.1	3.2	3.2	3.2
Durables		-1.2	-4.8	-4.4	3.3	7.5	6.9	6.1	4.6	5.1	5.3
Nondurables		2.8	-1.6	0.8	1.1	1.1	1.0	3.4	2.8	2.8	2.8
Services		1.4	2.4	0.7	0.7	2.2	2.2	2.4	3.1	3.0	3.0
Business fixed investment		-11.6	-10.9	-5.6	-2.1	3.2	4.9	5.9	6.5	7.4	7.8
Equipment & Software		-13.0	-12.8	-6.6	-2.0	5.4	7.1	8.9	9.2	10.0	10.4
Nonres. structures		-7.7	-5.8	-3.0	-2.5	-2.0	-0.5	-1.3	0.1	0.9	1.1
Residential structures		-2.2	-11.5	-5.3	2.1	5.3	5.7	5.7	2.8	1.0	0.6
Exports		-18.3	-0.3	-1.3	2.1	4.4	7.5	4.2	6.6	7.1	9.3
Imports		-12.2	2.9	1.4	5.5	6.9	6.2	7.5	9.2	8.9	7.4
Gov't. cons. & investment		3.8	4.7	3.5	4.5	4.0	4.6	3.0	3.2	3.2	2.9
Federal		4.8	7.2	5.4	7.8	7.4	6.4	2.0	2.2	2.2	1.8
Defense		4.6	5.1	2.7	3.7	3.3	2.3	2.0	2.6	2.6	2.0
State & local		3.4	3.4	2.5	2.8	2.3	3.7	3.6	3.7	3.8	3.5
Change in bus. inventories	Bill. Ch. $	-48.1	-34.4	-24.9	-12.7	2.0	8.8	20.8	31.3	40.0	38.8
Nonfarm		-45.7	-32.5	-23.5	-13.4	1.3	8.2	20.3	30.4	39.1	37.7
Net exports		-412.2	-423.6	-432.1	-446.5	-460.4	-464.3	-481.4	-499.0	-514.6	-518.8
Nominal GDP	% change	3.0	-0.5	1.7	2.9	4.8	5.1	5.6	5.2	5.2	5.2
EMPLOYMENT AND PRODUCTION											
farm payroll employment	Millions	132.3	131.8	131.4	131.3	131.5	131.8	132.2	132.7	133.2	133.7
mployment rate	%	4.8	5.4	5.8	6.1	6.2	6.2	6.2	6.2	6.1	6.0
Industrial prod. index	% change	-6.5	-6.2	-2.7	1.5	3.8	4.1	4.0	3.8	3.5	4.1
Capacity util. rate - mfg.	%	74.7	73.0	72.2	72.3	72.8	73.4	74.0	74.5	75.0	75.5
Housing starts	Millions	1.57	1.56	1.58	1.62	1.65	1.67	1.68	1.68	1.68	1.68
Light motor vehicle sales		15.78	15.09	14.42	14.38	14.77	15.05	15.30	15.36	15.47	15.60
North Amer. produced		12.81	12.25	11.81	11.74	12.08	12.28	12.45	12.50	12.61	12.74
Other		2.97	2.85	2.61	2.64	2.69	2.77	2.85	2.86	2.86	2.86
INCOME AND SAVING											
Nominal GNP	Bill. $	10272.0	10260.0	10306.2	10382.6	10506.3	10639.9	10789.0	10928.4	11066.0	11204.3
Nominal GNP	% change	3.2	-0.5	1.8	3.0	4.8	5.2	5.7	5.3	5.1	5.1
Nominal personal income		2.3	1.5	4.3	3.4	3.8	4.2	5.0	4.5	4.4	4.3
Real disposable income		11.5	-7.8	6.9	2.4	2.0	2.4	3.8	2.5	2.5	2.4
Personal saving rate	%	3.4	1.3	2.9	3.2	3.1	3.1	3.3	3.1	3.0	2.8
Corp. profits, IVA & CCAdj.	% change	-37.6	44.9	-17.0	-6.3	13.5	7.7	10.5	7.7	5.3	5.2
Profit share of GNP	%	6.5	7.2	6.8	6.7	6.8	6.8	6.9	7.0	7.0	7.0
Excluding FR Banks		6.2	6.9	6.5	6.4	6.5	6.5	6.6	6.7	6.7	6.7
Federal surpl./deficit	Bill. $	-7.7	107.8	29.6	8.1	16.7	9.1	11.7	30.7	47.6	58.7
State & local surpl./def.		9.0	12.3	9.3	6.8	10.1	11.6	11.2	7.5	5.4	-0.0
Ex. social ins. funds		9.4	12.7	9.6	7.1	10.4	11.9	11.5	7.8	5.7	0.3
Gross natl. saving rate	%	16.6	16.3	16.5	16.5	16.7	16.7	17.0	17.1	17.2	17.2
Net natl. saving rate		3.5	3.6	3.9	3.8	4.0	4.0	4.2	4.3	4.3	4.3
PRICES AND COSTS											
GDP chn.-wt. price index	% change	3.7	0.1	1.8	1.5	1.6	1.6	2.1	1.7	1.6	1.6
Gross Domestic Purchases chn.-wt. price index		0.9	1.3	1.9	1.5	1.6	1.6	2.0	1.6	1.6	1.5
PCE chn.-wt. price index		0.9	1.4	1.4	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Ex. food and energy		1.9	1.9	1.8	1.7	1.6	1.6	1.5	1.5	1.5	1.4
CPI		0.6	1.6	1.6	1.8	1.9	1.9	2.0	2.0	2.0	2.0
Ex. food and energy		2.5	2.5	2.4	2.3	2.3	2.2	2.2	2.2	2.1	2.1
, hourly compensation[1]		4.2	3.9	3.6	3.4	3.3	3.3	3.3	3.2	3.2	3.1
ıfarm business sector											
Output per hour		1.3	0.5	0.2	1.3	2.9	2.7	2.4	2.2	2.1	2.0
Compensation per hour		4.8	4.8	4.5	4.2	4.0	3.8	3.7	3.6	3.5	3.4
Unit labor cost		3.6	4.3	4.3	2.9	1.1	1.2	1.3	1.4	1.4	1.4

1. Private-industry workers.

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

Item	1999 Q3	1999 Q4	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	2001 Q3	99Q4/ 98Q4	0Q4/ 99Q4	1Q4/ 0Q4
Real GDP	4.7	8.3	2.3	5.7	1.3	1.9	1.3	0.4	-0.6	4.4	2.8	0.1
Gross dom. purchases	5.4	8.4	3.6	6.5	2.0	2.3	0.7	0.4	-0.2	5.4	3.6	0.2
Final sales	4.2	6.2	4.7	3.9	2.3	2.4	3.9	0.8	-0.3	4.2	3.3	0.8
Priv. dom. final purchases	4.2	4.8	6.2	4.0	3.3	2.2	2.4	0.0	-0.6	4.5	3.9	0.0
Personal cons. expenditures	3.0	4.0	3.9	2.5	2.9	2.1	2.1	1.7	1.0	3.5	2.9	1.2
Durables	0.7	1.1	1.5	-0.2	0.7	-0.2	0.8	0.6	-0.1	0.9	0.4	0.2
Nondurables	0.5	1.5	1.0	1.0	0.8	0.1	0.5	0.1	0.6	1.0	0.7	0.2
Services	1.7	1.4	1.5	1.8	1.4	2.2	0.7	1.0	0.5	1.6	1.7	0.8
Business fixed investment	1.3	0.8	1.9	1.5	0.9	0.1	-0.0	-1.9	-1.5	0.9	1.1	-1.2
Equipment & Software	1.5	0.6	1.6	1.2	0.5	-0.1	-0.4	-1.5	-1.2	1.0	0.8	-1.1
Nonres. structures	-0.2	0.1	0.3	0.4	0.5	0.2	0.4	-0.4	-0.3	-0.1	0.3	-0.1
Residential structures	-0.0	0.1	0.4	-0.0	-0.5	-0.1	0.4	0.3	-0.1	0.1	-0.1	-0.0
Net exports	-0.8	-0.2	-1.3	-0.8	-0.7	-0.4	0.6	-0.1	-0.3	-1.0	-0.8	-0.1
Exports	1.0	1.3	1.0	1.4	1.1	-0.5	-0.1	-1.4	-2.1	0.5	0.8	-0.9
Imports	-1.8	-1.4	-2.3	-2.3	-1.8	0.1	0.8	1.3	1.8	-1.5	-1.6	0.9
Government cons. & invest.	0.8	1.5	-0.2	0.8	-0.3	0.6	0.9	0.9	0.7	0.7	0.2	0.8
Federal	0.4	0.9	-0.8	0.9	-0.7	0.3	0.2	0.1	0.3	0.3	-0.1	0.2
Defense	0.5	0.6	-0.9	0.6	-0.4	0.4	0.3	0.1	0.2	0.2	-0.1	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
State and local	0.3	0.7	0.6	-0.1	0.3	0.3	0.7	0.8	0.4	0.4	0.3	0.6
Change in bus. inventories	0.4	2.2	-2.3	1.8	-1.0	-0.5	-2.6	-0.5	-0.3	0.2	-0.5	-0.7
Nonfarm	0.9	1.5	-2.0	1.5	-0.8	-0.7	-2.6	-0.4	-0.3	0.1	-0.5	-0.7
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

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	-0.7	-0.1	1.4	3.2	3.5	3.5	3.5	3.5	3.5	0.1	2.0	3.5
Gross dom. purchases	-0.3	0.2	1.9	3.7	3.6	4.1	4.0	4.0	3.6	0.2	2.3	3.9
Final sales	-1.2	-0.5	0.9	2.6	3.2	3.0	3.1	3.2	3.5	0.8	1.6	3.2
Priv. dom. final purchases	-1.6	-0.8	0.6	2.3	2.5	3.0	3.0	3.0	3.1	0.0	1.1	3.0
Personal cons. expenditures	0.3	0.1	0.8	1.7	1.7	2.1	2.2	2.2	2.2	1.2	1.1	2.2
Durables	-0.4	-0.4	0.3	0.6	0.5	0.5	0.4	0.4	0.4	0.2	0.3	0.4
Nondurables	-0.3	0.2	0.2	0.2	0.2	0.7	0.6	0.6	0.6	0.2	0.2	0.6
Services	1.0	0.3	0.3	0.9	0.9	1.0	1.3	1.2	1.2	0.8	0.6	1.2
Business fixed investment	-1.4	-0.7	-0.2	0.4	0.5	0.7	0.7	0.8	0.9	-1.2	0.0	0.8
Equipment & Software	-1.2	-0.6	-0.2	0.4	0.6	0.7	0.7	0.8	0.8	-1.1	0.1	0.8
Nonres. structures	-0.2	-0.1	-0.1	-0.1	-0.0	-0.0	0.0	0.0	0.0	-0.1	-0.1	0.0
Residential structures	-0.5	-0.2	0.1	0.2	0.2	0.2	0.1	0.0	0.0	-0.0	0.1	0.1
Net exports	-0.4	-0.3	-0.5	-0.5	-0.1	-0.6	-0.6	-0.5	-0.1	-0.1	-0.3	-0.4
Exports	-0.0	-0.1	0.2	0.4	0.7	0.4	0.6	0.7	0.9	-0.9	0.3	0.7
Imports	-0.4	-0.2	-0.7	-0.9	-0.8	-1.0	-1.2	-1.2	-1.0	0.9	-0.7	-1.1
Government cons. & invest.	0.8	0.6	0.8	0.8	0.9	0.6	0.6	0.6	0.6	0.8	0.8	0.6
Federal	0.4	0.3	0.5	0.5	0.4	0.1	0.1	0.1	0.1	0.2	0.4	0.1
Defense	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Nondefense	0.2	0.2	0.3	0.3	0.3	0.1	0.0	0.0	0.0	0.1	0.3	0.0
State and local	0.4	0.3	0.3	0.3	0.5	0.4	0.5	0.5	0.4	0.6	0.3	0.5
Change in bus. inventories	0.5	0.4	0.4	0.6	0.3	0.5	0.4	0.3	-0.0	-0.7	0.4	0.3
Nonfarm	0.5	0.3	0.4	0.6	0.3	0.5	0.4	0.3	-0.1	-0.7	0.4	0.3
Farm	0.0	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.

Staff Projections of Federal Sector Accounts and Related Items
(Billions of dollars except as noted)

Item	Fiscal year[1] 2000[a]	2001	2002	2003	2001 Q1[a]	Q2[a]	Q3	Q4	2002 Q1	Q2	Q3	Q4	2003 Q1	Q2	Q3	Q4
Unified budget					Not seasonally adjusted											
Receipts[2]	2025	1988	2046	2091	460	660	407	483	440	635	487	467	452	658	514	499
Outlays[2]	1789	1852	1976	2052	482	467	439	504	494	492	487	522	512	512	507	540
Surplus/deficit[2]	236	136	70	38	-22	194	-33	-20	-54	144	1	-54	-60	146	6	-42
On-budget	87	-30	-98	-143	-88	119	-48	-72	-81	71	-16	-109	-89	67	-12	-103
Off-budget	150	166	168	181	65	75	15	51	27	73	16	55	29	79	18	62
Surplus excluding deposit insurance	233	135	68	36	-23	193	-33	-21	-55	143	0	-55	-61	146	6	-42
Means of financing																
Borrowing	-223	-92	-62	-28	24	-157	67	13	48	-113	-10	38	62	-109	-19	26
Cash decrease	4	7	1	0	-7	-15	-2	15	0	-30	15	20	-5	-30	15	15
Other[3]	-18	-51	-9	-10	6	-21	-32	-8	6	-2	-5	-3	3	-7	-3	1
Cash operating balance, end of period	53	46	45	45	28	44	46	31	30	60	45	25	30	60	45	30
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	2012	2041	2032	2106	2087	2093	1905	2072	2011	2008	2036	2064	2090	2120	2151	2186
Expenditures	1813	1888	1990	2080	1882	1903	1912	1963	1980	1998	2019	2054	2076	2087	2101	2125
Consumption expenditures	492	507	550	595	508	510	516	527	546	558	570	581	596	600	605	608
Defense	322	337	357	375	338	340	343	347	357	360	363	366	375	378	381	383
Nondefense	170	170	193	220	169	170	173	179	189	198	206	215	221	222	224	225
Other spending	1321	1381	1440	1484	1375	1394	1396	1436	1434	1441	1449	1473	1480	1487	1496	1516
Current account surplus	199	152	42	26	205	189	-8	109	31	9	18	10	14	33	50	61
Gross investment	96	100	107	112	98	100	102	105	106	108	109	111	112	113	114	115
Current and capital account surplus	102	52	-65	-86	108	89	-110	4	-75	-98	-92	-101	-98	-80	-64	-54
Fiscal indicators[4]																
High-employment (HEB) surplus/deficit	-9	-19	-44	-56	21	25	-144	-4	-56	-63	-52	-63	-68	-53	-40	-33
Change in HEB, percent of potential GDP	-.8	.1	.2	.1	0	-0	2	-1	.5	.1	-.1	.1	0	-.1	-.1	-.1
Fiscal impetus (FI) percent, calendar year	2	10	18	5	4	3	11	-5	13	2	2	2	1	.5	.7	.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 August 2001 baseline surplus estimates are $153 billion in FY2001 and $176 billion in FY 2002. CBO's August 2001 baseline surplus estimates, assuming discretionary spending grows with inflation beginning in FY 2002, are $153 billion in FY2001 and $176 billion in FY 2002. On September 26, CBO revised their FY 2001 surplus estimate to $121 billion. 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 and FI are not at annual rates. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (1996) dollars, scaled by real federal consumption plus investment. For FI and the change in HEB, negative values indicate aggregate demand restraint.
a--Actual

Change in Debt of the Domestic Nonfinancial Sectors
(Percent)

Period [1]	Total [2]	Federal government [3]	Nonfederal							Memo: Nominal GDP
			Total [4]	Households			Business	State and local governments		
				Total	Home mortgages	Consumer credit				
Year										
1994	4.5	4.7	4.5	7.4	5.7	14.5	3.7	-4.0		6.2
1995	5.4	4.1	5.9	7.4	5.1	14.1	7.2	-4.6		4.3
1996	5.3	4.0	5.8	6.9	6.7	7.9	6.3	-0.6		6.0
1997	5.6	0.6	7.3	6.2	6.6	4.3	9.2	5.3		6.2
1998	6.7	-1.4	9.4	8.2	9.1	5.4	11.3	7.2		6.0
1999	6.7	-1.9	9.3	8.4	9.2	7.1	11.5	4.4		6.0
2000	5.0	-8.0	8.5	8.4	8.3	9.3	10.0	2.2		5.3
2001	4.9	-1.3	6.3	7.3	9.2	4.3	5.3	5.4		2.4
2002	4.0	-1.1	5.1	5.8	7.4	1.6	4.8	2.7		3.6
2003	4.4	-1.2	5.5	6.4	7.6	3.7	5.2	2.6		5.3
Quarter										
2001:1	5.5	-0.1	6.7	7.8	7.8	10.1	5.4	7.8		4.6
2	5.6	-6.4	8.3	9.2	11.4	4.5	7.2	8.4		2.5
3	5.2	7.5	4.7	5.9	8.2	1.9	4.2	1.0		3.0
4	2.9	-6.0	4.8	5.7	8.1	0.6	4.1	4.0		-0.5
2002:1	4.5	2.8	4.9	5.6	7.5	1.1	4.3	3.4		1.7
2	3.6	-2.3	4.8	5.4	7.0	1.1	4.6	2.7		2.9
3	3.9	-1.8	5.0	5.7	7.0	1.9	4.9	2.1		4.8
4	3.9	-3.1	5.3	6.0	7.2	2.4	5.1	2.4		5.1
2003:1	5.3	4.5	5.4	6.2	7.3	3.0	5.2	2.6		5.6
2	4.2	-1.9	5.4	6.2	7.4	3.4	5.1	2.6		5.2
3	4.1	-2.8	5.4	6.2	7.3	3.9	5.0	2.6		5.2
4	3.8	-4.6	5.4	6.3	7.4	4.2	5.0	2.6		5.2

Note. Quarterly data are at seasonally adjusted annual rates.
1. Data after 2001:Q2 are staff projections. Changes are measured from end of the preceding period to end of period indicated except for annual nominal GDP growth, which is calculated from Q4 to Q4.
2. On a monthly average basis, total debt is projected to grow 5.0 percent in 2001, 3.9 percent in 2002, and 4.4 percent in 2003.
3. On a monthly average basis, federal debt is projected to grow -1.8 percent in 2001, -1.5 percent in 2002, and -1.0 percent in 2003.
4. On a monthly average basis, nonfederal debt is projected to grow 6.6 percent in 2001, 5.0 percent in 2002, and 5.5 percent in 2003.

2.6.3 FOF

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

Category	Calendar year				Seasonally adjusted annual rates							
					2001				2002			
	2000	2001	2002	2003	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net funds raised by domestic nonfinancial sectors												
1 Total	702.5	821.3	771.3	900.1	967.2	999.7	837.1	481.1	840.1	697.1	770.5	777.6
2 Net equity issuance	-166.6	-69.3	0.3	18.0	-33.9	-35.2	-140.0	-68.0	-22.0	1.0	14.0	8.0
3 Net debt issuance	869.1	890.5	771.1	882.1	1001.1	1034.9	977.1	549.1	862.1	696.1	756.5	769.6
Borrowing sectors												
Nonfinancial business												
4 Financing gap [1]	306.9	249.3	208.8	225.7	304.2	262.4	218.5	212.0	214.9	202.6	205.8	211.9
5 Net equity issuance	-166.6	-69.3	0.3	18.0	-33.9	-35.2	-140.0	-68.0	-22.0	1.0	14.0	8.0
6 Credit market borrowing	594.8	348.6	333.1	375.7	355.8	480.0	281.0	277.7	300.0	323.9	343.9	364.4
Households												
7 Net borrowing [2]	543.0	516.6	438.2	510.0	549.5	660.9	433.9	422.4	422.9	411.4	443.1	475.7
8 Home mortgages	377.3	452.4	395.2	436.0	385.1	572.1	424.2	428.2	404.2	383.2	387.2	406.2
9 Consumer credit	132.3	67.6	26.5	61.3	158.1	72.8	30.4	9.0	17.6	18.1	30.6	39.5
10 Debt/DPI (percent) [3]	96.5	98.6	101.0	102.8	97.8	98.9	97.8	100.9	100.3	100.7	101.2	101.7
State and local governments												
11 Net borrowing	27.2	69.2	36.4	36.4	100.1	110.1	14.0	52.8	45.4	37.4	29.4	33.4
12 Current surplus [4]	191.9	193.8	193.2	200.6	189.8	191.9	204.0	189.6	189.1	189.2	195.0	199.3
Federal government												
13 Net borrowing	-295.9	-44.0	-36.6	-40.0	-4.3	-216.0	248.3	-203.8	93.8	-76.5	-59.9	-103.9
14 Net borrowing (quarterly, n.s.a.)	-295.9	-44.0	-36.6	-40.0	23.7	-147.4	66.8	13.0	48.2	-112.5	-10.3	38.0
15 Unified deficit (quarterly, n.s.a.)	-254.8	-118.0	-35.8	-51.2	22.5	-193.7	32.9	20.4	54.0	-143.8	-0.5	54.5
Depository institutions												
16 Funds supplied	445.3	215.8	256.5	289.8	209.1	239.1	196.2	218.9	220.8	238.8	276.8	289.8
Memo (percentage of GDP)												
17 Domestic nonfinancial debt [5]	180.7	183.2	187.0	185.5	181.6	182.9	184.0	186.1	187.1	187.6	187.1	186.6
18 Domestic nonfinancial borrowing	8.8	8.7	7.4	8.0	9.9	10.1	9.5	5.3	8.4	6.7	7.2	7.2
19 Federal government [6]	-3.0	-0.4	-0.4	-0.4	-0.0	-2.1	2.4	-2.0	0.9	-0.7	-0.6	-1.0
20 Nonfederal	11.8	9.1	7.7	8.4	9.9	12.3	7.1	7.3	7.5	7.4	7.8	8.2

Note. Data after 2001:Q2 are staff projections.
1. For corporations: Excess of capital expenditures over U.S. internal funds.
2. Includes change in liabilities not shown in lines 8 and 9.
3. Average debt levels in the period (computed as the average of period-end debt positions) divided by disposable personal income.
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.

2.6.4 FOF

International Developments

Overview

In constructing this forecast, we have worked to assess the implications of two broad sets of developments. First, data on foreign activity have come in weaker than we anticipated in the previous Greenbook. In particular, we were surprised on the downside by second-quarter GDP data for Canada and for several Asian emerging-market economies, and economic indicators for July and August point to continued weakness in many countries. Second, the terrorist attacks of September 11 have cast a long shadow across the foreign outlook. Our assessments of the economic implications of these events are surrounded by significant uncertainties. That said, we expect that the effects of these events will reduce growth in foreign economies through several channels: weaker import demand from the United States, in line with the lower near-term forecast for U.S. growth; disruptions in industries such as air travel and tourism; consequences of developments in financial markets, including both negative wealth effects due to falling stock prices and possible reductions in international capital flows; and retrenchments in consumer and business sentiment.

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

Indicator	2000		2001: H1	Projection		
	H1	H2		2001: H2	2002	2003
Foreign output	5.5	2.7	.1	.0	2.4	3.4
August GB	*5.6*	*2.7*	*.6*	*1.4*	*2.9*	...
Foreign CPI	2.2	3.4	2.5	2.0	2.2	2.3
August GB	*2.2*	*3.5*	*2.6*	*2.5*	*2.5*	...

NOTE. Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2.
... Not applicable.

In response to the weaker-than-expected data and to our assessment of the effects of the terrorist attacks, we have significantly reduced our projection for foreign growth in the second half of this year. We now anticipate that growth will remain at zero, down nearly 1-1/2 percentage points from the previous Greenbook. However, we project that the foreign economies will begin to heal in 2002 as the repercussions from the attacks wane, as the U.S. economy begins to recover, as global electronics demand strengthens, as energy prices trend down, and as the monetary and fiscal stimulus that many countries have put in place supports activity. Under these circumstances, we see foreign growth moving up next year, albeit to a lower rate than was projected in the August Greenbook. These same factors should allow for a further acceleration in 2003 with foreign output moving back toward potential.

The spot price of West Texas Intermediate is now trading around $22 per barrel, down about $5 per barrel, on balance, since the events of September 11. Concerns about potential disruptions in oil supply, which drove the price of oil higher in the immediate aftermath of the terrorist attacks, quickly gave way to concerns about the outlook for world oil demand. Our forecast calls for the price of WTI to edge up to about $23 per barrel in the first half of next year and then to decline to around $20.50 per barrel by the end of 2003. Given this path for oil prices and our outlook for foreign activity, we expect that foreign inflation rates, after having moved down considerably since late last year, will remain contained through the end of the forecast period.

Since September 11, the nominal value of the dollar has declined on balance against an index of major currencies but has risen against an index of our developing-country trading partners. The broad dollar index has changed little on net. Our forecast calls for the broad real dollar to depreciate slightly through the end of 2002, as we see the near-term weakness of U.S. growth and the projected easing of U.S. monetary policy likely to weigh on the dollar. However, we expect its value to stabilize over 2003, as the U.S. recovery gains steam.

We expect that both imports and exports declined at double-digit rates in the third quarter and will remain weak through the first quarter of next year. We project that as 2002 progresses, imports and exports will recover roughly in parallel, as both U.S. growth and foreign growth strengthen. On balance, net exports are expected to make a negative arithmetic contribution to growth of between 1/4 percentage point and 1/2 percentage point in the second half of this year and in 2002 and 2003.

Recent Developments

International financial markets. The average exchange value of the dollar against the major foreign currencies was about unchanged, on balance, over the intermeeting period. Dollar appreciation against several major currencies early in the period was reversed as markets reacted to the weak U.S. employment report for August and then, more dramatically, to the terrorist attacks of September 11. In the aftermath, the dollar tended to decline against the currencies of European countries, falling nearly 4-1/2 percent against the Swiss franc and 2 percent against the euro. The dollar fell sharply against the yen in the days after the attacks, prompting repeated intervention purchases of dollars and euros by the Japanese authorities; on balance, the dollar has depreciated 1 percent against the yen. In contrast, the dollar firmed 6 percent against the Australian dollar and 3/4 percent against the Canadian dollar. On average, the dollar has moved down 3/4 percent in terms of the major foreign currencies since September 11.

The exchange value of the dollar against the currencies of our other important trading partners climbed 2 percent over the intermeeting period. Half of this increase occurred after September 11, as the dollar strengthened 4-1/2 percent against the Brazilian *real*, 4 percent against the Chilean peso, 2-1/4 percent against the Mexican peso, and 1-1/2 percent against the Korean won. Relative to these currencies the dollar seemed to benefit from some "safe-haven" sentiment.

Following the FOMC's intermeeting rate cut on September 17, the Bank of Canada, the European Central Bank, the Swiss National Bank, and the central banks of Sweden, Denmark, and New Zealand all lowered their respective policy rates 50 basis points, and the Bank of England eased policy 25 basis points. In addition, the Bank of Japan committed to maintain excess reserves above its previous target of ¥6 trillion and lowered its discount rate from 25 basis points to 10 basis points. In explaining these moves, the central banks cited weak prospects for global growth and concerns that the terrorist attacks might weigh heavily on consumer and business confidence. On September 24, the Swiss National Bank eased another 50 basis points in an effort to stem the appreciation of the franc.

Share prices have fallen sharply on all major exchanges since the last FOMC meeting. Significant declines were recorded after the events of September 11, as equity prices in the United Kingdom, the Netherlands, France, Italy, and many emerging-market economies dropped more than 10 percent. Long-term interest rates in most foreign countries remained about unchanged, on balance, after the attacks, while short-term market rates moved down with official lending rates.

The EMBI+ index of emerging-market risk spreads declined about 30 basis points, on balance, during the first three weeks of the intermeeting period, mainly on the announcement that the IMF would further augment Argentina's program. In the aftermath of the terrorist attacks, however, the EMBI+ spread jumped 140 basis points, reaching its highest level in two years; spreads on Argentine and Brazilian debt rose 150 basis points and 250 basis points, respectively.

After the terrorist attacks, the European Central Bank and the Bank of England established temporary swap facilities with the Federal Reserve--and the Bank of Canada augmented its facility--in order to provide temporary dollar liquidity to their respective financial institutions. Only the ECB drew on these facilities, and it quickly closed out its drawings.

. The Desk did not intervene during the period for the accounts of the System or the Treasury.

Economic activity abroad. Incoming data for the foreign industrial countries paint a picture of continued weakness. Japanese real GDP fell sharply in the second quarter, led by a plunge in private investment. For July, the all-industry index, a production-side proxy for GDP, moved down, and machinery orders--a leading indicator of business investment--declined for the third consecutive month. In the euro area, second-quarter GDP was about flat, with consumer expenditures remaining fairly strong but with investment spending declining markedly. More recent indicators, including German manufacturing orders and euro-area industrial production, point to continued weakness. In Canada, annualized real GDP growth dropped to about 1/2 percent in the second quarter, as private consumption slowed abruptly. Canadian employment declined in July and August, and the unemployment rate climbed to its highest level in two years, raising concerns that labor market conditions may further brake consumer spending.

With oil prices moving down over the past year and with economic slack increasing, twelve-month inflation in the euro area and in Canada dropped below 3 percent in July and remained below 3 percent in August. Deflation continued in Japan.

Conditions in many of the major developing countries have been acutely recessionary. The emerging Asian economies continue to be battered by the falloff of global electronics demand. During the second quarter, GDP plunged more than 10 percent (s.a.a.r.) in Singapore and Taiwan, 8-1/2 percent in Malaysia, and 6-1/2 percent in Hong Kong. Recent indicators provide little sign of an imminent recovery. In Latin America, the Mexican economy has contracted for three consecutive quarters, and declining industrial production and weak exports point to further contraction in the third quarter.

U.S. international transactions. The U.S. trade deficit in goods and services was $28.8 billion in July, little changed from the $29.1 billion deficit recorded in June. The value of exports in July dropped 2-1/2 percent from the previous month, with declines recorded in most trade categories, particularly in machinery (high tech and other), industrial supplies, and automotive products. In the second quarter, exports tumbled 12 percent (a.r.), their third consecutive quarter of contraction. Exports of semiconductors and other machinery accounted for most of this decline, but exported industrial supplies also fell off sharply. The value of imports moved down 2 percent in July, with marked weakness in the value of imported oil (both price and quantity), semiconductors, other machinery, automotive products, and consumer goods. Imports in the second quarter dropped 15 percent (a.r.), the second consecutive quarterly decline. The bulk of this decline occurred in computers, semiconductors, and other machinery. Imported industrial supplies and consumer goods fell sharply in the second quarter as well.

Prices of internationally traded goods. The price of imported oil rose a bit in August, following a sharp drop in July. For July and August combined, the price of imported oil was down 14 percent (a.r.) from the previous quarter. Prices of imported non-oil goods, as well as core goods, moved down 1/2 percent in August, led by declines in prices of industrial supplies, primarily unfinished metals but also paper, building materials, and chemicals. For July-August combined, prices of imported core goods fell 6 percent (a.r.), about the same rate of decline as in the second quarter. Prices of U.S. goods exports (total and core) decreased 1/4 percent in August, the seventh consecutive monthly decline. The fall in the price of core goods was largely from industrial supplies (chemicals and metals). For July and August combined, the price of exported core goods declined 2 percent (a.r.), a slightly faster rate than was recorded in the second quarter.

Outlook

The dollar. In formulating our forecast for the dollar, we have attempted to assess a number of thorny--and sometimes conflicting--issues and considerations. These include the nature of confidence effects in the aftermath of the terrorist attacks (for example, to what extent the dollar will be seen as a safe-haven currency), the relative effects of monetary easing and fiscal stimulus, and the implications of the changing outlook for U.S. and foreign economic growth. These factors are likely to push the dollar in different directions against different currencies. Our best guess is that, in the near term, the weakness of the U.S. economy and the effects of recent and prospective monetary easing will induce some further weakening of the dollar in terms of many foreign industrial currencies. Accordingly, we project that by the end of 2002 the broad real value of the dollar will be about 2 percent below its average value in 2001:Q3. In 2003, as the U.S. recovery takes hold, we see the dollar stabilizing against the major currencies and, given projected inflation differentials, strengthening a touch in broad real terms.

Foreign industrial countries. We have again marked down our forecast for activity in the foreign industrial countries. Growth is now expected to remain near zero during the second half of this year, about 1 percentage point lower than in the August Greenbook. We see growth subsequently recovering to 2-1/4 percent in 2002, down 1/2 percentage point from our last forecast. These revisions are driven in part by weak incoming data, especially for Canada and Japan. In addition, assessing the implications of the terrorist attacks for real economic activity in these countries, we reduced our forecast to incorporate the effects of the weaker outlook for the U.S. economy and to reflect our expectation that the attacks will directly depress business and consumer confidence abroad.

We project that Canada will suffer nearly as much as the United States from the adverse economic effects of the terrorist attacks, resulting in near-zero growth in the second half of 2001 and restrained activity early next year. That said, monetary and fiscal stimulus already in place and an eventual pickup in U.S. demand should allow the Canadian economy to stage a moderate recovery in 2002. In the euro area, we expect declines in confidence to undermine spending in the near term. Accordingly, growth through the end of this year and early next year should be only slightly positive. The picture should brighten as 2002 progresses, with recent and projected monetary easing and a boost to disposable income from declining energy prices supporting recovery. After a sharp second-quarter contraction, the beleaguered Japanese economy is projected to post negative growth through the next several quarters, as private investment spending continues to fall from last year's overly optimistic levels, as exports decline, and as fiscal policy fails to take up the slack. Given these powerful headwinds, Japanese growth is not expected to return to positive territory until the global recovery gains momentum in the second half of 2002.

Headline inflation rates in Canada and Europe should decline gradually to below 2 percent next year, as prices for food and energy moderate and as pressures on resources diminish. Japanese consumer prices are projected to decline through the end of the forecast period.

We are assuming that monetary policy in Europe and Canada will be eased further by year end. Specifically, the European Central Bank is expected to reduce official rates 25 basis points as signs of stagnating activity accumulate and as inflation moves down. The Bank of Canada is expected to cut rates another 50 basis points.

Other countries. The prospects for growth in the major developing-country trading partners of the United States have dimmed significantly since the August Greenbook. This worsened outlook mainly reflects three factors. First, incoming activity data for these countries have been weaker than we expected. Second, in the wake of the terrorist attacks, the growth outlook for the United States and for other key export markets has been marked down. Third, as discussed above, financial market conditions facing these countries have deteriorated since September 11: Their domestic equity markets have tumbled, and the risk spreads on their debt have moved up. Given these developments, we now expect that growth in both Latin America and developing Asia will remain negative in the second half of this year. Notably, we are projecting that Mexico will record its fourth and fifth consecutive quarters of contraction. In contrast, China is the one major economy where we expect growth to hold up fairly well in the second half, with domestic demand receiving support from ongoing fiscal stimulus. As 2002 progresses, the developing countries should begin to record modest recoveries, in line with the expected revival of U.S. growth, a rebound in global electronics demand, and an ebbing of global risk aversion.

Prices of internationally traded goods. Oil prices have dropped sharply in recent days and are now well below the level that prevailed before September 11. The decline in oil prices reflects concerns that world oil demand, along with economic activity, may be weaker than was previously anticipated. The markets seem to have discounted the possibility that potential military action may disrupt oil supplies in the Middle East. Given these developments, along with our expectation of rising production from non-OPEC members, OPEC's price target looks like it will be difficult to sustain. Thus, we have written down a significantly lower path for oil prices than in our last forecast. We now project that the spot price of WTI will average just over $22 per barrel in the fourth quarter of this year, edge up about $1 per barrel in the first half of next year, and then decline to $20.50 per barrel by the end of 2003. This forecast closely tracks recent futures quotes.

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

Trade category	2000		2001: H1	Projection		
	H1	H2		2001: H2	2002	2003
Exports						
Core goods	2.7	.7	-.5	-1.4	.8	.7
Imports						
Non-oil core goods	1.7	1.5	-1.5	-3.5	1.9	1.1
Oil (dollars per barrel)	26.18	28.87	24.21	19.76	19.18	18.06

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.

Prices of imported core goods are estimated to have declined further during the third quarter of this year and are expected to remain at those lower levels during the fourth quarter, in line with the near-term weakness of materials prices. Next year, core import prices are projected to increase nearly 2 percent, driven by the expected depreciation of the dollar. Prices of exported core goods are projected to decline a bit through the rest of this year and then to increase at an average rate of just under 1 percent next year.

U.S. international transactions. The value of both net exports of goods and services and the current account will be affected significantly this year by the payments of foreign insurers and reinsurers on insurance claims resulting from the events of September 11. These insurance payments from foreigners will be shown as a subtraction from imported services,[1] and the entire amount will be recorded in the third quarter of 2001.[2] For this reason, we expect that the value of services imports in the third quarter will be smaller than otherwise projected by $48 billion (a.r.), our current estimate of the payment by foreign insurers. The value of net exports will be higher by that amount.

The U.S. current account deficit as a share of GDP is projected to decline to 3-1/2 percent in the third quarter of this year because of the temporary drop in services imports due to the insurance payments and then to bounce back to about 4 percent in the fourth quarter. We expect that the current account deficit as a share of GDP will rise to 4-1/2 percent by the end of 2003.

We estimate that the decline in real imports of goods and services that occurred in the first two quarters of the year has been followed by an even sharper drop in the third quarter.[3] This exceptional weakness reflects in part the cyclical downturn in U.S. investment; the decline in imports has been concentrated in computers, semiconductors, and other capital goods. In addition, imports of consumer goods, which increased in real terms in the second quarter, appear to have declined a bit in the third quarter. The effects of the terrorist attacks will also tend to depress third-quarter imports. We estimate that the direct effect of the events of September 11 on goods imports--and goods exports--will be to shift some transactions from September into the fourth quarter; any loss of

1. The "insurance payment" component of imported services is calculated as the amount of premiums paid to foreign companies less the amount of losses recovered from foreign companies. In the third quarter, the size of "losses recovered" will far exceed the amount paid for insurance premiums. This will result in a "negative" insurance payment being recorded, and that in turn will reduce the value of total service imports in the quarter.

2. According to balance-of-payments accounting, the entire amount of an insurance payment is recorded in the quarter in which the incident occurred.

3. The value of insurance payments by foreign insurers will not be reflected in NIPA real imports of services. The deflator for service imports was adjusted down in the third quarter in order to offset the lower value of service imports and leave the quantity of services unaffected by the insurance payments. Thus, the deflator for service payments drops 64 percent at an annual rate in the third quarter and surges 187 percent in the fourth quarter as the index returns to its usual level. Because imports are subtracted in constructing GDP, the import deflator receives a negative weight in the GDP price index.

goods trade due to temporary port closures and the like will be subsequently made up. In contrast, we expect that real services imports will suffer some persistent loss, particularly in travel and passenger fares.

We expect real imports of goods and services to grow modestly during the next two quarters. This forecast is the synthesis of several offsetting factors. On the one hand, the weak near-term outlook for U.S. spending on investment goods suggests that imports of those products will remain depressed over the next couple of quarters. Also, as mentioned above, we expect certain categories of services imports, such as travel and passenger fares, to show marked declines in the aftermath of the terrorist attacks and to begin recovering early next year. On the other hand, we anticipate that some goods imports will be pushed from the third quarter into the fourth quarter, as discussed above. We also project that imports of consumer goods will increase somewhat, as fiscal stimulus boosts consumption.

As the recovery in U.S. activity takes hold in 2002, imports should rebound more robustly. Specifically, we project that imports will grow at a 6-1/4 percent pace through the last three quarters of 2002 and at an 8-1/4 percent pace in 2003. The lagged effects of the dollar's appreciation over the past six quarters are expected to result in relative prices providing some slight stimulus to imports, but the primary boost derives from revived U.S. growth and the high U.S. propensity to import.

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

Measure	2000		2001: H1	Projection		
	H1	H2		2001: H2	2002	2003
Real exports	11.2	3.0	-6.7	-9.7	3.1	6.8
August GB	*11.2*	*3.0*	*-6.0*	*-.5*	*3.9*	...
Real imports	16.8	6.0	-6.8	-4.9	5.0	8.3
August GB	*16.8*	*6.0*	*-6.0*	*1.4*	*6.4*	...

NOTE. Changes for years are measured as Q4/Q4; for half-years, Q2/Q4 or Q4/Q2.
... Not applicable.

We believe that in the third quarter exports of real goods and services declined at a double-digit rate for the second consecutive quarter. The recent drop in exports of high-tech goods and other capital equipment has been particularly pronounced as global investment has weakened markedly. Looking ahead, we expect export growth to remain slightly negative over the next two quarters, in line with our projection of sluggish foreign activity, the lagged effects of past dollar appreciation, and subdued exports of services (particularly travel and passenger fares). As foreign growth recovers, exports of goods and services should rebound, growing 4-3/4 percent through the last three quarters of 2002 and picking up to 6-3/4 percent in 2003.

Alternative simulations. Foreign aggregate demand may be more adversely affected by recent developments than is projected in our baseline forecast. In an alternative scenario, we use the FRB/Global model to assess the impact of an autonomous decline in spending in all major foreign countries. In particular, the shock reduces domestic demand in these countries by 1 percent of baseline GDP, holding all else constant. The shock is phased in over two quarters beginning in 2001:Q4 and then is gradually reversed.

Two policy responses are considered. In the "fixed real rates" case, both the United States and major foreign industrial countries keep short-term real interest rates on their baseline path. In the "Taylor-rule" case, both the United States and the major foreign economies are assumed to adjust nominal interest rates according to a Taylor rule. Since Japan is constrained by the zero lower bound on short-term nominal interest rates, the Japanese authorities are assumed to increase fiscal spending to cushion the effects of the shock.

In the first case, with fixed real interest rates, the fall in foreign demand depresses U.S. real output growth in 2002 about 1/4 percentage point on average relative to baseline. The rebound in U.S. GDP growth in 2003 reflects the gradual reversal of the shock. Core prices adjust sluggishly to the decline in growth; accordingly, core PCE inflation does not edge below baseline until the second half of 2002 and remains a bit below baseline in 2003. The Taylor rule is effective in countering the shock, as it is purely an aggregate demand shock. In particular, the effect on real U.S. GDP growth next year is only about half as large as in the first case, and core PCE inflation remains essentially at baseline.

Alternative Scenario:
Fall in Domestic Demand Abroad
(Percent change from previous period, annual rate)

Indicator and simulation	2001	2002		2003	
	H2	H1	H2	H1	H2
U.S. real GDP					
Baseline	-.6	.6	3.3	3.5	3.5
Alternative scenario					
Fixed real rates	-.8	.2	3.2	3.5	3.6
Taylor rule[1]	-.7	.4	3.3	3.6	3.6
U.S. PCE prices excluding food and energy					
Baseline	1.9	1.7	1.6	1.5	1.5
Alternative scenario					
Fixed real rates	1.9	1.7	1.5	1.4	1.3
Taylor rule[1]	1.9	1.7	1.5	1.4	1.5

NOTE. H1 is Q2/Q4; H2 is Q4/Q2.
1. Japan is assumed to increase fiscal spending by 1 percent of baseline GDP.

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

Measure and country	1995	1996	1997	1998	1999	2000	-----Projected---- 2001	2002	2003
REAL GDP (1)									
Total foreign	2.4	4.0	4.2	1.4	4.8	4.1	0.0	2.4	3.4
Industrial Countries	1.9	2.6	3.5	2.6	3.8	3.2	0.4	2.2	3.0
of which:									
Canada	1.5	2.6	4.5	4.2	5.1	3.5	0.6	2.5	3.5
Japan	2.6	2.9	0.7	-1.4	0.4	2.5	-2.0	0.3	1.3
United Kingdom	2.0	2.9	3.6	2.6	2.7	2.4	1.8	2.2	2.7
Euro Area (2)	1.5	1.6	3.1	1.9	3.6	2.9	0.7	2.2	2.7
Germany	1.1	1.4	1.7	0.6	3.0	2.5	0.2	1.8	2.5
Developing Countries	3.1	5.9	5.1	-0.1	6.2	5.4	-0.6	2.5	4.1
Asia	6.9	6.6	4.8	-1.9	8.6	6.1	-1.1	2.8	4.8
Korea	7.5	6.4	3.4	-5.2	13.8	5.2	0.4	1.6	4.6
China	10.4	5.3	8.7	9.5	4.1	8.0	7.3	7.4	7.5
Latin America	-3.7	5.9	6.2	1.2	4.3	4.8	-0.8	1.9	3.4
Mexico	-7.1	7.1	6.7	2.8	5.4	5.2	-1.1	2.1	4.0
Brazil	-0.7	3.3	2.4	-0.8	3.5	4.3	-0.5	2.1	2.6
CONSUMER PRICES (3)									
Industrial Countries	1.3	1.5	1.5	1.0	1.2	1.8	1.5	0.9	1.0
of which:									
Canada	2.0	2.0	1.0	1.1	2.3	3.1	2.3	1.5	1.5
Japan	-0.8	0.2	2.0	0.7	-1.2	-1.2	-0.7	-0.9	-0.9
United Kingdom (4)	2.9	3.2	2.7	2.5	2.2	2.1	2.0	2.1	2.4
Euro Area (2)	NA	NA	1.5	0.8	1.5	2.7	2.3	1.7	1.8
Germany	1.4	1.3	1.5	0.3	1.1	2.5	1.8	1.1	1.2
Developing Countries	16.9	11.1	6.8	9.0	4.6	4.1	3.4	3.9	4.1
Asia	6.4	4.8	2.7	4.4	0.2	1.9	1.4	2.4	3.4
Korea	4.3	5.0	4.9	5.9	1.2	2.8	4.3	2.4	3.0
China	11.1	6.8	0.9	-1.2	-0.9	0.9	0.6	2.3	3.8
Latin America	42.0	25.8	15.5	15.4	12.5	8.4	5.7	6.2	5.1
Mexico	48.7	28.0	17.0	17.4	13.6	8.8	5.6	6.3	5.0
Brazil	21.5	9.6	4.6	1.5	8.2	6.1	6.6	6.2	5.6

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 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	2003 Q3	2003 Q4
				Projected								
REAL GDP (1)	Quarterly changes at an annual rate											
Total foreign	0.8	-0.7	-0.0	0.1	1.0	2.1	3.1	3.2	3.4	3.4	3.5	3.5
Industrial Countries	1.6	-0.0	-0.1	0.1	0.9	2.0	2.9	3.1	3.0	3.0	3.0	3.0
of which:												
Canada	2.0	0.4	-0.2	0.2	0.8	2.3	3.4	3.5	3.5	3.5	3.5	3.5
Japan	0.5	-3.2	-3.1	-2.3	-0.5	0.0	0.7	1.1	1.2	1.3	1.3	1.3
United Kingdom	2.6	1.8	1.7	1.1	1.5	2.2	2.5	2.5	2.7	2.7	2.7	2.7
Euro Area (2)	2.1	0.2	0.5	0.3	0.8	1.9	2.9	3.1	2.8	2.8	2.6	2.6
Germany	1.6	-0.1	-0.3	-0.2	0.5	1.4	2.6	2.9	2.7	2.7	2.4	2.4
Developing Countries	-0.4	-1.7	-0.1	-0.0	1.1	2.3	3.3	3.5	4.0	4.1	4.2	4.2
Asia	-1.0	-3.2	-0.6	0.2	1.2	2.6	3.6	4.0	4.5	4.8	5.0	5.0
Korea	1.3	1.8	-0.5	-1.0	0.0	1.0	2.5	3.0	4.0	4.5	5.0	5.0
China	8.1	7.5	6.8	6.8	7.0	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Latin America	-0.7	-1.0	-0.3	-1.1	0.3	1.6	2.8	2.8	3.4	3.4	3.3	3.3
Mexico	-1.3	-1.0	-0.5	-1.4	0.3	1.8	3.2	3.3	4.1	4.1	4.0	4.0
Brazil	1.6	-3.9	0.5	-0.0	1.0	1.9	2.7	2.7	2.6	2.6	2.6	2.5
CONSUMER PRICES (3)	Four-quarter changes											
Industrial Countries	1.7	2.1	1.6	1.5	1.4	0.8	0.9	0.9	1.0	1.0	1.0	1.0
of which:												
Canada	2.8	3.6	2.7	2.3	2.3	1.3	1.5	1.5	1.5	1.5	1.5	1.5
Japan	-1.0	-1.2	-1.2	-0.7	-1.0	-0.7	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
United Kingdom (4)	1.9	2.3	2.2	2.0	2.1	1.7	1.9	2.1	2.3	2.3	2.4	2.4
Euro Area (2)	2.5	3.1	2.7	2.3	2.1	1.5	1.6	1.7	1.7	1.7	1.7	1.8
Germany	2.4	3.2	2.3	1.8	1.3	0.7	1.0	1.1	1.2	1.2	1.2	1.2
Developing Countries	3.8	4.1	3.7	3.4	3.9	3.8	3.9	3.9	4.0	4.1	4.1	4.1
Asia	1.8	2.4	2.1	1.4	1.7	1.8	2.1	2.4	2.8	3.0	3.2	3.4
Korea	4.2	5.3	4.4	4.3	4.0	3.1	2.5	2.4	2.5	2.7	2.8	3.0
China	0.6	1.6	1.2	0.6	1.0	1.4	1.8	2.3	2.7	3.1	3.5	3.8
Latin America	7.2	6.8	6.0	5.7	6.8	6.6	6.6	6.2	6.0	5.7	5.4	5.1
Mexico	7.5	6.9	5.9	5.6	6.9	6.7	6.7	6.3	6.0	5.6	5.3	5.0
Brazil	6.2	7.1	6.5	6.6	6.9	6.9	6.2	6.2	6.1	5.9	5.7	5.6

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

Strictly Confidential (FR) September 27, 2001
Class II FOMC

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	1995	1996	1997	1998	1999	2000	------ 2001	Projected 2002	------ 2003
NIPA REAL EXPORTS and IMPORTS									
	Percentage point contribution to GDP growth, Q4/Q4								
Net Goods & Services	0.4	-0.2	-0.8	-1.1	-1.0	-0.8	-0.1	-0.3	-0.4
Exports of G&S	1.0	1.1	1.0	0.3	0.5	0.8	-0.9	0.3	0.7
Imports of G&S	-0.6	-1.3	-1.7	-1.3	-1.5	-1.6	0.9	-0.7	-1.1
	Percentage change, Q4/Q4								
Exports of G&S	9.7	9.8	8.5	2.3	4.5	7.0	-8.3	3.1	6.8
Services	8.8	8.9	1.4	2.9	1.9	4.1	-5.7	7.7	5.2
Computers	39.1	21.6	25.8	8.1	13.8	23.1	-22.2	15.6	29.9
Semiconductors	79.6	44.6	21.3	9.1	34.6	26.9	-36.7	16.7	29.9
Other Goods 1/	4.6	7.3	9.8	1.3	3.2	5.7	-5.7	-0.6	4.7
Imports of G&S	5.0	11.2	14.3	10.8	11.5	11.3	-5.9	5.0	8.3
Services	5.5	5.3	14.0	8.5	2.8	12.2	-7.2	6.3	5.3
Oil	2.4	7.8	3.9	4.1	-3.4	12.4	-0.4	2.4	0.4
Computers	35.0	17.8	33.0	25.8	25.1	13.6	-16.2	15.6	29.9
Semiconductors	92.4	56.7	32.9	-8.7	33.5	22.5	-52.4	16.7	29.9
Other Goods 2/	-1.2	10.4	12.7	11.5	12.9	10.4	-3.3	4.0	7.7
	Billions of chained 1996 dollars								
Net Goods & Services	-78.4	-89.0	-113.3	-221.1	-316.9	-399.1	-411.5	-450.8	-503.4
Exports of G&S	808.2	874.2	981.5	1002.4	1034.8	1133.2	1089.6	1063.9	1126.0
Imports of G&S	886.6	963.1	1094.8	1223.5	1351.7	1532.3	1501.1	1514.7	1629.4
	Billions of dollars								
US CURRENT ACCOUNT BALANCE	-109.9	-120.9	-139.8	-217.5	-324.4	-444.7	-415.4	-436.3	-477.2
Current Acct as Percent of GDP	-1.5	-1.5	-1.7	-2.5	-3.5	-4.5	-4.1	-4.2	-4.3
Net Goods & Services (BOP)	-96.4	-101.8	-107.8	-166.8	-261.8	-375.7	-343.6	-371.2	-416.6
Investment Income, Net	25.0	25.5	13.6	-1.2	-8.5	-9.6	-14.3	-5.3	0.1
Direct, Net	64.9	69.4	72.4	66.3	67.0	81.2	90.3	92.5	91.2
Portfolio, Net	-39.9	-43.9	-58.8	-67.5	-75.6	-90.9	-104.5	-97.8	-91.1
Other Income & Transfers,Net	-38.6	-44.6	-45.7	-49.4	-54.0	-59.3	-57.6	-59.8	-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	Q1	Q2	Q3	Q4
IPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	-1.8	-1.8	-0.8	0.2	-1.8	-1.2	-0.7	-0.1	-1.3	-0.8	-0.7	-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
Imports of G&S	-1.9	-1.4	-0.5	-1.5	-1.0	-1.6	-1.7	-1.3	-2.2	-2.2	-1.8	0.1
Percentage change from previous period, s.a.a.r.												
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
Services	2.4	8.0	-8.4	10.5	-3.9	3.8	2.0	6.0	10.3	9.9	-6.7	3.7
Computers	-8.3	8.2	12.0	22.8	0.5	26.8	18.3	11.0	32.7	49.2	25.8	-7.9
Semiconductors	5.9	-17.2	272.7	-56.6	45.4	31.6	36.5	25.8	29.9	64.5	35.0	-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
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
Services	21.3	6.7	7.0	0.1	-8.2	1.8	7.9	11.0	20.6	12.4	17.1	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
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
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
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
Billions of chained 1996 dollars, s.a.a.r.												
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
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
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
Billions of dollars, s.a.a.r.												
S 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
urrent 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
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
Investment Income, Net	9.9	5.8	-12.3	-8.3	-5.2	-6.6	-15.5	-6.8	-17.5	-14.4	-14.5	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
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
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

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

Strictly idential (FR)
Class II FOMC

September 27, 2001

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS

	2001				Projected 2002				2003			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
NIPA REAL EXPORTS and IMPORTS												
Percentage point contribution to GDP growth												
Net Goods & Services	0.6	-0.1	-0.3	-0.4	-0.3	-0.5	-0.5	-0.1	-0.6	-0.6	-0.5	-0.1
Exports of G&S	-0.1	-1.4	-2.1	-0.0	-0.1	0.2	0.4	0.7	0.4	0.6	0.7	0.9
Imports of G&S	0.8	1.3	1.8	-0.4	-0.2	-0.7	-0.9	-0.8	-1.0	-1.2	-1.2	-1.0
Percentage change from previous period, s.a.a.r.												
Exports of G&S	-1.2	-12.0	-18.3	-0.3	-1.3	2.1	4.4	7.5	4.2	6.6	7.1	9.3
Services	1.8	2.3	-17.0	-8.5	15.8	4.2	5.4	5.6	5.4	5.2	5.1	5.0
Computers	-5.8	-41.2	-28.4	-7.8	-0.4	17.0	21.6	26.2	28.6	28.6	31.1	31.1
Semiconductors	-22.4	-56.0	-47.8	-9.6	-0.4	17.0	26.2	26.2	28.6	28.6	31.1	31.1
Other Goods 1/	-0.1	-10.9	-15.7	5.2	-9.0	-0.6	1.7	6.1	0.7	4.5	5.1	8.7
Imports of G&S	-5.0	-8.6	-12.2	2.9	1.4	5.5	6.9	6.2	7.5	9.2	8.9	7.4
Services	4.9	-2.3	-18.3	-11.6	15.9	1.3	4.0	4.4	5.0	5.2	5.5	5.6
Oil	27.1	4.3	-21.4	-5.6	-7.8	25.0	9.6	-13.0	-9.4	19.9	11.2	-15.9
Computers	-11.0	-29.3	-18.5	-3.9	-0.4	17.0	21.5	26.2	28.6	28.6	31.1	31.1
Semiconductors	-31.8	-75.0	-63.0	-18.5	-0.4	17.0	26.2	26.2	28.6	28.6	31.1	31.1
Other Goods 2/	-8.4	-5.1	-7.0	8.2	-0.7	3.9	6.1	6.8	7.8	7.6	7.6	7.7
Billions of chained 1996 dollars, s.a.a.r.												
Net Goods & Services	-404.5	-405.9	-412.2	-423.6	-432.1	-446.5	-460.4	-464.3	-481.4	-499.0	-514.6	-518.8
Exports of G&S	1144.1	1108.1	1053.5	1052.7	1049.1	1054.7	1066.2	1085.6	1096.8	1114.4	1133.7	1159.1
Imports of G&S	1548.6	1514.0	1465.6	1476.2	1481.2	1501.2	1526.7	1549.8	1578.2	1613.4	1648.3	1677.9
Billions of dollars, s.a.a.r.												
US CURRENT ACCOUNT BALANCE	-447.1	-425.4	-367.0	-422.0	-416.4	-429.2	-441.8	-457.7	-456.8	-469.1	-483.0	-500.0
Current Account as % of GDP	-4.4	-4.2	-3.6	-4.1	-4.0	-4.1	-4.2	-4.3	-4.2	-4.3	-4.4	-4.5
Net Goods & Services (BOP)	-380.1	-355.2	-298.7	-340.2	-352.5	-367.1	-380.8	-384.4	-398.9	-413.3	-426.0	-428.4
Investment Income, Net	-14.6	-16.6	-13.9	-11.9	-8.0	-5.7	-4.7	-2.9	-0.5	1.7	0.4	-1.2
Direct, Net	90.7	92.3	88.7	89.4	91.9	93.3	92.5	92.4	92.6	92.0	90.3	89.9
Portfolio, Net	-105.3	-109.0	-102.6	-101.3	-99.9	-99.0	-97.2	-95.2	-93.1	-90.4	-89.9	-91.1
Other Inc. & Transfers, Net	-52.4	-53.6	-54.4	-69.9	-55.9	-56.4	-56.4	-70.4	-57.4	-57.4	-57.4	-70.4

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